SANIX INCORPORATED

Summary of Consolidated Financial Statements
For the Third Quarter Ended December 31, 2017
[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 Third Quarter ended December 31, 2017

SANIX INCORPORATED

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

1. Business Results – Operating results for the Third Quarter ended December 31, 2017 (April 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results

(In Millions of Yen)

	Third Quarter From April 1 to December 31			
	FY2017	**%change**	FY2016	%change
Net Sales	**36,571**	**(0.2%)**	36,633	(20.2%)
Operating Income	**773**	**14.6%**	674	—
Ordinary Income	**558**	**23.3**	452	—
Net Income	**341**	**562.7**	51	—
Net Income per Share (¥)	**¥7.15**	—	¥1.08	—
Net Income per Share, Diluted (¥)	—	—	—	—
(Note) Comprehensive Income	**421**	—	(75)	—

(2) Consolidated Financial Position

(In Millions of Yen)

	As of December 31 **FY2017**	As of March 31 FY2016
Total Assets	**29,127**	31,645
Net Assets	**3,267**	2,845
Shareholders' Equity Ratio (%)	**11.1%**	8.9%
Net assets per share (¥)	**¥67.63**	¥58.86
(Reference) Equity Capital	**3,233**	2,813

2. Dividends

	End of Quarterly Period				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
(Dividends per Share)					
FY2016 ended March 31, 2017 (¥)	0.00	0.00	0.00	0.00	0.00
FY2017 ended March 31, 2018 (¥)	0.00	0.00	0.00		
FY2017 ended March 31, 2018 (¥) (Forecast)				0.00	0.00

(Note) Revision from the most recently announced dividend forecast : None

3. Forecasts for Consolidated Business Results (April 1, 2017 to March 31, 2018)

(In Millions of Yen)

	Fiscal Year 2017	
	Full Year	**%change**
Net Sales	**47,680**	**(6.4%)**
Operating Income	**1,210**	**16.7%**
Ordinary Income	**1,090**	**20.2%**
Net Income	**810**	**94.7%**
Net Income per Share (¥)	**¥16.94**	

(Note) Revision from the most recently announced forecast of consolidated business results : None

* 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) Adoption of special quarterly accounting methods : None

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

i) Changes in accounting policies based on revisions of accounting standard : None

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

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

(Shares)

	End of term	
	December 31, 2017	March 31, 2017
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	**1,113,868**	1,113,668
Average number of shares during the fiscal term	**47,805,638**	*47,805,865

* December 31, 2016

* This summary of financial statements is exempt from audit procedure required by Financial instruments and Exchange Act.

* Note to ensure appropriate use of forecasts:

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 economical 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.

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1. Qualitative Information for the Third Quarter ended December 31, 2017

(1) Information of Consolidated Business Results

In the first half of the fiscal year ending March 31, 2018 (April 1, 2017 to December 31, 2017), the Japanese economy continued to follow a recovery path as consumer confidence picked up backed by improved employment and income conditions in addition to a rise in corporate earnings, despite future uncertainty remaining due partly to political instability overseas.

In this business environment, the Group pressed forward with management streamlining, including employee reductions, store mergers and closures, and logistics and production downsizing in line with the medium-term business plan (FY2016-FY2018) that was established in light of the business environment surrounding the solar energy market that continued to shrink due to factors such as the legislative revisions for the Feed-In Tariffs (FIT) during the previous fiscal year, which was the first year of the medium-term business plan. Further, in the current fiscal year, which constitutes the second year of the medium-term business plan, the Group established the Headquarters Overseeing SE, HS and ES as part of its restructure to establish cross-organizational functions, which facilitates effective operation and efficient installations through the cooperation of the three businesses, Solar Engineering (SE), Home Sanitation (HS), and Establishment Sanitation (ES), which shared their operating facilities. Additionally, some of the personnel were relocated from the SE Division to the HS and ES Divisions for more appropriate placement among the business divisions. Additionally, some of the personnel were relocated from the SE Division to the HS and ES Divisions for more appropriate placement among the business divisions.

