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(Attachment of Notice of the 67th Ordinary General Meeting of Shareholders)

Sanshin Electronics Co., Ltd.

Stock Code: 8150

# Business Report on the 67th Term

From April 1, 2017 to March 31, 2018

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## The Sanshin Spirit

Sanshin Electronics contributes to the development of today's electronics-driven society by embracing the challenge of the new and passing on the Sanshin Spirit to new generations.

Electronics products play a formative role in today's society. Electrical appliances connect with each other to provide unprecedented services to consumers, while drivers enjoy greater safety thanks to the spread of advanced operation support systems such as collision avoidance. In the future as well, electronics will contribute to society by delivering greater safety, comfort and convenience.

As a general electronics trading company, Sanshin Electronics has continued to pursue new possibilities in electronics products in liaison with our customers, suppliers and business partners. We always bear in mind that we need to test the limits, unconstrained by prevailing orthodoxies.

Since its establishment, the Company has always cherished Trust (*Shin-yo* in Japanese), Principles (*Shinnen*) and Sincerity (*Shinjitsu*). Each of these components of our corporate code contains the Japanese character 信(*Shin*), testifying to the origin of the Company name. We believe that we must embrace these three words whenever we conduct our business. Guided by the above corporate code, we at Sanshin Electronics will explore the future of electronics products with the drive to tackle new challenges.

Trust	Principles	Sincerity
Business cannot succeed without trust. It begins and ends with trust.	Do not just pursue profit. But act based on principles, which can be realized through self-discipline.	Always act sincerely. Rise to the challenge head-on.

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

### **I. Matters Concerning the Current Status of the Corporate Group**

#### **(1) Business Progress and Results**

During the consolidated fiscal year under review, although concerns over policy trends in the United States and Europe and geopolitical risks remained, overall the global economy progressed on a gradual recovery trajectory, particularly in developed countries. The Japanese economy also continued to gradually recover against the background of the government's economic policies, the continued monetary-easing policy of the Bank of Japan, and other favorable developments. The electronics industry, which is the primary area of business of the Group, saw continued growth in markets relating to advanced vehicle operation support systems, IoT (Internet of Things), M2M (Machine to Machine) and other fields. Investment in Japan's IT sector was firm, particularly in cloud computing, Big Data and security.

Against this background, the Group tackled a number of challenges to achieve the goals of the V70 Medium-Term Management Plan. In the device business, we made efforts to improve our business portfolio by allotting resources to areas where market growth was expected and increasing the sales ratio of the highly profitable business. At the same time, we moved to enhance profitability in existing businesses by an increase in the gross profit margin, thorough management of exchange-rate and inventory risk, and improvements in operational efficiency. In the solution business, while making active efforts to expand sales in the existing businesses, the Company expanded its menu of cloud-computing services and fostered synergies across the business units. In all these initiatives, the Company strove to build a profitable foundation for medium-to-long-term growth.

Consolidated operating results for the fiscal year under review revealed ¥157,257 million in net sales (down 6.2% year-on-year), ¥1,763 million in operating profit (up 119.3% year-on-year), and ¥1,787 million in ordinary profit (compared with ¥952 million in ordinary loss posted in the previous fiscal year). Net profit attributable to shareholders of parent company, on the other hand, was ¥947 million, marking a turnaround from a net loss of ¥1,575 million attributable to shareholders of parent company in the previous fiscal year. This was due to the special retirement benefits of ¥229 million paid in connection with the implementation of voluntary retirement and loss on valuation of investment securities of ¥467 million posted as extraordinary loss.

#### **Consolidated Performance in the Consolidated Fiscal Year Under Review**

Net sales	Operating profit
<u>¥157,257 million</u>	<u>¥1,763 million</u>
-6.2% YoY	119.3% YoY
Ordinary profit	Net profit attributable to shareholders of parent company
<u>¥1,787 million</u>	<u>¥947 million</u>
—% YoY	—% YoY

For performance by segment, please see below.

## Device Segment

In the device business segment, our leading products are semiconductors (including system LSIs, microcomputers, LCD driver ICs and memory) and electronic components (including connectors and capacitors). These products are sold mainly to electronics manufacturers. We also provide technical support such as software development and module development.

In the consolidated period under review, sales of products for vehicles remained strong, and sales in new businesses continued to grow despite launch delays. However, sales of the LCD-related products were weak, and change in product strategies by major suppliers had an adverse effect on sales of some product ranges.

As a result, segment sales decreased 7.6% year-on-year to ¥143,701 million. However, thanks to an increase in the gross profit margin, a substantial decline in loss on inventory valuation and foreign exchange losses, as well as the effect of reduction of fixed cost made possible by a number of measures including consolidation and integration of business bases, the segment returned a profit of ¥724 million (against a segment loss of ¥2,028 million in the previous fiscal year).

Note: Segment profit is based on ordinary profit.

## Solution Segment

In the solution business segment, we are committed to design, construction, operation and maintenance of infrastructure for private companies as well as government offices and municipalities, focusing on communication networks. For core systems, we offer services deriving from provision of package software, such as individually developed and customized solutions. We also provide broadcast stations and production companies with systems for editing, transmission and distribution of video content, centered on products from suppliers abroad.

Aside from slow sales of embedded systems, growth was firm overall in the fiscal year under review, driven by recovery made by the public sector and other favorable developments.

As a result, segment sales increased by 11.4% year-on-year to ¥13,555 million. However, segment profit decreased 1.2% year-on-year to ¥1,062 million, due to a decrease in gross profit margin.

Note: Segment profit is based on ordinary profit.

## **(2) Capital Investment Activities**

The total amount of facility investments made in this consolidated fiscal year was ¥57 million. The main investment was repair of buildings.

## **(3) Financing Activities**

Loans from financial institutions were the main means of raising funds in this fiscal year, and there is no special item to be noted here.

## **(4) Future Challenges**

(Basic management policies)

The Company's basic policy is to adhere to the corporate philosophy of "Trust, Principles and Sincerity" in order to earn reputation as "the Chosen" among general electronics trading companies to prove its value based on a wide range of solutions it provides to its customers and suppliers.

In the device business, in order to assist all client companies active in home appliances, automobiles and industrial devices operations in their efforts for globalization, the Company has been striving to establish overseas subsidiaries and provide goods and services, as well as it has been serving as a coordinator for its customers and suppliers through extensive product range and enhanced technological strength for suppliers' product development. Furthermore, in the solution business, the Company has been actively acting as a system integrator with information and communication network at the core of its contributions to clients' business development. Sanshin Electronics will continue to increase the Group's present value proving why customers and suppliers choose us.

In managing its businesses, the Company will continue to fulfill its mission as a good corporate citizen by developing a system that enables diverse personnel to play an active role in the Company, as well as by continuing to reduce the environmental impact of its operations, just to mention a few actions.

(Target business indicators)

By establishing the return on equity (ROE) and ordinary profit as the Company's important business indicators, we will endeavor to improve earnings.

(Basic policies for profit distribution)

The Company considers profit returns to its shareholders as one of the most important management issues. The Company's basic policy is to determine dividends by comprehensively considering the need to maintain a balance between rewarding of shareholders, investment to gain opportunities for growth, attainment of sufficient retained earnings to enable sustainable growth, and improvement in capital efficiency. Under this policy, the Company has set a target for its dividend payout ratio of around 50% on a consolidated basis.

The Group is carrying out the V70 Medium-Term Management Plan to be closed in the 70th term (fiscal year ending March 31, 2021). Under this Management Plan, we will implement some measures for enhancement in capital efficiency, and will increase the consolidated dividend payout ratio to around 100% in the three consecutive terms extending from the fiscal year ended March 31, 2018 to the fiscal year ending March 31, 2020. In addition, we plan to acquire treasury stocks by setting the maximum acquisition cost at ¥20 billion (or by setting the maximum

number of acquired shares at 10 million) in the above three terms.

