

SANGETSU REPORT 2022



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SANGETSU Integrated Report

Sangetsu Corporation

Cover: Sangetsu Kansai Branch Center Office



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Aiming to be "A Space Creation Company"

We create new value for society by envisioning a relationship between people and spaces founded in design and creativity.

Corporate Philosophy

Sangetsu's corporate philosophy consists of: Company Creed, representing the timeless and unchanging spirit of Sangetsu since its founding; the Corporate Mission; and our Brand Concept.

| Company Creed |

Sincerity

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

| 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 the joy of design with those who create new space.

SANGETSU REPORT 2022 Editorial Policy

The SANGETSU REPORT is an integrated report that has been published annually since 2015 to facilitate Sangetsu stakeholders' understanding of the Sangetsu Group's corporate value and medium to long-term growth potential. The 2022 report describes our activities to become a Space Creation Company and includes enhanced financial and non-financial information based on the opinions of our stakeholders referred to in our interviews of persons both inside and outside the company. In the editing process, we used the International Integrated Reporting Framework published by the International Integrated Reporting Council (IIRC) as a reference. We sincerely hope that this report will help more people understand the Sangetsu Group.

Overviews of Corporate Communication and Role of the Integrated Report

	Financial Information	Non-financial Information
Stakeholder Dialogue	<ul style="list-style-type: none"> Financial results briefings Meetings with institutional investors IR events for individual investors General meetings of shareholders 	<ul style="list-style-type: none"> Facility tours for institutional investors Meetings between institutional investors and outside directors Company briefings for shareholders
Reports	<ul style="list-style-type: none"> Financial summary reports Quarterly reports Securities reports Interim reports 	<ul style="list-style-type: none"> Corporate governance report Environmental report
WEB	Investor Relations website www.sangetsu.co.jp/english/ir/ 	Sustainability website www.sangetsu.co.jp/english/sustainability/ 

SANGETSU REPORT

Integrated report combining financial and non-financial information



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Gomez IR Site Ranking 2021 Silver Prize Awards




The 2022 Certified Health & Productivity Management Organization Recognition Program (large enterprise category)




S&P/JPX Carbon Efficient Index



FTSE Blossom Japan Sector Relative Index



2022 CONSISTENT MSCI Japan ESG Select Leaders Index



2022 CONSISTENT MSCI Japan Empowering Women Index

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Compliance with the Accounting Standard for Revenue Recognition

Sangetsu has followed the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 Accounting Standard for Revenue Recognition [March 31, 2020]) since the beginning of the fiscal year ended March 31, 2022. Therefore, data provided for the fiscal year ended March 31, 2022 uses figures after adopting this accounting standard.

Cautionary Statement with Respect to Forward-Looking Statements

All statements, including forward-looking statements, other than historical facts in this report are based on forecasts, expectations, assumptions, plans, understanding, evaluation, and other matters and are prepared using the information available to the Sangetsu Group as of July 31, 2022. To calculate quantitative forecasts, a certain set of assumptions essential in forecasting is also used in addition to facts that have been confirmed and accurately understood in the past.

■ Scope of Reporting Sangetsu Corporation and its Group companies

■ Period Covered April 1, 2021 to March 31, 2022

* Includes some activities after the reporting period

■ Date of Publication August 2022

Sangetsu Group

170-year History of Creating Value

Four brothers led by founder Yoshiaki Hibi started Sangetsudo in Nagoya and grew it into the Sangetsu total interior company of today. The challenging spirit of these four men who demonstrated endless perseverance in contributing to society through interiors thrives throughout the Sangetsu Group even now.

Sangetsu Mindset Inherited from Its Founders

Company Creed: Sincerity

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

Corporate Mission

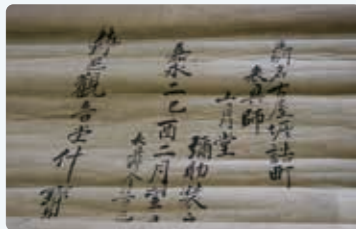
To contribute to society through interior design and strive to create a daily culture of enrichment.

Brand Statement

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

Founding at the End of the Edo Period

Yasuke Hibi opened Sangetsudo doors as a framing business not far from Nagoya Castle.



Endorsement Written by Yasuke Hibi on the Back of a Frame in 1849

Start of Sangetsudo Shoten Co., Ltd. (1953)

Each of the four brothers took a turn managing the family business, which was primarily led by Yoshiaki Hibi who was the fifth President to serve the company after Yasuke Hibi.



Start of Wallcoverings (1956)

Sangetsudo Shoten began to handle wallcoverings in Japan where interiors primarily used sliding doors and paper shoji.



Challenging Spirit Which Knows No Bounds (1960s to the 1970s)

Sangetsudo Shoten promoted designs and an ease of installation at a time when only a small percentage of the market used wallcoverings and completely transformed the mainstream interior culture of Japan via plaster walls and sliding door plywood.

Original Product Development (Beginning in 1968)

Sangetsudo Shoten started developing its own original products to respond to diversifying needs. This lineup has grown to roughly 12,000 different products today.

New residential construction grew during the period of high economic growth. This drove rapid demand for wallcoverings in western-style homes, which was further bolstered by a leisure boom.

Launch of Sample Book Business (Beginning in 1960)

Sangetsudo Shoten began to produce sample books with actual samples of each product. Customers raved about these sample books for making it easy to see and choose from various products. These sample books are what gave Sangetsudo Shoten a foothold to expand throughout Japan.



Sample Book Sharing Our Passion Alongside Products and Product development



Name Changed to Sangetsu Corporation and Branding of the Corporate Identity (1970)

Sangetsudo Shoten changed its name to the Sangetsu Corporation. Yusaku Kamekura who was known for his work on posters for the 1964 Tokyo Olympic Games was entrusted with the brand logo design.



Showroom Opens at Nagoya Headquarters (1970)

Sangetsu opened a showroom founded in a desire for people to actually see the wallcoverings before making a choice. In 1972, we also opened the Tokyo Showroom (Minami Aoyama) as a sales office.



Three Principles of Sangetsu (1975)

Sangetsu defines the Three Principles of Sangetsu as creative designs, highly reliable quality, and fair market prices, creating the basic policy to provide value tailored to customer needs.

Sangetsu Stock Listed on Nagoya Stock Exchange (1980)



Left to right: Kyohei Hibi (Managing Director), Yuichi Hibi (Senior Managing Director), Yoshiaki Hibi (President), and Touzou Hibi (Tokyo Store Manager) brothers

Inventory and Delivery System (1970s to the 1990s)

Sangetsu strove to provide a stable supply of the right products at the right time under a *Just In Time/Just Now* management policy during the oil crisis.



We strengthened our delivery system via a quality through delivery policy to satisfy the needs of interior finishing services that require short lead times from order through delivery. Our Okayama Branch opened in 1991 to streamline seven inventory and delivery bases and systems in Japan, which greatly contributed to a higher level of services and business expansion.



Sangetsu Mindset Inherited from Its Founders

"Reflecting on our history, it is clear Sangetsu has been a venture company since its founding. We were once criticized by pioneering new products, new sales approaches, and new logistics systems. However, Sangetsu has always poured all of its strength into doing what has never been done before. I think our strong passion to always do our best to satisfy customers has supported this venture spirit." "I believe that a company is a public entity of society and it should exist for the society and the world." (Interview with Yoshiaki Hibi)



Every Sangetsu employee carries on the venture spirit and sincerity demonstrated by our founder Yoshiaki Hibi.

Early Years

1840
1849
Yasuke Hibi founds Sangetsudo as a framing business handling sliding doors, paper shoji, and folding screens

1940
1947
Yoshiaki Hibi joins the family business

Rapid Growth and Stability Period

1950
1953
• Establishes Sangetsudo Shoten Co., Ltd.
• Transforms into sliding door and paper shoji wholesaler

1956
Enters wallcovering business

1970
Renames Sangetsudo Shoten as Sangetsu Corporation

1979
Enters flooring materials business

1980
Lists Sangetsu stock on Second Section of the Nagoya Stock Exchange

1981
Enters curtains business

1982
Constructs headquarters office building

1994
Enters upholstery business

1996
Lists Sangetsu stock on First Section of the Tokyo Stock Exchange

2000
2005
Brings Sungreen Co., Ltd. under the Group umbrella

2010
2012
• Yoshiaki Hibi passes away
• Yuichi Hibi assumes presidency

Period of Innovation

2014
Shosuke Yasuda assumes presidency

2016
Brings Koroseal Interior Products Holdings, Inc. under the Group umbrella

2017
• Brings Goodrich Global Holdings Pte., Ltd. under the Group umbrella
• Brings Fairtone Co., Ltd. under the Group umbrella

2020
2020
• Long-term vision [DESIGN 2030] Announcement of the Medium-term Business Plan [D.C. 2022]
• Yuichi Hibi passes away

2021
Brings CREANATE Inc. under the Group umbrella

New Social Value Delivered Through Design and Creativity



Shosuke Yasuda

President and CEO

Picking Up the Baton Toward Transformation

The Sangetsu Group history stretches all the way back to 1849. Our company was originally founded near Nagoya Castle as a framing business handling sliding doors, folding screens, and other such products. Ever since then, Sangetsu has consistently been involved in creating living "spaces" for people. Sangetsudo Shoten Co., Ltd. launched in 1953 adapted to the changing times and built an inventory and sales business as a supplier of more than 10,000 different types of wallcoverings, flooring materials, and fabrics. We have valued the Sangetsu brand and expanded business ever since as a fables company without manufacturing capabilities. As far as I know, Sangetsu was the only company using this revolutionary business model in the industry in Japan at the time.

Our founder passed me the baton when I was appointed President and CEO in 2014. I was very aware of the management challenges faced by my predecessor. One critical crisis that I felt in many ways was our declining competitive edge. The equipment and systems that was state-of-the-art at the time had become dated. Growth in the market itself was also slowing. I strongly felt our business model needed to change to adapt to the times. Our previous President and CEO strongly encouraged me to do just that saying, "I really hope you can transform this company."

Aiming to Transform the Business Model

The world originally knew the Sangetsu Group as a sales company. Investors and other outside stakeholders categorized us as a specialized interior trading company. My first concern had to do with the potentially large issues which could arise from this business model. A specialized trading company is a sound and low risk business. As an extension of this though, the business does not offer very much potential for evolution or growth. I knew at my core Sangetsu would not grow in the future without first transforming its business model. That is why I decided Sangetsu must shift from a specialized trading company to a more robust and sophisticated business firm.

The transformation of an existing and mature business model is no small task. To dramatically change as a company, our business will of course encounter greater risks and higher costs. However, I know Sangetsu must evolve even if faced by these difficulties. Our founders had given Sangetsu healthy capital and cash reserves. This provided our Group with the necessary financial strength and internal reserves to drive forward such a bold transformation.

The Sangetsu Group designated 2014 and later as our Third Founding Phase. We worked to go beyond past business patterns, invest and prepare for new growth, and draft and raise awareness about policies and rules intended to incite business action as an organization. I feel the Sangetsu Group has changed dramatically as a result of these efforts. We have clearly laid the groundwork for overseas expansion into North American, Southeast Asian, Chinese, and Hong Kong markets. I also feel our core interior business has been able to solidify its product, design, and procurement strategies to link the markets with the Sangetsu Group. More recently, Sangetsu welcomed the largest wallcovering manufacturer in Japan—which boasts domestic mass wallcovering production capabilities and holds a roughly 20% market share—to the Group. As a business firm, this acquisition puts in place an integrated production and sales system for mass produced wallcoverings, which is our main and most important product.

Fiscal year ended March 31, 2022 continued to face a harsh business environment due to impact of the COVID-19

pandemic, high prices of raw materials, and various other factors. Therein, the implementation of measures to enhance our earnings power have driven net sales and operating income, which in turn increased earnings and profit. This has definitely improved our profit earnings base. However, the Sangetsu Group did see a large decrease net income for the fiscal year under review due to the losses in the Overseas Business suffered by Koroseal Interior Products Holdings, Inc. in North America. While regrettable, we will once again prioritize the Overseas Business as one of our most important management challenges.

In the future, I hope we can become a "good company" in many ways. This includes Environmental, Social, and Governance (ESG) initiatives. A "good company" is a company

Importance of Improving Earnings Power Throughout the Industry

The interior industry in which we do business is confronting a wide range of challenges. Manufacturing equipment is becoming obsolete, which creates an urgency in gaining the production capability. Employees are getting older due to a labor shortage. The distribution cost is also increasing, as these various risks manifest, the pressing issue is to improve profitability in every process from manufacturing and sales through delivery and installation. As I mentioned earlier, the Sangetsu Group is struggling with more than just challenges in generating profit. As a leading company in the interior industry, I recognize the need for us to take initiative in solving the problems confronting the entire industry.

To overcome these issues, Sangetsu Corporation has revised its prices twice for wallcoverings, flooring materials, curtains, upholstery, and secondary materials in September 2021 and April 2022. Generally, a price increase does improve profitability but also risks a loss in market share. However, Sangetsu has worked to enjoy the ongoing patronage of its customers even

which employees work with pride and a sense of satisfaction, accepted by society, and provides high value to its customers. I believe having flexibility is important in becoming such a company. We need this room to breathe from both financial and human resource perspectives. Sangetsu must not only consider its business practices in the short term but also envision its ideal form from a broad perspective over the long term. With this kind of freedom in various aspects of our businesses, I believe that we can advance ESG and other initiatives toward becoming a "good company". I intend to continue to focus our efforts on achieving this goal. Our work has made steady progress in laying a foundation as an organization. I think it is important to build on the transformation achieved thus far to produce clear results in fiscal year ending March 31, 2023.

with these price increases by enhancing its appeal and services beyond simply the price through a delivery system and design proposals. I believe our continuous work to lay a foundation for our organization has made the current price increase possible. To improve earnings power, we must continue to work to generate greater appeal for our products beyond price. Sangetsu is also strengthening its earnings power in other ways beside these price reforms. I am highly aware of the limitations of business development done by injecting a larger quantity of products into Japan markets. That is why the expansion of the Overseas Business is vital. The Overseas Business continues to struggle in a very harsh business environment, but Sangetsu will focus on further strengthening its grip on management and improving business performance. The key therein is to reinforce the product appeal of our core businesses. We will establish common product and supplier strategies for the entire Group and advance measures tailored to each market.

The Entire Sangetsu Group Aims to Become a Space Creation Company

We have made a commitment to become a Space Creation Company in the [DESIGN 2030] Long-term Vision of the Sangetsu Group ("Long-term Vision"). We have already taken our first step toward this long-term vision through the [Design & Creation 2022] Medium-term Business Plan ("Medium-term Business Plan"). A Space Creation Company is an organization that possesses the manufacturing, planning, design, delivery, and installation functions necessary to create, integrate, and sell "materials" and "spaces." This type of company further strengthens and expands various "functions" related to "space" which it can then integrate, layer, and fully combine through creativity and imagination to design spaces delivering value to society. This is the Space Creation Company envisioned by the Sangetsu Group and our ideal form. Our conventional business model of selling a large quantity of products has its limitations, but "space creation" has infinite possibilities as a business delivering value. Please allow me to use wallcoverings as an example. While the value of providing wallcoverings desired by customers has its limitations, various services proposing ways to increase the value of the actual businesses run by our customers alongside wallcoverings and other products have immeasurable potential.

As lifestyles diversify and work styles become more flexible, there is tremendous need for "space designs," which presents immense growth potential. In response to these needs, Sangetsu is expanding systems to propose designs for both residential and non-residential spaces. Specifically, the Residential Design Offices propose space designs to renovation contractors, builders, and business owners involved in residential projects. The Contract Design Offices established in six branch offices propose space designs to general contractors, design firms, and business owners handling non-residential projects. These offices actively capitalize on our space design capabilities in sales efforts while also expanding the business according to each design proposal. The Sangetsu Space Creation Division will strive to strengthen its space design capabilities as a pioneer handling every aspect of design from the conceptual plan through the space design and construction. We will hire and nurture expert professionals to create these spaces.

In past measures toward becoming a Space Creation Company, the Sangetsu Group has risen awareness about



company-wide "design" value as well as the effectiveness of sales-oriented space design capabilities. However, there are still many obstacles ahead to overcome in order to reach our goal of becoming a Space Creation Company. For example, Sangetsu must enhance its imagination in business. As I said before, I believe it will be beneficial to expand new businesses by envisioning what has never been done before while spearheading growth as a business firm selling products, spaces, and experiences. A few issues that we still face are gaining the ability to conceive of these new businesses and the power to step up to the challenges to make them happen.

The Sangetsu Group uses "design" as a keyword in the Long-term Vision and Medium-term Business Plan. Creativity is essential to exhibit such imagination and design as a business. I want the Sangetsu Group to become a creative company that thrives with imagination.

Aiming for Agile and Efficient Financial Structure

I have focused on actively injecting abundance of capital held by the Sangetsu Group into growth investments since my appointment as President and CEO. I will remain steadfast in this stance of carefully identifying opportunities for active investment. As outlined by the Medium-term Business Plan though, my top priority will be to maintain a capital reserve between ¥90 and ¥95 billion and a total shareholder return ratio of nearly 100%. Specifically, Sangetsu will increase the ratio of dividends in a stable manner while flexibly acquiring treasury stock.

The Medium-term Business Plan sets an ROE target of 9%, which is a goal that I believe is important to fulfill. This target has not yet been achieved in the results forecast for fiscal year ending March 31, 2023, but it continues to be an important objective and one that we will work towards. Sangetsu will also continue to pursue our targets for a 9.0% ROIC and 65-day cash conversion cycle (CCC) because these are important indexes in shifting toward an efficient financial structure.

Promotion of Sustainable Management

Realizing social value is extremely important. In January 2022, Sangetsu pledged its support and signed the UN Global Compact advocated by the United Nations. We will respect the Ten Principles on human rights, labor, the environment, and anti-corruption in an effort to realize an even higher level of sustainable management.

The Sangetsu Group is determined to help achieve an "Inclusive," "Sustainable," and "Enjoyable" society. This is the social value advocated by our Long-term Vision. Sustainable management is at the heart of our company and an essential initiative for future growth. The Long-term Vision addresses inclusion first and foremost. This is because the Sangetsu Group believes the "Leave No One Behind" message, which is a core concept of the Sustainable Development Goals (SDGs), is extremely important. The Sangetsu Group recognizes the idea of making things "Enjoyable" as an essential value alongside expanding its businesses through the design of sophisticated spaces. Bringing joy to all of our diverse stakeholders is an important foundation for the concept of value pursued by the Sangetsu Group.

Moreover, our environmental initiatives will respond to climate change. In October 2021, Sangetsu declared its support for the Task Force on Climate-related Financial Disclosure (TCFD) recommendations. We will fully execute plans in accordance with the TCFD recommendations and strive to engage in comprehensive initiatives and informational disclosure that takes

into account climate-related risks and opportunities. We will also work in our business activities to reduce not only Scope 1 and 2 but also Scope 3 CO₂ emissions in each and every process, to develop products with a low environmental burden, and to recycle resources from the waste produced after product use. As one eco-friendly product, Sangetsu released NT doubleeco carpet tiles in November 2021, which contributes to a carbon-free society by using 100% recycled thread. We also released MEGURewall wallcoverings that use recycled resin materials and rice husks as another in May 2022. As one initiative to enhance the eco-friendliness of future products, Sangetsu has created and introduced a program to certify products as environmentally friendly known as the Sustainability Interior Product Certification System. Our resource recycling initiative works to recycle not only the actual products but also the sample books distributed to our customers. Sangetsu has set up a sample book recycling center to enhance this material recycling.

As a human resource initiative, we are first focusing on improving employee health above all else. At the same time, Sangetsu provides opportunity to everyone while striving to build personnel systems that can properly evaluate the results brought by those opportunities. As part of these efforts, we rolled out a new job based pay in April 2022 applicable to management. The Sangetsu Group is also actively working toward diversity and inclusion. We have improved the ratio of




female managers and expanded employment of persons with disabilities. In particular, Sangetsu is advocating many ways for persons with disabilities to become more involved, such as improving working conditions and expanding available job opportunities.

We are also doing everything in our power to strengthen governance. As a corporate conglomerate with "Sincerity" as its company creed, the Sangetsu Group has reinforced its

corporate governance through the transparency, speed, and efficiency of management. Since my appointment as President and CEO, I have clearly separated execution and supervisory functions to shift Sangetsu from a family business to corporate management. The Sangetsu Group will continue to respond to the revised Corporate Governance Code and work to further strengthen the monitoring functions of the Board of Directors as a company with an audit and supervisory committee.

To All Our Stakeholders

As a Space Creation Company, we will aim to become a company highly regarded by all of our customers and stakeholders. Therefore, we will design value delivered through creative imagination while contributing to society. I am confident this will help produce clear results and reliable returns to shareholders and all of our other diverse stakeholders. I hope all of you will look forward to the future of the Sangetsu Group, which will demonstrate our perseverance to transform through creative imagination and desire to generate social value.



COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Financial Strategies

The consolidated results of the Sangetsu Group have been stable and positive since its shares were listed on the stock exchange in 1980. We will promote the continued improvement of capital efficiency based on ROE and ROIC, create stable cash flow, and continuously improve our cash conversion cycle (CCC) with the goal of maintaining stable earnings.

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

During 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.

1. We will maintain equity in the range of ¥90.0 billion to ¥95.0 billion
2. We will maintain a total shareholder return ratio of approximately 100% over three years.
3. We will make decisions regarding dividends and share buybacks in consideration of the impact of COVID-19 pandemic on the business results under the basic policy of maintaining stable dividend increases.

Capital distribution plan (announced May 2021)

Creation and procurement of funds	Fund distribution
Cash equivalents held as of March 31, 2020 ¹ ¥36.8 billion	Growth investment ¥20 billion to ¥26 billion
Cash flow from operating activities in 3 years ¥28 billion to ¥30 billion	Shareholder returns ¥17 billion to ¥19 billion
Borrowings in 3 years -¥5 million to ¥10 billion	Cash held as of March 31, 2023 ¥25 billion to ¥30 billion

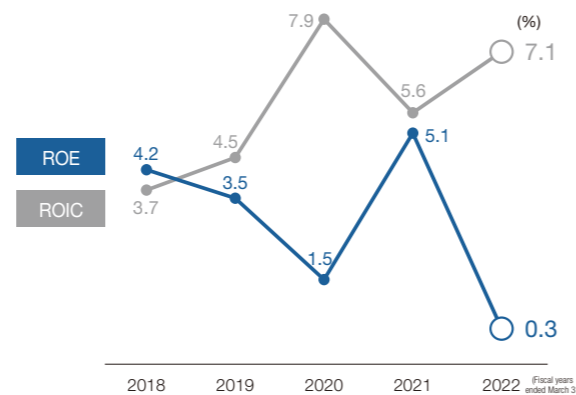
¹ Cash and deposits and securities other than stocks.

Continued Increase of Capital Efficiency Based on ROE and ROIC

We will invest in the growth of our business based on the Medium-term Business Plan. Meanwhile, we will maintain the equity capital and cash necessary to ensure the security of our business and implement a shareholder return policy of raising the total shareholder return ratio to nearly 100% in three years from fiscal year ended March 31, 2021 to fiscal year ending March 31, 2023. To improve capital efficiency, Sangetsu has condensed the ¥119.8 billion in equity capital from fiscal year ended March 31, 2014 to ¥87.8 billion as of fiscal year ended March 31, 2022. In addition, we set ROE and ROIC targets of 9.0% and are working to improve the earning power of the entire Group and steadily implement growth strategies.

The ROE as of fiscal year ended March 31, 2022 was 0.3% due to a drastic decline to ¥270 million in profit attributable to owners of the parent. Meanwhile, ROIC increased 1.5% from fiscal year ended March 31, 2021 to 7.1% due to a rise in operating income.

