

Aiming to resolve social issues through our business activities, centering on our fundamental development philosophy "KKR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity)"

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.

Fundamental Development Philosophy

As an industry pioneer, the SUMINOE GROUP has pushed forward with the development and application of advanced technologies that are friendly to human health and the environment. In 1998, the Group announced its fundamental development philosophy, "KKR+A." Since then, guided by this philosophy, the Group has focused on researching and developing technologies and products that are environmentally and people-friendly, while promoting interior environment improvements and the use of recycled materials.



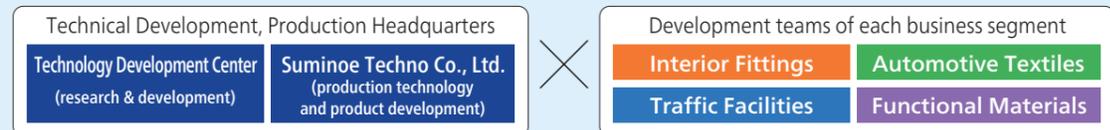
Core Technologies

- Textile and knitting production technology
- Resin compounding technology
- Resource recycling technology
- Sensing technology
- Coating technology
- Functionalization technology
- Hard cotton processing technology

The research and development of core technologies is conducted by the Technical Development, Production Headquarters 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.

*Related to p. 33

Research and Development System



K Kankyo (Environment)

Fibers and plastics are both familiar in our daily life, and we have many opportunities to touch these materials. Applying molding technologies for eco-friendly resin floor materials, we have developed floor signage film for use in trains. The film features excellent durability as well as non-slippery and flame-retardant properties, ensuring peace of mind and safety in everyday scenes. Our film also finds a new application as an interior item for anti-scratch purposes in a car, and we have started activities to expand its sales.



R Recycling

To fulfill its social responsibilities as a manufacturer, the Group has worked to reduce environmental impact of our products. A typical example is ECOS[®], eco-friendly carpet tiles under the horizontal recycling system. In the production of the ECOS[®] series, we have achieved a recycled material ratio that is one of the highest in Japan by introducing manufacturing equipment that is optimal for recycling. Other examples include スミトロン[®] (SUMITRON), a recycled polyester fiber derived from used PET bottles, and SEACLE, a recycled nylon fiber made from discarded fishing nets. Although スミトロン[®] (SUMITRON) has conventionally been used in carpets, we are expanding its application to a covering material for car seats. In recent years, initiatives have also been underway to develop a sheet made of a material blended with wood floor, which is expected to help reduce CO₂ emissions.



K Kenko (Health)

The Group has undertaken the development of antibacterial processing technology for around 20 years. About 10 years ago, we started to sell antibacterial and antiviral carpets and curtains, mainly targeting medical, welfare, and educational facilities. To meet the growing demand for antiviral products in the wake of the COVID-19 pandemic, we have been placing greater emphasis on establishment of performance evaluation techniques and product development, succeeding in speeding up the testing process and improving the quality. The Group has also developed "Vguard," an antibacterial/antiviral processing technology. We are promoting the application of this technology to carpet tiles and curtains.



A Amenity

We contribute to creating a comfortable space by giving deodorizing and allergen-adsorbing processing to curtains, carpets, wallpaper and other interior products around us. Also, we have launched a vibration damping sheet, "burupita[®]." For example, this new product can be used as a deadening material for automobile door trims to reduce road noise and exterior noise, helping users to be free from the stress of vibrations.



Interior Fittings

Review and Future Prospects by the Officer in Charge

Aiming to increase awareness of the SUMINOE brand and improve profitability



Norihisa Murase

Director, Division Manager, Interior Textile Business Headquarters

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

Business Outline and Overview

The Interior Fittings segment is the original and core business of the SUMINOE GROUP and has been a major driver for the Company's growth. While other businesses of the Group are mainly engaged in OEM manufacturing, the Interior Fittings segment has played a key role in increasing our brand awareness and establishing our corporate image as a pioneer of Japan's interior industry.

In this business segment, carpet tiles, curtains, rugs, and mats are primarily handled by SUMINOE Interior Products Co., Ltd., wallpaper and *fusuma* paper by RUNON CO., LTD., and built-in fixtures by CPO Co., Ltd. With these main players, we can

offer total proposals for various interior spaces.

In terms of commercial distribution, we have two market channels. One is for BtoB and the other is BtoC. It is characteristic that both channels have points of contact with end-users.

In the fiscal year ended May 31, 2025, a large number of our products were adopted in hotels amid a boom of hotel construction arising from increased inbound demand, and the space design business also remained strong. As a result, we posted net sales of 38,264 million yen and segment income of 1,023 million yen, achieving the targets for the first year of SGW STEP II.

Strengths and Issues Identified through Past Initiatives

One of our strengths is weaving techniques, which have been handed down from the Meiji period (1868–1912) and contributed to the establishment of Japan's image as a modern state. The typical example is handwoven carpets that have been continuously manufactured by TANGO TEXTILE Co., Ltd. since the Group's founding. Other examples include handwoven *doncho* curtains, hand-hooked *dantsu* carpets, and hooked rugs woven by an automatic loom. So far, our products have been adopted in the Diet Building, renowned hotels and brand shops. As indicated by this track record, we are confident that our products earn an extremely high degree of reliability. Additionally, we have strong product development capabilities. We were quick to focus on environmentally friendly products, ahead of other interior manufacturers. In 2011, we launched ECOS®, eco-friendly carpet tiles under the horizontal recycling system. In recent years, there have been increasing cases where building and hotel owners actively designate products made from recycled materials, and customer requests regarding designs and functionality have become diversified. To flexibly respond to such a broad range of needs, we can develop and deliver valuable new products. I am aware that this strength makes the Group superior to other competitors.

