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Securities code: 8130

June 1, 2018

To Our Shareholders:

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

**CONVOCATION NOTICE OF
THE 66TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 66th 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 21, 2018 in accordance with the instructions given on page 2 to 3.

Thank you very much for your cooperation.

- 1. Date and Time:** June 22, 2018 (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 66th term (April 1, 2017 to March 31, 2018) 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 66th term (April 1, 2017 to March 31, 2018)
 - Resolution matters:**
 - First proposal:** Appropriation of Surplus
 - Second proposal:** Election of Five (5) Directors (excluding Audit and Supervisory Committee Members)

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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: <https://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 22, 2018 (Friday) at 10:00 a.m. (Reception will start 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 21, 2018 (Thursday) at 5:30 p.m.

By exercising voting rights via the Internet, etc.

Use a PC, smartphone, or cellular phone to access the website for exercising voting rights (<https://evote.tr.mufg.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 21, 2018 (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 the 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 21, 2018 (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 (<https://evote.tr.mufg.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 (2017-2019) “PLG 2019,” the Company’s Shareholder Return Strategy is to achieve an average total return ratio of 100% or more on a consolidated basis over the three years from fiscal 2017 to fiscal 2019, and to maintain a stable increase in dividends in accordance with the basic policy of steadily increasing dividends over the long term. 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, 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 ¥28.00 per common share of the Company.
The total amount of dividend will be ¥1,787,318,064.
The annual dividend for the current fiscal year amounted to ¥55.50 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 25, 2018.

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 of 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 announced and implemented the Mid-term Business Plan (2014–2016) “Next Stage Plan G” and achieved the quantitative target of consolidated net income of ¥6,300 million. He also formulated and announced the current Mid-term Business Plan “PLG2019” in April 2017. In addition to touting the creation of a corporate group with a wide-range of products, functions, and specializations strong in both Japanese and overseas markets, he promoted stronger functions for the Japanese business. As for overseas markets, he expanded the Group’s global business by founding a subsidiary in China and acquiring leading companies in North America and Southeast Asia. Through these efforts, he implemented a business strategy that will lead to future growth, which has involved expanding the Group’s firm market position throughout the world, sharing designs between markets, and conducting joint procurement. Given these experiences and achievements, the Company deemed that he is well qualified to continue to serve as a Director.</p> <p>Attendance to the Meeting of the Board of Directors held in FY2017: 13/13</p>	65,300 shares

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
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>	28,414 shares
		<p>Reasons for nomination as candidate for Director</p> <p>Having served in a range of areas of the Company, including managing sales and serving as General Manager of the Branches, Marketing Department and Flooring Division, Mr. Shuji Sasaki has considerable knowledge of the industry and situation of the Company as well as excellent ability in organizational management and supervision. As General Manager of the Sales Division, he revised and strengthened the sales strategy, which has involved establishing new sales organizations and restructuring existing ones for each business field and product category, and broadened the scope of activities. Given these experiences and achievements, the Company deemed that he is well qualified to serve as a Director.</p> <p>Attendance to the Meeting of the Board of Directors held in FY2017: 13/13</p>	
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>	17,300 shares
		<p>Reasons for nomination as candidate for Director</p> <p>Mr. Yasutomo Yoshikawa has served as the General Manager of several of the Company's major sales branches. Most recently, he has worked to promote the implementation of sales strategies for the Sales Division as Vice General Manager of the Sales Division. For the Tokyo metropolitan area, the area he is responsible for, he has contributed to greater sales not only in Tokyo but throughout Japan through offensive efforts targeting major clients and priority markets that have spread to all of Japan. Given these experiences and achievements, the Company deemed that he is well qualified to serve as a Director.</p> <p>Attendance to the Meeting of the Board of Directors held in FY2017: 12/13</p>	

No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
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 & 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 General Affairs, Human Resources, Management Audit and Information System and General Manager of the President's Office (To present)</p> <p>(Significant concurrent positions) Auditor of Sangetsu (Shanghai) Corporation</p>	9,900 shares
		<p>Reasons for nomination as candidate for Director Having worked on legal affairs and auditing in his previous positions, Mr. Kenji Ito has abundant knowledge and experience. At the Company, he has leveraged this knowledge and experience in his efforts to promote compliance and corporate governance reforms and has received high praise from outside parties. Most recently, he has been involved in various efforts, including “strengthening human resources” and “ESG measures” that appear in the Mid-term Business Plan “PLG2019” and supporting the Group’s overseas business expansion as Director in charge of the various divisions with headquarters functions. Given these experiences and achievements, the Company deemed that he is well qualified to serve as a Director.</p> <p>Attendance to the Meeting of the Board of Directors held in FY2017: 13/13</p>	

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) [Reelected]	<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</p> <p>June 2017 Director, 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 product purchasing at the Company, has contributed to product development, purchasing and procurement in various ways including launching new brands and winning the Good Design Award for two products as Vice General Manager of the Interior Division. As General Manager of the Logistics Department, he launched operations at both the Chubu Logistics Center II (Inazawa-shi, Aichi) and Tokyo Logistics Center (Heiwajima, Ota-ku), developed logistic bases throughout Japan, and strengthened and streamlined logistic system. Given these experiences and achievements, the Company deemed that he is well qualified to serve as a Director. Attendance to the Meeting of the Board of Directors held in FY2017: 9/10 (After assuming office as Director)</p>	3,300 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 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 medium- to long-term corporate value in light of such factors as their insight, experience, and capabilities.