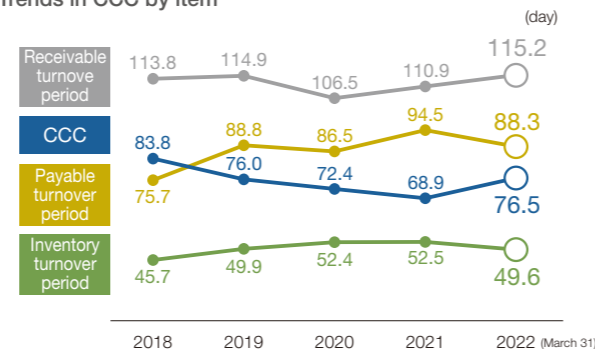
Consolidated ROE and ROIC



Continuous Reduction of the Cash Conversion Cycle (CCC)

CCC, which is an indicator of working capital efficiency, has increased 7.6 days to 76.5 days from previous term due to a rise in receivables brought by a recovery in sales activities, inventory adjustments according to the high prices of raw materials, and other factors deteriorating the payable turnover period. The Medium-term Business Plan sets a CCC target of 65 days, which is a goal that we will continually work towards.

Trends in CCC by item

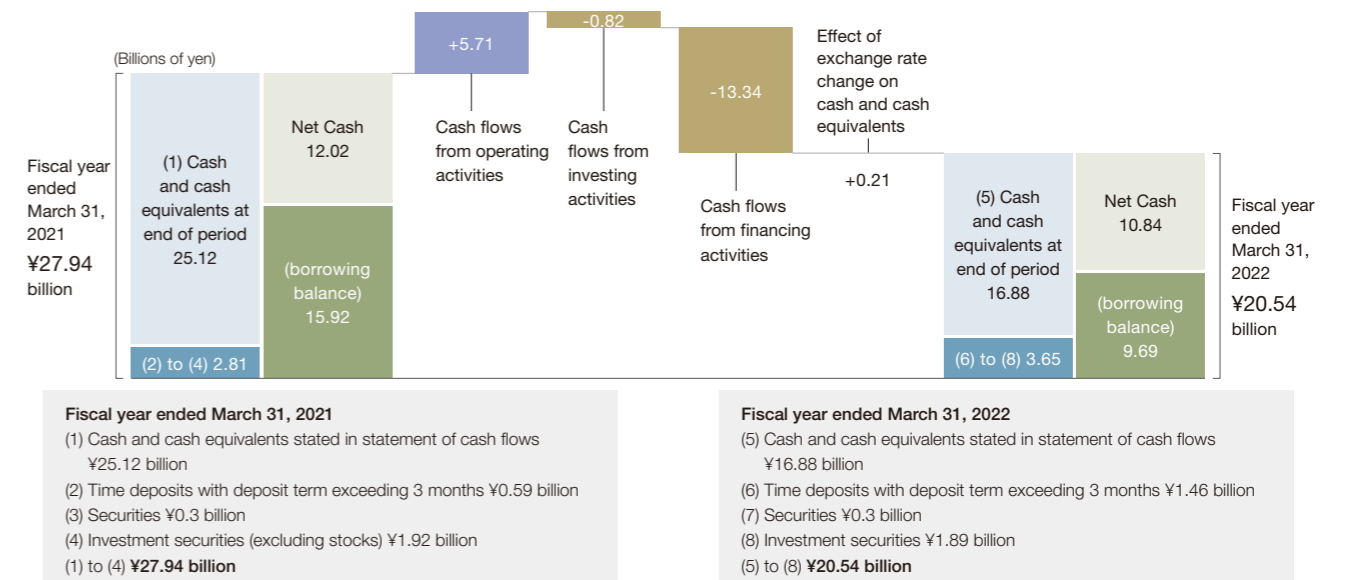


Creation of Stable Cash Flow

We consider the cash and cash equivalents in our statements of cash flows, the time deposits with a deposit term of more than three months, and high-liquidity securities to be cash equivalents. The cash flow from operating activities increased ¥5.71 billion while ¥820 million was used for

investment activities. There was also a ¥13.34 billion decrease due to financing activities. As a result, the cash equivalents as of fiscal year ended March 31, 2022 stood at ¥20.54 billion. We have decided to maintain an amount between ¥20.0 and ¥25.0 billion for the time being in consideration of the business impact of the COVID-19 pandemic. Our policy is to have net positive cash holdings.

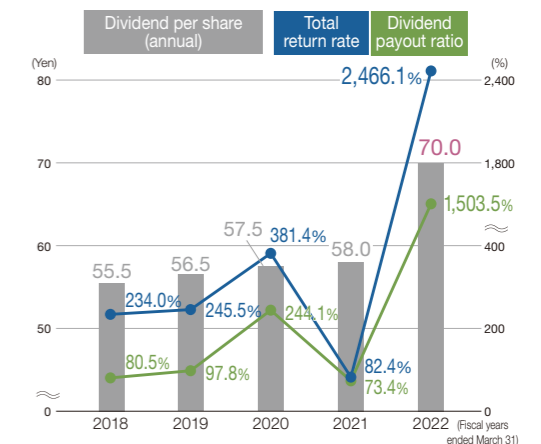
Trends in cash flow



Enhancement of Shareholder Return Policy Sustainable Over the Medium and Long Term

We have set a goal of achieving a three-year total shareholder return ratio of nearly 100%. In December 2021, Sangetsu announced it would revise its shareholder return policy to increase the ratio of dividends in a stable manner and flexibly acquire treasury stock. Based on this policy, the year-end dividend for fiscal year ended March 31, 2022 was ¥35 per share and the annual dividend combined with the interim dividend of ¥35 per share was ¥70 per share, up ¥12 from previous term. This realizes eight consecutive years of dividend increases. Sangetsu will continue to enhance its sustainable shareholder return policy over the medium and long term.

Trends in shareholder return



Impairment Losses in the Overseas Segment

Koroseal Interior Products Holdings, Inc. in North America suffered a decline in production efficiency due to the high prices of raw materials, high labor costs, and recruitment difficulties. In addition, a delay in increasing sales prices to counteract the rising costs hurt business performance. In the United States construction market, we forecast a long-term recovery after the sudden shrinking of the market due to the impact of the COVID-19 pandemic. In light of these circumstances, we have revised the business plan in anticipation of delay in Koroseal Interior Products Holdings, Inc. to recover business to take into account a loss in its trademark rights.

Financial Data for Koroseal Interior Products Holdings, Inc. Breakdown of fixed assets and losses

	Years of depreciation	Year ended March 31, 2021		Year ended March 31, 2022		Years of residual depreciation
		Consolidated balance sheet	Depreciation	Loss	Consolidated balance sheet	
Trademark rights	Non-depreciable	5.47	-	5.59	0.23	Non-depreciable
Technology assets (Intangible fixed assets)	13 years	0.49	0.05	-	0.48	8 years
Wallovering manufacturing equipment, etc. (Tangible fixed assets, etc.)	Main assets 25 years	2.54	0.35	-	2.48	Main assets Approx. 23 years
Total	-	8.51	0.41	5.59	3.19	-

¹Increase and decrease due to acquisitions and disposal of fixed assets other than the above as well as fluctuating exchange rates have also generated other gains and losses.

Story of Sangetsu Group Value Creation

The Entire Sangetsu Group Aims to Become a Space Creation Company

The Entire Sangetsu Group
Aims to Become a Space Creation Company

A Space Creation Company

● **Social Values Sangetsu Group Aims to Realize**
The 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

● **Economic Value Targets**
Consolidated Results for Fiscal Year Ending March 31, 2030

- Net sales target **¥225.0** billion
- Operating income target **¥18.5** billion

*Data do not comply with the Accounting Standard for Revenue Recognition

Toward Growth in the Next Generation
The Long-term Vision of the Sangetsu Group
[DESIGN 2030]

Actions to Realize
the Sangetsu Group Transformation

● **Growth Strategy**

Based on the Design & Creativity, the Sangetsu Group will make its businesses more sophisticated by integrating, layering, and fully combining each function supporting space creation. This will become the driving force to create new value.

● **Design-driven Management**

The Sangetsu Group aims to transform its businesses by expanding and enhancing the value provided through design. Rather than only pursuing the beauty, functionality, and coordination of products and the entire space, we will also consider how people spend time, live in, experience, act, and use a wide variety of spaces. Sangetsu will imagine, design, and propose a relationship between people and spaces. In addition to designing products and spaces, we will consider, propose, and design experiences to enhance our brand value. These efforts will aim to transform Sangetsu from a typical company selling products to a business firm that creates spaces as well as proposes and succeeds in delivering new experiences.

● **Strengths Cultivated by Our Business Thus Far**

Sangetsu was the first to begin handling wallcoverings. We not only grew alongside the construction industry in Japan but also broadened the variety of our product lines. While remaining focused on sales of materials for interiors, Sangetsu expanded its businesses by entering the exterior business domain. We have a long history of product planning and procurement, product proposals, inventory and shipping, and interior installations, which have earned customer trust and grown Sangetsu into the leading interior material company.

▶Details P. 04 History

Purpose

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 the joy of design with those who create new space.

Approach for Achieving the Long-term Vision

- Design-driven management
- Diverse professionals
- Cooperation and utilization of business-related data
- Complete transformation to a service provider
- Pacific Rim countries
- From an interior products company to Space Creation Company

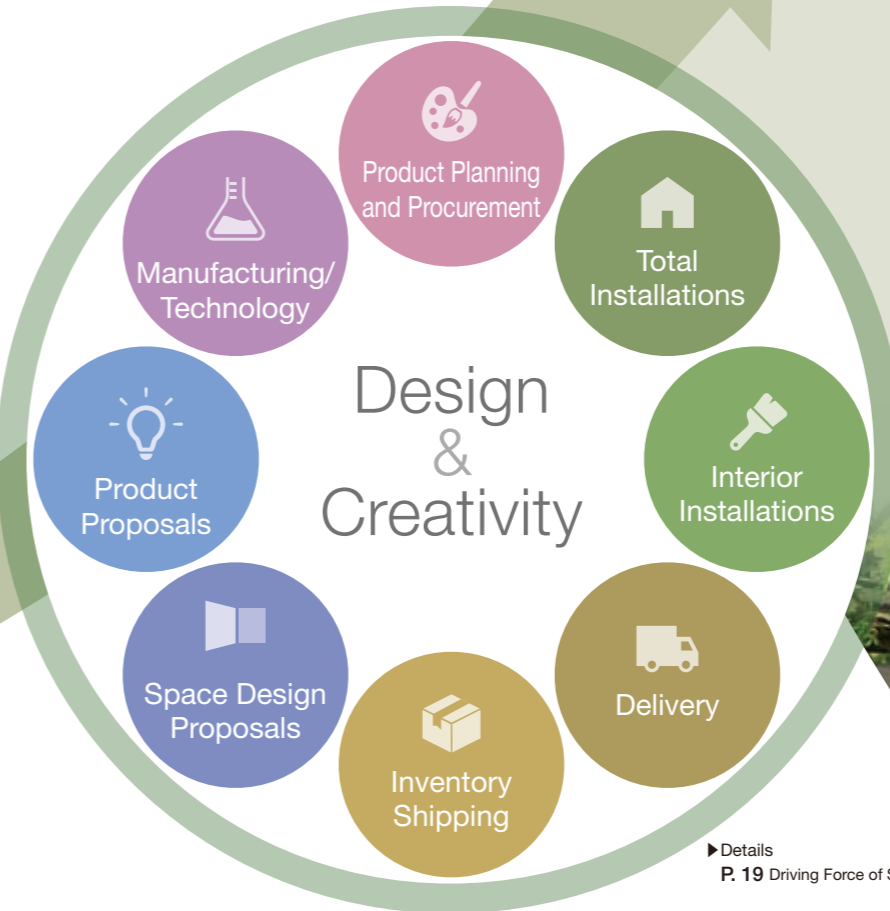
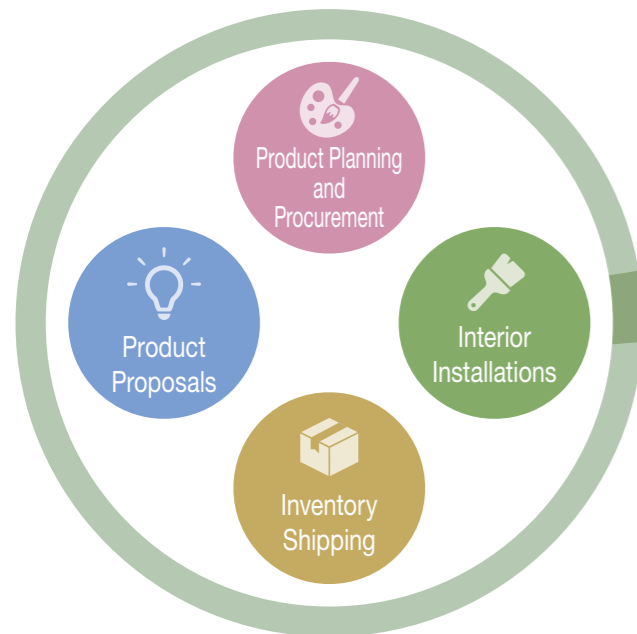
▶Details P. 18 Approach to Value Creation

Challenges to Overcome

The Sangetsu Group designates materiality by the importance of an issue to society and the impact it may have on sustainable growth of its businesses. Each priority subject is set as a priority issue in the Medium-term Business Plan and Long-term Vision to execute initiatives linked to Sangetsu growth strategies.

- Reduce our environmental impact
- Improve profitability throughout the entire interior industry
- Overcome a labor shortage throughout the entire industry
- Secure a reliable supply
- Respond to diversifying needs and values
- Strengthen our position in the industry, etc.

▶Details P. 24 ESG Management



Sangetsu Group

Value Creation Process

The Sangetsu Group will contribute to society through space creation and strive to create a daily culture of enrichment by providing the Joy of Design. Amid a constantly changing external environment, we will review and refine our process of creating value in response to various social issues and needs in order to enhance the value provided to society.

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

Inclusive

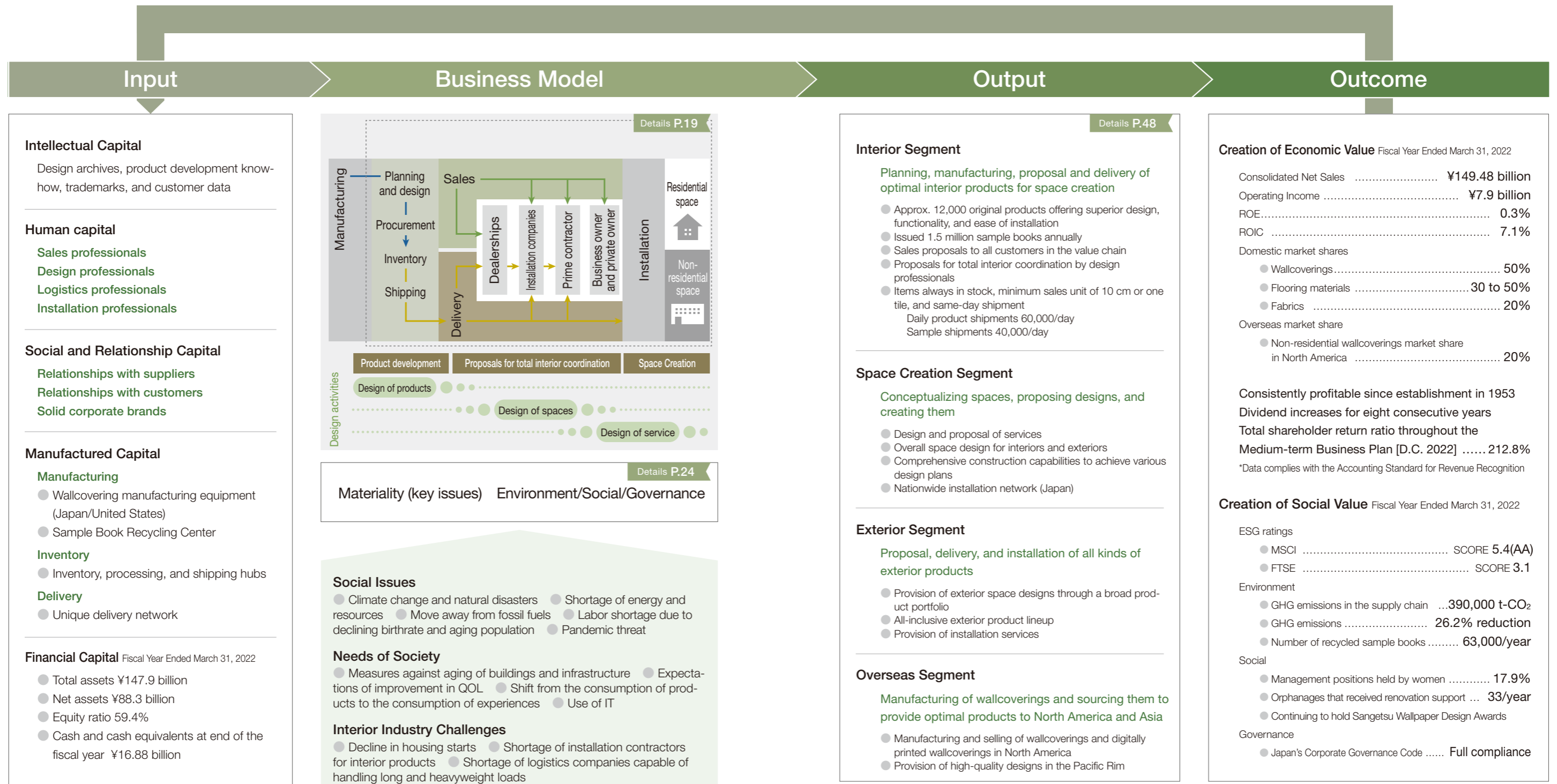
An equal and healthy inclusive society

Sustainable

Realizing a Sustainable Society
Protecting the Global Environment

Enjoyable

A more affluent and enjoyable society



Approach to Value Creation

Approach for Achieving the Long-term Vision [DESIGN 2030]

		Applicable SDGs
Basis of Management	Design-driven Management Enhance brand value and transform business through design	11 Sustainable Cities and Communities
Management and Business Foundations	Diverse professionals An organization where diverse professionals with hands-on capabilities fulfill an active role	4 Quality Education, 5 Gender Equality, 8 Decent Work and Economic Growth
	Cooperation and utilization for business-related data Use DATA to increase the efficiency of business and transform business	8 Decent Work and Economic Growth, 9 Industry, Innovation and Infrastructure, 12 Responsible Consumption and Production
Main Function	Complete shift to service-oriented sales business Business in which services are the source of added value	
Business Area	Asia and North America Strong business in Asia and North America, and global expansion	
Corporate Vision	From an interior products company to a creative concept partner based on design, human resources, data, and services. (Bringing our clients' visions to life through the joy of design) A global Space Creation Company based on design, human resources, DATA, and services	11 Sustainable Cities and Communities, 12 Responsible Consumption and Production
Realize social value ← Creating an inclusive, sustainable, and enjoyable society		17 Sustainable Partnerships

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. The Sangetsu Group will contribute to realizing an equal and healthy inclusive society, where diversity of gender will be respected, through the creation of healthy and comfortable spaces.

Sustainable

A sustainable society protecting the global environment

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

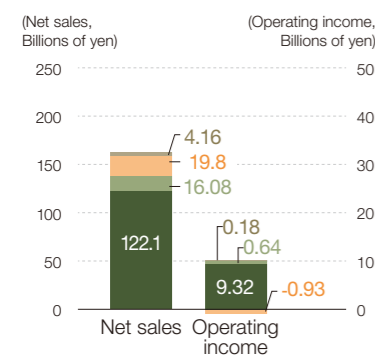
Enjoyable

A more affluent and enjoyable society

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

Quantitative Targets

Results when formulating the Long-term Vision (Fiscal Year Ended March 31, 2020)

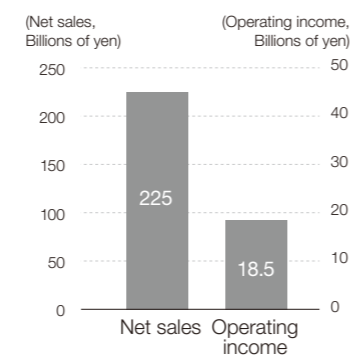


Net Sales
¥161.26 billion
*Adjustments for consolidation - ¥880 million

Operating Income
¥9.26 billion
*Adjustments for consolidation + ¥50 million

Legend: Interior (Dark Green), Overseas (Orange), Exterior (Light Green), Space Creation (Brown)

[DESIGN 2030]
Fiscal Year Ending March 31, 2030



Sales target
¥225.0 billion

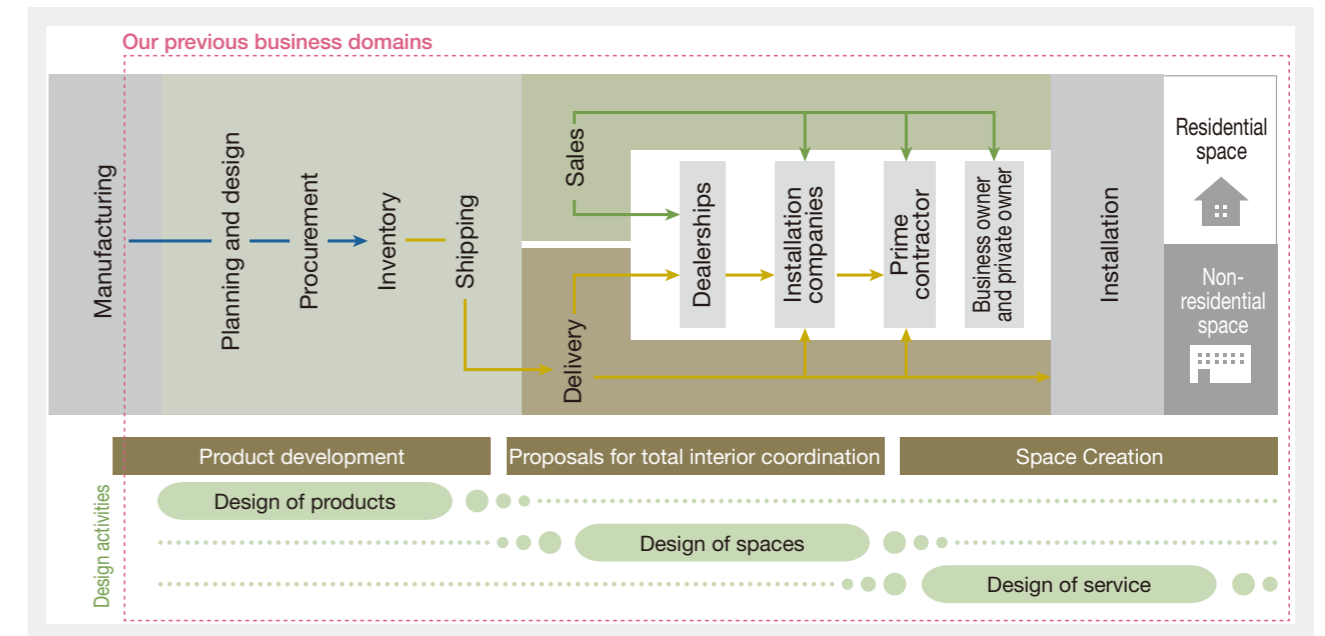
Operating income target
¥18.5 billion

*Data does not apply the Accounting Standard for Revenue Recognition

Driving Force of the Sangetsu Group

The Sangetsu Group capitalizes on the unique strengths it has cultivated thus far to make its businesses more sophisticated by integrating, layering, and fully combining each function supporting space creation. This will become the driving force to create new value.

Business Model for Integrated Processes from Manufacturing to Sales Covering the Entire Value Chain via Continuously Integrated Functions



Product Planning, Manufacturing, and Procurement

As the final stage in the construction process, the Interior and Exterior Businesses provide high designs as products adding color to a space while pursuing a rapid and reliable supply that ensure items are always in stock. Sangetsu Group must not only develop products tailored to the needs of customers in the market but also supply new products not bound by convention. Therefore, we will strive to improve our product design capabilities by not only bolstering in-house professionals versed in product design but also working with third-party and overseas designers. Every year, we engage in development to renew roughly one-third of our 30 main sample books, which has made it possible for us to sell upwards of 12,000 original products.

To provide a stable supply of such a diverse product lineup, the Interior Business has dealings with 270 companies while the Exterior Business works with roughly 150 companies. In March 2021, Sangetsu brought CREANATE Inc. (former Wavelock Interior Co., Ltd.), the largest wallcovering producer in Japan, under the Group umbrella. As part of the Sangetsu Group, this acquisition will streamline and strengthen business through an integrated manufacturing and sales system. While the Interior Business shifts the production of mass-production wallcoverings in-house as a main product, Sangetsu will further strengthen its alliances and coordination with each of our other suppliers to put into practice measures that will build a sustainable and stable supply system.

