

FY2017 Summary of Financial Results

May 11, 2018

Sanki Engineering Co., Ltd.

Contents

- Key Points of Financial Results
- FY2017 Results (Consolidated)
- Orders Received by Segment (Consolidated)
- Net Sales by Segment (Consolidated)
- Ordinary Income and Loss by Segment (Consolidated)
- Quarterly Results (Consolidated)
- Operating Results over the most recent 5 years
(Consolidated) <Orders Received/Net Sales>
- Operating Results over the most recent 5 years
(Consolidated) <Profit>
- Orders Received by Industry (Consolidated)
- Orders Received by Type
- Main Major Projects Received
- Main Major Completed Construction Projects
- Major Projects Received over 1 Billion Yen (by Industry)
- Profit Improvement Factors and Measures
- Balance Sheet (Consolidated)
- Statement of Cash Flows (Consolidated)
- Dividends and Others
- FY2018 Forecast (Consolidated)
- FY2018 Forecast of Orders Received and Net Sales by Segment (Consolidated)

Key Points of Financial Results

<Orders received>

Although orders received declined for HVAC and Plumbing for Buildings, orders received increased for Facilities Construction Business overall, due to a dramatic increase in factors such as orders received for large-scale projects, particularly in Industrial HVAC. The overall value of consolidated orders exceeded the previous fiscal year, including the increase in orders received for large-scale projects in Machinery Systems, and the balance carried forward increased even further.

<Net Sales & Profit>

Net sales increased overall, due to the increase in HVAC and Plumbing for Buildings and Plant & Machinery Systems Business. In terms of profit, gross profit margin further improved year-on-year as a result of continued pursuit of initiatives, including the enhancement of our site support systems. As a result, gross profit, operating income, and ordinary income increased.

However, profit attributable to owners of parent declined due to recording extraordinary income and extraordinary loss.

<Dividends>

An extra dividend, which has been paid for three consecutive fiscal years, of 15 yen has been paid in addition to the regular dividend of 20 yen, resulting in a total annual dividend of 35 yen, which is an increase of 5 yen from the previous fiscal year.

【Overall Results】

FY2017 Results (Consolidated)

SANKI

- Orders received increased, due to factors such as receipt of large-scale projects for Industrial HVAC and Machinery Systems, and the Balance carried forward also rose significantly. Net sales exceeded the previous fiscal year due to an increase in net sales for HVAC and Plumbing for Buildings and Plant & Machinery Systems Business.
- Gross profit margin further improved to 14.7% due to higher construction profitability, and there were increases in gross profit, operating income, and ordinary income.
- Profit attributable to owners of parent declined due to recording loss on retirement of noncurrent assets arising from the Yamato Site Redevelopment Plan and provision of allowance for doubtful accounts for billed receivables for which the risk posed by concern about recovery has increased, as extraordinary losses, despite gain on sales of investment securities being recorded as extraordinary income because of the revision of the shareholding policy.

(Millions of yen)

	FY 2015	FY 2016	FY 2017	Year on year	Rate of change (%)
Orders received	183,270	185,880	191,113	5,233	2.8
Balance carried forward	106,388	123,756	144,712	20,956	16.9
Net sales	178,901	168,512	170,157	1,644	1.0
Completed construction contracts	177,262	166,817	168,266	1,449	0.9
Real Estate and Others	1,638	1,694	1,890	195	11.5
Gross profit	22,929	22,538	25,060	2,521	11.2
Completed construction contracts	22,556	22,184	24,403	2,218	10.0
Real Estate and Others	373	353	656	303	85.6
Gross profit margin(%)	12.8	13.4	14.7	1.3 pt.	—
Selling, general and administrative expenses	16,419	16,526	18,466	1,940	11.7
Operating income	6,509	6,012	6,593	580	9.7
Non-operating income	1,625	867	841	(26)	(3.1)
Ordinary income (loss)	8,135	6,880	7,434	554	8.1
Net extraordinary income (loss)	(300)	124	(979)	(1,103)	—
Profit attributable to owners of parent (loss)	5,327	4,698	3,906	(791)	(16.9)

