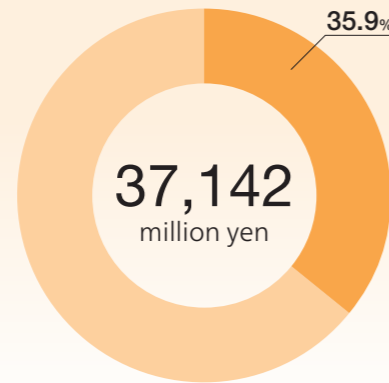


## Interior Fittings



Net sales and percentage to total

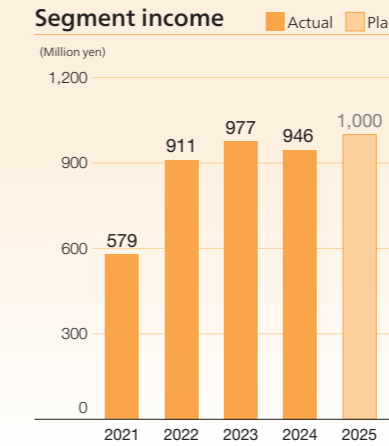
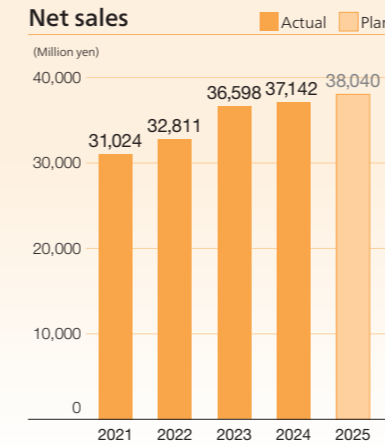


### Overview of business results for FY ended May 2024

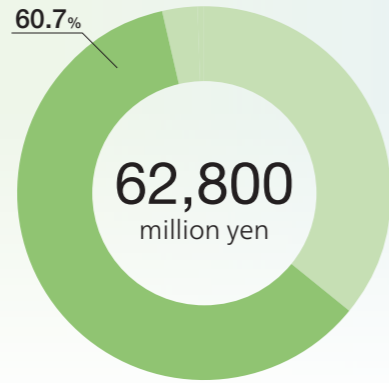
In commercial carpets, the increased number of deliveries due to the recognition of environmental performance and the effect of price revisions contributed to sales, whereas in the space design business, the orders for commercial facilities increased. Segment income decreased from the previous year because of the effect of soaring raw material prices due to the sharp depreciation of the yen.

Trends in business results

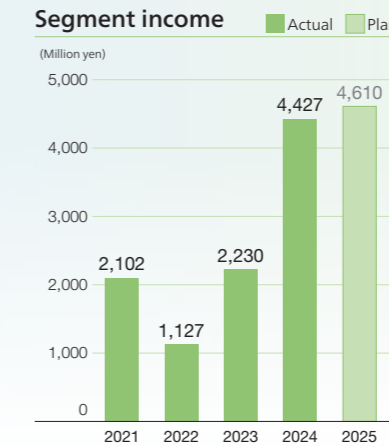
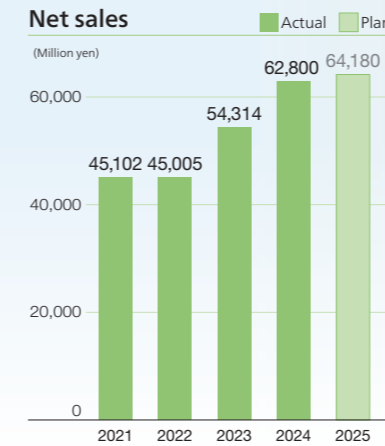
Each FY ended/ending May 31



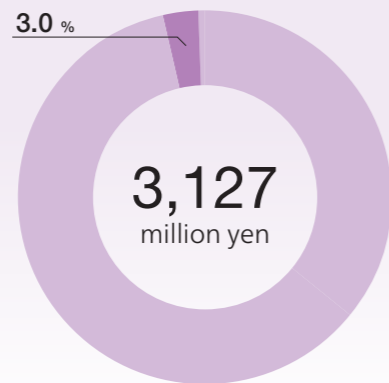
## Automotive Textiles and Traffic Facilities



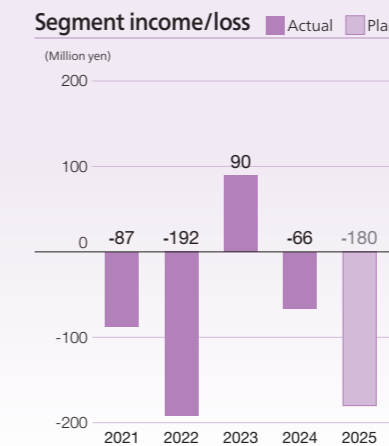
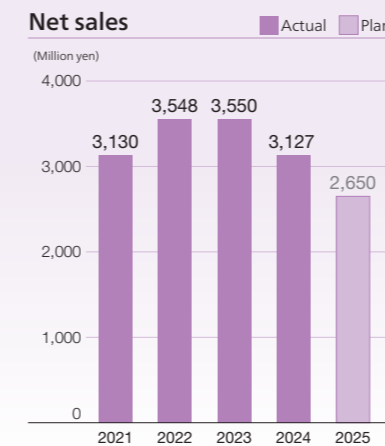
Automotive-related sales grew because of an increase in automobile production and the effect of exchange rates, whereas in the traffic facilities business, we made steady efforts to recover the demand for textiles for railways and buses, which had declined because of the COVID-19 pandemic. Segment income increased from the previous year as our wholly owned subsidiaries in North and Central America, which had been undergoing business restructuring, regained profitability.



## Functional Materials



Despite the robust performance of the newly adopted deodorizing filters for sensor-activated garbage cans, the sluggish market and changes in consumption trends affected orders for fabric-coated heating products and bathroom flooring materials, resulting in lower sales and income for the segment as a whole compared with the previous year.



# Interior Fittings

## Business Details and Major Products

Wholesale of interior textiles for commercial use (in Japan and overseas), interior finishing work (curtains, carpets, wallpaper, drop curtains, hand-woven carpets and hooked rugs, etc.), wholesale of household interior textile products, EC business, store design and construction (space design business), sales of curtains and other optional items, and production and sales of arts and crafts



Carpet tiles



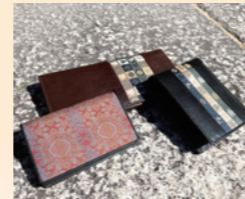
Vinyl flooring materials



Doncho (drop curtains that separate a stage from the auditorium)



Tango dantsu (high-class hand-woven carpets and hooked rugs)



Nishijin brocade fabric  
Coin purses and card holders



Rugs and mats



Curtains



Wallpaper



Fusuma paper (paper for sliding doors)

## SWOT Analysis

<ul style="list-style-type: none"> <li>● Product development capabilities cultivated through many years of our efforts to address environmental issues</li> <li>● Sales capabilities taking advantage of the Group's multiple functions as a manufacturer, wholesaler, and constructor</li> <li>● System covering from designing of the entire space to final delivery</li> <li>● Capabilities for manufacture and development of traditional craftwork based on techniques refined for many years</li> <li>● Product development and sales capabilities through cooperation with other segments</li> </ul>	<p><b>Strengths</b></p>	<ul style="list-style-type: none"> <li>● Low brand awareness</li> <li>● Decreased demand for roll carpets, one of the mainstay products of this segment</li> <li>● Inconvenient location of local showrooms</li> <li>● Inefficient logistics because of the fact that wallpaper and interior products are handled by different management systems at different operation bases</li> </ul>	<p><b>Weaknesses</b></p>
<ul style="list-style-type: none"> <li>● Increased demand due to growing environmental awareness</li> <li>● Growing interest in interior materials due to lifestyle changes</li> <li>● Market expansion due to increased inbound demand</li> <li>● Improved evaluation of Japanese textiles of traditional arts and crafts due to consumer preference for high-end products</li> </ul>	<p><b>Opportunities</b></p>	<ul style="list-style-type: none"> <li>● Reduction in the interior market scale due to the decreased number of new housing starts, etc.</li> <li>● Soaring prices of raw materials such as crude oil, and rising energy costs</li> <li>● Unstable supply of raw materials due to fewer supply chains</li> <li>● Shortage of certified skilled workers due to aging and decreased demand</li> <li>● Shortage of transportation drivers and increased transportation expenses due to logistics issues</li> </ul>	<p><b>Threats</b></p>

## Noteworthy Products and Services

In operating the Interior Fittings segment, the Group expects that ECOS®, eco-friendly carpet tiles under the horizontal recycling system, will continue to be our flagship product in the future. During the development and commercialization of ECOS®, a series of recyclable products, we have achieved high quality, safety, and a high recycling material ratio by addressing many issues. This has allowed us to reach widespread brand recognition, as it is said that "Speaking of environmentally friendly products, the SUMINOE GROUP is first imagined." The Group will continue to focus on environmental protection and enhance the lineup of eco-friendly products centered

on ECOS®. At the same time, we will work together with our customers to create a sustainable society while also collaborating with companies that collect and recover used carpet tiles for recycling.