(Attached materials)

Business Report (April 1, 2017 to March 31, 2018)

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 growth in capital investments as well as improvements in employment and household income environment against a backdrop of improved corporate earnings. On the other hand, the outlook is uncertain due to concerns about various issues, including uncertainty about the global economy and government policies and the impact of changes in financial markets. The construction market, which is closely connected to the Company’s business, was weak primarily because new housing starts fell for nine consecutive months, despite an upward trend in the non-residential sector as a result of urban redevelopment and infrastructure construction. The business environment remains unpredictable for various reasons including the problem of a worker shortage and changes in the logistics environment in the industrial sector.

Under these conditions, the Group worked to further raise corporate value and announced the Mid-term Business Plan (2017–2019) “PLG2019” in May 2017. During the fiscal year under review, the first year of the Plan, the Group actively undertook sales activities focused on priority markets and products, which included establishing new logistic facilities and consolidating existing ones, working to increase the efficiency of deliveries, and establishing specialized departments. Moreover, as for overseas businesses, Singapore-based Goodrich Global Holdings Pte. Ltd. was acquired in December 2017. The Group established Goodrich Global Holdings Pte. Ltd. as the business foundation for Southeast Asia. In doing so, the Group is moving forward with efforts to strengthen its global business expansion, which also includes the China-based Sangetsu (Shanghai) Corporation, which was established in April 2016, and the U.S.-based Koroseal Interior Products Holdings, Inc., which was acquired in November 2016.

As for consolidated financial results for the fiscal year under review, there was a dramatic increase in not only net sales but also selling, general and administrative expenses because both Koroseal Interior Products Holdings Inc. and Fairtone Co., Ltd. were added to the scope of consolidation. Selling, general and administrative expenses rose not only because of these additions to the scope of consolidation but for various other reasons, including the new establishment and consolidation of logistic bases, new core system restructuring costs, and increases in labor costs and shipping and delivery costs in the existing interior business.

As a result of these efforts, consolidated financial results for the fiscal year under review recorded ¥156,390 million in net sales, up 15.3% year on year, ¥5,033 million in operating income, down 33.5% year on year, ¥5,698 million in ordinary income, down 31.9% year on year, and ¥4,514 million in profit attributable to owners of parent, down 31.3% year on year.

Starting with the current fiscal year, segments were changed to the four segments given on the following pages. Figures for change from previous fiscal reflect the segment classification after the change.

(Reference) Consolidated Financial Highlights

(Millions of yen)

Net sales	Operating income	Ordinary income	Profit (loss) attributable to owners of parent
156,390	5,033	5,698	4,514
up 15.3% YoY	down 33.5% YoY	down 31.9% YoY	down 31.3% YoY

(Interior Business) Net sales ¥120,852 million

Main business

Planning and sales of interior products such as wall coverings, flooring, and fabrics; and interior finishing and design and construction business, etc.

(Millions of yen)

	65th term Fiscal year ended March 31, 2017	66th term Fiscal year ended March 31, 2018
Net sales	116,686	120,852

In the wall coverings division, the sample book “FAITH,” which features non-combustible-certified wallpapers for use in non-residential properties, did well. In addition, the Group was successful in strengthening sales of “Reatec,” an adhesive-mounted decorative film, and “Glass Film” to corporate contracts, particularly those in the Tokyo metropolitan area, and sales rose. As a result, demand did not grow significantly and net sales of wall coverings were ¥57,588 million, up 2.1% year on year.

In the flooring division, sales of PVC floor sheets for residential properties were about the same as those for the previous fiscal year on account of stagnant growth in new housing starts. As for commercial facilities, etc., sales of PVC floor tiles remained firm, and those of PVC floor sheets for facilities that possess superior maintenance properties increased because of repair demand among both medical and welfare facilities and educational facilities. As a result, net sales of flooring were ¥42,877 million, up 3.6% year on year.

In the fabrics division, the sample books “STRINGS” and “Simple Order,” which feature curtains for residential use and were released in July 2017, continued to drive sales. Furthermore, sales activities targeting priority markets were conducted, and sales of curtains to corporate facilities were firm. As a result, net sales of fabrics products, which are composed of curtains and upholstery, were ¥7,907 million, up 2.7% year on year.

Aside from this, with other business, which includes installation fees, etc., recording net sales of ¥12,478 million, up 11.6% year on year, the Interior Business segment recorded net sales of ¥120,852 million, up 3.6% year on year, and operating income of ¥5,752 million, down 19.8% year on year.

