

SANGETSU REPORT 2020



Inclusive Sustainable Enjoyable

SANGETSU REPORT 2020

Corporate Philosophy

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

Company Creed

Sincerity

Realizing what people expect with Sincerity is the starting point of our business. Sincerity is everlasting and unchanging Sangetsu original spirits.

Corporate Mission

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

Brand Concept

Joy of Design

We share joy of design with those who create new space.

The Long-term Vision of Sangetsu Group [DESIGN 2030]

The Entire Sangetsu Group Aims to Become
a Space Creation Company.

Social Values Sangetsu Group Aims to Realize

Sangetsu Group aims to contribute to the realization of a society that is:

Inclusive An equal and healthy inclusive society

Sustainable A sustainable society that protects the global environment

Enjoyable A more affluent and enjoyable society

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External Recognition



MSCI Japan
ESG Select Leaders Index



S&P/JPX
Carbon Efficient Index



work with Pride 2019
Silver ranking



Gomez IR Site Ranking 2019
Silver Prize Awards



The 2020 Certified Health & Productivity
Management Organization Recognition
Program (large enterprise category)

Our Story

Contributing to fulfilling lives and growing together with the interior industry

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 a "Space Creation Company."

2003
50th anniversary of company founding

1996
Company lists on the First Section of the Tokyo Stock Exchange

1980
Company lists on Second Section of Nagoya Stock Exchange



1849
Yasuke Hibi founds Sangetsudo



1953
Establishes Sangetsudo Shoten Co., Ltd.

1960
Establishes Company Creed: Integrity

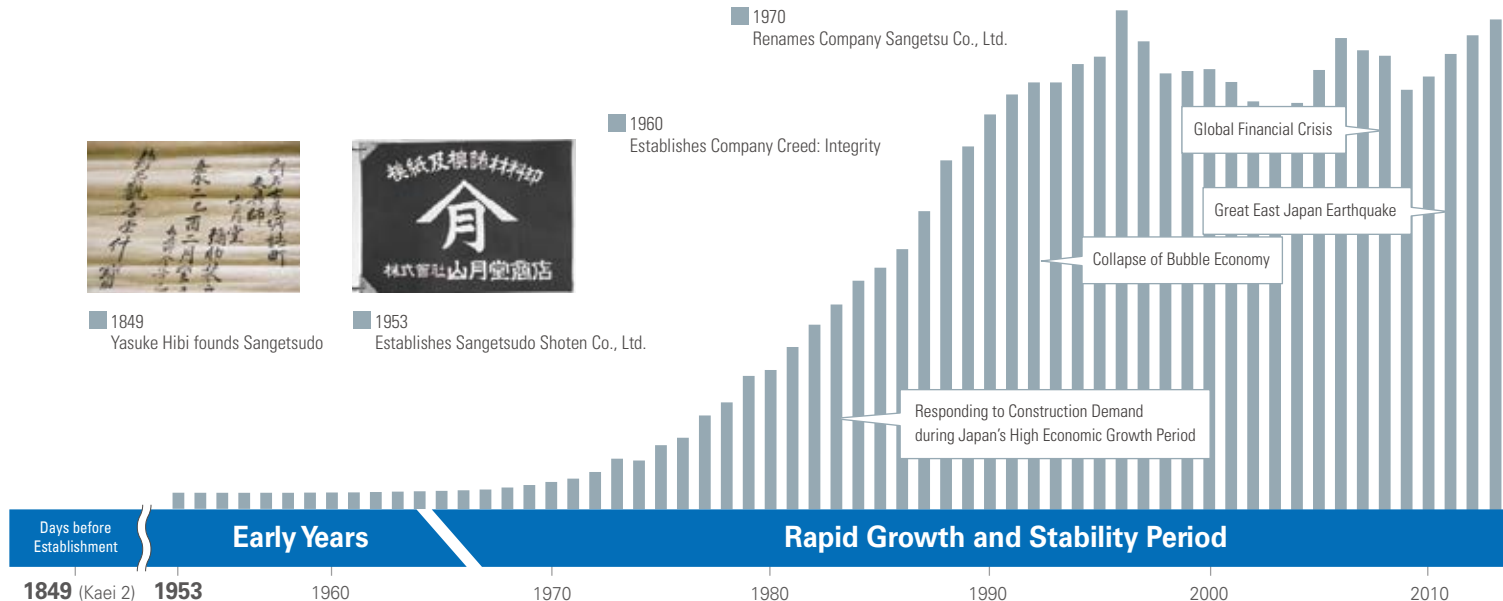
1970
Renames Company Sangetsu Co., Ltd.

Global Financial Crisis

Great East Japan Earthquake

Collapse of Bubble Economy

Responding to Construction Demand during Japan's High Economic Growth Period



Interior Business	Wallcoverings	1956 Enters wallcovering business	1965 Launches first original wallpaper "Elite"	1991 Starts glass film sales	1995 Launches "REATEC" self-adhesive decorative film	
	Flooring Materials		1979 Enters flooring materials business	1982 Starts carpet sales	1986 Starts floor tile sales	1988 Starts carpet tile sales
	Fabrics		1981 Starts fabric sales	1994 Starts upholstery sales	2000 Launches Sangetsu Curtain Eco Project curtain recycling system	
Exterior Business					2005 Makes Sungreen Co., Ltd. a subsidiary	



2015
Relocates and reopens a renovated Tokyo Shinagawa Showroom



2018
Relocates and integrates Tokyo Logistics Center



2021
Planned relocation and integration of Kansai Logistics Center



2016
Acquires Koroseal Interior Products Holdings, Inc.

2016
Announces new brand concept

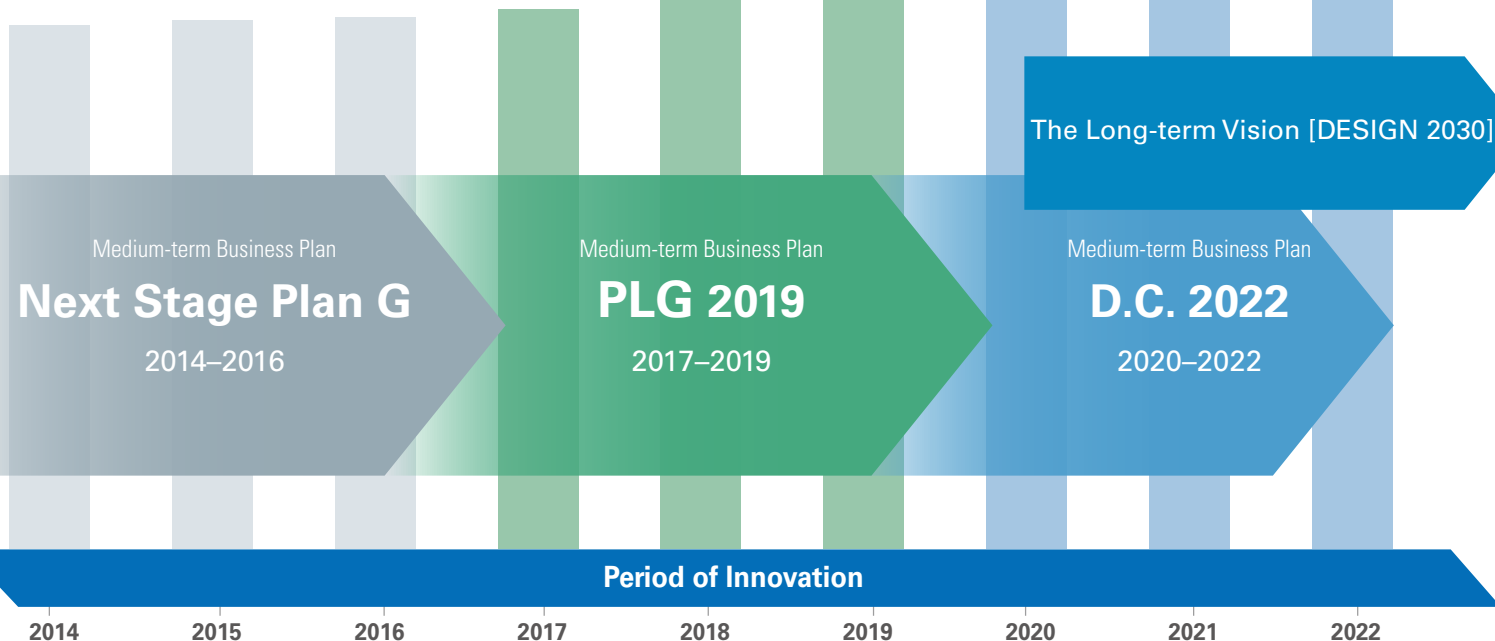
FY2022 Targets

Net Sales	¥172.0 billion
Operating Income	¥12.0 billion
Profit	¥8.5 billion

FY2019

Net Sales <small>(Record high sales)</small>	¥161.26 billion
Operating Income	¥9.26 billion
Profit	¥1.43 billion

Joy of Design



2014 Shifts to Business Division System

<p>2014</p> <p>April Shosuke Yasuda assumes presidency (Currently Representative Director, President and CEO)</p> <p>June Announces Medium-term Business Plan (2014–2016) "Next Stage Plan G"</p>	<p>2015</p> <p>June Submits fully compliant "Corporate Governance Report"</p> <p>Establishes Nomination and Remuneration Committee</p> <p>Transitions to a Company with an Audit & Supervisory Committee structure</p>	<p>2016</p> <p>April Establishes Chinese subsidiary Sangetsu (Shanghai) Corporation</p> <p>Nov. Acquires U.S. company Koroseal Interior Products Holdings, Inc.</p>	<p>2017</p> <p>Jan. Acquires Fairtone Co., Ltd.</p> <p>May Announces Medium-term Business Plan "PLG 2019"</p> <p>Curtain sales company Sangetsu Vosne Corporation marks brand debut</p> <p>Dec. Acquires Singapore-based Goodrich Global Holdings Pte., Ltd.</p>	<p>2018</p> <p>Oct. New enterprise system becomes fully operational</p>	<p>2019</p> <p>Mar. Enters EC business with "WARDROBE sangestu"</p> <p>April Establishes Renovation Division</p>	<p>2020</p> <p>April Renames the Renovation Division as the Space Creation Division</p> <p>May Announces Long-term vision [DESIGN 2030] and Medium-term Business Plan (2020-2022) "D.C. 2022"</p>
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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 value proposition while aiming for sustainable growth.

Input

Intellectual Capital

- Industry-leading product development capabilities
 - Extensive design archives
 - Accumulated product development know-how
 - Trademarks and design rights
- An integrated enterprise system covering all business activities
 - Ordering to suppliers based on order forecasting
 - Inventory management system linked with suppliers
 - Customer/activity management system Salesforce
 - Ordering EDI system
 - Logistics operation and shipment based on product shipment system

Human Capital

- Specialist talent in charge of each business activity
- Sales structure in 7 countries and 8 markets in the Pacific Rim
 - Domestic sales branches 8 / 50 offices
 - Domestic sales staff 700
 - Overseas sales staff 230
- Product development professionals
 - Domestic product development staff 30
- Design and space creation professionals
 - Showroom staff 110
 - Interior design staff 60
 - First-class certified architects, space creation designers
- Logistics professionals
 - Specialist staff / employees and contractors 1,100
- An installation structure with organizational strength
 - Fairtone 650
 - Sangetsu 180
 - Partner installation contractors 170
 - Building operation and management engineers
- Exterior Segment structure
 - Sales bases 15 locations
 - Sales staff 80
 - Installation staff 380

Social and Relationship Capital

- Relationships of trust with suppliers and customers
 - Interior business suppliers 200
 - Exterior business suppliers 1,100
 - Dealerships 110
- Solid Corporate Brands
 - Sangetsu brand Joy of Design
 - Koroseal, Goodrich

Manufactured Capital

- Logistics and delivery system covering nationwide Japan, China, and Southeast Asia
 - Logistics hubs in Japan 10 hubs / Approx. 235,000 m²
- State-of-the-art wallcovering manufacturing facilities (US)

Financial Capital

- Robust financial foundation
 - Total assets ¥164.1 billion
 - Net assets ¥94.2 billion
 - Equity ratio 56.8%
 - Cash and equivalents at end of period ¥29.9 billion

Mission and Vision

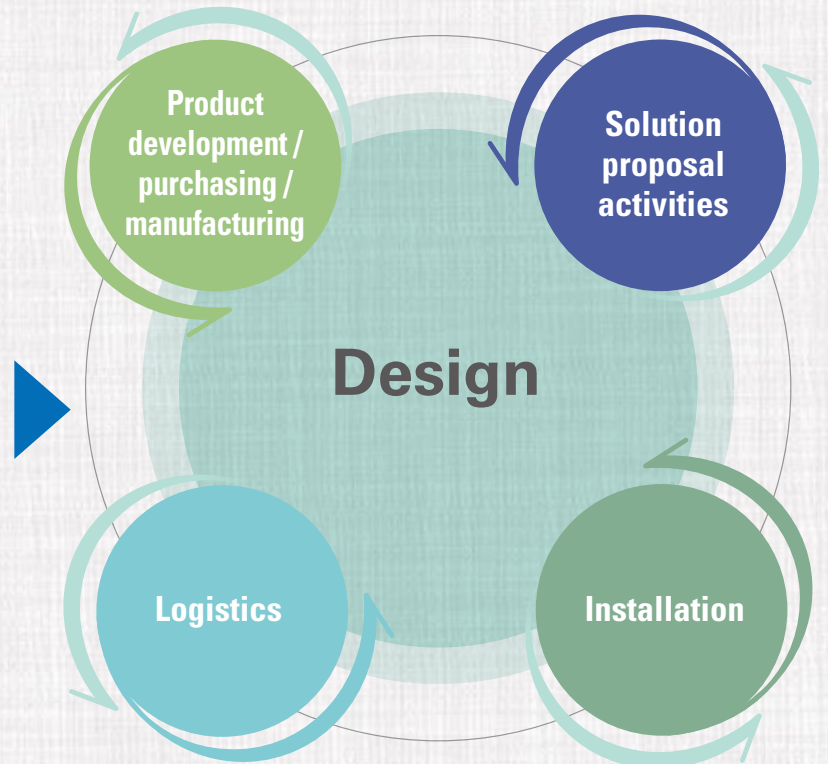
Corporate Mission

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

Brand Concept

Joy of Design

Five Business Activities



Needs of Society

- Expectations of improvement in QOL
- Decline in housing starts
- Shortage of logistics drivers
- Shortage of skilled manpower for interior installation tradesmen
- Use of IT
- From the consumption of things to the consumption of experiences

Social Issues

- Aging society, falling birthrate
- Climate change risk
- Move away from fossil fuels
- Natural disasters, pandemics
- Mobility of talent and tight labor markets
- Aging buildings / infrastructure
- Rise in anti-globalism

The Long-term Vision

[DESIGN 2030] The Entire Sangetsu Group Aims to Become a "Space Creation Company"

We will contribute to creating a society that is inclusive, sustainable and enjoyable.

Inclusive

An equal and healthy inclusive society



Sustainable

The global environmental protection with sustainable society



Enjoyable

A more affluent and enjoyable society



Output

Interior Segment

Developing, proposing, and delivering the optimal interior products for space creation

- Approx. 12,000 original products offering superior design, functionality, and ease of installation
- Approx. 30 types of sample books (updated every 2-3 years)
- Sales proposals from a specialist structure segregated by product and market and proposals for total interior coordination via showrooms and interior advisor sections
- Zero-shortage stock and same-day shipment
- Daily product shipments: Approx. 60,000/day (on average)
- Number of samples: Approx. 40,000/day (on average)

Overseas Segment

Manufacturing wallcoverings and sourcing them to provide optimal products to North America and Asia

- Manufacturing wallcoverings and digitally printed wallcoverings (North America)
- Providing high-quality designs in the Pacific Rim

Space Creation Segment

Imagining spaces, proposing designs, and creating them

- Providing fully integrated services from architecture and design through to installation
- An installation network spread nationwide (Japan)

Exterior Segment

Providing and installing all nature of exterior products

- Providing exterior space designs through a broad product portfolio
- Providing installation services

Outcome

Company's Financial Results (sales)

Sangetsu Group	¥161.2 billion
● Interior Segment	¥125.6 billion
Wallcoverings Business	¥60.1 billion
Flooring Materials Business	¥44.6 billion
Fabrics Business	¥8.4 billion
● Overseas Business Segment	¥19.8 billion
● Exterior Segment	¥16.0 billion

Sales increases for 10 consecutive years
 Growth rate over past five years 20.4%
 Consistently profitable since establishment in 1953
 Dividend increases for six consecutive years
 Total return ratio 381.4%

Company's Non-Financial Results

High shares of domestic market

● Wallcoverings	50%
● Flooring materials	30–50%
● Fabrics	23%

Promotion of ESG

E: GHG reduction	45%
S: Child welfare facilities that received renovation support	Total of 79
Percentage of management positions held by women	14.8%
G: Japan Corporate Governance Code	Fully compliant
(Ratings by external ESG rating organizations)	
● MSCI AA	Score 5.6
● FTSE	Score 3.0

The Long-term Vision of Sangetsu Group

[DESIGN 2030]

For six years from 2014, the Sangetsu Group implemented business reforms in line with two medium-term business plans called “Next Stage Plan G” and “PLG 2019”. However, under an opaque and rapidly changing environment, we aim to implement reforms under a clear long-term vision. Toward that end, Sangetsu has formulated the Sangetsu Group’s long-term vision DESIGN 2030 and as a first step toward that vision, its three-year Medium-term Business Plan (2020-2022) “D.C. 2022.”

The Entire Sangetsu Group Aims to Become a
“Space Creation Company”

[Business environment]

Expansion of the economic value of experiences

- Diversification in personal tastes
- From ownership to use and experiences
- Focusing on the quality of life
- Peace of mind, safety, and health
- Rapid penetration of digital technologies in personal life
- Desire for interpersonal connections

The Social Values the Sangetsu Group Aims to Realize

Inclusive

An equal and healthy inclusive society

Not only hunger and poverty but education for children and disparity of living environments are worldwide issues as well. Sangetsu Group will contribute to realize an equal, healthy and inclusive society, where diversity of gender will be respected, through creation of healthy and comfortable spaces.



Sustainable

The global environmental protection with sustainable society

While climate change and sea and soil contamination are becoming serious, vacant housing and buildings are increasing, due to an aging and decreasing population. Sangetsu Group will minimize our environmental footprint of the supply chain as a whole and will contribute to realize a sustainable society that will protect the global environment, through creation of spaces usable for the long term and utilization of stock buildings.



Enjoyable

A more affluent and enjoyable society

Regardless of the differences in nationality, gender, religion, disability, and sexual orientation, safe and reliable working environment with equal employment opportunities are being demanded. In such a working environment, it is required to sustain economic growth per capita through working efficiently. Sangetsu Group will contribute to realize a more enjoyable society by promoting equal, safe and efficient ways of working which respect human rights, through creation of spaces appropriate to various cultures and living.



Approach for Achieving the Long-term Vision



Diverse professionals

An organization where diverse professionals with on-site capabilities fulfill an active role

Basis of Management

Management / Business Foundations



Design-driven management

Enhance brand value and transform business through design

Sangetsu Group will aim to transform its business by expanding and improving the value provided by design.

Not only pursuing the beauty, function and coordination of products and spaces themselves, we will conceptualize, design and propose the interaction of people and space by considering the way people spend their time, live, experience, and act.

In addition to designing things and spaces, we will increase our brand value by designing and proposing experiences, and will aim to transform, from a company that sells things, into the company that creates spaces, and proposes and realizes experiences.