Photograph: Courtesy of Mori Building Co., Ltd.

# Message

## Review and Future Prospects by the Officer in Charge

Creating new revenue opportunities in Japan and abroad by making valuable proposals unique to the Group

Norihisa Murase, Director, Division Manager, Interior Textile Business Headquarters



## Business Outline

The Interior Fittings segment in the SUMINOE GROUP originated in 1891, when dantsu hand-woven carpets were supplied as interior products to the Imperial Diet Building. Since then, as Japan's interior industry pioneer, the Group has continuously created comfortable and secure interior spaces. With its products covering a broad range of applications, we deliver products with both excellent design and functionality to public facilities, hotels, schools, hospitals, offices, and general households.

Kyoto Traditional Art and Craft Factory and TANGO TEXTILE Co., Ltd., manufacture traditional textile products, such as Nishijin brocade, dantsu, doncho, which have been inherited since the Group's foundation. Many of these products have been adopted in the Diet Building, luxury hotels, and other famous buildings that are representative of Japan.

SUMINOE Co., Ltd., a Group company that plays a pivotal role in the Interior Fittings segment, delivers interior products, such as carpets and rugs, as a pioneering manufacturer of these products in Japan. The Company is also working on overseas expansion. Another Group company, RUNON CO., LTD., which primarily provides wall coverings and fusuma paper (paper for sliding doors), strives for the development of high-quality and high-function products, aiming at "manufacturing valuable products."

In the future, we will continue diligent efforts to produce interior products that customers can use with peace of mind, under our fundamental development philosophy "KRR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity)." We will also proactively fulfill corporate social responsibilities as one of our challenges.

## Present Business Conditions and Tasks

The Interior Fittings segment, which was started by the Group's founder, is one of our core businesses and accounts for approximately 40% of net sales. In particular, SUMINOE Co., Ltd. is capable of product manufacturing, wholesale, and construction in an integrated way, which represents the company's strength.

SUMINOE Co., Ltd. has received orders for the Group's products, mainly commercial carpets, which have been actively adopted for large buildings. Notably, in accordance with the increasing inbound tourism demand, there are growing needs for the Group's products that are used in hotels and luxury brand shops. We will surely catch the tide to enhance our business performance. As for medical institutions, sales of curtains are brisk, with a particular increase in sales of "Face®," which is designed for medical, welfare, and educational institutions.

In the fiscal year ended May 2024, the Interior Fittings segment saw increased net sales of commercial carpets, primarily for luxury brand shops. We have received many inquiries about ECOS® both inside and outside Japan after it was adopted for the Azabudai Hills and Toranomon Hills Station Tower project in 2023. In the current fiscal year, sales of ECOS® have remained steady due to the increased demand for products related to small- and medium-sized buildings, mainly in the Tokyo metropolitan area. We will continue to strive to expand demand by widely demonstrating the features of ECOS® to the market.

As part of our efforts to improve the SUMINOE brand recognition, in May 2024, SUMINOE's official and brand sites were redesigned. Since then, we have received rapidly growing numbers of inquiries and sample requests. In wall coverings, RUNON CO., LTD. launched a wallpaper catalog "RUNON Home (2023-2026)" in August 2023, another wallpaper catalog "RUNON Mark II Vol.25" in January 2024, and a catalog of fusuma paper "Sansui Vol. 25" in March 2024. As a result of the company's sustained efforts to highlight its originality, its sales turned upward, despite the ongoing nationwide shift

toward lower-end products in the wallpaper market. RUNON was also able to increase sales of fusuma paper by revitalizing the market through the launch of a new catalog while staying ahead of its competitors.

Additionally, in terms of developing new business, the space design business has been in smooth progress. SUMINOE Co., Ltd., the core company of the entire Interior Fittings segment, collaborates with PRETERIOR-TEXTILE Inc. and CPO Co., Ltd., which can offer total proposals on a space image and concept as well as suitable interior textiles and wooden furniture. This collaboration has enabled our integrated approaches encompassing designing a space as a whole, proposing products, delivery and construction, which help the Group differentiate itself from others.

Next, regarding future tasks for the Interior Fittings segment, we attach particular importance to market share expansion and profitability improvement. To achieve both, we intend to implement the following measures.

- ① We will expand sales of highly profitable carpets and curtains for general household use. Sales of household carpets have been on a downward trend since the period of stay-at-home demand during the COVID-19 pandemic. To reverse this trend and increase sales, we will work to develop new market channels, including those in other industries, by developing products for the wealthy, capitalizing on the expertise that the Group has cultivated for many years. TANGO TEXTILE Co., Ltd. will play a central role in creating products that cannot be made by other companies.
- ② We will promote the planning and development of high-end curtains to further increase sales and profits of curtains.
- ③ We will adopt aggressive sales strategies to promote carpet tiles and other products to overseas markets to increase sales revenue.
- ④ CPO Co., Ltd. will expand the scope of its target customers to include hotels, offices, and medical facilities, besides commercial facilities. The Company strives to increase sales, taking advantage of its capability of manufacturing custom furniture in its factory, in addition to taking orders for various interior products.
- ⑤ PRETERIOR-TEXTILE Inc. will make effective use of SUMINOE showrooms to hold events to promote sales of optional items for condominiums. The Company will strive to increase sales revenue by promoting the sales expansion of interior products for luxury condominiums, mainly new buildings.
- ⑥ Suminoe Logistics Co., Ltd. implemented the integration and abolition of its logistics centers so that the Fukuoka Center was updated to function as a logistics base mainly for wallpapers. In addition, the Company relocated the former Isehara Center to the newly constructed Atsugi Center. This move enabled Suminoe Logistics to substantially improve traffic convenience and enhance logistics efficiency through the new facilities. In the future, the Company aims to further improve systems and achieve streamlining in both tangible and intangible aspects.

Through these measures, we will create new revenue opportunities in Japan and overseas.

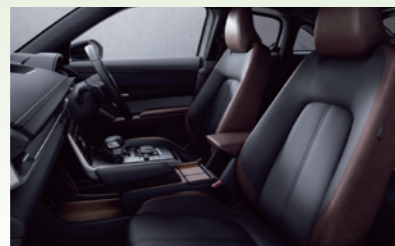
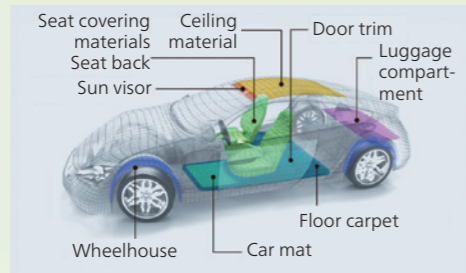
## Synergy between Businesses

Since its initial stage, the Interior Fittings segment has focused on deepening cooperation with other segments in planning and developing new products. In recent years, we have delivered products to a theme park through collaboration with the Traffic Facility business. In addition, new initiatives are under way. For instance, designers in the Interior Fittings segment collaborated with their counterparts in the Automotive Textiles and Traffic Facilities segment to offer customers proposals for next-generation car interiors. In the future, we will further strengthen our space proposals, drawing chiefly on the capabilities of CPO Co., Ltd., which is a mainstay company in the space design business.

# Automotive Textiles and Traffic Facilities (Automotive Textiles)

## Business Details and Major Products

Development, production and sales of automotive interior products (ceiling materials, seat covering materials, floor carpets, luggage compartment, car mats, and other interior products in general), automotive exterior textile products (wheelhouses, engine covers, and other textile products). Our products are supplied to all Japanese automobile manufacturers.