- Product design professionals
Approx. **70** people
- Suppliers
Interior Segment
Approx. **270** companies
Exterior Segment
Approx. **150** companies
- Largest wallcovering manufacturing facility in Japan (CREANATE Inc.)
- State-of-the-art wallcovering manufacturing equipment (Koroseal Interior Products Holdings, Inc.)
- Sample Book Recycling Center

Space Design and Product Proposals

Needs for designs that can create spaces are growing every year as the economic value for diverse lifestyles, flexible work styles, and other such experiences expand.

Sangetsu Group will integrate the skills it has cultivated proposing interior coordination in the Interior Business with the Exterior Business, and leverage its ability to propose not only total spaces but also furniture, lighting and a colorful array of various other products. We will actively expand human resources with the skills to design spaces and actively develop those skills to deliver precise and high-quality solutions satisfying the needs of our customers. 30 employees currently handle our residential designs that propose spaces primary in the residential market. 40 employees handle contract designs that propose spaces primarily to non-residential markets. 11 employees tackle the space creation designs that propose total solutions from design through installation primarily in non-residential markets.

Space design proposals are the source of added value and pursue more comfortable lifestyles for people. We can expect needs for these types of proposals to grow. In the future, design-driven management will expand and strengthen the design capabilities throughout the entire Group.

Expansion of Design Professionals



- Residential design professionals **30 people**
- Contract design professionals **40 people**
- Space creation design professionals **11 people**
- Domestic interior business sales staff **4 countries**
40 offices
710 people
- Domestic exterior business sales staff **15 offices**
90 people
- Overseas sales staff **7 countries**
210 people

Interior and Total Installation Capabilities

Installation is a vital function that brings designs into reality. However, a major problem throughout the construction industry right now is a labor shortage.

Installations involve general as well as primary and secondary contractors. Sangetsu typically handles installations as a secondary contractor (installation support of subcontractors). The Next Stage Plan G Medium-term Business Plan announced in 2014 once again identified stronger installation capabilities as a priority measure. Led by the Space Creation Business and Fairtone that became a Sangetsu Group company in 2017, we are strengthening our total interior installation capabilities not only in secondary installations by each Group company but also principal and primary contracting work while broadening our business domains.

Sangetsu will continue to enhance the installation capabilities necessary for space creation to realize sustainable functions.

Strengthen Total Interior Installation Capabilities	Secondary Contract Work (Support of Interior Contractors)	Primary Contract Work	Principal Installation Work
Engineering Firms, Builders, Housing Manufacturers, and Renovation Firms Small to Medium Properties	●	●	●
General Contractors Large Properties	●	●	●
Developers/Business Owners (Including Design Firms)		●	●

Enhancement of Functions

- First-class and second-class certified architects **30 people**
- Interior installation **1,250 people**
- Exterior installation **290 people**
- Building operation and management engineers **90 people**

Inventory, Shipping, and Delivery

The Interior Business ships 60,000 products and 40,000 samples per day. This definitive shipping and distribution system throughout Japan not only greatly contributes to a flexible response when interior construction schedules change but also trouble-free reviews of interior designs and specifications.

Sangetsu has six local logistic centers that act as inventory hubs in each area with large spaces supporting inventory functions. We have also set up two flagship logistic centers together with these inventory hubs in specific areas. In addition, Sangetsu is setting up satellite centers in each region to build an even more comprehensive delivery network. Through a concept that strengthens sustainability by gaining knowledge, we have established specialized duties for employees to handle shipping and delivery operations while recruiting and developing professionals specialized in logistics operations.

The new integrated Kansai Logistics Center established in January 2021 achieves full automation and labor savings to address the recent issues of an insufficient and aging workforce.

We will continue to build a reliable inventory as well as timely shipping and comprehensive delivery systems, which is essential to maintaining and strengthening our business structure.

- Specialist staff and contractors **800 people**
- Flagship and regional logistics centers **8 hubs**
236,000 m²
- Domestic delivery truck **500 units a day**



Kansai LC

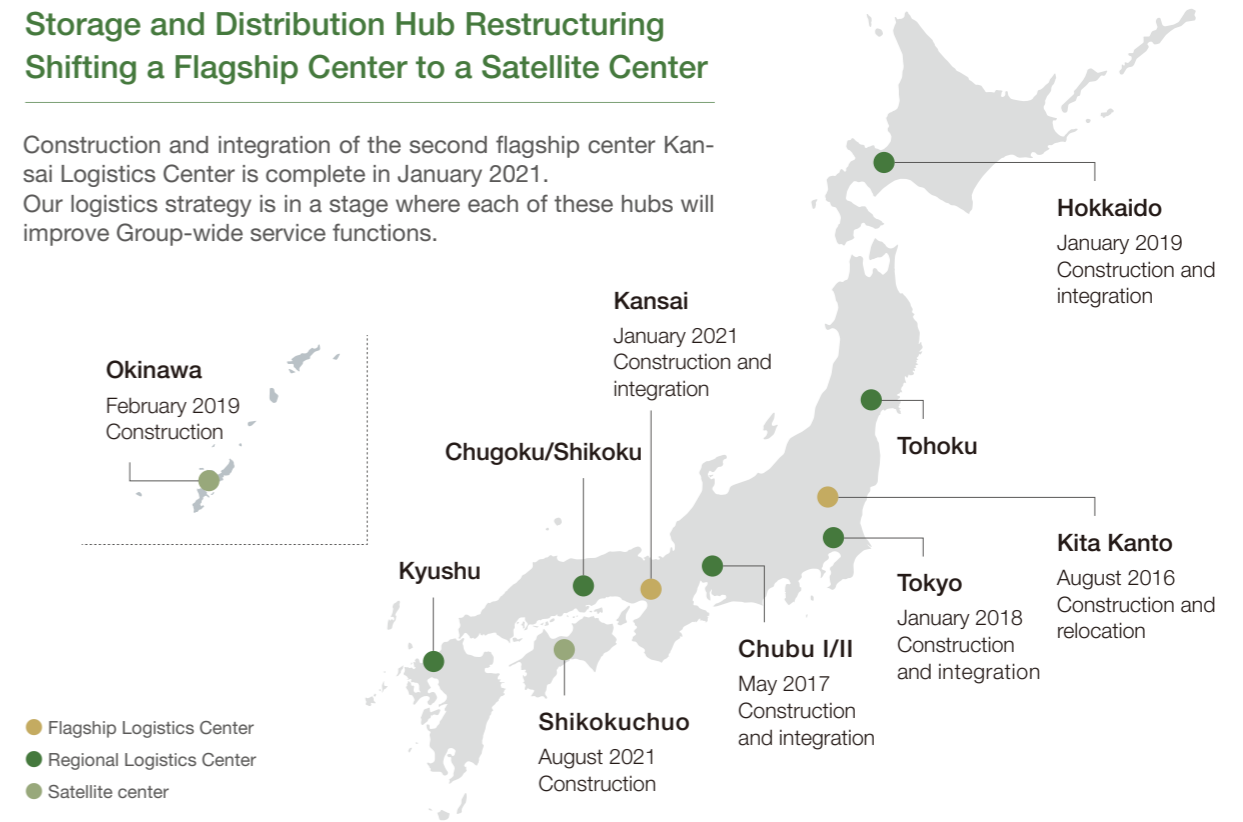


Exterior Automated Guided Vehicle (AGV)

Storage and Distribution Hub Restructuring Shifting a Flagship Center to a Satellite Center

Construction and integration of the second flagship center Kansai Logistics Center is complete in January 2021.

Our logistics strategy is in a stage where each of these hubs will improve Group-wide service functions.



Medium-term Business Plan (2020–2022)

[Design & Creation D.C. 2022]*

The Medium-term Business Plan (2020–2022) [D.C. 2022] was formulated to provide a first step toward realizing the Long-term Vision [DESIGN 2030]. [D.C. 2022] has set forth the four basic policies to promote the transformation into a Space Creation Company.

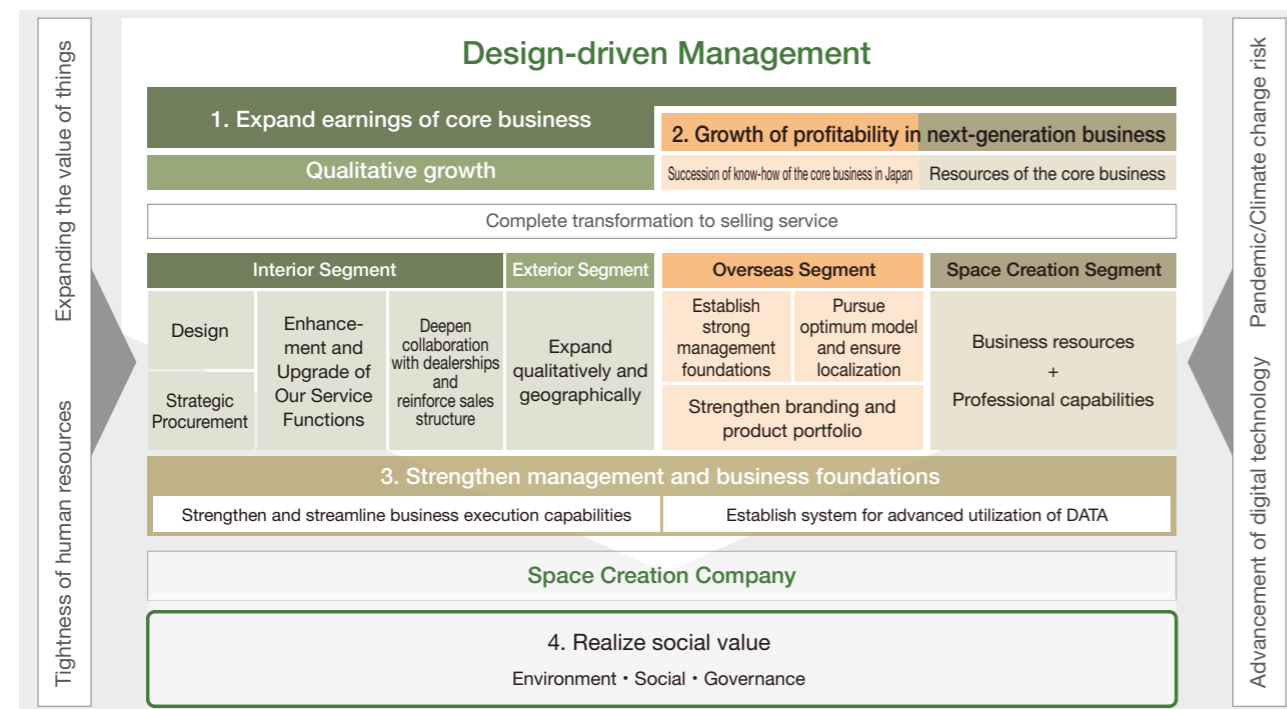
*D.C.=Design & Creation

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



We will promote design-driven management as a means to enhance brand value and transform business through design. This approach is centered on expanding earnings through 1. qualitative growth of our core business and 2. growth of profitability in next-generation businesses based on the resources of our core business in order to drive further growth in the future. Also, together with 3. strengthening management and business foundations to enable business transformation to create a Space Creation Company, we will aim to 4. realize social value as well as economic value.



Progress in Fiscal Year Ended March 31, 2022

During the second year of the Medium-term Business Plan [D.C. 2022] in fiscal year ended March 31, 2022, the harsh business environment saw raw material prices and distribution costs remain high, and the Overseas Business stagnated due to the COVID-19 pandemic. In spite of these tough conditions, the Sangetsu Group has steadily executed measures to improve business performance and achieve its long-term vision in the final fiscal year of the three-year Medium-term Business Plan. We will continue our work to expand earnings of core businesses and grow the profitability of next-generation businesses.

Reinforcement of Design Capabilities

▶Details P.48

Our product design capabilities will enable us to sell wallcoverings and fabrics founded on the concept of high quality at a low cost. Sangetsu also released NT double eco carpet tiles as a flooring material with a low environmental impact by reducing CO₂ emissions up to 61% compared to conventional products. In April 2021, we launched the KAGETOHIKARI collection of wallcoverings and flooring materials through a collaboration with world-renowned architect Kengo Kuma. iF Design, an international authority on design, presented KAGETOHIKARI with the iF DESIGN AWARD 2022. In addition, we are furthering other high-quality product development around functionality and design.



Strategic Procurement

▶Details P.19, 48

The worsening supply issues throughout the economy at large have even brought with it supply restrictions for some interior material products. As a response to these supply restrictions, Sangetsu brought Wavelock Interior Co., Ltd. (current Creanate Inc.) under the Group umbrella in March 2021. The company is the largest vinyl wallcoverings manufacture in Japan and holds 20% of the mass production capabilities for wallcoverings in the nation. However, Creanate saw a supply lag due to equipment breakdowns in December 2021. All of the Group companies came together in a collaborative response to recover the production system. Through this challenge, we were able to reaffirm the importance and our social duty to provide a stable supply of products. Therefore, the Sangetsu Group is not only reinforcing its own production capabilities at Creanate to ensure a safe and reliable supply of products but also strengthening its relationships with its suppliers.

Enhancement and Upgrade of Our Service Functions

▶Details P.21, 55

Sangetsu completed a large-scale storage and distribution restructuring effort with the launch of the Kansai Logistics Center in January 2021. During fiscal year ended March 31, 2022, we succeeded in establishing satellite centers to solidify comprehensive delivery system as well as reviewed and built a regional distribution network. In September 2021, Sangetsu brought HEKISOU Co., Ltd. under the Group umbrella as a formidable installation company in the Tohoku region to strengthen its installation functions. We will take advantage of these installation capabilities to build stronger relationships with customers, enhance installation quality, and expand our business territories.

Transformation of the Overseas Business

▶Details P.52

Sangetsu has established a three-pronged overseas network even while facing harsh business conditions via North America, Southeast Asia, and Hong Kong/China. This will not only enhance a product portfolio tailored to each region but also further product planning. In North America, each of our Group companies are broadening marketing and sales of REATEC as a Sangetsu-brand self-adhesive decorative film while releasing TAKUMI as a standard brand collection of wallcoverings incorporating traditional Japanese beauty throughout the Group.

Expanding the Space Creation Business

▶Details P.51

Sangetsu will strengthen cooperation between the Interior and Exterior Businesses in the Space Creation Segment by holding integrated exhibitions and proposing combined interior and exterior spaces. The Residential Design and Contract Design Offices will enhance space design capabilities by hiring expert professionals and developing the skills of its own human resources. Our efforts will continue to bolster the designs of services as a corporate conglomerate.

Reforms to Personnel Systems

▶Details P.36

Sangetsu examined a new personnel policy to incorporate a job assignment system to recruit and develop the diverse professionals advocated by its long-term vision, which was put into action in April 2022. This new system will build an internal system which enables employees to more actively participate by facilitating the appointment of expert professionals and organizational management.

ESG Management

The Sangetsu Group regards ESG (environment, social, governance) activities that are based on the concept of CSR (corporate social responsibility) as the practical application of its corporate philosophy and undertakes activities for realizing a sustainable society together with its stakeholders.

A Message from the Director Responsible



We will broaden and deepen ESG activities throughout the Group with the aim of become a company that employees can be proud of and that is respected by society.

Tatsuo Sukekawa

Director, Executive Officer in charge of administration and General Manager of the Finance and Accounting Department

The ESG Committee and five subcommittees set the targets and goals for Sangetsu ESG activities, which the entire Group undertakes in accordance with those policies.

As part of our environmental efforts, we released NT double eco in November 2021 as a carpet tile product adored by customers that uses recycled materials and limits CO2 emissions. We have also recycled over 62,915 sample books, surpassing our initial fiscal year target of 50,000 sample books.

As part of our social efforts, we expanded initiative to support the renovation of orphanages as a major theme of our community involvement. These initiatives are improving the living environments of the children and in turn fostering many other benefits. For instance, active employee participation is helping heighten employee engagement and job motivation.

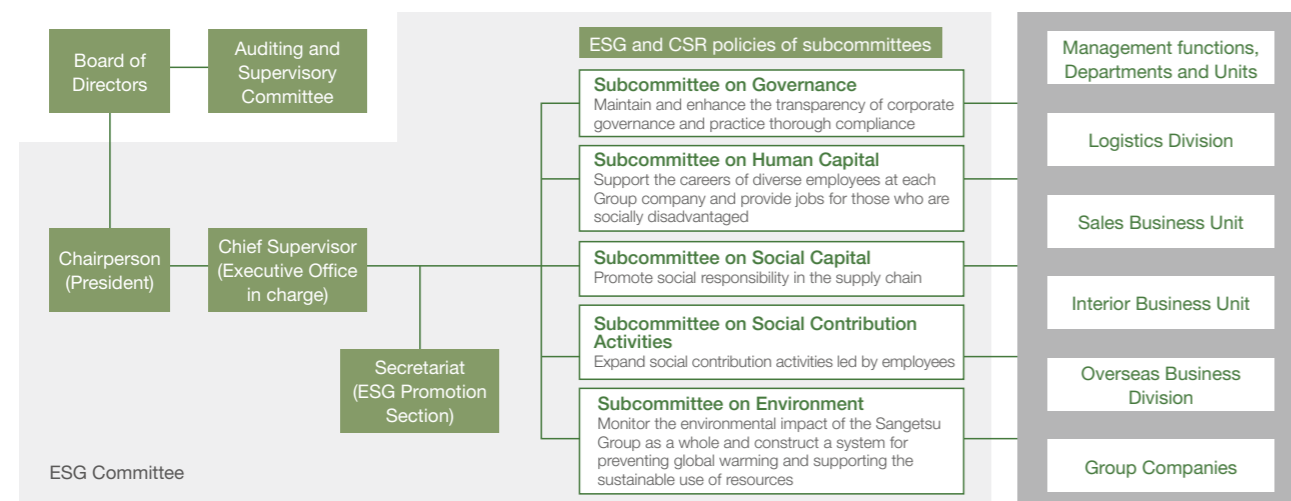
The Sangetsu Group has received praise for strengthening these ESG activities. This includes our selection as a brand on the FTSE Blossom Japan Sector Relative Index, which is a new and comprehensive ESG index used by the Government Pension Investment Fund (GPIF). We will continue to strengthen our ESG activities while striving to properly disclose information about the progress of these efforts.

Today, Sangetsu and all of its Group companies worldwide are building on these initiatives highly aware that ESG activities are a Group-wide effort. Our goal will always remain the realization of social value by becoming a company that employees can be proud of and that is respected by society.

ESG Management System

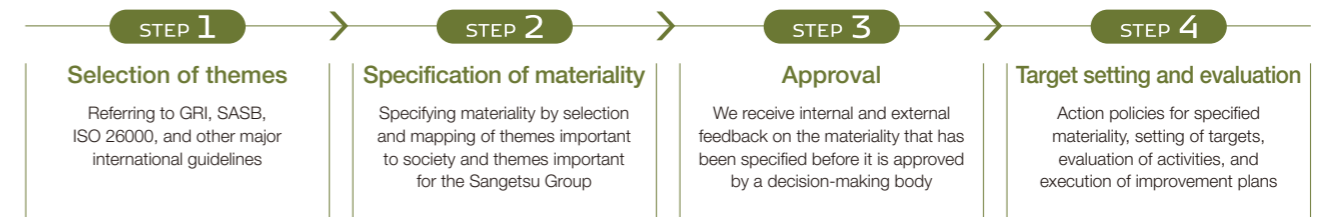
Sangetsu established a new CSR Promotion Section in April 2016, and in April 2017 a CSR Committee was established to oversee CSR activities across the entire Company, with the Company President acting as Committee Chairperson. In November 2020, we reorganized the CSR Promotion Section as the ESG Promotion Section. Recognizing the need to

respond appropriately to the GRI, SASB, ISO 26000, and various other international guidelines relating to ESG, five subcommittees have been established within the CSR Committee. The name was changed to the ESG Committee, which undertakes effective CSR management and implements measures aimed at addressing social issues.



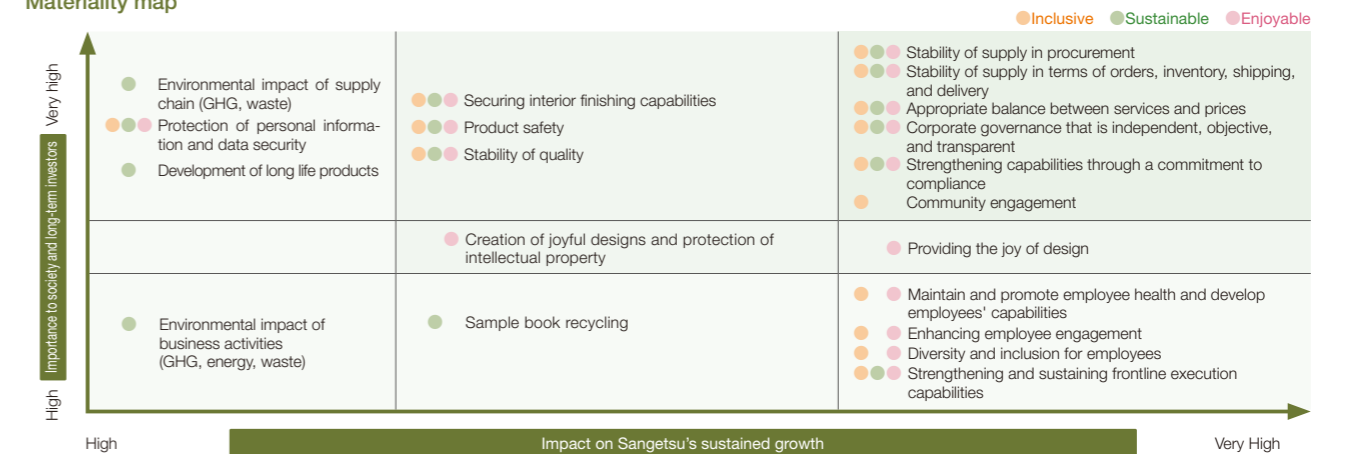
Specification of materiality related to ESG issues in the Sangetsu Group

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 plan, do, check, act (PDCA) cycle that is linked to business plans.