Net sales in the SE Division decreased due to the shrinkage of the market for solar power generation. However, the appropriate distribution of personnel and other management resources as well as the strengthened marketing system, etc. resulted in an increase in the revenue of the HS and ES Divisions. The Environmental Resources Development Division also achieved increased sales based on the expansion of its new electric power business. Consequently, the total net sales of the Group decreased 0.2% year on year, to ¥36,571 million.

Profit declined for the Environmental Resources Development Division, mainly reflecting a cost increase related to the statutory boiler inspections at the Tomakomai Power Plant. Profitability improved in the other three divisions, thanks primarily to reduced expenses as a result of management streamlining and the lower cost of materials. As a result, the overall financial results of the Group included operating income of ¥773 million (up 14.6% year on year), an ordinary profit of ¥558 million (up 23.3%), and net profit attributable to owners of parent of ¥341 million (up 562.7%).

Consolidated results of individual divisions for the first quarter were as follows:

a. SE (Solar Engineering) Division

While the Division focused on the maintenance business including the installation of incidental equipment following the legislative revisions for the Feed-In Tariffs (FIT), sales from the installation of PV systems declined 31.0% year on year due to a fall in the number of constructions and installations of PV systems, strongly affected by the contraction of the market size for commercial PV systems. As a consequence, the sales were ¥12,846 million (decreased 30.9% year on year).

Despite the significant fall in sales, operating income increased to ¥1,347 million (up 8.0% year on year) thanks to improved profitability as a result of cost reductions through management streamlining efforts, lower materials costs and lower labor expenses by implementing more appropriate labor force allocations.

b. HS (Home Sanitation) Division

As a result of focusing on the strengthening and enhancement of the marketing and customer management systems by increasing the number of employees through personnel transfers from the SE Division for the purpose of growing the business size of the HS Division, sales of termite eradication services increased 15.7% year on year, and sales of under-roof and roof ventilation systems were up 41.5% year on year. Sales of foundation repair and home reinforcement services rose 226.4% year on year. As a result, the sales were ¥6,765 million (increased 36.9% year on year).

Operating income rose 43.8% year on year, to ¥1,103 million, thanks to the significant rise in segment sales, which offset an increase in fixed costs mainly due to the additional employees.

c. ES (Establishment Sanitation) Division

Sales of anti-rust equipment installation (Brand name: Daelman Shock), the key product and service, increased 336.8% year on year as a result of focusing on products for the maintenance of buildings and condominiums and strengthening the marketing system by increasing the number of employees through personnel transfers from the SE Division for the purpose of expanding the size of the ES Division.   As a result, net sales were ¥1,045 million (increased 40.0% year on year).

Operating income climbed to ¥130 million (an increase of 136.2% year on year), reflecting the strong growth of segment sales, which offset an increase in fixed costs mainly due to the additional employees.

d. Environmental Resources Development Division

Sales of plastic fuel increased 5.7% year on year, mainly due to the improved unit prices of waste plastic collected. Electricity sales grew 74.4% year on year, due primarily to an increase in electric energy suppliers in the new electric power business. As a consequence, the sales were ¥15,914 million (increased 28.9% year on year).

Operating income was ¥502 million (down 26.0% year on year) due mainly to an increase in expenses for statutory boiler inspections at the Tomakomai Power Plant, which take place every two years.

(2) Information of Consolidated Financial Position

The status of Assets, Liabilities and Net Assets

Total assets as of the end of the third quarter under review were ¥29,127 million, a decrease of ¥2,517 million compared with the end of the previous consolidated fiscal year, mainly due to a decrease in cash and deposits of ¥677 million, a decrease in notes and accounts receivable-trade of ¥879 million, a decrease in merchandise and finished goods of ¥152 million, a decrease in raw materials and supplies of ¥472 million, and a decrease in land of ¥129 million.

