

Translation

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Summary of Consolidated Financial Results for the Year Ended May 31, 2016 (Based on Japanese GAAP)

July 7, 2016

Company name: Sanko Gosei Ltd.
 Stock exchange listing: Tokyo
 Stock code: 7888 URL <http://www.sankogosei.co.jp>
 Representative: Representative Director/President Kenso Kuroda
 Inquiries: Director/Senior Executive Officer Akira Serikawa TEL 0763-52-7105
 Scheduled date of ordinary general meeting of shareholders: August 26, 2016
 Scheduled date to file Securities Report: August 29, 2016
 Scheduled date to commence dividend payments: August 29, 2016
 Preparation of supplementary material on financial results: No
 Holding of financial results meeting: No

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended May 31, 2016 (from June 1, 2015 to May 31, 2016)

(1) Consolidated operating results

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended May 31, 2016	55,641	10.9	2,181	(6.7)	1,324	(29.4)	1,129	(17.0)
Year ended May 31, 2015	50,174	16.1	2,338	22.9	1,875	20.3	1,359	20.9

	Earnings per share	Diluted earnings per share	Profit attributable to owners of parent/equity	Ordinary income/total assets	Operating income/net sales
	Yen	Yen	%	%	%
Year ended May 31, 2016	45.66	–	8.8	3.0	3.9
Year ended May 31, 2015	64.99	–	12.3	4.7	4.7

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of May 31, 2016	42,909	14,070	31.9	536.28
As of May 31, 2015	45,407	13,049	26.6	576.79

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended May 31, 2016	3,492	(2,326)	(702)	5,505
Year ended May 31, 2015	2,820	(4,713)	3,334	5,515

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended May 31, 2015	–	4.00	–	5.00	9.00	167	13.8	1.7
Year ended May 31, 2016	–	5.00	–	5.00	10.00	232	21.9	1.8
Year ending May 31, 2017 (Forecast)	–	5.00	–	5.00	10.00		19.0	

3. Forecast of consolidated financial results for the year ending May 31, 2017 (from June 1, 2016 to May 31, 2017)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending November 30, 2016	27,500	(7.8)	1,200	(18.6)	800	1.5	600	9.1	24.27
Full year	56,000	0.6	2,400	10.0	2,000	51.0	1,300	15.1	52.58

4. Notes

(1) Changes in significant subsidiaries during the year ended May 31, 2016

(changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of May 31, 2016	25,688,569 shares	As of May 31, 2015	21,121,569 shares
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Number of treasury shares at the end of the period

As of May 31, 2016	202,619 shares	As of May 31, 2015	202,146 shares
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Average number of shares during the period

Year ended May 31, 2016	24,725,267 shares	Year ended May 31, 2015	20,921,309 shares
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Consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of May 31, 2015	As of May 31, 2016
Assets		
Current assets		
Cash and deposits	5,515,246	5,505,689
Notes and accounts receivable - trade	12,138,861	12,084,166
Merchandise and finished goods	1,729,390	855,038
Work in process	1,562,364	1,983,503
Raw materials and supplies	766,805	609,050
Deferred tax assets	174,456	112,639
Other	1,778,949	1,542,713
Allowance for doubtful accounts	(10,521)	(6,914)
Total current assets	23,655,554	22,685,887
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,195,281	15,757,007
Accumulated depreciation	(9,611,278)	(9,608,529)
Buildings and structures, net	6,584,002	6,148,477
Machinery, equipment and vehicles	22,379,272	21,394,432
Accumulated depreciation	(15,408,792)	(14,665,870)
Machinery, equipment and vehicles, net	6,970,479	6,728,561
Tools, furniture and fixtures	8,289,376	7,300,891
Accumulated depreciation	(6,408,124)	(6,107,466)
Tools, furniture and fixtures, net	1,881,252	1,193,424
Land	4,272,321	4,097,161
Construction in progress	259,867	115,497
Total property, plant and equipment	19,967,923	18,283,122
Intangible assets		
Goodwill	335,345	383,868
Other	478,483	491,542
Total intangible assets	813,828	875,410
Investments and other assets		
Investment securities	670,876	486,215
Deferred tax assets	106,254	322,082
Other	222,777	286,826
Allowance for doubtful accounts	(29,580)	(29,580)
Total investments and other assets	970,328	1,065,545
Total non-current assets	21,752,080	20,224,078
Total assets	45,407,634	42,909,965

(Thousands of yen)