(Exterior Business) Net sales ¥15,013 million

Main business

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

(Millions of yen)

	65th term Fiscal year ended March 31, 2017	66th term Fiscal year ended March 31, 2018
Net sales	14,778	15,013

Sungreen Co., Ltd., which operates the exterior business, moved forward with building a sales management structure and reinforcement of construction capabilities and made consolidation of sales bases in line with the regional strategy. As for products, in addition to growth of carports and large garages, demand for garden exterior products such as exterior lighting, artificial wooden decks, and delivery boxes was firm. Sungreen focused on expanding products handled and promoting sales in line with those needs. As a result, net sales of the exterior business were ¥15,013 million, up 1.6% year on year, and operating income was ¥439 million, up 9.3% year on year.

(Lighting Equipment Business) Net sales ¥3,663 million

Main business

Sale of lighting equipment, etc.

(Millions of yen)

	65th term Fiscal year ended March 31, 2017	66th term Fiscal year ended March 31, 2018
Net sales	4,239	3,663

As the overall lighting market remains firm because of numerous construction and remodeling projects as more foreigners visit Japan and demand for energy efficient products, Yamada Shomei Lighting Co., Ltd., which operates the lighting equipment business, focused on continuing to strengthen sales to corporate customers and undertaking sales activities in coordination with Sangetsu. It also worked to reinforce sales capabilities and improve product appeal, which included various efforts such as undertaking joint development of lighting with major construction companies. On the other hand, other companies have entered the market and prices have fallen. Therefore, competition has grown fiercer. Accordingly, net sales of the lighting equipment business were ¥3,663 million, down 13.6% year on year, and operating loss amounted to ¥137 million (operating income of ¥23 million for the previous fiscal year).

(Overseas Business) Net sales ¥17,151 million

Main business

Manufacture of wallpaper products and sale of interior materials

(Millions of yen)

	65th term Fiscal year ended March 31, 2017	66th term Fiscal year ended March 31, 2018
Net sales	19	17,151

Koroseal Interior Products Holdings, Inc., which targets the North American market, expanded sales of "Reatec," an adhesive-mounted decorative film, throughout the region and broadened sales channels, including to hotels. Sangetsu (Shanghai), which targets the Chinese market, promoted the use of wallpaper at large apartment complexes, which was supported by the trend away from paint to wallpaper, and worked to expand products it handles to include flooring for various types of facilities, including medical and commercial ones. As a result, net sales of the overseas business were ¥17,151 million. Furthermore, the Group recorded an operating loss before amortization of goodwill of ¥205 million and operating loss after amortization of goodwill of ¥870 million.

(2) Capital Investments

During the fiscal year under review, mainly in the Interior Business segment, the Group as a whole made capital investments of ¥3,600 million including the establishment of Tokyo Logistics Center and Chubu Logistics Center II aimed to optimize logistics, and system development to implement the renewal of the new core system.

(3) Financing

During the fiscal year under review, the Group secured a syndicated loan of US\$45 million and secured financing of ¥1.0 billion to secure funds mainly for the purpose of acquiring Goodrich Global Holdings Pte. Ltd. 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

In regard to the Japanese economy, we expect that uncertainties will remain with respect to the fluctuations in overseas economies and geopolitical risks. In Japan, the economy is expected to continue to recover because of improvements in corporate earnings and the employment and household income environment. Even though construction demand is expected to grow due to the upcoming Olympics and Paralympics, it's particularly necessary to pay adequate attention to the outlook for the construction market due to various factors such as new housing starts having been stagnant because of the declining

population, the construction industry facing a worker shortage, and the impact of the approaching consumption tax hike in October 2019.

In such a market environment, the Company announced Mid-term Business Plan (2017-2019) “PLG 2019” in May 2017. Under this three-year business plan, the Company will strengthen consolidated management throughout the Group and strive to further enhance its corporate value. We will also steadily implement capital strategies aimed at improving our reputation with stakeholders and aim to achieve ROE levels of 8-10%. 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

As for the quality issue arising from wall coverings 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. For the coming fiscal year, therefore, the Group is forecast to record net sales of ¥164.0 billion, operating profit of ¥6.0 billion, ordinary profit of ¥6.6 billion, and profit attributable to owners of parent of ¥4.6 billion.

(5) Changes in Assets and Income (Loss)

(Millions of yen, except for per share amounts)

Item	63rd term Fiscal year ended March 31, 2015	64th term Fiscal year ended March 31, 2016	65th term Fiscal year ended March 31, 2017	66th term Fiscal year ended March 31, 2018
Net sales	132,050	133,972	135,640	156,390
Ordinary income (loss)	8,506	9,463	8,368	5,698
Profit (loss) attributable to owners of parent	4,402	6,393	6,570	4,514
Net income (loss) per share (Yen)	58.35	89.92	97.53	68.97
Diluted net income (loss) per share (Yen)	–	89.81	97.40	68.85
Total assets	143,076	139,220	169,344	170,995
Net assets	118,758	108,517	110,458	106,146
Net assets per share (Yen)	1,625.21	1,587.86	1,646.42	1,648.48

- 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 63rd term.
3. Diluted net income (loss) per share is not presented for the 63rd term, since there were no dilutive shares.
4. The figures for the 65th term reflect material changes in the initial allocation of acquisition costs because the tentative accounting treatment of business combinations was finalized.