Seat covering materials



Floor carpet

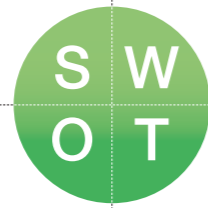
### SWOT Analysis

#### Strengths

- Capability for total coordination of automotive interior products
- Global manufacturing system that enables stable quality and supply
- Strong global supply chain
- Capability for development and proposals of new materials through integration of technologies developed in multiple businesses
- Environmental capabilities as a manufacturer

#### Weaknesses

- Insufficient consolidation of technologies and expertise possessed by overseas operation sites
- Capability to deal with price fluctuations caused by external factors
- Delay in launching the restructuring of the North and Central American business



- Response to the automotive industry, which is in the age of transformation represented by CASE and NEVs
- Increased demand for environmentally friendly products
- Increased demand for textile-based products that are lightweight and excel in noise-absorbing performance

#### Opportunities

#### Threats

- Sluggish sales of Japanese manufacturers in China
- Intensified price competition
- New entry of overseas manufacturers that produce automotive interior textiles and seat covering materials into the market
- Increasing cost of production due to soaring energy costs

## Noteworthy Products and Services

In recent years, there has been a growing demand for environmentally friendly products. In this context, the SUMINOE GROUP has advanced proposals for environmentally conscious automotive interior textiles, including car seats made from eco-friendly fibers. As exemplified by the construction of a pollution-free factory half a century ago, the Group has been pursuing the manufacturing of products friendly to the environment. This has earned us a favorable reputation in the automotive industry, so these products have been adopted one after another.

Specifically, ECONIX, a car seat covering material that uses スミトロン® (SUMITRON) recycled polyester yarn and other environmentally friendly products, enjoy good reputation. Additionally, スミトロン® (SUMITRON) is used in SUMITEX, which is adopted for the Land Cruiser Prado and the 4Runner, sold by

Toyota Motor Corporation in the United States.

Besides, the Group has developed products with outstanding environmental performance, such as ECOS®, eco-friendly carpet tiles under the horizontal recycling system, which has achieved a recycled material ratio that is one of the highest in Japan through the use of waste carpet tiles. We will continue to focus on the development of one-of-a-kind products that combine environmental sustainability with cost effectiveness.



## Message

### Review and Future Prospects by the Officer in Charge

In pursuit of building a globally optimized supply system while focusing on the establishment of a revenue base for business in North America

Kazuaki Suwa, Director, Division Manager, Automotive Textiles Business Headquarters



### Business Outline

The history of the Automotive Textiles business in the Group dates back to 1931, more than 90 years ago. At that time, Japan's automotive industry was in its infancy and the forerunner of the Company supplied carpets and seat covering materials to U.S. automakers. After World War II, the Company delivered nylon seat covers to a Japanese car manufacturer in 1958. Since then, our products have been used by various Japanese automobile manufacturers one after another. The Group now supplies its products to all Japanese carmakers.

The SUMINOE GROUP can supply a complete line of automotive interior textiles, from floors to ceilings, including ceiling materials, seat covering materials, car mats, and floor carpets. The Group's strength lies in this unparalleled capability. Moreover, we have undertaken overseas expansion since more than two decades ago. The Group has now expanded its overseas presence by setting up 11 manufacturing and sales bases in six countries (the United States, Mexico, China, Thailand, Indonesia, and India) in pursuit of creating a globally optimized supply system.

### Present Business Conditions and Tasks

In the fiscal year ended May 2024, the net sales of the Automotive Textiles business, combined with the net sales of the Traffic Facilities business, increased to 62,800 million yen on the back of the exchange rate effects resulting from the depreciation of the yen. Segment income reached a record high of 4,427 million yen. The automotive market has been recovering since the end of the COVID-19 pandemic. In this situation, we focused on the global expansion of the decorative fabric business while developing technologies and increasing orders for non-textile products, such as synthetic leather. The positive results of these efforts contributed to this strong performance. In addition, orders and sales of environmentally friendly products remained steady.

Regarding profits, to cope with rising raw material prices, we continuously strived to optimize the procurement and production areas of raw materials. Over the last few years, we have addressed the problem of increased inventories due to the reduction in car production caused by a shortage of semiconductors. However, in the past year, we succeeded in reducing inventories by approximately 600 million yen in terms of the true value excluding the impact of exchange rates, resulting in an improvement in the capital turnover ratio.

As part of our initiatives to enhance profitability, we implemented measures to reinvigorate unprofitable overseas operation bases. These measures proved successful, and businesses in the United States and India achieved profitability in FY2024. Robust business performance in China and Southeast Asia also makes us believe that we will be able to put in serious effort to develop growth-oriented businesses.

In particular, the Group expects further growth of North and Central America's business through investments in its production base in Mexico. One of our measures is to promote new product development while meeting the needs of the globally expanding synthetic leather market, thereby enhancing the visibility of the Group's synthetic leather business.

In addition, we will expand the production line for automotive floor carpets, with the start of increased production slated for November 2024. This is an initiative to fulfill a large order from a major foreign automotive manufacturer in North America. Moreover, we have integrated the production of car mats, which were previously manufactured in two bases in the United States and Mexico, into the Mexican base. This was intended to increase orders by improving competitiveness and productivity.

As stated above, now that we have established a system that enables us to comprehensively produce and supply automotive interior textiles—ranging from seats, floor carpets, to car mats—in Mexico, we can make an accurate response in the huge U.S. market. To achieve the Medium- to Long-term Management Targets set for FY2027, we will intensify our efforts, giving the first priority to the establishment of a profit foundation for the North and Central America business.

Thus far, the Group has received orders mainly from Japanese automotive manufacturers. In future growth strategies, however, we plan to strengthen sales promotion to foreign automotive manufacturers in the United States, Europe, and subsequently China. Many start-up manufacturers handling electric vehicles (EVs) have manufacturing concepts that greatly differ from those of existing manufacturers and tend to prefer establishing an unconventional supply chain for the procurement of components. We therefore believe that these manufacturers offer great business opportunities for the Group, the strength of which is that they can supply a total line of automotive interior textiles.

In FY2027 and thereafter, we plan to develop markets in Europe, Africa, and South America and conduct research into these markets.

Although we can no longer expect substantial market growth in Japan, the positioning of the Japanese base remains important as a hub for developing element technologies for materials and processing, mainly through R&D Center of Suminoe Teijin Techno Co., Ltd. We will henceforth focus on the creation of new added value by pursuing interior proposals on the theme of private spaces where all people in a vehicle can enjoy a comfortable stay while looking ahead to the next-generation automotive interior textiles. We will also strive to re-establish the production system by means of replacement of aging facilities at production sites throughout Japan.

Along with these endeavors, our R&D team in Japan will support 11 production sites in six overseas countries to reinforce their respective functions. Through this measure, we plan to help each of these overseas factories grow into highly profitable operations.

### Synergy between Businesses

In the Automotive Textiles and Traffic Facilities segment, we have been promoting an inter-segmental project called "Intelligent Interior 2.0 (I.I.2.0)," as one of the initiatives to be enhanced during the period of Medium- to Long-term Management Targets. In this project, we are working together with members of the Interior Fittings segment, which is engaged in hotel interior design, to produce the interiors of next-generation automobiles. In light of the new trends in the automotive industry, such as CASE and MaaS, we will pursue the creation of car interiors that are at the forefront of the times as "ONE SUMINOE."

Moreover, we aim to conduct a high-value-added business by proposing automotive interior textiles featuring even more sophisticated designs, in addition to high-quality but low-price products that have conventionally been in demand. Particularly for next-generation automobiles typified by EVs, we are putting our energies into promoting decorative fabric products for automotive interior textiles to meet the requirements of Chinese and other manufacturers. They require decorative elements, such as piping (a type of trim that forms a "pipe" which outlines the edges of seams) and ribbons to accentuate seat coverings made of either fabric or synthetic leather. To align with such design trends, we will collaborate with counterparts in the Interior Fittings segment to enhance design proposals that meet market needs.

