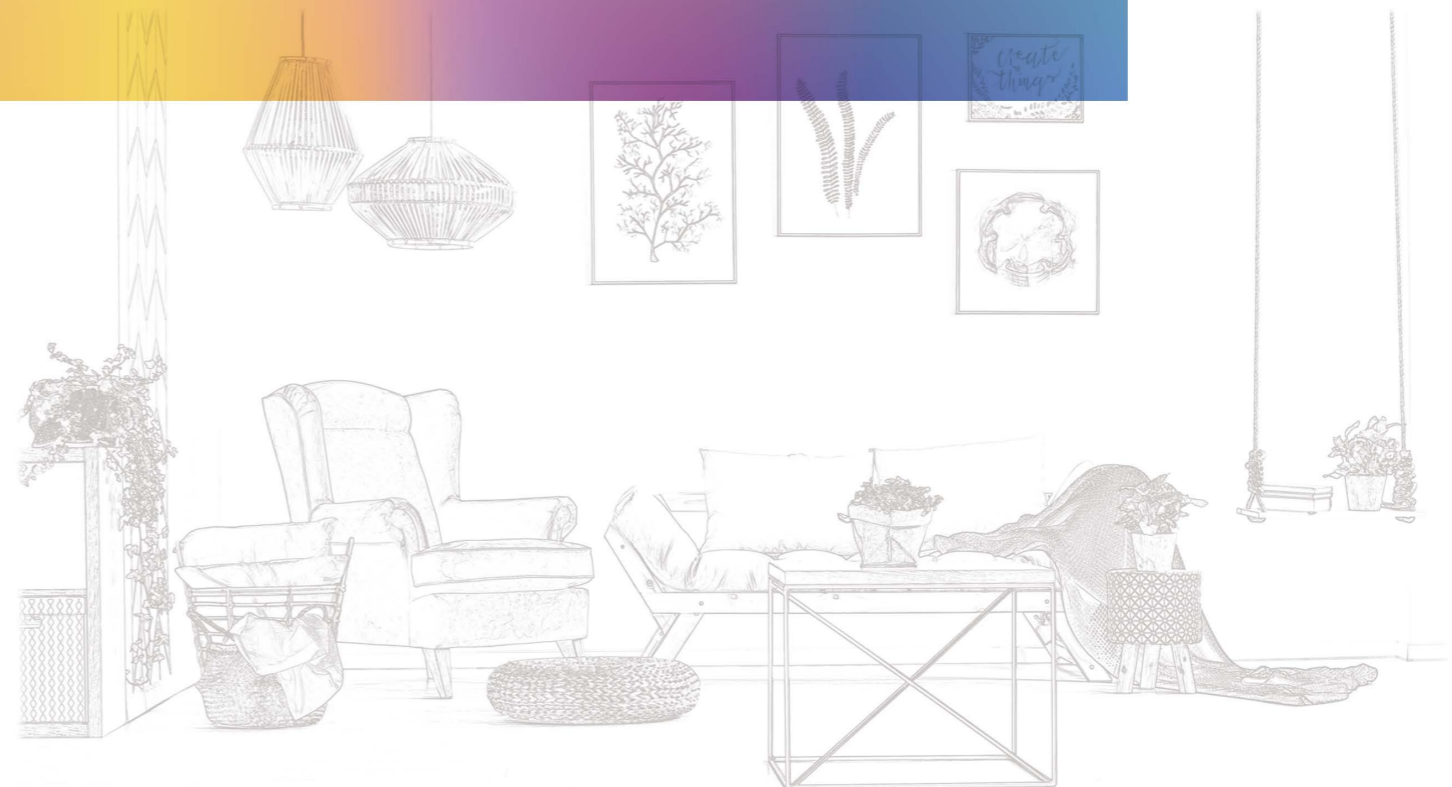


sangetsu



sangetsu

## SANGETSU REPORT 2018



### Sangetsu Corporation

President's Office, Public & Investor Relations Section  
CSR Promotion Section

1-4-1 Habashita, Nishi-ku, Nagoya City,  
Aichi 451-8575, Japan

<http://www.sangetsu.co.jp>



### 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

Sincerity

#### 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.

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Our Story

# Providing the “Joy of Design” as a Comprehensive Interior Design Brand that Brings the World Together

Our history extends back to Sangetsudo, a picture framing business founded by Yasuke Hibi during the Kaei Period (1848–1854), when Tokyo was still called Edo. Sangetsudo continued to provide traditional Japanese interior furnishings, such as scrolls, hanging scrolls, fusuma (papered sliding doors) and folding screens. It was about a hundred years later when the company began handling wallcoverings, which has since become our core product. This shift in business was far ahead of the time, when the word “interior” had not yet become familiar among people in Japan.

In 1966, Yoshiaki Hibi, the president at that time, was impressed by the advanced European concept of interior design, which provided a sense of joy and relaxation in daily life. His passion for improving the quality of Japanese interior designs became the starting point for today's Sangetsu, which aspires to offer total interior solutions that create a sense of unity in living spaces. Throughout a period of dramatic change, the com-

pany established its “fabless management” style that requires flexible thinking, planning and development of its products by responding sensitively to the needs of the times. From wall-coverings, the company steadily expanded its product range to include flooring materials, curtains and upholstery, leading up to the celebration of its 60th anniversary in 2013. Over the years, Sangetsu has contributed to the development of Japan's interior design business by establishing a nationwide sales system and logistics network.

In 2014, Shosuke Yasuda became president, assuming the executive management role from Yuichi Hibi. This marked the transition from management centered on the founding family to a new framework commensurate with Sangetsu's status as a listed company, in which employees actively participate in management. That same year, we announced the Mid-term Business Plan (2014-2016)“Next Stage Plan G” with the goal of transforming the company into a resilient, growing enterprise,

and announced our new brand concept, “Joy of Design.” Seeking to provide the joy of design to a broader population, we launched full-scale mobilization outside Japan and reconstruction of our IT and logistics systems, thereby creating a powerful impression of the new Sangetsu at home and abroad.

Sangetsu is now at a major crossroads. In the Mid-term Business Plan (2017–2019) “PLG 2019” announced in 2017, we set forth our goal of bolstering the consolidated management framework, changing course toward expanding business across the entire Group. As lifestyles become increasingly diversified, we will reinforce the expertise of each business and collectively leverage these areas of expertise across the Group to develop our global operations. Sangetsu will continue to provide the “Joy of Design” to individuals and society with a focus on nurturing human resources that can realize this goal and significantly enhancing corporate value for the entire Group.

FY 2017

Sales  
(record high) 156.39 billion yen

Net income 4.51 billion yen

Mid-term Business Plan  
(2017–2019)PLG 2019

Develop a corporate group with a solid market base in Japan and abroad that provides diverse products and functions with a high level of expertise.

Personal

Professionals with a high level of expertise, powerful relationships with external organizations

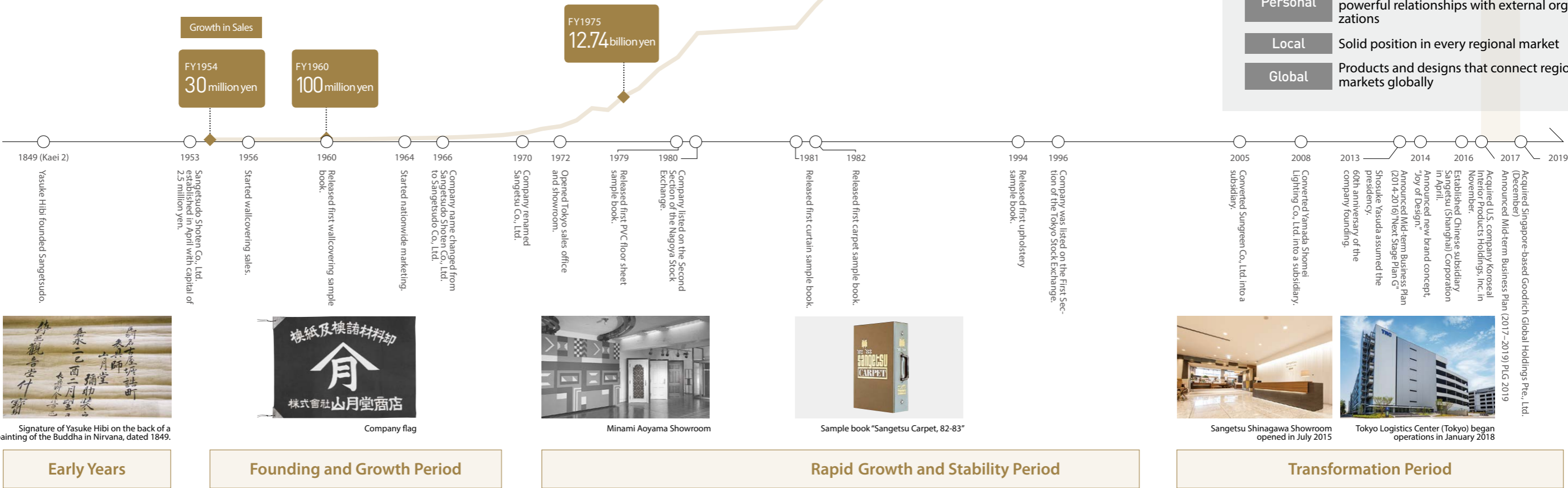
Local

Solid position in every regional market

Global

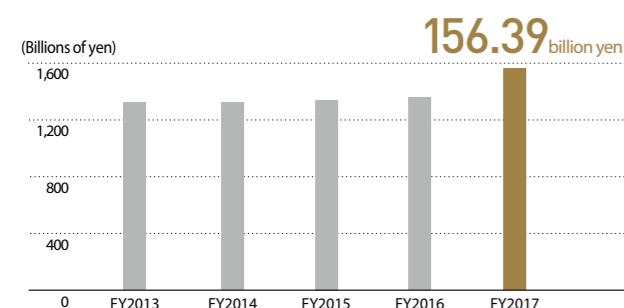
Products and designs that connect regional markets globally

HISTORY



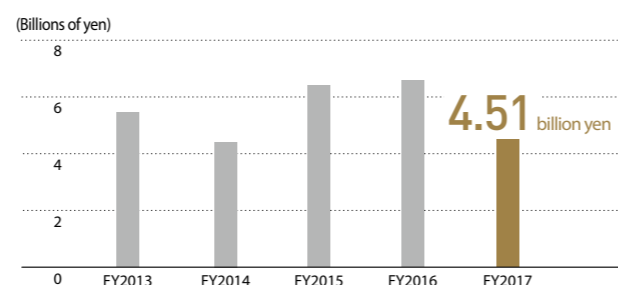
## Financial and Non-financial Highlights

## Sales



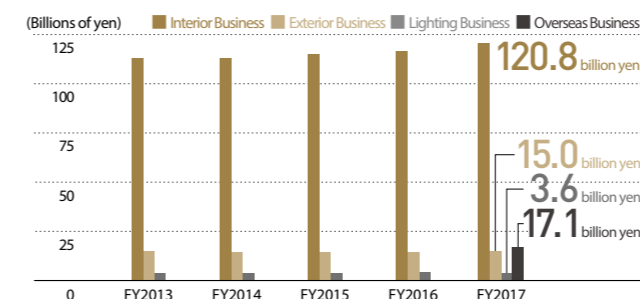
In the Interior Business and Exterior Business, sales rose due to an enhanced ability to execute operations such as product development, sales and logistics. In addition, the earnings of U.S.-based Koroseal Interior Products Holdings, Inc. and Fairtone Co., Ltd. were consolidated for the first time, contributing to the significant increase in sales.

## Net income attributable to parent company shareholders



Selling, general and administrative expenses increased significantly, as U.S.-based subsidiary Koroseal Interior Products Holdings, Inc. and Fairtone Co., Ltd. were included in consolidated results for the first time. Also, strategic expenditures under the mid-term management plan continued to rise at Sangetsu Corporation. As a result, operating income and net income declined.

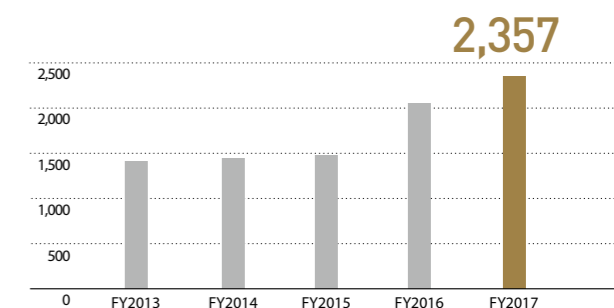
## Segment information



In the Interior Business, the company achieved a steady increase in the market share of its key products. In the Exterior Business, robust demand for garden materials boosted sales. In the Lighting Business, sales fell due in part to new competition, while sales rose in the Overseas Business by 17.1 billion yen from the previous fiscal year.

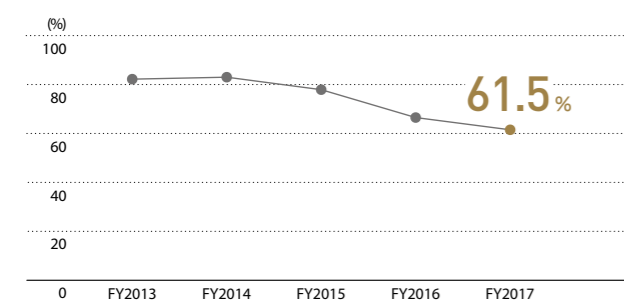
\*Starting in fiscal 2017, the Overseas Business segment was added by including the mid-term management plan's strategy for overseas markets and operations under consolidated management.

## Consolidated number of employees (as of March 31 of each year)



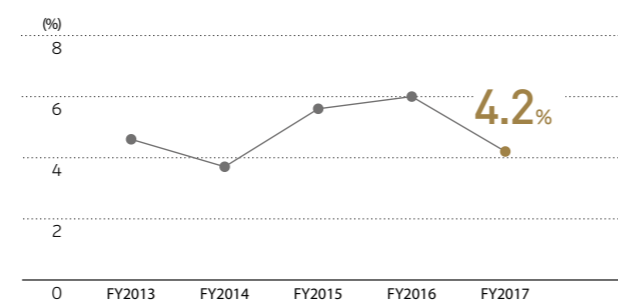
The number of employees increased by 306 from the previous fiscal year, due in part to the addition of Singapore-based Goodrich Global Holdings Pte., Ltd. to the Group in December 2017.

## Equity ratio



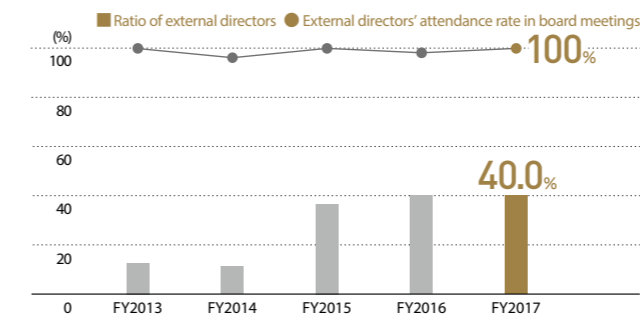
With respect to total assets as of the end of the current fiscal year, both current assets and noncurrent assets increased from the end of the previous fiscal year. The equity ratio fell by 3.7% from the end of the previous fiscal year, as net assets decreased due to share buybacks under the capital strategy of the mid-term management plan.

## Return on equity (ROE)



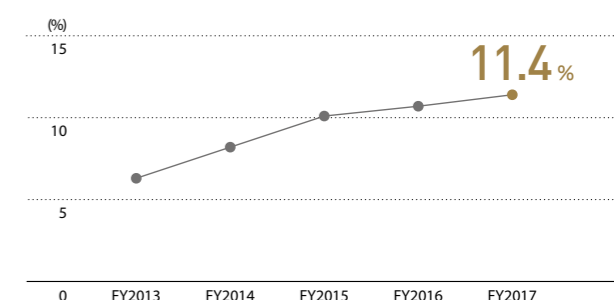
Equity decreased to around 105.2 yen billion and net income decreased, and as a result, ROE fell to 4.2%. The decline in net income also led to a decrease in return on invested capital (ROIC).

## Ratio of external directors and attendance rate at board meetings



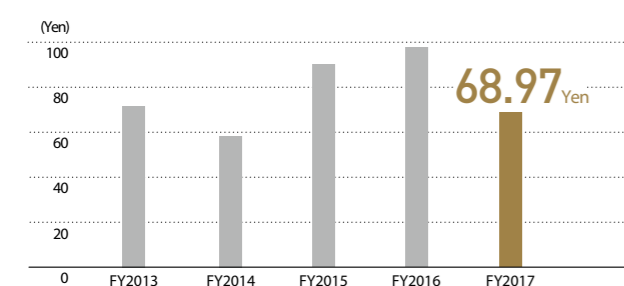
Sangetsu Corporation changed from a Company with Audit and Supervisory Board to a Company with Audit Committee in fiscal 2015 as a means for ensuring effective internal control. In fiscal 2017, the external directors' attendance rate in meetings of the Board of Directors was 100%.

## Ratio of female managers (as of April 1 of each year) Non-consolidated



As part of its drive to increase diversity, the company is planning to raise the ratio of female managers at Sangetsu Corporation to at least 15% by 2020. The ratio has been rising steadily due to expanded job positions for female employees and active promotion to management positions.

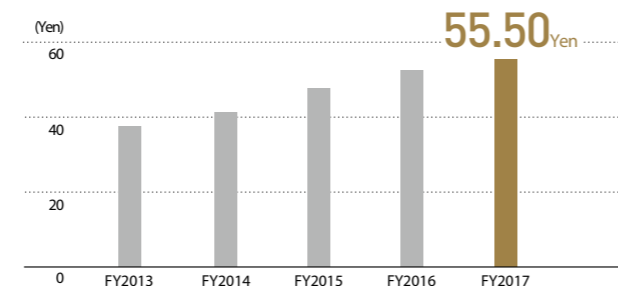
## Net income per share



Although the company proceeded to buy back shares under the capital strategy of the mid-term management plan, net income per share declined due to the decrease in net income.