(Medium-term business strategy and future challenges)

The Group is carrying out the V70 Medium-Term Management Plan to be closed in the 70th term (fiscal year ending March 31, 2021), with an aim to attain the goals of “return on equity (ROE) at 5%” and “ordinary profit at ¥3 billion”. In an earnest effort to achieve the above goals, the Group will tackle the following challenges:

## **1) Regaining profitability in the device business**

### ***a. Reform of business portfolio***

We have taken actions to prioritize markets where high growth is expected, such as IoT and automobiles. The Company has been slow to increase its sales ratio of highly profitable businesses, as it has taken some time for us to launch high-growth businesses, mainly in the IoT field. Building a new revenue base is a challenge that remains to be addressed. In the last three years under the V70 Medium-Term Management Plan, we will further accelerate the shift of business priority from low-profitability volume sales to high-value-added business by taking advantage of our technological capabilities.

### ***b. Enhancement in profitability of existing business***

We have achieved some success in enhancing operational efficiency to maximize the effect of fixed-cost cuts; we will continue to make efforts to reform the cost structure. In addition, we will continue to strengthen management of exchange-rate and inventory risk by implementing appropriate control systems. In existing business, activities to acquire new commercial rights and to expand sales of devices for vehicle-mounted systems have progressed steadily. We will not only continue to make efforts to increase the gross profit margin, but also acquire solution provider businesses by strengthening alliances with business partners.

## **2) Strengthening of revenue base of solution business**

### ***a. Expansion of cloud service portfolio***

The V70 Medium-Term Management Plan defines as a top priority the expansion of our cloud service portfolio through utilization of the Sanshin Data Center and collaboration with other companies' services. However, we have not yet fully attained our goals in strengthening external sales and recruiting human resources with high skills in a planned manner, so we need to intensify our efforts to strengthen the revenue base of the data center business. On the other hand, we have already started sales expansion activities targeting customers by customer size and market, and will leverage medium-to-long-term changes in business environment, such as the expected future increase in closed data centers, to expand our portfolio of cloud services covering IaaS, PaaS and SaaS (\*).

\* IaaS: Infrastructure as a Service    PaaS: Platform as a Service    SaaS: Software as a Service

### ***b. Maximization of synergy effects between business units***

Based on the customer business and product types, the Company divides the solution business into seven business units, including the technology business unit. The solution business is defined in the V70 Medium-Term Management Plan as a top priority to provide a wider variety of solutions to customers by utilizing the inherent

strength of each business unit and increasing synergy. We have already produced some results in cross-selling of merchandise in which we have strengths, such as video systems and various applications. In the future, we will continue to make efforts to enhance synergies among business units, particularly in the area of embedded business. In addition, we will continue to explore new business domains such as cloud and AI/IoT across business units.

### **3) Enhancement of capital efficiency**

In order to enhance capital efficiency, we will make efforts to increase return to shareholders by paying dividends and acquiring treasury stocks. For detailed information on this activity, please refer to “Basic policies for profit distribution” mentioned above.

### **4) Strengthening of corporate governance**

In the V70 Medium-Term Management Plan, strengthening of corporate governance is defined as a prerequisite for strengthening of business capability and enhancement of capital efficiency. We are making efforts to improve our governance structure by continuing to appoint multiple Independent External Directors to strengthen monitoring and advisory functions and by introducing the medium-to-long-term performance-based compensation plan for Directors and severe standard for bonus payment to clarify the management accountability in each fiscal year. We will make efforts to enhance medium-to-long-term business results and corporate value by implementing the measures to make corporate governance more effective, including reviewing of the management structure of the Group.



**(5) Trends in Assets and Operating Results of the Company**

	64th Term (From April 1, 2014 to March 31, 2015)	65th Term (From April 1, 2015 to March 31, 2016)	66th Term (From April 1, 2016 to March 31, 2017)	<b>67th Term (From April 1, 2017 to March 31, 2018)</b>
Net Sales (million yen)	219,091	199,075	167,654	<b>157,257</b>
Operating Profit (million yen)	3,260	1,913	804	<b>1,763</b>
Ordinary Profit (million yen)	3,117	1,500	(952)	<b>1,787</b>
Net Profit Attributable to Shareholders of Parent Company (million yen)	2,003	977	(1,575)	<b>947</b>
Net Profit Per Share (yen)	71.11	34.70	(55.90)	<b>33.62</b>
Total Assets (million yen)	101,672	95,580	94,144	<b>93,972</b>
Net Assets (million yen)	65,619	63,385	61,537	<b>61,744</b>
Net Assets Per Share (yen)	2,328.64	2,249.40	2,183.84	<b>2,191.19</b>
Return on Equity (ROE) (%)	3.1	1.5	(2.5)	<b>1.5</b>

Note: The numbers enclosed in brackets in each category indicates losses or negative numbers.

## (6) Status of Parent Company and Principal Subsidiaries

### 1) Parent company

Not applicable.

### 2) Principal subsidiaries

Company Name	Address	Main Business	Capital	Equity Position
SANSHIN ELECTRONICS (HONG KONG) CO., LTD.	Hong Kong	Sales and import/export of semiconductors, electronic components and equipment	12,820,000 US Dollar	100.00%
SANSHIN ELECTRONICS SINGAPORE (PTE) LTD.	Singapore	Sales and import/export of semiconductors, electronic components and equipment	1,939,000 US Dollar	100.00%
TAIWAN SANSHIN ELECTRONICS CO., LTD.	Taipei, Taiwan	Sales and import/export of semiconductors, electronic components and equipment	160,000,000 Taiwan New Dollar	100.00%
SANSHIN ELECTRONICS CORPORATION	California, U.S.A.	Sales and import/export of semiconductors, electronic components and equipment	3,000,000 US Dollar	100.00%
SANSHIN ELECTRONICS KOREA CO., LTD.	Seoul, South Korea	Sales and import/export of semiconductors, electronic components and equipment	5,000,000,000 Korean Won	100.00%
SANSHIN ELECTRONICS (THAILAND) CO., LTD.	Bangkok, Thailand	Sales and import/export of semiconductors, electronic components and equipment	100,000,000 Thai Baht	*100.00%
SANSHIN ELECTRONICS (SHANGHAI) CO., LTD.	Shanghai, China	Sales and import/export of semiconductors, electronic components and equipment	31,000,000 Chinese Yuan	*100.00%
TAKUMI CORPORATION	Tokyo, Japan	1. Development and sales of electronic equipment 2. Development of computer software 3. Acquisition, transfer, assistance in license acquisition, and management of intellectual property rights	45,000,000 Japanese Yen	74.07%
SANSHIN NETWORK SERVICE CO., LTD.	Tokyo, Japan	1. Design, construction, installation, maintenance, operation, and management of telecommunications systems 2. Design and installation of circuits and telephone equipment in telecommunications systems 3. Sales of equipment and devices related to telecommunications systems	30,000,000 Japanese Yen	100.00%

Notes: 1. The percentages marked with an asterisk (\*) include indirect holdings.

2. The Group has no specified wholly-owned subsidiary.

3. TAKUMI CORPORATION, a non-consolidated subsidiary in the previous fiscal year, was included in the scope of the consolidation with effect from the consolidated fiscal year under review because its importance has increased.

**(7) Principal Businesses (as of March 31, 2018)**

The Group is developing the device business and solutions business. A description of each segment is provided in the overview of results per business segment in “(1) Business Progress and Results.”