Long-term vision and materiality themes

Materiality map



Noteworthy Materiality Subjects

Category	Materiality	Concept: Risk and opportunities	SDGs of relevance
Risks	Stability of supply in procurement	The production capacity of a manufacturer producing products reflects the ever-tightening profit structure of the entire industry. As a brand manufacturer possessing a large share of predominate markets, any disruption in the Sangetsu supply of products to customers due to manufacturing equipment failure or other issues inhibiting production as planned would not only greatly harm the profitability of the Company but also cause delays in deliveries to construction sites and other serious problems. Sangetsu must put in place comprehensive measures against this risk as it poses a threat to the entire industry.	8, 9, 11, 12, 13
	Stability of quality	The stability of product quality is the most important customer requirement for a company delivering interior and exterior products. Any decline or deterioration in quality as a company selling products nationwide and acquiring a market share poses a tremendous risk in damaging the brand image and constraining profitability. Therefore, Sangetsu will consistently engage in initiatives to build a stronger quality management system and workforce.	8, 9, 11, 12, 13
	Environmental impact of business activities (GHG, energy, waste)	As a non-consolidated company, office lighting, ventilation, GHG emissions and energy consumption, power for logistics, and other such factors are the underlying causes of GHG emissions and energy consumption. Product offcuts, defective inventory, collected sample books, and other such factors are the underlying cause of waste. However, Sangetsu has a relatively low environmental impact throughout the entire supply chain. As a corporate conglomerate on the other hand, Sangetsu has a large environmental impact due to product manufacturing primarily at Creanate Inc. and Koroseal Interior Products Holdings. Sangetsu must drive forward sincere efforts to tackle worldwide issues like climate change and resource recycling. A lack of initiatives to overcome these issues poses a tremendous risk to the global environment and the sustainability of corporate management.	7, 13, 15, 17
Opportunities	Providing the joy of design	The ability to provide the joy of design is an important challenge to see through in our shift toward becoming the Space Creation Company advocated by the Long-term Vision and Medium-term Business Plan. Design is an additional means to deliver value. As the only company handling both interior and exterior products, Sangetsu can enhance corporate value through the pursuit and delivery of designs. Communication with customers through design also builds a win-win relationship between Sangetsu and its clients, which in turn helps create a broad track record of high design capabilities as the Sangetsu Group.	8, 9, 11, 12, 13
	Appropriate balance between services and prices	The services customers want differ by product line. Our products are diverse from those that have always pursued the lowest price to others emphasizing order, shipment, delivery, and other service options. This offers an important opportunity for Sangetsu to bring clear value to products with each of these service options, which will enhance customer satisfaction and a proper return of value.	8, 9, 11, 12, 13
	Maintain and promote employee health and develop employees' capabilities, Enhancing employee engagement, Diversity and inclusion for employees	Human capital is one of the most important assets of a company. Higher employee engagement not only contributes to better performance but also enhances corporate value. In our previous medium-term business plan, we engaged in health promotion, work-style reforms, human resource development, and other initiatives. Sangetsu is also further strengthening human capital via a new personnel system that began as of April 2022. These efforts provide an opportunity for Sangetsu Group to greatly contribute to its sustainable growth.	3, 4, 5, 8, 9, 10, 11, 12, 13, 17

Board of Directors



Directors

(as of June 22, 2022)

Shosuke Yasuda 1
Representative Director, President and CEO
Nomination and Remuneration Committee Member

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

Tatsuo Sukekawa 2
Director, Executive Officer in charge of administration (President's Office, General Affairs, Human Resources, Management Audit and Information System) and General Manager of the Finance and Accounting Department

- Nov. 1996 General Manager of the General Affairs and Accounting Department, Beijing Office of Mitsubishi Corporation
- Dec. 2004 Vice President & Director and General Manager of the Finance and Accounting Department of Mitsubishi Company (Thailand) Ltd. (Secondment)
- May 2009 Senior Managing Director and General Manager of the Administration Division of SAN-ESU INC. (Secondment)
- Apr. 2012 Senior Managing Director and General Manager of the Corporate Division of MC FOODS LIMITED (Secondment)
- Apr. 2015 General Manager of the Finance and Accounting Department of the Company
- Apr. 2021 Executive Officer in charge of administration (President's Office, General Affairs, Human Resources, Management Audit and Information System) and General Manager of the Finance and Accounting Department
- Jun. 2021 Director, Executive Officer in charge of administration (President's Office, General Affairs, Human Resources, Management Audit and Information System) and General Manager of the Finance and Accounting Department (To present)

Masatoshi Hatori 3
Outside Director, Audit and Supervisory Committee Member (Chairman)
Nomination and Remuneration Committee Member

- Jun. 2003 Director of Kanegafuchi Chemical Industry Company Limited (current KANEKA CORPORATION)
- Jun. 2005 Executive Director of KANEKA CORPORATION
- Jun. 2006 Director and Managing Executive Officer of KANEKA CORPORATION
- Apr. 2008 Director and Senior Managing Executive Officer of KANEKA CORPORATION
- Jun. 2010 Executive Vice President and Representative Director of KANEKA CORPORATION
- Jun. 2014 Special Advisor of KANEKA CORPORATION
- Jun. 2015 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)
- Jun. 2016 Advisor of KANEKA CORPORATION
- Jun. 2018 Retired as Adviser of KANEKA CORPORATION

Kenichi Udagawa 5
Outside Director, Audit and Supervisory Committee Member
Nomination and Remuneration Committee Member

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

Shuji Sasaki 7
Director
Full-time Audit and Supervisory Committee Member

- Mar. 1979 Joined the Company
- Feb. 2012 General Manager of Okayama Branch
- Jun. 2014 Director and General Manager of Okayama Branch
- Jul. 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
- Jun. 2019 Director (Full-time Audit and Supervisory Committee Member) (To present)

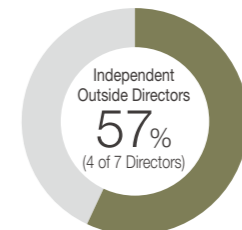
Michiyo Hamada 4
Outside Director, Audit and Supervisory Committee Member
Nomination and Remuneration Committee Member (Chairman)

- 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)
- Commissioner of Japan Fair Trade Commission
- Jun. 2015 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)

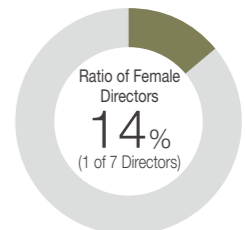
Osamu Terada 6
Outside Director, Audit and Supervisory Committee Member
Nomination and Remuneration Committee Member

- Jun. 2005 Executive Officer of SHIMIZU CORPORATION
- Jun. 2010 Managing Officer of SHIMIZU CORPORATION
- Apr. 2013 Senior Managing Officer of SHIMIZU CORPORATION
- Jun. 2014 Executive Vice President and Representative Director of SHIMIZU CORPORATION
- Jun. 2020 Senior Advisor of SHIMIZU CORPORATION
- Jun. 2021 Retired as Senior Advisor of SHIMIZU CORPORATION
- Jun. 2021 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)

Securing Independence and Objectivity



Diversity Promotion



Director Skill Matrix

Title and Name	Current Position and Role at Sangetsu Corporation	Attributes	Tenure	Experience and knowledge expected of Directors													Attendance at Board Meetings
				Audit Committee Member	Nomination and Remuneration Committee Member	Corporate management	Financial and accounting	Human resources and legal affairs	Sales and marketing	Materials business	Manufacturing and quality	Interior materials business	Construction business	Global and overseas business	ESG and sustainability		
Shosuke Yasuda	Representative Director, President and CEO Nomination and Remuneration Committee Member	Executive	8		●	●			●	●		●			●	●	100% (13/13)
Tatsuo Sukekawa	Director, Executive Officer in charge of administration and General Manager of the Finance and Accounting Department	Executive	1						●							●	100% (10/10) *Appointed June 24, 2021
Masatoshi Hatori	Outside Director, Audit and Supervisory Committee Member (Chairman) Nomination and Remuneration Committee Member	Outside Independent	7	○ (Chairperson)	●	●			●	●	●	●					100% (13/13)
Michiyo Hamada	Outside Director, Audit and Supervisory Committee Member Nomination and Remuneration Committee Member (Chairman)	Outside Independent	7	●	○ (Chairperson)				●							●	100% (13/13)
Kenichi Udagawa	Outside Director, Audit and Supervisory Committee Member Nomination and Remuneration Committee Member	Outside Independent	3	●	●	●					●	●			●		100% (13/13)
Osamu Terada	Outside Director, Audit and Supervisory Committee Member Nomination and Remuneration Committee Member	Outside Independent	1	●	●	●								●	●		100% (10/10) *Appointed June 24, 2021
Shuji Sasaki	Director Full-time Audit and Supervisory Committee Member	Non-executive	3	●					●			●					100% (13/13)

Executive Officers and Senior General Managers (as of July 1, 2022)

President and CEO	Shosuke Yasuda	Executive Officer in charge of certain businesses and President of Sangetsu Vosne Corporation	Takashi Morita
Senior Managing Executive Officer, Sales Business Unit	Yasutomo Yoshikawa	Executive Officer in charge of Space Creation Director of Sungreen Co., Ltd. and General Manager of Space Creation Business Unit	Kazunori Miyamoto
Managing Executive Officer, General Manager of Interior Business Unit	Yoshiaki Kaneko	Executive Officer, Chief Branch Manager of Tokyo Branch	Shigenobu Maki
Executive Officer, General Manager of Logistics Division	Yosuke Mine	Executive Officer in charge of Overseas Business	Shimpei Yamada
Director, Executive Officer in charge of administration and General Manager of the Finance and Accounting Department	Tatsuo Sukekawa		

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 in a sustainable manner.

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.

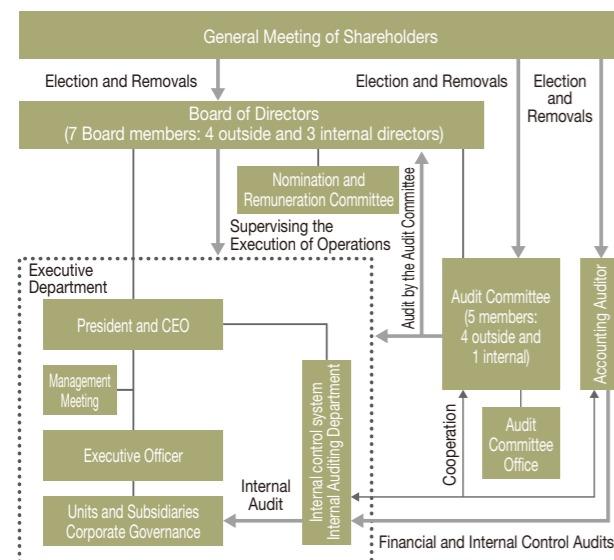
Sangetsu has transitioned to become a company with an audit and supervisory committee in 2015, with the aim of strengthening the auditing and supervisory functions with respect to the Board of Directors by having outside directors participate in management. We are striving to achieve the further enhancement of corporate value on the basis of this governance system.

Corporate Governance System

Starting from FY2019, Sangetsu strengthened its corporate governance system by enhancing the oversight function of the Board of Directors through the appointment of two directors concurrently serving as executive officers and five directors concurrently serving as Audit and Supervisory Committee members. 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 has been limited, in principle, to a maximum of 10 years with the intention of ensuring and maintaining greater independence and proper external audits. The Company has thus established a system for enhancing the transparency of its corporate management.

Corporate Governance



Board of Directors

The Board of Directors consists of four independent outside directors and three internal directors who meet once a month. These Board of Directors meetings appropriately share corporate management information in a timely manner and plan management strategies. In accordance with the Articles of Incorporation, all or part of the decision-making responsibilities regarding the execution of certain operations have been delegated from the Board of Directors to the representative director (President) to speed up the decision-making process. The Board of Directors monitors the progress of matters delegated to the representative director.

Main Deliberations in FY2021

- Various Medium-term Business Plan measures and progress management of ESG activities
- Executive reports and discussions on matters therein by the Executive Officers
- Overseas business strategies
- Financial results analysis and capital policies
- Internal control system management
- Reforms to personnel systems
- Reports from the Risk Management and Compliance Committees
- Initiatives to create a stable supply and standardize quality

Audit Committee

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

These members primarily conduct audits using the internal control system and through on-site visits to business sites worldwide. 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 officers and employees, liaison meetings of audit committee members at affiliated companies, and other means.

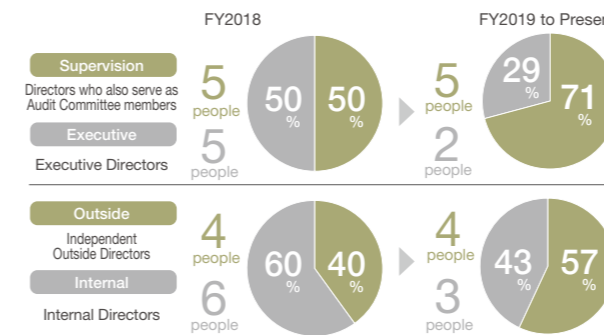
Main Activities of Independent Outside Directors Serving on the Audit and Supervisory Committee as well as Nomination and Remuneration Committees

The Outside Officers inspected the relocated and newly built center office of the Kansai Branch, Kansai Logistics Center, Ichinoseki Plant of the Creanate Inc., a new Group company as of March 2021, and other business sites through on-site audits in spite of the travel restrictions during the COVID-19 pandemic. In addition, the Outside Directors made every effort to grasp the progress of management execution and improve the effectiveness of audits by participating in the dialogues and meetings below.

- **Dialogue with management executives 23 meetings** *Results for FY2021 Sangetsu has created opportunities for the Outside Directors to engage in a dialogue with Executive Officers, Presidents of Group companies, and General Managers.
- **Participation in important meetings 30 meetings** *During the FY2021 Outside Directors participate in not only Board of Directors meetings but also Business Strategy Conferences and other important meetings to contribute to executive-level decision making.

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.



Independent outside directors Internal directors

Outside Directors ensure the effectiveness of the decision-making, supervision, deliberation, and all other processes of the Board of Directors. 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.

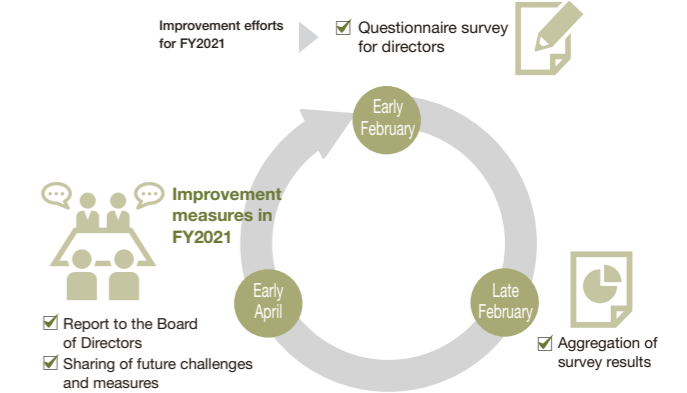
A questionnaire survey was administered to all directors in February 2022 for FY2021. After approval by the Board of Directors, the assessment results were disclosed in the Company's Corporate Governance Report.

Main assessment items and results

- The scope of delegation of authority to the representative director was clearly specified and deemed appropriate.
- The Board of Directors is doing its best to realize the Medium-term Business Plan [D.C. 2022].
- The Board of Directors has established a Nomination and Remuneration Committee consisting of Outside Directors as members and the chairperson to deliberate on the nomination and remuneration of directors to ensure a process providing a high level of fairness and transparency. However, Sangetsu does recognize the Board of Director still must overcome ongoing succession issues of the President and Chief Executive as well as other officers.
- The Board of Directors is making the proper 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.
- The 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.



Method used to evaluate the effectiveness of the Board of Directors in FY2021



Corporate Governance
Corporate Governance Report
<https://www.sangetsu.co.jp/english/sustainability/governance/corporate-governance.html>



Corporate Governance

Standards of independence for outside directors

For appointing outside directors, Sangetsu applies its own Standards of Independence in addition to independence criteria defined by the Companies Act of Japan and Tokyo Stock Exchange. The Company also requires professional qualifications representing advanced expertise and a wealth of experience to provide candid and constructive advice on company management.

Standards of independence

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 as well as in the event the recipient of such benefits is a corporation or organization or 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

To promote compliance management, the Company provides directors and management executives with opportunities to participate in internal and external seminars. Expenses for participating in programs hosted by third-party organizations are borne by the Company.

To aid independent outside 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.

Highly transparent compensation system linked to performance and shareholder value

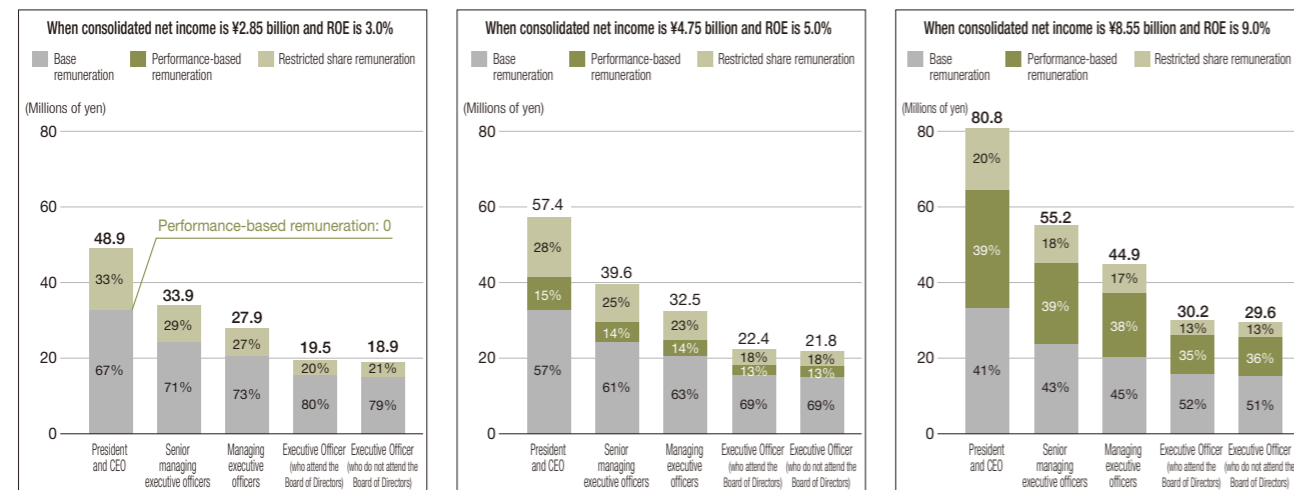
The Sangetsu compensation system for executive officers and directors consists of three types of remuneration, which realizes a highly transparent compensation system linked to performance and shareholder value.

- 1. Base remuneration***
Determined for each person based on performance and contribution to the Company's business in the relevant fiscal year, evaluated by the Nomination and Remuneration Committee
* Directors who do not hold a concurrent position as executive officer and directors who concurrently serve as Audit Committee Members receive only base remuneration.
- 2. Performance-based remuneration**
Determined for each person based on consolidated net income for the purpose of improving capital efficiency (ROE) in each fiscal year
- 3. Restricted share remuneration**
Determined for each person using the number of shares applicable during the current Medium-term Business Plan period for the purpose of clarifying the incentive to increase shareholder value and continuously improve corporate value
Please see the Sangetsu website more details about the specific calculation method.

Corporate Governance
Highly transparent compensation system linked to performance and shareholder value
https://www.sangetsu.co.jp/english/sustainability/governance/corporate_governance.html



Amount of remuneration and its proportion by title



Round Table of Outside Directors

Sangetsu Corporation transitioned to a company with an audit and supervisory committee structure in 2015. In June 2019, we strengthened the audit and supervisory functions of the Board of Directors through measure that included appointing outside directors as a majority of four out of seven directors. This round table discussion between the Outside Directors was held in the hope of improving medium to long term corporate value while further strengthening the effectiveness of corporate governance.



Q1 Sangetsu Culture and Corporate Governance

Hatori: I have served as an Outside Director since 2015. Sangetsu has a long history of generating tremendous growth in its wallcovering business, which has made it the leading company in the industry. I have seen the remarkable growth of Sangetsu as a raw materials manufacturer of its business partners. However, I feel the Company has had trouble escaping the old style of management. I am sure the President and CEO at the time recognized this issue more than anyone. After his appointment as the new President and CEO, Shosuke Yasuda carried out various reforms to overcome this problem. His governance reforms pioneered Sangetsu's shift to a company with an audit and supervisory committee structure, which drastically changed the Company. Today, Sangetsu has reached quite a high level of policy planning in my opinion. The next challenge will be how to expand the effectiveness of these policies throughout the Group.

Hamada: I was originally a university professor specializing in corporate law. As a law scholar, I paid close attention as Japan began adopting the trends toward stronger corporate governance happening in the United States, United Kingdom, and the rest of the world. The shift of Sangetsu to a company with an audit and supervisory committee structure took place in June 2015 right after amendments to Companies Act introduced the corporate structure to Japan. At the time, I was appointed as an outside director with Masatoshi Hatori. Japan also adopted the Corporate Governance Code during the same year. Sangetsu had already decided to restructure

itself into a company with an audit and supervisory committee and was one of the first to put in place an independent officer system with four outside directors. This was an excellent decision in my opinion. As the ideal form of a corporate entity was dramatically changing for not only Sangetsu but throughout society at large in Japan, I became involved in strengthening of corporate governance at Sangetsu as a member of the Board of Directors. This was a position that legal scholars like myself could only dream about.

Udagawa: I gained management experience at a materials manufacturer before I began to serve as an Outside Director in 2019. Sangetsu has established a Nomination and Remuneration Committee as a body combining the functions of a nomination committee and remuneration committee and appointed an independent outside director to chair this committee, which I believe was a bold decision. The materials prepared for Board of Directors cover a wide range of topics in great detail, which shares and discloses comprehensive information with us. I have served as an advisor for other companies, and I can tell you that not every company with an audit and supervisory committee is this cooperative. However, Sangetsu is very sincere in its cooperation.

Meanwhile, Sangetsu is ramping up various efforts toward reforming itself as a Space Creation Company. This seems to have brought a different mindset between the biggest earners in the Sales Business Unit and other divisions on the front lines of business and all of the headquarters and other corporate management divisions. Departments directly involved in business on-site do generate the most profit, so it may be a challenge to align their mindset when implementing measures.

Round Table of Outside Directors

Terada: I served as the top management of the construction division for a general contractor, which gave me a certain amount of insight into Sangetsu products and businesses. Even so, I was very impressed with the very straightforward corporate climate that I saw when I was appointed an Outside Director in 2021. Sangetsu is very flexible and resilient in how it moves matters forward as a company. As I have thought about why, I think it must stem from the corporate climate consisting of a large number of women. Although I have only been an Outside Director for a year and may still be seeing things with fresh eyes, I believe the quality of this corporate culture is what will generate the power to realize a wide variety of social activities in the future.



Sangetsu has successfully enhanced its corporate governance policies over the last several years, which is thanks to its sincere approach in fully following through with all of its efforts. The Group actively engages in a wide range of initiatives, whether those dealing with management issues, diversifying its business domains, or expanding overseas. The question becomes how much success Sangetsu will have in broadening its businesses though. I think this will be a point of emphasis in the future.

Q2 Role and Effectiveness in the Board of Directors

Terada: I always find myself providing advice from an audit and supervisory stance. I sometimes feel like telling "That's wrong." from the perspective of the execution side when a debate gets heated, but I am not just an adviser. I try to take care to objectively assess whether the process for moving matters forward is done properly rather than joining the debate about how to proceed.

It is important for me to try to use my past experience in these evaluations to provide advice and engage in discussions while understanding my place as an Outside Director. It is not simply about whether or not something has been accomplished but building a means to offer more effective assessments.

Our role is both supervising a company and also steadily generating corporate growth. I firmly point out any process being done improperly. If done properly, I do everything I can to help push forward those corporate growth strategies which adhere to corporate compliance.

Udagawa: I am grateful President Yasuda always provides us with very detailed explanations about each matter on the table in Board of Directors meetings. However, I wish other executive officers directly involved with the matters at hand would have a chance to explain things. Of course, I am sure all of these matters have been sufficiently debated at the management meeting before the decisions are brought to the Board of Directors, and there may be no need for further debate between the executives. Even though President Yasuda does encourage everyone to speak, I feel the Board of Directors would benefit from a livelier debate if people took the initiative to speak themselves. In addition, I often hear people say the role of the audit and supervisory committee members is to support the Medium-term Business Plan and strategies inside a company, but I am skeptical of this approach. I do not believe the audit and supervisory committee members should become involved in management execution.



Hamada: I do think Mr. Udagawa is right. Board of Directors meetings do tend to primarily rely on explanations from President Yasuda. However, the majority of the Board of Directors is made up of Outside Directors, which makes it easier for us to share our thoughts. The Corporate Governance Code provides guidance advocating that one-third of Directors at companies listed in the Prime Market should be outside directors. Sangetsu fulfilled this requirement in 2015. Since 2019, Outside Directors have made up a majority of its Board of Directors, which has gradually built an outstanding atmosphere welcoming of debate.

Outside Directors attend various meetings, such as an important conference for executive officers to review business issues, as opportunities to hear firsthand from Executive Officers rather than the President. More recently, Outside Directors have begun to have a dialogue with core management at Nomination and Remuneration Committee meetings. Before the COVID-19 pandemic, we visited various departments to conduct on-site audits, which also provided a first-hand source of information about each department. Once the risk of COVID-19 infections subsides, I hope we will start doing these on-site audits again.

As an Outside Director, I do look at whether executive officers are sincerely working to benefit the Company and society, but I also value an environment where young employees can grow substantially as human beings through work experience. I also hope to further empower women. Even though many women were joining Sangetsu when I became an Outside Director, a great many resigned due to marriage or childbirth. This is rapidly changing today. I am extremely proud of the dramatic changes that have made employees feel as if they changed jobs even while still working at the same company.

Hatori: I think it is also necessary for Outside Directors to focus on deepening debate at meetings by either playing devil's advocate or asking questions. The materials provided in advance are really comprehensive and come in quite handy. To nitpick though, the information in these materials has been prepared using very particular Sangetsu patterns of thought. Of course, this does not mean that anyone is trying to hide anything intentionally. However, I would like for decisions to not only rely on these materials but also on our own unique sources of information as much as possible. Otherwise, the significance of having Outside Directors is lost. The Outside Directors need to always keep in mind that Information prepared internally by Sangetsu forms scenarios founded in corporate history, even if it may be raw data.



