

The 2nd Quarter FY2016 Summary of Financial Results

Nov 11, 2016

Sanki Engineering Co., Ltd.

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Key Points of Financial Results

〈Orders received〉

Orders received by Facilities Construction Business decreased because of a decline in large-scale projects year-on-year basis, while those by Industrial HVAC segment continued to increase.

Orders received by Machinery Systems decreased compared with the same period of the previous year, in which a large-scale project order was received, and the overall orders received marked lower than that period.

〈Net Sales , Profit〉

Net sales declined from the same period of the previous year due to delays in construction progress and other factors. On the profit side, gross profit margin continued to be improved because of improved work efficiency in addition to rigorous cost management ; while operating income, ordinary income, and profit attributable to owners of parent declined due to the impact of decreased sales.

【 Overall Results 】

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The 2nd Quarter FY 2016 Results(Consolidated)

- Net sales declined from the same period of the previous year due to delays in the construction progress, and as a result, the balance carried forward continued at a high level.
- Operating income, ordinary income, and profit attributable to owners of parent exceed the each forecast amount at the beginning of FY, although they all declined from the same period of the previous year. Both gross profit and gross profit margin continued to be improved. **(Millions of yen)**

	September 2014	September 2015	September 2016	Year on year	Rate of change(%)
Orders received	81,248	99,206	90,912	(8,293)	(8.4)
Balance carried forward	113,960	125,745	126,960	1,214	1.0
Net sales	75,507	75,480	70,341	(5,139)	(6.8)
Completed construction contracts	74,912	74,668	69,491	(5,177)	(6.9)
Real Estate and Others	595	812	849	37	4.6
Gross profit	4,925	8,103	8,144	40	0.5
Completed construction contracts	4,755	7,918	7,940	22	0.3
Real Estate and Others	169	185	204	18	10.1
Gross profit margin(%)	6.5	10.7	11.6	0.9pt.	—
Selling, general and administrative expenses	7,631	7,926	8,087	160	2.0
Operating income (loss)	(2,705)	176	57	(119)	(67.6)
Non-operating income	734	603	515	(88)	(14.7)
Non-operating expenses	354	255	203	(52)	(20.5)
Ordinary income (loss)	(2,325)	524	368	(155)	(29.7)
Profit attributable to owners of parent (loss)	(1,327)	255	229	(25)	(10.1)

【 Orders Received 】

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Orders Received by Segment (Consolidated)

- Orders received by Facilities Construction Business decreased because of a decline in large-scale projects year-on-year basis, while those by Industrial HVAC segment continued to increase.
- Orders received by Machinery Systems decreased compared with the same period of the previous year, in which a large-scale project order of machinery systems was received.

(Millions of yen)

Segment	September 2014	September 2015	September 2016	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	31,396	34,023	33,979	(44)	(0.1)
Industrial HVAC	21,943	25,294	27,399	2,104	8.3
Electrical Systems	11,807	12,699	8,337	(4,362)	(34.4)
Facility Systems	4,803	6,623	5,274	(1,349)	(20.4)
Total of Facilities Construction Business	69,950	78,642	74,990	(3,651)	(4.6)
Machinery Systems	2,888	6,981	3,287	(3,694)	(52.9)
Environmental Systems	7,971	13,133	12,451	(682)	(5.2)
Total of Plant & Machinery Systems Business	10,859	20,115	15,738	(4,376)	(21.8)
Sub-total	80,810	98,757	90,729	(8,027)	(8.1)
Real Estate Business	550	766	787	21	2.7
Others	228	272	259	(13)	(4.9)
Adjustments *	(340)	(590)	(864)	(273)	—
Total	81,248	99,206	90,912	(8,293)	(8.4)

* Adjustments eliminate inter segment transactions included in each segment.

【Net Sales】

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Net Sales by Segment (Consolidated)

- Net sales in HVAC and Plumbing for Buildings decreased due to delay of the construction progress, and as a result, the balance carried forward of this segment amounts to approximately 64,600 million yen.
- Net sales in Machinery Systems increased because there were a large amount of net sales from an order of a large-scale project received in the previous year.