【Orders Received】

Orders Received by Segment (Consolidated)

- In Facilities Construction Business, although orders declined for HVAC and Plumbing for Buildings, orders increased year on year for Facilities Construction Business overall, due to a large increase in orders for large-scale projects, particularly in Industrial HVAC and the firming of Electrical Systems.
- With regard to Plant & Machinery Systems Business, Machinery Systems increased, receiving some large-scale projects in this period. Although Environmental Systems decreased due to orders received for large-scale DBO projects in the previous fiscal year, orders received remain high.

(Millions of yen)

Segment	FY 2015	FY 2016	FY 2017	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	66,172	65,763	62,274	(3,488)	(5.3)
Industrial HVAC	52,522	49,823	58,907	9,084	18.2
Electrical Systems	22,667	21,576	22,675	1,099	5.1
Facility Systems	11,070	9,450	9,585	135	1.4
Total of Facilities Construction Business	152,432	146,612	153,443	6,830	4.7
Machinery Systems	10,309	8,130	12,100	3,969	48.8
Environmental Systems	19,610	30,626	24,247	(6,378)	(20.8)
Total of Plant & Machinery Systems Business	29,919	38,756	36,347	(2,409)	(6.2)
Sub-total	182,352	185,369	189,791	4,421	2.4
Real Estate Business	1,532	1,592	1,755	163	10.3
Others	524	491	587	95	19.5
Adjustments *	(1,139)	(1,573)	(1,020)	552	—
Total	183,270	185,880	191,113	5,233	2.8

* Adjustments eliminate inter segment transactions included in each segment.

【Net Sales】

SANKI

Net Sales by Segment (Consolidated)

- Net sales fell slightly overall for the Facilities Construction Business, because, although net sales increased in the HVAC and Plumbing for Buildings segment which had a high carried forward balance at the start of the fiscal year, including large-scale projects, sales fell in other segments. (Conversely, the balance carried forward in Facilities Construction Business overall increased greatly over the previous fiscal year.)
- With regard to Plant & Machinery Systems Business, there was an increase for both Machinery Systems and Environmental Systems. As a result there was a year-on-year increase in consolidated net sales for the company as a whole.

(Millions of yen)

Segment	FY 2015	FY 2016	FY 2017	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	64,492	60,376	63,782	3,405	5.6
Industrial HVAC	52,084	49,440	46,556	(2,883)	(5.8)
Electrical Systems	22,958	21,542	20,653	(888)	(4.1)
Facility Systems	10,416	10,208	8,695	(1,512)	(14.8)
Total of Facilities Construction Business	149,952	141,567	139,688	(1,878)	(1.3)
Machinery Systems	9,217	8,192	9,254	1,062	13.0
Environmental Systems	18,734	18,271	19,909	1,637	9.0
Total of Plant & Machinery Systems Business	27,951	26,464	29,164	2,699	10.2
Sub-total	177,904	168,032	168,853	821	0.5
Real Estate Business	1,532	1,592	1,755	163	10.3
Others	542	499	578	79	15.9
Adjustments *	(1,077)	(1,611)	(1,030)	580	—
Total	178,901	168,512	170,157	1,644	1.0

* Adjustments eliminate inter segment transactions included in each segment.

【Profit】

SANKI

Ordinary Income and Loss by Segment (Consolidated)

(Millions of yen)

Segment		FY 2015	FY 2016	FY 2017	Year on year	Rate of change (%)
Segment Profit (Loss)	Facilities Construction	7,698	6,404	6,010	(394)	(6.2)
	Machinery Systems	275	(138)	(40)	97	—
	Environmental Systems	(315)	671	575	(96)	(14.3)
	Sub-total	7,658	6,938	6,545	(393)	(5.7)
	Real Estate Business	233	189	476	287	151.7
	Others	52	22	49	27	121.7
	Adjustments *	191	(270)	362	632	—
	Total	8,135	6,880	7,434	554	8.1

