SANIX INCORPORATED

Summary of Consolidated Financial Statements
For the Fiscal Year Ended March 31, 2016
[Japanese Standards]

The financial figures in this document are based on Japanese Accounting Standards and accompanying laws. Amounts are rounded off to 1 decimal place. This document is an English translation of the Japanese-language original.

Consolidated Financial Statements for the Fiscal Year ended March 31, 2016

SANIX INCORPORATED

Stock Listed:	Tokyo Stock Exchange First Section, Fukuoka Stock Exchange
Code No;	4651
URL:	http://sanix.jp
President and CEO:	Shin-ichi Munemasa
Contact:	Kozo Inoue, Director, Management Corporate Officer, General Manager of Management & Planning Division

1. Business Results – Operating results for the Fiscal Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

(1) Consolidated Operating Results

(In Millions of Yen)

	Fiscal Year			
	From April 1 to March 31			
	FY2015	**%change**	FY2014	%change
Net Sales	**61,916**	**(35.3%)**	95,629	13.5%
Operating Income	**(2,229)**	—	(3,142)	—
Ordinary Income	**(1,949)**	—	(3,439)	—
Net Income	**(4,604)**	—	(4,966)	—
Net Income per Share (¥)	**(¥96.32)**	—	(¥103.98)	—
Net Income per Share, Diluted(¥)	—	—	—	—
Return on Equity	**(93.0%)**	—	(52.0%)	—
Ratio of Recurring Profit to Net Assets	**(4.9%)**	—	(6.6%)	—
Ratio of Operating Income to Net Sales	**(3.6%)**	—	(3.3%)	—
(Note) Comprehensive Income	**(4,699)**	—	(4,743)	—

(2) Consolidated Financial Position

(In Millions of Yen)

	Fiscal Year	
	As of March 31	
	FY2015	FY2014
Total Assets	**31,248**	49,120
Net Assets	**2,629**	7,331
Shareholders' Equity Ratio (%)	**8.3%**	14.9%
Net assets per share(¥)	**¥54.34**	¥152.74
(Reference) Equity Capital	**2,597**	7,302

(3) Consolidated Financial Cash Flows

(In Millions of Yen)

	Fiscal Year	
	From April 1 to March 31	
	FY2015	FY2014
Cash Flows from Operating Activities	**(5,403)**	(1,794)
Cash Flows from Investing Activities	**1,062**	(1,181)
Cash Flows from Financing Activities	**1,288**	647
Cash and Equivalents ,End of Period	**2,218**	5,329

2. Dividends

	Quarterly Period				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual
(Dividends per Share)					
FY2014 ended March 31, 2015	0.00	0.00	0.00	0.00	0.00
FY2015 ended March 31, 2016	0.00	0.00	0.00	0.00	0.00
FY2016 ended March 31, 2017 (Forecast)	0.00	0.00	0.00	0.00	0.00

	Quarterly Period							
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Annual	Total Dividend paid	Payout ratio (consolidated)	Dividends to Net Assets (consolidated)
(Dividends per Share)								
FY2014 ended March 31, 2015	0.00	0.00	0.00	0.00	0.00	—	—	—
FY2015 ended March 31, 2016	0.00	0.00	0.00	0.00	0.00	—	—	—
FY2016 ended March 31, 2017(Forecast)	0.00	0.00	0.00	0.00	0.00		—	

3. Forecasts for Consolidated Business Results (April 1, 2016 to March 31, 2017)

(In Millions of Yen)

	Fiscal Year 2016			
	From April 1 to March 31			
	First Half	**%change**	**Full Year**	**%change**
Net Sales	**22,870**	**(25.3%)**	**46,670**	**(24.6%)**
Operating Income	**(520)**	—	**600**	—
Ordinary Income	**(580)**	—	**480**	—
Net Income	**(1,000)**	—	**(60)**	—
Net Income per Share (¥)	**(¥20.92)**		**(¥1.26)**	

* Notes

(1) Changes in significant subsidiaries during the period

(Change in scope of consolidations resulting from change in subsidiaries): None

Number of subsidiaries newly consolidated —

Name of subsidiaries newly consolidated —

Number of subsidiaries excluded from consolidation —

Name of subsidiaries excluded from consolidation —

(2) Changes in accounting policies and accounting estimates retrospective restatement

ⅰ) Changes in accounting policies based on revisions of accounting standard: true

ⅱ) Changes in accounting policies other than ones based on revisions of accounting standard: None

ⅲ) Changes in accounting estimates: None

ⅳ) Retrospective restatement: None

(Note) For details, please refer to "V. (5) Notes to the Consolidated Financial Statements [Changes in Accounting Policies]" on page 21 of the Attachment.

(3) Number of Issued and Outstanding Shares (Common Stock)

(Shares)

	End of term	
	FY 2015	FY 2014
Number of issued and outstanding shares ,end of period (including treasury stock)	**48,919,396**	48,919,396
Number of treasury stock ,end of period	**1,113,443**	1,113,143
Average number of shares during the fiscal term	**47,806,103**	47,763,330

(Reference) Business Result-Overview of non-consolidated Operating Results
1. Business Results – Operating results for the Fiscal Year ended March 31, 2016

(April 1, 2015 to March 31, 2016)

(1) Non-Consolidated Operating Results

(In Millions of Yen)

	Fiscal Year			
	From April 1 to March 31			
	FY2015	**%change**	FY2014	%change
Net Sales	**56,700**	**(30.3%)**	81,328	136.7%
Operating Income	**(2,800)**	—	(3,342)	—
Ordinary Income	**(2,599)**	—	(3,571)	—
Net Income	**(4,700)**	—	(3,272)	—
Net Income per Share (¥)	**(¥98.33)**	—	(¥68.52)	—
Net Income per Share(, Diluted(¥)	—	—	—	—

(2) Non-Consolidated Financial Position

(In Millions of Yen)

	Fiscal Year As of March 31 FY2015	FY2014
Total Assets	**26,056**	42,327
Net Assets	**793**	5,631
Shareholders' Equity Ratio (%)	**3.0%**	13.3%
Net assets per share(¥)	**¥16.59**	¥117.80
(Reference) Equity Capital	**793**	5,631

2. Forecasts for Non-Consolidated Business Results （April 1, 2016 to March 31, 2017）

(In Millions of Yen)

	Fiscal Year 2016 From April 1 to March 31 First Half	%change	Full Year	%change
Net Sales	**20,423**	**(27.7%)**	**41,771**	**(26.3%)**
Ordinary Income	**(547)**	—	**186**	—
Net Income	**(867)**	—	**(183)**	—
Net Income per Share (¥)	**(¥18.14)**		**(¥3.83)**	

*Indication of Implementation status about audit procedure:

This summary of financial statements is exempt from audit procedure required by Financial Instruments and Exchange Act. A part of this statements based on Financial Instruments and Exchange Act have not finished at the time of disclosure of this statements.