	As of May 31, 2015	As of May 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,675,650	10,458,983
Short-term loans payable	5,919,299	2,546,034
Current portion of long-term loans payable	1,778,956	2,531,541
Current portion of bonds	520,000	420,000
Lease obligations	1,149,418	1,033,101
Income taxes payable	425,599	354,619
Provision for bonuses	97,500	103,727
Provision for directors' bonuses	31,845	26,460
Other	2,621,935	1,566,220
Total current liabilities	23,220,203	19,040,687
Non-current liabilities		
Bonds payable	820,000	400,000
Long-term loans payable	5,095,830	6,289,951
Lease obligations	2,171,934	1,547,995
Deferred tax liabilities	350,442	363,694
Provision for directors' retirement benefits	23,400	23,200
Net defined benefit liability	549,023	1,068,372
Other	127,459	105,336
Total non-current liabilities	9,138,089	9,798,550
Total liabilities	32,358,293	28,839,238
Net assets		
Shareholders' equity		
Capital stock	1,890,800	2,885,734
Capital surplus	1,742,393	2,714,859
Retained earnings	8,436,202	9,333,328
Treasury shares	(42,541)	(42,836)
Total shareholders' equity	12,026,854	14,891,086
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,380	(4,300)
Deferred gains or losses on hedges	19	–
Foreign currency translation adjustment	161,993	(659,780)
Remeasurements of defined benefit plans	(123,976)	(559,516)
Total accumulated other comprehensive income	39,417	(1,223,597)
Non-controlling interests	983,069	403,238
Total net assets	13,049,341	14,070,727
Total liabilities and net assets	45,407,634	42,909,965

Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

(Thousands of yen)

	Fiscal year ended May 31, 2015	Fiscal year ended May 31, 2016
Net sales	50,174,559	55,641,878
Cost of sales	42,414,584	46,836,649
Gross profit	7,759,974	8,805,228
Selling, general and administrative expenses	5,421,165	6,623,617
Operating income	2,338,808	2,181,611
Non-operating income		
Interest income	9,056	19,783
Dividend income	302	666
Scrap income	57,773	27,088
Commission fee	3,782	17,797
Compensation income	–	30,458
Other	178,804	34,013
Total non-operating income	249,720	129,807
Non-operating expenses		
Interest expenses	428,326	376,691
Foreign exchange losses	122,544	457,657
Share of loss of entities accounted for using equity method	–	17,446
Other	161,713	134,834
Total non-operating expenses	712,584	986,630
Ordinary income	1,875,944	1,324,788
Extraordinary income		
Gain on sales of non-current assets	32,424	3,118
Gain on sales of shares of subsidiaries and associates	–	205,403
Insurance income	–	193,660
Gain on step acquisitions	–	92,083
Gain on sales of investment securities	–	3,774
Gain on bargain purchase	117,170	–
Total extraordinary income	149,595	498,039
Extraordinary losses		
Loss on sales of non-current assets	50	4,744
Loss on retirement of non-current assets swap loss	15,634	62,719
Special retirement expenses	11,647	44,159
casualty loss	–	176,177
Loss on valuation of investment securities	–	81,802
Loss on step acquisitions	12,000	–
Total extraordinary losses	25,220	–
Total extraordinary losses	64,552	369,602
Profit before income taxes	1,960,987	1,453,225
Income taxes - current	664,537	651,801
Income taxes - deferred	68,735	20,299
Total income taxes	733,272	672,101
Profit	1,227,714	781,123
Loss attributable to non-controlling interests	(132,102)	(348,027)
Profit attributable to owners of parent	1,359,817	1,129,151

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended May 31, 2015	Fiscal year ended May 31, 2016
Profit	1,227,714	781,123
Other comprehensive income		
Valuation difference on available-for-sale securities	(35)	(5,680)
Deferred gains or losses on hedges	17	(19)
Foreign currency translation adjustment	824,153	(871,472)
Remeasurements of defined benefit plans, net of tax	89,678	(435,539)
Share of other comprehensive income of entities accounted for using equity method	62,834	(89,677)
Total other comprehensive income	976,647	(1,402,389)
Comprehensive income	2,204,362	(621,266)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,216,700	(133,863)
Comprehensive income attributable to non-controlling interests	(12,338)	(487,402)

Consolidated statements of changes in equity

Fiscal year ended May 31, 2015

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,890,800	1,742,393	7,256,201	(41,153)	10,848,240
Changes of items during period					
Issuance of new shares	–	–			–
Dividends of surplus			(167,377)		(167,377)
Profit attributable to owners of parent			1,359,817		1,359,817
Purchase of treasury shares				(1,387)	(1,387)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		–			–
Change of scope of consolidation			(12,437)		(12,437)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,180,001	(1,387)	1,178,614
Balance at end of current period	1,890,800	1,742,393	8,436,202	(42,541)	12,026,854

	Accumulated other comprehensive income					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	1,473	2	(590,432)	(228,510)	(817,465)	835,689	10,866,464
Changes of items during period							
Issuance of new shares							–
Dividends of surplus							(167,377)
Profit attributable to owners of parent							1,359,817
Purchase of treasury shares							(1,387)
Change in treasury shares of parent arising from transactions with non-controlling shareholders							–
Change of scope of consolidation							(12,437)
Net changes of items other than shareholders' equity	(93)	17	752,426	104,533	856,883	147,379	1,004,262
Total changes of items during period	(93)	17	752,426	104,533	856,883	147,379	2,182,876
Balance at end of current period	1,380	19	161,993	(123,976)	39,417	983,069	13,049,341