* 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 Results】

Quarterly Results (Consolidated)

SANKI

(Millions of yen)

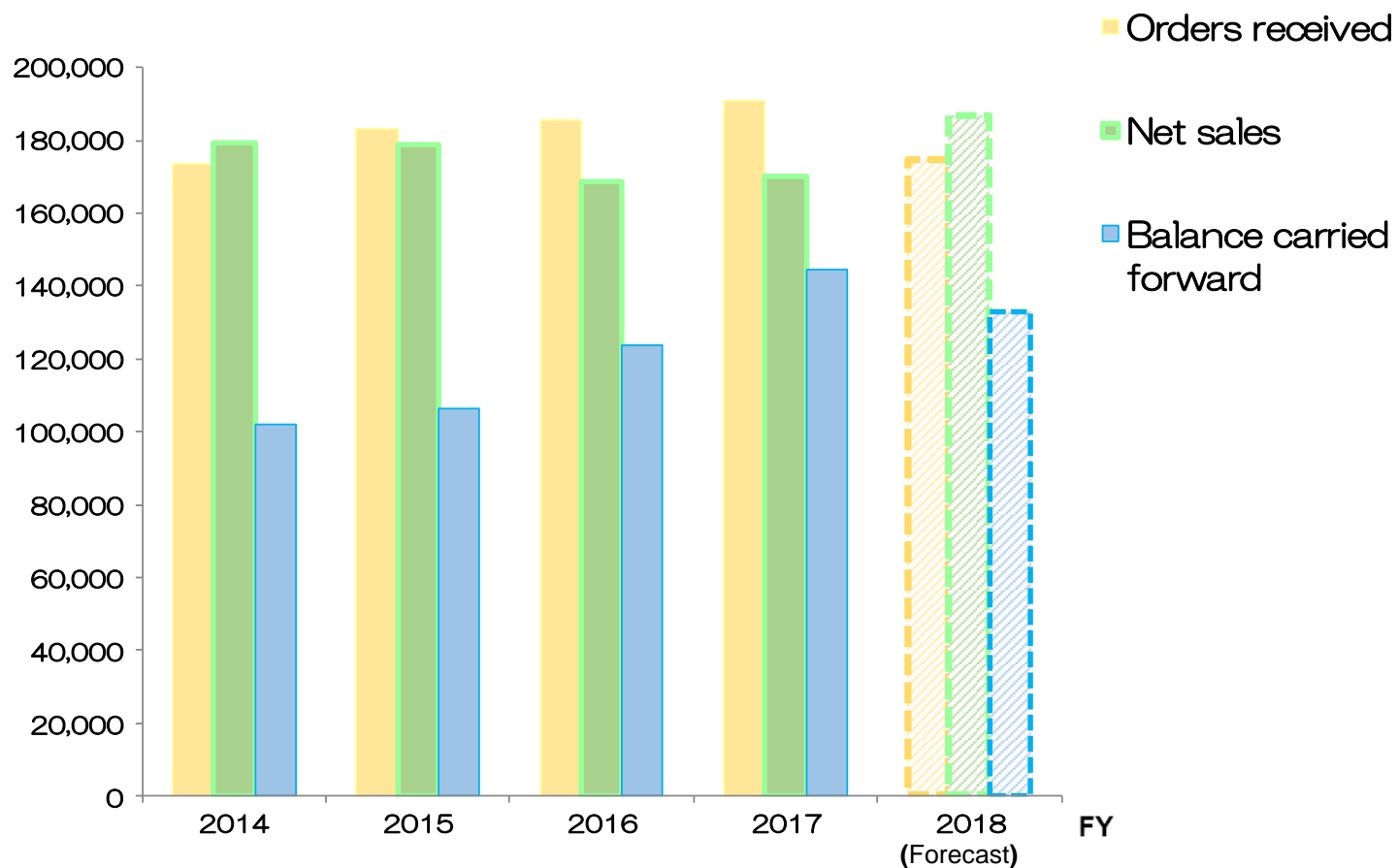
	FY 2015				FY 2016				FY 2017			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Orders received	46,385	52,820	48,311	35,753	55,338	35,573	47,250	47,716	38,209	57,566	43,881	51,456
Net sales	34,495	40,985	47,022	56,397	33,866	36,474	44,222	53,949	32,933	39,573	43,102	54,548
Gross profit	3,291	4,812	6,043	8,783	3,905	4,238	5,566	8,827	3,482	5,837	5,995	9,744
Gross profit margin (%)	9.5	11.7	12.9	15.6	11.5	11.6	12.6	16.4	10.6	14.8	13.9	17.9
Selling, general and administrative expenses	3,921	4,005	3,783	4,709	4,171	3,915	3,798	4,640	4,442	4,386	4,193	5,443
Operating income (loss)	(630)	807	2,259	4,073	(265)	323	1,767	4,187	(960)	1,450	1,802	4,300
Operating profit margin (%)	(1.8)	2.0	4.8	7.2	(0.8)	0.9	4.0	7.8	(2.9)	3.7	4.2	7.9
Ordinary income (loss)	(254)	778	2,554	5,055	27	341	2,085	4,425	(593)	1,546	2,093	4,388
Net extraordinary income (loss)	(55)	30	96	(371)	—	(32)	(43)	200	(327)	(806)	(381)	536
Profit attributable to owners of parent (loss)	(266)	521	1,790	3,282	(2)	232	1,349	3,119	(604)	508	1,119	2,882