**(8) Principal Offices (as of March 31, 2018)**

Domestic	
• SANSBIN ELECTRONICS CO., LTD.	Headquarters: 4-12, Shiba 4-chome, Minato-ku, Tokyo Branches: Osaka Branch, Shizuoka Branch, Nagoya Branch, Takamatsu Branch, Utsunomiya Branch, Nagano Branch, Nagaoka Branch, Kochi Liaison Office Other Business Place: Atsugi Distribution Center
• AXIS DEVICE TECHNOLOGY CO., LTD.	Headquarters: Tokyo
• SANSBIN NETWORK SERVICE CO., LTD.	Headquarters: Tokyo
• SANSBIN MEDIA SOLUTIONS CO., LTD.	Headquarters: Tokyo
• SANSBIN SYSTEM DESIGN CO., LTD.	Headquarters: Tokyo
• TAKUMI CORPORATION	Headquarters: Tokyo

Overseas	
• SANSBIN ELECTRONICS (HONG KONG) CO., LTD.	Headquarters: Hong Kong
• SANSBIN ELECTRONICS (SHANGHAI) CO., LTD.	Headquarters: China
• SANSBIN ELECTRONICS (SHENZHEN) CO., LTD.	Headquarters: China
• SANSBIN ELECTRONICS KOREA CO., LTD.	Headquarters: Korea
• SANSBIN ELECTRONICS SINGAPORE (PTE) LTD.	Headquarters: Singapore
• SAN SHIN ELECTRONICS (MALAYSIA) SDN. BHD.	Headquarters: Malaysia
• SANSBIN ELECTRONICS (THAILAND) CO., LTD.	Headquarters: Thailand
• TAIWAN SANSBIN ELECTRONICS CO., LTD.	Headquarters: Taiwan
• SANSBIN ELECTRONICS CORPORATION	Headquarters: U.S.A. DETROIT BRANCH OFFICE

**(9) Employees (as of March 31, 2018)**

Business Segment	Number of Employees	Change from the End of the Previous Term
Device business	379 (11)	down 7 (down 1)
Solution business	188 (6)	up 3 (down 1)
Corporate (common)	60 (53)	down 2 (down 17)
Total	627 (70)	down 6 (down 19)

Notes: 1. The number of employees represents the number of those actually at work.

2. The number of employees in the “Corporate (common)” row includes personnel in administrative departments, such as General Affairs Department, Accounting Department, distribution centers, etc.

3. The annual average number of temporary employees (part-time and entrusted workers) is enclosed in ( ).

4. The number of employees in the device business decreased despite inclusion of TAKUMI CORPORATION in the scope of consolidation with effect from the consolidated fiscal year under review. This is due to a decrease in the number of employees resulting from solicitation of voluntary retirement.

**(10) Principal Lenders (as of March 31, 2018)**

Lender	Outstanding Loan Amount
	(Million yen)
Sumitomo Mitsui Banking Corporation	478
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	265

Note: The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its name to MUFG Bank, Ltd. as of April 1, 2018.

**(11) Other Significant Matters Concerning the Current Status of Corporate Group**

Not applicable.

## II. Shares of the Company (as of March 31, 2018)

(1) Number of Shares Authorized to Be Issued: 76,171,000 shares

(2) Number of Shares Issued: 29,281,373 shares

(3) Number of Shareholders: 2,447

(4) Major Shareholders (Top ten shareholders)

Name of Shareholder	Number of Shares Held (Thousands of shares)	Shareholding ratio (%)
C&I Holdings Co.,Ltd.	2,814	9.94
Aya Nomura	2,810	9.92
Minami Aoyama Fudosan Inc.	2,653	9.37
OFFICE SUPPORT Inc.	2,093	7.39
Matsunaga Eiichi, Ltd.	1,600	5.65
NEC Corporation	1,049	3.70
Sumitomo Mitsui Banking Corporation	1,000	3.53
S-GRANT. Co., Ltd.	727	2.57
Japan Trustee Services Bank, Ltd. (Trust Account)	538	1.90
The Master Trust Bank of Japan, Ltd. (Trust Account)	528	1.87

(Notes) 1. The Company has 963,796 shares of treasury stock, but is excluded from the major shareholders above.

2. Shareholding ratio is calculated with treasury shares excluded.

### **III. Stock Acquisition Rights, etc.**

Not applicable.

#### IV. Directors and Audit & Supervisory Board Members

##### (1) Status of Directors and Audit & Supervisory Board Members (as of March 31, 2018)

Position	Name	Responsibility Within the Company	Important Concurrent Roles, etc.
Representative Director, CEO	Mitsumasa Matsunaga		
Representative Director, COO	Toshiro Suzuki	In charge of Auditing Office	
Director, Senior Operating Officer	Fumihide Kitamura	Supervisor of Device Business Group/In charge of Business Administration Department, IoT Business Unit and Overseas Sales Unit/General Manager of Business Administration Department	Managing Director of SANSHIN ELECTRONICS KOREA CO., LTD.
Director, Senior Operating Officer	Nobuyuki Hatano	Senior General Manager of Solution Marketing & Sales Division	
Director, Operating Officer	Akio Misono	Senior General Manager of Finance & Accounting Division	
Director, Operating Officer	Koji Sakamoto	Senior General Manager of Administration Division	
Director, Operating Officer	Yuji Mori	Deputy Senior General Manager of Solution Marketing & Sales Division	
Director, Operating Officer	Tomoyuki Nagase	In charge of 1st Sales Unit and 2nd Sales Unit in Device Business Group/Director of 1st Sales Unit	
Director, Operating Officer	Mitsuhiro Ogawa	In charge of Sales Technology Unit and CE Unit in Device Business Group/Director of CE Unit	
Director	Takeshi Uchimura		
Director	Minoru Nishino		External Director of Mori-Gumi Co., Ltd.
Director	Tatsuo Takeuchi		
Audit & Supervisory Board member (Full-time)	Keiji Nishio		
Audit & Supervisory Board member (Full-time)	Shin-ichi Miura		
Audit & Supervisory Board member	Minoru Matsumoto		Certified Public Accountant of Minoru Matsumoto CPA Office, External Director of JASTEC Co., Ltd., External Director of Foster Electric Co., Ltd.
Audit & Supervisory Board member	Shohei Yamamoto		Lawyer of Marunouchi-Chuo Law Office, External Director of Narasaki Sangyo Co., Ltd., Audit & Supervisory Board member of MegaHouse Corporation, External Audit & Supervisory Board member of Bandai Co., Ltd., External Audit & Supervisory Board member of Toin Corporation

- Notes: 1. Takeshi Uchimura, Minoru Nishino and Tatsuo Takeuchi serve as External Directors, while Minoru Matsumoto and Shohei Yamamoto serve as External Audit & Supervisory Board members. Also, the Company has designated all five of them as Independent Directors and Audit & Supervisory Board members as per the provisions of the Tokyo Stock Exchange, and has given notice to this effect to the Stock Exchange.
2. Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company entered into an agreement respectively with Takeshi Uchimura, Minoru Nishino and Tatsuo Takeuchi, Keiji Nishio, Shin-ichi Miura, Minoru Masumoto and Shohei Yamamoto, which limits their liability for damages prescribed in Article 423, Paragraph 1 of the same Act. The limit on their liability for damages under the agreement coincides with the legally stipulated amounts.
3. Minoru Matsumoto is qualified as a certified public accountant, and has a considerable degree of knowledge about financial and accounting matters.
4. The Company has no special relationships with the entities listed above in which the External Directors and External Audit & Supervisory Board members hold important concurrent positions.
5. During this consolidated fiscal year, Directors' position and responsibility within the Company were changed as follows:

Name	Before change	After change	Date of change
Fumihide Kitamura	Director, Senior Operating Officer, in charge of Overseas Sales Unit in Device Business Group/Director of Overseas Sales Unit	Director, Senior Operating Officer, in charge of IoT Business Unit and Overseas Sales Unit in Device Business Group/Director of Overseas Sales Unit	April 1, 2017
Tomoyuki Nagase	Director, Operating Officer, in charge of 1st Sales Unit in Device Business Group/Director of 1st Sales Unit	Director, Operating Officer, in charge of 1st Sales Unit and 2nd Sales Unit in Device Business Group/Director of 1st Sales Unit	April 1, 2017
Fumihide Kitamura	Director, Senior Operating Officer, in charge of IoT Business Unit and Overseas Sales Unit in Device Business Group/Director of Overseas Sales Unit	Director, Senior Operating Officer, Supervisor of Device Business Group/In charge of Business Administration Department, IoT Business Unit and Overseas Sales Unit/General Manager of Business Administration Department	October 1, 2017
Mitsuhiro Ogawa	Director, Operating Officer, in charge of CE Unit in Device Business Group/Director of CE Unit	Director, Operating Officer, in charge of Sales Technology Unit and CE Unit in Device Business Group/Director of CE Unit	October 1, 2017



6. The table below lists the Directors and Audit & Supervisory Board members who have retired during this consolidated fiscal year.

