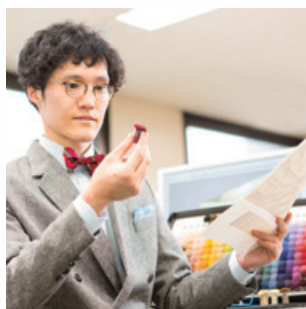


SANGETSU REPORT 2016



Joy of Design

We share the joy of design with those who create new spaces.



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■ Editorial Policy	Sangetsu Report 2016 provides both financial and non-financial information so that key stakeholders can more clearly understand Sangetsu's corporate value and mid-to long-term growth potential.
■ Boundary of reporting organizations	Sangetsu Corporation and its consolidated subsidiaries
■ Period covered	April 1, 2015 to March 31, 2016 (includes some activities after the reporting period)
■ Date of publication	June 2016

Note on Forward-looking Statements

The SANGETSU REPORT contains the current plans, outlook and strategies of Sangetsu Corporation including information that is not historical fact but forecasts of future business performance, representing assumptions and judgment based on the information currently available. Readers are therefore cautioned to refrain from relying completely on these forecasts alone. Actual business performance may differ from these forecasts due to the prevailing economic environment surrounding the company and to fluctuations in demand and foreign exchange rates.

Furthermore, the SANGETSU REPORT is not intended to promote investment. The company assumes no responsibility whatsoever for any damage caused by the use of this information. Please keep in mind that any investment decisions must be based on your own judgment.

Sangetsu’s Creativity – The Frontier Spirit that Blazed a Trail in the History of Interior Design

More than 167 years have passed since Sangetsudo was founded in 1849 by Yasuke Hibi, a picture framer who furnished rooms with scrolls, hanging scrolls, fusuma (papered sliding doors) and folding screens. Sangetsu has given shape to this passion for creating products that have been handed down for generations. Now and into the future we will continue to take on the emerging challenges of each new era.

First Phase	Sangetsudo was founded during the Kaei Period (1848–1854).	1849	Yasuke Hibi founded Sangetsudo.	
Second Phase	<p>Nationwide business development – Establishing the Total Interior</p> <p>In 1953, then-President Yoshiaki Hibi established Sangetsudo Shoten Co., Ltd. as a company mainly involved in the wholesale of fusuma paper.</p> <p>In 1956, before the word “interior” had come into common use, the company began selling wallcoverings as a product that met the needs of a new era, thus setting the standard for our ability to face the challenge of moving ahead of the times.</p> <p>In 1966, Yoshiaki Hibi was impressed by the advanced Western concept of interior design, which provided a sense of joy and relaxation in daily life. His passion for improving the quality of Japanese interiors was the starting point for today’s Sangetsu, which set its goal on offering total coordination and creating a sense of unity in living spaces. The company maintained its “fabless management” style throughout a time of dramatic change, planning and developing its own products by responding with sensitivity to the needs of customers and to the times.</p> <p>From wallcoverings, the company steadily expanded its product lines to flooring materials, curtains and upholstery, culminating with the celebration of its 60th anniversary in 2013. Sangetsu has been contributing to the development of Japan’s interior design by establishing a nationwide sales system and logistics network.</p>	1953	Sangetsudo Shoten Co., Ltd. established in April with capital of 2.5 million yen and sales of 34 million yen.	
		1956	Started wallcovering sales.	
		1960	Established the company creed: “Integrity.” Sales exceeded 100 million yen. Released first wallcovering sample book “SS Unique Cloth, 60-61.”	
		1964	Started nationwide sales promotion.	
		1965	Launched first original wallcovering “Elite.”	
		1966	Company name changed from Sangetsudo Shoten Co., Ltd. to Sangetsudo Co., Ltd. in February.	
		1970	Company renamed Sangetsu Co., Ltd. in April.	
		1979	Released first PVC floor sheet sample book “Sunshine, 79-81” in December.	
		1980	Company listed on the Second Section of the Nagoya Stock Exchange in November.	
		1981	Released first curtain sample book “Sangetsu Curtain, 81-82” in January.	
		1982	Released first carpet sample book “Sangetsu Carpet, 82-83” in April.	
		1994	Released first upholstery sample book “Decorator Fabrics vol. 1” in October.	
		1996	Company was listed on the First Section of the Tokyo Stock Exchange in December.	
		2013	60th anniversary of the company founding in April.	
Third Phase	<p>Third Founding Phase – Taking on New Challenges</p> <p>In 2014, the baton of managing the new Sangetsu was passed from the former president, Yuichi Hibi, to his successor, Shosuke Yasuda. This marked the beginning of a new framework for advancing from the management-driven structure of the founding family to becoming a listed company with employees who actively participate in management.</p> <p>In the same year, we announced the “Mid-term Business Plan (2014-2016): Next Stage Plan G” and are now striving to transform ourselves into a resilient company that continues to grow.</p>	2014	Shosuke Yasuda assumed the presidency. Announced “Mid-term Business Plan (2014-2016): Next Stage Plan G” in June. Announced capital strategy in November.	
		2015	Opened Shinagawa showroom “Sangetsu design site FLAGSHIP” inside the Shinagawa Grand Central Tower in July. Wallcovering series “SHITSURAHU” and flooring material carpet tile “process#100/SUMI” received the 2015 Good Design Award in September. Started sales of large-size ceramic slab “GARZAS” in October.	

The Joy of Creating New Value

We reformulated our corporate philosophy, including our new brand concept, in April 2016, to mark our next step in taking on new challenges of change. With this corporate philosophy as a foundation, we will work as a team and aim to attain our goal of sharing the joy of creating new value with all our stakeholders.

Corporate Philosophy

A timeless and unchanging Sangetsu origin combined with the company’s reasons for existence, corporate mission, the Three Principles of Sangetsu, and our brand concept constitute Sangetsu’s corporate philosophy.

Company Creed

Integrity

Corporate Mission

To contribute to society through interior design and strive to create a daily culture of enrichment.

Three Principles of Sangetsu

Creative Designs, Highly Reliable Quality, Fair Market Prices

Brand Concept

Brand Statement

Joy of Design

Brand Purpose

We provide the joy of design to those who create new spaces.

Joy of Design

We share the joy of design with those who create new spaces.

The joy of fulfilling your dream at home.
The joy of envisioning and realizing unconventional commercial spaces and facilities.

In our role of bringing that joy, we ourselves must contemplate the nature of design.

The design that we pursue encompasses not only the design of objects, such as the aesthetics and functions of the products themselves, but the design of spaces that set the context for the thinking and activities of people within those spaces.

With these two design perspectives, we will continue to propose creating spaces that include a total design for the interior.

Furthermore, in our efforts to realize such designs, we will value our collaboration with outside partners in addition to expanding the foundation of our business and making our operations more sophisticated.

Joy of Design

Sangetsu, together with the creators, users and others related to interior products, will share the joy of creating new value.

History of Sangetsu / Corporate Philosophy

02 SANGETSU REPORT 2016

SANGETSU REPORT 2016 03

I would like to express my heartfelt gratitude for the ongoing support and patronage of all our stakeholders, including our customers, shareholders, investors and business partners.

On April 1, 2016, Sangetsu announced its new brand concept. We will become a solid, dependable company by sharing the joy of design with those who create new spaces.

We look forward to your continued understanding and support as we move forward into the future.

Market Environment Surrounding Sangetsu and Recognition of Issues

The market environment in fiscal 2015 was characterized by ups and downs. In the housing market, which is closely related to the company's business, the negative rebound following the last-minute rush to purchase before the consumption tax hike leveled out, with new housing starts signaling a recovery by rising 4.6% year on year. A similar turnaround in demand occurred for home refurbishment, which increased 2.8% year on year. On the other hand, the non-housing market defied expectations with a 6.5% year-on-year decline in total floor area of new buildings. However, considering the time lag between the start of construction and interior work, and particularly when compared with the upturn in fiscal 2013 and downturn in fiscal 2014, we believe the overall impact has essentially been neutral. While there were differences between business fields, we observed signs of renewed vigor both in new construction and renovation in hotels and commercial facilities on the back of the upcoming Tokyo Olympic Games and robust inbound consumption.

Under these circumstances, the Sangetsu Group pursued its goals for the second year of the Mid-term Business Plan. It expanded existing businesses and promoted growth strategies with a focus on investments targeting mid- to long-term growth, such as launching a flagship showroom in Tokyo, opening and consolidating logistics centers, and bolstering alliances with suppliers.

As a result, consolidated performance for the term was as follows: net sales rose by 1.5% year on year to ¥133,972 million; operating income grew by 13.5% year on year to ¥9,112 million; ordinary income increased by 11.2% year on year to ¥9,463 million, and net income attributable to parent company shareholders jumped 45.2% year on year to ¥6,393 million.

Fiscal 2016 marks the final year of the current Mid-term Business Plan. The Sangetsu Group will seek greater advances for its business platform and reconstruct its business strategies. It will strive to reinforce its human resource development and organizational strengths and forge closer alliances with customers and suppliers to transform into a resilient company that continues to grow.

Reaching Greater Heights

Establishing a new growth platform to accelerate our transformation

Shosuke Yasuda

President and CEO



Steadily Implemented Reforms in the Second Year

We positioned the ongoing Mid-term Business Plan as a period for redeveloping and strengthening our business structure to prepare for future growth, and we steadily implemented the reforms in fiscal 2015, the plan's second year.

Sangetsu had traditionally achieved growth by pursuing a business model based on a nationally uniform sales structure and standardized products. In recent years, however, the market has become increasingly diversified with a corresponding rise in the variety of demand. This created a strong sense of crisis that the company would be unable to capture this diversifying demand and maintain sustained growth if it continued to adopt single-layered, unitary actions based on a conventional market approach. Therefore, we shifted our mindset and implemented wide-ranging measures for developing our business platform and restructuring our business strategy to be oriented around a market-driven and a specialized and expert approach. Since fiscal 2014, we have continued to bolster our market-driven organizational structure, reorganizing the curtain division into the fabric division and establishing a curtain business section and an upholstery section within the division in fiscal 2015. By constructing an expert organizational structure, we will pursue sales activities toward providing products suited for specialized markets.

We are actively investing our resources to both reinforce our organization and raise operational efficiency. We are also constructing an information system that links with SAP, an ERP system with Salesforce for managing sales and customer

relationships, and with WMS, with the goal of raising logistics efficiency through inventory management. Moreover, we are establishing a system that will ultimately deliver centralized control over the entire process, from procurement to sales. Preparations are currently underway to begin operations from January 2017, under a system that will enable us to maximize Sangetsu's three core strengths of "Creation," "Proposal" and "Delivery."

Key to Growth Lies in Self-Driven Change among Employees

As a result of steadily implementing the Mid-term Business Plan, we achieved net sales of ¥133.97 billion, and consolidated net income rose to a record high of ¥6.39 billion. While we accomplished our net income target set by the Mid-term Business Plan a year in advance, we have determined this to be the result of Sangetsu's existing comprehensive capabilities. Also, we are aware that we cannot be certain that the measures currently being undertaken will lead to actual results for the next Mid-term Business Plan.

We believe that company reform and change in the employee mindset are the two key factors for implementing the Mid-term Business Plan. As previously mentioned, we are already clearly seeing the results of company transformation in areas such as internal structures and systems, but issues remain with regard to changing the employee mindset. I feel that the mentality of active employee participation in management, which I upheld upon becoming president, has not spread throughout the entire company. For Sangetsu's growth, it is essential that employees think on their own and take action by demonstrating their individual strengths within the organization. In this context, I visited our branches, divisions and sections around Japan to once again stimulate an exchange of views between management and employees on the company's management strategies, resulting in a total of 25 open discussion meetings with employees. For a significant portion of these meetings, I ended up offering a one-sided explanation, but I believe there is still room for improvement to make the meetings more open. At the same time, I also expect more employees to be more proactive in communicating with senior management and be motivated to act.

Aspirations Behind Our New Brand Concept

On April 1, 2016, we announced Sangetsu's new brand concept "Joy of Design" and "We share the joy of design with those who create new spaces" with the promise to remain a consistently reliable company for society and all of our stakeholders.

The company creed expressing our universal principles, corporate mission, Three Principles of Sangetsu, and the new brand concept make up our corporate philosophy, which constitutes the basic definition of Sangetsu's role in society. It also represents the cornerstone which ensures that employees share a common goal, and we will base our internal branding on these concepts.