【Operating Results】

Operating Results over the most recent 5 years (Consolidated) <Orders Received/Net Sales>

SANKI

(Millions of yen)



【Operating Results】

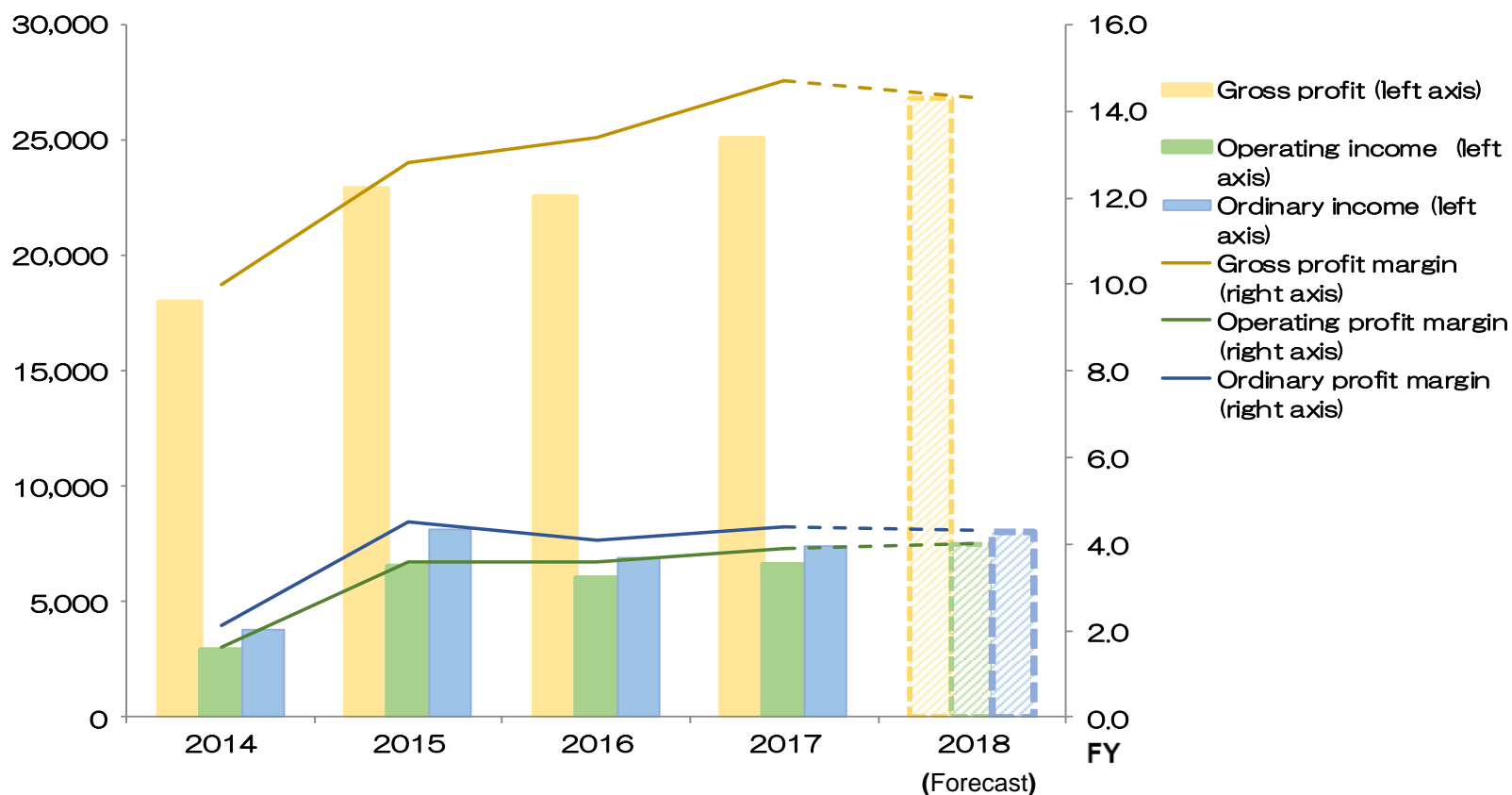
Operating Results over the most recent 5 years



