

# **The 1st Quarter FY2016 Summary of Financial Results**

**Aug 10, 2016**

**Sanki Engineering Co., Ltd.**

# Contents

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<b>Key Points of Financial Results</b>	<b>03</b>
<b>The 1st Quarter FY 2016 Results (Consolidated)</b>	<b>04</b>
<b>Orders Received by Segment (Consolidated)</b>	<b>05</b>
<b>Net Sales by Segment (Consolidated)</b>	<b>06</b>
<b>Ordinary Income and Loss by Segment (Consolidated)</b>	<b>07</b>
<b>Quarterly Results (Consolidated)</b>	<b>08</b>
<b>Operating Results over the Last 5 Years (Consolidated)</b>	<b>09</b>
<b>Orders Received by Industry (Consolidated)</b>	<b>10</b>
<b>Orders Received by Type</b>	<b>11</b>
<b>Major Projects</b>	<b>12</b>
<b>Major Projects over 1 Billion yen (By Industry)</b>	<b>13</b>
<b>Profit Improvement Factors and Measures</b>	<b>14</b>
<b>Balance Sheet (Consolidated)</b>	<b>15</b>
<b>Statements of Cash Flows (Consolidated)</b>	<b>16</b>
<b>FY2016 Forecast (Consolidated)</b>	<b>17</b>
<b>FY2016 Forecast of Orders Received by Segment (Consolidated)</b>	<b>18</b>
<b>FY2016 Forecast of Net Sales by Segment (Consolidated)</b>	<b>19</b>
<b>Long-Term Vision “Century 2025”</b>	<b>20</b>
<b>Medium-Term Management Plan “Century 2025” Phase1 「Key Initiatives and Strategies」</b>	<b>21</b>
<b>Medium-Term Management Plan “Century 2025” Phase1 「ESG Policy」</b>	<b>22</b>

# Key Points of Financial Results

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## 〈Order received〉

Orders received by Facilities Construction Business, such as HVAC and Plumbing for Buildings and Industrial HVAC segments, greatly increased because of orders received of large-scale redevelopment projects in the metropolitan areas and continued steady domestic investments by manufacturers. Orders received by Environmental Systems increased by having received orders of large-scale projects, while those received by Machinery Systems decreased compared with the same period of the previous year, in which a large-scale project order was received. As a result, orders received by Plant & Machinery Systems Business slightly increased. The overall orders received marked greatly higher than that period.

## 〈Net Sales, Profit〉

Even though net sales changed relatively flat year-on-year basis, gross profit margin was improved due to improvement of work efficiency in addition to thorough cost management. Gross profit, operating income, ordinary income, and profit attributable to owners of parent were all greatly improved year-on-year basis.

# 【 Overall Results 】

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## The 1st Quarter FY 2016 Results(Consolidated)

- Orders received highly exceeded year-on-year basis, and net sales changed relatively flat.
- All profit categories, such as gross profit, operating income, ordinary income, and profit attributable to owners of parent were greatly improved year-on-year basis.

(Millions of yen)

	(reference) June 2014	June 2015	June 2016	Year on year	Rate of change(%)
Orders received	42,489	46,385	55,338	8,952	19.3
Balance carried forward	117,883	113,910	127,860	13,950	12.2
Net sales	32,825	34,495	33,866	(628)	(1.8)
Completed construction contracts	32,533	34,089	33,438	(650)	(1.9)
Real estate and others	292	406	427	21	5.3
Gross profit	1,700	3,291	3,905	614	18.7
Completed construction contracts	1,614	3,190	3,786	595	18.7
Real estate and others	85	100	118	18	18.7
Gross profit margin(%)	5.2	9.5	11.5	2.0 <sub>pt.</sub>	—
Selling, general and administrative expenses	3,786	3,921	4,171	250	6.4
Operating income (loss)	(2,085)	(630)	(265)	364	—
Non-operating income	426	488	400	(88)	(18.1)
Non-operating expenses	187	112	106	(5)	(5.1)
Ordinary income (loss)	(1,846)	(254)	27	281	—
Profit attributable to owners of parent (loss)	(1,215)	(266)	(2)	263	—