As we continue to shift the mindset of our employees, we are also seeking to provide a specialized and expert response to manifold aspects of our operations. Therefore, it is important that our employees take the initiative to bring out their abilities in different situations while striving to create a new Sangetsu by more closely aligning themselves with the company. To that end, we are simultaneously fostering brand ambassadors within the company to disseminate the message throughout the company.

Under this new corporate philosophy, we will seek continued growth for Sangetsu.

Future Sangetsu for Value Creation

In our efforts to create value over the mid- to long-term, we will focus on the four basic principles of the Mid-term Business Plan while promoting sustainable management to fulfill Sangetsu's responsibilities toward all stakeholders. In April 2016, we established the CSR Promotion Section, which will place its priority on compliance and safety as it spearheads our efforts to resolve social issues by contributing to the environment, fair business practices and regional communities through our business activities.

Under the Mid-term Business Plan, we are creating and relocating showrooms and reorganizing logistics centers to develop our business platform for the future, and the costs of these advance investments are rising. To ensure that our current measures yield solid results, we will continuously expand the foundation of businesses with high sales and improve efficiencies, including cost management, toward our goal of achieving ROE of 8% to 10% during the three-year period of the next Mid-term Business Plan.

In 2016, the final year of the current Mid-term Business Plan, each employee will play a lead role in bringing about change by creating value and building a resilient company that will continue to grow as the means for providing our shareholders with returns and the assurance that as the company grows it will also endeavor to realize a sustainable society.

Targets for the 2014–2016 period

Sangetsu endeavors to achieve record levels of profit while at the same time making advance investments to establish an organizational structure for sustained growth.

Revenue target for FY2016 (consolidated)

Net sales **140.0 billion** Net income **6.3 billion**

Targets for the 2017–2019 period

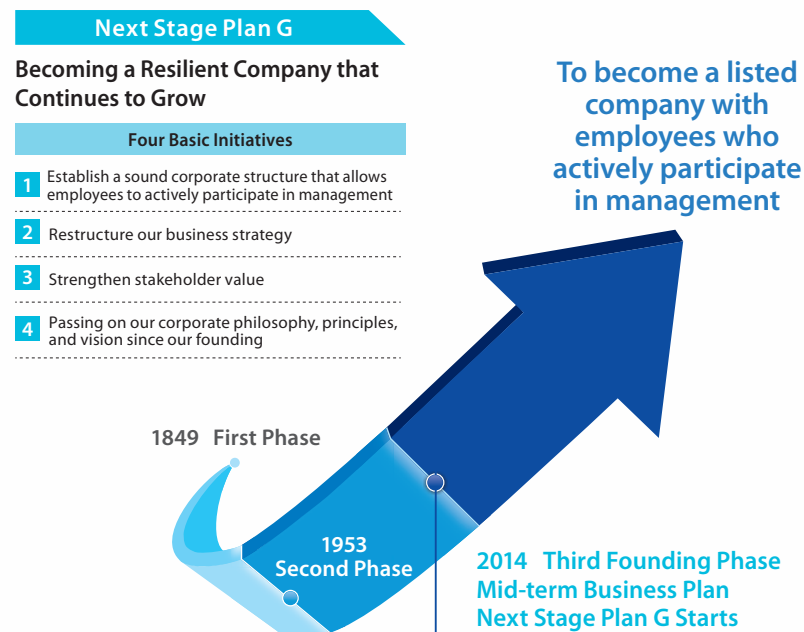
Final target for the next Mid-term Business Plan based on the current Mid-term Business Plan

- Realize profitability of new business, overseas business and consolidated subsidiaries
- Steadily expand profitability of the Interior Business
- Introduce a new capital strategy

▶ We will seek to achieve a **ROE of 8% to 10%**

Progress Report on Our “Mid-Term Business Plan (2014-2016): Next Stage Plan G”

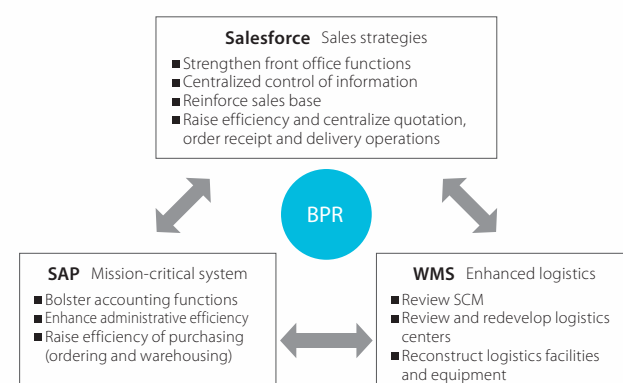
We launched the current Mid-term Business Plan to mark our Third Founding Phase. The three-year plan is positioned as a period for redeveloping and reinforcing our business system to prepare for future growth. In fiscal 2015, the plan's second year, we sought to establish a platform for future growth by adhering to the four basic initiatives of the plan. In the plan's final year, the results and remaining issues related to each measure will be taken into account as both the company and employees take responsibility for changing mindsets and actions to transform Sangetsu into a listed company in which employees actively participate in management, and steadily progress in becoming a resilient company that continues to grow.



Establishing a Corporate Structure for Employee Participation in Management

• Operational reform and reconstruction of the IT systems and logistics systems

To further solidify Sangetsu's business foundation by integrating our operational reforms, sales strategy and systems, we are reforming our operations and reconstructing our information and logistics systems. These efforts entail linking our SAP mission-critical system, Salesforce, which supports our sales strategies and the WMS system for raising logistics efficiency to construct stable, convenient IT system by enhancing efficiency and centralizing control of operations. Functional requirements and system design and development were launched in 2015 with the goal of rolling out the system in January 2017.



Business Strategy Reconstruction

• Showroom policy

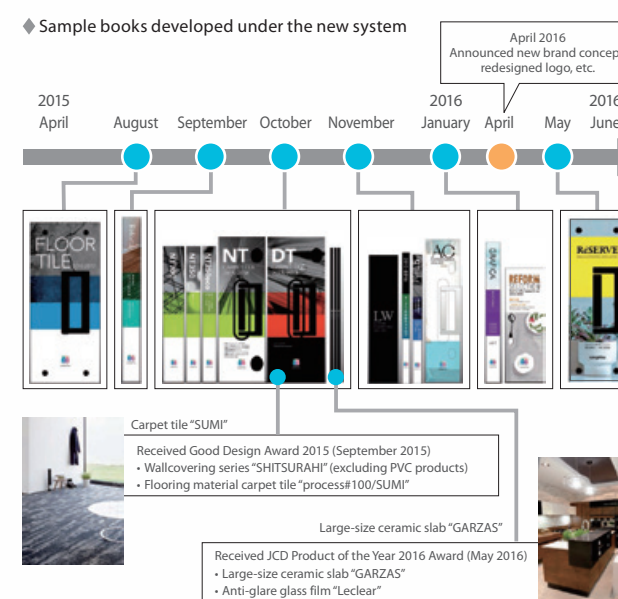
In July 2015, our flagship “SANGETSU Shinagawa showroom” opened in Shinagawa, Tokyo. Under the concept of “GOOD LIFE CLOSET,” this innovative, proposal-oriented showroom offers lifestyle choices, featuring full-scale interior-coordinated spaces and the latest digital simulation systems. In June 2016, we also opened smaller showrooms in response to demand for refurbishment in Sendai and Okinawa. In addition, our nationwide showrooms were renamed in April 2016 to coincide with the announcement of our new brand concept. We will continue to create spaces that meet diverse, sophisticated needs to provide customers with the joy of designing their lifestyles.



sangetsu design site
 FLAGSHIP SANGETSU Shinagawa showroom

• Strengthening the product development system

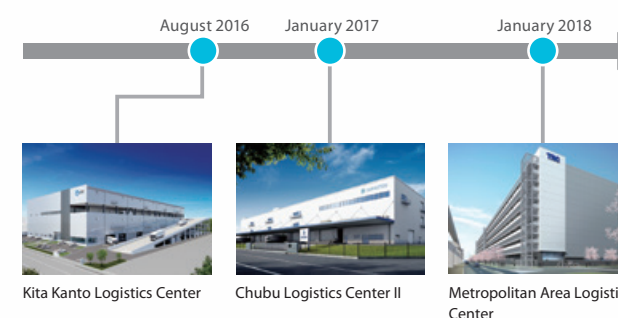
We are also pursuing a market-driven, specialized and expert strategy for product development. As part of this effort, we have developed numerous sample books for sophisticated, specialized needs throughout the year. Each sample book has its own design concept, but the spines of these books are designed under consistent rules to promote the Sangetsu brand.



• Redeveloping logistics centers

We are redeveloping our logistics centers to streamline the system of collecting cargo from suppliers and to address our aging logistics centers. We will begin operations at the new logistics centers in sequence and develop a consistent collection-to-delivery system.

◆ Scheduled start of operations at the new logistics centers



• Strategies for new business and overseas business

New business

In October 2015, we began sales of the large-size ceramic slab “GARZAS,” a new decorative construction material with broad applications, including use as walls and floors of non-residential buildings and as surface decoration for furniture and kitchen interiors. The new product combines the elegant texture and impact characteristic of ceramics and is offered in 40 colors and 63 variations that enable designers to create more value.



Large-size ceramic slab “GARZAS”

Overseas business

In April 2016, we registered the establishment of Sangetsu (Shanghai) Corporation in Shanghai, China as a foothold for promoting Sangetsu's interior materials in the overseas market. The new company will begin operations as a local subsidiary fully equipped with inventory, delivery, showroom and installation work that leverage the expertise gained by our business in Japan.

Enhancing Stakeholder Value

• Launching CSR management

Sangetsu established its CSR Promotion Section in April 2016 to fulfill its responsibility to society from the standpoint of sustainability, while placing priority on compliance and safety. We plan to develop an effective system for CSR management and to engage in various activities for addressing social issues.

Financial and Non-financial Highlights

Financial overview

	FY2011	FY2012	FY2013	FY2014	FY2015
Sales (millions of yen)	118,518	123,150	131,978	132,050	133,972
Operating income (millions of yen)	7,095	8,020	8,952	8,031	9,112
Ordinary income (millions of yen)	7,180	8,393	9,475	8,506	9,463
Net income attributable to parent company shareholders (millions of yen)	4,151	4,806	5,459	4,402	6,393
Total assets (millions of yen)	142,247	139,205	145,903	143,076	139,220
Net assets (millions of yen)	119,409	117,672	119,887	118,758	108,517

Key management indicators

	FY2011	FY2012	FY2013	FY2014	FY2015
Equity ratio (%)	83.9	84.5	82.2	83.0	77.9
Net income per share (yen)	51.7	60.3	71.7	58.4	89.8
Net assets per share (yen)	1,488.1	1,544.3	1,573.4	1,625.2	1,587.9
Dividend per share (yen)	37.5	39.0	37.5	41.25	47.5
Return on equity (ROE) (%)	3.5	4.1	4.6	3.7	5.6
Return on assets (%)	5.1	6.0	6.6	5.9	6.7
Operating profit on sales (%)	6.0	6.5	6.8	6.1	6.8

A share split was carried out at the rate of two shares per common share on April 1, 2015. Net income per share, net assets per share and dividend per share have been calculated assuming that the share split was carried out at the beginning of fiscal 2011.
Net income per share for fiscal 2015 has been calculated based on the average number of shares adjusted for dilution (not available before fiscal 2014).

Segment information

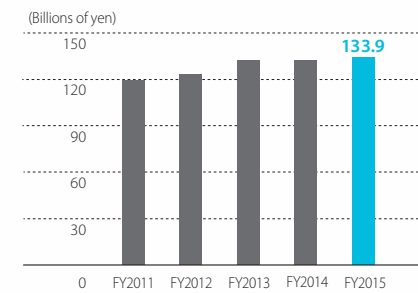
	FY2011	FY2012	FY2013	FY2014	FY2015
Interior (millions of yen)	102,129	106,089	113,181	113,364	115,140
Exterior (millions of yen)	12,293	13,226	15,018	14,699	14,712
Lighting (millions of yen)	4,098	3,845	3,820	4,022	4,145

Since the figures above show and include internal sales, the total amount differs from total Group sales.