(Consolidated) <Profit>

(Millions of yen)

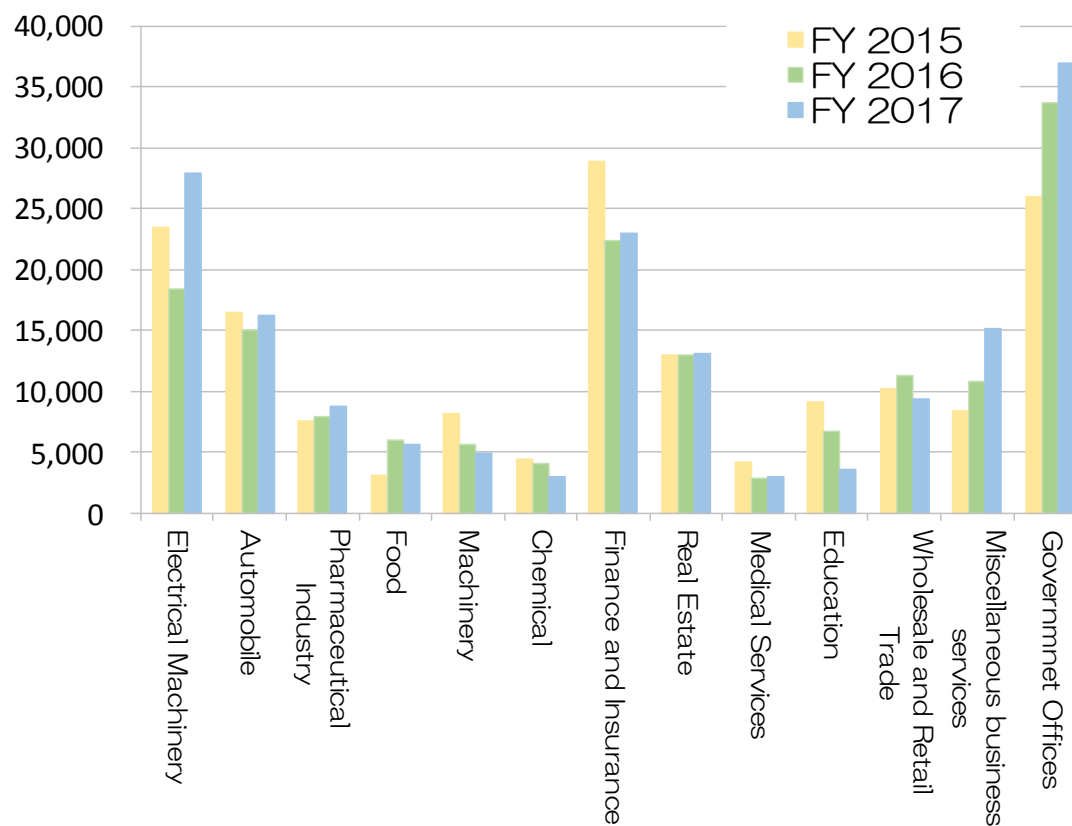
(%)



