Annual Securities Report

（Report pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act）

Fiscal year	From: April 1, 2023
(The 72nd term)	To: March 31, 2024

1-4-1, Habashita, Nishi-ku, Nagoya, Aichi, Japan

Sangetsu Corporation

Cover

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Fiscal year	The 72nd fiscal year (From April 1, 2023 to March 31, 2024)
Company name	株式会社サンゲツ
Company name in English	Sangetsu Corporation
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I. Overview of Business

1. Management policy, management environment, issues to be addressed, etc.

The Group's management policy, management environment, and issues to be addressed, etc. are as follows.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

(1) Objective indicators for determining the status of achievement of management policies and management targets

Since the establishment of the new structure in 2014 as the third foundation, the Group has been working to develop and strengthen its business foundation and enhance and expand its functions and service capabilities to achieve sustainable growth. Two of these medium-term business plans, "Next Stage Plan G" from 2014 through 2016, and "PLG 2019" from 2017 through 2019, laid the foundation for our business and strengthened its functions. Then [D.C. 2022], covering the three years from 2020 through 2022, boosted profitability based on the results generated through previous measures. As a result, consolidated operating income increased significantly, growing from 8.03 billion yen in fiscal 2014 to 20.28 billion yen in fiscal 2022.

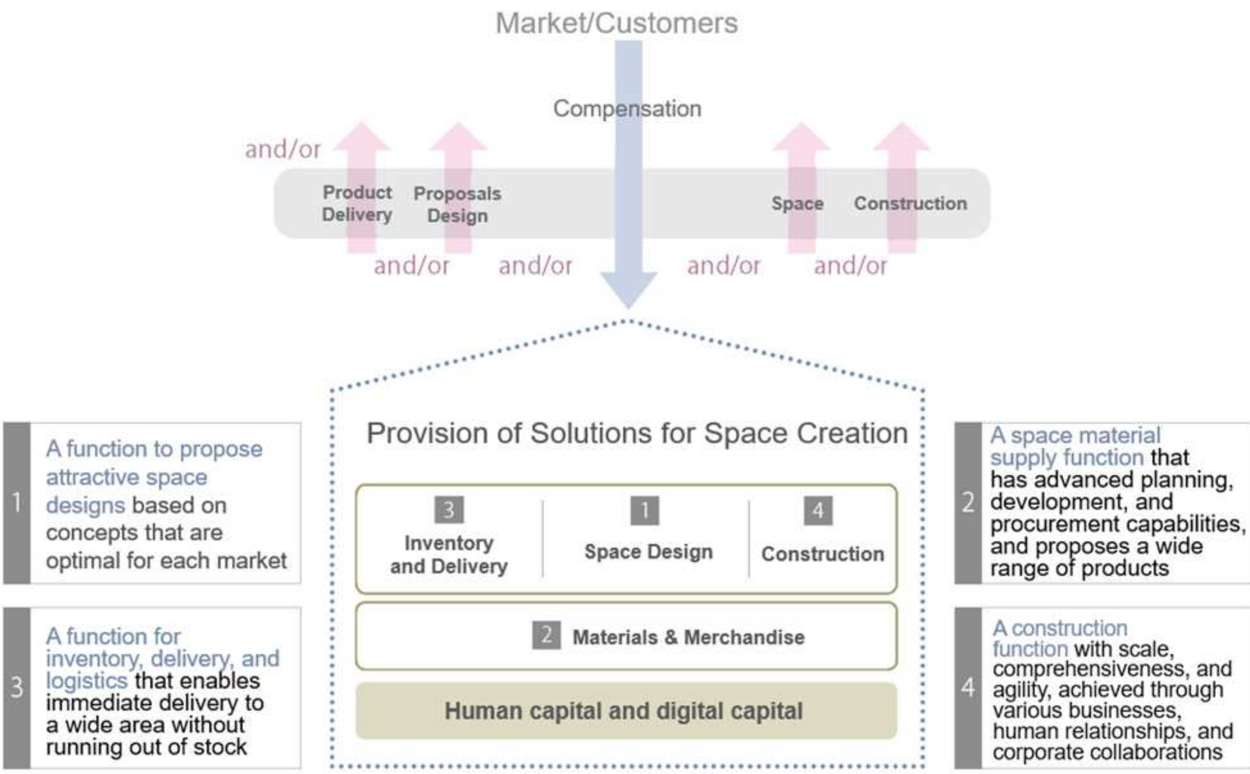
On the other hand, in order to realize sustainable and long-term future-oriented increase in corporate value in an environment of uncertainty and rapid changes, in May 2023 the Group revised the Long-term Vision and formulated a new Medium-term Business Plan (2023-2025) [BX 2025], which defines specific growth strategies as well as the indicators and targets for both economic value and social value that it aims to achieve through their implementation. In addition, we announced a new Corporate Philosophy for the Sangetsu Group in January 2024. The Group positioned the Purpose as the highest concept in our corporate activities and newly defined the Dream as the vision we realize for the future, the Belief as our firm corporate belief, and the Way as the attitude of employees. For details regarding the Corporate Philosophy, please refer to "1. Basic approach and initiatives for overall sustainability" of "2 Approach and initiatives for sustainability."

Based on this Corporate Philosophy, the Sangetsu Group will steadily implement the measures outlined in [BX 2025], the current Medium-term Business Plan, in order to achieve strong, sustainable growth and further increase its corporate value.

■ **The Long-term Vision of Sangetsu Group [DESIGN 2030]**

1. Corporate Vision
   The Entire Sangetsu Group Aims to Become a "Space Creation Company"

   We will utilize design capabilities and creativity based on human and digital capital to organically integrate four functions, which are:
   - A function to propose attractive space designs based on concepts that are optimal for each market
   - A space material supply function that has advanced planning, development, and procurement capabilities, and proposes a wide range of products
   - A function for inventory, delivery, and logistics that enables immediate delivery to a wide area without running out of stock
   - A construction function with scale, comprehensiveness, and agility, achieved through various businesses, human relationships, and corporate collaborations



2. Approach for Achieving the Long-term Vision

By achieving the vision via this approach, we aim to realize the following social values.

[Social Values Sangetsu Group Aims to Realize]
The Sangetsu Group will contribute to the realization of a society that is:
Inclusive: A safe and comfortable society for everyone inclusive
Sustainable: A sustainable society to maintain the global environment
Enjoyable: A more affluent and enjoyable society

3. Quantitative targets

FY2029	Consolidated net sales	¥250.0 billion
	Consolidated operating income	¥27.0 billion

[Toward a Space Creation Company and Beyond]
We have confirmed the potential and effectiveness of this new business model through the efforts to transform ourselves into a Space Creation Company since 2020. At the same time, we recognized the need to envision longer-term business development beyond being a Space Creation Company to achieve further economic and social value. One of these possibilities is "space operations." As a Space Creation Company, in order to propose and provide a variety of spaces, it is necessary to consider and envision how people spend their time in such spaces. In other words, space creation involves thinking about what kind of space to provide and how people can utilize the space, which is closely related to consideration of how spatial operations are carried out. In this sense, we believe there is potential that lies beyond the space creation business and will continue to consider the possibility of expanding in the space operation business.

■ **Medium-term Business Plan (2023-2025) [BX 2025] * BX = Business Transformation**

As a result of implementing various measures during the period of the previous Medium-term Business Plan (2020–2022) [D.C. 2022], we achieved significant earnings growth in fiscal 2022, but we recognize that this increase in earnings was greater than that due to the progress in the measures under the previous Medium-term Business Plan. In that sense, we have positioned the three-year period of the Medium-term Business Plan (2023–2025) [BX 2025] as a period to continue initiatives from the previous Medium-term Business Plan, solidify our earnings base, and prepare for the next leap forward. We will implement various measures to ensure that we achieve the image of the Space Creation Company that we aim to become, as identified in the Long-term Vision [DESIGN 2030]. In addition, within the platform of our space creation business, we will not only expand our existing main merchandise and markets, but also expand and improve our merchandise lineup, expand our business domain by strengthening our proposal, logistics and construction functions, strengthen, expand and monetize our Overseas Business, and expand and sophisticate our Exterior Business. The Basic Policy, measures, capital policy, and quantitative targets of this Medium-term Business Plan (2023–2025) [BX 2025] are as follows.

1. Basic Policy

Medium-term Business Plan (2023–2025)
[BX 2025]
Three years to prepare for the next leap forward

Strengthen and expand solution capabilities to enhance the value of space creation, transform into a Space Creation Company with strong profitability and growth potential, expand products, and expand exterior and overseas businesses, in addition to business expansion in major products and markets.
In addition, the Group will also consider the possibility of a space operation business in order to develop a business that will allow for further long-term growth.

2. Measures

1 Supporting expansion, advancement, and active utilization of human capital
(1) Allocating HR personnel for each organization
(2) Significantly increasing diverse mid-career hires and recruitment of new graduates
(3) Improving education and training to strengthen expertise and business-building capabilities
(4) Improving working conditions and environment
(5) Improving the ratio of part-timers and promoting diversity

2 Accumulation, analysis, and utilization of digital capital
(1) Renovating core systems for business model transformation
(2) Promoting the utilization of information and data for value chain transformation, including spatial design proposals
(3) Improving efficiency and stability of sales and logistics through the utilization of commercial and logistics data in collaboration with distributors
(4) Improving operations and promoting digitization of on-site operations

3 Strengthening the ability to provide solutions
(1) Strengthening space design and space proposing capabilities specialized for each market
(2) Expanding and improving the product lineup and strengthening brand development
(3) Developing and strengthening the product procurement system
(4) Geographically and functionally expanding and strengthening the logistics system
(5) Developing large-scale, swift interior installation resources and a construction management system

4 Exterior and Overseas Businesses
(1) Expanding the scale and target area of the exterior business and advancing it
(2) Strengthening product and space design capabilities, developing a quick-delivery system, strengthening construction support capabilities, and establishing a sales system tuned to market needs in order to transform the overseas business into a space creation business

5 Enhancing social value
(1) Reducing consolidated and non-consolidated GHG (Scopes 1 & 2) emissions
(2) Grasping GHG (Scope 3) emissions and clarifying reduction measures
(3) Strengthening development of products with low environmental burdens
(4) Promoting recycling, including expansion of Sample Book Recycling Centers
(5) Promoting diversity, equity, and inclusion
(6) Promoting activities to improve the living environment of orphanages
(7) Providing continuous support for children in need, developing countries, and refugees

3. Capital policy
   1) Shareholder return policy
      - Maintain the equity to the range of ¥95.0 billion to ¥105.0 billion as of the end of March 2026
      - Dividends are the main source of shareholder returns, with a minimum annual dividend of 130 yen per share, with the aim of steadily increasing dividends.
      - Share buybacks are also considered depending on market conditions.

2) Fund allocation plan

Fund generation during the Medium-term Business Plan	
Cash equivalents held as of the end of March 2023	¥27.0 billion
Operating cash flow in 3 years	¥47.0 to ¥51.0 billion
Change in debts in 3 years	¥(8.0) to ¥6.0 billion

Fund allocation	
Growth investment	¥20.0 to ¥25.0 billion
Shareholder Return	¥25.0 to ¥35.0 billion
Cash equivalents held as of the end of March 2026	¥20.0 to ¥25.0 billion

4. Quantitative target (targets for FY2025)

1) Economic value

(i) Consolidated net sales	¥195.0 billion
(ii) Consolidated operating income	¥20.5 billion
(iii) Consolidated net income	¥14.5 billion
(iv) ROE	14.0%
(v) ROIC	14.0%
(vi) CCC	65 days

2) Social value

(i) Global environment

Reducing environmental impact in business activities (Scope 1 & 2)

GHG emissions	Consolidated	28% reduction from FY2021
GHG emissions	Non-consolidated	60% reduction from FY2018
Energy consumption	Non-consolidated	6% reduction from FY2018
Recycling rate (effective utilization rate)	Non-consolidated	90% or higher

(ii) Human capital

Employee health and skill development, culture reform

Ratio of non-smokers	Non-consolidated	85% or higher
Investment in human capital	Non-consolidated	¥700 million in 3 years
No. of mid-career workers hired	Non-consolidated	60 to 80 in 3 years
Engagement score (*)	Non-consolidated	58.0 (A)

* From fiscal 2023 onwards, we will use scores from Motivation Cloud, a service provided by Link and Motivation Inc. For details, see “2 Approach and initiatives for sustainability - 3. Approach and initiatives for human capital - (3) Strategies, metrics, and targets - 6) Engagement (initiatives to foster corporate culture).”

Promotion of diversity, equity, and inclusion

Ratio of female managers	Non-consolidated	25% or higher (as of April 2026)
Ratio of employees with disabilities	Non-consolidated	4% or higher (as of March 31, 2026)
Ratio of male employees taking childcare leave	Non-consolidated	100% (2 weeks or longer)

(iii) Social capital

Community involvement

Renovation of children home	Consolidated	50 cases/ year
Matching gift	Consolidated	18,000 S-mile (*)
Costs for social contribution, including donation to external groups	Consolidated	We target to spend around 0.3-0.5% of annual ordinary income for social contribution activities. In case of donation, we plan to donate to specific groups continuously.

* The “Sangetsu Group Matching Gift Program,” aiming to promote social contribution activities, provides employees with smile points (S-mile) for their engagement in such social contribution activities that are converted into monetary donations to organizations such as NPOs, etc. supported by the Company. Standard activities are individual activities outside the company such as support for welfare facilities, support for disaster victims, international exchanges, community activities, youth education, NPO support, etc., in addition to company-initiated activities in the “Sangetsu Group volunteer club,” and the Company supports these activities to ensure that employees nationwide can participate regardless of region.

Regarding the details of the Medium-term Business Plan (2023–2025) [BX 2025], an explanatory video and documents are available on the Company’s website.
https://www.sangetsu.co.jp/english/ir/library/briefing_report.html

(2) Management strategies, management environment, priority business and financial issues to be addressed

With regard to the future outlook of the management environment, heightened geopolitical risks and the continued surge in prices of energy resources and some raw materials that are partly caused by the impact of foreign exchange rates are expected to continue. In addition, amid expanding financial unpredictability and uncertainty toward an economic outlook resulting from monetary tightening in a number of countries, when political confusion in advanced countries is added to this, there is concern that the real economy will be significantly affected as well. For the Japanese construction markets, which are closely related to the Company’s businesses, the residential market is expected to remain sluggish, especially in terms of the number of new housing starts and floor space, due to suppressed housing demand resulting from rising construction costs, etc. In the non-residential market, while new construction demand is also weak, a recovery of hotels and lodging facilities due to inbound demand, as the restart of economic activity and a growing market mainly for office renovations in the Tokyo metropolitan area are expected. On the cost front, the Company expects to be affected by the continued cost increases due to the surge in labor, logistics, and some raw materials prices, and also plans to incur expenses for strategic investments including strengthening the space design proposal functions, space material supply functions, inventory, delivery, and logistics functions, and construction functions, the functions that make up space creation. The wallcoverings supply shortage that arose due to a fire at our Group company CREANATE Inc. in December 2021 demonstrated the inadequacy of the wallcoverings industry’s supply system. The investment in the construction of a new factory in Higashihiroshima that was announced in November 2022 aims to ensure a stable supply of wallcoverings in response to this. In addition, the ‘2024 problem’ in the domestic logistics industry will have a significant impact on our business, so in addition to promoting the in-house provision of logistics, including service crew deliveries, we will review our supply chain management and make capital investments with the aim of improving logistics efficiency and optimizing personnel requirements. We aim to generate profits starting the next fiscal year and onward in the overseas business, which has thus far continued to incur operating losses. In North America, the market environment is expected to remain strong, especially in the mainstay hotel segment, and we will continue to capture demand by introducing strategic products and by implementing measures to strengthen our short lead-time supply capabilities. Meanwhile, in Southeast Asia, the Company will promote reorganization of M&A and its sales structure, as well as strengthen its space creation function to meet country-specific needs and enhance its competitive advantage. In the Chinese and Hong Kong markets, where construction plans are being delayed or canceled due to the sluggish real estate market and declining consumer confidence, we will rebuild the business structure while carefully assessing future market growth potential and the business direction of the Group as a whole.

Under these circumstances, the Group will steadily implement the Long-term Vision of Sangetsu Group [DESIGN 2030] and the three-year Medium-term Business Plan (2023–2025) [BX 2025] set out in the above section “(1) Objective indicators for determining the status of achievement of management policies and management targets” in order to strengthen its solutions capabilities that integrate not only merchandise sales but also delivery, proposal and installation resources, and evolve from the sale of interior materials centered on the domestic market into a “Space Creation Company” that operates globally. To this end, we will strive to create social value by supporting expansion, advancement, and active utilization of human capital and accumulation, analysis, and utilization of digital capital, while also aiming to achieve the quantitative targets.

(Other Issues to Address)

1) In the Southeast Asian market, the Group’s business in the past has mainly focused on sales of European and U.S. products to the hotel-related construction market, but the business has been losing competitive advantage with the existing business model due to the declining competitiveness of European and U.S. products in the Asian market. In response to this situation, in order to secure stable earnings in the Asian market and achieve business growth, the Company is working to strengthen the functions by establishing design and installation department, while CREANATE Inc., a Group company, is working to develop and sell competitive products for the Asian market and to review the sales structures and promote an inventory and sales policy to expand small and medium-size transactions for the residential market and non-residential market. On the other hand, business in China and Hong Kong remained severe, with construction plans delayed or canceled due to a sluggish real estate market and declining consumer confidence caused by the worsening employment environment. While

keeping a close eye on such market trends, we are in the process of strengthening our design proposals and other functions and rebuilding our business structure, while assessing future market growth potential and competitive advantages for our business.

2) In the Japanese market, there has been a quality problem with wall coverings from a specific supplier, and with that we have established a Customer Service Office and will continue to implement repair measures for the residences and facilities where the products are installed, in cooperation with the supplier. The costs associated with these repairs have been borne entirely by the supplier, resulting in no loss being recorded by the Company.

2. Approach and initiatives for sustainability

The Group's approach and initiatives for sustainability are as follows.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

1. Basic approach and initiatives for overall sustainability

Since 2014, the Group has strived to improve its corporate value in terms of both economic and social value under its new management structure by reviewing its business structure and management strategies and implementing various measures. Meanwhile, as approximately ten years have passed since the new structure was put in place, and as the Group companies have expanded, the business domains have grown, and new members have joined the Group, we have become aware of new issues for future growth. In light of this, there was a growing opinion that a comprehensive review of the Corporate Philosophy, which sets forth the values of the Sangetsu Group, was necessary in order to continue the business model transformation that had been undertaken thus far and aim to achieve exceptional growth, while at the same time clarifying the role that the Group should fulfill in a society in which issues such as climate change, the loss of biodiversity, human rights violations, and poverty are increasing and becoming more severe, and linking this to concrete actions together with stakeholders. Based on this, since December 2022 a "Corporate Philosophy Review and Promotion Project" amongst volunteer employees was launched, discussions within each group company and organization as well as consideration by the Board of Directors continued, and a new Corporate Philosophy was announced in January 2024.

The new Corporate Philosophy places the Purpose as the highest concept in our corporate activities, identifies the Dream as the vision we realize for the future, and defines the Belief as our firm corporate belief, and the Way as the attitude of employees. In the Medium-term Business Plan (2023–2025) [BX 2025] announced in May 2023, we set "enhancing social value" as one of the five measures, with the aim that "with all people we collaborate to create peaceful and inspirational spaces" by generating economic and social value through corporate activities via space creation, which is the core of our business.

Sangetsu Group Corporate Philosophy

■ **Purpose: significance of existence**

With all people we collaborate to create peaceful and inspirational spaces

・ Spaces, where people spend time, can bring peace and hope to their lives.
・ Safe and comfortable space provides us source to live for tomorrow.
・ Space filled with joy and excitement provides us all the power to imagine the future.

・ The Sangetsu Group shares the wishes and challenges of all people together and seeks to create a world where everyone can achieve their dreams for tomorrow through the power of design and creativity.

■ **Dream: the vision we realize for the future**

A world where everyone can achieve their dreams together for a better tomorrow.

■ **Belief: the firm belief**

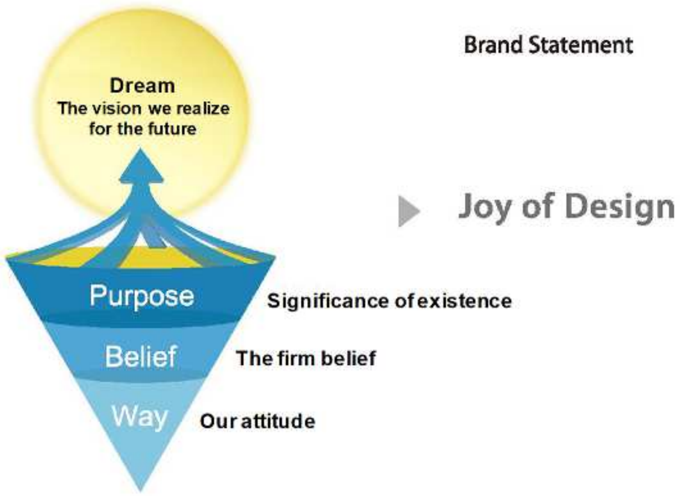
Corporate integrity is the foundation to change society.

■ **Way: our attitude**

・ Openness and Fairness
・ Creativity and Collaboration
・ Challenge and Transformation

■ **Brand Statement**

Joy of Design



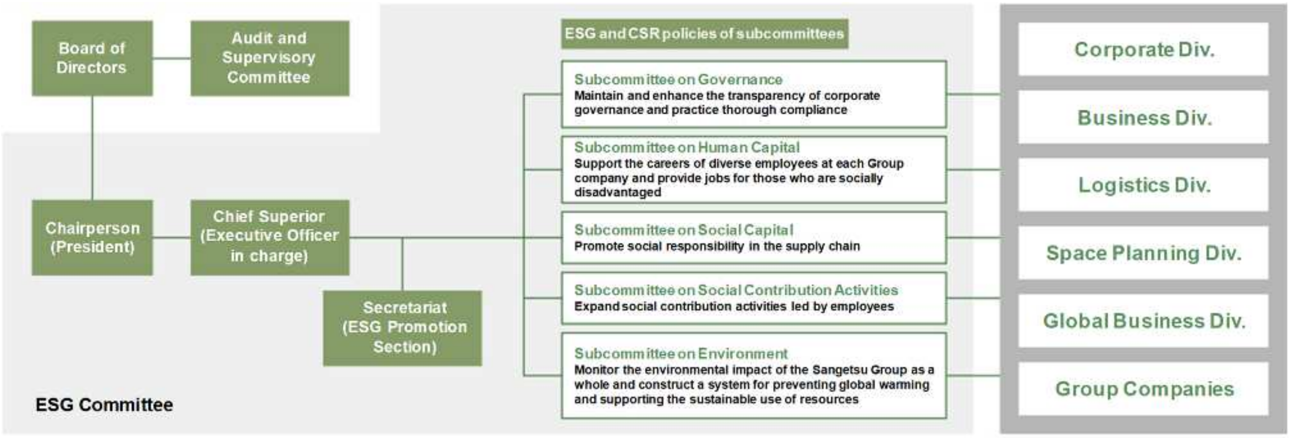
(1) Governance

In April 2016, the Company established a CSR Promotion Section, and in April 2017 we established a CSR Committee that is chaired by the President & CEO to oversee the entire company. In November 2020 the committee's name was changed to the ESG Committee, and it is working to implement effective ESG management and address social issues based on international ESG guidelines (ISO 26000, GRI, SASB, etc.).

The ESG Committee promotes activities through five subcommittees, focusing on the central issues specified in ISO 26000. Each subcommittee is made up of a wide range of members, including not only the department responsible for the issue but also the Corporate, Logistics, Business, Space Planning, and Global Business Divisions, as well as organizations directly reporting to the President & CEO, in order to increase the diversity of discussions. The ESG Committee sets initiative targets for each materiality and incorporates them into the business plans of each of the internal divisions that actually carry out operations. In addition, progress is managed through quarterly reporting on the status of the initiatives by the subcommittees, and opinions are exchanged and discussions are held to resolve issues. In terms of organizational structure, the Committee is operated with the President & CEO serving as the chairperson, the Executive Officer in charge serving as the chief responsible person, and the inside Directors who are also Audit and Supervisory Committee Members also in attendance.

Reporting of the ESG Committee's activities to the Board of Directors involves a mechanism for reporting twice a year, and ESG activities are being carried out under the strong supervision of the Board of Directors.

ESG Committee structure



■ Main discussion topics regarding the Group's sustainability (FY2023)

Board of Directors	Formulation of the Corporate Philosophy
	CEO succession issue
	Discussion about company-wide organizational structure, key personnel
	Progress of each committee including the ESG Committee, Risk Management Committee, Compliance Committee
	Discussion regarding new plant (including matters related to BCP)
	Reducing the environmental impact of business activities
	Skill development and health promotion of employees
	Community engagement
Nomination and Remuneration Committee	Business execution structure, including next fiscal year's Board of Directors and President & CEO
	Evaluation of the level of contribution of the Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officer and Executive Officers
	Next fiscal year's form of remuneration for directors (and other officers), appropriateness of remuneration levels
	Consideration of the medium-long term succession plan for the President & CEO
	Consideration of medium-long term candidates for Executive Officer and key personnel
ESG Committee * Implemented discussions based on each materiality	Review of materialities
	Reducing the environmental impact of business activities
	Recycling of sample books
	Skill development and health promotion of employees
	Stability of quality
	Community engagement
	Strengthening corporate governance
	Ensuring compliance
	Stability of supply

(2) Strategy

Taking into account societal demands and important themes in the relevant industries, the Group has specified materialities in terms of their importance to society and long-term investors, and their impact on the sustainable growth of the business. These themes are also important items for realizing the Long-term Vision, and we are implementing the PDCA cycle in conjunction with our business plans.

The identified materialities are mapped based on their importance to society and long-term investors and their impact on the sustainable growth of the business (Table (1): Materiality map), and linked to the social value we aim to achieve in the Long-term Vision and the relevant SDGs (Table (2): Relationship between materialities, social value, and the SDGs). In addition, notable materialities are analyzed from the perspective of risks and opportunities, and measures are being taken to manage risks and create and seize the opportunities (Table (3): Notable materialities).

In conjunction with the formulation of the Corporate Philosophy, we are currently discussing the review and specification of the materialities, primarily through the ESG Committee that oversees the entire company, and will make an announcement about this at an appropriate time.

The materiality specification process is as follows.

STEP 1 Selection of themes

Referring to GRI, SASB, ISO 26000, and other major international guidelines

STEP 2 Specification of materiality

Specifying materiality by selection and mapping of themes important to society and themes important to the Sangetsu Group

STEP 3 Approval

We receive internal and external feedback on the materiality that has been specified before it is approved by a decision-making body

STEP 4 Target setting and evaluation

Action policies for specified materiality, setting of targets, evaluation of activities, and execution of improvement plans

Table (1): Materiality map

Table (2): Relationship between materialities, social value, and the SDGs

ESG Items		Materiality	Social Values Sangetsu Group Aims to Realize			SDGs Sangetsu Group Aims to Contribute
			Inclusive	Sustainable	Enjoyable	SDG Items
Environment	Environment	Environmental impact of business activities (GHG, energy, waste)		●		11, 12, 13, 17
		Environmental impact of supply chain (GHG, waste)		●		
		Development of long-life products		●		
		Sample book recycling		●		
Social	Social Capital	Product safety	●	●	●	4, 5, 8, 11, 12, 17
		Stability of quality	●	●	●	
		Stability of supply in procurement	●	●	●	
		Stability of supply in terms of orders, inventory, shipping, and delivery	●	●	●	
		Community engagement	●			
		Protection of personal information and data security	●	●	●	4, 5, 8
		Securing interior finishing capabilities	●	●	●	
		Creation of joyful designs and protection of intellectual property			●	
		Providing the joy of design			●	
		Appropriate balance between services and prices	●	●	●	
	Human Capital	Maintain and promote employee health and develop employees' capabilities	●		●	3, 4, 5, 8
		Enhancing employee engagement	●		●	
		Diversity and inclusion for employees	●		●	
		Strengthening and sustaining frontline execution capabilities	●	●	●	
Governance	Governance	Corporate governance that is independent, objective, and transparent	●	●	●	16, 17
		Strengthening capabilities through a commitment to compliance	●	●	●	

Table (3): Notable materialities

Catego-ry	Materiality	Approach to "risks" and "opportunities"
Risks	• Stability of supply in procurement	The production capacity of merchandise manufacturers is becoming tighter every year, reflecting the low profitability structure of the entire industry. As a brand manufacturer with a large share of the market in our main field, if production cannot proceed as planned due to e.g., malfunctions in manufacturing equipment, which causes interruptions to the supply of merchandise to customers, this could have a significant impact on profits and could also cause delivery delays at construction sites. It is necessary to recognize this as a risk factor for the entire industry and to maintain and strengthen stable procurement and supply systems throughout the entire supply chain.
	• Stability of quality	As a company that provides interior and exterior merchandise, which customers can directly see and touch, consistency of quality is one of the top requirements of customers. As the Company has gained market share through widespread sales nationwide, having to respond with re-installation, etc. due to a decline in quality or deterioration will damage the brand image and pose a major profit risk. We are continuously working to improve the organizational management system responsible for quality control and increase the number of specialized human resources.
	• Environmental impact of business activities (GHGs, energy, waste)	For the non-consolidated Company, GHGs and energy usage come from the lighting and air conditioning in offices and the power for logistics centers, while waste comes from merchandise off-cuts, dead stock, and collected sample books, but, the environmental impact of the supply chain as a whole is relatively low. On the other hand, regarding the Group as a whole, the environmental impact of finished goods manufacturing by the manufacturing companies CREANATE and Koroseal is large, and there is a need to address and progress the initiatives for the global issues of climate change and resource recycling. Failure to make progress in these initiatives is a major risk factor for the global environment and the sustainability of corporate management.
Opportunities	• Providing the Joy of Design	Design is an important issue in transforming into a Space Creation Company as outlined in the Long-term Vision and Medium-term Business Plan, and is a source that provides added value. As the only company that handles both interior and exterior products, we are able to increase our corporate value by pursuing and providing design. Also, communication with customers through design has resulted in building win-win relationships with customers, and the accumulation of such results has led to the building of high design capabilities within the Sangetsu Group.
	• Appropriate balance between service and price	Customers require different services depending on the type of merchandise. Because there is a variety of merchandise, including those that should emphasize price and those that should emphasize service functions such as ordering, shipping, and delivery, having customers perceive the value of each service function and increasing customer satisfaction provides an important opportunity to receive appropriate compensation.
	• Enhancing employee engagement • Maintain and promote employee health and develop employees' capabilities • Diversity and inclusion for employees	Human resources are one of the most important foundations, and improving employee engagement leads to improved business performance as well as increased corporate value. In addition to the health management, review of working styles, and employee skill development that have been implemented since the Medium-term Business Plan (2017–2019) "PLG 2019," the Company is further strengthening its human capital by expanding the hiring of specialist mid-career personnel and introducing a personnel system aimed at reform and organizational strengthening that began in April 2022. This will be an opportunity to greatly contribute to the sustainable growth of the Group.

(3) Risk management

The Company implements the PDCA cycle to improve the materialities listed in “(2) Strategy” through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

(4) Metrics and targets

Measures and targets in the Medium-term Business Plan (2023–2025) [BX 2025]

■ Measures aimed at enhancing social value

[Environment]

• Reducing consolidated and non-consolidated GHG (Scopes 1 & 2) emissions
• Grasping GHG (Scope 3) emissions and clarifying reduction measures
• Strengthening development of products with low environmental burdens
• Promoting recycling, including expansion of Sample Book Recycling Centers

[Social]

• Promoting diversity, equity, and inclusion (DE&I)
• Promoting activities to improve the living environment of orphanages
• Providing continuous support for children in need, developing countries, and refugees

■ Measures aimed at supporting expansion, advancement, and active utilization of human capital

• Allocating HR personnel for each organization
• Significantly increasing diverse mid-career hires and recruitment of new graduates
• Improving education and training to strengthen expertise and business-building capabilities
• Improving working conditions and environment
• Improving the ratio of part-timers and promoting diversity

■ Quantitative target (targets for FY2025)

(i) Global environment

Reducing environmental impact in business activities (Scope 1 & 2)

GHG emissions	Consolidated	28% reduction from FY2021
GHG emissions	Non-consolidated	60% reduction from FY2018
Energy consumption	Non-consolidated	6% reduction from FY2018
Recycling rate (effective utilization rate)	Non-consolidated	90% or higher

(ii) Human capital

Employee health and skill development, culture reform

Ratio of non-smokers	Non-consolidated	85% or higher
Investment in human capital	Non-consolidated	¥700 million in 3 years
No. of mid-career workers hired	Non-consolidated	60 to 80 in 3 years
Engagement score (*)	Non-consolidated	58.0 (A)

* From FY2023 onwards, we will use scores from Motivation Cloud, a service provided by Link and Motivation Inc. For details, see “3. Approach and initiatives for human capital - (3) Strategies, metrics, and targets - 6) Engagement (initiatives to foster corporate culture).”

Promotion of diversity, equity, and inclusion

Ratio of female managers	Non-consolidated	25% or higher (as of April 2026)
Ratio of employees with disabilities	Non-consolidated	4% or higher (as of March 31, 2026)
Ratio of male employees taking childcare leave	Non-consolidated	100% (2 weeks or longer)

(iii) Social capital

Community involvement

Renovation of children home	Consolidated	50 cases/ year
Matching gift	Consolidated	18,000 S-mile (*)
Costs for social contribution, including donation to external groups	Consolidated	We target to spend around 0.3-0.5% of annual ordinary income for social contribution activities. In case of donation, we plan to donate to specific groups continuously.

* The "Sangetsu Group Matching Gift Program," aiming to promote social contribution activities, provides employees with smile points (S-mile) for their engagement in such social contribution activities that are converted into monetary donations to organizations such as NPOs, etc. supported by the Company. Standard activities are individual activities outside the company such as support for welfare facilities, support for disaster victims, international exchanges, community activities, youth education, NPO support, etc., in addition to company-initiated activities in the "Sangetsu Group volunteer club," and the Company supports these activities to ensure that employees nationwide can participate regardless of region.

In addition to the metrics set out in the Medium-term Business Plan, we have also established detailed KPIs for each category of the environment (E), social (S), and governance(G) to manage our progress. Please see our website for further details.

"ESG Management" KPIs and results

https://www.sangetsu.co.jp/english/sustainability/management.html

(5) Other specific initiatives in FY2023

In order to fulfill corporate social responsibility through our corporate activities, the Sangetsu Group has positioned sustainability initiatives as one of our top priorities in an aim to achieve a sustainable society and company. Our main initiatives in FY2023 were as follows.

■ Environmental initiatives

We are progressing product development aimed at realizing a sustainable society, and the mass-produced wallpaper sample book "SP," published in June 2023, included the industry's first products using an environmentally friendly, non-fluorine water repellent (PFC-free). In addition, in the carpet tile sample books "NT700" and "DT," published in November, and the chair upholstery sample book "UP," published in February 2024, the Company expanded the range of low environmental-impact products that use yarn and other recycled materials. A large number of low environmental-impact products that can contribute to a decarbonized society and water resource conservation are available in wall coverings, floor coverings, and fabrics, with products that can achieve a sustainable society under development. In addition, we have installed new solar power generation equipment at our logistics facility in Inazawa City, Aichi Prefecture, which has begun generating electricity. The generated electricity is consumed within the facility, and we have also begun transmitting a portion of it through self-consignment to the Company's headquarters and Chubu Branch in Nagoya City, Aichi Prefecture. Through such efforts, we will contribute to carbon neutrality and the circular economy.