# Automotive Textiles and Traffic Facilities (Traffic Facilities)

## Business Details and Major Products

Production and sales of interior materials mainly for trains and buses (seat coverings, curtains, wall coverings, flooring materials, seat cushion materials, etc.) We have supplied our products to a variety of customers. For trains, these customers include JR, private railways and publicly operated transportation services. Our products have also been used in pickup buses, route buses and sightseeing buses.



Moquette (seat covering material), curtains



Carpets



Floor signage film



SUMICUBE® (seat cushion material), knit fabric

## SWOT Analysis

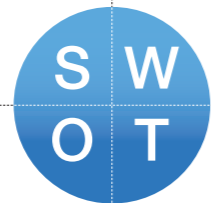
- The industry's top market share percentage
- Capability to offer total proposals for interior materials for public transportation systems
- Environmentally friendly products with excellent safety performance
- Technological and development capabilities taking advantage of possessing the Group's own factories

- Increase in travelers and foreign visitors to Japan in the post-pandemic era
- Increase in users of public transportation facilities owing to practical application of MaaS
- Increased demand for environmentally friendly products
- Increased demand for products for EV buses

### Strengths

### Weaknesses

- Aging facilities of manufacturing factories
- Aging human resources
- Significant impact of the decline in the traffic industry
- Insufficient track records of delivery to overseas customers



### Opportunities

### Threats

- Decrease in users of public transportation facilities owing to declining birthrate and aging population
- Decrease in the number of trains/buses owned because of decreased business trips and reduced rush-hours due to the spread of teleworking and staggered working hours
- Soaring materials prices

## Noteworthy Products and Services

To meet the increasing demand for environmentally friendly products from railway companies, the Group has been strengthening proposals for these products. Approximately 20 years ago, we began to offer seat cushion materials made of polyester, which are lightweight and do not generate any poisonous gases even if burned. In addition to these advantages, these materials can be recycled into polyester. As for moquette seat covering materials, we have proposed products made from polyester recycled from used PET bottles since around a decade ago.

In the future, we will work in concert with the Company's Technology Development Center to promote the development of environmentally friendly products and

strengthen proposals to customer companies. We will also hold periodic meetings with the Traffic Facilities business or with other businesses so that members of each business can exchange their latest information. Through these initiatives, we aim to create new value.



SUMICUBE® —AIR  
(Hybrid cushion material)



OH Film  
(Easy-to-install signage film made of olefin)

## Message

### Review and Future Prospects by the Officer in Charge

Taking on the challenge of developing new markets based on a wealth of experience in delivering interior materials for public transportation facilities



Tomohiro Yoshizawa, Operating Officer, Division Manager, Traffic Facilities Business Headquarters

### Business Outline

In 1896, our founder succeeded in producing a hand-woven moquette for the first time in Japan as a seat covering. The moquette was adopted by the Japan National Railways (now the JR Group) as its seat covering. This led to the launch of the Traffic Facilities business of the Group. Since then, seat moquettes that are highly durable and flame-resistant have been used by JR Group companies, private railways, and publicly operated transportation services throughout Japan, maintaining the top share in the railroad vehicle interior materials for more than a century.

Currently, the Group offers total proposals for seat coverings, curtains, wall coverings, flooring materials, and other interior textiles for public transportation facilities, including Shinkansen bullet trains and other trains, buses, ships, and aircraft. We have always been pursuing the functionality and quality required for seat covering materials in response to the needs that are changing with the times. In recent years, the SUMICUBE® seat cushion material, which exhibits outstanding safety and environmental performance, has been highly commended.

### Present Business Conditions and Tasks

On average, Interior textiles, such as seat covering materials for trains, buses, and ships, have been used for about 10 years. As such, these textile products must have properties and qualities that can withstand hard usage during their service life. Thus, we must be capable of stably supplying these materials and fulfilling maintenance responsibilities from a long-term perspective. Over nearly 130 years, the Group has accomplished its mission of reliably delivering interior textiles for public transportation facilities, thereby establishing trust relationships with facility operators throughout Japan.

In the past, seat covering materials were mostly produced using wool and other natural fibers. However, we have decided to use a blend of synthetic fibers, such as polyester, in response to the needs of the times. Thus, we have always been exploring technological innovation in the field of materials. The Group strives to provide products that carefully address various customer needs, such as lightweight construction, sitting comfort, design color reproduction, ease of cleaning, deodorizing, and antibacterial properties. At present, the Group conducts maintenance on approximately 50,000 train cars and approximately 110,000 buses in Japan by regularly replacing seat covers, among others. With our sales bases located in Osaka, Tokyo, Nagoya, and Fukuoka, we cater to customer needs on a nationwide scale, covering areas from Hokkaido in the north to Okinawa in the south. This is also one of our strengths.

Due to the impact of the COVID-19 pandemic, which extended over several years, railway companies and other public transportation operators experienced a significant decline in performance. The impact also affected the Traffic Facilities business. New and continued projects were revised or suspended one after another, resulting in sluggish sales and profits. After the end of the pandemic, public transportation companies resumed the suspended projects, and their performance has been on a recovery trend since 2024.

In the Traffic Facilities business, we work to accurately carry out each project and anticipate new needs. For example, in relation to a paid seat reservation service launched by railroad companies, there are demands to upgrade the interior textiles of their trains. In response, we are now making proposals for high-added-value interior textiles.

As for train car seats, we propose using our cushion materials along with the seat covering materials. In addition, regarding the floor signage

film and non-slip mats for use in trains, we are offering highly functional products, capitalizing on the Group's unique resin compounding and forming technologies developed by the Suminoe Textile Technology Development Center.

Under its fundamental development philosophy "KKR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity)," the SUMINOE GROUP has been working on the research and development of technology and products that contribute to society. In the Traffic Facilities business, by promoting the planning and development of new products, we strive to expand into markets other than those of interior textiles for trains and buses and advance into new fields. As part of these efforts, we are currently undertaking proposal-based sales activities in collaboration with the Automotive Textiles business, as the ideal state of car seats is expected to change in tandem with the progress of autonomous driving technologies.

In the Traffic Facilities business, we have established a design department that creates designs tailored to individual interior textiles that are all different depending on vehicle type. Furthermore, we work on further sophistication of our product designs and functionality through collaboration with Seki Textile Co., Ltd., which became a subsidiary of the Company in FY2023. The strength of Seki Textile is that it is one of the few integrated manufacturers of jacquard moquettes in Japan. We have now established a development and production system capable of promptly meeting the needs of train and bus companies, against the backdrop of a recovery in the number of their passengers after the end of the pandemic.

To expand the Traffic Facilities business in the future, we consider it necessary to make proposals not only to the Japanese market but also to overseas public transportation companies. Although the functionality and standards required for seat covering materials, etc. vary from country to country, we will strive to cultivate a market by taking measures tailored to individual local situations. Our proposal activities are already underway in Taiwan, India, and other countries. We will continue to strengthen our efforts to win more orders.

### Synergy between Businesses

The Traffic Facilities business handles interior textiles for trains, buses, aircraft, and ships. In planning, developing, and manufacturing aircraft interior textiles, we work together with the Functional Materials segment, generating inter-business synergies. This is one of our business strengths. For railway trains, we supply seat cushion materials and floor signage films, among others. These products have obtained certification from railway companies, and each of them features environmentally friendly raw materials, including a material that emits no poisonous gases even if burned.

With regard to aircraft, since European and U.S. equipment manufacturers have taken the initiative in manufacturing processes from designing to building, there is only limited room for Japanese manufacturers to join. Nevertheless, we have been supplying seat covering materials, curtains, carpets, and other interior textiles to Japanese airlines.

Moreover, leveraging a wealth of experience in delivering train/bus seat coverings, we are advancing proposals on seat coverings designed for public facilities, such as theaters and movie theaters, in collaboration with the Interior Fittings segment. Since railway operators typically own a diverse range of real estate, including commercial facilities, hotels, theaters, and office buildings, we will continue to collaborate with the Interior Fittings segment to develop a market and create new revenue opportunities.