Full-time Audit and Supervisory Committee member and a dedicated manager do carry out audits and share its findings in detailed reports sent out monthly. The Committee has continued to do these audits even during the COVID-19 pandemic in an online format, which has proven a valuable source of information.

Q3 The Aim to Become a Space Creation Company

Hatori: I think Sangetsu Group has gradually brought the idea of "space creation" into focus, but there is still much work that needs to be done. The Company may be expanding from manufacturing to building experiences through services centered on its core businesses and technologies, but it currently seems as though there is still a lot of talk and little action.

Terada: Sangetsu does have a philosophy. That's why I hope the Company will create a blueprint for an ideal form that it hopes to achieve in the next three and five years. First, I think it is easy to see the reality of space creation when considering how to create these spaces in buildings. The ideas would be much easier to evaluate if we could see a bit more detailed strategy in terms of costs, the investment of human resources, and the approach to proceed forward.

Udagawa: Many different companies are already advocating businesses under slogans about creating spaces. Therein, I think it would be good to define exactly what Sangetsu Group should do in a way that satisfies everyone.

Hamada: I myself do not see the shift into a Space Creation Company as a way to compete against other companies that already exist. Sangetsu started as a framing business before experiencing rapid growth after the war achieved using wallcovering sample books (products) and distribution. It then went on to expand its product lineup to include flooring materials, fabrics, and exterior products. President Yasuda has steered Sangetsu toward growth through the perpendicular axis of manufacturing and installation services. The standing vision for this shift is the "Joy of Design." I think the idea of becoming a "Space Creation Company" is the form shaped by succeeding in this corporate vision. Sangetsu will be able to propose new spaces while managing everything from manufacture through installation. Considering the aim to grow by utilizing the strength of the Company, I think these are quite exciting goals.



Hatori: Toward this end, Sangetsu has to evolve so that it can add value to the designs and delivery that it has been delivering for free up until now in addition to its high-quality products as well as installation and other services. This also means a complete reform of the way the entire industry thinks.

The fiscal year under review is the eighth year of this new governance structure. Management has gained a higher awareness about governance. Today, many Sangetsu employees think not only about corporate earnings and growth but also society. Change at a company like Sangetsu Group that has built a history of stable performance is a surmountable task. In spite of the difficulty, Sangetsu has fostered change and been changed. The company has also cultivated professional human resources. I hope to continue to support the Sangetsu businesses from the standpoint of an Outside Director while looking forward to boarder new business reforms.

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 and other means to identify any problems, issues, or obstacles within the Company that may hinder the thoroughness of compliance, and we work diligently on a companywide basis to implement improvements.

Compliance promotion structure

Sangetsu has established a Compliance Committee led by the President and CEO as the highest authority.

The 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 and operation of a system for managing import laws and regulations

Sangetsu identifies all important laws and regulations relevant to its businesses to establish supervising departments and other related bodies which oversee and manage particularly important laws and regulations. We set and achieved our FY2021 target to have no violations of important management laws or regulations.

The supervising department immediately notifies the executive officer in charge and the Legal Section of any legal or regulatory violation using a designated format. At the end of each quarter of the fiscal year, Legal Section also checks with each department manager to make sure Sangetsu had no unreported violations.

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 Group companies have formulated their own corporate codes of conduct based on the Sangetsu Group Compliance Code of Conduct in line with local laws and practices.

Establishment of helplines

Sangetsu has set up helplines for whistleblowing and consultations, which can be used by all employees regardless of employment status, including employees of Sangetsu Group companies within Japan. In addition to contact windows for whistleblowing 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.

Number of helpline reports Parentheses indicate the number of cases reported via external contact points.

	Compliance contact point	Harassment contact point
FY2019	5 (1)	10 (3)
FY2020	4	7 (1)
FY2021	1 (1)	4

- There were no cases of major legal breaches reported to the helplines in FY2021.
- All reported cases are investigated.
- Excludes reports submitted anonymously in which detailed information could not be provided.

- Corrective actions taken in response to the results of investigations
- Sangetsu will issue a warning or take disciplinary or other punitive action against an offender in cases where such action has been deemed necessary.
 - Sangetsu may also transfer the whistleblower or offender to another department within the Company depending on the circumstances.
 - If necessary, interviews will be conducted with the relevant departments and improvements to operational flow proposed.

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 goal of creating a sound organizational structure that has uncompromising compliance, we distribute a Corporate Philosophy Handbook containing information about our corporate philosophy as well as publish a Compliance Newsletter and conduct theme-oriented training. Recognizing the need for ongoing improvement through utilization of the plan, do, check, act (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 FY2021

Topic	Period	Training details	Number of participants
Compliance	April	Fundamental principles of compliance	61 people
	September	Legal business affairs and compliance basics	14 people
Relevance of laws and regulations	June	Overview of the Antimonopoly Act	140 people
	December	Identifying violations to the Design Act	86 people
Training for Japan Group companies	January	Fundamental principles of the Subcontract Act	9 people
	August and November	Key points of the Companies Act all Executive Officers need to know	31 people
Training for employees on temporary assignment to overseas Group companies	January	Overview of the Construction Business Act	100 people
	June	Overview of business email compromise fraud, CEO fraud, and other international scams	12 people
	September	Notable compliance matters requiring caution in China	2 people
	November	Overseas anti-corruption (1) (Global corruption indexes and anti-corruption regulations in Japan, the United States, and Europe)	12 people
	March	Overseas anti-corruption (2) (Overview of recent corruption incidents overseas)	12 people

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. Sangetsu established the new Climate Change Risk Subcommittee in FY2022 as a risk management system.

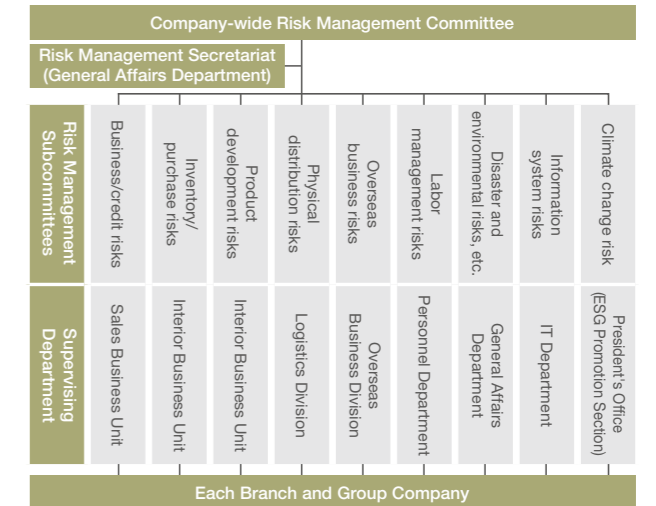
Risk assessment

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

Business continuity plan (BCP)

Sangetsu has ensured that all employees are aware of our 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.

FY2022 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.

Example of risk assessment map: disaster and environmental risks, etc.



Number	Category	Risk factors/concerns
1	Earthquake, fire	Enhancement and familiarization of BCP functions
2		Ensuring the safety of employees (1): safety confirmation system
3		Ensuring the safety of employees (2): evacuation drills
4	Vehicle accidents	Ensuring the safety of employees (3): emergency contact procedures
5		Appropriate safety features
6	Occupational accident	Traffic safety education
7	Environment	Workplace accident
8		Corporate reputation damaged due to inadequate GHG emissions reduction activities
9	Anti-infection measures	Measures against infection-related risks

Purpose of BCP

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

Human Resource Management

The development and active participation of employees is essential to Sangetsu Group growth.

Stronger human resource development as an important measure to enhance the business structure builds a corporate structure that allows employees to actively participate in management.

Message from the General Manager of the Personnel Department



Toward Sustainable Corporate Value and Enhanced Human Capital

Kazuhisa Uto

General Manager, Personnel Department

The Sangetsu Group consistently pursues higher sustainable corporate value.

Corporate value herein is synonymous with the value of human resources. One priority management challenge is enhancing the value of human resources. It is an endeavor that Sangetsu can pursue today in an effort to better tomorrow.

The Sangetsu Group Human Rights Policy, Corporate Philosophy, Long-term Vision, and other specific actions share the Group values with all of employees. Our Company Creed of Sincerity and social values aiming to realize the Sangetsu Group vision lay the groundwork for adopting new personnel systems, recruiting and expanding mid-career professionals, strengthening recruiting from abroad, and enhancing education

and training programs. We treat our diverse human resources with fairness and equality and reform policies and operations as needed.

Human resource development to increase the value of all of our professionals helps enhance corporate value and spearhead growth of each individual, team, and the organization at large. There is no greater joy than realizing both growth and higher value human capital.

As human capital come ever more under the spotlight, I believe it is imperative to communicate initiatives that improve the value of human capital. I look forward to the continued support of all of our stakeholders.

Personnel systems

Sangetsu is working to transform into a Space Creation Company through the Long-term Vision. These efforts aim to build an organization with on-site capabilities where a diverse team of professionals can thrive and services act as the source of added value. To accomplish these reforms, the Sangetsu Group must employ and deploy human resources according to the changing business landscape. I feel there are two obstacles to this goal: building a system to reform our business model and escaping a seniority-based wage system.

In 2017, Sangetsu rolled out a new personnel system for many different purposes. This includes proactively recruiting outside talent, nurturing professional human resources, and building the proper skill-based personnel structure. This new personnel system is proving fairly successful thus far. However, we are already seeing limitations of flexible promotions and challenges from a low sense of satisfaction and feeling of fairness in evaluations. Therefore, Sangetsu has further reformed its human resource system to build an agile organization able to better adapt to the fiercely changing times.

The new personnel policy emphasizes fairness and clarifies the relationship between position and compensation of chief managers and above as a way to reward the employees actively responding to the ever-changing business environment.

To expand the scope of career options that employees can choose from, Sangetsu has added a professional career path, which allows employees to excel using high-level professional skills, to the management career path, which focuses on organizational and business management skills. These two job classifications aim to create an organization that can step up to challenges by offering employees a broad variety of career paths via employment levels categorized by the importance of each management position. While these positions and classifications act as a fixed axis, Sangetsu must have the resourcefulness to adapt and offer more competitive jobs and occupations as times change. I have expressed my hope for employees to become actively involved beyond occupational boundaries and to really consider how to forge career paths forward from the business strategies and theories of each organization.

We will also conduct two types of evaluations. Output evaluations will measure the success towards quantitative and qualitative targets. Process evaluations will measure the level of success according to action assessment criteria for each group by job duties according to design and other occupational responsibilities.

We have always kept in mind ways to create opportunities free from gender or age requirements when assigning and promoting professionals. In the future, we will become even more active in these efforts. The new personnel system will accelerate the growth of the entire company through the growth of each and every employee.

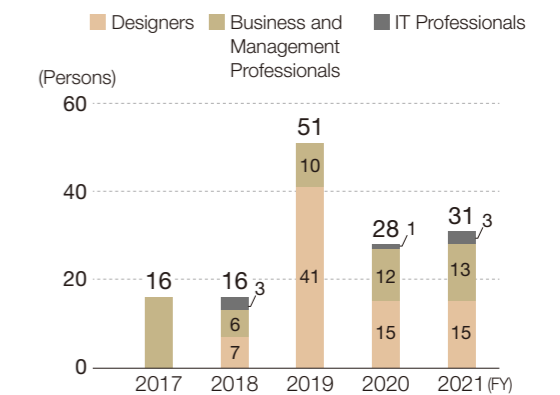
Recruitment and Success of Expert Professionals

An organization where diverse professionals with hands-on capabilities fulfill an active role has been raised as one approach to achieve the Long-term Vision. As our business domains expand, we will not only recruit new graduates but also mid-career professionals with expert knowledge to strengthen our human capital.

In Sangetsu's shift toward becoming a Space Creation Company, I know it is vital to enhance our ability to propose designs. In addition to bolstering our staff in the Space Creation Division, we will expand areas where expert professionals can actively participate, such as our interior designers proposing comfortable living spaces to clients at showrooms.

We have also made progress in recruiting the IT professionals essential to enhance and transform our businesses through data, which is boosting functionality.

Recruiting Trends of New Graduates and Mid-Career Professionals (Non-consolidated)



VOICE

I joined the Sangetsu Corporation because I wanted to work as a startup member of the Space Creation Division. I not only wanted to take part in design activities with other designers developing many different interiors but also develop my own.

Most of my day-to-day work offers me the chance to provide plans and designs to clients which consider the management policies for their businesses and facilities. These opportunities make me feel like I am really using my expertise in creating conceptual and design plans.

I was in charge of the design for the Space Creation Division in preparation for our move into the new Kansai Branch office in 2021. I created a design to help evoke positivity and action, which would motivate and encourage everyone working at the Kansai Branch to invite clients to our office.

In the future, I would like to create both good as well as impactful plans and designs.



Sen Ogiso
Space Creation Division
Space Creation Section

TOPICS

Office that Enable Efficient and Flexible Workstyle

The new Kansai Branch Center Office which opened in 2021 provides sound-proof booths great for video conferences as well as several other movable fixtures to create flexible meeting spaces. The new facility has pursued the ideal design for a flexible and efficient office which accommodates how someone feels and what they want to do. A quiet garden offers a lush forest like refuge to sit and refresh the body and mind, which helps heighten the ability to concentrate.

Meanwhile, Sangetsu has also started initiatives to use some Kansai business sites as satellite offices. Each employee can freely choose a place to work which accommodates their work style and work-life balance.



Human Rights and Diverse Work Styles

Applicable SDGs



Human Rights Policy and Work-style Reforms
 Diversity and Inclusion Promotion
 Health Management and Occupational Health and Safety
<https://www.sangetsu.co.jp/english/sustainability/social/>

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

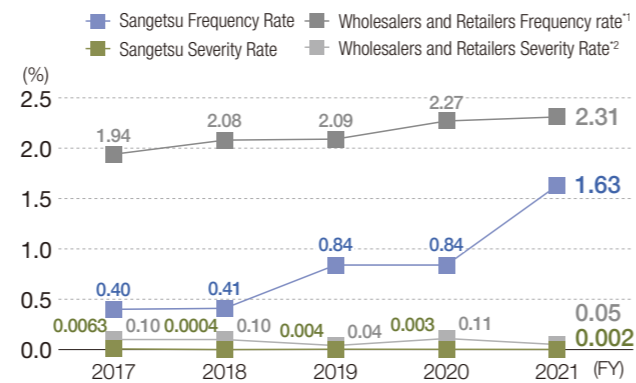


- ESG and CSR policies: Support the careers of diverse employees at each Group company and provide jobs for those who are socially disadvantaged.
- Medium-term Business Plan Objectives:
 - Enhancing health management and maintaining a sound work environment
 - Enhancing employee engagement
 - Proactively recruit non-Japanese employees and outside expert talent.
 - Promoting the expansion of job types for persons with disabilities (4.0% employment rate target for FY2022)
 - Promoting and supporting female managers (20% ratio of female managers in FY2022)

Occupational Health and Safety

The Sangetsu Group promotes safe and work-friendly environments and workplaces that offer better mental and physical health. We prohibit all forms of unreasonable discrimination and harassment to build a fair and upbeat workplace. In preparation of earthquakes and other large-scale disasters, we stockpile supplies and conduct disaster prevention training. Logistics centers are particularly susceptible to occupational accidents. Every employee from the Sangetsu Group and its partner companies learn from occupational health and safety manuals to gain proper work habits. In the event an accident does happen, we strive to share the circumstances and prevent any recurrence by creating reports and deliberating on corrective actions.

Frequency and Severity Trends of Occupational Accidents (Non-consolidated)



¹ Frequency rate refers to the number of fatalities due to occupational accidents over a total of 1,000,000 working hours (frequency of occupational accidents).
² The severity rate refers to the number of lost working days over a total of 1,000 working hours (severity of occupational accidents).

Health and productivity management

The Sangetsu Health and Productivity Management Policy advocates an enthusiastic workplace promoting health throughout life where employees can enjoy working. We engage in various initiatives to improve health from annual physical exams and support for secondary health screenings to programs that help employees quit smoking. Our health and productivity management initiatives have been highly praised for supporting employees on leave due to illness or injury to return to work while also working to strike a balance between work and medical treatments. Sangetsu has even been recognized as a Certified Health & Productivity Management Outstanding Organization (large enterprise category) for the third consecutive year. As part of our measure to prevent the spread of the COVID-19 virus, we began to offer vaccinations at our offices from July 2021. This



Vaccination at our headquarter office

effort worked to ensure the safety of our customers, employees, partner company staff, and all of their families.

Support for women's participation and advancement

Sangetsu formulated a voluntary action plan to strategically reform its personnel systems for the purpose of realizing an organization and corporate climate encouraging women to continue to work over the long term while leveraging their strengths. We have also set a target to have a 20% ratio of female managers by FY2022.

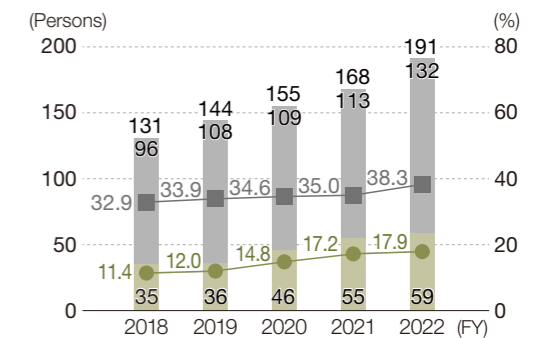
The Personnel Department has appointed a staff member to lead diversity promotion who is working on measures to achieve this target. Some of these measures include the introduction of an early-stage career development and support training program, subsidies for the costs of babysitters and other childcare for sick children, and a program to shorten working hours when raising children. We are also advancing programs for male employees to participate more in daily household chores and raising children to encourage gender equality, which include education for male employees on how to prepare and take childcare leave.

In addition, we also hold enlightenment seminars on women's health for management and engage in activities to raise proper awareness about breast cancer and early detection.

Ratio of Female Managers (Non-consolidated)

17.9%
(as of April 2022)

- Assistant Managers
- Ratio of female assistant managers (%)
- Chief Managers and other Managers
- Ratio of women in management positions (%)



Employment of persons with disabilities

The Sangetsu Group Basic Policy on Diversity supports the active participation of diverse human resources and sets an employment rate target of 4.0% for persons with disabilities by FY2022. Each department sets a target for the number of persons with disabilities to employ, conducts briefings for candidates, provides a trial period of employment in each section, improves working conditions, and makes considerations toward a barrier-free workplace.

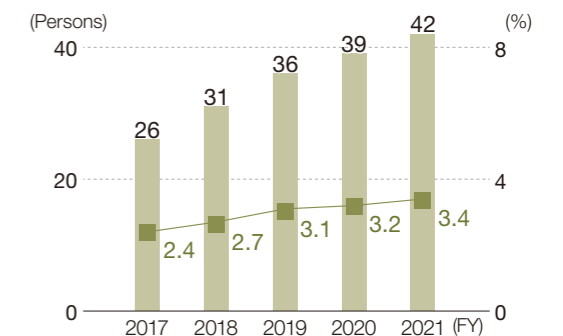
The Sample Book Recycling Center employs five persons with disabilities to collect, breakdown, and sort Sangetsu sample books. We also strive to improve the workplace by incorporating feedback and proposals from staff so that every person can reach their full potential.

Sangetsu will continue to strive to not only improve the employment rate but also sincerely support the independence of each person so that they may live a full life both in body and mind.

Employment rate of persons with disabilities

3.4%
(as of March 2022)

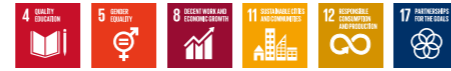
- No. of persons with disabilities (persons)
- Employment rate of persons with disabilities (%)



Supply Chain Management

By collaborating with our suppliers on the basis of mutual trust, we are able to provide customers with appealing products that they can use with safety and peace of mind. This helps improve the brand power of Sangetsu Group over the entire supply chain.

Applicable SDGs



Supply Chain Management
https://www.sangetsu.co.jp/english/sustainability/social/business_partners.html



ESG and CSR policies Promote social responsibility in the supply chain

- Medium-term Business Plan Objectives
 - Management of chemical substances
 - Reduction of product complaints
 - Support of CSR procurement by suppliers worldwide (better evaluations of CSR procurement survey results)

Promoting fair transactions

We aim to fulfill our social responsibilities through sound business activities based on mutual trust and cooperation with suppliers while giving consideration to the environment, safety, human rights, and other issues. To fulfill these responsibilities, Sangetsu established the CSR Procurement Policy to define the procurement practices of products and materials sold under its brand. We have also drafted the Sangetsu CSR Guidelines to clearly stipulate our requests to suppliers in writing. These two policies create a framework that strengthens quality, environment, and CSR measures throughout the supply chain.

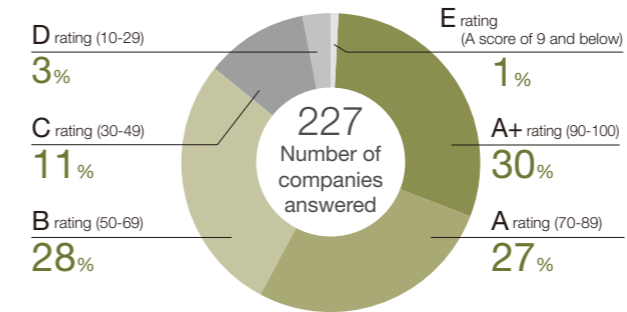
While many of our products are manufactured by suppliers, we are continuing to promote CSR activities throughout the supply chain to ensure high quality in the manufacture of products that meet environmental and social needs.



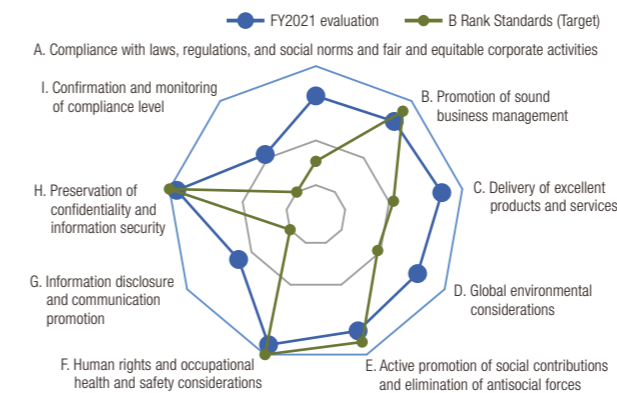
Survey for suppliers

We have been conducting a survey for suppliers with respect to compliance with the CSR Guidelines since 2017. This survey 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, labor health and safety issues, and environment as well as other matters. By providing feedback on the survey results to suppliers and encouraging them to make improvements, we are working to enhance awareness of CSR-related procurement throughout the supply chain as a whole.

Domestic and overseas supplier assessment rating (Non-consolidated)



CSR verification items and response progress



CSR survey for suppliers

As part of its CSR promotion activities throughout the Supply chain, Sangetsu conducts on-site CSR audits of its suppliers to confirm and offer each advice on a variety of CSR initiatives, such as the environment, workplace, human rights, and compliance, as well as share information and engage in discussions on how to better those CSR initiatives.

Sangetsu conducted a CSR audit of the DECORIA Co., Ltd., a company we procure wallcoverings from, in January 2022. We toured the various production processes in the manufacturing plant and were able to verify initiatives to manage safety to improve operations. For work environment, DECORIA realizes an environment where every employee could work with enthusiasm, such as putting design activities (product development) into practice at its DECOLAB creative office. We also saw practical environmental initiatives that included research done together with Sangetsu toward the reuse of offcuts produced by production processes as raw materials.

VOICE



Hiroshi Matsuzawa
 Chief Executive Officer,
 DECORIA Co., Ltd.

DECORIA plans, manufactures, and sells the vinyl chloride wallcoverings used by the Sangetsu Corporation. During our more than three-decade relationship, we have had an extremely close partnership with Sangetsu, illustrated by the jointly developed Blackboard wallcoverings inspiring ideas through free-form communication and spaces. This joint development project with Sangetsu was an extremely successful experience for us.

Sangetsu's sincere approach to CSR finds any gaps in our initiatives through regular on-site audits. These meticulous inspections and the advice offered by Sangetsu nourish the growth of our company.

DECORIA also actively engages in the SDGs. We undertake activities embodying our basic philosophy to inspire the dreams of children as a member of the community. The Blackboard wallcoverings I mentioned earlier resonate strongly with this corporate philosophy by giving children chalk to bring joy to all, preschool children and high schoolers alike. These activities have earned DECORIA much praise from third-party organizations. We have even been recognized as a registered Kanagawa and Odawara SDG partner.

