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Securities code: 8130

June 2, 2017

**To Our Shareholders:**

Shousuke Yasuda,  
Representative Director, President  
and CEO  
Sangetsu Corporation  
1-4-1 Habashita,  
Nishi-ku, Nagoya, Japan

## **CONVOCATION NOTICE OF THE 65TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 65th Ordinary General Meeting of Shareholders (the “Meeting”) of Sangetsu Corporation (the “Company”) to be held as indicated below.

**If you are unable to attend the meeting, you can exercise your voting rights in writing or by electronic means (the Internet, etc.). Please refer to Reference Materials for the Ordinary General Meeting of Shareholders on the following pages and exercise your voting rights no later than 5:30 p.m. on Thursday, June 22, 2017 in accordance with the instructions given on page 2 to 3.**

Thank you very much for your cooperation.

- 1. Date and Time:** June 23, 2017 (Friday) at 10:00 a.m. (Reception starts at 9:00 a.m.)
- 2. Place:** Hall, 6th floor of the Main Building of the Company’s Head Office,  
1-4-1 Habashita, Nishi-ku, Nagoya, Japan
- 3. Meeting Agenda:**
  - Report matters:**
    1. The Business Report and the Consolidated Financial Statements for the 65th term (April 1, 2016 to March 31, 2017) and the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee
    2. Non-consolidated Financial Statements for the 65th term (April 1, 2016 to March 31, 2017)
  - Resolution matters:**
    - First proposal:** Appropriation of Surplus
    - Second proposal:** Election of Five (5) Directors (excluding Audit and Supervisory Committee Members)
    - Third proposal:** Election of Five (5) Directors Serving as Audit and Supervisory Committee Members
    - Fourth proposal:** Determination of Remuneration for Directors (excluding Audit and Supervisory Committee Members) to Grant Restricted Shares Thereto

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- If you plan to attend the Meeting, please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.
  - Any amendments to the Reference Materials for the Ordinary General Meeting of Shareholders, Business Report, Consolidated Financial Statements, and Non-consolidated Financial Statements will be posted on the Company’s website (URL: <http://www.sangetsu.co.jp/english/index.html>).

## **Instructions Concerning the Exercise of Voting Rights**

You may exercise your voting rights by one of the following three methods:

By attending the shareholders' meeting

Please submit the enclosed Voting Right Exercise Form to the receptionist of the meeting. (A personal seal will not be required.)

Date and Time: June 23, 2017 (Friday) at 10:00 a.m. (Reception will open at 9:00 a.m.)

Place: Hall, 6th floor of the Main Building of the Company's Head Office, 1-4-1 Habashita, Nishi-ku, Nagoya, Japan

By submitting the Voting Right Exercise Form by mail

Please indicate your approval or disapproval to each of the proposals on the Voting Right Exercise Form and post it to the Company without a postage stamp.

Exercise due date: To be received no later than June 22, 2017 (Thursday) at 5:30 p.m.

By exercising voting rights via the Internet

Use a PC, smartphone, or cellular phone to access the website for exercising voting rights (<http://www.evotep.jp/>). Login with the login ID and temporary password printed on the Voting Rights Exercise Form enclosed in this envelope. Follow the on-screen instructions to indicate your approval or disapproval to each of the proposals.

Exercise due date: No later than June 22, 2017 (Thursday) at 5:30 p.m.

1) Please be aware that, in order to prevent illegal online access by third parties who are non-shareholders (spoofing) and vote tampering, you will be asked to change your temporary password on the aforementioned voting rights exercise website.

2) You will be notified of a new "Log-in ID" and the "temporary password" every time a General Meeting of Shareholders is convened.

For guidance on how to exercise voting rights via Internet, etc., please refer to the following paragraph.

Cautions regarding exercising voting rights via the Internet, etc.

1) If you exercise your voting rights in duplicate both in writing and via the Internet, your voting via the Internet shall prevail.

2) If you exercise your voting rights multiple times via the Internet, only your last voting instructions will be counted as valid. Also, if you exercise your voting rights in duplicate using a PC, smartphone, or cellular phone, only your last voting instructions will be counted as valid.

3) You shall be responsible for any fees (including the Internet provider's connection fee and a telephone fee) incurred when accessing the voting rights exercise website. Similarly, if voting via cellular phone, etc., you will be responsible for any connection charges or other fees such as packet communication fees and

other fees for cellular phone use, etc.

4) Voting rights exercised via the Internet are accepted until 5:30 p.m. on June 22, 2017 (Thursday); however, we request that you vote as early as possible. Please contact the Help Desk (details below) with any questions.

#### Website for exercising voting rights

1) You can only exercise your voting rights via the Internet by accessing and using the Company's designated website (<http://www.evot.jp/>) from a personal computer, smartphone, or cellular phone (i-mode, EZweb, or Yahoo! Keitai)\*. (However, please be advised that the dedicated website is not operational from 2:00 a.m. till 5:00 a.m. every day.)

2) Please be aware that, depending on your Internet connection and usage environment, you may not be able to use your PC or smartphone to exercise your voting rights via the voting rights exercise website (e.g. if you connect to the Internet via a firewall, have anti-virus software installed or use a proxy server, etc.).

3) When exercising voting rights via cellular phone, please use one of the following services: i-mode, EZweb or Yahoo! Keitai. For security purposes, voting rights cannot be exercised via models that do not allow encrypted communication (SSL communication) or transmission of the cellular phone information.

\*"i-mode," "EZweb" and "Yahoo!" are trademarks or registered trademarks of NTT DOCOMO, INC., KDDI Corporation and U.S. Yahoo! Inc., respectively.

#### Electronic Voting Platform

Regarding the exercise of voting rights at the Company's General Meeting of Shareholders, nominee shareholders such as trust and custody banks (including standing proxies) may, as an alternative to the Internet voting described above, use the electronic voting rights execution platform organized by the Investor Communications Japan (ICJ) Inc., which was established by the Tokyo Stock Exchange, provided that application for the use of this electronic voting platform is made in advance.

#### **For inquiries about the system or other matters, please contact:**

(Help Desk) Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation

Phone: 0120-173-027 (from 9:00 a.m. to 9:00 p.m., toll free, only in Japan)

## **Reference Materials for the Ordinary General Meeting of Shareholders**

### **First proposal: Appropriation of Surplus**

We propose to appropriate surplus as follows.

Based on its “Mid-term Business Plan: Next Stage Plan G (2014-2016),” the Company will continue expanding its return of capital to shareholders to the extent that is sustainable on the medium to long-term, with a basic policy of averaging total return ratio of 100% or more on consolidated basis over the three years from fiscal 2014 to fiscal 2016.

Based on this policy, the Company intends to carry out appropriation of surplus for the current period as follows in order to recognize the continuing support of shareholders and to implement the capital strategies announced in November 2014, in light of business results in the current period, future business development and other such considerations.

### **Matters concerning the year-end dividend**

- 1) Type of dividend assets: We will pay in cash.
- 2) Matters concerning assignment of dividend assets and amounts thereof  
We propose the year-end dividend of ¥27.50 per common share of the Company.  
The total amount of dividend will be ¥1,843,525,833.  
The annual dividend for the current fiscal year amounted to ¥52.50 per share including the amount of interim dividend.
- 3) Effective date of distribution of surplus  
We propose the effective date of dividend to be June 26, 2017.

**Second proposal: Election of Five (5) Directors (excluding Audit and Supervisory Committee Members)**

The five (5) Directors (excluding Directors who are Audit and Supervisory Committee Members (here and elsewhere in this proposal)) shall complete their terms of office at the closing of this General Meeting of Shareholders. Accordingly, the election of five (5) Directors shall be requested.

The candidates for Directors are as follows:

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
1	Shousuke Yasuda (March 2, 1950)  [Reelected]	<p>April 2004      Executive Vice President and Division COO, Functional Chemicals Division, Mitsubishi Corporation</p> <p>April 2008      Executive Vice President and General Manager, Chubu Branch, Mitsubishi Corporation</p> <p>April 2012      Executive Vice President, Mitsubishi Corporation</p> <p>June 2012      Director, the Company</p> <p>April 2014      Representative Director and President</p> <p>July 2014      Representative Director and President, General Manager of the Interior Division</p> <p>April 2016      Representative Director, President and CEO, and General Manager of the Interior Division (To present)</p> <p>(Significant concurrent positions) Chairman of the Board of Directors of Koroseal Interior Products Holdings, Inc.</p> <p>Reasons for nomination as candidate for Director After taking office as Representative Director and President of the Company in 2014, Mr. Shousuke Yasuda has launched the Mid-term Business Plan which has been formulated at his own initiative, and exercised strong leadership in working on the management reform, including the development of operational foundation, restructuring of business strategies and improvement of evaluation from stakeholders. Thanks to his efforts, the Company achieved a consolidated net income of ¥6,300 million for the fiscal year ending March 31, 2017, which was one of the quantitative targets of said Mid-term Business Plan. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director. Attendance to the Meeting of the Board of Directors held in FY2016: 14/14</p>	55,600 shares
2	Shuji Sasaki (December 31, 1955)  [Reelected]	<p>March 1979      Joined the Company</p> <p>February 2012    General Manager of Okayama Branch</p> <p>June 2014      Director and General Manager of Okayama Branch</p> <p>July 2014      Director and General Manager of the Flooring Division and Marketing Department</p> <p>April 2015      Director in charge of the Marketing and General Manager of the Flooring Division</p> <p>April 2016      Director, Managing Executive Officer and General Manager of the Sales Division (To present)</p> <p>Reasons for nomination as candidate for Director Having served in a range of areas of the Company as General Manager of Sales, Branches and Business Division and Marketing Department, Mr. Shuji Sasaki has considerable knowledge on the industry and situation of the Company as well as excellent ability in organizational management and supervision. Currently he works on the review and promotion of sales strategies as General Manager of the Sales Division. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director. Attendance to the Meeting of the Board of Directors held in FY2016: 13/14</p>	16,314 shares

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
3	Yasutomo Yoshikawa (October 11, 1957)  [Reelected]	<p>March 1981      Joined the Company</p> <p>December 2004      General Manager of Sendai Branch</p> <p>November 2011      General Manager of Fukuoka Branch</p> <p>July 2014      General Manager of Tokyo Branch</p> <p>June 2015      Director and General Manager of Tokyo Branch</p> <p>April 2016      Director, Executive Officer and General Manager of Tokyo Branch</p> <p>April 2017      Director, Executive Officer, Vice General Manager of the Sales Division and General Manager of Tokyo Branch (To present)</p> <p>Reasons for nomination as candidate for Director Having served as General Manager of various branches, Mr. Yasutomo Yoshikawa has accomplishments in the field of sales at the Company. Most recently, he has implemented efforts to promote sales strategies as General Manager of Tokyo Branch and contributed to the sales expansion in the Tokyo metropolitan area. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director. Attendance to the Meeting of the Board of Directors held in FY2016: 14/14</p>	10,000 shares
4	Kenji Ito (November 1, 1958)  [Reelected]	<p>June 2001      General Manager of Legal Department, TOYOTA INDUSTRIES CORPORATION</p> <p>June 2006      General Manager of Safety and Health, and Environment Departments, TOYOTA INDUSTRIES CORPORATION</p> <p>January 2008      General Manager of Safety and Health Promotion Department, TOYOTA INDUSTRIES CORPORATION</p> <p>March 2009      Standing Director of TOYOTA INDUSTRIES HEALTH INSURANCE SOCIETY (Secondment)</p> <p>July 2010      General Manager of Audit &amp; Supervisory Board Office, TOYOTA INDUSTRIES CORPORATION</p> <p>July 2014      General Manager of the Management Audit Department, the Company</p> <p>April 2016      Executive Officer in charge of General Affairs and Human Resources and General Manager of the Management Audit Department</p> <p>June 2016      Director, Executive Officer in charge of General Affairs and Human Resources and General Manager of the Management Audit Department</p> <p>April 2017      Director, Executive Officer in charge of Management Audit, General Affairs, Human Resources and Information System and General Manager of the President's Office (To present)</p> <p>(Significant concurrent positions) Audit &amp; Supervisory Board Member of Sungreen Co., Ltd. Audit &amp; Supervisory Board Member of Yamada Shomei Lighting Co., Ltd. Auditor of Sangetsu (Shanghai) Corporation Director of Koroseal Interior Products Holdings, Inc.</p> <p>Reasons for nomination as candidate for Director Having long engaged in legal affairs and auditing from his previous career, Mr. Kenji Ito has abundant knowledge and experience. Since joining the Company, he has worked to promote the compliance and corporate governance reform as General Manager of Management Audit Department. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director. Attendance to the Meeting of the Board of Directors held in FY2016: 11/11 (After assuming office as Director)</p>	2,600 shares

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
5	Yoshiaki Kaneko (February 4, 1959)  [Newly elected]	<p>April 1982      Joined the Company</p> <p>July 2014      General Manager of the Wall Coverings Division</p> <p>April 2016      Executive Officer and General Manager of the Wall Coverings Division</p> <p>April 2017      Executive Officer, General Manager of the Logistics Department and Vice General Manager of the Interior Division (To present)</p> <p>Reasons for nomination as candidate for Director Mr. Yoshiaki Kaneko, while primarily in charge of purchases at the Company, promoted strengthening connections with suppliers and product/supply policies and, most recently, as General Manager of the Wall Coverings Division, he has launched new products and new brands, made efforts to strengthen quality assurance and lower costs and contributed to the restructuring of business. Given these experiences and achievements, the Company deemed that he is well qualified to serve as a Director.</p>	0 shares

- (Notes)
1. There is no special interest between each candidate and the Company.
  2. The Company adopted an executive officer system as of April 1, 2016.
  3. Opinion of the Audit and Supervisory Committee related to the election of Directors  
With regard to the election of candidates for Directors other than the Audit and Supervisory Committee Members, the Audit and Supervisory Committee made consideration at the Nomination and Remuneration Advisory Committee, comprised of all Audit and Supervisory Committee Members. After such consideration, the Audit and Supervisory Committee determined that each candidate is appropriate and qualified to be entrusted with the enhancement of the corporate value of the Company in view of their performance and achievements made in line with the Mid-term Business Plan.

