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Consolidated Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2019 [Japanese GAAP]



October 31, 2018

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7022
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 Scheduled date of filing quarterly securities report: November 9, 2018
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on annual financial results: Not available
 Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2019 (April 1, 2018 to September 30, 2018)

(1) Consolidated Operating Results (Cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2018	22,690	(3.6)	1,704	765.4	1,818	794.2	1,790	537.4
September 30, 2017	23,529	(0.6)	196	–	203	–	280	–

(Note) Comprehensive income: Second Quarter of fiscal year ending March 31, 2019: ¥2,380million [264.2%]
 Second Quarter of fiscal year ended March 31, 2018: ¥653 million [–%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2018	54.94	54.45
September 30, 2017	8.62	8.59

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
September 30, 2018	65,726	15,675	23.8
March 31, 2018	67,635	13,446	19.8

(Reference) Equity: As of September 30, 2018: ¥15,622 million As of March 31, 2018: ¥13,403 million

(Note) “Partial Amendments to the Accounting Standard for Tax Effect Accounting” (ASBJ No.28; February 16, 2018), etc. have been applied from the beginning of the first quarter of the fiscal year ending March 31, 2019, and results for the fiscal year ended March 31, 2018 are those after retrospective application.

2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	–	0.00	–	5.00	5.00
Year ending March 31, 2019	–	0.00			
Year ending March 31, 2019 (Forecast)			–	5.00	5.00

(Note) Revision to recently disclosed projected cash dividends: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit (loss) attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	46,000	(3.1)	(800)	–	(800)	–	(800)	–	(24.56)

(Note) Revision to recently disclosed projected consolidated financial results: No

* Notes:

- (1) Changes in significant subsidiaries during the current quarter (changes in specified subsidiaries resulting in changes in scope of consolidation): No
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to revision of accounting standards: No
 - 2) Changes in accounting policies other than 1): No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (4) Number of issued shares (common shares)
 - 1) Number of issued shares at the end of the period (including treasury shares):
 - As of September 30, 2018: 32,600,600 shares
 - As of March 31, 2018: 32,600, 600 shares
 - 2) Number of treasury shares at the end of the period:
 - As of September 30, 2018: 20,715 shares
 - As of March 31, 2018: 20 715 shares
 - 3) Average number of outstanding shares during the period:
 - Six months ended September 30, 2018: 32,579,885 shares
 - Six months ended September 30, 2017: 32,579,028 shares

* These quarterly consolidated financial results are outside the scope of audit

* Explanation of the proper use of financial results forecast and other notes

- 1) The earnings forecasts and other forward-looking statements herein are based on information currently available. Actual results may differ significantly from these forecasts due to a wide range of factors.

- 2) Quarterly results may not necessarily be linked to annual results because these are significantly affected by the followings; 1.the nature of order-receiving industry in which Sanoyas group are engaged, especially trends in shipping price that are strongly affected by shipping market and presence of new orders, 2.individual profitability of shipbuilding on the basis of percentage of completion method, and 3.exchange rates at the end of each quarter.
- 3) We have not updated the consolidated financial results forecast announced in May 2018 at this point as we took into consideration the nature of the shipbuilding business, amounts of sales and provision for loss on construction contracts are strongly linked to the individual profitability of shipbuilding affected by exchange rates and shipbuilding market.

1. Summary of Business Results

In the business environment surrounding the Sanoyas Group, “twin surpluses” of shipping tonnage and shipbuilding capacity continues structurally and the situation is still tough in the Shipbuilding & Engineering business. Although the charter fee of the bulk carriers is great variability among ship type, the market of bulk carriers tends in general toward recovery. The expectation for further recovery of the market rise and there are the signs growing demand for new shipbuilding triggered by new environmental regulations.

