

SANGETSU REPORT
2019



Sangetsu Corporation

General Affairs Department, Public & Investor Relations Section
CSR Promotion Section

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Corporate Philosophy

A timeless and unchanging Sangetsu original spirits, "Company Creed", "Corporate Mission", "the Three Principles of Sangetsu," and our Brand Concept constitute Sangetsu's corporate philosophy.

Company Creed

Integrity

Corporate Mission

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

Three Principles of Sangetsu

- Creative Designs
- Highly Reliable Quality
- Fair Market Prices

Brand Concept

Brand Statement

Joy of Design

Brand Purpose

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

Joy of Design

We share the joy of design with those who create new spaces. The joy of fulfilling your dream at home.

The joy of envisioning and realizing unconventional commercial spaces and facilities.

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

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

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

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

Joy of Design

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

SANGETSU REPORT 2019

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Our Story

Advancing together with the Japanese interior industry, facing challenges of new stages toward becoming global Sangetsu

Sangetsu's history runs hand in hand with the development of the Japanese construction and interior industries.

More than 170 years have passed since Yasuke Hibi founded Sangetsudo. In the Edo period, he had started a picture framing business on the south side of Nagoya Castle's Habashita Gate. Amid the rapid growth of housing-related industries in Japan, we have been constantly enhancing our product development, sales and distribution systems, while contributing to the development of the interior industry.

In 2014, a president was appointed from outside the founder's family for the first time, and a management system in which "employees play a leading role" launched. Sangetsu is currently continuing to face challenges toward becoming "Global Sangetsu."

Early Years (1849 to 1952)

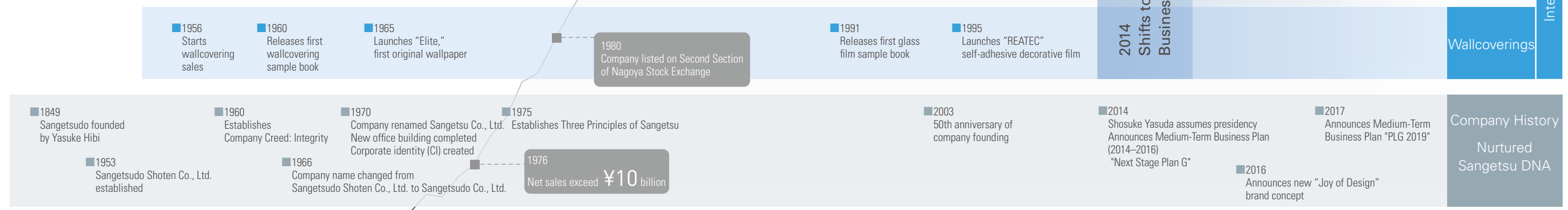
Our history extends back to Sangetsudo, a picture framing business started by our founder, Yasuke Hibi, in 1849. Also dealing in the so-called Japanese interior items, including scrolls, hanging shafts, *fusuma* (papered sliding doors), and folding screens, it was a certainly a business that was ahead of the times.



The signature of Yasuke Hibi on the back of a painting of the Buddha in Nirvana, dated 1849.

Rapid Growth and Stability Period (1953 to 2013)

Establishes Sangetsudo Shoten Co., Ltd. in 1953 and commences wallpaper sales in 1956. The Company's new office building is completed in 1970. From around this time, achieves dramatic growth on the back of Japan's economic growth.



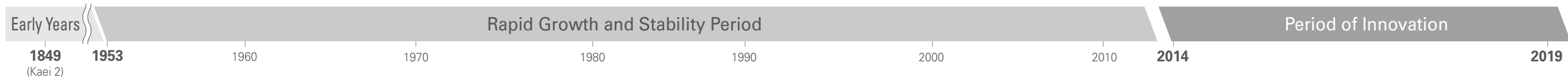
FY2018
 Net sales (record high) **¥160.42 billion**
 Profit attributable to owners of parent **¥35.7 billion**

Period of Innovation (from 2014)

In 2014, Shosuke Yasuda, who took over management from Yuichi Hibi, is appointed President and Representative Director. As a listed company that has shifted from a founder's family-centered management to having employees in charge, we are still facing the challenges of a variety of innovations.

New Brand Concept Joy of Design

(Note) Lighting Business transferred in April 2019



We will strengthen our business foundation with an eye on the future and aim for sustainable growth.

President, CEO

Shosuke Yasuda

Looking Back at Fiscal 2018

I would first like to provide a fiscal 2018 overview of the domestic construction market, which is closely connected to the company's business. Underpinned by factors that include the redevelopment of the Tokyo metropolitan area and the establishment of infrastructure for the 2020 Tokyo Olympics and Paralympics, the non-residential sector saw firm demand, including for new facilities and renovations, such as for accommodation facilities and offices as well as commercial facilities. In contrast, in the residential sector, although owned houses and residential houses for sale showed signs of recovery, rental housing declined, and new housing construction remained almost on par with the previous fiscal year.

Under these circumstances, the Group has been steadily implementing growth strategies based on its Medium-Term Business Plan (2017-2019) "PLG 2019." In particular, as initiatives to enhance functionality we promoted a wide range of measures, including reviews of sales systems, the establishment of a Renovation Division and the development of new business by each subsidiary, geographic expansion by overseas subsidiaries, collaboration with overseas manufacturers, and the operation of a new core system. At the same time, as measures to address the continuing rises in materials, labor, and logistics costs, we reviewed product prices and advanced the improvement of our own delivery networks.

As a result of these initiatives and measures, consolidated net sales for the term increased 2.6% year on year to ¥160,422 million, a record high and the ninth consecutive increase. Operating income rose 17.1% year on year to ¥5,895 million, and ordinary income increased 17.6% to ¥6,699 million, while profit attributable to owners of parent fell 20.7% to ¥3,579 million due to the impairment of intangible assets related to Koroseal Interior Products Holdings, Inc., a U.S. subsidiary of the company.

To summarize fiscal 2018, the year was positioned as one in which we could successfully achieve efforts toward the restructuring of our business foundation as our unique strength and gain the understanding of our customers for those efforts while conducting product price reviews. At the same time, however, it is thought that the aging of the workforces in the construction and logistics industries and the increasingly severe labor shortages will deepen, and we regard this as a major issue for the Group.

Progress on Medium-Term Business Plan (2017-2019) "PLG 2019"

	FY2016	Term of PLG 2019			Targets of PLG 2019
		FY2017	FY2018	FY2019 Forecasts	
ROE (%)	6.0	4.2	3.5	—	8-10
Net sales	¥135.6	¥156.3	¥160.4	¥163.0	¥165.0-175.0
Profit attributable to owners of parent	6.57	4.51	3.57	5.7	8.0-10.0
Net assets	110.3	105.2	991.0	—	105.0-100.0
CCC* (Days)	88.3	83.8	76.0	—	75-60

*CCC: Cash Conversion Cycle

Peculiarities of the Japanese Interior Industry

I am getting a sense from feedback that, at Sangetsu in fiscal 2018, we were able to consolidate the basis for improving earnings as a result of the introduction of the new core system (please refer to page 7), the reconstruction of the logistics networks that accompanied the new core system's introduction, and across-the-board price revisions. To help readers to more properly understand the significance of these moves, I would like to talk about our unique business model.

A company that has been expanding the scope of its business beyond wallpaper sales, Sangetsu has a long history of growing hand in hand with the Japanese interior industry. At the present time, amid the progress being made in overseas business, there are many factors and features that are drawing attention to the peculiarities of the Japanese interior industry.

The first factor is the high rate of wallpaper usage in Japanese homes. Wallpaper is used in more than 90% of homes, practically all, and in Japan even types of wallpaper not seen elsewhere are mass produced and distributed at low prices. There is also pride that Sangetsu alone created such a huge market.

Another feature is the speed of delivery. In today's Japanese interior industry, it has become a matter of course for products to be delivered the day after they were ordered. Certainly, since it has become necessary to respond flexibly to both delays in construction schedules and changes immediately before construction, "just-in-time" deliveries in accordance with the timing of construction are required.

Furthermore, our products are adopted by people in various positions associated with construction, such as owners, architects, housing manufacturers, builders, and contractors. The fact that the product decision-makers are so widely distributed in this way can also be said to be a peculiarity of this industry.



Business Model with High Barriers to Entry

Within this unique domestic business environment, Sangetsu has been refining its sales and logistics structures as well as the attractiveness of the products themselves.

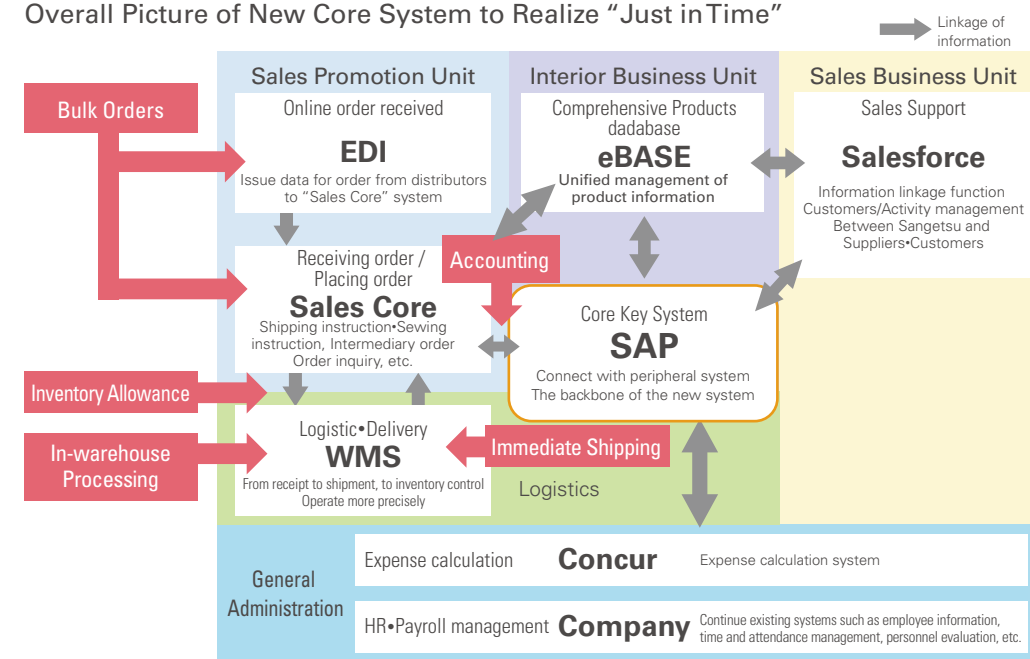
In the case of our sales structures, we are making sales approaches to all levels of customers who select our products. While based on area sales closely connected to a local region, we have in place a Non-residential Business Department, which specializes in the non-residential market, and a Residential Business Department that specializes in the residential market, such as major housing manufacturers and developers. We also have an organization that specializes in specific products, such as films and upholstery. In terms of sales structures, the existence of an Interior Design Section that proposes designs for showrooms and spaces throughout the country also plays a very important role. (For more details, please refer to page 15.)

At the same time, with regard to our logistics structure, we have a total of about 12,000 products for the domestic market, including about 4,300 wallpapers, about 2,600 flooring materials, and about 3,800 curtains. Even with this huge number of products being stocked at logistics hubs throughout the country and receiving an average of around 60,000 orders on a daily basis, we continue to deliver products "just in time".

Our logistics bases in Japan cover the collection, processing and shipping functions. In the processing function, we cut products to the sizes required by the orders and then pack them, thereby reducing to the minimum the time needed for the sorting sequence. Particularly in recent years, the introduction of new systems and the consolidation of logistics hubs have enabled further streamlining. (For more details, please refer to page 22.)

Sales systems covering such a wide range of customers and the meticulous quick delivery service are not something that could be achieved overnight, but we are proud of our business model with its high barriers to entry.

Overall Picture of New Core System to Realize "Just in Time"



Strengths Unique to Fabless Companies

Next, I will talk about the attractiveness of the products themselves. A fabless company that does not possess any manufacturing functions, Sangetsu has continually created Sangetsu brand products with a host of manufacturers.

In addition to our own designs, we are developing products that are based on design and function proposals from many domestic and foreign manufacturers with high product development capabilities and that make use of opinions from, for example, designers, architectural design offices, and interior contractors. While actively visiting trade fairs outside Japan and researching global trends, Sangetsu staff members involved in product development undertake repeated trial-and-error analyses with manufacturers as they focus on the development of products that meet the needs of customers and the sample books that record those needs.

The sample books created in this way further strengthen Sangetsu's brand power and, by expanding sales volume, the expectations and confidence levels from manufacturers are further raised, creating a virtuous circle that leads to better product proposals. From the viewpoint of expanding sales volume, the sales structure and logistics functions as well as the attractiveness of the products themselves are closely linked.



Sample books listing each type of product



One aspect of product development



Original sample books for overseas markets

Overseas Business to Increase in Importance

From now on, Sangetsu's growth strategy will be focused on expanding its overseas markets. Since 2016, three overseas subsidiaries—one newly established in China, and two acquired (in North America and Singapore)—have been brought under the Sangetsu umbrella, but I think it will take a little more time for these companies to produce full-fledged results. There are also issues specific to each company, but in addition to strengthening the management and sales systems—and enhancing the functions of Koroseal Interior Products Holdings, Inc., which carries out manufacturing—our basic policy is to introduce Sangetsu's business model to overseas subsidiaries. On the other hand, as suppliers, overseas manufacturers are highly capable of proposing designs, are extremely cost competitive and will pursue a procurement strategy and a sales strategy to both "make in the world and sell to the world." (For more details, please refer to page 20.)

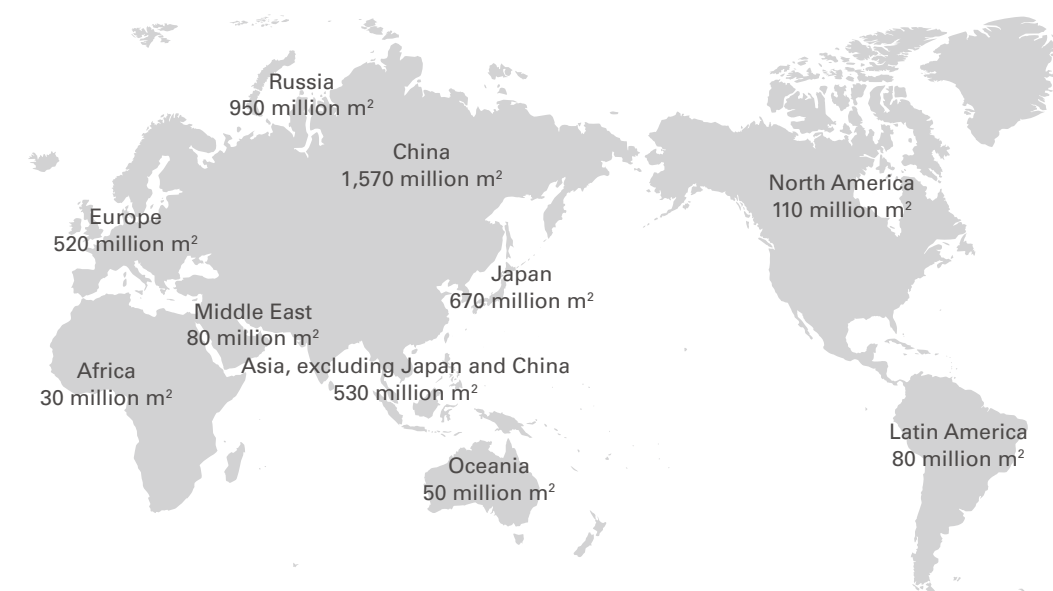
In our Medium-Term Business Plan "PLG 2019," the abbreviation stands for "Personal, Local, Global." This is not something we saw and thought about in the domestic market, but the more we came to know the overseas market the more we felt that it had a lot in common with Japan. After all, it was the power of the individual that was important, and I felt that the connection between people was extremely important.

First of all, I firmly believe that Sangetsu can only become a true global company by building a firm presence in each market and by making its strong presence felt in each country. In other words, I think that strengthening the P (Personal, human resources) in each region and thereby raising our L (Local) presence should be followed by the G (Global).



Global meeting

Global Wallpaper Market Volume (Sangetsu estimates)

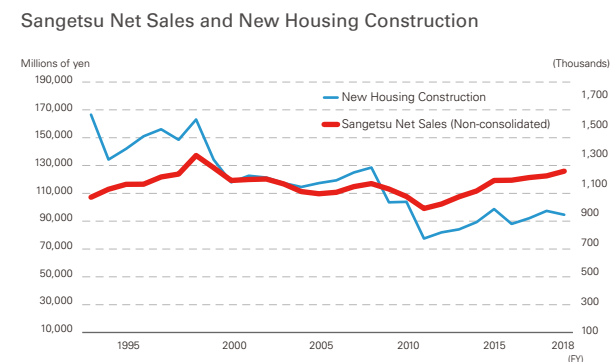


Sustainability of the Interior Industry

Deeply involved in people's living environments, our work in the interior industry plays an essential role, so that, in a sense, we can be said to be an infrastructure industry. Now, though, the Japanese market is facing a number of problems, including a decrease in the number of housing starts, aging craftsmen, labor shortages, and a crisis in logistics.

I am concurrently serving as president of the Japan Wallcoverings Association, which is also recommending "the need to improve the profitability of the entire value chain." From now on, the entire industry will assist in solving social issues and creating new value, in the belief that we should aim for coexistence and prosperity.

In order to do that, we have to change to work that involves more things that we can decide on ourselves. It is a transformation from us playing the "bit part" of simply selling to becoming the main protagonist. Sangetsu created the business practices of the current Japanese interior industry, and we recognize the creation of new markets as a major mission imposed on us in the years to come.



Strengthening of Human Resources

I was appointed president in 2014, when I was passed the baton of management from the founder. Looking back over the past five years, I think the structure of the company, the role of the employees, and the contents of their work have changed dramatically.

Formerly, there were a lot of simple, repetitive tasks at the company, such as the inputting of faxed orders and the creation of coordination boards, but as far as possible we implemented business transformations into more structured, negotiated, and creative work, for example by switching to business process outsourcing (BPO).



Last year, concerns arose over the stable supply of some products, so we postponed the distribution period of our wallpaper sample book. At that time, all the employees shared their wisdom, combined their strengths, and managed to overcome a difficult situation.

From now on, employees themselves will be responsible for management and business, so I think we will have to become a strong company so that they can be the focal point of our internationalization and at the forefront of our overseas business development.

CSR / ESG Initiatives

Keywords such as the U.N. Sustainable Development Goals (SDGs) and environmental, social and governance (ESG) are attracting attention, but with regard to corporate governance what is important is naturally a company's system but also that each and every employee takes a firm stance. Naturally, a company itself will not become strong if it commits illegal acts, nor if it carries out work that is not in keeping with morals and business ethics. I believe that remaining in compliance is a major premise in fulfilling our social responsibility.

We also carry out a range of activities as social contribution that make use of our main business. Activities like supporting the renovation of children's nursing homes actually represent a typical Sangetsu approach and give the participating employees a greater awareness.

With regard to environmental issues, I feel there are still things we need to do, such as product development that shows consideration for the environment and devising a system for recycling scrap materials.

Amid the major changes that the business environment is undergoing, I think that the key to our future growth is how to identify medium- and long-term risks and opportunities and how to contribute to a sustainable society.

Sangetsu's "Joy of Design" brand philosophy does not mean simply designing a product. The philosophy encapsulates the joy of thinking about our own lives and experiencing the joy of creating something new, together with the wish that the joy be shared by all employees.

I would like Sangetsu to continue to be an attractive company so that each and every employee can contribute to society through his or her own work and ability.

Joy of Design

I want to experience the joy of creating something new and share that joy with all Sangetsu employees.



Sangetsu Group Businesses

Interior Segment (Japan)

Focusing on wallcoverings, flooring materials and fabrics for curtains and upholstery, which are used in people's daily lives for both residential and non-residential purposes, we are developing a wide range of businesses, from in-house product planning and development to sales, orders and deliveries.

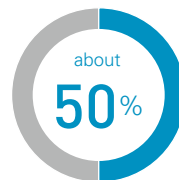
We are also continuing to expand geographically through our Overseas Business and pursue comprehensive and strategic initiatives across the entire Group. Segment companies include Fairtone Co., Ltd., which is involved in the construction and management primarily of offices, and Sangetsu Vosne Corporation, which is responsible for the planning and sale of fabric products.