### Third proposal: Election of Five (5) Directors Serving as Audit and Supervisory Committee Members

The five (5) Directors serving as Audit and Supervisory Committee Members shall complete their terms of office at the closing of this General Meeting of Shareholders. Consequently, the election of five (5) Directors who are Audit and Supervisory Committee Members shall be requested.  
The agreement of the Audit and Supervisory Committee has been received for this proposal.

The candidates for Directors serving as the Audit and Supervisory Committee Members are as follows:

No.	Name (Date of birth)	Career summary, positions, and significant concurrent positions	Number of shares of the Company held
1	Kunihiro Nasu (June 5, 1944)  [Reelected] [Outside Director]	<p>April 1969 Registered with the Nagoya Bar Association</p> <p>October 1975 Established Nasu Kunihiro Horitsu Jimusho</p> <p>April 1999 Chairperson of the Nagoya Bar Association</p> <p>July 2003 Chairperson of the Aichi Prefectural Personnel Commission</p> <p>June 2007 Audit &amp; Supervisory Board Member of the Company</p> <p>June 2015 Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</p> <p>Reasons for nomination as candidate for Audit and Supervisory Committee Member The election of Mr. Kunihiro Nasu as Outside Director is requested due to the candidate's keen insight and his wealth of experience as an attorney.</p>	0 shares
2	Tamotsu Kokado (November 8, 1950)  [Reelected] [Outside Director]	<p>April 2000 Executive Officer of The Tokai Bank, Ltd.</p> <p>January 2002 Executive Officer of UFJ Bank Limited</p> <p>May 2003 Managing Executive Officer of UFJ Bank Limited</p> <p>January 2006 Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>October 2008 Senior Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>June 2009 Vice-President of The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>June 2012 Standing Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd.</p> <p>June 2014 Director of the Company</p> <p>June 2015 Outside Director (Audit and Supervisory Committee Member) of the Company</p> <p>Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (To present)</p> <p>(Significant concurrent positions) Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. Outside Audit &amp; Supervisory Board Member of Toho Gas Co., Ltd. Outside Director of AT-Group Co., Ltd. Outside Director of CHUKYO TV. BROADCASTING CO., LTD.</p> <p>Reasons for nomination as candidate for Audit and Supervisory Committee Member The election of Mr. Tamotsu Kokado as Outside Director is requested due to his broad insight into management, and his wealth of experience through his many years of experience as a corporate manager at a city bank.</p>	0 shares



No.	Name (Date of birth)	Career summary, positions, and significant concurrent positions		Number of shares of the Company held
3	Masatoshi Hatori (July 24, 1946)  [Reelected] [Outside Director]	<p>June 2003      Director of Kanegafuchi Chemical Industry Company Limited (current KANEKA CORPORATION)</p> <p>June 2005      Executive Director of KANEKA CORPORATION</p> <p>June 2006      Director and Managing Executive Officer of KANEKA CORPORATION</p> <p>April 2008      Director and Senior Managing Executive Officer of KANEKA CORPORATION</p> <p>June 2010      Executive Vice President and Representative Director of KANEKA CORPORATION</p> <p>June 2014      Special Advisor of KANEKA CORPORATION</p> <p>June 2015      Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</p> <p>(Significant concurrent positions) Advisor of KANEKA CORPORATION</p>		0 shares
		<p>Reasons for nomination as candidate for Audit and Supervisory Committee Member</p> <p>The election of Mr. Masatoshi Hatori as Outside Director is requested due to the candidate's experience as a representative director of a listed company and his deep knowledge of business management.</p>		
4	Michiyo Hamada (November 25, 1947)  [Reelected] [Outside Director]	<p>April 1985      Law professor at Nagoya University</p> <p>April 1999      Professor of Nagoya University Graduate School of Law</p> <p>April 2008      President of Nagoya University School of Law</p> <p>April 2009      Professor emeritus of Nagoya University Commissioner of Japan Fair Trade Commission</p> <p>March 2014      Resigned Commissioner of Japan Fair Trade Commission</p> <p>June 2015      Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</p> <p>(Significant concurrent positions) Outside Auditor of the Metropolitan Expressway Company Limited Outside Audit &amp; Supervisory Board Member of Toho Gas Co., Ltd. Outside Board Member of Aisin Seiki Co., Ltd.</p>		0 shares
		<p>Reasons for nomination as candidate for Audit and Supervisory Committee Member</p> <p>The election of Ms. Michiyo Hamada as Outside Director is requested due to the candidate's advanced and specialized knowledge, as well as keen insight, as a scholar of corporate law and ex-commissioner of Japan Fair Trade Commission.</p>		

No.	Name (Date of birth)	Career summary, positions, and significant concurrent positions	Number of shares of the Company held
5	Takashi Tajima (October 20, 1950)  [Reelected]	<div> <div>March 1973</div> <div>Joined the Company</div> </div> <div> <div>April 1992</div> <div>Executive Secretary</div> </div> <div> <div>November 2010</div> <div>Contract employee</div> </div> <div> <div>June 2011</div> <div>Full-time Audit &amp; Supervisory Board Member</div> </div> <div> <div>June 2015</div> <div>Outside Director (Audit and Supervisory Committee Member) of the Company (To present)</div> </div>	14,600 shares
		Reasons for nomination as candidate for Audit and Supervisory Committee Member The election of Mr. Takashi Tajima as Director is requested, due to the candidate's considerable knowledge of internal operations gained from serving for a long time as Executive Secretary, and achievement in auditing after taking office as Audit & Supervisory Board Member.	

- (Notes)
- There is no special interest between each candidate and the Company.
  - Messrs. Kunihiro Nasu, Tamotsu Kokado, Masatoshi Hatori, and Ms. Michiyo Hamada, are candidates for Outside Directors.
  - Regarding the independence of candidates for Outside Directors  
The candidates for Outside Directors fulfill the Company's stipulated requirements (listed below) for independence of Outside Directors.
    - A person who does not fall under any of the following items at present
      - A shareholder holding over 5% of the voting rights of the Company or executive thereof;
      - An executive of a business partner whose transaction amount with the Company is equivalent to 2% or more of consolidated net sales of the Company or a subsidiary of such a business partner;
      - An executive of a major lender to the Company (i.e., a lender with which the Group has an outstanding borrowings equivalent to 2% or more of the consolidated total assets of the Company at the end of the latest fiscal year);
      - A certified public accountant who belongs to the Accounting Auditor of the Company;
      - A consultant, an accounting specialist, or a legal specialist who receives money or other monetary benefits amounting to 10 million yen or more on an annual basis, separate from Director's remuneration from the Company (if the entity receiving such monetary benefits is an organization such as a corporation and association, a person who belongs to such an entity);
      - An executive of an organization that has received a donation of ¥1 million or more on an annual basis from the Company; and
      - A person who is a relative within the second degree of kinship of 1) through 6) above.
    - A person who does not fall under any of items 1) to 7) above at any time in the last three years
  - Messrs. Kunihiro Nasu, Tamotsu Kokado, Masatoshi Hatori, and Ms. Michiyo Hamada are currently serving as Outside Directors who are Audit and Supervisory Committee Members of the Company and their terms of office will be three years for Mr. Tamotsu Kokado, two years for Messrs. Kunihiro Nasu, Masatoshi Hatori, and Ms. Michiyo Hamada at the closing of this General Meeting of Shareholders.
  - The Company has filed the relevant notifications with the Tokyo Stock Exchange and Nagoya Stock Exchange, per the stipulations of each Exchange, that Messrs. Kunihiro Nasu, Tamotsu Kokado and Masatoshi Hatori, and Ms. Michiyo Hamada are Independent Officers. If the reelection of each candidate is approved, the Company plans for his/her appointment as an independent officer to continue.
  - Under the provisions of Article 427, paragraph 1 of the Companies Act, the Company has concluded contracts for limitation of liability with Messrs. Kunihiro Nasu, Tamotsu Kokado, Masatoshi Hatori, Ms. Michiyo Hamada, and Mr. Takashi Tajima as provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of the liability for damage based on said contracts is the amount prescribed in laws and regulations and if the reelection of each candidate is approved, the Company plans to renew the respective agreements with each one of them.

**Fourth proposal: Determination of Remuneration for Directors (excluding Audit and Supervisory Committee Members) to Grant Restricted Shares Thereto**

Remuneration for Directors (excluding Audit and Supervisory Committee Members) of the Company is comprised of fixed basic remuneration as well as performance-based remuneration to be decided in accordance with the previous fiscal year's business results, aimed at encouraging greater motivation and impetus for the Directors to improve performance and pursuing shared value between the Directors and shareholders as well. The Company separately grants share remuneration-type stock options to the Directors for the purpose of the execution of business that puts emphasis on benefiting shareholders.

With regard to the amount of remuneration for Directors (excluding Audit and Supervisory Committee Members) of the Company, it was approved at the 63rd Ordinary General Meeting of Shareholders held on June 18, 2015, that the remuneration per year shall be no more than ¥400 million and at the same meeting that the stock option remuneration per year shall be no more than ¥120 million.

As part of the revision to its remuneration package for Officers, the Company would like to replace the aforementioned stock option remuneration with the payment to Directors (excluding Audit and Supervisory Committee Members; such Directors are hereinafter referred to as "Executive Directors") of the Company of remuneration for the purpose of granting shares with Restriction ("Restriction" is to be defined later; such shares are hereinafter referred to as "restricted shares") aimed at further promoting shared value between shareholders and them and making clear an incentive to sustainably increase the Company's corporate value.

The Company requests your approval for the Remuneration to be paid to Executive Directors for the purpose of granting them restricted shares based on this proposal being monetary remuneration claims and for the maximum total amount of said monetary remuneration claims separate from the existing maximum amount of basic remuneration and performance-based remuneration being set at ¥120 million per year, the level of amount deemed as reasonable in light of the aforementioned purpose.

On the condition that this proposal is approved and adopted, the Company will discontinue the stock option plan for Executive Directors except for stock options already granted, and will not hereafter issue new share acquisition rights as stock options for Executive Directors.

The specific timing for paying thereof and allocation to each Executive Director shall be decided by the Board of Directors.

If the second proposal, "Election of Five (5) Directors (excluding Audit and Supervisory Committee Members)," is approved and adopted as proposed, the number of Executive Directors will continue to be five.

The Executive Directors shall pay all monetary remuneration claims to be provided under this proposal in the form of property contributed in kind, in accordance with the resolution by the Board of Directors of the Company, and shall, in return, receive common shares of the Company to be issued or disposed of by the Company. In this connection, the total number of common shares to be issued or disposed of by the Company shall be no more than 60,000 shares per year. However, if the Company performs a share split (including allotment of shares without contribution) or a reverse share split of its common shares, or any other reason arises necessitating an adjustment to the number of such shares, the number of shares to be issued or disposed of may be adjusted to the extent reasonable.

The paid-in amount per such share shall be determined by the Board of Directors based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day immediately preceding each date of resolution by the Board of Directors (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day) and within the extent that the amount will not be particularly advantageous to Executive Directors who subscribe such common shares. In addition, such issuance or disposal of the Company's common shares shall be subject to a restricted share allotment agreement (the "Allotment Agreement") entered into by and between the Company and each Executive Director of the Company. The Allotment Agreement shall include the provisions as summarized below.

**(1) Restricted Period**

The Executive Directors are prohibited from transferring, creating any security interest on, or otherwise disposing of the Company's common shares that have been allotted under the Allotment Agreement ("Allotted Shares") during 30 years from the day on which the Executive Directors receive allotment of shares under the Allotment Agreement (the "Restricted Period"). These restrictions are hereinafter referred to as "Restriction."

