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



January 31, 2019

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 7022
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 Scheduled date of filing quarterly securities report: February 8, 2019
 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 Third Quarter of Fiscal Year Ending March 31, 2019 (April 1, 2018 to December 31, 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	%
Nine months ended								
December 31, 2018	34,558	(3.0)	589	57.9	518	29.3	427	(11.3)
December 31, 2017	35,619	(6.3)	373	(78.4)	400	(76.4)	482	(53.1)

(Note) Comprehensive income: Third Quarter of fiscal year ending March 31, 2019: ¥89 million [(94.0) %]

Third Quarter of fiscal year ended March 31, 2018: ¥1,480 million [(2.8) %]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2018	13.13	13.01
December 31, 2017	14.81	14.74

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
December 31, 2018	65,117	13,389	20.5
March 31, 2018	67,635	13,446	19.8

(Reference) Equity: As of December 31, 2018: ¥13,330 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 (loss)		Ordinary profit (loss)		Profit (loss) attributable to owners of parent		Basic earnings (loss) 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 December 31, 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 December 31, 2018: 20,715 shares
 - As of March 31, 2018: 20,715 shares
 - 3) Average number of outstanding shares during the period:
 - Nine months ended December 31, 2018: 32,579,885 shares
 - Nine months ended December 31, 2017: 32,579,285 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 business structure of M & T Group, on October 31, 2018, we decided that Sanoyas Engineering Corporation, DAICHU CO., LTD. and Sanoyas Construction Machinery Corporation, which are mainly engaged in manufacturing and maintenance service of industrial machinery, will be consolidated into one company. By reorganizing these three companies into each functional activity in the new company, we intended to strengthen and expand our business structure through improving efficiency of management, the best allocation of human resources and pursuit of synergies on sharing their factories. Furthermore, on November 29, 2018, for the aim of promoting IT development in our businesses activities, we decided that SANOTEC Corporation and Sanoyas Business Partner Corporation will be consolidated. At the same time, we are going to assign smoothly and effectively their system engineers to our group companies from SANOTEC Corporation. SANOTEC is engaged in software development and calculation/information processing business and Sanoyas Business Partner is engaged in general trading business and service business in our group.

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.

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.

2. Quarterly Consolidated Financial Statements [Japanese GAAP]

(1) Quarterly Consolidated Balance Sheets [Japanese GAAP]

(Million yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	23,019	17,189
Notes and accounts receivable - trade	13,498	16,492
Electronically recorded monetary claims	736	865
Securities	—	500
Merchandise and finished goods	222	257
Work in process	1,330	1,817
Raw materials and supplies	654	737
Other	3,040	1,901
Allowance for doubtful accounts	(23)	(28)
Total current assets	42,479	39,733
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,866	5,764
Machinery and equipment, net	2,784	3,484
Land	4,980	4,982
Other, net	2,362	2,509
Total property, plant and equipment	15,993	16,741
Intangible assets		
Software	409	382
Goodwill	426	374
Other	31	31
Total intangible assets	868	789
Investments and other assets		
Investment securities	6,715	6,357
Long-term loans receivable	538	471
Deferred tax assets	203	200
Net defined benefit asset	273	268
Other	662	656
Allowance for doubtful accounts	(98)	(101)
Total investments and other assets	8,295	7,852
Total non-current assets	25,156	25,383
Total assets	67,635	65,117

(Million yen)

	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,044	11,100
Short-term loans payable	4,630	4,330
Current portion of long-term loans payable	4,231	3,934
Income taxes payable	72	120
Advances received	3,757	4,218
Provision for bonuses	464	154
Provision for construction warranties	253	142
Provision for loss on construction contracts	5,210	3,879
Lease obligations	95	166
Other	1,497	1,450
Total current liabilities	32,258	29,497
Non-current liabilities		
Long-term loans payable	13,689	13,811
Lease obligations	1,009	1,272
Deferred tax liabilities	2,373	2,191
Provision for noncurrent assets removal cost	59	—
Net defined benefit liability	4,309	4,473
Asset retirement obligations	445	451
Other	44	30
Total non-current liabilities	21,931	22,230
Total liabilities	54,189	51,727
Net assets		
Shareholders' equity		
Capital stock	2,538	2,538
Capital surplus	564	401
Retained earnings	7,356	7,784
Treasury shares	(5)	(5)
Total shareholders' equity	10,453	10,718
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,274	2,989
Deferred gains or losses on hedges	(1)	4
Foreign currency translation adjustment	(31)	(172)
Remeasurements of defined benefit plans	(290)	(210)
Total accumulated other comprehensive income	2,950	2,611
Subscription rights to shares	42	59
Total net assets	13,446	13,389
Total liabilities and net assets	67,635	65,117