# 【 Orders Received 】

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## Orders Received by Segment (Consolidated)

- Orders received by HVAC and Plumbing for Buildings, and Industrial HVAC increased because of large-scale projects.
  - Orders received by Machinery Systems decreased, but those by Environmental Systems increased year-on-year basis.
- As a result, total orders received by Plant & Machinery Systems Business changed relatively flat. (Millions of yen)

Segment	June 2015	June 2016	Year on year	Rate of change(%)
HVAC and Plumbing for Buildings	13,674	19,835	6,161	45.1
Industrial HVAC	13,896	17,756	3,859	27.8
Electrical Systems	5,126	5,068	(57)	(1.1)
Facility Systems	3,979	3,210	(769)	(19.3)
<b>Total of Facilities Construction Business</b>	<b>36,677</b>	<b>45,871</b>	<b>9,193</b>	<b>25.1</b>
Machinery Systems	4,477	2,030	(2,447)	(54.7)
Environmental Systems	4,842	7,459	2,616	54.0
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>9,320</b>	<b>9,489</b>	<b>169</b>	<b>1.8</b>
<b>Sub-total</b>	<b>45,997</b>	<b>55,360</b>	<b>9,362</b>	<b>20.4</b>
Real Estate Business	381	388	6	1.8
Others	142	142	(0)	(0.1)
Adjustments *	(135)	(552)	(416)	—
<b>Total</b>	<b>46,385</b>	<b>55,338</b>	<b>8,952</b>	<b>19.3</b>

\*Adjustments eliminate inter segment transactions included in each segment.

# 【Net Sales】

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## Net Sales by Segment (Consolidated)

- Net sales of Machinery Systems were increased due to the increase of the orders received balance at the beginning of this period. (Millions of yen)

Segment	June 2015	June 2016	Year on year	Rate of change(%)
HVAC and Plumbing for Buildings	13,572	12,161	(1,410)	(10.4)
Industrial HVAC	9,923	10,351	427	4.3
Electrical Systems	4,759	4,410	(349)	(7.3)
Facility Systems	1,957	1,729	(227)	(11.6)
<b>Total of Facilities Construction Business</b>	<b>30,213</b>	<b>28,653</b>	<b>(1,560)</b>	<b>(5.2)</b>
Machinery Systems	1,587	2,434	847	53.4
Environmental Systems	2,331	2,576	244	10.5
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>3,919</b>	<b>5,010</b>	<b>1,091</b>	<b>27.9</b>
<b>Sub-total</b>	<b>34,132</b>	<b>33,663</b>	<b>(468)</b>	<b>(1.4)</b>
Real Estate Business	381	388	6	1.8
Others	125	126	1	0.8
Adjustments *	(144)	(312)	(168)	—
<b>Total</b>	<b>34,495</b>	<b>33,866</b>	<b>(628)</b>	<b>(1.8)</b>

\* Adjustments eliminate inter segment transactions included in each segment.

# 【Profit】

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## Ordinary Income and Loss by Segment (Consolidated)

(Millions of yen)

Segment		June 2015	June 2016	Year on year	Rate of change(%)
Segment Profit (Loss)	Facilities Construction	121	46	(74)	(61.8)
	Machinery Systems	(171)	121	292	—
	Environmental Systems	(689)	(546)	142	—
	Sub-total	(739)	(378)	360	—
	Real Estate Business	66	62	(4)	(6.1)
	Others	10	14	3	32.2
	Adjustments *	407	329	(78)	(19.2)
	Total	(254)	27	281	—

\* The amount of adjustments of profit and loss by segment indicates that of all company's profit and loss not distributed into each segment.