In the Shipbuilding business, new 82,000 DWT type PANAMAX bulk carriers and new 64,000 DWT type SUPRAMAX bulk carriers have been developed. These vessels are applied IMO NOx Tier III regulation and IACS Harmonized Common Structural Rules and further improved fuel consumption. In addition, 41,000 DWT type HANDY SIZE bulk carriers have been developed newly. This type of vessel with wide beam and shallow draft has larger cargo hold capacity and applies new regulations. We carry out sales promotion. On the other hand, under the severe shipbuilding market situation, we are also working on adding new item on our menu and receive building orders of special vessels and working ships following the order of ferries. As to the Marine and Ship Repair business that we have been working on to complement the Shipbuilding business, the marine LNG fuel supply systems is jointly developed with Sumitomo Seika Chemicals Company, Limited.(merger with SEIKA ENGINEERING CO., LTD.) and inquiries are increased, so we are working to extend the market. Regarding LPG tank business, we decided to manufacture in the Mizushima Shipyard (Kurashiki City, Okayama Prefecture) in addition to the Osaka Shipyard (Osaka City, Osaka Prefecture), and we are preparing to enhance the business.

We had regarded the Industrial Machinery & Service business and Leisure business as “second core business” and promoted various business portfolios. We recognize it is important and urgent issue to make our group business stable and sustainable. Therefore, we restructured the Industrial Machinery & Service business and Leisure business as M & T Group (Machinery & Technology Group) on April 2, 2018, and established Sanoyas MTG Corporation as a management company for M & T group. Subsequently, we received an approval for the "absorption-type split agreement" to transfer shares of M & T group companies to Sanoyas MTG Corporation at the annual shareholders' meeting in June. The transaction came into effect on July 2.

Regarding the M & T business, being based on strong domestic and overseas demand, steady results were seen in such sectors as construction-use elevators, vacuum emulsifying equipment and stirrers for cosmetic manufacturing and design, other works related to air-conditioning, drainage and sanitation facilities. To improve productivity, Sanoyas Precision Industry Corporation, mainly engaged in precision machining, is consolidating its three factories in the Kansai area into new built one in Sanda City, Hyogo Prefecture, with its head office. The first phase process was completed in March 2018, and the second one is in progress. DAICHU CO., LTD. (Takatsuki City, Osaka Prefecture), manufacturing shot blast machines, acquired the land next to Miyazaki Factory and built up new factory to expand their activities by about 1.5 times in August 2018.

2. About Financing

One of our management tasks is to secure and maintain stable long-term working capital. Sanoyas Shipbuilding Corporation (wholly-owned by Sanoyas Holdings Corporation) concluded a new syndicated loan agreement on October 29, 2018 (borrowing amount 9.2 billion yen) and refinanced existing syndicated loan agreement (expiry

date: December 30, 2019, originally signing date: December 28, 2015) on October 31, 2018. Consequently, the expiry date is extended to December 30, 2021, and the annual repayment amount is decreased due to setting up an alternative tranche of bullet repayment. The covenants (Sanoyas Shipbuilding Corporation and our covenant provision) are also taken into consideration about high volatility of our business condition in future.

Quarterly Consolidated Financial Statements [Japanese GAAP]

(1) Quarterly Consolidated Balance Sheets [Japanese GAAP]

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	23,019	20,393
Notes and accounts receivable - trade	13,498	13,334
Electronically recorded monetary claims	736	712
Securities	—	500
Merchandise and finished goods	222	240
Work in process	1,330	1,685
Raw materials and supplies	654	727
Other	3,040	1,506
Allowance for doubtful accounts	(23)	(22)
Total current assets	42,479	39,078
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,866	5,862
Machinery and equipment, net	2,784	3,223
Land	4,980	5,010
Other, net	2,362	2,432
Total property, plant and equipment	15,993	16,528
Intangible assets		
Software	409	393
Goodwill	426	392
Other	31	31
Total intangible assets	868	817
Investments and other assets		
Investment securities	6,715	7,795
Long-term loans receivable	538	472
Deferred tax assets	203	197
Net defined benefit asset	273	279
Other	662	659
Allowance for doubtful accounts	(98)	(101)
Total investments and other assets	8,295	9,302
Total non-current assets	25,156	26,647
Total assets	67,635	65,726