Fiscal year ended May 31, 2016

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,890,800	1,742,393	8,436,202	(42,541)	12,026,854
Changes of items during period					
Issuance of new shares	994,934	994,934			1,989,869
Dividends of surplus			(232,025)		(232,025)
Profit attributable to owners of parent			1,129,151		1,129,151
Purchase of treasury shares				(294)	(294)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(22,468)			(22,468)
Change of scope of consolidation			-		-
Net changes of items other than shareholders' equity					
Total changes of items during period	994,934	972,465	897,125	(294)	2,864,231
Balance at end of current period	2,885,734	2,714,859	9,333,328	(42,836)	14,891,086

	Accumulated other comprehensive income					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	1,380	19	161,993	(123,976)	39,417	983,069	13,049,341
Changes of items during period							
Issuance of new shares							1,989,869
Dividends of surplus							(232,025)
Profit attributable to owners of parent							1,129,151
Purchase of treasury shares							(294)
Change in treasury shares of parent arising from transactions with non-controlling shareholders							(22,468)
Change of scope of consolidation							-
Net changes of items other than shareholders' equity	(5,680)	(19)	(821,774)	(435,539)	(1,263,014)	(579,830)	(1,842,845)
Total changes of items during period	(5,680)	(19)	(821,774)	(435,539)	(1,263,014)	(579,830)	1,021,385
Balance at end of current period	(4,300)	-	(659,780)	(559,516)	(1,223,597)	403,238	14,070,727

Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended May 31, 2015	Fiscal year ended May 31, 2016
Cash flows from operating activities		
Profit before income taxes	1,960,987	1,453,225
Depreciation	2,374,649	2,589,526
Amortization of goodwill	2,816	42,934
Share of (profit) loss of entities accounted for using equity method	(101,064)	17,446
Increase (decrease) in allowance for doubtful accounts	(27,648)	(3,606)
Increase (decrease) in net defined benefit liability	(115,294)	544,870
Interest and dividend income	(9,358)	(20,450)
Interest expenses	428,326	376,691
Gain on bargain purchase	(117,170)	–
Loss (gain) on sales of investment securities	–	(3,774)
Loss (gain) on sales of shares of subsidiaries and associates	–	(205,403)
Gain on sales of property, plant and equipment	(32,424)	(3,118)
Loss on sales and retirement of property, plant and equipment	15,684	4,744
Loss on retirement of property, plant and equipment	–	62,719
Loss (gain) on valuation of investment securities	12,000	–
Insurance income	–	(193,660)
Foreign exchange losses (gains)	122,544	457,657
LossGainOnSwapOpeCF	11,647	44,159
Decrease (increase) in notes and accounts receivable - trade	(695,414)	(891,766)
Decrease (increase) in inventories	(215,362)	251,427
Decrease (increase) in other assets	755,583	(278,668)
Increase (decrease) in notes and accounts payable - trade	(765,085)	951,128
Increase (decrease) in other liabilities	39,907	(520,241)
Other, net	152,113	(274,818)
Subtotal	3,797,435	4,401,024
Interest and dividend income received	9,358	20,450
Interest expenses paid	(421,673)	(392,214)
Income taxes paid	(564,821)	(730,435)
Proceeds from insurance income	–	193,660
Net cash provided by (used in) operating activities	2,820,299	3,492,485
Cash flows from investing activities		
Purchase of investment securities	(707)	(721)
Purchase of shares of subsidiaries and associates	(48,500)	–
Payments for transfer of business	(1,836,778)	–
Purchase of property, plant and equipment	(1,954,365)	(2,576,851)
Proceeds from sales of investment securities	–	8,663
Proceeds from sales of property, plant and equipment	359,106	10,716
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	445,840
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	–	41,626
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(622,756)	–
Other, net	(609,120)	(255,978)
Net cash provided by (used in) investing activities	(4,713,122)	(2,326,704)

(Thousands of yen)

	Fiscal year ended May 31, 2015	Fiscal year ended May 31, 2016
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,925,556	(2,910,153)
Proceeds from long-term loans payable	2,871,587	4,300,000
Repayments of long-term loans payable	(1,941,378)	(1,993,835)
Proceeds from issuance of common shares	–	1,989,869
Redemption of bonds	(520,000)	(520,000)
Proceeds from sales and leasebacks	364,869	–
Repayments of lease obligations	(1,149,189)	(1,049,308)
Proceeds from share issuance to non-controlling shareholders	8,779	–
Cash dividends paid	(167,377)	(232,025)
Dividends paid to non-controlling interests	(56,979)	(590)
Purchase of treasury shares	(1,387)	(294)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(286,088)
Net cash provided by (used in) financing activities	3,334,480	(702,426)
Effect of exchange rate change on cash and cash equivalents	419,588	(472,911)
Net increase (decrease) in cash and cash equivalents	1,861,246	(9,557)
Cash and cash equivalents at beginning of period	3,649,699	5,515,246
Increase in cash and cash equivalents from newly consolidated subsidiary	4,300	–
Cash and cash equivalents at end of period	5,515,246	5,505,689