(6) Principal Subsidiaries and Affiliates

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 Co., Ltd.	¥35 million	100	Interior finishing and design and construction business
Sangetsu Vosne Corporation	¥100 million	100	Sale and planning of interior fabric products
Koroseal Interior Products Holdings, Inc.	US\$136,725 thousand	100	Manufacturing and sale of wallpaper products
Goodrich Global Holdings Pte. Ltd.	SG\$11,004 thousand	70	Sale of interior materials
Sangetsu (Shanghai) Corporation	RMB13,000 thousand	100	Sale of interior materials
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.
2. On April 5, 2017, the Company established a wholly-owned subsidiary Sangetsu Vosne Corporation as a distribution company specialized in curtains.
3. Singapore-based Goodrich Global Holdings Pte. Ltd. became a subsidiary of the Company by acquisition of 70% of shares as of December 20, 2017.

(7) Principal Business (As of March 31, 2018)

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 (Kanazawa-shi), Kita-Tohoku Sales Office (Morioka-shi), Fukushima Sales Office (Koriyama-shi), 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 (Urasoe-shi)

2) Principal subsidiaries

Company name	Headquarters	Offices
Sungreen Co., Ltd.	Nagoya-shi, Aichi	Headquarters, Nagoya Branch Office and 14 other branch offices
Yamada Shomei Lighting Co., Ltd.	Chiyoda-ku, Tokyo	Headquarters, Osaka Branch, Fukuoka Branch, and Nagoya Sales Office
Fairtone Co., Ltd.	Suita-shi, Osaka	Headquarters, Tokyo Sales Office
Sangetsu Vosne Corporation	Shinagawa-ku, Tokyo	Headquarters
Koroseal Interior Products Holdings, Inc.	U.S. (Ohio)	Headquarters
Goodrich Global Holdings Pte. Ltd.	Singapore	Headquarters
Sangetsu (Shanghai) Corporation	China (Shanghai)	Headquarters

(8) Employees (As of March 31, 2018)

1) The Group

Segment	Number of employees	Change from previous fiscal year-end
Interior Business	1,234	Increase of 32
[of which Sangetsu Corporation]	[1,205]	[Increase of 15]
[of which Fairtone Co., Ltd.]	[15]	[Increase of 3]
[of which Sangetsu Vosne Corporation]	[14]	[Increase of 14]
Exterior Business	151	Decrease of 5
Lighting Equipment Business	107	Decrease of 12
Overseas Business	865	Increase of 291
[of which Koroseal Interior Products Holdings, Inc.]	[582]	[Increase of 12]
[of which Goodrich Global Holdings Pte. Ltd.]	[279]	[Increase of 279]
[of which Sangetsu (Shanghai) Corporation]	[4]	[-]
Total	2,357	Increase of 306

Note: Starting with the current fiscal year, segments were changed to the four segments described above. Figures for change from previous fiscal year-end reflect the segment classification after the change.

2) The Company

Number of employees	Change from previous fiscal year-end	Average age	Average years of service
1,205	Increase of 15	35.9 years old	14.9 years

(9) Status of Principal Borrowings (As of March 31, 2018)

Lender	Balance of borrowing (Millions of yen)
Syndicated loan (Note 1)	10,624
Syndicated loan (Note 2)	4,780
Mizuho Bank, Ltd.	1,450
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	450
Sumitomo Mitsui Trust Bank, Limited	300
Sumitomo Mitsui Banking Corporation	300

- Notes: 1. The syndicated loan is joint-financing from Mizuho Bank, Ltd. as the lead manager as well as eight other banks.
 2. The syndicated loan is joint-financing from Sumitomo Mitsui Trust Bank, Limited as the lead manager as well as three other banks.

2. Status of the Company

(1) Status of Shares (As of March 31, 2018)

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

2) **Total Number of Issued Shares** 66,050,000 shares

Notes: 1. The total number of issued shares decreased by 2,020,000 shares (to 66,050,000 shares) due to retirement of treasury shares carried out on May 31, 2017, September 29, 2017 and January 31, 2018.

2. The Company, by a resolution of the Board of Directors on May 11, 2018, determined to retire 1,200,000 treasury shares with the scheduled date of May 31, 2018. Accordingly, the total number of issued shares after the retirement will be 64,850,000 shares.

3) **Number of Shareholders** 4,555 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	5,009,700	7.84
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,210,800	5.03
Northern Trust Co. (AVFC) Re U.S. Tax Exempted Pension Funds	2,806,300	4.39
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,082,700	3.26
The Ogaki Kyoritsu Bank, Ltd.	2,064,372	3.23
Japan Trustee Services Bank, Ltd. (Trust Account)	2,059,000	3.22
Yuichi Hibi	1,965,154	3.07
Touzou Hibi	1,923,492	3.01
Northern Trust Co. (AVFC) Sub Account Non Treaty	1,818,400	2.84
Masae Miwa	1,740,640	2.72

Notes: 1. Although the Company holds 2,217,212 treasury shares, it is excluded from the list of major shareholders above.