■ Social initiatives

As some of our efforts in social contribution, we implemented continuous activities in which employees can proactively participate, such as support for the interior renovation of children's care homes, which we have implemented since 2014, cooperation with NPOs that support children in developing countries, and participation in industry-university collaborative projects. In addition, we have begun providing continuous support to four NPOs that are working on resolving social issues related to children in need of assistance and housing, as well as providing assistance for humanitarian crises caused by disasters and conflicts, including support for recovery from earthquake damage in the Kingdom of Morocco and support for recovery from damage caused by the Noto Peninsula Earthquake. Furthermore, we are expanding our efforts not only independently but also with external stakeholders, for example, as a gold sponsor of the "HERALBONY Art Prize 2024," which presents awards to works of art by artists with disabilities around the world.

■ Initiatives aimed at improving human capital value

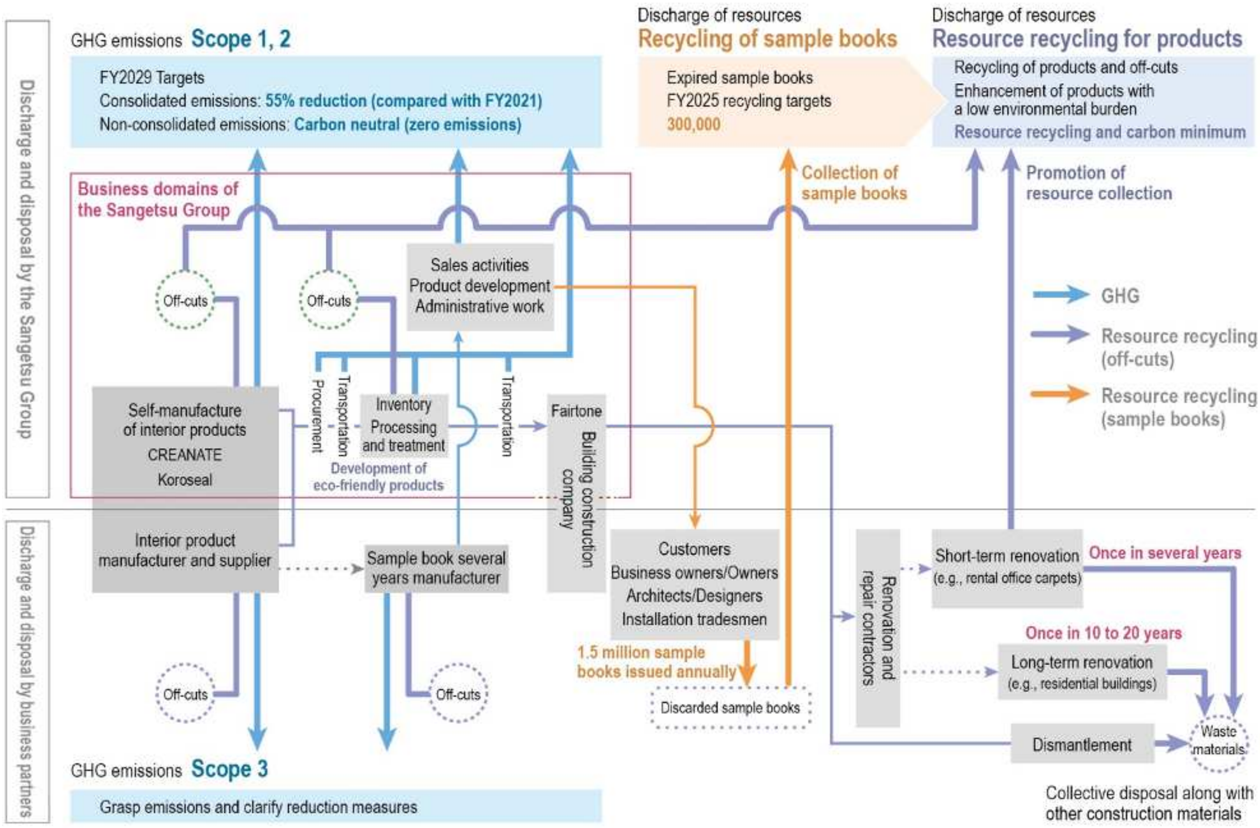
As some of our efforts in human capital, based on the quantitative targets in the social value section of the Medium-term Business Plan, the Company is implementing such measures as the promotion of health management and the active promotion of female managers, and we are working companywide to create a workplace environment in which employees can work comfortably and safely regardless of gender or age. In particular, at the PARCs Sangetsu Group Creative Hub in Hibiya, Tokyo, which was opened as a new value creation base in March 2024, we are promoting initiatives that lead to the "Well-being" of both employees and visitors. Currently, we have obtained preliminary certification under the "WELL Building Standard™ v2" and will continue our efforts to obtain Gold level certification. Furthermore, in recognition of our long-term efforts based on our Health Management Policy of "an enthusiastic workplace promoting health throughout life where employees can enjoy working," we have been certified as a "KENKO Investment for Health 2024" for the fifth consecutive year and the sixth time in total. In terms of DE&I, the Company received Gold certification for the first time in the "PRIDE Index 2023," an LGBTQ+ assessment standard, in recognition of its efforts to hold series of seminars to deepen understanding of LGBTQ+ individuals and to introduce a "same-sex partnership system."

The Group will continue to work on resolving social issues through space creation, the core of its business, and aims at the goal of "with all people we collaborate to create peaceful and inspirational spaces" by continuing to create economic and social value.

2. Approach and initiatives for natural capital

As a company that provides better living spaces, we consider addressing environmental conservation to naturally be our responsibility, and we are mindful of not only reducing the environmental impact of our own business activities, but also protecting the global environment. In our business activities, environmental impact occurs in a variety of situations and locations, including GHG emissions and the disposal of products and sample books by the Group, as well as GHG emissions by business partners and used waste materials at construction sites. We are working to ascertain and reduce the environmental impact in each of these areas.

■ Environmental impact map of the Sangetsu Group

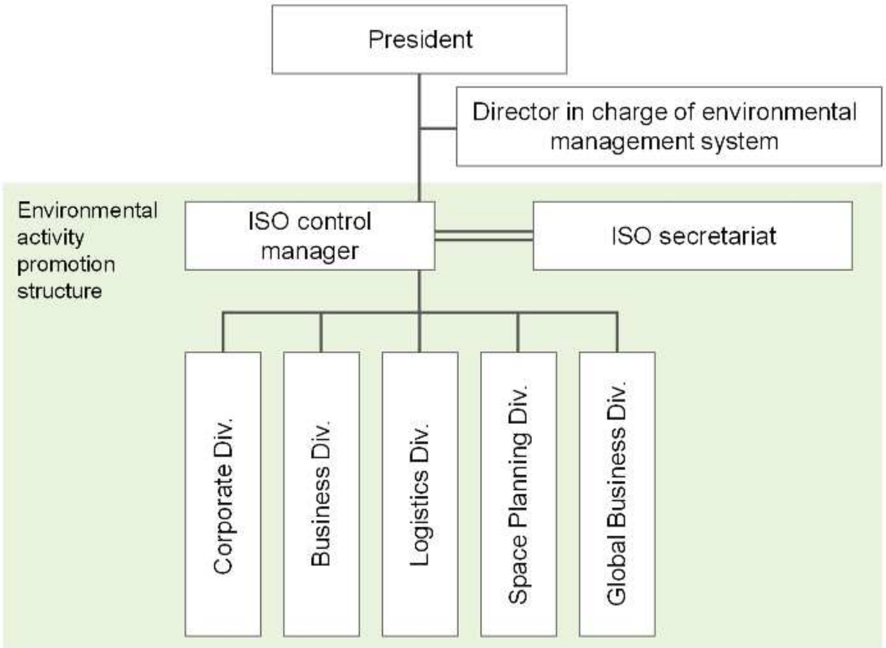


■ Governance concerning natural capital

The Subcommittee on Environment, which has been established under the ESG Committee chaired by the President & CEO, is responsible for addressing natural capital and is promoting initiatives regarding climate change and resource recycling. The Subcommittee on Environment consists of members from a variety of departments, including the ESG Promotion Section, which is responsible for planning and formulating environmental measures, the General Affairs Section, which is responsible for managing facilities and vehicles that use energy, the product units responsible for product development, the Logistics Division that operates the logistics centers, and the Business Division, which is responsible for sales. In response to materialities such as the environmental impact of GHG emissions from business activities, the Subcommittee has set targets for achieving carbon neutrality for the non-consolidated Company by FY2029, and a 55% reduction (compared to FY2021) for the consolidated Group by FY2029, and is working to address climate change by formulating reduction plans and considering and implementing measures. The progress of these initiatives is reviewed quarterly, and the Board of Directors manages and supervises the progress status twice a year.

The Company has also acquired ISO 14001 certification. We have an ISO management officer who oversees the environmental management system, who is assisted by an ISO secretariat that has been established to assist in implementing environmental activities at each business location.

ISO 14001 promotion structure



* Scope of ISO 14001 certification (Headquarters, Chubu Branch and CHUBU Logistics Center)

* For details about the ESG Committee's structure, please see "1. Basic approach and initiatives for overall sustainability - (1) Governance - ESG Committee structure."

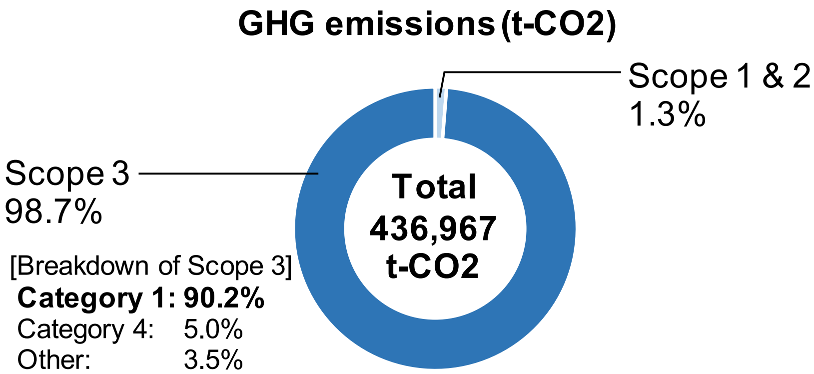
I. Approach and initiatives for climate change

Climate change due to global warming is having various effects on human life and natural ecosystems. The main cause of global warming is greenhouse gases (GHGs), and we believe that reducing GHG emissions is the social responsibility of companies. The GHGs emitted by the Company consist mainly of gas and kerosene used in offices and warehouses, gasoline and diesel used in company vehicles, etc. (Scope 1), and GHGs originating from electricity used in offices and warehouses (Scope 2). In order to reduce GHG emissions, it is necessary to use energy effectively, with as little waste as possible, and we believe that promoting energy use reduction will lead to the prevention of global warming and the effective use of the Earth's resources.

In addition, in October 2021, we declared our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and identified the risks and opportunities posed by climate change. Going forward, we will continue to conduct scenario analyses and ascertain the financial impact, while also working to further improve the quality and quantity of our disclosures.

• GHG emissions including Scope 3 of Sangetsu Corporation (non-consolidated)

As a primarily fabless company, Scope 3 accounts for a large proportion of GHG emissions generated through our business activities, compared to Scope 1 & 2 (1.3%). Within Scope 3, Category 1 (purchased products and services) associated with finished goods manufacturing at suppliers accounts for approximately 90%, and we believe that it is essential to work together with our suppliers on reduction initiatives in order to reduce the GHG emissions of the overall supply chain.



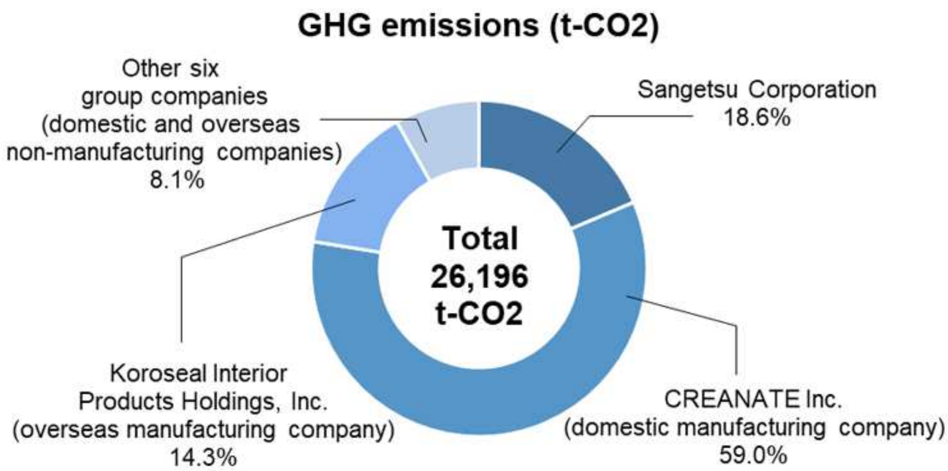
FY2022 (*) GHG emissions including Scope 3 (non-consolidated)

Classification	GHG emissions (t-CO2)	Composition ratio
Scope 1 & 2	5,668	1.3%
Scope 3	431,299	98.7%
Category 1 (purchased goods and services)	394,333	90.2%
Category 4 (transportation and delivery (upstream))	21,619	5.0%
Other	15,347	3.5%
Total	436,967	100.0%

* Due to the timing of the calculation of figures, the figures for FY2022 are listed for reference.

• Breakdown of GHG emissions for the entire Sangetsu Group (Scope 1 & 2) (consolidated)

The companies with product manufacturing functions (CREANATE and Koroseal) account for approximately 80% of the Group's overall GHG emissions, so it is necessary to reduce emissions from this manufacturing sector in order to reduce the environmental impact. To this end, we have set specific targets and plans for the entire Group with a view to 2030, and are implementing reduction measures suited to the characteristics of each company's business, such as switching to fuels with low GHG emission coefficients for energy used in manufacturing and upgrading to energy-saving equipment, and switching to renewable energy for electricity used in offices and other facilities.



FY2023 Breakdown of Group GHG emissions (Scope 1 & 2) (consolidated)

Company name		GHG emissions (t-CO_2)	Composition ratio
Sangetsu Corporation		4,871	18.6%
CREANATE Inc.	(domestic manufacturing company)	15,441	59.0%
Koroseal Interior Products Holdings, Inc.	(overseas manufacturing company)	3,753	14.3%
Other six group companies	(domestic and overseas non-manufacturing companies)	2,131	8.1%
Total		26,196	100.0%

(1) Governance

For information on governance regarding climate change, please refer to the section on governance for natural capital in "2. Approach and initiatives for natural capital."

(2) Strategy

In order to reflect the impact of climate change in our management strategies, we are formulating strategies in line with the TCFD framework, and we have conducted an identification of the risks and opportunities posed by climate change as the first step. Climate change risk is positioned as a major risk to the entire Company, and from FY2022, we have established a Climate Change Risk Subcommittee under the Company-wide Risk Management Committee and have built an organizational management system. The Company-wide Risk Management Committee, chaired by the President & CEO, strives to maintain and improve the corporate value of the entire Group and minimize the impact of risks when they occur, while also managing the various risks that could affect our activities and employees. The relevant subcommittee analyzes each risk related to climate change according to its classification: transition risks in policies, legal regulations, and markets, and physical risks associated with abnormal weather and rising temperatures, and monitors and responds to these risks.

Going forward, we will proceed with implementing scenario analyses and ascertaining the financial impact in order to formulate more specific strategies.

■ Risks and opportunities from climate change

Regarding the environmental impact which has been ascertained, the risks and opportunities for each element are analyzed and countermeasures are implemented.

Risks		Item
Transition risks	Legal regulations	• Pressure on profits due to stricter regulations on GHG emissions and plastics
	Technology	• Lack of decarbonization, use of recycled materials, and recycling technologies
	Markets	• Increased capital costs due to the introduction of decarbonization technologies and recycling equipment • Increased costs of collecting recyclable merchandise
		• Increased costs due to switching to decarbonized (CO_2-free) and recycled raw materials
		• Increased costs due to offsetting emissions from business activities
		• Loss of sales opportunities due to changes in consumer behavior ... Declining need for existing finished goods ... Increased need for decarbonization (lack of compliant finished goods)
	Reputation	• Reputational harm due to inability to provide carbon-free finished goods and finished goods that can be recovered and recycled • Reduction in designated purchasing of the Sangetsu brand and disappointment from ESG investors
Physical risks	Acute	• Damage or interruption to functions that contribute to stable supply (from purchasing to delivery and installation) due to the intensification of natural disasters (floods, inundation, strong winds) from events such as typhoons and torrential rains
	Chronic	• Increased operating costs for air conditioning, etc. due to rising average temperatures

Opportunities		Item
Opportunities	Resource efficiency	• Improved resource efficiency through resource recycling
	Energy sources	• Products and sample books can be manufactured using low-carbon energy (e.g. renewable energy)
	Goods / services	• Environmentally-friendly approach through making products and sample books low-carbon • Environmentally-friendly approach through recycling resources
	Markets	• Meeting environmentally-friendly needs by expanding the range of low-carbon products and sample books • Responding to the need for environmental friendliness by using recycled materials and expanding the range of recyclable merchandise
	Resilience	• More sustainable merchandise and services can also be provided in response to changing needs, such as making products and sample books low-carbon • By establishing a resource recycling system, sustainable merchandise and services can be provided even if virgin materials become scarce

■ Materiality

We consider the following four issues as important environmental issues, and are working to address each of them. Details about the specific initiatives for each issue are published on our website.

Environmental impact of business activities	Reduce GHG emissions, energy consumption, and waste, and improve recycling rates [Details] Addressing climate change https://www.sangetsu.co.jp/company/sustainability/environment/climatechange.html Resource recycling https://www.sangetsu.co.jp/company/sustainability/environment/recycling_society.html
Environmental impact of the supply chain	Ascertaining the Group's environmental impact and formulation of reduction plans [Details] Addressing Scope 3 emissions https://www.sangetsu.co.jp/company/sustainability/environment/climatechange.html#sec06
Recycling of sample books	Improving recycling processing capacity and recycling rate [Details] Recycling of sample books https://www.sangetsu.co.jp/company/sustainability/environment/recycling_society.html#sec03
Development of environmentally friendly products	Development of low-carbon, resource-recycling products [Details] Protecting the global environment through products https://www.sangetsu.co.jp/company/sustainability/environment/product.html

(3) Risk management

The Company identifies materialities and implements the PDCA cycle to improve them through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

In particular, the Subcommittee on Environment, which tackles environmental themes including climate change, has set the following as materialities: (1) the environmental impact of business activities, (2) the environmental impact of the supply chain, and (3) the development of products with low environmental burdens. The Subcommittee aims to ascertain the environmental impact of the entire Group's business and build a system for preventing global warming and the sustainable recycling of resources.

(4) Metrics and targets

The Company has set quantitative targets for reducing the environmental impact of our business activities (Scope 1 & 2) In the Medium-term Business Plan (2023-2025) [BX 2025] and has been working to achieve them. The targets and progress up until FY2023 are as follows.

■ Quantitative targets for reducing environmental impact and progress

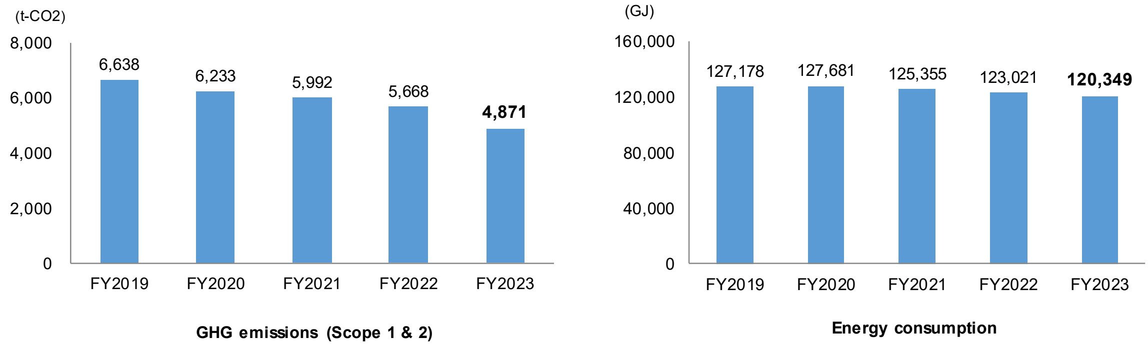
The Company has set quantitative environmental targets in the Medium-term Business Plan [BX 2025] that covers the period from FY2023 to FY2025 and has been working to achieve them. The targets and the progress towards achieving them are as follows.

• FY2025 targets (non-consolidated)

	Target
GHG emissions (Scope 1 & 2)	60% reduction (compared to FY2018)
Energy consumption	6% reduction (compared to FY2018)

• Results (non-consolidated)

	Unit	FY2019	FY2020	FY2021	FY2022	FY2023
GHG emissions (Scope 1 & 2)	t-CO2	6,638	6,233	5,992	5,668	4,871
Energy consumption	GJ	127,178	127,681	125,355	123,021	120,349



■ Future targets and initiatives regarding climate change

Target in the Long-term Vision [DESIGN 2030]: Towards achieving carbon neutrality in 2030

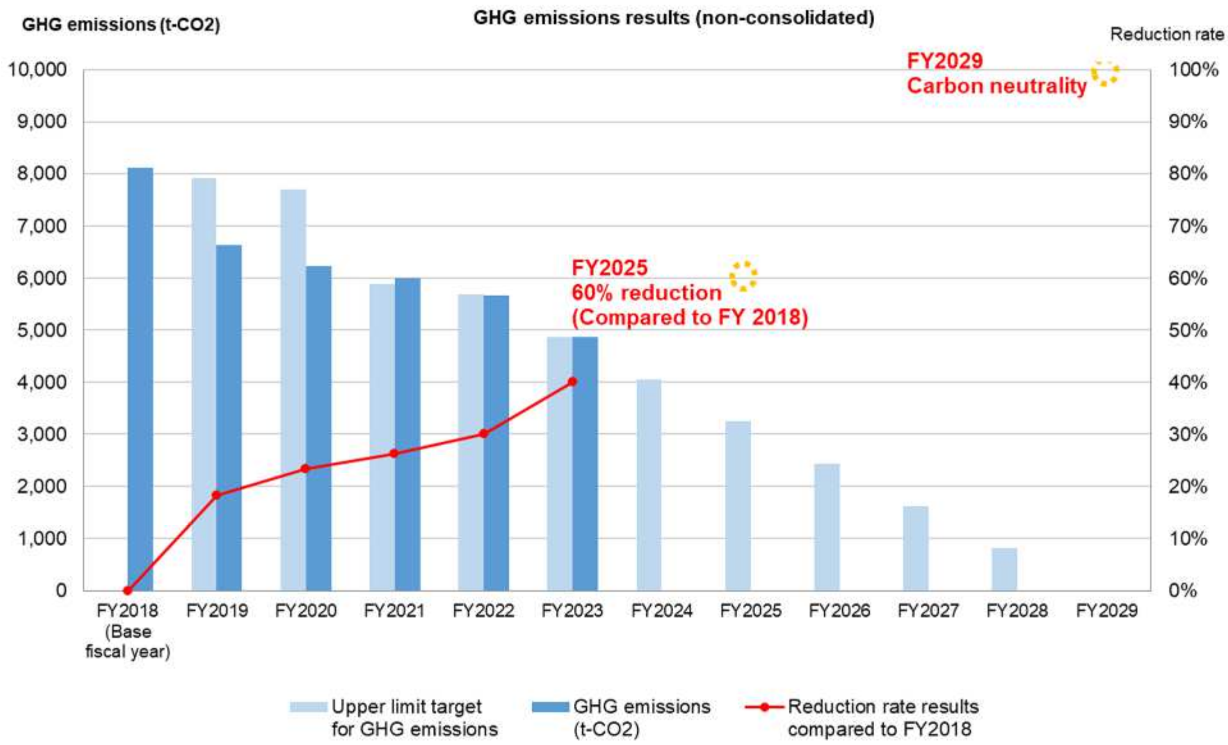
The Company's target in the Long-term Vision [DESIGN 2030] is for the non-consolidated Company to achieve carbon neutrality. Our efforts to reduce GHG emissions have so far included converting company vehicles to hybrid vehicles, promoting eco-driving, and switching to new power providers with lower CO_2 emission coefficients. To achieve the FY2029 targets, we will focus on four measures to reduce emissions: energy conservation, energy creation, renewable energy, and offsets. We are systematically implementing the measures such as "energy conservation" through equipment upgrades, "energy creation" through the introduction of solar power generation equipment, "renewable energy" through the procurement of renewable energy, and "offsets" through afforestation, electricity certificates, and emission credits.

(i) Quantitative targets

• FY 2029 targets

	Target	
GHG emissions (Scope 1 & 2)	Consolidated	55% reduction (compared to FY2021)
	Non-consolidated	Carbon neutrality

(ii) GHG emissions results (non-consolidated)



Initiatives aimed at reducing GHG emissions and energy consumption (FY2023)

As part of our efforts to reduce GHG emissions in order to reduce the environmental impact of our corporate activities, we have installed solar power generation equipment at our logistics facility in Inazawa City, Aichi Prefecture, and approximately half of the total electricity generated is consumed within the facility. In addition, the Company has begun transmitting a portion of the generated electricity through self-consignment to the headquarters and Chubu Branch in Nagoya City, Aichi Prefecture. We have also begun switching to renewable energy sources for electricity procurement, and six business locations were using CO_2-free electricity as of the end of March 2024.

Details of our environmental initiatives are disclosed in our Environmental Report 2023.

https://www.sangetsu.co.jp/company/sustainability/report/report_environmental.html

II. Approach and initiatives for resource recycling

The global population is growing, and the pace of resource consumption is accelerating due to economic development and the pursuit of convenience. It is imperative the use of raw materials is reduced in order to mitigate the risk of resource depletion, and we aim to achieve sustainable resource recycling by promoting the use of recycled materials and expanding the range of merchandise that is designed with the environment in mind and is easy to recycle, in order to reduce the environmental impact of resource procurement and disposal in our business activities.

It is necessary to create a circular system in each process, from raw material procurement, manufacturing, distribution, use, and disposal/recycling. The Company is progressing the building of such systems and is working towards realizing a circular economy society throughout the entire supply chain.

(1) Specific initiatives

• Recycling of sample books

The Company plans and sells approximately 12,000 interior materials, including wallcoverings, flooring material, and fabrics, and there are approximately 30 different sample books at the core of our business model, each of which is revised approximately every two to three years. Regarding used sample books, currently, the Company is only able to collect around 20% of the total itself, with the majority being disposed of as industrial waste.

In addition, because a sample book itself is made up of multiple materials, including a mounting board (paper material) and sample chips (polyvinyl chloride resin and synthetic fiber), it cannot be recycled as a resource through material recycling(*), and ultimately ends up being sent to landfill or thermally recycled.

In order to address these environmental issues and to promote resource recycling, primarily through material recycling, which will further reduce the impact on the environment, we are promoting the expansion of recycling at the "Sangetsu Sample Book Recycling Center."

* Material recycling: A recycling method in which waste material is reused as material for the same or a different product.

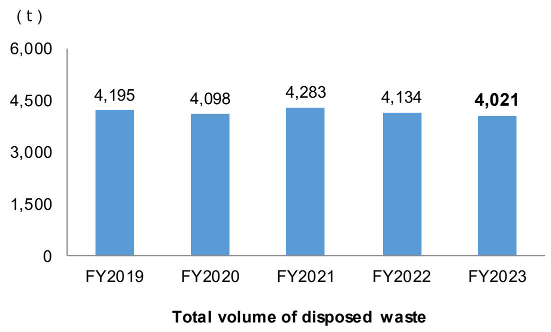
(2) Metrics and targets

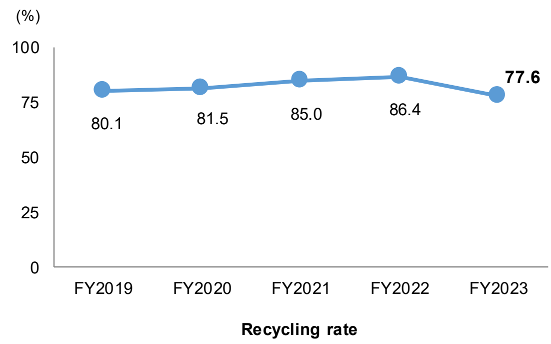
• FY2025 targets (non-consolidated)

	Target
Total volume of disposed waste (simple incineration and landfill disposal)	4% reduction (compared to FY2021)
Recycling rate (effective utilization rate)	90% or higher

• Results (non-consolidated)

	Unit	FY2019	FY2020	FY2021	FY2022	FY2023
Total volume of disposed waste	t	4,195	4,098	4,283	4,134	4,021
Recycling rate	%	80.1	81.5	85.0	86.4	77.6





3. Approach and initiatives for human capital

Under our Brand Statement of "Joy of Design," the Group aims to provide the joy of design through the creation of a variety of spaces. For the Company, whose management is centered on "design," for which a rich sensibility holds great value, a strong driving force behind our business is the ability of each employee to utilize their own individuality as diversity and grow while respecting each other. In order to make the most of this power, we aim to be a company where employees take pride in their work and work enthusiastically, thereby providing new value to society, through measures such as diversity, equity, and inclusion (DE&I) and health management.

(1) Governance

Initiatives regarding human capital are conducted by the Subcommittee on Human Capital, which is established under the ESG Committee chaired by the President & CEO. The Subcommittee supports the active participation of diverse employees and promotes diversity, and the progress of these initiatives is reviewed quarterly, and the Board of Directors manages and supervises the progress status twice a year.

* For details about the ESG Committee's structure, please see "1. Basic approach and initiatives for overall sustainability - (1) Governance - ESG Committee structure."

(2) Risk management

The Company identifies materialities and implements the PDCA cycle to improve them through the activities of the ESG Committee. The initiatives of each subcommittee are evaluated through reviews by the ESG Committee four times a year, providing for continuous improvement and the revision and addition of issues.

In particular, the Subcommittee on Human Capital, which addresses themes related to human capital, has identified the following issues: (1) employee health and skills development, (2) improving employee engagement, and (3) employee DE&I. In the identification of these issues, guidelines set by organizations such as the GRI and SASB were referred to and the ESG issues that are particularly relevant to the Company were identified and evaluated based on their importance to society and long-term investors, as well as their impact on the sustainable growth of our business. The progress made regarding the materialities is reviewed by the ESG Committee on a quarterly basis.

(3) Strategies, metrics, and targets

The Company's basic approach to human resources is as follows:

• Basic approach to improving human capital value

The Group is pursuing the sustainable improvement of its corporate value. Here, "corporate value" means none other than the "total value of our human capital." We consider improving human capital value to be a management issue of the highest priority, and are implementing a variety of measures to address this issue. Based on this basic approach, our basic strategy for achieving the Long-term Vision positions "diverse human capital" as a foundation of management and business, and the Medium-term Business Plan (2023–2025) [BX 2025] positions "supporting expansion, advancement, and active utilization of human capital" as the most important measure among the five measures for transforming into a Space Creation Company.

As a specific initiative, we share the Group's common values, such as our "Human Rights Policy," "Corporate Philosophy," and "Long-term Vision," with all employees. In addition, we have introduced a personnel system based on job duties and responsibilities, assigned and promoted employees based on ability regardless of age, gender, nationality, etc., have expanded the hiring of specialist mid-career personnel, and expanded education and training, as well as the assignment of human resources staff from FY2023 in order to carry out more detailed human resources management.

Approach towards achieving the Long-term Vision

Measures in the Medium-term Business Plan (2023–2025) [BX 2025]

The policies, specific measures, metrics, and targets based on this basic approach are as follows.

Targets and results in the Medium-term Business Plan (2023–2025) [BX 2025] (non-consolidated)

	Item	Target	FY2023 results
Employee health and skill development, culture reform	Ratio of non-smokers	85% or higher	79.1%
	Investment in human capital	¥700 million in 3 years	¥230 million
	No. of mid-career workers hired	60 to 80 in 3 years	49
	Engagement score (*1)	58.0 (A)	53.7 (BB)
Promotion of diversity, equity, and inclusion	Ratio of female managers	25% or higher	21.2%
	Ratio of employees with disabilities	4% or higher	3.5%
	Ratio of male employees taking childcare leave	100% (2 weeks or longer)	100% (2 weeks or longer) (*2)

*1 From FY2023 onwards, we will use scores from Motivation Cloud, a service provided by Link and Motivation Inc. For details, please see “6) Engagement (initiatives to foster corporate culture).”

*2 The ratio of males taking childcare leave of two weeks or more includes those who plan to take leave until their child turns one year old.

1) Human resource development

(i) Human resource development policy

We respect employees who take on the challenge of self-improvement and provide opportunities for growth, active participation, and self-actualization.

• Provide educational opportunities that promote employees’ life planning and growth

• By expanding promotions and granting them earlier, employees will gain experience in the field and future managers and executives will be developed

• We assign personnel in a planned manner so they gain experience in a variety of roles and generate vitality

(ii) Specific initiatives

i) Mid-career recruits

The Group believes that personnel with highly specialized skills are essential to bring about the “BX: Business Transformation” outlined in the Medium-term Business Plan (2023–2025). There are two types of specialized skills: external knowledge that should be actively incorporated, knowledge of the industry, business flow, and merchandise that is cultivated through long experience within the Group. Both of these skills are essential to becoming a Space Creation Company, and we hope to develop new skills and the corporate culture within the Company by enhancing the capabilities of both external and existing talent and supporting their active participation. By incorporating diverse external perspectives into each workplace, we are making greater changes to our corporate culture than ever before, and strengthening a culture and climate in which employees change their own work and take on new challenges, rather than just doing the work that is assigned to them.

ii) Assignment of human resources staff by organization

In promoting “improving human capital value,” it is important not only to implement measures such as sharing values, reforming personnel systems, and hiring mid-career employees, but also to create an environment in which these measures can function and each employee is highly motivated and able to maximize their capabilities. By assigning human resources staff to each organization to perform detailed human resources management for all aspects of career design, including education and training, assignment, and transfers, and by providing career design support and the appropriate assignment of personnel based on an understanding of each employee, we aim not only to reform the culture and mindset of the entire organization, but also to create new business opportunities.