We will continue to deepen our relationship with the Sangetsu Corporation to deliver wallcoverings that bring new value to customers.



DECORIA Co., Ltd.
 Creative Office
 DECOLAB

This inspection also advocates our hope that DECORIA and everyone else involved would conduct procurement using the same CSR procurement practices as the Sangetsu Group. The smiling faces of the junior employees throughout the inspection left quite an impression. Through this CSR audit, Sangetsu was able to strengthen its partnership with DECORIA. We will continue to promote CSR activities throughout the entire supply chain through these close relationships with suppliers.

Community Involvement

In order to contribute toward the enrichment of society, Sangetsu has adopted a proactive stance toward participation in the community, with the main focus on activities to contribute to the enrichment of society through our business, as well as through volunteer activities and the hard work of each and every employee.

Applicable SDGs



Community Involvement
<https://www.sangetsu.co.jp/company/sustainability/social/community.html>



- ESG and CSR policies: Expand social contribution activities led by employees
- Medium-term Business Plan Objectives:
 - Renovation support for orphanages (over 30/year)
 - Expansion of active employee participation
 - Higher volume of all activities (Sangetsu Matching Gift Program 13,000 S-miles/year)

Sangetsu Group Social Contribution Activities

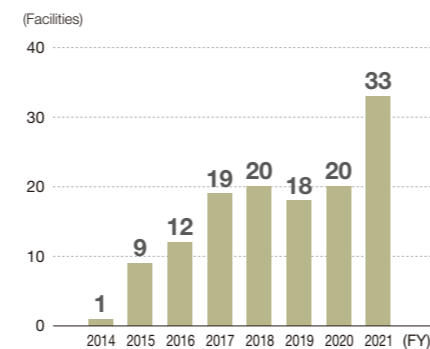
The Sangetsu Group is involved in a wide range of significant social contribution activities. Some of these efforts include support of nature conservation activities and NPOs as well as working as disaster volunteers.

Some particular important initiatives for us are support of the human rights for children and the renovations of orphanages through our products. Sangetsu meets with the facility staff and the children to decide on the wallcoverings, curtains, and other interior aspects according to application and image. This ensures everyone can live life in a comfortable living space. These renovations create a fantastic opportunity for our employees to once again experience firsthand the power that the work of interior design has on society in living spaces.

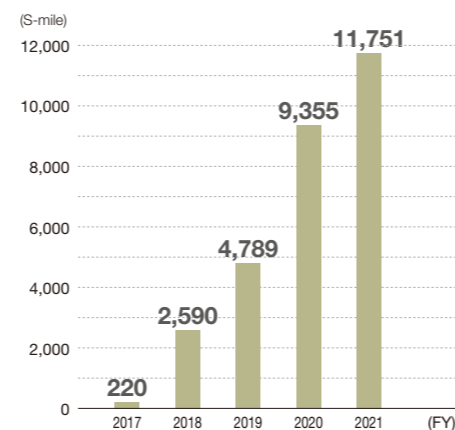
The Sangetsu Group has introduced a Matching Gift Program as well with the goal of promote social contribution activities. Employees who take part in social contribution activities earn S-mile points, which they can convert and use for monetary donations to NPOs and other organizations that Sangetsu supports.

Facility renovations (Non-consolidated)

Total 132



Matching Gift Program (Non-consolidated)

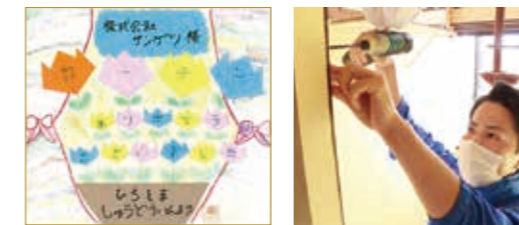


Renovation Support for Orphanages

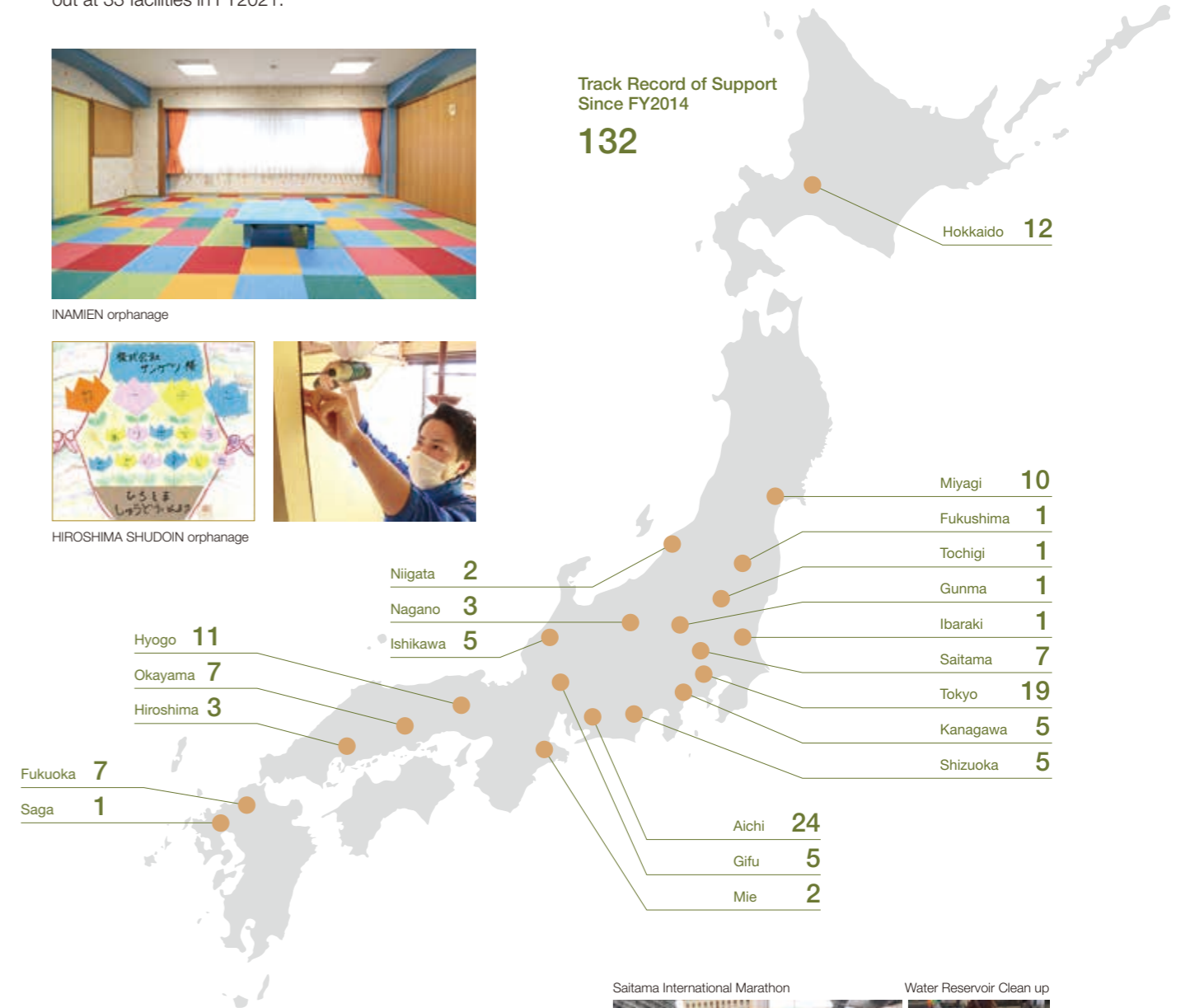
Through our business activities, we are implementing activities to provide support for the interior renovation of child welfare facilities throughout Japan so that the children can enjoy a more comfortable living environment. Renovations were carried out at 33 facilities in FY2021.



INAMIEN orphanage



HIROSHIMA SHUDOIN orphanage



Other Activities

We participate in initiatives to conserve biodiversity with NPOs, such as reed cutting and general surveys of animal life, as well as take part in the TABLE FOR TWO, which delivers food supplies to children in developing nations, local sporting events, and other community activities to enable more employees to continually participate in various events.



Safeguarding the Global Environment



Sangetsu's business operations are closely linked to the global environment, and accordingly, our company as a matter of course has a corporate responsibility with respect to protecting the environment. 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.

Environment
<https://www.sangetsu.co.jp/english/sustainability/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

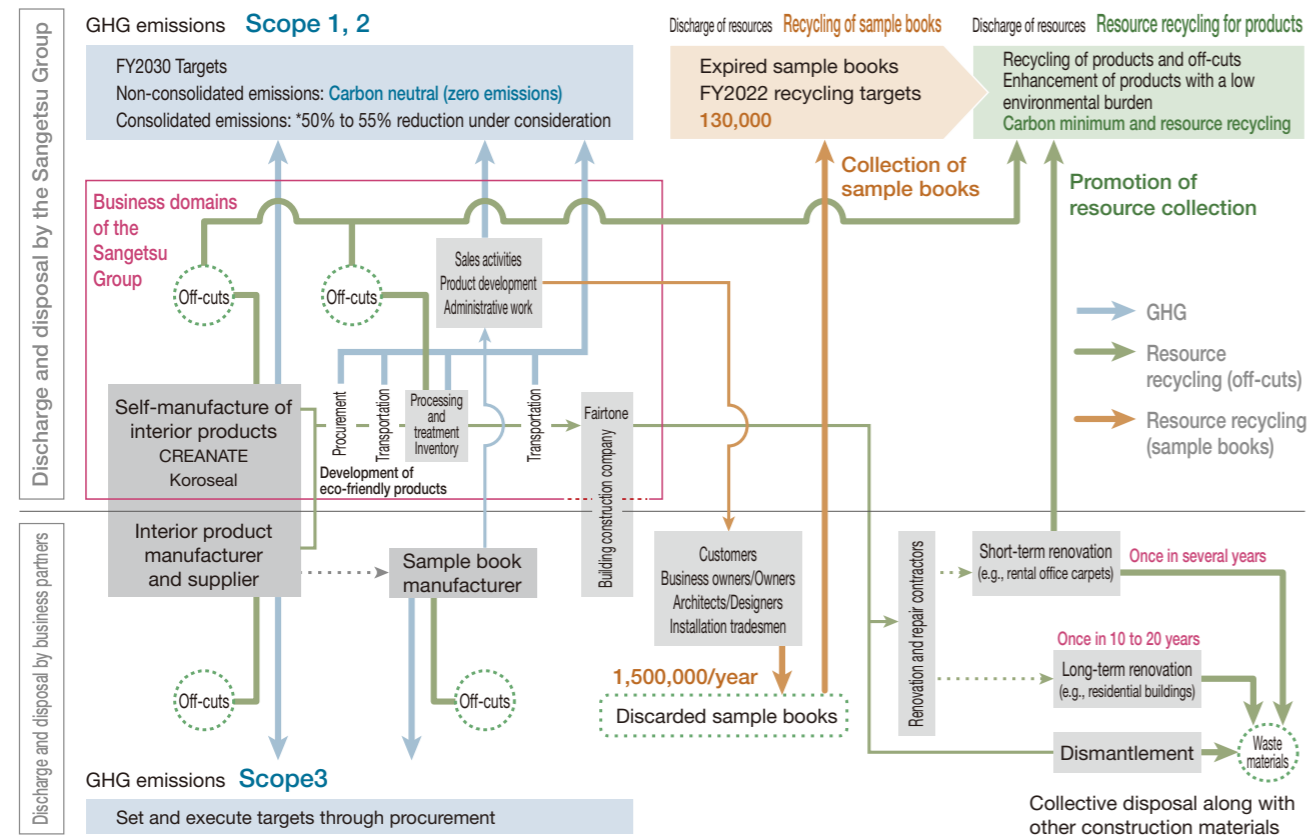
Medium-term Business Plan Objectives	Reduction of greenhouse gas (GHG) emissions in Scope 1 and 2	Reduction of Energy Consumption	Reduction of waste	Increase in recycling rate	Enhancement of eco-friendly products	Management of water use
	Reduction by 30% in FY2022 ¹ , realization of carbon neutral by FY2030	Reduction by 4% in FY2022 ²	Reduction by 4% in FY2022 ³	83% or more in FY2022		

*1, 2, 3 Compared with FY2018

Environmental footprint surrounding Sangetsu

Our business activities leave an environmental footprint in many places due to various circumstances such as GHG emissions and waste sample books by the Sangetsu Group, GHG emissions by business partners, and waste materials from construction sites. Understanding the environmental footprint in various scopes, we are making efforts to reduce our impact on the environment.

Sustainability Initiatives



Toward Non-consolidated Carbon Neutrality at the Sangetsu Corporation

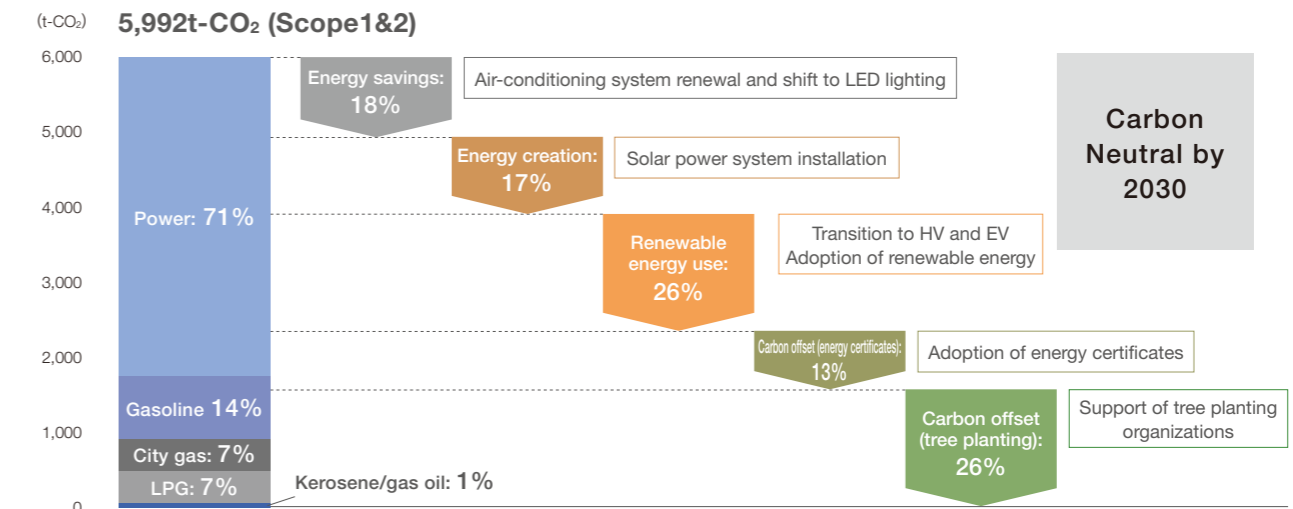
The Intergovernmental Panel on Climate Change (IPCC)* has reported on the tremendous impact climate change will have on human society, biodiversity, and other ecosystems due to global warming. The increasing greenhouse gas emissions (GHG) are considered the core cause of global warming. The Paris Agreement requires every nation, including major emitting developing nations, to reduce GHG emissions. The Japanese government has even set a goal to achieve virtually zero emissions (carbon neutral) by 2050. In this global environment, the Sangetsu Group is highly aware of the need for companies to execute environmental conservation initiatives as the foundation to achieve this goal. Therefore, we have set a non-consolidated target for the Sangetsu Corporation to reach carbon neutrality by 2030 on a non-consolidated basis.

Our initiatives to reduce GHG emissions thus far have included transitioning corporate cars to hybrid vehicles, promoting eco-driving, and switching to new power sources with

a low CO₂ emissions factor. We will continue our work to further reduce these emissions to achieve our 2030 target around four core measures: energy savings, energy creation, renewable energy use, and carbon offsetting. We have planned initiatives that include the renewal of air-conditioning systems at our properties to save energy, installation of solar power generation systems to create energy, a transition of corporate cars to hybrid and electric vehicles to use renewable energy. Sangetsu is also switching to alternative renewable energy power sources as well as supporting organizations planting trees to offset carbon emissions. The Sangetsu Group will follow through with each of these measures to achieve no substantial GHG emissions by 2030.

* The Intergovernmental Panel on Climate Change (IPCC) is a United Nations Body to regularly draft climate change reports with the cooperation of scientists worldwide to provide the latest assessments of science related to climate change.

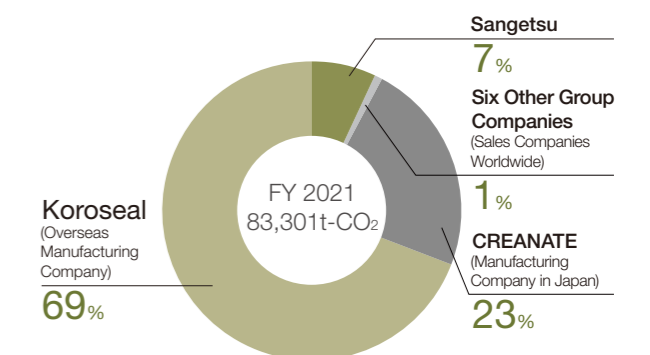
Road Map to Non-consolidated Carbon Neutrality at the Sangetsu Corporation



Group-wide Initiatives to Reduce GHG Emissions

The Sangetsu Corporation calculates and strives to reduce Group-wide GHG emissions. The companies with product manufacturing capabilities produce roughly 90% of Sangetsu Group emissions. To succeed in reducing the environmental burden, we must reduce the emissions produced in these manufacturing processes. Sangetsu Group will set and plan specific targets and for 2030 and take steps tailored to the unique characteristics of the businesses of each company such as shifting power use to renewable energy sources in offices, updating machinery to energy-saving equipment in manufacturing sites.

Breakdown of GHG Emissions in the Group (Scope 1 and 2)



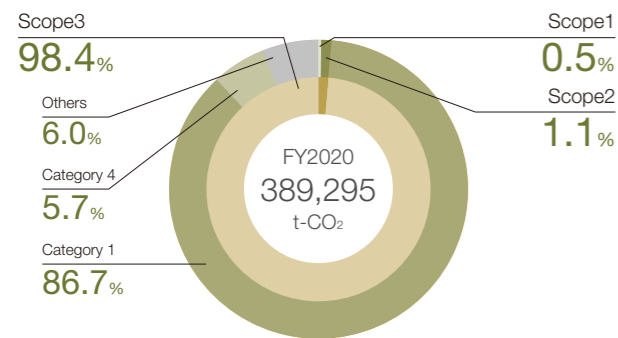
Safeguarding the Global Environment

GHG Emission Reductions Throughout the Supply Chain

The Sangetsu Interior Business produces approximately 390,000 t-CO₂ throughout the supply chain. Product manufacturing is responsible for more than 80% of those GHG emissions. The interior industry at large has this same problem. Initiatives done in cooperation with suppliers are essential to achieve GHG emission reductions at an industry level.

Therefore, Sangetsu has been conducting energy data surveys of each supplier since FY2020 because each company in the supply chain needs to understand their level of GHG emissions.

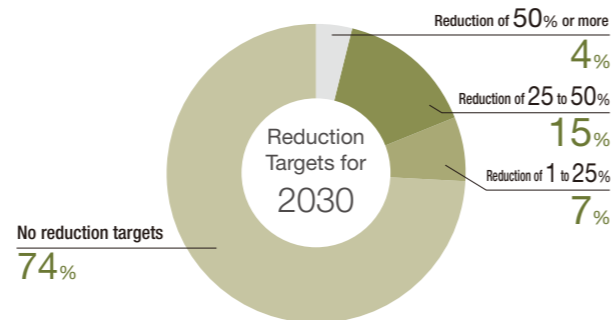
Sangetsu GHG Emissions (Scope 1, 2, and 3) (Non-consolidated)



Scope 1: Direct discharge of greenhouse gases by business operators themselves (combustion of fuels and industrial processes)
Scope 2: Indirect discharge accompanied by use of electricity, heat, and steam supplied by others
Scope 3: Indirect discharge other than Scope 1 and 2 (discharge by others in connection with the activities of business operators)
Category 1: Purchased Goods and Services
Category 4: Upstream Transportation and Distribution

Our first survey identified the GHG emissions data and initiatives at each of these companies. As a next step, our second survey primarily focused on further improving the quality of the data that is collected and setting reduction goals for each supplier. Only 26% of these companies had set GHG emission reduction targets for 2030, which demonstrates the need to continue efforts to bolster reduction initiatives. We will also continue to further our own initiatives to achieve environmentally friendly procurement activities, such as strengthening partnerships with suppliers that have a low CO₂ emission intensity even in their procurement processes.

Breakdown of Reduction Targets set by Suppliers (As of Initial Data Collection)



TCFD Initiatives



Sangetsu declared its support for the Task Force on Climate-Related Financial Disclosure (TCFD) recommendations in October 2021 to take action as a responsible corporate conglomerate hoping to realize a sustainable society. This effort is helping us take better action in reducing our environmental burden.

Risk and opportunities

Sangetsu established the new Climate Change Risk Subcommittee under the Risk Management Committee in FY2022. This risk management system manages Group-wide risks and opportunities. We have set and are responding to transition risks related to government policy, laws, regulations, and standards as well as physical risks brought by abnormal weather and rising global temperatures.

Governance

Sangetsu has put in place an ESG Committee chaired by the president, and a Subcommittee on Environment, which is driving forward our response to climate change. The Board of Directors receives reports on these initiatives to manage and supervise the action taken according to the details of those reports.

Indicators and targets (non-consolidated)

Indicator	FY2021 Results	FY2022 Targets
GHG emissions (Scope 1 and 2)	26.2% reduction (compared with FY2018)	30% reduction (compared with FY2018) Carbon neutral by 2030
Energy Consumption	1.7% reduction (compared with FY2018)	4.0% reduction (compared with FY2018)
Total waste emissions	15.9% increase (compared with FY2018)	4.0% reduction (compared with FY2018)
Recycling rate	85.0%	83.0%

Strategies

Sangetsu has been revising its risk and opportunities since FY2022 in accordance with the TCFD recommendations on climate-related risks. These reforms are examining both acute and chronic physical risks from a variety of perspectives. This includes scenarios where Sangetsu is unable to reduce its GHG emissions from business activities or to create low-carbon products and sample books, or to collect and recycle them.

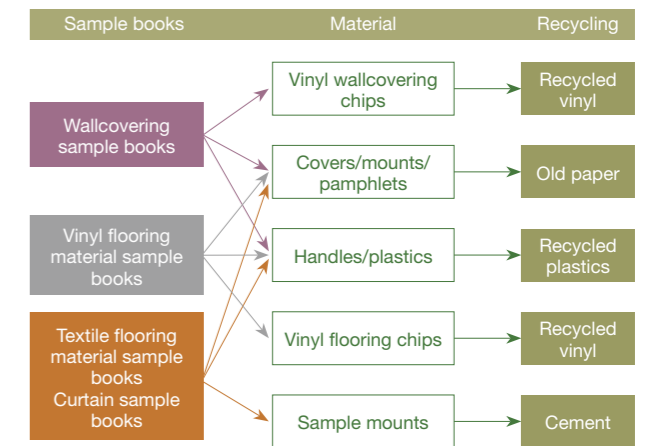
Recycling of sample books

Sangetsu has been operating a Sample Book Recycling Center since March 2021 in an effort to promote sample book recycling.

Our sample books are a vital business tool to help our customers more fully understand a rich product lineup with upwards of 12,000 items. Many of the approximately 1.5 million sample books published each year eventually end up in landfills or incinerators. As shown in the diagram on the right, the Recycling Center breaks down and sorts sample books into product chips, mounts and other papers, and handles and other plastics to reclaim as resources through material recycling and reduces environmental load.

During FY2021, we successfully recycled 62,915 sample books, which greatly surpassed our recycling target of 50,000 sample books. In FY2022, Sangetsu has set a goal of recycling 130,000 sample books. To achieve this target, we have reinforced the sample book collection system as well as enhanced the processing capacity by increasing staffing and the operational efficiency of shredders.

Flow of sample book recycling



Eco-friendly Products

Companies in the current construction market not only engage in management after construction as an environmental initiative through architectural structures but also select products emphasizing CO₂ reductions and the use of recycled materials from the initial design stage. In an effort to become a sustainable company, Sangetsu does everything it can to develop products from these new perspectives.