*Notes to ensure appropriate use of forecasts for the business results:

Forecasts in this document are based on assumptions, prospects and plans as of the date of this document. Actual results may differ significantly from these forecasts, due to various factors affecting the Company's business performance, such as change in economic conditions. For details of these assumptions, prospects and plans, and for notes appropriate use of forecasts for the business results, please see page 2 of the Attachment.

Index of the attachment

1. Analysis of Business Results & Financial Condition

(1) Analysis of Consolidated Business Results

ⅰ) Consolidated Business Results for the current period

In the consolidated fiscal year ending March 31, 2016, the Japanese economy continued to follow a modest recovery path, with improved corporate earnings and an upturn in employment conditions. However, the outlook remained uncertain due to concerns about decelerating economy.

Under such a business environment, our Group made effort to spur more demand with the integrated business ranging from the development and procurement of members for photovoltaic (PV) systems to the sales, construction and maintenance of PV systems. The market environment surrounding the PV system was trying which the operation of the "Renewable Energy Feed in Tariff Purchasing Program" was revised drastically and the like.

To respond appropriately to changes in the business environment, the Group took steps to strengthen its sales In the Kanto, the Kansai and the Tyukyo districts which are in high demand for electric power, and worked to improve profitability that the Group reduced fixed costs by early retirement program of approximately 900 employees, and the elimination and consolidation.

As for sales in the consolidated fiscal year under view, the Group was hurt by changes in the market environment for the solar electric power business, so the sales results in a significant fall. As a consequence, the net sales of the entire Group were ¥61,916 million (decreased 35.3% year on year).

In terms of profitability, the Group posted an operating loss with drastic decrease in revenue in Solar Engineering business, however costs are gradually decreasing due to management rationalization. As a consequence, for the whole Group, the operating loss was ¥2,229 million compared to the operating loss of ¥3,142 million in the same period of the previous year, and the ordinary loss was ¥1,949 million compared to the ordinary loss of ¥3,439 million in the same period of the previous year. In addition, the Group posted an impairment loss of ¥991 million, reflecting the elimination and consolidation of stores and a reduction in the book value of fixed assets for business in the SE Division as a result of a review of their recoverability, a loss on sales of non-current assets of ¥796 million associated with the transfer of non-current assets, expenses related to voluntary retirement of ¥403 million, and a settlement package of ¥316 million associated with litigation as extraordinary losses. Reflecting the extraordinary losses, the Group posted a net loss belonging to the shareholders of the parent company of ¥4,604 million, compared to a net loss belonging to the shareholders of the parent company of ¥4,966 million in the same period of the previous year.

Consolidated results of individual divisions for this fiscal year were as follows:

a. Solar Engineering (SE) Division

The sales in the East Japan region increased by 8.4% year-on-year. However, sales in the West Japan region declined by 58.8% due to the effect of a change in the market environment. As a consequence, the sales were ¥39,871 million (decreased 44.8% year on year).

The Group worked to reduce fixed costs, including personnel expenses, through thorough streamlining, and profitability improved. However, given the large decline in sales, an operating loss of ¥202 million was posted (compared to an operating loss of ¥2,291 million in the same period of the previous year).

(Reference: Average number of employees is 2,752 for FY2014, 1,485 for FY2015 in SE Division)

b. Home Sanitation (HS) Division

The HS Division focused on maintenance-related customer management such as termite control services and floor/ceiling ventilation systems. As a result, net sales were ¥6,519 million (decreased 14.3% year on year).The operating income decreased 62.4% year on year to ¥614 million due to decreases in segment sales.

c. Establishment Sanitation (ES) Division

The ES Division concentrated on sanitation maintenance-related customer management such as high-rise building and condominiums. As a result, net sales were ¥924 million (decreased 11.2% year on year). However, cost reduction measured results in an operating profit of ¥53 million in spite of decreases in segment sales (compared to the operating loss of ¥48 million in the same period of the previous year).

d. Environmental Resources Development (ERD) Division

Plastic fuel sales declined 4.3% from a year earlier, despite a higher collection volume of waste plastic, due to a fall in unit prices. Electricity sales rose 5.0% year on year due to the addition of sales in the Power Producer and Supplier (PPS) business, which started in October 2015. As a consequence, the sales were ¥14,601 million (decreased 0.9% year on year). The operating loss was ¥282 million due to both the decline in sales (a legal inspection and periodic repair of boilers once every two years and that of turbines once every four years were conducted.) and the expenses associated with the maintenance at the TOMAKOMAI Power Plant (decreased 70.9% year on year).

ii) Prospect for the next Consolidated Fiscal Year

Considering the environment of the commercial PV business, the Group reduced fixed costs in the fiscal year under review through management rationalization initiatives, including workforce reductions through voluntary retirement and the elimination and consolidation of stores. As a result, in the fourth quarter, the income structure improved, and operating income moved into the black. However, in the consolidated fiscal year ended March 31, 2016, the Group posted an operating loss for the second consecutive year.

In this environment, the Group has started to execute its FY2016-FY2018 medium-term business plan, which it announced on April 15, 2016. Under the business plan, the Group aims to stay in the black and achieve sustainable growth. The Group will work to carry out management reform and make a stable profit in three businesses.

In the next fiscal year, as stated in the notice of the offering of voluntary retirement, the elimination and consolidation of stores, and the posting of an extraordinary loss dated April 15, 2016, the Group will improve efficiency and profitability and strengthen its management base through drastic streamlining, including calling for the voluntary retirement of around 500 employees and the elimination and consolidation of stores.

The Company expects that the commercial PV business will continue to face a challenging business environment and that sales in the SE Division will decline. However, the Company expects that the SE Division will move into the black due to an improvement in profitability resulting from a fall in the costs of components and the reduction of expenses, including personnel expenses.