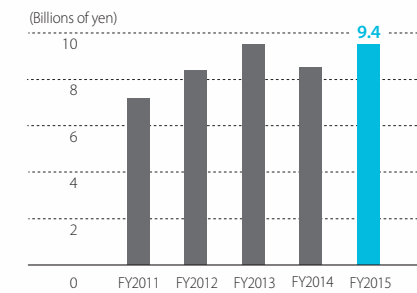
Number of employees

	March 31, 2012	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016
Number of employees	1,392	1,393	1,410	1,442	1,474

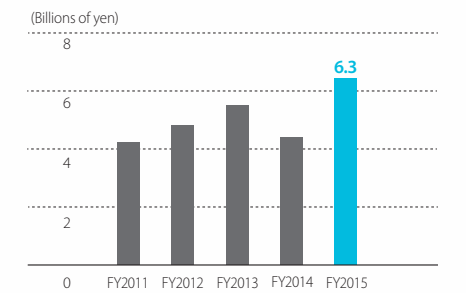
Sales



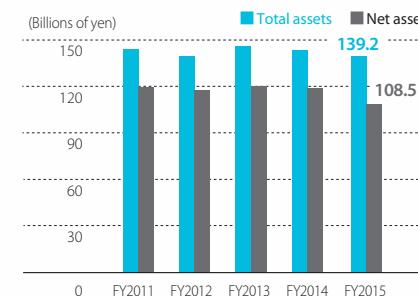
Ordinary income



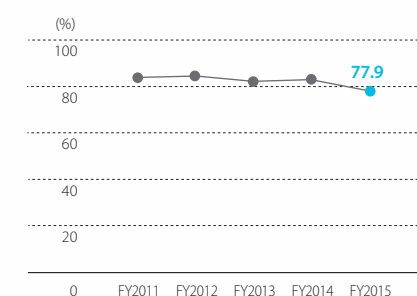
Net income attributable to parent company shareholders



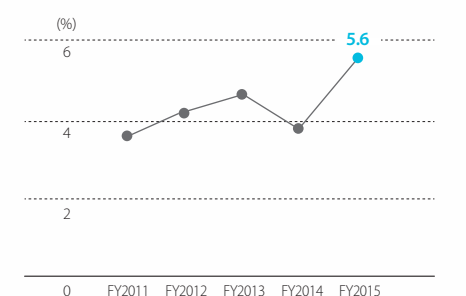
Total assets and net assets



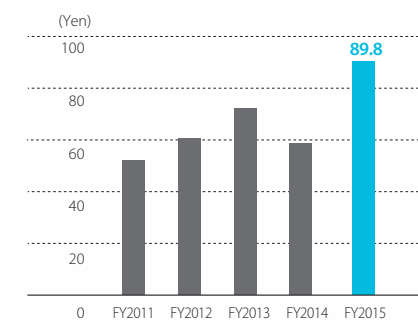
Equity ratio



Return on equity (ROE)



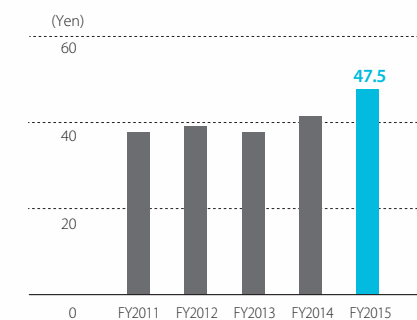
Net income per share



A share split was carried out at the rate of two shares per common share on April 1, 2015. Net income per share has been calculated assuming that the share split was carried out at the beginning of fiscal 2011.

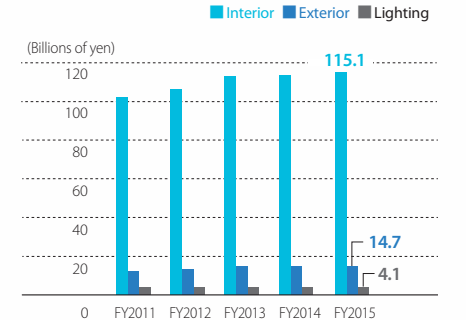
Net income per share for fiscal 2015 has been calculated based on the average number of shares adjusted for dilution (not available before fiscal 2014).

Dividend per share



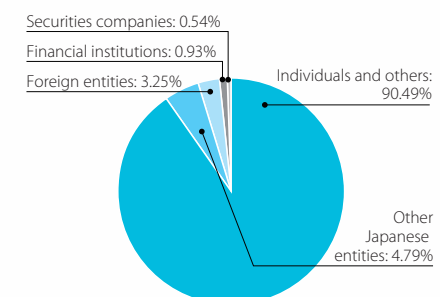
A share split was carried out at the rate of two shares per common share on April 1, 2015. Dividend per share and net assets per share have been calculated assuming that the share split was carried out at the beginning of fiscal 2011.

Segment information



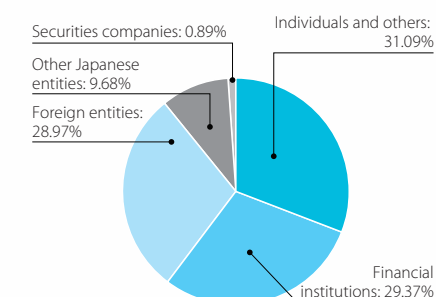
Since the figures above show and include internal sales, the total amount differs from total Group sales.

Shareholder composition by type

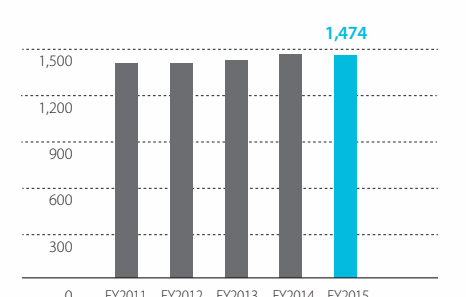


Data are on a consolidated basis excluding those for share/shareholder compositions by type.

Share composition by type



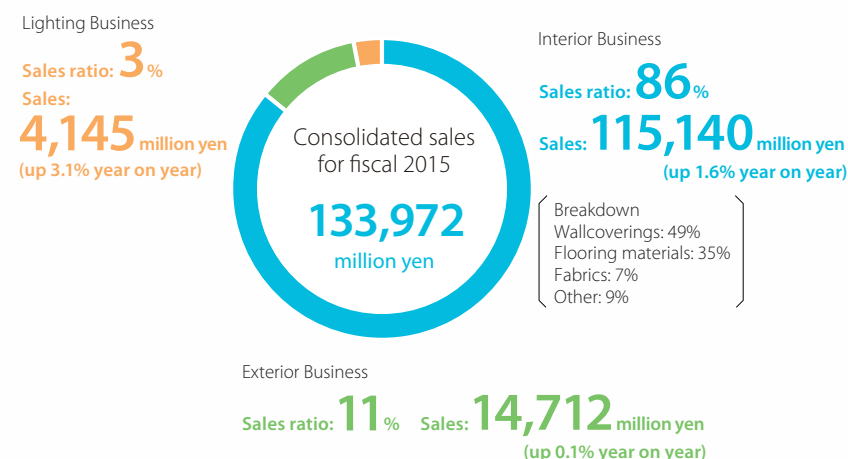
Number of employees



Segment Information

Sangetsu is engaged in three lines of business – Interior Business, consisting of wallcoverings, flooring materials and fabrics; Exterior Business, selling fences, carports and other exterior products; and Lighting Business. Under the Mid-term Business Plan, the company is strategically promoting the synergy effects among its core Interior Business and the Exterior and Lighting Businesses.

◆ Sales by business segment



Since the figures shown above include internal sales, the total amount differs from total group sales.

Interior Business

We reinforced our product development structure by bolstering organizations related to product planning and development to more closely align with the needs of the market. We also launched a new brand, the “process#100” series, which appeals to the senses, and began sales of high value-added products with superior design and functionality to promote a new style of interior coordination that conveys a message. In addition, we sought to boost our sales drive in the non-residential market by reinforcing our corporate sales department and focused on winning selection for large-scale projects. As a result, total Interior Business sales, with the inclusion of other sales, such as installation fees representing ¥10,555 million (down 4.0% year on year), were ¥115,140 million (up 1.6% year on year) with operating profit of ¥8,873 million (up 17.5%) year on year.



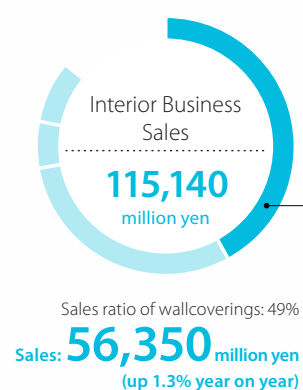
Wallcoverings

■ Overview

Wallcoverings are used widely, for everything from residential to non-residential applications. High functional products that remove odors and both stain and scratch resistant have recently become popular. In addition, “Feature Wall,” using wallcoverings of different colors or designs on one full wall or a portion of a wall to create an attractive living space, has been spreading in the market as a result of our collaboration with rental property management companies.

■ Fiscal 2015 Results

Sangetsu launched the “FINE1000” sample book for wall-covering products in the medium price range that offer superior functionality and design compared to general-use products. This collection generates higher customer satisfaction by meeting customer desires for interior design with a premium feel in the Japanese housing market, which has been contracting due to the aging population. Meanwhile, hotels and commercial facilities have responded favorably to our products combining traditional and modern Japanese tastes and offering premium value through the use of Japanese paper and urushi. As a result, sales of wallcoverings totaled ¥56,350 million (up 1.3% year on year).



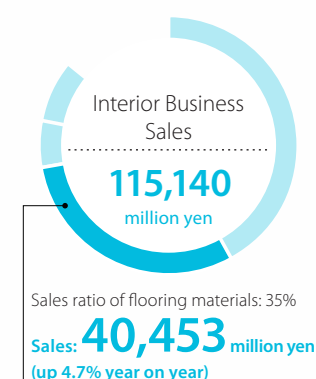
Flooring Materials

■ Overview

Flooring materials are used for a wide range of projects, from residences and offices to commercial facilities, educational institutions, medical and welfare institutions and many more. Sangetsu offers flooring materials with a variety of designs, functionalities and maintainability features to support the creation of a comfortable space. We continue to expand our product selection to keep pace with diversifying needs in various fields and reduce environmental impact.

■ Fiscal 2015 Results

In line with an expanding rental housing market, Sangetsu enjoyed growing sales in PVC tiles that express real-looking wood patterns by using advanced printing technology. Moreover, we were able to widen our target range of facilities by enhancing our product lineup and design coordination, including hotels and banquet halls with custom-designed carpet orders for their renovation projects. As a result, sales of flooring materials totaled ¥40,453 million (up 4.7% year on year).



Fabrics (Curtains and Upholstery)

■ Overview

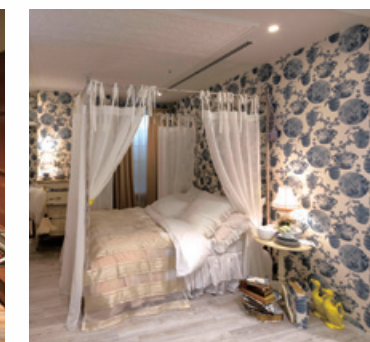
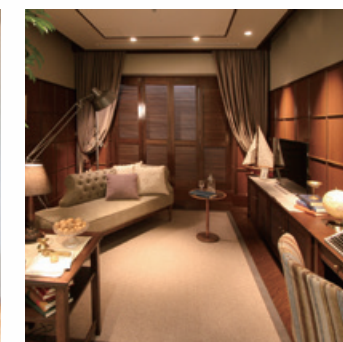
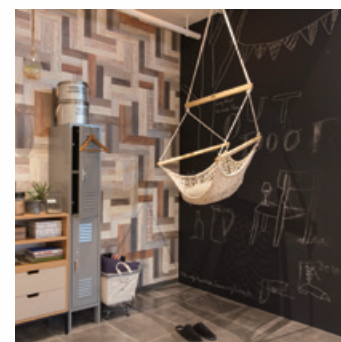
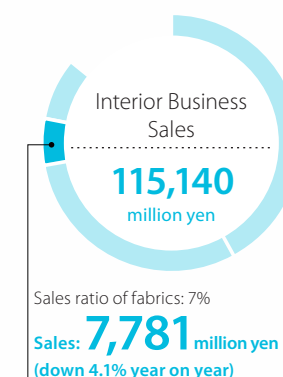
Curtains and upholstery are used in hotels, hospitals and other facilities as well as in residences.

In curtains, Sangetsu presents various design and window styling ideas suitable for the lifestyle of each customer. A lineup of functional products respond to various needs, including mirror lace curtains that block the view from the outside and popular thermal insulated curtains.