Cooperation and utilization for business-related data

Use DATA to increase the efficiency of business and transform business





From a Seller of Things to a Space Creation Company

A global Space Creation Company based on design, human resources, data, and services

Creating an inclusive, sustainable, and enjoyable society

Growth Strategies

Complete shift to service-oriented sales business

Business in which services are the source of added value

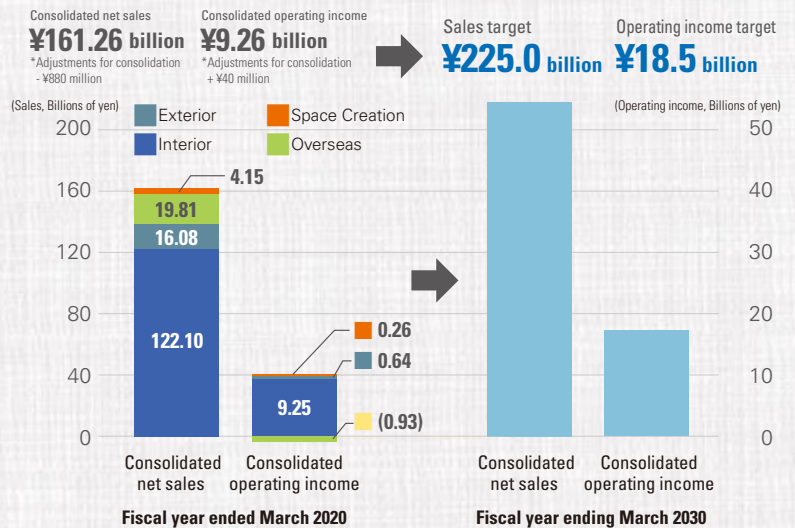


Asia and North America

Strong business in Asia and North America, and global expansion



2030 Segment Sales and Operating Income Targets



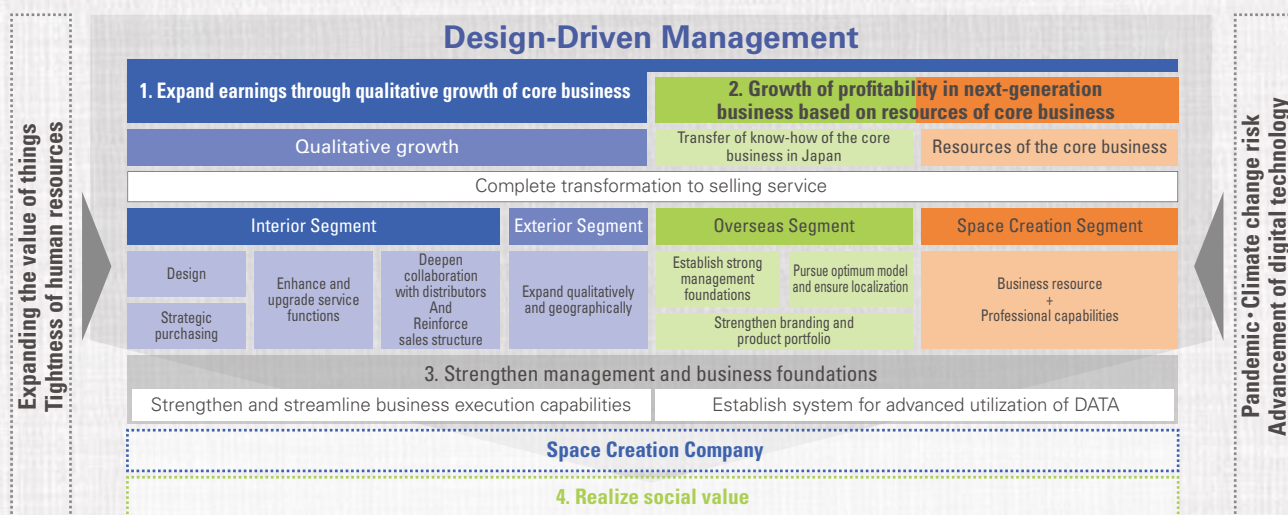
Achieving social value

Medium-term Business Plan (2020-2022)

[Design & Creation D.C. 2022]

Basic Policies

1. Expand earnings through qualitative growth of core business
2. Growth of profitability in next-generation business based on resources of core business
3. Strengthen management and business foundations
4. Realize social value

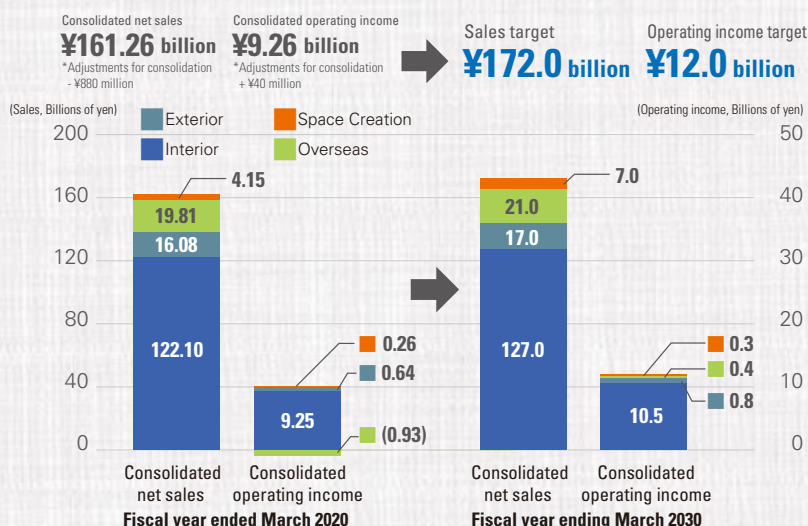


Under an opaque and rapidly changing environment characterized by expansion in the value of experiences, tightness in human resources, and climate change risk, we formulated the medium-term business plan (2020-2022) D.C. 2022 as the first step toward our long-term vision DESIGN 2030.

We will steadily implement four basic policies based on Design Management.

FY2022 targets by segments

The medium-term business plan (2020-2022) D.C. 2022 targets consolidated net sales of ¥172 billion and operating income of ¥12 billion in the fiscal year ending March 2023. We target sales growth in all segments—Interior, Exterior, Overseas, and Space Creation—and will particularly aim for an improvement in operating income in the Overseas Segment.

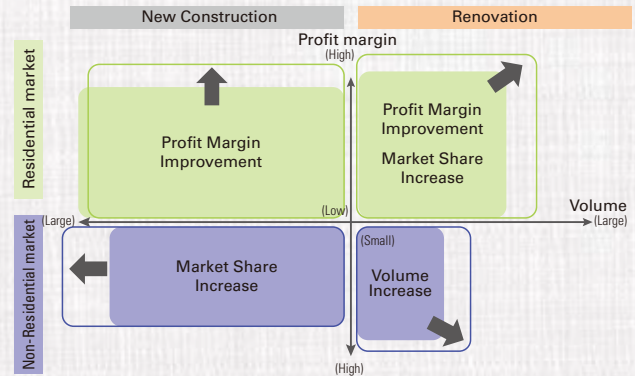


1. Expand earnings through qualitative growth of core business

Basic strategies by market

We will aim to raise and improve profit margins in the residential market. In the new construction market, we will deepen collaboration with distributors; develop sample books, advance the expansion of ordering, shipment, and delivery services; strengthen product design capabilities; and promote strategic purchasing. In the renovation market, we will work on promoting our space design capabilities.

For new construction in the non-residential market, we will seek to boost our market share by strategically allocating management resources, developmentally strengthening our design capabilities, and enhancing our strategic purchasing. In the renovation market, we will strengthen our design capabilities for experiences with the aim of volume expansion.

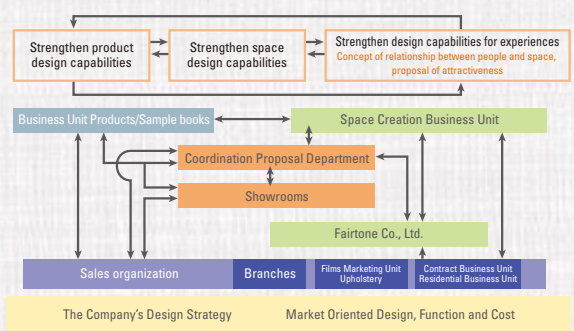


1 Enhancement of design capabilities and strategic purchasing

In addition to strengthening our product design capabilities, we will strengthen our space design capabilities, and in terms of experiential design, we will developmentally enhance our design capabilities by conceptualizing the relationship between people and spaces and proposing attractiveness.

Furthermore, we will promote strategic purchasing through purchasing policies in accordance with the characteristics of each product group by sample book.

Advancing and strengthening design capabilities



2 Expansion and upgrading of our service functions

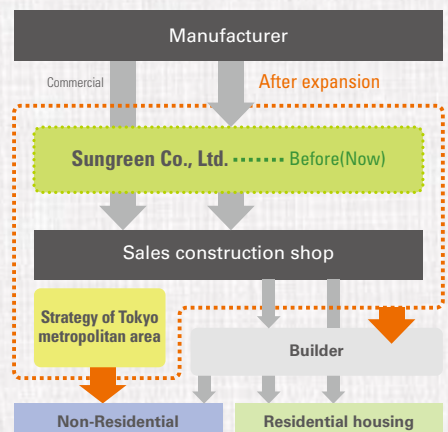
In terms of our services functions, we will aim for 1) further efficiency and cost reductions in ordering, 2) cutting lead times and ensuring the sustainability of services by reorganizing our logistics facilities for warehousing and shipments, 3) expanding and advancing our in-house system for deliveries, 4) expanding and enhancing our interior installation tradesmen and our installation management functions, 5) strengthening our comprehensive construction capabilities, and 6) expanding our construction network.

3 Deepening collaboration with distributors and strengthening sales structure

By promoting greater efficiency and division of labor through the sharing and utilization of information and data, we will deepen our collaboration with distributors, strategically allocate our internal sales force, and focus on enhancing our specification activity in the non-residential market.

4 Qualitative and regional expansion in exterior business

We will expand our business domains by pursuing sales activities in downstream markets. We aim to strengthen our business foundations in established businesses by expanding our business in the Tokyo metropolitan area and commercializing landscape construction.



2. Growth of profitability in next-generation business based on resources of core business

Overseas segment P20: Special feature: Overseas Segment / North American Business Aiming to Become a Market-Driven Design Company

We aim to establish business foundations in the markets of North America, China and Southeast Asia. In July 2019, Koroseal Interior Products Holdings, Inc. appointed a new CEO and renewed its management structure. In addition, we have also strengthened our workforce in other areas as well. Furthermore, we are strengthening our business in the Pacific Rim by pursuing optimal business models, fully committing to localization, and enhancing our branding and product portfolio.

Space creation segment

In the non-residential renovation market, we will enhance our capabilities in conceptualization, proposals, and consulting; space design and comprehensive installation, and installation management. We will also apply the know-how and strengths gained in our core business to develop our space creation business to business owners (hotels and other accommodations, offices, commercial facilities, and welfare).

Business development in Non-residential renovation market

Know-how and strength of our core business

Customer base: Business owners (Hotels/Offices/Retails/Healthcare)
Design: 60 staff member in the Interior design section
+ Out-Sourced Designers
Installation Resources: Interior-finishing capabilities



Professional ability to be further acquired

Conceptual, Proposal, Consulting capabilities, Space design
Comprehensive construction capabilities (Woodworks, Lighting and Electricity)
Construction management capabilities

3. Strengthen management and business foundations

Strengthening business execution capabilities and efficiency

Strengthening business execution capabilities

Strengthening front-line and expert capabilities

- Enhancing education and training and implementing planned job rotations
- Expanded recruitment of high-level expert talent and enhancing compensation schemes
- Carefully tailored human resources management
- Promoting diversity in recruiting
Promoting the advancement of women / increasing the number of non-Japanese employees

Enhancing efficiency in business execution

Achieving efficient work-styles

- Business process innovation and changes to internal rules and regulations, improving offices
- Implementing tele-working as a business as usual option
- Close communication internally on a regular basis

Reorganizing internal systems to strengthen capabilities and boost efficiency

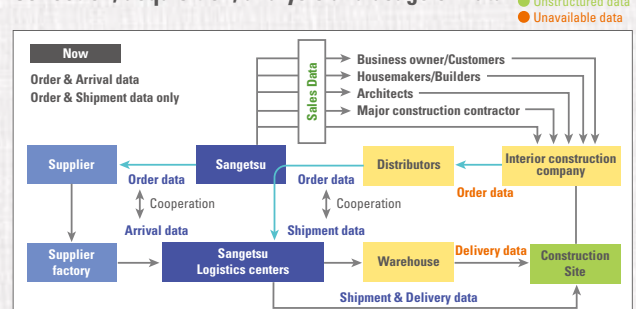
- Revisions to HR and remuneration systems to emphasize roles and responsibilities
- Promoting healthy management
- Improving employee engagement
- Promoting inclusive hiring

The establishment of a system for the advanced utilization of data

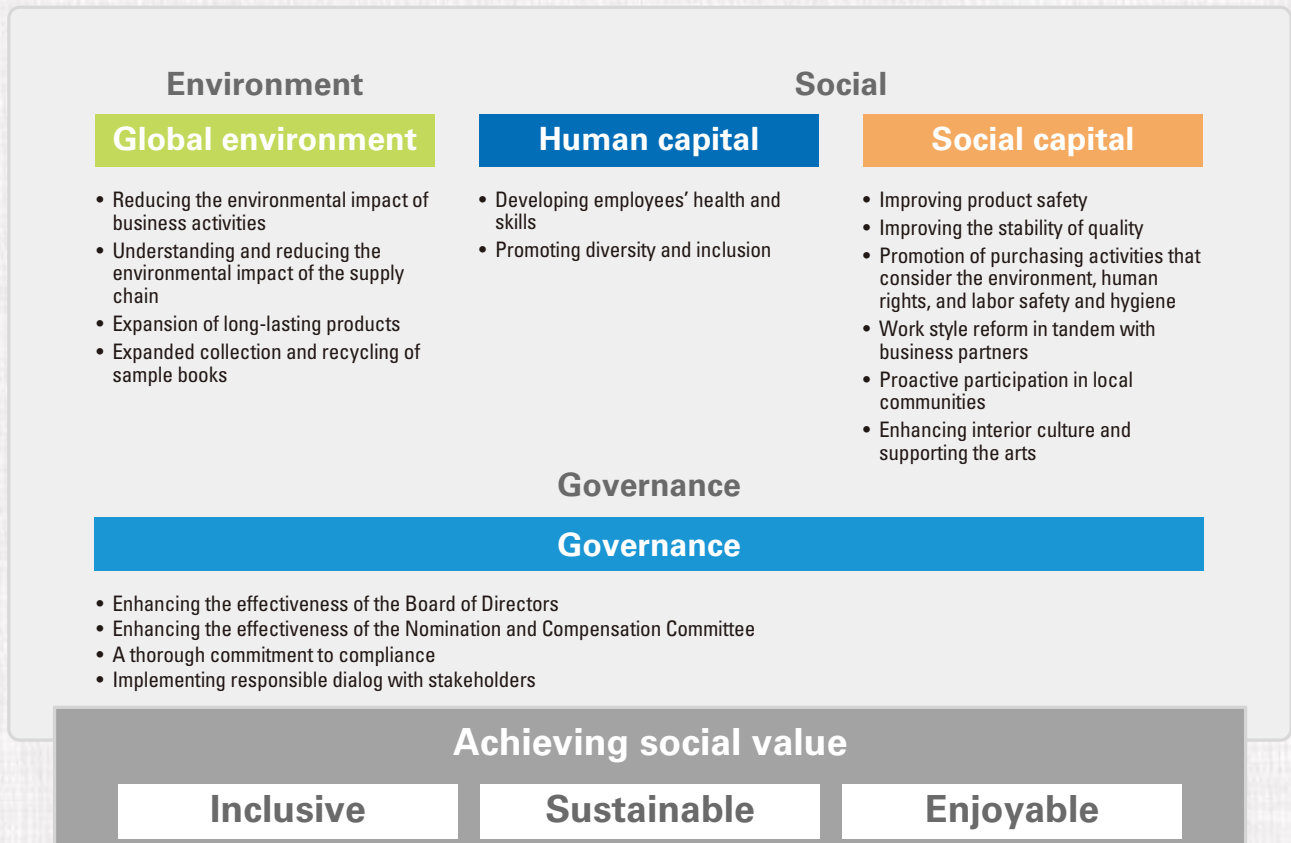
We will promote collaboration with our distributors and establish a system for the advanced utilization of data.

We will establish a system built on structured data (ordering, arrival, shipment, and delivery data) as well as delivery data to the end user. We will also structure currently unstructured sales data and create a structure for linking, analyzing, and using qualitative data.

Collection, acquisition, analysis and usage of Data



4. Realize social value



Sangetsu will manage its business with a recognition of ESG as it works toward the “Realize social value,” as set as a goal in its long-term vision.

Economic value

Targets for fiscal year ending
March 31, 2023

1. Consolidated net sales	¥172.0 billion
2. Consolidated operating income	¥12.0 billion
3. Consolidated net income	¥8.5 billion
4. ROE	9.0%
5. ROIC	9.0%
6. CCC	65 days

Social value

1. Global environment

- (1) Reduce environmental impact in business activities (Scope 1 and 2)

2. Human capital

- (1) Promote employee health and skills
(2) Promote diversity & inclusion

3. Social capital

- (1) Participation in local communities

Capital policy

1. Maintain equity in the range of **¥90.0 billion to ¥95.0 billion**
2. Based on the total return amount of the medium-term business plan (3 years), maintaining a total return ratio of approximately 100% over the three years of the plan.
3. After assessing the impact of COVID-19 on business results, we will make decisions about dividends and acquisition of own shares under the basic policy of stable dividend increase.

Top Message

The Sangetsu Group Aims to Become a Space Creation Company Producing Both Economic and Social Value

Shosuke Yasuda

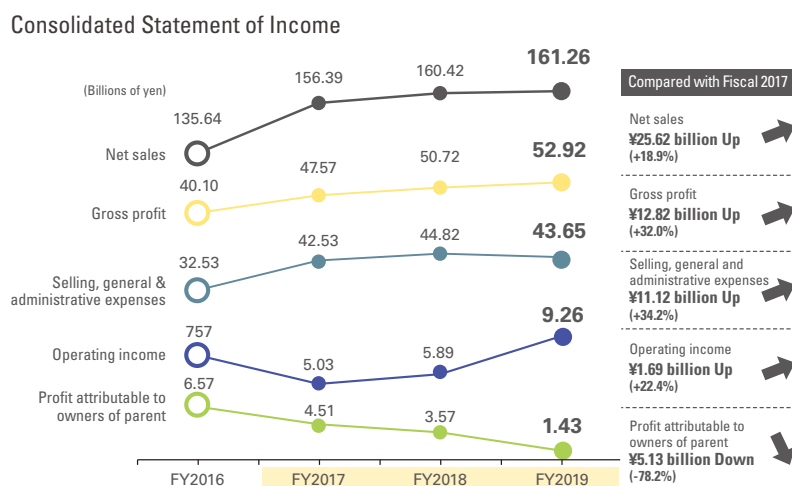
President, CEO



Looking Back at Fiscal 2019

I would first like to express my profound condolences to those who have lost loved ones to the novel coronavirus (COVID-19) infections and my best wishes for a speedy recovery to those who have fallen ill. I would also like to say a heartfelt thank you to medical professionals and others working at the front lines to prevent the spread of this pandemic.