However, there are issues confronting the Interior Fittings segment. As for conventional commercial distribution for new buildings and hotels, we have an unavoidable tendency toward low-margin, high-volume sales because of the business structure. Therefore, without being bounded by conventional commercial distribution, we have also focused on other industries, including the pet-related market that is growing each year, where we have strengthened proposal-based activities to sell products featuring excellent functionality and design. On the other hand, carpets and curtains for general household use are products that differentiate us from others in terms of quality and design. As such, we consider these carpets and curtains to be the mainstay products that enable us to improve both our brand value and profitability. Although the market conditions are severe at present, we would like to uncover potential needs once again in this market, where our strength lies.

Toward Achieving SGW STEP II –Prospects and Measures–

Considering the current progress, it is almost possible for us to attain the targets for net sales and segment income originally set for the year ending May 31, 2027, the final year of SGW STEP II, ahead of schedule. In the next medium-term plan, however, we have set the target for the ratio of segment income at 5%.

To achieve this target, it is first important for us to steadily implement the ongoing business policy and measures. The key initiatives are to develop new products and new markets and improve brand awareness.

In terms of new product development, we should differentiate ourselves from others by leveraging our ability to flexibly meet a broad spectrum of needs in order to raise profitability. It is also important to strengthen the middle- to high-end product range, where we can satisfy customers with our products produced through high technology and offer them a special experience that matches the price. To be more specific, we launched "Epilogue," a series of custom-made rugs in a mid-price range, in June 2025. We will actively work to expand sales of this new series, along with the already existing products, "itten" in a high price range and "REI" in the highest price range. In recent years, offices have come to be viewed not merely as a working place but as a place where employees can communicate with each other and find comfort. In response to this change, sales of "itten," a collection of made-to-order rugs for general households, have considerably expanded also in the BtoB area. We will continue to flexibly answer needs of users.

To cultivate a new market, we will accelerate collaboration with other industries and our proposal activities, capitalizing on technologies of the entire Group. We are aware that, by changing perspectives, we can find still many more business opportunities, as exemplified by non-slip and waterproof carpets for pets and mats sold in a set with health equipment. With this recognition, we will expand the scope of target customers. Organization restructuring is also under way with the aim of cultivating new markets and improving product development capabilities. We will shift to a sales system under which personnel are assigned to each target customer base and conduct sales activities while sharing a customer base between different businesses. In doing so, we will enhance synergetic effects in order to seize many more business opportunities.

One of the measures to improve brand awareness is to strengthen the BtoC channel and disseminate the brand in the digital world. In 2024, we redesigned SUMINOE Interior Products' website, which serves as a point of contact with end-users. Since then, we have received a significantly increasing number of inquiries and sample requests. We will continue to strengthen digital strategies, including coordination with social media, in order to increase awareness of our brand.

The Interior Fittings segment is a pioneer of Japan's interior industry and is a core business of the SUMINOE GROUP. Bearing this in mind, we will remain committed to improving both our brand value and profitability.

Automotive Textiles and Traffic Facilities (Automotive Textiles)

Review and Future Prospects by the Officer in Charge

Striving to uncover potential needs in order to set a new comfort standard



Kazuaki Suwa

Director, Division Manager, Automotive Textiles Business Headquarters



Business Outline and Overview

Net sales of the Automotive Textiles and Traffic Facilities segment amounted to 63,478 million yen, accounting for approximately 60% of the entire Group. Segment income came in at 4,094 million yen. As indicated by these figures, it can be said that the segment is the very mainstay of the Group.

In particular, the Automotive Textiles business offers diverse automotive materials, including seat covering materials, floor carpets and car mats, which have been adopted primarily by Japanese automobile manufacturers. In recent years, there have been increasing cases where our products are employed by electric vehicle (EV) manufacturers. Our business scheme is as

follows: Joining a customer project from its planning stage, we advance proposals on seat covering materials, floor carpets, car mats and other automotive materials to the customer. Once our proposed product is approved as valuable and suitable for the project concept, we supply products of the same quality to parts manufacturers in a stable manner.

In the fiscal year ended May 31, 2025, the North and Central American bases suffered a longer-than expected decline in production efficiency due to fluctuations in the production plans of automakers, and Japanese carmakers' share of the Chinese market decreased more significantly than estimated. These factors contributed to a lowering of profits. However,

the Automotive Textiles business remained robust as a whole, despite the growing uncertainty of the market environment surrounding the business.

Strength and Issues Identified through Past Initiatives

I believe that the Group is the only enterprise that can carry an extensive array of products, including ceiling materials, seat coverings, floor carpets, and car mats, which are optimal for various components in cars, and propose a total line of automotive products. There is no doubt that this is our strength, which is unequalled anywhere in the world.

For instance, when a new car model is developed, we participate in the project from the concept stage, in which we propose materials and designs that are optimal for each component. For another example, in response to an automaker's requirement for a "material that offers high-quality comfort and feels something special," we proposed a high-density and voluminous floor mat, which was successfully adopted. The floor mat was woven by hand using the manufacturing technique for high-class rugs and carpets called "Tango dantsu," which are often adopted in hotel lobbies. As shown in these examples, we can provide a wide variety of products that meet respective customer needs, drawing on our flexibility and bringing together technologies developed by the Interior Fittings, Functional Materials, and Traffic Facilities businesses. This collective capability is also one of our strengths.