In upholstery, we provide superbly designed products in fabric and synthetic leather. Our product development is not only focused on design and color options but also enhanced functional features including high maintainability, which have been selected for a wide variety of facilities.

■ Fiscal 2015 Results

We launched the sample book “Sanwink” featuring rollerblinds and vertical blinds in September 2015. In November, we launched the curtain sample book “AC CURTAIN FABRICS,” which was produced with a new design concept compared to our own past sample books. Also, we revised our pricing strategy to bolster product development and promotional activities, which are more closely aligned with the market trend and the needs of the market. Sales in the second half recovered to levels in the same period of the previous year as a result of these measures. However, sales of fabrics for the full year were ¥7,781 million (down 4.1% year on year), affected by the declines in the first half.





Exterior Business

Overview

Sungreen Co., Ltd., a trading company established in 1973 that specializes in exterior products, is responsible for the Exterior Business. It operates 16 offices in the four prefectures of Tokai, an area on which it is particularly focused, and in the Kanto region.

Fiscal 2015 Results

Conditions in the exterior market remained difficult during the first half of the fiscal year but steadied in the second half following the recovery in new housing. Under this business environment, we aggressively sought to bolster our sales and logistics capabilities, and achieved solid gains in the Chubu region as well as the Kanto region, as sales grew significantly on the year at the Yokohama Branch, which opened two years ago. As a result, sales were ¥14,712 million (up 0.1% year on year), although operating profit was ¥367 million (down 19.4% year on year) due to the negative impact of market conditions in the first half.



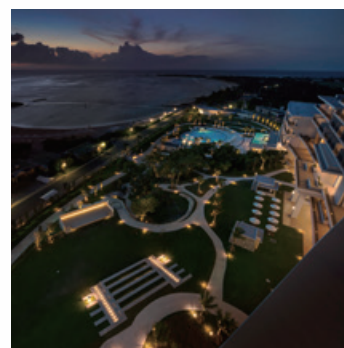
Approach Takasho



Brera Walk Center



westa kawagoe



Hotel Orion Motobu Resort & Spa



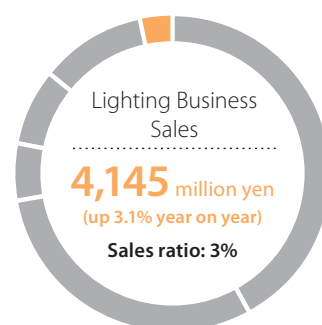
Lighting Business

Overview

Yamada Shomei Lighting Co., Ltd., founded in 1946, handles the Lighting Business as a manufacturer specialized in lighting equipment. Its main series, "Z Light," marked its 60th anniversary last year. The company has established a unique position as the first manufacturer to produce and market adjustable lamps in Japan.

Fiscal 2015 Results

We focused our target on non-residential projects such as offices and hospitals and reinforced sales activities for architect offices and lighting design offices. In addition to presenting energy-saving proposals, we also focused on developing high value-added products that take advantage of the quality of light and control functions characteristic of LEDs. We simultaneously revitalized our product proposals, starting with an overhaul of the Tokyo showroom, and joint sales activities with the Interior Business. As a result, in the non-residential field and in LED products, rising sales were experienced, and sales were ¥4,145 million (up 3.1% year on year). However, due to increased costs related to infrastructure development aimed at future growth and a devaluation in component inventory, operating loss was ¥128 million, from an operating profit of ¥30 million in the previous year.



Strengths of Sangetsu

"Total Interior" Value Created by Sangetsu

Sangetsu emphasizes the concept of "Total Interior" to respond to the diverse lifestyles and needs of customers. With our enormous number of interior finishing products, including wallcoverings, flooring materials and curtains, we are able to offer infinite patterns of total interior coordination, providing a comfortable space for a wide range of projects such as for residential, public, commercial, medical and welfare-related settings, as well as educational institutions, offices and hospitality environments.

CASE 1 Educational Institution



Nagoya University of Commerce and Business, Nagoya Marunouchi Tower Campus

Total coordination that brings out the best effect of the realistic reproduction of natural wood patterns



Located at the heart of Nagoya City, the Nagoya Marunouchi Tower Campus of the Nagoya University of Commerce and Business is one of Japan's largest business school campuses constructed with the most advanced antiseismic structure with high consideration for the environment. Sangetsu supplied carpet tiles, curtains and REATEC self-adhesive decorative PVC sheets, which were used for the top floor of the building. The real-looking, beautiful wood patterns add a sense of luxury to the space.

Name:	Nagoya Marunouchi Tower Campus of the Nagoya University of Commerce and Business (Nagoya City, Aichi Prefecture, Japan)
Completion:	June 2015
Client:	Nagoya University of Commerce and Business (Kurimoto Educational Institute)
Design/construction:	Takenaka Corporation

CASE 2 Public Facility



New City Hall in Tsuchiura

Contributing with flooring materials to ensure an accessible customer service center with a barrier-free environment



Construction of the new Tsuchiura City Hall, which opened in September 2015, was a unique project involving the building conversion of a supermarket in front of JR Tsuchiura Station into a municipal building. With the goal of creating a city hall that welcomes everyone, the building has various features to ensure accessibility, including the adoption of low counters throughout the building and features to prevent injuries from falling.

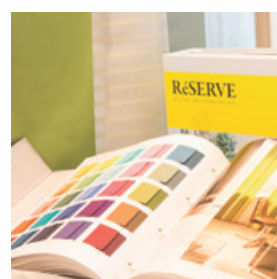
Sangetsu introduced carpet tiles that are easy to traverse by wheelchair, non-slip flooring tiles and carpet tiles with braille blocks for guiding persons with impaired vision, which gained approval by the client.

Name:	Tsuchiura City Hall (Tsuchiura City, Ibaraki Prefecture, Japan)
Completion:	September 2015
Client:	Tsuchiura City Government
Design:	Kume Sekkei Co., Ltd.
Construction:	Kumagai Gumi Co., Ltd.

Three Core Strengths of Sangetsu

The total interior offered by Sangetsu is created by synergy generated by combining its three core strengths of “Creation,” “Proposal” and “Delivery.” To provide Joy of Design to customers under our new brand concept, we will continue to create corporate value by adopting these three core strengths to suit the market of today and practice them as our own prime force.

Creation



With the business model of planning, designing and developing products at Sangetsu, while consigning production to manufacturers, Sangetsu quickly produces a varied array of products. With over 13,000 items, the company can meet the needs of any space. Our rich product lineup of about 30 sample books is updated once every couple years. Without becoming complacent, we consistently develop and improve our products, while managing appropriately our inventory to avoid shortages and excess inventory. We strive to enhance the value of the Sangetsu brand by producing quality interior materials and ensuring a stable supply of products at all times.

Product Development

The Product Development Team plans and develops new products to meet the needs of the times based on information gathered by the Sales Division and the Marketing Department. The ideas are gained through visits to overseas exhibitions and market research. Sample books and their distribution plans are also handled by this team.

Purchasing

The Purchasing Section is responsible for creating production plans and inventory management in response to sales conditions. It also seeks to improve product quality through consultation with manufacturers.

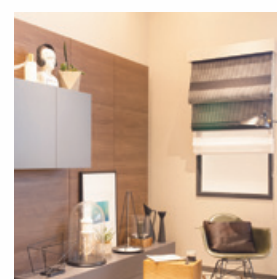
Realizing customers' dreams as products

My job is to translate customer requests and market trends into products. I strive to develop attractive products by paying close attention to detail, from the texture and design of the fabric to the pattern of the weave and color of the threads. By presenting a diverse array of products through the sample book, I also convey the joy of decorating spaces and the possibilities of creative expression through interior design.



Yasuko Ota
Product Development, Curtain Business Section,
Fabric Division, Interior Business Division

Proposal



Our sales customers and time. Our sales products to At our show-with end-con-an interior coor-products. Our sible. By presenting total interior design new value, the Joy of Design.

Sales

The sales team contacts interior professional companies, such as interior construction companies and dealerships, and handles the entire process from proposing specific interior materials to delivering products.

Showroom

The showroom staff helps visitors choose materials that meet their interior decoration needs and provides information on the latest interior products.

Providing customers with a small surprise and great happiness

Apart from making interior coordination proposals for visitors, I also introduce them to our new products and give lectures in seminars. To familiarize people with interior design, I emphasize the opportunities in which customers can experience our products by actually seeing and touching them. I seek to convey the joy of designing “daily lifestyles” through expert advice.



Aki Yamagishi
Showroom Section, Tokyo Branch

Delivery



Interior finishing, which is the final stage of construction, must be completed within a designated time, so the key is delivery on time. In our effort to ensure “just-in-time delivery,” the Sales Promotion staff receives orders from customers and supports sales activities, promptly processing deliveries and cooperating with logistics centers. Sangetsu maintains 13 logistics centers across Japan and a system capable of shipping approximately 60,000 items per day. Our well-stocked inventory gives a sense of security to our customers together with the added values of accuracy and speed.

Sales Promotion

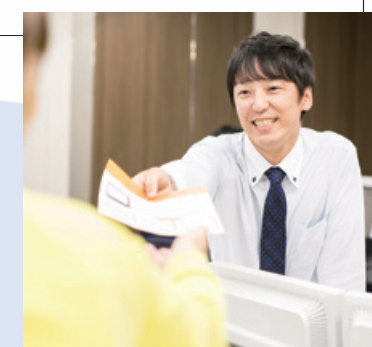
The Sales Promotion Section is mainly involved in processing customer orders, as well as responding to product inquiries. Also, it gathers information and provides feedback to the Sales and Product Planning and Development sections.

Logistics

The Logistics Section is responsible for carefully packaging each product with due consideration for safety and delivering them to customers with accuracy and reliability. We implement stringent inventory management to enhance customer service.

Delivering a smile and sense of security to customers

As the contact point for customer inquiries, I strive to respond with prompt and accurate guidance and to offer proposals that add extra value from the customer's perspective. With a sense of gratitude toward customers for choosing Sangetsu products from among many brands, I cherish the bonds that grow through communicating with customers over the phone.



Hiromichi Shibahara
Sales Promotion Section 2, Chubu Branch

Employee Dialogue

Creating the “Joy of Design”

We held our second employee dialogue at the headquarters on May 20, 2016. On this occasion, we gathered employees in leadership positions in a drive to spread our new brand concept, “Joy of Design,” throughout the company. Participants shared their views on the new concept and their efforts to spread the idea among their colleagues.



Encouraging each employee to think about brand development

Takagi: To steadily disseminate our new brand concept throughout the company, we chose 37 members from each department to serve as “Brand Ambassadors.” All four of you are currently responsible for that duty. To ensure that the brand concept is deeply rooted in the organization, I think it is important to maintain a down-to-earth effort, which involves encouraging each employee to understand the concept so that they can convey the message to those around them with a genuine awareness.

Suzuki: I agree. There were various projects in the past that were self-contained and concerned only those who were directly involved. But this time, we are gradually creating an environment that encourages everyone to participate in activities held in each department, such as the regular discussions about the meaning of “joy.”

Oguni: Design enriches our daily lives and minds, so the word “joy” makes a lot of sense to me. At the Tokyo Branch, we have assigned “sub-ambassadors” to each section and hold regular meetings to identify problem areas and develop a consensus.

Mitsumoto: In overseas markets, we are competing with companies with established global brands. It is particularly important for Sangetsu to establish our brand in order to succeed in such an environment. That’s why the Overseas Business Division began discussing whether applying our concepts for the Japanese market will be as effective in overseas markets, and we are exploring creative ways to provide joy to our overseas customers.

Yamazaki: I participated in the workshop on branding at San-

getsu for training Brand Ambassadors and organized a similar workshop for the Kansai Branch, where I work. I learned a lot from my discussions with employees involved in different operations at other branches and departments, and I wanted to introduce the same opportunity at my branch.

The “joy” we hope to convey to customers as Brand Ambassadors

Takagi: As we make progress in our efforts to spread the Joy of Design in each department, we are also working to improve our products. In our latest wallcovering sample book “RESERVE 2016-2018,” we added QR codes to all the pages so that readers can view sample images of actual product applications on their smartphones and other devices. This was an attempt to enable end users to view and enjoy the sample book with family members, and the response has been quite remarkable.