Reviewing the construction market in fiscal 2019, the non-residential sector enjoyed firm demand underpinned by urban redevelopment projects and infrastructure investment, but the residential sector remained rigorous in both the new housing start and renovation markets. Amid these conditions, consolidated net sales for fiscal 2019, the final year of our PLG 2019, the previous medium-term business plan covering fiscal 2017 through fiscal 2019, increased by 0.5% year on year to ¥161,265 million. I am proud to note that net sales rose for the 10th consecutive year, setting another record high. Operating income increased by 57.2% year on year to ¥9,268 million and ordinary income increased by 46.9% to ¥9,844 million. However, profit attributable to owners of parent decreased by 60.0% to ¥1,432 million due to impairment losses related to Koroseal Interior Products Holdings, Inc., a U.S. subsidiary of the company. As result, return on equity (ROE) came to 1.49%, falling short of the 8.0% ROE target set in PLG 2019. On the other hand, return on invested capital (ROIC) was 7.9%, an improvement from 7.2% at the end of the previous medium-term business plan of PLG 2019 that reflects an increase in operating income and a better cash conversion cycle.



Achievements and Issues of the Previous Medium-term Business Plan PLG 2019

- Steadily implemented initiatives to strengthen product purchasing, sales, and logistics as well as develop overseas businesses.

We have organized, strengthened, and enhanced our business foundation, capabilities and functionality. However, the increase in operating income was due mostly to price revisions in the Japanese market where quantitative expansion was limited. The effect of initiatives is only halfway through.

- We need to continue to thoroughly execute on ongoing initiatives while also working on key issues related to business expansion, such as utilization of data and expansion of business to wider business categories. It is also an important issue to grow profitability and expand our overseas business.
- Among talent-related initiatives, we were committed to professional development and building a meritocracy as well as health-focused management, diversity promotion, and workstyle reform.
- In ESG/CSR-related initiatives, our ratings by external ESG rating organizations improved. MSCI: 5.6 (AA) versus 4.4 (BBB) in 2016; FTSE: 3.0 versus 2.0 in 2016.
- Shareholders' equity at fiscal year-end fell short of our target due to impairment losses. On the other hand, the total return ratio for three years was 260.5%, with the total return amount posting ¥24.81 billion.

Back-casting Our Vision for Growth

Since 2014, Sangetsu has worked under its new management team to strengthen product purchasing, sales, logistics and other facets of its business. At the same time, we have steadily implemented human resource- and ESG-related initiatives and developed our business in overseas markets. As a result, we have fortified our governance system, promoted the utilization of talent regardless of gender, and established a sales network in the Pacific Rim, including overseas subsidiaries. Above all, I have the impression that Sangetsu has transformed significantly to a structure in which the employees participate in the management process.

At the same time, what we have accomplished to now is transformation from a starting point in the past. However, given the opaque and rapidly changing business environment we have faced recently, we must draw up a vision for long-term growth if we are to achieve sustainable growth. In addition to the issues we have tackled thus far, we need to transform our business from a starting point in the future that factors in issues that will arise henceforth due to rising uncertainties and changes in values. Furthermore, I am confident that with each employee driving this transformation, we will create a new corporate vision for Sangetsu that is able to produce value for society.

Transformation into a Space Creation Company

As I touched upon previously, in May 2020 the Sangetsu Group formulated DESIGN 2030, a long-term vision looking ahead to 2030, and its new Medium-term Business Plan (2020-2022) “D.C. 2022,” which ends in fiscal 2022. We have set becoming a Space Creation Company as our long-term vision of “the company we aim to be.” A Space Creation Company is one that can conceptualize the way people spend their time in a variety of spaces as well as “the interaction between people and spaces,” such as lifestyles and experiences, and has the capabilities to design, propose, and create such spaces. As the construction market in Japan is projected to see limited growth going forward, I would like to reposition Sangetsu within its value chain to go beyond just the sale of interior products and build a structure to encompass all facets of space design, from design through construction and installation management. Toward that end, we will need to undertake a fresh analysis of such resources as our product design capabilities, human resources, data, and services; enhance and apply those resources; and develop them globally. In the path toward becoming “the company we aim to be,” we will boost our brand appeal and transform from a company that sells things to one that proposes and realizes experiences.

Social Value the Sangetsu Group Aims to Achieve

As we transform into a Space Creation Company, the social value we aim to achieve is guided by the keywords of creating an Inclusive, Sustainable, and Enjoyable society.

Sangetsu’s business is related to interiors, and as a part of an industry where many women play active roles, we have always had a strong focus on gender diversity. In addition, employees have taken the initiative to support the renovation of children’s homes and aid the disabled in becoming self-reliant through the recycling of sample books. We will continue seeking to create places both inside and outside the company that are Inclusive for many people in society and where they can express their own strengths and be successful. Sangetsu is a company that can contribute to people’s joy and health by improving the quality of residential spaces and common areas. We have prioritized Goal 11 of the SDGs, “Sustainable Cities and Communities” (Sustainable) in all our business activities for a myriad of buildings, including those in the housing, retail, office, and hospitality industries and will work to contribute to its achievement. We have also set the realization of an Enjoyable society as one of our goals. We will aim to achieve “a more affluent and enjoyable society,” such that all our stakeholders can share in the “Joy of Design” that is our brand concept.

While we aim to produce social value, we will also target consolidated net sales of ¥225.0 billion and operating income of ¥18.5 billion in 2030 as metrics of our sustained growth. We will strive to achieve our long-term vision from the dual perspectives of producing social value and creating economic value.

Our New Medium-term Business Plan (2020-2022) “D.C. 2022”

We formulated our new Medium-term Business Plan (2020-2022) “D.C. 2022,” as the first step toward realizing our long-term vision called DESIGN 2030. The plan has four basic policies: 1) expand earnings through qualitative growth in core business, 2) growth of profitability in next-generation businesses based on the resources of the core business, 3) strengthen management and business foundations, and 4) realize social value.

1. Expand earnings through qualitative growth in core business

We will pursue four initiatives in our core business of the interior and external segments.

Interior segment

1. Enhancement of design capabilities and strategic purchasing

Enhancement of design capabilities refers not only to strengthening design capabilities for products but also spaces and experiences. Design capabilities for experiences is connected with the aforementioned space design capabilities that conceptualize the relationship between people and space. It goes beyond the coordination of interior products to encompass design capabilities for entire spaces, including installation. Moving forward, we will not view such elements individually but focus on holistic design capabilities which also consider the influence such elements have on each other.

In the area of purchasing, we will formulate purchasing policies appropriate for each product family, including the number of designs and the size of each transaction lot. We will establish long-term relationships built on trust with our business partners, including consideration for ESG issues, and through these relationships, achieve strategic purchasing that is characterized by stable and competitive quality and stable supply chains.

2. Expansion and upgrading of service functions

Sangetsu’s key services functions comprise its systems for orders, inventory, shipment, delivery, and installation. These systems enabled us to meet the extremely tight delivery lead-times demanded in Japan’s construction market and have been the foundation of our growth. An aging population and labor shortage have affected sectors handling these functions of late. Yet we do not see this is a major risk for Sangetsu as it has built up and expanded its own workforce and is working to make it more advanced. We intend to further enhance our unique strengths from here on.

3. Deeping collaboration with distributors and strengthening sales structure

Sangetsu’s distributors are its partners in supporting Japan’s interior products market. To enhance the attractiveness of the industry as a whole, we must deepen our collaboration while both sides undertake workstyle reforms. We will capitalize on each other’s strengths by working together to uncover new customers, mutually reducing waste of time and boosting efficiency by sharing and utilizing various types of data, building an even more robust partnership, and fortifying our sales networks.

Exterior segment

4. Qualitative and regional expansion in the exterior business

Sungreen Co., Ltd. is responsible for our exterior business. Rather than view this business in relation to the interior business, we will fully commit to expanding its exterior work. Sungreen will transform itself from its current position as a manufacturer’s agent to a position close to downstream markets that are closer to the front lines of construction and focus on getting space design work in the downstream markets. At the same time, Sungreen will leverage Sangetsu’s know-how and strengths in delivery and installation gained through the interior business in exteriors while also focusing on business expansion in landscape construction and the Tokyo metropolitan area.

2. Growth of profitability in next-generation businesses based on the resources of the core business

The Overseas and Space Creation segments will be our next-generation businesses.

Overseas segment

In the Overseas segment, we believe that we should further analyze the markets of North America, China, and Southeast Asia, and establish a business structure that provides the products and services that address local requirements in each market. We have already strengthened our business foundations in each country. As our next priority, we will review the optimal product portfolio for each region and fully commit to localization while enhancing our branding in line with sales strategies tailored to each country's market.

Space Creation segment

Newly established in fiscal 2020, the Space Creation segment has its foundation in the customer base and proposal skills that Sangetsu has built up throughout its history. It will take advantage of the strengths embodied in the design capabilities of the Space Creation Division and the know-how gained from Fairtone Co. Ltd.'s integrated construction capabilities to conduct business activities with a high degree of expertise, from space design through to installation.

A decline in demand from hospitality facilities precipitated by the impact of COVID-19 has made the current business environment challenging. That said, this segment can be called a pioneer in the transformation into a Space Creation Company from a marketer of interior products, and we will continue to bolster our sales activities and expand our human resources in this area.

3. Strengthen management and business foundations

Human resources and data are the key business foundations of the Sangetsu Group. It is important that all employees 1) are healthy and find their work personally rewarding, 2) are able to express their skills and work efficiently and creatively, 3) have their performance evaluated appropriately, and 4) understand the direction the company and their organization is headed. What is also indispensable is the utilization of data. We have formulated policies to strengthen our management and business foundations with a focus on these two perspectives.

Strengthening business execution capabilities and efficiency

We have set enhancing capabilities at the front lines and building expert capabilities as goals for strengthening business execution. If we take logistics functions as an example, one of Sangetsu's strengths is its overwhelming front-line strength in packaging and shipments—it is able to cut products to 10cm specifications and ship them within a few hours of receiving an order. Our ideal state is adding expert capabilities as professionals to this. We will also work to enhance both front-line strength and expertise to all operations, including sales and design. In addition, we aim to strengthen our business execution capabilities by establishing structures to enhance operational efficiency, such as the promotion of tele-working and making communication smoother, including that which is not conducted face to face.

Establishment of a system for the advanced utilization of data

A variety of data is generated in our daily work that can be leveraged in our digital transformation. This data can be classified into three broad categories: order data, shipment and delivery data, and sales data. Of these, order data has been acquired and is structured, while delivery and sales data have either not been acquired or are unstructured and are therefore not in a usable state. We aim to acquire and structure such data and use it to conduct business activities more efficiently. We believe this data can be applied to product development, sales activities, and inventory management and thus contribute to improving our operations.

4. ESG initiatives to realize social value

The devastating natural disasters we have seen in recent years are symbolic of the need to address climate change as an utmost priority that is shared today by all humankind. Construction-related companies and homebuilders have also come to increasingly demand products with long lifespans and with minimal environmental impact. Sangetsu will contribute more than ever to reducing the environmental burden of its supply chain as a whole in its development of new products and services. On the Environment front, we will enhance our response to reducing Scope 3 emissions and also have made the collection and recycling of sample books, which have a major impact on our business model, a top priority. Up to now, Sangetsu has collaborated with facilities for the disabled to recycle sample books that have been collected, but from now will consider and implement a framework in this area that spans the entire organization.

On the Social front, we will undertake initiatives to improve peace of mind, safety, and attractiveness throughout our supply chain. The Sangetsu Group has issued its human rights proclamation and published its CSR Purchasing Policy to its suppliers to promote understanding and improvement at the manufacturers from which it sources. We are promoting initiatives that aim to contribute from a broad viewpoints, from product manufacture through delivery and from the perspectives of the environment and labor safety and hygiene at suppliers.

We have added Governance themes to these and specified materiality by linking our long-term vision to the initiatives to achieve SDGs. We then set a framework to encourage unified results and established targets and KPIs to confirm progress and are promoting their management.

5. Capital policy: Boost capital efficiency and enhance shareholder returns

Our capital policy in the new medium-term business plan aims to maintain shareholders' equity in the range of ¥90 billion to ¥95 billion and a total return ratio of approximately 100% over the three years of the plan. Furthermore, the impact of COVID-19 is unclear, but we intend to the extent possible to implement stable dividend increases while considering our earnings performance.

We project the global COVID-19 pandemic will exert a major impact during the three years of our new medium-term business plan. That said, it is precisely under such challenging circumstances that I would like all employees in the Sangetsu Group to keep their goals lofty and their dreams big. Sangetsu will strive to remain a company needed by society and endeavor to realize an Inclusive, Sustainable, and Enjoyable society. We thank you for your ongoing support and encouragement.



Aiming to Become a Market Driven Design Company

Under Sangetsu's long-term vision DESIGN 2030, we have set our business area as the Pacific Rim with the aim of further overseas expansion.

In July 2019, Victor Paul was appointed CEO of Koroseal Interior Products Holdings, Inc., which drives Sangetsu's business in North America. He is also President of Metro Wallcoverings, a Sangetsu Group company, headquartered in Canada.

Here we introduce Mr. Paul's views as CEO on the outlook for Sangetsu Group's North American business.



Victor Paul
Chief Executive Officer
Koroseal Interior Products Holdings, Inc.

I. Features of the North American market and both companies' strengths

The North American interior products market is dominated by six players competing for share in a market that demands products with better designs be provided at cheaper prices. Koroseal is the only integrated supplier in North America that conducts manufacturing, logistics, and sales on its own. On the other hand, Metro is a sales agency with a commanding market share as a wallcovering supplier in Canada.

Both companies have talented staff, an attractive and broad product lineup and customer base, and strong brand appeal based on solid relationships with customers built on trust.

Wallcovering production equipment deployed in April and September 2019.





Digital printing equipment expanded in May 2019.

II. Implementing cutting-edge equipment and enhancing design capabilities

Introducing new production equipment at our plant in Louisville, Kentucky last year has led not only to the development of an even wider array of products, but also to reduced lead times and lowered manufacturing costs since we are now producing more efficiently. At the same time, design capabilities are the lifeline of our aim to be a Market Driven Design Company.

We will combine our production capabilities, which have been enhanced by new facilities, with our design capabilities to accurately express what the market wants. By doing so we will develop products suited for diverse markets and provide creative designs.



III. Future issues

A major issue facing us is that the recovery of the global economy and various markets—the hospitality (hotels and other accommodations) market in particular—are unpredictable.

Going forward, GDP may shrink and the recovery may become irregular. It is very challenging to seize the opportunity to execute on initiatives for the future in such an uncertain environment.

There will be a battle for survival as competition intensifies placing pressure on gross margins in a shrinking market.

In addition, we must develop environmentally friendly products given growing concern for the environment. I believe we must focus on our long-term strategy while tackling such issues.



IV. Vision for the short-, medium- and long-term

We are strengthening the capabilities of our sales teams and customer service departments to enhance our competitiveness in the market in the post-COVID-19 era.

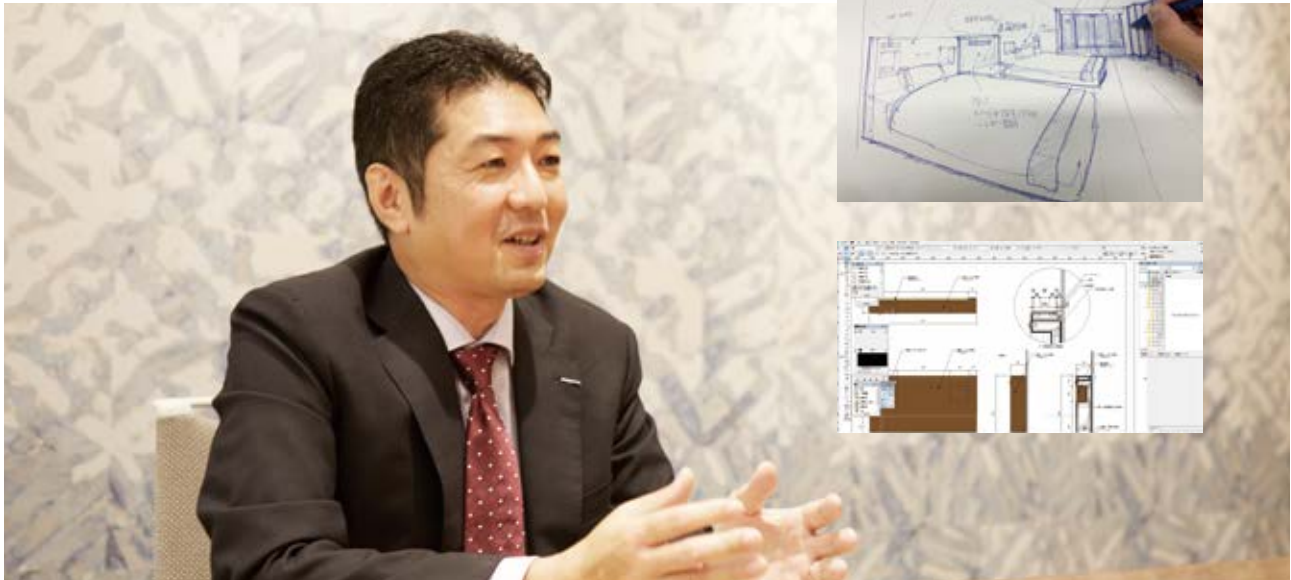
Over the medium term, it will be important to respond to the diversification of products and markets by utilizing the capacity of newly invested production equipment. At the same time, we will continue evolving into a more profitable business structure while boosting customer satisfaction.

Over the long term, we will become a leading company in proposing design solutions that has robust and sustainably high profitability. Following the slogan “Shaping the beauty of the world”, we aim to contribute to the global environment, improve employee satisfaction, embrace diversity, and enrich our society and culture from in both physical and mental perspectives.

Aiming to Establish a Space Creation Business that Wins with Both Creativity and Design

Our long-term vision DESIGN 2030 positions a “Space Creation Company” as the company we aim to be in 2030. We aim to transform our business into one that achieves the provision of expanded and improved value through design.

In this section, we introduce the Space Creation Division, which is the vanguard of this business model transformation.



Daisuke Tsukuda

General Manager, Space Creation Division

I. About the Space Creation Division

The business started in April 2019 as the Renovation Division and a year was spent establishing the organization which from April 2020 began operating as the Space Creation Division.

Proposing spaces to customers is central to the business, and we provide one-stop shopping from architectural design through to construction.

Up to now, Sangetsu’s business focused on the sale of interior products and it had positioned proposing interior coordination as a sales promotion tool. However, the Space Creation Division has design work as its main business and handles all steps through to management of onsite construction.

II. Strengths of the division

In the Renovation Division up to now, proposals were primarily made using Sangetsu’s interior products, but going forward we will act like a design office and make proposals using all space-related products including lighting equipment and other products not in Sangetsu’s product lines.

Our members are assigned to architecture and design teams, site management teams, and sales teams. They will lead Sangetsu’s growth into a Space Creation Company by fortifying their own expertise while strengthening their ties with external partners.

III. Target markets

We are focusing on the non-residential renovation market, assuming that demand for new construction will decline in the future. We had received inquiries about office renovations from customers who purchased our interior products, so we believed this market had potential from the time we started the business.

Most recently, given the turmoil caused by COVID-19, we need to also be aware of changes to workstyles in offices, such as the need to maintain social distancing.

IV. The company we aim to be

Going forward, we will strengthen linkages within the overall Sangetsu Group, including the Interior Design Section and the Construction Section. And over the long term, we aim for the business to grow to become a core business on par with Sangetsu's established businesses.

We will remain committed to creating something from nothing and to the belief that design is also a top priority as we work to establish a business model that provides one-stop solutions through to construction.

We will create enjoyable spaces and do our best so that people who use those spaces will feel the same enjoyment.