On the other hand, optimization of the production system and improving its efficiency still remain as important issues to be addressed. Currently, as part of restructuring of the production systems at the North and Central American bases, the Group is further promoting the integration of production into the Mexican base and its reinforcement. Through these initiatives, we aim to increase production efficiency and cost-competitiveness of the entire North and Central American base.

Regarding future trends, we must keep a close eye on the extent to which the business is impacted by the import tariff policy of the U.S. Trump administration. However, in light of the local production trends of Japanese carmakers and the comprehensive costs, we consider that the Group should continue to maintain the production system policy centering on the Mexican base.

While coping with changes in such a specific external environment, we should further reinforce our proposal-making capability, which is a strength of the Group. This is our growth story for the next medium-term management plan. In the automotive industry, along with the changing trends in car interior designs, customer needs have been shifting from fabric

to synthetic leather. We are therefore required to develop and produce materials and products that accurately respond to these trends.

Furthermore, increasing customer acquisition is also an important theme in the future. It is our task to expand the scope of our proposition and build a new customer base in order to enhance our competitiveness in the global market.

Toward Achieving SGW STEP II –Prospects and Measures–

Although there are uncertainty factors, forecasts for production volume of Japanese automobile manufacturers mostly remain unchanged. As of now, the business aims to achieve growth while maintaining the targets set under SGW STEP II.

In terms of production, we have been strengthening the synthetic leather supply system centering around the bases in Mexico and Thailand. Currently, initiatives are under way to enhance our capabilities to make proposals tailored to each market.

In the North and Central American market, on which we focus, now that we have gained a foothold for a major foreign automotive manufacturer in the U.S., we will strive to further expand our business. Meanwhile, we will conduct sales activities in India, Thailand, Indonesia, Vietnam and other Southeast Asian countries, where Japanese automakers have a high market share and market growth is remarkable. These two markets hold the key to achieving our future growth.

In addition to taking measures geared to each region, it is more important for us to strengthen our comprehensive proposal capabilities. Taking seat coverings as an example, conventionally our sales activities have been focused mainly on fulfilling customer requests. Going forward, however, we will take a proactive approach to expand our business field. Specifically, we will anticipate customer needs and propose suitable specifications that provide functionality and added value for customers. Also, to implement the proposal, the entire Group's strength will be utilized in the production processes, including backing attachment and cutting. To realize this approach, it is essential to generate synergies of technologies and products through inter-departmental collaboration. As such, individual employees working in the fields of sales, development and design must change their mindsets.

Customer fixation and job routinization are points for reconsideration. While sharing a sense of crisis that "The work we have today does not necessarily continue tomorrow," we will continue to take on challenges.

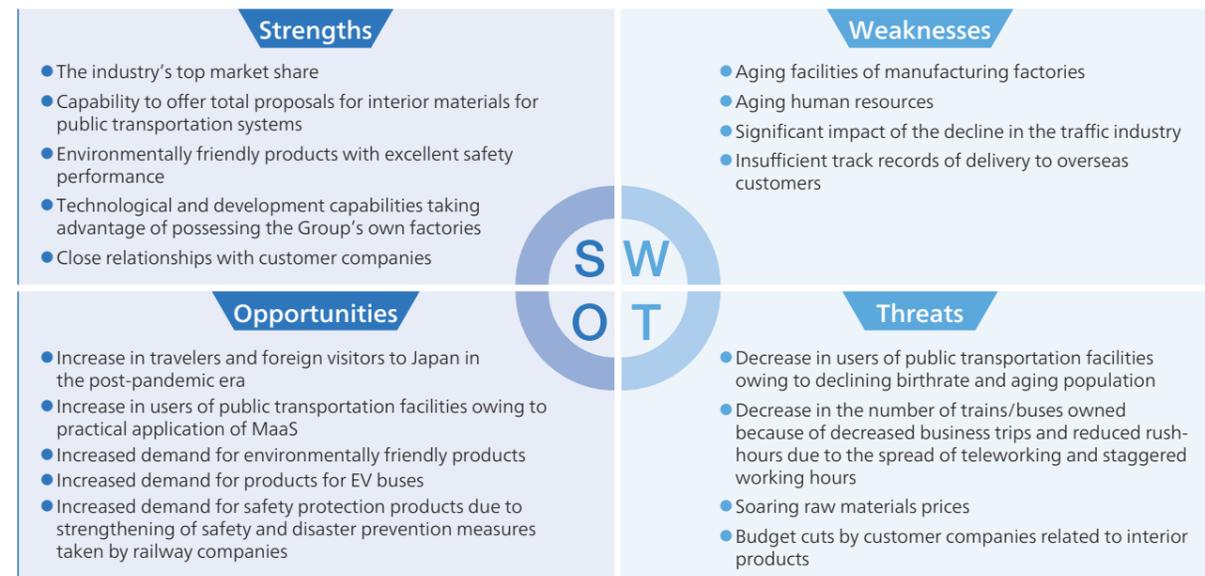
Automotive Textiles and Traffic Facilities (Traffic Facilities)

Review and Future Prospects by the Officer in Charge

Leveraging the Group's comprehensive strength to enhance our capabilities to make multifaceted proposals not only on interior materials for public transportation facilities but also on other various products

Tomohiro Yoshizawa

Operating Officer, Division Manager, Traffic Facilities Business Headquarters



Business Outline and Overview

The Traffic Facilities business takes charge of production and sales of seat coverings and other interior materials for public transportation facilities, including Shinkansen bullet trains and other trains, buses, and ships. In 1896, our founder succeeded in manufacturing a hand-woven seat moquette for the first time in Japan. The moquette was adopted by the Japan National Railways (now the JR Group) as its seat covering. Since then, our products have been used in an increasing number of train cars. Now, we boast the industry's top market share in seat covering materials for railway cars. As for seat covering materials for buses, we have also kept one of the highest market shares in Japan.