(Millions of yen)

Segment	September 2014	September 2015	September 2016	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	31,051	28,255	24,001	(4,254)	(15.1)
Industrial HVAC	21,272	22,230	22,082	(147)	(0.7)
Electrical Systems	8,480	10,010	9,065	(945)	(9.4)
Facility Systems	3,945	4,884	4,587	(297)	(6.1)
Total of Facilities Construction Business	64,749	65,381	59,736	(5,644)	(8.6)
Machinery Systems	4,864	3,307	4,384	1,076	32.5
Environmental Systems	5,401	6,134	5,782	(351)	(5.7)
Total of Plant & Machinery Systems Business	10,265	9,441	10,166	725	7.7
Sub-total	75,014	74,823	69,903	(4,919)	(6.6)
Real Estate Business	550	766	787	21	2.7
Others	242	259	254	(4)	(1.9)
Adjustments *	(300)	(368)	(604)	(235)	—
Total	75,507	75,480	70,341	(5,139)	(6.8)

* 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		September 2014	September 2015	September 2016	Year on year	Rate of change(%)
Segment Profit (Loss)	Facilities Construction	(2,011)	866	(15)	(881)	—
	Machinery Systems	(54)	(251)	119	370	—
	Environmental Systems	(931)	(941)	(755)	186	—
	Sub-total	(2,996)	(325)	(651)	(325)	—
	Real Estate Business	111	114	103	(11)	(9.7)
	Others	22	17	20	2	16.2
	Adjustments *	537	718	895	177	24.7
	Total	(2,325)	524	368	(155)	(29.7)

* 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)