2. Treasury 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 10, 2017 (written resolution)	From April 1, 2017 to April 28, 2017	522,700	¥1,006 million
June 23, 2017	From July 3, 2017 to September 5, 2017	1,000,000	¥1,973 million
September 8, 2017	From September 11, 2017 to December 22, 2017	951,000	¥1,911 million
January 12, 2018 and March 9, 2018	From January 15, 2018 to March 31, 2018	946,900	¥2,084 million
Total		3,420,600	¥6,975 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 12, 2017	May 31, 2017	670,000	¥1,305 million
September 8, 2017	September 29, 2017	400,000	¥785 million
January 12, 2018	January 31, 2018	950,000	¥1,902 million
Total		2,020,000	¥3,993 million

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

(2) Status of Share Acquisition Right

1) Status of the share acquisition rights as of the end of the current fiscal year

Name (Date of resolution for issue)	Number of share acquisition rights	Class and number of shares to be issued upon exercise of the share acquisition rights	Amount to be paid for share acquisition rights per unit	Amount of property contributed upon exercise of the share acquisition rights	Exercise period
1st series share acquisition right (May 12, 2015)	6,225 units	Common shares 622,500 shares	¥400	¥1,839 per share	From July 1, 2017 to June 16, 2022
2nd series share acquisition right (June 18, 2015)	173 units	Common shares 17,300 shares	¥177,900 (Note)	¥1 per share	From July 13, 2015 to July 12, 2045
3rd series share acquisition right (June 23, 2016)	242 units	Common shares 24,200 shares	¥180,200 (Note)	¥1 per share	From July 11, 2016 to July 10, 2046
4th series share acquisition right (July 14, 2017)	5,979 units	Common shares 597,900 shares	¥1,300	¥1,972 per share	From July 1, 2020 to August 9, 2024

Note: 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.

2) Status of the share acquisition rights held by Directors (excluding Audit and Supervisory Committee Members) of the Company as of the end of the current fiscal year

Name (Date of resolution for issue)	Number of share acquisition rights	Class and number of shares to be issued upon exercise of the share acquisition rights	Number of Directors holding the share acquisition rights
1st series share acquisition right (May 12, 2015)	270 units	Common shares 27,000 shares	3 persons
2nd series share acquisition right (June 18, 2015)	173 units	Common shares 173,000 shares	3 persons
3rd series share acquisition right (June 23, 2016)	217 units	Common shares 217,000 shares	5 persons
4th series share acquisition right (July 14, 2017)	570 units	Common shares 570,000 shares	5 persons

3) Status of the share acquisition rights granted to employees of the Company during the current fiscal year

Name (Date of resolution for issue)	Number of share acquisition rights	Class and number of shares to be issued upon exercise of the share acquisition rights	Number of <u>employees</u> of the Company holding the share acquisition rights
4th series share acquisition right (July 14, 2017)	5,459 units	Common shares 545,900 shares	223 persons

(3) Company Officers

1) Directors (As of March 31, 2018)

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	Yasutomo Yoshikawa	Deputy General Manager of the Sales Division and General Manager of Tokyo Branch
Director, Executive Officer	Kenji Ito	In charge of General Affairs, Human Resources, Management Audit and Information System, and General Manager of the President's Office
Director, Executive Officer	Yoshiaki Kaneko	General Manager of the Logistics Department and Vice General Manager of the Interior Division
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. Outside Audit & Supervisory Board Member of Okuma Corporation
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:
- Directors serving as Audit and Supervisory Committee Members Mr. Kunihiro Nasu, Mr. Tamotsu Kokado, Mr. Masatoshi Hatori and Ms. Michiyo Hamada are Outside Directors.
 - 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.
 - The Company has designated Audit and Supervisory Committee Members Mr. Kunihiro Nasu, Mr. Tamotsu Kokado, Mr. Masatoshi Hatori, and Ms. Michiyo Hamada as Independent Officers as stipulated by Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE), and filed the relevant notification with the TSE and NSE.
 - 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.
 - 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.

2) Amount of Remuneration, etc. to Directors in FY 2017

Title	Number of payees (Persons)	Amount of remuneration (Millions of yen)
Directors (excluding Audit and Supervisory Committee Members)	6	136
Directors (Audit and Supervisory Committee Members)	5	59
(Of which, Outside Directors)	(4)	(39)
Total	11	195
(Of which, Outside Directors)	(4)	(39)

- Notes:
- Included in the above are the amounts paid to one Director who retired as of the end of the 65th General Meeting of Shareholders held on June 23, 2017.
 - Above amount of remuneration does not include amount equivalent to salaries of those who are also company employees.
 - 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 restricted shares is set ¥120 million or below per year at the 65th Ordinary General Meeting of Shareholders held on June 23, 2017.
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.
 - 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.
 - Above amount of remuneration includes the following amounts as expenses for the current fiscal year related to the restricted share remuneration.
 - Five Directors (excluding Audit and Supervisory Committee Members); ¥8 million
 - The system of counselors/advisors was terminated. However, the founders Mr. Yuichi Hibi and Mr. Touzou Hibi serve as part-time, unpaid special advisors.