Name	Date of retirement	Reasons for retirement	Title, duties and important concurrent roles, etc., at the time of retirement
Yasuhiko Ota	June 23, 2017	Expiration of the term of office	Director, Senior Operating Officer, Supervisor of Device Business Group/In charge of Business Administration Department, Sales Technology Unit and CE Unit/General Manager of Business Administration Department

## (2) Compensation to Be Paid to Directors and Audit & Supervisory Board Members

### 1) Total compensation for this fiscal year

Post	Number of Officials	Amount to Be Paid
Directors	13	¥144 million
(External Directors)	(3)	(¥14 million)
Audit & Supervisory Board members	4	¥39 million
(External Audit & Supervisory Board members)	(2)	(¥9 million)
Total	17	¥184 million

Notes: 1. The Directors and Audit & Supervisory Board members above include one Director (including no External Director) who retired at the conclusion of the 66th Ordinary General Meeting of Shareholders held on June 23, 2017.

- The amount of compensation for Directors does not include the salaries of Directors who concurrently serve as employees.
- The upper limit on the total amount of compensation to be paid to Directors was set at ¥420 million per year (excluding the employee salaries) at the 56th Ordinary General Meeting of Shareholders held on June 22, 2007.
- The upper limit on the total amount of compensation to be paid to Audit & Supervisory Board members was set at ¥50 million per year at the 42nd Ordinary General Meeting of Shareholders held on December 21, 1993.
- The amount of compensation for Directors includes ¥24 million provision for bonuses paid to 9 Directors (excluding External Directors) in the consolidated fiscal year under review. The Company abolished the bonus system for Audit & Supervisory Board members in the 54th term.
- The amount of compensation for Directors includes ¥11 million provision for compensation paid to 9 Directors (excluding External Directors) in relation to the performance-based stock compensation plan for Directors in the consolidated fiscal year under review.

### 2) Retirement benefits paid to retired Directors and Audit & Supervisory Board members for this fiscal year

At the 55th Ordinary General Meeting of Shareholders, which was held on June 23, 2006, approval was given for discontinuing payments in line with abolishing the retirement benefit system for directors. Following the resolution, there has been no retirement benefit paid to the retired Directors and Audit & Supervisory Board members who resigned at the conclusion of the 65th Ordinary General Meeting of Shareholders held on June 23, 2017.

### (3) Matters Concerning External Directors and Audit & Supervisory Board Members

#### 1) State of significant posts held concurrently at other corporations, and relations between the Company and the location of the other posting

Please see the above “(1) Status of Directors and Audit & Supervisory Board Members” section.

#### 2) Major activities in the fiscal year under review

##### • Status of attendance at meetings of the Board of Directors and the Audit & Supervisory Board

	Board of Directors Meetings (a total of 13 meetings)		Audit & Supervisory Board Meetings (a total of 16 meetings)	
	Number of Meetings Attended	Attendance Rate	Number of Meetings Attended	Attendance Rate
Director Takeshi Uchimura	13	100%	—	—
Director Minoru Nishino	13	100%	—	—
Director Tatsuo Takeuchi	13	100%	—	—
Audit & Supervisory Board member Minoru Matsumoto	13	100%	16	100%
Audit & Supervisory Board member Shohei Yamamoto	13	100%	16	100%

##### • Advice and Suggestions Provided at Meetings of the Boards of Directors and Audit & Supervisory Board

Takeshi Uchimura, Minoru Nishino and Tatsuo Takeuchi provided a wide range of valuable comments and advices in terms of corporate governance, risk analysis and evaluation in the course of business operation, compensation system for the Directors, election of any Directors, and overall management based on their abundant experience and achievements in corporate management at another listing companies.

Minoru Matsumoto and Shohei Yamamoto provided comments effective and necessary for securing legal compliance of the Company’s management from the viewpoints of their positions as a certified public accountant and a lawyer, respectively.

## **V. Status of Accounting Auditor**

### **(1) Name of Accounting Auditor**

Deloitte Touche Tohmatsu LLC.

### **(2) Amount of Compensation**

	Amount to Be Paid
Compensation to be paid to Accounting Auditors for the fiscal year under review	¥45 million
Total of cash and other assets to be paid by the Company and subsidiaries to Accounting Auditors	¥45 million

Notes: 1. Among principal subsidiaries of the Company, overseas subsidiaries were subject to audits by a person other than the Accounting Auditor who audits the Company (overseas certified public accountant or person equivalent to the qualification of auditing firm) (limited to an audit subject to a foreign law equivalent to the Companies Act or the Financial Instruments and Exchange Act of Japan).

2. The auditing contract between the Company and the Accounting Auditors makes no distinction between auditing services based on the Corporate Law and auditing services based on the Financial Instruments and Exchange Law. Since no real distinction can be made in practice, the amount paid represents the total amount.

3. As prescribed in “Practical Guidelines Concerning Cooperation with Accounting Auditors” released by Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board has verified the status of execution of duties by Accounting Auditors and their audit plan, and after considering the Company’s previous business results, has agreed with the provisions of Article 399, Paragraph 1 of the Companies Act on matters such as the compensation to be paid to Accounting Auditors.

### **(3) Non-Audit Work**

In addition to section (2) above, the Company entrusts the Accounting Auditor with services other than service as provided in Article 2, Paragraph 1 of the Certified Public Accountants Law (non-audit work), including “an advisory service for introduction of share settlement trust”, and paid compensation for such services to the Accounting Auditor.

### **(4) Policy Concerning Decisions to Dismiss or Not to Reappoint Accounting Auditors**

When there is any difficulty in execution of duties by the Accounting Auditor and their fulfillment is deemed necessary, the Audit & Supervisory Board shall determine the content of the proposal regarding whether to dismiss or not reappoint the Accounting Auditor to be submitted to the General Meeting of Shareholders. Furthermore, if the Accounting Auditor is deemed to fall under any of the items prescribed in Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board shall dismiss the Accounting Auditor based on consent of all Audit & Supervisory Board members. In this case, the Audit & Supervisory Board member designated by the Audit & Supervisory Board shall report on the dismissal of the Accounting Auditor and the reason thereof at the first General Meeting of Shareholders following the dismissal.

## **VI. System for Securing Appropriateness of Business Operations and the Status of Its Operation**

### **(1) System for Securing Appropriateness of Business Operations**

At the Meeting of the Board of Directors, the Company resolved the following system for securing compliance of directors' execution of duties in line with laws and regulations as well as with the Articles of Incorporation, but also for securing the appropriateness of the business operations of the Company.