The Group will allocate more of its management resources, which have been concentrated in the SE Division, to the HS Division and the ES Division and will seek to gain new customers in the divisions. Both divisions expect sales to rise as they enhance their customer management system and promote follow-up services for the existing customers.

The Environmental Resources Development (ERD) Division will work to improve efficiency and profitability by changing the unit prices of waste plastic to be collected and improve the quality of waste plastic to be collected. The division expects an increase in electricity sales at TOMAKOMAI Power Plant and a rise in sales from the Power Producer and Supplier (PPS) business.

With the above-mentioned prospects for the consolidated financial outlook for the next consolidated fiscal year of our whole group, we expect net sales to decrease 24.6% to ¥46,670 billion, the operating income ¥600 million compared to the operating loss of ¥2,229 million in the same period of the previous year, the ordinary income ¥480 million compared to the ordinary loss of ¥1,949 million, the net loss belonging to the shareholders of the parent money stood at ¥60 million compared to the net loss belonging to the shareholders of the parent company of ¥ 4,604 million.

(2) Analysis of Consolidated Financial Position

ⅰ) The status of Assets, Liabilities and Net Assets

Total assets as of the end of the current consolidated fiscal year decreased by ¥17,872 million to ¥31,248 million from the previous consolidated fiscal year. The total liabilities decreased by ¥13,170 million to ¥28,618 million from the previous consolidated fiscal year. Net assets decreased by ¥4,701 million to ¥2,629 million from the previous consolidated fiscal year. As a consequence, the capital-to-asset ratio was 8.3%.

(Assets)

Current assets decreased by 46.4% to ¥16,930 million from the end of the previous consolidated fiscal year, mainly due to the decrease in cash and deposits by ¥3,987 million, notes and accounts receivable-trade by ¥8,107 million and inventories by ¥3,120 million.

Fixed assets decreased by 18.4% to ¥14,317 million from the end of the previous consolidated fiscal year, mainly due to the decrease in property, plant and equipment because of the sale of assets and impairment of assets by ¥2,681 million.

(Liabilities)

Current liabilities decreased by 30.7% to ¥24,642 million from the end of the previous consolidated fiscal year, mainly due to the decreased notes and accounts payable-trade by ¥11,310 million.

Noncurrent liabilities decreased by 36.2% to ¥3,976 million from the end of the previous consolidated fiscal year, mainly due to the decreased long-term loan payable by ¥1,968 million and lease obligations by 251 million .

(Net Assets)

Net assets decreased by 64.1% to ¥2,629 million from the previous consolidated fiscal year, mainly due to the net loss belonging to the shareholders of the parent company of ¥4,604 million.

ⅱ) The status of Cash Flows

Cash and cash equivalents (hereinafter “the funds”) decreased by ¥3,111 million to ¥2,218 million from the previous fiscal year.

The status of consolidated cash flows and the factors in the current consolidated fiscal year are as follows:

(Net cash provided by operating activities)

As for net cash provided by operating activities, spending rose by ¥5,403 million (spending of ¥1,794 million in the previous year), mainly due to decrease in notes and account payable-trade of ¥11,074 million, as well as the recognition of ¥4,293 million as a net loss before income tax, although notes and account receivable-trade decreased by ¥8,107, million, and inventory assets decreased by ¥3,108 million.

(Net cash provided by investing activities)

In regards to net cash provided by investing activities, income was ¥1,062 million (spending of ¥1,181 million in the same period of the previous year), mainly due to proceeds from sales of investment securities that was ¥318 million, proceeds from sales of property, plant and equipment that was ¥709 million.

(Net cash provided by financing activities)

In terms of net cash provided by financing activities, income was ¥1,288 million (income of ¥647 million in the previous year), mainly due to the increase of ¥3,757 million in short-term loans payable, despite ¥2,128 million in expenditures for the repayment of long-term loans.

(Reference: The Cash Flow Indicators)

	Fiscal Year				
	FY2011	**FY2012**	**FY2013**	**FY2014**	**FY2015**
Shareholders' equity ratio	**33.4%**	**30.2%**	**21.3%**	**14.9%**	**8.3%**
Shareholders' equity ratio on a market price basis	**53.3%**	**92.0%**	**99.2%**	**37.6%**	**32.9%**
Interest-bearing liabilities ratio to cash flow	**5.34%**	**3.24%**	**1.96%**	**-**	**-**
Interest coverage ratio	**7.36%**	**13.3%**	**25.71%**	**-**	**-**

(Note) Shareholder's equity ratio: Shareholder's equity/Total assets

Share ratio on a market price basis: Total market value of stock/Total assets

Interest-bearing liabilities ratio to cash flow: Operating cash flow/Interest payment

Interest coverage ratio: Operating cash flow/Interest payment

1. Each indicator is calculated based on consolidated financial results.
2. Total market value of stock is calculated by: closing price at the year-end x outstanding shares at the year-end.
3. The operating cash flow in this table is cash flow from operating activities reported on the consolidated cash flow statement. Interest-bearing liabilities cover all liabilities reported on the consolidated balance sheet for which interest is paid. Interest payment used in the calculation of the interest coverage ratio is the amount of interest expanse reported on the consolidated cash flow statement.

(3) Basic Policy concerning the Distribution of Profit, and Dividend Distributions for the year under review and the subsequent year

As a basic corporate policy, the Company focuses on returning profit to our shareholders, based on the dividend on the equity ratio, together with the overall consideration of operational expansion and internal reserves. Unfortunately, after considering the negative retained earnings in the net assets section, the Company deeply regrets that it will not pay dividends for the current fiscal year. In addition, no dividends will be paid for the next fiscal year as well. We will work to boost sales and build up internal reserves to generate distributable profits in the net assets section, and then look to begin paying dividends again in the near future.

(4) Business and Other Risks

Major risks that may affect the operating results and business of the SANIX Group are described below. Recognizing the possibility of these risks occurring, the SANIX Group endeavors to take proper measures to avert these risks and minimize any impacts in the event of occurrence.

Certain future-related statements included in this document are estimates made by the Company based on the information available at the end of the current fiscal year.

