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Management Foundation Supporting Value Creation



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Roundtable Discussion with Outside Directors

Outside directors discuss the governance framework and future strategy for achieving sustainable growth and entering the next phase of transformation and challenges

In 2015, Sangetsu transitioned to a company with an Audit & Supervisory Committee structure. In June 2019, the Company strengthened the audit and supervisory functions of the Board of Directors by appointing four outside directors to constitute a majority of the seven board members. The four outside directors engaged in discussion to share views on enhancing the effectiveness of governance and promoting long-term corporate value.

Role of outside directors in the Sangetsu Group

Hamada Sangetsu's governance structure is characterized by its advanced nature. The Company transitioned to a company with an Audit & Supervisory Committee structure in 2015. Since 2019, it has satisfied the standard of having a majority of outside directors. Sangetsu was able to establish this innovative governance structure at an early stage thanks to former President Yasuda, who took over management from the founding family in 2014. President Yasuda actively promoted a policy of clearly demonstrating the legitimacy and transparency of management to stakeholders. In terms of sustainably enhancing a company's corporate value, the most critical and central issue is the selection of the successor to the president and the timing of the transition. At Sangetsu, the Nomination and Remuneration Committee and the Board of Directors spent two years addressing this issue. Ultimately, Director Kondo assumed the role of



president on April 1, 2024. Then, in autumn of last year, all directors and executive officers spent significant time discussing the governance structure, confirming that the system of a majority of outside directors will be maintained going forward. It is highly encouraging to see how the approach of clearly demonstrating the legitimacy and transparency of management to stakeholders has been deeply and widely inherited by all employees at Sangetsu.

Udagawa The fundamental role of outside directors is to supervise, not to execute. With that in mind, we are expected to refrain from involvement in management. However, I find that drawing this line is extremely difficult. Personally, going forward, I intend to focus my oversight and advice on the validity and profitability of investment projects, such as M&A, which will become increasingly important.

Terada I hold the dual roles of Audit and Supervisory Committee member and outside director, so I always try to be conscious of which perspective I am speaking from. My many years of experience enable me to easily understand discussions related to management, and I sometimes feel tempted to offer recommendations. However, I make a point of listening carefully to the views of the management team, fully understanding their way of thinking and processes, and speaking based on the standard of whether their approach is appropriate.

Ogane As mentioned by Ms. Hamada, the advanced governance structure that Sangetsu has built is evident in the very positive atmosphere that encourages outside directors to voice their opinions and proposals. One of the key roles of outside directors is to draw on their

diverse knowledge and experience to share insights and bring in perspectives on what is happening in society. Within that framework, I use my experience at financial institutions to oversee organizational issues reflected in financial statements and metrics. I also leverage my extensive experience observing the development of DEI in Japan, and I hope to contribute to the utilization of diverse talent within the Sangetsu Group, including women's participation and advancement.

Business model and strengths of the Sangetsu Group

Ogane The strengths of the Sangetsu Group lie in its business foundation backed by a long tradition that has continued since the Edo period, its credibility, and its robust sales network built on trust with distributors and customers. These are aspects that a startup company would struggle to replicate. Other strengths are that Sangetsu has always been supported by many stakeholders, that employees sincerely recognize that support, and that the business model and the Company itself have evolved over time in response to changing circumstances. Another positive aspect I see at Sangetsu is the balance between investment and shareholder returns, built on a very stable financial foundation.

Terada Drawing on my experience in the construction industry, I deeply appreciate the Sangetsu Group's long-standing heritage and the reputation it has built over many decades. That accumulated trust, in my view, is closely connected to the Company's strong financial foundation.

Another outstanding aspect of Sangetsu is the corporate culture in which many sincere employees work together as one. On the other hand, I have noticed that once a direction is set, people rarely voice objections or alternative opinions. While this can be seen as a strength in terms of alignment, it is important to encourage a variety of views and perspectives by examining what the facts actually indicate and considering things from different positions. This will enable flexible course correction and enable the overall Company to move forward in the best direction.

Udagawa As both of you mentioned, the strength of the Sangetsu Group lies in the diligence and sincerity of its members. The Company has a strong sales structure which enables it to achieve high profitability in the Domestic Interior Segment and maintain financial stability. On the other hand, for this very reason, employees may not have been strongly aware of a sense of urgency regarding the current situation or of the need to start new businesses. Although the Company has undertaken new initiatives in the past, many of these

were primarily proposed by management. Going forward, I hope to see more proactive proposals coming from a broader range of employees.

Hamada As we have already discussed, one strength of the Sangetsu Group lies in the solid business foundation built during the era led by the founding family. Another major strength is the ambition for business transformation and commitment to social contribution, both grounded in high ideals. These ambitions have been carried forward through the handovers in management, to former President Yasuda in 2014 and to current President Kondo in 2024. Over the past ten years, many employees have achieved growth spurred by the strong drive of the Company's leaders. Of course, there were both successes and failures. The important thing is that the corporate culture of learning from mistakes, continuing to take on challenges, and striving for even greater heights has taken root. I believe this will remain a significant strength for the Sangetsu Group as it continues to grow in an era of rapid change.

Toward transformation into a Space Creation Company

Terada The "Space Creation Company" concept, introduced in May 2020, is the vision the Sangetsu Group is aiming for.

Although only the vision was widely known as a catchphrase and Sangetsu was not truly a "Space Creation Company" in the past, I now feel that the Company's reality is catching up to it.

Looking ahead, the most important element of future plans is what actions will be taken to achieve results. As outside directors, we must be involved in the process and reasoning behind the formulation of the next Medium-term Business Plan, while ensuring proper oversight and monitoring and confirming progress.