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 Audit & Supervisory Board Member of Okuma Corporation	There are no special interests between Okuma Corporation 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 13 Board of Directors' meetings and in all 12 Audit and Supervisory Committee meetings held in FY 2017; provided expert opinions, mainly as an experienced attorney, as necessary.
Outside Director (Audit and Supervisory Committee Member)	Tamotsu Kokado	Participated in all 13 Board of Directors' meetings and in all 12 Audit and Supervisory Committee meetings held in FY 2017; 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 13 Board of Directors' meetings, in all 12 Audit and Supervisory Committee meetings held in FY 2017; provided opinions, mainly as an experienced corporate manager, as necessary.
Outside Director (Audit and Supervisory Committee Member)	Michiyo Hamada	Participated in all 13 Board of Directors' meetings, in all 12 Audit and Supervisory Committee meetings held in FY 2017; provided expert opinions, mainly as a jurist who specializes in Companies Act and a former Commissioner of Japan Fair Trade Commission, as necessary.

(4) Accounting Auditor

1) Accounting Auditor's Name

PricewaterhouseCoopers Aarata LLC

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	55
Total amount of cash and other property benefits payable by the Company and its subsidiaries to Accounting Auditor	55

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 of Termination 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:

<p>I System to Ensure the Propriety of the Business Operations</p> <p>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</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>

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.
 - While fully undertaking its overseas expansion, the Group formulated Anti-bribery Rules to clarify rules that should be adhered to when expanding the business.
 - In response to revisions to the guidelines for the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors by the Japan Fair Trade Commission, the Company created Subcontract Guidelines, which provide an easy-to-understand guidelines for the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (“Subcontract Act”), and held Subcontract Act Compliance Training for related divisions and departments.
 - Basic compliance training was provided to both new managers and new employees.
- 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.
- 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 one time 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 first year in new Mid-term Business Plan “PLG 2019,” the Company formulated the annual budget, company policy and operation plan, and reviewed the progress of operation quarterly.
- iv) Operational status of the Group
 - Under the department-in-charge system introduced on April 1, 2017, 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 consisting of all Audit and Supervisory Committee Members has advised on the election/re-election and remuneration of Executive Directors and Executive Officers.

(6) Basic Policy on Control of the Company

There are no items to report.

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

Consolidated Financial Statements

(April 1, 2017 - March 31, 2018)

Consolidated Balance Sheet

(As of March 31, 2018)

(Millions of yen)

		(Reference)			(Reference)
Item	66th term As of March 31, 2018	65th term As of March 31, 2017	Item	66th term As of March 31, 2018	65th term As of March 31, 2017
ASSETS			LIABILITIES		
Current assets	95,787	95,148	Current liabilities	34,275	32,684
Cash and deposits	22,482	25,945	Notes and accounts payable - trade	14,391	14,741
Notes and accounts receivable - trade	38,289	40,186	Electronically recorded obligations - operating	9,690	8,169
Electronically recorded monetary claims - operating	11,516	8,305	Short-term loans payable	547	596
Securities	2,003	1,800	Current portion of long-term loans payable	500	500
Merchandise and finished goods	13,996	13,056	Lease obligations	153	157
Work in process	215	232	Income taxes payable	963	1,882
Raw materials and supplies	2,750	3,016	Provision for bonuses	1,249	1,385
Deferred tax assets	1,166	1,288	Provision for directors' bonuses	25	-
Other	3,827	1,615	Asset retirement obligations	-	267
Allowance for doubtful accounts	(461)	(300)	Other	6,754	4,983
Non-current assets	75,207	74,195	Non-current liabilities	30,573	26,200
Property, plant and equipment	36,627	35,685	Long-term loans payable	17,404	12,719
Buildings and structures	12,210	11,746	Lease obligations	155	215
Machinery, equipment and vehicles	3,597	2,433	Provision for directors' retirement benefits	109	98
Land	19,360	19,494	Net defined benefit liability	7,724	7,683
Leased assets	385	411	Asset retirement obligations	631	410
Construction in progress	38	235	Long-term accounts payable - other	125	256
Other	1,034	1,364	Deferred tax liabilities	2,781	3,953
Intangible assets	20,177	20,471	Other	1,640	864
Software	3,086	2,472	Total liabilities	64,848	58,885
Goodwill	6,624	7,001	NET ASSETS		
Trademark right	5,980	6,166	Shareholders' equity	103,012	108,775
Leased assets	6	10	Capital stock	13,616	13,616
Other	4,478	4,821	Capital surplus	20,005	20,005
Investments and other assets	18,402	18,038	Retained earnings	73,967	77,177
Investment securities	11,662	10,693	Treasury shares	(4,577)	(2,023)
Long-term loans receivable	10	0	Accumulated other comprehensive income	2,214	1,596
Deferred tax assets	2,575	2,562	Valuation difference on available-for-sale securities	2,768	2,000
Other	4,236	4,973	Deferred gains or losses on hedges	100	30
Allowance for doubtful accounts	(82)	(190)	Foreign currency translation adjustment	828	1,310
			Remeasurements of defined benefit plans	(1,482)	(1,745)
			Share acquisition rights	84	87
			Non-controlling interests	834	-
Total assets	170,995	169,344	Total net assets	106,146	110,458
			Total liabilities and net assets	170,995	169,344