# Functional Materials

## Business Details and Major Products

Moving beyond its conventional business segments, the Group has been active in advancing into new business fields, handling a wide range of products, including textiles, non-textiles, interior materials, household appliances and food. Household appliance business: Development, production and sales of fabric-coated heating products, Functional materials business: Development, production and sales of floor materials for bathrooms, deodorizing products, interior materials for aircraft, water shielding/thermal insulation sheets, and food products



Electric carpets



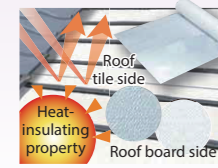
Deodorant air filters for air purifier



The Tispa® Series "Real Odor Deodorization without Disguising with a Scent"



"Kakidanomi" supplement containing persimmon (kaki) polyphenol

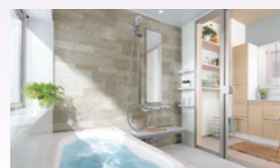


Roofing materials



CLOTHCABIN\*

\* CLOTHCABIN is a registered trademark of TEIJIN FRONTIER CO., LTD.



Floor materials for bathrooms



Interior materials for aircraft

## SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>● Functional materials and functional treatment technologies that are unique to the Group</li> <li>● Eco-friendly technology capability</li> <li>● Organizational structure to realize high-quality products and high-level development</li> <li>● Reliability endorsed by tradition and innovation</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>● OEM business that is vulnerable to demand fluctuations</li> <li>● Seasonal factors of household appliances (Decreased net sales of fabric-coated heating products caused by climate change, etc.)</li> <li>● Delayed brand penetration in newly developed fields</li> <li>● Dispersion of capabilities due to business operations in multiple fields</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>● Trend toward a decarbonized society, a declining birthrate and aging population, increasing health and hygiene awareness, and the emergence of new needs due to external environmental changes, such as digital transformation (DX)</li> <li>● New demand from existing customers in many fields</li> <li>● Discovering overseas demand, with a footing in overseas affiliates</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>● Unexpected changes in the external environments caused by a pandemic and other events</li> <li>● Market maturity, lowering of product prices, intensified price competition</li> <li>● Changes in consumer trends due to a declining birthrate and aging population and other factors</li> <li>● Changes in situations of the countries where overseas operation sites are located</li> </ul>

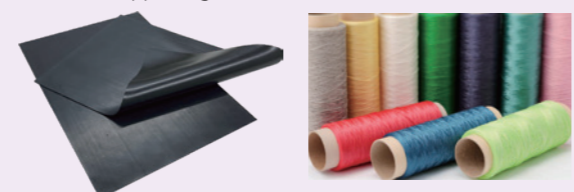
## Noteworthy Products and Services

In line with our business policy of developing new business fields, we are promoting the development of new functional products that meet the expectations of both customers and society.

For example, we have developed a "lightweight vibration absorbing foam sheet" which has a vibration-damping performance realized through the application of resin compounding technology. Its features have enabled users to make flexible adjustments according to the temperature and frequency ranges of the vibration source to design a product that is more suitable to the usage environment. Currently, we are working on the deployment of new products, including "burupita®," which makes effective use of this technology.

Another example is スミトロン® (SUMITRON), a polyester bulked continuous filament (BCF) fiber, which was produced at the Shiga Factory of Suminoe Techno Co., Ltd. This fiber

is made of raw materials recycled from waste PET bottles. スミトロン® (SUMITRON) is used not only for the pile yarn of carpets, but also for other various products, including curtains, a car seat covering material "ECONIX," surface materials for shoes, filters, and cleaning tools. In FY2024, スミトロン® (SUMITRON) achieved a recycled material ratio of 100% in combination with chemically recycled raw materials. The enhanced environmental performance has made the fiber more appealing to customers.



# Message

## Review and Future Prospects by the Officer in Charge

Creating a new business field through products that meet social expectations by effectively using the element technologies developed thus far



Hiroshi Tamura, Operating Officer, Division Manager, Functional Materials Business Headquarters

## Business Outline

About half a century ago, a team was organized for special operations. Its main task was to manufacture and sell OEM products, including electric carpet covers, to household appliance manufacturers. This was the beginning of what is now the Functional Materials segment. Leveraging the Group's technology development capability, we have actively expanded into new fields, moving beyond conventional business segments to encompass a diverse range of products, including textiles, non-textiles, interior materials, household appliances, and health foods (general foods).

Specifically, the household appliance business mainly deals with fabric-coated heating products, while the functional materials business handles not only floor materials for bathrooms but also deodorizing products, interior materials for aircraft, water shielding/thermal insulation sheets, and even food products. The strength of the Functional Materials segment lies in its capability to develop, produce, and sell these products in an integrated manner. In the future, while exhibiting the strength of the entire Group, we will develop products and materials that are useful in people's everyday life and pursue the creation of new value, in line with the Group's fundamental development philosophy "KKR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity)."

## Present Business Conditions and Tasks

To fulfill the mission of our segment "Boldly embrace new business developments and help create new corporate value," we strive for business expansion. The duty of the Functional Materials segment is to create business opportunities in a field that is difficult for other segments to undertake while using the Group's materials and element technologies. We also believe it necessary to pursue the development of higher value-added products in cooperation and collaboration with other segments in the process of creating new value.

Under the "SGW STEP II (2025-2027)," set for the period until the fiscal year ending May 2027, the priority tasks for the Functional Materials segment are defined as follows: Expand from existing businesses and product categories, and make effective use of human resources and production facilities at our Vietnam base. To accomplish these tasks, we will promote cooperation and collaboration with other segments and develop applications of our unique materials and processing technologies to foster new growth businesses.

Regarding the financial results in FY2024, the Functional Materials segment reported a loss because of a decline in sales and profit from fabric-coated heating products, such as electric carpets, which are among our key products. The decline was partly attributable to a decrease in the number of new orders, which was affected by the sluggish market. As for other products, although the new adoption of deodorizing filters for sensor-activated garbage cans contributed to sales, deodorizing filters for air purifiers continued to stagnate due to a reactionary fall in demand following the COVID-19 pandemic. As a result, net sales of deodorizing filters overall fell short of the results for the previous fiscal year. In bathroom flooring materials, the number of new orders decreased due to changes in consumption trends caused by increased opportunities to go out. Consequently, net sales of the bathroom flooring materials declined from the previous fiscal year.

Given the severe financial results for the latest fiscal year, we are pressing ahead with business structure reforms. Previously, fabric-coated heating products, which account for approximately half of our total sales, were produced in Suzhou, China. However, production of these products was transferred to a Vietnam factory, which was launched in 2019. Additionally, the factory began in-house manufacturing of nonwoven fabric, which is the main constituent material of electric carpets. Moreover, measures have

been taken to reduce manufacturing costs and improve productivity, such as local procurement of raw materials for nonwoven fabrics and various other components. At our Vietnam factory, we are planning to produce and sell automotive interior products, in addition to products for the Functional Materials segment. This will improve the factory operating ratio and enhance profitability.

As part of our efforts to increase demand for fabric-coated heating products in seasons other than winter, we will develop cooling products for summer use, thereby creating new revenue opportunities. Initiatives are already underway to develop a product incorporating a cooling fabric into an electrically driven fan. This product is scheduled for market introduction in time for the summer shopping season in 2025.

One of the strengths of the SUMINOE GROUP lies in its environmentally friendly products, such as ECOS®, eco-friendly carpet tiles under the horizontal recycling system. In the Functional Materials segment, we also emphasize these products. One example is the development of a flooring material that uses recycled paper, which will help to reduce environmental impact. We also expect that it will help alleviate the burden of people working at installation sites because its weight is lighter than that of other flooring materials. This newly developed material can be used not only for flooring but also for other building components. We are currently working on its commercialization.

Besides, as part of our progressive initiatives, we have developed a water-wetting detection fabric that reacts when wet by effectively interweaving conductive yarns with water-absorption and quick-drying yarns. This fabric is capable of covering a wide area for water wetting/dampness detection, which has been difficult for conventional water wetting sensors. The potential applications of this system include its use in nursing care beds. We expect that the fabric will prove useful in on-site labor savings in the future by detecting and signaling water wetting for nursing care staff in busy settings.

In the field of foods, functional foods that are helpful for oral care will be placed on the market in the winter of 2024. Thus far, we have been marketing a supplement developed through joint research with the Faculty of Agriculture at Kindai University. The supplement uses high-purity persimmon (kaki) polyphenol extracted from thinned-out persimmon fruits grown in Nara Prefecture using a patented processing method. In the future, we will continue to develop highly functional products through industry-academia collaboration and strive to cultivate new markets.