Total liabilities were ¥25,860 million, a decrease of ¥2,938 million compared with the end of the previous consolidated fiscal year, mainly due to a decrease in notes and accounts payable-trade of ¥1,593 million, a decrease in short-term loans payable of ¥995 million and a decrease in the current portion of long-term loans payable of ¥330 million.

Net assets were ¥3,267 million, an increase of ¥421 million compared with the end of the previous consolidated fiscal year, mainly due to the posting of profit attributable to owners of parent of ¥341 million.

As a consequence, the shareholders' equity ratio was 11.1% compared with 8.9% at the end of the previous consolidated fiscal year.

(3) Information on the Future Outlook, Including the Forecasts of Consolidated Business Results

There is no change in the forecasts of consolidated business results for the current fiscal year ending March 31, 2018, from the forecasts announce on May 11, 2017.

2. Quarterly Consolidated Financial Statements and Matters relating to Summary Information (Notes) for the Third Quarter ended December 31, 2017

(1) Quarterly Consolidated Balance Sheets

(In Millions of Yen)

	As of Mar. 31 FY2016	**As of Dec. 31 FY2017**
Assets :		
Current Assets :		
Cash and deposits	5,578	**4,900**
Notes and accounts receivable-trade	6,017	**5,138**
Merchandise and finished goods	549	**397**
Work in process-construction	304	**263**
Raw materials and supplies	4,605	**4,132**
Other	1,010	**1,103**
Allowance for doubtful accounts	(544)	**(534)**
Total Current Assets	17,522	**15,400**
Fixed Assets:		
Property, Plant and Equipment :		
Buildings and structures (net of depreciation)	1,720	**2,158**
Machinery, Equipment and Vehicles(net of depreciation)	1,234	**1,190**
Land	7,941	**7,811**
Other (net of depreciation)	1,382	**785**
Total Property, Plant and Equipment	12,278	**11,945**
Intangible Fixed Assets :		
Goodwill	177	**93**
Other	148	**151**
Intangible Fixed Assets	325	**244**
Investments and Other Assets :	1,518	**1,537**
Total Fixed Assets	14,122	**13,727**
Total Assets	31,645	**29,127**

(In Millions of Yen)

	As of Mar. 31 FY2016	**As of Dec. 31 FY2017**
Liabilities :		
Current Liabilities :		
Notes and accounts payable-trade	6,365	**4,771**
Short-term loans payable	12,969	**11,973**
Current portion of long-term loans payable	535	**205**
Accounts payable	2,644	**3,014**
Accrued income taxes	428	**172**
Allowance for resource-recycling expenses	27	**32**
Other	2,615	**2,818**
Total Current Liabilities	25,586	**22,988**
Non-Current Liabilities :		
Long-term loans payable	484	**358**
Provision for directors' retirement benefits	163	**9**
Provision for disposal site closing expenses	538	**563**
Liability related to retirement benefits	1,404	**1,440**
Other	620	**499**
Total Non-Current Liabilities	3,212	**2,871**
Total Liabilities	28,799	**25,860**
Net Assets :		
Shareholders' Equity :		
Capital stock	14,041	**14,041**
Capital surplus	1	**1**
Retained earnings	(9,777)	**(9,435)**
Treasury stock	(1,481)	**(1,481)**
Total Shareholders' Equity	2,784	**3,126**
Accumulated other comprehensive income :		
Valuation difference on available-for-sale securities	71	**85**
Foreign currency translation adjustment	(28)	**22**
Adjustment for retirement benefits (cumulative)	(14)	**(3)**
Deferred gains or losses on hedges	-	**2**
Total Accumulated other comprehensive income	28	**106**
Non-controlling Interests	32	**34**
Total Net Assets	2,845	**3,267**
Total Liabilities and Assets	31,645	**29,127**

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly Consolidated Statements of Income)

(For the Third Quarter of the fiscal year ending March 31, 2018)

(In Millions of Yen)