Mitsumoto: That is an excellent example in which we were able to bring “joy” to each customer setting. We are living in a time when experience is more important than the product itself. For example, instead of simply offering wallcoverings, we should offer proposals and advice stating that the product will help increase communication within the family, in other words, to present the joy of design as an experiment.

Suzuki: In the Product Development Department, we are also creating products based on new concepts, which appeal to consumers. For example, “individuality and sophistication” was the concept of our new “process#100” brand series, and we sought to develop products that appealed to the senses of the user, inspired by a hundred words selected from phenomena, scenery and emotions that evoke a feeling of connection between the individual and the world. Our efforts were rewarded, and our carpet tile “SUMI” received the Good

Participants



Mami Mitsumoto
Overseas Business Division



Yasutaka Suzuki
Merchandise Development
Department,
Flooring Materials Division



Maya Yamazaki
Sales Promotion Section 2,
Kansai Branch



Ryohei Oguni
Corporate Sales Section 1,
Corporate Sales Division



Fumio Takagi
Promotion Department,
Marketing Division

Design Award for 2015. We hope to create designs that provide joy to customers by incorporating an even broader range of voices from the market, such as architects, designers and end users.

Oguni: Since we are in direct contact with customers, the Sales Department is at the front line of providing joy to customers across every facet of our operations from proposal to delivery. We are therefore seeking optimization by reassembling and reestablishing our organizations to evolve into a group that can better respond to market needs. In addition to expanding our domains, we are setting up professional teams in fields that require expertise, such as large-scale commercial complexes and hotels. We believe that we can only provide joy to customers when we have been able to offer a proposal that meets their needs, not only in terms of design but also in terms of construction and costs, and when a well-balanced design is fitted nicely into the space.

Yamazaki: I am in the Sales Promotion Department, where customers’ voices can be heard and received at the closest distance to them when we get a phone call or fax. Responding attentively and promptly in our daily phone conversations with a “smiling voice” – that is the “joy” we deliver to customers.

Creating a future for the Joy of Design

Mitsumoto: People in Japan tend to select plain white wallcoverings to avoid mistakes in their living spaces, but in other countries where walls are usually finished with paint, there is greater demand for wallcoverings with distinct designs, because that is the point for choosing wallcoverings over paint. Now that we are a company whose message is to provide the joy of design, I feel we have finally positioned ourselves on the same page as our global competitors. I hope to explore branding strategies that will enable us to provide the “joy” that is unique to Sangetsu in overseas markets.

Suzuki: I think the key lies in increasing factors that are unique to Sangetsu and doing what only Sangetsu can do. I intend to be on the alert for global trends and market needs to develop

products so that people can enjoy interior products in their everyday lives as a daily necessity. By increasing the variety and reach of our products, I hope we can become a company that customers consistently turn to with confidence that Sangetsu is the leading provider of interior materials.

Yamazaki: I would also like to provide the kind of “joy” that makes customers want to choose Sangetsu for their purchases because they have favorite sales representatives. As a sales promotion staff that connects customers with various departments within the company, I think it is important that each of us responds by adding a little extra value. I would like to enhance the Sangetsu brand toward the future by maintaining this stance.

Oguni: I want Sangetsu to become the first consultation step for both companies and individuals. To achieve this, it is important not only to make the products but also to convey the appeal of the products far and wide. I would like to see our customers develop a strong interest in design and offer ideas that would deepen their interest. And I hope we can create a future environment in which the joy of design can be experienced by as many people as possible.

Takagi: I think the way to develop our brand is to sharpen our own senses with the Joy of Design in mind and strive to offer a distinct “joy” for each customer. I am confident that all of you will lead the way as Brand Ambassadors by sharing and enhancing our brand concept while incorporating the opinions of each department.



CSR at Sangetsu

Sangetsu recognizes CSR activities as being synonymous with practicing its corporate philosophy and engages in the creation of a sustainable society with various stakeholders.



Together with Customers

Providing Safe Products

We are continuously raising quality with full attention to improvement in product safety under Sangetsu's Quality Policy. In order to offer quality that exceeds customer expectations, we practice strict quality management based on our quality management standards. In fiscal 2015 we sought to maintain and enhance product quality by increasing the number of technical staff to reinforce our management system and by conducting stringent reviews at each stage of the product development process. We deliver safe, reliable products by managing a consistent process from upstream to downstream—from checking raw material suppliers to product planning, development, design, production and delivery.

Offering Information with the Customer's Perspective

Sangetsu provides information in various formats and through a range of channels to help customers make their

ideas more concrete for the purpose of facilitating coordinated interior design that satisfies their requirements. Our website, including digital books, introduces interior decorations suitable for preferred lifestyles.

In our wallcovering sample book "RéSERVE 2016-2018" we included feature articles with useful information for creating living spaces.

Staff members in our showroom provide consultation to customers, including detailed explanations of the functions and features of each product and proposing suitable products and plans. We also hold information sessions to introduce products as well as interior coordination seminars free of charge. Through these events, we strive to provide a variety of information as experts, which is from the customer's perspective.



Interior coordination seminar



Tetsuro Tamura
Product Development,
Wallcoverings Department,
Interior Division

VOICE

Conveying the joy of designing spaces

To convey the joy of making decisions about one's own interior living space to customers who purchase our wallcoverings, we placed a feature article in our sample book "RéSERVE 2016-2018" to provide useful information about designing rooms that bring out the best in the wallcoverings. Applying five themes, including "Living with pets" and "Enjoying spaces with patterns," we share ideas for coordinating wallcovering design with the functions of a room that make designing spaces more enjoyable for end users. Being in charge of this project has been a major personal challenge and a profound experience for me. Interest in DIY has grown in recent years, and people are increasingly posting photographs of their own rooms on social networking sites. Through this project, we sought to convey the joy of designing one's own space using wallcoverings, and we hope that the culture of sharing that pleasure among customers will spread even further.

Together with Shareholders

Basic Policy on Capital Strategy

- Achieve high ROE levels that exceed the cost of capital at an early stage and higher ROE (8%–10%) in the medium to long term.
- Improve capital efficiency through the effective use of working capital and other assets while securing reserves for stability and growth.
- Fortify the shareholder returns strategy to ensure a sustained level of returns over the medium to long term.

Communication with Shareholders and Investors

To achieve sound relationships with shareholders and investors, Sangetsu ensures appropriate and fair disclosure of business information while actively communicating through IR activities. The company shares performance and business information, material from financial results briefings, stock information and other business data in a timely manner through the IR pages of the company website and constantly seeks to

improve disclosure. To provide invaluable opportunities for direct dialogue with analysts and institutional investors, in addition to financial results briefings (held twice annually and attended by a total of 63 investors in fiscal 2015), Sangetsu conducts one-on-one meetings, pays individual visits and holds small meetings at its showrooms as well as briefings for individual investors, which are attended by the president. We actively exchange opinions and incorporate the feedback we receive into management. As part of a new effort, we conducted a survey of our shareholders from the Mid-Year Shareholder Report for the fiscal year ending March 2016, from which we collected 420 responses. We have closely reviewed the survey results and intend to reflect them in our business management and capital strategy.



Financial results briefing

Sangetsu View

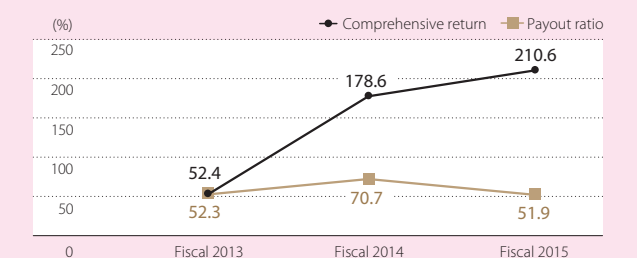
Carrying out a shareholder return strategy

To ensure medium- to long-term return to shareholders in a changing capital market and to improve the company's standing among stakeholders under the Mid-term Business Plan, the company has announced and is implementing a new capital strategy. Attention to efficiency in balance sheets and capital cost now has higher priority than stable dividend payment and stability. The company sought to improve capital efficiency in fiscal 2015 by implementing a total of 10.14 billion yen in share buybacks, bringing consolidated comprehensive shareholder return to 210.6%. In fiscal 2016 we will continue to steadily implement a capital strategy to further boost corporate value.

Capital strategy under the Mid-term Management Plan

- Raise consolidated comprehensive shareholder returns to an average over 100% for the three years from fiscal 2014 to 2016.
- Strive to reduce treasury capital by 10.0 billion yen to 20.0 billion yen in 3 to 5 years starting in the latter half of fiscal 2014, with an eye to market conditions.
- Flexibly acquire treasury stock, consider and implement dividend increases to improve medium- to long-term shareholder returns.

Shareholder Returns



	Fiscal 2013	Fiscal 2014	Fiscal 2015
Consolidated net income	¥5.4 billion	¥4.4 billion	¥6.39 billion
Total dividends (dividend per share)	¥2.86 billion (¥37.5/share)	¥3.07 billion (¥41.25/share)	¥3.32 billion (¥47.5/share)
Amount of treasury stock acquisition	¥0	¥4.78 billion	¥10.14 billion
Comprehensive return	¥2.86 billion	¥7.85 billion	¥13.46 billion
Change in number of shares issued	80,376,000 shares (March 31, 2014)	74,100,000 shares (March 31, 2015)	69,170,000 shares (March 31, 2016)
Change in owned capital	¥119.88 billion	¥118.75 billion	¥108.46 billion
EPS	¥71.7	¥58.4	¥89.8

*The company implemented a 2-for-1 stock split on April 1, 2015. Figures prior to that date are indicated on the basis of the stock split.

Together with Employees

Personnel Department Policy

Personnel Department Policy

Sangetsu respects the diversity, character and individuality of employees, ensures sound operations to enable each employee to perform at their full potential, and provides a safe and pleasant working environment.

Personnel System Reform

Under the “Mid-term Business Plan (2014–2016): Next Stage Plan G,” we have been reforming our personnel system as a priority initiative aimed at building a corporate structure that allows employees to participate in management, and we have been introducing new measures since April 2015.

Our approach to personnel system reform

Premise of our approach

- The purpose of the personnel system reform is to enable the company to build a structure that encourages employees to consider and participate in business management.
- We will emphasize unconventional abilities and ideas that complement the transformation of our operations and organization.
- While retaining the flat organizational structure that has well served Sangetsu, we will also seek to actively nurture future directors and executive candidates by accelerating the pace of assignments and promotions to higher positions.
- While maintaining Japanese-style personnel management, we will also place greater emphasis on individual contributions to the organization.

Our Approach

Hybrid system combining standards of ability and occupational position

While adhering to the existing system of qualifications and job grading, we will strive to create a balance between a treatment based on short-term missions and another based on medium- to long-term skill development.

Direction of personnel system reform

Building a corporate structure that allows employees to participate in management

Maintain and increase employees' sense of reassurance

Maintain and increase employees' sense of security so that they can imagine their future and advance their careers

Realize sound management

• Enhanced system for the numbers of graduated allocations of staff planned for 2025
• Improved salary system to raise employee awareness of the company's profit and expansion

Enhance employee motivation

• Proactive assignment of human resources
• Improve how we treat human resources and fairly remunerate for one's efforts

Human Resource Development

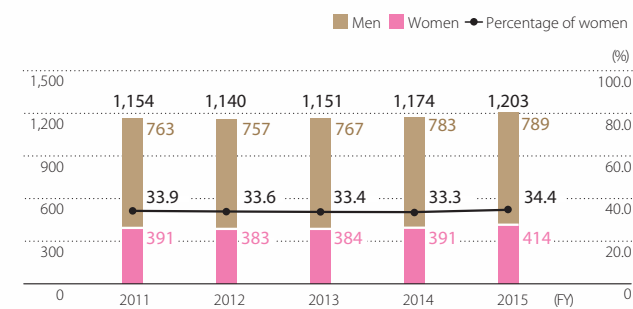
Human Resource Development Policy

In accordance with the “Mid-term Business Plan (2014–2016): Next Stage Plan G,” Sangetsu respects employees who are striving for self-improvement and provides them with places to grow, act and fully demonstrate all their capabilities.