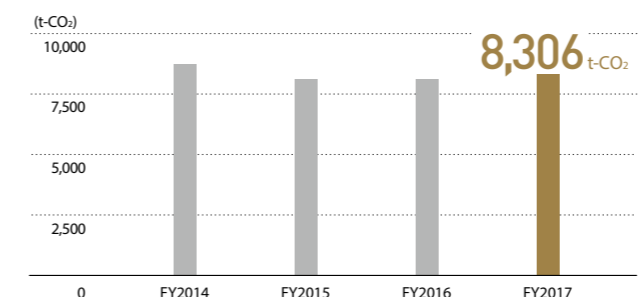
\*A share split was carried out at the rate of two shares per common share on April 1, 2015. Net income per share has been calculated assuming that the share split was carried out at the beginning of fiscal 2013.

## Dividend per share (annual)



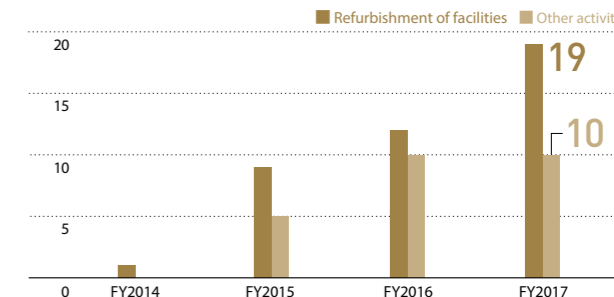
With respect to profit distribution, the company is seeking to sustainably expand its shareholder return strategy over the mid to long term, based on its mid-term management plan. Accordingly, the company paid an interim dividend of 27.50 yen per share and a full year dividend of 28.00 yen per share, which is an increase of 3.00 yen per share from the previous fiscal year.

\*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 2013.

CO<sub>2</sub> emissions Non-consolidated

In fiscal 2017, CO<sub>2</sub> emissions rose by 22 t-CO<sub>2</sub> from the previous fiscal year. The Sangetsu Group will continue to address global warming by monitoring the environmental impact of the entire Group while seeking to reduce CO<sub>2</sub> emissions.

## Social contribution activities by the Sangetsu Volunteer Club



The company organizes programs through the Sangetsu Volunteer Club to encourage employee participation in voluntary activities that contribute to society. Using Sangetsu products to help refurbish child welfare facilities is a representative example.

Sangetsu Group Businesses

Interior Business

Our main products are wallcoverings, flooring materials and fabrics for curtains and upholstery, which are widely used for both residential and non-residential purposes. We closely monitor the needs of the times as we plan and develop our products. Also, we pursue comprehensive and strategic initiatives in collaboration with the Exterior, Lighting and Overseas Businesses to generate synergies across the entire Group.



Wallcoverings

Diverse Lineup of Products with Excellent Functionality and Design

Sangetsu wallcoverings feature excellent design, durability and workability. Our broad lineup encompasses wallcoverings, waist-high wall sheets, self-adhesive decorative films, glass films and presentation walls. We respond to market demand by developing products such as functional wallcoverings with stain-resistant, deodorizing and permeable qualities while also focusing on the development of original digitally printed products.



Flooring Materials

The Real Star of the Rapidly-evolving World of Total Interior Design

We address wide-ranging needs and situations with flooring materials for residential use, including homes and condominiums, as well as offices, shops, medical and welfare facilities, and educational facilities. We offer a rich variety of materials, such as fiber-based flooring for carpets and carpet tiles, vinyl-based flooring for cushioned floor sheets and floor tiles, and flooring made of natural materials. Our products also feature diverse designs and outstanding functionality to support the creation of comfortable spaces.

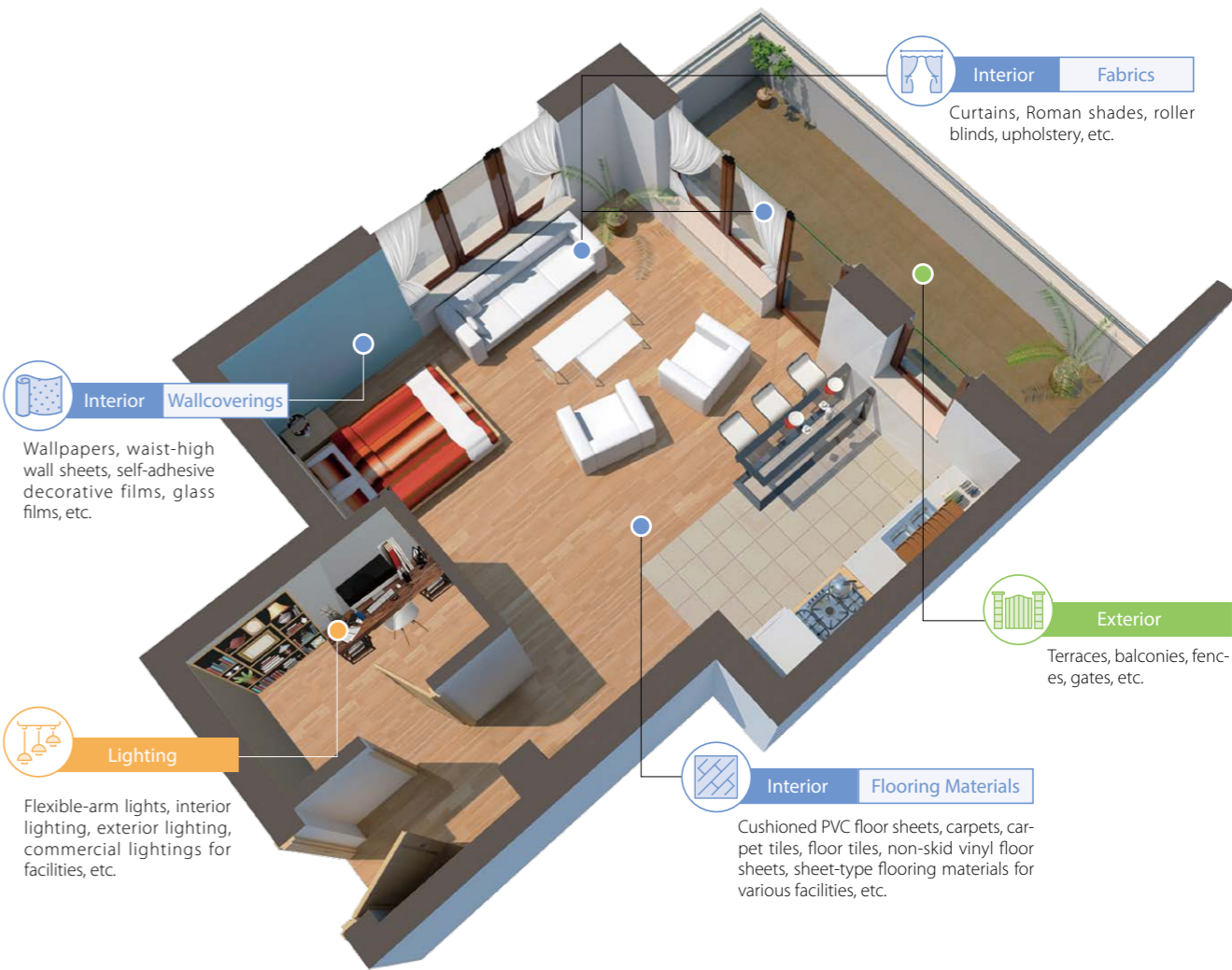


Fabrics (Curtains and Upholstery)

Adding Character to Each Interior Space

We offer a wide variety of curtains, with designs that range from the latest trends in materials and colors to classical motifs, and also functional curtains that reduce heat and "no see-through" from outside.

For upholstery, our fabrics and synthetic leather products excel in both design and maintenance and can be used in many settings, from homes to hotels, in medical, welfare, commercial and other facilities, and in vehicles and vessels.



**Exterior Business**

Sungreen Co., Ltd.

Based in the Tokai Region and Advancing into the Kanto Area

Sungreen joined the Group in 2005 as a trading company specializing in the exterior business. It seeks to enrich daily life by providing products for gates, fences, carports and gardens, and for public facilities such as schools and commercial facilities. The company is also expanding its lineup in response to growing demand from the renovation market for products used in designing garden spaces.



**Lighting Business**

Yamada Shomei Lighting Co., Ltd.

Taking Pride in Superior Design, Proposal and Technological Capabilities

Joining the Group in 2008 as a specialist in lighting equipment, Yamada Shomei Lighting was the first company in Japan to manufacture and sell the "Z Light" flexible-arm light. It provides various lighting products for hotels, office buildings and large-scale development projects, boasting an extensive track record in proposing and delivering lighting to well-known buildings in Japan.



Sangetsu Group Businesses



Overseas Business

Since 2014, the Sangetsu Group has been aggressively developing businesses in and outside of Japan, recognizing that the geographic expansion of its interior materials business is the key to establish a solid platform for future growth.

In April 2016, we established Sangetsu (Shanghai) Corporation, a wholly-owned subsidiary in China, as a base from which to advance into promising countries in Asia. In November of that year we acquired Koroseal Interior Products Holdings, Inc., which commands a major share of the North American market for interior products, to set in place the foundation for developing our business model in North America.

Furthermore, in December 2017 we acquired Singapore-based Goodrich Global Holdings Pte., Ltd. which boasts the largest share of the interior materials market in Southeast Asia. These actions have driven significant progress in constructing a robust network along the Pacific Rim, comprising the United States, China, Southeast Asia and Japan.

In the years ahead, as the pace of globalization accelerates in our interior materials business, Sangetsu and its Group companies will continue to develop their own unique products while generating powerful synergies by sharing products, designs and suppliers to further bolster their businesses and establish new ventures.

Shanghai City, People's Republic of China  
Sangetsu (Shanghai) Corporation (25th floor)



Republic of Singapore  
Goodrich Global Holdings Pte., Ltd.



Ohio, U.S.A.  
Koroseal Interior Products Holdings, Inc. (1st floor)



Shanghai City, People's Republic of China  
Sangetsu (Shanghai) Corporation

Promoting Interior Goods by Leveraging the Know-how Gained in the Domestic Business

Sangetsu (Shanghai) Corporation was established in China as a wholly-owned local subsidiary in April 2016. It develops sample books exclusively for the Asian market and pursues a business model similar to Sangetsu's Japanese business with the combined functions of inventory, delivery and construction. The market in China is roughly 2.5 times that of Japan, and we are expanding sales of wallcoverings for large-scale condominiums, which are mainly sold fully furnished. Moreover, we are seeking to increase sales for products such as flooring materials for medical and welfare facilities.

**Headquarters:** 25F, 137 Lane, Xian Xia Road, Sheng Gao International Tower, Chang Ning Area, Shanghai 200051, P.R.C.  
**Date of Establishment:** April 2016  
**Capital:** RMB 13,000,000  
**Number of Employees:** 6 (as of March 31, 2018)



Ohio, U.S.A.  
Koroseal Interior Products Holdings, Inc.

Number One Share in the North American Market for Non-residential Wallcoverings

Koroseal Interior Products Holdings, Inc. is a consolidated subsidiary based in Ohio, U.S.A. and acquired in November 2016. Its main products are wallcoverings for non-residential use. And it is the first company in the North American market for non-residential interior products to be involved in both manufacturing and sales. As the market leader with the largest market share, its sales structure is based on a dynamic network of markets and customers. The company is also spearheading growth in the promising market for digital printing.

**Headquarters:** 3875 Embassy Parkway Fairlawn, Ohio 44333 USA  
**Date of Establishment:** February 2014  
**Capital:** USD136,725,000  
**Number of Employees:** 584 (as of March 31, 2018)



Republic of Singapore  
Goodrich Global Holdings Pte., Ltd.

Powerful Partner with the Biggest Share of the Southeast Asian Market

Goodrich Global Holdings Pte., Ltd. which sells interior materials and commands the biggest share of the Southeast Asian market, became a subsidiary in December 2017. Goodrich maintains ten offices and product showrooms in five countries in the region. Its strengths lie in its network of customers developed since its founding and its global procurement capabilities. The company is our best partner for generating synergies with businesses by sharing products and designs amid the globalization of our interior materials business.

**Headquarters:** Goodrich Building, 8 Changi South Lane #05-01 Singapore 486113  
**Date of Establishment:** January 1983  
**Capital:** SGD11,004,000  
**Number of Employees:** 279 (as of March 31, 2018)



We will invest in the future to achieve sustainable growth in a global social environment.

Shosuke Yasuda  
President and CEO

Market Trends and Overview of Sangetsu’s Business

In fiscal 2017, market conditions surrounding Sangetsu’s business operations were mostly favorable. The construction market, which is highly relevant to our business, benefitted from robust demand from both new construction and renovation projects in the non-residential market centered on the greater Tokyo metropolitan area, ahead of the 2020 Tokyo Olympic and Paralympic Games. Due to general delays in the construction schedule, however, those of us handling interior works are not expected to benefit from this demand until the latter half of fiscal 2018. Meanwhile, the outlook for the housing market has become less clear, as new housing construction declined year on year for nine consecutive months from July 2017 to March 2018 and as the labor shortage was felt more sharply in the construction industry.

Under these circumstances, the Sangetsu Group launched the Mid-term Business Plan (2017–2019) “PLG 2019” and steadily implemented its initiatives for growth. As a result, consolidated net sales for the term jumped by 15.3% year on year to 156.390 billion yen, due in part to the start of consolidation of Koroseal Interior Products Holdings, Inc., which was acquired in fiscal 2016. However, on a non-consolidated basis, investments in growth areas led to a rise in selling, general and administrative expenses (SG&A), and as a consequence, operating profit fell 33.5% year on year to 5.033 billion yen, ordinary income fell 31.9% to 5.698 billion yen, and net income attributable to parent company shareholders fell 31.3% to 4.514 billion yen.

We cannot overlook the business challenge of rising SG&A of Sangetsu Corporation, and we have seriously considered the decline in profit. At the same time, we also believe these to be necessary investments and costs for our future growth, and we are resolved to maintain this aggressive stance.

Results and Remaining Issues of the Mid-term Business Plan (2017–2019) “PLG 2019”

The Mid-term Business Plan (2017–2019) “PLG 2019” that began in fiscal 2017 succeeds the previous three-year plan, which had been designated as a preparation period for future growth. We set up Five Key Areas of Initiatives to continue our efforts on un-attained goals.

Among the Five Key Areas of Initiatives, the “business strategy for growth” is particularly relevant to the Group’s business, and we are focused on the key themes of “enhancing functionality” and achieving “geographical expansion.” We sought to enhance functionality in fiscal 2017 by reorganizing the sales system at our headquarters and creating dedicated sales divisions for each key market with an emphasis on close communication with customers and regions, thereby strengthening the link between product strategy and sales strategy.



Personal	Local	Global
Professionals with high levels of expertise, powerful relationships with external human resources	Solid position in each regional market	Products and designs that connect regional markets

Five key Areas of Initiatives
1. Business strategy for growth 2. Enhance human resources 3. Bolster profit management system 4. ESG and CSR Policy 5. Capital strategy

We also reorganized our logistics centers in the Chubu region and the greater metropolitan area to bolster our logistics functionality. Next we will establish a center in Hokkaido and more effectively deploy our logistics functions across the Group.

In our business strategy for geographical expansion, we acquired Singapore-based Goodrich Global Holdings Pte., Ltd. in a drive to establish our platform in Southeast Asia. We have constructed an overall framework for promoting the geographical expansion of our interior materials sales business along the Pacific Rim, our core overseas market, in collaboration with Koroseal Interior Products Holdings, Inc. in the North American market and Sangetsu (Shanghai) Corporation in the Chinese market. From here on we will bolster the sales and logistics systems in each local market and continue developing products that meet regional needs. However, we believe we can achieve geographical expansion in the true sense only when these efforts have become fully integrated into our global business.

The second pillar of our Mid-term Business Plan is our initiative for “enhancing human resources.” As a company that consigns production to manufacturers, human resources including expert knowledge and skills are essential elements of our business, and securing personnel amid a widening labor shortage in Japan is a major issue. Convinced that providing an appealing workplace will give us an edge in reinforcing our human resources, Sangetsu is pursuing initiatives for boosting and increasing diversity to bring out the varied abilities of our workforce. We particularly recognize that developing the careers of female employees is a key issue in creating a more robust company, and we made progress in various related areas in fiscal 2017, including appointing women to management positions and offering more job openings.

As for “bolstering the business management system,” we appointed a Chief Cost Controller, a new post, to reign in and reduce SG&A, which has risen in line with the increase in Group companies, establishment of logistics centers and initial expenses for constructing mission critical systems. While I mentioned earlier that the rise in SG&A signifies investments in future growth, we will exercise stringent control to ensure a sound profit management system.

Seeking Further Improvement in Capital Efficiency

We are targeting ROE of 8% to 10% by fiscal 2019, the final year of the Mid-term Business Plan (2017–2019) “PLG 2019.” Improving ROE will require boosting the profitability of the entire Group, and to that end we will steadfastly execute our business strategies. Meanwhile, as we seek to improve our capital efficiency, we will also implement our shareholder return strategy by paying due attention to safety and growth. Although we have designated investments in growth-centered M&A and capital investment as important initiatives, these take time to generate profit. We will implement initiatives for expanding future profit while also pursuing our shareholder return strategy by retaining the necessary equity capital and cash to ensure the safety of our business operations. Our goal is to reduce equity capital from 110 billion at the start of the mid-term management plan to between 105 billion and 100 billion yen.

In fiscal 2017, ROE declined to 4.2% from the previous fiscal year. However, we observed a significant improvement in our cash conversion cycle (CCC), which indicates the efficiency of operating capital on a consolidated basis, from 88.3 days in fiscal 2016 to 79.7 days in fiscal 2017. Looking ahead, we will con-

tinue to invest in future growth while paying close attention to timing and balance to actively undertake share buybacks and offer stable increases in dividend payments to shareholders in order to further improve capital efficiency.

Promoting our ESG and CSR Policy

In recent years, we have seen growing expectations for corporate efforts to resolve social issues, as many global companies adopt the Sustainable Development Goals (SDGs) as their guidelines and as the ESG perspective attracts attention as a benchmark for assessing sustainable corporate value. Sangetsu is aware that squarely addressing social issues and contributing to their resolution will be an unavoidable challenge if we are to remain a company that society values over the long term.

In this context, we formulated the “ESG and CSR Policy” as a key initiative of the Mid-term Business Plan (2017–2019) “PLG 2019” and set quantitative and qualitative targets for five areas. Under the policy, we are pursuing efforts to contribute solutions to ESG issues and fulfill our responsibility to society. For example, we made significant progress in fiscal 2017 in establishing the Sangetsu CSR Procurement Policy and Guidelines for our suppliers, conducting surveys and seeking full compliance with the Corporate Governance Code. Moreover, we will continue to engage in social contribution activities, such as by supporting renovations at child welfare facilities as an initiative unique to Sangetsu. We intend to maintain this momentum in fiscal 2018 and beyond, consistently pursuing our initiatives while encouraging each employee to develop a deeper understanding of our ESG and CSR Policy, to enhance the value of the entire Group as a company that meets society’s expectations.