Haneda Sky Campus, Azusa Sekkei Head Office

Creating an "office that grows" together with Fairtone through Sangetsu's proposal capabilities

The "Haneda Sky Campus", the head office of Azusa Sekkei Co., Ltd., is a living example of an "office that grows" born of Sangetsu's power to create proposals and working with Fairtone Co., Ltd., a Sangetsu Group company. The office features four 10m tall x 100m long "runways" inspired by those at Haneda Airport, which are the core of workspaces and an adjoining café. The Space Creation Division was the project manager for the building and was involved in brainstorming design ideas and giving directions on design while Fairtone was in charge of construction.



Interior design: Azusa Sekkei Co., Ltd.

The 33rd Nikkei New Office Award, Minister of Economy, Trade and Industry Award



Interior Segment

(Japan)



Yoshiaki Kaneko

Executive Officer
General Manager,
Interior Business Unit

Recognition of the market environment and risks and opportunities, growth strategy

Although the outlook is uncertain due in part to the COVID-19 pandemic, a close look into the non-residential market reveals contrasting business conditions by market segment. Amid these circumstances, I have the impression that the products we have launched are accurately addressing market needs. Going forward, we will dispatch our younger employees to major trade exhibitions overseas and push forward with product development with an eye toward global markets. We will thus further strengthen our product development capabilities and execute our strategy with an awareness of overseas markets. We are also focusing of an e-commerce site for our fabric products to sell to the end user directly over the Internet.

Sales composition ratio

77.9%



Wallcoverings Business

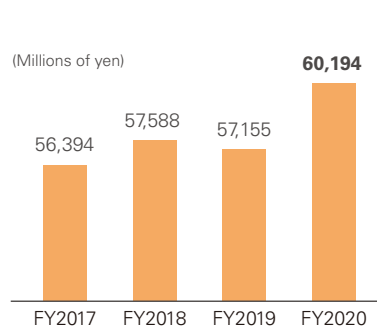


Sales composition ratio

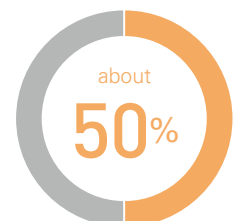
47.9%

Capturing new demand primarily for functional products and penetrating the market

Deflationary trends in the market and contraction in the residential and renovation markets in the second half of the fiscal year created a challenging market environment. However, Sangetsu was successful in growing sales by fortifying the lineup in its “SP” sample book of mass-produced wallcoverings and updating its “FAITH” sample book of fire-retardant wallcoverings. Furthermore, demand for office renovations was a tailwind for “CLEAS” sample book of glass films and as a result, sales of wallcoverings were ¥60,194 million (up 5.3% year on year).



Wallcoverings Market Share



*Market share data is for fiscal 2018; domestic market share based on Sangetsu estimates.

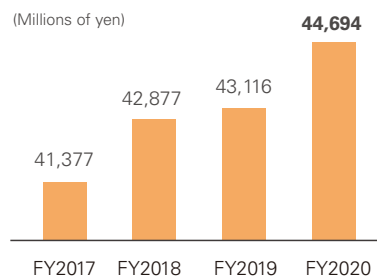
Flooring Materials Business



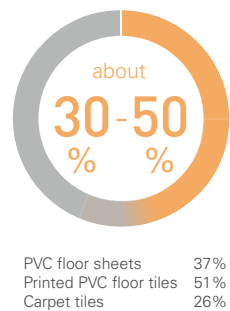
Sales composition ratio
35.6%

Product series based on natural materials that recreate a variety of diverse wood and stone material are selling well

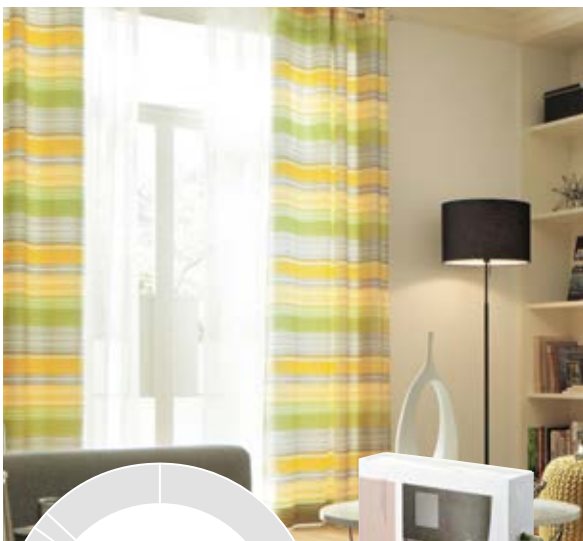
Vinyl floor tiles in the “FLOOR TILE” sample book drove sales, and we enjoyed brisk deliveries of product series that recreate wood and stone materials. Furthermore, in the office renovation market and at commercial and hospitality facilities, carpet tiles in the highly ingenious “DT Series” and the “NT-700 Series” delivering performance at low cost were well received. We therefore posted sales in this business of ¥44,694 million (up 3.7% year on year).



Flooring Materials Market Shares



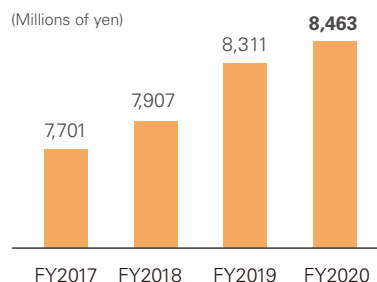
Fabrics Business



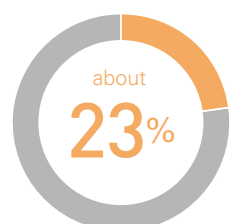
Sales composition ratio
6.7%

Earning a strong reputation with series offering attractive designs, textures, and functionality

In curtains, products in the “AC” sample book lineup that are in tune with the trend toward a Scandinavian feel and modern design posted sales growth. In upholstery, Aqua Clean technology, which permits cleaning just by wiping the fabric with a cloth and water, became more recognized in the market. Fabric in solid colors with an attention to texture and vinyl leather with excellent functionality were popular. As a result, sales of curtains and upholstery reached ¥8,463 million (up 1.8% year on year).



Order-made Curtains Market Share



Sangetsu's strengths and business model supporting the Interior Segment

The Interior business in Japan is an important and stable business foundation for the Sangetsu Group. Here we introduce Sangetsu's strengths and business model that support these operations.

Sangetsu's strengths: Three functions

Sangetsu's product development capabilities

The marketing and product development departments take the lead in using original data gained while visiting overseas and through market research to plan and develop products that cater for diverse needs. By collaborating with diverse manufacturers and external designers, we are continuously creating attractive products, including the procurement of overseas brand products.



- An expansive product line for the Japanese market spanning 12,000 items
- 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 Proposal Capabilities

Sangetsu takes broad approaches while continually anticipating market changes.

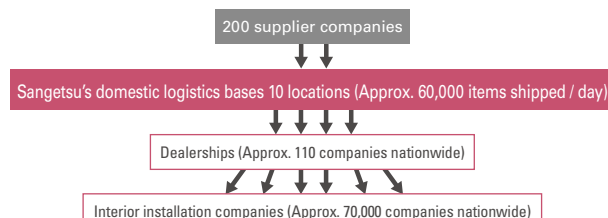
We operate showrooms at eight locations in Japan where our nationwide showroom staff of 110 are on hand to help customers select the products that will best suit their needs. We have also set up interior design (ID) sections where proposals for entire spaces and the like are made.

- Sales system compatible with multiple markets
- Showrooms (eight locations), ID sections (60 staff members) deployed nationwide
- Coordination and solution capabilities based on specialized knowledge

Sangetsu's Logistics Capabilities

Sangetsu's logistics bases provide "just in time" logistical services, delivering the required amount to product when and where it is needed. We maintain stable product supplies and avoid both out-of-stock situations and unnecessary inventories. In preparation for a shortage of labor raising 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 items/day are accepted order 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

Unique Business Model

01 Sangetsu, a Fables Company

Sangetsu is a fables company with no manufacturing capabilities of its own. We offer a variety of products to our customers by joint development with several manufacturers and by means of Sangetsu brand sample books. We pay particular attention to customer feedback and provide enhanced product lineups while meeting the needs of customers related to construction and installation through zero-shortage stock management and a “just-in-time” logistics system.

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

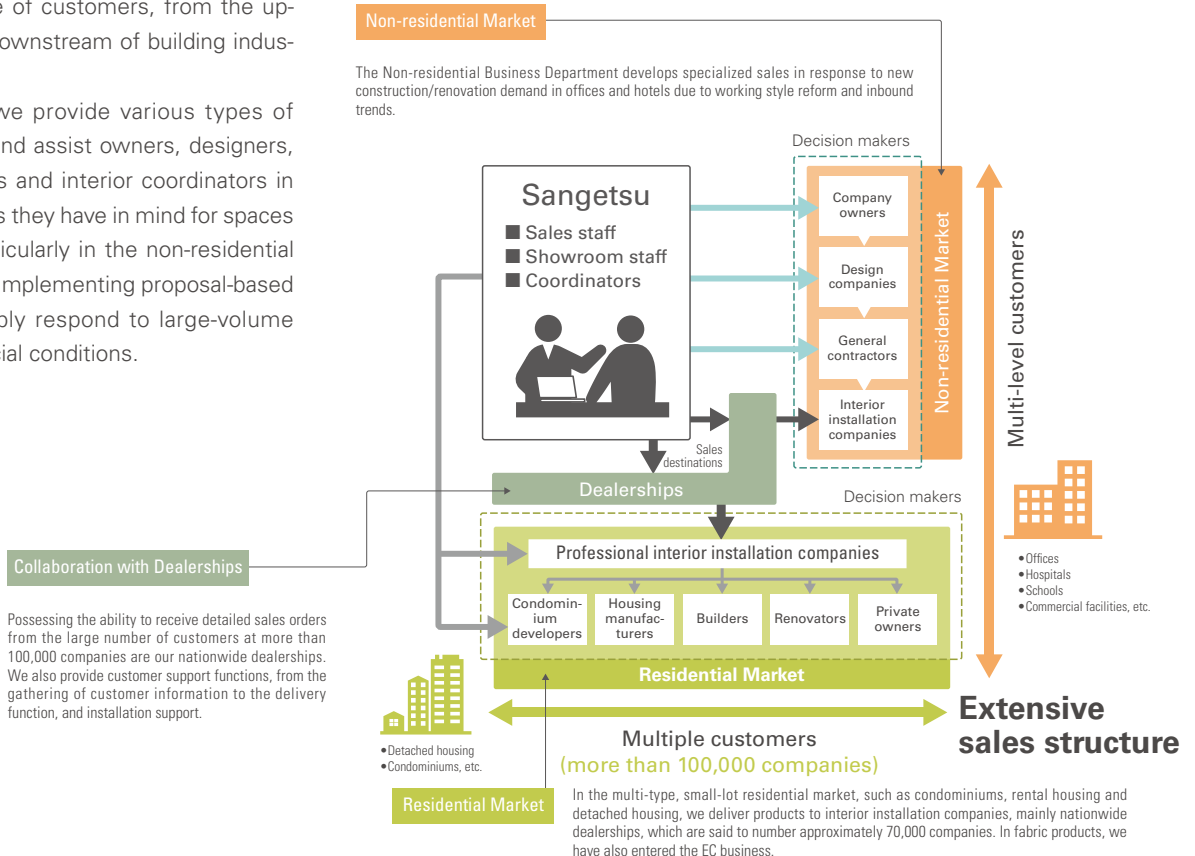
Although Sangetsu is based on area sales, there are specialized organizations, including the Contract Sales Department that specializes in the non-residential market, and the Residential Business Department that specializes in the housing market. These organizations apply specialized expertise to provide specialist sales for products and markets. We also have organizations that specialize in certain products, such as upholstery and functional films merchandise. Combining market areas and products centered on a region, a three-dimensional (3D) system responds to the detailed needs being requested by our customers.

03 Sales Structure Geared Toward Multi-Level Customers/ A Variety of Customers

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



Growth strategy for the Interior Segment

The Interior Segment has been known for its stable earnings, but we are working to expand its functions and transform its business in the pursuit of further growth.

E-Commerce development in the fabrics business

In fiscal 2018, we launched an E-Commerce business and entered a new market for curtain sales. Buying curtains has a reputation for being confusing, so we made our site easy to understand and present a product suite and quality that would satisfy customers so they can sense a brand's value when make a purchase. Unlike most E-Commerce sites that sell stand-alone products, we aim to sell our curtains as a proposal for an interior scene. We are exploring ways to parlay this into a BtoC channel for a variety of products.

Takashi Morita

Executive Officer Responsible for Curtain Business,
President of Sangetsu Vosne Corporation



Initiatives of the Contract Sales Division

We are engaged in sales activities to broadly promote our products' design and functionality to business owners, architects, and designers with the aim of having them adopted in office, health-care, welfare, hospitality, commercial and other non-residential facilities nationwide. At times we are involved in major projects that involved BtoB transactions and personal networks. In recent years, we worked to win contracts for our products at airports, train stations, and other infrastructure projects with the Tokyo Olympics and Paralympics in mind, hotels anticipating inbound tourism demand, and office renovations as part of work-style reforms.

Kazuto Suzuki

General Manager
Contract Sales Division



Initiatives of the Space Creation Division

Unlike conventional vendors of interior materials, this division wins project orders directly from business owners and handles all work from design through to construction. The division is home to staff with specialist skills in proposes spaces themselves and are able to offer high value-added services as a one-stop solution from conceptualization through to design and management of onsite installation. The division's name changed in April 2020 to the Space Creation Division from the Renovation Division and will consolidate to the Sangetsu Group's expansion into new business domains going forward.

Daisuke Tsukuda

General Manager
Space Creation Division



Strengthening construction functions as an interior contractor

In Japan's markets for non-residential new construction and renovations, we will leverage our powerful synergies with Sangetsu and strengthen construction functions as core member of the Space Creation Division.

In addition, we will offer construction services as a one-stop provider of interior construction from architectural and design proposals through to construction management. This will be done for a variety of customers in Japan through the ability to provide installations for a range of industries, high engineering skills, and project execution management capabilities.

Shigenobu Maki

President of Fairtone Co., Ltd.



*The Space Creation Division and Fairtone Co., Ltd. will transfer to the Space Creation Segment from fiscal 2021.



Sales composition ratio

10.0%

Exterior Segment

(Japan)



Hirofumi Takeda
President
Sungreen Co., Ltd.

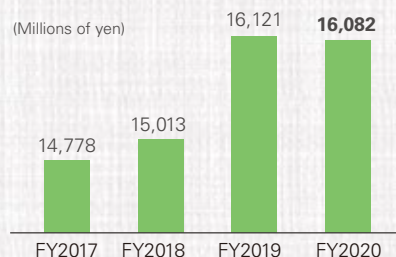
Helping create enriching environments with gardening spaces and more

Sungreen Co., Ltd. seeks to enrich daily lives by providing doors, fences, and carports for residences as well as exterior merchandise for various types of facilities.

In the first half of fiscal 2019, the Exterior Segment was strong, buoyed by demand for rebuilding from damage from natural disasters in the fall of 2018 and rush demand ahead of a consumption tax hike. Meanwhile, the second half was exceptionally challenging due to the dip as extraordinary demand from the consumption tax and disaster rebuilding ran its course and this was exacerbated by a rapid market contraction resulting from the COVID-19 pandemic.

Against this backdrop, our performance in fiscal 2019 did not reach that of the previous year, but Exterior Segment net sales surpassed ¥16.0 billion for the second consecutive year and operating income reached a record high of ¥642 million (up 8.2% year on year). Despite a difficult operating environment, we focused on strengthening both sales and construction and were able to increase profit thanks also to a companywide push to boost gross margins.

Sungreen was founded in 1973 and became a member of the Sangetsu Group as a specialty trading company in 2005. We will continue to propose enriching lifestyles through exteriors.



Expanding our business as a member of the Space Creation Company

We will engage in a wide array of business activities without being limited to a wholesaler connecting manufacturers with sales contractors. We will expand our product portfolio beyond the sale and installation of aluminum merchandise and develop a broader range of exterior-related products that help to enrich people's lives.

In addition, we will aggressively endeavor to win orders for gardening space work as part of efforts to expand our construction domain and strengthen our capabilities for making proposals in the Kanto region.

We will also widen our business domains beyond housing to include schools, hospitals, parks, and cityscapes to create spaces that provide peace of mind to people who gather in them.





Overseas Segment



Shigeyuki Hasegawa
General Manager of Overseas Business Division

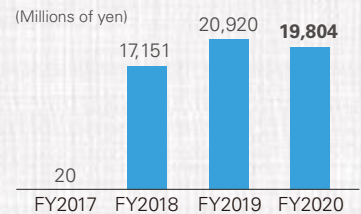
Recognition of the market environment and risks and opportunities, growth strategy

While good progress has been made in building out a sales network covering the Pacific Rim, I recognize that further expanding its scale and improving profitability are priorities. Going forward, we will strive to strengthen sales systems and fully commit to localization in each area. In addition, our policy is to not only provide the same products consistently in global markets, but also to focus on localizing products suitable for each market and boost our competitiveness in each area we operate.



Sales composition ratio

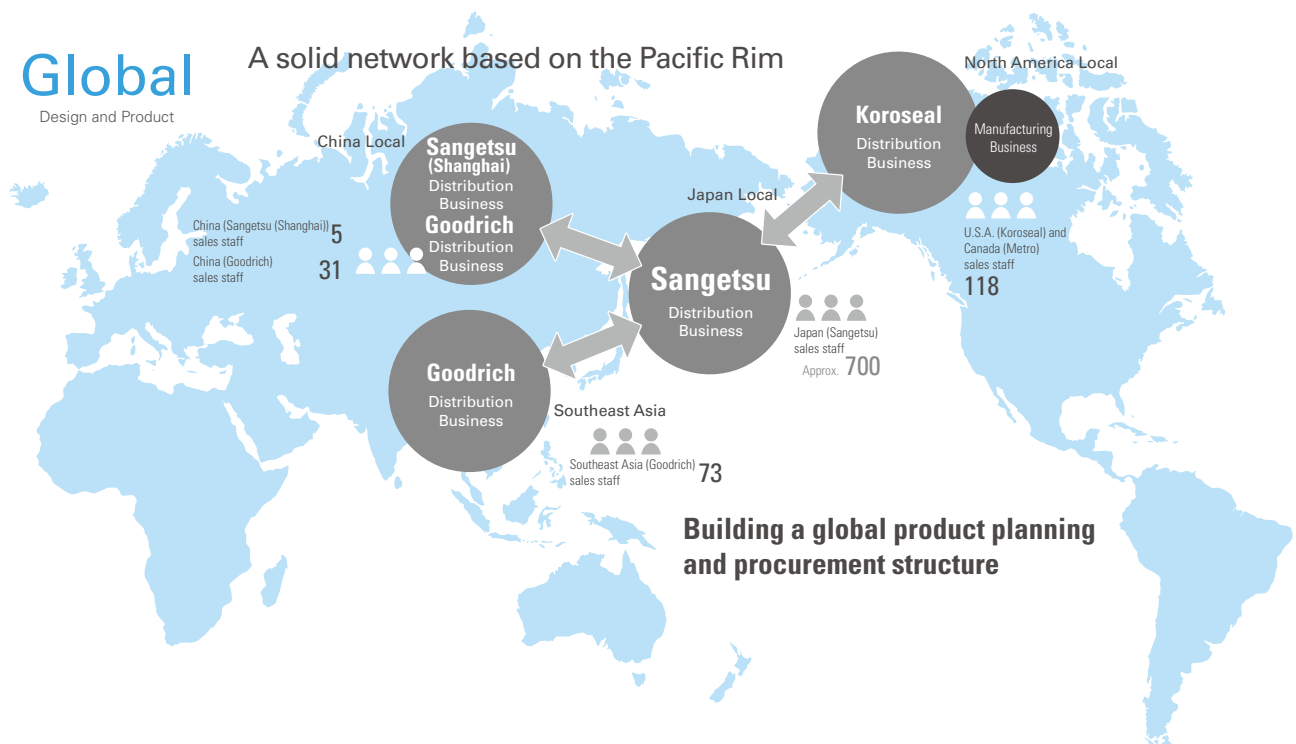
12.3%



Global

Design and Product

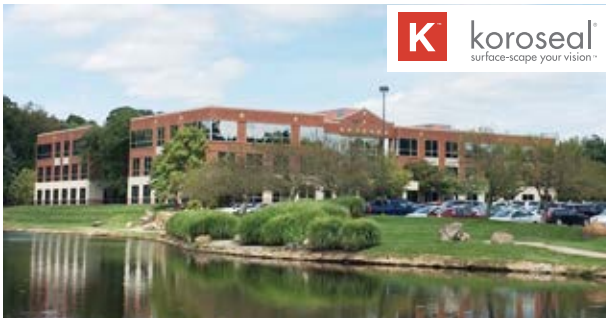
A solid network based on the Pacific Rim



Building a global product planning and procurement structure

Sangetsu's global network in the Pacific Rim

Koroseal Interior Products Holdings, Inc.