# 【Overall Result】

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## Quarterly Results (Consolidated)

(Millions of yen)

	FY 2015				FY 2016
	1Q	2Q	3Q	4Q	1Q
Orders received	46,385	52,820	48,311	35,753	55,338
Net sales	34,495	40,985	47,022	56,397	33,866
Gross profit	3,291	4,812	6,043	8,783	3,905
Gross profit margin (%)	9.5	11.7	12.9	15.6	11.5
Selling, general and administrative expenses	3,921	4,005	3,783	4,709	4,171
Operating income (loss)	(630)	807	2,259	4,073	(265)
Operating profit margin (%)	(1.8)	2.0	4.8	7.2	(0.8)
Ordinary income (loss)	(254)	778	2,554	5,055	27
Extraordinary income (loss)	(55)	30	96	(371)	—
Profit attributable to owners of parent (loss)	(266)	521	1,790	3,282	(2)

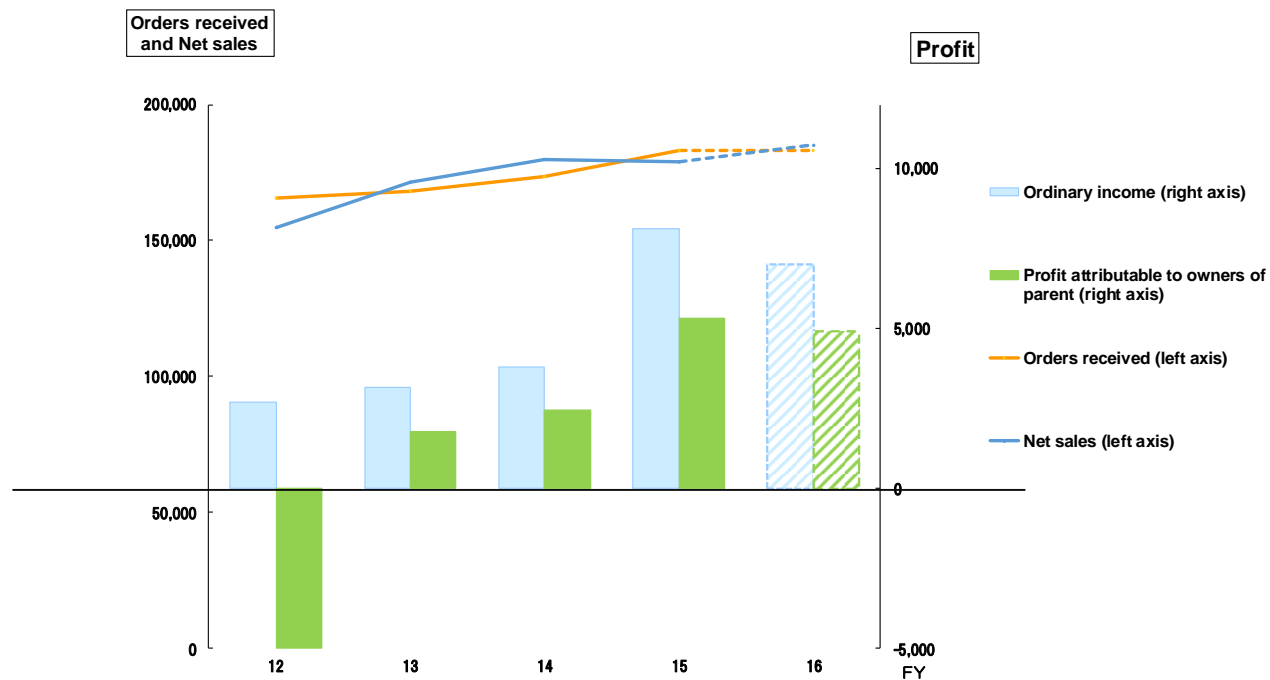


# 【 Operating Results 】

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## Operating Results over the Last 5 Years (Consolidated)