Global Future of the Sangetsu Group

The Sangetsu Group is currently reinforcing its consolidated management system toward its goal of achieving sustainable growth for the entire company. To further improve our corporate value, we must extend our competitive advantage in market scale and share achieved in the Japanese market to the global stage, and make a concerted effort to enhance our business expertise and comprehensive capabilities to attain robust growth for the Group as a whole.

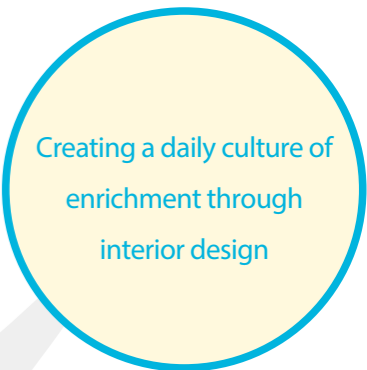
Although we are still in the early stages of the Five Key Areas of Initiatives laid out in the mid-term management plan for our future, all Group employees are already engaged in a united effort for a great leap forward. We will strive for sustainable growth as a company that contributes to enriching people’s lives by continuously providing the “Joy of Design” around the world.



# Value Creation at Sangetsu

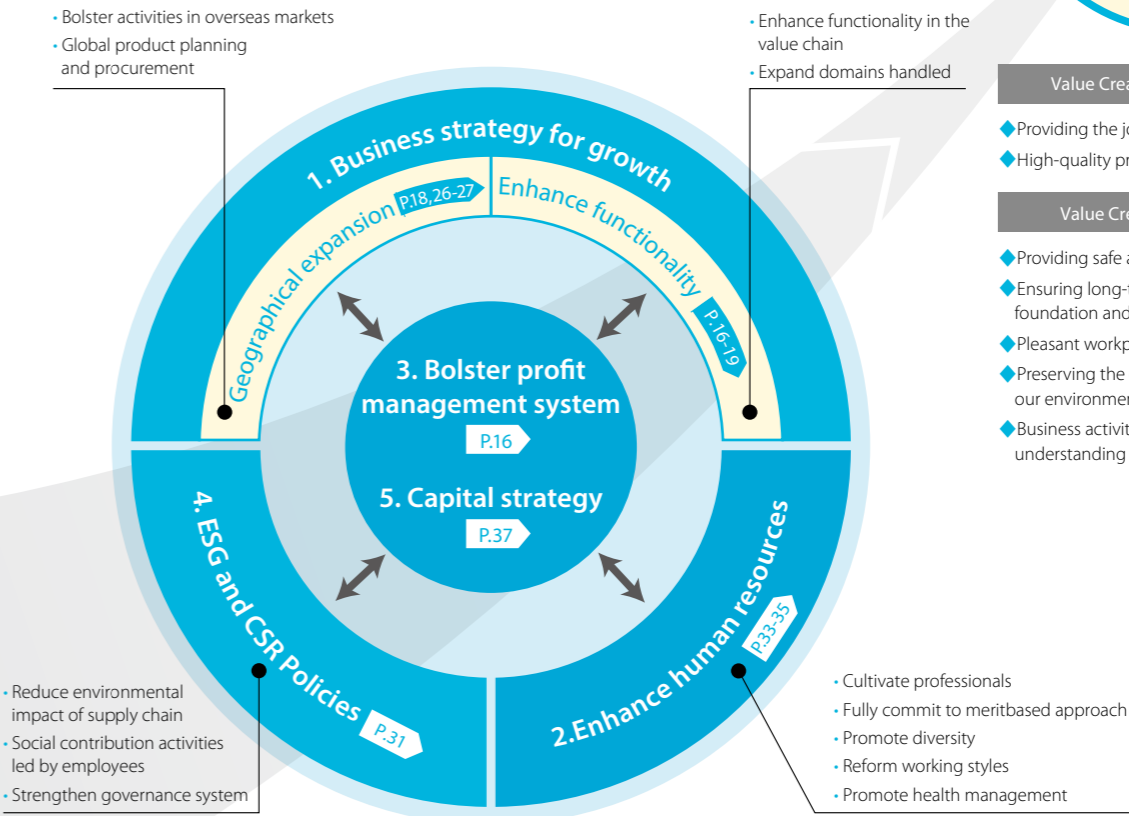
Sangetsu’s corporate mission is to contribute to society through interior design and strive to create a daily culture of enrichment by providing the “Joy of Design.”  
We will respond to drastic changes in the external environment by implementing strategies in the Five Key Areas of Initiatives under our Mid-term Business Plan (2017–2019) “PLG 2019” to create lasting value for society.

## Value Creation



## Mid-term Business Plan (2017-2019) “PLG 2019”

### Five Key Areas of Initiatives



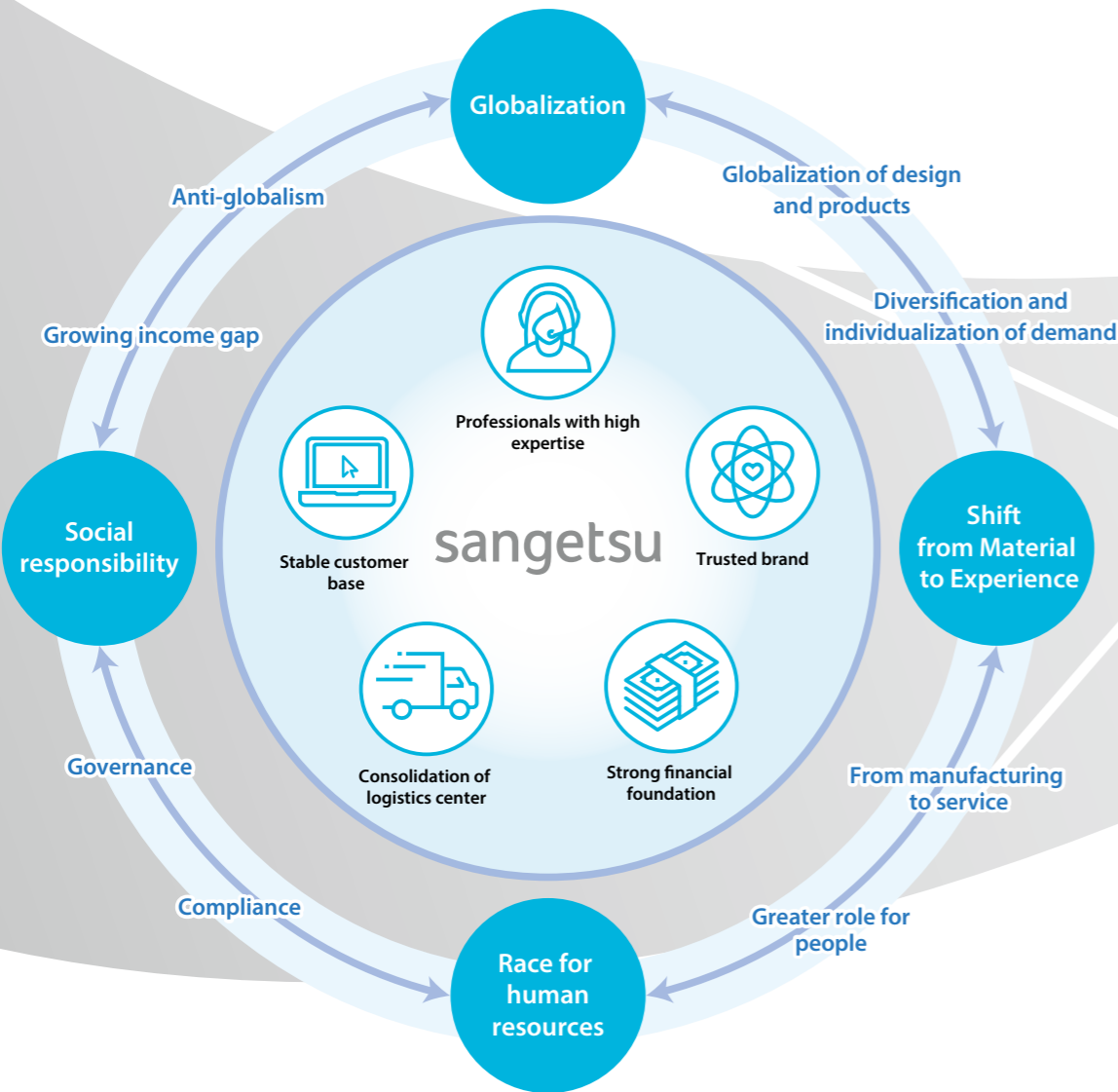
#### Value Creation through Business

- ◆ Providing the joy of designing spaces
- ◆ High-quality products and finely-tuned services

#### Value Creation for Stakeholders

- ◆ Providing safe and secure residential spaces
- ◆ Ensuring long-term stability for the management foundation and profit returns
- ◆ Pleasant workplaces where diversity is respected
- ◆ Preserving the global environment by reducing our environmental impact
- ◆ Business activities based on public trust and understanding

## Changes in the External Environment and Outstanding Issues



#### Corporate Philosophy P.29

#### Brand Statement

### Joy of Design

#### Brand Purpose

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

#### CSR Management P.29-31

#### Corporate Governance P.44-45

Value Creation at Sangetsu



Sangetsu’s Strengths and Value Chain

Creation, Proposal and Delivery, the three strengths of Sangetsu, are integrated across the entire value chain to generate synergies and provide value. We focus on enhancing our value chain so that we can provide more “Joy of Design.”



Specific Focus Points

Appointment of new outside designers to create new designs

Joint product development with overseas subsidiaries

Value Creation at Sangetsu

(2017–2019) “PLG 2019”

Key Areas of Initiatives of the Mid-term Business Plan

Geographical Expansion

Developing a Business Platform Centered on Southeast Asia



\*Business associates with capital ties

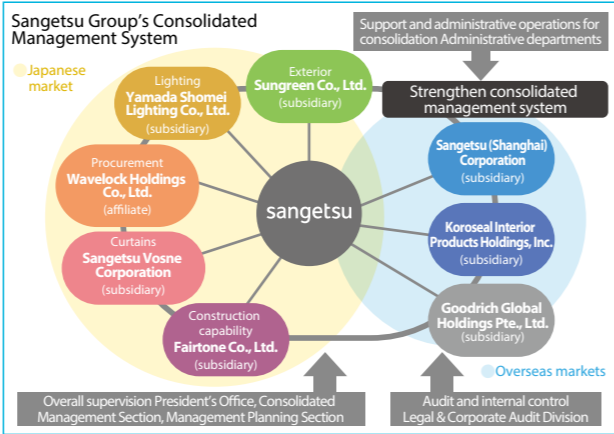
The Sangetsu Group acquired approximately 70% of the shares of Singapore-based Goodrich Global Holdings Pte., Ltd. (Goodrich) in December 2017, converting it into a consolidated subsidiary. Sangetsu had for some time designated Southeast Asia as a key region for its high market potential. However, we felt that an alliance with a powerful local partner was essential for establishing a sales network across this multi-ethnic region, which led to our latest acquisition.

Goodrich sells interior materials, primarily handling interior goods such as wallpapers, fabrics and flooring materials, with sales bases and galleries, including those of Group companies, in five countries across Southeast Asia. It boasts the largest share of the region's interior sales market and is capable of procuring interior products from manufacturers around the world. The company also maintains six sales bases in China, and we intend to consolidate our business platform by incorporating Sangetsu (Shanghai) Corporation, the Chinese subsidiary of the Sangetsu Group.

Looking ahead, we will partner with Goodrich in realizing the Mid-term Business Plan (2017–2019) “PLG 2019” by generating synergies with our existing businesses targeting the Asian market as a whole.

Enhance Functionality

Strengthening the Consolidated Management System



As part of its growth strategy, the Sangetsu Group has been aggressive in its geographical expansion with the bolstering and broadening of its sales and purchasing capabilities in and outside of Japan. In April 2017, the Consolidated Management Section was established to handle overall management and check-and-balance functions. The intent was to organically implement the integrated management of affiliates responsible for local businesses, demonstrating the strengths of each company and nurturing synergies among the Group's businesses.

In order to strengthen consolidated management, we clarified the definition of business associates, including affiliated companies and subsidiaries, and identified their respective business risks. We also sought to develop a framework for systematically responding to affiliated companies by introducing a system that assigns oversight to the supervising divisions along with a system of checks and support by specialized divisions. These efforts clarified the responsibilities of managing affiliated companies to ensure stringent control of consolidated management functions.

Enhancing the value of each consolidated company is directly linked to the strengths and enhanced value of the Group as a whole. In our drive to strengthen consolidated management, we will seek to raise the consolidated/non-consolidated ratio to a level commensurate with our global business development by optimizing the management of consolidated companies individually while giving priority to total optimization, toward our goal of achieving further growth for the Group.

Enhance Functionality

Consolidating Logistics Centers in the Kanto Region



The Tokyo Logistics Center (Tokyo LC) began operations in January 2018 to consolidate our two centers in the Kanto region, in Shinagawa and Katsushima, by relocating them to the neighboring Heiwajima area, which is ideally situated for deliveries to Tokyo suburbs. Moreover, while we refrained from stocking inventory at night in consideration of neighborhood concerns at the former Shinagawa Center, Tokyo LC's location in a block of warehouses allows us to receive night-time deliveries and thereby increase operational efficiency. Efforts to enhance functionality are also underway toward raising efficiency throughout the process of receiving, storing and shipping goods, such as by allocating certain inventory to facilitate shipping and introducing storage equipment.

The Sangetsu Group will continue to enhance customer service and management efficiency from the standpoint of supply chain management to strengthen the functionality of its logistics centers.

Enhance Functionality

Established Sangetsu Vosne Corporation to Bolster Curtain Sales



In April 2017, we established Sangetsu Vosne Corporation as a wholly-owned subsidiary specializing in curtains.

The changing market environment and more diverse sales channels for curtains have created a need for highly specialized knowledge and sales skills. Sangetsu Vosne Corporation has therefore shifted to direct sales and away from conventional sales activities that depend on sample books. It organizes sales events to offer interior options for buyers of condominium units and targets interior coordinators at housing manufacturers through its sales activities. Furthermore, it provides feedback to the fabric business division on market needs and social trends gained through its sales activities, which guides the development of new products.

We also intend to generate Group synergies by expanding beyond curtain sales to engage in value-added services, such as sales planning and proposals for coordinated design, toward developing a competitive sales advantage in the residential market comprising housing manufacturers and developers.

Interior Business



Market Environment

- Construction demand ahead of the Tokyo 2020 Olympic and Paralympic Games
- Decline in new housing construction and shortage of construction workers due to falling population

Risks and Concerns

- Shortage and aging of skilled installation workers
- Maintenance and enhancement of quality
- Optimal inventory and stable supply

Strengths

- "Total Interior" proposals combining the three product domains of wallcoverings, flooring materials and fabrics

Opportunities

- Pursuit of high added value in the residential and contract project markets
- Product development from the standpoints of environmental performance and long life
- Joint development with overseas subsidiaries and manufacturers

Message from the Head of the Interior Business

Establishing a Global Framework for Product Planning and Procurement

In our current mid-term management plan, the first item listed under the Key Areas of initiatives is the Business Strategy of Growth for achieving geographical expansion and enhanced functionality for the Interior Business. We have secured our position as a stable source of profit in the Japanese market, and having completed a system that encompasses product planning, development, sales and installment, our unique "Total Interior" business model has now entered a stage of maturity.

In our strategy for overseas markets, we must quickly develop a system of product planning and procurement in response to the globalization of design and manufacturers, with an eye on the global market anchored in the Asia-Pacific region. Having established powerful business bases outside of Japan, we are enjoying more opportunities to develop products based on direct orders from overseas manufacturers. There is a real demand for the wa-modern (traditional + modern) design, which is especially popular in Europe and the United States, and for the delicate, detailed work of Japanese craftsmanship, and this has opened up new possibilities for us.

In the years ahead, we must demonstrate the strengths of our comprehensive capabilities by combining the expertise of each Group company to expand our business domains while actively exploring collaboration with new business associates overseas. From there, we will bolster the Sangetsu brand through globalization, by promoting comprehensive business management across the entire Group to maximize synergies.



**Yoshiaki Kaneko**  
Director, Executive Officer  
Deputy General Manager,  
Interior Business Unit, and  
General Manager, Logistics Unit

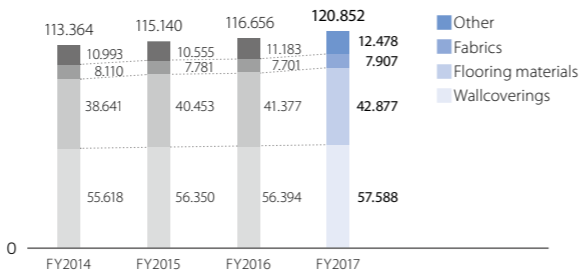
Interior Business Sales



Sales Ratio  
**77.3%**

Consolidated Sales for Fiscal 2017  
156.390 billion yen

Interior Business Sales by Element (Billions of yen)



Sales of Wallcoverings and Ratio to Interior Business Sales



Sales Ratio  
**47.7%**  
Interior Business Sales  
120.852 billion yen

Business Highlights in Fiscal 2017

Sales of wallcoverings grew due to the steady popularity of our "FAITH" sample book, featuring non-combustible wallcoverings for non-residential use, and to reinforced sales efforts for the "REATEC" self-adhesive decorative film and glass films targeting contract projects in urban areas. Meanwhile, we enjoyed solid sales for products in "RéSERVE" and "FINE," our main sample books for detached houses and condominiums. As a result, sales rose 2.1% year on year to 57.588 billion yen.

Our "Blackboard" wallcovering launched in 2016 received the Good Design Award and the 11th Kids Design Award for fiscal 2017.

Plans for Fiscal 2018

In fiscal 2018, we will seek to capture a solid share of demand related to the Olympic Games, generated by visitors to Japan, and last-minute orders ahead of the rise in consumption tax, by boosting sales and promotions for high value-added products targeting hotels and commercial facilities. We will also focus on digitally printed products and new functional products that reduce installation work as part of our initiative to strengthen product development over the medium to long term.

