

Translation

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**Summary of Consolidated Financial Results
for the Year Ended May 31, 2017
(Based on Japanese GAAP)**

July 6, 2017

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 29, 2017
 Scheduled date to file Securities Report: August 30, 2017
 Scheduled date to commence dividend payments: August 30, 2017
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended May 31, 2017 (from June 1, 2016 to May 31, 2017)

(1) Consolidated operating results

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended May 31, 2017	56,159	0.9	2,358	8.0	2,252	67.0	1,186	2.9
Year ended May 31, 2016	55,641	10.9	2,183	(6.6)	1,348	(28.1)	1,153	(15.2)

	Earnings per share	Diluted earnings per share	Profit attributable to owners of parent/equity	Ordinary profit/total assets	Operating profit/net sales
	Yen	Yen	%	%	%
Year ended May 31, 2017	46.54	–	8.4	5.2	4.2
Year ended May 31, 2016	46.64	–	9.0	3.1	3.9

(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, 2017	44,004	15,052	33.1	571.83
As of May 31, 2016	42,774	13,904	31.6	529.77

(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, 2017	4,441	(2,006)	(1,338)	6,443
Year ended May 31, 2016	3,016	(1,309)	(987)	5,505

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, 2016	–	5.00	–	5.00	10.00	232	21.4	1.8
Year ended May 31, 2017	–	5.00	–	5.00	10.00	254	21.5	1.8
Year ending May 31, 2018 (Forecast)	–	5.00	–	5.00	10.00		19.6	

3. Forecast of consolidated financial results for the year ending May 31, 2018 (from June 1, 2017 to May 31, 2018)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		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, 2017	28,000	1.7	1,200	11.4	1,100	5.6	650	(18.4)	25.51
Full year	56,500	0.6	2,400	1.7	2,200	(2.3)	1,300	9.6	51.01

4. Notes

(1) Changes in significant subsidiaries during the year ended May 31, 2017

(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: No

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, 2017	25,688,569 shares	As of May 31, 2016	25,688,569 shares
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Number of treasury shares at the end of the period

As of May 31, 2017	204,362 shares	As of May 31, 2016	202,619 shares
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Average number of shares during the period

Year ended May 31, 2017	25,484,971 shares	Year ended May 31, 2016	24,725,267 shares
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Consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of May 31, 2016	As of May 31, 2017
Assets		
Current assets		
Cash and deposits	5,505,690	6,443,748
Notes and accounts receivable - trade	11,955,992	12,124,075
Merchandise and finished goods	855,038	1,227,535
Work in process	1,983,503	1,997,092
Raw materials and supplies	639,169	652,398
Deferred tax assets	112,639	278,117
Other	1,666,731	1,366,962
Allowance for doubtful accounts	(6,914)	(836)
Total current assets	22,711,850	24,089,093
Non-current assets		
Property, plant and equipment		
Buildings and structures	15,687,294	16,070,393
Accumulated depreciation	(9,598,988)	(9,993,504)
Buildings and structures, net	6,088,305	6,076,888
Machinery, equipment and vehicles	21,279,016	22,471,242
Accumulated depreciation	(14,634,507)	(15,738,762)
Machinery, equipment and vehicles, net	6,644,508	6,732,480
Tools, furniture and fixtures	7,299,636	7,611,445
Accumulated depreciation	(6,106,866)	(6,737,160)
Tools, furniture and fixtures, net	1,192,770	874,284
Land	4,076,293	4,105,919
Construction in progress	115,497	674,945
Total property, plant and equipment	18,117,375	18,464,518
Intangible assets		
Goodwill	383,868	240,048
Other	491,542	468,400
Total intangible assets	875,410	708,449
Investments and other assets		
Investment securities	486,215	390,412
Deferred tax assets	322,082	412,059
Other	290,982	228,050
Allowance for doubtful accounts	(29,580)	(32,520)
Allowance for investment loss	–	(255,179)
Total investments and other assets	1,069,701	742,821
Total non-current assets	20,062,487	19,915,789
Total assets	42,774,338	44,004,882

(Thousands of yen)