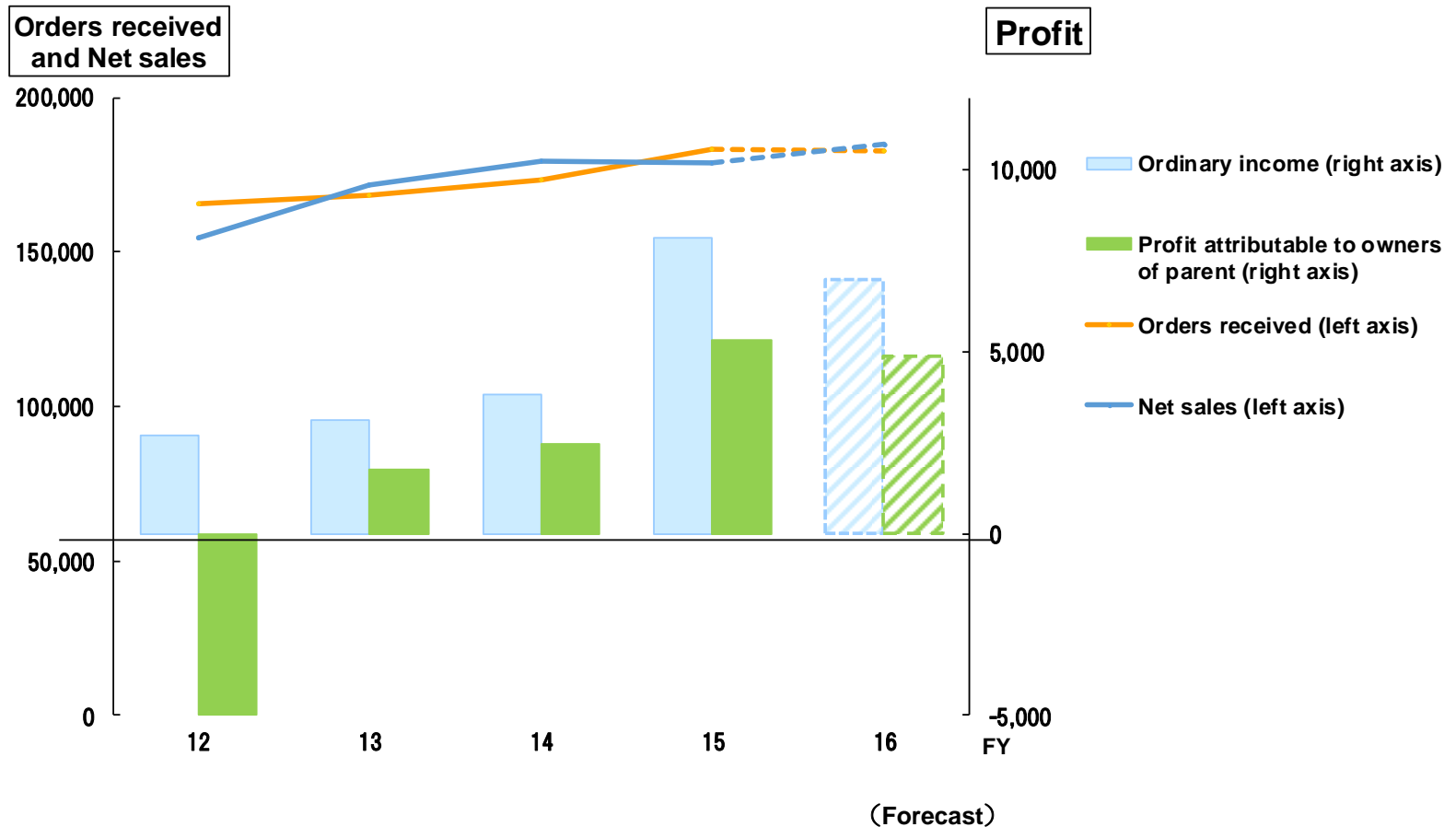
	FY2014				FY2015				FY2016	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Orders received	42,489	38,758	55,923	36,226	46,385	52,820	48,311	35,753	55,338	35,573
Net sales	32,825	42,682	47,145	56,945	34,495	40,985	47,022	56,397	33,866	36,474
Gross profit	1,700	3,224	4,753	8,287	3,291	4,812	6,043	8,783	3,905	4,238
Gross profit margin(%)	5.2	7.6	10.1	14.6	9.5	11.7	12.9	15.6	11.5	11.6
Selling, general and administrative expenses	3,786	3,845	3,552	3,831	3,921	4,005	3,783	4,709	4,171	3,915
Operating income (loss)	(2,085)	(620)	1,201	4,456	(630)	807	2,259	4,073	(265)	323
Operating profit margin(%)	(6.4)	(1.5)	2.5	7.8	(1.8)	2.0	4.8	7.2	(0.8)	0.9
Ordinary income (loss)	(1,846)	(478)	1,612	4,522	(254)	778	2,554	5,055	27	341
Extraordinary income (loss)	—	(18)	(116)	(312)	(55)	30	96	(371)	—	(32)
Profit attributable to owners of parent (loss)	(1,215)	(111)	1,119	2,669	(266)	521	1,790	3,282	(2)	232

【Operating Results】

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Operating Results over the Last 5 Years (Consolidated)

(Millions of yen)