#### **1) System for Securing Compliance of Execution of Duties by Directors and Employees with Laws and Regulations and Articles of Incorporation**

- The Company shall set the code of conduct in line with the company creed and philosophy where its directors and employees are required to comply with, and ensure that each and every director and employee is thoroughly informed of this code.
- The Company shall set compliance rules and establish a framework for compliance, including an internal reporting (whistle-blower) system.
- When detecting serious legal violation or other important matters concerning compliance, Directors shall immediately notify Audit & Supervisory Board members and report it at a meeting of the Board of Directors or a corporate management meeting without any delay.
- The Company shall set up an internal audit department that is independent from operational divisions and responsible for auditing the operational processes thereof in order to prevent and detect illegal acts and improve the processes.
- Audit & Supervisory Board members shall be allowed not only to attend meetings of the Board of Directors on a permanent basis but also to participate in other important meetings and committee meetings as necessary. In addition, Audit & Supervisory Board members shall regularly hold meetings to seek the opinions of Accounting Auditors.
- The Company shall stipulate explicitly the obligation to break off relations with antisocial forces in the code of conduct. Furthermore, it shall establish a department to handle such antisocial forces and take all necessary measures such as formulating a communication framework to contact the police and lawyers in the case of emergency, collecting and managing information, preparing regulations and manuals, and so on.

#### **2) System for Storage and Management of Information Concerning Directors' Execution of Duties**

- Directors shall store and manage documents and other information materials concerning their execution of duties appropriately in accordance with the rules set by the Company.
- Directors, Audit & Supervisory Board members and employees at the internal audit department may access such information at any times.

#### **3) Rules Concerning Risk Management**

- The Company has established risk management regulations, and clearly states the risks that it faces.
- Under the directions of its General Risk Committee, which is headed by the company president, the Company manages risk for the entire Group.
- As well as clarifying the supervisory department for each risk, the General Risk Committee sets up individual committees as required, and prepares systems for enabling swift and effective responses to be made when risks arise. Also, the Company formulates a Business Continuity Plan (BCP) that assumes the occurrence of a large scale

earthquake related disaster.

- The General Risk Committee makes reports to the Board of Directors, as necessary, on the state of responses being made for risks that have arisen.
- Regarding potential risks requiring response, after assessing these, the General Risk Committee reviews the effectiveness of the risk policies and associated management systems, and then reports on their findings to the Board of Directors.

#### **4) System for Securing Efficiency of Execution of Duties by the Group's Directors**

- The Company shall hold a regular meeting of the Board of Directors every month and hold an extraordinary meeting of the Board of Directors as necessary.
- In addition, the Company shall regularly hold a corporate management meeting with the participation of Executive Directors, Full-time Audit & Supervisory Board members and others, for which sufficient deliberations shall be conducted in advance on particularly important matters to be determined by the Board of Directors.
- With regard to the execution of operations based on decisions made at a meeting of the Board of Directors, the divisions and officials in charge thereof as well as the execution procedures shall be determined based on the rules concerning the allocation of operational responsibilities and authorities. Furthermore, by similarly maintaining necessary regulations and providing execution proceedings for each subsidiary, the Company aims to streamline execution of duties by each subsidiary's corresponding director.

#### **5) System for Securing Appropriateness of Operations of the Group**

- All companies belonging to the Sanshin Electronics Group shall be required to comply with the Group creed and philosophy, the code of conduct and the compliance rules, and the Company shall ensure that directors and all employees of its subsidiaries are thoroughly informed. Each subsidiary shall maintain necessary regulations for itself based on the above rules.
- The Sanshin Electronics Group as a whole, including subsidiaries, shall implement measures to cope with the serious risks. Each subsidiary shall maintain necessary regulations for itself based on the above rules.
- Subsidiaries are required to obtain prior approval from and submit reports to the Company with regard to important matters as specified in the rules concerning the supervision of subsidiaries and affiliated companies.
- The Company shall regularly provide directors and employees of subsidiaries with opportunities to have the Company's Directors and Audit & Supervisory Board members reporting on the execution of their respective duties.
- Audit & Supervisory Board members shall conduct necessary audits with regard to subsidiaries, too.

#### **6) Systems for Ensuring the Reliability of Financial Reporting**

- To ensure the reliability of the Group's financial reporting and the effective and appropriate submission of the internal control reports, the Company shall set the Internal Control Management Regulations and introduce the framework to evaluate the effectiveness of the internal control system on a regular basis and to correct inadequacies, if any.

#### **7) System for Accommodating Audit & Supervisory Board Members' Requests for Assistant Employees and**

### **Independence of Said Employees from Directors**

- Audit & Supervisory Board members shall be given the authority to issue instructions to the internal audit division with regard to matters necessary for their auditing activities.
- Concerning instructions received from Audit & Supervisory Board members with regard to matters necessary for their auditing activities, employees at the internal audit department shall not be bound by the chain of command leading down from Directors.
- The Company shall respect the Audit & Supervisory Board members' opinions with regard to matters related to the appointment, transfer, evaluation, disciplinary actions and so forth, of the employees at the internal audit department.

### **8) Systems for Reporting by Directors and Employees to Audit & Supervisory Board Members and for Securing Effective Audits by Audit & Supervisory Board Members**

- Audit & Supervisory Board members shall be given the authority to request necessary reports from directors and employees at any time.
- The Representative Directors shall provide the Audit & Supervisory Board members with opportunities to exchange opinions with them regularly.
- The internal audit department shall make sure to submit reports to Audit & Supervisory Board members after conducting audits of operations, etc.
- The Company shall establish an appropriate system for the reporting of matters concerning compliance, such as legal violation, to Audit & Supervisory Board members by setting compliance rules.
- Any disadvantageous treatment given to Directors and Employees who contribute through reports to audits by Audit & Supervisory Board members, or to Directors, Audit & Supervisory Board members and Employees of subsidiaries is prohibited.
- When Audit & Supervisory Board members request to the Company the payment in advance for the expenses related to the execution of their auditing duties, the Company shall pay such costs or amortize the liability immediately. Moreover, in order to pay the expenses incurred in the execution of duties by Audit & Supervisory Board members, the Company shall allocate a certain amount of budget each year.

### **(2) Outline of the Status of Operation of the System for Securing Appropriateness of Business Operations**

The status of operation of the system for securing appropriateness of business operations is shown as below.

- The Company has set a code of conduct its directors and employees are required to comply with, and is currently taking thorough measures to make this code known by everyone at the training for new employees, as well as through periodic publications in the Company's newsletter, postings within offices, or by distributing cards internally. Furthermore, in order to assess the implementation status of this code of conduct, the Company regularly conducts an employee questionnaire. The results of the questionnaire are reported to the Board of Directors and the degree of awareness toward the code of conduct is confirmed.
- The Company has established internal reporting regulations which define items including confidentiality of whistle-blowers, prohibition of disadvantageous treatment of whistle-blowers, and prohibition of handling of reported incidents by individuals who are personally involved in said incidents. The Company operates an internal control system. Furthermore, in order to strengthen independence from management, the Company includes all

Audit & Supervisory Board members in the reporting contact point.