(2) Treatment on retirement from office

When the Executive Director retires from the position of Director of the Company before expiration of the Restricted Period, the Company shall automatically acquire the Allotted Shares without contribution unless the reason for his/her retirement from office is the expiration of the term of his/her office, death, or other reason the Company's Board of Directors deems justifiable.

(3) Lifting of Restriction of restricted shares

Notwithstanding the provisions of (1) above, the Company shall lift the Restriction of Allotted Shares upon expiration of the Restricted Period on the condition that the Executive Director has remained in the position of Executive Director of the Company throughout the Restricted Period. However, if the Executive Director retires from the position of Director of the Company before expiration of the Restricted Period due to the expiration of the term of his/her office, death, or other reason the Company's Board of Directors deems justifiable as specified in (2) above, the Company shall reasonably adjust the number of Allotted Shares on which Restriction is to be lifted and the timing of lifting Restriction, as necessary.

(4) Acquisition of shares without contribution

Immediately upon expiration of the Restriction Period (however, immediately upon lifting of Restriction if lifted before expiration of the Restricted Period), the Company shall automatically acquire without contribution the Allotted Shares on which Restriction has not been lifted in accordance with the provisions in (3) above.

(5) Treatment during reorganization, etc.

Notwithstanding the provisions in (1) above, if, during the Restriction Period, matters relating to a merger agreement in which the Company is the disappearing company, a share exchange agreement or share transfer plan in which the Company becomes a wholly owned subsidiary, or other reorganization, etc. are approved at the Company's General Meeting of Shareholders (or at a meeting of its Board of Directors in cases where approval at the Company's General Meeting of Shareholders is not required in relation to the reorganization, etc.), the Company shall lift Restriction on the Allotted Shares with the number of shares that is reasonably determined considering the period from the beginning of the Restriction Period to the date of approval of the reorganization, etc. prior to the date on which the reorganization, etc. become effective, by resolution of the Board of Directors of the Company.

In this case, the Company shall automatically acquire without contribution the Allotted Shares on which Restriction has not been lifted immediately upon expiration of the Restriction Period.

(6) Other matters to be determined by the Board of Directors

In addition to the above, the method for expressing intentions and giving notification in the Allotment Agreement, the method for amending the Allotment Agreement, and other matters to be determined by the Board of Directors shall be laid out in the Allotment Agreement.

If this proposal is adopted as proposed, the system of composition of remuneration for Directors will change from that of previous basic remuneration, performance-based remuneration and stock options to that of basic remuneration, performance-based remuneration and restricted shares. Depending on the subject Director's position, the composition of remuneration for the Director will be 45 to 57 percent of basic remuneration, 25 to 27 percent of performance-based remuneration and 18 to 29 percent of the value of restricted shares initially granted as long-term incentive, assuming the Company's consolidated profit being around ¥6,500 million.

(Note) The Audit and Supervisory Committee conducted, after deliberation at a meeting of the Nomination and Remuneration Advisory Committee at which all the Audit and Supervisory Committee Members were present, careful study about whether the remuneration, etc. for Representative Director, President and CEO and other Executive Directors are at an appropriate level from the perspective of role, duties, business results and achievement of each of them and whether the remuneration, etc. are deemed proper as incentives to increase the Company's corporate value. As a result, the committee judged that the particulars of the remuneration, etc. are appropriate.

(Attached materials)

## **Business Report**

(April 1, 2016 to March 31, 2017)

### 1. Overview of the Sangetsu Group (the “Group”)

#### (1) Business Progress and Results

During the fiscal year under review, the Japanese economy was on a moderate recovery trend as it saw continued improvements in corporate earnings as well as the employment and household income environment. On the other hand, the outlook continues to be uncertain due to risks arising from, among others, the slowdown in emerging economies, policies of the new U.S. administration, and changes in the financial market. In the construction market, which is closely connected to the Company’s business, new housing starts were solid supported by various government programs to support home ownership as well as increases in rental housing following the tax reform on inheritance tax.

Under these circumstances, as the current fiscal year marks the final year in “Mid-term Business Plan: Next Stage Plan G,” the Group has steadily implemented the expansion of the existing businesses and promotion of growth strategies. In the overseas business, the Group pushed ahead with efforts to reach wider markets on a global basis, including the establishment of Sangetsu (Shanghai) Corporation in China in April 2016 and the acquisition of Koroseal Interior Products Holdings, Inc., a U.S. company engaging in wallcovering products business, in November 2016. Moreover, the Group has been strengthening the business structure throughout the value chain by, for example, making FAIRTONE COMPANY, LIMITED, which provides the Group with construction capability, a subsidiary in January 2017, and investing in leading suppliers of goods. Meanwhile, by announcing our new brand concept “Joy of Design” in April 2016, the Group defined the purpose of the Sangetsu brand as “providing people with joy of design.” Based on this concept, the Group is pushing forward with initiatives to “provide people with joy of design.” For example, the Group announced in February 2017 to hold a design competition under the name of “Sangetsu Wallpaper Design Award” to invite new wallpaper designs. As a result of these efforts, consolidated financial results for the fiscal year under review recorded ¥135,640 million in net sales, up 1.2% year on year, ¥7,572 million in operating income, down 16.9% year on year, ¥8,368 million in ordinary income, down 11.6% year on year, and ¥6,570 million in profit attributable to owners of parent, up 2.8% year on year.

#### (Reference) Consolidated Financial Highlights

(Millions of yen)			
Net sales	Operating income	Ordinary income	Profit (loss) attributable to owners of parent
135,640	7,572	8,368	6,570
up 1.2% YoY	down 16.9% YoY	down 11.6% YoY	up 2.8% YoY

#### **(Interior Business) Net sales ¥116,656 million**

##### Main business

Sale of interior products including wall coverings, flooring, fabrics, etc.

(Millions of yen)		
	64th term Fiscal year ended March 31, 2016	65th term Fiscal year ended March 31, 2017
Net sales	115,140	116,656

In the wall coverings division, in response to the growing demand in the hotel and office sectors particularly in the Tokyo metropolitan area, the Group released a new sample book “FAITH,” which features non-combustible-certified wallpapers for use in non-residential properties. In addition, sales in the renovation sector grew due to the successful sales activities conducted in coordination with the team specialized in renovation. On the other hand, although new housing starts remained firm particularly in the rental housing sector, those of detached houses failed to grow. As a result, demand did not grow significantly and net sales of wall coverings were ¥56,394 million, up 0.1% year on year.

In the flooring division, PVC floor tiles continued to deliver strong sales supported by the revitalization of the rental housing market. In addition, the renewal market for lodging facilities continued to be firm on the back of strong inbound demand and the delivery of carpets with custom-made design grew significantly. The medical welfare sector also started to recover in the second half of the fiscal year and supported the sales growth in continuous sheets for non-residential use. As a result, net sales of flooring were ¥41,377 million, up 2.3% year on year.

In the fabrics division, the Group published the curtain sample book “Contract Curtain” for the contract market, which includes medical facilities and hotels, and strengthened activities in the non-residential sector. Our functions and designs which serve a broad range of needs in various facilities were warmly received and sales were firm. In addition, we published the comprehensive upholstery sample book “UP” for the first time in five years and strengthened activities to acquire buyers among furniture makers and the contract market. However, the Group suffered difficulty in the residential sector, and net sales of fabrics products, which are composed of curtains and upholstery, were ¥7,701 million, down 1.0% year on year.

Aside from this, with other business, which includes installation fees, etc., recording net sales of ¥11,183 million, up 6.0% year on year, the Interior Business segment recorded net sales of ¥116,656 million, up 1.3% year on year, and operating income of ¥7,150 million, down 19.4% year on year.

#### **(Exterior Business) Net sales ¥14,778 million**

Main business

Sale of exterior products including doors, fences, carports, terraces, etc.

(Millions of yen)

	64th term Fiscal year ended March 31, 2016	65th term Fiscal year ended March 31, 2017
Net sales	14,712	14,778

Amid intensifying competition with other companies, Sungreen Co., Ltd., which operates the exterior business, carried out the restructuring of the sales management structure and the reinforcement of construction capabilities. In the exterior market, growth is currently driven by products that are useful for designing the garden area such as garden rooms and artificial wooden decks. As the company also expanded the product line-up to meet such needs, sales have been strong. The Group also restructured delivery and sales area coverage of each branch/sales office and worked to build a sales structure to produce synergy effect with the interior business. As a result, net sales of the exterior business were ¥14,778 million, up 0.4% year on year, and operating income was ¥402 million, up 9.6% year on year.

#### **(Lighting Business) Net sales ¥4,239 million**

Main business

Sale of lighting equipment, etc.

(Millions of yen)

	64th term Fiscal year ended March 31, 2016	65th term Fiscal year ended March 31, 2017
Net sales	4,145	4,239

Amid the rapid spread of LED lighting as an energy-saving lighting solution and intensifying price competition for products in the lower price range, Yamada Shomei Lighting Co., Ltd., which operates the lighting equipment business, conducted sales activities targeting developers and architect offices focusing on the non-residential sector and the Tokyo metropolitan market as high-priority strategic markets. As a result, and partly owing to the tailwinds from the Tokyo 2020 Olympic Games and inbound demand, the Group steadily won corporate contracts including those for large office buildings, hotels, and retail properties. Moreover, the Group further strengthened coordinated sales efforts with the interior business, which we had continued for some time. As a result, net sales of the lighting equipment business were ¥4,239 million, up 2.3% year on year, and operating income amounted to ¥23 million (operating loss of ¥128 million for the previous fiscal year)

## **(2) Capital Investments**

During the fiscal year under review, in the Interior Business segment, the Group as a whole made capital investments of ¥6,390 million including the opening of three new showrooms in Sendai, Okinawa, and

Kanazawa, establishment and consolidation of logistics centers aimed to optimize logistics, and improvements to implement the renewal of the new system.

### **(3) Financing**

During the fiscal year under review, the Group secured a syndicated loan of US\$100 million and secured financing of ¥2.0 billion to secure funds mainly for the purpose of acquiring Koroseal Interior Products Holdings, Inc. Currency-swap transactions that convert the funds into fixed interest yen-denominated borrowings are used for the syndicated loan to hedge the exchange rate fluctuation risk and the interest fluctuation risk.

### **(4) Issues to Address**

The Japanese economy is expected to stay on a recovery path supported by improvements in corporate earnings, increases in public investments as part of economic stimulus measures, and improvements in the employment and household income environment. On the other hand, we expect that uncertainties will remain with respect to the slowdown in emerging economies, economic changes particularly in the U.S. and Europe, and geopolitical risks.

In the construction market, increases in the construction of hotels and other commercial facilities are expected in the non-residential sector driven by inbound demand and Tokyo Olympics. However, the basic declining trend of new housing starts will remain unchanged as the population will continue to decline. Therefore, we need to continue to carefully watch economic trends, such as changes in raw material prices and consumer confidence.

In such a market environment, the Group will start a new “Mid-term Business Plan: PLG 2019 (2017-2019).” Under this new plan, which will further evolve the current “Mid-term Business Plan: Next Stage Plan G (2014-2016),” we will strengthen consolidated management throughout the Sangetsu Group and strive to enhance its corporate value. We will also steadily implement capital strategies aimed at improving our reputation with stakeholders and aim to achieve higher ROE levels (8-10%) in the medium- to long-term. The measures for achieving these goals are as follows.

#### **1) Business strategies for growth**

Basic policy: Geographical expansion and functionality enhancement of the interior materials business (planning, procurement, logistics, sales)

- (i) Realize stable growth in revenue through functionality enhancement and the expansion of activities in the value chain in the Japanese market, which is the stable and basic source of revenue
- (ii) Strengthen activities in overseas markets with high growth potential and implement business expansion in terms of geographic coverage as well as products and functions
- (iii) Build planning and procurement capabilities for products to be placed in the global markets in response to the globalization of design and the globalization of manufacturers
- (iv) Strengthen the consolidated management system to produce total synergy effect through the integrated management of subsidiaries and affiliates engaging in local businesses, those providing certain functions, and those operating in specialized markets
- (v) Implement changes in business operation models on a trial basis for the development of the next Mid-term Business Plan

#### **2) Strengthening of human resources**

- (i) Development of professionals
- (ii) Thorough application of the merit system
- (iii) Promotion of diversity
- (iv) Work style reform
- (v) Promotion of corporate health

#### **3) Enhancement of the profit management system**

- (i) Reduction and tighter management of selling, general and administrative expenses
- (ii) Introduction of CCC management to all Group companies
- (iii) Clarification and progress management of management indicators at each Sangetsu division and branch

#### **4) ESG/CSR policies**

- (i) Environment
  - Measure the environmental load of the business of the Sangetsu Group as a whole and build a system to promote the prevention of global warming and sustainable resource recycling
- (ii) Society
  - Support the empowerment of diverse employees working at all Group companies as well as the employment of socially disadvantaged persons
  - Promote social responsibility in the supply chain

- Expand activities for social contribution led by employees
- (iii) Governance
  - Maintain and increase the transparency of corporate governance and ensure compliance
- 5) Capital policy
  - (i) Financial policy to improve capital efficiency  
The Group will aim to reduce shareholders' equity to the range of ¥105.0 billion to ¥100.0 billion by continuing the acquisition of treasury shares and stable dividend increases while taking into consideration the prevailing capital market environment.
  - (ii) Shareholder return policy during the term of the Mid-term Business Plan
    - Maintain the total return ratio on the consolidated basis above 100% during the term of the Mid-term Business Plan (3 years)
    - Carry out stable dividend increases under the basic policy of stable dividend increases over the long-term period
    - Acquire treasury shares flexibly depending on the conditions in the stock market

#### Other Issues to Address

On March 13, 2017, the Japan Fair Trade Commission announced the issuance of a cease and desist order and surcharge payment orders to the distributors selling wallpaper, finding that they had violated the Antimonopoly Act. This announcement followed the Commission's onsite inspection on several business operators including the Company conducted on May 26, 2015 on suspected violations of the Antimonopoly Act in relation to wallpaper transactions. In this announcement, the Commission stated that it found actual violations of the Antimonopoly Act also by the Company. However, the Company submitted a request for the application of surcharge reduction/exemption program to the Commission. As the request was accepted by the Commission, the Company did not receive any of the above orders. However, it is truly regrettable that actual violations of the Antimonopoly Act by the Company were confirmed. The Company, by taking this matter seriously and sincerely, will strive to prevent any recurrence of such violations and recover trust by strengthening and ensuring the improvement of the compliance system and education of officers and employees more than ever.