【Orders Received】 Orders Received by Industry (Consolidated)

SANKI

(Millions of yen)



【Orders Received】 Orders Received by Type

SANKI

(Millions of yen)

	FY 2014	FY 2015	FY 2016 A	FY 2017 B	Diff. B-A
Orders received (Non-consolidated : Facilities Construction Business)	143,708	145,069	139,997	147,013	7,015
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	68,963	72,751	61,493	67,345	5,852
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	48.0	50.1	43.9	45.8	1.9 pt.
Orders received (Consolidated)	173,398	183,270	185,880	191,113	5,233
Orders received from overseas projects (Consolidated) *	2,931	2,343	1,612	1,246	(366)
Rate of orders received from overseas projects (Consolidated) (%)	1.7	1.3	0.9	0.7	(0.2) pt.
Orders received for renewal construction (Consolidated)	93,339	99,920	101,114	101,597	483
Rate of orders received for renewal construction (Consolidated) (%)	53.8	54.5	54.4	53.2	(1.2) pt.
<Ref.> Net sales for renewal construction (Consolidated)	96,468	96,325	93,602	94,601	999

*Orders received by SANKI CONSTRUCTION ENGINEERING(SHANGHAI)CO.,LTD. (1,100 millions of yen in FY 2016) ,unconsolidated subsidiary , are not included in orders received from overseas projects .

【Orders Received】 Major Projects Received

SANKI

○Major Projects Received

- Pharmaceutical Yokohama Research Institute
(HVAC and Plumbing for Buildings) <New construction work>
 - Yoyogi National Stadium's First Gymnasium, etc.
(HVAC, Plumbing and Electrical systems) <Renovation>
 - (Tentative name) Bingocho Plan
(Electrical systems) <New construction work>
 - Niseko Hanazono Hotel
(HVAC systems) <New construction work>
 - Chiba University (Hospital) Central Clinical Building
(HVAC and Plumbing for Buildings) <New construction work>
 - Nihon Shokken Holdings Co., Ltd. Schönbrunn Palace Factory
(HVAC systems) <New construction work>
 - Toshiba Memory Yokkaichi Plant Building 260, Stage 3
(HVAC systems) <New construction work>
 - Micron Memory Japan Hiroshima Plant B2 Building and CUP Building
(HVAC and Plumbing for Buildings) <New construction work>
 - Micron Memory Japan Hiroshima Plant B2 Building Processing Facility Construction
(HVAC systems) <New construction work>
 - Narita International Airport Corporation, PTB 1 North Wing in-line system refurbishment (BHS)
(Transport facilities) <Renewal>
 - Renovation work in Tsushima Clean Center Renovation work to basic facility
(Waste treatment facilities) <Renovation>
 - Waste Treatment Facilities with Energy Recovery Type in the Tenzan area
(Waste treatment facilities) <New construction, operation, and maintenance>
- Eight other projects

