

Translation

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Summary of Consolidated Financial Results for the Year Ended May 31, 2018 (Based on Japanese GAAP)

July 5, 2018

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/Executive Officer Akira Serikawa TEL 0763-52-7105
 Scheduled date of ordinary general meeting of shareholders: August 29, 2018
 Scheduled date to file Securities Report: August 30, 2018
 Scheduled date to commence dividend payments: August 30, 2018
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended May 31, 2018 (from June 1, 2017 to May 31, 2018)

(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, 2018	58,339	3.9	2,844	20.6	2,622	16.4	1,856	56.5
Year ended May 31, 2017	56,159	0.9	2,358	8.0	2,252	67.0	1,186	2.9

	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, 2018	72.84	–	12.1	5.9	4.9
Year ended May 31, 2017	46.54	–	8.4	5.2	4.2

(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, 2018	45,580	16,745	35.6	636.07
As of May 31, 2017	44,004	15,052	33.1	571.83

(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, 2018	4,036	(2,953)	(625)	6,898
Year ended May 31, 2017	4,441	(2,006)	(1,338)	6,443

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, 2017	–	5.00	–	5.00	10.00	254	21.5	1.8
Year ended May 31, 2018	–	6.00	–	6.00	12.00	280	16.5	2.0
Year ending May 31, 2019 (Forecast)	–	6.00	–	6.00	12.00		18.0	

3. Forecast of consolidated financial results for the year ending May 31, 2019 (from June 1, 2018 to May 31, 2019)

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, 2018	28,500	(5.5)	1,500	0.3	1,300	(3.9)	900	(12.9)	35.31
Full year	60,000	2.8	2,900	1.9	2,500	(4.7)	1,700	(8.0)	66.70

4. Notes

(1) Changes in significant subsidiaries during the year ended May 31, 2018

(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(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, 2018	25,688,569 shares	As of May 31, 2017	25,688,569 shares
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Number of treasury shares at the end of the period

As of May 31, 2018	204,497 shares	As of May 31, 2017	204,362 shares
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Average number of shares during the period

Year ended May 31, 2018	25,484,130 shares	Year ended May 31, 2017	25,484,971 shares
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Consolidated financial statements
Consolidated balance sheets

(Millions of yen)

	As of May 31, 2017	As of May 31, 2018
Assets		
Current assets		
Cash and deposits	6,443	6,898
Notes and accounts receivable - trade	12,124	12,069
Merchandise and finished goods	1,227	958
Work in process	1,997	1,924
Raw materials and supplies	652	693
Deferred tax assets	278	196
Other	1,366	1,701
Allowance for doubtful accounts	(0)	(0)
Total current assets	<u>24,089</u>	<u>24,441</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,070	16,689
Accumulated depreciation	(9,993)	(10,437)
Buildings and structures, net	<u>6,076</u>	<u>6,251</u>
Machinery, equipment and vehicles	22,471	24,792
Accumulated depreciation	(15,738)	(16,929)
Machinery, equipment and vehicles, net	<u>6,732</u>	<u>7,863</u>
Tools, furniture and fixtures	7,611	8,001
Accumulated depreciation	(6,737)	(7,125)
Tools, furniture and fixtures, net	<u>874</u>	<u>876</u>
Land	4,105	4,471
Construction in progress	674	368
Total property, plant and equipment	<u>18,464</u>	<u>19,832</u>
Intangible assets		
Goodwill	240	205
Other	468	410
Total intangible assets	<u>708</u>	<u>616</u>
Investments and other assets		
Investment securities	390	395
Deferred tax assets	412	399
Other	228	199
Allowance for doubtful accounts	(32)	(29)
Allowance for investment loss	(255)	(276)
Total investments and other assets	<u>742</u>	<u>689</u>
Total non-current assets	<u>19,915</u>	<u>21,138</u>
Total assets	<u>44,004</u>	<u>45,580</u>

(Millions of yen)