Wallcoverings Business

Diverse product lineups with excellent functionality and design through market-driven product development

Sangetsu wallcoverings feature excellent design, durability and workability. Our broad lineup naturally incorporates wallcoverings but also includes "REATEC" self-adhesive decorative films and glass films. We respond to market demand by developing market-driven products while also focusing on the sales development of diverse and original digitally printed products.

Wallcoverings market share

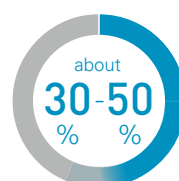


Flooring Materials Business

Responding to robust demand in the non-residential sector, increasing handling of overseas products to develop new markets

From residential use, including houses and condominiums, to offices, shops, medical and welfare facilities, and educational facilities, we develop flooring materials that address the requirements of wide-ranging properties, such as new properties and renovations in the non-residential field. 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.

Flooring materials market shares



PVC floor sheets 42%
Printed PVC floor tiles 50%
Carpet tiles 27%

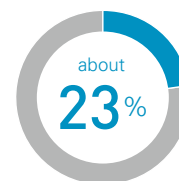


Fabrics Business (Curtains and Upholstery)

Aiming for No. 1 share among curtain suppliers with sample books by means of our nationwide showrooms and extensive sales channels

We offer not only a widely varied product lineup in which we pay particular attention to the designs and materials but also functional curtains that, for example, provide heat insulation or are not see-through from outside. The Fabrics Business also develops curtain sample books to meet needs that include high-end products and our single-price products lineup. Specializing in fabric products, Sangetsu Vosne offers an E-Commerce (EC) website for end-users.

Order-made curtains market share



For upholstery, we develop sales in a number of fields, including hotels, welfare and commercial facilities.

Exterior Segment (Japan)

Proposing enriched daily life through exteriors

Founded in 1973, Sungreen Co., Ltd. joined the Group in 2005 as a trading company specializing in the exterior business. The company seeks to enrich daily life by providing products for gates, fences and carports as well as for public facilities, such as schools and commercial facilities. Sungreen is also expanding its lineup in response to growing demand from the renovation market for products used in designing garden spaces.



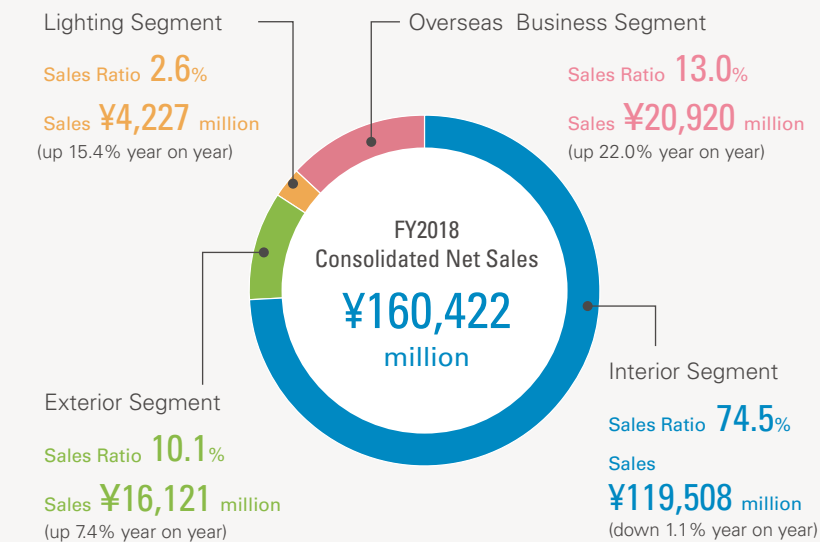
Overseas Business Segment

Expanding Sangetsu's unique business to overseas markets

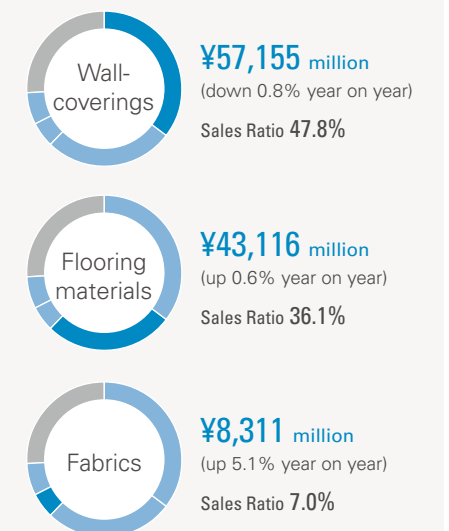
Having established Sangetsu (Shanghai) Corporation in 2016, acquired Koroseal Interior Products Holdings, Inc. in the United States and then, in December 2017, Singapore-based Goodrich Global Holdings Pte., Ltd., the Sangetsu Group is developing its overseas business mainly along the Pacific Rim area. Based on existing business models tailored to the needs of each market, we will expand Sangetsu's unique business to overseas markets.



Net Sales by Segment



Interior Segment Sales by Business



(Note) As of April 5, 2019, Sangetsu sold all of its stock in Yamada Shomei Lighting Co., Ltd. and withdrew from the lighting equipment business.

Unique Business Model

01 Sangetsu, a Fables Company

A fables company, Sangetsu possesses no manufacturing capabilities of its own. We offer a variety of products to our customers by jointly developing wallcoverings, flooring materials and fabrics (curtains and upholstery) with several manufacturers and by means of Sangetsu brand sample books.

We pay particular attention to a variety of customer feedback and provide enhanced product lineups that drive market needs. At the same time, we are meeting the needs of customers related to construction and installation through zero-shortage stock management and a "just-in-time" logistics system.

Strengths of Fables Companies

Fables means no fabrication. In other words, Sangetsu's main business activities are product development, planning and design as well as sales and marketing. Usually, manufacturers invest in production equipment, but by deciding to go fables, a company can focus on funding development and marketing as a source of its competitiveness and thus quickly meet market needs without being tied to producer-driven solutions. At the same time, as they possess the ability to create their own concepts as well as unique products and services, unlike retailers, fables companies are also able to carry out branding and conduct sales activities from a position like that of a manufacturer.

- As they do not have their own production facilities, fables companies can invest in product development and marketing.
- Fables companies can work on a variety of product development projects with manufacturers that possess a range of strengths.
- Fables companies can respond promptly to market needs without being tied to their own "seeds" (a company's products and services.)

02 Specialized Market- and Product-Dimension Organizations and Area Sales System

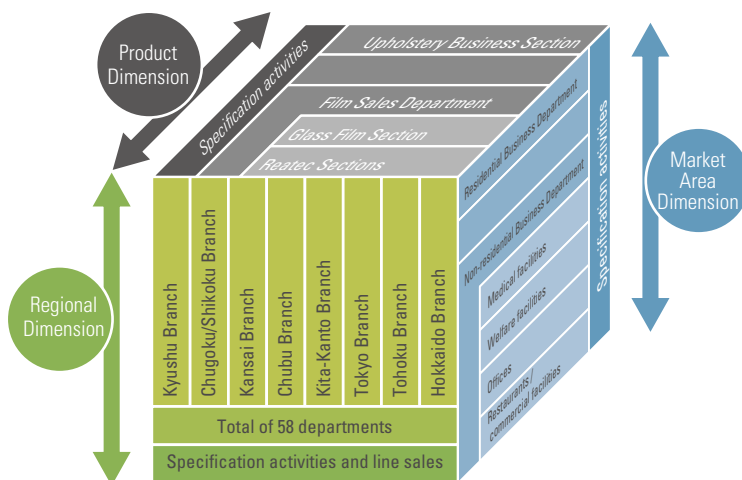
Proposing sales of products to widely divergent markets requires more specialized knowledge.

Although Sangetsu is based on area sales, there are specialized organizations, including the Non-residential Business Department that specializes in, for example, medical facilities and offices, and the Residential Business Department that specializes in the housing market, such as the major housing

manufacturers. Each department supports its own customers. We also have organizations that specialize in certain products, such as upholstery and functional films. Combining market areas and products centered on a region, a three-dimensional (3D) system responds to the detailed needs being requested by our customers.

3D Sales Organization in Japan

3D sales system structure:
Region / Market Area / Products



03 Sales structure geared toward multi-level customers/a variety of customers

Sangetsu provides an extensive lineup of interior materials, including wallcoverings, flooring materials, curtains and upholstery. Most of them are installed by professional interior installers, but the people who choose the product and make the decisions are very diverse.

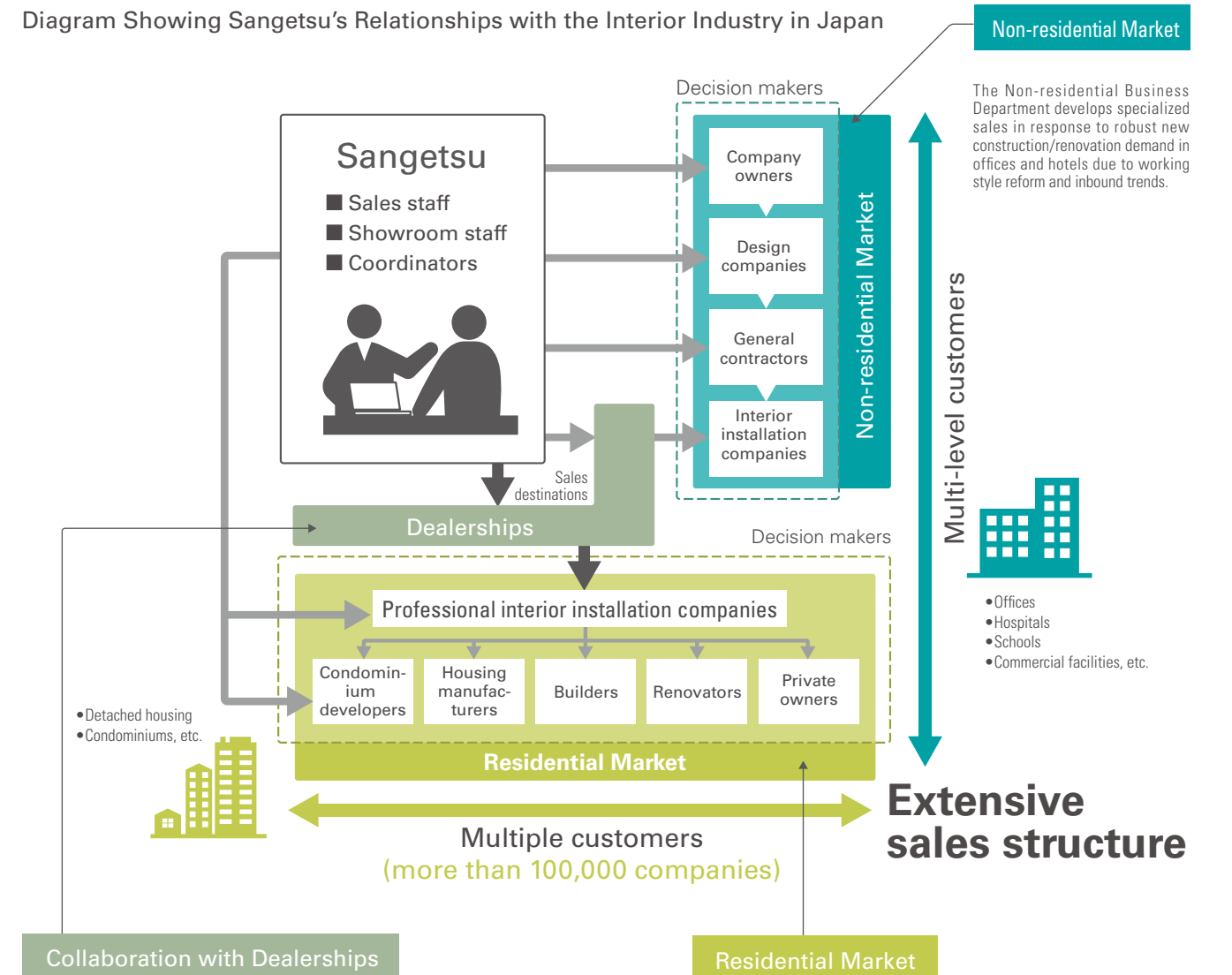
The residential market includes detached housing, condominiums and rental housing, and the non-residential market covers offices, public and commercial facilities as well as schools. In both of these markets, there are a large number of players, and interior material products are ordered with a truly

diverse and multi-level decision-making process.

Sangetsu conducts direct sales approaches to a wide range of customers, from the upstream to the downstream of such building industries.

Basically, we provide various types of sample books and assist owners, designers, space designers and interior coordinators in turning the ideas they have in mind for spaces into reality. Particularly in the non-residential market, we are implementing proposal-based sales that flexibly respond to large-volume orders and special conditions.

Diagram Showing Sangetsu's Relationships with the Interior Industry in Japan



Possessing the ability to receive detailed sales orders from the large number of customers at more than 100,000 companies are our nationwide dealerships. We also provide customer support functions, from the gathering of customer information to the delivery function, and installation support.

In the multi-type, small-lot residential market, such as condominiums, rental housing and detached housing, we deliver products to interior installation companies, mainly nationwide dealerships, which are said to number approximately 100,000 companies. In fabric products, we have also entered the EC business.

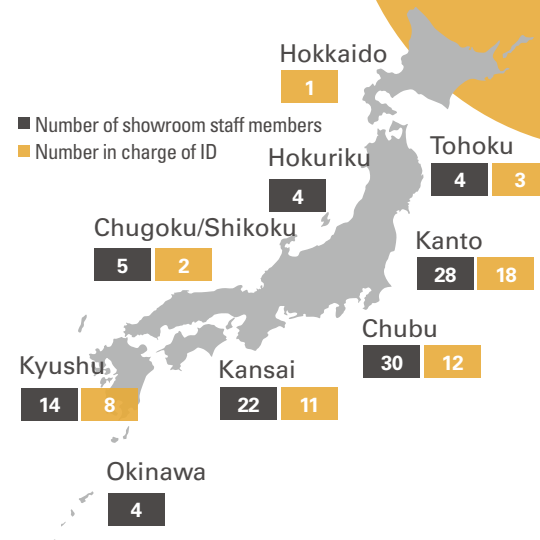
Sangetsu's Strengths

Sangetsu's Proposal Capabilities

Always anticipating market changes, Sangetsu conducts broad sales approaches that encompass the entire flow of commerce, from the upstream to the downstream.

In addition, Sangetsu operates showrooms at eight locations in Japan that provide fun-filled spaces where visitors can see, select and match up products, and where our nationwide showroom staff of 111 are on hand to help customers select the products that will best suit their needs. We have also set up interior design (ID) sections at bases throughout Japan, where 55 staff members provide services requiring high levels of expertise, such as proposals for entire spaces.

- Sales system compatible with multiple markets
- Showrooms (eight locations), ID sections (55 staff members) deployed nationwide
- Coordination and solution capabilities based on specialized knowledge



Interpersonal Skills

Of the Personal, Local, and Global in the Medium-Term Management Plan "PLG 2019," the Personal—"professionals with high levels of expertise, powerful relationships with external human resources"—in particular represents a Sangetsu strength.

Going forward, all Sangetsu Group employees will adapt to changes in the business environment and work together with our various customers and other stakeholders to improve corporate value.

Sangetsu's Product Development Capabilities

Sangetsu boasts a diverse and abundant product lineup. The marketing and product development departments take the lead in using original data gained while attending overseas exhibitions and through market research to plan and develop products that cater for diverse needs.

In addition to collaborating with more than 200 diverse manufacturers and external designers, we are continuously creating attractive products, including the procurement of overseas brand products.

- 12,000-item product lineup offering wide, overwhelming variety for the Japan market
- Strong relationships with 200 domestic and overseas manufacturers
- Professional marketing, product planning and design development groups
- Planning capabilities to coordinate affluent lifestyles
- Not only design but also development of superior functional products
- Quality control system to provide safe, high-quality products

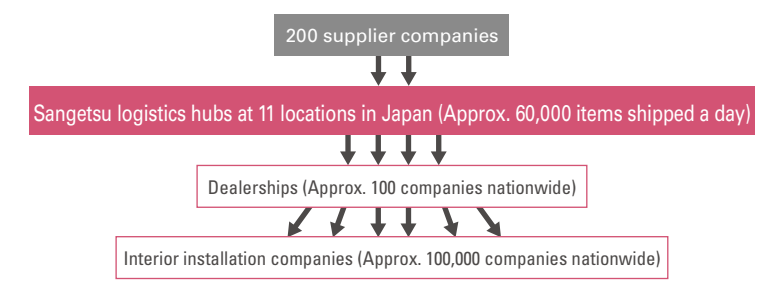


Sangetsu's Logistics Capabilities

Sangetsu carries out painstaking warehouse processing at its own logistics hubs in Japan and operates a "just-in-time" logistics service that delivers the necessary products only when they are needed.

We also strive to manage products to prevent out-of-stock conditions and avoid unnecessary inventory by always providing a stable product supply by means of production plans that depend on the sales situation. In preparation for the shortage of labor in the logistics industry and rising costs, we are also working on building our own logistics system in cooperation with local logistics companies.

- Quick but meticulous warehouse processing for large volume orders
- Products = Approx. 60,000 items / day; Samples = Approx. 40,000 orders / day and delivered same day
- Realization of efficient and sustainable logistics services by restructuring and strengthening logistics hub network



"Just-in-time" deliveries realized by quick but meticulous warehouse operations and painstaking inventory management

Strong Brand Power

Due to our overwhelming share of the market and extensive delivery track record in Japan, we have built such strong brand power that people say, "When it's interiors, it has to be Sangetsu." We will continue to strengthen and build the Sangetsu brand through collaboration with various manufacturers.

High Market Share

Sangetsu's strength is its high market share in Japan. In the years to come, we will continue our efforts to build a sustainable business model to improve the profitability of the interior industry as a whole.

Global Business Development

We are moving ahead with geographical expansion centered on our Pacific Rim network. In addition to developing the Sangetsu business model in overseas markets we are working to enhance market-optimized marketing and services while focusing on handling overseas brands.

Stable Financial Foundation

On the basis of our stable financial foundation base, we are actively implementing investment strategies. We are continually working to strengthen our revenue management system, including the management of cash conversion cycles, throughout the Group.

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." Amid drastic changes in the external environment, we will refine our unique provided value while aiming for sustainable growth.