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

(Million yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	35,619	34,558
Cost of sales	31,692	30,362
Gross profit	3,926	4,195
Selling, general and administrative expenses	3,553	3,606
Operating profit	373	589
Non-operating income		
Interest income	14	13
Dividend income	109	111
Share of profit of entities accounted for using equity method	85	13
Foreign exchange profit	—	102
Other	99	64
Total non-operating income	309	305
Non-operating expenses		
Interest expenses	227	198
Commission for syndicate loan	—	102
Other	54	75
Total non-operating expenses	281	376
Ordinary profit	400	518
Extraordinary income		
Gain on sales of investment securities	75	—
Other	4	—
Total extraordinary income	80	—
Extraordinary losses		
Loss on retirement of non-current assets	28	—
Total extraordinary losses	28	—
Profit before income taxes	453	518
Income taxes - current	73	157
Income taxes - deferred	(102)	(67)
Total income taxes	(29)	90
Profit	482	427
Profit attributable to owners of parent	482	427

(Segment Information)

I Nine months ended December 31, 2017 (April 1, 2017 to December 31, 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	22,674	10,179	2,765	35,619	—	35,619
Internal sales or transfers	5	642	—	647	(647)	—
Total	22,679	10,821	2,765	36,267	(647)	35,619
Segment profit (loss)	339	671	(103)	908	(534)	373

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

Adjustments for the segment profit or loss of ¥534 million include corporate cost of ¥548 million not allocated to each reportable segment, allowance for doubtful accounts of ¥1 million and elimination of inter-segment transaction of ¥(14) 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 Nine months ended December 31, 2018 (April 1, 2018 to December 31, 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	20,465	14,092	34,558	—	34,558
Internal sales or transfers	7	720	728	(728)	—
Total	20,473	14,813	35,286	(728)	34,558
Segment profit	(62)	882	819	(230)	589

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

Adjustments for the segment profit of ¥230 million include corporate cost of ¥247 million not allocated to each reportable segment, allowance for doubtful accounts of ¥(0) million and elimination of inter-segment transaction of ¥(16) 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 Third Quarter ended December 31, 2017 based on the segment classification for the Third Quarter ended December 31, 2018. Therefore, the Third Quarter ended December 31, 2018 is prepared based on the reportable segments for the Third Quarter ended December 31, 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	20,465	11,035	3,057	34,558	—	34,558
Internal sales or transfers	7	765	—	773	(773)	—
Total	20,473	11,801	3,057	35,331	(773)	34,558
Segment profit	(62)	1,078	192	1,208	(618)	589

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

Adjustments for the segment profit of ¥618 million include corporate cost of ¥636 million not allocated to each reportable segment, allowance for doubtful accounts of ¥(0) million and elimination of inter-segment transaction of ¥(16) 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.

3. Supplementary information

Status of sales and orders

Segmental sales

Segment	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)		Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)	
	(Million yen)	Composition ratio (%)	(Million yen)	Composition ratio (%)
Shipbuilding & Engineering Business	22,674	63.6	20,465	59.2
Machinery & Technology Business	12,945	36.4	14,092	40.8
Total	35,619	100.0	34,558	100.0

Order status and backlog of orders

Segment	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)		Nine months ended December 31, 2018 (April 1, 2018 to December 31, 2018)	
	Orders (Million yen)	Backlog of orders (Million yen)	Orders (Million yen)	Backlog of orders (Million yen)
Shipbuilding & Engineering Business	10,684	46,339	24,462	43,286
Machinery & Technology Business	9,766	6,012	10,140	7,247
Total	20,450	52,352	34,602	50,534

(Note) The backlog of orders of the shipbuilding in the Shipbuilding & Engineering Business as of December 31, 2018 is stated on the percentage of completion method and the number of backlog of orders is 18 ships on a delivery basis.