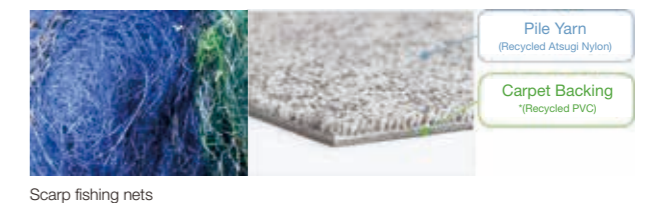
Development of eco-friendly products

As the need to reduce CO₂ emissions through products grows, Sangetsu is advancing the development of products that contribute to carbon minimum and resource recycling as well as help realize the Sustainable Development Goals (SDGs).

We have established voluntary standards for development that realizes a low environmental impact and contributes to society while also rolling out other measures to investigate and improve ways for our customers to more easily decide on products. Sangetsu will encourage greater market awareness about products with a low environmental impact and those that help achieve the SDGs.

NT double eco flooring carpet tile

NT double eco uses a pile yarn made from Econyl, which is a yarn made only from recycled fishing nets, waste carpet materials, and other such fibers as well as recycled backing. These innovations have realized a product with up to a 61% reduction in CO₂ emissions compared to conventional Sangetsu products* and an approximately 49% ratio of recycled material use. NT double eco has even acquired the EcoLeaf Environmental Label from the Sustainable Management Promotion Organization (SuMPO) to validate this new environmental performance. It has gained high praised mainly in the offices market since its release in November 2021.

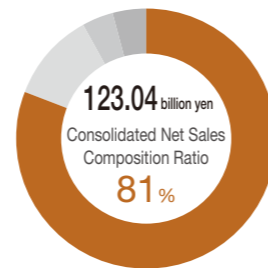


* Compared to conventional Sangetsu dyed products

Business strategy

Interior Segment

The Interior Segment will expand and reinforce its functional business domain to strengthen its position in the supply chain, which will enhance profitability.



Pursuit of More Creative Manufacturing for All Perspectives

Yoshiaki Kaneko

Managing Executive Officer
General Manager, Interior Business Unit

Reinforcement of design capabilities and promotion of strategic procurement are the two priority measures in the Medium-term Business Plan most closely related to the Interior Business. To enhance Sangetsu's design capabilities, we will develop a variety of designs and functions anticipating market needs. The Interior Business will also develop original products based on the latest trends by leveraging collaborations with architects and designers as well as the William Morris Archive through an alliance with the Sanderson Design Group—a longstanding UK brand. Strategic procurement is empowering alliances with our business partners in an effort to build a strong supply chain consisting of suppliers. During the fiscal year ended March 31, 2022, confusion in the supply chain, the high raw material prices, and other factors did impact the Interior Business, but Sangetsu has worked to build a stable

supply system by gathering accurate information and anticipating demand.

The development of products taking into consideration the environmental benefits is extremely important. Some Group initiatives include product development using recycled materials, effectively reducing CO₂ emissions, and further enhancements of Sample Book Recycling Center functions, but we are also working to understand the greenhouse gas emissions throughout the entire supply chain. In addition to the development and communicating information about products for architects, designers, and other professional users, the Interior Business is also focusing on expanding the e-commerce* business for end users.

*e-commerce refers to website and other commercial transactions conducted electronically on the internet.

Main Business

- Interior product planning, manufacture, procurement, and inventory
- Proposals of products and solutions to create spaces
- Comprehensive delivery network throughout Japan
- Interior installation capabilities that realize a diverse range of proposals

Risks

- A shrinking market due to a decline in future residential and non-residential construction
- Labor shortage in the construction industry
- High prices of raw materials
- Depletion of raw materials and constriction of manufacturing
- Environmental load of products and sample books
- Expensive logistics costs

Opportunities

- Expectations of improvement in QOL
- Higher awareness of consumers more particular about services
- Higher environmental awareness driving needs for eco-friendly products
- Higher competitiveness of recycle-oriented businesses

Strengths

- Business structure with broad control of the value chain from manufacturing through installation
- High quality design and proposal capabilities
- Interior installation capabilities to make designs a reality
- Sustainable logistics system



Initiatives in Fiscal Year Ended March 31, 2022

Interior Segment Overall

The number of new residential properties built in the Japanese construction market during the fiscal year ended March 31, 2022 increased compared to the previous period. However, the market has not returned to the level of construction as before the COVID-19 pandemic and is still seeing a rise in costs due to the high raw material prices and distribution costs. In this business environment, the Interior Segment instituted business price reforms in September 2021, established an integrated manufacturing system by bringing companies with manufacturing capabilities under the Group umbrella, and primarily strengthened its B-to-C fabric businesses.

Wall Coverings Division

The Wallcoverings Division also saw a more favorable business environment driven by the recovery in the number of new residential properties built for the residential market with the SP sample books for mass produced wallcoverings bolstering sales. In non-residential markets, sales from the FAITH wallcovering sample book for non-residential projects were strong. Moreover, the REATEC self-adhesive decorative film released in November 2021 has enhanced designs and contributed to higher sales after rave reviews from the market for the new release of the low-price basic wood series. As a wallcovering manufacturer, CREANATE Inc. suffered a delay in some of its product supply due to equipment breakdowns. However, the net sales of wallcoverings increased thanks to a last-minute surge in demand before the price reforms on April 1, 2022.

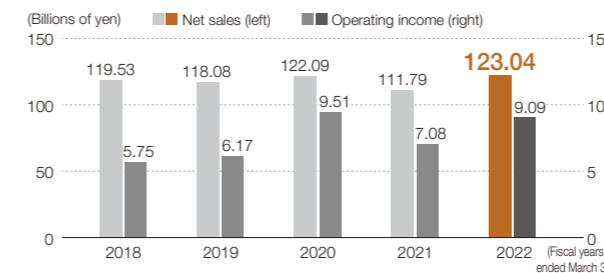
Flooring Division

Our flooring material business saw an uptick in business thanks to a recovering commercial renovation market. Sales were driven by not only PVC sheet and carpet tiles for various facilities but also the LVT, which is widely used for both residential and non-residential projects. NT double eco found even greater traction after high praise from the market as an eco-friendly carpet tile contributing to a carbon-free society. In January 2022, we published the DT carpet tile sample book with high-level designs in addition to furthering other product development and strategic marketing and sales activities.

Fabrics Division

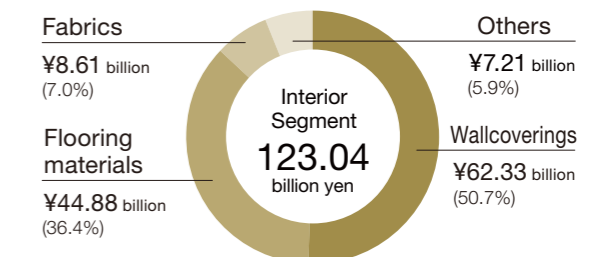
Our fabric business benefited from a recovery in the number of new residential construction projects in the residential market. Sales were driven primarily by the STRINGS Curtain Sample Book for high-end curtain products and the Simple Order Sample Book offering customers an easier way to choose from a selection of one-price products. The UP Upholstery Sample Book also showed robust results mainly for non-residential projects. In January 2022, the Fabrics Division released the RB collection product and sample book for mechanical window coverings to expand the lineup of mechanical products through its easy-to-understand layout and pricing.

Interior Segment net sales/operating income



*Figures represent net sales and operating income after adjustments with the Space Creation Segment up to the fiscal year ended March 31, 2020.
*Net sales add up to ¥122.89 billion yen for the fiscal year ended March 31, 2022 when not applying the Accounting Standard for Revenue Recognition.

Breakdown of net sales of the Interior Segment (Fiscal Year Ended March 31, 2022)

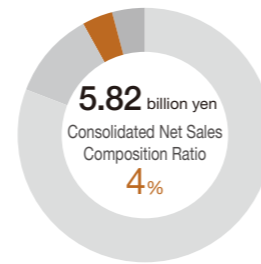


*The net sales composition ratio is shown in parentheses.

Business strategy

Exterior Segment

The Exterior Segment will expand its business domain and solidified a new position in the value chain to integrate interiors from an exterior perspective, which will contribute to Group earnings.



Stepping Up to the Challenge of Space Creation for Exteriors

Hirofumi Takeda

President, Sungreen Co., Ltd.

In the fiscal year ended March 31, 2022, the Exterior Segment strove to build a system after making advancements in the Space Creation Business as a growth strategy for the Kanto Region.

We recruited expert staff for each task from design through on-site management and quotes, while expanding cooperation with partner contractors to enable the Exterior Segment to handle diverse projects in every facet of exteriors. The Kanto Space Creation Division capitalized on knowledge it gained through new initiatives, which went beyond accumulating greater

number of experts to also clearly expand other businesses.

In the fiscal year ending March 31, 2023, the Exterior Segment will aim to build a Space Creation Business in the Chubu region where it will establish a personnel system and further strengthen its current results.

To foster sustainable growth for Sungreen Co., Ltd., we will aggressively expand existing business territories in a quantitative manner. At the same time, the Exterior Segment will quickly build a Space Creation business for exteriors, which will contribute to greater Group-wide earnings.

Main Business

- Sale and distribution of exterior merchandise
- Proposals of solutions to create spaces
- Exterior installation capabilities that realize a diverse range of proposals

Risks

- A shrinking market due to a decline in future residential and non-residential construction
- Labor shortage in the construction industry
- Interruption in the supply of products from suppliers
- Expensive logistics costs

Opportunities

- Expectations of improvement in QOL
- Higher awareness of consumers more particular about services
- Higher environmental awareness driving demand for exterior products

Strengths

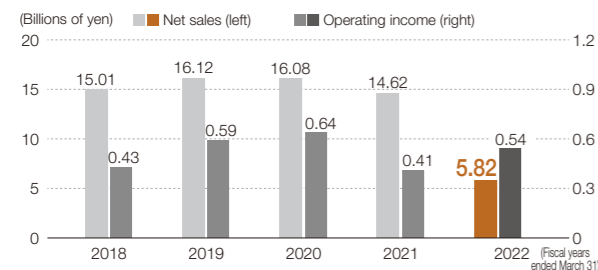
- The ability to propose total exterior solutions through handling products of various manufacturers
- Exterior installation capabilities to realize designs
- Strong sales base rooted in the community

Initiatives in the Fiscal Year Ended March 31, 2022

In the exterior market during the fiscal year ended March 31, 2022, the Exterior Segment saw a 104.8% growth in sales for aluminum products compared to the previous period primarily by Sungreen in the exterior market due to recovery in the number of new residential construction projects and a higher awareness of living environments brought by the need to stay at home during the COVID-19 pandemic. However, the exterior market has still not fully recovered from the COVID-19 pandemic. In this business environment, Sungreen engaged in various efforts, including profit-oriented marketing and sales plans, expansion of value-added products, and reinforced sales utilizing installation functions, which concentrated on enhancing profitability. In addition to pushing forward Space Creation as a new business, the Exterior Segment strengthened its governance practices to engage in sound corporate management before building the necessary management structure.

*Sangetsu estimates utilize materials published by the Japan Association for the Exterior Industry.

Exterior Segment net sales/operating income

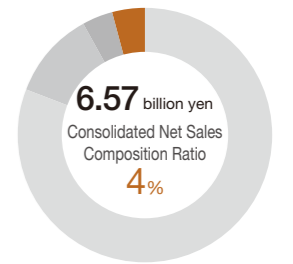


*Net sales add up to ¥15.31 billion yen for the fiscal year ended March 31, 2022 when not applying the Accounting Standard for Revenue Recognition.

Business strategy

Space Creation Segment

The Space Creation Segment aims to become the core of future profit growth for the Group by strengthening high-level designs that integrate functional solutions and installation capabilities to make those designs a reality.



Responding to Customer Needs by Delivering Highly Specialized Services

Kazunori Miyamoto

Executive Officer in charge of Space Creation and Director of Sungreen Co., Ltd.
General Manager of Space Creation Business Unit

The Space Creation Business designs and executes installations of designs for non-residential projects through product development capabilities cultivated in interior material sales, a robust customer base, and high-level communication skills.

Presently, hybrid work environments in the office market with emphasis on comfortable and efficient work styles is on the trend. The new Sangetsu Kansai Branch is also taking advantage of these ideal office spaces. In the future, we aim to actively expand the knowledge that we have cultivated thus far aiming to increase the orders that Space Creation Business receives from

its customers. Another important initiative is to broaden territories and industries as a means to strengthen our installation functions. The Space Creation Business will build a nationwide network for interior and general installations in Japan and enhance voluntary inspection systems and education for skilled artisans.

Through our role to propel Sangetsu toward becoming a Space Creation Company, Space Creation Business will contribute to increasing Group earnings as an organization of professionals who propose designs of spaces which achieve a high level of customer satisfaction.

Main Business

- Proposals of advanced solutions to create spaces
- Overall space design for interior and exterior
- Design and installation management that realize a diverse range of proposals

Risks

- A shrinking market due to a decline in future non-residential construction
- Labor shortage in the construction industry
- Difficulty securing expert professionals
- Fluctuations in corporate construction investments due to economic and other government policies

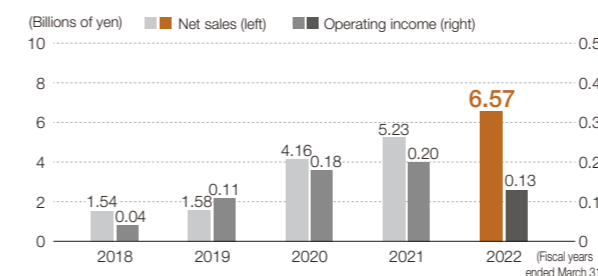
Opportunities

- From the consumption of products to the consumption of experiences
- Expectations of improvement in QOL
- Strength of the renovations market due to the activity in the office market driven by growing investments in corporate workplace strategies

Strengths

- Comprehensive construction capabilities to achieve space designs
- Active use of product design and coordination capabilities accumulated in the Interior and Exterior Businesses in the Space Creation Business

Space Creation Segment net sales/operating income



Initiatives in the Fiscal Year Ended March 31, 2022

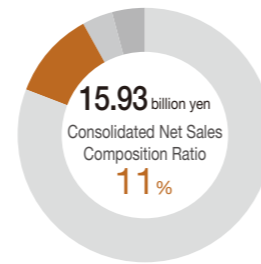
The Space Creation Segment has not only recruited expert professionals and enhanced procurement capabilities in design departments but also strengthened sales activities using the customer base of the Interior Segment. As a result, the Segment increased sales with delivery on orders for projects nearing completion. In installation departments, the Space Creation Segment has been expanding its territories and bolstering its installation capabilities. Even after a temporary decline in construction due to the impact of the COVID-19 pandemic, the Segment saw a strong uptick in orders for renovation work in addition to typical construction for new buildings and interior finishing work. The Kansai Branch Office which the Space Creation Segment had been closely involved opened to critical acclaim for a space design illustrating the Sangetsu shift toward becoming a Space Creation Company.

Sungreen Co., Ltd. also established a Space Creation Department in an effort to open avenues to new customers through various initiatives, such as exhibitions presenting integrated interior and exterior proposals.

Business strategy

Overseas Segment

The Overseas Segment in the Pacific Rim will build a business platform suitable for each region to achieve greater profitability as a next-generation business.



Aiming for Radical Reforms to Enhance Earnings Power and Business Endeavors to Expand the Knowledge Base

Kengo Minebe

General Manager of Overseas Business Division

The Overseas Business consolidates overseas businesses across a three-pronged overseas network consisting of North America, Hong Kong/China, and Southeast Asia. We intend to clarify the responsibilities of each of these regions and heighten the execution precision of business strategies for each region. As markets rapidly change, the Overseas Segment is building stronger cooperative ties between the Group to establish Group-wide product strategies alongside single product strategies. This work aims to solidify Sangetsu's position in these markets as a relatively competitive company.

We will expand our market sectors from our typical sales structure built around hotels and offices to promote ourselves in sectors that include medical welfare, commercial complexes, and the residential field more than ever before. The Overseas Segment will work unified with the Group to put together a lineup of product suitable to each of these markets. Our Group-wide product strategies released TAKUMI as a standard Group wallcovering brand highlighting traditional Japan craftsmanship

while also furthering product planning, marketing, and sales throughout the entire Group.

Our efforts toward profitability in Hong Kong/China and Southeast Asia will integrate the organization and enhance earnings power through more efficient businesses, which should prove successful in turning a profit. In the United States, the Overseas Segment strove to improve earnings by increasing prices during 2021 and exiting unprofitable businesses. Although it will take a certain amount of time to improve business performance, we aim to contribute to Group earnings by reaching profitability in the next three years.

Our expansion overseas will contribute to higher earnings and also greatly expand knowledge throughout the Group by developing the skills of human resources and improving the value of experiences gained through these endeavors. In this way, the Overseas Segment will continue to strengthen its business performance.

Main Business

- Expansion of Sangetsu businesses outside of Japan in the Pacific Rim
- Interior product planning, manufacture, procurement, and inventory
- Product proposals and shipments to each of these regions

Risks

- Anti-COVID-19 measures and other such risks in each country
- Foreign exchange fluctuations
- Expensive logistics costs
- High prices of raw materials
- Difficulty securing human resources

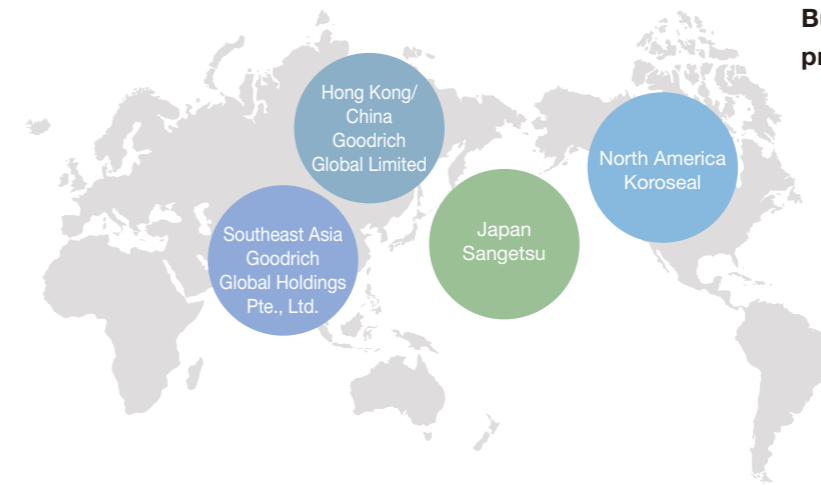
Opportunities

- Expansion into global sales channels
- Greater design capabilities and product appeal across borders
- Cultivation of greater demand for wallcoverings primarily in Asia

Strengths

- Cross-border design capabilities and product appeal
- Business expansion leveraging core business resources
- Tremendous procurement capabilities in Japan and overseas

Building a global product planning and procurement structure



Initiatives in the Fiscal Year Ended March 31, 2022

Overseas Segment

The construction markets in North America, Hong Kong/China. And Southeast Asia where the Sangetsu Group is expanding its businesses has rapidly shrunk due to lock downs during the pandemic and other such factors. As a result, markets in the Asian Pacific Rim continued to see little recovery in 2021 as the stagnation from 2020 continued. In particular, North American Group company Koroseal Interior Products Holdings, Inc. continued to see this stagnation in the hotel market where it generally excels. During the second half of 2021, the spread of the COVID-19 virus in Southeast Asia saw subsequent lock downs, which greatly impacted business. The Overseas Segment also suffered due to high raw material prices and labor costs worldwide.

In this harsh business environment, the Segment strove to enhance design capabilities and product appeal as well as reform the business structure based on the Medium-term Business Plan.

North American Market

The harsh environment of the United States construction market continued due to the drastic reduction in the scale of the market that began in 2020. In particular, concerns remain about a delay in the future recovery of the hotel sector, which is the main market of Koroseal Interior Products Holdings, Inc. The necessity to increase prices three times due to high raw material prices and labor costs as well as a delay in market penetration is prolonging this severe management environment. Koroseal has strengthened its product appeal and furthered product development in spite of the severity of these business conditions. A wallcovering collaboration with Stacy Garcia, a famous American designer, released a new line of products. Koroseal also expanded the promotion of REATEC as a Japanese self-adhesive decorative film brand. The Overseas Segment will push forward business management toward the goal of enhancing

future earnings power. Koroseal has also decided to discontinue rails and other low-profit products in the wall protection category. The results for the Overseas Segment take into account the valuation loss from inventory and liabilities for service guarantees for some products.

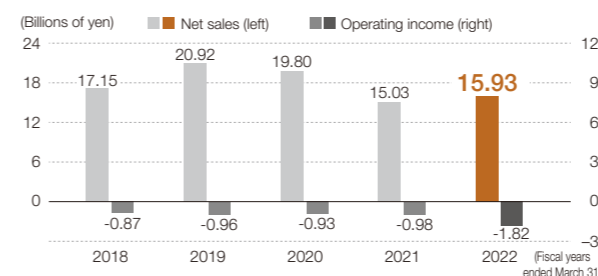
Hong Kong/China Market

Sangetsu restructured the inefficient organization in the Hong Kong/China Market, which had Group company Goodrich Global Holdings Pte., Ltd. acting as a headquarters in Singapore in tandem with Sangetsu Group company Sangetsu (Shanghai) Corporation (Sangetsudo). The Overseas Segment brought Goodrich Global Limited under the Group umbrella as a wholly owned subsidiary located in Hong Kong and merged Goodrich Global China and Sangetsudo as a Group company in Shanghai, which has streamlined the organization entrusted with handling the Hong Kong/China Market. Alongside this restructuring, we also executed reforms to the personnel system and product strategies in an effort to drive business efficiency and enhance earnings power.

Southeast Asian Market

The long-term lock down from summer through fall in each country in the Southeast Asian Market greatly impacted net sales. However, the Overseas Segment did see an increase in remaining contracts for future orders, and it expects to see recovery in future business performance. As our main hotel market shrinks in this region due to delays and revised plans for construction projects, the Overseas Segment has cultivated channels to new growing sectors, such as medical welfare and residential markets. We have also ramped up sales activities with the renewal of our showrooms in Singapore and Bangkok, Thailand in addition to executing other such measures. In light of these developing businesses, the Overseas Segment has sold its local subsidiary responsible for the Middle Eastern Market, Goodrich Global Dubai, completing its exit from the region to better emphasize strategic markets.

Overseas Segment net sales/operating income



Goodrich Singapore Showroom

Business Topics

The Sangetsu Group business segments are each executing a variety of measures according to the Medium-term Business Plan.

TOPICS Empowering B-to-C Businesses

Interior Segment

Further Service Enhancements of the WARDROBE sangetsu e-Commerce Website

As the market environment continues to change, the Interior Segment launched *WARDROBE sangetsu* as a website to sell its fabric products in March 2019 as a way to respond to the development of the e-commerce sector. Since its launch, we have worked to expand the product lineup as well as revamp and enhance content in an effort to increase the customer convenience offered by this website based on diverse feedback received from a daily dialogue with consumers.

In its fourth year, this e-commerce venue has pioneered even further business growth by successfully broadening the lineup of products beyond fabrics, developing new services, and reinforcing customer contact points via SNS as the e-commerce market gains even more traction. Our goal for *WARDROBE sangetsu* is to create a comprehensive Sangetsu Group e-commerce website. The Interior Segment will continue to evolve its e-commerce efforts in the future to not only solidify its function for the B-to-C business but also as an avenue to market directly to consumers.

*e-commerce refers to website and other commercial transactions conducted electronically on the internet.



<https://www.wardrobe-sangetsu.jp/shop/default.aspx>



TOPICS Empowering B-to-C Businesses

Interior Segment

New Curtain Sales Base Launch of Studio Joyplus

The Interior Segment launched its first Studio Joyplus venue in Nagoya in June 2021 as a new Sangetsu Vosne Corporation curtain sales base. The Space Creation Division took charge of the interior design and installation to create a showroom displaying roughly 700 curtains as well as shades, roll screens, and other products.

Joyplus acts as a one-stop shop to provide business owners introduced by builders with services from space proposals centered upon curtains through the sale and installation. This sales base strengthens our consumer contact points and builds relationships between the Sangetsu Group and builders through a business with the aim to increase Sangetsu's interior market share for all of its products from wallcoverings to flooring materials.

As a new initiative in the fabrics business, the Interior Segment is also expanding business throughout Japan through unconventional strategies.