Social Issues

Expectations of improvement in QOL

Aging society, falling birthrate

Climate change risk

Aging buildings / infrastructure

Progress of globalization

Shift from material possessions to experiences

Construction Industry Issues / Needs

Decline in housing starts

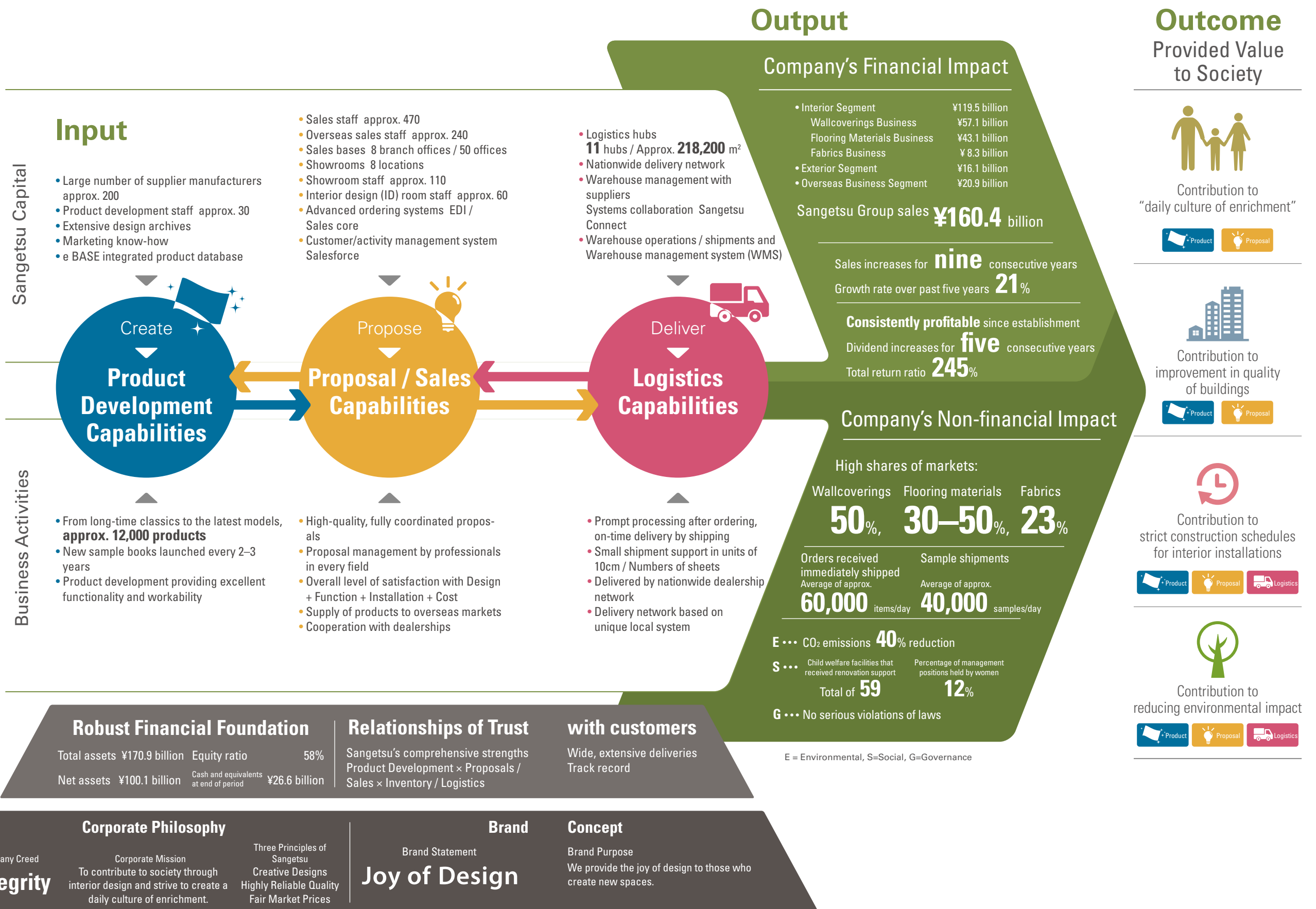
Shortage of logistics drivers

Sudden rises in logistics rates

Shortage of skilled manpower for interior installation tradesmen

Increase in inbound visitor demand

Shift from manufacturing to services



Outcome Provided Value to Society



Contribution to "daily culture of enrichment"



Contribution to improvement in quality of buildings



Contribution to strict construction schedules for interior installations



Contribution to reducing environmental impact



Sangetsu's New Growth Stage

Under our previous medium-term business plan, we enhanced our interior business structure, established new overseas subsidiaries and advanced M&A to expand geographically.

Koroseal Interior Products Holdings, Inc., the U.S. company we acquired in 2016, has been performing sluggishly for a while due to a number of factors, including increased manufacturing costs and delayed launches of new products. In 2019, however, two new facilities will be brought into operation at the Louisville plant to improve productivity and profitability. We are also starting to sell wallcoverings and fabrics from Vescom B.V., a leading European manufacturer, and are dispatching Sangetsu management executives to advance system enhancements.

In the meantime, in the Chinese and Southeast Asian markets, Sangetsu (Shanghai) Corporation has steadily expanded its flooring material transactions for medical facilities and eliminated its cumulative losses last year, the third year since its founding.

While proceeding with measures to enhance its products and sample books, Singapore-based Goodrich Global Holdings Pte., Ltd., which was acquired in fiscal 2017, is working to strengthen its sales systems through office integration and showroom sharing in Shanghai as well as personnel exchanges with Sangetsu (Shanghai).

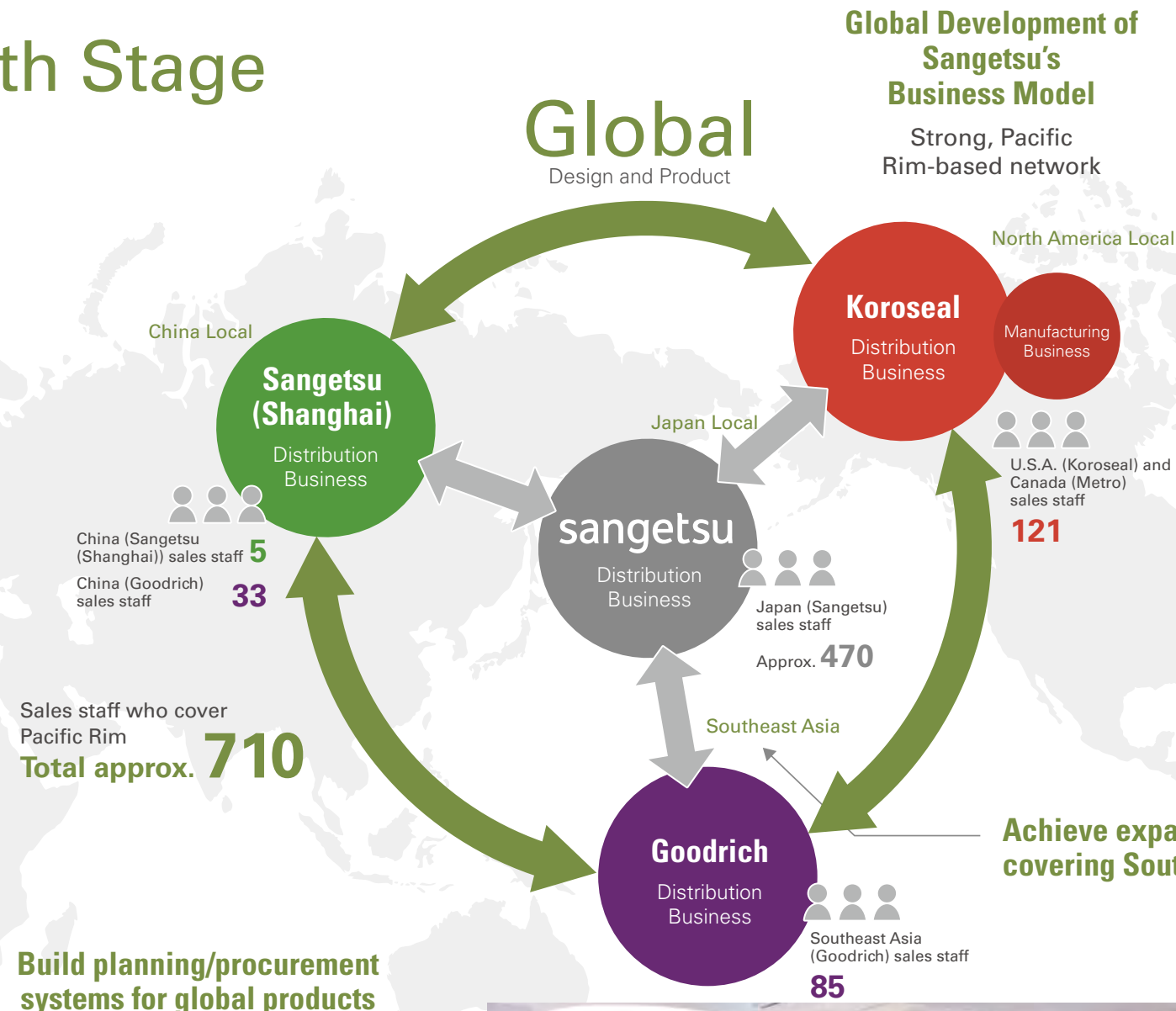


Distributing Interior Products with Domestic Business Know-how

Sangetsu (Shanghai) Corporation

Sangetsu (Shanghai) conducts sales activities for major Japanese and major Chinese real estate companies. In the previous fiscal year, in addition to its mainstay wallcoverings, the company expanded its flooring materials transactions and eliminated its cumulative losses. Under the encouragement of the Chinese government, the market for fully fitted homes (sale and delivery after the interiors and facilities have been installed) is advancing, and housing market demand is robust. Due to China's aging population, the number of hospitals and medical facilities is also increasing. Under such circumstances, Goodrich's Chinese subsidiary and Sangetsu (Shanghai)'s office will be integrated, and the Sangetsu Group will demonstrate synergies through mutual understanding and training. In November 2018, a showroom shared with Goodrich Shanghai was opened.

Global Design and Product



No. 1 Share of Non-residential Wall-coverings Market in North America

Koroseal Interior Products Holdings, Inc.

Koroseal has a 25% share of the North American market for non-residential wallcoverings. Together with Metro, its Canadian wallcovering sales subsidiary, the company is responsible for expanding the Sangetsu Group's worldwide sales and procurement capabilities.

Koroseal is currently acquiring the exclusive product sales rights in the United States for Vescom B.V., the leading manufacturer of wallcoverings and curtains for contracts in Europe. We are also proceeding with the integration of two factories located in Louisville and the introduction of new equipment, while supporting the expansion of facilities for the rapidly expanding sales of digitally printed wallpaper. We are also creating synergies by, for example, dispatching executives from Sangetsu and product development that utilizes Japanese materials.

Growth Strategies

Achieve expansion of sales network covering Southeast Asia



Goodrich Global SINCE 1983

Strong Partner with Largest Market Share in Southeast Asia

Goodrich Global Holdings Pte., Ltd.

Headquartered in Singapore and maintaining bases in 12 cities in six countries in Asia, Goodrich is the sales company that boasts the largest share of the Southeast Asian market for interior materials. Like Sangetsu managed as a fabless company with strengths in design specifications, Goodrich is currently working on the development of new sample books in collaboration with Sangetsu. In the years to come, the company will deepen its cooperation with the Sangetsu Group and work to strengthen its sales network in the Asian interior market, which is becoming increasingly globalized.



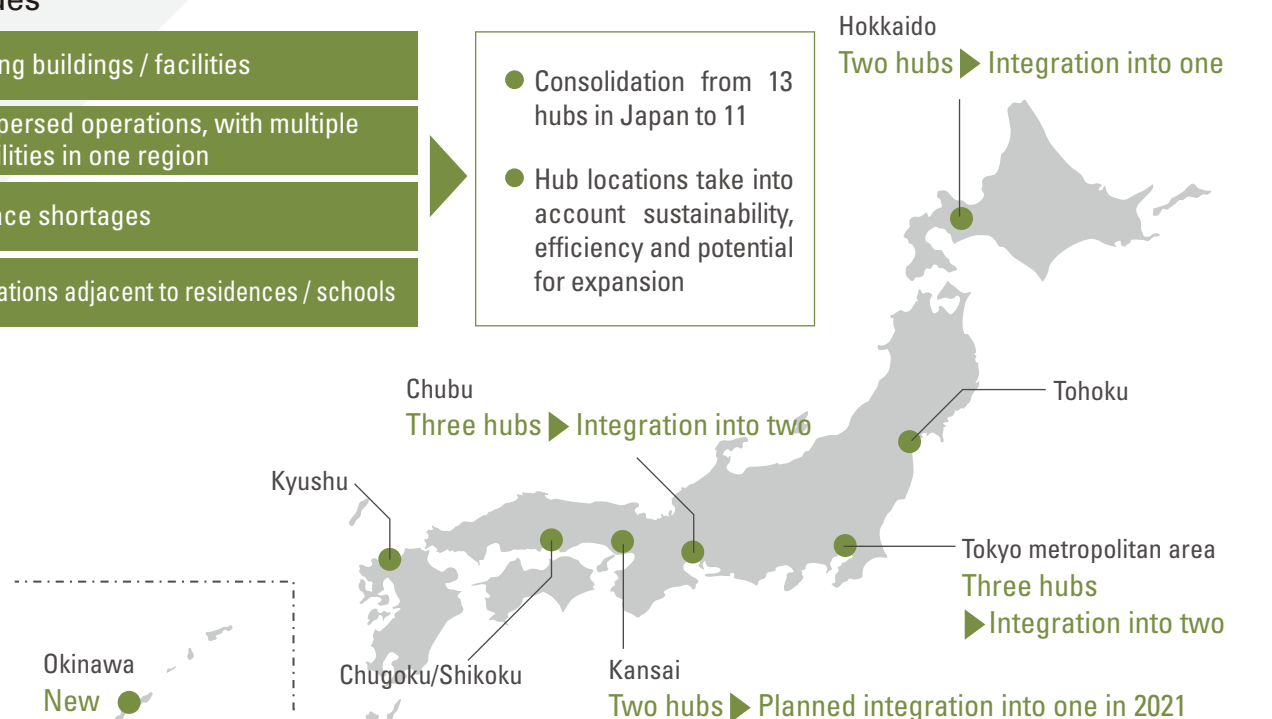
Logistics Revolution Aiming to Further Strengthen Our Logistics System

While aiming to realize a sustainable logistics system amid major environmental changes in the logistics industry—including worsening driver shortages, more stringent legal restrictions, and small lot deliveries—Sangetsu has been actively promoting the establishment and integration of its logistics facilities to further strengthen and improve efficiency. In August 2016, we newly established the Kita Kanto Logistics Center (LC), which was followed by the establishment and integration of our Chubu and Tokyo logistics centers in May 2017 and January 2018, respectively. Adding the new Hokkaido and Okinawa logistics centers in quick succession in January and February 2019, respectively, has brought Sangetsu's total warehouse area in Japan to around 218,200 m².

Issues

- Aging buildings / facilities
- Dispersed operations, with multiple facilities in one region
- Space shortages
- Locations adjacent to residences / schools

- Consolidation from 13 hubs in Japan to 11
- Hub locations take into account sustainability, efficiency and potential for expansion



Logistics center floor area Total in Japan: **218,200 m²**

Logistics Revolution

Hub Development

Tokyo Logistics Center (TLC)

Prior to TLC, operations were divided into multiple levels at two hubs in the Shinagawa and Katsushima areas. However, TLC has made it possible to perform one-floor operations, which has greatly improved product shipment efficiency.



Tokyo Logistics Center

The new system facilitates operational collaboration and situational awareness, and delivery times have been significantly shortened by improving the efficiency of packing and sorting operations through to delivery. Storage efficiency has been improved by the installation of new equipment, such as horizontal transport racks.

Hub Development

Future-oriented Labor-saving / Automation

In the Kansai region, we decided to establish a new, integrated Kansai Logistics Center. To provide a model example for maintaining and improving long-term logistics services, we will install new machines and equipment with labor-saving and automation as the theme. Upon its completion, the Kansai Logistics Center will increase our warehouse floor area in Japan to 236,000 m², equivalent to five Tokyo Domes.



Artist's impression of Kansai Logistics Center after completion

Human Resources

Development / Enhancement of Personnel in Charge of Logistics Operations

In fiscal 2017, we temporarily suspended the hiring of high school graduates, who can thrive at logistics hubs, and the outsourcing policy was changed from the perspectives of operational stability, certainty of delivery and expertise. Having established a Logistics Job Classification System that covers operations within logistics facilities to build a self-supporting system, we will resume the hiring of high school graduate employees from fiscal 2020, while working on the enhancement of in-house personnel.



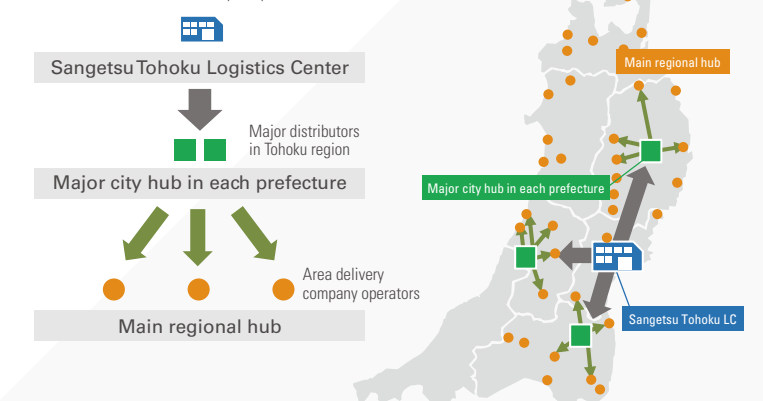
Delivery System

Rebuilding Our Delivery Network According to Each Region's Characteristics

Recognizing the difficulties in maintaining a delivery system by relying solely on multi-drop shipments, we are working to improve our own network in each region, the aim being a more sustainable and stable delivery system. In the Tohoku region, we deliver products from the Tohoku Logistics Center to the region's main hubs and from there built a system to deliver to smaller areas. This has led to a stable delivery system and enhanced competitiveness.

Tohoku Region Initiative Example

Logistics network established by cooperation and co-distribution with local delivery companies



Interior Segment (Japan)

Strengths

“Total Interior” proposals combining the three product domains of wallcoverings, flooring materials and fabrics

Market Environment

- Construction demand in response to urban development in Tokyo metropolitan area and increasing numbers of visitors to Japan
- Decline in new housing construction and shortage of construction workers due to falling population

Risks and Concerns

- Shortage and aging of skilled installation workers
- Optimal inventory and stable supply
- Sudden rises in logistics rates

Opportunities

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

Interior

Accurately anticipating ever-changing market trends, boldly challenging new business models

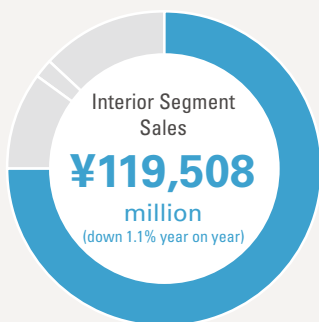
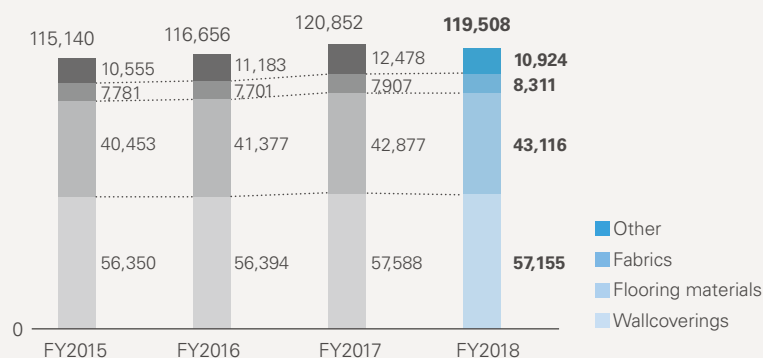


Yoshiaki Kaneko
Executive Officer
General Manager, Interior Business Unit

In fiscal 2018, the release date of the sample book was postponed owing to concerns about the stable supply of some manufacturers’ products in the mainstay wallcoverings business. As a result, this had a severe impact on sales in the first half of the year, but I do feel that this difficult decision—taken to maintain a “just-in-time” stable supply of products—led to stronger bonds of trust with our business partners.

With regard to market trends, if you subdivide the non-residential market there is light and shade in the business conditions in each field, but even under such circumstances, I really feel that the products we launched accurately anticipated the individual market needs. Particularly noteworthy results were achieved by hotels that captured inbound visitor demand and in the market for office renovations brought about by work-style reform. As strategies to further strengthen their product development capabilities and raise their awareness of overseas markets, we dispatch young employees to major overseas international exhibitions to promote product development that shows awareness of global trends. In March 2019, we launched the “WARDROBE sangetsu” E-Commerce website for fabric products and are also undertaking new challenges for online sales to end-users.

Interior Segment Sales by Business (Millions of yen)



Sales Ratio
74.5%

Interior Segment
Wallcovering Business
(Japan)

Increase synergies throughout supply chain, introduce higher value-added products to market

Business Highlights in Fiscal 2018

Against a backdrop of urban redevelopment centered on the Tokyo metropolitan area and ongoing demand ahead of the 2020 Tokyo Olympics and Paralympics, we recorded steady sales from the “FAITH” sample book, which featured fire-retardant wallcoverings for non-residential use. In addition, the product-specific sales of the Film Sales Department established in April 2018 were successful, and sales of “REATEC” self-adhesive decorative film and glass films increased. On the other hand, in addition to the decrease in new construction starts for rental houses, there was the impact of a temporary delay in the market penetration of the “Reserve 1000” and “Reform Selection” sample books released in June, thus sales of wallcoverings were ¥57,155 million (down 0.8% year on year).



Plans for Fiscal 2019

The industry as a whole remains beset with problems, such as the aging of skilled installation workers and craftsmen and the shortage of labor. Particularly as the end of fiscal 2019 will mark the peak of end-of-year demand and of 2020 Tokyo Olympics and Paralympics Games demand, it will be necessary to develop a system that can stably supply products, including for installations, even under such circumstances. From a medium- to long-term perspective, as part of strengthening our product development capabilities we will promote the development of new functional products that will lead to labor savings and simpler installation. To strengthen synergies in the wallcoverings business as a whole, we will also push ahead with the strengthening of collaborative systems throughout the supply chain and launch products with higher added value onto the market.