Main Major Completed Construction Projects

○Major Completed Construction Projects

- Saitama Sekishinkai Hospital, HVAC work for hospital relocation
(HVAC systems) <New construction work>
- Yokota Air Base Yokota High School, machinery work for reconstruction
(HVAC and Plumbing systems) <New construction work>
- Nakanoshima Festival Tower West
(Office HVAC) <New construction work>
- Takamatsu Sunport Combined Government Offices (South building)
(HVAC and Plumbing systems) <New construction work>
- New government Buildings for Kanagawa Prefecture
(HVAC systems) <Renovation>
- New PCTM Building at the Takeda Pharmaceutical Company Hikari Plant
(HVAC systems) <New construction work>
- NKC Nagai Green Power, Wood Biomass Gasification Power Generation Facility
(HVAC and Plant Systems) <New construction work>
- Tokyo Midtown Hibiya
(Plumbing systems) <New construction work>
- Hibiya Heat Supply Center
(HVAC, Plumbing, and Electrical systems) <New construction work>
- Nippon Life Hospital
(HVAC, Plumbing and Electrical systems) <New construction work>
- Toshiba Memory Yokkaichi Plant Building 260, Stage 1
(HVAC systems) <New construction work>

One other project

【Orders Received】

SANKI

Major Projects Received over 1 Billion Yen (by Industry)

	2015年度		2016年度		2017年度	
Office	3件	19 Projects (31,476 millionyen) * Orders received from customers : 6 Projects * Orders received from general contractors : 13 Projects	4件	15 Projects (40,057 million yen) * Orders received from customers : 9 Projects * Orders received from general contractors : 6 Projects	2件	20 Projects (40,822 million yen) * Orders received from customers : 9 Projects * Orders received from general contractors : 11 Projects
Complex building	1件		—		—	
Commercial facility	1件		1件		—	
Hotel	—		—		1件	
Factory	5件		4件		6件	
Multiple – dwelling complex	—		—		2件	
School	1件		—		—	
Hospital	2件		1件		1件	
Research institute	1件		1件		1件	
Gymnasium	—		—		1件	
Others	1件		—		3件	
Railway, Airport	—		—		1件	
Power station,Substation	—		1件		—	
Waste processing facility	3件	1件	2件			
Water and sewage treatment facility	1件	2件	—			

【Profit】

SANKI

Profit Improvement Factors and Measures

- Improvement of the external environment
- Thorough cost management
- Developing site support systems
 - Improved support for purchasing operations by the Procurement Division (established in 2015)
 - Expanded support for on-site document creation
 - Expanded support for design work by the Design and Engineering Support Center (established in 2016)
 - ICT support at work sites (introduction of tablet devices to all sites)
 - Quality audits by technical experts
- Strengthening relationships with business partners
 - Conducting the Liaison Meeting for subcontractor groups
 - Implementing the Sanki Super Meister System
 - Implementing the Sanki Best Partners Choice System

【Financial Conditions】

Balance Sheet (Consolidated)

SANKI

- Increase in current assets such as cash and deposits, and noncurrent liabilities such as long-term loans payable, due to long-term loans, etc. taken out for the purpose of capital investment, etc.

(Millions of yen)

	End of FY 2016	End of FY 2017	Year on year	Rate of change (%)
Current assets	114,906	124,759	9,852	8.6
Cash and deposits	34,187	43,866	9,679	28.3
Noncurrent assets	51,705	53,831	2,125	4.1
Current liabilities	68,776	73,834	5,058	7.4
Noncurrent liabilities	11,875	18,565	6,690	56.3
Long-term loans payable	—	6,610	6,610	—
Total net assets	85,961	86,191	229	0.3
Total assets	166,612	178,591	11,978	7.2
Book-value per share (yen)	1,350.08	1,419.77	69.69	5.2
Equity ratio (%)	51.5	48.2	(3.3) pt.	—
Interest-bearing liabilities (consolidated)	5,654	13,504	7,849	138.8

[CF]

SANKI

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents increased year on year.
- The increase in cash flows from operating activities was mainly due to the inclusion of income before taxes and other adjustments.
- The decrease in cash flows from investing activities was mainly due to savings in time deposits and the acquisition of tangible fixed assets.
- The increase in cash flows from financing activities was due to the increase in funds from long-term loans, etc. taken out for the purpose of capital investment, etc. despite funds declining mainly due to the purchase of treasury stock and the payment of dividends.