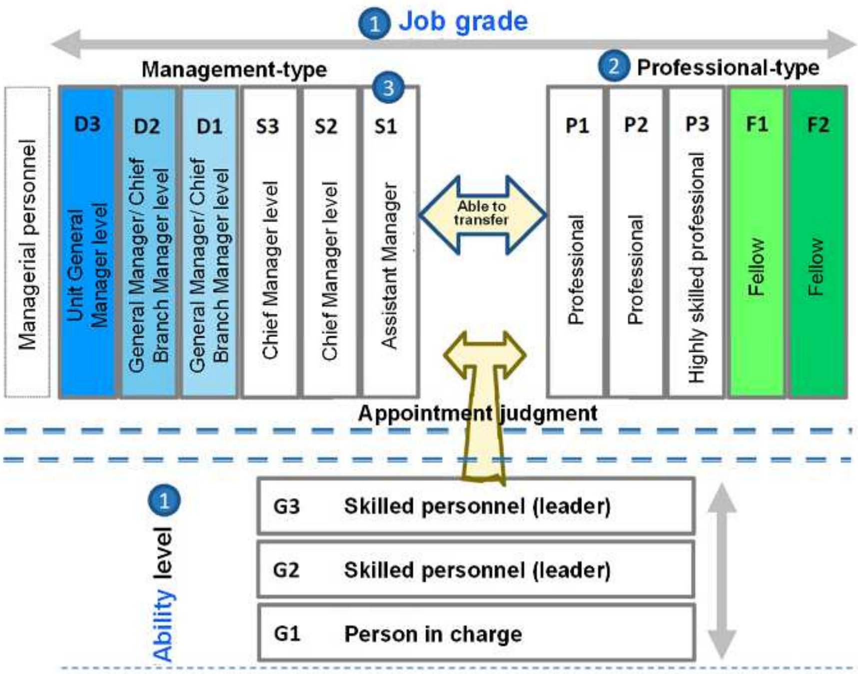
iii) Personnel system reform

The Company is currently reforming its personnel system, with “establishing a business foundation in which employees are responsible for management” as one of the key initiatives, and we began the operation of a new personnel system in April 2022. Under the new personnel system, the appointment of managers has been changed from the previous system of “ability level x position” to a “grade system corresponding to duties,” thereby clarifying the compensation system according to the purpose and results of the duties. Furthermore, by dividing the grades of duties into two tracks, namely “management track” which specializes in organizational management and managerial skills, and “professional track” which utilizes highly specialized skills, we will broaden the scope of careers and prepare to develop, strengthen, and recruit specialized human resources.

The new system is a "duties-based" personnel system, but it is different from the so-called stereotypical job-based system. The "duties and grade" under the new system needs to be adapted to the times and flexible to create more competitive jobs and duties, and while the basic elements will remain, it will constantly evolve. We will utilize this new personnel system to proactively create even more opportunities for the promotion of human resources.

In addition, with regard to the remuneration system, we have implemented an overall base salary increase, including a 35,000 yen increase in starting salary for university graduates in FY2023. In FY2024, we increased the starting salary for university graduates by an additional 15,000 yen, and provided increases to the base salary of existing employees with a focus on each grade. Through this, we are constantly reviewing and improving the remuneration system to ensure that it is in line with changes in the market and each employee's role.

Overall picture of the duties grade and ability level system



iv) Expansion of education and training

Regarding the expansion of education and training, we provide level-based training aimed at strengthening business skills, business building capabilities, and organizational management capabilities, as well as training tailored to specific topics such as digital human resource development, career design, and strengthening expertise by job type, in order to support employees to increase their motivation to grow. From FY2023, we have significantly increased selective training and opportunities for cross-industry exchange in order to develop management talent and next-generation leaders. Additionally, we have introduced the online learning tool "Udemy Business" for full-time employees and special contract employees with the aim of supporting employees' independent learning, and we are promoting the reskilling of employees to support the active participation of human resources and strengthen expertise and business building capabilities as outlined in the Medium-term Business Plan.

Main training topics (excerpt)

Training Topic	Eligible Persons
Business execution capabilities Business concept and building capabilities Innovation capabilities	Officers, Division Managers (selected)
Business concept and building capabilities Creativity and innovation capabilities Organization development capabilities Management capabilities	Division Managers, Chief Managers (compulsory, some selected)
Next-generation leader training Creativity and innovation capabilities	Chief Managers, mid-level employees (selected)
Career design Technical skills Human skills Conceptual skills	New employees, young and mid-level employees, promoted employees, etc. (compulsory, some optional)

Purpose-based training according to topic (excerpt)

Name of Training	Eligible Persons
LGBTQ+ training	All employees
Harassment training (EQ training for ascertaining and controlling emotions)	Division Managers, manager-level at Group companies
Mental health training	Department supervisors
Career training	When reaching 30, 40 and 54 years of age (optional)
Training by occupation	Persons eligible in each division
Digital human resource strengthening	All employees, selected for some roles

In addition, we are working to foster a culture in which employees proactively learn by providing online learning tools (Udemy Business), subsidies for obtaining qualifications, and an awards system.

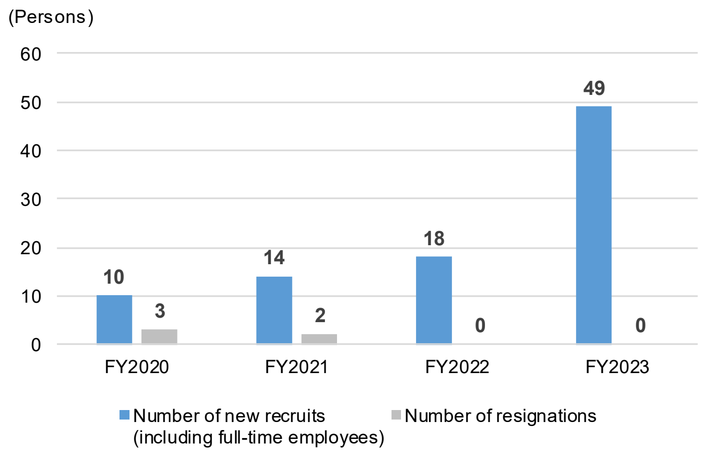
(iii) Metrics and targets

Targets and results in the Medium-term Business Plan (2023–2025) [BX 2025] (non-consolidated)

	Item	Target	FY2023 results
Employee health and skill development, culture reform	Investment in human capital	¥700 million in 3 years	¥230 million
	No. of mid-career workers hired	60 to 80 in 3 years	49

Currently, the non-consolidated Company has 1,238 full-time employees (as of March 31, 2024), and 63 new graduates were hired on April 1, 2024 for general and logistics positions. Regarding career recruiting, 49 employees were recruited in FY2023 and we are progressing in accordance with the Medium-term Business Plan target to recruit 60 to 80 employees in three years (2023–2025). Additionally, we are expanding the target of career recruitment to include spatial designers, construction engineers including construction management technicians, information systems, logistics, and the Corporate Division.

• Progress of career recruiting



* Number of resignations refers to the number of mid-career recruits who have resigned.

• Ratio of mid-career recruits by division

2) Diversity, equity, and inclusion (developing the internal environment)

(i) Sangetsu Group Basic Policy on Diversity, Equity & Inclusion

As the domestic and international external environment surrounding the Sangetsu Group continues to change rapidly, it is essential to provide a wide range of functions or merchandise, and highly specialized services to meet the diversifying sectors of demand, regions, and customers in order to build a strong business foundation and achieve sustainable development.

The Sangetsu Group will utilize the individuality of each employee as diversity, regardless of their gender, age, nationality, race, religion, disability, gender identity, or sexual orientation, and will promote the creation of a culture and enhancement of systems that encourage continued challenges and innovation.

We have placed DE&I, which connects new perspectives and ideas based on differences in backgrounds, sensibilities, and values to rich creativity, at the core of our management, and are working on it as an important measure to achieve growth while capturing the demands of an increasingly diversifying market.

(ii) Specific initiatives

i) Supporting the active participation of diverse human resources

As part of our management strategy, we are taking various steps to utilize the diversity of our employees, with the aim of maximizing the motivation and capabilities of each employee and bringing new value creation to the organization. As part of our efforts to support the active participation of diverse human resources, we have implemented various systems that allow for flexible working styles, and we are also working to improve working conditions and implement trial employment programs in each organization for the employment of people with disabilities. In addition to hiring new graduates, we are also expanding the hiring of mid-career recruits in areas that include spatial designers, construction engineers, information systems, logistics, and the Corporate Division to strengthen our human capital.

ii) Supporting the active participation of women

In the implementation of our strategic personnel system reforms, we are implementing a voluntary action plan based on the Act on the Promotion of Women's Active Engagement in Professional Life. With the aim of creating an organization where female employees can thrive and utilize their strengths, and a system to support this, we have appointed a DE&I promotion officer within the Personnel Department and are implementing various measures to achieve this target. We have promoted DE&I in line with a three-year action plan starting from FY2021, with the aim of utilizing the knowledge, experience, and expertise of employees across the organization, regardless of gender. We are also currently formulating a new action plan to take effect from April 1, 2024.

Action plan based on the Act on the Promotion of Women's Active Engagement in Professional Life (FY2021–2023)

Purpose	To realize an organization where female employees can continue working for a long time, utilize their strengths, and thrive, and a culture that supports this
Plan period	Three years from April 1, 2021 to March 31, 2024
Target (1) (quantitative)	Increase the ratio of women in management positions to 20% by FY2022
Target (2) (quantitative)	Increase paid leave usage rate of full-time employees to 75% or more
Target (3) (qualitative)	Reduce excess overtime hours of all employees

Measures

Career formation support	• Introduction of career development support and training to improve support skills for female employees and their superiors • Consideration of a personnel system that allows diverse career choices
Elimination of the gender gap	• Establishment of a childcare leave system for men and promotion of its use
Continued implementation of work style reforms	• Reorganization and expansion of systems related to flexible working styles, such as remote working, and promotion of their proactive use • Promote DX to improve efficiency of operations

iii) Initiatives regarding LGBTQ+

We have established the Sangetsu Group Human Rights Policy and the Sangetsu Group Basic Policy on Diversity, Equity & Inclusion, and have communicated both inside and outside the company that we will utilize the individuality of each employee as diversity, regardless of their gender, age, nationality, race, religion, disability, gender identity, or sexual orientation, and will promote the creation of a culture and enhancement of systems that encourage continued challenges and innovation. With this in mind, we are working to proactively support LGBTQ+ employees by setting up a helpline and encouraging employees to express their support by displaying 'ALLY'* stickers. In FY2023 the Company received Gold certification for the first time in the "PRIDE Index 2023," an LGBTQ+ assessment standard, in recognition of its efforts to hold LGBTQ+ training for all full-time employees (with voluntary attendance by managers and other employees of Group companies) and introduction of a "same-sex partnership system."

* ALLY: A person who acts to proactively support the LGBTQ+ community.

Sangetsu ALLY sticker

(iii) Metrics and targets

The Company has set quantitative DE&I targets in the Medium-term Business Plan [BX 2025] that covers the period from FY2023 to FY2025 and has been working to achieve them. The targets and the progress towards achieving them are as follows.

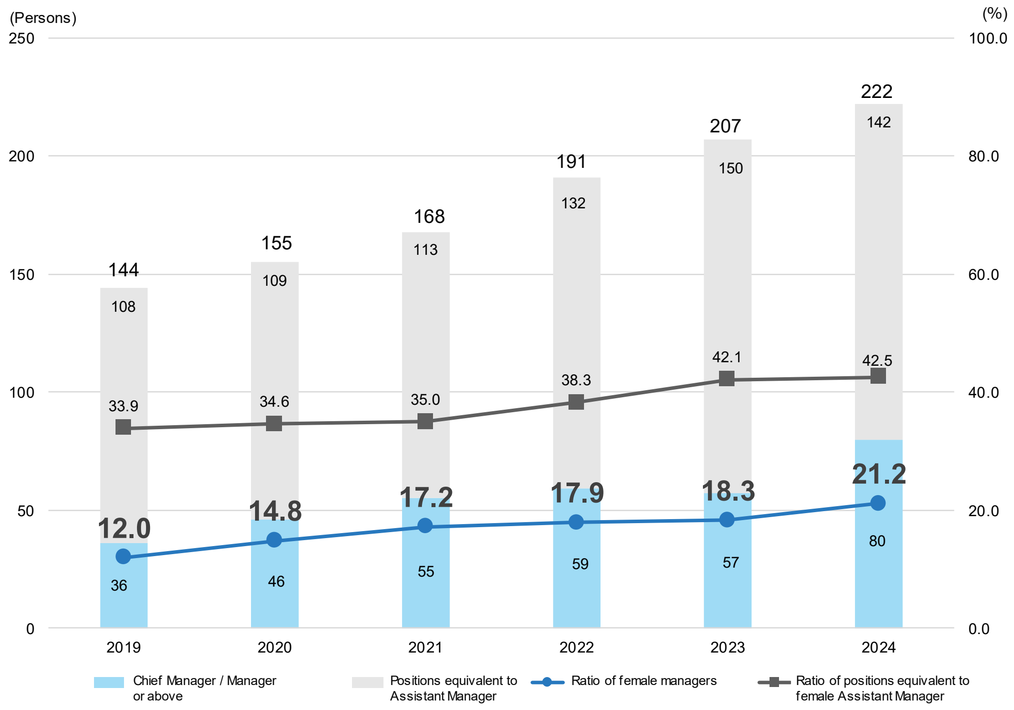
Targets and results in the Medium-term Business Plan (2023–2025) [BX 2025] (non-consolidated)

	Item	Target	FY2023 results
Promotion of diversity, equity, and inclusion	Ratio of female managers	25% or higher	21.2%
	Ratio of employees with disabilities	4% or higher	3.5%
	Ratio of male employees taking childcare leave	100% (2 weeks or longer)	100% (2 weeks or longer) (*)

* The ratio of males taking childcare leave of two weeks or more includes those who plan to take leave until their child turns one year old.

• Ratio of female managers

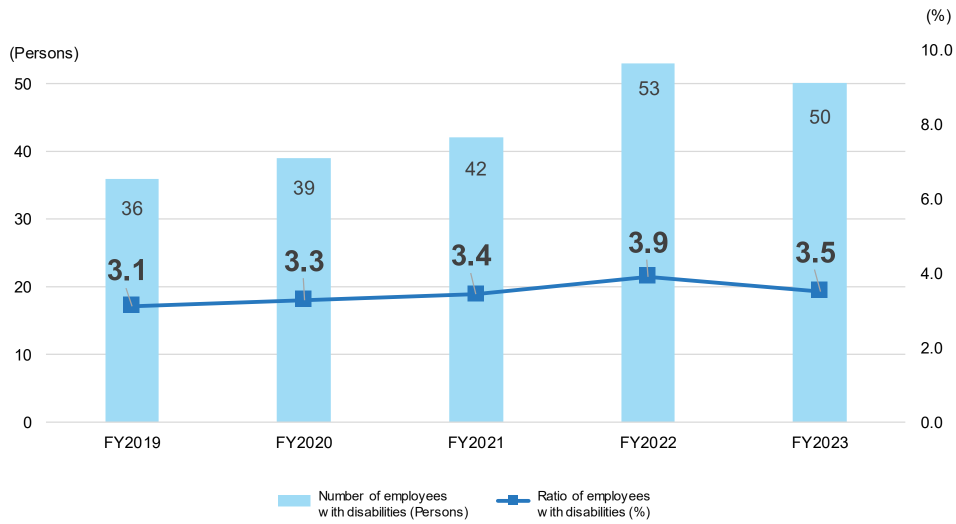
Our target is to have 25.0% or more female managers by the end of FY2025. As of April 1, 2024 the ratio of female managers was 21.2%.



* Calculations are based on the figures as of April 1 each year to take into account the timing of personnel changes.

• Ratio of employees with disabilities

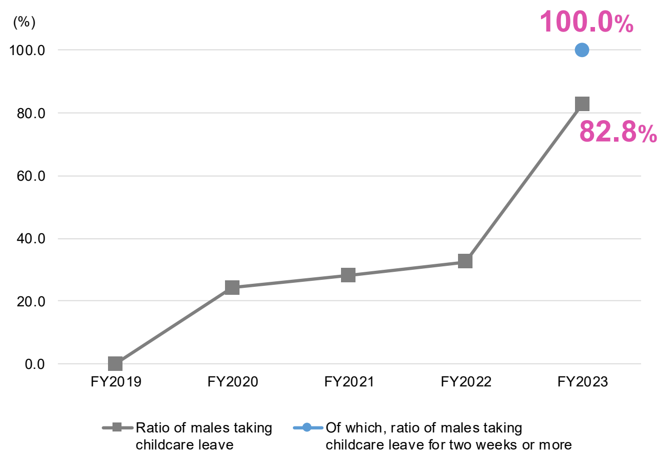
The ratio of employees with disabilities is 3.5% (as of March 31, 2024), which exceeds the statutory rate of 2.3% (until March 2024). We will continue with initiatives towards our FY2025 target of 4.0% or higher.



• Ratio of males taking childcare leave

We encourage male employees to take childcare leave in order to create an environment in which everyone can balance work and childcare regardless of gender, and to establish a system for supporting childrearing across the company and departments. Currently, 100% of female employees take childcare leave, and we are also aiming for a 100% rate (for two weeks or more) for male employees by FY2025.

Based on the definition set by the Ministry of Health, Labour and Welfare, the rate of males who took childcare leave in FY2023 was 82.8%. Meanwhile, the ratio of males taking childcare leave of two weeks or more, which is set as a quantitative target in the Medium-term Business Plan, is 100%, including those who plan to take childcare leave until their child turns one year old.



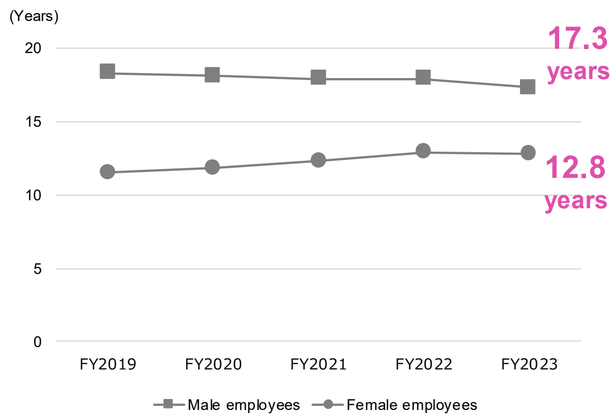
* Ratio of males taking childcare leave (including childcare leave at the time of birth):

Number of male employees who took childcare leave during the fiscal year ÷ Number of male employees whose spouses gave birth during the fiscal year

(iv) Other reference metrics (non-consolidated)

• Average years of service (as of March 31 each year)

We aim to be a company that is a rewarding place to work where each employee can take on their work with enthusiasm. One indicator of this result is that the average years of service remains stable for both men and women.



3) Review of work styles (developing the internal environment)

(i) Policy regarding work styles

At Sangetsu we respect the diversity, personality, and individuality of each employee, operate a personnel system that allows each employee to maximize their capabilities, and ensure a safe and comfortable working environment.

(ii) Specific initiatives

i) Supporting the balance between work and family

We support employees to provide childcare and nursing care in order to develop an employment environment in which employees can fully utilize their capabilities, and contribute to the development of the next generation. We support the balance between work and family life through a variety of measures, such as holding seminars on nursing care, providing subsidies for the cost of babysitting and childcare for sick children, corporate partnerships with private childcare centers, and hosting children's open days to promote understanding towards those employees with children and encourage communication within the home.

Childcare and nursing care support system

Pregnancy and birth	During childcare leave	Raising children	Nursing care
Pregnancy and maternity leave	• Childcare leave support program (Meeting with superior, child raising support seminar) • Made childcare leave partially paid leave	• Reduced work hours for child raising system (Until the child starts 2nd year of elementary school) • Corporate partnerships with private childcare centers • Subsidy for childcare services for sick children • Subsidy system for babysitters • Flextime system • System to use paid leave in hourly units • Remote working system	• Nursing care leave (Statutory period + extension of up to 1 year) • Flextime system • System to use paid leave in hourly units • Remote working system

ii) Diversity of work styles

We are implementing various measures to improve and strengthen our labor management, with the aim to create a "rewarding" workplace where employees can work with enthusiasm. We are taking a variety of measures to promote the work-life balance of employees, including flexible working systems such as flextime and remote working, the use of ICT technologies such as Google Workspace*, subsidies for babysitting costs, and business partnerships with private childcare centers. Additionally, the "PARCs Sangetsu Group Creative Hub" in Hibiya, Tokyo, which was opened as a base for creating new value for the Sangetsu Group, is not only expanding the business by consolidating group functions, but is also promoting initiatives that lead to the "wellbeing" of employees and visitors, and has received provisional certification for the "WELL Building Standard™ v2." We are currently aiming to obtain full certification at the "Gold" level and are making adjustments to operational aspects to create a comfortable working environment.

* A groupware tool provided by Google for improving productivity using cloud computing.

Measures to create a comfortable working environment

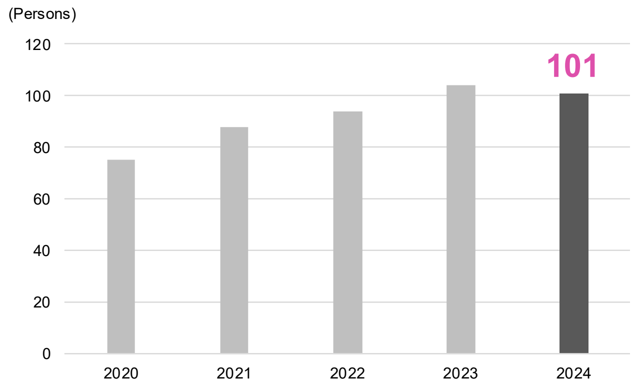
Flexibility of work styles	A range of systems are in place that are easy to use depending on the type of duties and work environment, such as flextime with no core time, working from home, staggered working hours, and a paid leave system based on hourly units. Employees can work from satellite offices and the offices of Group companies, which expands the options for where to work.
Prevention of overwork	Employees can share work and prevent overwork by visualizing working hours through PC logs, setting times that PCs will automatically shut down, utilizing Google Workspace for smooth communication through its remote meeting and chat functions, and sharing each other's work status. A consultation desk with public health nurses and industrial physicians has been established.
Office environment	A comfortable office environment is being developed by implementing a complete smoking ban on company premises, promoting flexible seating work style, and establishing communication areas.

(iii) Metrics and targets

Reference metrics (non-consolidated)

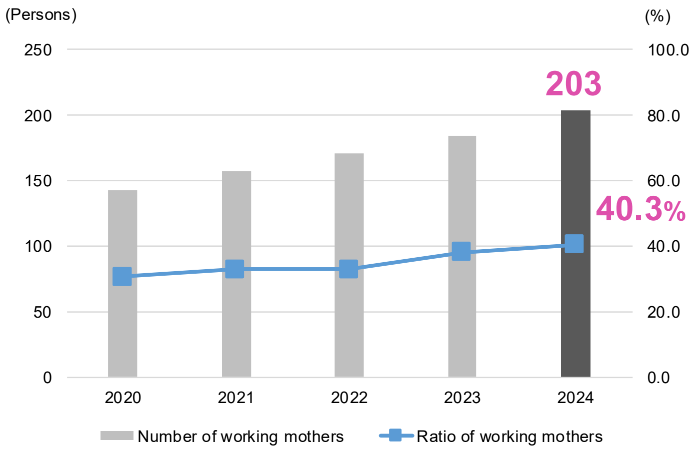
• Number of employees using reduced work hours for child raising system (as of April 1 each year)

The number of employees using the "reduced work hours for childcare system," which is part of our efforts to improve the employment environment to support the balance between work and family life, is as follows.



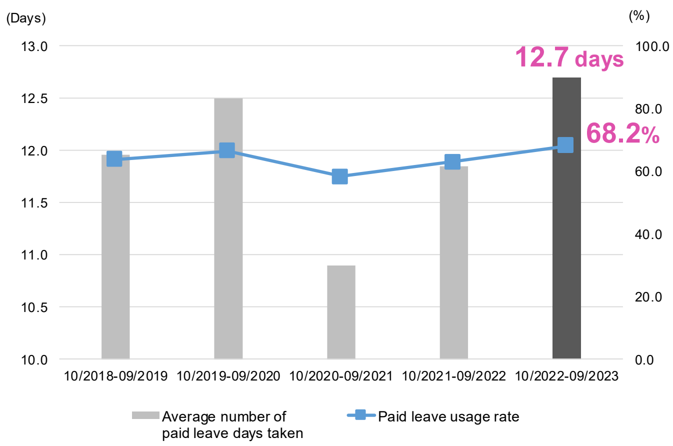
• Ratio of working mothers (as of April 1 each year)

We are promoting the creation of systems and environment that enable employees to continue working while raising children. The ratio of working mothers among female employees is increasing each year. Since 2022, the definition of a working mother has been changed from "all female employees with children" to "female employees with children under the age of 18."



* Ratio of working mothers: number of working mothers ÷ number of full-time female employees

• Paid leave usage rate



4) Health management (developing the internal environment)

(i) Health management policy

To work and live a healthy life "so that employees can work with enthusiasm"

• Improving mental and physical health (employees and their families)

We will work to improve our systems for promoting mental and physical health and engage in activities to maintain and improve health.

• For a more enriched life

We will contribute to creating happiness for employees, their families, and the entire local community through health management.

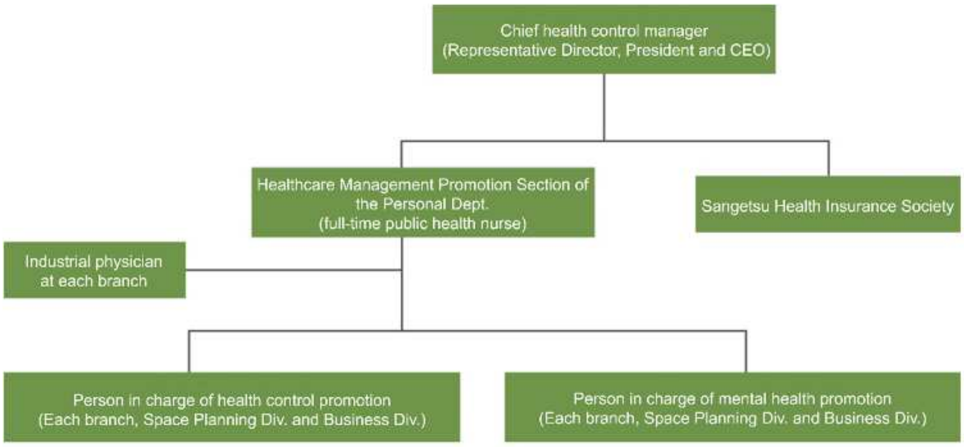
• Creating a comfortable work environment

Securing a comfortable work environment that is safe, healthy, and easy to work in.

One of the five principles of the Sangetsu Group Corporate Charter is “so that employees can work with enthusiasm.” We respect the diversity, personality, and individuality of our employees, and are committed to operating an appropriate personnel system that allows each employee to maximize their capabilities as a central figure in the company’s management, as well as ensuring a comfortable work environment that is safe, healthy, and easy to work in. We will continue to strive to maintain and improve the health of our employees by ensuring a comfortable work environment that is safe, healthy, and easy to work in and by improving our system for promoting physical and mental health.

(ii) Health management promotion system

The Representative Director, President & CEO is the person chiefly responsible for health management, and the health management promotion staff and public health nurses in the Healthcare Management Promotion Section of the Personnel Department are at the center of developing activities to maintain and improve the health of employees in cooperation with health management promotion staff and industrial physicians at each business location, in order to create a comfortable working environment and promote physical and mental health.



(iii) Specific initiatives

We aim to develop a comfortable work environment that is safe, healthy, and easy to work in so that employees can work with enthusiasm, and to enhance our system for promoting physical and mental health, and are continually working on activities to maintain and promote health, such as encouraging employees to take planned annual leave, implementing a complete smoking ban during standard working hours, and implementing stress checks for all employees. In 2019, we established the Sangetsu Health Insurance Society, established an organizational structure for health management, and strengthened our efforts to promote mental and physical health by beginning to fully subsidize health checkups, including for breast cancer, cervical cancer, and prostate cancer (for men aged 50 and over), disseminating health-related information, and holding various health events. Furthermore, we have introduced an Advanced Cancer Care Compensation Program to reduce the financial burden on employees undergoing treatment under the Advanced Treatment System which is not covered by health insurance, and we are also putting in place a financial support system for “balancing treatment and work,” in addition to our ongoing awareness-raising activities for the prevention and early detection of disease. In FY2023 we progressed “collaborative health projects,” such as the commencement of full subsidization of gastroscopy tests, the provision of diabetes prevention programs through the sharing of health issues with health insurance society, the commencement of a dental checkup subsidy program, and the active promotion of specific health guidance. In addition, from FY2024 we will also begin to provide subsidies for brain health checkups, chest CT scans, and cervical cancer screenings for young people, and will continue to work to create a comfortable work environment that is safe, healthy, and easy to work in.

These activities have been evaluated and we have been certified as a KENKO Investment for Health Outstanding Organization (large enterprise category) for five consecutive years since 2020.

2024
健康経営優良法人
Health and productivity

(iv) Metrics and targets

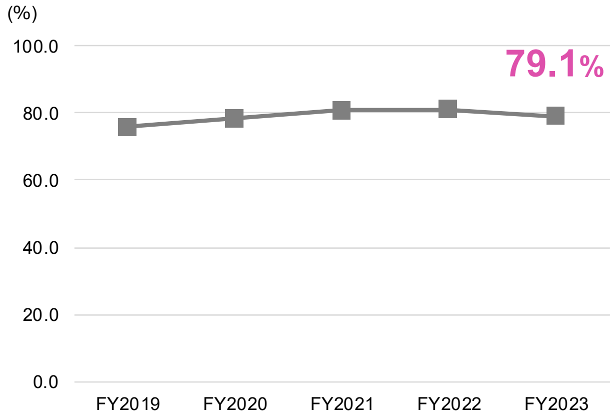
The Company has set quantitative health management targets in the Medium-term Business Plan [BX 2025] that covers the period from FY2023 to FY2025 and has been working to achieve them. The targets and the progress towards achieving them are as follows.

Targets and results in the Medium-term Business Plan (2023–2025) [BX 2025] (non-consolidated)

	Item	Target	FY2023 results
Employee health and skill development, culture reform	Ratio of non-smokers	85% or higher	79.1%

• Ratio of non-smokers

The smoking ratio has been on a downward trend due to ongoing efforts, but remains at 79.1% as of March 31, 2024 due to factors including the smoking rate of new recruits. We will further strengthen our initiatives against smoking.



In addition, we are promoting health management by setting quantitative targets for metrics such as the rate of abnormal findings in periodic health checkups and the rate of employees receiving cancer screening. Please see our website for further information.

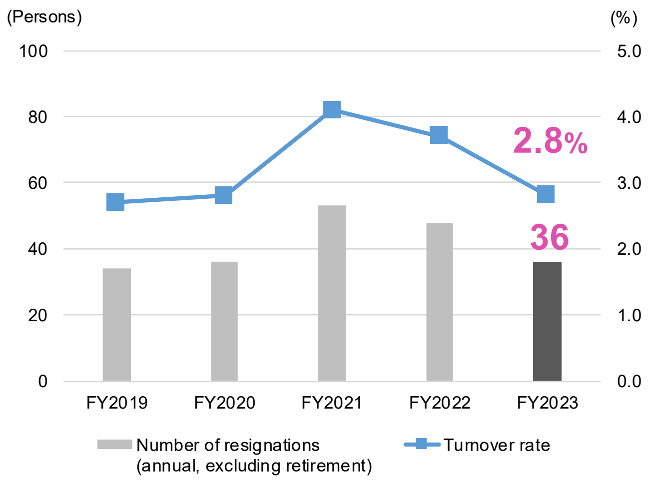
Health management

https://www.sangetsu.co.jp/english/sustainability/social/health_management.html

(v) Other reference metrics (non-consolidated)

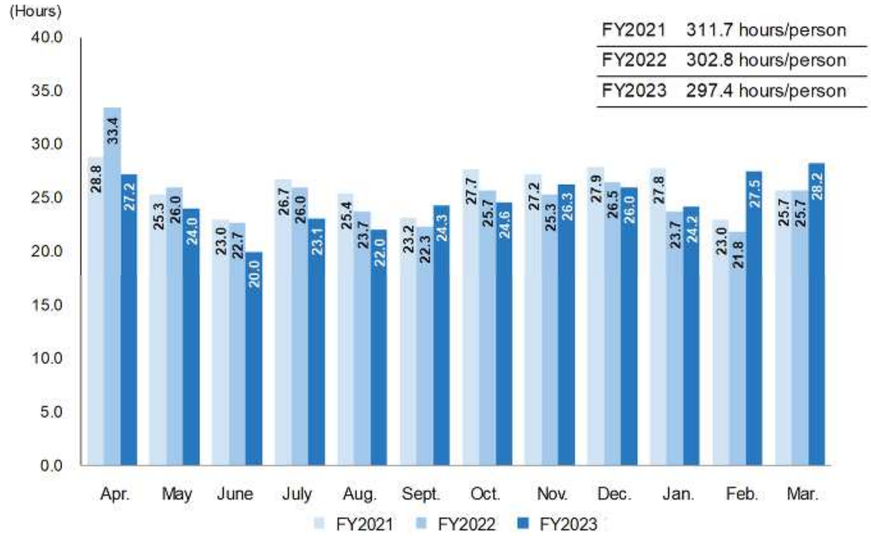
• Number of resignations (annual, excluding retirement) / turnover rate

We respect the human rights of each employee, prohibit unfair discrimination and harassment, and are striving to create a fair and bright workplace. We are promoting the creation of a work environment where employees can maintain their physical and mental health, and have maintained a low turnover rate over the past five years.



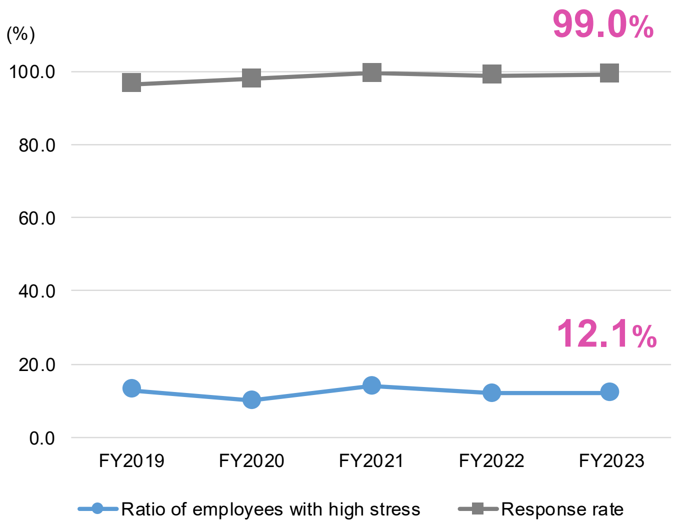
• Trend in overtime hours

We are working to reduce overtime work by proactively introducing systems and programs that enable diverse working styles, reviewing operations, and promoting outsourcing.



• Stress check participation rate and results (ratio of employees with high stress)

In the most recent fiscal year, the number of employees with high stress was around 10%. We are striving to prevent mental health problems and improve the working environment by conducting regular stress checks.