ⅰ) Risk of societal and institutional changes

In regards to the PV System business, going forward the Group expects the popularity of photovoltaic power generation to continue to grow as a result of the implementation of the “Act on Special Measures Concerning New Energy Use by Operators of Electric Utilities.” That said, the Company’s performance and financial situation may be affected if customers become less willing to make investments. There various factors that may discourage investment, such as purchase prices that are subject to annual review under the “Renewable Energy Feed-in Tariff Purchasing Program” and output controls imposed due to the state of grid connection capacity at electric power companies.

ⅱ) Foreign exchange rate fluctuations

In the PV System business, the Group sources PV systems mostly from Chinese manufactures that have a competitive advantage in terms of price. Modules are the materials that account for a major part of costs in the business. Therefore, the Group’s performance and financial situation may be affected, depending on fluctuations in purchase prices stemming from the impact of exchange rates.

ⅲ) Industrial accidents and natural disasters

Unexpected disasters, including natural disasters such as large earthquakes and typhoons in areas where the Company’s plants, head office, branches and offices are located, may make operations difficult and may thus impact the Group’s performance and financial situation.

ⅳ) Resource recycling power generation system

One of the factors for stable operation of the ERD Division is the maintenance or improvement in plastic fuel quality at SANIX Energy's TOMAKOMAI Power Plant. However, since plastic fuel originates from waste, any inconsistency in the quality or properties that may affect the stable operation of the power plant may be disadvantageous to the performance or financial state of the group.

v) Power demand trend

The ERD Division may experience fluctuations in the electric power unit price at the electricity sales business of SANIX Energy's TOMAKOMAI Power Plant due to demand-supply fluctuations for seasonal demand and the supply of electricity and the resumption of nuclear power plant operations. Decline of the electric power unit price above projections may have an unprofitable impact on the group's performance and financial status.

vi) Statutory regulations

Main business lines of the Group, including the sale and installation of PV systems, the maintenance of residential houses, buildings and condominiums, the disposal of industrial wastes, and power generation and electricity sales are subject to statutory restrictions, such as the "Construction Business Act," "Act on Special Measures Concerning Procurement of Renewable Electric Energy by Operators of Electric Utilities," "Act on Specified Commercial Transactions," "Waste Disposal and Cleaning Act and relevant laws" and the "Electricity Business Act." Any unintended infringement of the respective laws or regulations by the Group, the revision or abolition of laws or regulations, or the enforcement of new laws or regulations may affect the Group's performance and financial situation.

vii) Statutory regulations

The impairment of assets may affect the Group's performance and financial situation.

(5) Important Events concerning the Assumption of Going Concern

The Group recorded a significant operating loss, ordinary loss, and net loss belonging to the shareholders of the parent company, and cash flows used in operating activities in the previous fiscal year. In the consolidated fiscal year under review, the Group's income declined significantly chiefly due to the adverse effect of changes in the photovoltaic generation market. The Group posted an operating loss of ¥2,229 million, an ordinary loss of ¥1,949 million, a net loss belonging to the shareholders of the parent company of ¥4,604 million, and cash flows used in operating activities of ¥5,403 million. The Group's interest-bearing debt is ¥12,884 million, which is high compared with its liquidity on hand.

The Company is thus susceptible to events and conditions that cast significant doubt on going consumption assumptions.

To overcome the situation, in the SE Division, the Group worked to respond appropriately to changes in the commercial PV business environment in a timely fashion. The Group has bolstered its organizations in the Kanto, Kansai and Chubu districts, where demand for power is high, and has stepped up sales activities to receive orders. In response to rapid changes in the business environment, the Group called for approximately 900 employees to voluntarily retire and reduced fixed costs in the fiscal year under review. As a result, in the fourth quarter, the Group posted an operating profit.

However, considering the business environment of the commercial PV business, the Company believes that it needs to strengthen its business foundation to achieve sustainable growth. On April 15, 2016, the Company announced its medium-term business plan (FY2016 - FY2018), which includes the following initiatives:

ⅰ) A well-balanced allocation of management resources to business divisions

- Scaling down the SE Division to an appropriate size based on a reasonable analysis of the external environment
- Rebuilding the HS Division and ES Division
- Improving efficiency of the Environmental Resources Development Division

ⅱ) Strengthening the business base through thorough streamlining

- Disposing of assets in accordance with the downsizing of the SE Division (the elimination and consolidation of stores, the closing of a logistics center, and the scaling down of the production of power conditioners)
- Calling for voluntary retirement (approximately 500 employees) in accordance with sales
- Lowering the level of wages across the board

ⅲ) Enhancement of the governance system

- Increasing the number of outside directors
- Strengthening the management oversight functions of the Board of Directors
- Changing the business execution system to clarify the responsibilities of each business division

The Company expects that its profitability will improve through these initiatives and will remain in the black. The medium-term business plan (FY2016 - FY2018) has been formulated on the assumption of the continued support of the main financing bank. The Company expects to continue to receive support and cooperation in financing and will work to stabilize cash management.

However, we have not completed these initiatives, and the support and cooperation of the main financing bank is not ensured, although we have obtained their understanding. We therefore recognize significant uncertainty about the going concern assumption.

2. The Group Outline

The Group consists of the Company and 10 other consolidated subsidiaries. Its major business fields are sales/installation of PV systems, environmental sanitary services for general households, environmental sanitary services for corporations and recycling-based power generation.

The structure of each company in relation to the Group's business fields is as follows:

ⅰ) SE Division

The Company engages in the sale and installation of the PV system for commercial use and residential use.

ⅱ) HS Division

The Company engages in environmental sanitation work for general households, specifically termite control, repairing foundations, under-roof/floor ventilation systems.