E Creation of Social Value Environmental



Toyo Bunko Museum Glass Film (Transparent thermal barrier / low reflectivity)

Many of our products have been adopted in the renewal of the Toyo Bunko Museum, a specialized library and research center for oriental studies. A transparent thermal barrier film, which exhibits a thermal barrier effect while maintaining interior brightness, was used for the front window of the Orient Hall. This is a highly functional product that can cut about 50% of solar radiation with little rise in glass temperature and thus can be expected to save energy throughout the year. Used on the Orient Cafe window surface, “Leclear” reduces reflection on the glass surface and contributes to the creation of a comfortable ambience.



Launch world-class products onto market with global procurement and sales strategies

Increase points of contact with customers and further refine product development capabilities

Business Highlights in Fiscal 2018

Due to the demand for office environment improvements, associated with the promotion of work-style reform, and inbound visitor demand, there was an increase in sales of DT/NT carpet tiles, a textile flooring material launched in October, in the office / hotel market. The expanding market for PVC floor tiles in the residential market and in commercial facilities, continued to drive sales.

In contrast, due to the shrinking market trends in the medical and welfare fields, flooring materials sales were ¥43,116 million (up 0.6% year on year).



Plans for Fiscal 2019

Since flooring materials have larger production facilities than those for wallcoverings, there is a need to find sales channels in larger markets. In addition to developing procurement and sales strategies that meet the common needs of the domestic and overseas markets, expanding overseas sales channels and strengthening business systems, we are planning to utilize synergies within the interior business and appoint overseas designers as we aim for the development of products that will be popular globally. We will also continue to reinforce the holding of appropriate inventory, the execution of stable supply and improve the efficiency of deliveries between bases. We will also further raise our market competitiveness by linking our product capabilities with delivery and sales capabilities.

Business Highlights in Fiscal 2018

The “STRINGS” sample book of curtains for the home and the “Simple Order” sample book, which pursues ease of selection with one price, continued to drive sales. Having established sales structures in four major cities—Tokyo, Osaka, Nagoya and Fukuoka—specialist curtain sales company Sangetsu Vosne Corporation strengthened its sales activities specializing in the residential field. As a result, sales of fabrics, which combine curtains and upholstery, totaled ¥8,311 million (up 5.1% year on year).



Plans for Fiscal 2019

In curtains, in addition to sales to existing interior construction stores and curtain shops, in the case of sales to major housing manufacturers, Sangetsu Vosne, our core sales company for curtains, will continue to promote high-added-value proposals and sales channel expansion. In upholstery, we will establish an Upholstery Business Section and work on a review of our product structure and the further refinement of our product development capabilities. In March 2019, taking advantage of our product development and proposal capabilities, we launched an E-Commerce website based on the concept of “lifestyle proposals through interiors.” In addition to working to expand our sales channels, we will utilize the E-Commerce website to develop products that meet needs by increasing our points of contact with more customers via the website.

E Creation of Social Value Environmental



Design: NIHON SEKKEI, INC.

Akasaka Intercity AIR (Carpet tiles)

Our “NT Series” carpet tiles were adopted for the high-grade Akasaka Intercity AIR building, which opened in Tokyo’s Akasaka / Toranomon area. Made from 100% solution dyed nylon yarn, this product features excellent stain resistance, durability and resilience as well as weather resistance. Having acquired “Eco Mark Certification” as a product that helps protect the environment, the carpet tiles contribute not only to beautiful design but also to the environmental performance of the building, such as extending the service life of the interior.

S Creation of Social Value Social



Design: NAGASAKI SEMPAKU SOBI CO., LTD.

OrangeFerry’s Orange Osaka (Upholstery, curtains)

Based on the concept of wanting to meet the needs of each its customers, the OrangeFerry company commissioned *Orange Osaka*, a ferry on which all the berths are private. As a moving maritime hotel, the ship is equipped with a large bath that allows users to enjoy the scenic views as well as with restaurants and lounges. A number of our products, including upholstery and curtains, are used on this luxury cruise ship, providing comfortable spaces for users due to their excellent designs and high-quality textures.

Exterior Business Segment (Japan)

Strengths

Comprehensive proposals incorporating products from diverse manufacturers

Creation of broad array of spaces based on excellent installation capability

Market Environment

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

Risks and Concerns

- Shortage and aging of skilled installation workers

Opportunities

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



Exterior

Overseas Business Segment

Strengths

"Cross-border specifications" for sharing designs internationally

Procurement and design capabilities based on local networks

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 and environmental regulations in each country
- Tax systems in each country
- Securing local human resources for management positions
- Global economic downturn

Opportunities

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



Global

Develop **high-value-added products** in expanding market

Strengthening collaboration with Group companies to become a truly **global company**

Business Highlights in Fiscal 2018

There was an increase in construction work for recovery from natural disasters such as typhoons, and significant increases in sales of fences and store rooms. In public properties, demand increased for reinforcement work for existing block fences and the switch to fences. In the fourth quarter, there was the added factor of last-minute demand ahead of price revisions from some manufacturers, and the market was brisk. Exterior business sales totaled ¥16,121 million (up 7.4% year on year), and operating income was ¥594 million (up 35.0% year on year).

Plans for Fiscal 2019

In fiscal 2019, demand for the reinforcement of existing block fences and the switch to fences will continue to increase, and last-minute demand ahead of the consumption tax rate hike in October and ongoing demand in the medium term are also expected. Basically, new construction demand is expected to decrease, but the expectations are that will be offset by demand for renovation and that the market will expand, with manufacturers focusing on expanding their ranges of renovation products. The Company will also raise awareness of its renovation products and promote sales expansion centering on products with high added value.

Business Highlights in Fiscal 2018

At Koroseal Interior Products Holdings, Inc., which is responsible for the North American market, digital printing grew mainly in the hotel and commercial markets. At Sangetsu (Shanghai) Corporation, which covers the Chinese market, wallcoverings were solid in the residential field, and flooring materials were solid in the medical, welfare and commercial fields. Goodrich Global Holdings Pte., Ltd., which is responsible for the Chinese and Southeast Asian markets, worked to create group synergies, such as the integration of offices with Sangetsu (Shanghai) and the opening of a shared showroom in Shanghai. As a result, the overseas business segment recorded sales of ¥20,920 million (up 22.0% year on year), but an operating loss of ¥960 million.

Plans for Fiscal 2019

In the North American market, we will strengthen cooperation with overseas business entities, such as by dispatching Sangetsu executives to Koroseal, and build a system with a view to demonstrating synergies.

Based on close cooperation with Group companies, we will focus on the development and expansion of sales channels centered on our mainstay wallcoverings. In the Chinese and Southeast Asian markets, we are continuing to make ground in selling the full range not only of our wallcoverings but also flooring materials and fabrics. We will further enhance the local presence of the Sangetsu brand and further develop the markets.

Message from the Head of the Exterior Business



Hirofumi Takeda
President
Sungreen Co., Ltd.

Taking a great leap forward with diversity as a weapon against the ever-changing market

The market environment is characterized by stagnation in new housing starts and a slowdown that originated from a recent review of rental housing loans. There are also concerns about the impact in the years to come from the forecast decline in the population. However, with regard to trends in the industry as a whole over the next one or two years, in addition to disaster recovery-related demand, we will see steady progress due to the consumption tax rate hike and infrastructure development plans. Under these circumstances, I believe that we can make the variety that the exterior business possesses our weapon as we take a further great leap forward and address the creation of synergies as a member of the Sangetsu Group.



Sales Ratio

10.1%



Shigeyuki Hasegawa
General Manager of Overseas
Business Division

Taking on challenges of overseas markets to advance to new stage

Faced with the prospect of a shrinking domestic market, Sangetsu has promoted the construction of a Pacific Rim global entity that surrounds the Pacific Ocean since 2016 to discover paths into overseas markets. The period of patience, such as capital investment and establishment of infrastructure, will continue, but we expect to enter a new stage of development from fiscal 2019. Although there are differences in language and senses of value, I feel that the Sangetsu business model cultivated in Japan for many years can be utilized overseas. We will further promote our global strategy by improving our profit structure and strengthening product development capabilities.



Sales Ratio

13.0%

CSR at Sangetsu

A Message from the Director Responsible for CSR



Kenji Ito

Director responsible for CSR

We Are Promoting CSR as a Foundation for Growth.

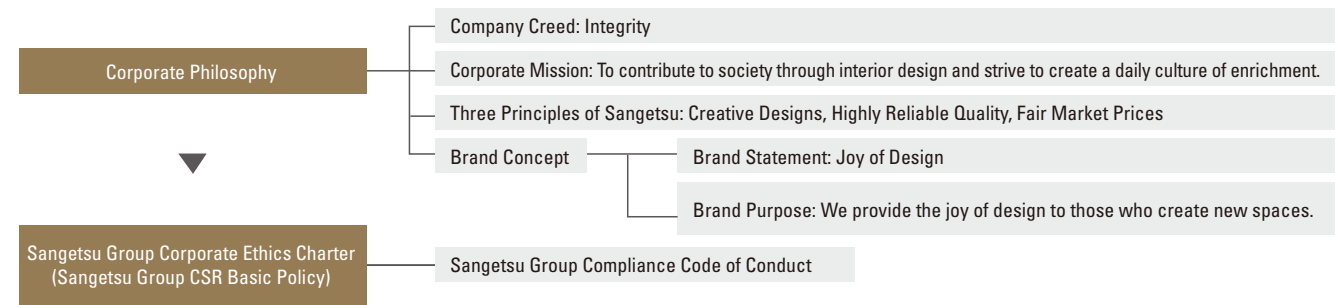
By comparison with the situation in 2014 when Sangetsu began its Third Founding Phase, we have achieved steady progress in terms of the dissemination of CSR awareness throughout the Company and in the implementation of CSR-related measures. On the environmental side, because Sangetsu is not engaged in manufacturing operations, we do not directly emit significant quantities of greenhouse gases. Nevertheless, we recognize our corporate responsibility to take steps to help bring about a post-carbon future, and we implement management in related areas, for example in regard to trends in the supply chain.

In regard to waste, we are constantly exploring new ways to reduce our environmental footprint, for example by implementing measures to actively promote recycling.

With respect to improving the workplace environment, besides continuing to implement diversity initiatives, including measures to promote women's participation and advancement, regarding the issue of health management promotion we have set ourselves the goal of further expanding healthcare provision for employees, and have launched a new Health Insurance Association. I believe that we can use this as an opportunity to implement various related measures.

Corporate governance is an area that we have been proactively addressing for many years now, and our corporate governance initiatives have won praise from outside the Company. To ensure that we continue to maintain full compliance with Japan's Corporate Governance Code, we are making improvements to address supplementary items, etc., and have adopted a proactive stance toward disclosure.

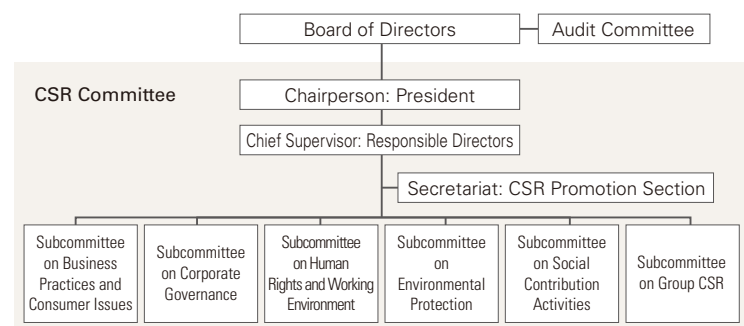
A key issue for us in the future will be building the foundations needed to support continued globalization of our operations. As I see it, we will need to implement measures to maintain compliance with new global standards initiatives, such as the United Nations SDGs, and to realize appropriate management of Group companies outside Japan, etc. In the future, we will be implementing CSR measures in a manner which ensures that Sangetsu continues to be valued by society.



CSR Management System

In order to fulfill our corporate social responsibility, in April 2016 Sangetsu established a new CSR Promotion Section, and in April 2017 a CSR Committee was established to oversee CSR activity across the entire Company, with the Company President acting as Committee Chairperson. Recognizing the need to respond appropriately to the various international guidelines relating to CSR, five subcommittees have been established within the CSR Committee, which undertake practical CSR management and implement measures aimed at addressing social issues.

In addition, a Subcommittee on Group CSR was established in April 2019 to implement CSR activities throughout the Sangetsu Group.



Sangetsu's ESG and CSR Policies as Outlined in the Medium-Term Business Plan (2017-2019) "PLG 2019"

CSR Activity Topics and Related SDGs

CSR Activity Topics	ESG and CSR Policies as Outlined in the Medium-Term Business Plan (2017-2019) "PLG 2019"	Targets and Initiatives for Fiscal 2019	Related SDGs
Corporate Governance	Maintain and enhance the transparency of corporate governance and practice through compliance	<ul style="list-style-type: none"> Maintain full compliance with the Corporate Governance Code Hold corporate presentations for shareholders Engage in dialog with institutional investors and hold dialog events Hold distributor meetings Hold meetings for dialog between the President and employees Implement a Board of Directors self-assessment questionnaire survey for Board members Publish a monthly compliance newsletter Implement compliance-related training Ensure readiness for the application of J-SOX compliance requirements to subsidiaries Ensure that the Sangetsu Group has no legal violations Formulate a corruption prevention strategy in relation to bribery etc., for employees posted to overseas assignments 	
Human Rights and Working Environment	Support the careers of diverse employees at each Group company and provide jobs for those who are socially disadvantaged	<ul style="list-style-type: none"> Formulate and disclose a human rights policy Actively recruit overseas talent Promote health management Build and maintain a first-class working environment Expand job opportunities for persons with disabilities Appoint and support female managers 	
Business Practices and Consumer Issues	Promote social responsibility in the supply chain	<ul style="list-style-type: none"> Implement questionnaire surveys for suppliers Use visits to suppliers to verify the pace of improvements 	
Social Contribution Activities	Expand social contribution activities led by employees	<ul style="list-style-type: none"> Provide support for the refurbishment of child welfare facilities Expand the range of volunteering activities available so that more employees can participate Provide ongoing support for external organizations and projects that we collaborate with Revitalize the activities of the Sangetsu Volunteer Club (SVC) Enhance awareness of, and revitalize, the Company's matching gift program 	
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	<ul style="list-style-type: none"> Reduce Scope 1 and 2 greenhouse gas emissions by 35% (compared to fiscal 2010) Reduce energy usage by 33% (compared to fiscal 2010) Reduce total waste generated by 15% (compared to fiscal 2010) Increase the unwanted objects recycling rate by 70% Implement Scope 3 disclosure Safeguard biodiversity and guard against pollution caused by chemical substances Help to safeguard the global environment through our products Promote environmentally-friendly "green" procurement 	

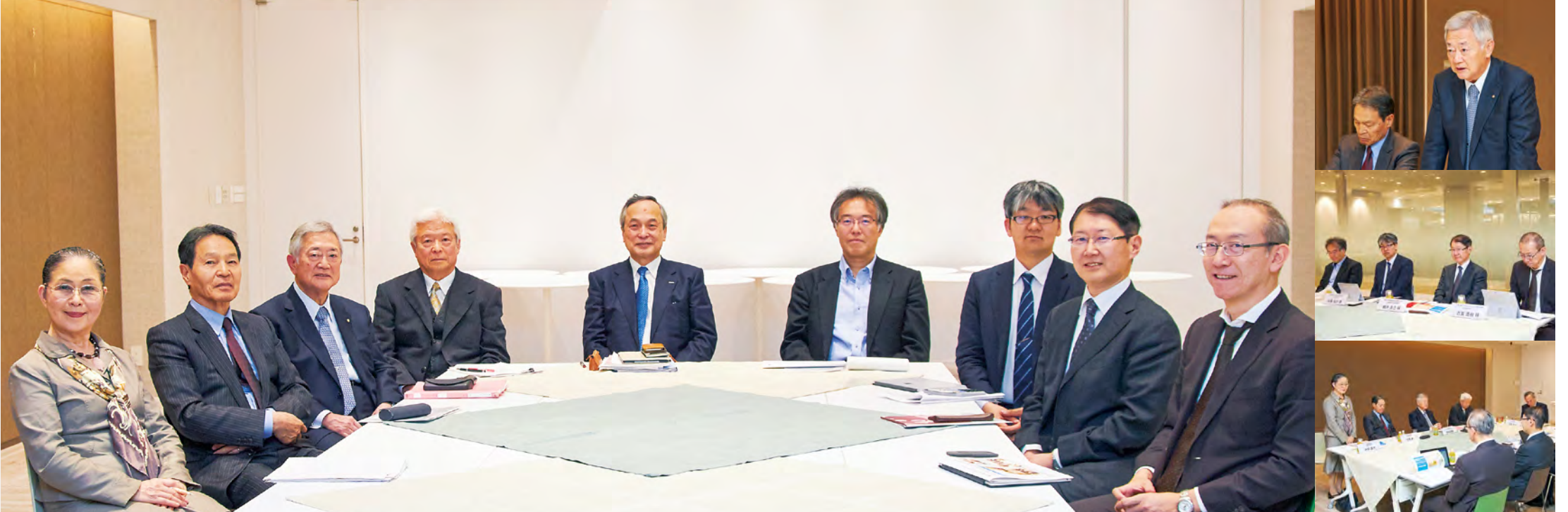
Contribution to the SDGs

In relation to the Sustainable Development Goals (SDGs), which were adopted by the United Nations General Assembly in 2015, Sangetsu—whose mission is to create a daily culture of enrichment—aims to contribute toward the realization of the SDGs, and particularly those SDGs that are closely related to our business activities, such as Goal 11: Sustainable cities and communities.



Dialog between Institutional Investors and Audit Committee Members

Sangetsu Corporation proactively canvasses external views in order to put in place and maintain a governance system characterized by a high degree of transparency. As an example of one of the opportunities for obtaining the views of outside parties, in September 2018, and again in March 2019, Sangetsu held meetings between institutional investors and Audit Committee members. The information presented here is based mainly on the discussions at the second of these meetings.



Aiming to Enhance Corporate Value and Realize a More Effective Governance System

Strengthening Governance

What types of changes in governance have resulted from the establishment of the Audit Committee?

Mr. Kunihiro Nasu: Sangetsu Corporation was able to achieve growth thanks to the outstanding management skills and foresight of its founding President, the late Mr. Yoshiaki Hibi. However, both employees and directors became too reliant on Mr. Hibi's leadership, and it seems that there may have been occasions when this prevented employees and directors from coming up with their own proposals and ideas. Since Mr. Shosuke Yasuda took over as President, there has been a strengthening of the supervisory function, and the Board of Directors' discussions have become more lively. Items presented for discussion by the Board are now discussed several times, and not approved until a consensus has been reached, which makes for a productive tension in Board meetings.

Mr. Masatoshi Hatori: In the case of motions that are difficult to decide on, such as those concerning M&A activity, it is not always possible to reach consensus immediately. However, even in cases where, for example, eight directors are in favor of the motion and two are opposed, the decision isn't just rammed through by majority vote. I suspect it may be slightly irritating for the President, Mr. Yasuda, who normally

likes to get things done quickly, but I get the strong impression that he wants management policy to be decided on the basis of discussion that everyone can accept.

Ms. Michiyo Hamada: President Yasuda made the bold decision to set up the Audit Committee so that "I myself will be supervised." I think it is fair to say that, because the process of reforming corporate governance was so well matched to the situation that the Company found itself in at the time, of the companies in Japan that have adopted the Audit Committee system, Sangetsu Corporation has been particularly successful in making the system work effectively.

The Process of Formulating the Company's Plans

How do external directors participate in relation to the motivation and commitment needed for the Company to realize its plans?

Mr. Tamotsu Kokado: As an external director, I tend to attach the most importance to whether the Company is getting the balance right—in terms of management resources and growth—in relation to the Medium-term Business Plan, overseas expansion, and particularly strategic decisions that will pave the way for the Company's future development. Of course, it is important for the Company to challenge itself; as far as governance is concerned,

I would say that there are no problems to speak of. If, as individuals, we have differing views about something, then we discuss it, but of course I realize that the final decision has to be made by the company's executive officers.

In fiscal 2018, earnings were below the initial projection. Do you think that perhaps more rigorous cost control is needed?