	As of May 31, 2017	As of May 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,636	9,293
Short-term loans payable	1,812	5,438
Current portion of long-term loans payable	2,828	2,526
Current portion of bonds	470	230
Lease obligations	864	762
Income taxes payable	330	215
Provision for bonuses	193	169
Provision for directors' bonuses	33	36
Other	2,988	3,027
Total current liabilities	19,156	21,702
Non-current liabilities		
Bonds payable	605	375
Long-term loans payable	6,090	3,821
Lease obligations	1,406	1,402
Deferred tax liabilities	387	383
Provision for directors' retirement benefits	23	23
Net defined benefit liability	1,014	956
Other	267	169
Total non-current liabilities	9,795	7,132
Total liabilities	28,952	28,834
Net assets		
Shareholders' equity		
Capital stock	2,885	2,885
Capital surplus	2,964	2,964
Retained earnings	10,303	11,879
Treasury shares	(43)	(43)
Total shareholders' equity	16,109	17,686
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(3)	(3)
Foreign currency translation adjustment	(1,067)	(1,112)
Remeasurements of defined benefit plans	(465)	(360)
Deferred gains or losses on hedges	–	(0)
Total accumulated other comprehensive income	(1,537)	(1,476)
Non-controlling interests	479	535
Total net assets	15,052	16,745
Total liabilities and net assets	44,004	45,580

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

(Millions of yen)

	Fiscal year ended May 31, 2017	Fiscal year ended May 31, 2018
Net sales	56,159	58,339
Cost of sales	47,465	48,925
Gross profit	8,694	9,413
Selling, general and administrative expenses	6,335	6,569
Operating profit	2,358	2,844
Non-operating income		
Interest income	23	26
Dividend income	0	1
Foreign exchange gains	89	11
Rent income	63	63
Compensation income	202	10
Gain on valuation of derivatives	–	30
Other	50	93
Total non-operating income	430	236
Non-operating expenses		
Interest expenses	307	268
Share of loss of entities accounted for using equity method	34	22
Depreciation	29	76
Other	165	91
Total non-operating expenses	536	458
Ordinary profit	2,252	2,622
Extraordinary income		
Gain on sales of non-current assets	10	6
Gain on sales of investment securities	5	–
State subsidy	–	25
Total extraordinary income	15	32
Extraordinary losses		
Loss on sales of non-current assets	4	7
Loss on retirement of non-current assets	37	56
Impairment loss	85	–
swap loss	233	55
Provision of allowance for investment loss	255	21
Loss on reduction of non-current assets	–	25
Other	0	–
Total extraordinary losses	616	165
Profit before income taxes	1,652	2,488
Income taxes - current	792	500
Income taxes - deferred	(185)	73
Total income taxes	606	574
Profit	1,045	1,914
Profit (loss) attributable to non-controlling interests	(140)	57
Profit attributable to owners of parent	1,186	1,856

Consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended May 31, 2017	Fiscal year ended May 31, 2018
Profit	1,045	1,914
Other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	–	(0)
Foreign currency translation adjustment	(159)	(73)
Remeasurements of defined benefit plans, net of tax	93	104
Share of other comprehensive income of entities accounted for using equity method	(38)	25
Total other comprehensive income	(103)	57
Comprehensive income	941	1,971
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,062	1,917
Comprehensive income attributable to non-controlling interests	(120)	54

Consolidated statements of changes in equity

Fiscal year ended May 31, 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,885	2,714	9,357	(42)	14,915
Changes of items during period					
Dividends of surplus			(254)		(254)
Profit attributable to owners of parent			1,186		1,186
Purchase of treasury shares				(0)	(0)
Change in ownership interest of parent due to transactions with non-controlling interests		248			248
Change of scope of consolidation			14		14
Capital increase of consolidated subsidiaries		1			1
Net changes of items other than shareholders' equity					
Total changes of items during period	–	249	945	(0)	1,194
Balance at end of current period	2,885	2,964	10,303	(43)	16,109