In the wake of the COVID-19 pandemic, the business has been affected by the declines in train car production volume as well as in the renovation frequency of existing cars. However, since we have maintained stable market shares, our net sales have been on the recovery trend. In general, demand for replacing seat coverings for train cars arises on a 10-15-year cycle, whereas no replacement demand arises for bus seat coverings, once being delivered when a bus is built. This also serves as evidence that our moquette fabrics (seat coverings) are durable and long-wearing materials and sustainable products.

The Traffic Facilities business is also apt to be influenced by budgeting of customer companies and their yearly business

plan. It is important for the business to forecast the replacement demand, taking into account the customer trends, and to formulate our production plan based on the forecast. For this reason, we strive to establish a relationship of trust with our customer railway companies and to grasp their train operation schedules in detail.

Strengths and Issues Identified through Past Initiatives

The basic principle of public transportation facilities is that "ensuring safety" comes first before anything else. Accordingly, the business must provide high-quality seat covering materials featuring high durability and flame-retardance. From the viewpoint of sustainability, customers want seat coverings that are long-wearing and do not show stains easily even when they get soiled. The business's strength lies in its capability to satisfy these needs. Moreover, we have maintained a high market share and established a stable supply system to deliver safe and high-quality products to railway and other operators. This has enabled us to enjoy close relationships with these customer companies, which is another strength of the business.

Although the transportation interior market has been stable, it is not an area with a high growth potential, and the demand arising from replacement of seat coverings depends on the annual budgets and vehicle maintenance plans of customer companies. It is therefore all the more necessary for us to accurately identify the demand. By grasping customers' car maintenance schedules, including the places where maintenance is conducted, we have established customer relationships that enable us to produce and ship products with optimal timing.

Nowadays, railway companies show a tendency to increase their budgets for safety measures, but reduce their budgets for interior products. As such, the Group has been attentive to this tendency. To cope with rising raw material prices, we have also been working on cost reduction. Since our suppliers include many small companies, the Group recognizes that it is its responsibility as a market leader to build up a sustainable supply chain. To fulfil this responsibility, we need to take multifaceted measures, including changes in specifications. Our important future task is to discern how we should expand revenue opportunities, taking into account the constraints mentioned above while improving efficiency and exploring technological innovation.

Toward Achieving SGW STEP II –Prospects and Measures–

Due to the COVID-19 pandemic, demand for our products had decreased owing to reduced vehicle production and

maintenance frequency. In light of the recent market environment where the demand has recovered, the business has adopted the policy of maintaining its numerical targets initially set under SGW STEP II.

While we have been working on cost reduction as mentioned earlier, we are aware that we need to obtain understanding from customer companies about the cost increases and price pass-through. In our efforts to maintain and improve profitability in the future, the key to success should lie in further reinforcing our proposition capabilities and achieving technology innovation through synergies among different businesses. I would also like our customer companies to recognize that the Group is an enterprise capable of providing an extensive range of high-quality products.

In recent years, the Traffic Facilities business has focused on strengthening its design capabilities to meet diversifying demands mainly for designs of sightseeing vehicles. We plan to display our proposal-making capabilities to design an entire space, including not only seat coverings but also flooring materials and curtains. An example of our track record is a project for the sightseeing train "Hana Akari," operated by West Japan Railway Company. In this project, we delivered a total set of interior materials, including seat coverings as well as carpet tiles and curtains. Our products were highly regarded for a color use and texture that expressed the train's interior motif "Flowers in four seasons in Japan."

To enhance our comprehensive capability for proposal making, I believe that it is effective to expand our perspectives to propose additional functions. For instance, a personal space requires quietness. We can then propose a new product having a function that meets this requirement. Going forward, we will advance product development from a broader perspective in order to promote the creation of added value.

With the view of increasing revenue opportunities, initiatives are being implemented to propose products for safety measures, which are in growing demand nowadays. We are enhancing the lineups of products, such as emergency escape ladders and intrusion prevention nets, in cooperation with our Group company Marunaka Soei Co., Ltd. In this way, we will promote sharing of information on our customer base and technological collaboration transcending the boundaries between businesses in order to advance multifaceted proposals.

We will review the value of a space itself and offer new proposals to public transportation operators by leveraging the Group's comprehensive strength without being constrained by the conventional framework of the Traffic Facilities business.