As for the quality issue arising from certain products purchased from a particular supplier, we will establish a customer service center and perform necessary repairs in coordination with said supplier on an ongoing basis at the residences, facilities, etc., of the customers at which said products were installed. The cost of such repairs is fully borne by the supplier and no loss is recorded by the Company in relation to these repairs.

## (5) Changes in Assets and Income (Loss)

(Millions of yen, except for per share amounts)

Item	62nd term Fiscal year ended March 31, 2014	63rd term Fiscal year ended March 31, 2015	64th term Fiscal year ended March 31, 2016	65th term Fiscal year ended March 31, 2017
Net sales	131,978	132,050	133,972	135,640
Ordinary income (loss)	9,475	8,506	9,463	8,368
Profit (loss) attributable to owners of parent	5,459	4,402	6,393	6,570
Net income (loss) per share	71.65	58.35	89.92	97.53
Diluted net income (loss) per share	—	—	89.81	97.40
Total assets	145,903	143,076	139,220	163,717
Net assets	119,887	118,758	108,517	108,892
Net assets per share	1,573.35	1,625.21	1,587.86	1,623.05

- Notes:
1. Net income (loss) per share is calculated using the average number of shares issued during the fiscal year (excluding treasury shares). Net assets per share is calculated using the number of shares issued as of the end of the fiscal year (excluding treasury shares).
  2. The Company conducted a share split of common shares at a ratio of two shares for every share on April 1, 2015. Net income (loss) per share and net assets per share have been calculated as through the said share split was conducted at the start of the 62nd term.
  3. Diluted net income (loss) per share is not presented for the 62nd term and 63rd term, since there were no dilutive shares.



## (6) Principal Subsidiaries

Company name	Capital	Equity ownership	Main business
		(%)	
Sungreen Co., Ltd.	¥130 million	100	Sale of exterior products
Yamada Shomei Lighting Co., Ltd.	¥243 million	100	Sale of lighting equipment
FAIRTONE COMPANY, LIMITED	¥35 million	100	Interior finishing and design and construction business
Koroseal Interior Products Holdings, Inc.	US\$136,725 thousand	100	Manufacturing and sale of wallpaper products
Sangetsu (Shanghai) Corporation	RMB13,000 thousand	100	Sale of wallpaper products
Wavelock Holdings Co., Ltd.	¥2,185 million	25.3	Manufacturing and sale of wallpaper products and synthetic fiber netting products, etc.

- Notes: 1. Wavelock Holdings Co., Ltd. is an equity-method affiliate of the Company. The company acquired its own shares during the current fiscal year. Consequently the equity ownership percentage of the Company rose from 22.2% to 25.3%.
2. As of April 26, 2016, the Company has established a local subsidiary, Sangetsu (Shanghai) Corporation and registered in Shanghai, China.
3. The Company has newly established Sangetsu USA, Inc. and U.S. company Koroseal Interior Products Holdings, Inc. became a wholly-owned subsidiary of Sangetsu USA, Inc. by acquisition of shares as of November 14, 2016.
4. FAIRTONE COMPANY, LIMITED became a wholly-owned subsidiary of the Company by acquisition of shares as of January 5, 2017.
5. On April 5, 2017, the Company established a wholly-owned subsidiary Sangetsu Vosne Corporation as a distribution company specialized in curtains.

## (7) Principal Business (As of March 31, 2017)

### 1) The Company

Headquarters	1-4-1 Habashita, Nishi-ku, Nagoya, Japan
Branches	Chubu Branch (Nagoya-shi), Tokyo Branch (Shinagawa-ku), Kita-Kanto Branch (Saitama-shi), Kansai Branch (Amagasaki-shi), Hokkaido Branch (Sapporo-shi), Tohoku Branch (Sendai-shi), Chugoku-Shikoku Branch (Okayama-ken, Tsukubo-gun), Kyushu Branch (Fukuoka-shi)
Branch offices/ Sales offices	Yokohama Branch Office, Hokuriku Branch Office, Kita-Tohoku Sales Office (Morioka-shi), Fukushima Sales Office, Higashi-Kanto Sales Office (Chiba-shi), Tama Sales Office (Tachikawa-shi), Atsugi Sales Office, Maebashi Sales Office, Utsunomiya Sales Office, Niigata Sales Office, Mito Sales Office, Nagano Sales Office, Gifu Sales Office, Okazaki Sales Office, Shizuoka Sales Office, Kyoto Sales Office, Kobe Sales Office, Higashi-Osaka Sales Office, Minami-Osaka Sales Office (Sakai-shi), Hiroshima Sales Office, Shikoku Sales Office (Takamatsu-shi), Kita-Kyushu Sales Office, Kumamoto Sales Office, Minami-Kyushu Sales Office (Kagoshima-shi), Okinawa Sales Office

### 2) Principal subsidiaries

Company name	Headquarters	Offices
Sungreen Co., Ltd.	Nagoya-shi, Aichi	Headquarters, Nagoya Branch Office and 15 other branch offices
Yamada Shomei Lighting Co., Ltd.	Chiyoda-ku, Tokyo	Headquarters, Osaka Branch and 1 other branch, and Nagoya Sales Office
FAIRTONE COMPANY, LIMITED	Suita-shi, Osaka	Headquarters, Tokyo Sales Office
Koroseal Interior Products Holdings, Inc.	U.S. (Ohio)	Headquarters
Sangetsu (Shanghai) Corporation	China (Shanghai)	Headquarters

**(8) Employees (As of March 31, 2017)**

## 1) The Group

Segment	Number of employees	Change from previous fiscal year-end
Interior Business	1,776	Increase of 580
[of which Sangetsu Corporation]	[1,190]	[Decrease of 6]
[of which FAIRTONE COMPANY, LIMITED]	[12]	[Increase of 12]
[of which Koroseal Interior Products Holdings, Inc.]	[570]	[Increase of 570]
[of which Sangetsu (Shanghai) Corporation]	[4]	[Increase of 4]
Exterior Business	156	Increase of 4
Lighting Business	119	Decrease of 7
Total	2,051	Increase of 577

## 2) The Company

Number of employees	Change from previous fiscal year-end	Average age	Average years of service
1,190	Decrease of 6	35.5 years old	14.5 years

**(9) Status of Principal Borrowings (As of March 31, 2017)**

Lender	Balance of borrowing (Millions of yen)
Syndicated loan	11,219
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	600
Mizuho Bank, Ltd.	600
Sumitomo Mitsui Trust Bank, Limited	400
Sumitomo Mitsui Banking Corporation	400

Note: The syndicated loan is joint-financing from Mizuho Bank, Ltd. as the lead manager as well as eight other banks.

## 2. Status of the Company

### (1) Status of Shares (As of March 31, 2017)

1) **Total Number of Authorized Shares** 290,000,000 shares

2) **Total Number of Issued Shares** 68,070,000 shares

Notes: 1. The total number of issued shares decreased by 1,100,000 shares (to 68,070,000 shares) due to retirement of treasury shares carried out on June 3, 2016 and September 30, 2016.

2. The Company, by a resolution of the Board of Directors on May 12, 2017, determined to retire 670,000 treasury shares with the scheduled date of May 31, 2017. Accordingly, the total number of issued shares after the retirement will be 67,400,000 shares.

3) **Number of Shareholders** 4,888 persons

### 4) Major Shareholders (Top 10)

Shareholder name	Number of shares held (shares)	Shareholding ratio (%)
Northern Trust Co. (AVFC) Re Silchester International Investors International Value Equity Trust	4,978,700	7.42
Northern Trust Co. (AVFC) Re U.S. Tax Exempted Pension Funds	3,013,900	4.49
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,618,700	3.90
Japan Trustee Services Bank, Ltd. (Trust Account)	2,204,200	3.28
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,082,700	3.10
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.07
Yuichi Hibi	2,025,154	3.02
Touzou Hibi	1,943,492	2.89
Northern Trust Co. (AVFC) Sub Account Non Treaty	1,765,100	2.63
Masae Miwa	1,710,640	2.55

Note: Treasury shares (1,032,697 shares) are deducted from calculations of the shareholding ratio.

### 5) Other important matters concerning stock

#### i. Acquisition of treasury shares

The Company, under the provisions of Article 156 of the Companies Act applied pursuant to Article 165, paragraph 3 of the said Act following the deemed replacement of terms, acquired treasury shares as follows.

Date of resolution by the Board of Directors	Period of acquisition	Number of shares acquired (shares)	Total value of acquired shares
February 4, 2016	From April 1, 2016 to April 26, 2016	638,900	¥1,274 million
July 8, 2016	From July 11, 2016 to August 30, 2016	500,000	¥939 million
February 10, 2017 (written resolution)	From February 13, 2017 to March 31, 2017	139,900	¥269 million
Total		1,278,800	¥2,483 million

Note: The class of all acquired shares is common share.

#### ii. Retirement of treasury shares

The Company, under the provisions of Article 178 of the Companies Act, retired treasury shares as follows.

Date of resolution by the Board of Directors	Date of retirement	Number of shares canceled (shares)	Total value of shares cancelled
May 16, 2016	June 3, 2016	600,000	¥1,207 million
September 9, 2016	September 30, 2016	500,000	¥982 million
Total		1,100,000	¥2,189 million

Note: The class of all retired shares is common share.

## (2) Status of Share Acquisition Right

Status of the share acquisition rights held by Directors (excluding Audit and Supervisory Committee Members, here and elsewhere in this Status of Share Acquisition Right) of the Company as compensation for the performance of their duties as of the end of the current fiscal year

	1st series share acquisition right (with consideration)		2nd series share acquisition right (without consideration)		3rd series share acquisition right (without consideration)	
Date of resolution for issue	May 12, 2015		June 18, 2015		June 23, 2016	
Number of share acquisition rights	8,197 units		296 units		267 units	
Class of shares to be issued upon exercise of the share acquisition rights	Common shares		Common shares		Common shares	
Amount to be paid for the share acquisition rights	¥400 per share acquisition right		¥177,900 per share acquisition right (Note 2)		¥180,200 per share acquisition right (Note 2)	
Amount of property contributed upon exercise of the share acquisition rights	¥1,839 per share		¥1 per share		¥1 per share	
Exercise period	From July 1, 2017 to June 16, 2020		From July 13, 2015 to July 12, 2045		From July 11, 2016 to July 10, 2046	
Terms and conditions for exercising share acquisition rights	(Note 1)		(Note 3)		(Note 3)	
Ownership status by the Directors	Number of Directors holding the share acquisition rights	5 persons	Number of Directors holding the share acquisition rights	4 persons	Number of Directors holding the share acquisition rights	5 persons
	Number of share acquisition rights	490 units	Number of share acquisition rights	201 units	Number of share acquisition rights	217 units
	Number of shares to be issued upon exercise	49,000 shares	Number of shares to be issued upon exercise	20,100 shares	Number of shares to be issued upon exercise	21,700 shares

Notes: 1. Terms and conditions for exercising share acquisition rights (1st series share acquisition right):

- (1) When the earnings target of ¥ 6,300 million or more of net income in the consolidated statement of income for the fiscal year ended March 31, 2017, in the annual securities report filed for the said fiscal year pursuant to the Financial Instruments and Exchange Act, (“Earnings Target”) is achieved, the share acquisition rights holders may exercise the rights. In cases where adjustments to the Earnings Target become necessary as a result of circumstances changing in accounting policies, etc., the Company may revise the Target to the extent reasonable.
- (2) The share acquisition rights holders must be in a position of Director or employee of the Company or its subsidiary as of March 31, 2017. However, that this shall not apply in the case where the holder retires due to the expiration of his/her term of board membership, mandatory retirement or for another good reason that deemed as justifiable by the Board of Directors.
- (3) The inheritor of the share acquisition rights holders may not exercise the share acquisition rights.
- (4) The share acquisition right may not be exercised when the exercise would result in the total number of issued shares of the Company exceeding the number of the authorized shares at the time of exercise.
2. Monetary remuneration in the amount equivalent to the total amount payable for the share acquisition rights shall be paid to the officers to whom the share acquisition rights are allotted, and this monetary remuneration shall be offset against the total amount payable for the allocated share acquisition rights.
3. Terms and conditions for exercising share acquisition rights (2nd series share acquisition right, 3rd series share acquisition right):

- (1) A share acquisition right holder may exercise the share acquisition rights on a lump-sum basis only between the 10th day (or the immediately preceding business day if the 10th day is a holiday) and the day following the day he/she loses his/her position as a Director of the Company during the exercise period of share acquisition rights.
- (2) Regardless of the condition set forth in (1) above, in the event that a general meeting of shareholders (if

an approval of the general meeting of shareholders is not required, then in the event that the Board of Directors) approves a resolution for approval of a merger agreement in which the Company is the dissolved company or a resolution for approval of a share exchange agreement or a share transfer plan resulting in the Company becoming a wholly owned subsidiary of another company, then the share acquisition right holder may exercise the share acquisition rights only within thirty days from the day following the day on which the resolution was approved.