5) Occupational safety and health (developing the internal environment)

(i) Basic policy on occupational safety and health

• Ensure the safety and health of our employees, and promote the creation of a safe and comfortable workplace

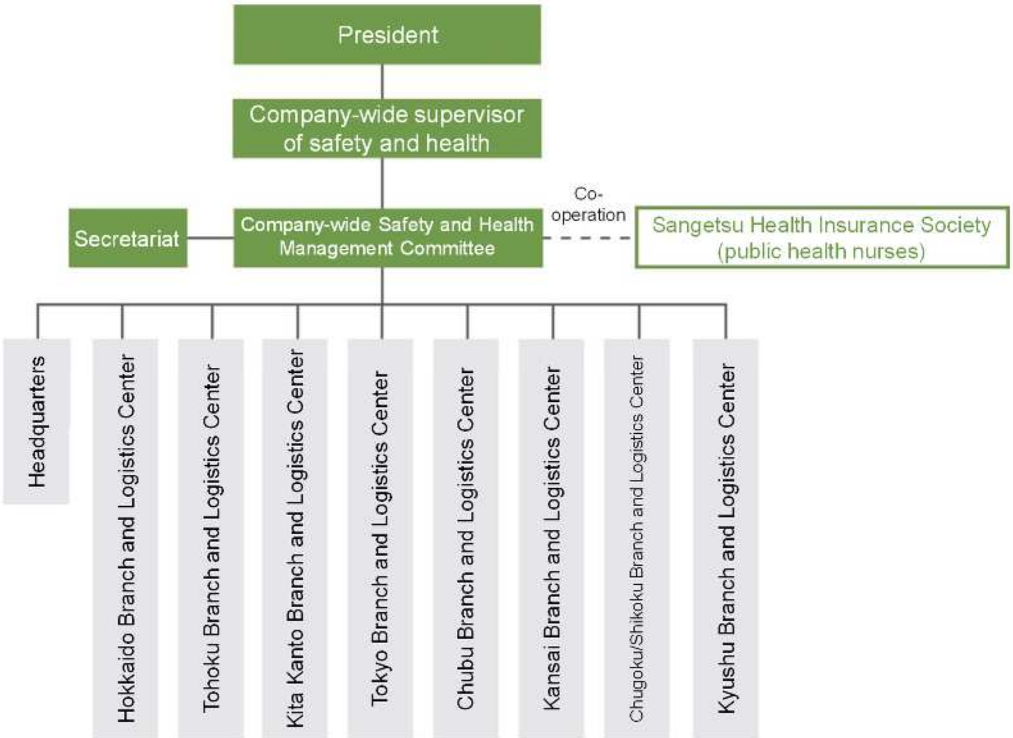
• Comply with laws, regulations, and internal rules regarding safety and mental and physical health

• Promote the reduction of the number of occupational accidents, vehicle accidents, and traffic violations

(ii) Safety and health management system

The Company's Director in charge of safety and health serves as the company-wide supervisor of safety and health, and supervises and manages safety and health for the whole company. We have established a Company-wide Safety and Health Management Committee under the company-wide supervisor of safety and health, and under this we have established safety and health management committees at the headquarters, branch offices, and logistics centers. Safety and health management committees are chaired by the General Manager of the General Affairs Department or Chief Branch Manager, and consist of health managers, safety managers, industrial physicians, and safety and health committee members selected from each department, and the matters discussed by committees are regularly reported to the Board of Directors.

Furthermore, health and safety activities within logistics centers, where a large amount of physical work occurs, are carried out in accordance with a separately established "Logistics Manual (Safety and Health)." Additionally, safety measures for contracted companies based in the same workplace are also carried out as part of the health and safety activities within logistics centers.



Further, in FY2024 we are revising the structure from "Tokyo Branch / Logistics Center" to "PARCs / FIELDs / Logistics Center."

(iii) Specific initiatives

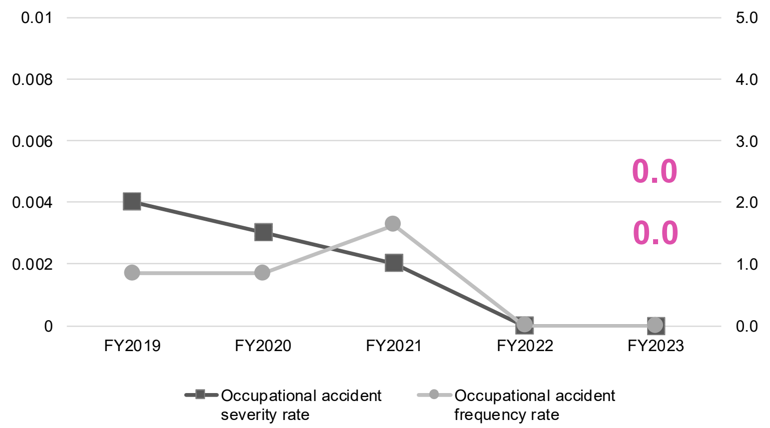
- We conducted health and safety training for new employees to help them understand our health and safety philosophy and organizational structure, to inform them of the details of activities, and to provide training on the safety confirmation method in times of natural disaster. (50 employees in FY2023)
- In the event of an occupational accident, the relevant department prepares an "incident report" by the day after the accident, and a "countermeasures report" within one week of the accident. After holding a countermeasures meeting, these reports are submitted to the secretariat in order to share and manage the situation as well as prevent recurrence.
- As part of our occupational health and safety initiatives in preparation for earthquakes which are expected to occur in Japan and other large-scale disasters, since FY2013 we have been taking measures that include creating a business continuity plan (BCP) and stockpiling drinking water, food, toilets, etc., as well as conducting disaster prevention drills for all employees, first aid training, AED training sessions, and reporting training using a safety confirmation service.
- As measures to prevent vehicle accidents, we are installing dashcams and "SmartDrive Fleet" in all company vehicles and gradually introducing vehicles that come with reversing monitors and safety features as standard features, while also working to curb dangerous driving by promoting eco-driving and providing individual guidance in the case of traffic violations.

(iv) Reference metrics (non-consolidated)

• Occupational accident frequency rate and severity rate

We provide safety and health education to employees, and if an occupational accident occurs, we promptly share the details of the incident across the company and implement measures to prevent recurrence in each department. The number of deaths due to occupational accidents among full-time employees was zero in FY2023. Further, the number of persons injured due to occupational accidents was four, of which none were required to take time off work.

	FY2019	FY2020	FY2021	FY2022	FY2023
Occupational accident frequency rate	0.84	0.84	1.63	0.0	0.0
Occupational accident severity rate	0.004	0.003	0.002	0.0	0.0



• Frequency rate: Number of casualties from occupational accidents per 1 million actual working hours* (frequency of accident occurrence)

* Number of casualties from work-related accidents resulting in at least one day of absence or loss of a part or function of the body

• Severity rate: Total number of work days lost per 1,000 actual working hours (degree of severity of accidents)

6) Engagement (initiatives to foster corporate culture)

We believe that for a company to grow, it is essential that employees understand and empathize with the company's direction and are highly engaged in their work. We conduct an engagement survey targeted at all employees, analyze the results, and reflect them in reforms to our organization, systems, culture, etc. In particular, we pay close attention to metrics related to employee engagement as a key management issue.

(i) Specific initiatives

i) Corporate Philosophy Promotion Project

Since December 2022, the Group has launched a "Corporate Philosophy Review and Promotion Project" amongst volunteers, and discussions within each group company and organization as well as consideration by the Board of Directors have been continuing. Then, in January 2024, a new Corporate Philosophy was announced which places the Purpose as the highest concept in our corporate activities, identifies the Dream as the future vision we aim to realize through the Purpose, and defines the Belief as our firm corporate belief shaping the Purpose, and the Way as the attitude of employees.

Following the formulation of the Corporate Philosophy, each division and company has been voluntarily implementing projects to promote its dissemination, and efforts are being progressed to change the corporate culture and ways of working as the Corporate Philosophy spreads, so that it ultimately becomes a driver of change in corporate activities.

ii) Employee engagement

Communication between management and employees, and across departments, positions, age groups, and regions, is essential in order to foster engagement. The previous President & CEO of the Company, Mr. Yasuda, would regularly send out a variety of messages in his "YASUDA Column," ranging from financial results and themes linked to growth strategies such as the acquisition of group companies, to current events, seasons, and hobbies. The current President & CEO, Mr. Kondo, considers it important to foster a corporate culture in which the core of the organization, its human resources, can maximize their individual abilities and potential and co-create beyond the boundaries of departments, group companies, etc., and has launched "KONDO's Talk" as a form of interactive dialogue content. The Company is also striving to share awareness among employees through various forms of dialogue, such as holding dialogue meetings with employees and social gatherings for new recruits and mid-career recruits.

In addition, while the employee awareness survey was set as a metric in the Medium-term Business Plan [BX 2025], in order to clarify the components of engagement by visualizing the data and to implement specific improvement measures based on the survey results, we have introduced a new “engagement survey” from FY2023 and changed the metric in the Medium-term Business Plan [BX 2025] to the “engagement score.” The target for FY2025 is to raise the engagement score two levels from “BB (score below 55.0)” achieved in FY2023 to “A (score below 61.0).”

(ii) Metrics and targets

Targets and results in the Medium-term Business Plan (2023–2025) [BX 2025] (non-consolidated)

	Item	Target	FY2023 results
Employee health and skill development, culture reform	Engagement score (*)	58.0 (A)	53.7 (BB)

* From FY2023 onwards, we will use scores from Motivation Cloud, a service provided by Link and Motivation Inc.

The targets at the time of announcement of the Medium-term Business Plan [BX 2025] (May 12, 2023) and the past trend are as follows.

Targets in the Medium-term Business Plan (2023–2025) [BX 2025] (non-consolidated)

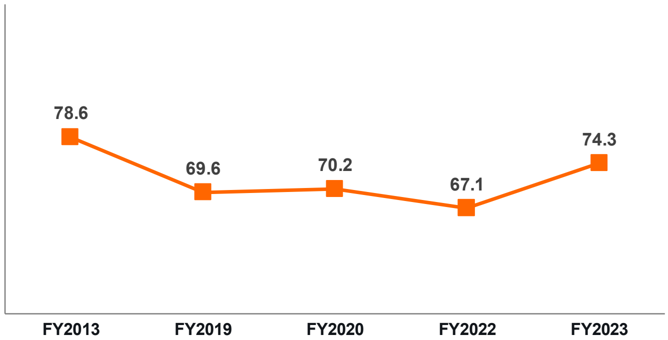
	Item	Target
Employee health and skill development, culture reform	Job satisfaction indicator (*)	77% or higher

* Job satisfaction affirmation rate in the employee awareness survey

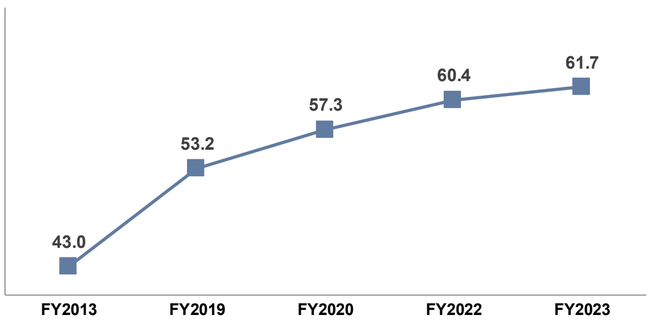
• Analysis and initiatives policy up until FY2023

In terms of employee engagement, the basic metric of “Is your job rewarding?” had been on a downward trend, partly due to the fact that it became harder to see the rewards of the “individual” as sales targets were shifted from individuals to teams. However, thanks to various efforts aimed at improvement, it improved to 74.3% in FY2023. In addition, the “culture of taking on challenges” continues to rise, and we will continue to monitor these figures in the future with the aim of improving employee engagement.

Question: “I find my current job rewarding.”



Question: “There is an atmosphere within my department where I can take on challenges without fear of failure.”



4. Approach and initiatives for information security

We consider it an important management issue to ensure information and cyber security in order to maintain and continue normal and smooth business activities by appropriately protecting from the threat of various cyber attacks the information assets and network systems of our customers, business partners, and our own companies that we handle in the course of business. We are working to reduce information and cyber security risks in order to maintain the confidentiality, integrity, and availability of information in our business activities and to protect from malicious attacks (intentional acts) our information assets, such as computers, servers, mobile devices, electronic systems, networks, and data, as well as the services we provide.

Information and cyber security policy

https://www.sangetsu.co.jp/security_policy/

(1) Governance

We appointed an officer in charge of cybersecurity in July 2022 and established a Cybersecurity Management Office in August 2022. Since the second half of FY2022, we have held a regular Cybersecurity Committee meeting every six months, attended by the President & CEO, the Executive Officer in charge of cybersecurity, and responsible persons from each department, to identify information security issues and discuss how to respond to them. In addition, from April 2023, we introduced an information security education and training system, and provide e-learning using examples of how the tools such as email that are used each day can be used as “attack tools,” in order to improve each individual’s knowledge and awareness. Because the effective and efficient use of information and data in our business is extremely important for the operation of our business, we are also gradually improving the level of security that supports this.

(2) Risk management

Risk management regarding information security is as described in “3. Business risks - (10) Information security.”

* Please see our website for information regarding the progress of our growth strategies and sustainability initiatives within the Group.

Sustainability website

https://www.sangetsu.co.jp/english/sustainability/

Integrated Report “Sangetsu Report 2023”

https://www.sangetsu.co.jp/english/ir/library/report.html

The latest Integrated Report will be published on our website around the end of September 2024.

3. Business risks

The matters recorded in the annual securities report concerning the overview of business, financial information, etc. include the following key risks that are recognized by the management as having the potential to exert a material impact on the financial position, operating results, and cash flows of consolidated companies.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

(1) Business environment

(Description of risk)

The Group operates its business through the Domestic Interior Segment, which in addition to planning and selling interior design materials such as wallcoverings, flooring material, and fabrics (curtains and upholstery) and manufacturing wallcoverings, also conducts design and proposals through to interior and architectural installation; the Domestic Exterior Segment, which sells and installs exterior products such as gates, fences, and terraces; and the Overseas Segment, which manufactures wallcoverings in the United States and sells interior materials in the Pacific Rim region of North America, China, Hong Kong, and Southeast Asia. Since these businesses are dependent on construction demand, there is a risk of losing business opportunities due to factors such as the overall trends of the national economy, government policies regarding housing, changes in the tax system, and a decrease in the number of new residential and non-residential construction starts due to a declining population, as well as a decrease in the contract market due to economic downturn.

(Measures against risk)

In the domestic market that is the foundation of our business, we do not expect to see significant growth in new construction and renovation in the residential and non-residential sectors in the future due to the declining birthrate and aging population, and we are focusing on our medium-term strategy of expanding our market share and improving income through price increases under the background of reorganizing and improving our various domestic business foundations, while our long-term strategy is to expand our domestic Exterior Business and to profitably expand our Overseas Business. In terms of procurement, we are working to avoid risks by investing management resources into our manufacturing divisions to ensure stable supply from manufacturers and to facilitate product development from a medium- to long-term perspective. In addition, taking into account the long-term development potential of our current businesses, we established a Business Creation Promotion Division in April 2024 to explore and implement business development possibilities for further growth.

(2) Fluctuation in purchasing prices

(Description of risk)

Much of the merchandise handled by the Group is made from raw materials such as petrochemical products, aluminum, and glass, such that extreme fluctuations in product purchase prices due to rising crude oil and mineral prices, or rising costs associated with marine transportation when procuring from overseas, could have an impact on the Group’s business performance. Additionally, there is also concern about the impact of recent increases in personnel, logistics, and energy expenses on domestic procurement prices.

(Measures against risk)

We are constantly monitoring the price trends of major raw materials and have transitioned our material procurement to purchasing from multiple locations and adjusting production volumes, but the prices of major raw materials such as PVC, plasticizers, nylon, and polyester have skyrocketed since 2021, and the purchase prices of wallcoverings, flooring material, curtain fabrics, upholstery, adhesives, and sewing costs have increased significantly. Therefore, while closely monitoring the movements of our competitors, in order to maintain a stable supply of products and logistics service levels, as well as the healthy development of the interior industry, we have raised the prices of wallcoverings, flooring material, and fabrics by 13%–18% in September 2021 and 18%–24% in April 2022, and wallcoverings, flooring material and upholstery by 7%–12% in October 2022.

In the future, we will continue to closely monitor not only our suppliers, but also factors resulting from social conditions such as crude oil prices, price fluctuations among raw material manufacturers, and personnel expenses and logistics costs, and will be constantly preparing to gather information in order to make appropriate decisions regarding purchase price negotiations and sales price increases.

(3) Supply of merchandise

(Description of risk)

The Group conducts sales and marketing activities for wallcoverings and flooring material, which are the main merchandise we handle, by distributing sample books which contain samples of merchandise. The planning and development of the merchandise featured in the sample books are conducted in-house, but with the exception of a few items, manufacturing is carried out by external manufacturers and we receive the supply of products. As our industry is heavily dependent on maintaining a stable supply throughout the validity period of sample books, interruption to the supply of merchandise due to unforeseen factors such as production problems or raw materials procurement could have an impact on the Group’s business performance.

Our subsidiary, CREANATE Inc., is the largest manufacturer of wallcoverings in Japan. As we expand our wallcoverings business in the future, we believe that further development will be possible not only through strengthening our competitiveness and securing volume, but also through improving business efficiency by establishing an integrated manufacturing and sales system, and recognize that maintaining stable factory operation and a stable supply of merchandise is an issue that the entire Group must address. In addition, we plan to further increase our stable supply capacity through the construction of a new factory by CREANATE, which was announced in November 2022.

(Measures against risk)

In order to ensure the stable procurement of merchandise from manufacturers, we inspect the manufacturers' factories and check that their manufacturing processes are appropriate before purchasing, and in the event that procurement becomes difficult, we have established an environment as a backup system that is prepared for emergencies, such as ensuring sufficient inventory of major merchandise and preparing alternative merchandise.

In addition, to ensure a sustainable supply of merchandise from the Company to our customers, we are strengthening system integration at all stages, from receiving products to receiving orders and shipping, as well as regularly reviewing action plans to address risks that may hinder the stable operation of logistics centers, which serve as inventory hubs in each region, and are working to confirm the effectiveness of and improve countermeasures.

(4) Design and construction business

(Description of risk)

The Group not only sells interior design materials and exterior materials, but also designs and proposes space designs that utilize these materials, and even operates the business of installation work. In the design and installation business, the business activities must be conducted in accordance with various laws and regulations, including the Construction Business Act, and there are risks to business continuity and reputation if we are judged to have committed a violation.

(Measures against risk)

We are constantly working to improve our operations by recruiting experienced personnel with specialized knowledge, reviewing and considering the systematization of workflows, and conducting thorough internal supervision from a legal perspective. In April 2024, we established a Construction Unit as a department in charge of design and construction business, and have established a system not only to expand the business but also to thoroughly manage risks related to the construction function of the entire Group.

(5) Logistics function

(Description of risk)

The Group operates businesses that stock, ship and deliver goods. Maintaining a delivery network throughout Japan is not only essential for business continuity, but is a function that we consider to be one of the Company's strengths. However, we recognize that securing drivers and, ultimately, securing delivery capacity is a major issue due to the '2024 problem' in logistics.

(Measures against risk)

In order to further strengthen the services of our logistics function and address the concern about anticipated shortages in delivery capacity, we are working to employ drivers in-house and strengthen our alliances with logistics companies, and in September 2022, we acquired Kurosukikaku Corporation, a logistics company with its business area in Kyushu, as a subsidiary. Additionally, in order to shift from a system that relies on manual labor for loading and unloading to a more efficient system, we are considering measures to systematize and save labor, and will implement these measures gradually from fiscal 2024.

(6) Intellectual property

(Description of risk)

Under the brand statement of "Joy of Design," the Group strives to develop merchandise with excellent design and functionality that can provide the "Joy of Design" through the creation of a variety of spaces. However, there is a risk that similar merchandise may be manufactured by other companies.

Furthermore, if a third party alleges infringement of intellectual property rights and a lawsuit is filed, the Group may incur losses such as litigation costs and damages, which could have an adverse effect on business performance.

(Measures against risk)

We are taking various measures to reduce risks, such as the following.

・ We are working to create, protect, and utilize intellectual property by filing applications for and obtaining rights to patents, designs, and trademarks related to our business.

・ We constantly monitor the intellectual property information of competitors and share the latest information (patents, designs, trademarks, etc.) within the company.

・ We work closely with external experts such as patent attorneys and lawyers and have created a system for immediately taking measures against risks.

(7) Legal restrictions

(Description of risk)

Unforeseen changes to laws and regulations may affect the business performance of the Group, which is subject to various legal regulations regarding product liability, intellectual property, the environment, and labor in the course of conducting its business.

(Measures against risk)

We constantly monitor domestic and foreign laws and regulations to ensure that we comply with them. We also consider compliance to be a minimum requirement for a company, and have established a management system and are working to strengthen employee education.

(8) Natural disaster

(Description of risk)

The Group's facilities related to merchandise development, manufacturing, procurement, logistics, sales, and services are spread throughout Japan and overseas (North America, China, Hong Kong, and Southeast Asian countries), and natural disasters such as earthquakes, floods, storms and heavy snow could cause infrastructure to stop, or buildings and facilities to be damaged or broken, resulting in confusion that could have an adverse effect on the Group's business performance and financial position.

(Measures against risk)

In order to minimize the impact of natural disasters on our business activities, the Group has formulated a Business Continuity Plan (BCP) for times of disaster. In it we have specified the initial response to an emergency, reporting methods, and the establishment and role of a response headquarters, and we have established a system to ensure appropriate action in the event of a disaster and also conduct regular training and equipment inspections. We also review the BCP every year in response to the status of disasters. In addition, to ensure the stable procurement and supply of merchandise, we have established a system that enables product procurement and delivery from alternative locations in the event that a party in the supply chain such as a supplier or one of the Group's business locations is affected by a disaster.

(9) Climate change

(Description of risk)

Amid growing interest in the risks of climate change, the Paris Agreement was adopted by the United Nations in 2015, and the Sustainable Development Goals (SDGs) were adopted at the UN Summit held in the same year, which marked progress in the setting of goals targeted at 2030. Meanwhile, in a move related to financial institutions, the Principles for Responsible Investment (PRI), launched by a partnership between the United Nations Environment Programme and the United Nations Global Compact, requires investors to invest sustainably, and in response, Japan's Government Pension Investment Fund (GPIF) has signed the PRI, making ESG investment a megatrend in Japanese finance as well. Regarding disclosure of climate change-related information, the Task Force on Climate-related Financial Disclosures (TCFD) recommendations call for companies to disclose financial impact in the four areas of governance, strategy, risk management, and metrics and targets.

Amid these dramatic changes in the environment related to climate change, we are faced with the risk of not being able to reduce greenhouse gas (GHG) emissions from our business activities, the risk of not being able to reduce the carbon footprint of our products and sample books, the risk of not being able to collect and recycle the products and sample books, and other physical risks that may occur acutely or chronically, which may affect the business performance and financial position of the Group.

For example, being unable to reduce GHG emissions could result in an increased carbon tax burden and reputational harm, while being unable to reduce the carbon footprint of our products and sample books could mean being unable to meet the market's needs, which could lead to a decline in trust and loss of business opportunities.

(Measures against risk)

In response to climate change risks, we have established a Climate Change Risk Subcommittee under the Company-wide Risk Management Committee that is chaired by the President & CEO, and are building an organizational management system. Under this Climate Change Risk Subcommittee, each risk related to climate change is analyzed along the lines of transition risks, such as legal regulations, technology, market and reputation, and physical risks, such as acute and chronic risks. The Space Planning Division, Logistics Division, Business Division, and Corporate Division are working closely together to set specific management indicators and monitor and respond to risks.

In addition, in the Sangetsu Group Long-term Vision [DESIGN 2030], we set out the realization of a sustainable society that protects the global environment, and are striving to reduce GHG emissions that are a cause of climate change risks by setting fiscal 2029 GHG emission targets for our business activities (Scope 1 & 2) of carbon neutrality (net zero emissions) in the non-consolidated company and a 55% reduction for the entire Group (compared to fiscal 2021).

(10) Information security

(Description of risk)

The Group makes significant investments in order to appropriately manage the various confidential information, including personal information, collected through its business activities. In addition, we take maximum precautions to prevent system problems or external leaks of information when operating, introducing, or updating such systems. However, there is a risk of damage from external computer viruses or hacking, the breakdown of host computers or network equipment, system failures due to software defects, business suspension due to partial damage to systems caused by a disaster, and incidents such as information leaks to outside parties, and the occurrence of such unexpected problems could damage the trust from society and result in significant expenses, which may affect the Group's business performance.

(Measures against risk)

- We are promoting the migration of servers and network equipment to the cloud or data centers and the use of such where appropriate.
- As measures against unauthorized external access and malware, we have introduced the use of intrusion detection and monitoring services and security software.
- Any malware that may affect IT systems is immediately detected and isolated by our EDR (Endpoint Detection and Response) system, and we work with the SOC (Security Operation Center) to deal with the issue swiftly.
- We regularly educate employees about information security (the importance of protecting confidential information, including personal information, and managing information) and provide training.
- We have redundancy in place for important system equipment.

- We have taken out cybersecurity insurance.
- We have enacted new personal information protection regulations in line with the enforcement of the revised Act on the Protection of Personal Information.
- We have established a Cyber Security Management Office and are working to build a cybersecurity system for the entire Group.

(11) Credit management

(Description of risk)

The Group provides credit to business counterparties and if a counterparty's financial condition deteriorates due to an economic downturn or unforeseen circumstances, making it difficult to collect receivables, the Group may incur losses due to bad debts, which may affect the Group's business performance. We are taking the following measures against these risks, strengthening our credit management system to prevent losses due to uncollectible receivables, and striving to avoid losses due to bad debts.

(Measures against risk)

- Appropriate implementation of credit management regulations
- Annual update of credit limits based on the credit standing of counterparties
- Regular checking of the business conditions of important counterparties and their financial statements
- Review of business terms with a view to future developments with counterparties
- Timely monitoring of debt collection status
- Review of the turnover period of accounts receivable
- Setting of allowance for doubtful accounts in our accounting for counterparties with credit concerns
- Strengthening management of counterparties with credit concerns and providing sales support
- Implementing credit protection measures such as collateral, guarantees, and trade credit insurance according to the credit status of counterparties

(12) Overseas business activities

(Description of risk)

The Group conducts business mainly in North America, China, Hong Kong, and Southeast Asian countries, and there is a risk that the following events may affect the Group's business performance and financial position.

- The spread of an infectious disease, political instability, uncertainty about economic trends, differences in religion, culture or business practices, war or civil strife, terrorism, restrictions on investment, overseas remittances, imports and exports, etc.
- In accordance with accounting standards for impairment of non-current assets, the future cash flows, etc. of assets are calculated and impairment losses are recognized and measured periodically, resulting in the recording of impairment losses on non-current assets.
- The business of a Group company with a manufacturing division experiences extreme fluctuations in the purchase prices of raw materials and merchandise due to a sharp rise in crude oil or mineral prices, etc.
- A sharp increase in transportation costs from Japan and when overseas Group companies procure merchandise from overseas.

(Measures against risk)

- The Group has been proactively creating an environment within the Group that is prepared for emergencies, including by collecting information on issues that could become political or economic obstacles and formulation of a BCP for unforeseen circumstances.
- The Group has established a system for managing businesses after investment.
- If the cost of raw materials etc. rises sharply, we will implement appropriate price increases while assessing the market and competitive situation. We closely monitor not only our suppliers, but also crude oil prices and price fluctuations among raw material manufacturers, and are constantly preparing to gather information in order to make appropriate decisions regarding purchase price negotiations and sales price increases.
- We select the most efficient transportation method and charge appropriate shipping fees to our customers.

4. Management analysis of financial position, operating results, and cash flows

An overview of the financial position, operating results and cash flows (hereinafter referred to as “operating results, etc.”) of the Group (the Company and its consolidated subsidiaries) for the fiscal year ended March 31, 2024 and the details of recognition as well as analysis and considerations regarding the status of operating results, etc. of the Group, from management’s perspective are as follows.
Please note that matters concerning the future in this article were determined as of the end of the fiscal year ended March 31, 2024.

(1) Financial position

At the end of the fiscal year ended March 31, 2024, total assets were ¥170,750 million, an increase of ¥6,295 million from the previous year. Current assets were ¥107,463 million, an increase of ¥2,619 million from the previous year. This was mainly due to an increase in cash and deposits resulting from increased sales, as well as an increase in accounts receivable. Non-current assets were ¥63,287 million, an increase of ¥3,676 million from the previous year. This was mainly due to an increase in tangible fixed assets accompanying the construction of a new plant at CREANATE Inc., a consolidated subsidiary of the Company.

Total liabilities were ¥64,040 million, a decrease of ¥4,588 million from the previous year. This was mainly due to a decrease in income taxes payable due to payments of income taxes and a decrease due to the repayment of borrowings.

Total net assets were ¥106,709 million, an increase of ¥10,884 million from the previous year. This was mainly due to an increase in retained earnings due to net income attributable to owners of the parent and a decrease in retained earnings due to the payment of dividends.

As a result, the Group’s current ratio is 201.7%, the equity-to-asset ratio is 62.5%, and together with other factors, we are maintaining a sound financial position.

(2) Purchasing and sales status

(i) Purchasing

Purchases by segment for the fiscal year ended March 31, 2024 are as follows.

The reporting segments have been changed for the fiscal year ended March 31, 2024, and comparisons with the previous fiscal year provided below are based on the figures for the previous fiscal year, which have been reclassified into the new segments.

Segment name		Fiscal year ended March 31, 2024	Year-on-year comparison (%)
Domestic Interior	(Millions of yen)	113,187	107.7
Domestic Exterior	(Millions of yen)	4,298	108.5
Overseas	(Millions of yen)	13,702	96.5
Adjusted amount	(Millions of yen)	(52)	–
Total	(Millions of yen)	131,135	106.4

Note: Inter-segment transactions are offset and eliminated in the adjusted amount column.

(ii) Sales

Sales by segment for the fiscal year ended March 31, 2024 are as follows.

The reporting segments have been changed for the fiscal year ended March 31, 2024, and comparisons with the previous fiscal year provided below are based on the figures for the previous fiscal year, which have been reclassified into the new segments.

Segment name		Fiscal year ended March 31, 2024	Year-on-year comparison (%)
Domestic Interior	(Millions of yen)	159,157	107.6
Domestic Exterior	(Millions of yen)	6,462	102.7
Overseas	(Millions of yen)	24,292	111.5
Adjusted amount	(Millions of yen)	(53)	–
Total	(Millions of yen)	189,859	107.9

Note: 1. Inter-segment transactions are offset and eliminated in the adjusted amount column.

2. There are no major business partners to whom more than 10% of total sales are made.

(3) Details of analysis and considerations regarding the status of operating results, etc., from management’s perspective

(i) Details of recognition, analysis, and considerations regarding the status of operating results, etc.

During the fiscal year under review, the Japanese economy showed a gradual recovery in domestic demand due to the normalization of economic activities from the easing of behavioral restrictions due to the reclassification of COVID-19 to a Category 5 infectious disease, among other factors. On the other hand, personal consumption stalled due to rising prices associated with soaring energy, electricity, and logistics costs, etc., with investment in housing, including owner-occupied housing and condominiums, remaining sluggish. In the overseas economy, personal consumption remained strong in the United States due to favorable employment conditions, while in China, although there was a pause in the worsening of business confidence, the overall economy lacked strength due to a sluggish real estate market and its wide variety of related industries. Regarding the future outlook, the business environment is expected to remain uncertain due to the economic slowdown caused by global monetary tightening, geopolitical risks, and concerns of a resurgence of inflation through higher import prices from exchange rates.

In the Japanese construction market, which has a direct impact on the Company’s business earnings, the number of new housing starts and area of new housing starts were sluggish in the residential market, mainly due to a surge in housing prices, which suppressed demand. On the other hand, in the non-residential market, although there were signs of recovery in some areas due to the normalization of economic activity, the market has yet to show strong momentum. Furthermore, rising labor and logistics costs across the industry as a whole, as well as the impact of high raw material prices, are exerting downward pressure on earnings and are expected to continue to be factors behind cost increases in the future.

In this business environment, the Group is preparing and promoting various proactive measures to achieve long-term growth based on the Long-Term Vision [DESIGN 2030], which was revised in May 2023. Under the Medium-term Business Plan [BX 2025] (BX: Business Transformation), which was announced at the same time, we have positioned the period from FY2023 to FY2025 as the “three years to prepare for the next leap forward,” and we will continue to expand infrastructure by strengthening our human and digital capital and enhance our ability to propose solutions by utilizing product, distribution, construction, and space design functions, and aim not only to expand existing main products and markets, but also to expand product lines with future growth potential and strengthen our sales strategy, expand business domain and geographic coverage in the exterior area, and strengthen our overseas business to improve profitability.

In July 2023, in order to steadily promote these measures, the Company implemented an organizational restructuring from the conventional “product axis” to a “regional axis,” launched the “Business Division” and “Overseas Business Division,” and reorganized the organizational structure into regional units that conduct business in Japan and overseas. Furthermore, the “Corporate Division,” “Logistics Division,” and “Space Planning Division (product development, procurement, space design, etc.)” were established to support functional aspects of the organization.

Shipment volumes of wallpaper, PVC sheets, etc., which are the Company’s mainstay products, generally remained strong and our market share steadily increased, although shipments were affected by the aforementioned overall trends in the Japanese market. In terms of quarterly trends, while the first quarter saw an increased demand in a rebound from the significant reactionary drop following the second price hike in the same period of the previous year, the second quarter saw a year-on-year decline in shipment volume due to the rush demand prior to the third price hike in the same period of the previous year. In the third quarter, as was the case in the first quarter, there was a swing-back demand increase from the reactionary decline after the third price hike in the same period of the previous year. In the fourth quarter, there was no year-on-year rebound increase or decrease, and the Company steadily expanded its market share despite the challenging situation in new housing starts compared to the same period of the previous year. On the price front, unit sales prices increased year-on-year through the first half of the year due to the effect of price hikes implemented in April and October 2022 but remained nearly the same year-on-year in the third quarter and thereafter. On the other hand, higher logistics and labor costs at suppliers and higher procurement costs due to the surge in the prices of some raw materials were the main reasons for the decline in gross profit. As measures for growth strategies based on the Medium-term Business Plan, we made moves to improve compensation, such as base salary increases, in April last year and also worked to expand the number of specialized personnel, including career hires, to promote the development of interior and exterior space proposals in cooperation with group companies and logistics and construction functions, etc., and to open and prepare for new value creation bases and so on for the Group. As a result, selling, general and administrative expenses increased, mainly on a non-consolidated basis. In the overseas segment, the China and Hong Kong business experienced a delayed recovery due to the sluggish real estate market and the Southeast Asia business was ahead of costs due to functional enhancement measures, mainly in Singapore, but the segment loss improved from the same period of the previous year due to a return to profitability of the North American business, which is the largest business in this segment.

As a result of these efforts, consolidated financial results for the fiscal year under review recorded ¥189,859 million in net sales, up 7.9% year on year, ¥19,103 million in operating income, down 5.8% year on year, ¥19,695 million in ordinary income, down 4.8% year on year and ¥14,291 million in net income attributable to owners of the parent, up 2.0% year on year.

The following are the business results in each operating segment. The reporting segments have been changed to three as described below, and comparisons with the previous fiscal year are based on the figures for the previous fiscal year, which have been reclassified into the new segments.