Functional Materials

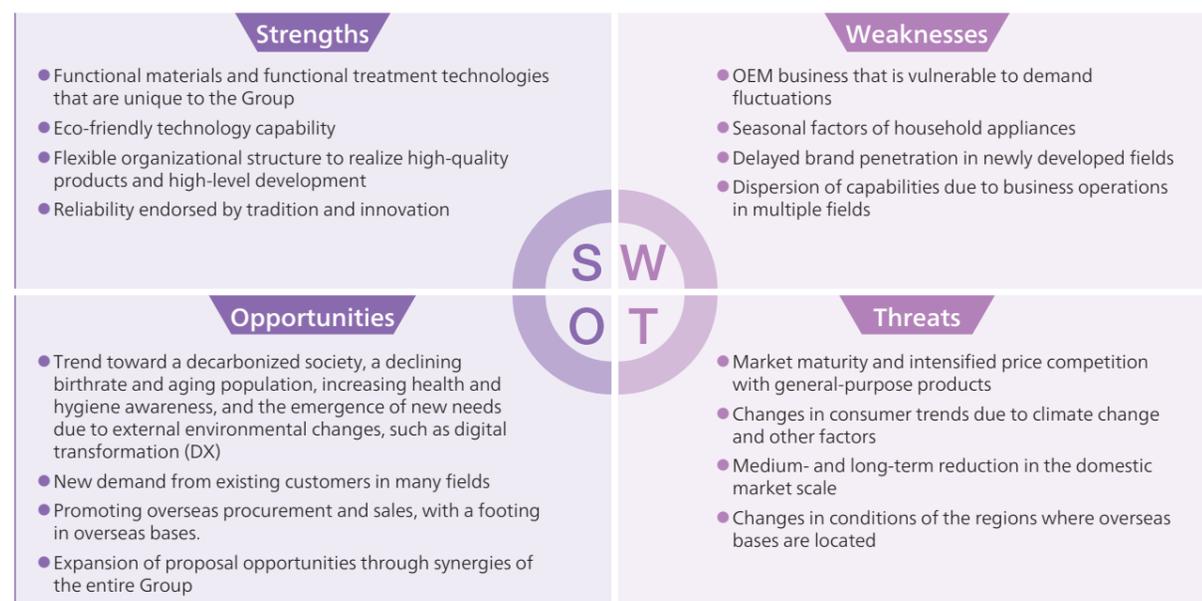
Review and Future Prospects by the Officer in Charge

Driving business restructuring to promote spring and summer home appliances and smart textiles, giving the supreme priority to achieving profitability in FY2026



Hiroshi Tamura

Operating Officer, Division Manager, Functional Materials Business Headquarters



Business Outline and Overview

In the SUMINOE GROUP, the Functional Materials segment is in charge of areas other than those covered by the Interior Fittings segment and the Automotive Textiles and Traffic Facilities segment. With its focus also placed on non-textile areas, this business segment is the most enterprising in the Group. In the category of household appliances, the business handles electric carpets and blankets for use in autumn and winter, and in the category of non-household appliances, the business deals with bathroom flooring materials, deodorizing filters, etc. The

business works on provision of products centering on materials featuring value-added functions.

In the fiscal year ended May 31, 2025, net sales of the Functional Materials segment came in at 2,566 million yen. Although profits improved from the initial plan, the segment posted a loss of 124 million yen. It was partly because the market for household appliances, mainly for use in autumn and winter, was sluggish due to an unusually warm winter, etc. Another contributing factor was a decrease in orders for some models of floor materials for bathrooms owing to a quality problem.

Strengths and Issues Identified through Past Initiatives

In light of these situations, we have been working to reform the cost structure and review the business operations, with the objective of improving profitability and strengthening the organizational structure. If the factory in Vietnam, which is our main production base, produces only household appliances for autumn and winter, the factory will be busiest in summer but not busy in winter. For this reason, as part of its streamlining efforts, the factory is entrusted to produce products of other businesses so as to equalize the operating ratio throughout the year. Meanwhile, our Chinese base, which had continued to exist as a trading company, was disbanded at the end of 2024, so we reduced the fixed expenses, including personnel costs.

In the household appliance category, we have undertaken the development of products for spring and summer use, taking into account the seasonal trends in recent years. In the spring and summer market in 2025, we launched a cool touch mat used at bedtime, with the expectation that it would grow as our new key product.

In the category of non-household appliances, currently we have no mainstay product that will be a growth driver of the entire business. This is one of the issues confronting us. As for floor materials for bathrooms, we have completed measures to remedy the quality problem and will continue to receive orders. However, according to our medium- to long-term estimate of the market size, we will face some difficulties due to the decreased number of new housing starts, etc.

In all of the categories of fabric-coated heating products, deodorizing products, and food products, we cannot be optimistic about the situations. To recover from a deficit, it is urgently necessary for us to restructure the product portfolio so as to generate sustainable revenue.

Toward Achieving SGW STEP II –Prospects and Measures–

Under SGW STEP II, we uphold our divisional mission “Boldly embrace new business developments and help create new corporate value.” Based on this mission, each department and employee of the segment has set up their own missions. These departments and employees are encouraged to accelerate efforts to achieve their missions.

For the fiscal year ending May 31, 2026, we have re-established numerical targets by revising the initial targets, giving priority to solidification of the present revenue base. For fiscal year ending May 2027, we are planning to achieve net

sales of 3.39 billion yen and segment income of 0.17 billion yen, aiming to ensure that the business will achieve profitability after moving out of the red. To achieve these targets, we have clarified our focus on profitability. In the factory in Vietnam, we have changed the previous make-to-order production system, which gave priority to the utilization rate by securing production volume, to a new one that attaches importance to securing profitability. We have also released spring and summer items of household appliances, as stated above. Through these measures, we will further promote the smoothing of production.

At the same time, we are focusing on the development of new products. Taking smart textile as an example, we are in the process of developing “Swetty,” which is a wetness and dampness detection system, in collaboration with the Technology Development Center. Its possible practical applications include uses in controlling the water content in concrete and in wetness testing apparatuses in the civil engineering field. This system is expected to be a solution that will meet the need for on-site labor-saving. We also plan to start full-scale marketing of a filter product featuring a freshness-keeping function and an oral care product with functional claim approval within the fiscal year ending May 2026. Furthermore, a project is under way to develop a new product with an appealing environmental profile realized by using recycled paper, aiming at placing it on the market during the period of SGW STEP II.