(Millions of yen)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Cash flows from operating activities	(9,403)	(139)	5,220	10,845	6,306
Cash flows from investing activities	(3,506)	3,440	5,520	(1,644)	(2,510)
Cash flows from financing activities	(4,152)	(2,901)	(1,826)	(2,458)	1,814
Cash and cash equivalents at end of FY	23,510	23,667	32,501	39,187	44,866

Capital investment (including intangible assets)	545	395	855	1,015	3,772
Depreciation and amortization	740	723	723	718	818

[Shareholder Returns]

Dividends and Others

SANKI

- An extra dividend, which has been paid for three consecutive fiscal years, of 15 yen has been paid in addition to the regular dividend of 20 yen, resulting in an annual dividend of 35 yen (increase of 5 yen year on year).

	FY 2013	FY 2014	FY 2015	FY 2016
Earnings per share (yen)	26.46	38.30	83.84	73.91
Cash dividends per share: regular dividends (yen)	15	15	18	20
Cash dividends per share: commemorative dividends (yen)	—	5	—	—
Cash dividends per share: extra dividends (yen)	—	—	12	10
Cash dividends per share (yen)	15	20	30	30
Payout ratio (consolidated) (%)	56.7	52.2	35.8	40.6
Number of shareholders at end of FY	3,598	3,375	3,397	3,157
Stock price at end of FY (yen)	654	930	901	958
Acquisition of treasury stock (thousand shares)	4,000	2,000	—	—
Retirement of treasury stock (thousand shares)	4,800	3,000	—	—

September 2017	FY 2017
(1.51)	63.02
10	20
—	—
5	15
15	35
	55.5
2,909	3,243
1,262	1,188
1,955	3,000
3,000	3,000

ROE (Return on Equity) (%)	2.3	3.0	6.3	5.5
ROA (Return on Assets) (%)	1.9	2.2	4.7	4.1

	4.5
	4.3

【Overall Forecast】

FY2018 Forecast (Consolidated)

SANKI

(Millions of yen)

	FY 2014	FY 2015	FY 2016	FY 2017 A	FY 2017 Forecast B	Increase/ decrease B—A	Rate of change (%)
Orders received	173,398	183,270	185,880	191,113	175,000	(16,113)	(8.4)
Balance carried forward	102,019	106,388	123,756	144,712	132,712	(12,000)	(8.3)
Net sales	179,598	178,901	168,512	170,157	187,000	16,843	9.9
Gross profit	17,966	22,929	22,538	25,060	26,800	1,740	6.9
Gross profit margin (%)	10.0	12.8	13.4	14.7	14.3	(0.4)	—
Operating income (loss)	2,951	6,509	6,012	6,593	7,500	907	13.8
Ordinary income (loss)	3,809	8,135	6,880	7,434	8,000	566	7.6
Profit attributable to owners of parent (loss)	2,461	5,327	4,698	3,906	5,500	1,594	40.8

【Forecast of Orders Received and Net Sales】

FY2018 Forecast of Orders Received and Net Sales by Segment (Consolidated)

SANKI

(Millions of yen)

セグメント		FY 2018 Orders received Forecast	FY 2018 Net sales Forecast
	HVAC and Plumbing for Buildings	54,400	63,300
	Industrial HVAC	55,000	58,000
	Electrical Systems	21,000	20,000
	Facility Systems	9,800	9,900
Total of Facilities Construction Business		140,200	151,200
	Machinery Systems	12,000	12,000
	Environmental Systems	21,000	22,000
Total of Plant & Machinery Systems Business		33,000	34,000
Sub-total		173,200	185,200
Real Estate Business		1,800	1,800
Others		200	200
Adjustments *		(200)	(200)
Total		175,000	187,000

* Adjustments eliminate inter segment transactions included in each segment.

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 11, 2018.

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:

Corporate Communications
Department

TEL : +81-3-6367-7041