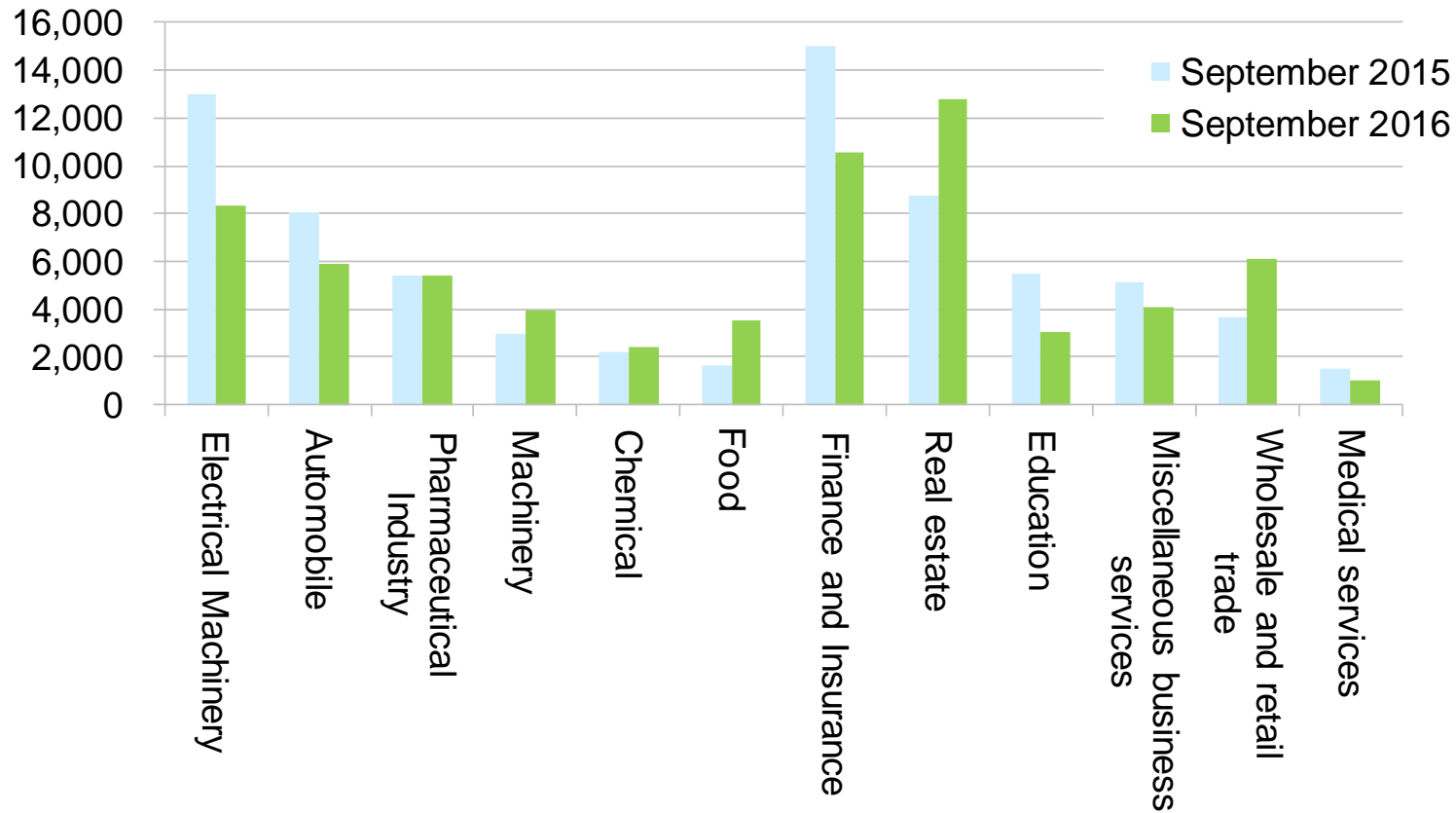


【Orders Received】

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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	September 2015	September 2016	Diff.
Orders received (Non-consolidated : Facilities Construction Business)	137,027	143,708	145,069	75,310	71,860	(3,449)
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	73,608	68,963	72,751	39,597	28,045	(11,551)
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	53.7	48.0	50.1	52.6	39.0	(13.6) pt.
Orders received(Consolidated)	168,295	173,398	183,270	99,206	90,912	(8,293)
Orders received from overseas projects (Consolidated) *	3,055	2,931	2,343	1,280	803	(476)
Rate of orders received from overseas projects (Consolidated) (%)	1.8	1.7	1.3	1.3	0.9	(0.4) pt.
Orders received for renewal construction (Consolidated)	88,473	93,339	99,920	54,202	46,047	(8,155)
Rate of orders received for renewal construction (Consolidated) (%)	52.6	53.8	54.5	54.6	50.7	(3.9) pt.
<Ref.>Net sales for renewal construction (Consolidated)	98,024	96,468	96,325	37,372	39,106	1,734

*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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- **Bank of Yokohama , Head Office**
(Air Conditioning (HVAC) works)
< Renovation work >
- **NKC Nagai Green Power , Power Generation Facility**
(Air Conditioning (HVAC) works)
< New construction work >
- **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

-
- The property name is the name which is being used in us and is sometimes different from the name on the construction contract.