- The Company has established an Auditing Office as its internal auditing department. Currently, three dedicated staffs are stationed at the Auditing Office as of the date of creation for this business report. After conducting an operational audit, the Auditing Office submits an auditing report to the Representative Directors and to Audit & Supervisory Board members. Furthermore, the Audit & Supervisory Board members and Auditing Office hold meetings as necessary. Audit & Supervisory Board members gather information from the Auditing Office; for example, requesting reports on the status of the internal control system and related auditing results. Audit & Supervisory Board members also provide instruction and recommendations to the Auditing Office.
- Audit & Supervisory Board members shall attend the meetings of the Board of Directors. Furthermore, Full-time Audit & Supervisory Board members shall attend management and executive committee meetings, management strategy meetings and other important gatherings on a permanent basis. In addition to holding deliberation with Accounting Auditors at the beginning of the fiscal term under review in order to formulate an audit plan, Audit & Supervisory Board members meet periodically and as necessary, and are present during the performance of accounting audits as necessary.
- The General Risk Committee makes reports to the Board of Directors, as necessary, on the state of responses being made for risks that have arisen. Also, regarding new risks requiring response, after assessing these, the General Risk Committee reports on the effectiveness of the risk policies and associated management systems to the Board of Directors.
- During the fiscal term under review, ordinary meetings were held 13 times, and no extraordinary meeting was held.
- The scope of matters to be resolved by the Board of Directors was limited to legal matters and fundamental matters of the Company (disposal of important assets such as investments, corporate code of conduct, corporate philosophy, code of conduct, establishment/revision of basic management policies and management plans, items related to corporate governance, etc.). Other matters shall be delegated to corporate management meetings and executive directors, and action shall be taken in accordance with rules. In regards to the executions of said actions, executive directors shall report to the Board of Directors as necessary. Through these reports, the Board of Directors shall supervise the decision-making and business operation of executive directors.
- Audit & Supervisory Board members perform accounting audits in important subsidiaries in Japan, and visit important overseas subsidiaries for periodic audits.
- In accordance with the Internal Control Management Regulations, the Internal Control Committee meets once every quarter. In order to evaluate the effectiveness of internal controls at the Company, the Internal Control Committee considers the self-assessment results of self-inspection and the results of independent evaluation by the Auditing Office. Results are reported to the COO.
- Representative Directors meet periodically with Audit & Supervisory Board members and Independent External Directors in order to exchange opinions. Furthermore, separate meetings are held between Audit & Supervisory Board members and Independent External Directors in order to exchange opinions.

Consolidated Financial Statements

**CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2018

	Millions of yen
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and deposits	17,176
Notes and accounts receivable-trade	41,734
Electronically recorded monetary claims	6,335
Merchandise inventories	16,119
Partly-finished work	772
Accrued income	174
Deferred tax assets	394
Others	3,714
Allowance for doubtful accounts	(12)
Total current assets	86,411
<b>Non-current assets:</b>	
<b>Property and equipment</b>	
Buildings and structures	1,492
Land	2,029
Leased assets	87
Others	71
Total property and equipment	3,681
<b>Intangible assets:</b>	361
<b>Investments and other assets:</b>	
Investment securities	3,307
Others	224
Allowance for doubtful accounts	(14)
Total investments and other assets	3,517
Total non-current assets	7,561
<b>TOTAL</b>	<b>93,972</b>

Note: Figures are rounded down to the nearest million yen.



**CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2018

		Millions of yen
<b>LIABILITIES AND NET ASSETS:</b>		
<b>LIABILITIES:</b>		
<b>Current liabilities:</b>		
Notes and accounts payable-trade		15,633
Short-term loans payable		13,809
Current portion of long-term loans payable		16
Lease obligations		34
Accrued corporate tax, etc.		186
Allowance for bonuses to employees		474
Allowance for bonuses to Directors and Audit & Supervisory Board members		24
Others		1,233
Total current liabilities		31,412
<b>Non-current liabilities:</b>		
Long-term loans payable		6
Lease obligations		52
Deferred tax liabilities		348
Allowance for stock compensation		11
Net defined benefit liabilities		256
Others		97
Total non-current liabilities		772
Total liabilities		32,184
<b>NET ASSETS:</b>		
<b>Shareholders' equity:</b>		
Capital stock		14,811
Capital surplus		15,432
Retained earnings		32,197
Treasury stock		(867)
Total shareholders' equity		61,574
<b>Accumulated other comprehensive income:</b>		
Valuation difference on available-for-sale securities		781
Deferred hedge gains (losses)		80
Foreign currency translation adjustments		(708)
Remeasurements of defined benefit plans		16
Total accumulated other comprehensive income		169
<b>Non-controlling interests</b>		43
Total net assets		61,787
<b>TOTAL</b>		<b>93,972</b>

Note: Figures are rounded down to the nearest million yen.

**CONSOLIDATED PROFIT AND LOSS STATEMENT**

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2018

	Millions of yen	
Net sales		157,257
Cost of sales:		145,809
Gross profit on sales		11,447
Selling, general and administrative expenses:		9,684
Operating profit		1,763
Non-operating profit:		
Interest income	22	
Dividend income	57	
Foreign exchange gains	166	
Others	47	294
Non-operating expenses:		
Interest expenses	237	
Sales discounts	16	
Others	17	271
Ordinary profit		1,787
Extraordinary profits:		
Gain on sales of non-current assets	0	
Gain on sales of investment securities	0	0
Extraordinary losses:		
Loss on retirement of non-current assets	0	
Loss on valuation of investment securities	467	
Special retirement benefits	229	697
Net profit before tax and other adjustments		1,090
Corporate, resident and enterprise taxes	188	
Adjustment for corporate tax, etc.	(77)	110
Net profit		979
Net profit attributable to non-controlling interests		32
Net profit attributable to shareholders of parent company		947

Note: Figures are rounded down to the nearest million yen.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2018

Millions of yen

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of April 1, 2017	14,811	15,329	31,923	(764)	61,300
Changes during the term					
Dividends of surplus			(705)		(705)
Net profit attributable to shareholders of parent company			947		947
Purchase of treasury stock				(0)	(0)
Purchase of treasury stock under stock compensation plan				(199)	(199)
Disposal of treasury stock under stock compensation plan		102		96	199
Change of scope of consolidation			32		32
Net changes of items other than shareholders' equity					
Total changes during the term	—	102	274	(102)	274
Balance as of March 31, 2018	14,811	15,432	32,197	(867)	61,574

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred hedge gains (losses)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income		
Balance as of April 1, 2017	654	(7)	(241)	(168)	237	—	61,537
Changes during the term							
Dividends of surplus							(705)
Net profit attributable to shareholders of parent company							947
Purchase of treasury stock							(0)
Purchase of treasury stock under stock compensation plan							(199)
Disposal of treasury stock under stock compensation plan							199
Change of scope of consolidation							32
Net changes of items other than shareholders' equity	126	87	(466)	185	(67)	43	(24)
Total changes during the term	126	87	(466)	185	(67)	43	249
Balance as of March 31, 2018	781	80	(708)	16	169	43	61,787

Note: Figures are rounded down to the nearest million yen.

Non-Consolidated Financial Statements

**NON-CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2018

Millions of yen

**ASSETS**

**Current assets:**

Cash and deposits	14,827
Trade notes	254
Electronically recorded monetary claims	6,335
Trade accounts	18,917
Merchandise inventories	9,541
Partly-finished work	772
Advance payment	178
Prepaid expenses	154
Accrued income	283
Deferred tax assets	384
Consumption taxes receivable	2,961
Others	141
Allowance for doubtful accounts	(0)

Total current assets 54,754

**Non-current assets:**

**Property and equipment:**

Buildings	1,468
Structures	18
Vehicles	0
Tools and fixtures	51
Land	2,029
Leased assets	77

Total property and equipment 3,644

**Intangible assets:**

Software	108
Others	67

Total intangible assets 175

**Investments and other assets:**

Investment securities	3,173
Stocks of subsidiaries and affiliates	3,557
Guarantee money deposit	21
Others	40
Allowance for doubtful accounts	(1)

Total investments and other assets 6,792

Total non-current assets 10,612

**TOTAL 65,366**

Note: Figures are rounded down to the nearest million yen.