Kokado: All of the executive officers, including President Yasuda, are very cost-minded, but the current situation is that their efforts have not yet started to bear fruit. Sangetsu was around 10–20 years behind the times in terms of its logistics and systems. For the time being, the Company is still laboring under the depreciation burden from the investments that needed to be made in order to rectify this situation.

Hatori: Nevertheless, if you look at Sangetsu's competitors, many of them have not yet started to take the kind of steps that Sangetsu has been taking. This means that, although Sangetsu has posted high levels of selling, general and administrative (SG&A) expenses over the past few years, once the Company starts to recoup its investment, it should be in a very advantageous position in terms of its competitiveness vis-à-vis rival firms.

The Domestic Market

Given that the domestic housing market in Japan is contracting, how is Sangetsu planning to develop its domestic business?

Hatori: By comparison with the market for residential buildings, demand for rebuilding and renovation of non-residential buildings is actually growing quite strongly. Although it is true to say that competition in this segment is also quite intense because firms in other industries such as healthcare firms and care home operators have been moving into this market, Sangetsu has more in-depth knowhow than rival firms in terms of how its installation operations are structured. Sangetsu is currently in the process of strengthening itself so as to be able to secure a share of new markets.

Nasu: Sangetsu does more than just sell materials; through its collaboration with affiliate companies, it is able to provide an integrated total solution that covers every aspect of materials provision and installation work. Furthermore, as one of the leading companies in the industry, it is able to negotiate to secure fair prices and to get buyers to shoulder the burden of rapidly rising delivery costs.

Overseas Operations

It seems as though the profitability of Sangetsu's overseas subsidiaries is lower than it appeared when Sangetsu first acquired the companies. What is the reason for that? And what kind of

strategies is Sangetsu thinking about adopting to remedy the situation?

Kokado: Sangetsu's biggest acquisition has been U.S. company Koroseal. I think the biggest issue there has been building up the production system. It was fairly obvious that the production line was not very efficient by comparison with Japanese production lines, and Sangetsu is currently engaged in transforming it to create a Japanese-style production line.

Hatori: Regarding Koroseal's production efficiency, the level of efficiency at Koroseal is actually not bad by American standards. However, when measured by Japanese standards, it is unsatisfactory.

With Sangetsu's involvement, there should be considerable potential for improvement.

Nasu: Sangetsu is also working to realize more effective communication and mutual understanding with Koroseal regarding management matters.

Mr. Takashi Tajima: More specifically, Sangetsu is putting in place a system that allows effective follow-up on the managerial side, for example by sending a manager from Sangetsu out to the U.S. to act as an assistant to Koroseal's President, in the role of Executive Vice President. I believe that measures like this will start to bear fruit soon.

Attendees

Sangetsu Corporation



Kunihiro Nasu
Outside Director, Chairperson of Audit Committee
Attorney, Nasu Iwasaki Horitsu Jimusho
(Former Vice President of Japan Federation of Bar Associations)



Michiyo Hamada
Outside Director, Member of Audit Committee
Professor Emeritus of Nagoya University
(Former Commissioner of Japan Fair Trade Commission)



Tamotsu Kokado
Former Outside Director, Member of Audit Committee
Advisor of MUFG Bank, Ltd.
(Former Deputy President of MUFG Bank, Ltd.)



Takashi Tajima
Former Director, Member of Audit Committee
Former Manager of Secretary Section



Masatoshi Hatori
Outside Director, Member of Audit Committee
Former Executive Vice President and Representative Director of Kaneka Corporation

Institutional Investors

Yusuke Naito
Ichiyoshi Research Institute Inc.

Keisuke Yasuda
Asset Management One Co., Ltd.

Katsumi Hosoi
Tokai Tokyo Research Institute Co., Ltd.

Naoki Koga
Sumitomo Mitsui DS Asset Management Company, Limited

Corporate Governance

Our Basic Approach to Corporate Governance

Sangetsu's Company Creed is "Integrity," and we aim to enhance corporate value by building good relationships with all stakeholders and developing these relationships steadily over the long term.

We realize that, to achieve this goal, we need to position the strengthening of corporate governance—with the transparency, speed and efficiency of management as its foundations—as a key management issue.

Sangetsu has transitioned to become a company with an Audit Committee, with the aim of strengthening the auditing and supervisory functions with respect to the Board of Directors by having external directors participate in management.

We are striving to achieve further enhancement of corporate value on the basis of this governance system.

Corporate Governance System

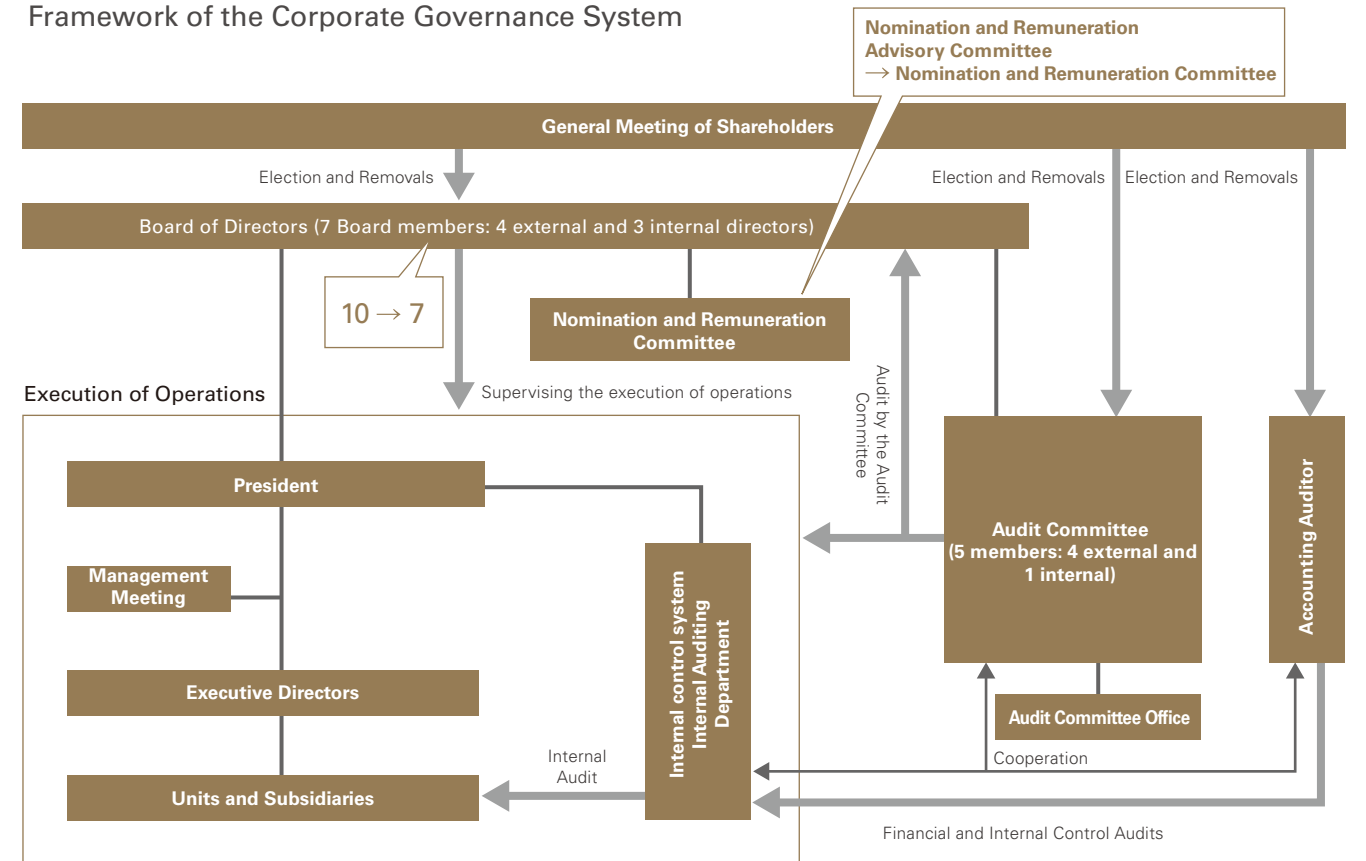
Starting from June 2019, Sangetsu has strengthened its corporate governance system by enhancing the oversight function with respect to the Board of Directors through the appointment of two executive directors and five Audit Committee members (of which four are independent external directors).

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 en-

sure 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.

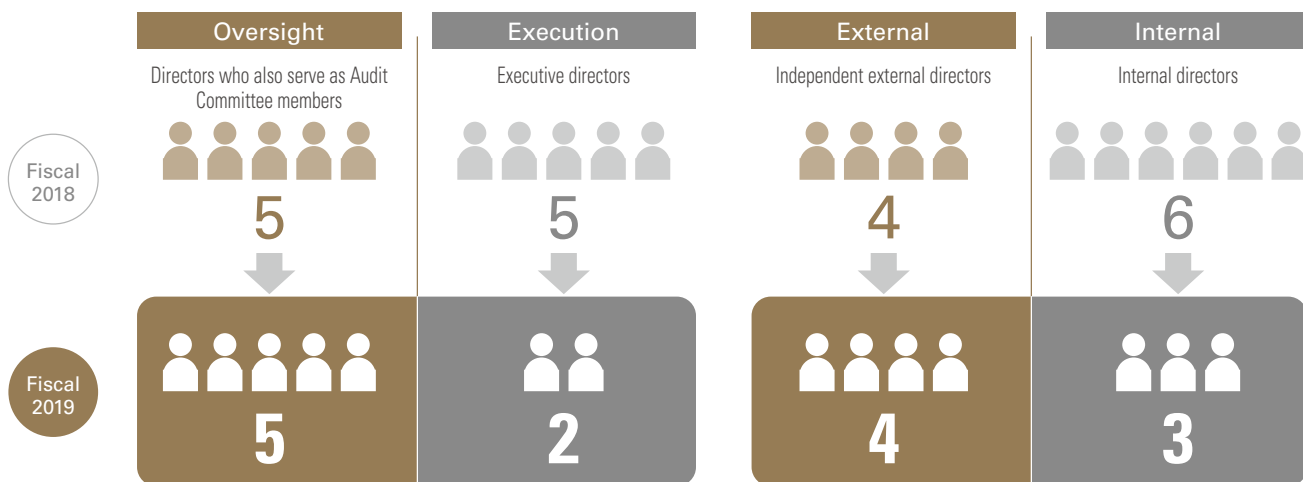
Framework of the Corporate Governance System



Key Areas Where We Are Working to Strengthen Governance

Separation of the supervisory and executive functions in management

In order to strengthen the independent, objective oversight of the Board of Directors, Sangetsu has adopted a new corporate governance system and management execution system that separates the supervisory and executive functions of management.



Board of Directors

The Company's Board of Directors consists of four external directors and three internal directors and meets once a month to share timely and appropriate information on corporate management and to draw up management strategies. 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

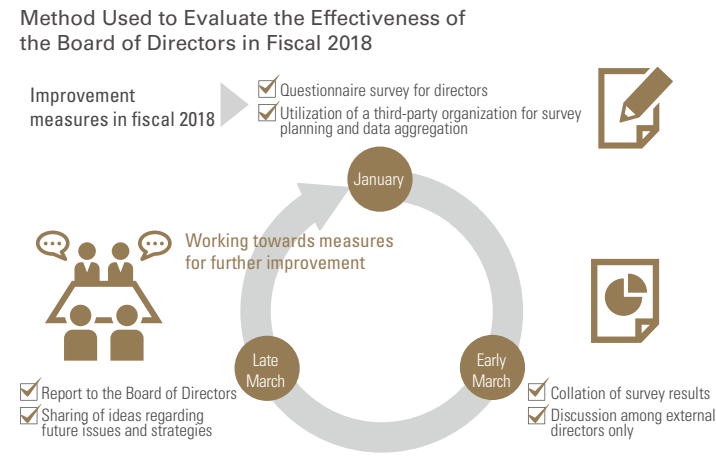
The Audit Committee consists of four external directors and one full-time internal director.

While the Audit Committee relies mainly on audits utilizing the internal control system, members also conduct direct on-site 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 executive directors and executive officers in an effort to enhance governance.

Assessing the Effectiveness of 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.

A questionnaire survey was administered to all directors in fiscal 2018 (implemented between December 2018 and January 2019). After approval by the Board of Directors, the assessment results were disclosed in the Company's Corporate Governance Report.



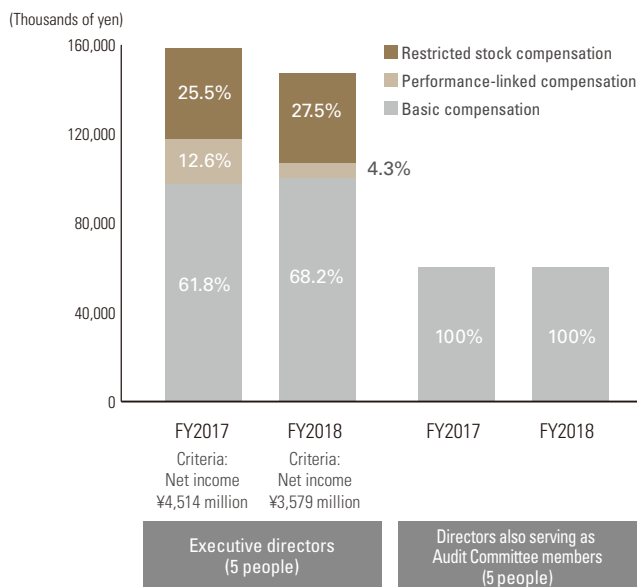
Main assessment items and results

- The composition of the Board of Directors was generally well-balanced, but some adjustments were needed to achieve a better gender balance and a more international composition.
- The scope of delegation of authority to the representative director was clearly specified, and appropriate.
- The Board of Directors was able to engage in risk-taking and to implement speedy, bold decision-making in order to enhance the Company's corporate value.
- The Board of Directors engaged in free, open and constructive discussion, and the quality of discussion of individual motions was high.
- Although, overall, efforts had been made to improve the method of operation of the Board of Directors compared to the previous year, there was still room for further improvement.
- There were opportunities to hear the views of stakeholders, and an effort was being made to report such views fully to the Board of Directors.

Policy for Determining the Remuneration of Directors

In December 2018, Sangetsu switched over from having a Nomination and Remuneration Advisory Committee to a Nomination and Remuneration Committee, chaired by an external director, thereby helping to enhance the transparency and objectivity of matters relating to directors' appointment and remuneration.

In fiscal 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 performance-linked compensation structure comprising (1) basic compensation, (2) performance-linked compensation (bonuses), and (3) restricted stock, which provides clear incentives for the further sharing of value with shareholders and for the continued enhancement of corporate value. Meanwhile, directors who are members of the Audit Committee receive only basic compensation that is not linked to performance.



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.

- 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'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 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 ¥1 million 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
- an individual for whom none of the above-mentioned (1) to (7) applied at any point in the past three years.

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.

Expertise and Activity of Audit Committee Members Who Are Also External Directors

Name	Classification	Area of expertise					Attendance at Board Meetings in Fiscal 2018
		Corporate management	Overseas	Financial and accounting	Legal	Administrative	
Kunihiro Nasu	Lawyer				●		100% attendance rate (13 out of 13 Board Meetings)
Masatoshi Hatori	Previously Worked at Another Company	●		●			100% attendance rate (13 out of 13 Board Meetings)
Michiyo Hamada	Academic				●	●	100% attendance rate (13 out of 13 Board Meetings)
Kenichi Udagawa	Previously Worked at Another Company	●	●	●			—

Board of Directors



7 6 4 1 3 5 2

Directors

1 Shosuke Yasuda

Representative Director, President and CEO

- April 2004 Executive Vice President and Division COO, Functional Chemicals Division, Mitsubishi Corporation
- April 2008 Executive Vice President and General Manager of Chubu Branch, Mitsubishi Corporation
- April 2012 Executive Vice President, Mitsubishi Corporation
- June 2012 Director, the Company
- April 2014 Representative Director and President
- July 2014 Representative Director and President, General Manager of the Interior Division
- April 2016 Representative Director, President and CEO, and General Manager of the Interior Division
- April 2019 Representative Director, President and CEO (To present)

(Significant concurrent positions)
Chairman of the Board of Directors of Koroseal Interior Products Holdings, Inc.
Director of Goodrich Global Holdings Pte., Ltd.

Reasons for nomination as candidate for Director

After taking office as Representative Director and President of the Company in 2014, Mr. Shosuke Yasuda led the transition of the Company from over 60 years of management centered on the founding family and achieved the quantitative target of consolidated net income of ¥6,300 million stipulated in the Medium-Term Business Plan, which he played a central role in formulating.

Subsequently, the Company is now entering the third and final year of the Medium-Term Business Plan announced in 2017. Amid this, the Company has been strengthening functions through methods such as reforming sales structure and redistributing logistics centers, advancing a business strategy for realizing sustainable growth, and expanding business geographically by acquiring overseas companies, establishing local subsidiaries, and the like. The Company is also implementing capital policy such as a financial policy to improve capital efficiency, a shareholder return policy that aims to maintain the total return ratio on the consolidated basis above 100% over three years, and a capital allocation policy. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director.

Attendance to Meetings of the Board of Directors held in FY2018: 13/13

2 Kenji Ito

Director, Executive Officer in charge of General Affairs, Human Resources, Management Audit and Information System and General Manager of the President's Office

- June 2001 General Manager of Legal Department, TOYOTA INDUSTRIES CORPORATION
- June 2006 General Manager of Safety and Health, and Environment Departments, TOYOTA INDUSTRIES CORPORATION
- January 2008 General Manager of Safety and Health Promotion Department, TOYOTA INDUSTRIES CORPORATION
- March 2009 Standing Director of TOYOTA INDUSTRIES HEALTH INSURANCE SOCIETY (Secondment)
- July 2010 General Manager of Audit & Supervisory Board Office, TOYOTA INDUSTRIES CORPORATION
- July 2014 General Manager of the Management Audit Department, the Company
- April 2016 Executive Officer in charge of General Affairs and Human Resources and General Manager of the Management Audit Department
- June 2016 Director, Executive Officer in charge of General Affairs and Human Resources and General Manager of the Management Audit Department
- April 2017 Director, Executive Officer in charge of General Affairs, Human Resources, Management Audit and Information System and General Manager of the President's Office (To present)

(Significant concurrent position)
Auditor of Sangetsu (Shanghai) Corporation

Reasons for nomination as candidate for Director

Having worked for many years on legal affairs and auditing in his previous positions, Mr. Kenji Ito has abundant knowledge and experience. Since joining the Company, he has engaged in promoting compliance and corporate governance reform as General Manager of the Management Audit Department. Since 2017, in addition to his efforts in legal affairs and auditing, as the Director in charge of department of management including General Affairs, Human Resources and Information System, he has been supporting the enhancement and expansion of the Company's business foundation, including by promoting ESG and CSR and building a new core system. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director.

Attendance to Meetings of the Board of Directors held in FY2018: 13/13

3 Kunihiro Nasu

Outside Director (Audit Committee Member)

- April 1969 Registered with the Nagoya Bar Association (current Aichi Bar Association) (To present)
- October 1975 Established Nasu Kunihiro Horitsu Jimusho (To present)
- April 1999 Chairperson of the Nagoya Bar Association
- July 2003 Chairperson of the Aichi Prefectural Personnel Commission
- June 2007 Audit & Supervisory Board Member of the Company
- June 2015 Outside Director (Audit Committee Member) of the Company (To present)

(Significant concurrent positions)
Attorney
Outside Audit and Supervisory Board Member of Central Japan Railway Company

Reasons for nomination as candidate for Outside Director serving as an Audit Committee Member

Mr. Kunihiro Nasu possesses a wealth of experience and keen specialist insight as an attorney. In addition to actively providing opinions on corporate law at Board of Directors' meetings and the like, he also plays a role in the supervision and auditing of management. The Company has deemed that Mr. Nasu's insight can continue to be utilized in company management and requests that he be elected as an Outside Director serving as an Audit Committee Member.