(Domestic interior segment)

For the Domestic Interior segment, in order to realize the Group's aim of becoming a "Space Creation Company," the business divisions, which are organized by five regional axes: Northern Japan, Kanto, Chubu, Western Japan, and Kyushu act as a hub and work in collaboration with the divisions responsible for products, logistics, construction, and space design functions, and are steadily formulating and implementing business strategies in consideration of the characteristics and needs of the customers and market environment in each region. With regard to the construction function, we newly established the "Construction Unit" in the business division to strengthen our efforts in general interior installation including surface construction, and to address a variety of construction-related issues, such as looking into measures to handle the shortage of craftspeople, which is a major challenge facing the construction industry. In the logistics division, with an eye on the 2024 logistics issue, we have strengthened supply chain management, established a meticulous delivery system by region including inter-base transportation, and expanded "Service Crews," which are designed to provide delivery services. In the space planning division, in addition to the expansion of space proposal activities in each region by the Planning and Development Unit, the Product Unit published "REATEC," an adhesive-attached decorative film sample book and "UP," a chair upholstery sample book, and worked with business units to penetrate the market for "FINE," a residential wallpaper sample book that was published in the fiscal year under review, "NT700" and "DT," a carpet tile sample book, and "Floor Tile," a vinyl floor tile sample book, etc. In addition to these activities, the strengthening of each function, a focus of the Company's for some time, was also successful, and sales of REATEC, glass films, chair upholstery, floor tiles, carpet tiles, and other products, which we have positioned as "Medium-sized products" and for which we project share and market expansion in the medium-term Business Plan, remained strong.

As a result, the Domestic Interior segment recorded net sales of ¥159,157 million (up 7.6% year on year) and operating income of ¥19,489 million (down 7.6% year on year). Furthermore, the Wall Covering Unit recorded net sales of ¥77,236 million (up 6.4% year on year), the Flooring Unit recorded net sales of ¥56,356 million (up 9.3% year on year), the Fabrics Unit recorded net sales of ¥9,505 million (up 0.7% year on year), and others including design fees and construction recorded net sales of ¥16,058 million (up 11.8% year on year).

While the business environment is expected to remain difficult, with a sluggish market and rising procurement prices, we will continue to steadily increase our market share for our main products, such as wallcoverings and PVC sheets, as well as the aforementioned medium-sized products. In addition, in accordance with the measures set out in the Medium-term Business Plan (2023–2025) [BX 2025], we will work to strengthen our function to propose space designs in response to customer needs, and we recognize that it is also important to create profitable next-generation businesses with an eye to the future based on our current business foundation.

(Domestic Exterior segment)

For the Domestic Exterior segment, the overall exterior market remained in a difficult situation due to the sluggish number of new housing starts. Under such circumstances, the number of orders received increased as a result of marketing efforts to propose housing and non-housing renovation properties, as well as projects other than the new housing market, including public works. Not only sales of existing products, we also made steady progress in our efforts to offer proposals that include exterior space design and construction, as well as joint proposals for exteriors and interiors through collaboration with the Group company Sungreen Co., Ltd., and in addition to sales activities targeting design firms and general contractors, promoted collaboration for the development of original exterior products. On the other hand, selling, general and administrative expenses increased due to expansion of the workforce and hiring of specialized personnel and associated overhead costs based on growth strategies, as well as upfront investments related to measures for geographic expansion into the Kanto area. As a result, net sales of the Domestic Exterior segment were ¥6,462 million (up 2.7% year on year), and operating loss was ¥77 million (operating income of ¥450 million for the previous fiscal year).

Sungreen Co., Ltd., which is responsible for this segment, recognizes that a strategy aimed at medium- to long-term growth is an issue in light of the current stagnation in its existing business. In addition to aiming to expand geographically and in scale by gaining market share in the Kanto area, the company will strengthen its revenue base by introducing new products and strengthening its "interior-exterior proposals" through collaboration with the Company, and aim to enhance its function as an Exterior Business within the Group.

(Overseas segment)

In the Overseas segment, the results of overseas subsidiaries and associates over the period from January to December 2023 are included in results for the fiscal year under review.

In the North American market, in addition to an increase in orders for medium- and large-scale properties due to a recovery in demand in the hotel segment, the Company's main market, sales of high unit-price products, including self-manufactured wallpaper, remained strong. In the profit aspect, the Company achieved a return to profitability in operating income for the full year, based on improved production efficiency resulting from increased production volume and cost reductions achieved through withdrawal from unprofitable products, which was implemented in the previous fiscal year.

In the Southeast Asian market, although there are disparities among countries, sales grew, with Thailand and Vietnam at the forefront, amid a general recovery trend in construction demand, especially in the hotel segment. Under such circumstances, we continued to work on market penetration of the "goodwall SEED," a sample book for overseas markets produced by CREANATE Inc., a Group wallpaper manufacturer, and on improving the brand image of our products and services through renewal of the website. Furthermore, as part of the functional development of space creation, we have promoted the strengthening of the foundation of each function in line with country-specific conditions, including efforts to reinforce the organizational structure through the appropriate allocation of human resources.

The market trends in China and Hong Kong remained difficult, particularly in the housing sector, from a sluggish real estate market and declining consumer confidence due to the worsening employment environment. Under such circumstances, to build a more stable and solid business foundation, we worked to expand customer and sales channels, develop a market-specific sales structure, strengthen our space design proposal function by hiring designers, and review the shipping system.

As a result, net sales of the Overseas segment were ¥24,292 million (up 11.5% year on year), and operating loss was ¥311 million (operating loss of ¥1,273 million for the previous fiscal year).

The North American market, which accounts for approximately 80% of net sales in this segment, has become profitable as a result of various reforms implemented since 2022 through the overhaul of the management structure of Koroseal Interior Products Holdings, Inc. These reforms have led to success in the improvement of productivity and quality control, which had been issues. The Company will continue to pursue growth strategies such as expanding its design human resources, strengthening its facility capabilities, and diversifying its products, aiming for further expansion of profitability. Additionally, in the Southeast Asian market, we are aiming to transform our business to expand our space creation functions, including installation, design, and delivery. Although the future of the China and Hong Kong market is uncertain, the potential market has great possibilities. Of the three overseas regions, this is the market that has the most issues that require our attention, so we will continue to proceed with restructuring our business structure.

Although the segment as a whole recorded an operating loss again, following on from the previous year, we recognize that profitability is steadily improving as a result of the implementation of various measures. As the domestic market reaching its volume limit in the future cannot be avoided and the need for overseas business expansion is becoming even greater, each company in the Overseas segment will work to build a business model that can provide functions and value that differentiate it from its competitors in each region and realize profitability.

(ii) Analysis and review of the status of cash flows, and information on capital resources and liquidity of net cash

As of the end of the fiscal year ended March 31, 2024, cash and cash equivalents ("net cash") totaled ¥24,717 million, a decrease of ¥47 million compared to the previous year.

Cash flow positions and the factors thereof, and the details of their analysis and consideration are as follows.

Cash flows from operating activities

Net cash provided by operating activities was ¥12,818 million (¥17,373 million provided in the previous fiscal year). This was mainly due to profit before income taxes of ¥20,116 million, depreciation of ¥3,236 million, an increase in trade payables of ¥1,626 million, income taxes paid of ¥9,089 million, and an increase in trade receivables of ¥2,810 million.

Although procurement prices rose due to logistics costs and increases in the prices of some raw materials, profit remained strong as we steadily expanded our share in the domestic market, and we believe that this has enabled us to continue to secure the necessary funds for our future growth strategies.

Cash flows from investing activities

Net cash used in investment activities was ¥1,846 million (¥408 million used in the previous fiscal year). This was mainly due to proceeds from sale of investment securities of ¥2,812 million and purchase of property, plant and equipment of ¥4,386 million.

Based on the growth strategy set out in the Long-term Vision [DESIGN 2030] and the Medium-term Business Plan (2023–2025) [BX 2025], the Group aims to achieve long-term, sustainable growth by transforming into a Space Creation Company with strong profitability and growth potential, and we intend to steadily make necessary investments with an eye to the future. Based on this policy, we opened the PARCs Sangetsu Group Creative Hub in Hibiya, Tokyo as a base for creating new value, and we continued to invest in establishing a new factory for CREANATE Inc. to ensure a sustainable and stable supply of wallcoverings.

On the other hand, in accordance with the Corporate Governance Code, we have been working to improve capital efficiency by selling cross-shareholdings that have lost their significance, and we have generated income from the sale of these shares.

Cash flows from financing activities

Net cash used in financing activities was ¥11,249 million (¥9,355 million used in the previous fiscal year). This was mainly due to net cash from proceeds from borrowings of ¥7,669 million and payments made for repayments of ¥10,739 million, and dividends paid of ¥7,624 million.

The payment of dividends is being increased in a stable manner in accordance with the capital policy in the previous Medium-term Business Plan (2020–2022) [D.C. 2022] and the current Medium-term Business Plan (2023–2025) [BX 2025].

The Group recognizes net cash, as well as financial assets that can easily be converted into cash and cash equivalents, as cash and cash equivalents in the consolidated statement of cash flows. Based on cash and cash equivalents, we use net cash obtained through operating cash flow and external fund raising through borrowings as financial resources for various growth investments and shareholder returns through our capital policy. We also pay close attention to our net cash balance in order to maintain a balance between cash on hand and interest-bearing liabilities. Cash and cash equivalents and the net cash status at the end of the fiscal year ended March 31, 2024 is as follows.

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
(1) Cash and cash equivalents in consolidated statement of cash flows	24,765	24,717
(2) Time deposits with maturity over 3 months	52	379
(3) Securities	300	300
(4) Investment securities (excluding shares)	1,885	–
Cash and cash equivalents - balance	27,002	25,396

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
(1) Cash and cash equivalents	27,002	25,396
(2) Short-term loans payable	(801)	(5,711)
(3) Current portion of long-term loans payable	(7,801)	–
(4) Long-term borrowings	–	–
Net cash - balance	18,400	19,685

The three-year fund allocation plan in the Medium-term Business Plan (2023-2025) [BX 2025] is as described in “1. Management policy, management environment, issues to be addressed, etc. - (1) Objective indicators for determining the status of achievement of management policies and management targets.” In view of the Sangetsu Group Long-term Vision [DESIGN 2030], we intend to steadily implement necessary growth investments for future business expansion and shareholder returns based on our capital policy. Regarding the source of funds, we will aim to maximize operating cash flow by expanding earnings, while flexibly utilizing external borrowing according to capital needs for growth investments.

(4) Objective indicators for determining the status of achievement of management policies, management strategies, and management targets

The Group considers ROE (return on equity) to be an important management metric. We are aiming to achieve the KPIs (quantitative targets) for FY2025 contained in the Medium-term Business Plan (2023–2025) [BX 2025] of consolidated net sales of ¥195,000 million, consolidated operating income of ¥20,500 million, consolidated net income of ¥14,500 million, ROE of 14.0%, ROIC of 14.0%, and a CCC (cash conversion cycle) of 65 days.

ROE for the fiscal year ended March 31, 2024 was 14.1%. ROE decreased 1.2 points compared to the previous fiscal year, which was mainly due to profits growing more than initially planned, as well as an increase in equity capital due to the rise in the market value of our stock holdings and the positive trend in foreign currency translation adjustments due to the weak yen. However, we recognize that we have been able to maintain profitability while making necessary investments in growth strategies, human capital, etc., and we will continue to work to maintain and improve ROE by finding a balance between strategic investments and shareholder returns.

Progress of Medium-term Business Plan (2023–2025) [BX 2025]

	FY2022 (Results)	FY2023 (Results)	FY2025 (Target)
Consolidated net sales	¥176,022 million	¥189,859 million	¥195,000 million
Consolidated operating income	¥20,280 million	¥19,103 million	¥20,500 million
Consolidated net income	¥14,005 million	¥14,291 million	¥14,500 million
ROE	15.3%	14.1%	14.0%
ROIC	16.5%	14.8%	14.0%
CCC	77.1 days	71.5 days	65 days

II. Information about the Reporting Company

1. Status of corporate governance, etc.

(1) Overview of corporate governance

(i) Basic policy regarding corporate governance

We are aiming to build good relationships with all of our stakeholders and grow sustainably in order to increase our corporate value.

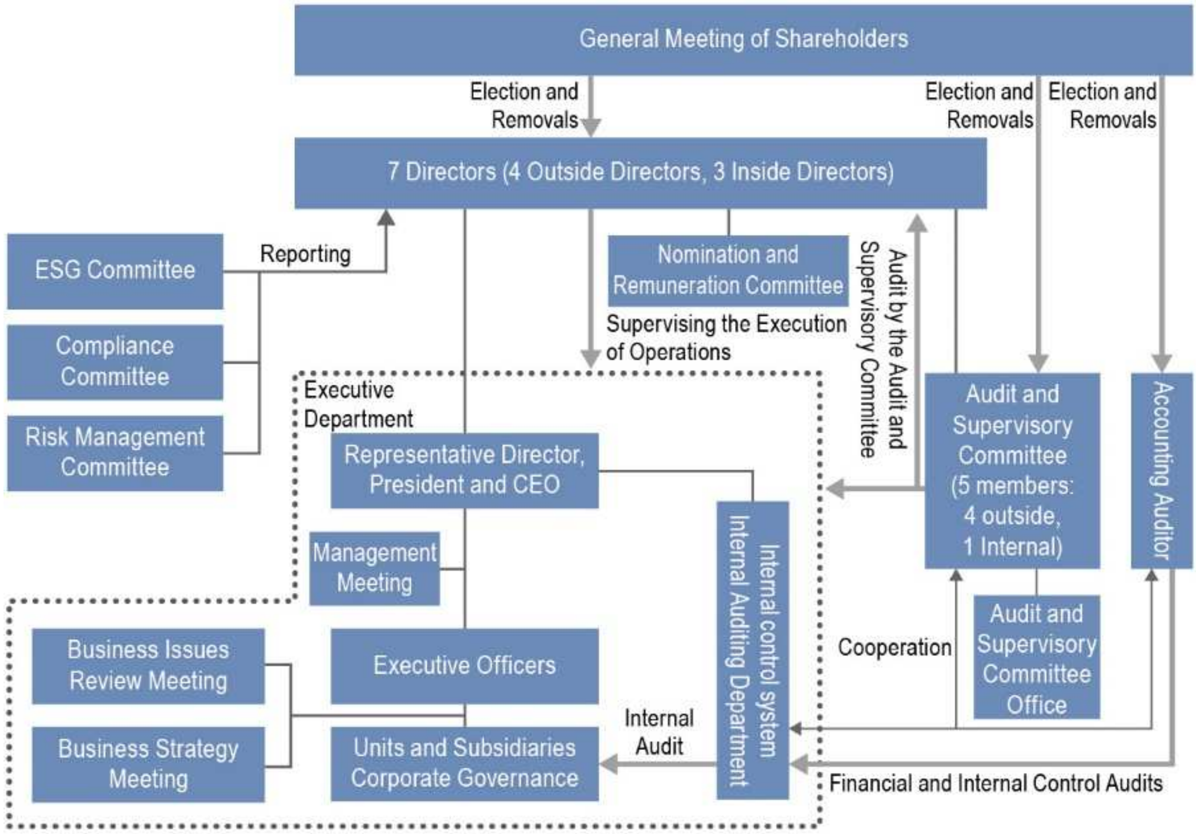
To achieve this, we recognize that strengthening corporate governance based on the transparency, speed, and efficiency of management is an important management issue.

The Company is transitioning to a company with an audit and supervisory committee with the aim of strengthening the auditing and supervisory functions of the Board of Directors by having outside directors participate in management.

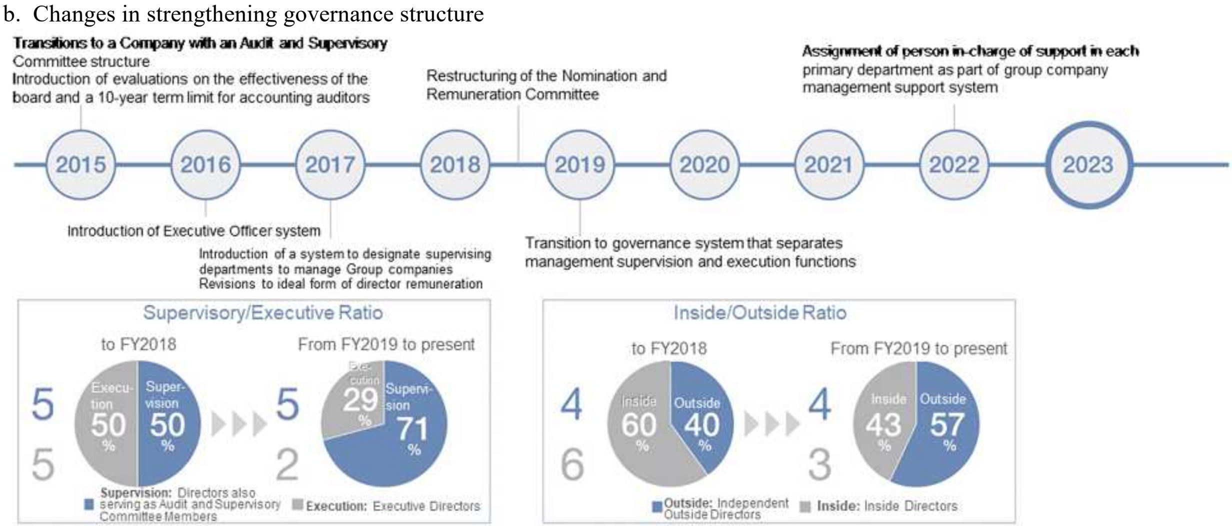
We are striving to further increase our corporate value under this governance structure.

(ii) Summary of system of corporate governance and reasons for adopting the system

a. Diagram of company organization and internal control system



b. Changes in strengthening governance structure



c. Summary of the system of corporate governance

As of the filing date of this report, our corporate governance structure consists of a Board of Directors, an Audit and Supervisory Committee, and an Accounting Auditor; there are seven Directors (including five Audit and Supervisory Committee Members), four of whom are Outside Directors who are also Audit and Supervisory Committee Members.

(1) Board of Directors and Nomination and Remuneration Committee

Our Board of Directors consists of seven members: Representative Director, President and CEO Yasumasa Kondo, Director Executive Officer Fumio Takagi, Outside Director Michiyo Hamada, Outside Director Kenichi Udagawa, Outside Director Osamu Terada, Outside Director Aki Ogane, and Director Yosuke Mine, and is chaired by the Representative Director, President and CEO Yasumasa Kondo.

In principle, the Board of Directors meets once a month to share company management information in a timely manner and implements appropriate measures. Directors who are Executive Officers and other Executive Officers carry out their duties in accordance with laws and regulations, the Articles of Incorporation, the Board of Directors regulations, and other internal company rules. Regarding the execution of duties by Directors who are Executive Officers and other Executive Officers, the Representative Director, President and CEO proposes the allocation of duties to each individual, which is approved by the Board of Directors. The appointment and remuneration of Directors who are Executive Officers and Executive Officers are decided by the Board of Directors after deliberation by the Nomination and Remuneration Committee, an internal organization of the Board of Directors. In addition, the Nomination and Remuneration Committee deliberates matters such as the formulation of a succession plan for the CEO and an objective system regarding the remuneration of management. The Nomination and Remuneration Committee is composed of all Outside Directors who are Audit and Supervisory Committee Members and the Representative Director, President and CEO, and the chair of the Nomination and Remuneration Committee is an Outside Director.

In the fiscal year under review, the Company convened 13 meetings of the Board of Directors and 16 meetings of the Nomination and Remuneration Committee, and the status of attendance and activities of each Director is as follows.

Activity status of the Board of Directors

Name	Full-Time / Outside	Attendance Status (13 meetings in total)
Shosuke Yasuda	Full-Time	13
Yasumasa Kondo	Full-Time	10
Tatsuo Sukekawa	Full-Time	3
Masatoshi Hatori	Outside	13
Michiyo Hamada	Outside	13
Kenichi Udagawa	Outside	13
Osamu Terada	Outside	13
Shuji Sasaki	Full-Time	13

Notes: The attendance of Yasumasa Kondo is for the period following his appointment on June 21, 2023.

Tatsuo Sukekawa retired as of the 71st Ordinary General Meeting of Shareholders held on June 21, 2023.

Shosuke Yasuda retired as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.

Masatoshi Hatori and Shuji Sasaki resigned as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.

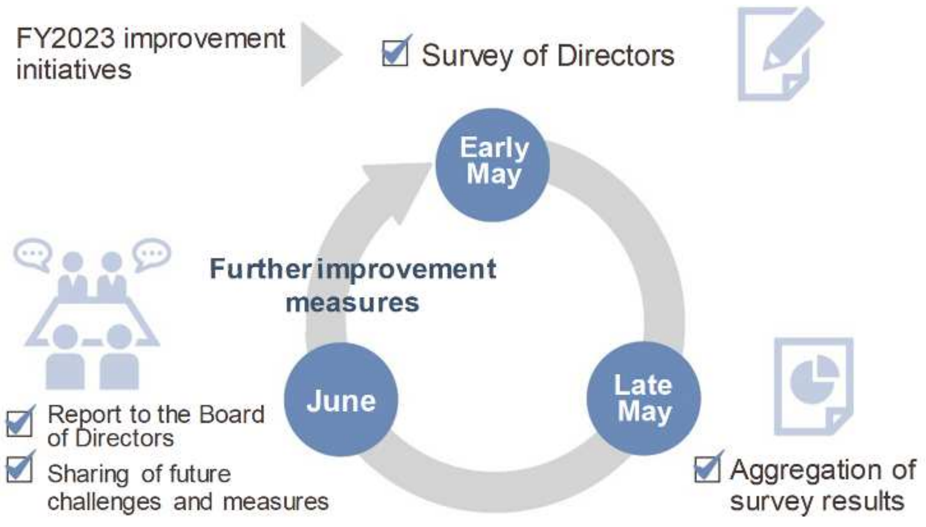
Main discussion topics at Board of Directors meetings

Discussion topics	Specific details of discussion
Internal governance and risk management	Several times throughout the year, the basic policy regarding the internal control system, the status of internal control activities, and the status of activities of various committees aimed at responding to individual risks recognized by the Company (Risk Management Committee, Compliance Committee) were reported on and discussed, and the status of internal control activities and the operational status of risk management within the Group were deliberated.
ESG	Based on the Company's ESG and CSR Policies, the ESG Committee's activities and the initiatives it has considered and implemented were reported to and discussed at the Board of Directors, enabling the Board of Directors to monitor and supervise ESG-related initiatives.
Management strategy	During the fiscal year under review, the Long-term Vision [DESIGN 2030] was revised and a new Medium-term Business Plan [BX 2025] was formulated and announced, and as the first year of the plan, Executive Officers reported on the current status and issues of each business (three times during the year) and how to achieve the targets was discussed.
Revision of the remuneration plan for directors	As there were changes in the economic situation and the Company's earnings status and share price level, as well as issues regarding the fixed remuneration portion, the remuneration plan was revised in line with the formulation of the new Medium-term Business Plan [BX 2025]. The Nomination and Remuneration Committee deliberated on the design of the new system of remuneration for directors (and other officers), ensuring transparency, fairness, and objectivity in the decision-making process.
Review of Corporate Philosophy	As we continue to transform our business and consider new growth strategies, the Corporate Philosophy established at the time of our founding has come to differ from our current approach and the direction we are aiming for as a company, so a review of the Corporate Philosophy was conducted. In the process, a volunteer project amongst employees was launched to consider and promote the new Corporate Philosophy, and discussions were held including with management as well as at the Executive Committee and Board of Directors meetings, and the new Corporate Philosophy was announced in January 2024.
Organization and executive system	Organizational restructuring, the management execution structure, and executive personnel changes were deliberated in light of the business reforms under the Long-term Vision [DESIGN 2030] and the Medium-term Business Plan [BX 2025].
CEO's successor and medium-long term succession plan	Regarding the successor to the CEO, candidates and the selection process were deliberated in light of the Corporate Governance Code.
Supervision of status of Group companies	Regarding the construction of a new Higashihiroshima factory by the Group company CREANATE Inc. that was disclosed in November 2022, the Board of Directors is monitoring and overseeing not only the progress of construction but also progress including investment costs and employee recruitment status, to ensure that preparations for its operation are progressing smoothly.

Evaluation of the effectiveness of the Board of Directors

As part of the Company's efforts to ensure the effectiveness of the Board of Directors in terms of its decision-making, supervision, and meeting management, each director performs an annual self-evaluation of the Board of Directors, after which an analysis and evaluation of the effectiveness of the Board of Directors as a whole is conducted. The evaluation items cover a wide range of areas, from the composition of the Board of Directors to the content and quality of discussions and the dialogue with stakeholders.

For the fiscal 2023 evaluation, a questionnaire survey was conducted with all directors in May 2024, and the evaluation results were deliberated at the Board of Directors meetings. Going forward, the Company will strive to raise the level of effectiveness of the Board of Directors even further.



Activity status of the Nomination and Remuneration Committee

Name	Full-Time / Outside	Attendance Status (16 meetings in total)	Specific details of discussion
Michiyo Hamada	Outside	16	・Consideration of the candidates for President and CEO in the next fiscal year and the management execution system ・Consideration of the composition of the Board of Directors in the next fiscal year ・Consideration of the medium-long term succession plan for the President and CEO ・Consideration of medium-long term candidates for Executive Officer and key personnel ・Evaluation of the level of contribution of the Directors (excluding Directors serving as Audit and Supervisory Committee Members) who hold concurrent positions as Executive Officer and Executive Officers ・Review of the remuneration plan for officers
Masatoshi Hatori	Outside	16	
Kenichi Udagawa	Outside	16	
Osamu Terada	Outside	16	
Shosuke Yasuda	Full-Time	13	

Notes: Masatoshi Hatori resigned as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.
Shosuke Yasuda retired as of the 72nd Ordinary General Meeting of Shareholders held on June 19, 2024.

Regarding the succession plan

The Company's Nomination and Remuneration Committee, which is composed of all of the Outside Directors who are Audit and Supervisory Committee Members and the President and CEO, and which is chaired by an Outside Director, is overseeing the succession planning for the CEO and other positions and its implementation status based on the Company's management philosophy and specific management strategies, and is discussing it in light of criteria such as personality and popularity, insight, business execution capabilities, management perspective, and awareness of participation in management. Regarding the nomination of key personnel and Executive Officers, the Nomination and Remuneration Committee deliberates on the succession plan for the CEO and other positions (including steps such as succession plans, required qualifications, and candidate selection), the process and background leading to the selection of a successor CEO, and the proposal for the dismissal of the CEO and the process and background leading to such proposal, and provides explanations and proposals to the Board of Directors as necessary.

Regarding the nurturing of a successor

Regarding nurturing a successor, the Company is utilizing internal selection systems such as leadership training and senior management (Executive Officer candidate) training for the pool of promising future talent. In addition, regarding the consideration of Executive Officer and key personnel candidates, the Outside Directors attend not only the Board of Directors meetings but also other important meetings (business strategy meetings, business issue review meetings, etc.) and conduct individual interviews with employees such as General Managers, Business Managers, and Chief Branch Managers regarding future management. Through these and other measures, we have created a system that provides many opportunities to directly understand the personalities and ways of thinking of successor candidates, which is useful for discussions at the Nomination and Remuneration Committee.

Important matters regarding nurturing a successor

・ Consideration of the medium-long term succession plan for the CEO
・ Review of the appropriate conditions and qualifications required of the CEO
・ Consideration of medium-long term candidates for Executive Officer and key personnel
・ Diversification of the opportunities to check the progress of nurturing a successor within a certain time frame

(2) Audit and Supervisory Committee

The Audit and Supervisory Committee is composed of Outside Director Michiyo Hamada, Outside Director Kenichi Udagawa, Outside Director Osamu Terada, Outside Director Aki Ogane, and Director Yosuke Mine, and is chaired by an Outside Director.

The Audit and Supervisory Committee's Audit Report is discussed and prepared by the Audit and Supervisory Committee after receiving reports from each Member. As part of our efforts to strengthen the function of the Audit and Supervisory Committee, we have established an Audit and Supervisory Committee Office and appointed one full-time Audit and Supervisory Committee Member, as well as one full-time staff member and one part-time staff member, to ensure close cooperation with the Auditing Section and Internal Control Section, which are the sections responsible for internal auditing.

The status of the Audit and Supervisory Committee's activities during the fiscal year under review is as described in "(3) Information about audits - (a) Information about audits by the Audit and Supervisory Committee."

d. Reasons for adopting the corporate governance system

The Company is a company with an audit and supervisory committee, and has appointed five directors (four of whom are Outside Directors) to serve as Audit and Supervisory Committee Members. The Audit and Supervisory Committee Members who are responsible for the auditing function have been given voting rights as Directors at Board of Directors meetings, which will lead to the strengthening of the audit and supervisory functions. Further, the Company has determined that by making all of the independent outside directors, who are rare human resources, members of the Board of Directors, we can increase the ratio of Outside Directors on the Board of Directors, such that improvement of management transparency and management discussions that take into account the perspectives of shareholders can be expected.

Additionally, we have introduced an executive officer system to further grow the Group and strengthen the corporate governance structure. By separating management decision-making and supervisory functions from business execution functions, we aim to clarify the responsibilities for execution and expedite the execution of business operations.

(iii) Other matters regarding corporate governance

a. Status of the development of internal control systems

The Company's Board of Directors has determined basic policies regarding the establishment of an internal control system, and is conducting appropriate corporate activities as follows.

I. System to Ensure the Propriety of the Business Operations

1. System to ensure that Directors, Executive Officers, and employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation of the Company
   (1) The Company shall establish the Sangetsu Group Human Rights Policy, Sangetsu Group Corporate Charter, and Compliance Code of Conduct as a code of conduct to ensure conduct of Directors, Executive Officers and employees is in compliance with laws and regulations, the Articles of Incorporation and societal norms, and develop and consolidate regulations relating to compliance.
   (2) The Company shall establish a compliance committee, for which the President and CEO has ultimate responsibility, as a body to deliberate significant matters relating to the promotion of compliance.
   (3) The Company shall nominate an Executive Officer to be in charge of compliance in order to supervise compliance activities on a cross-Group basis.
   (4) Head of each department shall be responsible for maintaining and improving the system for the promotion of compliance with laws and regulations, and internal rules in the relevant department. Furthermore, compliance leaders who promote compliance activities shall be appointed in each branch and department.
   (5) The Audit Office, set up in the Management Audit Department shall conduct internal audit on the propriety of operation.
   (6) The Internal Control Section, set up in the Management Audit Department, shall work to promote and enhance internal control in order to secure propriety and reliability in financial reporting.
   (7) The Company shall establish a helpline, where employees and others may report compliance problems, and designate a contact within the company and an external law office to be in charge of such matters. Furthermore, the Company shall prohibit any adverse treatment based on the fact that such a report has been made by the person.
2. System to store and control information related to execution of duties by Directors and Executive Officers
   (1) The Company shall record information related to the execution of duties by Directors and Executive Officers in documents or by electronic media, and retain and manage this information in accordance with its rules on the retention of documentary records.
   (2) The aforementioned documents and other materials related to the execution of duties by Directors and Executive Officers shall be kept available for inspection and copying at the request of the Audit and Supervisory Committee Members designated by the Audit and Supervisory Committee.

3. Rules and other systems for managing risk of loss
(1) The Company shall establish Risk Management Rules, etc. with the aim of management of and response to various risks surrounding the Company.
(2) The Company shall establish a risk management committee, for which the President and CEO has ultimate responsibility, as a body to oversee the Group-wide risk management.
(3) The Company shall nominate an Executive Officer to be in charge of risk in order to supervise risk management activities of all Group companies.
(4) The Company shall establish risk management subcommittees in response to various risks, and appoint persons in charge for each subcommittee. Each risk management subcommittee shall deliberate issues on and countermeasures against risk in charge, and respond to them responsibly.

4. System to ensure that Directors and Executive Officers execute their duties efficiently
(1) With the aim of the agile business operations and clarification of operating responsibilities by separating decision-making and supervisory functions in the management from executive functions, the Company shall adopt an executive officer system.
(2) The Company shall hold regular meetings of the Board of Directors once a month in principle, and matters such as deliberations and decisions on important items related to the management policies and strategies shall be handled at these meetings.
(3) The Board of Directors may, in accordance with the Articles of Incorporation and Board of Directors regulations, delegate all or part of decisions on important business execution issues to Representative Director. The important business execution issues delegated to Directors shall be deliberated at the Management Meeting, comprised of Executive Officers and others.
(4) Executive Officers shall take charge of and execute their duties in accordance with the Rules on Division of Duties and Rules on Authority regarding Duties.
(5) The Company shall formulate the management plan from a medium- to long-term perspective regularly. In order to realize the management plan, budgets with companywide goals for each fiscal year shall be set and each department shall execute detailed plan aimed at the goals.
(6) The Group-wide meeting, comprised of Executive Officers, heads of departments and others, shall be convened regularly to share information on the implementation of the management plan and monitor its progress.

5. System relating to the Sangetsu Group comprising the Company and its subsidiaries
(1) System concerning the reporting of matters to the Company related to the execution of duties performed by Directors of subsidiaries
Subsidiary and Associates Management Regulations and Standards for Matters at Subsidiaries and Associates Requiring Approval and Reporting shall be established, and a system shall be put in place for reporting to the Company of the diverse matters occurring at subsidiaries. The Company shall introduce a department-in-charge system for the management of its subsidiaries.
(2) Rules and other systems for managing risk of loss at subsidiaries
Risk Management Regulations, Business Investment Risk Management Regulations, Subsidiary and Associates Management Regulations, and Standards for Matters at Subsidiaries and Associates Requiring Approval and Reporting and other rules shall be established, and a system shall be put in place for the Company to manage the diverse risks, including the occurrence of loss, at subsidiaries.
In addition, monthly reports shall be made to the Company's Board of Directors in order to manage the various risks. Furthermore, regulations handling risks shall be put in place by subsidiaries themselves, thereby adding to the system for risk management.
(3) System to ensure that subsidiary Directors execute their duties efficiently
Subsidiary and Associates Management Regulations and Standards for Matters at Subsidiaries and Associates Requiring Approval and Reporting shall be established, and a system shall be put in place to ensure that subsidiary Directors are able to execute their duties efficiently. In addition, rules on the division of duties shall be put in place by subsidiaries themselves for the distribution of work responsibilities in order to allow the efficient execution of duties.
(4) System to ensure that subsidiary Directors and employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation of the Company
The Company shall establish the Sangetsu Group Human Rights Policy, Sangetsu Group Corporate Charter, and Compliance Code of Conduct in order to maintain and improve the overall compliance framework of the Group. In addition, the Company shall establish a helpline with a designated external law office available also for employees at subsidiaries to contact with reports.

II. Systems to Assist Execution of Duties by the Audit and Supervisory Committee

1. Matters relating to employees who assist in the duties of the Audit and Supervisory Committee
(1) In order to assist the Audit and Supervisory Committee, the Company shall establish the Audit and Supervisory Committee Office with employees who serve dedicated and concurrently with their other posts.
(2) Assignments, transfers, and evaluations for employees belonging to the Audit and Supervisory Committee Office require the consent of Audit and Supervisory Committee to ensure the independence from Directors (excluding Audit and Supervisory Committee Members (here and elsewhere in II)) and Executive Officers.
(3) Employees belonging to the Audit and Supervisory Committee Office assist in the duties of Audit and Supervisory Committee under the direction of Audit and Supervisory Committee.
(4) Employees belonging to the Audit and Supervisory Committee Office shall not be subject to instructions and orders from Directors and Executive Officers concerning the duties to assist Audit and Supervisory Committee. Employees belonging to the Audit and Supervisory Committee Office who serve concurrently with other posts shall carry out the instructions given by Audit and Supervisory Committee Members as top priority.

2. Systems relating to the reporting to the Audit and Supervisory Committee
(1) Audit and Supervisory Committee Members shall receive reports regularly from Directors and Executive Officers on the status of execution of duties in charge at the Board of Directors. In addition, Audit and Supervisory Committee

Members shall receive reports regularly on the status of the Boards of Directors of subsidiaries from Directors and Auditors dispatched to the Company's subsidiaries.