**NON-CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2018

		Millions of yen
<b>LIABILITIES AND NET ASSETS:</b>		
<b>LIABILITIES:</b>		
<b>Current liabilities:</b>		
Trade notes		997
Trade accounts		9,371
Short-term loans payable		743
Lease obligations		31
Accounts payable		389
Accrued expenses		156
Accrued corporate tax, etc.		138
Advance received		273
Allowance for bonuses to employees		474
Allowance for bonuses to Directors and Audit & Supervisory Board members		24
Others		40
	Total current liabilities	12,639
<b>Non-current liabilities:</b>		
Lease obligations		46
Deferred tax liabilities		340
Allowance for stock compensation		11
Employees' severance and retirement benefits		221
Others		97
	Total non-current liabilities	716
	Total liabilities	13,356
<b>NET ASSETS:</b>		
<b>Shareholders' equity:</b>		
Capital stock		14,811
Capital surplus		15,432
Capital reserve		15,329
Other capital surplus		102
Retained earnings		21,771
Retained surplus		670
Others		21,100
Reserve for dividend payments		600
General reserve		18,680
Retained earnings brought forward		1,820
Treasury stock		(867)
	Total shareholders' equity	51,148
<b>Valuation and translation adjustments:</b>		
Valuation difference on available-for-sale securities		781
Deferred hedge gains (losses)		80
	Total valuation and translation adjustments	861
	Total net assets	52,010
	<b>TOTAL</b>	<b>65,366</b>

Note: Figures are rounded down to the nearest million yen.

## NON-CONSOLIDATED PROFIT AND LOSS STATEMENT

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2018

		Millions of yen
Net sales		101,170
Cost of sales:		93,633
Gross profit on sales		7,536
Selling, general and administrative expenses:		6,976
Operating profit		560
Non-operating profit:		
Interest and dividend income	335	
Management consulting fees	258	
Foreign exchange gains	0	
Others	67	662
Non-operating expenses:		
Interest expenses	54	
Loss on sales of accounts receivable	8	
Others	5	67
Ordinary profit		1,155
Extraordinary profits:		
Gain on sales of non-current assets	0	
Gain on sales of investment securities	0	0
Extraordinary losses:		
Loss on retirement of non-current assets	0	
Loss on valuation of investment securities	467	
Special retirement benefits	229	697
Net profit before tax and other adjustments		458
Corporate, resident and enterprise taxes	37	
Adjustment for corporate tax, etc.	(70)	(32)
Net profit		490

Note: Figures are rounded down to the nearest million yen.

## NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2018

Millions of yen

	Shareholders' equity										
	Capital stock	Capital surplus			Retained earnings					Treasury stock	Total shareholders' equity
		Capital reserve	Other capital surplus	Total capital surplus	Retained surplus	Other retained earnings			Total retained earnings		
						Reserve for dividend payments	General reserve	Retained earnings brought forward			
Balance as of April 1, 2017	14,811	15,329	—	15,329	670	600	18,680	2,035	21,986	(764)	51,364
Changes during the term											
Dividends of surplus								(705)	(705)		(705)
Net profit								490	490		490
Purchase of treasury stock										(0)	(0)
Purchase of treasury stock under stock compensation plan										(199)	(199)
Disposal of treasury stock under stock compensation plan			102	102						96	199
Net changes of items other than shareholders' equity											
Total changes during the term	—	—	102	102	—	—	—	(214)	(214)	(102)	(215)
Balance as of March 31, 2018	14,811	15,329	102	15,432	670	600	18,680	1,820	21,771	(867)	51,148

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred hedge gains (losses)	Total valuation and translation adjustments	
Balance as of April 1, 2017	654	(7)	647	52,011
Changes during the term				
Dividends of surplus				(705)
Net profit				490
Purchase of treasury stock				(0)
Purchase of treasury stock under stock compensation plan				(199)
Disposal of treasury stock under stock compensation plan				199
Net changes of items other than shareholders' equity	126	87	214	214
Total changes during the term	126	87	214	(0)
Balance as of March 31, 2018	781	80	861	52,010

Note: Figures are rounded down to the nearest million yen.

# Audit Report

Report of the audit of the consolidated accounts by Accounting Auditors

## Independent Auditor's Report

May 14, 2018

To the Board of Directors of Sanshin Electronics Co., Ltd.:

### Deloitte Touche Tohmatsu LLC.

Kazumasa Moriya  
Designated and Engagement Limited Partner  
Certified Public Accountant

Yutaka Hamaguchi  
Designated and Engagement Limited Partner  
Certified Public Accountant

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, which consist of the consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements, of Sanshin Electronics Co., Ltd., (the "Company") for the consolidated fiscal year from April 1, 2017 to March 31, 2018.

#### Responsibility of the Company's management for preparation of consolidated financial statements

The responsibility of the Company's management is to prepare and fairly present these consolidated financial statements in accordance with accounting standards generally accepted in Japan. This includes designing and operating internal control judged by management as necessary to prepare and fairly present consolidated financial statements that are free from material misstatements due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit from an independent perspective. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we design the audit plan and perform the audit accordingly to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatements.

An audit includes performing procedures to obtain audit evidence supporting the amounts and disclosures in these consolidated financial statements. Audit procedures were selected and applied on the basis of our judgments, including the assessment of risk of material misstatements in consolidated financial statements due to fraud or error. In making this risk assessment, we have considered the Company's internal control relating to the preparation and fair presentation of these consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the presentation of these consolidated financial statements taken as a whole, including accounting policies used by management, their application, and accounting estimates made by



management.

We believe that the audit evidence we have obtained is sufficient and appropriate, and provides a reasonable basis for our opinion.

#### Auditor's opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Sanshin Electronics Co., Ltd. and its consolidated subsidiaries for the related consolidated fiscal year, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

#### Matters of particular emphasis

As stated in the Notes on Significant Subsequent Events, at the Board of Directors meeting held on May 14, 2018, the Company passed a resolution to acquire treasury stock and determined as a concrete method of that acquisition to make a tender offer for treasury stock.

This matter shall not affect the opinion of this auditing firm.

#### Interest relationships

There are no interest relationships either between the Company and our auditing firm or between the Company and the Designated Employees and Engagement Partners that are required to be reported by the Certified Public Accountant Law.

# Audit Report

Report of the audit of the accounts by Accounting Auditors

## Independent Auditor's Report

May 14, 2018

To the Board of Directors of Sanshin Electronics Co., Ltd.:

### Deloitte Touche Tohmatsu LLC.

Kazumasa Moriya  
Designated and Engagement Limited Partner  
Certified Public Accountant

Yutaka Hamaguchi  
Designated and Engagement Limited Partner  
Certified Public Accountant

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements, which consist of the balance sheet, profit and loss statement, statement of changes in shareholders' equity, notes to non-consolidated financial statements, and detailed statements thereof, of Sanshin Electronics Co., Ltd., (the "Company") for the 67th fiscal year from April 1, 2017 to March 31, 2018.

#### Responsibility of the Company's management for preparation of financial statements

The responsibility of the Company's management is to prepare and fairly present these financial statements and detailed statements thereof in accordance with accounting principles generally accepted in Japan. This includes designing and operating internal control judged by management as necessary to prepare and fairly present financial statements and detailed statements thereof that are free from material misstatements due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements and detailed statements thereof based on our audit from an independent perspective. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we design the audit plan and perform the audit accordingly to obtain reasonable assurance about whether these financial statements and detailed statements thereof are free from material misstatements.

An audit includes performing procedures to obtain audit evidence supporting the amounts and disclosures in these financial statements and detailed statements thereof. Audit procedures were selected and applied on the basis of our judgments, including the assessment of risk of material misstatements in financial statements and detailed statements thereof due to fraud or error. In making this risk assessment, we have considered the Company's internal control relating to the preparation and fair presentation of these financial statements and detailed statements thereof in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the presentation of these

financial statements and detailed statements thereof taken as a whole, including accounting policies used by management, their application, and accounting estimates made by management.