Furthermore, we will develop our collaborative structure with manufacturer Wavelock Holdings Co., Ltd. and installation company Fairtone Co., Ltd., to strengthen synergies across the wallcovering business. And we will generate synergies across the entire Group by sharing designs and sample books with overseas subsidiaries.

A Job reference

Shirakawa Branch, Tono Shinkin Bank (Gifu Prefecture)

Contributing to Local Consumption of Local Products, with a Wallcovering Made of Real Wood

Tono Shinkin Bank is a cooperative structured financial institution that strives to stay in touch with the local community. In particular, the Shirakawa Branch that relocated in November 2017 to a new building makes ample use of the local Tono cypress and has become a community landmark.

Sangetsu's "WILL WOOD®" made of thinly sliced wood with genuine taste, was selected for the ceiling of the five-meter-high atrium in the lobby, a major feature of the building. Ordinarily, use of natural wood presents problems in terms of interior restrictions and cost, but WILL WOOD® is installed over a legally recognized non-combustible base layer, ensuring that the building meets non-combustible requirements while also reducing cost.

With transom made of Tono cypress and the ceiling covered in WILL WOOD®, the space was given a full cypress finish to the satisfaction of our client.



Name: Shirakawa Branch, Tono Shinkin Bank  
Completion: November 2017  
Client: Tono Shinkin Bank  
Design: NTT Facilities Tokai, Inc.

For more information, please see Sangetsu's website.  
<https://www.sangetsu.co.jp/report/0008.html>

# Interior Business

Flooring Materials



Flooring Materials Sales and Ratio to Interior Business Sales

Flooring Materials Sales

42.877

billion yen

(up 3.6% year on year)

Sales Ratio

35.5%

Interior Business Sales

120.852 billion yen

Fabrics



Fabrics Sales and Ratio Interior to Business Sales

Fabrics Sales

7.907

billion yen

(up 2.7% year on year)

Sales Ratio

6.5%

Interior Business Sales

120.852 billion yen

## Business Highlights in Fiscal 2017

In the flooring materials business, while sales of PVC floor sheets for housing remained flat from the previous year due to sluggish new housing construction, we enjoyed steady sales in PVC floor tiles for commercial and other facilities. Sales also grew for easy- maintenance PVC floor sheets due to renovation-related demand from medical, welfare and educational facilities. As a result, sales of flooring materials rose 3.6% year on year to 42.877 billion yen.

With regard to product marketing, we saw favorable sales in the area of floor tiles, where the introduction of diverse designs including wood and stone patterns has expanded the market in the whole segments. In Roll Carpet categories, we enjoyed favorable sales of designed carpets centered on customized products, due to robust demand linked to hotel renovations.

## Plans for Fiscal 2018

We plan to establish a framework for the flooring materials business targeting overseas markets by centralizing of procurement sources and distributing suppliers and strengthening alliances in and outside of Japan for the medium to long term.

To demonstrate synergies across the Interior Business, we will explore product development and assign overseas designers in an effort to create world-class design. To effectively implement optimal inventory and stable supply, we will coordinate with the Logistics Unit and Sales Business Unit to raise the efficiency of shipments between each logistic base while stringently ensuring optimal inventory management. In pricing we will continuously focus on cost competitiveness through cooperation with suppliers.

## A Job reference

### Gyoza no Ohsho Kintetsu-Nara-eki-mae

#### Fusion of Easy Maintenance and Excellent Design Requirements for Restaurant Floors

Gyoza no Ohsho is a restaurant chain popular with all ages that specializes in pan-fried dumplings. Our “FLOTEX Sheet” fiber-based flooring, which combines the qualities of a carpet and hard flooring, was selected for the Kintetsu Nara Station shop that opened in May 2017. Because the shop uses a lot of oil, it needed flooring that could handle oil stains and would be safe to walk on. It also required color and design with a Japanese taste to match the ancient capital of Nara. The wood-patterned FLOTEX selected for the shop has an extremely dense pile structure with excellent anti-skid quality that makes it safe to walk on, and also provides high durability and ease of maintenance. Moreover, we were able to meet the client’s request by creating a calm, relaxing space with a fine wood pattern. We received favorable feedback for product functionality, including cost, and for design.



Name: Gyoza no Ohsho Kintetsu Nara Station Shop  
Completion: May 2017  
Client Ohsho Food Service Corporation  
Design: Andona Design  
Maintenance: ARX Corporation Co., Ltd.

For more information, please see Sangetsu’s website.  
<https://www.sangetsu.co.jp/report/0007.html>

## Business Highlights in Fiscal 2017

In the Fabrics Business, sales were led by products in the “STRINGS” sample book, emphasizing authentic materials and highly fashionable color lines, and the “Simple Order” sample book that facilitates the easy selection by single-price products line up.

We also benefited from specialized sales activities in priority markets, such as for medical and welfare facilities market, and enjoyed steady sales of curtains for contract facility projects. As a result, combined sales for curtains and upholstery in the Fabrics Business rose 2.7% year on year to 7.907 billion yen.

In April 2017, we established Sangetsu Vosne Corporation, which specializes in curtain sales, to target specific markets and explore unconventional methods of marketing that do not depend on conventional sample books. We also launched a collection of fabrics and wallcoverings as the first series of our new brand “EDA (English Design Agency),” in an effort to generate synergies throughout the Interior Business.

## Plans for Fiscal 2018

In the business area of curtains, we will continue to pursue high value-added proposals and sales services through Sangetsu Vosne Corporation while also emphasizing sales of high-quality “finished products” by taking drastic measures to bolster our sewing operations, thereby raising our presence in the curtain market.

Issues in the upholstery business include promoting sales activities by dedicated sales staff in highly specialized markets and boosting coordinated promotional strategies with the Sales Business Unit in various markets. We will also continue our efforts to develop new products with enhanced functionality.

## Tie-up Project

### Afternoon Tea TEAROOM, Shin-Marunouchi Building

#### Coordinating a Shop Space with the Feeling of an Early Summer Breeze

As a new initiative involving brands in other industries, for about a month starting in May 2018, Sangetsu coordinated the shop interior of the Afternoon Tea TEAROOM inside the Shin-Marunouchi Building, one of the 90 or so locations of this popular tearoom nationwide. Applying the concept of “a comforting space where you can feel the early summer breeze,” we coordinated the interior using products from the “HAMPSHIRE GARDENS” collection of fabrics and wallcoverings, the first in the series from our unique new brand “EDA (English Design Agency),” which integrates a traditional British style with the precise, intricate skills of Japanese craftsmanship. We expressed the EDA world view with curtains and art panels as wallcoverings, as well as tableware and cushions, to offer a relaxing experience in a luxurious setting.



Name: Afternoon Tea TEAROOM, Shin-Marunouchi Building, Marunouchi  
Event period: May 15 to June 27, 2018  
Client: IVY COMPANY, SAZABY LEAGUE, Ltd.

Due to the favorable reception, the interior design was adopted for use after the event.

For more information, please see Sangetsu’s website.  
<https://www.sangetsu.co.jp/information/pdf/20180509092214.pdf>

## Exterior Business



### Market Environment

- Growing exterior demand due to a shift in consumer needs away from that related to newly built housing
- Decline in new housing construction and a shortage of construction workers due to decrease in population

### Risks and Concerns

- Shortage and aging of skilled installation workers
- Maintenance and enhancement of quality

### Opportunities

- Growing interest in exterior products due to extended lifetime of housing
- Provision of high value-added products that meet consumer needs

### Strengths

- Comprehensive proposals incorporating products from diverse manufacturers
- Creation of a broad array of spaces based on excellent installation capability

### Message from the Head of the Exterior Business

#### Creating Synergies by Implementing Initiatives with a Firm Eye on the Future

Even as new housing construction market plunged nearly 20% over the past 20 years, the size of the exterior products market has grown by nearly 30%. This is the result of steadfast efforts made by Sungreen and the entire industry to stimulate end-user interest in exteriors by offering quality proposals and installation work, and I believe there is potential for further growth. As a member of the Sangetsu Group, which aspires to support the creation of living spaces, we will collaborate not only on products and services but also on initiatives for the future, so we can contribute to generating synergies in the years to come.



**Hirofumi Takeda**  
President  
Sungreen Co., Ltd.

### Business Highlights in Fiscal 2017

Sungreen is responsible for the Exterior Business and has consistently sought to establish its sales management system and reinforce its installation capability while developing sales bases under a regional strategy. In terms of products, we saw a rise in sales of carports and large garages as well as growing demand for garden exteriors, such as outdoor lighting, artificial wood decks and home delivery boxes. In response we sought to expand our lineup and focused on promoting the sales of these products. As a result, sales rose 1.6% year on year to 15.013 billion yen, the highest level in the last four years, while operating profit rose 9.3% to 439 million yen.

### Plans for Fiscal 2018

In fiscal 2018, we will open a new branch in Toyohashi under our branch strategy, as part of our ongoing effort to establish and strengthen our sales base. As for our sales strategy, we will strive to develop new marketing targets centered on the Kanto region. In addition to bolstering our installation capability, the source of our strength, we will create working environments that meet the work style needs of installation experts in an effort to enhance quality.

The exterior products market is being led by growth in garden-related products that raise the added value of homes. We believe that convenience and comfort will be the keys to generating further demand, and we will seek to expand sales of products that help improve living environments.

#### Exterior Business Sales



#### Sales Ratio

**9.6 %**

◆ Consolidated Sales for Fiscal 2017  
156.390 billion yen

## Lighting Business



### Market Environment

- Construction demand ahead of the Tokyo 2020 Olympic and Paralympic Games
- Government policy for early transition to LED lighting as a measure against global warming

### Risks and Concerns

- Shortage and aging of skilled installation workers
- New competition from overseas manufacturers and major manufacturers in Japan

### Opportunities

- Increased demand for LED lighting due to improved efficiency and lower price
- Product development from the standpoints of environmental performance and long life
- Stringent energy efficiency standards in the lighting industry under the Top Runner Program

### Strengths

- Planning and development of customized lighting based on extensive specialized knowledge and technological skills
- High reliability cultivated with a track record of delivering products for well-known projects

### Message from the Head of the Lighting Business

#### Contributing to Group Performance by Reducing Costs over the Medium to Long Term

Our core strength lies in the hotel lighting market, and the past few years have been marked by new entries from within the industry. While competition has naturally intensified, this also proves that lighting is a promising market fueled by demand from overseas visitors to Japan. Seeing opportunity in this competition, we will harness the unique strengths of Yamada Shomei Lighting, which are based on its commitment to quality products, while further reducing costs by narrowing our focus on products and standardizing those that are popular. We will also pursue further synergies with Group companies and restructure our business to contribute to Group performance over the medium to long term.



**Mitsuo Yamada**  
President  
Yamada Shomei Lighting Co., Ltd.

### Business Highlights in Fiscal 2017

The lighting market as a whole was invigorated by the construction and renovation boom brought about in part by the increase in inbound visitors, while it also benefitted from growing demand for LED lighting. Consequently, Yamada Shomei Lighting, which specializes in lighting equipment, faced fierce competition from new market entries and price cuts. As a result, sales fell 13.6% to 3.663 billion yen.

Under these circumstances, in the Lighting Business we maintained ongoing initiatives for reinforcing sales activities for contract projects and focused on collaborative sales activities with Sangetsu. Moreover, we sought to differentiate our business by engaging in joint development of lighting with major design offices.

### Plans for Fiscal 2018

The "Z-208" is a best-selling fluorescent flexible-arm light that has long been our core product. Now its lighting performance is being reproduced with LED for the "Z-208LED," a new product that meets uncompromising standards for quality of light, functionality and durability, and we will seek to further boost its sales.

We are also moving aggressively into road lighting for the public sector, and started development in this area in fiscal 2017. We intend to win more orders for our products, which are superior in safety, energy efficiency and environmental soundness, by bundling customized outdoor lighting for redevelopment projects for railway station districts and major highways, our field of expertise.

#### Lighting Business Sales



#### Sales Ratio

**2.3 %**

◆ Consolidated Sales for Fiscal 2017  
156.390 billion yen

## Overseas Business



### Market Environment

- Robust demand for wallcoverings in high-growth markets in China and Southeast Asia
- Stable demand for flooring materials in North America and demand for green products (Environment-friendly products)

### Risks and Concerns

- Fluctuations in foreign exchange rates
- Laws, tax systems and regulations in each country
- Deceleration in growth of emerging economies
- Securing local human resources for management positions

### Opportunities

- Development of new products drawing on Group synergies
- Active utilization of existing marketing channels
- Procurement and development of products for the Japanese market

### Strengths

- "Cross-border specifications" for sharing designs internationally
- Procurement and design capabilities based on local networks

### Message from the Head of the Overseas Business

#### Mobilizing a Group-wide Effort to Expand Sangetsu's Global Market

As part of our global market expansion strategy, the Overseas Business Division acquired Singapore-based Goodrich Global Holdings Pte., Ltd. in December 2017. By adding Southeast Asia to our existing markets in Japan, North America and China, we have completed our global sales network. This will take us to the next stage of our challenge in overseas markets.

We will be able to open new marketing channels in China, the world's largest market for wallcoverings, and other regions in Asia with high potential demand, by having the logistics networks and bases in each area complement each other's strengths and weaknesses. To accelerate the development of Sangetsu's brand power in Asia, we will generate synergies of the development and marketing of high-end products. Meanwhile, for the North American market, where demand for wallcoverings is low yet the size of the market for flooring materials is large, we believe that presenting "Total Interior" design proposals unique to Sangetsu will facilitate a breakthrough, and we will pursue an expansion strategy while gaining a clearer understanding of local circumstances.

Along with advances in our overseas businesses, we are actively promoting exchanges to make optimal use of the knowledge and know-how of each base, creating the foundations for cultivating global human resources. Furthermore, we will explore a sustainable business framework by collaborating with each department to promote Sangetsu's global strategy Group-wide.



**Shigeyuki Hasegawa**  
General Manager of Overseas  
Business division

#### Overseas Business Sales



#### Sales Ratio

**11 %**

◆ Consolidated Sales for Fiscal 2017  
156.390 billion yen

Following our decision to prioritize overseas markets under our mid-term management plan, we have created a new category for the Overseas Business starting with fiscal 2017.

### Business Highlights in Fiscal 2017

Koroseal Interior Products Holdings, which is responsible for the North American market, pursued sales activities for the "REATEC" self-adhesive decorative film across a wide region, thereby expanding its sales channels. Sangetsu (Shanghai) Corporation, which handles the Chinese market, saw an increase in demand for wallcoverings due to the government policy of promoting In-filled apartment (housing with decorated interiors), which led to its products being selected for large condominiums. The company also sought to expand its product lineup, which included its flooring material for medical facilities. As a result, sales of the Overseas Business reached 17.151 billion yen.

### Plans for Fiscal 2018

In the North American market, we will continue to bolster the sales structure for "REATEC" while also developing wallcoverings using motifs based on traditional Japanese materials such as paper and gold leaf. We will also conduct marketing research to boost sales of flooring materials. In the Chinese market, our sales activities will be

strengthened with a focus on the residential market, as well as medical and welfare facilities, toward developing a high value-added business. In addition, we will advance into Asian markets in collaboration with Goodrich Global Holdings, which is headquartered in Singapore with bases across Southeast Asia.

### Message from the Heads of Overseas Subsidiaries



**Richard W. Runkel**  
President & Chief Executive Officer  
Koroseal Interior Products Holdings, Inc.

#### Expanding Global Business by Developing Products Geared to Each Market

As a member of the Sangetsu Group, we developed high-end wallcoverings and began marketing Sangetsu's "REATEC" self-adhesive decorative film under the Koroseal brand in fiscal 2017, making steady preparations to serve customers around the world with a new approach. At the same time, we sought to expand sales of digitally printed products, in which we maintain a competitive edge, and focused on establishing and expanding our sales channels.

Looking ahead, we will closely collaborate with Group companies and harness the latest designs and colors, using all the skills at our disposal, to develop products geared to each market in North America, China and Southeast Asia in an effort to play our part in achieving global business expansion and sustainable growth for the Group as a whole.



**Xu Chuang**  
General Manager  
Sangetsu (Shanghai) Corporation

#### Launching the Sangetsu Brand to Expand Business in China

In fiscal 2017 we steadily turned a profit, despite it being only the second year since the company was founded. We foresee various growth opportunities in fiscal 2018, from the development of products such as wallcoverings, flooring materials and fabrics to sales, procurement and interior installation work, and we expect annual sales to rise by more than 40%.

Over the past few years in the Chinese new housing market, growing demand for wallcoverings has led domestic Chinese manufacturers to offer homogenized products, which in turn raised the profile of Sangetsu products, featuring sophisticated designs and excellent functionality. In the coming years, we will develop products for the Chinese market in collaboration with Sangetsu while also exploring business alliances to generate synergies with other overseas Group companies and to contribute to geographical expansion.



**Chan Chong Beng**  
Chief Executive Officer  
Goodrich Global Holdings Pte., Ltd.

#### Leading the Interior Business in Asia with an Eye on Global Business Development

For over two decades, Goodrich Global Holdings has been forging a cooperative relationship with Sangetsu. In view of this history, it is truly delightful to have joined the Group, which presents us with the golden opportunity to pursue global business expansion and establish a foothold for a logistics network in Asia.

We pride ourselves on being a leading company that supplies and distributes interior products, such as wallcoverings and flooring materials, for markets in Southeast Asia, China, India and the Middle East. In fiscal 2017, Goodrich achieved sales that exceeded the amount it forecasted for the period. In the future, we will pursue further growth by adopting best practices in areas such as branding, product development, market introduction and inventory management through close collaboration and communication with the Sangetsu Group.

# CSR at Sangetsu

The Sangetsu Group recognizes CSR activities as being synonymous with practicing its corporate philosophy and engages in activities for creating a sustainable society with a variety of stakeholders.



CSR Message

Kenji Ito  
Director responsible for CSR

## We will engage in CSR activities unique to Sangetsu, which supports daily life through interior design.

Since its founding, Sangetsu has contributed to the sustainable development of society by offering products and services related to housing, one of the three essential human needs of food, clothing and shelter. Our company-wide efforts on CSR, however, began after 2014, when we sought to transform into a company that allows employees to actively participate in management during our Third Founding Phase.