	Third Quarter	
	From April 1 to December 31	
	FY2016	**FY2017**
Net sales	36,633	**36,571**
Cost of sales	26,150	**26,151**
Gross profit	10,482	**10,420**
Selling, general and administrative expenses	9,808	**9,646**
Operating income (loss)	674	**773**
Non-operating income :		
Interest income	15	**11**
Dividends income	2	**2**
Land and house rent revenue	47	**47**
Subsidy income	1	**26**
Other	72	**50**
Total non-operating income	139	**137**
Non-operating expenses :		
Interest expenses	179	**161**
Commission fee	5	**25**
Foreign exchange losses	124	**23**
Other	51	**141**
Total non-operating expenses	361	**352**
Ordinary income (loss)	452	**558**
Extra ordinary loss :		
Cost of earlier voluntary retirement	177	**-**
Total extra ordinary loss	177	**-**
Income (loss) before income taxes and minority interests	275	**558**
Income taxes-current	219	**213**
Income taxes-deferred	2	**1**
Total income taxes	221	**214**
Net Income (loss)	53	**343**
Net Income (loss) belonging to the non-controlling shareholders	2	**1**
Net income (loss) belonging to the shareholders of the parent company	51	**341**

(Quarterly Consolidated Statements of Comprehensive Income)

(For the Third Quarter of the fiscal year ending March 31, 2018)

(In Millions of Yen)

	Third Quarter	
	From April 1 to December 31	
	FY2016	**FY2017**
Net Income (loss)	53	**343**
Other comprehensive income :		
Valuation difference on available-for-sale securities	27	**13**
Deferred gains or losses on hedges	-	**2**
Foreign currency translation adjustment	(44)	**51**
Adjustment for retirement benefit adjustment	(111)	**10**
Total other comprehensive income (loss)	(128)	**77**
Comprehensive net income (loss)	(75)	**421**
Comprehensive income (loss)		
Comprehensive income (loss) belonging to the shareholders of the parent company	(77)	**419**
Comprehensive income (loss) belonging to non-controlling shareholders	2	**1**

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes to the Assumption of a Going Concern)

While the Group incurred a significant operating loss, ordinary loss, and loss attributable to owners of parent in both the fiscal year ended March 31, 2015 and the fiscal year ended March 31, 2016, it achieved operating income, ordinary income, and profit attributable to owners of parent during the previous fiscal year and, in the third quarter under review as well, the Group proceeded steadily with the medium-term management plan by posting operating income of ¥773 million, ordinary income of ¥558 million, and income attributable to owners of parent of ¥341 million. However, the Group is still working toward achieving the targets in its medium-term business plan, and its interest-bearing debt is ¥13,133 million, which is high compared with its liquidity on hand. Accordingly, the Group recognizes that it is still susceptible to events and conditions that cast significant doubt on going concern assumptions.

To overcome the situation, the Company believes that, in light of the business environment surrounding the solar electric power business, it is essential to further strengthen the business foundation to achieve sustainable growth. The Company is thus focusing on the following measures as part of the medium-term business plan (FY2016 - FY2018) announced on April 15, 2016.

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

The Company is 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, and further improving efficiency of the Environmental Resources Development Division.

ⅱ) Strengthening the business base through thorough streamlining

During the previous fiscal year, the Company disposed of assets in accordance with the downsizing of the SE Division (store mergers and closures, reduction of production, logistics and procurement downsizing, and the closure of a logistics center, etc.). The number of employees has reached the level initially planned as a result of voluntary retirement that was encouraged in order to reduce the workforce to an appropriate level for the sales volume in the medium-term business plan. In addition, the salaries of all employees have been reduced.

ⅲ) Enhancement of the governance system

At the 38th Annual general Meeting of Shareholders held on June 29, 2016, the Company increased the number of outside directors by one to a total of three. The Company is also strengthening the management oversight functions of the Board of Directors and changing the business execution system to clarify the responsibilities of each business division.