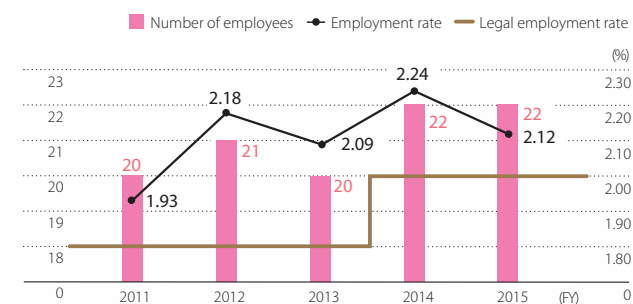
WEB Sangetsu Education and Training System (Japanese only)
www.sangetsu.co.jp/recruit/educational/index.html

Personnel-related Data (Sangetsu Corporation)

Number of full-time employees



Employment rate of persons with disabilities (as of June)



Number of employees taking childcare leave

FY	2011	2012	2013	2014	2015
Number of employees who took childcare leave	12	16	21	16	32

Average number of paid vacation days taken (from October to September of the following year)

FY	2011	2012	2013	2014	2015 (Forecast)	2016 (Target)
Average number of paid vacation days taken	3.5	3.6	5.1	9.6	10.0	11.0

Promoting the Work-life Balance

Supporting a sound balance between work and family

We will develop the following plans to create a working environment where employees can fully demonstrate their capabilities and thereby contribute to the development of the next generation in the community. In August 2015, we held Children's Visiting Day for children of our employees to nurture a deeper understanding of their parents' jobs through workplace visits and workshops, which led to better communication at home.

Goal 1: Create a working environment that promotes parental leave and returning to work.

Goal 2: Implement measures to reduce overtime work hours and promote use of annual paid vacation.

Goal 3: Conduct Children's Visiting Day.



Children with the president in his office on Children's Visiting Day

Childcare support system

Sangetsu offers various programs to support employees who are working while rearing children.

Pregnancy and childbirth	During parental leave	Childcare
Maternity leave before and after childbirth	Program for supporting employees on parental leave (including an interview with a supervisor and childcare support seminar)	<ul style="list-style-type: none"> Staggered working hours while child-rearing Temporary part-time work while child-rearing Subsidy for expenditures on day care service for sick children

Sangetsu View

Dialogue between the president and employees

To create a worker-friendly environment with an open atmosphere, Sangetsu places great value on offering opportunities for cross-organizational communication. As part of this, President Yasuda has visited offices around Japan to participate in Open Discussion Meetings with employees. During the 25 meetings held nationwide, he spoke directly about the significance of the operational reforms and re-branding efforts that are currently being pursued under the Mid-term Business Plan. He also engaged in an active exchange on how Sangetsu could contribute more to society and overcome its medium- to long-term challenges. The meetings provided opportunities for cultivating a shared awareness across the company and raised employee motivation. Sangetsu will continue to develop workplace environments that emphasize two-way communication.



Open Discussion Meeting

Promoting Diversity

Promoting the voluntary action plan

Sangetsu is implementing “Sangetsu Positive Action” through strategic personnel system reform. With the goal of having a corporate culture where women are encouraged to continue to work for many years, utilize their strengths and flourish, the company intends to achieve sustainable growth by offering new value from their perspectives and respecting diversity by leveraging their abilities. Their participation has been promoted company-wide through various measures led by the diversity promotion team in the Personnel Department. We also formulated an action plan based on the Act on Promotion of Women's Participation and Advancement in the Workplace to utilize the knowledge, experience and expertise of our employees, regardless of gender, with the quantitative goals and three priority themes shown below.

Promotion goals	(1) Ratio of female assistant managers: 30% by 2017 (2) Ratio of female managers: 15% by 2020
FY2016 priority themes	(1) Medium-term career development plan and wider job areas for both men and women. Assignments intended to actively promote employees to managerial positions. (2) Operating a system that supports work-life balance. (3) Raising employee awareness.

Measures for environmental improvements (examples)

Return to work	Rehire former employees and clear the way for appointment to permanent employee status.
Expansion of special leave when spouse gives birth	Increase the number of leave days taken and expand the scope of leave.

Measures to improve the way of thinking (examples)

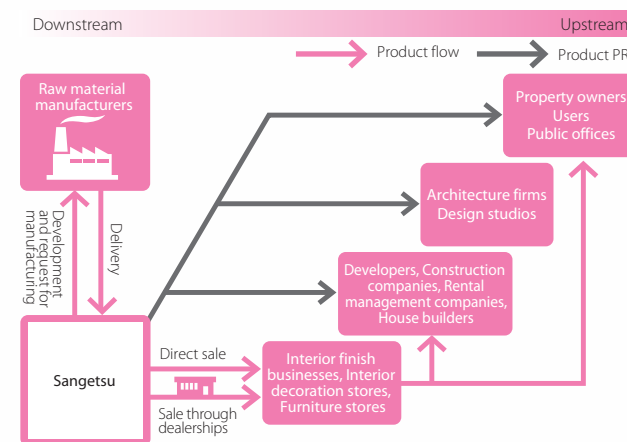
Diversity training (newly appointed position responsible for a department)	Understand how to approach part-time workers during a training session on goal setting and appraisal.
Return-to-work seminar (employees who are currently raising children, employees who have returned to work, and their spouses)	Know-how for balancing child-rearing and work, dialogue with experienced employees, level of understanding of programs, etc.

Together with Business Partners

Promoting Fair Transactions

Our business partners are key stakeholders with whom Sangetsu has worked and grown together over the years. To ensure the company's ongoing fulfillment of its social responsibilities through sound business activities, the Sangetsu Group Compliance Code of Conduct calls for fair transactions based on the principle of free competition among all business partners in accordance with the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Antimonopoly Act), the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, and other related laws and regulations. The code also enables us to make sure there is an equal and fair footing as well as honest trade in working with suppliers and contract companies.

Sangetsu product flow



Reinforcing Management of Suppliers (Manufacturers)

Working together with our suppliers is indispensable to the provision of safe, high-quality products to customers.

Our staff responsible for product development and purchasing review and manage suppliers on a multilateral basis in conjunction with an evaluation checklist of the company's standards to encourage improvements in their factory operations for enhanced product quality.

From the standpoint of securing stable supply, we are also striving to improve the management and accuracy of supplier evaluations to strategically strengthen our alliances with suppliers.

Looking ahead, we will promote CSR procurement throughout the supply chain by asking our suppliers to bolster their own CSR efforts.

Communication with Business Partners

We visit our suppliers to directly hear about their situations and challenges so we can gain a deeper understanding of their needs.

In 2015 we convened a gathering for representatives of dealerships, who are among our most important stakeholders. These events provided valuable opportunities for us to share our business reports, Mid-term Business Plan and strategic growth scenario in cooperation with the dealerships, while also encouraging attendees to exchange information.

Together with Society

Sangetsu's Social Contribution System

At Sangetsu, we want to grow with the local community so that we can contribute to the creation of an affluent society. In addition to contributing through our business, we support the voluntary participation of employees in social contribution activities through which they can enjoy hard work. In 2015 the company set up the Social Contribution Committee, chaired by the director of general administrative affairs and led by employees, and has been engaged in a broad range of activities. In fiscal 2015 the committee met twice, in the first and second half of the year, to report on the status of activities conducted by each branch office and share information. We intend to continue engaging in effective activities across the company.

Sangetsu's social contribution initiatives

Assistance to disaster-affected areas	(1) Disaster-related volunteer activities (2) Donations of funds and goods to disaster-affected areas (e.g., sending carpets to gymnasiums and other facilities that serve as evacuation shelters)
Environment and energy conservation	(1) Development of environmentally friendly commodities (e.g., recycled materials, wax-free products and heat shielding) (2) Installation of a solar power generating system (Chubu Logistics Center)
Regional contributions	(1) Blood donations (2) Neighborhood cleaning, inviting elementary and junior high school students on field trips to experience the workplace
Fundraising and donations	(1) Donations to hospitals
Social and cultural activities	(1) Donations for culture, social welfare, education, etc. (2) Grants for university laboratories through the Hibi Science Foundation

Social Contribution through Our Core Business

Sangetsu contributes in a variety of ways through its core business, with clear roles and responsibilities for enriching daily life by providing comfortable living spaces.

Supporting the refurbishment of child welfare facilities

We contribute company products to assist in the refurbishment of deteriorated foster homes. Having conducted this activity on a limited scope in Nagoya, where our headquarters is located, we launched supportive activities in fiscal 2015 at branch offices around Japan, led by the Social Contribution Committee. Beyond providing products, employees actively participate in many ways, such as by helping with installation work. The success of these efforts is reflected in the comments that people have shared with us. Some of them have noted, for example, how much warmer the floor feels with a carpet, how curtains have made a room more cheerful, and how beautifully decorated walls can cheer up one's spirit. We received a certificate of gratitude from a facility in the Kansai region after we donated and installed the curtains.

We will continue to promote measures such as increasing the number of participants to bolster support for renovation work in an effort to provide comfortable living spaces.

Kansai Branch
Refurbishment support for the Sun Nogiku Amagasaki aid facility for the wellbeing of mothers and children (replaced wallcoverings)

Hokkaido Branch
Refurbishment support for the Sapporo Ikujien child welfare facility (donated carpets)

Chugoku-Shikoku Branch
Calendar-making workshop using Sangetsu merchandise in Hayashima Town

Tohoku Branch
Refurbishment support for an assembly hall at a temporary settlement in Natori City (donated curtains and carpets)

Kyushu Branch
Refurbishment support for the Fukuoka Ikujien child welfare facility (replaced wallcoverings and donated curtains)

Headquarters and Chubu Branch
Refurbishment support for the Jisenryou child welfare facility (replaced wallcoverings and flooring materials and donated curtains)

Kita Kanto Branch
Refurbishment support for six children's recreational facilities in Soka City (donated curtains)

Voice of a business partner The joy of manufacturing together

We mainly supply PVC wallcoverings to Sangetsu. Throughout our thirty-year partnership, Sangetsu has remained a company that places great value on personal communication, and we have built a relationship that allows for a frank exchange of views starting from the product planning stage. In recent years, we have more frequently encountered staff in many different departments who demonstrate a clear underlying vision, and I am impressed by their growing approach to dealing with projects from diverse perspectives. We hope our companies will grow together, not only as business partners but also as leaders of the interior design industry as a whole through initiatives for CSR procurement and other areas.



Hiroyuki Uchiyama
Manager, Interior Decoration, Interior Decoration Department, Okamoto Industries, Inc.,

Together with the Environment

Environmental Policy

Basic Concept

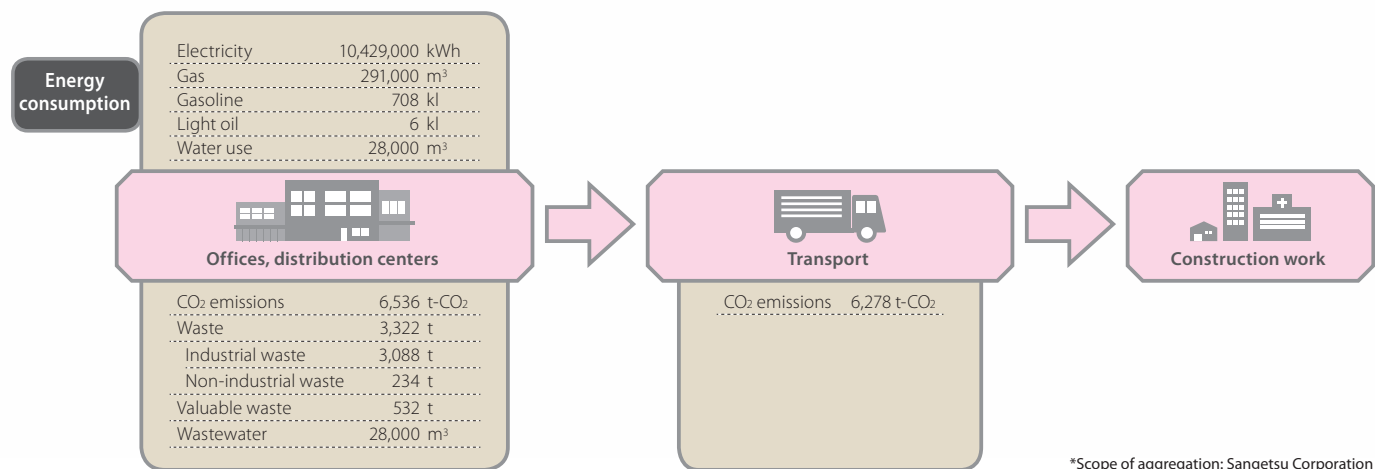
Sangetsu has a role and responsibility to realize an affluent life by providing more comfortable living spaces. The business activities of Sangetsu are closely related to the environment. Thus, efforts to preserve the environment in the course of these activities are an obvious responsibility of the company. From this perspective, Sangetsu is striving to reduce the environmental load of its business operations, while giving greater consideration to preserving the global environment, in order to create a better living environment.