Attendance to Meetings of the Board of Directors held in FY2018: 13/13

Attendance to Meetings of the Audit Committee Members held in FY2018: 12/12

4 Masatoshi Hatori

Outside Director (Audit Committee Member)

- June 2003 Director of Kanagafuchi Chemical Industry Company Limited (current KANEKA CORPORATION)
- June 2005 Executive Director of KANEKA CORPORATION
- June 2006 Director and Managing Executive Officer of KANEKA CORPORATION
- April 2008 Director and Senior Managing Executive Officer of KANEKA CORPORATION
- June 2010 Executive Vice President and Representative Director of KANEKA CORPORATION
- June 2014 Special Advisor of KANEKA CORPORATION
- June 2015 Outside Director (Audit Committee Member) of the Company (To present)

Reasons for nomination as candidate for Outside Director serving as an Audit Committee Member

Mr. Masatoshi Hatori possesses a wealth of experience and keen specialist insight related to not only various materials businesses, but also processing business as an individual with experience as a representative director of a listed company (materials manufacturer). In addition to actively providing opinions on corporate management and opinions regarding materials in products handled by the Company at Board of Directors' meetings and the like, he also plays a role in the supervision and auditing of management. The Company has deemed that Mr. Hatori's insight can continue to be utilized in company management and requests that he be elected as an Outside Director serving as an Audit Committee Member.

Attendance to Meetings of the Board of Directors held in FY2018: 13/13

Attendance to Meetings of the Audit Committee Members held in FY2018: 12/12

5 Michiyo Hamada

Outside Director (Audit Committee Member)

- April 1985 Law professor at Nagoya University
- April 1999 Professor of Nagoya University Graduate School of Law
- April 2008 President of Nagoya University School of Law
- April 2009 Professor emeritus of Nagoya University (To present)
- June 2015 Commissioner of Japan Fair Trade Commission
- June 2015 Outside Director (Audit Committee Member) of the Company (To present)

(Significant concurrent positions)
Outside Board Member of Aisin Seiki Co., Ltd.
Outside Audit & Supervisory Board Member of Toho Gas Co., Ltd.
Outside Auditor of the Metropolitan Expressway Company Limited

Reasons for nomination as candidate for Outside Director serving as an Audit Committee Member

Ms. Michiyo Hamada possesses a wealth of experience and keen specialist insight as a scholar of corporate law and ex-commissioner of the Japan Fair Trade Commission. In addition to actively providing opinions on corporate law and opinions regarding the Company's efforts to promote women's participation and advancement in the workplace at Board of Directors' meetings and the like, she also plays a role in the supervision and auditing of management. The Company has deemed that Ms. Hamada's insight can continue to be utilized in company management and requests that she be elected as an Outside Director serving as an Audit Committee Member.

Attendance to Meetings of the Board of Directors held in FY2018: 13/13

Attendance to Meetings of the Audit Committee Members held in FY2018: 12/12

6 Kenichi Udagawa

Outside Director (Audit Committee Member)

- June 2004 Director of Tosoh Corporation
- June 2008 Managing Director of Tosoh Corporation
- June 2009 President of Tosoh Corporation
- March 2016 Director and Corporate Adviser of Tosoh Corporation
- June 2018 Honorary Adviser of Tosoh Corporation
- June 2019 Retiring Honorary Adviser of Tosoh Corporation

(Significant concurrent position)
Outside Director of The Yamaguchi Bank, Ltd.

Reasons for nomination as candidate for Outside Director serving as an Audit Committee Member

Mr. Kenichi Udagawa has contributed to the establishment and expansion of various overseas businesses in a listed company. In addition, he possesses a wealth of experience and keen specialist insight as an individual with experience as a representative director. The Company has deemed that Mr. Udagawa's insight on overall corporate management and overseas business operation can be utilized in corporate management at the Board of Directors' meetings and the like, and thereby requests that he be elected as an Outside Director serving as Audit Committee Member.

7 Shuji Sasaki

Director (Audit Committee Member)

- March 1979 Joined the Company
- February 2012 General Manager of Okayama Branch
- June 2014 Director and General Manager of Okayama Branch
- July 2014 Director and General Manager of the Flooring Division and Marketing Department
- April 2015 Director in charge of the Marketing and General Manager of the Flooring Division
- April 2016 Director, Managing Executive Officer and General Manager of the Sales Division
- April 2019 Director (To present)

Reasons for nomination as candidate for Director serving as an Audit Committee Member

Mr. Shuji Sasaki has worked in a wide range of areas as General Manager of the Marketing Department, Flooring Division, and Sales Division. He is well versed in the domestic interior industry and the Company's circumstances, and has abundant practical knowledge and experience. In regard to the gathering of information on daily operations within the Company and listening to regular business reports from the departments executing business at Audit Committee meetings, and his activities as Audit Committee Member (including individual reports, conversations with the departments, information regarding employees and inside the Company, and dialogue with shareholders outside the Company and investors) the Company has deemed that Mr. Shuji Sasaki is capable of elevating the functions of supervision and auditing of the Company's management to even higher levels, and hereby requests that he be elected as an Outside Director serving as Audit Committee Member. If elected, he will fulfill the role of Full-time Audit Committee Member.

Attendance to Meetings of the Board of Directors held in FY2018: 13/13

* He attended Meetings of the Board of Directors held in FY2018 as an executive officer.

Executive Officers

- Shosuke Yasuda**
President and CEO
- Yasutomu Yoshikawa**
Senior Executive Officer, Sales Business Unit
- Kenji Ito**
Executive Officer, In charge of Administrative Unit
- Yoshiaki Kaneko**
Executive Officer, General Manager of Interior Business Unit

- Yosuke Mine**
Executive Officer, General Manager of Logistics Division
- Taro Shibagaki**
Executive Officer, General Manager of Non-residential Business Department
- Takashi Morita**
Senior General Manager, President of Sangetsu Vosne Corporation
- Satoru Miyata**
Senior General Manager, Chief Branch Manager of Kyushu Branch

- Kazuhiro Harada**
Senior General Manager, General Manager of Residential Business Department
- Hidenori Masuda**
Senior General Manager, General Manager of Management Audit Division
- Mikio Otsuka**
Senior General Manager, Chief Branch Manager of Kansai Branch
- Hirohisa Nakagawa**
Senior General Manager, Chief Branch Manager of Tokyo Branch

Compliance

Our Approach to Compliance

Sangetsu has positioned compliance as a vitally important aspect of our corporate operations, and we are working to strengthen our compliance measures. Whenever a compliance-related issue emerges, we take prompt corrective action. We strive to make effective use of the reporting (whistleblowing) system, etc., to identify any problems, issues or obstacles within the Company that may hinder the thorough performance of compliance, and we work diligently on a Company-wide basis to implement improvements.

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 comprehensive system of rules, laws, regulations and corporate guidelines to create an open environment. We are also working to establish and improve compliance systems throughout the Sangetsu Group as a whole, including Sangetsu subsidiaries within Japan and the Group's overseas business entities.

Compliance Helplines

Sangetsu has set up helplines for internal reporting and consultation, which can be used by all employees regardless of employment status, including employees of Sangetsu subsidiaries within Japan. Besides these internal helplines, Sangetsu has also established external contact windows, providing the opportunity for consultation with members of the Audit Committee or with external attorneys. In fiscal 2018, we reviewed the existing system and revised our Compliance and Reporting Rules. We strive to ensure advance prevention of compliance issues, harassment, or other workplace behavior or human rights issues that could cause employees unease or worry, and we endeavor to ensure that violations are discovered at an early stage, and to make any necessary improvements. Whistleblowers can communicate or consult anonymously, and besides respecting whistleblowers' privacy, we have drawn up internal rules aimed at ensuring that employees do not suffer any adverse effects as a result of using the helplines for communication or consultation.

Corruption Prevention and Bribery Prohibition Initiatives

The Sangetsu Group Compliance Code of Conduct includes stipulations relating to corruption prevention, including the prohibition of bribery, exclusion of anti-social forces (i.e., organized crime groups), etc. We have also drawn up our own Bribery Prevention Rules, and have put in place a system for organization-wide measures to prevent bribery. Several of our overseas subsidiaries have formulated their own corporate codes of conduct based on the Sangetsu Group Compliance Code of Conduct, in line with local laws and practices.

Compliance Education

Sangetsu's Compliance Program, which is drawn up on the basis of Company policy, is implemented throughout the year at all Sangetsu Group companies. With the aim of building a sound organizational framework that ensures thorough compliance, we implement the regular dissemination of related information and provision of training for all employees. Recognizing the need for ongoing improvement through utilization of the PDCA cycle, at the end of each fiscal year we review the Compliance Program on the basis of the year's activities and any issues that have come to light during the activity implementation process, and then make any necessary adjustments.

Compliance Training in Fiscal 2018

Topic	Period	Participants
Compliance	April	37 new employees
	May	17 newly assigned managers
	December	14 employees of Sangetsu Vosne Corporation
Antimonopoly Act	September	45 business review meeting participants
Subcontract Act	December	17 Interior Business Unit staff members



Corporate Philosophy Handbook

The Corporate Philosophy Handbook, which covers compliance and other aspects of corporate ethics, is distributed to all employees of Sangetsu subsidiaries within Japan. The aim is for the Handbook to serve as a guideline for employees which they can refer to repeatedly.

Compliance Newsletter

The Compliance Newsletter is distributed regularly by Sangetsu's internal mail system. The aim is to realize an ongoing enhancement of employees' compliance awareness by incorporating topical information into the newsletter.



Risk Management

Risk Management System

Sangetsu has established a Company-wide Risk Management Committee, headed by the Company President. Besides striving to maintain and enhance the corporate value of the Sangetsu Group as a whole and to minimize the impact of risks as they emerge, the committee also implements risk management with respect to various types of risk that could affect the Company's activities or its employees. The Company-wide Risk Management Committee meets on a quarterly basis; in addition to formulating the basic policy, systems, etc., for risk management as a whole, the committee also has the function of organizing task forces when necessary, etc. The committee reports on the status of its activities to the Board of Directors once every six months, thereby enabling the Company's senior management to accurately monitor current risks and make appropriate managerial decisions.

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

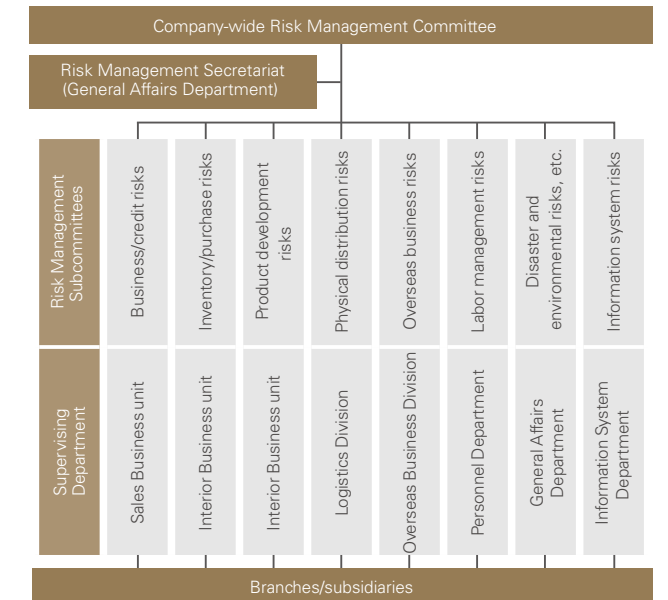
Risk Assessment

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.

Business Continuity Plan (BCP)

Sangetsu has ensured that all employees are aware of its BCP and implements disaster drills for all employees and at showrooms 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.

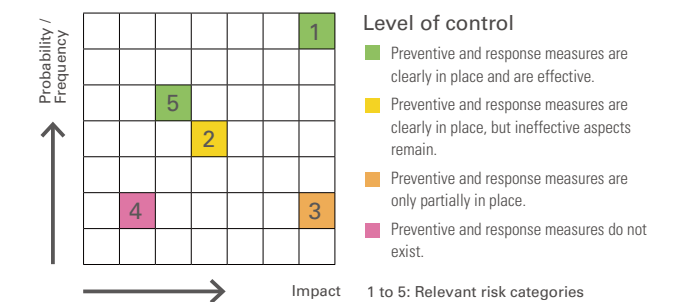
Fiscal 2019 Risk Management System Diagram



Risk Management Subcommittees

Risk Management Subcommittees are formed through the designation of a supervising department for each category of risk, with a membership comprising relevant managers and a Subcommittee head. (For details of the individual Subcommittees, please refer to the Fiscal 2019 Risk Management System Diagram)

Risk Assessment Map



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.**



Human Rights—Diverse Work Styles

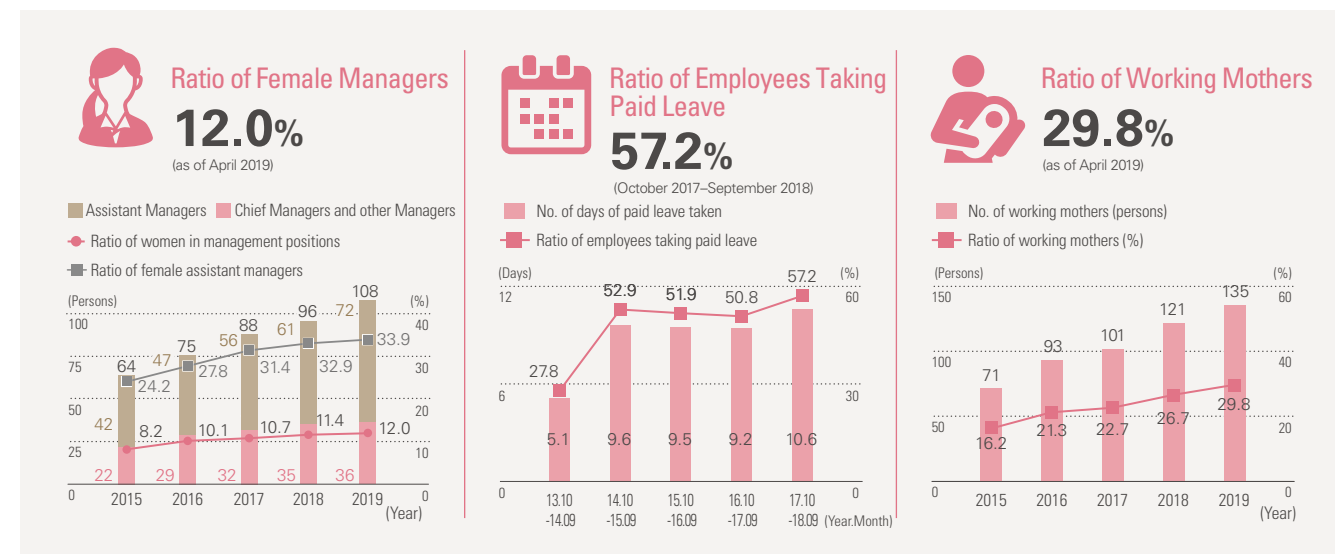
Sangetsu respects the diversity, character and individuality of employees, ensures sound operations to enable each employee to perform at their full potential while playing a meaningful role in the Company's operations, and provides a safe and pleasant working environment.

ESG and CSR Policies as Outlined in Medium-Term Business Plan (2017–2019) "PLG 2019"

Support the careers of diverse employees at each Group company and provide jobs for those who are socially disadvantaged

Goals

- Promote respect for human rights—in accordance with the Universal Declaration of Human Rights (UDHR)—and diversity in step with the globalization of the Sangetsu Group.
- 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.
- 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 disabled persons employment ratio to 3.0%.



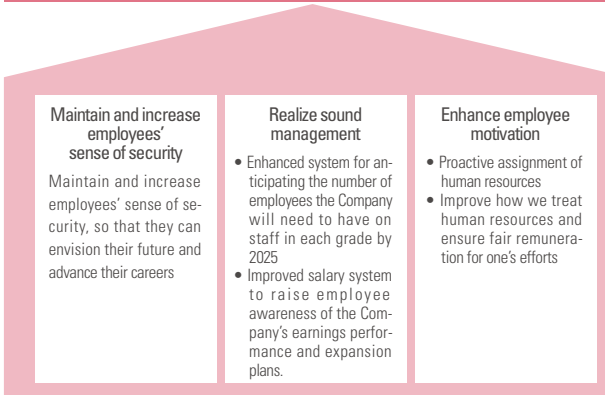
(Non-consolidated)

Building a Corporate Structure that Allows Employees to Participate in Management

Sangetsu has been reforming its 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 in this area since April 2015.

◆ Direction of Personnel System Reform

Building a corporate structure that allows employees to participate in management

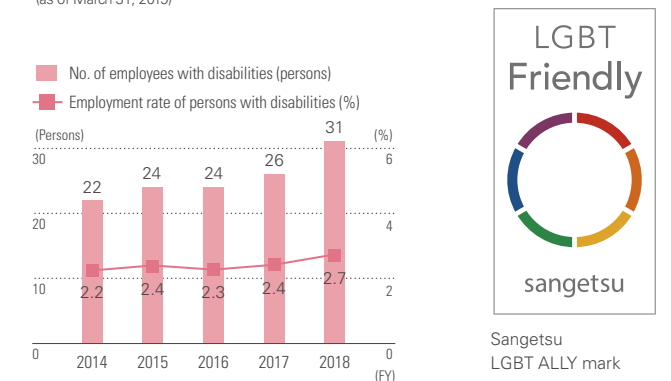


Promoting Diversity

Sangetsu embraces diversity so that each employee can fully demonstrate their initiative and capabilities and engages in various initiatives. 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.

Employment Rate of Persons with Disabilities

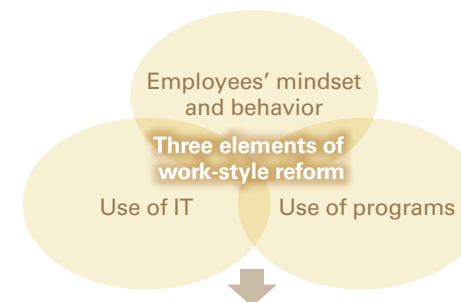
(as of March 31, 2019)



Diversity in Work Styles

We are implementing various initiatives to improve and strengthen our labor management systems with the aim of creating a workplace filled with job satisfaction in which employees are highly motivated in their roles. We are working to promote employees' work-life balance from a variety of perspectives. To cite just a few examples, we have implemented flexible work programs including flextime and teleworking, utilize G Suite* and other information and communications technology (ICT) technologies, provide subsidies for babysitting costs, and have entered business tie-ups with private-sector childcare providers.

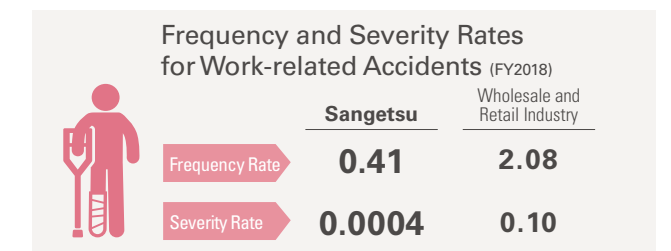
*Groupware tools for improving productivity provided by Google that use cloud computing



"Creating a workplace environment filled with job satisfaction" where everyone aspires to take on new challenges

Initiatives for Industrial Safety and Hygiene and Health Management

We are promoting efforts to ensure that the working environment is pleasant and sound for employees, thereby enabling them to maintain their mental and physical health. We attach particular importance to training our employees in safety and hygiene including aspects such as the maintenance of emergency supplies (for use in the event of a natural disaster), disaster readiness drills, etc., and our work-related accident rate is lower than the average incidence level for our industry. Discrimination and harassment are prohibited, and we strive to build a fair, pleasant workplace environment. The establishment of the Sangetsu Health Insurance Union in April 2019 represented a further enhancement of our measures to foster the physical and mental well-being of our employees.



• 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)



Together with Customers and Suppliers

By collaborating with our suppliers on a basis of mutual trust, we are able to provide customers with attractive products that they can use with safety and peace of mind, and in this way we are disseminating our brand concept—Joy of Design—as widely as possible throughout society.

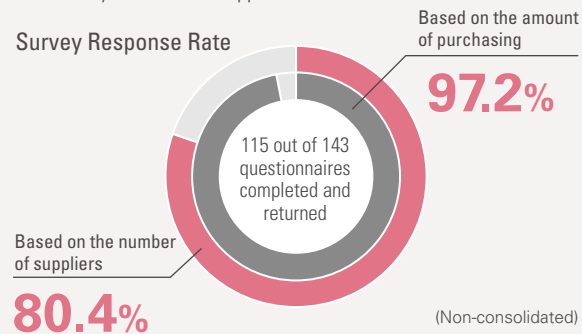
ESG and CSR Policies as Outlined in Medium-Term Business Plan (2017–2019) “PLG 2019” Promoting CSR in the supply chain

Goals

- Ask our suppliers to complete questionnaire surveys based on the Sangetsu CSR Procurement Policy and the Sangetsu CSR Guidelines for Business Partners, with the aim of realizing improvements throughout the whole supply chain, from purchasing to installation.
- Develop products that meet customer needs and provide solutions to their problems.