Number one share in non-residential wallcoverings in North America

Koroseal, a leading player in the North American non-residential wallcovering market, and Metro, its subsidiary selling wallcoverings in Canada, are in charge of the Sangetsu Group's global development (procurement and sales). In addition, the development of environmentally friendly products is a focus for the long term.

In recent years in addition to functioning as a trading company handling products of other manufacturers, it is also enhancing its product development and manufacturing functions to focus on strengthening its own-brand products.

Established: 1956 (Group company since November 2016)
Headquarters: USA (Ohio)

Goodrich Global Holdings Pte., Ltd.



A potent sales network boasting the largest market share in Southeast Asia

We provide a wide array of products and services to customers in diverse industries, primarily in Singapore, Southeast Asia, India, and the Middle East. In fiscal 2019, the impact of US-China trade friction and changes in our supply chain created tough business conditions. Moving forward, however, we will focus on newer markets like the Philippines and Vietnam and create synergies by leveraging our local strengths to the fullest in more regions. In addition, in a living-with-COVID-19 society, we aim for further growth by responding to demand for products with antibacterial products and that are environmentally friendly while enhancing our customer service through the use of webinars.

Established: 1983 (Group company since December 2017)
Headquarters: Singapore (Changi)

Sangetsu (Shanghai) Corporation



Offering interior merchandise based on know-how gained in Japan

We believe we can leverage Sangetsu's product design capabilities, product functionality, and inventory responsiveness in Japan in the Chinese market, which is known to be the most fiercely competitive worldwide. We continue to expand our focus from big accounts to a combination of large- and small-lot transactions. Our orders from local Chinese customers have risen dramatically and we are also entering contracts with major Chinese suppliers.

Established: April 2016
Headquarters: China (Shanghai)

i Topics

Establishment of local subsidiary in Vietnam

Sangetsu and Goodrich Global Holdings Pte., Ltd. have partnered to establish Sangetsu Goodrich Vietnam Co., Ltd., a local subsidiary in Vietnam's Ho Chi Minh City.

Establishing a local subsidiary in Vietnam where brisk economic growth is expected to drive demand for construction will strengthen our sales activities. At the same time, Sangetsu aims to contribute to creating affluent lifestyle cultures in the country through the sale of interior products and other activities.

Established: March 2020
Location: Vietnam (Ho Chi Minh City)
Number of employees: 6
Main business lines: Sales of interior products in Vietnam and design and installation of interior finishings.



Board of Directors



Directors

1 Shosuke Yasuda

Representative Director, President and CEO

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



2 Kenji Ito

Director, Executive Officer in charge of Administrative Unit (President's Office, General Affairs, Human Resources, Management Audit and Information System)

- June 2001 General Manager of Legal Department, TOYOTA INDUSTRIES CORPORATION
- June 2006 General Manager of Safety and Health, and Environment Departments, TOYOTA INDUSTRIES CORPORATION
- Jan. 2008 General Manager of Safety and Health Promotion Department, TOYOTA INDUSTRIES CORPORATION
- Mar. 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
- Apr. 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
- Apr. 2017 Director, Executive Officer in charge of Administrative Unit (President's Office, General Affairs, Human Resources, Management Audit and Information System) (To present)



3 Kunihiro Nasu

External Independent

Outside Director (Audit Committee Member)

- Apr. 1969 Registered with the Nagoya Bar Association (current Aichi Bar Association) (To present)
- Oct. 1975 Established Nasu Kunihiro Horitsu Jimusho (To present)
- Apr. 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)



4 Masatoshi Hatori

External Independent

Outside Director (Audit Committee Member)*

- June 2003 Director of Kanegafuchi Chemical Industry Company Limited (current KANEKA CORPORATION)
- June 2005 Executive Director of KANEKA CORPORATION
- June 2006 Director and Managing Executive Officer of KANEKA CORPORATION
- Apr. 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)



[Supplementary explanation to the independence]

* From March 2000 to March 2003, Mr. Masatoshi Hatori served as the Representative Director & President of FUSOGOSEI Co., Ltd., a business partner of the Company. However, over 17 years have passed since he resigned from said company and he therefore fulfills the Company's Standards of Independence for Outside Directors and the Company has deemed that there are no issues regarding his independence.

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



5 Michiyo Hamada External Independent Female

Outside Director (Audit Committee Member)

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



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

7 Shuji Sasaki

Director (Audit Committee Member)

- Mar. 1979 Joined the Company
- Feb. 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
- Apr. 2015 Director in charge of the Marketing and General Manager of the Flooring Division
- Apr. 2016 Director, Managing Executive Officer and General Manager of the Sales Division
- Apr. 2019 Director
- June 2019 Director (Audit Committee Member) of the Company (To present)



6 Kenichi Udagawa External Independent

Outside Director (Audit Committee Member)

- June 2004 Director of Tosoh Corporation
- June 2008 Managing Director of Tosoh Corporation
- June 2009 President of Tosoh Corporation
- Mar. 2016 Director and Corporate Adviser of Tosoh Corporation
- June 2018 Honorary Adviser of Tosoh Corporation
- June 2019 Outside Director (Audit Committee Member) of the Company (To present)



Executive Officers and Senior General Managers

- | President and CEO Shosuke Yasuda
- | Senior Executive Officer, Sales Business Unit Yasutomu Yoshikawa
- | Executive Officer, In charge of Administrative Unit Kenji Ito
- | Executive Officer, General Manager of Interior Business Unit Yoshiaki Kaneko
- | Executive Officer, General Manager of Logistics Division Yosuke Mine
- | Executive Officer, General Manager of Non-residential Business Department Taro Shibagaki
- | Executive Officer, In charge of certain businesses and President of Sangetsu Vosne Corporation Takashi Morita
- | Senior General Manager, Chief Branch Manager of Kyushu Branch Satoshi Miyata
- | Senior General Manager, General Manager of Residential Business Department Kazuhito Harada
- | Senior General Manager, General Manager of Management Audit Division Hidenori Masuda
- | Senior General Manager, Overseas Business Unit Mikio Otsuka
- | Senior General Manager, Chief Branch Manager of Tokyo Branch Hirohisa Nakagawa
- | Senior General Manager, President of Fairtone Co., Ltd. Shigenobu Maki
- | Senior General Manager, Chief Branch Manager of Chubu Branch Eiji Yamashita

Corporate Governance

Our Basic Approach to Corporate Governance

Sangetsu's Company Creed is "Sincerity," 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 in 2015, 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.

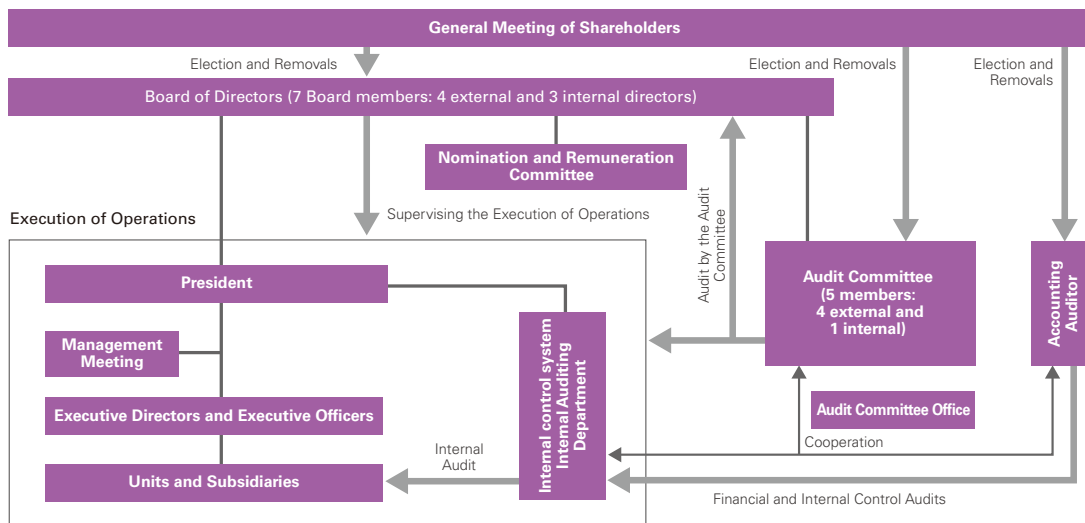
Corporate Governance System

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 10 years with the intention of ensuring and maintaining greater independence and appropriate external audits. The Company has thus established a system for enhancing the transparency of its corporate management.

Furthermore, following a proposal raised at the Ordinary General Meeting of Shareholders held on June 25, 2020 regarding partial amendments to the Articles of Incorporation, the number of Executive Directors was reduced to no more than four from no more than 10 in consideration of the current number of such directors. As a result, the maximum number of Executive Directors (four) is now half the maximum number of Audit & Supervisory Committee members who are directors (eight).

Framework of the Corporate Governance System



Board of Directors

The Company's Board of Directors consists of four outside directors and three internal directors and meets once a month.

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.

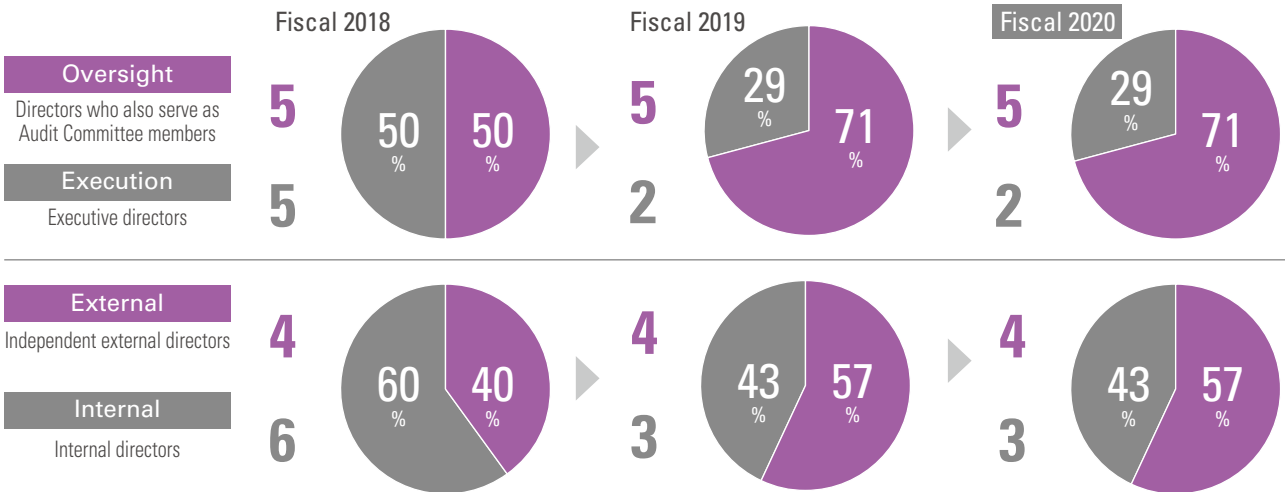
Audit Committee

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

While the Audit Committee relies mainly on audits utilizing the internal control system, members also conduct direct onsite audits of business sites inside and outside Japan. The committee seeks to strengthen the effectiveness of its audits by gathering and sharing valuable information through the periodic exchange of views with the President, reports presented by executive directors, executive officers 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.

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.

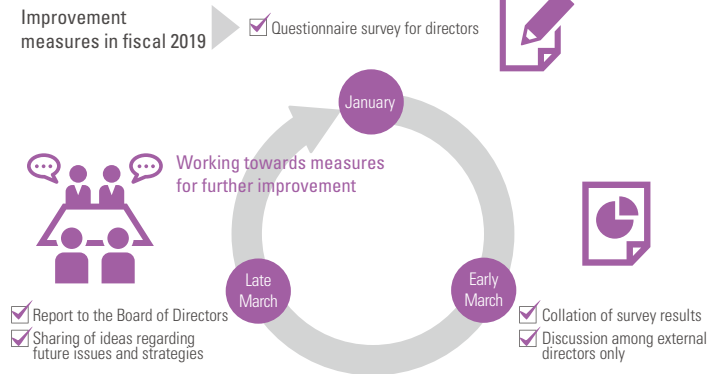


Assessing the Effectiveness of the Board of Directors

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 2019 (implemented between December 2019 and January 2020). After approval by the Board of Directors, the assessment results were disclosed in the Company's Corporate Governance Report.

Method Used to Evaluate the Effectiveness of the Board of Directors in Fiscal 2019



Main assessment items and results

- The composition of the Board of Directors was generally well-balanced, but some consideration was needed in the area of accounting and finance.
- The scope of delegation of authority to the representative director was clearly specified, and appropriate.
- The Board of Directors is making the appropriate decisions at the appropriate timing.
- The Board of Directors engaged in free, open and constructive discussion, and the quality of discussion of individual motions was high.
- Supervision of business execution of the Board of Directors was appropriate.
- There have been some measures taken to improve the operating method of the Board of Directors, but there is still room for 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.

Corporate Governance

Policy for Determining the Remuneration of Directors who are Concurrently Executive Directors and Executive Directors

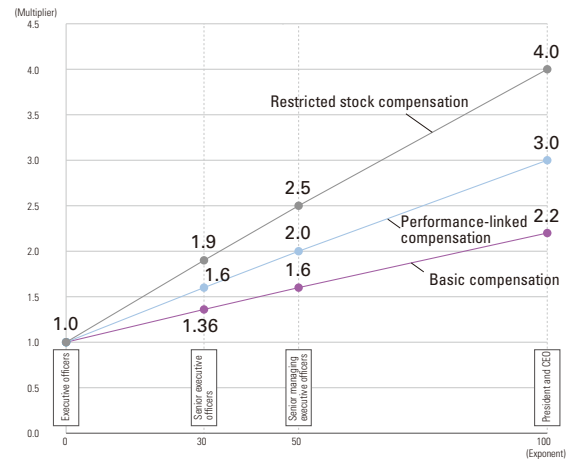
Sangetsu's system of compensation for executive directors comprises (1) basic compensation, (2) performance-linked compensation (bonuses), and (3) restricted stock compensation. Directors who are not concurrently executive officers and outside directors receive only basic compensation. This system was introduced in 2017; however, it was partially revised in fiscal 2020 to link compensation more closely with business performance and Sangetsu's share price.

Basic compensation is determined by the Nomination & Remuneration Committee after reviewing the director's contribution to earnings in the prior fiscal year and applying a contribution rating indicator of 0.85 to 1.25. The basic compensation of executive officers is ¥15 million. The multipliers applied to the basic compensation of executive officer with titles is shown in the graph below.

Performance-based bonuses are determined by business earnings and ROE, an indicator of capital efficiency.

The multiplier for each title position has been set such that the portion of performance-based bonuses and restricted stock compensation increases in line with higher titles.

Correlation graph of each executive's compensation



Standards of Independence for External Directors

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

1. Individuals for whom none of the following currently applies:

- (1) a shareholder who owns more than 5% of the voting rights of Sangetsu Corporation or an executive officer of the shareholder;
- (2) an executive officer of a company whose transactions with Sangetsu Corporation exceed 2% of Sangetsu'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

2. 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	Area of expertise							Attendance at Board Meetings in Fiscal 2019
	Corporate management	Sales and marketing	Product development and technologies	Financial and accounting	Human resources and legal affairs	Overseas	Diversity	
① Representative Director, President and CEO Shosuke Yasuda	●	●		●	●	●		100% attendance rate (13 out of 13 Board Meetings)
② Director, Executive Officer Kenji Ito					●	●		100% attendance rate (13 out of 13 Board Meetings)
③ Outside Director, Audit Committee Member Kunihiro Nasu					●			100% attendance rate (13 out of 13 Board Meetings)
④ Outside Director, Audit Committee Member Masatoshi Hatori	●	●	●		●			100% attendance rate (13 out of 13 Board Meetings)
⑤ Outside Director, Audit Committee Member Michiyo Hamada					●	●	● (female)	100% attendance rate (13 out of 13 Board Meetings)
⑥ Outside Director, Audit Committee Member Kenichi Udagawa	●	●	●	●	●	●		100% attendance rate (10 out of 10 Board Meetings) (Appointed in June 20, 2019)
⑦ Director, Audit Committee Member Shuji Sasaki		●						100% attendance rate (13 out of 13 Board Meetings)

Message from an Outside Director



The mission of an outside director and preparing for Sangetsu's future path

Kunihiro Nasu

Outside Director and Audit Committee Member
Chairperson of Audit Committee, Chairperson of Nomination and Remuneration Committee

I was appointed as an Auditor of Sangetsu in June 2007 and became an Outside Director and Audit Committee Member with the adoption of an Audit Committee system in June 2015. The mission of Audit Committee members is to supervise executive officers and participate in deciding important matters facing the company as members of the Board of Directors. I believe Outside Director and Audit Committee members must stand from the viewpoint of shareholders and other key stakeholders. I therefore strive to listen to the opinions of a large number of shareholders and other stakeholders to fully understand their expectations of Sangetsu. Without this understanding, it is not possible in my opinion to make the correct decisions when supervising executive officers or deciding matters at meetings of the Board of Directors. I therefore look forward to opportunities such as briefings for shareholders and investors and other meetings to listen to their opinions and have them understand the current status at Board meetings.

At the same time, I participate in Board meetings as a matter of course but also management meetings and meetings to consider specific business issues in an effort to understand conditions at the Company in detail. There are Outside Directors within the Audit Committee and important information such as internal auditors' reports is always shared with them. In addition, we receive quarterly reports from our accounting auditors, which are the topic of information exchanges. The outside directors who are members of the Audit Committee also serve as members of the Nomination and Remuneration Committee, which deliberates so that the selection of executive officers and decisions on their remuneration are conducted appropriately.

I have been involved in audit duties at Sangetsu since it was run by the founding family. Since Sangetsu has been under President Yasuda's leadership, however, a variety of reforms have been implemented to modernize the company. On the governance front as well, Sangetsu was a pioneer in its industry in adopting a Company with an Audit Committee structure.

I am pleased to see that Sangetsu continues to move steadfastly forward in innovating not only in terms of processes but mindset as well. To cite an example, in formulating the new medium-term business plan, a project team of employees decided on matters from a bottom-up perspective and employees are playing a role in management.