ⅲ) ES Division

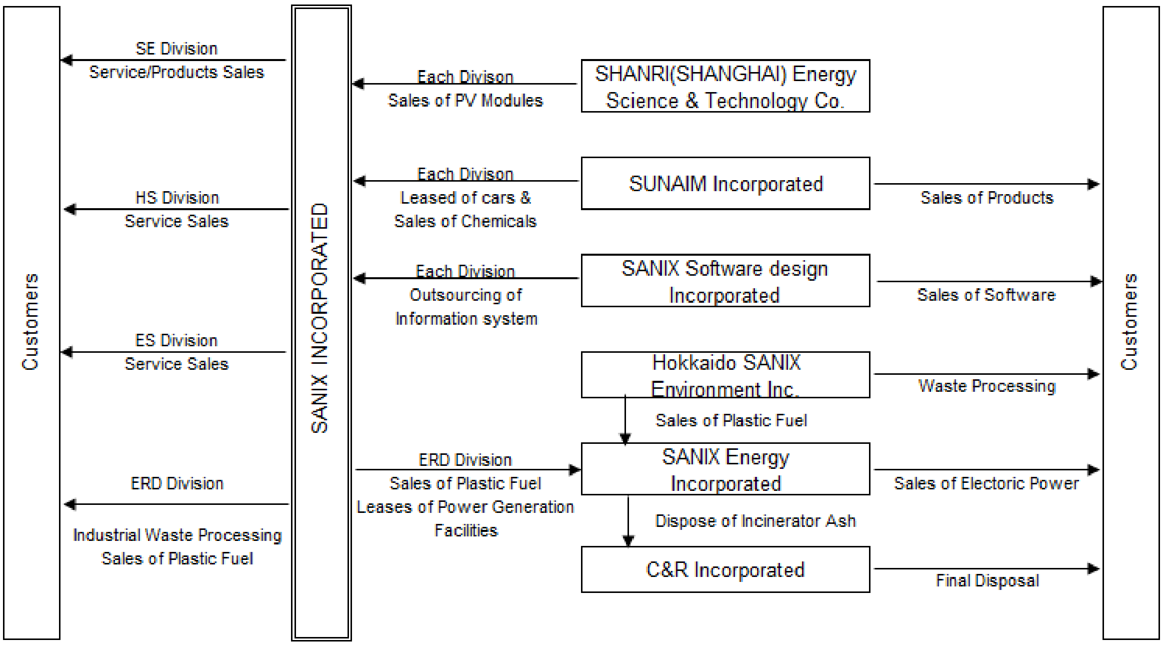
The Company offers corporate environmental sanitation services, specifically buildings and condominiums plumbing installation and maintenance, and PV system installation for multi-dwelling business operators. From March 2015, the division's PV operations are scheduled to shift to the SE-East section.

ⅳ) ERD Division

The Company sells plastic fuel to its consolidated subsidiary SANIX Energy Incorporated. SANIX Energy generates and sells electricity by using plastic fuel, purchased from SANIX and Hokkaido SANIX Environment Incorporated, SANIX's consolidated subsidiary. K.K. C&R, SANIX's consolidated subsidiary, disposes of incinerator ash from SANIX Energy. K.K. HOKUHAI, SANIX's consolidated subsidiary, leases facilities to K.K. C&R.

And the Company engages in the Power Producer and Supplier (PPS) business, which started in October 2015.

PV modules sold and used for installation by our group have been partially sourced to our consolidated subsidiary SHANRI (Shanghai) Energy Science and Technology Co., Ltd. Chemicals and business vehicles used by our group have been sourced and leased from our consolidated subsidiary SUNAIM Incorporated. Information system operation of our divisions has been outsourced to our consolidated subsidiary SANIX Software Design Incorporated.



Customers
SE Division
Service/Products Sales
HS Division
Service Sales
ES Division
Service Sales
ERD Division
Industrial Waste Processing
Sales of Plastic Fuel
SANIX INCORPORATED
Each Divison
Sales of PV Modules
SHANRI(SHANGHAI) Energy Science & Technology Co.
Each Divison
Leased of cars &
Sales of Chemicals
SUNAIM Incorporated
Sales of Products
Each Division
Outsourcing of
Information system
SANIX Software design Incorporated
Sales of Software
Hokkaido SANIX Environment Inc.
Waste Processing
Sales of Plastic Fuel
ERD Division
Sales of Plastic Fuel
Leases of Power Generation
Facilities
SANIX Energy Incorporated
Sales of Electoric Power
Dispose of Incinerator Ash
C&R Incorporated
Final Disposal
Customers

3. Management Policies

(1) Fundamental Business Management Policies

We are engaged in three businesses: the commercial PV business, which we have made our core business in recent years, the environmental sanitation management business for households and business offices, and the power generation business associated with industrial waste treatment and resource recycling.

We will develop ecology business and energy business by improving our customer-focused services and technologies in the three businesses, creating markets, and tapping into potential needs. We will increase profitability and capital efficiency in these businesses and will work to increase our corporate value.

(2) Target Management Indices

We aim to achieve sustainable, stable earnings in the three businesses. The targeted management benchmark is the operating income ratio, which precisely captures the state of productivity in balance with costs. In the medium- to long-term, we target an operating margin of 10%.

(3) Medium-and Long-Term Business Strategies and Issues to Be Addressed

On April 15, 2016, we announced our medium-term business plan, which states that we will review the current management environment and will work to stay in the black and achieve sustainable growth. We will improve profitability in the commercial PV business by restructuring the business to change its scale in accordance with the market environment, will again focus on the environmental sanitation management business for households and business offices, a business we have been engaged in since our foundation, and expand its business scale, and will emphasize efficiency and profitability in the environmental resources development business.

ⅰ) SE Division

In the PV system market, competitors are expected to go out of business due to changes in the market environment. The division will increase share by responding to falling market prices of PV systems. The division will improve productivity and efficiency by adjusting its workforce in accordance with the business scale. The division will cut costs, including costs of modules and power conditioners, thereby improving profitability.

ⅱ) ERD Division

The collection volume of waste plastic at 15 plastic resource development plants nationwide is the largest among domestic companies. The division will establish its position as the price leader and will improve profitability. From October 2015, the division started the Power Producer and Supplier (PPS) business, in which the division had been engaged in Hokkaido, in regions west of Kanto, except in Shikoku. The division will make the PPS business as a core business in the medium to long term like the electricity sales business at TOMAKOMAI Power Plant.

iii) HS・ES Division

We will reallocate our management resources, which have been concentrated in the SE Division, and will focus on this division again. More specifically, the division will strive to expand earnings by gaining new customers. The division will comply with laws and regulations thoroughly to protect consumers.