(2) Directors and Executive Officers shall, in the event of situations that may cause significant damage to the Company, swiftly report such matters to Audit and Supervisory Committee personally or through the heads of relevant departments.

(3) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall attend important meetings, examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from Directors, Executive Officers, or employees.

(4) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall visit subsidiaries, and examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from subsidiary Directors or employees.

(5) Officers and employees of the Group may report compliance problems directly to Audit and Supervisory Committee or its members without using the Company's helpline. In such case, the Company prohibits any adverse treatment based on the fact that such a report has been made by the person.

3. Items concerning policies for handling of expenses and debts arising from the execution of duties by the Audit and Supervisory Committee

(1) All expenses necessary for the duties of Audit and Supervisory Committee shall be recorded in an independent budget every fiscal period and processed promptly based on expense payment standards.

(2) Audit and Supervisory Committee, on its own initiative, may use external experts, etc., where necessary, and the Company shall then bear those expenses.

4. Other Systems to ensure that Audit and Supervisory Committee execute their audits effectively

(1) With the aim of effective audit execution, Audit and Supervisory Committee shall cooperate with the internal audit department and internal control department.

(2) Audit and Supervisory Committee shall formulate the policy and plan for audit annually and report them to the Board of Directors.

(3) In order to enhance auditing effectiveness, Audit and Supervisory Committee shall receive reports on the status of responses to issues identified in the audits at the Board of Directors meetings or on other occasions, and give feedback to them.

(4) Audit and Supervisory Committee shall exchange information regularly on matters including audits with President and CEO and Accounting Auditor.

b. Basic approach to the exclusion of antisocial forces and the status of implementation

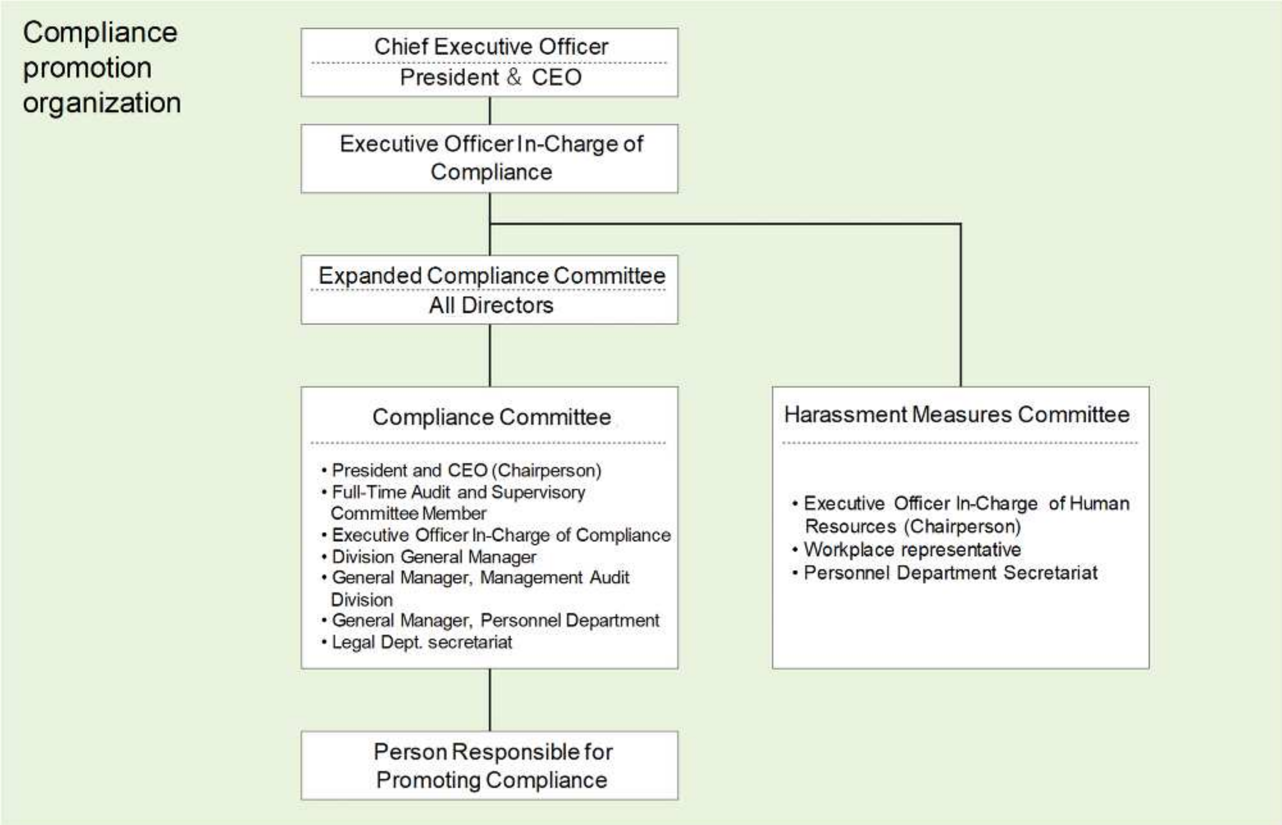
・ The Group does not maintain any relationships whatsoever with antisocial forces, will respond resolutely to any unreasonable demands made by antisocial forces, and will resolutely sever and eliminate any relationships with antisocial forces.
Furthermore, in accordance with the spirit of the Sangetsu Group Compliance Code of Conduct and the Risk Management Regulations, the Risk Management Committee will oversee the response, ensure smooth communication of information within the Company, and respond in coordination with relevant departments and adviser lawyers.
Also, we regularly collect necessary information through coordination with the Aichi Prefectural Police, local police stations, and other relevant government agencies, as well as by coordinating with external specialist organizations, such as by registering with the Aichi Prefecture Corporate Defense Council.

c. Establishment and operational status of compliance system

・ The Compliance Committee has been held four times in the fiscal year ended March 31, 2024, where they formulated the compliance program for the year and promoted initiatives such as checking its progress, instruction for its revisions, and other compliance activities.

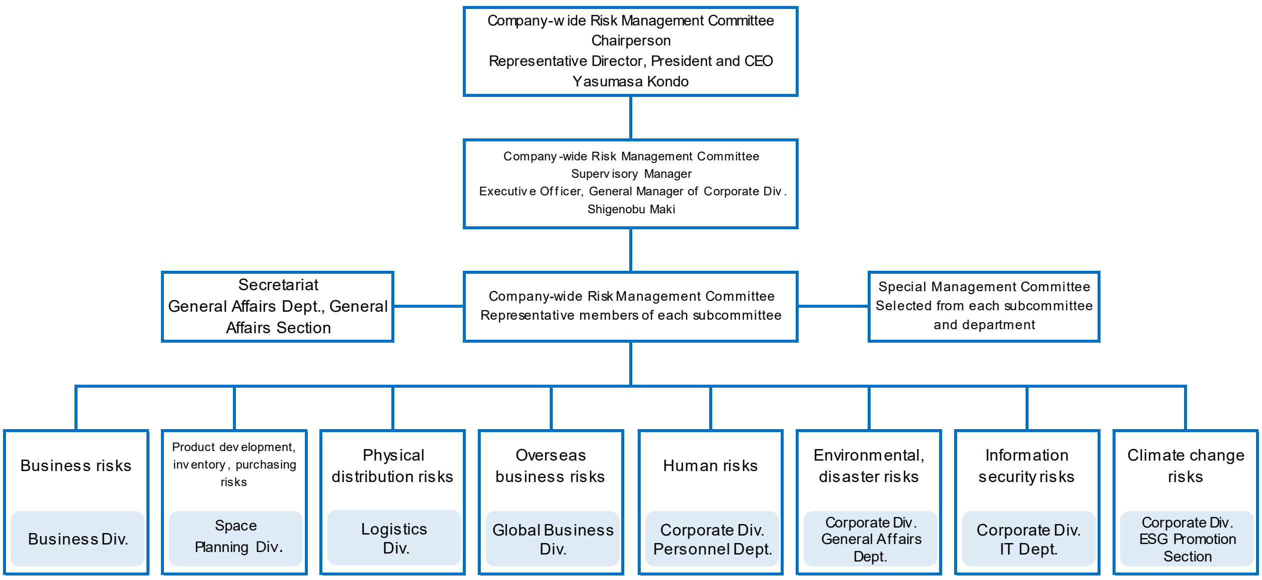
・ Subcontract Act training was provided to newly assigned employees at Space Planning Division.

・ Basic compliance trainings were provided to both new managers and new employees respectively.



d. Establishment and operational status of risk management system

- The Risk Management Committee consists of eight subcommittees (sales risk, logistics risk, product development, inventory and purchase risk, overseas business risk, human risk, environment and disaster risk, information security risk, and climate change risk).
- The Risk Management Committee met four times during the fiscal year ended March 31, 2024 and each subcommittee assumed potential risks, assessed each risk, and examined its importance, then reported on the progress of countermeasures and the results of discussions regarding achievements and issues.
- A risk assessment map is used to conduct risk management evaluations in a stepwise manner, aiming to reach a state in which the control level of each risk is grasped and is being effectively managed.
- At the time of the organizational reorganization in July 2023, the Company ensured to take over the role of the Risk Management Committee. In addition, the Company defined large-scale quality complaint risks and cyber security risks as the most important, clarified countermeasures for each risk item, and discussions were held in the related departments to review the risk items.
- The Noto Peninsula Earthquake was the first response after reviewing the BCP rules, such as information sharing using chat, and the Company is currently examining the issues found in this response to make further revisions to the operations.



(iv) Overview of limited liability agreements

The Company has concluded an agreement with each non-executive Director as per the provisions of Article 427, paragraph 1 of the Companies Act of Japan, limiting their liability for compensation for damage under Article 423, paragraph 1 of the Companies Act of Japan. These agreements limit the amount of their liability for compensation for damage to the minimum legally stipulated amounts.

(v) Overview of a directors and officers liability insurance policy

The Company has concluded a directors and officers liability insurance policy with an insurance company, as stipulated in Article 430-3, paragraph 1 of the Companies Act of Japan. The insured persons of this insurance policy include Directors and Executive Officers of the Company and Officers of the subsidiaries, and the Company bears all insurance premiums. This insurance policy covers compensation for damages to be borne by the insured persons in the event of claims made during the term of the policy against them regarding the execution of their duties. However, measures are taken so that the properness of the performance of duties by officers, etc., is not impaired by excluding damage caused as a result of any conduct committed while knowing that the conduct is in violation of laws and regulations from the scope of compensation.

(vi) Maximum number of directors

The Company's Articles of Incorporation stipulate that the number of Directors (excluding those who are Audit and Supervisory Committee Members) shall be four or less, and the number of Directors who are Audit and Supervisory Committee Members shall be eight or less.

(vii) Requirements for resolutions regarding the appointment of directors

The Company's Articles of Incorporation stipulate that resolutions to elect Directors shall be made by a majority vote at a shareholders' meeting attended by shareholders holding at least one-third of the total voting rights of shareholders who are able to exercise voting rights.

In addition, the Articles of Incorporation stipulate that resolutions for the appointment of directors shall not be based on cumulative voting.

(viii) Exemption of Directors from liability

The Company provides in its Articles of Incorporation that, pursuant to the provisions of Article 426, paragraph (1) of the Companies Act, it may exempt Directors (including former Directors) from liability as set forth in Article 423, paragraph (1) of the said Act within the limits stipulated by laws and regulations based on a resolution of the Board of Directors. The purpose of this is to enable Directors to sufficiently fulfill the roles expected of them in carrying out their duties.

(ix) Decision-making body for the acquisition of treasury shares

Pursuant to Article 165, Paragraph (2) of the Companies Act, the Company's Articles of Incorporation stipulate that the Company may acquire treasury shares through market transactions, etc., by resolution of the Board of Directors. The purpose of this is to enable a flexible capital policy by giving the Board of Directors the authority to acquire treasury shares.

(x) Decision-making body for interim dividends

Pursuant to Article 454, Paragraph (5) of the Companies Act, the Company's Articles of Incorporation stipulate that interim dividends may be paid by resolution of the Board of Directors, with September 30th of each year as the record date. The purpose of this is to ensure the timely return of profits to shareholders.

(xi) Special resolution requirements for general meetings of shareholders

Regarding the requirements for special resolutions at general meetings of shareholders as defined in Article 309, Paragraph (2) of the Companies Act, the Company's Articles of Incorporation stipulate such resolutions shall be made by at least two-thirds majority vote at a meeting attended by shareholders holding at least one-third of the total voting rights of shareholders who are able to exercise voting rights. The purpose of this is to ensure the smooth running of general meetings of shareholders by relaxing the quorum required for special resolutions at such meetings.

(xii) Basic Policy on Control of the Stock Company

The Company has not established a basic policy regarding the entity that controls decisions regarding the financial and business policies of the corporation pursuant to Article 118, Paragraph (3) of the Enforcement Regulations of the Companies Act.

(xiii) Status of other initiatives to improve corporate governance

The Company complies with the Financial Instruments and Exchange Act and other laws and regulations as well as the rules prescribed by stock exchanges, and has established policies and methods for disclosing important information about the Company in accordance with information disclosure standards. In accordance with these standards, we disclose financial, social, and environmental information about the Company in a fair, timely, and appropriate manner. In addition to promptly disseminating information through press releases (company information, product information) and our website, we hold financial results briefings (twice a year) for institutional investors that are presented by the Representative Director and President and CEO, and make the information available to a wide audience through video streaming of the briefings. We also strive to perform fair information disclosure to shareholders and all stakeholders proactively and accurately through IR activities such as participating in IR events.

In July 2023, we held a company briefing and showroom tour for shareholders, with Directors and Executive Officers in attendance to exchange opinions with shareholders. Additionally, the Audit and Supervisory Committee Members held a dialogue with analysts and institutional investors in December. We are aiming to improve our corporate value over the medium to long term through constructive dialogue with our stakeholders.

(2) Share ownership

(i) Policy and concept of the classification of investment shares

The Company does not hold shares for pure investment purposes.

(ii) Investment shares whose purpose of holding is other than for net investment

a. Method for inspecting the holding policy and the rationality of ownership, and the details of inspections by the Board of Directors and the like concerning the propriety of the ownership of individual issues

Based on our business strategy, we make comprehensive judgments from the perspective of companies with which we should newly strengthen our relationships and companies with which we should continue to strengthen our relationships as business partners, and then decide on the strategically held shares that will be held over the medium to long term. The Company reviews the costs and returns associated with holding shares every year, and if it determines that holding the shares is no longer meaningful in the medium to long term, it has a policy to sell the shares, and reports this to the Board of Directors.

b. Number of issues and balance sheet amount

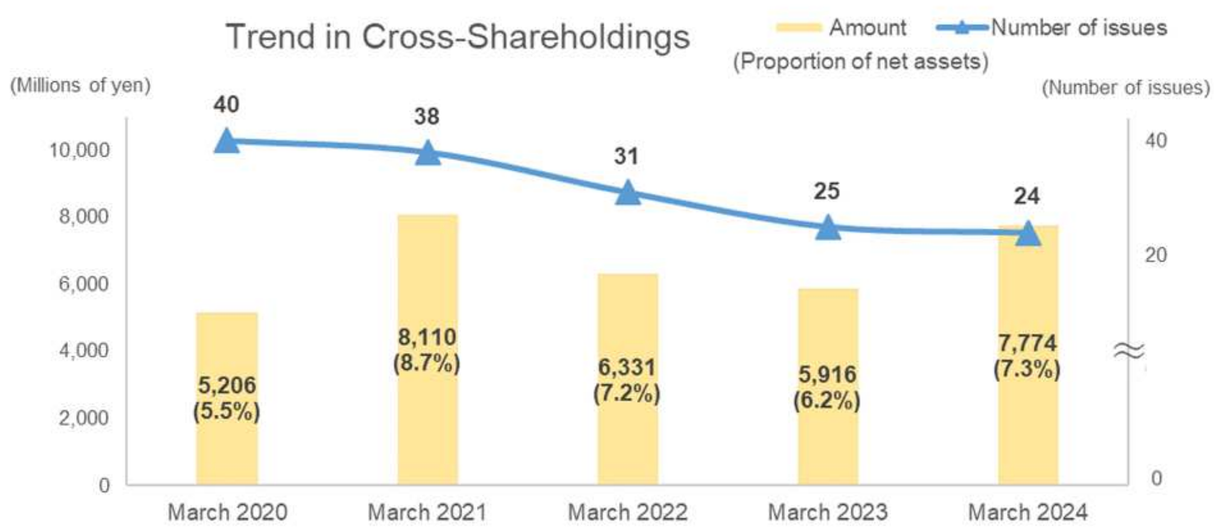
	Number of issues (Issue name)	Total amount of balance sheet amount (millions of yen)
Unlisted shares	8	76
Shares other than unlisted shares	16	7,698

(Issues whose number of shares increased in the fiscal year under review)

	Number of issues (Issue name)	Total acquisition costs associated with increase in number of shares (millions of yen)	Reason for increase in number of shares
Unlisted shares	–	–	–
Shares other than unlisted shares	1	0	Shares acquired through the shareholding association

(Issues whose number of shares decreased in the fiscal year under review)

	Number of issues (Issue name)	Total sale value associated with decrease in number of shares (millions of yen)
Unlisted shares	–	–
Shares other than unlisted shares	5	981



c. Information about the numbers of specified investment shares by issue, balance sheet amounts, etc.

Specified investment shares

Issue	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2023	Purpose of holding, overview of business alliance, etc., quantitative effect of holding, and reason for increase in number of shares	Holding of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
Sumitomo Realty & Development Co., Ltd.	408,000	408,000	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	2,365	1,216		
Resorttrust, Inc.	865,520	865,520	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	2,297	1,825		
Mitsubishi UFJ Financial Group, Inc.	957,150	1,051,350	As a result of examining the rationality of holding the shares, we plan to sell a portion of them.	Yes
	1,490	891		
Wavelock Holdings Co., Ltd.	692,600	1,278,900	We plan to sell the shares as the business alliance has ended.	No
	485	778		
Daito Trust Construction Co., Ltd.	20,757	20,697	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2) (Reason for increase in shares) Acquisition through the shareholding association	No
	362	272		
MEIKO CONSTRUCTION CO., LTD.	225,643	225,643	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	282	257		
The Bank of Nagoya, Ltd.	23,458	32,058	As a result of examining the rationality of holding the shares, we plan to sell a portion of them.	Yes
	156	101		
Starts Corporation Inc.	15,000	15,000	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	No
	51	38		
DYNIC CORPORATION	66,000	66,000	(Purpose of holding) Strengthen the relationship with the supplier (Quantitative effect of holding) (Note 2)	Yes
	50	49		
KYOWA LEATHER CLOTH CO., LTD.	60,000	60,000	(Purpose of holding) Strengthen the relationship with the supplier (Quantitative effect of holding) (Note 2)	Yes
	48	31		
Misonoza Theatrical Corporation	18,000	18,000	As a result of examining the rationality of holding the shares, we plan to sell them.	No
	33	31		
The Ogaki Kyoritsu Bank, Ltd.	11,300	24,000	As a result of examining the rationality of holding the shares, we plan to sell them.	Yes
	24	42		
Dai-ichi Life Holdings, Inc.	5,600	5,600	(Purpose of holding) Strengthen the relationship with the partner life insurance company (Quantitative effect of holding) (Note 2)	Yes
	21	13		
TOKEN CORPORATION	2,000	2,000	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	Yes
	20	15		
AVANTIA CO., LTD.	7,200	7,200	(Purpose of holding) Sales promotion of the Company's merchandise (Quantitative effect of holding) (Note 2)	No
	6	5		
Lonseal Corporation	1,303	1,303	(Purpose of holding) Strengthen the relationship with the supplier (Quantitative effect of holding) (Note 2)	Yes
	2	1		
Juroku Financial Group, Inc.	–	94,000	–	No
	–	265		

Notes: 1. A dash "–" indicates that the issue is not held.

2. As it is difficult to provide a description of the quantitative effect of the holdings, the method used to verify the rationality of the holdings has been described. The Company reviews the significance of strategically held shares each fiscal year and confirms that all shares which we continue to hold are held for purposes that are in line with our holding policy.

(iii) Investment shares whose purpose of holding is for net investment

No items to report

III. Financial Information

1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976; hereinafter the "Regulations on Consolidated Financial Statements").

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; hereinafter the "Regulations on Non-consolidated Financial Statements").
As the Company falls under the category of a company filing financial statements prepared in accordance with special provisions, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulations for Non-consolidated Financial Statements.

2. Auditing and attestation

The consolidated and the non-consolidated financial statements for the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024) were audited by Deloitte Touche Tohmatsu LLC, pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

The Company's auditing firm was changed as follows.

71st term consolidated fiscal year and fiscal year

PricewaterhouseCoopers Aarata LLC (currently PricewaterhouseCoopers Japan LLC)

72nd term consolidated fiscal year and fiscal year

Deloitte Touche Tohmatsu LLC

3. Particular efforts to secure the appropriateness of the consolidated financial statements

The Company makes particular efforts to secure the appropriateness of its consolidated financial statements. Specifically, the Company has joined the Financial Accounting Standards Foundation (FASF), participates in seminars hosted by the Foundation, as well as training sessions hosted by auditing firms, etc., in order to appropriately grasp the content of accounting standards, etc., and to develop a system that enables it to respond appropriately to changes in accounting standards, etc.

1. Consolidated Financial Statements and Other Information

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	24,817	25,096
Notes receivable - trade	9,812	*4 8,526
Accounts receivable - trade	26,671	26,186
Contract assets	214	235
Electronically recorded monetary claims - operating	19,512	*4 24,300
Securities	300	300
Merchandise and finished goods	18,166	18,380
Work in process	256	278
Raw materials and supplies	2,503	3,129
Other	3,075	1,446
Allowance for doubtful accounts	(487)	(416)
Total current assets	104,843	107,463
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,200	32,159
Accumulated depreciation	(19,598)	(20,897)
Buildings and structures, net	10,601	11,262
Machinery, equipment and vehicles	18,667	18,899
Accumulated depreciation	(13,448)	(13,859)
Machinery, equipment and vehicles, net	5,219	5,039
Tools, furniture and fixtures	5,285	5,652
Accumulated depreciation	(4,487)	(4,722)
Tools, furniture and fixtures, net	797	929
Land	16,634	16,468
Leased assets	2,889	2,600
Accumulated depreciation	(1,112)	(922)
Leased assets, net	1,777	1,678
Construction in progress	1,794	4,530
Total property, plant and equipment	36,825	39,909
Intangible assets		
Software	1,340	1,247
Goodwill	1,340	1,173
Other	831	807
Total intangible assets	3,512	3,228
Investments and other assets		
Investment securities	*1 6,182	*1 8,128
Investment property	4,968	4,888
Guarantee deposits	1,855	1,894
Retirement benefit asset	–	548
Deferred tax assets	5,229	3,978
Other	1,153	729
Allowance for doubtful accounts	(116)	(17)
Total investments and other assets	19,273	20,149
Total non-current assets	59,610	63,287
Total assets	164,454	170,750

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,410	*4 16,131
Contract liabilities	1,026	1,208
Electronically recorded obligations - operating	14,420	*4 15,423
Short-term borrowings	801	5,711
Current portion of long-term borrowings	7,801	–
Lease liabilities	439	522
Income taxes payable	5,734	2,681
Provision for bonuses	3,175	3,602
Provision for bonuses for directors (and other officers)	267	134
Provision for product warranties	532	389
Other	6,956	7,468
Total current liabilities	56,565	53,273
Non-current liabilities		
Lease liabilities	1,413	1,251
Deferred tax liabilities	269	256
Provision for retirement benefits for directors (and other officers)	26	–
Retirement benefit liability	8,525	6,495
Asset retirement obligations	1,153	1,784
Other	675	979
Total non-current liabilities	12,063	10,767
Total liabilities	68,629	64,040
Net assets		
Shareholders’ equity		
Share capital	13,616	13,616
Capital surplus	17,150	17,175
Retained earnings	64,138	70,799
Treasury shares	(849)	(791)
Total shareholders’ equity	94,056	100,799
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,269	3,305
Deferred gains or losses on hedges	(39)	(20)
Foreign currency translation adjustment	1,157	1,241
Remeasurements of defined benefit plans	(702)	1,312
Total accumulated other comprehensive income	1,685	5,839
Share acquisition rights	69	55
Non-controlling interests	13	14
Total net assets	95,825	106,709
Total liabilities and net assets	164,454	170,750

(ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Net sales	*1 176,022	*1 189,859
Cost of sales	*2 119,647	*2 130,899
Gross profit	56,374	58,959
Selling, general and administrative expenses		
Sample books expenses	3,534	3,822
Provision of allowance for doubtful accounts	(12)	(29)
Salaries and allowances	13,145	14,479
Provision for bonuses	2,711	2,945
Provision for bonuses for directors (and other officers)	267	134
Retirement benefit expenses	853	1,017
Provision for product warranties	108	(124)
Other	*2 15,485	*2 17,610
Selling, general and administrative expenses	36,094	39,856
Operating profit	20,280	19,103
Non-operating income		
Interest income	19	104
Dividend income	193	209
Rental income from real estate	450	429
Share of profit of entities accounted for using equity method	0	–
Other	211	336
Total non-operating income	876	1,078
Non-operating expenses		
Interest expenses	214	269
Rental expenses on real estate	147	119
Foreign exchange losses	83	65
Other	20	32
Total non-operating expenses	466	486
Ordinary profit	20,690	19,695
Extraordinary income		
Gain on sale of non-current assets	*3 5	*3 11
Gain on sale of investment securities	52	227
Gain on sale of shares of subsidiaries and associates	128	–
Gain on reversal of share acquisition rights	1	–
Subsidy income	*7 10	*7 392
Gain on liquidation of subsidiaries and associates	–	*8 59
Gain on cancellation of leases	17	–
Total extraordinary income	216	691
Extraordinary losses		
Loss on sale of non-current assets	*4 2	–
Loss on retirement of non-current assets	*5 9	*5 30
Loss on sale of investment securities	148	59
Loss on valuation of investment securities	–	11
Impairment losses	*6 303	*6 166
Other	–	2
Total extraordinary losses	464	270
Profit before income taxes	20,442	20,116
Income taxes - current	7,436	6,149
Income taxes - deferred	(998)	(324)
Total income taxes	6,437	5,824
Profit	14,005	14,291
Profit attributable to owners of parent	14,005	14,291

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Profit	14,005	14,291
Other comprehensive income		
Valuation difference on available-for-sale securities	11	2,036
Deferred gains or losses on hedges	(45)	19
Foreign currency translation adjustment	589	83
Remeasurements of defined benefit plans, net of tax	341	2,015
Total other comprehensive income	* 896	* 4,153
Comprehensive income	14,901	18,445
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,901	18,445

(iii) Consolidated Statements of Changes in Equity
Fiscal year ended March 31, 2023

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,616	19,773	54,537	(907)	87,019
Changes during period					
Dividends of surplus			(4,399)		(4,399)
Profit attributable to owners of parent			14,005		14,005
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(3)	57	54
Exercise of share acquisition rights					–
Purchase of shares of consolidated subsidiaries		(2,622)			(2,622)
Net changes in items other than shareholders' equity					
Total changes during period	–	(2,622)	9,601	57	7,036
Balance at end of period	13,616	17,150	64,138	(849)	94,056

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	1,258	6	567	(1,043)	788	71	446	88,326
Changes during period								
Dividends of surplus								(4,399)
Profit attributable to owners of parent								14,005
Purchase of treasury shares								(0)
Disposal of treasury shares								54
Exercise of share acquisition rights								–
Purchase of shares of consolidated subsidiaries								(2,622)
Net changes in items other than shareholders' equity	11	(45)	589	341	896	(1)	(432)	461
Total changes during period	11	(45)	589	341	896	(1)	(432)	7,498
Balance at end of period	1,269	(39)	1,157	(702)	1,685	69	13	95,825

Fiscal year ended March 31, 2024

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,616	17,150	64,138	(849)	94,056
Changes during period					
Dividends of surplus			(7,630)		(7,630)
Profit attributable to owners of parent			14,291		14,291
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		23		46	70
Exercise of share acquisition rights		1		12	13
Purchase of shares of consolidated subsidiaries					–
Net changes in items other than shareholders' equity					
Total changes during period	–	24	6,660	58	6,743
Balance at end of period	13,616	17,175	70,799	(791)	100,799

	Accumulated other comprehensive income					Share acquisition rights	Non–controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	1,269	(39)	1,157	(702)	1,685	69	13	95,825
Changes during period								
Dividends of surplus								(7,630)
Profit attributable to owners of parent								14,291
Purchase of treasury shares								(1)
Disposal of treasury shares								70
Exercise of share acquisition rights								13
Purchase of shares of consolidated subsidiaries								–
Net changes in items other than shareholders' equity	2,036	19	83	2,015	4,153	(13)	1	4,141
Total changes during period	2,036	19	83	2,015	4,153	(13)	1	10,884
Balance at end of period	3,305	(20)	1,241	1,312	5,839	55	14	106,709

(iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Cash flows from operating activities		
Profit before income taxes	20,442	20,116
Depreciation	3,579	3,236
Impairment losses	303	166
Amortization of goodwill	167	169
Increase (decrease) in allowance for doubtful accounts	(23)	(195)
Increase (decrease) in provision for bonuses	1,152	401
Increase (decrease) in provision for bonuses for directors (and other officers)	267	(133)
Increase (decrease) in retirement benefit liability	(26)	216
Increase (decrease) in provision for product warranties	29	(169)
Interest and dividend income	(213)	(313)
Rental income from real estate	(450)	(429)
Interest expenses	214	269
Loss (gain) on sale of investment securities	96	(167)
Loss (gain) on sale of shares of subsidiaries and associates	(128)	–
Loss (gain) on liquidation of subsidiaries and associates	–	(59)
Subsidy income	(10)	(392)
Decrease (increase) in trade receivables	(5,550)	(2,810)
Decrease (increase) in inventories	(2,718)	(591)
Increase (decrease) in trade payables	3,055	1,626
Increase (decrease) in accrued consumption taxes	923	(1,163)
Other, net	600	1,703
Subtotal	21,709	21,479
Interest and dividends received	184	313
Subsidies received	10	392
Settlement received	250	7
Interest paid	(198)	(285)
Income taxes paid	(4,582)	(9,089)
Net cash provided by (used in) operating activities	17,373	12,818
Cash flows from investing activities		
Payments into time deposits	–	(314)
Proceeds from withdrawal of time deposits	1,517	–
Purchase of securities	(300)	(300)
Proceeds from redemption of securities	300	300
Purchase of property, plant and equipment	(2,827)	(4,386)
Proceeds from sale of property, plant and equipment	12	12
Purchase of intangible assets	(364)	(629)
Purchase of investment securities	(10)	(13)
Proceeds from sale of investment securities	298	2,812
Proceeds from sale of shares of subsidiaries and associates	111	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	*2 (41)	–
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	*3 848	–
Proceeds from cancellation of insurance funds	–	343
Proceeds from rental of investment property	450	429
Payments of guarantee deposits	(365)	(48)
Proceeds from refund of guarantee deposits	19	52
Purchase of long-term prepaid expenses	(51)	(45)
Other, net	(6)	(59)
Net cash provided by (used in) investing activities	(408)	(1,846)

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Cash flows from financing activities		
Proceeds from short-term borrowings	810	7,669
Repayments of short-term borrowings	(987)	(2,884)
Repayments of long-term borrowings	(1,249)	(7,854)
Repayments of finance lease liabilities	(472)	(554)
Purchase of treasury shares	(0)	(1)
Dividends paid	(4,398)	(7,624)
Dividends paid to non-controlling interests	(294)	–
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(2,763)	–
Other, net	–	0
Net cash provided by (used in) financing activities	(9,355)	(11,249)
Effect of exchange rate change on cash and cash equivalents	269	230
Net increase (decrease) in cash and cash equivalents	7,878	(47)
Cash and cash equivalents at beginning of period	16,886	24,765
Cash and cash equivalents at end of period	*1 24,765	*1 24,717

Notes to consolidated financial statements

Significant matters forming the basis for preparation of consolidated financial statements

1. Scope of consolidation

   Number of consolidated subsidiaries: 20

   Names of major consolidated subsidiaries

   Sungreen Co., Ltd.

   Fairtone Co., Ltd.

   Sangetsu Vosne Corporation

   Sangetsu Okinawa Corporation

   CREANATE Inc.

   Kurosukikaku Corporation

   Koroseal Interior Products Holdings, Inc.

   Goodrich Global Holdings Pte., Ltd.

   Goodrich Global Limited

   in the fiscal year ended March 31, 2024, Sangetsu Goodrich China Co., Ltd. and Goodrich Global Beijing Limited were excluded from the scope of consolidation due to liquidation.

2. Application of the equity method

   (1) Number of associates accounted for using equity method: –

   (2) Names of non-consolidated subsidiaries and associates not accounted for by the equity method

   Hakata Soko Co., Ltd

   (Reason why not accounted for by the equity method)

   Non-consolidated subsidiaries and associates are excluded from the scope of application of the equity method, because such exclusion has only an immaterial effect on the consolidated financial statements in terms of each company's profit or loss (amount corresponding to the Company's ownership interest) and retained earnings (amount corresponding to the Company's ownership interest), and they have no significance as a whole.

3. Fiscal year, etc. of consolidated subsidiaries

   Of the Company's consolidated subsidiaries, Koroseal Interior Products Holdings, Inc., Goodrich Global Holdings Pte., Ltd., Goodrich Global Limited, and 10 other overseas subsidiaries have a fiscal year ending December 31. The financial statements as of that date are used in the preparation of the consolidated financial statements, and any significant transactions occurring between the fiscal year-end date and the consolidated fiscal year-end date are adjusted as necessary for consolidation. The fiscal year-end of the other seven domestic consolidated subsidiaries is the same as the consolidated fiscal year-end date.

4. Accounting policies

   (1) Standards and methods for valuation of important assets

   (i) Securities

   Available-for-sale securities

   Securities other than shares, etc. without market value

   Stated at fair value (valuation differences are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving average method)

   Shares, etc. without market prices

   Stated at cost using the moving average method.

   (ii) Derivatives

   Mainly stated at fair value

   (iii) Inventory

   Mainly stated at cost using the moving average method (carrying amounts on the balance sheet are subject to the book value reduction method based on decreased profitability)

   (2) Depreciation or amortization method for important depreciable or amortizable assets

   (i) Property, plant and equipment (excluding leased assets)

   The declining balance method is applied. However, for consolidated subsidiaries in Japan, the straight-line method is used for buildings (excluding facilities) acquired on or after April 1, 1998, and for facilities attached to buildings and for structures acquired on or after April 1, 2016. Also, the straight-line method is used by consolidated subsidiaries outside Japan.

   Major useful lives are as follows.

   Buildings and structures 2–50 years

Machinery, equipment and vehicles 2–25 years

(ii) Intangible assets (excluding leased assets)

The straight-line method is applied.

Software for internal use is amortized over its estimated useful life (5 years).

(iii) Leased assets

Leased assets related to finance lease transactions that transfer ownership

The same depreciation method applied to non-current assets owned by the Company is applied.

Leased assets related to finance lease transactions that do not transfer ownership

Depreciation is calculated using the straight-line method, with the lease period being the useful life and the residual value being zero.