The fundamental idea behind development of these new products is to achieve speedy commercialization by applying existing technologies rather than inventing from scratch. To this end, we will mobilize the manufacturing and technological resources available across the Group. Concurrently, we will expand sales channels by strengthening synergies with existing businesses, as exemplified by product development through collaboration with the Interior Fittings and the Automotive Textiles businesses.

Going forward, we will continue our efforts to build a lean yet resilient business structure by maximizing resources inside and outside the Company and collaboration with Group companies and external partners. The Functional Materials segment will fulfill its role by continuously venturing into a new realm while forging a solid footing.

Research and Development Strategies

Creating value unique to SUMINOE by bringing together the Group's technologies and human resources

Taro Hattori

Operating Officer, General Manager, Technical Development, Production Headquarters



Promoting the development of technologies and products that are environmentally and people-friendly based on the fundamental development philosophy "KKR+A"

Ever since its inception, the Group has been committed to research and development (R&D) of technologies and products that contribute to society. In 1998, the Group announced the Interior Environment Improvement Declaration and set forth its fundamental development philosophy, "KKR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity)." Based on this philosophy, the Group has pushed forward with the development of technologies and products that are environmentally and people-friendly while promoting interior environment improvements and the use of recycled materials.

Our core technologies that the Group has cultivated for many years include the following: textile production technology, which represents our original business; knitting production technology; coating technology; resource recycling technology; sensing technology; resin compounding technology; functionalization technology; and hard cotton processing technology. On the basis of these technologies, we have been putting our energies into the creation of technologies and products that are consistent with "KKR+A."

Under the Group's R&D system, the Technical Development, Production Headquarters plays a pivotal role. This Headquarters comprises the Technology Development Center, which conducts R&D, and Suminoe Techno Co., Ltd., which takes charge of production technologies and product development. In cooperation with development teams of the respective business segments, the Technical Development, Production Headquarters has been pursuing manufacturing that answers market needs.

Among various core technologies, functionalization, which here means adding specific functions to textile products, is one of our major pillars. For example, we have developedトリプルフレッシュ® (TRIPLE FRESH) treatment technology, which decomposes odor-causing substances in the air by catalysis, and "Vguard," an antibacterial/antiviral processing technology. By adding these functions to home interior products such as carpets, curtains, and wallpapers, as well as vehicle interior materials, our technologies contribute to creating comfortable spaces.

Another pillar of our initiatives is to expand the scope of our technology applications. In addition to diverse textile products, the Group has been working to develop resin materials used in

floor signage film for trains and in bathroom flooring, drawing on our expertise. In the course of meeting customer needs by using various technologies, we are expanding the scope of targeted areas for development.

Promoting product manufacturing leveraging technological capabilities of our factories and resource recycling-oriented development

The Technical Development, Production Headquarters strives for value creation through the integration of R&D and production, which is one of the Group's strengths. In Japan, the Shiga and Nara Factories are under the umbrella of the Technical Development, Production Headquarters. These two factories conduct manufacturing, taking advantage of their distinctive characteristics.

The Shiga Factory produces a continuous polyester fiber called "スミトロン® (SUMITRON)," which is a recycled material made from used PET bottles. It was originally developed as a pile yarn that imparts characteristics to carpet designs and textures. In recent years, we have worked together with the Automotive Textiles business to develop a market, where this recycled fiber has been adopted by Japanese automakers for their seat fabrics.

On the other hand, the Nara Factory has conventionally been engaged in mainly manufacturing of carpets. Its current mainstay products are carpet tiles used in offices, etc. The Company was the first in Japan to produce a square carpet with sides of 50 cm.

We also began to undertake recycling of carpet tiles ahead of others. Since more than a decade ago, the Group has produced and marketed ECOS®, eco-friendly carpet tiles under the horizontal recycling system, which is highlighted by reuse of PVC (polyvinyl chloride) resin produced from the backing of waste carpet tiles that have been collected for replacement. For ECOS®, we have established an in-house system that covers all processes, from designing a production method to assembling of equipment. This proves that this product is a culmination of the Group's technologies.

Aiming to create value in the textile area, making effective use of our tradition and human resources

While "enhancing non-textile areas" is one of the priority themes of the Medium- to Long- term Management Targets, I believe that it is also important that we differentiate ourselves from others in the textile area by developing better ideas and improving product

value. For example, TANGO TEXTILE Co., Ltd. is a Group company that has maintained traditional techniques for manufacturing hand-woven *dantsu* carpets. By combining mastery techniques and state-of-the-art equipment, the Company strives to create products that satisfy customer needs.

At the Shiga and Nara Factories, initiatives are also under way to improve skills of individual employees and inherit techniques of predecessors. We have established a system under which a skill map that summarizes each employee's skills is created so as to facilitate personal growth of individual employees.

In addition, we have been promoting an initiative called "Wakate-kai (lit. assembly of young employees)," intended to foster originality and ingenuity of first to third-year employees. In this initiative, individual members are encouraged to address specific themes of their own choice for one year. Members from different departments gather together to freely think and come up with ideas about research and products.

Moreover, the Group offers a "Mirai (lit. future) allowance" system, under which an allowance is granted to young and mid-level employees whose performance during the past year is highly evaluated and who are therefore expected to achieve further successful results in the next one year. The Technical Development, Production Headquarters has adopted a method of selecting the recipients from among those who have declared their candidacy. The recipients will be selected based on the evaluation of performance in the candidates' *Mirai* improvement activities on a theme that they have voluntarily decided.

As described above, we have worked to establish systems that stimulate employee motivation, through which we aim to help create new value.