Ogane Risk management will be crucial in the transformation to a Space Creation Company. Approaches and methods that have been successful in Japan may not necessarily work in new businesses and overseas expansion. Precisely because this is a period of change from the existing business model, the key will be how the Company systematically manages risks, including those related to general and legal compliance, as well as business continuity planning.

Udagawa The Company founded the Space Solutions Group in April 2025. The progress of this business is now becoming visible in concrete terms, which I view as a significant step forward. However, competition in this business area is extremely intense. With so many competitors, Sangetsu will need strong, skilled leadership to survive. In the context of the Space Solutions business, it will be crucial to carefully consider what actions create added value and how to execute them effectively. A certain level of revenue is necessary in order for the business to gain recognition both inside and outside the Company. At the same time, business decisions must take profitability into account. Given that the domestic market is facing structural changes such as a declining population and labor shortages, taking on challenges in this business domain will be essential for future growth.



Hamada The Space Solutions business is still in a stage of expanding through trial and error. The process of venturing into new fields requires a corresponding level of resolve and an appropriate organizational structure. Many employees within the Sangetsu Group are working hard to expand its business domain, and new colleagues and Group companies that share the vision are joining in support of this transformation. I can see that employees are aligned and are giving their best efforts toward a shared goal, and I want to support and encourage these initiatives through my role as an outside director.

Progress and issues of human capital and digital capital

Terada As mentioned earlier, one of Sangetsu's strengths is the diligence and sincerity of its employees. At the same time, one concern regarding human capital is that Sangetsu tends to start by designing the framework of what needs to be done, and only then considers how many people are required to accomplish the task. This approach leads to a shortage of personnel. I also feel that the concept of the framework itself is still somewhat vague. Going forward, it will be important to hold discussions and ensure that management fully recognizes these issues.

Udagawa As pointed out by Mr. Terada, Sangetsu's approach to human capital tends to start with creating an ideal organizational structure or positions based on the desired result, and then fitting the existing personnel into that framework. As a result, there are cases where individuals end up having to handle three or four roles at once. This can lead to fatigue and reduced efficiency. It is important for management to be mindful of this point.

Ogane The DX Division is leading the strengthening of digital capital. A solid foundation is steadily taking shape under the direction of a proactive executive officer. However, DX should not be limited to simply systematizing operations. There also needs to be discussion about how to effectively use the accumulated digital capital. Rather than leaving this entirely to the DX Division, a key challenge going forward will be for the entire Company to take ownership of how digital capital is built and leveraged.

Hamada Hamada Sangetsu has historically invested significant capital in major overhauls of its core systems. In the past, a shortage of digital talent was a challenge. However, now that an internal information system infrastructure has been established, I believe that the Company has reached a level where it can be confident in terms of personnel. Furthermore, I am hopeful about the emerging movement in which each employee thinks for themselves and works together, rather than



leaving everything to the DX Division, when considering how to evolve digital capital to transform the business model, as well as how to improve its efficiency.

On a different note, I would like to highlight the remarkable results achieved in human capital strategy. I became an outside director of Sangetsu ten years ago, and the atmosphere of the Company today is completely different from what it was back then. I was genuinely surprised and delighted when young female employees told me that they joined Sangetsu because it is a company where women can thrive and have the opportunity to work overseas. The ratio of female managers, which was in the single digits ten years ago, has increased to 22.8% in 2025. This is very close to reaching the target of 25% set in the Medium-term Business Plan [BX 2025]. When Sangetsu set the goal of having all male employees take childcare leave, some considered it an impossible target. Remarkably, it was achieved the following year. These changes reflect not only numerical results but also a significant shift in corporate culture.

Ogane The year after Japan enacted the Equal Employment Opportunity Act, I joined a bank as the first woman in a regular career track position. I have witnessed the barriers and challenges women face when taking on responsibility in society and within companies, as well as efforts made to overcome. I will continue efforts to help promote active participation by women in the workplace.

Creating economic value and social value

Ogane From the perspective of Sangetsu's place in society, the Company enjoys strong recognition within the industry. However, if Sangetsu grows complacent with its current visibility and brand strength, I believe there is a real risk of being caught off guard. It will be important to stay attuned to changes in society, broaden the channels through which

the Company reaches customers and communities, and create more opportunities for engagement in a wide range of settings.

Terada In terms of corporate sustainability, I believe that the creation of social value can only be sustained if it also generates economic value; in other words, profits. It is important to generate social value within business activities that can continuously produce economic value. In the case of the Sangetsu Group, the significance of social value will increase as it becomes more closely aligned with economic value. Particularly in the environmental sector, adding economic viability to initiatives such as recycling flooring materials and sample books creates a more sustainable and effective cycle.

Hamada It goes without saying that continuously generating profits and increasing economic value is of utmost importance to a company. At the same time, a company is able to sustain profitability because it contributes to society and creates value by providing customers with good products and services at fair prices. The Sangetsu Group exists for the benefit of society. Employees can feel their contribution to society and a sense of purpose through their dedication to the Company's business. A management approach has taken root in which the Company clearly sets its medium- and long-term direction through its Corporate Philosophy and Long-term Vision, and

advances its business while sharing those aspirations across the organization. I hope the Sangetsu Group will continue to be a company that upholds ambitious long-term ideals.

Udagawa The Sangetsu Group has actively worked not only to create economic value but also to generate social value. I believe that the Sangetsu Group will achieve even greater value creation as it pursues its Corporate Philosophy and transforms into a Space Creation Company. As the Company prepares to finalize its new Medium-term Management Plan for release next year, I will fulfill an active and effective role as an outside director in discussions that support sustainable growth of the Group.