For foreign consolidated subsidiaries that apply IFRS, IFRS 16 "Leases" is applied and, in principle, all leases of lessees are recorded as assets and liabilities on the balance sheet, and capitalized right-of-use assets are depreciated using the straight-line method.

For foreign consolidated subsidiaries that apply Generally Accepted Accounting Principles (U.S. GAAP), U.S. GAAP ASC Topic 842 "Leases" is applied and, in principle, all leases of lessees are recorded as assets and liabilities on the balance sheet, and are depreciated over the lease term using the depreciation method under U.S. GAAP.

(3) Standards for recording significant provisions and allowances

(i) Allowance for doubtful accounts

To prepare for credit losses on receivables, loans, etc., an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

(ii) Provision for product warranties

For certain products, goods, etc. found to be defective, etc. after sale, the Company records the estimated amount that may be claimed against the Company for claims, etc. arising from such defects.

(iii) Provision for bonuses

To provide for the payment of bonuses to employees, of the estimated amount of bonuses to be paid, the amount estimated to cover the bonus payment for services rendered by employees during the fiscal year ended March 31, 2024 is provided.

(iv) Provision for bonuses for directors (and other officers)

To provide for the payment of bonuses to directors, an amount accrued for the fiscal year ended March 31, 2024 is recorded based on the calculation method determined by the Company.

(v) Provision for retirement benefits for directors (and other officers)

To provide for the payment of retirement benefits to directors, consolidated subsidiaries record the amount to be paid at the end of the fiscal year in accordance with their internal regulations.

(4) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year ended March 31, 2024 on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain number of years (mainly 10 years) within the average remaining service years of employees when incurred.

Actuarial gains and losses are amortized using the straight-line method over a certain number of years (mainly 10 years) within the average remaining service years of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss.

(iii) Adoption of simplified method by smaller firms, etc.

Certain consolidated subsidiaries apply a simplified method for calculating retirement benefit liability and retirement benefit expenses, using the amount payable at the end of the fiscal year as the retirement benefit obligation.

(5) Basis for recognizing significant revenue and expenses

The principal performance obligations of the Company and its consolidated subsidiaries related to revenue from contracts with customers and the usual times at which such performance obligations are satisfied (the usual times at which revenue is recognized) are as follows.

(i) Sale of merchandise and finished goods

The Company and its consolidated subsidiaries are mainly engaged in the manufacture and sale of wallcoverings, flooring materials, fabrics, and other interior materials, as well as exterior products. At the point in time that control of these merchandise and finished goods is transferred to the customer, revenue is recognized at the amount expected to be received in exchange for the goods and products. However, for domestic sales of merchandise and finished goods, if a normal period of time will elapse between the shipment of the merchandise and finished goods and the transfer of control to the customer, the Company applies the alternative treatment prescribed in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment. With respect to the sale of certain interior and exterior merchandise, the Company and its consolidated subsidiaries do not carry inventory and have determined that they are acting as agents in transactions because their performance obligation is to arrange for the merchandise to be provided by other parties. For transactions deemed to qualify as agent transactions, the Company recognizes as revenue the net amount received in exchange for merchandise provided by another party, less the amount paid to such other party. The transaction price is calculated based on the price agreed with the customer minus sales commission, etc. Consideration for transactions is received within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

(ii) Installation contracts

The Company and some of its consolidated subsidiaries may enter into installation contracts with customers for the installation of interior materials and similar work. For such contracts, the Company recognizes revenue based on the degree of progress made in satisfying the performance obligation over a specified period of time. Progress is measured by comparing the cost of installation work incurred at the end of the period with the estimated cost of installation work to complete the project. However, for certain transactions with very short installation periods, such revenue is recognized when the performance obligation is fully satisfied. The promised consideration is paid within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

(6) Accounting policy for translation of significant foreign currency assets or liabilities into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated fiscal year-end date, and translation differences are accounted for as profit or loss. Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot exchange rate prevailing as of the fiscal year-end date, and their revenue and expenses are translated into Japanese yen at the average exchange rate during the period. Translation differences for net assets are included in foreign currency translation adjustment.

(7) Significant hedge accounting methods

Deferral hedge accounting is usually applied.

(8) Method and period for amortization of goodwill

Goodwill and an amount equivalent to goodwill is amortized over a reasonably estimated period (within 10 years) during which the effect will be realized, and then equally amortized over the relevant period. However, small amount items are amortized in full at the time they are incurred.

(9) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows are comprised of cash in hand, demand deposits, and short-term investments with maturities or redemption dates of three months or less from the acquisition date that are highly liquid, readily convertible into cash, and are exposed to only an insignificant risk of fluctuations in value.

New accounting standards not yet applied

- "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc." (ASBJ Statement No. 27, October 28, 2022, Accounting Standards Board of Japan)
- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022, Accounting Standards Board of Japan)
- "Guidelines for the Implementation of Accounting Standards for Tax-Effect Accounting" (ASBJ Statement No. 28, October 28, 2022, Accounting Standards Board of Japan)

(1) Name and summary of relevant accounting standards, etc.

In February 2018, ASBJ Statement No. 28 "Partial Amendments to Accounting Standard for Tax Effect Accounting" (below, "ASBJ Statement No. 28, etc.") was released, completing the transfer over to the ASBJ of The Japanese Institute of Certified Public Accountants' practical guidelines on tax-effect accounting. However, during the deliberation process, the following two issues, which were to be reconsidered after the publication of ASBJ Statement No. 28, etc., were discussed and announced.

- Tax classification of expenses (Taxation on other comprehensive income)
- Tax effect on sale of shares of subsidiaries (shares in subsidiaries or affiliate companies) when group corporate taxation is applied

(2) Scheduled effective date

This will be applied from the beginning of the fiscal year ending March 31, 2025.

(3) Effect of application of relevant accounting standards

The effect of application of the "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc." and other related standards on consolidated financial statements is currently under evaluation.

Changes in presentation

Consolidated balance sheet

Under "Non-current liabilities," "Long-term accounts payable - other," which was independently presented in the fiscal year ended March 31, 2023, is included under "Other" in the fiscal year ended March 31, 2024 because it has become insignificant in terms of monetary amount. To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2023 have been reclassified.
As a result, the 13 million yen presented as "Long-term accounts payable - other" under "Non-current liabilities" in the consolidated balance sheets for the fiscal year ended March 31, 2023 has been reclassified as "Other."

Consolidated statements of cash flows

"Share of loss (profit) of entities accounted for using equity method" under "Cash flows from operating activities," which was presented separately in the fiscal year ended March 31, 2023, is included in "Other, net" in the fiscal year ended March 31, 2024 because it has become insignificant in terms of monetary amount. In addition, "Increase (decrease) in provision for bonuses for directors (and other officers)," previously included in "Other, net," has been presented separately in the fiscal year ended March 31, 2024 in order to present more clearly in line with actual conditions, and "Loss (gain) on sale of investment securities," also previously included in "Other, net," has been presented separately in the fiscal year ended March 31, 2024, because its significance increased in terms of monetary amount. To reflect these changes in presentation, the consolidated financial statements for the fiscal year ended March 31, 2023 have been reclassified.
As a result, "Share of loss (profit) of entities accounted for using equity method" of (0) million yen and "Other, net" of 964 million yen shown in "Cash flows from operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2023 have been reclassified into "Increase (decrease) in provision for bonuses for directors (and other officers)" of 267 million yen, "Loss (gain) on sale of investment securities" of 96 million yen and "Other, net" of 600 million yen.

Consolidated balance sheet

*1 Items pertaining to non-consolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Investment securities (shares)	37	37

2 Contingent liabilities

(repair work)

The Company conducts repair work for defects that have occurred in some of its merchandise. Although some repair work is performed on behalf of manufacturers, many uncertainties exist in regard to the proportion of repair work carried out, making it difficult to reasonably estimate the total amount to be paid by the Company for repair work.

3 Notes receivable - trade discount, notes receivable - trade endorsed, electronically recorded monetary claims - operating discount, and electronically recorded monetary claims - operating endorsed

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Notes receivable - trade discount	11	–
Notes receivable - trade endorsed	44	16
Electronically recorded monetary claims - operating discount	–	7
Electronically recorded monetary claims - operating endorsed	–	22

*4 Notes, etc. maturing at the end of the consolidated fiscal year

Regarding accounting processing of notes maturing at the end of the consolidated fiscal year, settlement is made either on the clearance date or settlement date. As the final day of the fiscal year ended March 31, 2024 was a bank holiday, the following notes maturing on the final day of the next consolidated fiscal year were included in the balance at the end of the consolidated fiscal year.

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Notes receivable - trade	–	593
Electronically recorded monetary claims - operating	–	1,860
Notes payable - trade	–	8
Electronically recorded obligations - operating	–	435

Consolidated statement of income

*1 Revenue from contracts with customers

Revenues from contracts with customers are not presented separately from other revenue. The amount of revenue from contracts with customers is presented in “Notes to consolidated financial statements (revenue recognition), 1. Breakdown of revenue from contracts with customers.”

*2 Total research and development expenses included in general and administrative expenses and current manufacturing costs

(Millions of yen)

Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
367	601

*3 Breakdown of gain on sale of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Buildings and structures	–	9
Machinery, equipment and vehicles	5	2
Tools, furniture and fixtures	0	0
Total	5	11

*4 Breakdown of loss on sale of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Machinery, equipment and vehicles	2	–
Total	2	–

*5 Breakdown of loss on retirement of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Buildings and structures	3	12
Machinery, equipment and vehicles	0	7
Tools, furniture and fixtures	1	8
Software	2	–
Other	0	1
Total	9	30

*6 Impairment losses

The Group recognized impairment losses on the following assets.

Fiscal year ended March 31, 2023

(Millions of yen)

Place	Used for	Category	Impairment losses
Nishi-ku, Nagoya-shi	Idle (underutilized) real estate	Land	303

As a general rule, the Group classifies its business assets into groups based on its branch offices, while idle assets are grouped by individual assets.

The carrying amount of land in Nishi-ku, Nagoya-shi has been reduced to its recoverable amount because part of the land has become idle and its future use has not been determined. The recoverable amount is measured by net realizable value, and the net realizable value is calculated based on the amount based on real estate appraisals.

Fiscal year ended March 31, 2024

The information is omitted as it is immaterial.

*7 Subsidy income

Fiscal year ended March 31, 2023

These are grants and subsidies provided by governments or local authorities in relation to the impact of COVID-19.

Fiscal year ended March 31, 2024

These are grants and subsidies provided by governments or local authorities in relation to the impact of COVID-19.

*8 Gain on liquidation of subsidiaries and associates

Fiscal year ended March 31, 2023

No items to report

Fiscal year ended March 31, 2024

This follows the completion of the liquidation of our consolidated subsidiary, Sangetsu Goodrich China Co., Ltd.

Consolidated statement of comprehensive income

* Reclassification adjustments and tax effects relating to other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Valuation difference on available-for-sale securities:		
Amount accrued in the current fiscal year	(114)	2,917
Reclassification adjustment	96	(156)
Before tax effect adjustment	(18)	2,761
Tax effect amount	29	(725)
Valuation difference on available-for-sale securities	11	2,036
Deferred gains or losses on hedges:		
Amount accrued in the current fiscal year	(65)	27
Reclassification adjustment	–	–
Before tax effect adjustment	(65)	27
Tax effect amount	19	(8)
Deferred gains or losses on hedges	(45)	19
Foreign currency translation adjustment:		
Amount accrued in the current fiscal year	537	142
Reclassification adjustment	51	(59)
Before tax effect adjustment	589	83
Tax effect amount	–	–
Foreign currency translation adjustment	589	83
Remeasurements of defined benefit plans, net of tax:		
Amount accrued in the current fiscal year	118	2,505
Reclassification adjustment	333	350
Before tax effect adjustment	451	2,855
Tax effect amount	(110)	(840)
Remeasurements of defined benefit plans, net of tax	341	2,015
Total other comprehensive income	896	4,153

Consolidated statement of changes in equity

Fiscal year ended March 31, 2023

1. Class and total number of issued shares, and class and number of treasury shares

(Shares)

	Number of shares at beginning of the fiscal year	Increase in number of shares	Decrease in number of shares	Number of shares at end of the fiscal year
Issued shares				
Common shares	59,200,000	–	–	59,200,000
Total	59,200,000	–	–	59,200,000
Treasury shares				
Common shares (See Notes 1, 2)	552,040	2,580	35,272	519,348
Total	552,040	2,580	35,272	519,348

Notes: 1. The increase of 2,580 shares in the number of treasury shares of common shares is due to an increase of 2,500 shares from the acquisition of restricted shares without remuneration and an increase of 80 shares from the purchase of odd-lot shares.

2. The decrease of 35,272 shares in the number of treasury shares of common shares is due to disposal as restricted share remuneration.

2. Share acquisition rights and treasury share acquisition rights

Title	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights				Balance at the end of the fiscal year (millions of yen)
			Beginning of the fiscal year	Increase in the fiscal year	Decrease in the fiscal year	End of the fiscal year	
Reporting company (parent company)	Share acquisition rights as stock options	–	–	–	–	–	69
Total		–	–	–	–	–	69

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 22, 2022	Common shares	2,052	35.0	March 31, 2022	June 23, 2022
Board of Directors meeting held on November 9, 2022	Common shares	2,347	40.0	September 30, 2022	December 1, 2022

(2) Dividends with an effective date falling in the following fiscal year, among distributions with record dates belonging to the fiscal year ended March 31, 2024

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2023	Common shares	3,814	Retained earnings	65.0	March 31, 2023	June 22, 2023

Fiscal year ended March 31, 2024

1. Class and total number of issued shares, and class and number of treasury shares

(Shares)

	Number of shares at beginning of the fiscal year	Increase in number of shares	Decrease in number of shares	Number of shares at end of the fiscal year
Issued shares				
Common shares	59,200,000	–	–	59,200,000
Total	59,200,000	–	–	59,200,000
Treasury shares				
Common shares (See Notes 1, 2)	519,348	406	36,350	483,404
Total	519,348	406	36,350	483,404

Notes: 1. The increase of 406 shares in the number of treasury shares of common shares is due to the purchase of odd-lot shares.
2. The decrease of 36,350 shares in the number of treasury shares of common shares is due to the exercise of 7,800 share acquisition rights and the disposal of 28,550 shares as restricted share remuneration.

2. Share acquisition rights and treasury share acquisition rights

Title	Breakdown of share acquisition rights	Class of shares to be issued upon exercise of share acquisition rights	Number of shares to be issued upon exercise of share acquisition rights				Balance at the end of the fiscal year (millions of yen)
			Beginning of the fiscal year	Increase in the fiscal year	Decrease in the fiscal year	End of the fiscal year	
Reporting company (parent company)	Share acquisition rights as stock options	–	–	–	–	–	55
Total		–	–	–	–	–	55

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2023	Common shares	3,814	65.0	March 31, 2023	June 22, 2023
Board of Directors meeting held on November 10, 2023	Common shares	3,816	65.0	September 30, 2023	December 1, 2023

(2) Dividends with an effective date falling in the following fiscal year, among distributions with record dates belonging to the fiscal year ended March 31, 2024

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2024	Common shares	4,403	Retained earnings	75.0	March 31, 2024	June 20, 2024

Consolidated statement of cash flows

*1 Reconciliation of closing balance of cash and cash equivalents and the related account on the consolidated balance sheet

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Cash and deposits	24,817	25,096
Time deposits with maturity over 3 months	(52)	(379)
Cash and cash equivalents	24,765	24,717

*2 Major components of assets and liabilities of consolidated subsidiaries acquired by purchase of shares

Fiscal year ended March 31, 2023

The information is omitted as it is immaterial.

Fiscal year ended March 31, 2024

No items to report

*3 Major components of assets and liabilities of a company that is no longer a consolidated subsidiary due to sale of shares

Fiscal year ended March 31, 2023

As a result of the sale of shares, Goodrich Global Suzhou Limited is no longer a consolidated subsidiary. The major components of assets and liabilities at the time of the sale, the sale price of shares, and the proceeds from the sale are as follows.

Current assets	33	Millions of yen
Non-current assets	1,028	
Current liabilities	(292)	
Non-current liabilities	(17)	
Foreign currency translation adjustment	51	
Gain on sales of shares	70	
Sale price of shares	874	
Cash and cash equivalents	(26)	
Net: Proceeds from sale	848	

Fiscal year ended March 31, 2024

No items to report

Leases

1. Finance lease transactions (as lessee)
   (1) Finance lease transactions that transfer ownership
   The information is omitted as it is immaterial.
   (2) Finance lease transactions that do not transfer ownership
   The information is omitted as it is immaterial.

2. Operating lease transactions (as lessee)
   Future lease payments to be received under non-cancellable leases of operating lease transactions

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Due within one year	1,553	1,734
Due after one year	8,915	8,930
Total	10,468	10,665

Note: Certain overseas consolidated subsidiaries have adopted the IFRS 16 "Leases" and U.S. GAAP ASC Topic 842 "Leases" guidelines, and lease transactions for which assets and liabilities are recorded on the consolidated balance sheet are not included.

Financial instruments

1. Status of financial instruments

   (1) Policy on financial instruments

   The Group's policy is to procure funds through bank loans. In addition, the Group works to achieve appropriate cash management through effective use of the Group Cash Management Service (CMS). The Company's policy is to use derivatives to reduce the risk of future fluctuations in foreign currency exchange rates and interest rates, and not to engage in speculative transactions.

   (2) Details and risks of financial instruments, and the risk management system

   Trade receivables, such as notes and accounts receivable - trade and electronically recorded monetary claims- operating, are exposed to customer credit risk. With respect to this risk, the Group manages due dates and outstanding balances for each transaction partner, and periodically reviews the credit status of transaction partner.

   Securities and investment securities mainly comprise shares of companies with which the Group has a business relationship, and are exposed to the risk of market price movements. Securities and investment securities are managed by the Finance and Accounting Dept. on a monthly basis based on internal regulations, and the market value and balance are reported to the General Manager of the Finance and Accounting Dept.

   Trade payables such as notes and accounts payable- trade, electronically recorded obligations- operating, and income taxes payable are all due within one year. Trade payables are exposed to liquidity risk, but within the Group, this risk is managed by having each company prepare a monthly cash flow plan, etc.

   Borrowings are mainly used for capital investments of subsidiaries and as working capital for the Company. Borrowings are exposed to liquidity risk, but this is managed through the use of the Group CMS and other methods.

   (3) Supplementary explanation of fair value, etc. of financial instruments

   Since the calculation of the fair value of financial instruments takes into account variable factors, the value may fluctuate if different assumptions are adopted.

2. Fair value, etc. of financial instruments

The amounts recorded on the consolidated balance sheet, fair values, and the differences between them are as follows.

Fiscal year ended March 31, 2023

(Millions of yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
Securities and investment securities (*2)	6,368	6,368	–
Total assets	6,368	6,368	–
Long-term borrowings (including those repaid within one year)	7,801	7,795	(5)
Total liabilities	7,801	7,795	(5)
Derivative transactions (*3)	(22)	(22)	–

Fiscal year ended March 31, 2024

(Millions of yen)

	Amount recorded on the consolidated balance sheet	Fair value	Difference
Securities and investment securities (*2)	8,314	8,314	–
Total assets	8,314	8,314	–
Derivative transactions (*3)	(303)	(303)	–

(*1) "Cash and deposits," "Notes receivable - trade," "Accounts receivable - trade," "Electronically recorded monetary claims - operating," "Notes and accounts payable - trade," "Electronically recorded obligations - operating," "Income taxes payable," and "Short-term borrowings" have been omitted, as these are settled in a short period of time, and their carrying amounts therefore approximate fair value.

(*2) Shares, etc. without market prices are not included in "Securities and investment securities." The carrying amount of these financial instruments on the consolidated balance sheet is as follows.

(Millions of yen)

Title	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Unlisted shares	114	114

(*3) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in parentheses.

Notes: 1. Expected redemption amounts of monetary claims and securities with a maturity after the consolidated fiscal year-end date

Fiscal year ended March 31, 2023

(Millions of yen)

	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	After 10 years
Cash and deposits	24,817	–	–	–
Notes receivable - trade	9,812	–	–	–
Accounts receivable - trade	26,671	–	–	–
Electronically recorded monetary claims - operating	19,512	–	–	–
Securities and investment securities				
Held-to-maturity bonds				
(1) Government bonds, local government bonds, etc.	–	–	–	–
(2) Bonds payable	–	–	–	–
Available-for-sale securities with a maturity				
(1) Bonds (foreign government and corporate bonds)	–	–	–	–
(2) Other	300	–	–	–
Total	81,113	–	–	–

Fiscal year ended March 31, 2024

(Millions of yen)

	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	After 10 years
Cash and deposits	25,096	–	–	–
Notes receivable - trade	8,526	–	–	–
Accounts receivable - trade	26,186	–	–	–
Electronically recorded monetary claims - operating	24,300	–	–	–
Securities and investment securities				
Held-to-maturity bonds				
(1) Government bonds, local government bonds, etc.	–	–	–	–
(2) Bonds payable	–	–	–	–
Available-for-sale securities with a maturity				
(1) Bonds (foreign government and corporate bonds)	–	–	–	–
(2) Other	300	–	–	–
Total	84,410	–	–	–

2. Scheduled repayment amounts of short-term borrowings and long-term borrowings after the consolidated fiscal year-end date

Fiscal year ended March 31, 2023

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years
Short-term borrowings	801	–	–	–	–	–
Long-term borrowings	7,801	–	–	–	–	–
Total	8,602	–	–	–	–	–

Fiscal year ended March 31, 2024

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years
Short-term borrowings	5,711	–	–	–	–	–
Long-term borrowings	–	–	–	–	–	–
Total	5,711	–	–	–	–	–

3. Breakdown of financial instruments by level of fair value

The fair value of financial instruments is classified into the following three levels based on the observability and significance of the inputs used to measure fair value.

Level 1 fair value: Fair values measured using observable inputs that are market prices formed in active markets for the assets or liabilities for which fair value is to be measured

Level 2 fair value: Fair values measured using observable inputs other than those used to calculate Level 1 fair value

Level 3 fair value: Fair values measured using unobservable inputs

When multiple inputs that have a significant impact on the measurement of fair value are used, the fair value is categorized to the level with the lowest priority in the measurement of fair value among the levels to which each input belongs.

(1) Financial instruments carried on the consolidated balance sheet at fair value

Fiscal year ended March 31, 2023

(Millions of yen)

Title	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Shares	6,068	–	–	6,068
Other	–	300	–	300
Total assets	6,068	300	–	6,368
Derivative transactions				
Interest rates and currency	–	22	–	22
Total liabilities	–	22	–	22

Fiscal year ended March 31, 2024

(Millions of yen)

Title	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Shares	8,014	–	–	8,014
Other	–	300	–	300
Total assets	8,014	300	–	8,314
Derivative transactions				
Interest rates and currency	–	303	–	303
Total liabilities	–	303	–	303

(2) Financial instruments apart from those carried on the consolidated balance sheet at fair value

Fiscal year ended March 31, 2023

(Millions of yen)

Title	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term borrowings (including those repaid within one year)	–	7,795	–	7,795
Total liabilities	–	7,795	–	7,795

Fiscal year ended March 31, 2024

No items to report

Note: Explanation of the valuation techniques and inputs used to calculate fair value

Securities and investment securities

Shares are listed and valued using stock exchange prices. Because listed shares are traded in active markets, their fair value is classified as Level 1. All other items are negotiable certificates of deposit, which are settled within a short period of time and therefore have fair value approximately equal to the carrying amount. As these are not recognized as quoted prices in active markets, their fair value is classified as Level 2 fair value.

Derivative transactions

Fair value is calculated based on the prices presented by financial institutions, etc. and is classified as Level 2 fair value.

Long-term borrowings (including those repaid within one year)

Of other long-term borrowings with floating interest rates, these reflect market interest rates in a short period of time and the credit standing of the Company has not changed significantly since the loans were executed, the fair value is deemed nearly equal to the carrying amount. Therefore, the carrying amount is used for the fair value. Those with fixed interest rates are calculated based on the present value of the total principal and interest, discounted at the interest rate assumed for a similar new loan, and are classified as Level 2 fair value.

Securities

1. Available-for-sale securities

Fiscal year ended March 31, 2023

(Millions of yen)

	Category		Amount recorded on the consolidated balance sheet	Acquisition cost	Difference
Securities whose amount recorded on the consolidated balance sheets exceeds acquisition cost	(1)	Shares	3,635	1,004	2,631
	(2)	Bonds	–	–	–
	(3)	Other	–	–	–
	Subtotal		3,635	1,004	2,631
Securities whose amount recorded on the consolidated balance sheets does not exceed acquisition cost	(1)	Shares	2,432	3,071	(638)
	(2)	Bonds	–	–	–
	(3)	Other	300	300	–
	Subtotal		2,732	3,371	(638)
Total			6,368	4,376	1,992

Note: Unlisted stocks with no market value (amount recorded on consolidated balance sheet: 76 million yen) are not included in "Available-for-sale securities" in the table above.

Fiscal year ended March 31, 2024

(Millions of yen)

	Category		Amount recorded on the consolidated balance sheet	Acquisition cost	Difference
Securities whose amount recorded on the consolidated balance sheets exceeds acquisition cost	(1)	Shares	7,444	2,659	4,784
	(2)	Bonds	–	–	–
	(3)	Other	–	–	–
	Subtotal		7,444	2,659	4,784
Securities whose amount recorded on the consolidated balance sheets does not exceed acquisition cost	(1)	Shares	570	600	(30)
	(2)	Bonds	–	–	–
	(3)	Other	300	300	–
	Subtotal		870	900	(30)
Total			8,314	3,560	4,754

Note: Unlisted stocks with no market value (amount recorded on consolidated balance sheet: 76 million yen) are not included in "Available-for-sale securities" in the table above.

2. Available-for-sale securities sold

Fiscal year ended March 31, 2023

(Millions of yen)

Category		Sale price	Total gain on sale	Total loss on sale
(1)	Shares	301	52	42
(2)	Bonds	–	–	–
(3)	Other	1,885	–	106
Total		2,186	52	148

Fiscal year ended March 31, 2024

(Millions of yen)

Category		Sale price	Total gain on sale	Total loss on sale
(1)	Shares	981	227	59
(2)	Bonds	–	–	–
(3)	Other	–	–	–
Total		981	227	59

3. Securities for which impairment losses were recognized

For the fiscal year ended March 31, 2024, an impairment loss of 11 million yen on securities (11 million yen for stocks of available-for-sale securities) has been recognized.

Derivative transactions

Derivatives of which hedge accounting is applied

Interest rates and currency

Fiscal year ended March 31, 2023

(Millions of yen)

Hedge accounting method	Type of transaction	Major hedged items	Contract amount, etc.	Contract amount, etc. of over 1 year	Fair value
Principle method	Interest rate and currency swap transactions				
	Payment fixed	Interest on long-term loans receivable	2,450	2,450	(16)
	Payment fixed	Interest on short-term loans receivable	1,733	–	(5)
Total			4,183	2,450	(22)

Fiscal year ended March 31, 2024

(Millions of yen)

Hedge accounting method	Type of transaction	Major hedged items	Contract amount, etc.	Contract amount, etc. of over 1 year	Fair value
Principle method	Interest rate and currency swap transactions				
	Payment fixed	Interest on long-term loans receivable	2,450	2,450	(303)
	Payment fixed	Interest on short-term loans receivable	–	–	–
Total			2,450	2,450	(303)

Retirement benefits

1. Overview of retirement benefit plans adopted

The Company has both a lump-sum retirement benefit plan and a corporate pension plan as defined benefit plans, and as of April 1, 2016, a portion of the lump-sum retirement benefit plan was transferred to a defined contribution pension plan. Some other consolidated subsidiaries have a lump-sum retirement benefit plan or a corporate pension plan as defined benefit plans.

For lump-sum retirement benefit plans and corporate pension plans that certain consolidated subsidiaries have, retirement benefit liability and retirement benefit expenses are recorded by the simplified method.

Certain consolidated subsidiaries transferred a portion of their lump-sum retirement benefit plans to defined contribution pension plans as of October 1, 2022.

2. Defined benefit plans

(1) Changes in retirement benefit obligations (excluding plans to which the simplified method is applied)

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Balance of retirement benefit obligations at beginning of period	18,005	17,481
Service cost	598	587
Interest cost	231	318
Actuarial gains and losses accrued	(1,585)	(1,640)
Retirement benefits paid	(609)	(709)
Foreign currency translation adjustment	841	327
Balance of retirement benefit obligations at end of period	17,481	16,365

(2) Changes in plan assets (excluding plans to which the simplified method is applied)

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Balance of plan assets at beginning of period	10,021	9,641
Expected return on plan assets	495	444
Actuarial gains and losses accrued	(1,390)	871
Contribution from employer	352	377
Retirement benefits paid	(454)	(465)
Foreign currency translation adjustment	615	251
Balance of plan assets at end of period	9,641	11,122

(3) Changes in retirement benefit liability for plans using the simplified method

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Retirement benefit liability at beginning of period	686	684
Retirement benefit expenses	80	66
Retirement benefits paid	(61)	(41)
Decrease due to transfer to defined contribution pension plan	(21)	(5)
Retirement benefit liability at end of period	684	704

(4) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheet

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Retirement benefit obligations of funded plans	11,881	11,373
Plan assets	(9,641)	(11,122)
	2,240	251
Retirement benefit obligations of unfunded plans	6,285	5,695
Net amount of liabilities and assets recorded in the consolidated balance sheet	8,525	5,947
Retirement benefit liability	8,525	6,495
Retirement benefit assets	–	(548)
Net amount of liabilities and assets recorded in the consolidated balance sheet	8,525	5,947

Note: Includes plans to which the simplified method was applied.

(5) Amounts of retirement benefit expenses and their components

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Service cost	598	587
Interest cost	231	318
Expected return on plan assets	(495)	(444)
Amortization of actuarial gains and losses	339	333
Amortization of past service cost	(5)	16
Retirement benefit expenses calculated using the simplified method	80	66
Retirement benefit expenses for defined benefit plans	748	878

(6) Remeasurements of defined benefit plans, net of tax

The components of remeasurements of defined benefit plans, net of tax (before deduction of tax effects) are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Past service cost	(5)	16
Actuarial gains and losses	457	2,839
Total	451	2,855

(7) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Unrecognized past service cost	48	32
Unrecognized actuarial gains and losses	952	(1,887)
Total	1,001	(1,854)

(8) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows:

(%)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Shares	43	48
Bonds	25	26
General account	12	10
Other	20	16
Total	100	100

(ii) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(9) Actuarial assumptions

Major actuarial assumptions

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Discount rate	0.5 to 5.2%	1.4 to 5.0%
Long-term expected rate of return	3.0 to 7.0%	3.0 to 7.0%
Expected rate of salary increase	1.4 to 10.0%	1.6 to 10.2%

3. Other matters regarding retirement benefits

The amount of assets transferred from the lump-sum retirement benefit plan to the defined contribution pension plan is 21 million yen, which will be transferred over four years. The untransferred amount of 15 million yen as of the end of the fiscal year ended March 31, 2023 and the untransferred amount of 10 million yen as of the end of the fiscal year ended March 31, 2024 are included in “accounts payable - other” (“Other” in current liabilities) and “long-term accounts payable - other” (“Other” in non-current liabilities).

4. Defined contribution plans

Required contributions to the defined contribution plan by the Company and its consolidated subsidiaries were 247 million yen in the fiscal year ended March 31, 2023 and 296 million yen in the fiscal year ended March 31, 2024.

Share options, etc.

1. Amount of expenses related to share options and account name

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Selling, general and administrative expenses	50	58

2. Amount recorded as profit due to lapse from non-exercise of rights

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Gain on reversal of share acquisition rights	1	–

3. Details, volume, and changes of share options

   (1) Details of share options

	June 18, 2015 Resolution of Board of Directors Share options	June 23, 2016 Resolution of Board of Directors Share options
Category and number of grantees	Directors of the Company (excluding Audit and Supervisory Committee Members) 6 Directors	Directors of the Company (excluding Audit and Supervisory Committee Members) 5 Directors Executive Officers of the Company 2 Executive Officers
Number of share options by type of share (Note)	Common shares 29,600 shares	Common shares 26,700 shares
Date of grant	July 13, 2015	July 11, 2016
Vesting conditions	Vesting conditions are listed in “IV. Status of the Reporting Company - 1. Shares, etc. - (2) Share acquisition rights, etc.”	Vesting conditions are listed in “IV. Status of the Reporting Company - 1. Shares, etc. - (2) Share acquisition rights, etc.”
Applicable work period	Not determined.	Not determined.
Exercise period	From July 13, 2015 to July 12, 2045	From July 11, 2016 to July 10, 2046

Note: Figures shown are after conversion into number of shares.

(2) Volume and changes of share options

Share options that existed during the fiscal year ended March 31, 2024 are included, and number of stock options has been converted into number of shares.

(i) Number of share options

	June 18, 2015 Resolution of Board of Directors Share options	June 23, 2016 Resolution of Board of Directors Share options
Before vesting (shares)		
Fiscal year ended March 31, 2023	–	–
Granted	–	–
Lapsed	–	–
Vested	–	–
Not yet vested	–	–
After vesting (shares)		
Fiscal year ended March 31, 2023	17,300	21,700
Vested	–	–
Exercised	2,800	5,000
Lapsed	–	–
Unexercised balance	14,500	16,700

(ii) Unit price information

	June 18, 2015 Resolution of Board of Directors Share options	June 23, 2016 Resolution of Board of Directors Share options
Exercise price (Yen)	1	1
Average share price upon exercise (Yen)	2,374	2,374
Fair value on date of grant (Yen)	1,779	1,802

4. Method for estimating the number of stock options vested

As it is difficult, in principle, to reasonably estimate the number of share options that will be forfeited in the future, the number here reflects only share options that have actually been forfeited.

Tax effect accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Deferred tax assets		
Allowance for doubtful accounts	107	60
Accrued enterprise tax	324	199
Provision for bonuses	869	951
Provision for product warranties	121	48
Retirement benefit liability	2,554	2,377
Depreciation excess	559	555
Investment securities	527	477
Tax loss carryforwards (Note 2)	2,555	2,663
Other	2,312	2,505
Subtotal of deferred tax assets	9,932	9,841
Valuation allowance for tax loss carryforwards (Note 2)	(2,549)	(2,652)
Valuation allowance for future deductible temporary differences, etc.	(601)	(812)
Valuation allowance subtotal (Note 1)	(3,150)	(3,464)
Total of deferred tax assets	6,781	6,376
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(736)	(1,462)
Intangible assets	(126)	(116)
Other	(959)	(1,076)
Total of deferred tax liabilities	(1,822)	(2,654)
Net deferred tax assets	4,959	3,722

Notes: 1. The main change in valuation allowance was an increase in the valuation allowance related to tax loss carryforwards.
2. Tax loss carryforwards and their deferred tax asset by carryforwards expiration date

Fiscal year ended March 31, 2023

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	18	17	44	12	5	2,456	2,555
Valuation allowance	(18)	(17)	(44)	(12)	(5)	(2,450)	(2,549)
Deferred tax assets	–	–	–	–	–	5	(*2) 5

(*1) Tax loss carryforwards are calculated by multiplying the statutory effective tax rate.