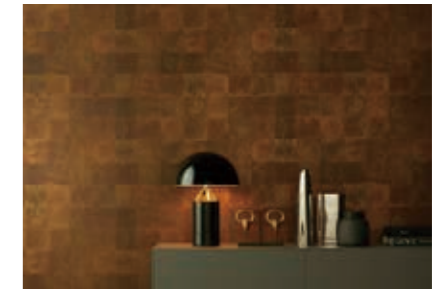


TOPICS Group-wide Product and Supplier Strategies

Overseas Segment

Release of New Group Brand TAKUMI

Takumi, a Japanese word meaning artisan, is the essence of this stunning collection of wallcoverings, which was developed around Japanese tradition as a product line targeting sales in overseas markets. The collection offers 78 different products with 23 unique patterns created with unique designs and textures using natural materials. TAKUMI proposals target a wide variety of customers including high-end residential markets as well as hotels, welfare facilities, and offices. As a standard Sangetsu Group brand, Sangetsu in Japan handle product procurement, inventory management, and shipping, while Koroseal, Goodrich, and other Group companies overseas take charge of the marketing and sales. By executing marketing and sales strategies specific to each region based on a stable supply system, the Overseas Segment aims to expand the Sangetsu brand around the globe.



TOPICS Strengthening Installation Capabilities

Space Creation Segment

Sangetsu Welcomes HEKISOU to the Group as a Renowned Installation Company in the Tohoku Region

The Space Creation Segment welcomed HEKISOU Co., Ltd. to the Group as a renowned installation company in the Tohoku region in September 2021. This acquisition strengthens our installation capabilities and builds a network throughout Japan. As an interior installation and finishing company for major general contractors, HEKISOU has earned a powerful reputation as a skilled installation company. Through the cooperation between HEKISOU and Fairtone, a Group company which mainly handle interior work in the Group, Sangetsu has begun building an installation network in East Japan to improve installation quality throughout the entire Group. Installation capabilities are a vital function supporting business as Sangetsu continues to strive to enhance quality and expand its territories to realize greater business strength.



TOPICS Strengthening Space Design Capabilities

Space Creation Segment

New Office Space Creation Company

In December 2021, Kansai Branch Center Office has been relocated and newly built in Honmachi, Chuo-ku, Osaka City. As an office that embodies our corporate image of Space Creation Company, we aim to create a space that brings open innovation to people in and outside the company.

The space design concept is "MIXED-TERIOR GARDEN." The new office space that unites interior and exterior is unique to Sangetsu Group that handles both interior and exterior businesses. This office space was made possible by uniting the strength of the Group in all processes from concept planning to space design by the Space Creation Division and overall interior construction by the Fairtone Co., Ltd. Our space creation capabilities are highly praised from outside the company as well.



10 Year Consolidated Financial Summary

(Millions of yen)

	2013/03	2014/03	2015/03	2016/03	2017/03	2018/03	2019/03	2020/03	2021/03	2022/03 ³	2023/03 (forecast)	
Profit and Loss	Net sales	123,150	131,978	132,050	133,972	135,640	156,390	160,422	161,265	145,316	149,481	159,000
	Gross profit	34,536	36,055	37,510	39,527	40,104	47,572	50,720	52,925	47,640	39,962	44,500
	Gross profit to net sales ratio (%)	28.0	27.3	28.4	29.5	29.6	30.4	31.6	32.8	32.8	26.7	28.0
	Operating income	8,020	8,952	8,031	9,112	7,572	5,033	5,895	9,268	6,701	7,959	10,000
	Operating Income Margin (%)	6.5	6.8	6.1	6.8	5.6	3.2	3.7	5.7	4.6	5.3	6.3
	Ordinary income	8,393	9,475	8,506	9,463	8,368	5,698	6,699	9,844	7,042	8,203	10,700
	Profit Attributable to Owners of Parent	4,806	5,459	4,402	6,393	6,570	4,514	3,579	1,432	4,780	276	7,000
Cash flow	Free Cash Flow	7,902	2,401	10,899	25,988	-12,320	1,464	14,019	8,788	7,095	4,891	—
	Cash flows from operating activities	4,311	7,878	4,765	10,834	10,072	7,196	10,370	13,804	9,694	5,718	—
	Cash flows from investing activities	3,591	-5,477	6,134	15,154	-22,392	-5,732	3,649	-5,016	-2,599	-827	—
	Cash flows from financing activities	-7,506	-3,025	-7,692	-13,528	7,533	-4,831	-7,196	-5,476	-11,836	-13,341	—
	Cash and cash equivalents ¹	—	—	—	—	—	26,446	29,444	36,816	27,941	20,541	—
Financial Condition	Total assets	139,205	145,903	143,076	139,220	169,344	171,419	170,875	164,101	158,665	147,943	—
	Net assets	117,672	119,887	118,758	108,517	110,458	106,360	100,143	94,217	93,749	88,326	—
	Interest-bearing debt	168	116	93	3	14,187	18,759	20,913	20,802	16,143	10,095	—
Per Share Information ²	Net income per share (Yen)	60.26	71.65	58.35	89.92	97.53	68.97	57.28	23.56	78.97	4.66	119.36
	Net assets per share (Yen)	1,544.27	1,573.35	1,625.21	1,587.86	1,646.42	1,648.71	1,612.59	1,539.56	1,547.92	1,497.21	—
	Dividend per share (Yen)	39.00	37.50	41.25	47.50	52.50	55.50	56.50	57.50	58.00	70.00	71.00
Financial Indicators	Return on assets (ROA) (%)	6.0	6.6	5.9	6.7	5.4	3.3	3.9	5.9	4.4	5.4	—
	Return on equity (ROE) (%)	4.1	4.6	3.7	5.6	6.0	4.2	3.5	1.5	5.1	0.3	—
	Return on invested capital (ROIC) (%)	—	—	—	8.7	7.2	3.7	4.5	7.9	5.6	7.1	—
	Equity ratio (%)	84.5	82.2	83.0	77.9	65.2	61.4	58.0	56.8	58.8	59.4	—
	Consolidated payout ratio (%)	64.7	52.3	70.7	52.8	53.8	80.5	98.6	244.1	73.4	1,503.5	59.5
Cash Conversion Cycle	Cash conversion cycle	118.9	107.8	114.4	102.1	88.3	83.8	76.0	72.4	68.9	76.5	—
	Receivable turnover period (Days)	127.1	126.5	124.2	124.2	125.1	113.8	114.9	106.5	110.9	115.2	—
	Inventory turnover period (Days)	41.8	36.4	40.7	39.8	44.0	45.7	49.9	52.4	52.5	49.6	—
	Payable turnover period (Days)	50.0	55.1	50.4	61.9	80.8	75.7	88.8	86.5	94.5	88.3	—

¹ We consider the cash and cash equivalents in our statements of cash flows, the time deposits with a deposit term of more than three months, and high liquidity securities to be cash equivalents. The figures included in this summary indicate cash and cash equivalents.

² 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.

³ Sangetsu has followed the Accounting Standard for Revenue Recognition since start of the fiscal year ended March 31, 2022. Therefore, data provided for the fiscal year under review uses figures after adopting this accounting standard.

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

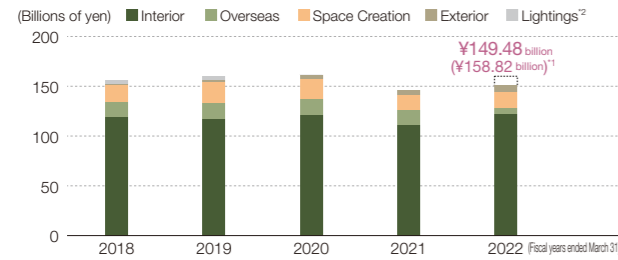
Basic initiatives	Results	Remaining issues
1 Establish a sound corporate structure that allows employees to actively participate in management	<ul style="list-style-type: none"> Established logistics centers, offices, showrooms, and other facilities; revised and enhanced organizational systems and rules 	<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 the fiscal year ended March 31, 2016 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

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

Basic initiatives	Results	Remaining 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 Limitation of service sustainability and 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 / teleworking / 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% → 45.8% Achieved Hiring of persons with disabilities 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 (as of March 31, 2017) → ¥93.24 billion (as of March 31, 2020) Three-year total shareholder return ratio 260.5% Total shareholder return ¥24.81 billion 	

Financial Highlights

Consolidated Net Sales

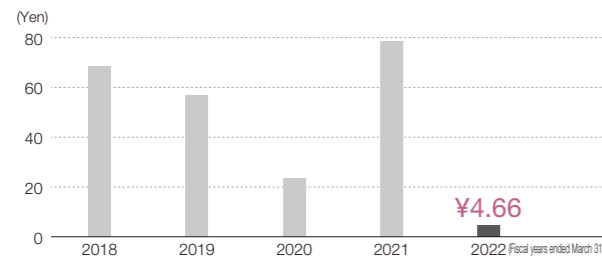


*1 The data in parentheses does not apply to revenue recognition accounting standards.

*2 As all shares of former consolidated subsidiary company Yamada Shomei Lighting Co., Ltd. were transferred at the start of the fiscal year ended March 31, 2020 as deemed date of sale, lightings segment is excluded from this consolidated fiscal year.

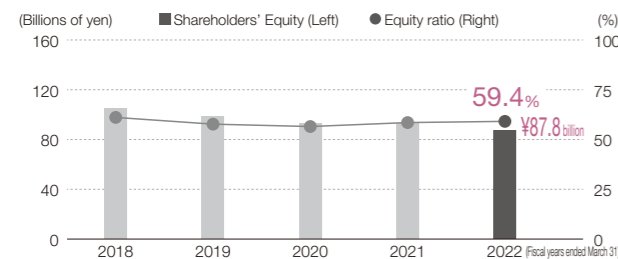
Consolidated net sales without applying the revenue recognition accounting standards have increased 9.3% year on year, which once again shows an increase in income after the first decline in 11 years during the fiscal year ended March 31, 2021 due to the impact of the COVID-19 pandemic.

Net Income per Share



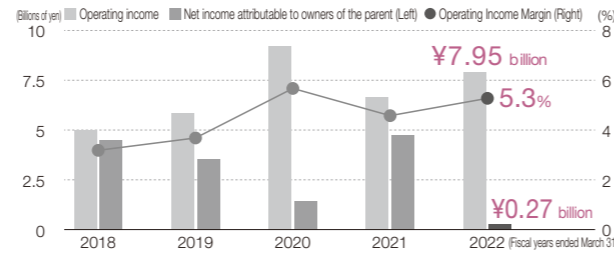
The loss of trademark rights related to Koroseal Interior Products Holdings, Inc. in North American resulted in much lower net income of 94.2% year on year, which also drove down the net income per share.

Shareholders' Equity/Equity Ratio



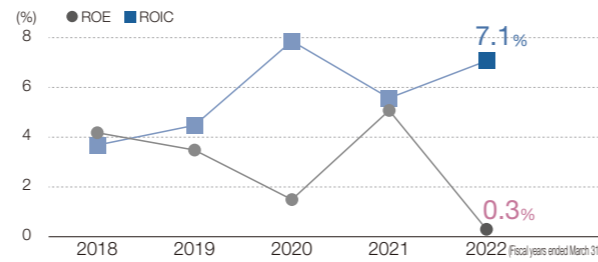
Equity has remained between ¥90.0 billion and ¥95.0 billion based on the capital policy laid out in the Medium-term Business Plan D.C. 2022, but stood at ¥87.8 billion as of March 31, 2022. However, Sangetsu has still maintained an equity ratio at around 60%.

Consolidated Operating Income/Operating Income Margin/ Net Income Attributable to Owners of Parent



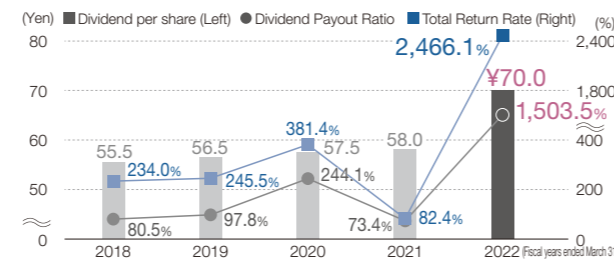
As purchase prices rise due to the high costs of raw materials, the Interior Segment revised its product prices, which increased operating income 18.8% year on year and clearly improved the Company's core earnings power.

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



ROE dramatically dropped due to the decline in net income attributable to owners of the parent during the fiscal year under review. However, the ROIC rose 1.5 points due to higher operating income.

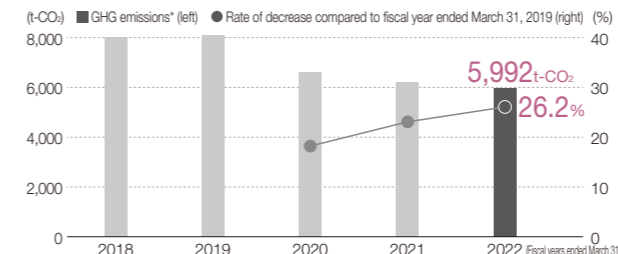
Dividend per Share (Annual)/ Dividend Payout Ratio / Total Return Rate



The Sangetsu Shareholder Return Policy advocates an increase in the ratio of dividends in a stable manner and rapid acquisition of treasury stock. Therefore, the Company has increased the year-end dividend per share for the eight consecutive year to ¥70.0, up ¥12 from the previous period.

Non-financial Highlights (Non-Consolidated)

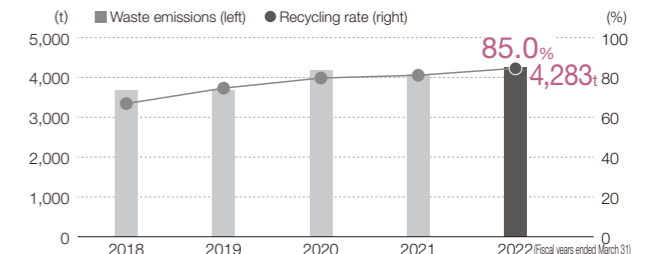
GHG emissions



*GHG emissions use actual emission factors.

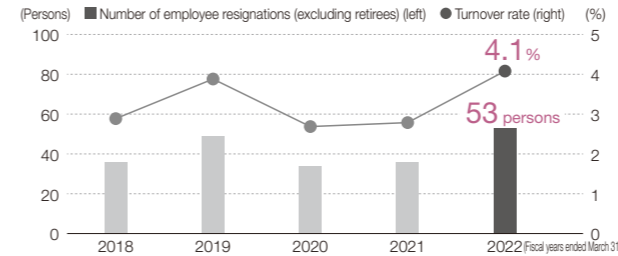
The Company is working in various reduction measures in an effort to reach its target of carbon neutrality by 2030.

Amount of waste and recycling rate



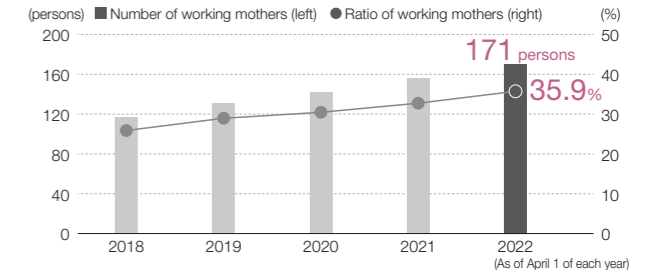
We are promoting resource circulation through efforts such as the reduction of waste and the improvement of disposal methods based on the reduce, reuse, recycle model (the 3 Rs). We have also begun recycling of our sample books.

Number of Employee Resignations (Excluding Retirees)/ Turnover Rate



We respect the human rights of each and every employee, prohibit unreasonable discrimination and harassment, and strive to create a fair and upbeat workplace. Sangetsu will build a working environment that promotes both mental and physical health.

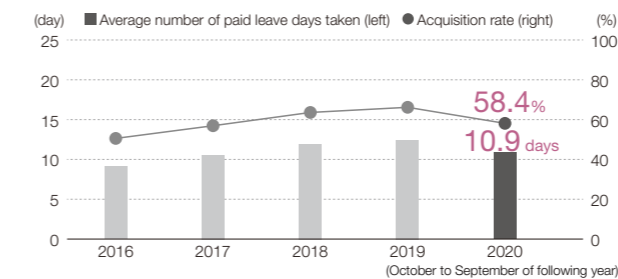
Ratio of working mothers*



*Number of female employees with children under the age of 18 divided by the number of full-time female employees

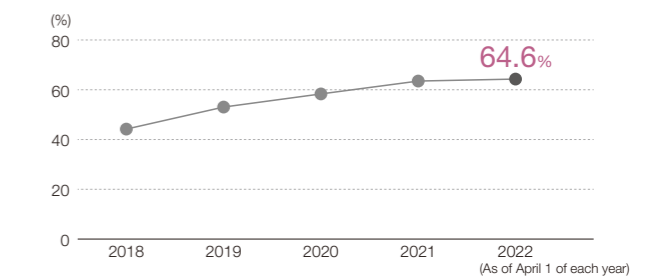
We promote systems and an environment enabling employees raising children to continue working. Every year, the ratio of working mothers at Sangetsu increases.

Average Number of Paid Leave Days Taken



Besides promoting the establishment of a proper work-life balance, implementing work-style reforms and reducing overtime, we are encouraging employees to take paid leave.

Ratio of Online Purchases



Customers who order items online help reduce menial tasks while expanding customer services. The active promotion of online purchases has improved the ratio of orders placed online to 64.6%.

ESG Data (Non-Consolidated)

	Indicator	Unit	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022 Targets
E [Environment]	[Consolidated] GHG Emissions	t-CO ₂	81,505	78,894	71,969	77,064	83,301	
	[Consolidated] Energy Consumption	GJ	49,582	183,612	418,177	429,201	455,882	
	[Consolidated] Power Consumption	kwh	4,853,280	13,830,418	33,546,819	35,116,971	37,290,854	
	GHG emissions	t-CO ₂	8,306	8,118	6,638	6,233	5,992	5,683 (Carbon neutral by 2030)
	Energy Consumption	GJ	132,292	127,535	127,178	127,681	125,355	122,434 (4% reduction)
	Solar power generation amount	kwh	520,798	532,137	520,549	508,251	499,300	
	Waste Discharge	t	3,688	3,695	4,195	4,098	4,283	3,547 (4% reduction)
	Recycling rate	%	67.2	75.0	80.1	81.5	85.0	83.0
	Sample books recycled	Books	4,923	5,645	12,849	15,344	62,915	130,000
	S [Social]	[Consolidated] Number of employees (as of March 31 of each year)	Persons	2,357	2,334	2,241	2,359	2,453
Number of employees (consolidated basis) (as of March 31 of each year)		Persons	1,205	1,167	1,161	1,185	1,194	
Men/Women		Persons	776/429	740/427	725/436	733/452	742/452	
Average age (as of March 31 of each year)		Age	35.9	36.7	37.0	37.0	37.2	
Men/Women		Age	38.4/31.5	39.1/32.2	39.4/32.8	39.2/33.3	39.0/34.0	
Average length of service (as of March 31 of each year)		Years	14.9	15.5	15.8	15.8	15.8	
Men/Women		Years	17.4/10.3	18.0/10.9	18.3/11.5	18.1/11.8	17.9/12.3	
New hires (total)		Persons	63	42	46	79	74	
Men/Women		Persons	30/33	17/25	22/24	47/32	44/30	
Turnover rate of employees with less than three years of service		%	17.5	5.4	34.1	*10.0	*8.2	
Men/Women		%	20.7/14.3	14.3/0	30.0/37.5	*4.8/17.9	*5.3/13.0	
Mid-career employee recruitment ratio		%	10	12	4	11	18	
Ratio of female managers (as of April 1 of each year)		%	10.7	11.4	12.0	14.8	17.2	20 (FY2022: 17.9)
Employee training costs		Millions of yen	59	45	43	40	49	
Number of employees taking childcare leave		Persons	45	42	42	57	54	
Trends of employees engaged in temporary part-time work while raising children (As of April 1 of each year)		Persons	56	68	70	75	88	94 (FY2022: 94)
Average total work hours		Hours	2,100	2,110	2,048	1,999	2,054	
Average Number of Paid Leave Days Taken (October to September of following year)		Days	10.6	12.0	12.5	10.9	—	
Employment rate of persons with disabilities (as of March 31 of each year)	%	2.4	2.7	3.1	3.2	3.4	4.0	
Frequency rate of work-related accidents	%	0.40	0.41	0.84	0.84	1.63		
Severity rate of work-related accidents	%	0.0063	0.0004	0.004	0.003	0.002		
Social contribution activities of Sangetsu Volunteer Club	Cases	29	28	31	23	40		
Child welfare facilities that received renovation support	Cases	19	20	18	20	33	30	
Matching Gift Program Results	S-mile	220	2,590	4,789	9,355	11,751	13,000	
G [Governance]	Number of Directors (as of June 30 of each year)	Persons	10	10	7	7	7	7 (FY2022: 7)
	Outside Directors	Persons	4	4	4	4	4	
	Female Directors	Persons	1	1	1	1	1	
	Ratio of Outside Directors	Persons	40.0	40.0	57.1	57.1	57.1	57.1 (FY2022: 57.1)
	Number of Serious Legal Violations	Cases	0	0	0	0	0	0

* Turnover rate of employees with less than three years of service for FY2020 is two years of service through FY2020 to FY2021 and FY2021 is one year of service in FY2021.

Corporate Profile

Company Outline (as of March 31, 2022)

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-shi, Aichi 451-8575, Japan
Capital	¥13,616 million
Net Sales	¥149.4 billion (consolidated)
Number of Employees	2,453 (consolidated)
Main Business	Planning, development, manufacture, sales, and installation of interior decorating products Sales and installation of exterior decorating products Planning, design, construction supervision, and installation of facilities, office spaces, and other
Stock Exchange Listings	Prime Market of the Tokyo Stock Exchange and Premium Market of the Nagoya Stock Exchange (Securities 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, Gunma, Tochigi, Niigata, Ibaraki, Nagano, Gifu, Okazaki, Hokuriku, Shizuoka, Kyoto, Kobe, Higashi-Osaka, Minami-Osaka, Okayama, Shikoku, Kita-Kyushu, Kumamoto, Minami-Kyushu and other locations
Main Group Companies	Sungreen Co., Ltd., Fairtone Co., Ltd., Sangetsu Vosne Corporation, Sangetsu Okinawa Corporation, and CREAMATE Inc. Koroseal Interior Products Holdings, Inc., Goodrich Global Holdings Pte., Ltd., Goodrich Global Limited

Stock Information

Company Outline (as of March 31, 2022)

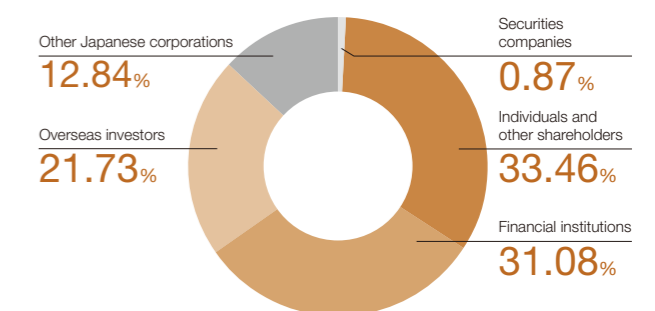
Total Number of Authorized Shares	290,000,000
Total Number of Shares Issued and Outstanding	59,200,000
Note: The total number of shares issued and outstanding declined 1,950,000 shares to 59,200,000 shares due to the cancellation of treasury shares executed on May 31, 2021, August 31, 2021, October 29, 2021, and March 31, 2022.	
Number of Shareholders	5,511 people

Status of Principal Shareholders (as of March 31, 2022)

Shareholder name	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,891,300	13.45
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	2,926,100	4.98
MUFG Bank, Ltd.	2,082,700	3.55
Custody Bank of Japan, Ltd. (Trust Account)	2,082,100	3.55
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.51
Touzou Hibi	1,773,492	3.02
Yoshio Hibi	1,708,588	2.91
Masae Miwa	1,699,228	2.89
Sangetsu Kyo-ei-kai	1,575,980	2.68
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	1,468,119	2.50

Note: The Company holds 552,040 treasury shares, and the shareholding ratio is calculated after deducting the amount of treasury shares.

Shareholder Composition Ratio (as of March 31, 2022)



Stock Price and Trading Volume