Creating the next value by developing new products capitalizing on our proprietary technologies

Through the above-stated initiatives, the Group has created its unique value one after another. One of them is the development of sensing technology. We are developing "Swetty," a wetness detection system that reacts when a fabric is wet. This system will be helpful in knowing if a train seat is wet. It can also be used for urination detection for people who wear diapers. In addition, since the Swetty is capable of detecting not only wet and damp conditions but also dry conditions, it may be used as a water leak and dryness detection system. This technology is expected to find other various applications in many areas.

In terms of functionalization, the aforementionedトリプルフレッシュ® (TRIPLE FRESH) is one of the technologies that the Group is proud of. It can be used to process interior products, such as carpets, curtains and wallpapers as well as automotive interior materials, to impart functionality that enables repeated cycles of absorbing and decomposing odorous substances.

Additionally, our products under development include the human/object distinguishing sensor, which utilizes various electromagnetic waves existing in the environment. This is a fabric that can distinguish between people and objects, and this technology was developed by combining our proprietary wetness detection technology with university research results. Since the sensor itself does not require a power supply, it can be used as an energy-saving sensor. We are considering using this sensor in systems intended to prevent car seat belt malfunctions and leaving a child in a car.

In the future, we will remain active in developing technologies and products by mobilizing all available resources of the Group.

List of major technologies of the Technical Development, Production Headquarters

Fundamental Development Philosophy	Core technologies	Element technologies	Technologies and products the Group has created based on its fundamental development philosophy	Business utilizing technologies and products
Kenko (Health) (K)	Functionalization technology	Antibacterial and Bacteriostatic	Silver-bacterial, chitosan processing	
		Antibacterial, antiviral	Vguard	
		Allergen-adsorbing	アレラブロック® (ALLER-BLOCK)	
Kankyo (Environment) (K)	Functionalization technology	Absorbing and decomposing	Ethylene adsorption and decomposition processing	
		Antifouling	Water-repellent and oleophobic processing	
	Resin compounding technology	Resin compounding	OH Film PH Film	
		Multilayer lamination	Floor materials for bathrooms	
Textile and knitting production technology + sensing technology	Circuit and wiring / data analysis	Human/object distinguishing sensor	* Distinguishes between people and objects by utilizing electromagnetic waves flying around us. 	
Recycling (R)	Kneading technology	Kneading	ECOS® series, eco-friendly carpet tiles under the horizontal recycling system	
	Resource recycling technology	Spinning	スミトロン® (SUMITRON), a recycled polyester fiber derived from PET bottles SEACLE, a nylon yarn recycled from discarded fishing nets	
	Utilization of biomass materials	Kneading	Wood flour-blended olefin sheet	* This product utilizes biomass materials to help lower the environmental impact by reducing CO ₂ emissions.
Amenity (A)	Resin compounding technology	Vibration-damping	Vibration damping sheet "burupita®"	
	Functionalization technology	Deodorizing	トリプルフレッシュ® (TRIPLE FRESH)	
		Repellent	Antitick processing	
			Insect/mosquito repellent processing	
Textile and knitting production technology + sensing technology	Circuit and wiring / data analysis	Wetness and dampness detection system "Swetty"	* A fabric sensor using conductive yarns that measures wetness and dampness (a very low level of moisture) 	

Technologies under development Interior Fittings Automotive Textiles Traffic Facilities Functional Materials

Message from the Director in Charge of Finance

Aiming to achieve sustainable growth through improving profitability and enhancing capital efficiency

Hiroaki Usugi

Managing Director General Manager, Administration Headquarters



Review of fiscal year ended May 2025

Sales increased but profits remain an issue.

The consolidated net sales for the fiscal year ended May 2025 were 104.7 billion yen, a 1.3% increase from the previous fiscal year. This was due to the increase in sales volume of ordered automobile models in Japan and the steady capturing of the recovering demand for interior materials for railways and buses. In addition, in the Interior Fittings segment, the adoption of the eco-friendly carpet tiles under the horizontal recycling system, which the Group manufactures and sells, has been growing, including in office buildings, thanks to their increased recognition. This also contributed to the increase in net sales.

Operating income was 3.0 billion yen, about 10% lower than the previous fiscal year, though slightly exceeding the revised full-year earnings forecast released on April 11, 2025. The major factors for this result include sluggish sales of Japanese automakers in China due to the growth of local automakers in the Automotive Textiles business, delays in the launch of the new synthetic leather plant in Mexico, and failure to meet profit targets due to delays in order fulfillment. Meanwhile, in the Interior Fittings segment, we implemented appropriate price revisions, primarily for carpet tiles, which resulted in improved profitability.

Profit attributable to owners of parent was affected by foreign exchange loss of a consolidated subsidiary of approximately 400 million yen and costs of responding to system failures following a cyberattack of approximately 150 million yen, resulting in non-operating expenses of approximately 550 million yen in total. Furthermore, as a result of carefully examining the recoverability of deferred tax assets based on future business outlook and other factors, we partially reversed the deferred tax assets. As a result, profit attributable to owners of parent decreased by 23.4% from the previous fiscal year to 669 million yen.

Current status regarding Medium- to Long-term Management Targets

Securing profits based on the results of business restructuring is urgently necessary.