Implementation of a Questionnaire Survey Targeting Suppliers

In January 2019, we asked our business partners to participate in the Sangetsu CSR Procurement Survey. The Survey was administered to all suppliers (excluding overseas suppliers). Suppliers were asked how satisfied they were with Sangetsu, what areas they felt Sangetsu needed to focus on in the future, etc. Completed surveys were returned by over 80% of suppliers.



Implementation of Training for Purchasing Managers



We provide personnel assigned to purchasing-related departments with education and training on our basic stance regarding CSR-aware purchasing—including Fair and Equal Treatment, Observance of Laws, Regulations and Ethics, Responsibility to Society, etc.—based on the Sangetsu CSR Procurement Policy. With society demonstrating growing demand for CSR-aware purchasing, we will continue to focus on human resources cultivation in this area in the future.

Supply Chain Integration

Sangetsu is building a system to strengthen quality, environmental and CSR-related measures in line with the Sangetsu CSR Procurement Policy and Sangetsu CSR Guidelines for Business Partners, which were formulated to enhance CSR measures targeting the supply chain. Sangetsu is not directly involved in manufacturing operations, with the manufacturing of products being undertaken by our suppliers; nevertheless, we are continuing to implement activities aimed at strengthening management of the entire supply chain, so that we can provide our customers with high-quality, environmentally friendly products.



Sangetsu Group Corporate Ethics Charter

Sangetsu CSR Procurement Policy

Sangetsu CSR Guidelines for Business Partners

VOICE



Contributing to the Resolution of Social Problems through Our Products, by Fostering Closer Integration with Suppliers

Masahiko Sakato

Chief Manager, Merchandise Development Section, Wallcoverings Department

Those of us working in Sangetsu's Merchandise Development Section are engaged in the development of new products, working closely with a large number of suppliers (i.e., manufacturers). Based on a thorough understanding of the Sangetsu CSR Procurement Policy and Sangetsu CSR Guidelines for Business Partners, we are not only implementing measures to strengthen product quality but also to ensure the realization of sound, fair transactions. In addition, by ensuring that suppliers also have a good understanding of Sangetsu's CSR policies, we are able to contribute towards solving social problems through our products.

Product Quality Management

Sangetsu implements thorough quality management by evaluating multiple aspects of suppliers' operations in line with our company's independently developed assessment items, and by encouraging suppliers to make improvements to their production facilities, etc. Overseas candidate suppliers' factories are evaluated using audits, and we strive to enhance the overall quality management level for suppliers both within and outside Japan. Using the latest testing devices, we implement sampling inspection of materials, evaluate the physical properties of materials from the development stage onwards, and undertake analysis with respect to customer complaints. We also perform acceptance inspection for selected products.



Environmental testing lab

Providing Information from the Customer's Perspective



We provide customers with information about our products and interiors in a wide range of formats, and help customers to develop a clearer picture of our products and services. Our dedicated staff provide interior consultations covering the special features of our products and related trends, and we proactively provide information by making effective use of ICT, for example our MyPhoto Simulator, a system whereby, if the customer sends us photos of the interior space in advance, we can provide coordination simulation for them when they subsequently visit the Sangetsu showroom.



Social Contribution Activities

In order to contribute, in collaboration with local communities, toward the enrichment of society, Sangetsu Corporation continues to implement social contribution activities, with the main focus of the activities being to contribute to society through our business, and through the voluntary activity and hard work of our individual employees.

ESG and CSR Policies as Outlined in Medium-Term Business Plan (2017–2019) “PLG 2019” Expand social contribution activities led by employees

Goals

- Support the refurbishment of child welfare facilities (20 or more projects per year).
- Create a system that enables employees to participate in social contribution activities using their free time on weekdays, and which incorporates matching donations made by the company according to the amount of employees' social contribution activities.

Sangetsu's Social Contribution Initiatives

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

Activities in Fiscal 2018

1. Continue to support the refurbishment of welfare facilities, centered on child welfare facilities, as means for contributing through our Interior Business.
2. Create programs that encourage employees to participate in social contribution activities in their free time on weekdays.
3. Implement the Sangetsu Matching Gift Program, a system of matching donations by the Company to supplement the value of employee social contribution activities.

Number of Sangetsu Volunteer Club child welfare facility refurbishment projects undertaken in fiscal 2019

20



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 carried out refurbishments at 20 facilities in fiscal 2018 (total between April 2014 and March 2019: 59 facilities).

[Activity Outline] Refurbishment of the Minna-no-hiroba play-room at the Social Welfare Corporation Kyosei-Juku child welfare facility (July 2018)

We undertook refurbishment of the Minna-no-hiroba play-room at the Social Welfare Corporation Kyosei-Juku child welfare facility in Kanazawa City, Ishikawa Prefecture. Up until then, the children had been playing on tatami mats and rugs placed on a hard, cold floor, to provide them with a space where they could play while sitting comfortably, we covered the whole floor with carpet tiles, and we also installed new curtains, which were decorated with an orange-colored fruit motif. The children's eyes lit up when they saw the new play-room, which had been transformed into a bright, cheerful space with an artistic feel to it.



Promoting Volunteering Activity



Using Sangetsu's Employee Cafeterias to Fund School Meals for Children in Need

TABLE FOR TWO

Sangetsu is participating in the Table For Two program, through which employees can donate part of the cost of their meals in the employee cafeteria to pay for school meals for children in need in Africa and Asia. When employees are eating in the Sangetsu employee cafeteria, they have the option of having one side-dish removed from the meal, which helps the employee to cut down on calories and also funds a donation of 20 yen to help pay for children's school meals. To celebrate the achievement of funding more than 10,000 school meals in 2018, Sangetsu held a special African Festival at which employees had the chance to eat African cuisine from some of the countries that have received aid through this program. As of March 31, 2019, Sangetsu had donated a cumulative total of 13,383 meals.

A Program for Delivering Picture Books to Children in Asia



Sangetsu is taking part in an initiative for delivering picture books to children in Asian countries who have never read one before because of social problems such as poverty or civil conflict. The proceeds from the sale of used books that employees bring in are combined with donations by the Company to purchase sets of picture books which then have stickers bearing the text translated into local languages attached to them, before being sent to countries such as Cambodia, Myanmar and Afghanistan. This program helps children to acquire the habit of reading and writing. In fiscal 2018, Sangetsu supported the delivery of 40 picture books in this way.



Picture book with stickers bearing the translated text



Safeguarding the Global Environment

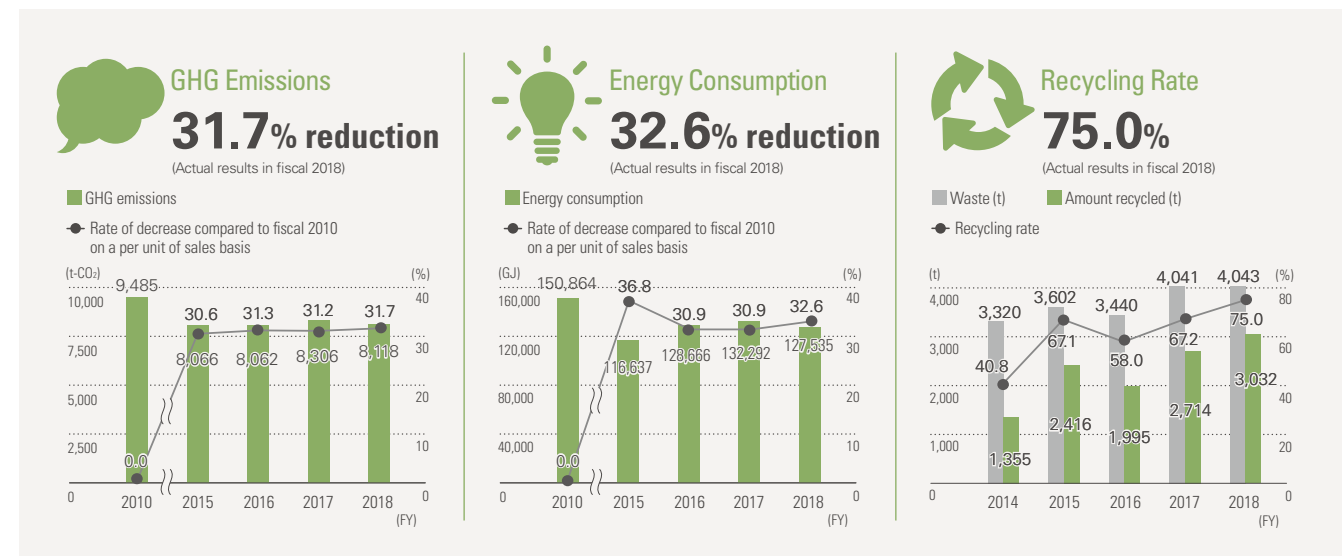
Sangetsu's business operations are closely linked to the global environment, and so our company naturally has a corporate responsibility with respect to environmental protection. Besides working to reduce the environmental footprint of our own business activities, we are also striving to build a better and more environmentally friendly living environment.

ESG and CSR Policies as Outlined in Medium-Term Business Plan (2017-2019) "PLG 2019"

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

Goals

- Systematically reduce greenhouse gas (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 data are calculated on a per unit of sales basis

(Non-consolidated)

Mitigating Global Warming

Sangetsu is striving to reduce GHG emissions, as part of the Company's efforts to help mitigate the impact of global warming. Starting from 2017, we have been working to calculate Scope 3 GHG emissions for the whole supply chain, and are proceeding with the estimation and monitoring of our environmental footprint. We are also promoting eco-driving (i.e., the use of environmentally friendly driving styles, emphasizing fuel efficiency and safety); by implementing a number of measures that include using telematics systems to control rapid acceleration and unnecessarily rapid braking, disseminating the eco-Bulletin newsletter which features comic strips with original characters, implementing an eco-driving commendation system for sales personnel, switching over to using vehicles that have superior fuel consumption, etc., we have succeeded in improving our fuel consumption by more than 25% compared to the situation before these new measures were implemented. In the 2018 Ecodrive Activity Concours awards, Sangetsu was awarded the Environment Minister's Award, the highest award in the General section of the awards.

Scope 3 Response

Category	Item	Scope of Estimation	Category	Item	Scope of Estimation
1	Purchased goods and services	○	9	Downstream transportation and distribution	○
2	Capital goods	○	10	Processing of sold products	○
3	Fuel- and energy-related activities (not included in Scope 1 or Scope 2)	○	11	Use of sold products	*
4	Upstream transportation and distribution	○	12	End-of-life treatment of sold products	○
5	Waste generated in operations	○	13	Downstream leased assets	*
6	Business travel	○	14	Franchises	*
7	Employee commuting	○	15	Investments	*
8	Upstream leased assets	○			

* Excluded from scope of estimation



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.

Realizing a Recycling-based Society

Sangetsu recognizes the vital importance of the world's limited resources, and we are implementing "3R" (Reduce, Reuse, Recycle) activities to help ensure that resources are utilized efficiently. Starting from fiscal 2016, we have been working to strengthen waste reduction and recycling as part of our zero-emissions activity, which itself has been strengthened through initiatives in which the subcommittee on environmental protection has been playing a central role. For example, our sample books are made from a mixture of paper and PVC; if these are separated, around 93% of the material from which the books are made can be recycled. Sangetsu's Chubu Branch and Chugoku/Shikoku Branch have been collaborating on this waste separation work with local welfare facilities for people with disabilities. Through this activity, our goal is to both strengthen resource recycling and help people with disabilities to achieve more autonomy.

Recycling Flow for Sample Books

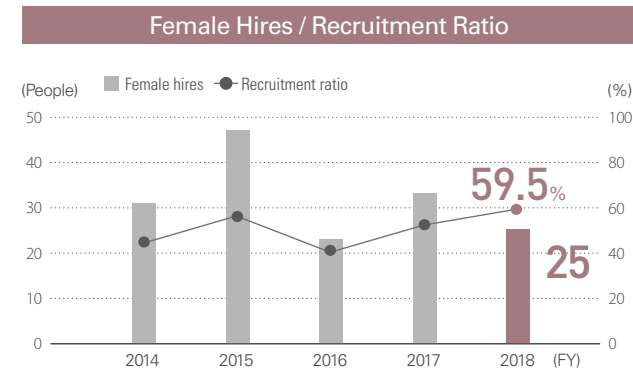


Protecting Biodiversity

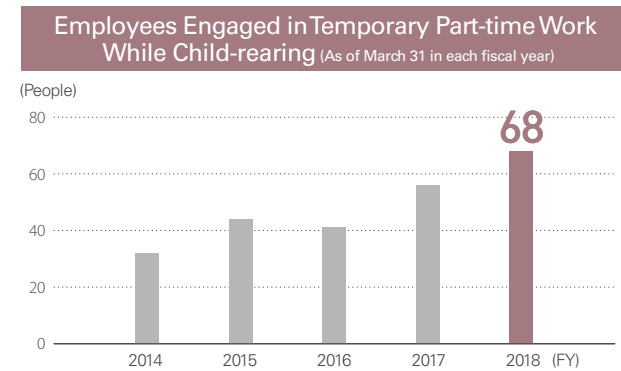
Sangetsu has a correct understanding and awareness of how humanity and the global environment benefit from biodiversity, and we are striving to help safeguard biodiversity and to use its benefits in a sustainable manner. Reflecting the fact that the linings for our wallcoverings are made from paper pulp, in fiscal 2018 we began collaborating with NPO Nagoya Higashiyama Forest Conservation Group on the implementation of forest conservation activities at the Tenpaku Valley Wetlands, an area of wetland forest in Nagoya City. We will continue to participate in this activity on an ongoing basis in the future, with the aim of handing down a thriving forest to the next generation.



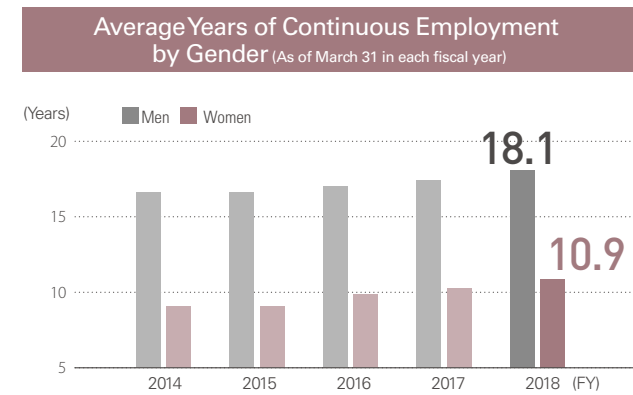
Non-financial Highlights (Sangetsu Corporation only)



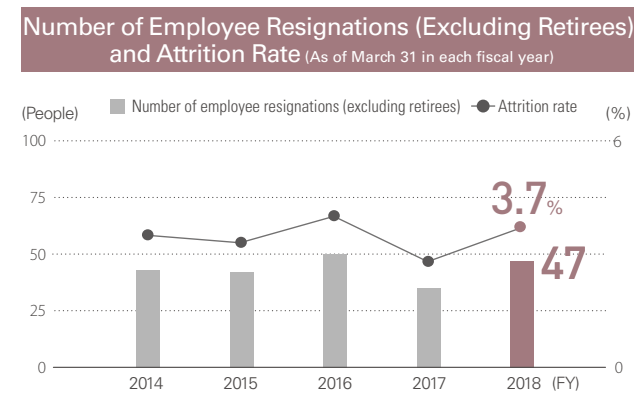
Through the implementation of strategic personnel system reforms, we are promoting the creation of an organization enabling women themselves to make the most of their strengths and systems that support them. We have been proactively recruiting female employees for over 50% of positions during the past five years.



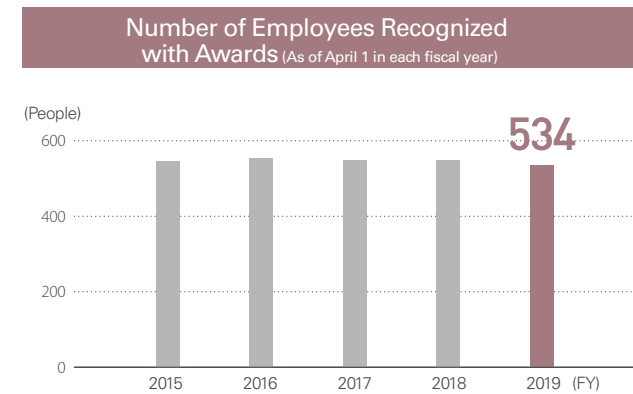
We promote systems and an environment enabling employees raising children to continue working. A rising number of employees utilize temporary part-time work while child-rearing system, which is part of the employment environment we created to support a balance between work and home life.



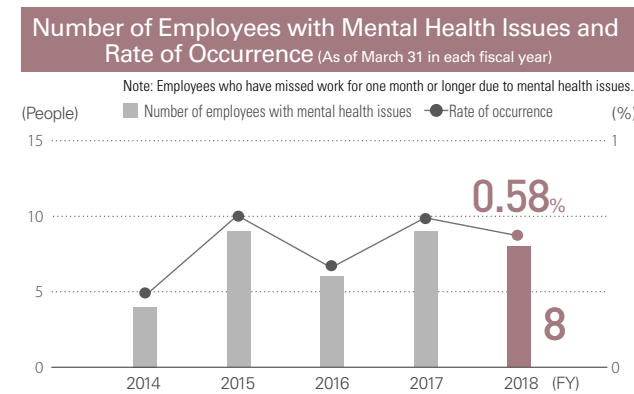
We aim to foster a spirit of dedication and a sense of belonging to the Company among employees and become a company that is rewarding, challenging and motivating to work at for each and every employee. As one indication of the success of these efforts, the average number of years employed has steadily grown among both men and women.



We respect the human rights of each and every employee, prohibit unreasonable discrimination and harassment, and strive to create a fair and cheerful workplace. We promote the creation of workplace environments that maintain physical and mental health resulting in the attrition rate over the last five years remaining at 4% or less.



We aim to become a Company that fosters employee motivation and aspiration, and grows along with our employees. We offer level-specific and function-specific training in addition to approximately 200 distance-learning courses and provide financial assistance for costs associated with acquiring qualifications. We maintain an environment that proactively encourages employee self-improvement.



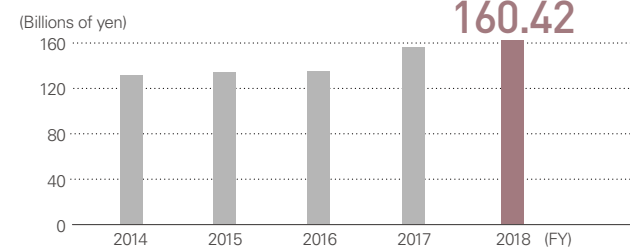
The Sangetsu Medium-Term Business Plan targets health management as one of its objectives, and to this end we are developing activities to maintain and promote employee health. We work with industrial physicians and public health nurses to promote comfortable work environments fostering mental and physical health, and as a result, mental health problems are maintained below the national average.