(4) Challenges the Company Faces

The Group is acutely aware of the need to change its earnings structure and strengthen its financial structure to overcome the challenging business environment. We will make Group-wide efforts to address the following issues:

i) Stable profits from the three businesses

We have concentrated our management resources in the commercial PV business, but going forward, we will allocate resources to the three businesses—SE business, HS and ES business, and Environmental Resources Development business—in a balanced way. We will carry out sweeping structural reforms to build a structure suitable for sales. We will work to regain earnings power and enhance corporate value continuously.

ii) Through cost cutting

We will cut costs by reducing the costs of components related to the commercial PV business and improving productivity in construction. We will promote initiatives to cut expenses significantly, including initiatives to reduce the workforce to an appropriate level.

iii) Initiatives in energy business

We consider global environmental protection through the reduction of CO_2 emissions, including an improvement in energy efficiency and a switch to clean energy, an important part of our corporate social responsibility. We will expand the domain of the PPS business based on technologies that the Group has developed in its resource recycling power generation system over the years. We will help realize a recycling society by encouraging the use of renewable energy, including photovoltaic energy.

iv) Strengthening business structure and business infrastructure

We will enhance risk management and improve and expand internal control. We will promote the activities of the compliance committee and initiatives associated with corporate governance. To respond appropriately to changes in the business environment, we will strengthen our business infrastructure and business structure, improving the operating foundations and cultivating human resources that will help the Group grow.

v) Stabilizing the financial base

Through the implementation of initiatives stated in the medium-term business plan, the

Group will work to stay in the black and achieve sustainable growth. We will improve cash flows and reduce interest-bearing debt, thereby stabilizing the financial base.

4. Basic Position regarding the Choice of Accounting Standards

The Group will use the Japanese standards for the time being. Our policy is to take proper steps toward the adoption of the International Financial Reporting Standards, while giving due consideration to the circumstances in Japan and other countries.

5. Consolidated financial Statements

(1) Consolidated Balance Sheets

(In Millions of Yen)

	As of March 31	
	FY2014	**FY2015**
Assets :		
Current Assets :		
Cash and deposits	7,026	**3,038**
Notes and accounts receivable-trade	14,800	**6,693**
Merchandise and finished goods	504	**962**
Work in process-construction	1,738	**514**
Raw materials and supplies	8,043	**5,688**
Deferred tax assets	17	**8**
Other	677	**718**
Allowance for doubtful accounts	(1,237)	**(693)**
Total Current Assets	31,569	**16,930**
Fixed Assets:		
Property, Plant and Equipment :		
Buildings and structures, net	9,712	**8,882**
Less: Accumulated Depreciation	(7,179)	**(6,973)**
Buildings and structures (net of depreciation)	2,533	**1,909**
Machinery, Equipment and Vehicles, net	12,710	**12,332**
Less: Accumulated Depreciation	(11,069)	**(11,009)**
Machinery, Equipment and Vehicles(net of depreciation)	1,640	**1,323**
Land	9,399	**8,001**
Lease assets, net	1,236	**1,183**
Less: Accumulated Depreciation	(551)	**(564)**
Lease Assets, net	685	**618**
Construction in progress	609	**393**
Other	1,075	**958**
Less: Accumulated Depreciation	(844)	**(787)**
Other, net	231	**171**
Total Property, Plant and Equipment	15,099	**12,417**
Intangible Fixed Assets :		
Goodwill	401	**289**
Other	143	**151**
Intangible Fixed Assets, net	545	**440**
Investments and Other Assets :		
Investment securities	450	**91**
Lease and guarantee deposits	742	**644**
Deferred tax assets	66	**59**
Other	1,110	**1,157**
Allowance for doubtful accounts	(462)	**(494)**
Total Investments and Other assets	1,906	**1,458**
Total Fixed Assets	17,551	**14,317**
Total Assets	49,120	**31,248**

(In Millions of Yen)

	As of March 31	
	FY2014	**FY2015**
Liabilities :		
Current Liabilities :		
Notes and accounts payable-trade	18,537	**7,227**
Short-term loans payable	6,360	**10,118**
Current portion of long-term loans payable	1,056	**896**
Accounts payable	4,408	**3,298**
Accrued expenses	2,000	**1,374**
Lease obligations	231	**256**
Accrued income taxes	208	**244**
Accrued consumption taxes	1,245	**390**
Allowance for resource-recycling expenses	31	**37**
Other	1,479	**799**
Total Current Liabilities	35,560	**24,642**
Non-Current Liabilities :		
Bonds payable	10	**-**
Long-term loans payable	3,045	**1,077**
Lease obligations	481	**525**
Deferred tax liabilities	80	**14**
Long-term lease deposited	46	**46**
Provision for directors' retirement benefits	170	**170**
Liability Related to Retirement Benefits	1,490	**1,371**
Provision for disposal site closing expenses	477	**499**
Other	425	**269**
Total Non-Current Liabilities	6,229	**3,976**
Total Liabilities	41,789	**28,618**
Net Assets :		
Shareholders' Equity :		
Capital stock	14,041	**14,041**
Capital surplus	4	**1**
Retained earnings	(5,588)	**(10,193)**
Treasury stock	(1,481)	**(1,481)**
Total Shareholders' Equity	6,976	**2,368**
Valuation and translation adjustments :		
Valuation difference on available-for-sale securities	171	**34**
Foreign currency translation adjustment	184	**46**
Adjustment for Retirement Benefits (Cumulative)	(30)	**148**
Total Valuation and translation adjustments	325	**229**
Minority Interests	29	**31**
Total Net Assets	7,331	**2,629**
Total Liabilities and Assets	49,120	**31,248**

(2) Consolidated Statements of Income and Comprehensive Income

(Consolidated Statements of Income)

(In Millions of Yen)

	April 1 to March 31	
	FY2014	**FY2015**
Net sales	95,629	**61,916**
Cost of sales	76,721	**48,133**
Gross profit	18,907	**13,783**
Selling, general and administrative expenses :		
Sales commission	533	**262**
Advertising expenses	1,353	**193**
Provision of allowance for doubtful accounts	618	**(512)**
Salaries and Bonuses	10,341	**8,701**
Retirement benefit expenses	200	**230**
Legal welfare expenses	1,259	**1,180**
Rent expenses	1,296	**1,281**
Depreciation	252	**253**
Others	6,194	**4,421**
Total selling, general and administrative expenses	22,049	**16,013**
Operating income (loss)	(3,142)	**(2,229)**
Non-operating income :		
Interest income	54	**58**
Dividends income	8	**11**
Land and house rent revenue	68	**68**
Subsidy income	55	**91**
Foreign exchange gains	-	**230**
Other	92	**100**
Total non-operating expenses	278	**561**
Non-operating expenses :		
Interest expenses	225	**224**
Rent expenses	2	**2**
Foreign exchange losses	272	**-**
Other	74	**53**
Total non-operating expenses	575	**280**
Ordinary income (loss)	(3,439)	**(1,949)**
Extra ordinary income :		
Gain on sales investment securities	-	**164**
Total extra ordinary income	-	**164**
Extra ordinary loss :		
Loss on sales of non-current assets	-	**796**
Loss on sales of investment securities	-	**1**
Loss on cancellation of lease contacts	-	**403**
Impairment loss	271	**991**
Settlement package	-	**316**
Total extra ordinary loss	271	**2,509**
Income (loss) before income taxes and minority interests	(3,710)	**(4,293)**
Income taxes-current	399	**292**