(Millions of yen)

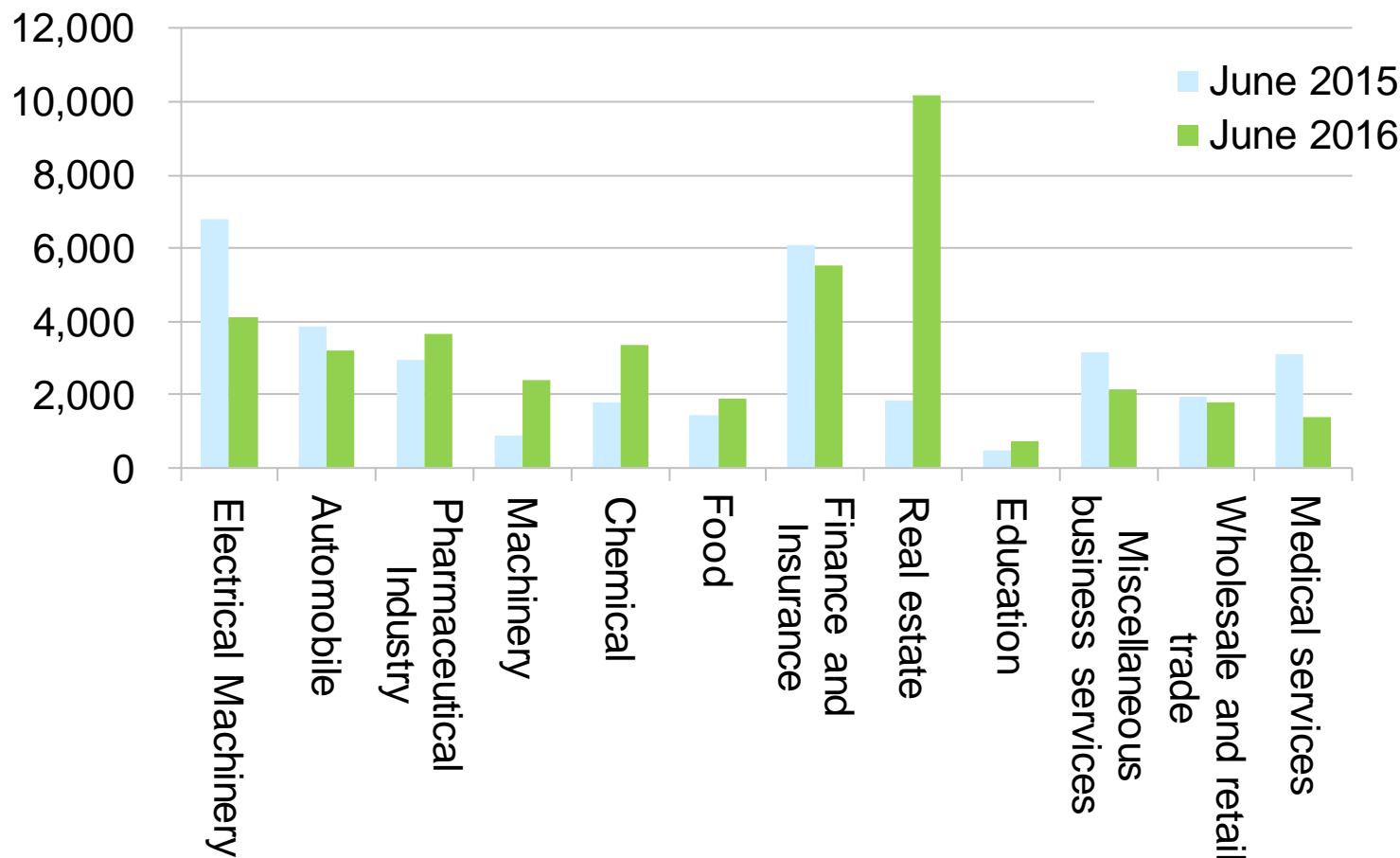


(Forecast)