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,044	10,604
Short-term loans payable	4,630	4,330
Current portion of long-term loans payable	4,231	4,044
Income taxes payable	72	136
Advances received	3,757	4,329
Provision for bonuses	464	498
Provision for construction warranties	253	244
Provision for loss on construction contracts	5,210	2,990
Provision for noncurrent assets removal cost	—	59
Lease obligations	95	162
Other	1,497	1,151
Total current liabilities	32,258	28,552
Non-current liabilities		
Long-term loans payable	13,689	12,697
Lease obligations	1,009	1,271
Deferred tax liabilities	2,373	2,613
Provision for noncurrent assets removal cost	59	—
Net defined benefit liability	4,309	4,433
Asset retirement obligations	445	451
Other	44	30
Total non-current liabilities	21,931	21,497
Total liabilities	54,189	50,050
Net assets		
Shareholders' equity		
Capital stock	2,538	2,538
Capital surplus	564	401
Retained earnings	7,356	9,146
Treasury shares	(5)	(5)
Total shareholders' equity	10,453	12,080
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,274	3,976
Deferred gains or losses on hedges	(1)	(17)
Foreign currency translation adjustment	(31)	(181)
Remeasurements of defined benefit plans	(290)	(237)
Total accumulated other comprehensive income	2,950	3,541
Subscription rights to shares	42	53
Total net assets	13,446	15,675
Total liabilities and net assets	67,635	65,726

(2) Quarterly Consolidated Statements of Income [Japanese GAAP]

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	23,529	22,690
Cost of sales	20,921	18,541
Gross profit	2,608	4,149
Selling, general and administrative expenses	2,411	2,444
Operating profit	196	1,704
Non-operating income		
Interest income	8	10
Dividend income	70	66
Share of profit of entities accounted for using equity method	54	43
Foreign exchange profit	—	107
Other	74	42
Total non-operating income	208	270
Non-operating expenses		
Interest expenses	156	134
Other	45	22
Total non-operating expenses	201	156
Ordinary profit	203	1,818
Extraordinary losses		
Loss on retirement of non-current assets	27	—
Total extraordinary losses	27	—
Profit before income taxes	175	1,818
Income taxes - current	43	93
Income taxes - deferred	(148)	(65)
Total income taxes	(104)	28
Profit	280	1,790
Profit attributable to owners of parent	280	1,790

(3) Quarterly Consolidated Statements of Cash Flows [Japanese GAAP]

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	175	1,818
Depreciation	782	793
Amortization of goodwill	34	34
Increase (decrease) in net defined benefit liability	115	124
Increase (decrease) in allowance for doubtful accounts	(10)	2
Increase (decrease) in provision for bonuses	44	33
Increase (decrease) in provision for construction warranties	(14)	(9)
Increase (decrease) in provision for loss on construction contracts	(161)	(2,220)
Increase (decrease) reserve for proposal of property and equipment	(182)	—
Interest and dividend income	(78)	(77)
Interest expenses	156	134
Foreign exchange losses (gains)	(0)	(90)
Decrease (increase) in notes and accounts receivable - trade	7,878	181
Decrease (increase) in inventories	(438)	(450)
Decrease (increase) in advance payments	(29)	(241)
Increase (decrease) in notes and accounts payable - trade	(150)	(1,143)
Increase (decrease) in advances received	(980)	437
Decrease (increase) in consumption taxes refund receivable	707	678
Other, net	125	(294)
Subtotal	7,972	(288)
Interest and dividend income received	78	76
Interest expenses paid	(153)	(133)
Income taxes (paid) refund	(422)	202
Net cash provided by (used in) operating activities	7,474	(143)

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from investing activities		
Payments into time deposits	(354)	(465)
Proceeds from withdrawal of time deposits	479	325
Purchase of securities	—	(500)
Purchase of property, plant and equipment	(1,438)	(1,732)
Proceeds from sales of property, plant and equipment	1	33
Purchase of intangible assets	(80)	(64)
Purchase of investment securities	(10)	(9)
Proceeds from sales of investment securities	3	—
Payments of loans receivable	(3)	(1)
Collection of loans receivable	2	72
Other, net	(37)	(1)
Net cash provided by (used in) investing activities	(1,436)	(2,342)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(450)	(300)
Proceeds from long-term loans payable	3,100	850
Repayments of long-term loans payable	(2,032)	(2,029)
Cash dividends paid	(162)	(162)
Proceeds from sales and leasebacks	—	1,343
Other, net	(133)	(64)
Net cash provided by (used in) financing activities	320	(363)
Effect of exchange rate change on cash and cash equivalents	(4)	82
Net increase (decrease) in cash and cash equivalents	6,354	(2,766)
Cash and cash equivalents at beginning of period	17,301	22,224
Cash and cash equivalents at end of period	23,656	19,457

(Segment Information)

I Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)