(*2) Deferred tax assets of 5 million yen were recorded for tax loss carryforwards of 2,555 million yen (amount multiplied by the statutory effective tax rate). With regard to tax loss carryforwards, no valuation allowance has been recognized for the portion deemed recoverable based on the expectation of future taxable income and the expected reversal of future taxable temporary differences.

Fiscal year ended March 31, 2024

(Millions of yen)

	Within 1 year	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years	Over 5 years	Total
Tax loss carryforwards (*3)	35	19	14	48	21	2,524	2,663
Valuation allowance	(35)	(19)	(14)	(48)	(21)	(2,513)	(2,652)
Deferred tax assets	–	–	–	–	–	11	(*4) 11

(*3) Tax loss carryforwards are calculated by multiplying the statutory effective tax rate.

(*4) Deferred tax assets of 11 million yen were recorded for tax loss carryforwards of 2,663 million yen (amount multiplied by the statutory effective tax rate). With regard to tax loss carryforwards, no valuation allowance has been recognized for the portion deemed recoverable based on the expectation of future taxable income and the expected reversal of future taxable temporary differences.

2. When there is a significant difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting, the main components of this difference

(%)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Statutory effective tax rate	Notes have been omitted because the difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting is 5% or less of the statutory tax rate.	30.60
(Adjustments)		
Entertainment and other expenses that are never tax deductible		0.33
Income not taxable permanently, such as dividend income		(1.01)
Proportional resident tax		0.48
Tax credits		(2.48)
Reduction of deferred tax assets at the end of the fiscal year due to changes in tax rates		0.09
Differences in tax rates of foreign subsidiaries		(0.13)
Amortization of goodwill		0.26
Other		0.82
Effective income tax rate after application of tax-effect accounting		28.96

Asset retirement obligations

Asset retirement obligations carried on the consolidated balance sheet

Fiscal year ended March 31, 2023

The information on total amount of asset retirement obligations is omitted as it is immaterial.

Fiscal year ended March 31, 2024

1. Overview of asset retirement obligations

   Obligations to restore properties to their original condition based on real estate lease contracts for branch offices, logistics centers, showrooms, etc.

2. Calculation method for amount of asset retirement obligations

   The expected period of use is the estimated useful life of major non-current assets, etc., with the amount of asset retirement obligations calculated using a discount rate of 0.00% to 2.14%.

3. Changes in total amount of asset retirement obligations

(Millions of yen)

	Fiscal year ended March 31, 2024
Balance at beginning of period	1,153
Increase due to acquisition of tangible fixed assets	367
Increase due to change in estimates	218
Adjustments due to passage of time	9
Other increases (decreases)	36
Balance at end of period	1,784

4. Changes in estimated amount of asset retirement obligations

During the fiscal year ended March 31, 2024, the Company changed its estimate of asset retirement obligations that were recorded as restoration obligations in connection with real estate lease contracts, due to the availability of new information on the restoration costs required upon tenants vacating the premises.

An increase of 218 million yen due to this change in estimates has been added to the pre-change balance of asset retirement obligations.

Since the change in estimate was made at the end of the fiscal year ended March 31, 2024, there is no effect on profit and loss for this fiscal year.

Rental and other investment property

The Group owns warehouses and other facilities for lease (including land) in Hyogo Prefecture and other areas. Rental income from these leased properties in the fiscal year ended March 31, 2023 was 298 million yen (rental income was recorded under non-operating income, and rental expenses were recorded under non-operating expenses), and impairment losses were 303 million yen (recorded under extraordinary losses). Rental income from these leased properties in the fiscal year ended March 31, 2024 was 310 million yen (rental income was recorded under non-operating income, and rental expenses were recorded under non-operating expenses).

Carrying amounts in the consolidated balance sheet, increase or decrease and fair values of the rental and other investment property during the period are as follows:

(Millions of yen)

		Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Amount recorded on the consolidated balance sheet			
	Balance at beginning of period	5,443	5,118
	Increase (decrease) during period	(325)	(80)
	Balance at end of period	5,118	5,037
Fair value at end of period		6,445	6,445

Notes:
1. The consolidated balance sheet amount is the acquisition cost less accumulated depreciation and impairment.
2. Regarding the amount of increase or decrease during the period, the main increase in the fiscal year ended March 31, 2023 was the transfer from business assets to rental properties (430 million yen), and the main decreases were impairment losses (303 million yen) and the sale of a subsidiary that owned rental properties (361 million yen). The decrease in the fiscal year ended March 31, 2024 was due to depreciation of rental assets (80 million yen).
3. The fair value on the consolidated closing date represents the amount based on real estate appraisal by external real estate appraisers for major properties, and for other properties, it is based on an adjusted amount using a certain appraisal amount or an index considered to appropriately reflect the market price.

Revenue recognition

1. Breakdown of revenue from contracts with customers

Fiscal year ended March 31, 2023

(Millions of yen)

	Reportable segment			Total
	Domestic Interior	Domestic Exterior	Overseas	
Goods transferred at a point in time	140,084	6,292	20,641	167,018
Goods transferred over a period of time	7,861	–	1,141	9,003
Revenue from contracts with customers	147,946	6,292	21,783	176,022
Other revenue	–	–	–	–
Sales to external customers	147,946	6,292	21,783	176,022

Fiscal year ended March 31, 2024

(Millions of yen)

	Reportable segment			Total
	Domestic Interior	Domestic Exterior	Overseas	
Goods transferred at a point in time	150,163	6,415	22,703	179,282
Goods transferred over a period of time	8,987	–	1,589	10,576
Revenue from contracts with customers	159,151	6,415	24,292	189,859
Other revenue	–	–	–	–
Sales to external customers	159,151	6,415	24,292	189,859

2. Changes in reportable segments, etc.

Classification of reportable segments has changed from the current consolidated fiscal year. For details, please refer to "Notes to consolidated financial statements - Segment information, etc. - Segment information - 2. Changes in reportable segments, etc."

Breakdown of revenue from contracts with customers for the fiscal year ended March 31, 2023 has been prepared and disclosed based on the revised classification of reportable segments.

3. Information that provides a basis for understanding revenue from contracts with customers

This is as described in "Notes to consolidated financial statements - Significant matters forming the basis for preparation of consolidated financial statements - 4. Accounting policies - (5) Basis for recognizing significant revenue and expenses."

4. Information on the relationship between the satisfaction of performance obligations based on contracts with customers and cash flow arising from these contracts, and information on the amount and timing of revenue expected to be recognized in future fiscal years from contracts existing at the end of the fiscal year ended March 31, 2024

(1) Balance of contract assets and contract liabilities

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Receivables from contracts with customers (balance at beginning of period)	49,883	55,996
Receivables from contracts with customers (balance at end of period)	55,996	59,013
Contract assets (balance at beginning of period)	293	214
Contract assets (balance at end of period)	214	235
Contract liabilities (balance at beginning of period)	1,240	1,026
Contract liabilities (balance at end of period)	1,026	1,208

Notes: 1. Contract liabilities primarily consist of advances received from customers. Contract liabilities are reversed as revenue is recognized.

2. The amount of revenue recognized during the fiscal year ended March 31, 2024 included in the balance of contract liabilities as of the beginning of the period was 1,026 million yen.

(2) Transaction prices allocated to remaining performance obligations

In noting the transaction prices allocated to remaining performance obligations, the Company and its consolidated subsidiaries apply an expedient practical method and do not include contracts with an initially expected contract term of one year or less. The total amount of transaction price allocated to remaining performance obligations, and the expected timing of revenue recognition, are as follows.

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Within 1 year	665	408
After 1 year within 2 years	53	2
Over 2 years	–	–
Total	718	411

Segment information, etc.

Segment information

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available. These are subject to periodic review by the Board of Directors for the purpose of determining the allocation of management resources and evaluating performance.
The merchandise and services handled by each of the Group's operating companies differ. The Domestic Interior Segment is handled by the Company itself, as well as Fairtone Co., Ltd., Sangetsu Vosne Corporation, Sangetsu Okinawa Corporation, CREANATE Inc., and Kurosukikaku Corporation, while the Domestic Exterior Segment is handled by Sungreen Co., Ltd. and the Overseas Segment is handled by Koroseal Interior Products Holdings, Inc., Goodrich Global Holdings Pte., Ltd., and Goodrich Global Limited. Across the Group, each company shares necessary information and cooperates on sales while formulating individual strategies and conducting business activities. The Company's Board of Directors makes decisions and evaluates business performance based on the reports of business results and financial information received from each operating company.
The Domestic Interior Segment is engaged in planning, manufacturing, and sales of wallcoverings, flooring materials, fabrics (curtains and upholstery), and other interior design materials, as well as business activities involved in overall space creation, from design to construction. The Domestic Exterior Segment sells and installs exterior merchandise such as gates, fences, and terraces, while the Overseas Segment manufactures and sells interior design materials overseas.

2. Changes in reportable segments, etc.

Effective from the fiscal year ended March 31, 2024, the Company has changed its reportable segments from the previous four segments of "Interior," "Exterior," "Overseas" and "Space Creation" to the three segments of "Domestic Interior," "Domestic Exterior" and "Overseas."
In order to achieve the "Space Creation Company" we are aiming to become in our long-term vision [DESIGN 2030], the previous categories of "Interior" and "Space Creation" have been rolled into "Domestic Interior." Additionally, the Company's Global Business Unit (formerly Overseas Business Division), which had been included in the "Interior" segment up to the fiscal year ended March 31, 2023, was transferred to the "Overseas" segment, and the "Exterior" segment was renamed "Domestic Exterior."
Also, segment information for the fiscal year ended March 31, 2023 has been disclosed based on the reporting segment reclassification following this change.

3. Method for calculating amounts of net sales, profit or loss, assets, liabilities, and other items by reportable segment

The accounting method for the operating segments that are reportable is largely the same as described in "Significant matters forming the basis for preparation of consolidated financial statements."
Profits of the reportable segments are figures based on operating profit.
Intersegment revenue or transfers are based on actual market price.

4. Information on amounts of net sales, profit or loss, assets, liabilities, and other items by reportable segment
Fiscal year ended March 31, 2023

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Total	Adjusted amount (Note 1)	Amount recorded on consolidated financial statements (Note 2)
Net sales						
Sales to external customers	147,946	6,292	21,783	176,022	–	176,022
Intersegment net sales or transfers	16	1	–	17	(17)	–
Total	147,962	6,293	21,783	176,039	(17)	176,022
Ordinary profit (loss) for segment	21,102	450	(1,273)	20,278	1	20,280
Segment assets	159,521	8,188	16,391	184,100	(19,646)	164,454
Other items						
Depreciation	2,892	46	643	3,581	(2)	3,579
Amortization of goodwill	161	–	5	167	–	167
Impairment losses	303	–	–	303	–	303
Increase in property, plant and equipment and intangible assets	3,138	36	69	3,245	(2)	3,242

Notes:
1. All adjustments of segment profits (losses), segment assets, and other items are performed by eliminating transactions among segments.
2. Segment profit (loss) is adjusted to operating profit in the consolidated statement of income.
3. Depreciation and increases in property, plant and equipment and intangible assets include long-term prepaid expenses and depreciation related to these expenses.

Fiscal year ended March 31, 2024

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Total	Adjusted amount (Note 1)	Amount recorded on consolidated financial statements (Note 2)
Net sales						
Sales to external customers	159,151	6,415	24,292	189,859	–	189,859
Intersegment net sales or transfers	5	47	–	53	(53)	–
Total	159,157	6,462	24,292	189,912	(53)	189,859
Ordinary profit (loss) for segment	19,489	(77)	(311)	19,100	2	19,103
Segment assets	165,528	8,005	16,753	190,286	(19,536)	170,750
Other items						
Depreciation	2,595	37	606	3,239	(2)	3,236
Amortization of goodwill	162	–	6	169	–	169
Impairment losses	165	0	–	166	–	166
Increase in property, plant and equipment and intangible assets	4,759	127	242	5,129	(67)	5,061

Notes:
1. All adjustments of segment profits (losses), segment assets, and other items are performed by eliminating transactions among segments.
2. Segment profit (loss) is adjusted to operating profit in the consolidated statement of income.
3. Depreciation and increases in property, plant and equipment and intangible assets include long-term prepaid expenses and depreciation related to these expenses.

Related information

Fiscal year ended March 31, 2023

1. Information about products and services

   The information is omitted because the same information is disclosed in "Segment information."

2. Information about geographical areas

   (1) Net sales (Millions of yen)

Japan	North America	Singapore	China	Other	Total
154,246	16,562	1,762	514	2,937	176,022

Note: Net sales is classified by country or region based on customers' locations.

   (2) Property, plant and equipment (Millions of yen)

Japan	North America	Other	Total
32,479	3,855	490	36,825

3. Information about main customers

   Of sales to external customers, there are no sales to major customers that account for 10% or more of net sales in the consolidated statement of income.

Fiscal year ended March 31, 2024

1. Information about products and services

   The information is omitted because the same information is disclosed in "Segment information."

2. Information about geographical areas

   (1) Net sales (Millions of yen)

Japan	North America	Singapore	China	Other	Total
165,590	18,700	2,108	607	2,852	189,859

Note: Net sales is classified by country or region based on customers' locations.

   (2) Property, plant and equipment (Millions of yen)

Japan	North America	Other	Total
35,583	3,869	455	39,909

3. Information about main customers

   Of sales to external customers, there are no sales to major customers that account for 10% or more of net sales in the consolidated statement of income.

Information about impairment losses of non-current assets by reportable segment

Fiscal year ended March 31, 2023

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Impairment losses	303	–	–	–	303

Fiscal year ended March 31, 2024

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Impairment losses	165	0	–	–	166

Information about amortization and unamortized balance of goodwill by reportable segment

Fiscal year ended March 31, 2023

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Amortization in the fiscal year	161	–	5	–	167
Balance as of March 31, 2023	1,309	–	30	–	1,340

Fiscal year ended March 31, 2024

(Millions of yen)

	Domestic Interior	Domestic Exterior	Overseas	Company-wide, elimination	Total
Amortization in the fiscal year	162	–	6	–	169
Balance as of March 31, 2024	1,146	–	26	–	1,173

Information about gain on bargain purchase by reportable segment

No items to report

Related party information

Fiscal year ended March 31, 2023

The information is omitted as it is immaterial.

Fiscal year ended March 31, 2024

The information is omitted as it is immaterial.

Per share information

(Yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Net assets per share	1,631.57	1,816.16
Earnings per share	238.71	243.44
Diluted earnings per share	238.55	243.30

Notes: 1. The bases for calculating net assets per share are as follows:

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Total of net assets (millions of yen)	95,825	106,709
Amount to be deducted from total amount of net assets (millions of yen)	83	70
(of which share acquisition rights (millions of yen))	(69)	(55)
(of which non-controlling interests (millions of yen))	(13)	(14)
End of period net assets related to common shares (Millions of yen)	95,741	106,638
Number of common shares used to calculate net assets per share at the end of the fiscal year (thousands of shares)	58,680	58,716

2. The bases for calculating net income per share and diluted net income per share are as follows:

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Earnings per share		
Profit attributable to owners of parent (Millions of yen)	14,005	14,291
Amount not attributable to common shareholders (Millions of yen)	–	–
Profit attributable to owners of parent pertaining to common shares (Millions of yen)	14,005	14,291
Average number of common shares during the period (Thousands of shares)	58,671	58,706
Diluted earnings per share		
Adjusted amount of profit attributable to owners of parent (Millions of yen)	–	–
Increase in common shares (Thousands of shares)	38	33
(of which share acquisition rights (thousands of shares))	(38)	(33)

Significant subsequent events

No items to report

(v) Annexed consolidated detailed schedules

Consolidated detailed schedule of corporate bonds

No items to report

Consolidated detailed schedule of borrowings

Title	Balance at beginning of period (Millions of yen)	Balance at end of period (Millions of yen)	Average interest rate (%)	Payment due
Short-term borrowings	801	5,711	1.4	–
Current portion of long-term borrowings	7,801	–	–	–
Current portion of lease obligations	439	522	–	–
Long-term borrowings (excluding current portion)	–	–	–	–
Lease obligations (excluding current portion)	1,413	1,251	–	2025–2032
Other interest-bearing liabilities	–	–	–	–
Total	10,455	7,484	–	–

Notes:
1. "Average interest rate" of borrowings represents the weighted average interest rate with respect to the ending balance.
2. The average interest rate on lease obligations is not stated because lease obligations are recorded on the consolidated balance sheets at the amount before deducting the amount equivalent to interest included in the total lease payments.
3. The repayment schedule of long-term borrowings and lease obligations (excluding current portion) within five years after the consolidated fiscal year-end date is as follows:

(Millions of yen)

	After 1 year within 2 years	After 2 years within 3 years	After 3 years within 4 years	After 4 years within 5 years
Long-term borrowings	–	–	–	–
Lease obligations	345	292	208	189

Consolidated detailed schedule of asset retirement obligations

The schedule of asset retirement obligations is omitted because the items to be presented in this schedule are presented as notes stipulated in Article 15-23 of the Regulations on Consolidated Financial Statements.

(2) Other

Quarterly information for the fiscal year ended March 31, 2024

Cumulative period	First quarter	Second quarter	Third quarter	Fiscal year ended March 31, 2024
Net sales (Millions of yen)	45,249	90,612	140,006	189,859
Profit before income taxes (Millions of yen)	5,627	10,495	15,831	20,116
Profit attributable to owners of parent (Millions of yen)	3,798	7,121	10,887	14,291
Earnings per share (Yen)	64.72	121.33	185.46	243.44

Accounting period	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (Yen)	64.72	56.61	64.13	57.98

2. Non-consolidated Financial Statements and Other Information

(1) Non-consolidated Financial Statements

(i) Non-consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	16,630	16,346
Notes receivable - trade	8,863	*2 7,714
Electronically recorded monetary claims - operating	*1 19,257	*1, *2 23,906
Accounts receivable - trade	*1 20,128	*1 19,753
Contract assets	68	81
Securities	300	300
Merchandise and finished goods	14,707	14,958
Work in process	6	20
Raw materials and supplies	1,346	2,102
Short-term loans receivable from subsidiaries and associates	6,545	4,600
Other	*1 2,682	*1 935
Allowance for doubtful accounts	(134)	(100)
Total current assets	90,402	90,617
Non-current assets		
Property, plant and equipment		
Buildings	8,197	8,802
Structures	146	129
Machinery and equipment	2,385	2,241
Vehicles	113	135
Tools, furniture and fixtures	606	753
Land	13,613	13,447
Leased assets	3	2
Construction in progress	48	31
Total property, plant and equipment	25,113	25,544
Intangible assets		
Software	1,276	1,103
Other	71	70
Total intangible assets	1,347	1,174
Investments and other assets		
Investment securities	5,916	7,775
Shares of subsidiaries and associates	12,523	12,941
Long-term loans receivable from subsidiaries and associates	6,195	8,336
Investment property	4,968	4,888
Deferred tax assets	4,066	3,567
Insurance funds	641	299
Guarantee deposits	1,688	1,674
Other	439	354
Allowance for doubtful accounts	(1,223)	(11)
Total investments and other assets	35,217	39,825
Total non-current assets	61,678	66,544
Total assets	152,081	157,162

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Electronically recorded obligations - operating	*1 14,178	*1 15,084
Accounts payable - trade	*1 11,304	*1 11,437
Contract liabilities	59	53
Short-term borrowings	801	5,711
Short-term borrowings from subsidiaries and associates	–	1,348
Current portion of long-term borrowings	7,801	–
Lease liabilities	0	0
Accounts payable - other	*1 2,426	*1 3,396
Income taxes payable	5,326	2,148
Provision for bonuses	2,546	2,743
Provision for bonuses for directors (and other officers)	267	134
Provision for product warranties	155	140
Other	2,777	1,631
Total current liabilities	47,644	43,829
Non-current liabilities		
Lease liabilities	2	1
Provision for retirement benefits	5,832	6,054
Asset retirement obligations	1,104	1,699
Currency swap	16	303
Long-term deposits received	645	665
Total non-current liabilities	7,601	8,725
Total liabilities	55,245	52,554
Net assets		
Shareholders' equity		
Share capital	13,616	13,616
Capital surplus		
Legal capital surplus	20,005	20,005
Other capital surplus	–	24
Total capital surplus	20,005	20,030
Retained earnings		
Legal retained earnings	3,404	3,404
Other retained earnings	59,389	65,094
General reserve	45,000	45,000
Retained earnings brought forward	14,389	20,094
Total retained earnings	62,793	68,498
Treasury shares	(849)	(791)
Total shareholders' equity	95,566	101,353
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,238	3,218
Deferred gains or losses on hedges	(39)	(20)
Total valuation and translation adjustments	1,199	3,197
Share acquisition rights	69	55
Total net assets	96,835	104,607
Total liabilities and net assets	152,081	157,162

(ii) Non-consolidated Statement of Income

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Net sales	*1 140,052	*1 150,528
Cost of sales	*1 97,812	*1 108,639
Gross profit	42,239	41,889
Selling, general and administrative expenses		
Sample books expenses	2,995	3,103
Provision of allowance for doubtful accounts	(1)	(46)
Salaries and allowances	6,528	6,917
Provision for bonuses	2,546	2,743
Provision for bonuses for directors (and other officers)	267	134
Retirement benefit expenses	661	698
Provision for product warranties	(10)	1
Rent expenses	1,209	1,243
Depreciation	1,395	1,188
Other	6,922	8,508
Total selling, general and administrative expenses	22,513	24,490
Operating profit	19,726	17,399
Non-operating income		
Interest and dividend income	*1 792	*1 802
Rental income from real estate	428	427
Other	*1 80	90
Total non-operating income	1,300	1,320
Non-operating expenses		
Interest expenses	157	*1 241
Foreign exchange losses	42	70
Rental expenses on real estate	128	119
Other	8	5
Total non-operating expenses	337	436
Ordinary profit	20,690	18,283
Extraordinary income		
Gain on sale of non-current assets	*2 0	*2 0
Gain on sale of investment securities	52	227
Reversal of allowance for doubtful accounts	561	–
Gain on liquidation of subsidiaries and associates	–	*1, *4 199
Gain on reversal of share acquisition rights	1	–
Total extraordinary income	616	428
Extraordinary losses		
Loss on retirement of non-current assets	*3 6	*3 14
Loss on sale of investment securities	148	59
Loss on valuation of investment securities	–	11
Impairment losses	303	165
Total extraordinary losses	458	252
Profit before income taxes	20,848	18,458
Income taxes - current	6,785	5,337
Income taxes - deferred	(691)	(213)
Total income taxes	6,093	5,123
Profit	14,754	13,335

(iii) Non-consolidated Statements of Changes in Equity
Fiscal year ended March 31, 2023

(Millions of yen)

	Shareholders' equity									
	Share capital	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						General reserve	Retained earnings brought forward			
Balance at beginning of period	13,616	20,005	–	20,005	3,404	50,000	(961)	52,442	(907)	85,157
Changes during period										
Dividends of surplus				–			(4,399)	(4,399)		(4,399)
Reversal of general reserve				–		(5,000)	5,000	–		–
Profit				–			14,754	14,754		14,754
Purchase of treasury shares				–				–	(0)	(0)
Disposal of treasury shares				–			(3)	(3)	57	54
Exercise of share acquisition rights				–				–		–
Net changes in items other than shareholders' equity										
Total changes during period	–	–	–	–	–	(5,000)	15,351	10,351	57	10,409
Balance at end of period	13,616	20,005	–	20,005	3,404	45,000	14,389	62,793	(849)	95,566

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of period	1,234	6	1,240	71	86,470
Changes during period					
Dividends of surplus					(4,399)
Reversal of general reserve					–
Profit					14,754
Purchase of treasury shares					(0)
Disposal of treasury shares					54
Exercise of share acquisition rights					–
Net changes in items other than shareholders' equity	3	(45)	(41)	(1)	(43)
Total changes during period	3	(45)	(41)	(1)	10,365
Balance at end of period	1,238	(39)	1,199	69	96,835

Fiscal year ended March 31, 2024

(Millions of yen)

	Shareholders' equity									
	Share capital	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						General reserve	Retained earnings brought forward			
Balance at beginning of period	13,616	20,005	–	20,005	3,404	45,000	14,389	62,793	(849)	95,566
Changes during period										
Dividends of surplus				–			(7,630)	(7,630)		(7,630)
Reversal of general reserve				–				–		–
Profit				–			13,335	13,335		13,335
Purchase of treasury shares				–				–	(1)	(1)
Disposal of treasury shares			23	23				–	46	70
Exercise of share acquisition rights			1	1				–	12	13
Net changes in items other than shareholders' equity										
Total changes during period	–	–	24	24	–	–	5,704	5,704	58	5,787
Balance at end of period	13,616	20,005	24	20,030	3,404	45,000	20,094	68,498	(791)	101,353

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of period	1,238	(39)	1,199	69	96,835
Changes during period					
Dividends of surplus					(7,630)
Reversal of general reserve					–
Profit					13,335
Purchase of treasury shares					(1)
Disposal of treasury shares					70
Exercise of share acquisition rights					13
Net changes in items other than shareholders' equity	1,979	19	1,998	(13)	1,984
Total changes during period	1,979	19	1,998	(13)	7,772
Balance at end of period	3,218	(20)	3,197	55	104,607

Notes to non-consolidated financial statements

Significant accounting policies

1. Standards and methods for valuation of securities

   Shares of subsidiaries and affiliates are stated at cost determined by the moving average method.

   Available-for-sale securities

   Items other than stocks, etc., which do not have a market price, are stated at fair value (valuation differences are directly recorded in shareholders' equity, and the cost of securities sold is computed based on the moving average method).

   Shares with no market price are stated at cost determined by the moving average method.

2. Standards and methods for valuation of derivatives

   Mainly stated at fair value

3. Standards and methods for valuation of inventory

   Mainly stated at cost using the moving average method (carrying amounts on the balance sheet are subject to the book value reduction method based on decreased profitability)

4. Depreciation or amortization method for non-current assets

   (1) Property, plant and equipment (excluding leased assets)

   The declining balance method is applied.

   Major useful lives are as follows.

Buildings	15–50 years
Machinery and equipment	12–17 years

   (2) Intangible assets (excluding leased assets)

   The straight-line method is applied.

   Software for internal use is amortized over its estimated useful life (5 years).

   (3) Leased assets

   Leased assets related to finance lease transactions that transfer ownership

   The same depreciation method applied to non-current assets owned by the Company is applied.

   Leased assets related to finance lease transactions that do not transfer ownership

   Depreciation is calculated using the straight-line method, with the lease period being the useful life and the residual value being zero.

5. Accounting policy for translation of foreign currency assets or liabilities into Japanese yen

   Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the closing date, and translation differences are accounted for as profit or loss.

6. Hedge accounting method

   a. Hedge accounting method

   Deferral hedge accounting is applied.

   b. Hedging instruments and hedged items

   Hedging instruments: Interest rate and currency swap transactions

   Hedged items: Loans

   c. Hedging policy

   In accordance with the Company's internal "Management Policy for Foreign Exchange Fluctuation, Stock Price Fluctuation, and Interest Rate Fluctuation Risks," the Company hedges foreign exchange fluctuation risks and interest rate fluctuation risks.

   d. Method of evaluating the effectiveness of hedges

   The Company compares market fluctuations of hedged items with those of hedging instruments, and evaluates the effectiveness of hedging activities based on the ratio of such fluctuations.

7. Standards for recording provisions and allowances

   (1) Allowance for doubtful accounts

   To prepare for credit losses on receivables, loans, etc., an estimated uncollectable amount is provided at the amount estimated by using the historical rate of credit loss for general receivables, and based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

   (2) Provision for product warranties

   For certain products, goods, etc. found to be defective, etc. after sale, the Company records the estimated amount that may be claimed against the Company for claims, etc. arising from such defects.

   (3) Provision for bonuses

   To provide for payment of bonuses to employees, of the estimated amount of bonuses to be paid, the amount estimated to cover the bonus payment for services rendered by employees during the fiscal year under review is provided.

(4) Provision for bonuses for directors (and other officers)

To provide for the payment of bonuses to directors, an amount accrued for the fiscal year under review is recorded based on the calculation method determined by the Company.

(5) Provision for retirement benefits

To prepare for retirement benefits for employees, a provision is recorded based on the estimated amounts of retirement benefit obligation and plan assets at the end of the fiscal year under review.

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year under review on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain number of years (10 years) within the average remaining service years of employees when incurred.

Actuarial gains and losses are amortized using the straight-line method over a certain period within the average remaining service years (10 years) of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss.

8. Basis for recognizing revenue and expenses

The principal performance obligations of the Company related to revenue from contracts with customers and the usual times at which such performance obligations are satisfied (the usual times at which revenue is recognized) are as follows.

(1) Sale of merchandise

The Company is mainly engaged in the sale of wallcoverings, flooring materials, fabrics, and other interior materials. At the point in time that control of this merchandise is transferred to the customer, revenue is recognized at the amount expected to be received in exchange for the merchandise. However, for domestic sales of merchandise, if a normal period of time will elapse between the shipment of the merchandise and the transfer of control to the customer, the Company applies the alternative treatment prescribed in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, and recognizes revenue at the time of shipment. With respect to the sale of certain interior merchandise, the Company does not carry inventory and has determined that it is acting as an agent in transactions because its performance obligation is to arrange for the merchandise to be provided by other parties. For transactions deemed to qualify as agent transactions, the Company recognizes as revenue the net amount received in exchange for merchandise provided by another party, less the amount paid to such other party. The transaction price is calculated based on the price agreed with the customer minus sales commission, etc. Consideration for transactions is received within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

(2) Installation contracts

The Company may enter into installation contracts with customers for the installation of interior materials and similar work. For such contracts, the Company recognizes revenue based on the degree of progress made in satisfying the performance obligation over a specified period of time. Progress is measured by comparing the cost of installation work incurred at the end of the period to the estimated cost of installation work to complete the project. However, for certain transactions with very short installation periods, such revenue is recognized when the performance obligation is fully satisfied. The promised consideration is paid within approximately 6 months from the satisfaction of the performance obligation and does not include a significant financial component.

9. Significant matters forming the basis for preparation of other financial statements

Accounting processing for retirement benefits

The method of accounting for unrecognized actuarial gains and losses and unrecognized past service cost related to retirement benefits differs from the method of accounting for these items in the consolidated financial statements.

Non-consolidated balance sheets

*1 Monetary claims and obligations with subsidiaries and associates (excluding those indicated elsewhere)

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Short-term monetary claims	1,338	1,408
Short-term monetary obligations	4,405	4,525

*2 Notes maturing at the end of the period, etc.

Regarding accounting processing of notes maturing at the end of the period, settlement is made either on the clearance date or settlement date. As the final day of fiscal year under review was a bank holiday, the following notes maturing on the final day of the period were included in the balance at the end of the period.

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Notes receivable - trade	–	536
Electronically recorded monetary claims - operating	–	1,792

3 Contingent liabilities

(repair work)

The Company conducts repair work for defects that have occurred in some of its merchandise. Although some repair work is performed on behalf of manufacturers, many uncertainties exist in regard to the proportion of repair work carried out, making it difficult to reasonably estimate the total amount to be paid by the Company for repair work.

Non-consolidated statements of income

*1 Transactions with subsidiaries and associates

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Amount of operating transactions		
Net sales	3,199	3,536
Purchase amount	10,079	11,993
Transactions from non-operating transactions	607	800

*2 Breakdown of gain on sales of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Vehicles	0	0
Tools, furniture and fixtures	–	0
Total	0	0

*3 Breakdown of loss on retirement of non-current assets

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Buildings	3	2
Structures	0	–
Machinery and equipment	0	2
Vehicles	0	0
Tools, furniture and fixtures	1	8
Rights fees	0	1
Other	–	0
Total	6	14

*4 Gain on liquidation of subsidiaries and associates

Fiscal year ended March 31, 2023

No items to report

Fiscal year ended March 31, 2024

This follows the completion of the liquidation of our consolidated subsidiary, Sangetsu Goodrich China Co., Ltd.

Securities

Subsidiary and affiliate company shares

Amount of shares, etc. without market prices recorded on the non-consolidated balance sheets

(Millions of yen)

Title	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
(1) Shares of subsidiaries	12,485	12,903
(2) Shares of affiliate companies	37	37
Total	12,523	12,941

Tax effect accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Millions of yen)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Deferred tax assets		
Loss on valuation of goods	129	381
Provision for bonuses	779	839
Allowance for doubtful accounts	415	34
Depreciation	538	553
Loss on valuation of shares of subsidiaries and associates	4,472	4,825
Provision for retirement benefits	1,784	1,852
Investment securities	523	473
Other	1,429	1,538
Subtotal of deferred tax assets	10,071	10,498
Valuation allowance	(5,071)	(5,135)
Total of deferred tax assets	5,000	5,363
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(708)	(1,413)
Other	(225)	(383)
Total of deferred tax liabilities	(933)	(1,796)
Net deferred tax assets	4,066	3,567

2. When there is a significant difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting, the main components of this difference

(%)

	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Statutory effective tax rate	Notes have been omitted because the difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting is 5% or less of the statutory effective tax rate.	30.60
(Adjustments)		
Entertainment and other expenses that are never tax deductible		0.21
Income not taxable permanently, such as dividend income		(0.98)
Proportional resident tax		0.48
Changes in valuation allowance		0.34
Tax credits		(2.54)
Other		(0.35)
Effective income tax rate after application of tax-effect accounting		27.76

Revenue recognition

Information providing a basis for understanding revenue from contracts with customers is described in “Notes to non-consolidated financial statements (Significant accounting policies) - 8. Basis for recognizing revenue and expenses.”

Significant subsequent events

No items to report

(iv) Supplemental schedules

Schedule of property, plant and equipment

(Millions of yen)

Title	Type of assets	Balance at beginning of period	Increase in the fiscal year under review	Decrease in the fiscal year under review	Amortization in the fiscal year	Balance at end of period	Accumulated depreciation
Property, plant and equipment	Buildings	25,748	1,276	17	669	27,008	18,205
	Structures	832	0	–	17	833	703
	Machinery and equipment	9,742	290	863	432	9,170	6,928
	Vehicles	401	77	6	55	472	337
	Tools, furniture and fixtures	3,498	357	236	201	3,619	2,865
	Land	13,613	–	165 (165)	–	13,447	–
	Leased assets	10	–	–	0	10	7
	Construction in progress	48	31	48	–	31	–
	Total	53,895	2,034	1,337 (165)	1,376	54,593	29,048
Intangible assets	Software	5,241	643	179	636	5,706	4,602
	Other	76	–	–	0	76	5
	Total	5,318	643	179	637	5,782	4,607
Investments and other assets	Investment property	7,908	–	–	80	7,908	3,020
	Total	7,908	–	–	80	7,908	3,020

Notes: 1. Balance at beginning of period and balance at end of period are stated based on acquisition cost.

2. The figures in parentheses in the "Decrease in the fiscal year under review" column represent the amounts of impairment losses recorded, which are included in the figures directly above.

Schedule of provisions

(Millions of yen)

Item	Balance at beginning of period	Increase in the fiscal year under review	Decrease in the fiscal year under review	Balance at end of period
Allowance for doubtful accounts	1,358	10	1,256	112
Provision for product warranties	155	1	16	140
Provision for bonuses	2,546	2,743	2,546	2,743
Provision for bonuses for directors (and other officers)	267	134	267	134

(2) Details of major assets and liabilities

This information is omitted because the Company prepares the consolidated financial statements.

(3) Other

No items to report