# 【Orders Received】

## Orders Received by Industry(Consolidated)

(Millions of yen)



# 【Orders Received】

## Order Received by Type

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(Millions of yen)

	FY 2013	FY 2014	FY 2015	June 2015	June 2016	Diff.
Orders received (Non-consolidated : Facilities Construction Business)	137,027	143,708	145,069	35,032	44,245	9,212
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	73,608	68,963	72,751	16,763	16,054	(709)
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	53.7	48.0	50.1	47.9	36.3	(11.6) pt.
Orders received(Consolidated)	168,295	173,398	183,270	46,385	55,338	8,952
Orders received from overseas projects (Consolidated) *	3,055	2,931	2,343	547	468	(78)
Rate of orders received from overseas projects (Consolidated) (%)	1.8	1.7	1.3	1.2	0.8	(0.4) pt.
Orders received for renewal construction (Consolidated)	88,473	93,339	99,920	24,355	23,724	(631)
Rate of orders received for renewal construction (Consolidated) (%)	52.6	53.8	54.5	52.5	42.9	(9.6) pt.
<Ref.>Net sales for renewal construction (Consolidated)	98,024	96,468	96,325	18,255	20,525	2,270

\*SANKI CONSTRUCTION ENGINEERING(SHANGHAI)CO.,LTD. ,unconsolidated subsidiary, is not included in orders received from overseas projects .

# 【Orders Received】

## Major Projects

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- **Takeda Pharmaceutical Company Limited, HIKARI Factory**  
（ Air Conditioning (HVAC) works ） ‹ New construction work ›
- **The North Purification Center of the Yamato City**  
（ Sewage treatment works ） ‹ Maintenance management ›

**Other 3 projects**

# 【Orders Received】

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## Major Projects over 1 Billion yen(By Industry)

	June 2015		June 2016	
Office	1	<b>5 Projects</b> (6,379 million yen)  *Orders received from customers : 1 Project  *Orders received from general contractors : 4 Projects	1	<b>5 Projects</b> (13,464 million yen)  *Orders received from customers : 4 Projects  *Orders received from general contractors : 1 Project
Factory	2		2	
Research institute	1		—	
Waste processing facility	1		—	
Water and sewage treatment facility	—		1	
Power station, Substation	—		1	

# 【 Profit 】

## Profit Improvement Factors and Measures

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- Thorough cost management.
- Maintenance of the site support system.
  - Purchasing operations support by the Procurement Division.
  - Documentation support by the Site-Documentation Support Center.
  - Design work support by Design & Engineering Support Center.
  - Quality management activities by technical experts.
- Strengthening of relations with business partners.
  - Enforcement of the liaison Meeting for Subcontractor Groups.
  - Establishment of the Sanki Super Meister System.

# 【Financial Condition】

## Balance Sheet (Consolidated)

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(Millions of yen)

	End of FY 2015	June 2016	Diff.	Rate of change(%)	June 2015
Current assets	115,491	98,761	(16,730)	(14.5)	100,946
Noncurrent assets	53,931	50,567	(3,363)	(6.2)	60,272
Investment securities	34,789	31,570	(3,218)	(9.3)	39,967
Current liabilities	72,863	57,367	(15,496)	(21.3)	57,764
Noncurrent liabilities	12,001	11,023	(978)	(8.2)	19,493
Total net assets	84,557	80,938	(3,618)	(4.3)	83,960
Unrealized gains on available-for-sale securities	13,012	10,541	(2,471)	(19.0)	15,575
Total assets	169,423	149,329	(20,093)	(11.9)	161,218
Book-value per share (yen)	1,328.60	1,271.88	(56.72)	(4.3)	1,320.46
Equity ratio (%)	49.8	54.1	4.3 pt.	—	52.0
Interest-bearing liabilities (consolidated)	5,992	5,138	(853)	(14.2)	5,272

# Statements of Cash Flows (Consolidated)

- It increases in the balance of cash and cash equivalents more than both at the end of the previous fiscal year and year-on-year basis.