- (3) If a share acquisition right holder passes away, his/her inheritor may exercise such rights.
- (4) The share acquisition right may not be exercised when the exercise would result in the total number of issued shares of the Company exceeding the number of the authorized shares at the time of exercise.
- (5) Fraction less than one unit of a share acquisition right may not be exercised.

### (3) Company Officers

#### 1) Directors (As of March 31, 2017)

Position	Name	Areas of responsibility within the Company and significant concurrent positions
Representative Director, President and CEO	Shousuke Yasuda	General Manager of the Interior Division
Director, Managing Executive Officer	Shuji Sasaki	General Manager of the Sales Division
Director, Executive Officer	Wataru Shimizu	General Manager of the Logistics Division & Logistics Department
Director, Executive Officer	Yasutomo Yoshikawa	General Manager of Tokyo Branch
Director, Executive Officer	Kenji Ito	In charge of General Affairs and Human Resources, and General Manager of the Management Audit Department
Director (Audit and Supervisory Committee Member)	Kunihiro Nasu	Attorney
Director (Audit and Supervisory Committee Member)	Tamotsu Kokado	Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. Outside Audit & Supervisory Board Member of Toho Gas Co., Ltd. Outside Director of AT-Group Co., Ltd. Outside Director of CHUKYO TV. BROADCASTING CO., LTD.
Director (Audit and Supervisory Committee Member)	Masatoshi Hatori	Advisor of KANEKA CORPORATION
Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Outside Auditor of Metropolitan Expressway Company Limited Outside Audit & Supervisory Board Member of Toho Gas Co., Ltd. Outside Director of Aisin Seiki Co., Ltd.
Director (Full-time Audit and Supervisory Committee Member)	Takashi Tajima	

- Notes:
1. Directors serving as Audit and Supervisory Committee Members Mr. Kunihiro Nasu, Mr. Tamotsu Kokado, Mr. Masatoshi Hatori and Ms. Michiyo Hamada are Outside Directors.
  2. Outside Directors have been elected from among experts in diverse areas, such as business, legal, accounting, and public administration to ensure diversity in the Board of Directors as a whole.
  3. The Company has designated Audit and Supervisory Committee Members Messrs. Kunihiro Nasu, Tamotsu Kokado, Masatoshi Hatori, and Ms. Michiyo Hamada Independent Officers as stipulated by Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE), and filed the relevant notification with the TSE and NSE.
  4. The Company elected Mr. Takashi Tajima as a full-time Audit and Supervisory Committee Member from among five Audit and Supervisory Committee Members. The reason for election of the full-time Audit and Supervisory Committee Member is to enhance the effectiveness of the deliberation and activities at the Audit and Supervisory Committee, by means of collecting information on a daily basis, receiving regular operational reports from executive departments and share information from persons who conduct site visits as their duties among all Audit and Supervisory Committee Members.
  5. The Company has concluded an agreement with each of five Audit and Supervisory Committee members as per Article 427, paragraph 1 of the Companies Act, limiting their liability for compensation for damage under Article 423, paragraph 1 of the Companies Act. These agreements limit the amount of their liability for compensation for damage to the minimum legally stipulated amounts.
  6. The Company has introduced the Executive Officer System since April 1, 2016 in accordance with a resolution by the Board of Directors on February 4, 2016.

[Reference] On April 1, 2017, the following changes were made in the position of Directors (excluding Audit and Supervisory Committee Members) and Executive Officers.

Name	After	Before
Shousuke Yasuda	Representative Director, President and CEO, and General Manager of the Interior Division	Representative Director, President and CEO, and General Manager of the Interior Division
Shuji Sasaki	Director, Managing Executive Officer and General Manager of the Sales Division	Director, Managing Executive Officer and General Manager of the Sales Division
Wataru Shimizu	Director	Director, Executive Officer and General Manager of the Logistics Division & Logistics Department
Yasutomo Yoshikawa	Director, Executive Officer, and Deputy General Manager of the Sales Division and General Manager of Tokyo Branch	Director, Executive Officer and General Manager of Tokyo Branch
Kenji Ito	Director, Executive Officer in charge of Management Audit, General Affairs, Human Resources and Information System and General Manager of the President's Office	Director, Executive Officer in charge of General Affairs and Human Resources and General Manager of the Management Audit Department
Yoshiaki Kaneko	Executive Officer and General Manager of the Logistics Division and Deputy General Manager of the Interior Division	Executive Officer and General Manager of the Wall Coverings Division
Yosuke Mine	Executive Officer and Deputy General Manager of the Logistics Division and General Manager of the Logistics Department	Executive Officer and General Manager of Chugoku-Shikoku Branch
Taro Shibagaki	Executive Officer and General Manager of the Corporate Sales Department	General Manager of the Corporate Sales Department

## 2) Amount of Remuneration, etc. to Directors in FY 2016

Title	Number of payees (Persons)	Amount of remuneration (Millions of yen)
Directors (excluding Audit and Supervisory Committee Members)	7	177
Directors (Audit and Supervisory Committee Members)	5	52
(Of which, Outside Directors)	(4)	(33)
Total	12	230
(Of which, Outside Directors)	(4)	(33)

- Notes: 1. Included in the above are the amounts paid to two Directors who retired as of the end of the 64th General Meeting of Shareholders held on June 23, 2016.
2. Above amount of remuneration does not include amount equivalent to salaries of those who are also company employees.
3. Maximum total amount of remuneration for Directors (excluding Audit and Supervisory Committee Members) is set at ¥400 million or below per year at the 63rd Ordinary General Meeting of Shareholders held on June 18, 2015. In addition to this, the amount of remuneration to be granted as stock option is set ¥120 million or below per year at the said General Meeting of Shareholders. The Audit & Supervisory Committee, through a process of deliberation on the remuneration, etc. for Directors other than Audit and Supervisory Committee Members at the Nomination and Remuneration Advisory Committee, at which all Audit & Supervisory Committee Members participate, has given careful consideration to the viewpoints of whether remuneration, etc. for Representative Director, President and CEO, and other Executive Directors is appropriate for their positions, responsibilities and achievements in terms of the amount, and serves as proper incentive for the corporate value

enhancement. As a result, the Audit and Supervisory Committee judged that the contents of remuneration, etc. are appropriate.

4. Maximum total amount of Audit and Supervisory Committee Members' remuneration is set at ¥80 million or below per year and shall be comprised of only a fixed base remuneration that does not fluctuate with performance as determined at the 63rd Ordinary General Meeting of Shareholders held on June 18, 2015. It is considered appropriate for Directors who are members of the Audit and Supervisory Committee.
5. The amount of remuneration, etc., shown above includes the following amounts that were posted as expenses for the current fiscal year of share acquisition rights allotted as stock options.
  - Five Directors (excluding Audit and Supervisory Committee Members); ¥39 million

### 3) Outside Officers

- i) Significant concurrent positions as executives of other organizations and the Company's relation thereto  
No items to report
- ii) Significant concurrent positions as outside officers of other organizations and the Company's relation thereto

Title	Name	Significant concurrent positions	Relationship with the Company
Outside Director (Audit and Supervisory Committee Member)	Tamotsu Kokado	Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd.	Although The Bank of Tokyo-Mitsubishi UFJ, Ltd. holds shares of the Company and engages in banking transactions with the Company, there are no special interests between the two entities, as the Bank is not major shareholder of the Company.
		Outside Audit & Supervisory Board Member of Toho Gas Co., Ltd.	There are no special interests between Toho Gas Co., Ltd. and the Company.
		Outside Director of AT-Group Co., Ltd.	There are no special interests between AT-Group Co., Ltd. and the Company.
		Outside Director of CHUKYO TV. BROADCASTING CO., LTD.	There are no special interests between CHUKYO TV. BROADCASTING CO., LTD. and the Company.
Outside Director (Audit and Supervisory Committee Member)	Masatoshi Hatori	Advisor of KANEKA CORPORATION	There are no special interests between KANEKA CORPORATION and the Company.
Outside Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Outside Auditor of the Metropolitan Expressway Company Limited	There are no special interests between Metropolitan Expressway Company Limited and the Company.
		Outside Audit & Supervisory Board Member of Toho Gas Co., Ltd.	There are no special interests between Toho Gas Co., Ltd. and the Company.
		Outside Director of Aisin Seiki Co., Ltd.	There are no special interests between Aisin Seiki Co., Ltd. and the Company.

iii) Kinship with the Company or specified affiliated business operator of the Company

No items to report

iv) Main activities

Title	Name	Main activities
Outside Director (Audit and Supervisory Committee Member)	Kunihiro Nasu	Participated in all 14 Board of Directors' meetings and in all 12 Audit & Supervisory Committee meetings held in FY 2016; provided expert opinions, mainly as an experienced attorney, as necessary.
Outside Director (Audit and Supervisory Committee Member)	Tamotsu Kokado	Participated in 13 of the 14 Board of Directors' meetings and in all 12 Audit & Supervisory Committee meetings held in FY 2016; provided opinions, mainly as an experienced corporate manager at a city bank, as necessary.
Outside Director (Audit and Supervisory Committee Member)	Masatoshi Hatori	Participated in all 14 Board of Directors' meetings, in all 12 Audit and Supervisory Committee meetings held in FY 2016; provided opinions, mainly as an experienced corporate manager, as necessary.
Outside Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Participated in all 14 Board of Directors' meetings, in all 12 Audit and Supervisory Committee meetings held in FY 2016; provided expert opinions, mainly as a jurist who specializes in Companies Act and a former Commissioner of Japan Fair Trade Commission, as necessary.

Note: In addition to the above, there was one written resolution that is recognized as a resolution by the Board of Directors.

#### (4) Accounting Auditor

##### 1) Accounting Auditor's Name

PricewaterhouseCoopers Aarata LLC

Note: Deloitte Touche Tohmatsu LLC, the former Accounting Auditor of the Company, has retired as of the closing of the 64th Ordinary General Meeting of Shareholders held on June 23, 2016.

##### 2) Accounting Auditor's Compensation, etc.

	Amount payable (Millions of yen)
Amount of Accounting Auditor's Compensation, etc. payable by the Company for the current fiscal year	48
Total amount of cash and other property benefits payable by the Company and its subsidiaries to Accounting Auditor	50

Note: The audit contract between the Company and Accounting Auditor does not distinguish between compensation, etc. paid for the audit conducted in accordance with the Companies Act and compensation, etc. paid for the audit conducted in accordance with the Financial Instruments and Exchange Act. It is practically impossible to make such a distinction. Accordingly, the amount specified above is the aggregate amount of compensation, etc. for these two types of audits.

##### 3) Reason for Audit and Supervisory Committee Consenting to Compensation, etc. of Accounting Auditor

The Audit and Supervisory Committee has received explanations from the Accounting Auditor. Then the Committee has made the requisite investigation into the appropriateness of the Accounting Auditor's details of audit plans for the current fiscal year, including the number of days of and personnel allotment for auditing, the validation and evaluation of audit result for the previous fiscal year, the appropriateness of audit execution by the Accounting Auditor, and the calculation basis for their estimated compensation. As a result of these deliberations, it has concluded that these are appropriate and it consented to the amount of the compensation, etc. of the Accounting Auditor.