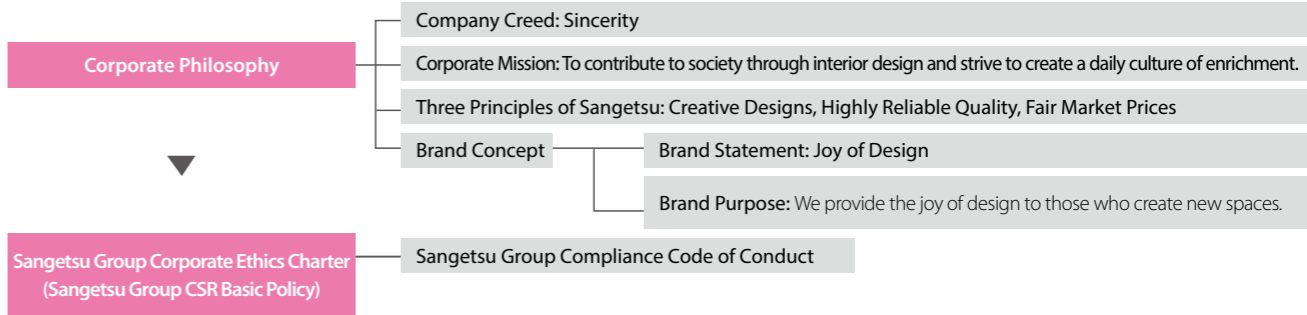
At first, CSR seemed merely a catchphrase, but once actions were put into motion, everything started to change with unimaginable speed. As we advanced through the stages toward establishing our CSR management system, the greatest impact came from incorporating our ESG and CSR Policy into the Mid-term Business Plan (2017–2019) “PLG 2019.” And as we made an all-out effort to promote CSR, each employee began seriously considering the company’s impact on society, which in turn created a foundation for participatory management.

CSR is a never-ending quest. For instance, in our ESG (environment, social and governance) initiatives, we should give

greater consideration to ways in which we can contribute to the environment through our products. In the social area, we are striving to ensure diversity, which includes promoting women’s careers, in addition to pursuing work style reforms, and in the coming years we plan to focus on health management. We have achieved the most rapid progress on reforms in governance and continue to reinforce related initiatives, such as the rapid transition into a Company with Audit Committee.

We have observed a gradual change in CSR awareness among employees, and the CSR Committee, which supervises CSR activities company-wide, has led discussions on ways we can contribute to the Sustainable Development Goals (SDGs) adopted by the United Nations and on the significance this would have with respect to our core business. Looking ahead, we will strive to remain a company that benefits society by enriching daily life through interior design and to become a respected presence in society through our CSR activities.

## CSR Management



### Sangetsu Group Corporate Ethics Charter

A company is a public entity acting within society that seeks to earn profit through sound business activities and offer returns to support vigorous development and society as a whole. With this understanding, the Sangetsu Group works to enrich living environments and contribute to society by providing products and services of value.

The Group will uphold the following five principles as it pursues its business activities regardless of location: demonstrating respect for basic human rights; complying with the letter and spirit of all laws, regulations and international rules; and taking action to realize sustainable development on its own initiative, guided by its social conscience.

- 1. To Remain a Trusted Company**

We will enhance the brand value of the Sangetsu Group and earn customer satisfaction and trust by developing and providing creative, high-quality designs, for comfortable and rich living spaces, and products and services, with due consideration for safety and the protection of personal information and customer data.
- 2. To Fulfill our Corporate Social Responsibility**

We will communicate with various constituencies in society, including customers, business partners, shareholders and investors, residents of local communities, and employees, and disclose corporate information in an appropriate and fair manner. Also, we will engage in activities that benefit society as an upstanding corporate citizen.

Furthermore, we will comply with laws, regulations and other rules, engage in fair, transparent and free competition, conduct business appropriately, and maintain sound and normal relations with political representatives and governments. At the same time, we will avoid any involvement with antisocial forces or groups that pose a threat to the order, safety or security of civil society.
- 3. To Provide a Lively Workplace for Employees**

We will respect the diversity, personality and individuality of employees. Also, we will properly manage a personnel system that allows each employee to demonstrate their abilities and play a lead role in corporate management while securing a safe, healthy and pleasant working environment.
- 4. To Protect the Global Environment**

We will be proactive and lead the way with the awareness that efforts to address global environmental issues constitute an essential element of the existence and activities of any company.
- 5. To Earn Society’s Trust and Support**

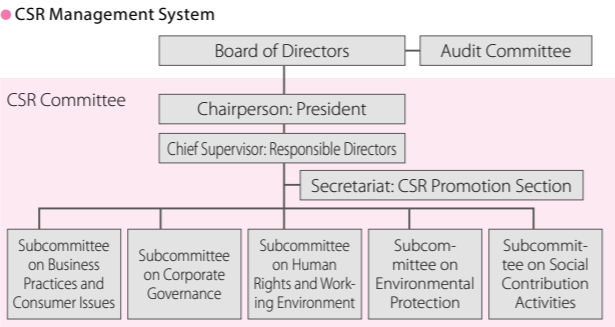
The Sangetsu Group’s top management will lead by example, fully aware of its responsibility to realize the spirit of this charter and ensure that it is thoroughly understood company-wide. It will also constantly monitor feedback from both inside and outside the company to establish an effective corporate system and ensure thorough compliance.

In the event of a violation of this charter, the executive manager will demonstrate personal responsibility in the eyes of the company and the public for taking the initiative in resolving issues and will endeavor to determine their cause and prevent recurrence. The executive manager will also fulfill the duties of promptly disclosing accurate information to the public and of accountability, clarifying the authority and responsibility with regard to the issue, while implementing rigorous measures including those related to the executive office.

CSR Management

CSR Management System

To fulfill its corporate social responsibility, Sangetsu set up the CSR Promotion Section in April 2016, as well as the CSR Committee in April 2017 to supervise the CSR activities of the entire company. Five subcommittees corresponding to the CSR guidelines were also established. We will continue to effectively implement CSR management and promote initiatives for addressing social issues.



Contribution to Sustainable Development Goals (SDGs)

The SDGs, adopted by the UN General Assembly in September 2015, comprise 17 goals and 169 targets for realizing a sustainable world and require that not only countries but also enterprises play an active role. The Sangetsu Group will seek to contribute to achieving these goals through its business activities while also fulfilling its responsibility to society.

As a group aspiring to create a daily culture of enrichment, Sangetsu will particularly focus on Goal 11: Sustainable cities and communities.



SDGs Relevant to Sangetsu's Business			Related Sangetsu Activities
Goal 2		End hunger, achieve food security and improved nutrition and promote sustainable agriculture	• Participation in the "TABLE FOR TWO Program"
Goal 3		Ensure healthy lives and promote well-being for all at all ages	• Donation of merchandise and support for renovating child welfare facilities • Support for ABLE ART programs for artists with disabilities • Volunteer work for organizing local marathon competitions
Goal 4		Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	• Project for delivering picture books to children in Asia
Goal 5		Achieve gender equality and empower all women and girls	• Promotion of women's careers • Initiatives for promoting LGBT awareness and related activities • Promotion of employment of persons with disabilities
Goal 7		Ensure access to affordable, reliable, sustainable and modern energy for all	• Provision of energy-saving products in the Lighting Business • Installation of solar panels at logistics facilities • Reduction in energy consumption
Goal 8		Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	• Promotion of work-life balance • Creation of a pleasant working environment
Goal 11		Make cities and human settlements inclusive, safe, resilient and sustainable	• Development and sales of products that contribute to sustainability • Donation of merchandise and support for renovating child welfare facilities
Goal 12		Ensure sustainable consumption and production patterns	• Promotion of CSR procurement • Curtain ECO Project • Recycling of sample books
Goal 13		Take urgent action to combat climate change and its impacts	• Reduction of CO <sub>2</sub> emissions

Mid-term Business Plan (2017-2019) "PLG 2019"  
Status of ESG and CSR Policy

	Subcommittee	Mid-term Policies	Goals for 2019*
Environment	Environmental Protection	Monitor the environmental impact of the Sangetsu Group as a whole and construct a system for preventing global warming and supporting the sustainable use of resources	• Systematically reduce GHG emissions, energy consumption and waste and promote recycling in every business activity. • Monitor GHG emissions from the Sangetsu Group's business activities and create plans for ultimately achieving zero emissions. *All goals are based on per unit of sales. GHG emissions are calculated using the actual emission factor.
	Human Rights and Working Environment	Support the careers of diverse employees at each Group company and provide jobs for those who are socially disadvantaged	• Provide equal opportunity to diverse employees regardless of their employment status and maintain favorable working environments and develop programs for maintaining and improving employee health. • Promote respect for human rights and diversity in step with the globalization of the Sangetsu Group. • Raise the ratio of female managers to 15% or higher in Japanese operations by 2020. • Promote expansion in job positions for persons with disabilities and raise the employment ratio to 3.0% from the current 2.3% (as of March 31, 2017).
Social	Business Practice and Consumer Issues	Promote social responsibility in the supply chain	• Formulate procurement guidelines and conduct surveys for improving the entire supply chain from suppliers to installation. • Develop products that meet customer needs and provide solutions to their problems.
	Social Contribution Activities	Expand social contribution activities led by employees	• Support refurbishment of child welfare facilities (20 or more projects per year). • Create a system that enables employees to participate in social contribution activities using free time during weekdays and carry out matching donations by the company according to the amount of employees' social contribution activities.
Governance	Corporate Governance	Maintain and enhance the transparency of corporate governance and practice thorough compliance	• Maintain full compliance with the Corporate Governance Code and seek further improvements in its content. • Enhance opportunities for communicating with stakeholders (shareholders, investors, business partners, employees and others). • Ensure Group-wide compliance, including thorough adherence to fair competition, prevention of bribery and protection of intellectual property.

● Targets and Results for Fiscal 2017, Targets and Initiatives for Fiscal 2018

Subcommittee	FY2017 Targets	FY2017 Results	Assessment	FY2018 Targets	FY2018 Initiatives
Environmental Protection	Reduce Scope 1, 2 GHG emissions (from FY2010 levels): 32.0% (Sangetsu Corporation)	Reduced by 31.0%	△	Reduce by 33.0%	• Switch electricity supplier • Upgrade air conditioning facility • Switch to fuel-efficient vehicles
	Ratio of women in managerial positions: 12%	Ratio of women in managerial positions: 11.4% • Held diversity management training for managers • Formulated plans to cultivate female managers in each department • Held a seminar to support balancing work and childcare	△	Ratio of women in managerial positions: 13.5%	• Seminar to support career development for supervisors and subordinates • Tie up with private day care center • Enhanced subsidy program for hiring babysitters
Human Rights and Working Environment	Continue activities of the working group for reviewing work styles (WG) Jul. 2017: Launch of FY2017 WG (11 teams nationwide) Dec. 2017: Recommendation to management	• Jul.: WG kickoff (34 members in 11 teams representing each department) • Sept.: Set theme of recommendation, improved working environment (reduction of overtime work, acquisition of paid leave, improved productivity, etc.) • Dec.: Submitted recommendation to management	○	—	• Manage implementation of FY2017 WG recommendations, promote FY2018 activities • Provide further support for balancing work and private life (Telework trials, etc.)
	Employment rate of persons with disabilities: 2.5%	Employment rate of persons with disabilities: 2.41% (as of March 31, 2018)	△	Employment rate of persons with disabilities: 2.7%	• Increase employment of persons with disabilities • Provide follow-up for receiving departments on developing understanding, method of guidance, etc.
Business Practice and Consumer Issues	Disclosure of Sangetsu CSR Procurement Policy and Guidelines, conduct survey (Target: more than 70% of the supply chain with respect to the amount purchased)	• Nov.: Disclosed CSR Procurement Policy and Guidelines • Dec.: Conducted CSR Survey of suppliers ◆ Response rate: 100% (received 86 responses from 86 companies) ◆ Coverage: 90.9% (using the amount purchased in the 3Q of FY2017 as denominator)	○	1. 1 or more companies 2. Response rate of 80% or above based on number of trading accounts	1. Apr. to Jun.: Visit to supplier and onsite guidance 2. Apr. to Sept.: Expand target and conduct survey 3. Jul. to Dec.: Close examination of survey results 4. Jan. to Mar. 2019: Public disclosure of initiatives on CSR procurement
Social Contribution Activities	Support refurbishment of child welfare facilities nationwide: at least 20 projects	• Offered support for refurbishment of child welfare facilities: 19 projects • Implemented 10 other projects	△	20 or more projects	Support refurbishment of child welfare facilities nationwide
	Select recipient of support (NPOs, NGOs, etc.): 2 organizations	Selected 2 NPOs, planned and provided support • Project for delivering picture books to children across Asia, and matching gift program • Held "TABLE FOR TWO Program" in employee cafeteria	○	2 organizations Launch program	Select recipient of support (NPOs, NGOs, etc.) Continue FY2017 projects Introduce program for awarding points according to the amount of employees' social contribution activities
Corporate Governance	Maintain full compliance with the Corporate Governance Code and seek further improvements in its content Compliance rate: 100%	• Disclosed status of compliance in the Corporate Governance Report, offered appropriate response to disclosure requirements • Prepared and responded to revision of Corporate Governance Code maintain full compliance	○	Compliance rate: 100%	• Disclose status of compliance in the Corporate Governance Report, offer appropriate response to disclosure requirements • Respond to 7 revised items of the Corporate Governance Code
	Sangetsu Group legal violations: 0 cases	Sangetsu Group legal violations: 0 cases • Apr.: Held Anti-monopoly Law seminar at each branch office (attendance: 506) • Aug.: Conducted internal compliance survey	○	Sangetsu Group legal violations: 0 cases	• Publish monthly newsletter on compliance and safety • Hold various compliance seminars • Establish standards for compliance system at subsidiaries

\*Some implemented items contain partial excerpts.



Together with Customers

Providing Safe Products

We pay full attention to product safety under the Sangetsu Quality Policy and practice strict quality management in accordance with our quality management standards to offer quality that exceeds customer expectations.

As part of our management system, the Quality Control Section offers support and advice for maintaining and enhancing quality at each point of the value chain, including product development and procurement. It also conducts stringent design reviews at each stage of sample book development. We deliver safe, reliable products by ensuring thorough quality management across the entire process, from product planning, development and design to production and delivery.

Offering Information with the Customer's Perspective

Sangetsu provides information on products and interior design in various ways to help customers make their ideas more concrete for the purpose of facilitating coordinated interior design that satisfies their requirements. Our website provides access to digital books and also introduces interior decorations suitable for preferred lifestyles. In our showrooms we installed My Photo Simulators that enable customers who bring photographs of a room to experiment with different interior configurations. We also hold information sessions to introduce products as well as interior coordination seminars as needed.

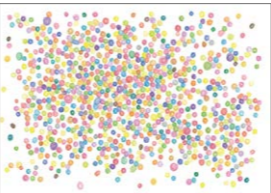
Reflecting Onsite Feedback in Product Development

We are working to better reflect onsite feedback in our product development in an effort to broadly publicize our brand concept, "Joy of Design." Each Interior Business department periodically holds meetings with the aim of increasing recognition of our brand concept. These are attended by sales staff from the frontlines of the market and those responsible for interior design. Moreover, applying a completely new approach to manufacturing, we obtain advice on products under development from architectural design offices and renowned designers while having young designers design products as well.

Products Featuring "Able Art" by Artists with Disabilities

As part of our CSR activities, we have selected "Able Art" created by artists with disabilities for our digitally printed "HIGH GRAFICA" wallcovering, marketed through the "2018–2020 RéSERVE 1000" wallcovering sample book. The copyrights for Able Art are managed by the Able Art Company, which supports artists with disabilities.

Sangetsu will continue to apply these highly imaginative works and support the activities of the artists as a means for promoting diversity.



Title of artwork: Dots Artist: Tomoko

Sangetsu View

Sangetsu Wallpaper Design Awards 2017

In February we held the Sangetsu Wallpaper Design Awards 2017, which marked the first design competition under the theme of our brand concept "Joy of Design." We received 506 entries from design offices, designers, students and from individuals residing overseas.

In July a screening was held by four judges including the company president, and as a result of rigorous examination, single winners were selected for the Grand Prize and Award for Excellence, and two winners each were chosen for the Honorable Mention and Encouragement Award. The Grand Prize work was included in the "2018–2020 XSELECT" wallcovering sample book published in January 2018, receiving highly favorable reviews from interior designers. The works we received not only made us realize the expanding possibilities of wallcovering but also their potential for revitalizing the entire interior industry.

Sangetsu will continue to host the competition in 2018 (Submission period: April to September 2018; Awards presentation: November (tentative)).



Grand Prize: "mist (gold)"  
Artist: Shigeru Yamada



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.

Building a Corporate Structure that Allows Employees to Participate in Management

Sangetsu has 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

- 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.

Hybrid System Combining Standards of Ability and Occupational Position

- While adhering to our 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 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 (2017–2019): "PLG 2019," Sangetsu respects employees who strive 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](http://www.sangetsu.co.jp/recruit/educational/index.html)

Promoting Diversity

Sangetsu Group Basic Policy on Diversity (Excerpt)

The Sangetsu Group will maximize the power of diversity by harnessing the individuality of each employee, regardless of gender, age, nationality, race, religion, disability or sexual orientation, to nurture a corporate culture of challenge and innovation and enhance related systems.

WEB Sangetsu Group Basic Policy on Diversity  
<https://www.sangetsu.co.jp/csr/divercity/policy.html>

Promoting Successful Careers for Diverse Human Resources

Sangetsu embraces diversity so that each employee can fully demonstrate their initiative and capabilities and seeks to create new value for the organization by engaging in various initiatives under its management strategy. We are pursuing measures for promoting successful careers for our diverse human resources, including our "Return to Work" system that supports reemployment and transition to full employee status for former employees, initiatives for hiring persons with disabilities, and the creation of a pleasant workplace for all employees, regardless of gender identity, sexual orientation or other attributes. In particular, we began to develop LGBT-related systems in fiscal 2017 by holding LGBT training for all employees in April 2018, and 1,071 attended.

We also accept consultation on an array of issues through our helplines for consultation and whistleblowing.