Cash flows from operating activities was increased by the collection of receivables.

Cash flows from investing activities was decreased by purchases of investment securities.

Cash flows from financing activities was decreased by repayment of short-term loans payable and payment of dividends.

(Millions of yen)

	FY 2012	FY 2013	FY 2014	FY 2015	June 2015	June 2016
Cash flows from operating activities	9,729	(9,403)	(139)	5,220	8,486	3,375
Cash flows from investing activities	(9,481)	(3,506)	3,440	5,520	1,079	(573)
Cash flows from financing activities	(1,028)	(4,152)	(2,901)	(1,826)	(1,877)	(2,224)
Cash and cash equivalents at end of period	40,367	23,510	23,667	32,501	31,282	33,047



# 【Overall Forecast】 FY2016 Forecast (Consolidated)

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Net sales would increase, and operating income would remain relatively flat, because of the increase of the balance carried forward. (Millions of yen)

	FY 2015 Results			FY 2016 Forecast (as of August 10)			Year on year		
	First half of year	Second half of year	Total	First half of year	Second half of year	Total	First half of year	Second half of year	Total
Orders received	99,206	84,064	183,270	96,000	87,000	183,000	(3,206)	2,936	(270)
Net sales	75,480	103,420	178,901	76,000	109,000	185,000	520	5,580	6,099
Operating income(loss)	176	6,333	6,509	(100)	6,600	6,500	(276)	267	(9)
Ordinary income(loss)	524	7,610	8,135	300	6,700	7,000	(224)	(910)	(1,135)
Profit attributable to owners of parent (loss)	255	5,072	5,327	200	4,700	4,900	(55)	(372)	(427)

# 【Forecast of Orders Received】

## FY 2016 Forecast of Orders Received by Segment ( Consolidated )

FY 2016 forecast of total orders received would remain relatively flat, compared with FY 2015 result.  
(Millions of yen)

Segment	FY 2015 Results	FY 2016 Forecast (as of August 10)	Diff.
HVAC and Plumbing for Buildings	66,172	66,900	728
Industrial HVAC	52,522	52,000	(522)
Electrical Systems	22,667	21,000	(1,667)
Facility Systems	11,070	10,000	(1,070)
<b>Total of Facilities Construction Business</b>	<b>152,432</b>	<b>149,900</b>	<b>(2,532)</b>
Machinery Systems	10,309	9,500	(809)
Environmental Systems	19,610	22,000	2,390
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>29,919</b>	<b>31,500</b>	<b>1,581</b>
<b>Sub-total</b>	<b>182,352</b>	<b>181,400</b>	<b>(952)</b>
Real Estate Business	1,532	1,600	68
Others	524	500	(24)
Adjustments*	(1,139)	(500)	639
<b>Total</b>	<b>183,270</b>	<b>183,000</b>	<b>(270)</b>

\* Adjustments eliminate inter segment transactions included in each segment.