##### 4) Policy Regarding Determination or Nonrenewal of Appointment of Accounting Auditors

When it is deemed that the Accounting Auditor falls into the categories stipulated under each item of Article 340, paragraph 1 of the Companies Act, the Accounting Auditor will be dismissed based on the unanimous agreement of the Audit and Supervisory Committee Members. In this event, the Audit and Supervisory Committee Member appointed by the Audit and Supervisory Committee shall report the fact of the dismissal of the Accounting Auditor and the reasons for it to the first Ordinary General Meeting of Shareholders to be convened following the dismissal. With regard to the continuation of the audit by the Accounting Auditor, the Audit and Supervisory Committee determines the appropriateness of the audit by the Accounting Auditor every fiscal year in accordance with the given evaluation criteria, and the maximum term of office of the Accounting



Auditor is set as ten years in principle, as the Committee's policy. Based on these internal rules, the Audit and Supervisory Committee determines proposals related to the nonrenewal of appointment and submit it to the Ordinary General Meeting of Shareholders as necessary.

**(5) System to Ensure the Propriety of the Business Operations and Operational Status of the System**

**1) Decisions and Resolutions related to System to Ensure the Propriety of the Business Operations**

The "System to Ensure the Propriety of the Business Operations (Basic Policy on the Company's System for Internal Control)" of the Company was established at the meeting of the Board of Directors held on May 11, 2006 and has been revised four times since then in response to, among others, changes in the Ordinance for Enforcement of the Companies Act and the shift to a company with an Audit and Supervisory Committee.

Date of Board of Directors held	Outline of contents of resolutions
April 1, 2015	In accordance with the revised Ordinance for Enforcement of the Companies Act, revisions related to 1. System to Ensure the Propriety of the Business Operations of the Sangetsu Group and 2. Systems to Assist Audits and other items have been made.
July 10, 2015	In line with the transition to a company with an Audit and Supervisory Committee, revisions have been made in accordance with the Companies Act and Ordinance for Enforcement of the Companies Act.
March 11, 2016	Prior to the adoption of an executive officer system, the addition of the objective of adoption of the system and other necessary revisions have been made.
April 14, 2017	In conjunction with the introduction of a department-in-charge system by the Company for the management of its subsidiaries, necessary changes were made.

The latest version of "Basic Policy on the Company's System for Internal Control," is as follows: (Latest changes are underlined.)

<p><b>I System to Ensure the Propriety of the Business Operations</b></p> <p><b>1. System to ensure that Directors, Executive Officers and employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation of the Company</b></p> <p>(1) The Company shall establish the Sangetsu Group Corporate Charter and Compliance Code of Conduct as a code of conduct to ensure conduct of Directors, Executive Officers and employees is in compliance with laws and regulations, the Articles of Incorporation and societal norms, and develop and consolidate regulations relating to compliance.</p> <p>(2) The Company shall establish a compliance committee, for which the President has ultimate responsibility, as a body to deliberate significant matters relating to the promotion of compliance.</p> <p>(3) The Company shall nominate a Director and Executive Officer to be in charge of compliance in order to supervise compliance activities on a cross-Group basis.</p> <p>(4) Head of each department shall be responsible for maintaining and improving the system for the promotion of compliance with laws and regulations, and internal rules in the relevant department. Furthermore, compliance leaders who promote compliance activities shall be appointed in each branch and department.</p> <p>(5) The Audit Office, set up in the Management Audit Department shall conduct internal audit on the propriety of operation.</p> <p>(6) The Internal Control Section, set up in the Management Audit Department, shall work to promote and enhance internal control in order to secure propriety and reliability in financial reporting.</p> <p>(7) The Company shall establish a helpline, where employees and others may report compliance problems, and designate a contact within the company and an external law office to be in charge of such matters. Furthermore, the Company shall prohibit any adverse treatment based on the fact that such a report has been made by the person.</p>
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2. System to store and control information related to execution of duties by Directors and Executive Officers
  - (1) The Company shall record information related to the execution of duties by Directors and Executive Officers in documents or by electronic media, and retain and manage this information in accordance with its rules on the retention of documentary records.
  - (2) The aforementioned documents and other materials related to the execution of duties by Directors and Executive Officers shall be kept available for inspection and copying at the request of the Audit and Supervisory Committee Members designated by the Audit and Supervisory Committee.
3. Rules and other systems for managing risk of loss
  - (1) The Company shall establish Risk Management Rules, etc. with the aim of management of and response to various risks surrounding the Company.
  - (2) The Company shall establish a risk management committee, for which the President has ultimate responsibility, as a body to oversee the Group-wide risk management.
  - (3) The Company shall nominate a Director and Executive Officer to be in charge of risk in order to supervise risk management activities of all Group companies.
  - (4) The Company shall establish risk management subcommittees in response to various risks, and appoint persons in charge for each subcommittee. Each risk management subcommittee shall deliberate issues on and countermeasures against risk in charge, and responds to them responsibly.
4. System to ensure that Directors and Executive Officers execute their duties efficiently
  - (1) With the aim of the agile business operations and clarification of operating responsibilities by separating decision-making and supervisory functions in the management from executive functions, the Company shall adopt an executive officer system.
  - (2) The Company shall hold regular meetings of the Board of Directors once a month in principle, and matters such as deliberations and decisions on important items related to the management policies and strategies shall be handled at these meetings.
  - (3) The Board of Directors may, in accordance with the Articles of Incorporation and Board of Directors regulations, delegate all or part of decisions on important business execution issues to Representative Director. The important business execution issues delegated to Directors shall be deliberated at the Management Meeting, comprised of Executive Directors, Executive Officers and others.
  - (4) Executive Directors and Executive Officers shall take charge of and execute their duties in accordance with the Rules on Division of Duties and Rules on Authority regarding Duties.
  - (5) The Company shall formulate the management plan from a medium- to long-term perspective regularly. In order to realize the management plan, budgets with companywide goals for each fiscal year shall be set and each department shall execute detailed plan aimed at the goals.
  - (6) The Group-wide meeting, comprised of Executive Directors and Executive Officers as well as heads of departments, shall be convened regularly to share information on the implementation of the management plan and monitor its progress.

5. System relating to the Sangetsu Group comprising the Company and its subsidiaries
    - (1) System concerning the reporting of matters to the Company related to the execution of duties performed by Directors of subsidiaries  
 Subsidiary and Affiliates Management Regulations and Standards for Matters at Subsidiaries and Affiliates Requiring Approval and Reporting shall be established, and a system shall be put in place for reporting to the Company of the diverse matters occurring at subsidiaries. The Company shall introduce a department-in-charge system for the management of its subsidiaries.
    - (2) Rules and other systems for managing risk of loss at subsidiaries  
 Risk Management Regulations, Business Investment Risk Management Regulations, Subsidiary and Affiliates Management Regulations and Standards for Matters at Subsidiaries and Affiliates Requiring Approval and Reporting and other rules shall be established, and a system shall be put in place for the Company to manage the diverse risks, including the occurrence of loss, at subsidiaries.  
 In addition, monthly reports shall be made to the Company's Board of Directors in order to manage the various risks. Furthermore, regulations handling risks shall be put in place by subsidiaries themselves, thereby adding to the system for risk management.
    - (3) System to ensure that subsidiary Directors execute their duties efficiently  
 Subsidiary and Affiliates Management Regulations and Standards for Matters at Subsidiaries and Affiliates Requiring Approval and Reporting shall be established, and a system shall be put in place to ensure that subsidiary Directors are able to execute their duties efficiently. In addition, rules on the division of duties shall be put in place by subsidiaries themselves for the distribution of work responsibilities in order to allow the efficient execution of duties.
    - (4) System to ensure that subsidiary Directors and employees execute their duties in compliance with relevant laws and regulations and the Articles of Incorporation of the Company  
 The Company shall establish the Sangetsu Group Corporate Charter and Compliance Code of Conduct in order to maintain and improve the overall compliance framework of the Group. In addition, the Company shall establish a helpline with a designated external law office available also for employees at subsidiaries to contact with reports.
- II Systems to Assist Execution of Duties by the Audit and Supervisory Committee
1. Matters relating to employees who assist in the duties of the Audit and Supervisory Committee
    - (1) In order to assist the Audit and Supervisory Committee, the Company shall establish the Audit and Supervisory Committee Department with employees who serve dedicated and concurrently with their other posts.
    - (2) Assignments, transfers and evaluations for employees belonging to the Audit and Supervisory Committee Department require the consent of Audit and Supervisory Committee to ensure the independence from Executive Directors.
    - (3) Employees belonging to the Audit and Supervisory Committee Department assist in the duties of Audit and Supervisory Committee under the direction of Audit and Supervisory Committee.
    - (4) Employees belonging to the Audit and Supervisory Committee Department shall not be subject to instructions and orders from Executive Directors and Executive Officers concerning the duties to assist Audit and Supervisory Committee. Employees belonging to the Audit and Supervisory Committee Department who serve concurrently with other posts shall carry out the instructions given by Audit and Supervisory Committee Members as top priority.

2. Systems relating to the reporting to the Audit and Supervisory Committee
  - (1) Audit and Supervisory Committee Members shall receive reports regularly from Executive Directors on the status of execution of duties in charge at the Board of Directors. In addition, Audit and Supervisory Committee Members shall receive monthly reports on the status of the Boards of Directors of subsidiaries from Directors and Auditors dispatched to the Company's subsidiaries.
  - (2) President shall consult with Nomination and Remuneration Advisory Committee, comprised of all Audit and Supervisory Committee Members, on the appointment, dismissal or resignation, as well as remuneration of Executive Directors and Executive Officers, as appropriate.
  - (3) Executive Directors and Executive Officers shall, in the event of situations that may cause significant damage to the Company, swiftly report such matters to Audit and Supervisory Committee personally or through the heads of relevant departments.
  - (4) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall attend important meetings, examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from Executive Directors, Executive Officers or employees.
  - (5) Audit and Supervisory Committee Members designated by Audit and Supervisory Committee shall visit subsidiaries, and examine records, minutes, or other documents related to the execution of business, and request as necessary explanations from subsidiary Directors or employees.
  - (6) Officers and employees of the Group may report compliance problems directly to Audit and Supervisory Committee or its members without using the Company's helpline. In such case, the Company prohibits any adverse treatment based on the fact that such a report has been made by the person.
3. Items concerning policies for handling of expenses and debts arising from the execution of duties by the Audit and Supervisory Committee
  - (1) All expenses necessary for the duties of Audit and Supervisory Committee shall be recorded in an independent budget every fiscal period and processed promptly based on expense payment standards.
  - (2) Audit and Supervisory Committee, on its own initiative, may use external experts, etc., where necessary, and the Company shall then bear those expenses.
4. Other Systems to ensure that Audit and Supervisory Committee execute their audits effectively
  - (1) With the aim of effective audit execution, Audit and Supervisory Committee shall cooperate with the internal audit department and internal control department.
  - (2) Audit and Supervisory Committee shall formulate the policy and plan for audit annually and report them to the Board of Directors.
  - (3) In order to enhance auditing effectiveness, Audit and Supervisory Committee shall receive reports on the status of responses to issues identified in the audits at the Board of Directors meetings or on other occasions, and give feedback to them.
  - (4) Audit and Supervisory Committee shall exchange information regularly on matters including audits with President and Accounting Auditor.

## 2) Outline of Operational status of System to Ensure the Propriety of the Business Operations

- i) Operational status of compliance system
  - The Compliance Committee has been held four times in the current fiscal year, where they formulated the compliance program for the year and promoted initiatives such as checking its progress, instruction for its revisions and, other compliance activities.
  - The Company reviewed the Compliance Code of Conduct from the perspective of CSR promotion and revised it accordingly. (Respect of human rights, prohibition of discrimination)
  - The Company has prepared and distributed to all employees the “Corporate Philosophy Handbook” containing the Corporate Philosophy, the Sangetsu Group Corporate Charter and Compliance Code of Conduct, and the Sangetsu Brand Concept. The Company held study meetings at all departments and divisions using the Corporate Philosophy Handbook in October 2016, the month designated as the Business Ethics Promotion Month.
  - In response to the revision of the guidelines for private-sector business operators concerning the introduction and operation of whistleblower programs based on the Whistleblower Protection Act published by the Consumer Affairs Agency, the Company reviewed its helpline program and revised the compliance reporting regulations and took measures to improve the operation of the program.
  - Following the announcement of dispositions by the Japan Fair Trade Commission against the wallpaper price-rigging cartel case on March 13, 2017, the Company conducted antimonopoly act compliance training at all branches, offices, and subsidiaries.
- ii) Operational status of risk management system
  - The Company has established seven subcommittees (sales and credit risk, logistics risk, product development risk, inventory and purchase risk, labor management risk, disaster and other risk, and information security risk) under the Risk Management Committee.
  - The Risk Management Committee has been held four times in the current fiscal year, where they examined countermeasures against the potential risks discussed at each subcommittee.
  - The risk management system is operated aiming to achieve the status in which the control levels of each risk are identified and effectively managed.
  - The Company has established the Risk Management Policy concerning Changes in Exchange Rates, Stock Prices, and Interest Rates and the Business Investment Risk Management Regulations (effective April 1, 2017).
- iii) Operational status of system for effective business execution
  - The Company introduced an executive officer system effective April 1, 2016 to speed up business execution and clarify executive responsibilities, and the Management Meeting, which consists of Executive Officers, has been held 11 times in the current fiscal year.
  - The regular meeting of the Board of Directors has been held 12 times and the extraordinary meetings of the Board of Directors has been held three times (including one written resolution) in the current fiscal year.
  - The Board of Directors delegated the following matters of the important business execution issues to Representative Director in the current fiscal year:
    - 1) Establishment, change and abolition of branches and other significant organizations
    - 2) Decision on the basic policy related to employee hiring, salaries and bonuses
    - 3) Approval of the draft for annual budgets
  - In the third year in “Mid-term Business Plan: Next Stage Plan G,” the Company formulated the annual budget, company policy and operation plan, and reviewed the progress of operation quarterly.
  - The Company has started to develop a new Mid-term Business Plan (2017-2019).
- iv) Operational status of the Group
  - In the past, the President’s Office was responsible for the management of subsidiaries and affiliates. In conjunction with the development of the Business Investment Risk Management Regulations and the revision of the Subsidiaries and Affiliates Management Regulations, the Company has introduced a department-in-charge system effective April 1, 2017. Under this system, for each subsidiary and affiliate, the department in charge of its management has been designated to strengthen the consolidated management of the Sangetsu Group.