Income taxes-deferred	857	**15**
Total income taxes	1,256	**308**
Income before minority interests	(4,967)	**(4,602)**
Minority interests in income	(0)	**2**
Net income (loss)	(4,966)	**(4,604)**

(Consolidated Statements of Comprehensive Income)

(In Millions of Yen)

	April 1 to March 31	
	FY2014	**FY2015**
Income before minority interests	(4,967)	**(4,602)**
Other comprehensive income :		
Share of other comprehensive income of associates accounted for using equity method	80	**(137)**
Foreign currency translation adjustment	139	**(137)**
Retirement benefit adjustment	3	**178**
Total other comprehensive income	223	**(96)**
Comprehensive income	(4,743)	**(4,699)**
Comprehensive income attributable to		
Comprehensive income attributable to parent company	(4,742)	**(4,701)**
Comprehensive income attributable to minority interests	(0)	**2**

(3) Consolidated Statements of Changes in Net Assets

The previous consolidated fiscal year (April 1, 2014 to March 31, 2015)

(In Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	14,041	4	(768)	(1,581)	11,695
Cumulative effects of changes in accounting policies			146		146
Restated balance	14,041	4	(622)	(1,581)	11,841
Changes of items during the period					
Net income			(4,966)		(4,966)
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock				100	100
Change of Minority Interests					-
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	-	(4,966)	100	(4,865)
Balance at the end of current period	14,041	4	(5,588)	(1,481)	6,976

(In Millions of Yen)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits adjustment	Total accumulated other comprehen-sive income		
Balance at the beginning of current period	91	44	(33)	102	29	11,827
Cumulative effects of changes in accounting policies						146
Restated balance	91	44	(33)	102	29	11,973
Changes of items during the period						
Net income						(4,966)
Purchase of treasury stock						(0)
Disposal of treasury stock						100
Change of Minority Interests						-
Net changes of items other than shareholders' equity	80	139	3	223	(0)	223
Total changes of items during the period	80	139	3	223	(0)	(4,642)
Balance at the end of current period	171	184	(30)	325	29	7,331

The consolidated fiscal year (April 1, 2015 to March 31, 2016)

(In Millions of Yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	14,041	4	(5,588)	(1,481)	6,976
Cumulative effects of changes in accounting policies					
Restated balance	14,041	4	(5,588)	(1,481)	6,976
Changes of items during the period					
Net income			(4,604)		(4,604)
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock					-
Change of Minority Interests		(2)			(2)
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	(2)	(4,604)	(0)	(4,607)
Balance at the end of current period	14,041	1	(10,193)	(1,481)	2,368

(In Millions of Yen)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	171	184	(30)	325	29	7,331
Cumulative effects of changes in accounting policies						
Restated balance	171	184	(30)	325	29	7,331
Changes of items during the period						
Net income						(4,604)
Purchase of treasury stock						(0)
Disposal of treasury stock						-
Change of Minority Interests						(2)
Net changes of items other than shareholders' equity	(137)	(137)	178	(96)	2	(94)
Total changes of items during the period	(137)	(137)	178	(96)	2	(4,701)
Balance at the end of current period	34	46	148	229	31	2,629

(4) Consolidated Statements of Cash Flows

(In Millions of Yen)

	April 1 to March 31	
	FY2014	**FY2015**
Net Cash Provided by (used in) Operating Activities :		
Income before income taxes and minority interests	(3,710)	**(4,293)**
Depreciation and amortization	887	**918**
Amortization of goodwill	112	**112**
Impairment loss	271	**991**
Increase (Decrease) in reserve for directors' retirement benefits	(10)	**-**
Increase (Decrease) in provision for bonuses	(184)	**(1)**
Increase (Decrease) in allowance for resource-recycling expenses	(1)	**6**
Increase (Decrease) in allowance for doubtful accounts	616	**(512)**
Increase (Decrease) in liabilities in retirement	125	**59**
Interest and dividends income	(62)	**(70)**
Interest expenses	225	**224**
Loss (gain) on sales of investment securities	-	**(162)**
Loss (gain) on sales of property, plant and equipment	-	**789**
Increase (Decrease) in notes and accounts receivable-trade	7,405	**8,107**
Increase (Decrease) in inventories	(4,091)	**3,108**
Increase (Decrease) in other current assets	647	**(262)**
Increase (Decrease) in notes and accounts payable-trade	(1,922)	**(11,074)**
Increase (Decrease) in consumption tax refund receivable	526	**(855)**
Increase (Decrease) in other current liabilities	(241)	**(2,207)**
Other	(303)	**(150**
Subtotal	289	**(4,973)**
Interest and dividends income received	69	**70**
Interest expenses paid	(230)	**(229)**
Income taxes paid	(1,929)	**(287)**
Income taxes refund	6	**16**
Net cash provided by operating activities	(1,794)	**(5,403)**
Net Cash Provided by (used in) Investment Activities :		
Payments into time deposits	(3,058)	**(2,179)**
Proceeds from withdrawal of time deposits	3,200	**2,945**
Purchase of property, plant and equipment	(1,254)	**(679)**
Proceeds from sales of property, plant and equipment	0	**709**
Purchase of intangible assets	(32)	**(93)**
Proceeds from sales of investment securities	-	**318**
Payments for lease and guarantee deposits	(111)	**(20)**
Collection of lease and guarantee deposits	60	**58**
Other	13	**3**
Net cash provided by investing activities	(1,181)	**1,062**
Net Cash Provided by (used in) Financing Activities :		
Increase (Decrease) in short-term loans payable	1,360	**3,757**
Proceeds from long-term loans payable	485	**-**
Repayments of long-term loans payable	(1,026)	**(2,128)**
Redemption of bonds	(20)	**(20)**