# 【Forecast of Net Sales】

## FY 2016 Forecast of Net Sales by Segment (Consolidated)

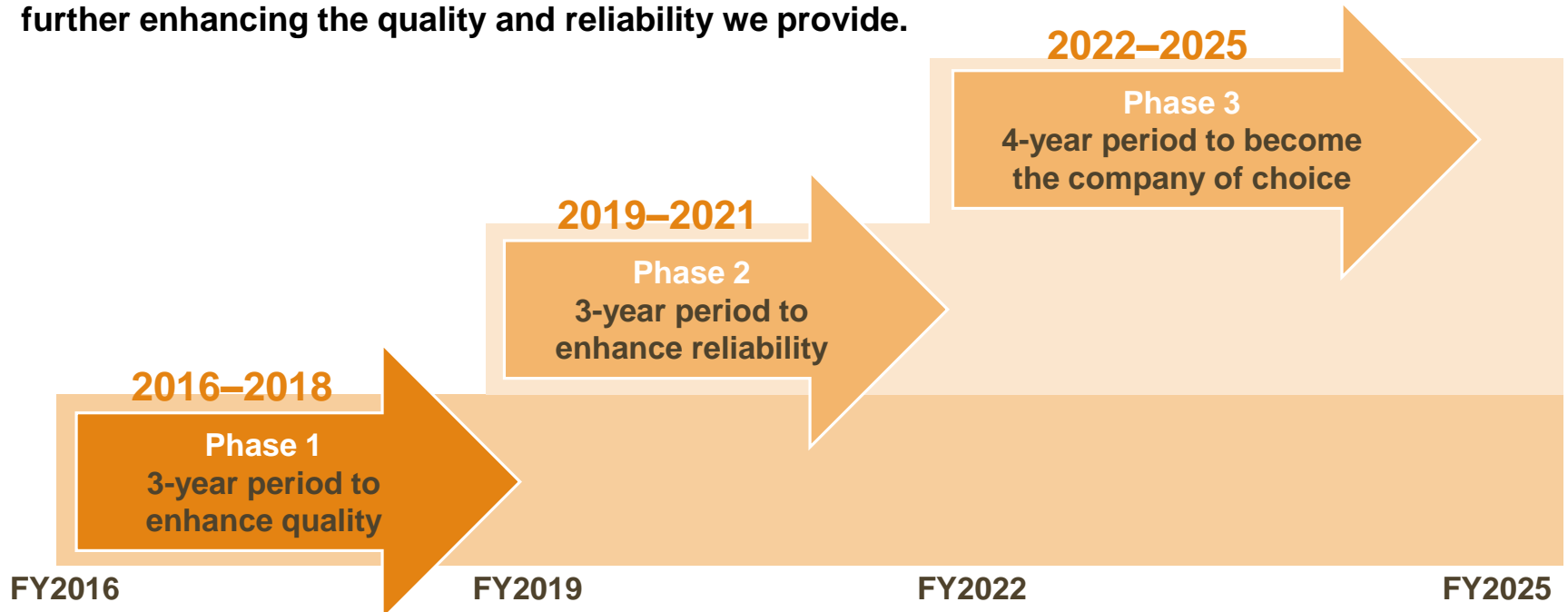
The forecast of net sales in HVAC and Plumbing for Buildings would greatly increase because of high performance of orders received. (Millions of yen)

Segment	FY 2015 Results	FY 2016 Forecast (as of August 10)	Diff.
HVAC and Plumbing for Buildings	64,492	70,900	6,408
Industrial HVAC	52,084	52,000	(84)
Electrical Systems	22,958	22,000	(958)
Facility Systems	10,416	10,000	(416)
<b>Total of Facilities Construction Business</b>	<b>149,952</b>	<b>154,900</b>	<b>4,948</b>
Machinery Systems	9,217	9,500	283
Environmental Systems	18,734	19,000	266
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>27,951</b>	<b>28,500</b>	<b>549</b>
<b>Sub-total</b>	<b>177,904</b>	<b>183,400</b>	<b>5,496</b>
Real Estate Business	1,532	1,600	68
Others	542	500	(42)
Adjustments*	(1,077)	(500)	577
<b>Total</b>	<b>178,901</b>	<b>185,000</b>	<b>6,099</b>

\* Adjustments eliminate inter segment transactions included in each segment.

# Long-Term Vision “Century 2025”

We will strive over the next 10 years to become the company of choice for customers by further enhancing the quality and reliability we provide.