- v) Operational status of Audit and Supervisory Committee
  - The Audit and Supervisory Committee meeting has been held 12 times in the current fiscal year.
  - The Nomination and Remuneration Advisory Committee, which was established in the previous fiscal year, has advised on the election/re-election of Executive Directors, the election of Executive Officers and their remuneration.

**(6) Basic Policy on Control of the Company**

There are no items to report.

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Note: Monetary amounts and numbers of shares provided in this business report are presented with fractional units discarded.

## Consolidated Financial Statements

(April 1, 2016 - March 31, 2017)

### Consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

Item	65th term As of March 31, 2017	(Reference) 64th term As of March 31, 2016	Item	65th term As of March 31, 2017	(Reference) 64th term As of March 31, 2016
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current assets</b>	<b>96,200</b>	<b>88,825</b>	<b>Current liabilities</b>	<b>32,578</b>	<b>22,716</b>
Cash and deposits	25,945	29,802	Notes and accounts payable - trade	14,741	12,200
Notes and accounts receivable - trade	40,186	38,461	Electronically recorded obligations - operating	8,169	3,769
Electronically recorded monetary claims - operating	8,305	7,113	Short-term loans payable	489	—
Securities	1,800	300	Current portion of long-term loans payable	500	—
Merchandise and finished goods	13,797	10,165	Lease obligations	157	1
Work in process	232	146	Income taxes payable	1,882	1,794
Raw materials and supplies	3,417	1,403	Provision for bonuses	1,385	1,450
Deferred tax assets	1,288	811	Asset retirement obligations	267	222
Other	1,525	862	Other	4,983	3,277
Allowance for doubtful accounts	(300)	(239)	<b>Non-current liabilities</b>	<b>22,247</b>	<b>7,986</b>
<b>Non-current assets</b>	<b>67,517</b>	<b>50,395</b>	Long-term loans payable	12,719	—
<b>Property, plant and equipment</b>	<b>35,103</b>	<b>31,003</b>	Lease obligations	215	2
Buildings and structures	11,746	8,896	Provision for directors' retirement benefits	98	94
Machinery, equipment and vehicles	1,923	907	Net defined benefit liability	7,683	6,816
Land	19,494	19,354	Asset retirement obligations	410	447
Leased assets	415	4	Long-term accounts payable - other	256	0
Construction in progress	235	1,052	Other	864	625
Other	1,288	788	<b>Total liabilities</b>	<b>54,825</b>	<b>30,702</b>
<b>Intangible assets</b>	<b>13,484</b>	<b>1,295</b>	<b>NET ASSETS</b>		
Software	2,472	1,277	<b>Shareholders' equity</b>	<b>108,775</b>	<b>108,058</b>
Goodwill	10,929	—	<b>Capital stock</b>	<b>13,616</b>	<b>13,616</b>
Leased assets	10	—	<b>Capital surplus</b>	<b>20,005</b>	<b>20,005</b>
Other	73	67	<b>Retained earnings</b>	<b>77,177</b>	<b>76,185</b>
<b>Investments and other assets</b>	<b>18,928</b>	<b>18,095</b>	<b>Treasury shares</b>	<b>(2,023)</b>	<b>(1,748)</b>
Investment securities	11,583	12,489	<b>Accumulated other comprehensive income</b>	<b>29</b>	<b>402</b>
Long-term loans receivable	0	0	<b>Valuation difference on available-for-sale securities</b>	<b>2,000</b>	<b>2,909</b>
Deferred tax assets	2,562	1,180	<b>Deferred gains or losses on hedges</b>	<b>30</b>	<b>—</b>
Other	4,973	4,696	<b>Foreign currency translation adjustment</b>	<b>(256)</b>	<b>(237)</b>
Allowance for doubtful accounts	(190)	(271)	<b>Remeasurements of defined benefit plans</b>	<b>(1,745)</b>	<b>(2,268)</b>
<b>Total assets</b>	<b>163,717</b>	<b>139,220</b>	<b>Subscription rights to shares</b>	<b>87</b>	<b>55</b>
			<b>Total net assets</b>	<b>108,892</b>	<b>108,517</b>
			<b>Total liabilities and net assets</b>	<b>163,717</b>	<b>139,220</b>

**Consolidated Statement of Income**  
(April 1, 2016 - March 31, 2017)

Item	(Millions of yen)	
	65th term (April 1, 2016 - March 31, 2017)	(Reference) 64th term (April 1, 2015 - March 31, 2016)
<b>Net sales</b>	<b>135,640</b>	<b>133,972</b>
<b>Cost of sales</b>	<b>95,535</b>	<b>94,445</b>
<b>Gross profit</b>	<b>40,104</b>	<b>39,527</b>
Selling, general and administrative expenses	32,532	30,415
<b>Operating income</b>	<b>7,572</b>	<b>9,112</b>
<b>Non-operating income</b>	<b>872</b>	<b>454</b>
Interest and dividend income	206	151
Insurance income	23	15
Share of profit of entities accounted for using equity method	321	—
Other	320	287
<b>Non-operating expenses</b>	<b>77</b>	<b>103</b>
Interest expenses	28	0
Commission for purchase of treasury shares	10	35
Financing expenses	21	—
Share of loss of entities accounted for using equity method	—	45
Other	17	21
<b>Ordinary income</b>	<b>8,368</b>	<b>9,463</b>
<b>Extraordinary income</b>	<b>979</b>	<b>21</b>
Gain on sales of non-current assets	7	11
Gain on sales of investment securities	863	7
Gain on abolishment of retirement benefit plan	108	—
Other	0	2
<b>Extraordinary losses</b>	<b>112</b>	<b>135</b>
Loss on sales and retirement of non-current assets	30	125
Impairment loss	—	3
Loss on rental contracts	67	—
Other	14	7
<b>Income before income taxes</b>	<b>9,234</b>	<b>9,349</b>
Income taxes - current	2,984	2,974
Income taxes - deferred	(321)	(18)
<b>Net income</b>	<b>6,570</b>	<b>6,393</b>
<b>Profit attributable to owners of parent</b>	<b>6,570</b>	<b>6,393</b>



## Consolidated Statement of Changes in Equity

(April 1, 2016 - March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	13,616	20,005	76,185	(1,748)	108,058
Changes of items during period					
Dividends of surplus			(3,387)		(3,387)
Profit attributable to owners of parent			6,570		6,570
Purchase of treasury shares				(2,484)	(2,484)
Retirement of treasury shares			(2,189)	2,189	—
Exercise of subscription rights to shares			(2)	19	16
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	991	(275)	716
Balance at end of current period	13,616	20,005	77,177	(2,023)	108,775

	Accumulated other comprehensive income					Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	2,909	—	(237)	(2,268)	402	55	108,517
Changes of items during period							
Dividends of surplus							(3,387)
Profit attributable to owners of parent							6,570
Purchase of treasury shares							(2,484)
Retirement of treasury shares							—
Exercise of subscription rights to shares							16
Net changes of items other than shareholders' equity	(908)	30	(18)	522	(373)	31	(341)
Total changes of items during period	(908)	30	(18)	522	(373)	31	374
Balance at end of current period	2,000	30	(256)	(1,745)	29	87	108,892

**(Reference) Consolidated Statement of Changes in Equity**  
(April 1, 2015 - March 31, 2016)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	13,616	20,005	83,033	(1,587)	115,067
Changes of items during period					
Dividends of surplus			(3,256)		(3,256)
Profit attributable to owners of parent			6,393		6,393
Purchase of treasury shares				(10,144)	(10,144)
Retirement of treasury shares			(9,984)	9,984	—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	(6,847)	(160)	(7,008)
Balance at end of current period	13,616	20,005	76,185	(1,748)	108,058

	Accumulated other comprehensive income				Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	4,060	—	(368)	3,691	—	118,758
Changes of items during period						
Dividends of surplus						(3,256)
Profit attributable to owners of parent						6,393
Purchase of treasury shares						(10,144)
Retirement of treasury shares						—
Net changes of items other than shareholders' equity	(1,150)	(237)	(1,899)	(3,288)	55	(3,232)
Total changes of items during period	(1,150)	(237)	(1,899)	(3,288)	55	(10,240)
Balance at end of current period	2,909	(237)	(2,268)	402	55	108,517

## **Non-consolidated Financial Statements**

(April 1, 2016 - March 31, 2017)

### **Non-consolidated Balance Sheet**

(As of March 31, 2017)

(Millions of yen)

Item	65th term As of March 31, 2017	(Reference) 64th term As of March 31, 2016	Item	65th term As of March 31, 2017	(Reference) 64th term As of March 31, 2016
<b>ASSETS</b>			<b>LIABILITIES</b>		
<b>Current assets</b>	<b>82,536</b>	<b>82,210</b>	<b>Current liabilities</b>	<b>24,019</b>	<b>18,254</b>
Cash and deposits	23,476	27,961	Electronically recorded obligations - operating	6,947	2,536
Notes receivable - trade	17,224	18,232	Accounts payable - trade	10,147	9,363
Electronically recorded monetary claims - operating	8,171	7,081	Current portion of long-term loans payable	500	—
Accounts receivable - trade	16,530	16,015	Lease obligations	28	0
Securities	1,800	300	Accounts payable - other	2,359	1,831
Merchandise and finished goods	11,086	9,743	Income taxes payable	1,739	1,708
Work in process	107	133	Provision for bonuses	1,278	1,354
Raw materials and supplies	2,123	1,362	Asset retirement obligations	267	222
Advance payments - trade	80	252	Other	751	1,237
Deferred tax assets	957	775	<b>Non-current liabilities</b>	<b>17,606</b>	<b>4,431</b>
Other	1,239	572	Long-term loans payable	12,719	—
Allowance for doubtful accounts	(261)	(221)	Lease obligations	105	—
<b>Non-current assets</b>	<b>68,741</b>	<b>50,884</b>	Provision for retirement benefits	3,263	3,371
<b>Property, plant and equipment</b>	<b>31,743</b>	<b>29,436</b>	Asset retirement obligations	410	447
Buildings	10,813	8,456	Currency swap	181	—
Structures	309	199	Long-term accounts payable - other	256	0
Machinery and equipment	1,426	871	Long-term deposits received	669	613
Vehicles	54	28	<b>Total liabilities</b>	<b>41,626</b>	<b>22,686</b>
Tools, furniture and fixtures	896	721	<b>NET ASSETS</b>		
Land	18,118	18,118	<b>Shareholders' equity</b>	<b>107,591</b>	<b>107,469</b>
Leased assets	123	1	<b>Capital stock</b>	<b>13,616</b>	<b>13,616</b>
Construction in progress	0	1,038	<b>Capital surplus</b>	<b>20,005</b>	<b>20,005</b>
<b>Intangible assets</b>	<b>2,457</b>	<b>1,237</b>	Legal capital surplus	20,005	20,005
Software	2,384	1,170	<b>Retained earnings</b>	<b>75,993</b>	<b>75,595</b>
Other	73	67	Legal retained earnings	3,404	3,404
<b>Investments and other assets</b>	<b>34,540</b>	<b>20,210</b>	Other retained earnings	72,589	72,191
Investment securities	9,339	10,724	General reserve	60,400	60,400
Shares of subsidiaries and associates	19,415	4,603	Retained earnings brought forward	12,189	11,791
Long-term loans receivable	466	402	<b>Treasury shares</b>	<b>(2,023)</b>	<b>(1,748)</b>
Deferred tax assets	739	191	<b>Valuation and translation adjustments</b>	<b>1,972</b>	<b>2,883</b>
Insurance funds	2,030	2,178	<b>Valuation difference on available-for-sale securities</b>	<b>1,941</b>	<b>2,883</b>
Guarantee deposits	1,766	1,775	<b>Deferred gains or losses on hedges</b>	<b>30</b>	<b>—</b>
Other	953	580	<b>Subscription rights to shares</b>	<b>87</b>	<b>55</b>
Allowance for doubtful accounts	(170)	(245)	<b>Total net assets</b>	<b>109,651</b>	<b>110,408</b>
<b>Total assets</b>	<b>151,277</b>	<b>133,094</b>	<b>Total liabilities and net assets</b>	<b>151,277</b>	<b>133,094</b>