Information concerning Net sales and Operating profit or loss by Reportable business segment

(Million yen)

	Reportable segment			Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Shipbuilding & Engineering Business	Industrial Machinery & Service Business	Leisure Business			
Net sales						
External sales	15,016	6,452	2,060	23,529	—	23,529
Internal sales or transfers	4	446	—	450	(450)	—
Total	15,021	6,898	2,060	23,979	(450)	23,529
Segment profit (loss)	360	271	(57)	574	(377)	196

(Note 1) Details of “Adjustments” are as follows:

Adjustments for the segment profit or loss of ¥377 million include corporate cost of ¥384 million not allocated to each reportable segment, allowance for doubtful accounts of ¥2 million and elimination of inter-segment transaction of ¥(9) million.

Corporate cost consists of general and administrative expenses which do not belong to the reporting segment.

(Note 2) Segment profit or loss is adjusted with operating profit recorded in the quarterly consolidated statements of income.

II Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)

1 Information concerning Net sales and Operating profit or loss by Reportable business segment

(Million yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Shipbuilding & Engineering Business	Machinery & Technology Business			
Net sales					
External sales	13,384	9,305	22,690	—	22,690
Internal sales or transfers	6	442	448	(448)	—
Total	13,391	9,748	23,139	(448)	22,690
Segment profit	1,475	407	1,883	(178)	1,704

(Note 1) Details of “Adjustments” are as follows:

Adjustments for the segment profit of ¥178 million include corporate cost of ¥190 million not allocated to each reportable segment, allowance for doubtful accounts of ¥(1) million and elimination of inter-segment transaction of ¥(10) million.

Corporate cost consists of general and administrative expenses which do not belong to the reporting segment.

(Note 2) Segment profit is adjusted with operating profit recorded in the quarterly consolidated statements of income.

2 Changes in Reportable segments

During the three months ended June 30, 2018, “Industrial Machinery & Service Business” and “Leisure Business” were integrated into “Machinery & Technology Business” as a result of the review of the management unit.

Since Sanoyas MTG Corporation was established in April 2018 to supervise "Machinery & Technology Business", it is difficult to collect information to prepare segment information for the Second Quarter ended September 30, 2017 based on the segment classification for the Second Quarter ended September 30, 2018. Therefore, the Second Quarter ended September 30, 2018 is prepared based on the reportable segments for the Second Quarter ended September 30, 2017.

(Million yen)

	Reportable segment			Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Shipbuilding & Engineering Business	Industrial Machinery & Service Business	Leisure Business			
Net sales						
External sales	13,384	7,246	2,059	22,690	—	22,690
Internal sales or transfers	6	471	—	477	(477)	—
Total	13,391	7,717	2,059	23,168	(477)	22,690
Segment profit	1,475	504	155	2,136	(431)	1,704

(Note 1) Details of “Adjustments” are as follows:

Adjustments for the segment profit of ¥431 million include corporate cost of ¥443 million not allocated to each reportable segment, allowance for doubtful accounts of ¥(1) million and elimination of inter-segment transaction of ¥(10) million.

Corporate cost consists of general and administrative expenses which do not belong to the reporting segment.

(Note 2) Segment profit is adjusted with operating profit recorded in the quarterly consolidated statements of income.

Supplementary information

Status of sales and orders

Segmental sales

Segment	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)		Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)	
	(Million yen)	Composition ratio (%)	(Million yen)	Composition ratio (%)
Shipbuilding & Engineering Business	15,016	63.8	13,384	59.0
Machinery & Technology Business	8,512	36.2	9,305	41.0
Total	23,529	100.0	22,690	100.0

Order status and backlog of orders

Segment	Six months ended September 30, 2017 (April 1, 2017 to September 30, 2017)		Six months ended September 30, 2018 (April 1, 2018 to September 30, 2018)	
	Orders (Million yen)	Backlog of orders (Million yen)	Orders (Million yen)	Backlog of orders (Million yen)
Shipbuilding & Engineering Business	9,192	52,406	12,976	38,784
Machinery & Technology Business	5,869	4,396	7,100	7,129
Total	15,061	56,803	20,077	45,914

(Note) The backlog of orders of the shipbuilding in the Shipbuilding & Engineering Business as of September 30, 2018 is stated on the percentage of completion method and the number of backlog of orders is 15 ships on a delivery basis.