	As of May 31, 2016	As of May 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,805,627	9,636,136
Short-term loans payable	2,546,034	1,812,056
Current portion of long-term loans payable	2,531,541	2,828,200
Current portion of bonds	420,000	470,000
Lease obligations	1,033,101	864,014
Income taxes payable	354,619	330,421
Provision for bonuses	103,727	193,487
Provision for directors' bonuses	26,460	33,528
Other	2,249,696	2,988,958
Total current liabilities	19,070,806	19,156,801
Non-current liabilities		
Bonds payable	400,000	605,000
Long-term loans payable	6,289,951	6,090,880
Lease obligations	1,547,995	1,406,437
Deferred tax liabilities	400,044	387,623
Provision for directors' retirement benefits	23,200	23,200
Net defined benefit liability	1,068,372	1,014,381
Other	68,986	267,840
Total non-current liabilities	9,798,550	9,795,363
Total liabilities	28,869,357	28,952,165
Net assets		
Shareholders' equity		
Capital stock	2,885,734	2,885,734
Capital surplus	2,714,859	2,964,400
Retained earnings	9,357,489	10,303,153
Treasury shares	(42,836)	(43,309)
Total shareholders' equity	14,915,247	16,109,979
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(4,300)	(3,659)
Foreign currency translation adjustment	(849,688)	(1,067,850)
Remeasurements of defined benefit plans	(559,516)	(465,743)
Total accumulated other comprehensive income	(1,413,504)	(1,537,253)
Non-controlling interests	403,238	479,991
Total net assets	13,904,981	15,052,717
Total liabilities and net assets	42,774,338	44,004,882

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

(Thousands of yen)

	Fiscal year ended May 31, 2016	Fiscal year ended May 31, 2017
Net sales	55,641,878	56,159,787
Cost of sales	46,834,691	47,465,456
Gross profit	8,807,187	8,694,330
Selling, general and administrative expenses	6,623,617	6,335,427
Operating profit	2,183,569	2,358,903
Non-operating income		
Interest income	19,783	23,304
Dividend income	666	779
Foreign exchange gains	–	89,579
Scrap income	27,088	63,308
Compensation income	30,458	202,857
Other	51,810	50,620
Total non-operating income	129,807	430,449
Non-operating expenses		
Interest expenses	376,691	307,046
Foreign exchange losses	435,454	–
Share of loss of entities accounted for using equity method	17,446	34,653
Other	134,834	194,981
Total non-operating expenses	964,427	536,682
Ordinary profit	1,348,950	2,252,670
Extraordinary income		
Gain on sales of non-current assets	3,118	10,195
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	5,552
Total extraordinary income	498,039	15,748
Extraordinary losses		
Loss on sales of non-current assets	4,744	4,933
Loss on retirement of non-current assets	62,719	37,558
Impairment loss	–	85,070
swap loss	44,159	233,341
Special retirement expenses	176,177	–
casualty loss	81,802	–
Provision of allowance for investment loss	–	255,179
Other	–	187
Total extraordinary losses	369,602	616,270
Profit before income taxes	1,477,386	1,652,148
Income taxes - current	615,451	792,359
Income taxes - deferred	56,650	(185,656)
Total income taxes	672,101	606,702
Profit	805,284	1,045,445
Loss attributable to non-controlling interests	(348,027)	(140,821)
Profit attributable to owners of parent	1,153,312	1,186,266

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended May 31, 2016	Fiscal year ended May 31, 2017
Profit	805,284	1,045,445
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,680)	640
Deferred gains or losses on hedges	(19)	–
Foreign currency translation adjustment	(1,079,768)	(141,992)
Remeasurements of defined benefit plans, net of tax	(435,539)	93,772
Share of other comprehensive income of entities accounted for using equity method	(89,677)	(56,219)
Total other comprehensive income	(1,610,686)	(103,799)
Comprehensive income	(805,401)	941,646
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(299,609)	1,062,517
Comprehensive income attributable to non-controlling interests	(505,791)	(120,871)

Consolidated statements of changes in equity

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			1,153,312		1,153,312
Purchase of treasury shares				(294)	(294)
Change in ownership interest of parent due to transactions with non-controlling interests		(22,468)			(22,468)
Net changes of items other than shareholders' equity					-
Total changes of items during period	994,934	972,465	921,286	(294)	2,888,392
Balance at end of current period	2,885,734	2,714,859	9,357,489	(42,836)	14,915,247

	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							1,153,312
Purchase of treasury shares							(294)
Change in ownership interest of parent due to transactions with non-controlling interests							(22,468)
Net changes of items other than shareholders' equity	(5,680)	(19)	(1,011,682)	(435,539)	(1,452,922)	(579,830)	(2,032,753)
Total changes of items during period	(5,680)	(19)	(1,011,682)	(435,539)	(1,452,922)	(579,830)	855,639
Balance at end of current period	(4,300)	-	(849,688)	(559,516)	(1,413,504)	403,238	13,904,981