Consolidated Statement of Income

(April 1, 2017 - March 31, 2018)

	(Millions of yen)	
Item	66th term (April 1, 2017 - March 31, 2018)	(Reference) 65th term (April 1, 2016 - March 31, 2017)
Net sales	156,390	135,640
Cost of sales	108,818	95,535
Gross profit	47,572	40,104
Selling, general and administrative expenses	42,538	32,532
Operating income	5,033	7,572
Non-operating income	784	872
Interest and dividend income	202	206
Insurance income	5	23
Share of profit of entities accounted for using equity method	394	321
Other	181	320
Non-operating expenses	120	77
Interest expenses	56	28
Foreign exchange losses	13	-
Commission for purchase of treasury shares	19	10
Financing expenses	10	21
Other	20	17
Ordinary income	5,698	8,368
Extraordinary income	75	979
Gain on sales of non-current assets	19	7
Gain on sales of investment securities	56	863
Gain on abolishment of retirement benefit plan	-	108
Other	-	0
Extraordinary losses	198	112
Loss on sales and retirement of non-current assets	108	30
Loss on rental contracts	-	67
Other	89	14
Income before income taxes	5,575	9,234
Income taxes - current	2,819	2,984
Income taxes - deferred	(1,758)	(321)
Net income	4,514	6,570
Profit attributable to owners of parent	4,514	6,570

Consolidated Statement of Changes in Equity
(April 1, 2017 - March 31, 2018)

(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	77,177	(2,023)	108,775
Cumulative effect of changes in accounting policies			(58)		(58)
Restated balance reflecting changes in accounting policies	13,616	20,005	77,118	(2,023)	108,716
Changes of items during period					
Dividends of surplus			(3,643)		(3,643)
Profit attributable to owners of parent			4,514		4,514
Purchase of treasury shares				(6,976)	(6,976)
Disposal of treasury shares			(0)	49	48
Retirement of treasury shares			(3,993)	3,993	–
Exercise of share acquisition rights			(27)	379	352
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	(3,150)	(2,553)	(5,704)
Balance at end of current period	13,616	20,005	73,967	(4,577)	103,012

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	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	2,000	30	1,310	(1,745)	1,596	87	–	110,458
Cumulative effect of changes in accounting policies								(58)
Restated balance reflecting changes in accounting policies	2,000	30	1,310	(1,745)	1,596	87	–	110,399
Changes of items during period								
Dividends of surplus								(3,643)
Profit attributable to owners of parent								4,514
Purchase of treasury shares								(6,976)
Disposal of treasury shares								48
Retirement of treasury shares								–
Exercise of share acquisition rights								352
Net changes of items other than shareholders' equity	767	70	(482)	262	618	(2)	834	1,450
Total changes of items during period	767	70	(482)	262	618	(2)	834	(4,253)
Balance at end of current period	2,768	100	(828)	(1,482)	2,214	84	834	106,146

(Reference) 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
Cumulative effect of changes in accounting policies					
Restated balance reflecting changes in accounting policies	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 share acquisition rights			(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					Share acquisition rights	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
Cumulative effect of changes in accounting policies							
Restated balance reflecting changes in accounting policies	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 share acquisition rights							16
Net changes of items other than shareholders' equity	(908)	30	1,548	522	1,193	31	1,224
Total changes of items during period	(908)	30	1,548	522	1,193	31	1,940
Balance at end of current period	2,000	30	1,310	(1,745)	1,596	87	110,458

Non-consolidated Financial Statements

(April 1, 2017 - March 31, 2018)

Non-consolidated Balance Sheet

(As of March 31, 2018)

(Millions of yen)