We believe that the audit evidence we have obtained is sufficient and appropriate, and provides a reasonable basis for our opinion.

#### Auditor's opinion

In our opinion, the non-consolidated financial statements and detailed statements referred to above present fairly, in all material respects, the financial position and results of operations of Sanshin Electronics Co., Ltd. for the business year under review, in conformity with accounting principles generally accepted in Japan.

#### Matters of particular emphasis

As stated in the Notes on Significant Subsequent Events, at the Board of Directors meeting held on May 14, 2018, the Company passed a resolution to acquire treasury stock and determined as a concrete method of that acquisition to make a tender offer for treasury stock.

This matter shall not affect the opinion of this auditing firm.

#### Interest relationships

There are no interest relationships either between the Company and our auditing firm or between the Company and the Designated Employees and Engagement Partners that are required to be reported by the provision of Certified Public Accountant Law.

## **Audit & Supervisory Board members' Report**

The Audit & Supervisory Board (the "Board"), having deliberated on the audit reports prepared by the Audit & Supervisory Board members on the performance of the duties of Directors for the 67th fiscal year from April 1, 2017 to March 31, 2018 hereby reports on its audit findings as follows:

### 1. Method and Content of the Audit by Audit & Supervisory Board Members and the Board

- (1) The Board established the audit policy and allocation of duties, etc., received reports from Audit & Supervisory Board members on the status of the execution and results of their audits, received reports from Directors and the Accounting Auditors on the status of execution of their duties and requested explanations as needed.
- (2) In compliance with the auditing standards set by the Audit & Supervisory Board and based on the audit policy, assigned duties, etc., each Audit & Supervisory Board member maintained proper communication with Directors, internal audit staff and other employees, and strove to create an environment that supports the collection and audit of information, as well as they conducted audit by the following methods.
  - 1) Attended meetings of the Board of Directors and other important gatherings, received reports from Directors and employees on the status of the execution of their duties, requested explanations as necessary, and examined the situation of the operations and assets of the head office and principal offices. In addition, the Audit & Supervisory Board members also maintained appropriate communication and exchanged information with Directors and Audit & Supervisory Board members of subsidiaries, and received reports about operations from subsidiaries when necessary.
  - 2) In order to ensure the system guaranteeing that the performance of the work of the directors stipulated in the business reporting is in accordance with laws and ordinances and the Articles of Incorporation, and also to ensure appropriateness of all the other business processes that are required in a group comprising a joint stock company and its subsidiaries, regarding the corporate resolutions on the creation of a system in accordance with Article 100, Paragraphs 1 and 3 of the Enforcement of the Companies Act, as well as regarding the system (internal control system) currently maintained based on the contents of the corporate resolutions concerned, the Audit & Supervisory Board members regularly received reports from Directors, employees, etc., on the current situation of the establishment and the implementation of such system, requested explanations as necessary, and expressed their opinions.
  - 3) In addition, the Audit & Supervisory Board members monitored and verified whether the Accounting Auditors maintained their independence and implemented appropriate audits and received reports from the Accounting Auditors on the status of execution of their duties, and requested explanations as needed. In addition, Audit & Supervisory Board members were informed by the Accounting Auditors that they were developing the "structure and system to ensure that their duties would be executed in a proper manner" (items prescribed in Article 131 of the Corporate Calculation Regulations) in accordance with "Quality Control Standards for Auditing" (Business Accounting Council dated October 28, 2005), and requested explanations as needed.

Based on the aforementioned methods, the Audit & Supervisory Board members examined the Company's business report and its detailed statements, financial statements (non-consolidated balance sheets, non-consolidated profit and loss statement, non-consolidated statement of changes in shareholders' equity and notes to the non-consolidated financial statements), their detailed statements, and consolidated financial statements (consolidated balance sheets, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements) for the fiscal year under review.

## 2. Results of the Audit

### (1) Results of the audit of the business report and its detailed statements

- (a) The business report and its detailed statements present fairly the status of the Company in conformity with the relevant laws and Articles of Incorporation.
- (b) No misconduct or material fact running counter to the relevant laws or Articles of Incorporation has been found with respect to the execution of Directors' duties.
- (c) The content of the resolutions of the Board of Directors on the internal control system are fair and reasonable. No item worthy of special mention has been found with respect to the contents of the business report and the execution of Directors' duties concerning the relevant internal control system.

### (2) Results of the audit of financial statements and their detailed statements

The audit methods adopted and the results of the audit conducted by Deloitte Touche Tohmatsu, Accounting Auditors, are appropriate.

### (3) Results of the audit of consolidated financial statements

The audit methods adopted and the results of the audit conducted by Deloitte Touche Tohmatsu, Accounting Auditors, are appropriate.

May 14, 2018

Audit & Supervisory Board

#### **Sanshin Electronics Co., Ltd.**

Keiji Nishio, Full-time Audit & Supervisory Board member

Shin-ichi Miura, Full-time Audit & Supervisory Board member

Minoru Matsumoto, External Audit & Supervisory Board member

Shohei Yamamoto, External Audit & Supervisory Board member

## Memo to Shareholders

Fiscal year	From April 1 to March 31	
Ordinary General Meeting of Shareholders	Convened every June	
Record dates	Ordinary General Meeting of Shareholders	Every March 31
	Date of distribution of year-end dividend	Every March 31
	Date of distribution of interim dividend	Every September 30

### Notification and Inquiries Regarding Change of Shareholder Address

Shareholders who have opened an account with a securities company are asked to direct inquiries to the securities company with which they hold an account. Shareholders who do not have an account with a securities company are asked to direct their inquiries to the following toll-free number.

Shareholder registry administrator and special account management institution	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Shareholder registry administrator office	Stock Transfer Agency Business Planning Department Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
(Mailing address)	Stock Transfer Agency Business Planning Department Sumitomo Mitsui Trust Bank, Limited 2-8-4 Izumi, Suginami-ku, Tokyo 168-0063
(Toll-free telephone number in Japan)	0120-782-031
URL	<a href="http://www.smtb.jp/personal/agency/index.html">http://www.smtb.jp/personal/agency/index.html</a>

### Special Accounts

The shareholder registry administrator listed above, Sumitomo Mitsui Trust Bank, Limited, has opened accounts, called “special accounts,” for shareholders who did not use Japan Securities Depository Center, Incorporated (JASDEC) before the introduction of the Electronic Share Certification System. For information about special accounts, notification of change of address, or for other inquiries or notifications, please call the toll-free number listed above.

Method of public notice	The information is posted on the Sanshin corporate website. <a href="http://www.sanshin.co.jp/ir/kohkoku.html">http://www.sanshin.co.jp/ir/kohkoku.html</a>
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Listing exchange	First Section, Tokyo Stock Exchange
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### Notice to Shareholders with Shares in Special Accounts

Shareholders who wish to sell their own shares held in special accounts will need to open an account in their own name at a securities company or similar institution and transfer the shares to that account. For details please inquire with the special account management institution as listed above.

### Note on Handling of This Report

This report includes plans, forecasts and other forward-looking statements. Actual results may differ substantially from those indicated in said forward-looking statements.

To send feedback, questions and other correspondence with Sanshin Electronics Co., Ltd., please telephone\* the Shareholders Relations Department at + 81-3-3453-5111, or use the inquiry form on the Company's website at <http://www.sanshin.co.jp>.

\* Please make telephone inquiries during Company operating hours only (8:50AM to 5:10PM).

Sanshin Electronics Co., Ltd.

4-4-12, Shiba, Minato-ku, Tokyo 108-8404

Tel: +81-3-3453-5111 (main switchboard)

URL: <http://www.sanshin.co.jp>