Reemployment of retired employees (as of April 1 of each year)

FY	2014	2015	2016	2017	2018
Number of reemployed retired persons	19	19	22	25	23



Together with Employees

Promoting the Voluntary Action Plan

Sangetsu is implementing a voluntary action plan under the Act on Promotion of Women's Participation and Advancement in the Workplace through strategic personnel system reform. We strive to attain our goal of developing an organization and support systems that enable women to utilize their strengths and flourish. We have been taking action led by the diversity promotion team in the Personnel Department. Over the three years starting from fiscal 2018, we will promote diversity toward creating an organization that can utilize the knowledge, experience and expertise of our employees, regardless of gender, through the following action plan.

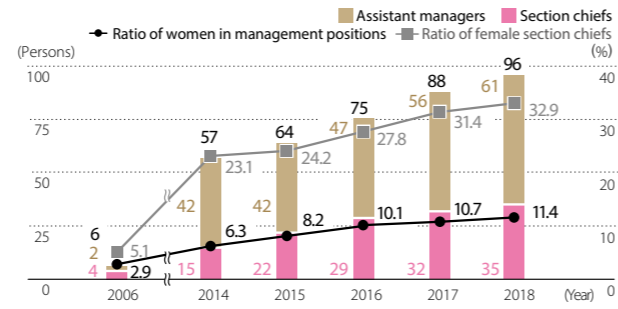
Action Plan based on the Act on Promotion of Women's Participation and Advancement in the Workplace

Purpose	To realize a corporate culture where women are encouraged to continue to work for many years, utilize their strengths and flourish
Plan duration	Three-year period from April 1, 2018 to March 31, 2021
Quantitative goal	Raise the ratio of female managers to 15% or more by 2020 (continuation)
Priority Themes for Fiscal 2018–2020	1. Disseminate diversity management policy and establish a promotion system at the management level 2. Implement systematic personnel development 3. Review system for enabling personnel to flourish regardless of their attributes and implement work style reform

Measures (excerpt)

Diversity training and other training	• Implement basic diversity training for all managers • Begin internal diversity activities led by department heads
Personnel development plan for male and female managerial candidates	• Department heads recommend male and female candidates for managerial positions and create development plans
Implement work style reform	• Prototype telework program and full-scale introduction • Continue activities of the working group for reviewing work styles

Ratio of female managers: goals and current status (as of April 1 of each year)



\* The ratio of women in management positions was 11.4%  
To achieve our goal of raising the ratio to 15% by 2020, we will create skill development opportunities by establishing workplace environments and enhancing training programs.  
\* Goal attained for section manager level (32.9%, 61 persons)

VOICE



Proposals from the Field, from the Working Group for Reviewing Work Styles

Naoki Kage  
Sales Staff, Sales Section,  
Chugoku Shikoku Branch

A total of 34 employees in 11 teams took the initiative to discuss work styles ideal for both men and women and submitted their recommendations to management. My team focused on the theme of "nurturing professionals." We thought that clarifying the kind of professionals we should aspire to become and using that definition to make job choices would make the company a more rewarding place to work. So we conducted a survey of about 80 employees and presented three proposals based on the results, including an internal exchange program that would allow employees to experience working in the departments of their choice for a set period on a trial basis. We believe that providing motivated employees with opportunities to thrive in their preferred jobs boosts productivity. While we are only half-way down the road to realizing our proposals, we hope to continue taking action by making use of the human networks and new perspectives we have gained through this activity.

Sangetsu View

Dialogue Between the President and Employees

Sangetsu places great value on offering opportunities for frank, cross-organizational communication. As part of this, the president has visited offices around Japan to participate in Open Discussion Meetings with employees. In fiscal 2017, 40 meetings were held between February 7 and March 8. During each dialogue, discussions took place on the accomplishments of the first year of the Mid-term Business Plan (2017–2019) "PLG 2019" and remaining issues, and 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.



Open Discussion Meeting

Promoting the Work-Life Balance

Changing the Way We Work

To enhance productivity by changing the way we work, Sangetsu reviews its work and systems as an organization while seeking to improve its labor management. In fiscal 2017, we began full-scale implementation of a flexible working hour system and tested out a telework system. In addition, we sought to raise productivity by making the cloud-based G-Suite platform available to all employees.

The working group for reviewing work styles expanded its scope in fiscal 2017 and recommended work style reforms to management from a broad perspective, including concrete measures for reducing overtime and organizational planning. The recommendations have been delivered to the responsible departments for implementation and consideration.

Supporting a Sound Balance Between Work and Family

We support employees with childcare and nursing care by setting goals to create a working environment where employees can fully demonstrate their capabilities and thereby contribute to the development of the next generation. In fiscal 2017, we conducted training related to childcare support, introduced a program for subsidizing the cost of hiring babysitters as a support measure, and formed a corporate alliance with a private childcare center in fiscal 2018.

- Goal 1: Pursue initiatives for reducing long working hours.
- Goal 2: Establish a working environment to enable employees with children to balance work and family.
- Goal 3: Provide opportunities for educational activities toward enabling employees with children to continue working and developing their careers.

Goals for Supporting the Development of the Next Generation for the April 1, 2017 to March 31, 2020 Period

Childcare and Nursing Care Support System

Pregnancy and childbirth	During parental leave	Childcare	Nursing care
Maternity leave before and after childbirth	Program for supporting employees on parental leave (including an interview with a supervisor and childcare support seminar)	• Staggered working hours while child-rearing • Temporary part-time work while child-rearing (up to start of second year of elementary school) • Corporate alliance with private childcare center • Subsidy for expenditures on day care service for sick children • Subsidy for babysitter expenditures • Flexible working hour system	• Nursing care leave (legal period + extendable by maximum of 1 year) • Flexible working hour system

Creating a Pleasant Working Environment

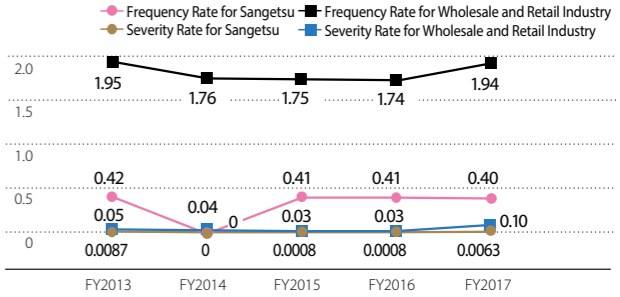
We are promoting our efforts to ensure that the working environment is pleasant and sound for employees, enabling them to maintain their mental and physical health. We respect the human rights of each employee and prohibit discrimination and harassment to create a fair and cheerful working environment.

Initiatives for Industrial Safety and Hygiene

In anticipation of possible large-scale disasters, we have a business continuity plan in place and emergency supplies, such as drinking water and food, secured. We also conduct disaster prevention drills, AED training and reporting drills using personal safety confirmation services. As a measure to prevent automobile accidents, we are increasing the number of company vehicles equipped with telematics and rear-view monitors and also providing individualized instruction to prevent traffic violations.

We train our employees in safety and hygiene, and in the event of work-related accidents, we promptly share information throughout the company and take action to prevent any recurrence. Our occupational accident rate is significantly below the industry average.

Frequency and Severity Rates for Work-related Accidents



• Frequency rate: number of injuries or fatalities per million hours worked (frequency of work-related accident)  
• Severity rate: lost time injuries per thousand hours worked (severity of work-related accidents)

Initiatives for Health Management

Sangetsu endeavors to create a safe, healthy and pleasant workplace environment in which employees can work with vigor, and it enhances its system for promoting the mental and physical health of employees. To do that we undertake activities, for maintaining and improving health, under 12 categories, such as encouraging employees to take planned annual leave and enforcing no smoking at all company sites. As a result, Sangetsu was recognized as a Certified Health and Productivity Management Organization for fiscal 2018.



## 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 company IR site and constantly seeks to improve disclosure. To provide

invaluable opportunities for direct dialogue with analysts and institutional investors, Sangetsu holds financial results briefings twice a year. In fiscal 2017, 57 investors attended these briefings. The company also conducts one-on-one meetings, pays individual visits and holds small meetings, which are attended by the president. We actively exchange opinions and incorporate the feedback we receive into management.

We sought to engage with individual investors by participating in three IR events hosted by stock exchanges and other institutions in fiscal 2017. In addition, we were able to provide many opportunities for communication through company information sessions and meetings with shareholders. As part of the interim report for the fiscal year ended March 2018, we conducted a survey of our shareholders and collected more than 400 responses. We have closely reviewed the survey results and intend to incorporate them in our business management and capital strategy.

#### • FY2017 Exhibits at IR Events and Number of Participants

July 2017	Nagoya Stock Exchange IR EXPO 2017	Total: 1,129
August 2017	Nikkei IR/Investment Fair 2017	
March 2018	Tokyo Stock Exchange IR Festa 2018	

#### • IR Calendar

	First Quarter			Second Quarter			Third Quarter			Fourth Quarter		
	April	May	June	July	August	September	October	November	December	January	February	March
Earnings releases	● Year-end earnings release			● 1Q earnings release			● 2Q earnings release			● 3Q earnings release		
General Meeting of Shareholders	● Release of convocation notice ● General Meeting of Shareholders											
Dividend payments							● Record date for interim dividend			Record date for full-year dividend●		
Annual Securities Report Quarterly Earnings Reports	● Issuance of Annual Securities Report (Yuka Shoken Hokokusho) ● Issuance of Quarterly Earnings Report						● Issuance of Quarterly Earnings Report			● Issuance of Quarterly Earnings Report		
Shareholder Report							● Dispatch of Interim Report					

### Status of Share Buybacks

Sangetsu seeks to improve capital efficiency and expand shareholder returns by continuously buying back and retiring shares based on its Capital Strategy under the Mid-term Business Plan (2017–2019) “PLG 2019.” We intend to reduce equity capital to between 100.0 billion yen and 105.0 billion yen by consistently buying back shares and offering stable increases in dividends, with due consideration for capital market conditions. The Sangetsu Group’s equity capital was around 105.2 billion yen with an equity ratio of 61.5% as of March 31, 2018.

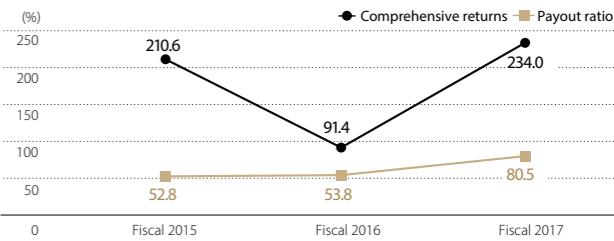
### Returning Profit to Shareholders

To ensure medium- to long-term return to shareholders in a changing capital market and to improve our standing among stakeholders, Sangetsu has announced and is implementing a new capital strategy. We are pursuing management that emphasizes balance sheet efficiency and capital cost while maintaining our conventional management stance of placing priority on stable dividend payments and stability. In fiscal 2017, we sought to improve capital efficiency by implementing a total of 6.97 billion yen in share buybacks, bringing consolidated comprehensive shareholder return to 234.0%.

### Shareholder Return Policy under the Mid-term Business Plan (2017–2019) “PLG 2019”

- ◆ Achieve an over 100% total consolidated shareholder return ratio over a three-year period
- ◆ Conduct stable increases in dividends over the long term
- ◆ Conduct share buybacks flexibly and in response to stock market conditions

#### • Shareholder returns



	Fiscal 2015	Fiscal 2016	Fiscal 2017
Consolidated net income	6.39 billion yen	6.57 billion yen	4.51 billion yen
Total dividends (dividend per share)	3.32 billion yen (47.5 yen/share)	3.52 billion yen (52.5 yen/share)	3.58 billion yen (55.5 yen/share)
Amount of treasury stock acquisition	10.14 billion yen	2.48 billion yen	6.97 billion yen
Comprehensive return	13.46 billion yen	6.0 billion yen	10.56 billion yen
Change in number of shares issued	69,170,000 shares (March 2016)	68,070,000 shares (March 2017)	66,050,000 shares (March 2018)
Change in equity capital	108.46 billion yen	110.37 billion yen	105.22 billion yen
EPS	89.9 yen	97.5 yen	68.9 yen

### Sangetsu View

#### Company Information Sessions and Showroom Tour for Shareholders

On July 12, 2017, we held the first company information session and showroom tour for shareholders at the Shinagawa Grand Central Tower. First, the president presented a business report and explained Sangetsu's vision for future growth, which was followed by a tour of our Shinagawa showroom. Then we held a lottery and gave away Sangetsu rag mats and Yamada Shomei Lighting equipment. Despite the limited time, we were able to get to know our shareholders and hear their valuable opinions.

The Sangetsu Group will continue to create opportunities to engage with shareholders and enhance its management transparency and IR activities.



President's presentation on business results

## Together with Business Partners

### Promoting Fair Transactions

Our business partners are key stakeholders with whom Sangetsu has worked toward mutual growth over the years. We intend to fulfill our social responsibilities through sound business activities based on our mutual trust and collaboration with business partners. At the same time, we will pay due consideration to the environment, safety and human rights.

To better accomplish these ends, we formulated in November 2017 the Sangetsu CSR Procurement Policy and the Sangetsu CSR Guidelines for Business Partners , which covers

procurement activities for all products sold under the Sangetsu brand, including those sold through distributors, and materials. We have distributed the guidelines to Group companies and major business partners and are working with them to ensure thorough compliance.

In December 2017, we asked our major business partners to participate in the Sangetsu CSR Procurement Survey. Looking ahead, we will promote fair transactions by providing onsite guidance as necessary in an effort to contribute to the creation of a sustainable society.

### Supply Chain Management

As a company that consigns production to manufacturers, our main business consists of product development and distribution. Products are manufactured by our suppliers, and we must maintain activities for bolstering quality management at each link in the supply chain to provide high-quality, eco-friendly products.

With the aim of improving quality in the supply chain, we are now constructing a system based on the Sangetsu CSR Procurement Policy and the Sangetsu CSR Guidelines for Business Partners, which were formulated for the purpose of strengthening our CSR initiatives related to the supply chain.

in product development stages and analyze customer complaints, and also acceptance inspections for certain products.

As a company that consigns production, Sangetsu will bolster its quality management system by reinforcing its alliance with suppliers. At the same time, we will continuously cultivate and strengthen personnel involved in quality management in order to accelerate the pace of quality enhancement.



Environmental testing lab

**WEB** Sangetsu CSR Guidelines for Business Partners  
[https://www.sangetsu.co.jp/pdf/csr/stakeholders/csr\\_guideline\\_customer.pdf](https://www.sangetsu.co.jp/pdf/csr/stakeholders/csr_guideline_customer.pdf)

### Sangetsu CSR Procurement Policy

#### 1. Fair and Equal Treatment

- (1) Sangetsu shall deal with all business partners on fair and equal terms, whether in Japan or overseas, and engage in honest transactions in accordance with the relevant laws, regulations and contracts.
- (2) Sangetsu shall not abuse its superior position by engaging in transactions that cause undue disadvantage to any business partners , and shall provide fair and equal opportunities for the competition.
- (3) Sangetsu shall select business partners based on quality, price, delivery, technological capability, proposal capability, supply capability and management stability from a short-, medium- and long-term perspective, and by paying due consideration to the company's efforts on environmental preservation and respect for the human rights of its employees.
- (4) Sangetsu's officers and employees shall not accept benefits or favors when performing duties in relation to procurement or other operations.

#### 2. Observance of Laws, Regulations and Ethics

- (1) Sangetsu shall comply with relevant laws and regulations when engaging in procurement transactions.
- (2) Sangetsu shall protect the confidential information of business partners obtained in the course of procurement transactions.
- (3) Sangetsu shall not engage in procurement transactions that infringe on intellectual property rights or other rights of third parties.

#### 3. Responsibility to Society

- (1) Sangetsu shall strive to improve quality and ensure the safety of products and services by engaging in sincere dialogue with all business partners based on mutual understanding and trust.
- (2) Sangetsu shall engage in the selection and purchasing of goods related to its business activities with the aim of realizing a sustainable society by fulfilling its social responsibilities, such as preserving resources and the environment, respecting human rights and ensuring safety, based on CSR procurement (including green procurement). In addition, Sangetsu seeks the cooperation of its business partners under the Sangetsu CSR Guidelines for Business Partners .



### Working Together with Suppliers to Reinforce Quality Management

Collaboration with our suppliers (manufacturers) is indispensable to the provision of safe, high-quality products to customers. Sangetsu's product development and purchasing staff review suppliers on a multilateral basis using an evaluation checklist based on our own standards to encourage improvements in the operation of their manufacturing plants to enhance product quality. From the standpoint of securing stable supply, since fiscal 2016 we have sought to enhance the level of quality management at our suppliers in and outside of Japan by conducting audits to evaluate the factories of candidate suppliers overseas.

We also built a testing facility at the Chubu Logistics Center II with an environmental testing lab and installed the most advanced inspection equipment as part of our drive to strengthen quality management. We conduct sampling inspections to check the quality of each product, monitor physical properties

### Communication with Business Partners

In addition to maintaining communication with our suppliers, we convene an annual gathering for representatives of dealerships, who are also among our most important stakeholders. These events provided valuable opportunities for us to share our business reports, mid-term management plan and strategic growth scenario in cooperation with the dealerships while also encouraging attendees to exchange information.

## VOICE



### Bolstering Our Quality Management System at Each Point in the Supply Chain

**Hiroyuki Kawaoka**  
Quality Control Section Chief,  
Interior Business Unit

Being a company that consigns production increases Sangetsu's responsibility for bolstering the quality management system. While improving quality is essential for developing a management system that prevents claims, it is also important to eliminate the cause of problems at each link in the supply chain. The Quality Control Section pursues its initiatives in a number of ways, such as by conducting manufacturing process audits at supplier factories and providing technical advice from the product development stage. Moreover, planning is underway to create a database for accumulating and analyzing claims received by each business division. We will continue to steadily implement measures for bolstering our quality management system.

# 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.

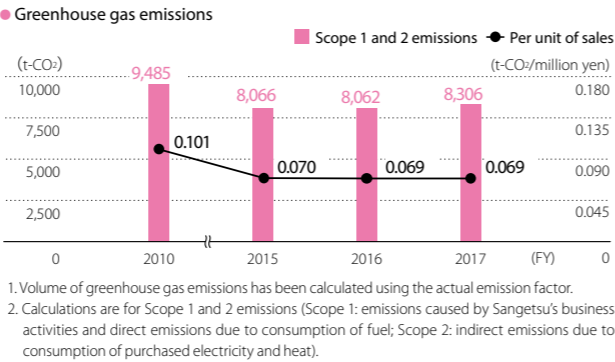
### Our Approach

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. Publically disclose this environmental policy.