The Sangetsu Group recently announced its new medium-term business plan and long-term vision looking ahead to 2030. Within these the "Social value the Sangetsu Group aims to achieve" include "a healthy and inclusive society", "a sustainable society that protects the global environment", and "a more affluent and enjoyable society". I have the impression that these aspirations clarify what President Yasuda has valued in reforms implemented thus far. The Audit Committee members will be more sensitive to society's expectations in thinking about the path Sangetsu should take in the future.

Sangetsu's CSR / ESG and Materiality

A Message from the Director Responsible



Kenji Ito
Director responsible for CSR,
Executive officer

Since his appointment in 2014, President Yasuda has taken the lead in promoting CSR, worked to have each component of ESG permeate the organization, and produced steady results.

On the Environment front, Sangetsu is fabless so it does not directly generate large volumes of greenhouse gases. That said, it will take proactive steps to reduce greenhouse gases in the supply chain as a whole and recover and recycle sample books.

On the Social front, Sangetsu is characterized by a large number of working mothers in its organization reflecting its efforts to create an environment conducive to female employees and an ample menu of programs tailored to their needs. In addition, we prioritize employee health management and established the Sangetsu Health Insurance Union in April 2019. We also introduced a subsidy program for advanced cancer treatment in December that year.

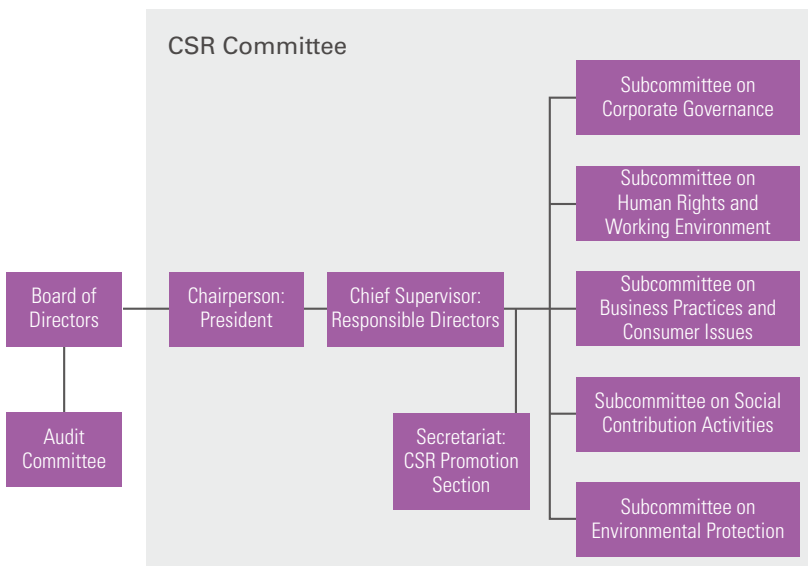
In terms of Governance, Sangetsu remains in full compliance with Japan's Corporate Governance Code and demonstrates its commitment to highly transparent management by conducting and publishing the content of self-assessments of the Board of Directors.

In addition, Sangetsu employees help refurbish child welfare facilities each year. Those who participate get a boost in motivation when they see the children's joy and excitement firsthand and receive letters of appreciation.

Sangetsu will contribute to creating a society that is Inclusive, Sustainable, and Enjoyable.

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.



CSR Activity Topics	ESG and CSR Policies as Outlined in the Medium-Term Business Plan (2017–2019) "PLG 2019"
▶ Corporate Governance	Maintain and enhance the transparency of corporate governance and practice thorough compliance
▶ Human Rights and Working Environment	Support the careers of diverse employees at each Group company and provide jobs for those who are socially disadvantaged
▶ Business Practices and Consumer Issues	Promote social responsibility in the supply chain
▶ Social Contribution Activities	Expand social contribution activities led by employees
▶ 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

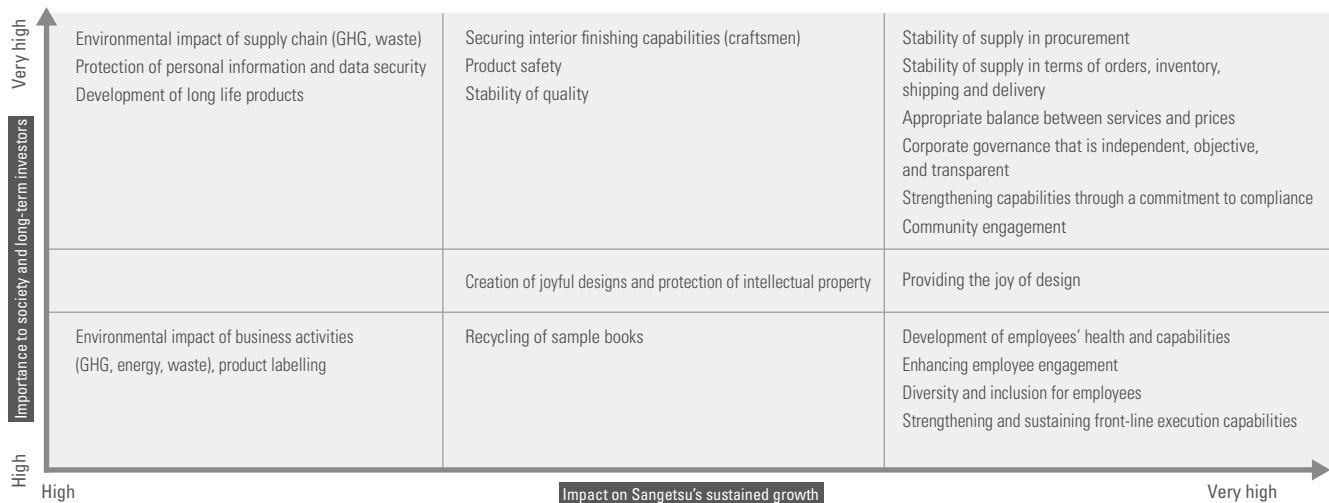
Specification of materiality related to ESG issues in the Sangetsu Group

The Sangetsu Group has specified materiality based on the importance to society and long-term investors and the impact on the sustainable growth of its businesses after considering society's requirements and key themes for our industry. These themes are also important items in the realization of our long-term vision and are tracked in a PDCA (plan, do, check, act) cycle that is linked to business plans.



Long-term vision and materiality themes

Materiality map



Governance

ESG items	Materiality (key issues)	Long-term vision		
		Inclusive	Sustainable	Enjoyable
Environment	Environmental impact of business activities (GHG, energy, waste)		●	
	Environmental impact of supply chain (GHG, waste)		●	
	Development of long-life products		●	
	Recycling of sample books		●	
Social	Social capital	Product safety	●	●
		Stability of quality	●	●
		Stability of supply in procurement	●	●
		Stability of supply in terms of orders, inventory, shipping and delivery	●	●
		Community engagement	●	
		Protection of personal information and data security	●	●
	Human capital	Securing interior finishing capabilities (craftsmen)	●	●
		Creation of joyful designs and protection of intellectual property		
		Providing the joy of design		
		Appropriate balance between services and prices	●	●
		Development of employees' health and capabilities	●	
		Enhancing employee engagement	●	
Governance	Governance	Diversity and inclusion for employees	●	●
		Strengthening and sustaining front-line execution capabilities	●	●
		Corporate governance that is independent, objective, and transparent	●	●
	Strengthening capabilities through a commitment to compliance	●	●	

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 Promotion Structure

Sangetsu has established a Compliance Committee for which the CEO takes ultimate responsibility where important issues in promoting compliance are deliberated.

The Compliance Committee convenes once per quarter and formulates the annual compliance program, confirms progress, orders revisions, and deliberates on other important issues related to the promotion of compliance.

These activities are reported semiannually at the meetings of the Board of Directors, enabling management to understand the status of compliance and leading to further awareness of compliance.

Establishment of Helplines

Sangetsu has set up helplines for whistle-blowing and consultations, which can be used by all employees regardless of employment status, including employees of Sangetsu subsidiaries within Japan. In addition to contact windows for whistle-blowing and consultations regarding internal matters, we have established external contact windows with members of the Audit Committee as well as external legal counsel. We investigate all reported matters and take corrective action as needed based on the results of such investigations.

Parentheses indicate the number of cases reported via external contact windows.

	Compliance contact window	Harassment contact window
FY2017	2 (1)	8
FY2018	0	8 (2)
FY2019	5 (1)	10 (3)

- There were no cases of major legal breaches reported to the Helpline in fiscal 2019.
- All reported cases were investigated.

* Excludes reports submitted anonymously in which detailed information could not be provided.

Corrective actions taken in response to the results of investigations

- The following dispositions are taken with regard to whistleblowers when disciplinary actions or other dispositions are required.
- Depending on the case, the whistleblower will be transferred to another department within the Company
- If necessary, interviews will be conducted with the relevant departments and improvements to operational flow proposed.

Corruption Prevention and Bribery Prohibition Initiatives

Based on the Sangetsu Group Compliance Code of Conduct, we have drawn up our own Bribery Prevention Rules and have put in place a system for organization-wide measures to prevent bribery. Some 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 in cooperation with 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 through compliance newsletters 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 2019

Topic	Period	Participants
Compliance	April	44 new employees
	May	9 newly assigned managers
Antimonopoly Act	September	44 business review meeting participants
Subcontract Act	December	11 Interior Business Unit staff members

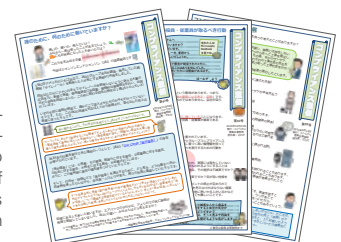


Corporate Philosophy Handbook

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.

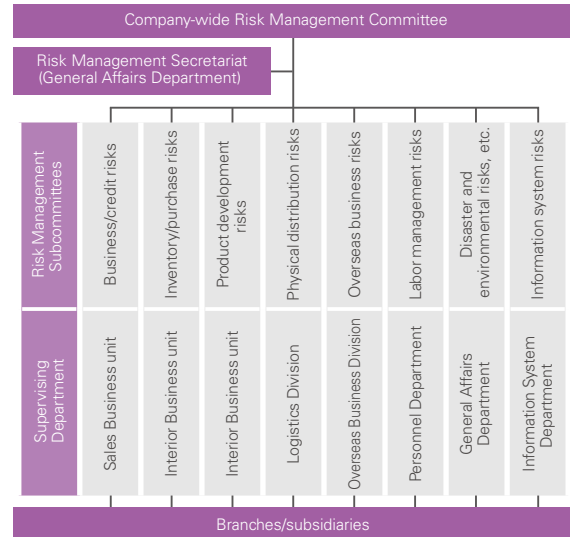


Risk Management

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.

Fiscal 2020 Risk Management System Diagram



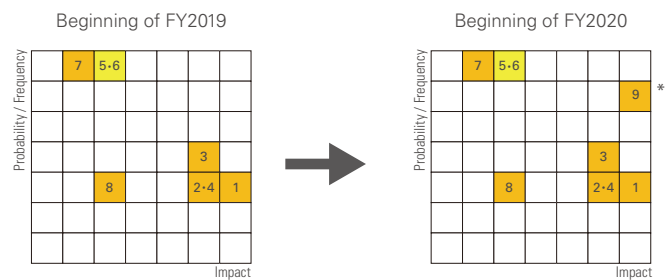
Risk Management Subcommittees

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

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. In the beginning of fiscal 2020, we added response to the risk of infections to disaster and environmental risks.

Example of Risk Assessment Map: Disaster and environmental risks, etc.



* Added 9. Infectious disease risks.

Level of control

- Yellow: Preventive and response measures are clearly in place, but ineffective aspects remain.
- Orange: Preventive and response measures are only partially in place.

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. 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.**

Social

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.

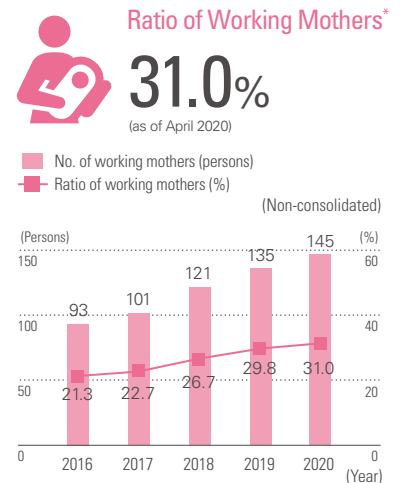
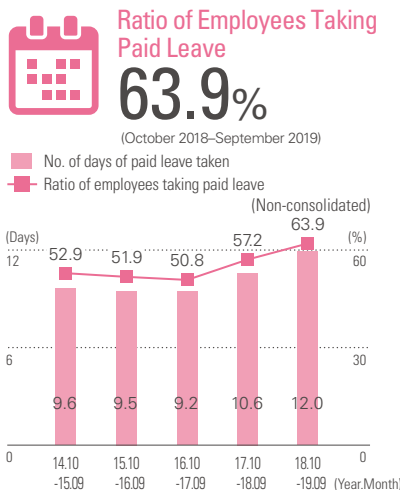
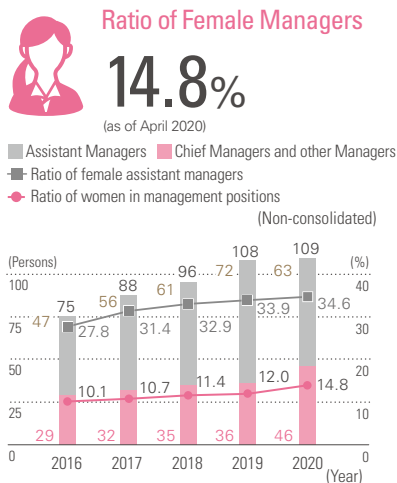


ESG and CSR Policies

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 20% or higher in Japanese operations by 2023.
- Promote expansion in job positions for persons with disabilities and raise the disabled persons employment ratio to 4.0%.



* No. of working mothers / No. of full-time women employees

The Sangetsu Group Human Rights Policy

The Sangetsu Group Human Rights Policy outlines the Sangetsu Group's attitude towards respect for human rights, and our commitment to accountability in this area. Other documents setting out our measures in regard to human rights protection, such as the Sangetsu Group Corporate Ethics Charter and Sangetsu Group Compliance Code of Conduct, are drawn up in accordance with this Policy. Our main goals include: strengthening safety, hygiene and employee health in the workplace, prohibition of discrimination and harassment, improvement of diversity, appropriate management of employee salaries and working hours, work-life balance maintenance, and ensuring proper handling of personal information.

Workspace Reform Aimed at Creating an Employee-friendly Working Environment

As part of our workspace reform efforts, we have been renovating our Hokkaido Branch, corporate Headquarters, and Chugoku/Shikoku Branch.

When relocating Hokkaido Branch, we canvassed employees' views and made a serious effort to realize the concept of "an office that strengthens communication while maintaining a free, unconstrained atmosphere." As a result of these efforts, in fiscal 2019 the new Hokkaido Branch received the Hokkaido Office Equipment Industry Association Chairman's Award in the Hokkaido Regional New Office Awards, forming part of the 32nd Nikkei New Office Award program.

In addition, we have made improvements to our Headquarters, by clarifying the distinction between, and arrangement of, non-territorial workspace desks and assigned seating, and improving the availability of mobile working tools, with the aim of creating "office space that facilitates the in-depth, prompt, precise exercising of high-quality creativity."

In the future, we will continue to implement workspace reform at all of our offices in a manner commensurate with our company's status as a leading space-creation firm.



Non-territorial workspace seating in the Sales Division of the Hokkaido Branch Office



Meeting area on the 5th floor of the Sangetsu Headquarters building

Certification under the 2020 Certified Health & Productivity Management Organizations Recognition Program (large enterprise category)

Sangetsu's efforts in the area of health and productivity management have been recognized with the awarding of certification under the 2020 Certified Health & Productivity Management Organizations Recognition Program*, a certification system jointly organized by the Ministry of Economy, Trade and Industry (METI) and the Nippon Kenko Kaigi.

In addition, starting from 2020 we are aiming to further expand our health support system through the establishment of a Health & Productivity Promotion Office.



* The Certified Health & Productivity Management Organizations Recognition Program is a system established to provide recognition for large enterprises and small and medium-sized enterprises (SMEs) that have displayed particularly impressive performance in the area of health and productivity management, in terms of measures tailored to local health issues and health promotion measures advocated by the Nippon Kenko Kaigi.

Adoption of the Advanced Cancer Treatment Reimbursement System

In line with our health and productivity management policy, in December 2019 we introduced a new Advanced Cancer Treatment Reimbursement System to ease the financial burden on employees receiving advanced medical treatment that is not covered by Japan's social insurance medical fee payment system. Under this system, employees who are receiving cancer treatment that is classed as advanced medical treatment by the Ministry of Health, Labour and Welfare (MHLW) can receive reimbursement for the cost of a course of treatment up to a maximum of ¥5 million per year. Implemented in combination with our existing awareness-raising activities to promote disease prevention and early diagnosis, this new measure represents a form of financial support that can help employees to continue working while receiving medical treatment. Sangetsu has become one of the first companies in Japan to introduce a system of this type.



Seminar on support to help employees continue working while receiving medical treatment in progress

Support for Women's Participation and Advancement

As part of the strategic adjustment of our personnel system, we are implementing a voluntary action plan based on Japan's Act on Promotion of Women's Participation and Advancement in the Workplace. We are putting in place the organizational structure and supporting systems needed to enable female employees to effectively utilize their strengths and capabilities, we have appointed a Diversity Promotion Officer within our Human Resources Department, and we are implementing various measures to realize our goals in this area. Our goal is to ensure that our organization can fully utilize the know-how, experience, and specialist expertise of all employees, regardless of gender.

LGBTQ Initiatives

We have been working to spread awareness, both within and outside the company, of our efforts to cultivate a corporate ethos that makes effective use of the diversity embodied by the individual personalities of each employee, regardless of gender, age, nationality, ethnicity, religion, disability, gender self-identification, gender orientation, etc., and which encourages employees to continue to challenge themselves and to innovate, while also expanding the scope of related measures, in line with the Sangetsu Group Human Rights Policy and the Sangetsu Group Basic Policy on Diversity. We have also established a helpline, and have implemented measures to encourage the displaying of LGBTQ Ally stickers. In addition, in both 2018 and 2019 we received a Silver ranking in the PRIDE index, which was established by voluntary association work with Pride (wwP) to help create LGBTQ-friendly workplaces in Japan by moving beyond the framework of individual enterprises and organizations.



| Social |

Fair Business Practices and Consumer Issues

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

Promoting Social Responsibility in the Supply Chain

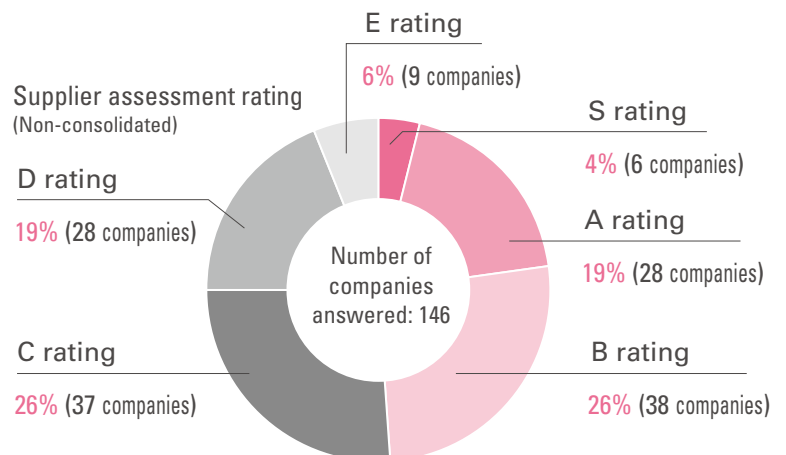
Goals

- 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.
- We aim to raise the percentage of suppliers awarded a “B” rating from 49% to 70% by fiscal 2022.