**Non-consolidated Statement of Income**  
(April 1, 2016 - March 31, 2017)

Item	(Millions of yen)	
	65th term (April 1, 2016 - March 31, 2017)	(Reference) 64th term (April 1, 2015 - March 31, 2016)
<b>Net sales</b>	<b>116,279</b>	<b>115,140</b>
<b>Cost of sales</b>	<b>79,503</b>	<b>78,689</b>
<b>Gross profit</b>	<b>36,775</b>	<b>36,451</b>
Selling, general and administrative expenses	29,641	27,577
<b>Operating income</b>	<b>7,133</b>	<b>8,873</b>
<b>Non-operating income</b>	<b>524</b>	<b>724</b>
Interest and dividend income	201	439
Foreign exchange gains	4	—
Other	318	285
<b>Non-operating expenses</b>	<b>40</b>	<b>51</b>
Interest expenses	0	0
Commission for purchase of treasury shares	10	35
Financing expenses	21	—
Foreign exchange losses	—	7
Other	8	8
<b>Ordinary income</b>	<b>7,618</b>	<b>9,546</b>
<b>Extraordinary income</b>	<b>979</b>	<b>11</b>
Gain on sales of non-current assets	7	11
Gain on sales of investment securities	863	0
Gain on abolishment of retirement benefit plan	108	—
Other	0	0
<b>Extraordinary losses</b>	<b>105</b>	<b>129</b>
Loss on sales and retirement of non-current assets	30	125
Impairment loss	—	3
Loss on rental contracts	67	—
Other	6	0
<b>Income before income taxes</b>	<b>8,492</b>	<b>9,428</b>
Income taxes - current	2,830	2,832
Income taxes - deferred	(314)	(12)
<b>Net income</b>	<b>5,976</b>	<b>6,609</b>

# Non-consolidated Statement of Changes in Equity

(April 1, 2016 - March 31, 2017)

(Millions of yen)

(millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings		Total retained earnings		
					General reserve	Retained earnings brought forward			
Balance at beginning of current period	13,616	20,005	20,005	3,404	60,400	11,791	75,595	(1,748)	107,469
Changes of items during period									
Dividends of surplus						(3,387)	(3,387)		(3,387)
Net income						5,976	5,976		5,976
Purchase of treasury shares								(2,484)	(2,484)
Retirement of treasury shares						(2,189)	(2,189)	2,189	—
Exercise of subscription rights to shares						(2)	(2)	19	16
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	—	—	—	397	397	(275)	122
Balance at end of current period	13,616	20,005	20,005	3,404	60,400	12,189	75,993	(2,023)	107,591

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	2,883	—	2,883	55	110,408
Changes of items during period					
Dividends of surplus					(3,387)
Net income					5,976
Purchase of treasury shares					(2,484)
Retirement of treasury shares					—
Exercise of subscription rights to shares					16
Net changes of items other than shareholders' equity	(941)	30	(910)	31	(879)
Total changes of items during period	(941)	30	(910)	31	(757)
Balance at end of current period	1,941	30	1,972	87	109,651

# (Reference) Non-consolidated Statement of Changes in Equity

(April 1, 2015 - March 31, 2016)

(Millions of yen)

(millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings			Treasury shares	Total shareholders' equity	
		Legal capital surplus	Total capital surpluses	Legal retained earnings	Other retained earnings				Total retained earnings
					General reserve	Retained earnings brought forward			
Balance at beginning of current period	13,616	20,005	20,005	3,404	70,400	8,423	82,227	(1,587)	114,261
Changes of items during period									
Dividends of surplus						(3,256)	(3,256)		(3,256)
Reversal of general reserve					(10,000)	10,000	—		—
Net income						6,609	6,609		6,609
Purchase of treasury shares								(10,144)	(10,144)
Retirement of treasury shares						(9,984)	(9,984)	9,984	—
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	—	—	(10,000)	3,368	(6,631)	(160)	(6,792)
Balance at end of current period	13,616	20,005	20,005	3,404	60,400	11,791	75,595	(1,748)	107,469

	Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	4,009	4,009	—	118,271
Changes of items during period				
Dividends of surplus				(3,256)
Reversal of general reserve				—
Net income				6,609
Purchase of treasury shares				(10,144)
Retirement of treasury shares				—
Net changes of items other than shareholders' equity	(1,126)	(1,126)	55	(1,070)
Total changes of items during period	(1,126)	(1,126)	55	(7,862)
Balance at end of current period	2,883	2,883	55	110,408

(English Translation)

Accounting Auditor's audit report on the Consolidated Financial Statements

**Independent Auditor's Report**

May 12, 2017

To the Board of Directors  
Sangetsu Corporation

PricewaterhouseCoopers Aarata LLC

Eiichi Yamanaka, CPA  
Designated Unlimited Liability Partner,  
Engagement Partner  
Tomohiro Nishimura, CPA  
Designated Unlimited Liability Partner,  
Engagement Partner

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to consolidated financial statements of Sangetsu Corporation (the "Company") for the fiscal term from April 1, 2016 to March 31, 2017.

**The responsibility of management concerning the consolidated financial statements**

The responsibility of management is to prepare consolidated financial statements in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of consolidated financial statements free of material misstatement due to fraud or error and the presentation of appropriate accounting information.

**The responsibility of independent auditors**

Our responsibility is to express an opinion independently on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement.

In audits, procedures are conducted in order to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. Audit procedures are chosen and applied in accordance with our judgment, based on the risk assessment of material misstatement in the consolidated financial statements due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation of consolidated financial statements and the appropriate presentation in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes assessing the accounting policies used, its application method and estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

**Audit opinion**

In our opinion, the above consolidated financial statements fairly present, in every material aspect, the financial position and results of operations of the Group consisting of the Company and its consolidated subsidiaries for the relevant term of the consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

#### Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

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#### *Notice to Readers:*

The original consolidated financial statements, which consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to consolidated financial statements, are written in Japanese.



(English Translation)

Accounting Auditor's audit report on the Non-consolidated Financial Statements

**Independent Auditor's Report**

May 12, 2017

To the Board of Directors  
Sangetsu Corporation

PricewaterhouseCoopers Aarata LLC

Eiichi Yamanaka, CPA  
Designated Unlimited Liability Partner,  
Engagement Partner  
Tomohiro Nishimura, CPA  
Designated Unlimited Liability Partner,  
Engagement Partner

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity and notes to non-consolidated financial statements, and the supplementary schedules of Sangetsu Corporation (the "Company") for the 65th fiscal term from April 1, 2016 to March 31, 2017.

**The responsibility of management concerning the non-consolidated financial statements, etc.**

The responsibility of management is to prepare non-consolidated financial statements and the supplementary schedules in accordance with business accounting standards generally accepted in Japan and present appropriate accounting information. This responsibility includes the establishment and operation of internal controls deemed necessary by management for the preparation of non-consolidated financial statements, and the supplementary schedules, free of material misstatement due to fraud or error and the presentation of appropriate accounting information.

**The responsibility of independent auditors**

Our responsibility is to express an opinion independently on the non-consolidated financial statements and the supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the non-consolidated financial statements and the supplementary schedules are free of material misstatement.

In audits, procedures are conducted in order to obtain audit evidence supporting the amounts and disclosures in the non-consolidated financial statements and the supplementary schedules. Audit procedures are chosen and applied in accordance with our judgment, based on the risk assessment of material misstatement in the non-consolidated financial statements, and the supplementary schedules, due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of internal controls. However, we examine internal controls related to the preparation of non-consolidated financial statements, and the supplementary schedules, and the appropriate presentation in the course of conducting risk assessment, in order to plan audit procedures appropriate to the circumstances. An audit includes assessing the accounting policies used, its application method and estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the supplementary schedules.

We believe that we have obtained sufficient and appropriate audit evidence to support our audit opinion.

**Audit opinion**

In our opinion, the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements and the supplementary schedules, in accordance with the business accounting standards generally accepted in Japan.

#### Interests in the Company

Our firm and engagement partners have no interest in the Company which shall be disclosed pursuant to the provisions of the Certified Public Accountants Act.

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#### *Notice to Readers:*

The original non-consolidated financial statements, which consist of the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in equity and the notes to non-consolidated financial statements, and the supplementary schedules thereof, are written in Japanese.

(English Translation)

The Audit and Supervisory Committee's audit report

### **Audit Report**

The Audit and Supervisory Committee has audited the execution of duties by Directors for the 65th fiscal term from April 1, 2016 to March 31, 2017. The Committee hereby reports the method and result thereof as follows:

#### **1. Summary of Auditing Methods**

Regarding the content of the resolution of the Board of Directors relating to matters stipulated in Article 399-13, paragraph 1, item 1 (b) and (c) of the Companies Act and the status of the system being developed pursuant to such resolutions (internal control system), the Audit and Supervisory Committee periodically received reports from the Directors, employees and other personnel concerning the establishment and operation of such system, sought explanations as necessary, and expressed opinions. In addition, the Committee Members carried out audits according to the following method:

1) In accordance with the auditing standards for Audit and Supervisory Committee determined by the Audit and Supervisory Committee, and in compliance with auditing policies and the division of duties, each Audit and Supervisory Committee Member worked in coordination with the internal audit division and attended the important meetings to receive reports regarding execution of duties from Directors and employees, and requested explanations as necessary. Each Audit and Supervisory Committee Member also inspected the approved documents and examined the status of operations and conditions of assets at the head office, principal branches, and sales offices. Audit and Supervisory Committee Members communicated and shared information with the directors and auditors, etc. of the subsidiaries and received from the subsidiaries their business reports as necessary.

2) Audit and Supervisory Committee Members monitored and verified that the Accounting Auditor maintains independence and conduct the audits appropriately. Each Audit & Supervisory Board Member also received reports on the status of the execution of duties from Accounting Auditor and requested explanation as necessary. In addition, we were informed of the arrangement of the "System for ensuring that the duties are performed appropriately" (matters stipulated in the items of Article 131 of the Corporate Calculation Regulations in accordance with "Standards for the Quality Control of Audits" (Business Accounting Council, October 28, 2005)) from the Accounting Auditor and requested explanations as necessary.

In accordance with the procedures mentioned above, we reviewed the Business Report and the supplementary schedules thereto, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in equity and notes to non-consolidated financial statements) and the supplementary schedules thereto, and the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to consolidated financial statements) for the fiscal term ended March 31, 2017.

## 2. Results of Audit

### (1) Results of Audit of Business Report and Other Relevant Documents

- 1) The business report and supplementary schedules present fairly the financial condition of the Company in conformity with related laws and regulations and the Articles of Incorporation of the Company.
- 2) Regarding the execution of duties by Directors, there were no instances of misconduct or material matters in violation of laws and regulations, nor of the Articles of Incorporation of the Company.
- 3) The resolution of the Board of Directors regarding the internal control system is fair and reasonable. There are no matters requiring additional comment regarding the contents of the business report on such internal control system and the execution of duties by Directors.

Regarding the violations of the Antimonopoly Act mentioned in the Business Report, the Company submitted a request for the application of surcharge reduction/exemption program to the Japan Fair Trade Commission. As the request was accepted by the Commission, the Company did not receive any cease and desist order or surcharge payment order. However, in view of the fact that violations of the Antimonopoly Act by the Company were confirmed, the Audit and Supervisory Committee has confirmed that the Company is making group-wide efforts to ensure compliance including the compliance with the Antimonopoly Act and to improve the operation of the internal control system in general.

### (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

The auditing methods and results of the Accounting Auditor, PricewaterhouseCoopers Aarata LLC, are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

The auditing methods and results of the Accounting Auditor, PricewaterhouseCoopers Aarata LLC, are fair and reasonable.

May 12, 2017

Audit and Supervisory Committee, Sangetsu Corporation

Audit and Supervisory Committee Member	Kunihiro Nasu
Audit and Supervisory Committee Member	Tamotsu Kokado
Audit and Supervisory Committee Member	Masatoshi Hatori
Audit and Supervisory Committee Member	Michiyo Hamada
Audit and Supervisory Committee Member (full-time)	Takashi Tajima

- (Note) Audit and Supervisory Committee Members Kunihiro Nasu, Tamotsu Kokado, Masatoshi Hatori, and Michiyo Hamada are Outside Directors under the provisions of item 15 of Article 2 and paragraph 6 of Article 331 of the Companies Act.