## Mitigating Global Warming

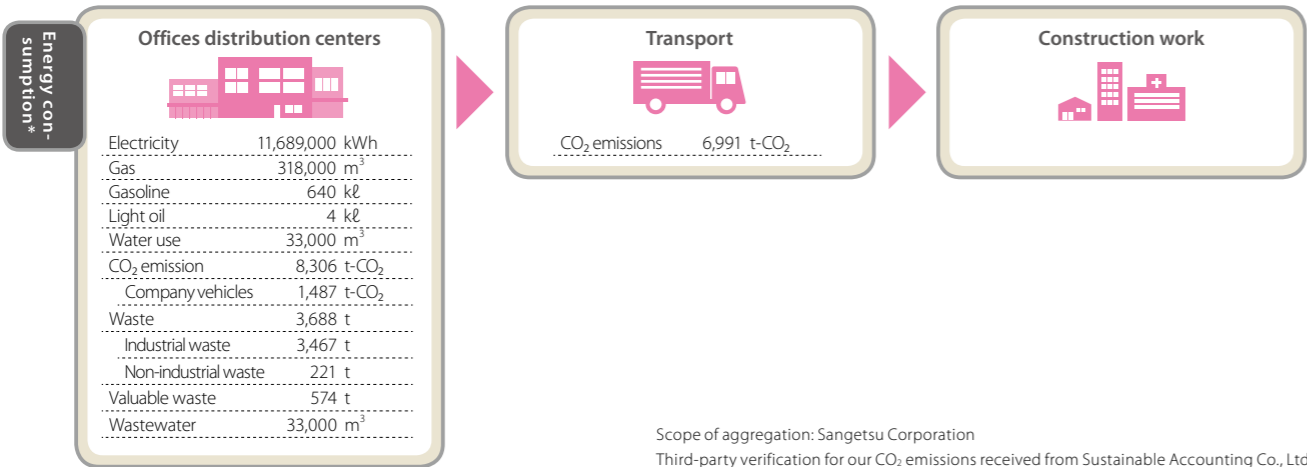
Sangetsu is doing its part to mitigate global warming by reducing its greenhouse gas (GHG) emissions. Total GHG emissions for fiscal 2017 were 8,306 t-CO<sub>2</sub>, a decrease of 31.0% from fiscal 2010 in terms of emissions per unit of sales. The shift to fuel-efficient vehicles, promotion of eco-driving, and systematic upgrading of facilities contributed to the reduction.

We plan to replace 125 company vehicles, roughly 25% of the total, with fuel-efficient vehicles in fiscal 2018 and complete the transition of all targeted vehicles by fiscal 2022. We have been promoting eco-driving by equipping company vehicles with GPS-based telematics, and fuel efficiency has improved by 22%. Also, we installed solar panels at the Chubu Logistics Center, thereby further contributing to the mitigation of global warming.



## Identifying 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 environmental load generated by our offices, distribution centers and transport activities in fiscal 2017.



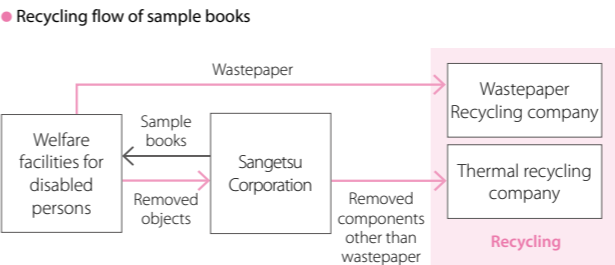
## Realizing a Recycling-Based Society

### Initiatives for a Recycling-based Society

Sangetsu engages in 3R (reduce, reuse and recycle) activities for effectively using finite natural resources. We set up a sub-committee on environmental protection in fiscal 2016 and intend to strengthen our efforts for reducing and recycling waste toward our goal of achieving zero emissions in 2050.

### 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 through this activity.



## 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 product**  
Prolonging product life to stretch the installation-to replacement cycle reduces environmental impact over the entire lifecycle.
  - 4 **Indoor environments**  
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

### Permanent Wax-Free, Homogeneous PVC Flooring that Delivers Outstanding Environmental Performance

Sangetsu's permanent wax-free "GRANIT" homogeneous PVC flooring is a highly functional product that retains its clean look without elaborate maintenance. Traditionally, the porous nature of PVC polymers, the main material of PVC flooring, and filling material had presented a drawback, as dirt particles were easily caught inside the miniscule pores and were difficult to remove. However, GRANIT's dense structure makes it nearly non-porous, with no openings for dirt or chemicals, ensuring remarkably high performance in terms of stain resistance and ease of cleaning. It also has a long life cycle owing to its homogeneous structure, which does not generate extra waste. It also offers the additional merit of reduced cost, since easy maintenance also means that the product can minimize liquid wastes with high environmental impact, such as wastewater and removers.

GRANIT uses recycled PVC for 15% or more of its material and is thus compliant with the Green Purchasing Law. Its characteristic feature of retaining its original shine and functionality over the years has been demonstrated at medical institutions and numerous other sites.



GRANIT flooring at the Ota Memorial Hospital in Ota City, Gunma Prefecture



# 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. As we sought to establish our social contribution system, we considered ways we could contribute to society. We decided that our activities are meant to serve society through our business and based on the voluntary participation and sweat equity of each employee. In fiscal 2017, the Social Contribution Committee met twice, in the first and second half of the year, to share information on the status of activities conducted by each branch office.

Sangetsu's social contribution initiatives

Regional contributions	<ul style="list-style-type: none"><li>Support for refurbishment and craft workshops using Sangetsu merchandise at child welfare facilities throughout Japan</li><li>Neighborhood cleaning, inviting elementary and junior high school students on field trips to experience the workplace</li><li>Social contribution through sports</li><li>Blood donations in collaboration with the Japanese Red Cross Society</li></ul>
Assistance to disaster-affected areas	<ul style="list-style-type: none"><li>Volunteer activities in affected areas</li><li>Donations of funds and goods to disaster-affected areas (e.g., sending carpets to gymnasiums and other facilities that serve as evacuation shelters)</li></ul>
Environment and energy conservation	<ul style="list-style-type: none"><li>Introduction of electricity with lower environmental impact</li><li>Tree planting and cleanup activities</li><li>Participation in biodiversity conservation activities</li><li>Support for environmental organizations</li><li>Installation of a solar power generating system (Chubu Logistics Center)</li></ul>
Fundraising and donations	<ul style="list-style-type: none"><li>Donations to hospitals</li></ul>
Social and cultural activities	<ul style="list-style-type: none"><li>Donations for culture, social welfare, education, etc.</li></ul>

FY2015–FY2017 Social Contribution Activities by the Sangetsu Volunteer Club (all Group Companies)

FY	2015	2016	2017
Refurbishment of facilities (cases)	9	12	19
Other projects (cases)	5	10	10

Activities in Fiscal 2018

- Continue to support the refurbishment of welfare facilities, centered on child welfare facilities, as means for contributing through our Interior Business.
- Create programs that encourage employees to participate in social contribution activities in their free time on weekdays.
- Develop a system of matching donations by the company to supplement the value of employee social contribution activities.

Number of Sangetsu Volunteer Club Projects (all Group Companies)

FY	2018 (Planned)
Refurbishment of facilities (cases)	20
Other projects (cases)	10

Support for Emerging Countries and Developing Countries

Project for Delivering Picture Books to Children in Asia

Sangetsu participates in a project for delivering picture books to children in Asia, organized by the NGO Shanti Volunteer Association. The project's target is Asian children who may never have read a book due to severe social conditions such as poverty or war. To each page of the picture books, participants apply stickers showing translations of the stories in the recipient's local language. The project is funded by proceeds from secondhand books contributed by employees and a matching amount donated by the company. The money is used to purchase picture book sets that are sent to countries such as Cambodia, Myanmar and Afghanistan after translation stickers are placed on them. The books are used as part of the collections at libraries and other institutions and help children learn to read and write. We were able to send 33 picture books through this activity in fiscal 2017.



Picture books with translation stickers

Delivering Lunches to Children from the Company Cafeteria

Since October 2017, we have been participating in an initiative led by the nonprofit organization TABLE FOR TWO. Under the program, part of the price of eating at the company cafeteria is donated to provide lunches for children in Africa. The equivalent of one bowl at the cafeteria, 20 yen, is donated to buy one lunch for children in developing countries. We were able to donate an amount equivalent to a total of 7,269 meals as of June 10, 2018.

Social Contribution through Sports

Volunteer Work for Organizing a Marathon Competition

In November 2017, Sangetsu employees at the Kita Kanto Branch volunteered to help organize the Third Saitama International Marathon. This major event doubled as a competition for selecting the Japanese national team for the Tokyo 2020 Olympic Games and provided an excellent opportunity for contributing to the region through sports.



Participants organize the medal display

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

Sangetsu has focused its efforts on activities to support the refurbishment of child welfare facilities in Japan. This is so more people can enjoy comfortable living spaces created using our interior materials, such as wallcoverings, flooring materials, curtains and upholstery. We collaborated with the National Children's Welfare Facilities Association to carry out refurbishments at 19 facilities in fiscal 2017 (total between April 2014 and March 2018: 40 facilities).



Making Children Smile by Refurbishing Facilities with Our Products

Social Contribution Activities through the Sangetsu Volunteer Club

Supporting the refurbishment of child welfare facilities with our products constitutes a core social contribution made through the Sangetsu Volunteer Club (SVC), through which employees take the initiative. Many child welfare facilities are seeking to improve living environments for children by rebuilding or renovating their spaces. However, due to lack of funding and other hurdles, many of these places are not yet comfortable enough. The Hokuriku Sales Office engaged in this activity for the second time, and everyone at the facility expressed their gratitude. We would like to express our thanks to the local community by continuing this project.

Activity Outline | Renovation of Child Welfare Facility

Period: October 2017  
Place: Child Welfare Facility  
(Kaga City, Ishikawa Prefecture)



We renovated the interior of a playroom measuring about 40 square meters at a child welfare facility with a kindergarten and nursery under the concept of providing a fresh look to create a bright, attractive and joyful playroom. Volunteers from the Hokuriku Sales Office changed the curtains, repapered the walls and ceiling and laid new carpet tiles. We gave the room a bright and joyful appearance by changing the tatami mats to vividly colored carpet tiles and hanging colorful wallcovering. We also chose orange curtains and attached blue decorative film to the table and doors to create a lively space to play. We received positive feedback from the children living at the facility, who presented us with a cute thank you card. Employees said it gave them a good opportunity to express their appreciation to the local community through our business.



Playroom with a vivid, joyful atmosphere



Sangetsu staff member refurbishing the playroom



Thank you card from the facility

Corporate Governance

Corporate Governance

The company became a Company with Audit Committee in June 2015 and has pursued solid internal control by enhancing the effectiveness of its audit and supervision and utilizing the internal auditing department when conducting audits.

To achieve further growth for the Group and reinforce its corporate governance system, the company introduced an executive officer system on April 1, 2016, as a means for accelerating the execution of operations and clarifying executive responsibilities by separating management decision making and supervision from operational execution.

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. Under this system, we will seek to revitalize discussions from the point of view shareholders and also strengthen the audit and supervisory functions over the execution of the company's operations. Furthermore, the term for the accounting auditor, who tends to be reappointed, has been limited in principle 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.

The Sangetsu Group has also sought to enhance its corporate value by establishing or revising relevant rules, such as those for managing business investment risks. It also established a system for bolstering consolidated management in April 2017 by introducing a system that assigns oversight to the supervising divisions at affiliated companies and creating the Consolidated Management Section.

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 execute management strategies for restructuring the business base. In accordance with the Articles of Incorporation, 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 internal director.

While the Audit Committee relies mainly on audits utilizing the internal control system, members also conduct direct onsite audits of business sites inside and outside Japan. The committee seeks to strengthen the effectiveness of its audits by gathering and sharing valuable information through the periodic exchange of views with the President , reports presented by executive directors and employees, and liaison meetings of audit committee members at affiliated companies . The committee is actively involved in the execution of the right to state an opinion with respect to the election and remuneration of directors in an effort to enhance governance.

Standards of Independence for External Directors

In addition to satisfying independence criteria, as defined by the Companies Act of Japan and listed stock exchanges, Sangetsu Corporation appoints external directors that possess the advanced expertise and wealth of experience required to provide candid and constructive advice on company management. The Standards of Independence applied to external directors are as follows.

1. Individuals for whom none of the following currently applies:  
(1) a shareholder who owns more than 5% of the voting rights of Sangetsu Corporation or an executive officer of the shareholder;  
(2) an executive officer of a company whose transactions with Sangetsu Corporation exceed 2% of Sangetsu Corporation's consolidated sales or a subsidiary of said company;  
(3) an executive officer of a major lender of Sangetsu Corporation, whose lending to the Sangetsu Group exceeds 2% of Sangetsu's consolidated total assets as of the most recent fiscal year end;  
(4) a certified public accountant who belongs to Sangetsu Corporation's accounting auditor;  
(5) a consultant, accounting expert, or legal expert who receives an annual sum of 10 million yen or more in monetary or other benefits from Sangetsu Corporation in addition to remuneration paid by Sangetsu. In the event the recipient of such benefits is a corporation or organization, any individual who belongs to such a corporation or organization;  
(6) an executive officer of an organization that receives an annual sum of 10 million yen or more in donations from Sangetsu Corporation;  
(7) a second-degree relative of an individual who falls under any of the above-mentioned (1) to (6); and  
2. an individual for whom none of the above-mentioned (1) to (7) applied at any point in the past three years.

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. 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 company conducted a survey of all directors in fiscal 2017, between December 2017 and February 2018. The results of the main assessment criteria verified that the board was composed of a balanced group of members in terms of their respective expertise, diversity and scope and that they have done their utmost to realize the objectives of the Mid-term Business Plan (2017–2019) "PLG-2019." The results also showed that constructive discussions were being held during the board meetings, in an uninhibited and vigorous atmosphere, with quality discus-

sions taking place on each issue, providing sufficient supervision of operational execution. On the other hand, the survey revealed that there was room for further improvement in ongoing efforts to reflect the opinions of stakeholders in the meetings, such as holding a dialogue between external directors and stakeholders. The Board of Directors will continue to conduct self-assessments while we strive to enhance its effectiveness while drawing from the assessment results.

Policy for Determining the Remuneration of Directors

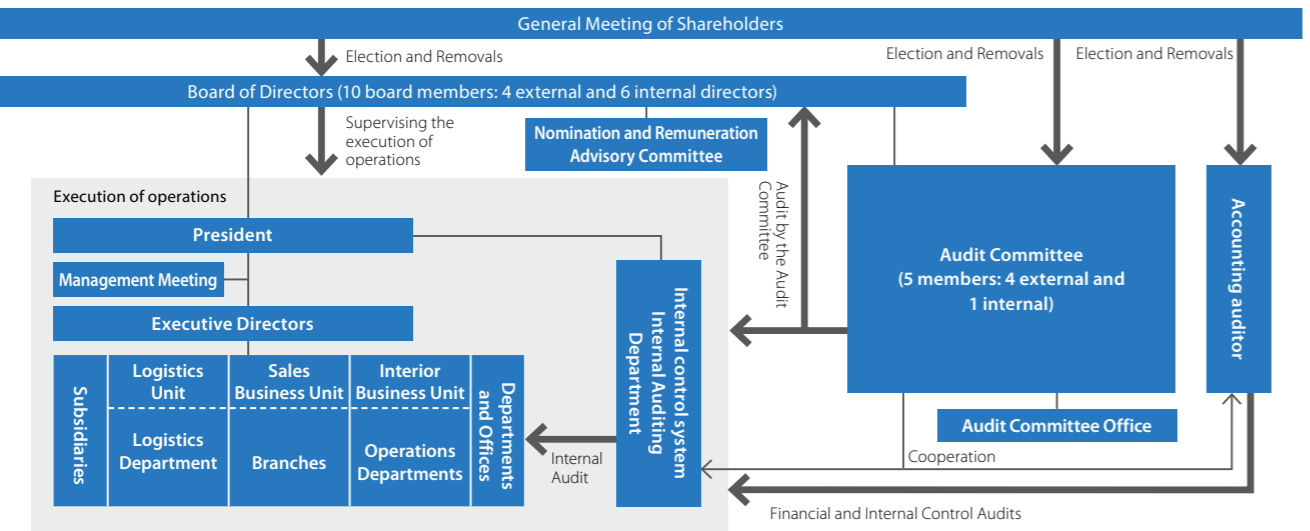
We established the Nomination & Remuneration Advisory Committee , which consists of the president, the director of personnel and Audit Committee members. The committee will deliberate on the effectiveness of appointments and appraisal of management including executive directors, the compensation system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

In 2015, the company changed its system of compensation for executive directors from the traditional policy of paying a fixed sum as basic compensation to a structure comprising (1) basic compensation, (2) performance-linked compensation(monthly) , and (3) stock-based compensation through stock options. Furthermore, the company replaced stock options with restricted stock in fiscal 2017, thereby creating a structure comprising (1) basic compensation, (2) performance-linked compensation (bonuses), and (3) restricted stock. Meanwhile, directors who are members of the Audit and Supervisory Committee receive only basic compensation that is not linked to performance.

Seminars and Other Activities for Directors

The company holds a compliance seminar for directors with lectures by outside experts, and 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.

● Framework of the corporate governance system



Compliance

Compliance System

Under the Sangetsu Group Compliance Code of Conduct, the company has set up a compliance committee and helplines 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 formulated 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 a PDCA cycle, Sangetsu verifies and reviews the Compliance Program at the end of each fiscal year by evaluating the issues that were identified in the course of its activities. In fiscal 2017, our activities related to internal rules included revising the Rules on Reporting Compliance Violations and establishing the Anti-bribery provisions in April and formulating a Manual for the Subcontract Act in November.