Fiscal year ended May 31, 2017

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,885,734	2,714,859	9,357,489	(42,836)	14,915,247
Changes of items during period					
Dividends of surplus			(254,853)		(254,853)
Profit attributable to owners of parent			1,186,266		1,186,266
Purchase of treasury shares				(473)	(473)
Change in ownership interest of parent due to transactions with non-controlling interests		248,158			248,158
Change of scope of consolidation			14,250		14,250
Capital increase of consolidated subsidiaries		1,381			1,381
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	249,540	945,663	(473)	1,194,731
Balance at end of current period	2,885,734	2,964,400	10,303,153	(43,309)	16,109,970

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	(4,300)	(849,688)	(559,516)	(1,413,504)	403,238	13,904,981
Changes of items during period						
Dividends of surplus						(254,853)
Profit attributable to owners of parent						1,186,266
Purchase of treasury shares						(473)
Change in ownership interest of parent due to transactions with non-controlling interests						248,158
Change of scope of consolidation						14,250
Capital increase of consolidated subsidiaries						1,381
Net changes of items other than shareholders' equity	640	(218,162)	93,772	(123,749)	76,753	(46,995)
Total changes of items during period	640	(218,162)	93,772	(123,749)	76,753	1,147,736
Balance at end of current period	(3,659)	(1,067,850)	(465,743)	(1,537,253)	479,991	15,052,717

Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended May 31, 2016	Fiscal year ended May 31, 2017
Cash flows from operating activities		
Profit before income taxes	1,477,386	1,652,148
Depreciation	2,545,755	2,551,691
Amortization of goodwill	42,934	60,133
Share of (profit) loss of entities accounted for using equity method	17,446	34,653
Impairment loss	–	85,070
Increase (decrease) in allowance for doubtful accounts	(1,606)	(3,137)
Increase (decrease) in allowance for investment loss	–	255,179
Increase (decrease) in net defined benefit liability	(37,494)	22,917
Interest and dividend income	(20,450)	(24,083)
Interest expenses	376,691	304,599
Loss (gain) on sales of investment securities	(3,774)	(5,552)
Loss (gain) on sales of shares of subsidiaries and associates	(205,403)	–
Gain on sales of property, plant and equipment	(3,118)	(10,195)
Loss on sales and retirement of property, plant and equipment	4,744	4,933
Loss on retirement of property, plant and equipment	62,719	37,558
Insurance income	(193,660)	–
Foreign exchange losses (gains)	73,316	(89,579)
LossGainOnSwapOpeCF	44,159	239,322
Decrease (increase) in notes and accounts receivable - trade	(1,178,383)	(268,909)
Decrease (increase) in inventories	192,950	(428,908)
Decrease (increase) in other assets	(3,482)	335,886
Increase (decrease) in notes and accounts payable - trade	633,949	(102,307)
Increase (decrease) in other liabilities	117,170	945,197
Other, net	(35,990)	(61,078)
Subtotal	3,905,861	5,535,539
Interest and dividend income received	20,450	24,083
Interest expenses paid	(386,339)	(300,958)
Income taxes paid	(717,419)	(816,851)
Proceeds from insurance income	193,660	–
Net cash provided by (used in) operating activities	3,016,213	4,441,813
Cash flows from investing activities		
Purchase of investment securities	(721)	(740)
Purchase of property, plant and equipment	(1,702,490)	(1,928,504)
Proceeds from sales of investment securities	8,669	9,552
Proceeds from sales of property, plant and equipment	10,716	11,382
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	445,603	–
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	41,626	–
Other, net	(112,537)	(98,052)
Net cash provided by (used in) investing activities	(1,309,133)	(2,006,362)

(Thousands of yen)

	Fiscal year ended May 31, 2016	Fiscal year ended May 31, 2017
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,938,473)	(793,279)
Proceeds from long-term loans payable	4,300,000	2,750,000
Repayments of long-term loans payable	(2,247,550)	(2,641,456)
Proceeds from issuance of common shares	1,989,869	–
Proceeds from issuance of bonds	–	744,770
Redemption of bonds	(520,000)	(495,000)
Repayments of lease obligations	(1,051,934)	(1,102,346)
Cash dividends paid	(232,025)	(254,853)
Dividends paid to non-controlling interests	(590)	(322)
Purchase of treasury shares	(294)	(473)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(286,815)	–
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	454,889
Net cash provided by (used in) financing activities	(987,816)	(1,338,071)
Effect of exchange rate change on cash and cash equivalents	(728,820)	(167,106)
Net increase (decrease) in cash and cash equivalents	(9,556)	930,273
Cash and cash equivalents at beginning of period	5,515,246	5,505,690
Increase in cash and cash equivalents from newly consolidated subsidiary	–	7,784
Cash and cash equivalents at end of period	5,505,690	6,443,748