In FY2025 and thereafter, we will release the aforementioned new materials and products in the marketplace. In doing so, we will strive to turn our business around.

## Synergy between Businesses

In the Functional Materials segment, we have focused on promoting collaboration between businesses.

The deodorizing technology developed in the Interior Fittings segment has been applied to deodorizing filters and deodorizers. Currently, we are collaborating with the Development Department to develop a material that will help maintain freshness by absorbing the ethylene gas emitted by vegetables and fruits.

Meanwhile, we are developing new interior materials for aircraft in collaboration with Suminoe Techno Co., Ltd. Reducing CO<sub>2</sub> emissions is a crucial challenge for aircraft. Thus, we are enhancing proposals for eco-friendly products made from recycled nylon yarn that can realize excellent durability and environmental performance while being lightweight.

In this manner, we will put our energies into the development of high value-added products that meet the expectations of society by further strengthening our collaboration with other businesses and departments of the Company.

## Overseas Business Strategies (North and Central America Business)

### Message

Initiatives to strengthen overseas business expansion

Accelerating overseas expansion through further reinforcement of our optimal supply system on a global basis



Atsushi Yamaguchi, Department Manager, Automotive Textiles Business Headquarters

#### Achieving profitability of operating income at all 11 overseas bases engaged in the Automotive Textiles business in FY2024

The Automotive Textiles business of the SUMINOE GROUP first expanded overseas in 1994 by setting up a joint venture in Thailand, which began operations with the production of fabrics for seat-covering materials. The Group has promoted overseas expansion while overcoming many hardships, including the 1997 Asian currency crisis, the long-term factory closure caused by the 2011 Thailand floods, and the reactionary increase in demand lasting until the following year. To satisfy the last-named demand, the Group made the most of its globally optimized supply system so as to perform our responsibilities as a supplier. Following Thailand, we have established overseas bases in the United States, China, Indonesia, India, and Mexico. Today, the Group has 11 operational bases in six countries where we produce and sell automotive interior textiles. In this manner, the Group has built up a supply system in accordance with the changing needs for various products, from car seat fabrics at the initial stage of overseas expansion to carpets, car mats and synthetic leather. This is one of the Group's advantages. Handling diverse products has enabled us to respond flexibly to changes in needs and market conditions, thereby endorsing our aspirations for the sustainable growth of overseas businesses.

In recent years, we have increased investments in Mexico's production base, which has expanded its scope of business in stages, starting with the production of car mats, carpets, fabrics, and synthetic leather. While U.S. bases faced a hard fight due to rising labor costs and other factors, we promoted the restructuring of business operations in North and Central America through strategies such as shifting production focus to Mexico. In FY2024, the Group achieved profitability at all 11 overseas bases engaged in the Automotive Textiles business, including the North American subsidiary, which had been one of our concerns. I am also confident that we were able to solidify a foundation for further growth of overseas businesses by establishing an optimal supply system on a global basis.

With regard to the optimal supply system, fabrics and synthetic leather were previously manufactured in Japan, China, and Southeast Asia and then exported to North and Central American countries. However, in anticipation of a future increase in demand for synthetic leather in the North American market, the Group constructed new production lines in Mexico as part of its efforts to promote localization. In this way, we promote manufacturing

in a region where our strength can be displayed. Additionally, another unique strength of the Group lies in its capability to supply a total line of automotive interior textiles, from floors to ceilings, in response to customer needs.

It is not easy to supply a complete line of automotive interior textiles. One reason is that commercial distribution differs according to the product. For instance, proposals for carpets should be submitted to Tear 1 carmakers and automotive mold manufacturers, whereas interior design proposals should be submitted to finished car manufacturers. The Group strives to offer proposals in accordance with each product's commercial distribution. Consequently, we have learned to propose designs looking ahead several years by obtaining the latest information on the trends and demands of automotive interior textiles. This capability has given us a competitive edge.

#### Further strengthening the Group's position in the North American automotive market

The Group is implementing new initiatives, including strengthening its activities to receive orders from foreign automotive manufacturers, in addition to Japanese automakers. Our efforts in making comprehensive proposals for automotive interior textiles are producing steady results.

With an eye toward the future of the North and Central American market, to which we attach the greatest importance in the world, the Group will transfer manufacturing functions from the United States to Mexico. Instead, Suminoe Textile of America, which has served as the U.S. manufacturing base, will strengthen its function as a sales base for foreign automobile manufacturers to accurately meet market needs. In doing so, we will enhance productivity. These measures are also expected to be effective in responding to geopolitical risks that may arise in the future.

Regarding the financial performance of the Automotive Textiles business, net sales from overseas bases have been higher than those from domestic bases since FY2015. After exceeding profits from Japan in FY2019, overseas profits temporarily declined during the COVID-19 pandemic but became higher than domestic profits in FY2024. As all overseas bases for the Automotive Textiles business have achieved operating profitability as stated earlier, we expect that overseas sales and profit ratios will further increase. In the future, the Group will promote the expansion of overseas businesses by further enhancing the optimal global supply system through its 11 overseas bases across six countries.

## Group Value-Creation Strategy

### Message

Initiatives from a medium- to long-term perspective

Further enhancing our corporate value through discussions on the "ideal corporate image" toward 2050



Akihide Mizuno, Operating Officer, General Manager, Corporate Planning Department, Administration Headquarters

#### Holding discussions on the "ideal corporate image" in 2050 under the *Shin Mirai* Project

The SUMINOE GROUP has been striving to create new value for the world while further reinforcing the management base in alignment with the Medium-to Long-term Management Targets "SUMINOE GROUP WAY 2022-2024-2027." In conjunction with these efforts, we identified the Group's values and launched the *Shin Mirai* (lit. new future) Project for promoting corporate branding in 2022 by reviewing how to achieve sustainable corporate growth and employee happiness. In June 2023, the SUMINOE GROUP Philosophy was formulated, under which activities are being implemented to enhance the Group's medium- to long-term corporate value.

In 2024, we held a workshop to look ahead to the "ideal corporate image" in 2050. In the workshop, discussions were held on how we can meet future needs while expanding our existing technologies by backcasting from the future. From respective divisions, employees in their late 20s-40s, who will play mainstay roles in our business in 2050, were selected as workshop members. They were engaged in a series of discussions about changes to the business environment from a long-term perspective. They also exchanged views on the "ideal corporate image" for the Group in 2050 and how to design businesses and develop measures to realize the image. In terms of designing businesses, these members made presentations to top management in the end.

Although the workshop was an unprecedented initiative, it provided opportunities for serious discussions among participating members, who imagined needs that would reflect each era in the future and examined what kind of products and services the Group could realize by using technologies that would reach a level we wanted.

For the "era when automatization will change our lifestyles," workshop participants suggested creating a space that would connect people and society. They proposed a product that could offer fulfilling lifestyles in a society characterized by a borderless connection between mobility and living spaces. For the "era that will require adaptation to

population changes and increasing natural disasters," these members proposed a space where SUMINOE could play active roles in any environment and a product harnessing the potential of fabrics to bring innovation in the field (space) of food.

In December 2024, Suminoe Textile Co., Ltd. will change its trade name to "SUMINOE Co., Ltd." This change will reflect the future vision of the SUMINOE GROUP, which strives to "bringing innovation to all kinds of spaces," while accelerating global expansion, enhancing non-textile areas, and establishing the SUMINOE brand.

#### Displaying the true value of the SUMINOE GROUP through the creation of new innovations

Beginning with the manufacture of *dantsu* hand-woven carpets in the Meiji period (1968-1912), the Company greatly contributed to the modernization of interiors in Japan as a pioneer of carpet production. Among other things, after delivering *dantsu* carpets to the Imperial Diet Building, the Company produced seat covers used in the trains of the Japan National Railways. In the 1980s and thereafter, the Company played a leading role in the interior industry by supplying carpet tiles in response to office automation. However, in recent years, we have not created enough innovation, and our operating income has remained lower than our competitors' levels. One of the objectives of the *Shin Mirai* Project launched in 2022 is to display the true value of the SUMINOE GROUP by breaking away from this situation and creating new innovation.

Taking environmentally friendly products as an example, the ECOS® series, eco-friendly carpet tiles under the horizontal recycling system, has enjoyed a high reputation and has been adopted for many large office buildings, among others. Additionally, we have been vigorous in implementing initiatives to generate synergies across the SUMINOE GROUP through inter-segmental and inter-departmental collaboration.