In the previous fiscal year, we finished implementing most of the management streamlining measures such as the reduction of employees, store mergers and closures, and production and logistics downsizing, resulting in increased profitability that has enabled the business to remain in the black. Now, in the fiscal year under review, which is the second year of the medium-term business plan, we have established the Headquarters Overseeing SE, HS and ES in order to further solidify the business foundation, as well as cross-organizational functions to facilitate effective operation and efficient installations through the cooperation of the three segments while also transferring some of the personnel from the SE Division to the HS and ES Divisions. With regard to funding, we are steadily implementing the medium-term business plan, which was developed based on the assumption of the continued support of the main financing bank. We expect to continue to receive support and cooperation with regard to financing and will work to stabilize our cash management.

While we are steadily implementing the measures above, we are still in the process of making progress in the medium-term management plan. In addition, the main financing bank, while indicating its understanding, has not guaranteed its support and cooperation. As a result, the Company recognizes that at present, there is material uncertainty regarding the going concern assumption.

The quarterly consolidated financial statements are prepared based on the assumption of a going concern and do not reflect the impact of such a material uncertainty regarding the going concern assumption.

(Notes to Remarkable Changes in the amount of Shareholders' Equity)

: None

(Application of Particular Accounts Procedures to the Preparation of Quarterly Consolidated Financial Statements)

: None

(Segment Information, etc.)

Ⅰ The previous third quarter (From April 1, 2016 to December 31, 2016)

ⅰ)Information concerning the Amount of Net Sales and Operating Income (loss) by Segment

(In Millions of Yen)

	Segments					Elimination or Group (note 1)	Consolidated (note 2)
	SE	HS	ES	ERD	Total		
Sales:							
Sales to customers	18,597	4,941	746	12,348	36,633	-	36,633
Internal sales among segments and transfer accounts	-	-	-	-	-	-	-
Total	18,597	4,941	746	12,348	36,633	-	36,633
Operating income (loss)	1,247	767	55	678	2,747	(2,073)	674

(note 1)

Negative ¥2,073 million for adjustments of Operating income (loss) represents corporate expenses not allocated to reportable segments. Corporate expenses are mainly general and administrative expenses note attributable to reportable segments.

(note 2)

Operating income (loss) is adjusted to operating loss of quarterly consolidated statements of income.

Ⅱ The third quarter (From April 1, 2017 to December 31, 2017)

ⅰ) Information concerning the Amount of Net Sales and Operating Income (loss) by Segment

(In Millions of Yen)

	Segments					Elimination or Group (note 1)	Consolidated (note 2)
	SE	HS	ES	ERD	Total		
Sales:							
Sales to customers	12,846	6,765	1,045	15,914	36,571	-	36,571
Internal sales among segments and transfer accounts	-	-	-	-	-	-	-
Total	12,846	6,765	1,045	15,914	36,571	-	36,571
Operating income (loss)	1,347	1,103	130	502	3,083	(2,310)	773

(note 1)

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3. Others

(Notes to the Assumption of a Going Concern)

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4. Supplemental Information

Consolidated Net Sales by Division

(In Millions of Yen)

	From April 1 to December 31		Changes
	FY2016	**FY2017**	
Commercial PV system	17,177	**11,858**	(5,318)
Wholesale of PV components	1,338	**816**	(521)
Others	81	**171**	89
Solar Engineering Division Total	18,597	**12,846**	(5,750)
Termite Eradication Service	1,703	**1,970**	266
Under-Floor/Roof Ventilation System	669	**946**	277
Foundation Repairing/Home Reinforcement System	437	**1,428**	990
Others	2,130	**2,149**	288
Home Sanitation Division Total	4,941	**6,765**	1,823
Anti-rust equipment installation	82	**360**	277
Repair of building water-woks	249	**316**	67
Water proofing of building	117	**94**	(23)
Others	297	**274**	(22)
Establishment Sanitation Division Total	746	**1,045**	298
Plastic fuel	5,403	**5,712**	309
Generation of electricity	4,489	**7,830**	3,341
Industrial waste (Organic Waste Water Recycle)	1,345	**1,332**	(13)
Final disposal	534	**519**	(14)
Others	576	**518**	(57)
Environmental Resources Development Division Total :	12,348	**15,914**	3,565
Total Net Sales	36,633	**36,571**	(62)