- Phase 1 → We will enhance quality by refining our skills and wisdom and developing our human resources as a foundation for responding to change.
  - Phase 2 → Superior quality generates customer satisfaction, and customer satisfaction and confidence leads to reliability.
  - Phase 3 → Increased reliability will encourage more customers to choose our company.

## Medium-Term Management Plan “Century 2025” Phase1

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### Key Initiatives and Strategies

#### 1. Passing on Technical Skills

We will renovate the Sanki Yamato Building (Yamato City, Kanagawa Prefecture) and reopen it as the Sanki Techno Center (tentative name). This will be a comprehensive training facility that imparts and develops the technical skills at the backbone of the Sanki Engineering Group.

#### 2. Anticipating the Age of Maintaining Building Stock

We will give a boost to the LCE business, as described in our SANKI VITAL PLAN 90<sup>th</sup>. This will bolster our business foundation, allowing us to maintain sound corporate management, even if the construction market experiences a slowdown.

#### 3. Developing Next-Generation Technologies

We will establish a new R&D base inside the Sanki Techno Center. Here we will develop technologies for the next generation while keeping up with advances in new technologies such as robotics, IoT, and artificial intelligence.

# Medium-Term Management Plan “Century 2025” Phase1

## ESG Policy

Organically Integrate Existing Activities and Seek Strategic Deployment

	Outline
<b>Environment</b>	<p>As evidenced by the Paris Agreement, which created an international framework against global warming, and the Act on Promotion of Global Warming Countermeasures as well as other legislation passed in Japan in response, protecting the global environmental is becoming even more important. Recognizing that the business of the Sanki Engineering Group could have a direct impact on protecting the global environment:</p> <ol style="list-style-type: none"> <li>1. In our core Facilities Construction Business, we will contribute to reducing greenhouse gas emissions in the industrial and operational sectors of society by developing and providing various facilities and systems for air conditioning, plumbing, electricity, and network systems, as well as related services;</li> <li>2. In our Plant and Facilities Division, we will develop equipment that offers greater energy savings; and</li> <li>3. We will be mindful of reducing the impact on the global environment in all aspects of our business operations and pursue activities based on ISO 14000.</li> </ol>
<b>Social</b>	<ol style="list-style-type: none"> <li>1. We will continue our SANKI YOU Eco Contribution Point social contribution activity, in which we extend donations to environmental conservation organizations according to the level of reduction in greenhouse gas emissions.</li> <li>2. We intend to create work environments that are even more worker friendly by implementing measures against long working hours and expanding opportunities for women and the elderly.</li> </ol>
<b>Governance</b>	<ol style="list-style-type: none"> <li>1. In fiscal 2016, we will launch a full-scale initiative under the Sanki Engineering Corporate Governance Guidelines established in December 2015.</li> <li>2. Under the leadership of the Board of Directors, we will operate and improve our internal control system and risk management systems to emphasize effectiveness.</li> <li>3. We will abide by our rules of conduct, including the Sanki Engineering Group Compliance Declaration, Sanki Engineering Group Code of Conduct and Action Guidelines, and Sanki Engineering Group Behavioral Standards and Guidelines, and strive to maintain and develop our corporate culture of ethical conduct.</li> </ol>

## Thank you for your kind attention.

### Remarks on Business Forecast

The descriptions contained in this material, except for those as to past or present facts, are based on anticipations, assumptions, evaluations and estimations in light of the information available as of May 13, 2016.

Therefore, the actual results may differ from those presented herein as a consequence of various factors including uncertainties and prospective changes in the economic environment.

#### <Major factors>

- Credit exposure of client companies.
- Sudden changes in material and equipment cost and labor cost.
- Stock Market fluctuations.
- Increase in retirement benefits and debts.
- Country risk.
- Accident and disaster in Facilities construction and other.
- Outbreak of the unprofitable project.
- Risk in Real Estate Business.
- Risk in Regal action.
- Risk in Regal regulation.
- Outbreak of the natural disaster.

For inquiries please contact:

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