Medium- to Long-term Management Targets "SUMINOE GROUP WAY STEP II (2025-2027)" aim for an operating margin of 5.0%, ROE of 8.0%, and PBR of 1.0 times. However, the fiscal year ended May 2025 ended with an operating margin of 2.9%, ROE of 2.1%, and PBR of 0.5 times. Due to factors such as sluggish sales of Japanese automakers in China and delays in the launch of a new synthetic leather plant in Mexico, we are currently about a year behind the initial plan. However, restructuring of businesses in North and Central America is progressing steadily. Going forward, we are determined to achieve the final target figures of SGW STEP II by advancing efforts to improve profitability and enhance capital efficiency.

For fiscal year ending May 2026, we are planning to achieve net sales of 105.0 billion yen, operating income of 3.1 billion yen, ordinary income of 3.35 billion yen, and profit attributable to owners of parent of 1.5 billion yen. In Mexico, production of floor carpets for foreign automakers has begun. In addition, in-house production of synthetic leather is also expected to contribute to boosting revenues. Our biggest focus is on recovering investment in the Mexico plant, and we recognize that it is an important site for our future revenue expansion.

We recognize that the Interior Fittings segment is an important pillar for improving our revenues. In particular, we will enhance our lineup of mid- to high-end products targeting the wealthy, strengthen our branding, and focus on selling these high-value-added items. The Group is operating the space design business, which handles everything from spatial design to construction, while also working to expand our business targeting spatial design for high-rise condominiums, etc. This will help us improve profitability.

Responses to achieve business management with an awareness of capital cost and share prices

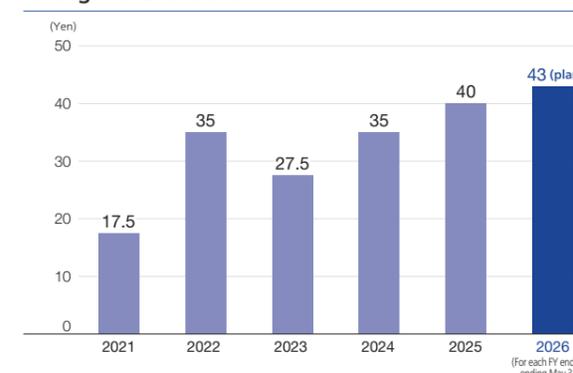
Focusing on enhancing shareholder returns and restoring trust in the capital market

Our ROE for the fiscal year ended May 2025 was 2.1%, which was below our recognized cost of shareholders' equity of 5-7%. PBR also remained at 0.5 times, and we believe that the primary factor behind this is the bottom-line profits falling below the planned level for two consecutive years despite a sales increase for the fourth consecutive year. Going forward, we intend to enhance information disclosure and address management challenges, thereby building relationships of trust with our shareholders and investors and securing appropriate evaluation in the capital markets.

Regarding shareholder returns, starting from the fiscal year ended May 2024, we have set a minimum dividend per share at 35 yen (after considering stock splits) while raising the dividend payout ratio from 33% to 38%. With the annual dividend for the fiscal year ended May 2025 set at 40 yen per share, we will continue to provide stable shareholder returns. For the fiscal year ending May 2026, we plan to pay an annual dividend of 43 yen. Furthermore, under our policy on shareholder returns, we aim to achieve our target annual dividend of 70 yen per share by the fiscal year ending May 2027. Regarding the effective use of treasury stock, we intend to take flexible action as necessary while taking into account the number of tradable shares. We will also continue efforts to reduce cross shareholdings and improve capital efficiency.

Regarding shareholder composition, thanks to the success of IR activities led by the Corporate Planning Department, as well as the effects of the stock split implemented in March 2025 and the expansion of shareholder benefits programs, the number of shareholders has increased to over 10,000. Meanwhile, the proportion of institutional investors is declining. To address this issue, we will steadily improve our business performance and enhance capital efficiency while maintaining stable dividends, thereby enhancing our reputation in the capital market.

Changes in Dividends



* A 2-for-1 stock split was conducted on March 1, 2025. The figures presented here reflect the adjusted values following the stock split.

Outlook for investment recovery

Generating concrete results from growth investments and improving capital efficiency

To achieve sustainable growth, we are advancing investments to strengthen our business foundation. During the fiscal year ended May 2025, we constructed a new synthetic leather plant in Mexico, invested in core systems, and implemented cybersecurity measures. Although these investments imposed a temporary burden, we believe they are essential for strengthening our future earnings base.

After the fiscal year ended May 2025, we plan to install a synthetic leather finishing line at our Thai site, scheduled to commence operations in the final year of SGW STEP II, and continue growth investments at our bases in India and North and Central America. Regarding M&A, while we currently have no plans for large-scale deals, we intend to build up relatively smaller deals, such as those related to the space design business.

Going forward, we will steadily translate these growth investments into tangible results while simultaneously reducing cross-shareholdings, with the aim of improving capital efficiency.

Dialogue with capital market

Aiming to enhance market valuation through dialogue with a broad range of investors

Placing importance on dialogue with the capital market, we intend to actively engage in IR activities. Through financial results briefings by the President, individual meetings with institutional investors by the Director and the Operating Officer in charge of IR, and other opportunities, we hold constructive dialogue with a broad range of investors. Additionally, as we continue to develop new technologies and products, such as water detection systems and sensors that distinguish between people and objects, which is being developed through industry-academia collaboration, we will strengthen our information dissemination through news releases and social media.

In the non-financial area, we place emphasis on communicating information through our integrated report and website. We will continue to proactively disclose information regarding environmental, social, and corporate governance matters. We believe these initiatives can be leveraged not only for communicating information to external stakeholders but also for internal goal management and oversight functions.

Finally, I would like to reiterate that going forward, we will enhance shareholder value and strive for a fair valuation of our stock price through a financial strategy focused on improving profitability.