Implementation of a Questionnaire Survey Targeting Suppliers

In February 2019, we asked our business partners to participate in the Sangetsu CSR Procurement Survey. This survey, which excluded overseas suppliers etc. but covered all suppliers in Japan, evaluated each company in relation to CSR activities, including compliance with laws and social norms, ensuring that corporate activities are fair and equitable, and concern for human rights and labor health and safety issues, etc.

By providing feedback on the survey results to suppliers and encouraging them to make improvements, we are working to enhance the overall level of CSR-aware procurement throughout the supply chain as a whole.



Enhancing Customer Service

Interior Advisor System

The wealth of experience and expertise that our showroom staff possess plays a vital role in enabling us to provide satisfactory solutions to the customers who visit our showrooms. With the aim of strengthening employment stability for the part-time and agency staff that work in our showrooms, and of improving service quality and coordination proposal quality so as to enhance customer satisfaction, in May 2019 we established the Interior Advisor system. By improving employment stability for personnel performing advisor roles and by putting in place a personnel evaluation framework based on capabilities and results, the new system has strengthened employee motivation while also raising the overall level of customer service provision.

Implementation of a Survey Targeting Visitors to Our Showrooms

Sangetsu has showrooms in eight cities throughout Japan. Our expert staff provide customers with a wide variety of products and interior-related information, offer assistance to help customers put their interior vision into concrete form, and provide the best possible coordination solutions.

To further enhance customer satisfaction, we have been asking showroom visitors to complete a questionnaire survey. The survey results show that over 90% of customers are satisfied with their visits to our showrooms.

Online Consultations

Sangetsu showrooms are now implementing online consultations. Using their own PCs, smartphones, tablet PCs, etc., customers can contact our expert staff from home by video-call utilizing an online system. Customers can receive suggestions regarding the best products and coordination solutions, just like visiting the showroom in person.

Holding of Seminars

Over 400 seminars of various types are held per year at Sangetsu showrooms. These seminars include sessions on how to choose wallpaper and curtains, and on currently popular products and trends, etc., for interior design coordinators, designers, and construction firms, as well as seminars on rental property renovation for the owners of rental properties, etc. Currently, because COVID-19 pandemic makes it difficult to hold live seminars with large numbers of participants, we are focusing mainly on the holding of online seminars.



A seminar in progress at the Shinagawa Showroom

Collaboration with Suppliers

Product Development

In order to disseminate our brand concept—Joy of Design—widely throughout society, we make effective use of feedback from frontline staff when developing new products. The various departments that make up our Interior Business Unit hold regular meetings with the sales staff and interior design staff who have their finger on the pulse of market trends at the business frontline, with the aim of thoroughly inculcating our brand concept. When developing new products, we actively canvass the views of outside design firms and leading designers, while also proactively using young designers. In this way, we have begun to implement an unprecedented new approach to product development.

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.

VOICE

Supplier Survey and Future Initiatives

We have implemented the Sangetsu CSR Procurement Survey to clarify the current state of suppliers' CSR implementation. Suppliers were asked to provide answers to questions in nine key areas. On the basis of the survey results, suppliers were ranked in one of six bands, from S to E, with 49% of suppliers receiving a rating of B or higher.

In the future, we will be providing detailed feedback regarding the survey results, and we also intend to hold seminars to help suppliers develop a more in-depth understanding of Sangetsu's business philosophy and approach to procurement, and to spread awareness of CSR-related social trends.

Looking ahead, we aim to continue working closely with our suppliers to enhance CSR-aware procurement.



Shigeru Aoki

General Manager of Fabrics Division (Chairperson of the Subcommittee on Business Practices and Consumer Issues)

Social

Community Involvement

In order to contribute toward the enrichment of society, Sangetsu has adopted a proactive stance towards participation in the community, 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

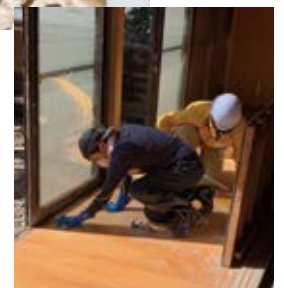
Expand social contribution activities led by employees

Goals

- Support the refurbishment of child welfare facilities (30 or more projects per year).
- Proactive participation in social contribution activities (7,000 S-miles)
- Implementing activities to provide support for children in developing countries

Support Activities for Regions that Have Been Severely Affected by Typhoons (Tokyo Branch, Kita-Kanto Branch and Tohoku Branch)

Typhoon No. 19 (Typhoon Hagibis), which struck Japan in October 2019, caused extensive damage, particularly in Eastern Japan where, for example, the flood defense levees along the Chikuma River were breached. Sangetsu participated in the disaster recovery activities; for example, three Sangetsu personnel from the Kita-Kanto Branch traveled to Nagano City in Nagano Prefecture to assist in silt removal operations and in the removal of household goods that had been rendered unusable; seven personnel from the Kita-Kanto Branch traveled to the Tsuno district of Nagano Prefecture to help in clearing silt away from walls; four personnel from the Tokyo Branch went to Iwaki City in Fukushima Prefecture to help with the removal of soil and gravel; and three personnel from the Tohoku Branch traveled to Marumori-machi in Miyagi Prefecture to assist with the removal of soil and gravel. Comments from the participating employees included “I hadn’t realized that disaster recovery after flooding was such a challenge,” and “I hope that we will be able to continue providing multi-faceted support until recovery is completed.” In addition, Sangetsu used carpet off-cuts to make jo-sized (approximately 1.8 meters by 0.9 meters) mats which were donated for use in evacuation shelters in Ibaraki Prefecture and Nagano City.



Child Welfare Facilities Renovation Space Creation

Supporting the Refurbishment of Child Welfare Facilities

Through our business activities, we are implementing activities to provide support for the interior refurbishment of child welfare facilities throughout Japan, so that the children living there can enjoy a more comfortable residential environment. We carried out refurbishments at 18 facilities in fiscal 2019.

Social welfare service corporation Yoneyama Ryo



Before



After



Expanding Our Activities to Support People with Disabilities (Increasing the Utilization of Art Created by Disabled Artists)

As part of our CSR activities, we have been using “Able Art” created by people with disabilities who are working as professional artists in our High Grafica digital print wallpaper range. These wallpaper products were sold under our sample books “FiNE 1000 Wallcoverings 2019–2021” and “RéSERVE 1000 Wallcoverings 2020–2022.”

“Able Art” is art created by artists with disabilities, the copyright in which is managed on their behalf by Able Art Company. Inspired by our commitment to diversity, we have adopted these attractive designs, which embody free artistic expression, to support the artists.

Matching Gift Program

The Sangetsu Matching Gift Program is implemented with the goal of promoting social contribution activities. Under this program, the value of employees’ social contribution activities is calculated, and the company then makes a matching contribution of “S-mile” points. “S-mile” points are converted into money, and donated to the NPOs, etc. that Sangetsu supports.

The activities to which the program applies include not only Sangetsu Volunteer Club activities in which the company plays a leading role, but also individual employees’ activities in relation to support for external social welfare facilities, support for people affected by natural disasters, international exchange activities, community activities, educational activities for young people and NPO support activities, etc. We are supporting these activities so that employees throughout Japan can participate proactively in social contribution activities regardless of where they are located.

A cumulative total of

79 projects

have been implemented over the period from April 2014 to March 2019.

Chita Gakuen Shoraiso



Before



After



Table For Two—Supporting the Next Generation through Food Aid

Sangetsu is participating in the Table For Two program, which uses employee cafeterias to provide support for children living in developing countries.

Over the period from October 7 to November 20, 2019, we provided sponsorship for and took part in the Onigiri Action 2019* program, a special program in which part of the payment for cafeteria meals is donated to help pay for school meals for children in Africa and Asia. By encouraging all employees to participate, we were able to collect a company-wide total of 360 “Onigiri photos” (representing 1,800 donated school meals).



* Under this program, when a photograph relating to onigiri (rice-balls) and featuring the hashtag #OnigiriAction is posted on social media or on the special website established by Table For Two, a donation will be made equivalent to five school meals (worth ¥100) for children in developing countries.



Sangetsu received a letter of thanks from Table For Two awarding the company Silver Supporter certification, in recognition of the support provided by Sangetsu in 2019.

| Environment |

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

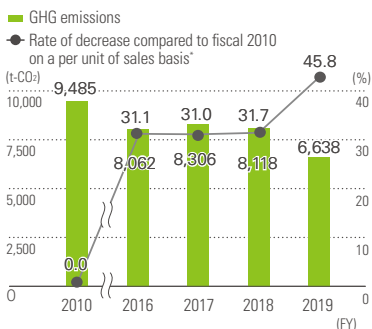
Monitor the environmental impact of the Sangetsu Group as a whole and construct a system for preventing global warming and supporting the sustainable use of resources

Goals

- GHG emissions: 30% reduction from fiscal 2018 in fiscal 2030 (Scope 1 and 2) *SBT level
- Energy consumption: 4% reduction from fiscal 2018 in fiscal 2022
- Total waste discharge: 4% reduction from fiscal 2018 in fiscal 2022
- Recycling rate: 83% in fiscal 2022

GHG Emissions

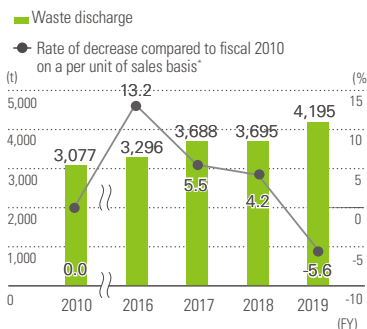
45.8% reduction
(Actual results in fiscal 2019)



*All data are calculated on a per unit of sales basis. GHG emissions use actual emission factors.

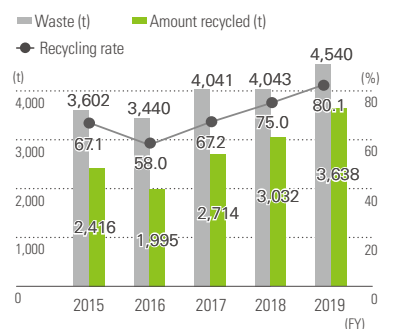
Total Waste Discharge

5.6% increase
(Actual results in fiscal 2019)



Recycling Rate

80.1%
(Actual results in fiscal 2019)

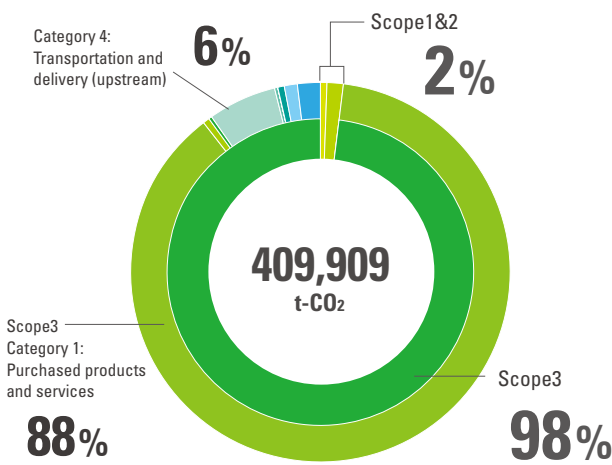


(Non-consolidated)

Reducing GHG Emissions

Sangetsu is striving to reduce GHG emissions as part of the Company's efforts to help mitigate the impact of global warming. In fiscal 2018, while Scope 1 and 2 emissions amounted to 8,118t-CO₂, total GHG emissions in the supply chain as a whole, including Scope 3 emissions, totaled 409,909t-CO₂, with Category 1 emissions (emissions associated with purchased products and services) accounting for 88% of this figure. Besides implementing in-house measures to reduce emissions, given the importance of cutting GHG emissions associated with product manufacturing, we are also implementing GHG emission reduction measures in collaboration with our suppliers.

Share of emissions by scope/category



Development of Environmentally-friendly Products

We have developed Ecoreflect light-diffusing wallpaper, which helps to make rooms brighter by reflecting light, and which is expected to provide energy-saving benefits by reducing electricity consumption during the daytime, etc. It is suitable for use with a wide range of lighting fixtures, including fluorescent lighting, incandescent light bulbs, LED lamps, etc.



CO₂ emissions
36,825 kg-CO₂/kWh Reduction
 (Actual results in fiscal 2019)

* CO₂ emission reduction benefits calculated based on sales between product launch in 2018 and 2019, on the basis of an increase in illuminance of approximately 23% and a roughly 20% energy saving.

Resource Recycling

The sample books that Sangetsu produces are made by affixing samples of actual wallpaper, floor material, fabric, etc. to a backing sheet so that customers can easily get a clear idea of the color and texture. When sample books are out of date, they are sent to social welfare facilities where they are used in activities to help people with disabilities develop greater autonomy. More specifically, as part of the autonomy support program, the disabled people disassemble the sample books and remove the samples from the backing sheet. The peeled-off backing sheet is then sold to waste paper dealers, generating revenue for the social welfare facility, while the sample materials are recycled.



Protecting Biodiversity

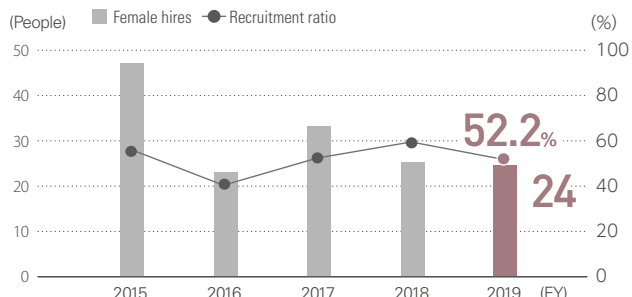
As part of the Sangetsu Volunteer Club (SVC) environmental activities of Sangetsu's Headquarters and Chubu Branch, Sangetsu employees took part in a pond-draining environmental event held in collaboration with Nagoya City Government's Environmental Planning Department and Biodiversity Center.

This activity aimed to safeguard pond biodiversity by combining a survey of the pond habitat with the removal of invasive species. After most of the water had been drained from the pond, the volunteers entered the pond wearing waders and gloves, and then caught the pond's inhabitants for inspection, including native species such as crucian carp, pond mussel and koi carp, as well as the endangered native species rhinogobius telma, a species of freshwater goby, and invasive species such as red-eared slider and snakehead fish. In the future, we will continue to think carefully about how we can contribute to safeguarding biodiversity, and we will implement various related activities.



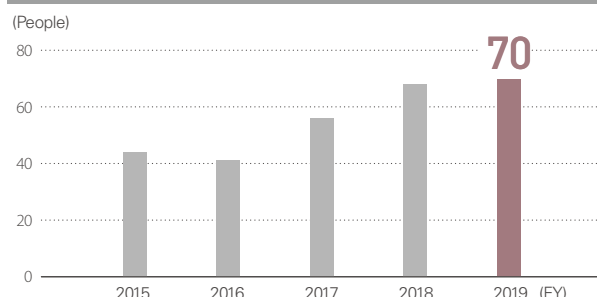
Non-financial Highlights (Sangetsu Corporation only)

Female Hires / Recruitment Ratio



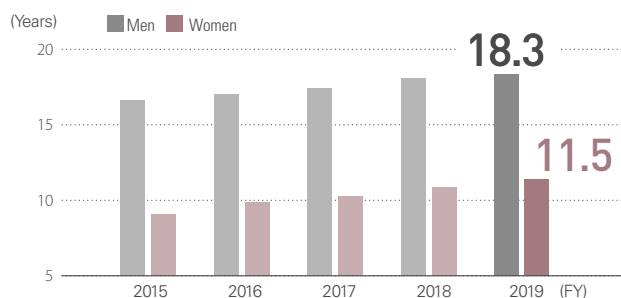
Through the implementation of strategic personnel system reforms, we are promoting the creation of an organization enabling women themselves to make the most of their strengths and systems that support them. We have been proactively recruiting female employees for over 50% of positions during the past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

Employees Engaged in Temporary Part-time Work While Child-rearing (As of March 31 in each fiscal year)



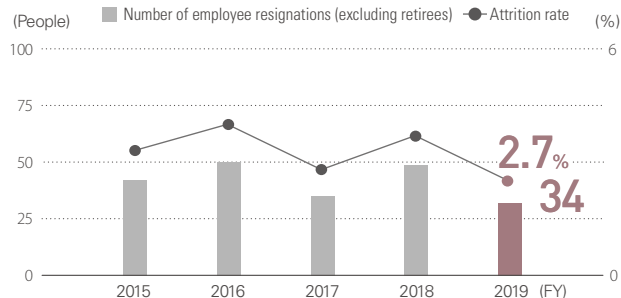
We promote systems and an environment enabling employees raising children to continue working. A rising number of employees utilize temporary part-time work while child-rearing system, which is part of the employment environment we created to support a balance between work and home life.

Average Years of Continuous Employment by Gender (As of March 31 in each fiscal year)



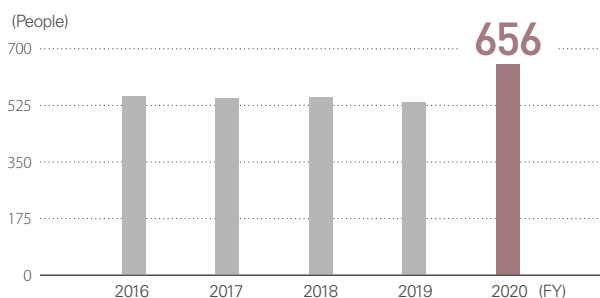
We aim to enhance employee engagement and become a company that is rewarding, challenging and motivating to work at for each and every employee. As one indication of the success of these efforts, the average number of years employed has steadily grown among both men and women.

Number of Employee Resignations (Excluding Retirees) and Attrition Rate (As of March 31 in each fiscal year)



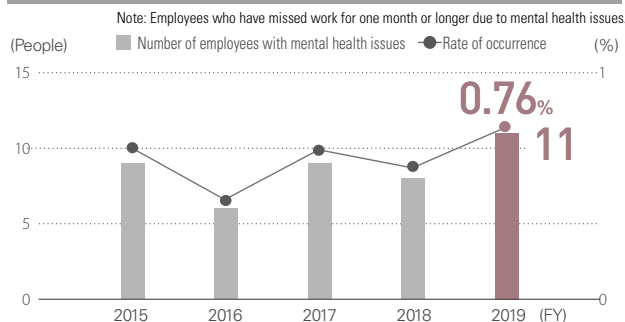
We respect the human rights of each and every employee, prohibit unreasonable discrimination and harassment, and strive to create a fair and cheerful workplace. We promote the creation of workplace environments that maintain physical and mental health resulting in the attrition rate over the last five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

Number of Employees Recognized with Awards (As of April 1 in each fiscal year)



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. In January 2020, we reviewed the scope and expanded the types of awards covered in our programs.

Number of Employees with Mental Health Issues and Rate of Occurrence (As of March 31 in each fiscal year)



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.