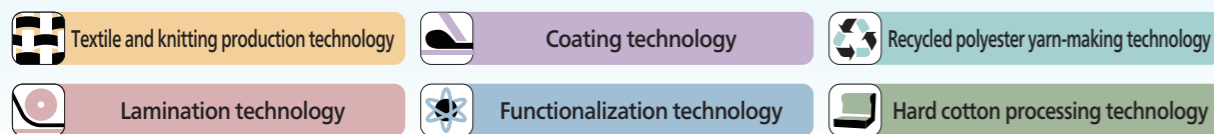
The Group will further accelerate these initiatives and disclose its "ideal corporate image" toward 2050, aiming at an even greater enhancement of our corporate value.

## Fundamental Development Philosophy

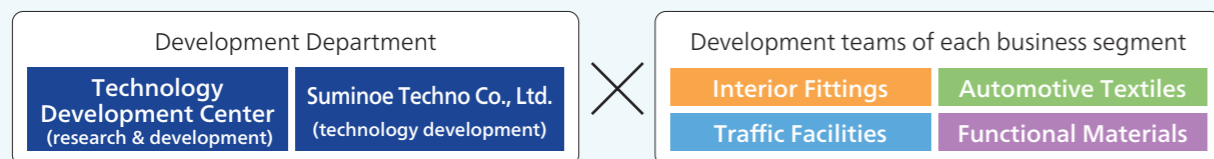


Under its fundamental development philosophy “KKR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity),” the SUMINOE GROUP has been working on research and development of technology and products that help resolve environmental issues and contribute to society while striving to sow seeds for industry-academia collaboration. We will continue our efforts to develop new technologies and products that are friendly to people and the environment, based on “KKR+A” and core technologies that the Group has cultivated for many years.

### Core Technologies

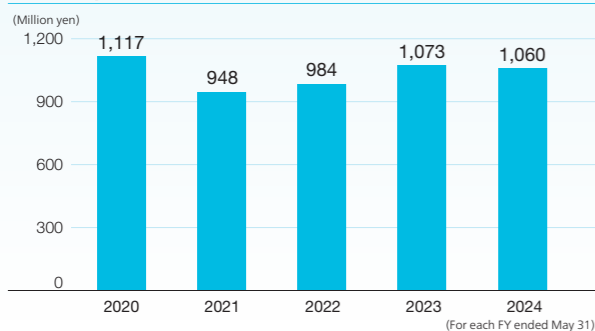


### Research and Development System

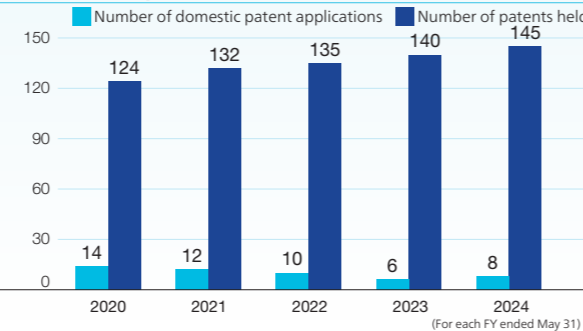


The research and development of core technologies is conducted by the Development Department, which comprises the Technology Development Center and Suminoe Techno Co., Ltd. The Development Department performs this duty in cooperation with the development teams of the respective business segments.

#### R&D expenses



#### Number of patents



### Recycled PET yarn produced by Suminoe Techno was adopted for car seat covers for the first time.

Conventionally, スミترون® (SUMITRON), a recycled polyester BCF\* fiber derived from PET bottles, is used mainly in carpets. However, it was recently adopted as a covering material for car seats for the first time. We developed and proposed a new BCF yarn with fineness suitable for use in car seats. ECONIX, a seat-covering material that utilizes スミترون® (SUMITRON), has been highly regarded for its resilient and firm texture, which cannot be found in conventional fabrics, as well as its environmental advantage of being made of recycled materials. To further increase ECONIX sales, we will continue to promote technology development and expand the scope of its applications.



\* BCF stands for Bulk Continuous Filament. The BCF yarn has low-fluff and low-pilling properties and excellent durability.

## SGW SUMINOE GROUP WAY 2022-2024-2027

### R&D Challenges and Progress Assessment for FY Ended May 2024

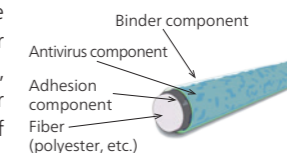
R&D Challenges	Progress	R&D Challenges	Progress
Enhance functionality of bathroom interior products.	○	Develop new products using raw materials derived from nature.	△
Improve floor signage film.	○	Basic research using bioplastics	△
Develop and commercialize chemicals for multifunctional processing.	△	Basic research for extracting beneficial substances from woody biomass	×
Develop antibacterial and antivirus technologies and evaluation techniques.	○	Smart textiles: Efforts for commercialization of water-wetting detection systems and power generating fibers	○

#### Establishment of antivirus performance evaluation techniques and product development

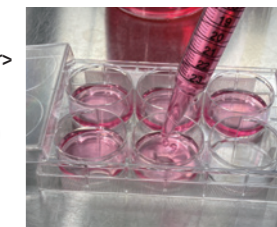
To meet the growing demand for antivirus products in the wake of the COVID-19 pandemic, we have been placing greater emphasis on developing functional processing technologies, such as antivirus, deodorant, and antifouling processing for textile products. Since the Group handles various forms of products, it was urgently necessary to establish evaluation techniques and antivirus processing technologies tailored to the respective products. By strengthening the in-house antibacterial and antivirus testing system, we have succeeded in speeding up the testing process and improving the quality. The Group has also developed “Vguard,” an antibacterial/antivirus processing technology that enhances the durability of processed fabrics. We are promoting the application of this technology to carpet tiles and curtains. We will remain committed to technological innovation and quality improvement to provide safer and more comfortable products.

#### Vguard

<Mechanism for adhesion to the fibers>



\* This image represents an artist's impression.



Measurement instrument for evaluating antivirus performance

## Research and Development Strategies

### Message

Prospects for the expansion of the business domain and technological improvement

Anticipating changes in the market to offer functions and products that make effective use of our strengths

Taro Hattori, Operating Officer, General Manager, Development Department



The Company has steadily expanded its business domain while accurately responding to needs and has brought high-value-added products to the market.

We have discovered new added value based on existing core technologies, such as antibacterial and antivirus processing, deodorizing treatment, and adsorption. Meanwhile, using our resin compounding and molding technologies, we have developed products with excellent vibration isolation and damping properties that enhance the quietness of living spaces. Through these activities, we are tapping into new markets.

Moreover, the Group has reinforced its internal systems to evaluate and verify product performance, as part of its efforts to enhance comprehensive evaluation techniques and facilitate quality improvement.

As a responsible manufacturer, we will continue to implement environmental protection initiatives, including waste reduction and the conversion to renewable energy, at our manufacturing factories. In so doing, we strive to conduct business activities in an environmentally friendly manner.



# Message

Aiming at an operating margin of at least 5% as soon as possible to improve returns to stakeholders

**Hiroaki Usugi**  
 Managing Director  
 General Manager, Administration Headquarters

## Highest net sales since 2003

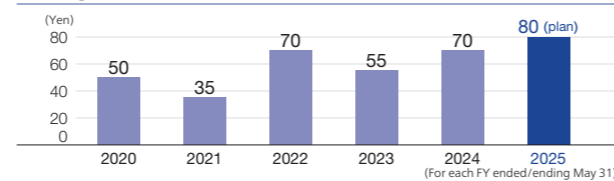
The consolidated net sales for the fiscal year ended May 2024 exceeded the full-year consolidated earnings forecast announced in January 2024 and ended above 100 billion yen for the first time since we began full-scale overseas expansion in 2003. Factors included the growth in the Automotive Textile business within the Automotive Textiles and Traffic Facilities segment, our core business, and a better-than-expected recovery in demand for products for railways and buses, which had declined because of the COVID-19 pandemic. In the Automotive Textile business, we established a manufacturing and sales site in Thailand in 1994, and, especially since 2003, we have accelerated overseas expansion, mainly in Asia and North and Central America. Net sales from overseas sites currently account for approximately 30% of consolidated net sales, resulting in the expansion of our business scale. In the Interior Fittings segment, we are expanding the space design business, which we have been working on for the past 4 years, despite uncertainties about demand growth in the domestic market. Subsidiaries CPO, which develops and designs retail properties, and PRETERIOR-TEXTILE, which sells curtains and other interior options mainly for condominiums of major

developers and designs indoor spaces, contributed to consolidated earnings. It is also true that the depreciation of the yen boosted net sales. Although net sales exceeded 100 billion yen, the upper 90 billion yen range is closer to reality considering the effect of the weaker yen. I consider this with a sober mind as the director in charge of finance.