	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	(4)	–	(849)	(559)	(1,413)	403	13,904
Changes of items during period							
Dividends of surplus							(254)
Profit attributable to owners of parent							1,186
Purchase of treasury shares							(0)
Change in ownership interest of parent due to transactions with non-controlling interests							248
Change of scope of consolidation							14
Capital increase of consolidated subsidiaries							1
Net changes of items other than shareholders' equity	0	–	(218)	93	(123)	76	(46)
Total changes of items during period	0	–	(218)	93	(123)	76	1,147
Balance at end of current period	(3)	–	(1,067)	(465)	(1,537)	479	15,052

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,885	2,964	10,303	(43)	16,109
Changes of items during period					
Dividends of surplus			(280)		(280)
Profit attributable to owners of parent			1,856		1,856
Purchase of treasury shares				(0)	(0)
Change in ownership interest of parent due to transactions with non-controlling interests					–
Change of scope of consolidation					–
Capital increase of consolidated subsidiaries					–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,576	(0)	1,576
Balance at end of current period	2,885	2,964	11,879	(43)	17,686

	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	(3)	–	(1,067)	(465)	(1,537)	479	15,052
Changes of items during period							
Dividends of surplus							(280)
Profit attributable to owners of parent							1,856
Purchase of treasury shares							(0)
Change in ownership interest of parent due to transactions with non-controlling interests							–
Change of scope of consolidation							–
Capital increase of consolidated subsidiaries							–
Net changes of items other than shareholders' equity	0	(0)	(44)	104	61	55	116
Total changes of items during period	0	(0)	(44)	104	61	55	1,692
Balance at end of current period	(3)	(0)	(1,112)	(360)	(1,476)	535	16,745

Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended May 31, 2017	Fiscal year ended May 31, 2018
Cash flows from operating activities		
Profit before income taxes	1,652	2,488
Depreciation	2,551	2,434
Amortization of goodwill	60	29
Share of loss (profit) of entities accounted for using equity method	34	22
Impairment loss	85	–
Increase (decrease) in allowance for doubtful accounts	(3)	(3)
Increase (decrease) in allowance for investment loss	255	21
Increase (decrease) in net defined benefit liability	22	86
Interest and dividend income	(24)	(28)
Interest expenses	307	268
Loss (gain) on sales of investment securities	(5)	–
Gain on sales of property, plant and equipment	(10)	(6)
Loss on sales and retirement of property, plant and equipment	4	7
Loss on retirement of property, plant and equipment	37	56
Foreign exchange losses (gains)	(89)	(11)
Loss/Gain On Swap Op CF	233	55
Decrease (increase) in notes and accounts receivable - trade	(268)	103
Decrease (increase) in inventories	(428)	290
Decrease (increase) in other assets	335	(228)
Increase (decrease) in notes and accounts payable - trade	(102)	(398)
Increase (decrease) in other liabilities	945	(243)
Other, net	(55)	(79)
Subtotal	5,537	4,866
Interest and dividend income received	24	28
Interest expenses paid	(303)	(263)
Income taxes paid	(816)	(595)
Net cash provided by (used in) operating activities	4,441	4,036
Cash flows from investing activities		
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(1,928)	(2,940)
Proceeds from sales of investment securities	9	–
Proceeds from sales of property, plant and equipment	11	18
Other, net	(98)	(31)
Net cash provided by (used in) investing activities	(2,006)	(2,953)

(Millions of yen)

	Fiscal year ended May 31, 2017	Fiscal year ended May 31, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(793)	3,579
Proceeds from long-term loans payable	2,750	274
Repayments of long-term loans payable	(2,641)	(2,823)
Proceeds from issuance of bonds	744	–
Redemption of bonds	(495)	(470)
Repayments of lease obligations	(1,102)	(905)
Cash dividends paid	(254)	(280)
Dividends paid to non-controlling interests	(0)	–
Purchase of treasury shares	(0)	(0)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	454	–
Net cash provided by (used in) financing activities	(1,338)	(625)
Effect of exchange rate change on cash and cash equivalents	(167)	(2)
Net increase (decrease) in cash and cash equivalents	930	454
Cash and cash equivalents at beginning of period	5,505	6,443
Increase in cash and cash equivalents from newly consolidated subsidiary	7	–
Cash and cash equivalents at end of period	6,443	6,898