Our Approach

1. Implement an environmental management system with appropriate environmental objectives and goals as well as continuous improvement to safeguard corporate operations and protect the global environment.
2. Comply with legislation related to environmental preservation.
3. Avoid the use of substances that adversely affect the environment; reduce waste, encourage recycling, and conserve energy and resources, in all stages of development, manufacturing, distribution, and use and disposal of products.
4. Improve employee understanding and awareness of the company's environmental policy and environmental management activities. Widely disseminate this environmental policy to relevant personnel and request their understanding and cooperation.
5. Publicly disclose this environmental policy.

Identifying Our Environmental Load

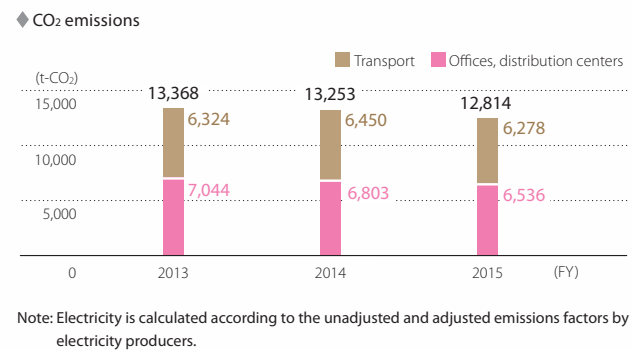
Sangetsu believes that identifying the environmental load caused by its business activities constitutes the first step of environmental management. The following table summarizes the overall environment load generated by our offices, distribution centers and transport activities in fiscal 2015.



Preventing Global Warming

Sangetsu is doing its part to prevent global warming by reducing its CO₂ emissions. Total CO₂ emissions for fiscal 2015 were 12,814 t-CO₂, a decrease of 439 t-CO₂, or 3%, from the previous year.

As a concrete measure, we have been replacing vehicles used by executives with hybrid models. In fiscal 2015 we replaced 27 cars, which account for 37% of the total vehicle fleet targeted for replacement, and we plan to complete the transition of all targeted vehicles by fiscal 2022.

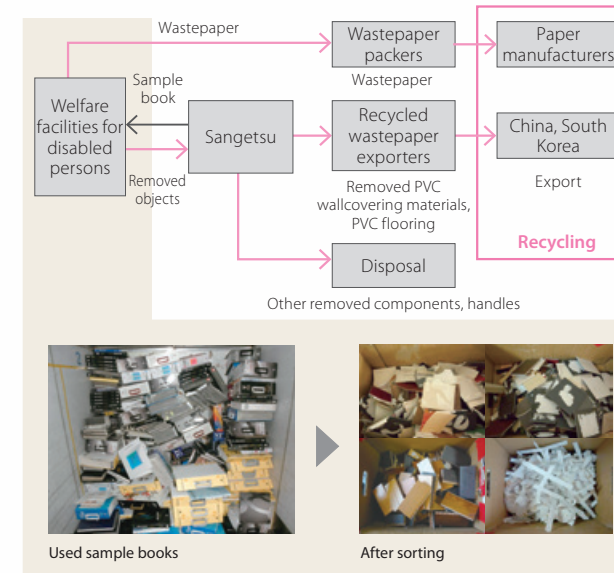


Initiative for Recycling Used Sample Books through Self-reliance Support for Disabled Persons

Sample books are a mixture of paper and PVC, and about 93% of the material can be recycled after sorting. The Chubu Branch and the Chugoku-Shikoku Branch are outsourcing the sorting process to welfare facilities for disabled persons.

Sangetsu intends to achieve both resource recycling and self-reliance support for disabled persons with the goal of creating a recycling-based society.

◆ Recycling flow for used sample books



Environmental Protection through Products

Sangetsu products are environmentally friendly in the ways they are used. We are contributing to improving both the global environment and living environments through the development and sale of green products while categorizing them under the four +1 categories.

1 Energy saving

Reducing heat loss, mostly through windows and floor surfaces, contributes to energy conservation.

2 Resource conservation

Reducing the amount of raw materials used to manufacture products contributes to resource conservation.

3 Long life

Prolonging product life to stretch the installation-to-replacement cycle reduces environmental impact over the entire lifecycle.

4 Indoor environment

Recognizing that improving indoor environments is an important environmental response, the company provides products that improve these spaces.

+ Protecting biodiversity

Many of the company's products are made with petrochemicals, primarily vinyl chloride, which has good processability when it comes to making products based on various designs. We contribute to the conservation of biodiversity through the development and provision of high-quality products that have a natural feel and reproduce the beauty of nature without impacting natural resources such as by endangering wildlife or felling rare species of trees.

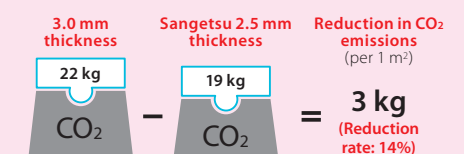
Sangetsu View

First PVC tiles to obtain the carbon footprint mark

Sangetsu's PVC tiles of 2.5 mm thickness contribute to reducing CO₂ emissions

The Carbon Footprint (CFP) is a framework promoted by Japan's Ministry of Economy, Trade and Industry and related government agencies that grants the use of a mark that displays the CO₂ equivalent of greenhouse gases emitted throughout the product lifecycle. While 3.0 mm is the standard PVC tile thickness in the industry, Sangetsu's PVC tiles are 2.5 mm thick and so they contribute to the reduction of environmental impact.

In July 2013, Sangetsu became the first company to obtain the Carbon Footprint Mark for PVC tiles.



Product name	PVC tiles 3.0 mm thickness	Sangetsu PVC tiles 2.5 mm thickness
Model	ZF0203	NK-715 (NK-505)
CO ₂ emissions	22 kg-CO ₂ e/m ²	19 kg-CO ₂ e/m ²
Specifications		
Size	457.2 × 457.2 × 3.0 mm	457.2 × 457.2 × 2.5 mm
Weight	1,060 g/pc	883 g/pc
Packaging	18 pc/case	18 pc/case

Data obtained by applying the same conditions to the 2.5 mm tile and 3.0 mm tile and calculated using the same PCR (Product Category Rules; Certification No. PA-CL-01) and compared using verified numerical data.

Corporate Governance

Corporate Governance System

The company changed from a Company with Board of Company Auditors to a Company with Audit Committee in 2015. It is currently governed by the Board of Directors, Audit Committee and Accounting Auditors, comprising the Corporate Governance System that clearly separates operational execution and audit/supervision. The Audit Committee consists of five members who hold voting rights as members of the board but are not directly responsible for the execution of operations and four of them are external directors. This system is expected to revitalize discussions from the shareholders' point of view and also strengthen the audit and supervisory functions over the execution of the company's operations. Furthermore, the term for the accounting auditor, whose continuous reappointment had been taken for granted, has been limited to a maximum of ten years with the intention of ensuring and maintaining greater independence and appropriate external audits. The company has thus established a system for enhancing the transparency of its corporate management.

In addition, we established the Nomination & Remuneration Advisory Committee, which consists of the president, the director of personnel and Audit Committee members. The committee will deliberate on the effectiveness of appointments and appraisal of management including executive directors, the compensation system for directors and level of compensation, thereby ensuring transparency and objectivity with respect to executive appointments and compensation.

Board of Directors

The company's Board of Directors consists of four external directors and six internal directors and meets once a month to share timely and appropriate information on corporate management and to implement management strategies for restructuring the business base. In accordance with the Articles of Incorporation and internal rules, all or part of the decision making responsibilities regarding the execution of certain operations have been delegated from the Board of Directors to the representative director (president) to speed up the decision making process. The Board of Directors monitors the progress of matters delegated to the representative director.

Audit Committee

The Audit Committee consists of four external directors and one full-time director.

This system ensures that the Audit Committee has access to information that would be beneficial for undertaking an effective audit, in the form of regular reports presented to the Board of Directors and exchange of views with the representative director and accounting auditor. The Audit Committee also works closely with the internal auditing department and internal control department and provides timely feedback on findings from its auditing and other activities to the Board of Directors and others to strengthen the effectiveness of its audits.

Self-assessment by the Board of Directors

Once a year, each director conducts a self-assessment of the Board of Directors, which is followed by an analysis and assessment of the effectiveness of the board as a whole. In addition, the company conducted a survey of all directors in fiscal 2015, between December 2015 and January 2016. The Board of Directors deliberated on the results of the assessment, and its content was published in the Corporate Governance Report. The survey covered a broad range of assessment criteria, from the composition of the board to the quality of discussions and dialogue with stakeholders. The result of the assessment will be used to improve the effectiveness of the Board of Directors.

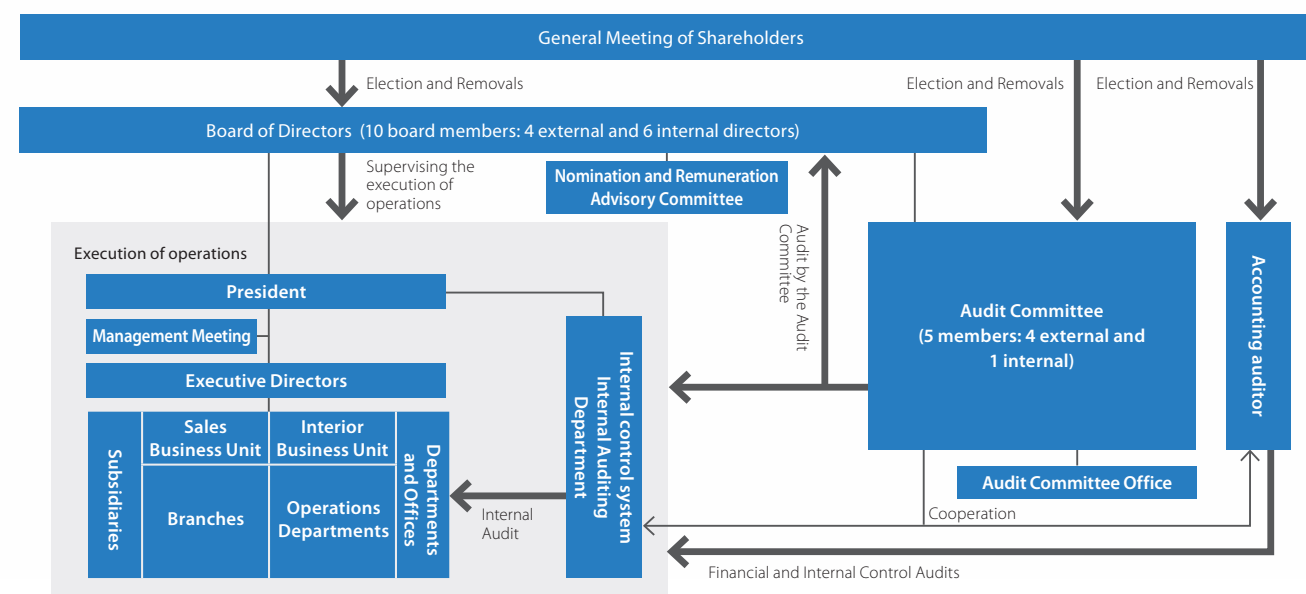
Policy for Determining the Remuneration of Directors

In 2015 the company revised its approach to director compensation from the traditional policy of paying a fixed sum as basic compensation to a three-part structure of compensation for executive directors, comprising (1) basic compensation, (2) performance-linked compensation, and (3) stock-based compensation through stock options. Directors who are members of the Audit Committee receive only basic compensation that is not linked to performance.

Seminars for Directors

Each year, the company holds a compliance seminar for directors with lectures by outside experts, and it encourages directors to attend outside seminars. To aid independent external directors in raising their awareness of the state of operational execution, the company conducts onsite inspection tours and provides opportunities for exchanging views with management, in addition to orientation sessions at the time of their appointment.

Corporate governance



Voice of an external director

My views on Sangetsu's corporate governance

I became an external director of the company in the summer of 2015, when the drive to reform corporate governance was gaining momentum following the enactment of the revised Companies Act and application of the Corporate Governance Code. The company chose to become a Company with Audit Committee and decided to increase its external directors to four, and so I became a member.