【Orders Received】

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Major Projects over 1 Billion yen(By Industry)

	September 2014		September 2015		September 2016	
Office	—	5 Projects (6,439 million yen) * Orders received from customers : 1 Project * Orders received from general contractors : 4 Projects	2	11 Projects (19,091 million yen) * Orders received from customers : 3 Projects * Orders received from general contractors : 8 Projects	3	7 Projects (17,782 million yen) * Orders received from customers : 5 Projects * Orders received from general contractors : 2 Projects
Hospital	2		1		—	
Research institute	1		1		—	
Factory	1		3		2	
Waste processing facility	—		3		—	
Power station, Substation	—		—		1	
Water and sewage treatment facility	1		—		1	
School building, Lecture hall	—		1		—	

Profit Improvement Factors and Measures

- Improvement of the external environment.
- 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.
 - Enforcement of the Sanki Best Partners Choice System

【Financial Condition】

Balance Sheet (Consolidated)

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(Millions of yen)

	End of FY 2015	September 2016	Diff.	Rate of change(%)	September 2015
Current assets	115,491	95,581	(19,910)	(17.2)	93,720
Noncurrent assets	53,931	49,851	(4,079)	(7.6)	56,405
Current liabilities	72,863	53,359	(19,504)	(26.8)	54,146
Noncurrent liabilities	12,001	11,148	(853)	(7.1)	13,841
Total net assets	84,557	80,925	(3,631)	(4.3)	82,137
Total assets	169,423	145,433	(23,989)	(14.2)	150,126
Book-value per share (yen)	1,328.60	1,271.10	(57.50)	(4.3)	1,290.56
Equity ratio (%)	49.8	55.6	5.8 pt.	—	54.6
Interest-bearing liabilities (consolidated)	5,992	5,824	(167)	(2.8)	6,164

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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 payment of dividends.

(Millions of yen)

	FY 2012	FY 2013	FY 2014	FY 2015	September 2015	September 2016
Cash flows from operating activities	9,729	(9,403)	(139)	5,220	(1,330)	3,502
Cash flows from investing activities	(9,481)	(3,506)	3,440	5,520	5,599	(397)
Cash flows from financing activities	(1,028)	(4,152)	(2,901)	(1,826)	(1,010)	(1,573)
Cash and cash equivalents at end of period	40,367	23,510	23,667	32,501	26,877	33,933

Capital investment (including intangible assets)	645	545	395	855	218	126
Depreciation and amortization	1,207	740	723	723	343	338

【Return to Shareholders】

Dividends and others

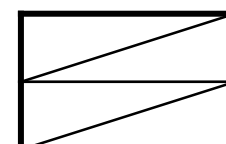
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- The interim dividends of FY 2016 are 10 yen per share. (The interim dividends of FY 2015 were 9 yen per share.)

	FY 2012	FY 2013	FY 2014	FY 2015	September 2016
Earnings per share (yen)	(71.04)	26.46	38.30	83.84	3.61
Cash dividends per share: regular dividends (yen)	15	15	15	18	10
Cash dividends per share: commemorative dividends (yen)	—	—	5	—	—
Cash dividends per share: extra dividends (yen)	—	—	—	12	—
Cash dividends per share (yen)	15	15	20	30	10
Payout ratio (consolidated) (%)	—	56.7	52.2	35.8	
Number of shareholders at end of period	4,169	3,598	3,375	3,397	3,390
Stock price at end of period (yen)	492	654	930	901	897
Acquisition of treasury stock (thousand shares)	1,988	4,000	2,000	—	—
Retirement of treasury stock (thousand shares)	—	4,800	3,000	—	—

<Reference>

ROE (Return on Equity) (%)	(6.4)	2.3	3.0	6.3
ROA (Return on Assets) (%)	1.6	1.9	2.2	4.7



【Overall Forecast】

FY2016 Forecast (Consolidated)

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- The overall FY2016 forecast as of November 11, is not changed from the initial forecast as of May 13.