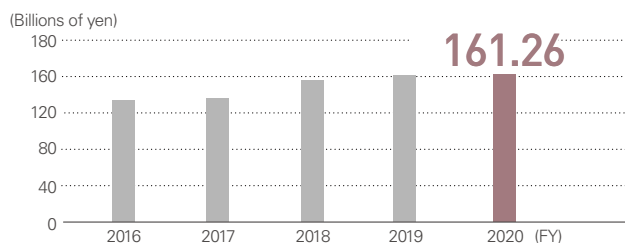
ESG Data (Sangetsu Corporation only)

	Indicator	Unit	FY2015	FY2016	FY2017	FY2018	FY2019	FY2023 Targets
E Environmental	GHG emissions	t-CO ₂	8,066	8,062	8,306	8,118	6,638	5,683 (30% reduction in FY2030)
	Energy consumption	GJ	116,637	128,666	132,292	127,535	127,178	122,434 (4.0% reduction)
	Waste	t	3,322	3,296	3,688	3,695	4,195	3,547 (4.0% reduction)
	Recycling rate	%	67.1	58.0	67.2	75.0	80.1	83.0
S Social	Consolidated number of employees (as of March 31 of each year)	Persons	1,474	2,051	2,357	2,334	2,241	
	Number of employees (as of March 31 of each year)	Persons	1,196	1,190	1,205	1,167	1,161	
	Women	Persons	414	413	429	427	436	
	Average age (as of March 31 of each year)	Age	35.0	35.5	36.0	36.7	37.0	
	Women	Age	30.0	30.8	31.5	32.2	32.8	
	Average length of service (as of March 31 of each year)	Years	14.1	14.5	14.9	15.5	15.8	
	Women	Years	9.0	9.9	10.3	10.9	11.5	
	New hires (total)	Persons	83	57	63	42	46	
	Women	Persons	47	23	33	25	24	
	Attrition rate of employees with less than three years of service	%	18.3	19.2	17.5	* 2.7	* 4.5	
	Women	%	17.0	22.7	14.3	* 0.0	* 0.0	
	Ratio of female managers (as of April 1 of each year)	%	8.2	10.1	10.7	11.4	12.0 / ^{FY2020} 14.8	20.0
	Number of employees taking childcare leave	Persons	32	39	45	42	42	
	Number of employees on temporary part-time work while child-rearing	Persons	44	41	56	68	70	
	Average total work hours	Hours	2,024	2,051	2,100	2,110	2,048	
	Average number of paid vacation days taken (October to September of following year)	Days	9.5	9.2	10.6	12.0	—	—
	Employment rate of persons with disabilities (as of March 31 of each year)	%	2.4	2.3	2.4	2.7	3.1	4.0
	Frequency rate of work-related accidents		0.41	0.41	0.40	0.41	0.84	
	Severity rate of work-related accidents		0.0008	0.0008	0.0063	0.0004	0.004	
	Social contribution activities of Sangetsu Volunteer Club	Cases	14	22	29	28	31	
	Children's nursing homes	Cases	9	12	19	20	18	30
	Other activities	Cases	5	10	10	8	13	
	G Governance	Number of directors (as of June 31 of each year)	Persons	11	10	10	10	7 / ^{FY2020} 7
External directors		Persons	4	4	4	4	4	
Female directors		Persons	1	1	1	1	1	
Ratio of external directors		%	36.4	40.0	40.0	40.0	57.1 / ^{FY2020} 57.1	
Number of compliance training participants		Persons	408	113	663	170	108	150

* The attrition rate of employees with less than three years of service is the attrition rate for two years, fiscal 2018 and fiscal 2019, for fiscal 2018, and for one year, fiscal 2019, for fiscal 2019.

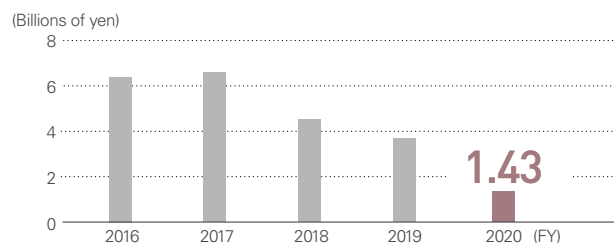
Financial Highlights

Net Sales



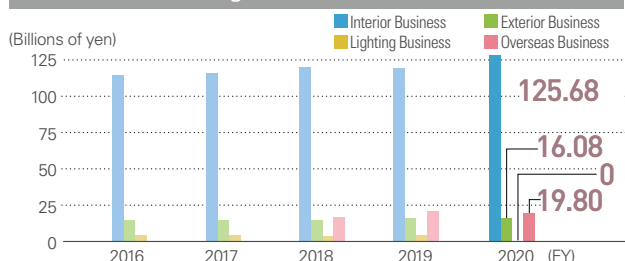
We recorded an all-time high in net sales thanks to efforts to strengthen our business foundations and enhance our business execution capabilities in product development, sales, and other areas. This drove a 572% surge in operating income. Sales increased in the Interior Segment, were down slightly in the Exterior Segment, and fell in the Overseas Segment.

Profit Attributable to Owners of Parent



Intangible asset and goodwill impairment associated with U.S.-based subsidiary Koroseal Interior Products Holdings, Inc., caused profit (loss) attributable to owners of parent to decline 60.0% compared to the previous fiscal year.

Segment Information



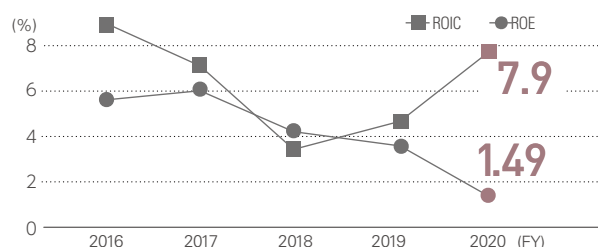
Mainstay products in the Interior Segment steadily expanded market share, while stronger sales promotion for high value-added products in the Exterior Segment drove sales.

The Overseas Segment recorded a 5.3% year on year decline in sales.

*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.

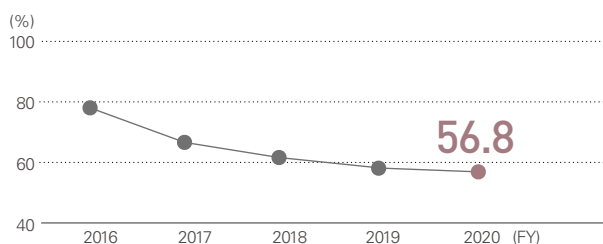
*In April 2019, all shares in Yamada Shomei Lighting Co., Ltd., were transferred to Odelic Co., Ltd.

Return on Equity (ROE)/Return on Invested Capital (ROIC)



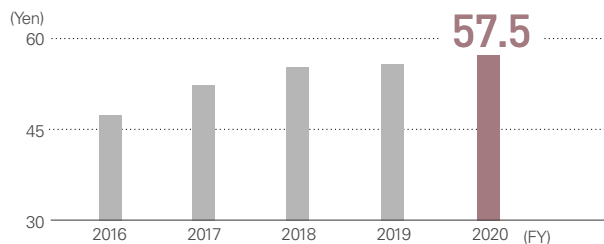
Equity decreased to around ¥93.2 billion and net income decreased, and as a result, ROE fell to 1.49%. At the same time, return on invested capital (ROIC) increased 7.9%, up 3.4 point.

Equity Ratio



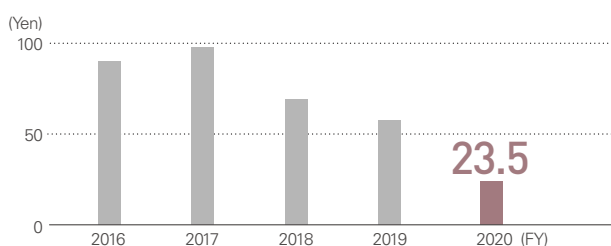
With respect to total assets as of the end of the current fiscal year, current assets increased, and noncurrent assets decreased from the end of the previous fiscal year. The equity ratio fell by 1.2% from the end of the previous fiscal year, as net assets decreased due to share buybacks under the capital strategy of the medium-term business plan.

Dividend per Share (Annual)



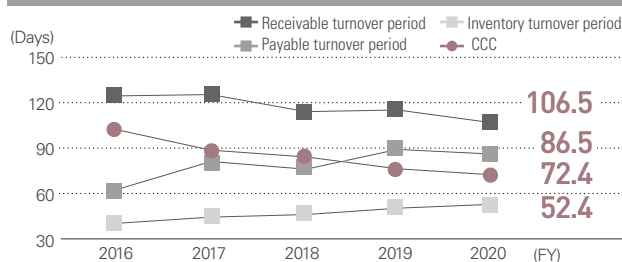
With respect to profit distribution, the company is seeking to sustainably expand its shareholder return strategy over the medium to long term, based on its medium-term business plan. Accordingly, the Company paid an interim dividend of ¥28.50 per share and a full year dividend of ¥29.00 per share, which is an increase of ¥1.00 per share from the previous fiscal year for the sixth consecutive dividend increase.

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.

Cash Conversion Cycle (Itemized)



Operating capital efficiency, indicated by the cash conversion cycle (CCC), was 72.4 days, the shortest number of days in the past 10 years. Recently, shortening of the receivable 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

Performance in the previous Medium-term Business Plan "PLG 2019" (2017-2019)



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

Our capital policy under the previous Medium-term Business Plan "PLG 2019" for net cash had been to maintain a level of cash and equivalents around ¥25.0 billion to ¥30.0 billion. Under the Medium-Term Business Plan (2020-2022) "D.C. 2022" this policy is currently to be determined given the impact of COVID-19, but we will announce it once a three-year business outlook becomes clear.

Looking back on shareholder returns in fiscal 2019 and the previous medium-term business plan

The year-end dividend for fiscal 2019 will be ¥29.0, amounting to an annual dividend of ¥57.5, the sixth straight fiscal year of dividend increases.

The total return to shareholders in fiscal 2019 will consist of dividends amounting to ¥3.4 billion and share buybacks amounting to ¥1.9 billion, for a total of ¥5.4 billion and a total return rate of 381.4%.

As a result, at the end of the fiscal year under review equity amounted to ¥93.24 billion, total shares outstanding amounted to 61.75 million shares, including approximately 1.18 million shares of treasury stock. (As of June 30, 2020, treasury stock amounted to 580 thousand shares.)

As a result, over the past three years we have paid total dividends of ¥10.5 billion for a three-year dividend payout ratio of 113.1%. Over the same period, our shareholder returns also included buybacks of 6.85 million shares amounting to ¥24.8 billion (three-year total return rate of 260.5%).

Cumulative Fiscal 2017-Fiscal 2019

	FY2017	FY2018	FY2019	3-year total
Dividends per share	¥55.5	¥56.5	¥57.5	–
Total dividend amount	¥3.5 bn	¥3.5 bn	¥3.4 bn	¥10.5 bn
Dividend payout ratio	80.5%	98.6%	244.1%	113.1% (3-year average)
Total number of shares acquired through buybacks	3.42 mn shares	2.45 mn shares	0.97 mn shares	6.85 mn shares
Total amount of share buybacks	¥6.9 bn	¥5.2 bn	¥1.9 bn	¥14.2 bn
Total return amount	¥10.5 bn	¥8.7 bn	¥5.4 bn	¥24.8 bn
Total return rate	234.0%	245.5%	381.4%	260.5% (3-year average)
Total shares outstanding (including treasury stock) at fiscal year-end	66.05 mn shares	62.85 mn shares	61.75 mn shares	–
EPS	¥69.0	¥57.3	¥23.6	–

Medium-term Business Plan (2020-2022) "D.C. 2022" Capital Policy

Under our new medium-term business plan, we will implement the following capital policies while monitoring the impact of the COVID-19 pandemic on our earnings and conditions in capital markets.

- 01 We will maintain equity in the range of ¥90.0 billion to ¥95.0 billion
- 02 We will maintain a total return ratio of approximately 100% over three years.
- 03 We will make decisions about dividends and share buybacks in consideration of the impact of COVID-19 on the business results under the basic policy of sustaining stable dividend increases.

Ten-Year Consolidated Financial Summary

Years ended March 31

	2012	2013	2014	2015	
Profit and Loss	Net sales	118,518	123,150	131,978	132,050
	Gross profit	33,775	34,536	36,055	37,510
	Operating income	7,095	8,020	8,952	8,031
	Ordinary income	7,180	8,393	9,475	8,506
	Profit attributable to owners of parent	4,151	4,806	5,459	4,402
	Free cash flow	213	7,902	2,401	10,899
	Operating cash flow	422	4,311	7,878	4,765
	Investing cash flow	(209)	3,591	(5,477)	6,134
	Financing cash flow	(3,198)	(7,506)	(3,025)	(7,692)
Financial Condition	Total assets	142,247	139,205	145,903	143,076
	Net assets	119,409	117,672	119,887	118,758
	Interest-bearing debt	200	168	116	93
Per Share Information	Net income per share (Yen)	51.73	60.26	71.65	58.35
	Net asset per share (Yen)	1,488.05	1,544.27	1,573.35	1,625.21
	Dividend per share (Yen)	37.50	39.00	37.50	41.25
Financial Indicators	Return on assets (ROA) (%)	5.1	6.0	6.6	5.9
	Return on equity (ROE) (%)	3.5	4.1	4.6	3.7
	Equity ratio (%)	83.9	84.5	82.2	83.0
	Consolidated payout ratio (%)	72.5	64.7	52.3	70.7
Cash Conversion Cycle	Cash conversion cycle	114.9	118.9	107.8	114.4
	Receivable turnover period (Days)	134.8	127.1	126.5	124.2
	Inventory turnover period (Days)	37.1	41.8	36.4	40.7
	Payable turnover period (Days)	57.0	50.0	55.1	50.4

◆ 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
5	Quantitative achievements	<ul style="list-style-type: none"> Achieved record high profits one year ahead of schedule in FY2015 CCC improvements 	<ul style="list-style-type: none"> The initial sales target of ¥140.0 billion has not been reached SG&A expenses increased due to the implementation of the medium-term business plan Accounts payable and inventory turnover period still remain issues

(Millions of yen)

2016	2017	2018	2019	2020	2021 (Forecast)
133,972	135,640	156,390	160,422	161,265	135,000
39,527	40,104	47,572	50,720	52,925	—
9,112	7,572	5,033	5,895	9,268	4,200
9,463	8,368	5,698	6,699	9,844	4,500
6,393	6,570	4,514	3,579	1,432	2,300
25,988	(12,320)	1,464	14,019	8,788	—
10,834	10,072	7,196	10,370	13,804	—
15,154	(22,392)	(5,732)	3,649	(5,016)	—
(13,528)	7,533	(4,831)	(7,196)	(5,476)	—
139,220	169,344	171,419	170,875	164,101	—
108,517	110,458	106,360	100,143	94,217	—
3	14,187	18,759	20,913	20,802	—
89.92	97.53	68.97	57.28	23.56	37.98
1,587.86	1,646.42	1,648.71	1,612.59	1,539.56	—
47.50	52.50	55.50	56.5	57.5	—
6.7	5.4	3.3	3.9	5.9	—
5.6	6.0	4.2	3.5	1.5	—
77.9	65.2	61.4	58.0	56.8	—
52.8	53.8	80.5	98.6	244.1	—
102.1	88.3	83.8	76.0	72.4	—
124.2	125.1	113.8	114.9	106.5	—
39.8	44.0	45.7	49.9	52.4	—
61.9	80.8	75.7	88.8	86.5	—

*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 (2017–2019) “PLG 2019”

Basic Initiatives	Achievements	Issues
1 Business strategy for growth	<ul style="list-style-type: none"> Strengthening relationship with domestic and overseas designers, architects, and suppliers Strengthening market domains, products, and regional specific sales organization Improving efficiency in order-taking operations, integrating order-taking and sales organizations Strengthening logistics facilities and delivery structure Strengthening and expanding construction capabilities (Fairtone Co., Ltd.) Establishment of Space Creation Business Unit Start of operation of new enterprise system Acquisition of Goodrich Global Holdings Pte., Ltd., and implementation of measures to improve the management of Koroseal Interior Products Holdings, Inc. 	<ul style="list-style-type: none"> Plateau in the Japanese market Limitations to significant growth under current business model Need to strengthen alliances with suppliers amid growing competition Sustainability of sales function and limitations of function Lack of established overseas markets Underutilization of digital technologies and data Impact of the COVID-19 pandemic and market changes after infections recede
2 Enhance human resources	<ul style="list-style-type: none"> Enhancing training and education, planned job rotations Enhancing meritocracy Introducing Logistics position program and an Interior Advisor program Work style reform / tele-working / Super-flex time Establishment of health insurance society 	<ul style="list-style-type: none"> Need to further develop consulting and proposal skills Awareness gaps among employees
3 Bolster profit management system	<ul style="list-style-type: none"> Intensifying management of operating income targets and CCC targets Sale of all stock of Yamada Shomei Lighting Co., Ltd.; reorganization of group management structure 	<ul style="list-style-type: none"> Profit growth
4 ESG and CSR policies	<ul style="list-style-type: none"> Scope 1 & 2 GHG emissions Reduction target 35% → 45.3% Achieved Hiring of disabled persons Target 3% → 3.13% Achieved Full compliance with “Corporate Governance Code” 	<ul style="list-style-type: none"> Lack of diversity Disclosure of metrics for the achievement of social value
5 Capital strategy	<ul style="list-style-type: none"> Shareholders' equity ¥110.37 billion (end-March 2017)→¥93.24 billion (end-March 2020) Three-year total shareholder return ratio 260.5% Total shareholder return ¥24.81 billion 	

Corporate Profile

Company Outline (as of March 31, 2020)

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	¥161.3 billion (consolidated)
Number of Employees	2,241 (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
Group Companies	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, Sangetsu Goodrich Vietnam, Co., Ltd.
Equity Method Affiliate	Wavelock Holdings Co., Ltd.

Stock Information

Principal Shareholders (as of March 31, 2020)

Total Number of Authorized Shares	290,000,000
Total Number of Shares Issued and Outstanding	61,750,000
Number of Shareholders	4,462

Status of Principal Shareholders (as of March 31, 2020)

Name of Shareholder	Number of Shares Held	Percentage of Ownership
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,764,900	6.21
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	3,334,300	5.50
Japan Trustee Services Bank, Ltd. (Trust Account)	2,189,800	3.61
MUFG Bank, Ltd.	2,082,700	3.43
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.40
Yuichi Hibi	1,845,154	3.04
Touzu Hibi	1,833,492	3.02
Yoshio Hibi	1,800,000	2.97
Masae Miwa	1,790,640	2.95
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	1,731,800	2.85

Notes:

- Sangetsu owns 1,184,644 shares of treasury stock but does not include itself in the list of principal shareholders.
- Percentage of ownership is calculated after deducting treasury stock.

Stock Information

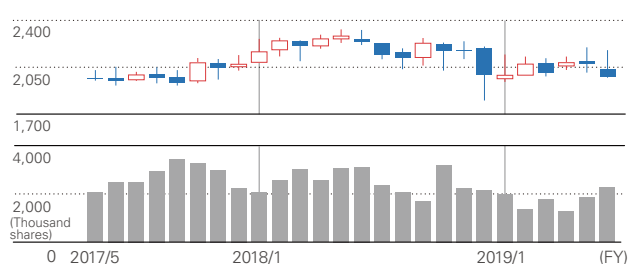
Fiscal Year	April 1 to March 31 of the following year
Record Date for Dividend Payment	Year-end: March 31 Interim: September 30
Annual General Shareholders' Meeting	June
Shareholder Registry Administrator and Account Management Institution for Special Accounts	Mitsubishi UFJ Trust and Banking Corporation Contact: 7-10-11, Higashisuna, Koto-ku, Tokyo 137-8081 Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation Tel: 0120-232-711 (toll-free 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 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 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 Nagoya Showroom

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

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 Hiroshima Showroom

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

SANGETSU Kanazawa Showroom

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

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 2020 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, 2019 to March 31, 2020
(includes some activities after the reporting period)

■ Date of Publication

August 2020

Note on Forward-looking Statements

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

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

Sangetsu Corporation

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

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