Compliance Training in Fiscal 2017

Topic	Period	Participants	Duration	Contents
Antimonopoly Act (cartels)	March to April 2017 (8 sessions)	506 sales staff at branch offices and heads of departments	1.5 hours	• Core issues and development of the wallpaper cartel incident • Future measures and important matters
Compliance	April 2017	57 new employees	1 hour	Basics of Sangetsu's governance system and compliance
	May 2017	25 newly assigned managers	1.5 hours	Basics of business laws and compliance
	June 2017	15 employees of Fairtone Co., Ltd.	1.5 hours	General course on compliance
Subcontract Act	November 2017	About 50 employees of Yamada Shomei Lighting Co., Ltd.	1.5 hours	General course on the Subcontract Act
	December 2017	About 10 managers and staff in charge at the Interior Design Section of each branch office	0.5 hours	Important points in the Subcontract Act applicable to interior design operations

Making Use of the Corporate Philosophy Handbook

We distribute the Corporate Philosophy Handbook to all employees to ensure that they can gain a thorough understanding of corporate ethics issues, including compliance. The handbook contains six chapters of the Sangetsu Group Compliance Code of Conduct. It is intended as a reference tool, providing guidance to employees in the course of their work.

Compliance Helplines

Sangetsu has set up helplines in and outside the company for reporting and consultation so that employees can directly consult Audit and Supervisory Committee members and other experts as needed. We strive to prevent employees from being burdened with problems or anxiety about compliance and to ensure early detection and improvement of violations.

Onsite Inspection by the Japan Fair Trade Commission

In May 2015, the company was subject to an onsite inspection by the Japan Fair Trade Commission on suspicion of violating the Antimonopoly Act. In March 2017, the commission announced and issued a cease and desist order and a penalty payment order against companies that sell wallcoverings in violation of the Antimonopoly Act. Sangetsu, however, was granted leniency on the surcharge payment and was not subject to either order.

Taking the matter seriously, Sangetsu continues to organize compliance training and pursue other actions in an effort to promote fair trade.

Product Quality Issue

A quality issue emerged with respect to Sangetsu wallcoverings that were provided by a specific supplier. We have sought to address the matter in an appropriate and timely manner by setting up a customer service desk and working with the supplier to repair housing and other buildings where these products have been used. The supplier is covering the total cost of this repair work.

Risk Management

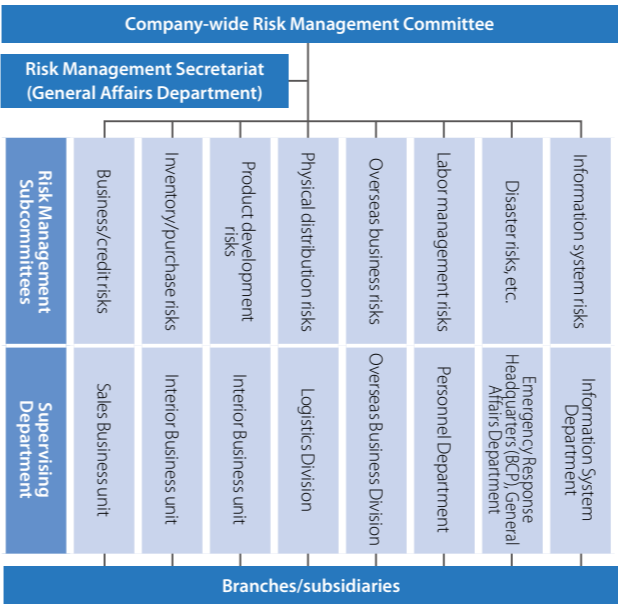
Risk Management System

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 minimize the impact when such risks materialize while maintaining and enhancing the corporate value of the Sangetsu Group as a whole.

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. 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.

In addition, we sought to bolster consolidated management by establishing rules for managing business investment risks. We clarified the definition of a business investment risk to build a system for managing risks under consolidated management.

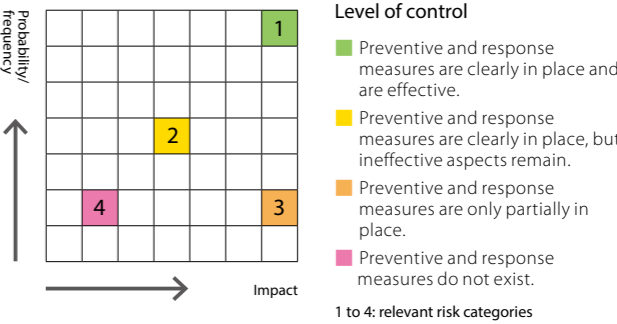
Fiscal 2018 Risk Management System Diagram



Risk Assessment

To effectively reduce risks, Sangetsu has been 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 for all employees and at show-rooms 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 is 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, Managing  
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

**Yoshiaki Kaneko**  
Director, Executive Officer

**Kenji Ito**  
Director, Executive Officer

**Michiyo Hamada**  
External Director, Audit and  
Supervisory Committee Member

**Shosuke Yasuda**  
President, CEO

**Masatoshi Hatori**  
External Director, Audit and  
Supervisory Committee Member

**Yasutomo Yoshikawa**  
Director, Executive Officer

ESG Data (Sangetsu Corporation)

	Indicator	Unit	FY2013	FY2014	FY2015	FY2016	FY2017
Environment	GHG emissions	t-CO <sub>2</sub>	9,001	8,663	8,066	8,062	<b>8,306</b>
	Energy consumption	GJ	123,295	120,428	116,637	128,666	<b>132,292</b>
	Waste	t	2,877	3,350	3,322	3,296	<b>3,688</b>
	Recycling rate	%	38.2	40.8	67.1	58.0	<b>67.2</b>
Social	Consolidated number of employees (as of March 31 of each year)	Persons	1,410	1,442	1,474	2,051	<b>2,357</b>
	Number of employees (as of March 31 of each year)	Number of people	1,145	1,167	1,196	1,190	<b>1,205</b>
	Men	Number of people	761	776	782	777	<b>776</b>
	Women	Number of people	384	391	414	413	<b>429</b>
	Average age (as of March 31 of each year)	Age	34.6	35.0	35.0	35.5	<b>36.0</b>
	Men	Age	37.3	37.6	37.6	38.0	<b>38.4</b>
	Women	Age	29.2	29.6	30.0	30.8	<b>31.5</b>
	Average length of service (as of March 31 of each year)	Years	13.7	14.0	14.1	14.5	<b>14.8</b>
	Men	Years	16.3	16.6	16.7	16.9	<b>17.3</b>
	Women	Years	8.7	9.0	9.2	9.9	<b>10.2</b>
	New hires (total)	Number of people	77	70	83	57	<b>63</b>
	Women	Number of people	39	31	47	23	<b>33</b>
	Ratio of female managers (as of April 1 of each year)	%	6.3	8.2	10.1	10.7	<b>11.4</b>
	Number of employees taking childcare leave	Number of people	21	16	32	39	<b>45</b>
	Number of employees on temporary part-time work while child-rearing	Number of people	32	44	41	56	<b>68</b>
	Average total work hours	Hours	2,026	2,062	2,024	2,051	<b>2,100</b>
	Average number of paid vacation days taken (October to September of following year)	Days	5.1	9.6	9.5	9.2	—
	Employment rate of persons with disabilities (as of March 31 of each year)	%	2.17	2.23	2.39	2.26	<b>2.41</b>
Governance	Frequency rate of work-related accidents		0.42	0	0.41	0.41	<b>0.40</b>
	Severity rate of work-related accidents		0.0087	0	0.0008	0.0008	<b>0.0063</b>
	Social contribution activities of Sangetsu Volunteer Club	Cases	-	1	14	22	<b>29</b>
	Refurbishment of facilities	Cases	-	1	9	12	<b>19</b>
	Other activities	Cases	-	0	5	10	<b>10</b>
	Number of directors (as of March 31 of each year)	Number of people	8	9	11	10	<b>10</b>
	External directors	Number of people	1	1	4	4	<b>4</b>
	Female directors	Number of people	0	0	1	1	<b>1</b>
	Ratio of external directors	%	12.5	11.1	36.4	40.0	<b>40.0</b>
	Number of compliance training participants	Number of people	-	1,020	408	113	<b>663</b>

10 Year Consolidated Financial Summary

		(Unit: Billions of yen)									
		FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Profit and Loss	Sales	108,579	112,118	118,518	123,150	131,978	132,050	133,972	135,640	156,390	164,000
	Gross profit	31,664	32,938	33,775	34,536	36,055	37,510	39,527	40,104	47,572	52,000
	Operating income	5,646	7,161	7,095	8,020	8,952	8,031	9,112	7,572	5,033	6,000
	Ordinary income	6,046	7,530	7,180	8,393	9,475	8,506	9,463	8,368	5,698	6,600
	Net income attributable to parent company shareholders	3,137	4,242	4,151	4,806	5,459	4,402	6,393	6,570	4,514	4,600
	Free cash flow	3,327	-2,883	213	7,902	2,401	10,899	25,988	-12,320	1,464	—
	Operating cash flow	10,536	4,437	422	4,311	7,878	4,765	10,834	10,072	7,196	—
	Investing cash flow	-7,209	-7,320	-209	3,591	-5,477	6,134	15,154	-22,392	-5,732	—
	Financing cash flow	-3,040	-3,041	-3,198	-7,506	-3,025	-7,692	-13,528	7,533	-4,831	—
Financial Condition	Total assets	136,555	138,908	142,247	139,205	145,903	143,076	139,220	169,344	170,995	—
	Net assets	117,139	118,084	119,409	117,672	119,887	118,758	108,517	110,458	106,146	—
	Interest-bearing debt	0,238	0,209	0,200	0,168	0,116	0,93	0,3	14,187	18,759	—
Per Share Information	Net income per share (Yen)	39.10	52.87	51.73	60.26	71.65	58.35	89.92	97.53	68.97	72.06
	Net asset per share (Yen)	1,459.73	1,471.53	1,488.05	1,544.27	1,573.35	1,625.21	1,587.86	1,646.42	1,648.48	—
	Dividend per share (Yen)	37.50	37.50	37.50	39.00	37.50	41.25	47.50	52.50	55.50	56.00
Financial Indicators	Return on assets (ROA) (%)	4.4	5.5	5.1	6.0	6.6	5.9	6.7	5.4	3.3	—
	Return on equity (ROE) (%)	2.7	3.6	3.5	4.1	4.6	3.7	5.6	6.0	4.2	—
	Equity ratio (%)	85.8	85.0	83.9	84.5	82.2	83.0	77.9	65.2	61.5	—
	Consolidated payout ratio (%)	95.9	70.9	72.5	64.7	52.3	70.7	52.8	53.8	80.5	77.7
Cash Conversion Cycle	Cash Conversion Cycle	99.4	102.7	114.9	118.9	107.8	114.4	102.1	88.3	79.7	—
	Receivables turnover period (days)	121.7	125.3	134.8	127.1	126.5	124.2	124.2	125.1	113.8	—
	Inventory turnover period (days)	30.8	32.5	37.1	41.8	36.4	40.7	39.8	44.0	45.8	—
	Purchase liability turnover period (days)	53.1	55.1	57.0	50.0	55.1	50.4	61.9	80.8	79.9	—

\*A share split was carried out at the rate of two shares per common share on April 1, 2015. Per share indicators show figures adjusted based on the current number of shares.

◆ Mid-term Business Plan (2014-2016) “Next Stage Plan G”

Basic Initiatives	Results	Remaining Issues
1 Establish a sound corporate structure that allows employees to actively participate in management	• Established logistics centers, offices, showrooms and other facilities; revised and enhanced organizational systems and rules.	• Introduce new SAP mission-critical system • Logistics system for West Japan • Enhance capabilities and raise employee awareness
2 Restructure our business Strategy	• Strengthened product development, alliance with suppliers, organizational structure, construction work, branding and other areas • Established a subsidiary in China and acquired U.S. company Koroseal	• Develop a consolidated management system • Enhance profitability of overseas businesses
3 Strengthen stakeholder value	• Enhanced shareholder return strategy • Social contribution activities based on employee initiative	• Formulate and implement clear environmental policy
4 Passing on our corporate philosophy, principles, and vision since our founding	• Formulated brand concept, “Joy of Design” • Opened Interior Design Archive	• Consistently pass on corporate principles

◆ Mid-term Business Plan (2017-2019) “PLG 2019”

Basic Initiatives	Basic Policy (Excerpt)
1 Business strategy for growth	Geographically expanding and enhancing the functionality of the interior materials business (planning, procurement, logistics, sales)
2 Enhance human resources	Cultivate professionals, Fully commit to merit-based approach, promote diversity, reform working styles, promote health management
3 Bolster profit management system	Reduction in SGA and thorough Management control, Set targets for ROE and cash conversion cycle on a consolidated basis and monitor progress
4 ESG and CSR Policies	Reduce environmental impact of supply chain, Social contribution activities led by Employees Strengthen governance system
5 Capital strategy	Buy back shares, provide stable increase in dividends

Corporate Profile

Company Outline (as of March 31, 2018)

Company Name	Sangetsu Corporation
Date of Establishment	April 21, 1953 (founded around 1849, during the Edo Period)
President and CEO	Shosuke Yasuda
Address	1-4-1 Habashita, Nishi-ku, Nagoya, Aichi 451-8575, Japan
Capital	13,6161 million yen
Annual Sales	156.3 billion yen (consolidated)
Number of Employees	2,357 (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 (Code: 8130)

Offices

Headquarters	Nagoya
Branch Offices	Hokkaido, Tohoku, Kita-Kanto, Tokyo, Chubu, Kansai, Chugoku-Shikoku and Kyushu
Branches and Sales Offices Consolidated Subsidiaries	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, Minami-Kyushu and other locations Sungreen Co., Ltd., Yamada Shomei Lighting Co., Ltd., Fairtone Co., Ltd., Koroseal Interior Products Holdings, Inc., Sangetsu (Shanghai) Corporation, Sangetsu Vosne Corporation, Goodrich Global Holdings Pte, Ltd. Sangetsu Okinawa Co., Ltd.
Affiliate	Wavelock Holdings Co., Ltd

Stock Information

Principal Shareholders (as of March 31, 2018)

Total Number of Authorized Shares	290,000,000
Total Number of Shares Issued and Outstanding	66,050,000
Number of Shareholders	4,555

Status of Principal Shareholders (as of March 31, 2018)

Name of Shareholder	Number of Shares Held	Percentage of Ownership
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	5,009,700	7.84
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,210,800	5.03
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	2,806,300	4.39
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,082,700	3.26
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.23
Japan Trustee Services Bank, Ltd. (Trust Account)	2,059,000	3.22
Yuichi Hibi	1,965,154	3.07
Touzo Hibi	1,923,492	3.01
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	1,818,400	2.84
Masae Miwa	1,740,640	2.72

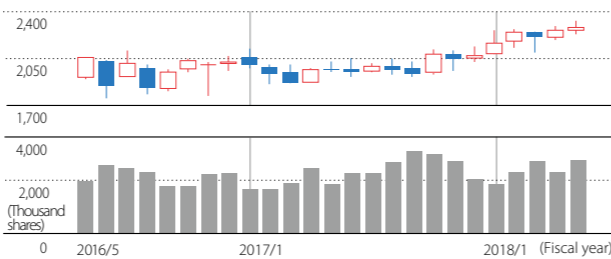
Notes:  
•Sangetsu owns 2,217,212 shares of treasury stock but does not include itself in the list of principal shareholders.  
•Percentage of ownership is calculated after deducting treasury stock.

Stock Information

Fiscal Year	April 1 to March 31 of the following year
Record Date for Dividend Payment	Year-end: March 31 Interim: September 30
Annual General Shareholders' Meeting	June
Shareholder Registry Administrator and Account Management Institution for Special Accounts	Mitsubishi UFJ Trust and Banking Corporation Contact: 7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081 Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation Tel: 0120-232-711 (toll-free)
Method of Public Notice	URL: <a href="https://www.sangetsu.co.jp/english/">https://www.sangetsu.co.jp/english/</a> In the event that an electronic public notice cannot be posted due to accidents or circumstances beyond the company's control, the notice will be placed in the Nihon Keizai Shimbun newspaper.

\*Address changes, requests for buyback of fractional shares and other services are in principle handled by the institutions managing shareholder accounts, such as brokerages. Shareholders should direct their inquiries to the brokerage or other institution managing their accounts. Note that the shareholder registry administrator (Mitsubishi UFJ Trust and Banking Corporation) cannot handle these requests.  
\*Inquiries concerning various services related to shares registered in special accounts should be directed to Mitsubishi UFJ Trust and Banking Corporation, which is the institution managing the accounts. Mitsubishi UFJ Trust and Banking Corporation will also accept inquiries at its branch offices throughout Japan.  
\*Unpaid dividends will be paid out by the head office and local branches of Mitsubishi UFJ Trust and Banking Corporation

Stock Price and Trading Volume



Sangetsu Showrooms



SANGETSU Shinagawa Showroom



sangetsu design site

<b>FLAGSHIP</b> <b>SANGETSU Shinagawa Showroom</b> 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	<b>SANGETSU Nagoya Showroom</b> 1-4-1 Habashita, Nishi-ku, Nagoya City, Aichi 451-8575, Japan Tel: +81-570-055-135 Fax: +81-52-564-3229	<b>SANGESU Osaka Showroom</b> 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	<b>SANGETSU Fukuoka Showroom</b> 1-11-11 Higashinaka, Hakata-ku, Fukuoka City, Fukuoka 812-0892, Japan Tel: +81-570-055-137 Fax: +81-92-441-9503
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sangetsu design studio

<b>SANGETSU Sendai Showroom</b> 98-1, Rokuchonome-Minami, Wakabayashi-ku, Sendai City, Miyagi 984-0031, Japan Tel: +81-22-287-3922 Fax: +81-22-253-6806	<b>SANGETSU Kanazawa Showroom</b> 2-101 Otomo, Kanazawa City, Ishikawa 920-8205, Japan Tel: +81-76-238-1411 Fax: +81-76-238-1412	<b>SANGETSU Okayama Showroom</b> 836 Yao, Hayashima-cho, Tsukubo-gun, Okayama 701-0301, Japan Tel: +81-86-292-5708 Fax: +81-86-292-3322	<b>SANGETSU Hiroshima Showroom</b> 2-28 Funairinakamachi, Naka-ku, Hiroshima City, Hiroshima 730-0842, Japan Tel: +81-82-233-3815 Fax: +81-82-233-3501	<b>SANGETSU Okinawa Showroom</b> LEQUIOS SQUARE UCHIDOMARI 2F, 215 Ojana, Ginowan City, Okinawa 901-2225, Japan Tel: +81-570-055-138 Fax: +81-98-890-3789
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Editorial Policy

Sangetsu Report 2018 was published as an integrated report providing both financial and nonfinancial 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, 2017 to March 31, 2018  
(includes some activities after the reporting period)

Date of Publication

July 2018

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.