The reforms undertaken by the company have been remarkable, even from my perspective as a corporate law scholar who has lectured on corporate governance for many years. The four brothers from the founding family had led operations of the company until 2014, when they stepped down because they had become older. They passed the baton of management to someone completely unrelated to the family, Mr. Yasuda, who had served the company as its first external director. Since then, the new president has exercised leadership in transforming the company into a listed company with employees who actively participate in management.

I find it especially commendable that, at this company, the Audit Committee not only audits the execution of director responsibilities, but its members also participate in the Nomination & Remuneration Advisory Committee, which determines director appointments and compensation and engages in thorough discussions. Supervision by the Board of Directors has definitely been strengthened.

The company is also focusing on compliance. While seeking to eradicate sexual harassment and power harassment, the company is also moving forward on other measures to support the balance between work with family and child-rearing. I am encouraged to see this creating a livelier workplace for female employees.



Michiyo Hamada
External Director,
Audit Committee Member

Compliance

Compliance

Under the Sangetsu Group Compliance Code of Conduct, the company has set up a compliance committee and help-lines for reporting and consultation. Each department has appointed a person responsible for compliance in order to maintain a system complete with rules, laws, regulations and corporate guidelines and to create an open environment.

Implementing the Compliance Program

Sangetsu formulates the Compliance Program under its corporate fiscal policy and implements it throughout the year in a concerted effort with Group companies to establish a sound organizational structure that is fully committed to compliance. Seeking continuous improvement by following an annual PDCA cycle, Sangetsu verified and reviewed its Compliance Program based on its activities in fiscal 2015 and the issues that were identified while these activities were taking place.

Results of Verification and Review of the Compliance Program for Fiscal 2015 (Examples)

Item	Results and issues verified	Future plans for improvement based on results of a review
Common initiatives	<ul style="list-style-type: none">Conducted a company-wide campaign on safety and hygieneInsufficient use of internal slogans and the Compliance and Safety Newsletter by the supervising department	Seek collaboration among departments on common initiatives while strengthening initiatives led by the supervising department
Raising awareness of personal responsibility	<ul style="list-style-type: none">Awarded employee entries for slogans on safety, hygiene, corporate ethics and human rightsRoom for improvement in the compliance study sessions conducted by individual departments	Focus on raising awareness of personal responsibility to achieve a broader acceptance of compliance activities
Group efforts	<ul style="list-style-type: none">Conducted compliance training at Group companiesDisseminated the Compliance and Safety Newsletter and relevant rules at Group companies	Maintain and enhance the group-wide compliance system as a corporate organization
Establishing relevant rules	Revised the Sangetsu Group Compliance Code of Conduct and related rules	Issue a new edition of the Compliance Handbook based on the brand concept and Sangetsu Group Compliance Code of Conduct for use in training and awareness programs

Content of Compliance Activities

- Distribution of Compliance and Safety Newsletter (28 issues in fiscal 2015)
- Company-wide safety and hygiene campaign
- Compliance committee meetings (5 meetings in fiscal 2015)
- Implementation of compliance training by department/position
- Establishment and dissemination of compliance-related rules
- Compliance-related survey



Training helpline personnel

Setting up Helplines

Sangetsu has set up helplines in and outside the company for reporting and consultation. The company is striving to prevent employees from being burdened with problems or anxiety about compliance and to ensure early detection and improvement of violations. In addition to the helplines, we established internal rules that enable individuals to report directly to Audit Committee members in an effort to facilitate reporting.

Onsite Inspection by the Japan Fair Trade Commission

On May 26, 2015, the company was subject to an onsite inspection by the Japan Fair Trade Commission on suspicion of violating the Antimonopoly Act in its wallcovering sales. We are taking the matter with the utmost seriousness and sincerity and fully cooperating with the inspection.

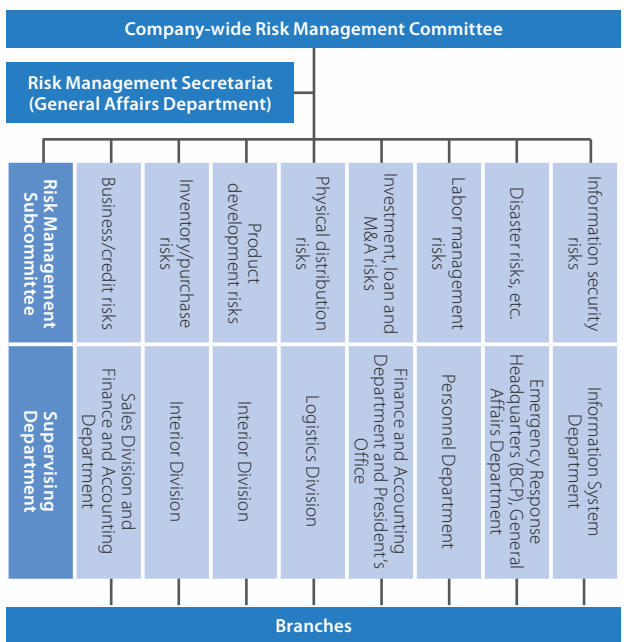
Risk Management

Risk Management System

We have established a risk management system for handling various risks on a company-wide basis to identify in advance any risks that may affect our activities or employees so that we can maximize the corporate value of the Sangetsu Group as a whole and minimize the impact on our management and operations by responding appropriately if such risks materialize.

The Company-wide Risk Management Committee chaired by the president meets once every quarter. Its functions include setting basic policy for management of all risks, monitoring progress made by the Risk Management Subcommittees, which are directly responsible for managing risks, and organizing task forces as necessary. The Risk Management Subcommittees are grouped according to the type of risk, with a supervising department assigned to each, and comprise the head of the department and heads of subcommittees. Their main functions include considering measures to prevent and respond to risks that have been identified, assessed and prioritized and to provide actual responses once a risk materializes and implement education and training. The Company-wide Risk Management Committee reports on its activities to the Board of Directors every six months, enabling management to accurately understand existing risks and make management decisions.

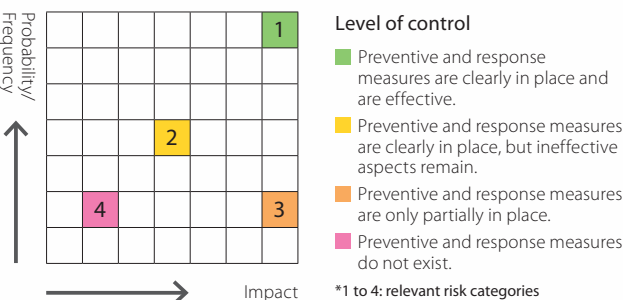
Risk management system diagram



Risk Assessment

To effectively reduce risks, Sangetsu began conducting risk assessment with the guidance of a risk assessment map. Based on the risks identified by each Risk Management Subcommittee, the frequency and probability of occurrence, impact and level of control are mapped to identify key risks and points at which risk response is inadequate. Results of the assessment are monitored by the Company-wide Risk Management Committee to ensure that each risk is managed appropriately and effectively according to its level of control.

Risk assessment map



Business Continuity Plan (BCP)

Sangetsu has ensured that all employees are aware of its BCP and implements disaster drills in anticipation of a contingency. We are working to strengthen our capability in the event of a disaster to set up the Emergency Response Headquarters and prepare it to swiftly execute actions. This headquarters is led by the president as the director-general and responsible for confirming the safety of employees and the restoration of business operations.

The BCP is reviewed each year to strengthen our response in line with changes in the social environment.

BCP Objectives

- First, ensure the safety of company employees, their families and other people.
- Second, safeguard the company's assets and prevent the expansion of damage.
- Third, quickly initiate disaster-relief efforts for the continuation of the business and its operations.

Board of Directors



Shuji Sasaki
Director,
Senior Executive Officer

Tamotsu Kokado
External Director,
Audit and Supervisory
Committee Member

Kunihiro Nasu
External Director,
Audit and Supervisory
Committee Member

Takashi Tajima
Director,
Audit and Supervisory
Committee Member

Kenji Ito
Director,
Executive Officer

Yasutomo Yoshikawa
Director,
Executive Officer

Michiyo Hamada
External Director,
Audit and Supervisory
Committee Member

Shosuke Yasuda
President and CEO

Masatoshi Hatori
External Director,
Audit and Supervisory
Committee Member

Wataru Shimizu
Director,
Executive Officer

Company Outline

Basic Information

Company Outline (as of March 31, 2016)		Offices	
■ Company Name*	Sangetsu Corporation	■ Headquarters	Nagoya
■ Date of Establishment	April 1953 (founded around 1849, during the Edo Period)	■ Branch Offices	Hokkaido, Tohoku, Kita-Kanto, Tokyo, Chubu, Kansai, Chugoku-Shikoku and Kyushu
■ President and CEO	Shosuke Yasuda	■ Branches and Sales Offices	Kita-Tohoku, Fukushima, Higashi-Kanto, Tama, Yokohama, Atsugi, Maebashi, Utsunomiya, Niigata, Mito, Nagano, Gifu, Okazaki, Hokuriku, Shizuoka, Kyoto, Kobe, Higashi-Osaka, Minami-Osaka, Hiroshima, Shikoku, Kita-Kyushu, Kumamoto and Minami-Kyushu, and other locations
■ Address	1-4-1 Habashita, Nishi-ku, Nagoya, Aichi 451-8575, Japan	■ Consolidated Subsidiaries	Sungreen Co., Ltd. (Nagoya, Japan) Yamada Shomei Lighting Co., Ltd. (Tokyo, Japan)
■ Capital	13,616.1 million yen	■ Non-consolidated Subsidiary	Sangetsu America, Inc. (New York)
■ Net Sales	133.9 billion yen (consolidated)	■ Affiliate	Wavelock Holdings Co., Ltd.
■ Number of Employees	1,474 (consolidated)		
■ Main Business	Planning, development and sales of interior decorating products, including wallcoverings, flooring materials, curtains and upholstery		
■ Stock Exchange Listings	First sections of the Tokyo and Nagoya Stock Exchanges		
*We changed our English company name from Sangetsu Co., Ltd. to Sangetsu Corporation on June 23, 2016.		A local subsidiary in China, Sangetsudo (Shanghai) Interior Limited, was incorporated and registered in Shanghai on April 26, 2016.	

Sangetsu Showrooms



SANGETSU Shinagawa showroom



SANGETSU Nagoya showroom



SANGETSU Osaka showroom

sangetsu design site

FLAGSHIP	SANGETSU Shinagawa showroom	SANGETSU Nagoya showroom	SANGETSU Osaka showroom	SANGETSU Fukuoka showroom
	Shinagawa Grand Central Tower 4F, 2-16-4 Konan, Minato-ku, Tokyo 108-0075, Japan Tel: +81-570-055-134 Fax: +81-3-5463-6744	1-4-1 Habashita, Nishi-ku, Nagoya City, Aichi 451-8575, Japan Tel: +81-570-055-135 Fax: +81-52-564-3229	HERBIS OSAKA 4F, 2-5-25 Umeda, Kita-ku, Osaka City, Osaka 530-0001, Japan Tel: +81-570-055-136 Fax: +81-6-6347-9811	1-11-11 Higashinaka, Hakata-ku, Fukuoka City, Fukuoka 812-0892, Japan Tel: +81-570-055-137 Fax: +81-92-441-9503

sangetsu design studio

SANGETSU Sendai showroom	SANGETSU Okayama showroom	SANGETSU Hiroshima showroom	SANGETSU Okinawa showroom	SANGETSU Kanazawa showroom
98-1, Rokuchonome-Minami, Wakabayashi-ku, Sendai City, Miyagi 984-0031, Japan Tel: +81-22-287-3922 Fax: +81-22-253-6806	836 Yao, Hayashima-cho, Tsukubo-gun, Okayama 701-0301, Japan Tel: +81-86-292-5708 Fax: +81-86-292-3322	2-28 Funairinakamachi, Naka-ku, Hiroshima City, Hiroshima 730-0842, Japan Tel: +81-82-233-3815 Fax: +81-82-233-3501	LEQUIOS SQUARE UCHIDOMARI 2F, 215 Ojana, Ginowan City, Okinawa 901-2225, Japan Tel: +81-98-890-3788 Fax: +81-98-890-3789	2-101 Otomo, Kanazawa City, Ishi-kawa 920-8205, Japan Scheduled to open in autumn 2016.