ESG Data (Sangetsu Corporation only)

Indicator	Unit	FY2014	FY2015	FY2016	FY2017	FY2018	
E Environmental	GHG emissions	t-CO ₂	8,663	8,066	8,062	8,306	8,118
	Energy consumption	GJ	120,428	116,637	128,666	132,292	127,535
	Waste	t	3,350	3,322	3,296	3,688	3,695
	Recycling rate	%	40.8	67.1	58.0	67.2	75.0
S Social	Consolidated number of employees (as of March 31 of each year)	People	1,442	1,474	2,051	2,357	2,334
	Number of employees (as of March 31 of each year)	Number of people	1,167	1,196	1,190	1,205	1,167
	Men	Number of people	776	782	777	776	740
	Women	Number of people	391	414	413	429	427
	Average age (as of March 31 of each year)	Age	35.0	35.0	35.5	36.0	36.7
	Men	Age	37.6	37.6	38.0	38.4	39.1
	Women	Age	29.6	30.0	30.8	31.5	32.2
	Average length of service (as of March 31 of each year)	Years	14.1	14.1	14.5	14.9	15.5
	Men	Years	16.6	16.6	17.0	17.4	18.1
	Women	Years	9.0	9.0	9.9	10.3	10.9
	New hires (total)	Number of people	70	83	57	63	42
	Women	Number of people	31	47	23	33	25
	Ratio of female managers (as of April 1 of each year)	%	6.3	8.2	10.1	10.7	11.4 / FY2019 12.0
	Number of employees taking childcare leave	Number of people	16	32	39	45	42
	Number of employees on temporary part-time work while child-rearing	Number of people	32	44	41	56	68 / FY2019 70
	Average total work hours	Hours	2,062	2,024	2,051	2,100	2,110
Average number of paid vacation days taken (October to September of following year)	Days	9.6	9.5	9.2	10.6	—	
Employment rate of persons with disabilities (as of March 31 of each year)	%	2.2	2.4	2.3	2.4	2.7	
Frequency rate of work-related accidents		0	0.41	0.41	0.40	0.41	
Severity rate of work-related accidents		0	0.0008	0.0008	0.0063	0.0004	
Social contribution activities of Sangetsu Volunteer Club	Refurbishment of social welfare facilities	Cases	1	9	12	19	20
	Other activities	Cases	0	5	10	10	8
G Governance	Number of directors (as of June 31 of each year)	Number of people	9	11	10	10	10 / FY2019 7
	External directors	Number of people	1	4	4	4	4
	Female directors	Number of people	0	1	1	1	1
	Ratio of external directors	%	11.1	36.4	40.0	40.0	40.0 / FY2019 57.1
	Number of compliance training participants	Number of people	1,020	408	113	663	170

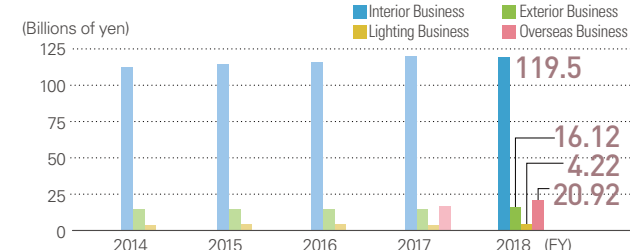
Financial Highlights

Net Sales



In addition to improving business execution capabilities such as product development and sales capabilities, we engaged in efforts including the development of Sangetsu's own delivery system and product price revisions, but sales declined slightly in the Interior Business. At the same time, the launch of the Goodrich consolidation in the Overseas Business and Exterior Business contributed to net sales increases.

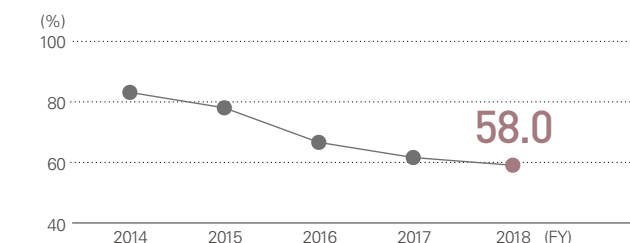
Segment Information



In the Interior Business, the Company achieved a steady increase in the market share of its key products. In the Exterior Business, demand for fence replacements boosted sales. In the Overseas Business, sales rose 22.0% compared to the previous fiscal year.

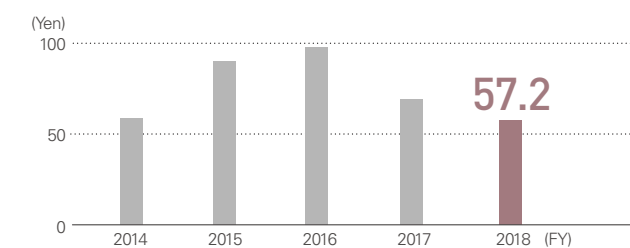
*Starting in fiscal 2017, the Overseas Business segment was added by including the medium-term business plan's strategy for overseas markets and operations under consolidated management.
*In April 2019, all shares in Yamada Shomei Lighting Co., Ltd., were transferred to Odelic Co., Ltd.

Equity Ratio



With respect to total assets as of the end of the current fiscal year, current assets increased and noncurrent assets decreased from the end of the previous fiscal year. The equity ratio fell by 3.4% from the end of the previous fiscal year, as net assets decreased due to share buybacks under the capital strategy of the medium-term business plan.

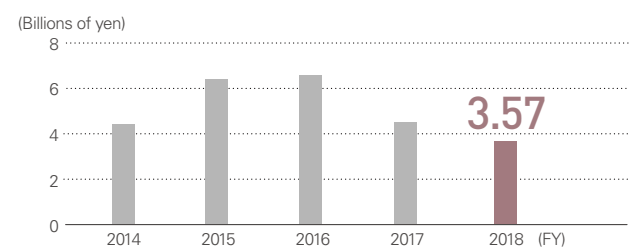
Net Income per Share



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

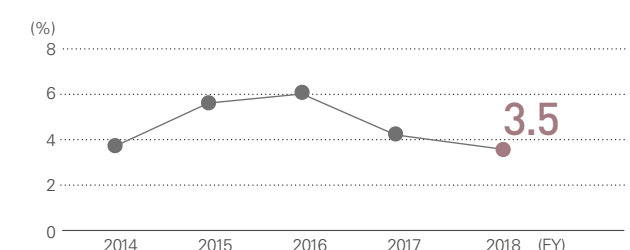
*A share split was carried out at the rate of two shares per common share on April 1, 2015. Net income per share has been calculated assuming that the share split was carried out at the beginning of fiscal 2014.

Profit Attributable to Owners of Parent



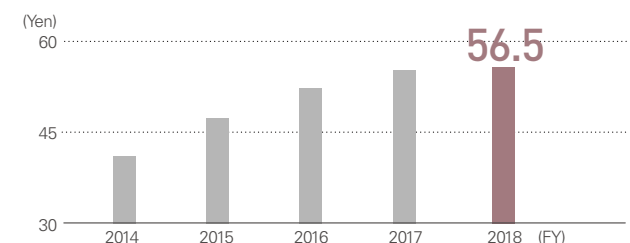
Intangible asset impairment associated with U.S.-based subsidiary Koroseal Interior Products Holdings, Inc., caused profit (loss) attributable to owners of parent to decline 20.7% compared to the previous fiscal year.

Return on Equity (ROE)



Equity decreased to around ¥99.1 billion and net income decreased, and as a result, ROE fell to 3.5%. At the same time, return on invested capital (ROIC) increased 4.5%, up 0.8 point.

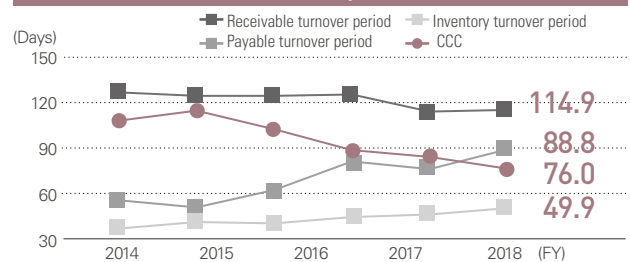
Dividend per Share (Annual)



With respect to profit distribution, the company is seeking to sustainably expand its shareholder return strategy over the medium to long term, based on its medium-term business plan. Accordingly, the Company paid an interim dividend of ¥28.00 per share and a full year dividend of ¥28.50 per share, which is an increase of ¥1.00 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 2014.

Cash Conversion Cycle (Itemized)



Operating capital efficiency, indicated by the cash conversion cycle (CCC), was 76.0 days, the shortest number of days in the past ten years. Recently, lengthening of the payable turnover period has contributed to an improved CCC.

Capital Policy

Stable Cash Flow Generation Capability

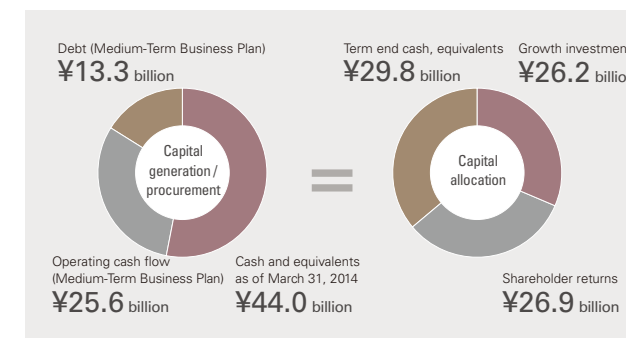
Although Sangetsu is sensitive to business conditions related to the construction market, our business performance is stable. Since going public in 1989, we have never recorded losses on either a consolidated or non-consolidated basis and have generated solid profits.

In the domestic market, which is a stable, core source of our earnings, we are promoting business growth through the geographical expansion and functional enhancement of our Interior Business (planning, procurement, distribution and sales). We also continuously strive to shorten the cash conversion cycle (CCC).

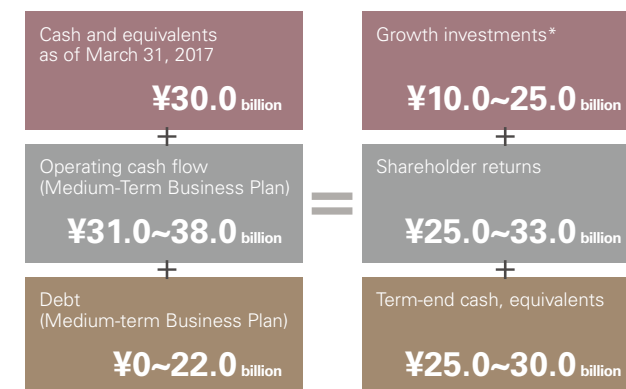
A Strong Financial Foundation Maintained by Financial Discipline

Our policy for net cash is to maintain a level of cash and equivalents around ¥25.0 billion to ¥30.0 billion. Also, growth investments are generally within the scope of operating cash flows.

Previous Medium-Term Business Plan (2014–2016)



Current Medium-Term Business Plan (2017–2019)



* Growth investments: M&A, minor investments (for strengthening alliances), capital investments (logistics, IT, etc.)

Shareholder Return Policy of Medium-Term Business Plan

01 Achieve over 100% total consolidated shareholder return ratio over a three-year period

02 Conduct stable increases in dividends over the long term

03 Conduct share buybacks flexibly and in response to stock market conditions

Financial Policy for Improvement of Capital Efficiency

Sangetsu will continue to conduct share buybacks and steadily increase dividend payments with the goal of reducing its net worth to between ¥105.0 billion and ¥100.0 billion in light of conditions within capital markets.

Based on this policy, in the past two fiscal years Sangetsu increased dividends and conducted share buybacks. The year-end dividend of this fiscal year will be ¥28.50, amounting to an annual dividend of ¥56.50, the fifth straight fiscal year of dividend increases.

The total return to shareholders in fiscal 2018 will consist of dividends amounting to ¥3.5 billion and share buybacks amounting to ¥5.2 billion, for a total of ¥8.7 billion and a total return rate of 245.5%.

As a result, at the end of the fiscal year under review equity amounted to ¥99.1 billion, total shares outstanding amounted to approximately 62.85 million shares, including approximately 1.37 million shares of treasury stock. (As of June 30, 2019, treasury stock amounted to 1.85 million shares.)

March 31, 2018			
Total number of shares acquired through buybacks	3,420 thousand shares	Total amount of share buybacks	¥6.97 billion
Interim dividend (December payment)	¥1.79 billion	Year-end dividend (June payment)	¥1.78 billion
Total dividend amount		¥3.58 billion	
Total return amount	¥10.56 billion	Consolidated total return rate	234.0%
March 31, 2019			
Total number of shares acquired through buybacks	2,455 thousand shares	Total amount of share buybacks	¥5.28 billion
Interim dividend (December payment)	¥1.75 billion	Year-end dividend (June payment)	¥1.75 billion
Total dividend amount		¥3.50 billion	
Total return amount	¥8.78 billion	Consolidated total return rate	245.5%

Ten-Year Consolidated Financial Summary

(Millions of yen)

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 (Forecast)	
Profit and Loss	Net sales	112,118	118,518	123,150	131,978	132,050	133,972	135,640	156,390	160,422	163,000
	Gross profit	32,938	33,775	34,536	36,055	37,510	39,527	40,104	47,572	50,720	52,500
	Operating income	7,161	7,095	8,020	8,952	8,031	9,112	7,572	5,033	5,895	8,000
	Ordinary income	7,530	7,180	8,393	9,475	8,506	9,463	8,368	5,698	6,699	8,300
	Profit attributable to owners of parent	4,242	4,151	4,806	5,459	4,402	6,393	6,570	4,514	3,579	5,700
	Free cash flow	(2,883)	213	7,902	2,401	10,899	25,988	(12,320)	1,464	14,019	—
	Operating cash flow	4,437	422	4,311	7,878	4,765	10,834	10,072	7,196	10,370	—
	Investing cash flow	(7,320)	(209)	3,591	(5,477)	6,134	15,154	(22,392)	(5,732)	3,649	—
	Financing cash flow	(3,041)	(3,198)	(7,506)	(3,025)	(7,692)	(13,528)	7,533	(4,831)	(7,196)	—
Financial Condition	Total assets	138,908	142,247	139,205	145,903	143,076	139,220	169,344	171,419	170,875	—
	Net assets	118,084	119,409	117,672	119,887	118,758	108,517	110,458	106,360	100,143	—
	Interest-bearing debt	209	200	168	116	93	3	14,187	18,759	20,913	—
Per Share Information	Net income per share (Yen)	52.87	51.73	60.26	71.65	58.35	89.92	97.53	68.97	57.28	92.72
	Net asset per share (Yen)	1,471.53	1,488.05	1,544.27	1,573.35	1,625.21	1,587.86	1,646.42	1,648.71	1,612.59	—
	Dividend per share (Yen)	37.50	37.50	39.00	37.50	41.25	47.50	52.50	55.50	56.5	57.0
Financial Indicators	Return on assets (ROA) (%)	5.5	5.1	6.0	6.6	5.9	6.7	5.4	3.3	3.9	—
	Return on equity (ROE) (%)	3.6	3.5	4.1	4.6	3.7	5.6	6.0	4.2	3.5	—
	Equity ratio (%)	85.0	83.9	84.5	82.2	83.0	77.9	65.2	61.4	58.0	—
	Consolidated payout ratio (%)	70.9	72.5	64.7	52.3	70.7	52.8	53.8	80.5	98.6	61.5
Cash Conversion Cycle	Cash conversion cycle	102.7	114.9	118.9	107.8	114.4	102.1	88.3	83.8	76.0	—
	Receivable turnover period (days)	125.3	134.8	127.1	126.5	124.2	124.2	125.1	113.8	114.9	—
	Inventory turnover period (days)	32.5	37.1	41.8	36.4	40.7	39.8	44.0	45.7	49.9	—
	Payable turnover period (days)	55.1	57.0	50.0	55.1	50.4	61.9	80.8	75.7	88.8	—

*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.

◆ Medium-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	<ul style="list-style-type: none"> Established logistics centers, offices, showrooms and other facilities; revised and enhanced organizational systems and rules 	<ul style="list-style-type: none"> Introduce new SAP mission-critical system Logistics system for West Japan Enhance capabilities and raise employee awareness
2 Restructure our business strategy	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Develop a consolidated management system Enhance profitability of overseas businesses
3 Strengthen stakeholder value	<ul style="list-style-type: none"> Enhanced shareholder return strategy Social contribution activities based on employee initiative 	<ul style="list-style-type: none"> Formulate and implement clear environmental policy
4 Passing on our corporate philosophy, principles, and vision since our founding	<ul style="list-style-type: none"> Formulated brand concept, “Joy of Design” Opened Interior Design Archive 	<ul style="list-style-type: none"> Consistently pass on corporate principles

◆ Medium-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 work styles, promote health management
3 Bolster profit management system	Reduction in SGA and thorough management control, set targets for ROE and CCC 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, 2019)

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	¥13,616 million
Net Sales	¥160.4 billion (consolidated)
Number of Employees	2,334 (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, Kyushu
Branches and Sales Offices	Kita-Tohoku, Fukushima, Higashi-Kanto, Tama, Yokohama, Atsugi, Maebashi, Utsunomiya, Niigata, Mito, Nagano, Gifu, Okazaki, Hokuriku, Shizuoka, Kyoto, Kobe, Higashi-Osaka, Minami-Osaka, Okayama, Shikoku, Kita-Kyushu, Kumamoto, Minami-Kyushu and other locations
Consolidated Subsidiaries	Domestic Sungreen Co., Ltd., Fairtone Co., Ltd., Sangetsu Vosne Corporation, Sangetsu Okinawa Co., Ltd. Overseas Koroseal Interior Products Holdings, Inc., Goodrich Global Holdings Pte., Ltd., Sangetsu (Shanghai) Corporation
Equity Method Affiliate	Wavelock Holdings Co., Ltd.

Stock Information

Principal Shareholders (as of March 31, 2019)

Total Number of Authorized Shares	290,000,000
Total Number of Shares Issued and Outstanding	62,850,000
Number of Shareholders	4,234

Status of Principal Shareholders (as of March 31, 2019)

Name of Shareholder	Number of Shares Held	Percentage of Ownership
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	4,090,900	6.65
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,517,100	5.72
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	2,151,500	3.49
Japan Trustee Services Bank, Ltd. (Trust Account)	2,128,800	3.46
MUFG Bank, Ltd.	2,082,700	3.38
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.35
Yuichi Hibi	1,885,154	3.06
Touzo Hibi	1,863,492	3.03
Masae Miwa	1,780,640	2.89
Yoshio Hibi	1,780,000	2.89

Notes:
 • Sangetsu owns 1,371,532 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

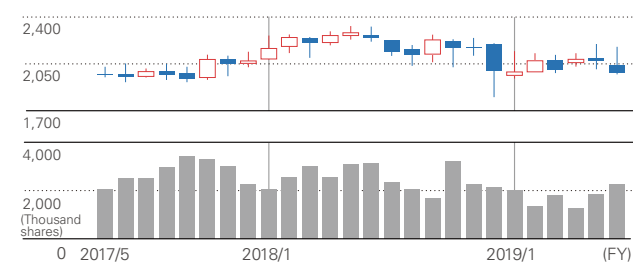
Fiscal Year	April 1 to March 31 of the following year
Record Date for Dividend Payment	Year-end: March 31 Interim: September 30
Annual General Shareholders' Meeting	June
Shareholder Registry Administrator and Account Management Institution for Special Accounts	Mitsubishi UFJ Trust and Banking Corporation Contact: 7-10-11, Higashishina, Koto-ku, Tokyo 137-8081 Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation Tel: 0120-232-711 (toll-free in Japan)
Method of Public Notice	URL: https://www.sangetsu.co.jp/ 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 <i>Nihon Keizai Shimbun</i> newspaper.

* Address changes, requests for buy back 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

FLAGSHIP SANGETSU Shinagawa Showroom

Shinagawa Grand Central Tower 4F, 2-16-4 Konan, Minato-ku, Tokyo 108-0075, Japan
Tel: +81-570-055-134
Fax: +81-3-5463-6744

SANGETSU Nagoya Showroom

1-4-1 Habashita, Nishi-ku, Nagoya City, Aichi 451-8575, Japan
Tel: +81-570-055-135
Fax: +81-52-564-3229

SANGESU Osaka Showroom

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

SANGETSU Fukuoka Showroom

1-11-11 Higashinaka, Hakata-ku, Fukuoka City, Fukuoka 812-0892, Japan
Tel: +81-570-055-137
Fax: +81-92-441-9503

sangetsu design studio

SANGETSU Sendai Showroom

98-1, Rokuchonome-Minami, Wakabayashi-ku, Sendai City, Miyagi 984-0031, Japan
Tel: +81-22-287-3922
Fax: +81-22-253-6806

SANGETSU Kanazawa Showroom

2-101 Otomo, Kanazawa City, Ishikawa 920-8205, Japan
Tel: +81-76-238-1411
Fax: +81-76-238-1412

SANGETSU Hiroshima Showroom

2-28 Funairinakamachi, Naka-ku, Hiroshima City, Hiroshima 730-0842, Japan
Tel: +81-82-233-3815
Fax: +81-82-233-3501

SANGETSU Okinawa Showroom

LEQUIOS SQUARE UCHIDOMARI 2F, 215 Ojana, Ginowan City, Okinawa 901-2225, Japan
Tel: +81-570-055-138
Fax: +81-98-890-3789

Editorial Policy

Sangetsu Report 2019 was published as an integrated report providing both financial and non-financial information so that key stakeholders can more clearly understand Sangetsu's corporate value and medium- to long-term growth potential.

Scope of Reporting Organizations

Sangetsu Corporation and its consolidated subsidiaries

Period Covered

April 1, 2018 to March 31, 2019
(includes some activities after the reporting period)

Date of Publication

August 2019

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.