Repayments of finance lease obligations	(221)	**(256)**
Other	68	**(63)**
Net cash provided by financing activities	647	**1,288**
Effect of exchange rate changes on cash and cash equivalents	13	**(58)**
Net Increase (decrease) in cash and cash equivalents	(2,315)	**(3,111)**
Cash and equivalents at beginning of period	7,645	**5,329**
Cash and equivalents at end of period	5,329	**2,218**

(5) Notes to the Consolidated Financial Statements

(Going Concern Considerations)

The Group recorded a significant operating loss, ordinary loss, and net loss belonging to the shareholders of the parent company, and cash flows used in operating activities in the previous fiscal year. In the consolidated fiscal year under review, the Group's income declined significantly chiefly due to the adverse effect of changes in the photovoltaic generation market. The Group posted an operating loss of ¥2,229 million, an ordinary loss of ¥1,949 million, a net loss belonging to the shareholders of the parent company of ¥4,604 million, and cash flows used in operating activities of ¥5,403 million. The Group's interest-bearing debt is ¥12,884 million, which is high compared with its liquidity on hand.

The Company is thus susceptible to events and conditions that cast significant doubt on going consumption assumptions.

To overcome the situation, in the SE Division, the Group worked to respond appropriately to changes in the commercial PV business environment in a timely fashion. The Group has bolstered its organizations in the Kanto, Kansai and Chubu districts, where demand for power is high, and has stepped up sales activities to receive orders. In response to rapid changes in the business environment, the Group called for approximately 900 employees to voluntarily retire and reduced fixed costs in the fiscal year under review. As a result, in the fourth quarter, the Group posted an operating profit.

However, considering the business environment of the commercial PV business, the Company believes that it needs to strengthen its business foundation to achieve sustainable growth. On April 15, 2016, the Company announced its medium-term business plan (FY2016 - FY2018), which includes the following initiatives:

ⅰ) A well-balanced allocation of management resources to business divisions

- Scaling down the SE Division to an appropriate size based on a reasonable analysis of the external environment
- Rebuilding the HS Division and ES Division
- Improving efficiency of the Environmental Resources Development Division

ⅱ) Strengthening the business base through thorough streamlining

- Disposing of assets in accordance with the downsizing of the SE Division (the elimination and consolidation of stores, the closing of a logistics center, and the scaling down of the production of power conditioners)
- Calling for voluntary retirement (approximately 500 employees) in accordance with sales
- Lowering the level of wages across the board

ⅲ) Enhancement of the governance system

- Increasing the number of outside directors

- Strengthening the management oversight functions of the Board of Directors
- Changing the business execution system to clarify the responsibilities of each business division

The Company expects that its profitability will improve through these initiatives and will remain in the black. The medium-term business plan (FY2016 - FY2018) has been formulated on the assumption of the continued support of the main financing bank. The Company expects to continue to receive support and cooperation in financing and will work to stabilize cash management.

However, we have not completed these initiatives, and the support and cooperation of the main financing bank is not ensured, although we have obtained their understanding. We therefore recognize significant uncertainty about the going concern assumption.

(Segment Information)

Segment Information by Type of Business

The previous consolidated fiscal year (From April 1, 2014 to March 31, 2015)

(In Millions of Yen)

	Segments					Elimination or Group	Consolidated
	SE	HS	ES	ERD	Total		
Sales:							
Sales to customers	72,247	7,605	1,040	14,735	95,629	-	95,629
Internal sales among segments And transfer accounts	-	-	-	-	-	-	-
Total	72,247	7,605	1,040	14,735	95,629	-	95,629
Operating income (loss)	(2,291)	1,634	(48)	970	264	(3,406)	(3,142)
Segment Assets	26,901	974	716	12,180	40,772	8,347	49,120
Others :							
Depreciation expenses	290	19	9	489	808	78	887
Amortization of goodwill	-	-	-	112	112	-	112
Capital expenditures	1,139	34	5	656	1,836	351	2,188
Impairment loss	271	-	-	-			271

Consolidated fiscal year (From April 1, 2015 to March 31, 2016)

(In Millions of Yen)

	Segments					Elimination or Group	Consolidated
	SE	HS	ES	ERD	Total		
Sales:							
Sales to customers	39,871	6,519	924	14,601	61,916	-	61,916
Internal sales among segments And transfer accounts	-	-	-	-	-	-	-
Total	39,871	6,519	924	14,601	61,916	-	61,916
Operating income (loss)	(202)	614	53	282	747	(2,977)	(2,229)
Segment Assets	13,998	740	494	12,042	27,276	3,972	31,248
Others :							
Depreciation expenses	332	20	13	459	825	93	918
Amortization of goodwill	-	-	-	112	112	-	112
Capital expenditures	38	18	-	671	728	21	750
Impairment loss	805	28	-	-	834	157	991

6. Others (Supplemental information)

Consolidated Net Sales by Division

(In Millions of Yen)

	From April 1 to March 31		Changes
	FY2014	**FY2015**	
Commercial PV system	62,930	**34,419**	(28,511)
Wholesale of PV components	9,218	**5,351**	(3,866)
Others	98	**99**	0
Solar Engineering Total	72,247	**39,871**	(32,376)
Termite Eradication Service	2,783	**2,459**	(324)
Under-Roof/Roof Ventilation System	1,078	**895**	(183)
Foundation Repairing/Home Reinforcement	549	**377**	(171)
Others	3,193	**2,787**	(406)
Home Sanitation Division Total	7,605	**6,519**	(1,085)
Anti-rust equipment installation	104	**41**	(63)
Repair of building water-woks	459	**405**	(53)
Water proofing of building	85	**121**	35
Others	390	**356**	(34)
Establishment Sanitation Division Total	1,040	**924**	(116)
Plastic fuel	7,534	**7,227**	(307)
Industrial waste (Organic Waste Water	3,795	**3,986**	(190)
Generation of electricity	1,635	**1,604**	(30)
Final disposal	619	**702**	83
Others	1,150	**1,080**	(70)
Environmental Resources Development	14,735	**14,601**	(134)
Total Net Sales	95,629	**61,916**	(33,712)