(Millions of yen)

	FY 2016 Forecast (as of November 11)
	Total
Orders received	183,000
Net sales	185,000
Operating income	6,500
Ordinary income	7,000
Profit attributable to owners of parent	4,900

【Forecast of Orders Received and Net Sales】

FY2016 Forecast of Orders Received and Net Sales by Segment (Consolidated)

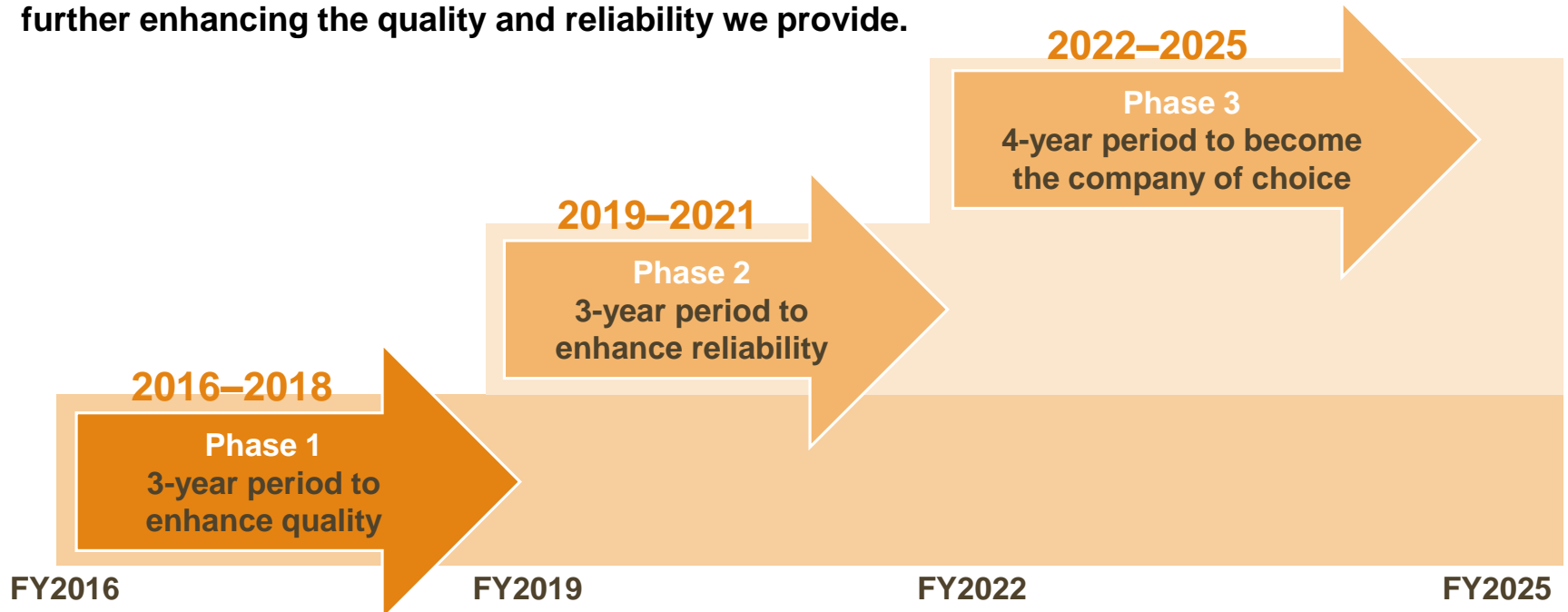
(Millions of yen)

Segment		FY 2016 Orders Received Forecast (as of November 11)	FY 2016 Net sales Forecast (as of November 11)
	HVAC and Plumbing for Buildings	64,900	70,900
	Industrial HVAC	52,000	52,000
	Electrical Systems	19,000	22,000
	Facility Systems	10,000	10,000
Total of Facilities Construction Business		145,900	154,900
	Machinery Systems	9,500	9,500
	Environmental Systems	26,000	19,000
Total of Plant & Machinery Systems Business		35,500	28,500
Sub-total		181,400	183,400
Real Estate Business		1,600	1,600
Others		500	500
Adjustments*		(500)	(500)
Total		183,000	185,000

* 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

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 90th. 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
Environment	<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"> 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; 2. In our Plant and Facilities Division, we will develop equipment that offers greater energy savings; and 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.
Social	<ol style="list-style-type: none"> 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. 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.
Governance	<ol style="list-style-type: none"> 1. In fiscal 2016, we will launch a full-scale initiative under the Sanki Engineering Corporate Governance Guidelines established in December 2015. 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. 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.

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 November 11, 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.

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