		(Reference)			(Reference)
Item	66th term As of March 31, 2018	65th term As of March 31, 2017	Item	66th term As of March 31, 2018	65th term As of March 31, 2017
ASSETS			LIABILITIES		
Current assets	80,188	82,536	Current liabilities	24,598	24,019
Cash and deposits	18,336	23,476	Electronically recorded obligations - operating	8,332	6,947
Notes receivable - trade	15,146	17,224	Accounts payable - trade	9,480	10,147
Electronically recorded monetary claims operating	11,286	8,171	Current portion of long-term loans payable	500	500
Accounts receivable - trade	16,090	16,530	Lease obligations	29	28
Securities	2,003	1,800	Accounts payable - other	2,360	2,359
Merchandise and finished goods	11,156	11,086	Income taxes payable	795	1,739
Work in process	65	107	Provision for bonuses	1,141	1,278
Raw materials and supplies	1,974	2,123	Provision for directors' bonuses	25	-
Advance payments - trade	86	80	Asset retirement obligations	-	267
Deferred tax assets	960	957	Provision for product warranties	753	-
Other	3,286	1,239	Other	1,180	751
Allowance for doubtful accounts	(206)	(261)	Non-current liabilities	23,711	17,606
Non-current assets	72,694	68,741	Long-term loans payable	17,404	12,719
Property, plant and equipment	32,602	31,743	Lease obligations	82	105
Buildings	10,794	10,813	Provision for retirement benefits	3,884	3,263
Structures	274	309	Asset retirement obligations	618	410
Machinery and equipment	2,437	1,426	Currency swap	961	181
Vehicles	60	54	Long-term accounts payable - other	123	256
Tools, furniture and fixtures	813	896	Long-term deposits received	636	669
Land	18,118	18,118	Total liabilities	48,309	41,626
Leased assets	103	123	NET ASSETS		
Construction in progress	1	0	Shareholders' equity	101,697	107,591
Intangible assets	3,048	2,457	Capital stock	13,616	13,616
Software	2,976	2,384	Capital surplus	20,005	20,005
Other	71	73	Legal capital surplus	20,005	20,005
Investments and other assets	37,042	34,540	Retained earnings	72,653	75,993
Investment securities	9,734	9,339	Legal retained earnings	3,404	3,404
Shares of subsidiaries and associates	22,068	19,415	Other retained earnings	69,249	72,589
Long-term loans receivable	756	466	General reserve	60,400	60,400
Deferred tax assets	747	739	Retained earnings brought forward	8,849	12,189
Insurance funds	1,812	2,030	Treasury shares	(4,577)	(2,023)
Guarantee deposits	1,204	1,766	Valuation and translation adjustments	2,790	1,972
Other	783	953	Valuation difference on available-for-sale securities	2,690	1,941
Allowance for doubtful accounts	(63)	(170)	Deferred gains or losses on hedges	100	30
			Share acquisition rights	84	87
Total assets	152,882	151,277	Total net assets	104,573	109,651
			Total liabilities and net assets	152,882	151,277

Non-consolidated Statement of Income
(April 1, 2017 - March 31, 2018)

Item	66th term (April 1, 2017 - March 31, 2018)	(Millions of yen) (Reference) 65th term (April 1, 2016 - March 31, 2017)
Net sales	119,530	116,279
Cost of sales	81,713	79,503
Gross profit	37,817	36,775
Selling, general and administrative expenses	32,118	29,641
Operating income	5,698	7,133
Non-operating income	672	524
Interest and dividend income	500	201
Foreign exchange gains	-	4
Other	171	318
Non-operating expenses	54	40
Interest expenses	1	0
Commission for purchase of treasury shares	19	10
Financing expenses	10	21
Foreign exchange losses	13	-
Other	10	8
Ordinary income	6,317	7,618
Extraordinary income	56	979
Gain on sales of non-current assets	0	7
Gain on sales of investment securities	56	863
Gain on abolishment of retirement benefit plan	-	108
Other	0	0
Extraordinary losses	132	105
Loss on sales and retirement of non-current assets	50	30
Impairment loss	79	-
Loss on rental contracts	-	67
Other	2	6
Income before income taxes	6,241	8,492
Income taxes - current	2,123	2,830
Income taxes - deferred	(206)	(314)
Net income	4,325	5,976

Non-consolidated Statement of Changes in Equity
(April 1, 2017 - March 31, 2018)

(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	12,189	75,993	(2,023)	107,591
Changes of items during period									
Dividends of surplus						(3,643)	(3,643)		(3,643)
Net income						4,325	4,325		4,325
Purchase of treasury shares								(6,976)	(6,976)
Disposal of treasury shares						(0)	(0)	49	48
Retirement of treasury shares						(3,993)	(3,993)	3,993	–
Exercise of share acquisition rights						(27)	(27)	379	352
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	(3,339)	(3,339)	(2,553)	(5,893)
Balance at end of current period	13,616	20,005	20,005	3,404	60,400	8,849	72,653	(4,577)	101,697

	Valuation and translation adjustments			Share acquisition rights	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	1,941	30	1,972	87	109,651
Changes of items during period					
Dividends of surplus					(3,643)
Net income					4,325
Purchase of treasury shares					(6,976)
Disposal of treasury shares					48
Retirement of treasury shares					–
Exercise of share acquisition rights					352
Net changes of items other than shareholders' equity	748	70	818	(2)	815
Total changes of items during period	748	70	818	(2)	(5,077)
Balance at end of current period	2,690	100	2,790	84	104,573

(Reference) Non-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
		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 share acquisition rights						(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			Share acquisition rights	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 share acquisition rights					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

(English Translation)

Accounting Auditor's audit report on the Consolidated Financial Statements

Independent Auditor's Report

May 11, 2018

To the Board of Directors
Sangetsu Corporation

PricewaterhouseCoopers Aarata LLC

Eiichi Yamanaka, CPA
Designated Limited Liability Partner,
Engagement Partner
Tomohiro Nishimura, CPA
Designated Limited 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, 2017 to March 31, 2018.

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.

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 11, 2018

To the Board of Directors
Sangetsu Corporation

PricewaterhouseCoopers Arata LLC

Eiichi Yamanaka, CPA
Designated Limited Liability Partner,
Engagement Partner
Tomohiro Nishimura, CPA
Designated Limited 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 66th fiscal term from April 1, 2017 to March 31, 2018.

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.

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 66th fiscal term from April 1, 2017 to March 31, 2018. 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, 2018.

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. As for the construction and operation of this internal control system, improvements continue to be made, and 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.

(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 11, 2018

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.