In terms of profits, both operating income and ordinary income exceeded our guidance because of an increase in revenues in the Traffic Facilities business and reasonable price increases in response to rising raw material and energy prices in the Automotive Textile business. However, we incurred extraordinary losses of approximately 900 million yen as a result of our decision to transfer all of our Sumisho Airbag Systems shares, an equity method affiliate. As a result, profit attributable to owners of parent remained at the 800 million yen level, below our guidance.

The year-end dividend for the fiscal year ended May 2024 has been set at 35 yen per share, unchanged from our previous forecast. Because of the recording of the aforementioned extraordinary losses, Sumisho Airbag Systems will no longer affect our consolidated earnings for the fiscal year ending May 2025 and beyond.

## Changes in Dividends



## Improving profitability and strengthening financial structure

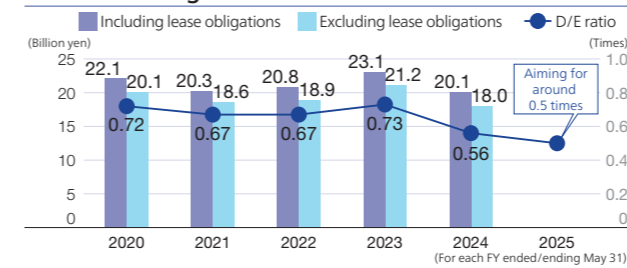
For fiscal year ending May 2025, we will focus on initiatives to further improve profitability. In the Automotive Textiles business, we expect an improvement in profitability as we have established a mass-production system for synthetic leather at our Mexican subsidiary, enabling in-house production. We intend to increase the sales promotion of high-margin synthetic leather because demand for this product is increasing not only from Japanese automakers but also from foreign automakers. After establishing a business model in Mexico, we expect that we will be able to expand it to other operation sites.

Going forward, we will stabilize revenues through business expansion in North and Central America, reduce interest payments by reducing interest-bearing debt, and use the tax loss carryforward of our US subsidiary to generate cash flows in our three subsidiaries in North and Central America combined.

We aim for a D/E ratio of 0.5 times as a management indicator. Although we increased interest-bearing debt to 22 billion yen during the COVID-19 pandemic to prepare for an emergency, we are working to generate cash flow by reducing non-current assets, such as selling approximately one-third of the 30,000 *tsubo* of land we own at our Nara Factory, selling a distribution warehouse in Kanagawa Prefecture, and using a state-of-the-art rental warehouse instead. As of May 31, 2024, interest-bearing debt was 18 billion yen, including capital investments in our Mexican subsidiary and M&A expenses. The D/E ratio for fiscal year ended May 2024 was 0.56 times, but we aim to maintain it at approximately 0.5 times by reducing interest-bearing debt to approximately 15 billion yen in the future.

We will work to strengthen our financial structure as our US subsidiary has returned to profitability and is now able to generate cash flow. We will also continue to reduce inventories and make effective use of our assets.

## Interest-bearing Debt and D/E Ratio



## Initiatives to improve PBR and other management indicators

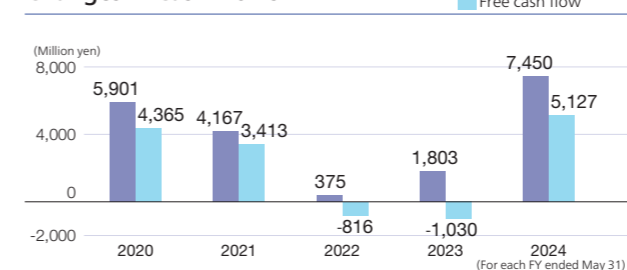
Our primary financial challenge is to increase our PBR to above 1. To this end, we must improve our operating margin to at least 5% and then higher. Although the Automotive Textiles and Traffic Facilities segment has reached the 7%–8% level, the Interior Fittings segment remains at approximately 3%. We will work to improve operating margins by expanding high-value-added businesses, such as space design business, as well as by developing and expanding sales of products in the mid-to-high-end segment, where the Group has developed strength over its long history.

In addition to improving operating margins, we will actively work to maximize corporate value by setting ROE, PBR, ROIC, and WACC as key management indicators through the fiscal year ending May 2027. On the basis of a calculation using the Capital Asset Pricing Model (CAPM), our current estimate of the cost of shareholders' equity is 5%–7%. Our ROE, which was 2.9% for the fiscal year ended May 2024, has remained below this level, resulting in a negative equity spread. We are targeting an ROE of 7.6% and an ROIC of 7.9% for the final year of the latter 3-year period of our Medium- to Long-term Management Targets. It is imperative that we achieve ROE and ROIC higher than our capital cost and turn our equity spread positive as soon as possible. To this end, we first make thorough efforts to improve profit margins, such as operating margins, enhance capital efficiency, and use financial leverage.

Viewing the first 3-year period as a period of solid "seeding" for the future, we have invested abroad in anticipation of high growth, especially in our operation sites in North and Central America. As a result, our subsidiaries in North and Central America now can generate cash flows, as I mentioned earlier. In the latter 3-year period, which has entered a phase of steady-level enhancement of our true capabilities, we will need to manage our finances to maximize operating cash flow while balancing investment cash flow, with our operation sites in North and Central America as the driving force.

For the coming latter 3-year period, we will set a target of achieving an ROE of at least 8% and ROIC and ROE above the cost of capital by the fiscal year ending May 2027, with the aim of increasing corporate value. We expect that achievement of these targets will inevitably lead to improvement in our target management indicators.

## Changes in Cash Flows



## Working to achieve sustainable growth and improve the corporate value of the Group

Since 2021, we have been working to meet the continued listing criteria of the new market segment by developing a plan to meet the criteria. As a result, we satisfied the market capitalization criteria for tradable shares as of May 31, 2024, and published the "Notice Regarding Compliance with Prime Market Continued Listing Criteria" in August.

Because of the introduction of a shareholder special benefit program in the fiscal year ended May 2022, the number of shareholders has increased from approximately 4,000 at one point to >9,000 as of May 31, 2024. We also maintain an average daily trading value of between 70 million and 80 million yen. We will continue to conduct initiatives to achieve a PBR of 1 in an effort to achieve sustainable growth and maximize the corporate value of the Group to ensure stable compliance with the criteria for continued listing on the Prime Market.

## Our Status of Compliance with the Continued Listing Criteria

	Number of shareholders	No. of tradable shares	Market capitalization of tradable shares	Tradable share ratio	Average daily trading value	
The Company's status and trend of compliance	June 30, 2021 <sup>1</sup> (as of the transition reference date)	-	27,068 units	5.44 billion yen	35.2%	7 million yen
	As of May 31, 2024 <sup>1</sup>	9,449	42,137 units	10.93 billion yen	54.8%	70 million yen <sup>2</sup>
Criteria for continued listing on the Prime Market	800	20,000 units	10 billion yen	35%	20 million yen	
Compliance status	Compliant	Compliant	Compliant	Compliant	Compliant	

<sup>1</sup> The Company's compliance status was calculated on the basis of the distribution of company shares, etc., as understood by the Tokyo Stock Exchange as of the reference date.  
<sup>2</sup> This is based on the notification from the Tokyo Stock Exchange concerning the status of compliance with the continued listing criteria (trading volume criteria) for the period between January and December 2023.

As I mentioned earlier, as the director in charge of finance, my goal is to double our dividend from the current 70 yen per share to approximately 140 yen per share, in accordance with our Medium- to Long-term Management Targets, based on a payout ratio of 38% that we published in February 2024, by achieving an operating margin of at least 5% as soon as possible. I will do my best to meet the expectations of our stakeholders.

