

The 1st Quarter FY2017 Summary of Financial Results

August 10, 2017

Sanki Engineering Co., Ltd.

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Key Points of Financial Results

<Orders received>

Due to the effect of having received large-scale projects during the same period of the preceding year, there was a decrease in orders received by HVAC and Plumbing for Buildings, Industrial HVAC, and Environmental Systems, but Machinery Systems saw an increase thanks to the receipt of a large-scale project during this period. Overall, we have seen a decrease compared with the same period of the previous year, which was at an extremely high level.

<Net Sales & Profit>

Although net sales were slightly lower than those of the same period of the preceding year, the balance carried forward to the following period was higher than that of the last year. We have continued our initiatives for thorough cost management and improvement of work efficiency, etc., and have secured a constant level of profit margin.

【Overall Results】

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The 1st Quarter FY 2017 Results (Consolidated)

- Although orders received fell compared with the same period of the previous year, net sales have declined only slightly, and we have seen a further increase in balance carried forward to the following period.
- We have continued our initiatives for thorough cost management and improvement of work efficiency, etc., and despite gross profit margin declining compared with the same period of the previous year, we have secured a strong margin in the double digits, at 10.6%.
(Millions of yen)

	June 2015	June 2016	June 2017	Year on Year	Rate of change (%)
Orders received	46,385	55,338	38,209	(17,129)	(31.0)
Balance carried forward	113,910	127,860	129,032	1,171	0.9
Net sales	34,495	33,866	32,933	(933)	(2.8)
Completed construction contracts	34,089	33,438	32,447	(991)	(3.0)
Real Estate and Others	406	427	485	57	13.5
Gross profit	3,291	3,905	3,482	(423)	(10.8)
Completed construction contracts	3,190	3,786	3,298	(488)	(12.9)
Real Estate and Others	100	118	183	64	54.2
Gross profit margin (%)	9.5	11.5	10.6	(0.9) _{pt.}	—
Selling, general and administrative expenses	3,921	4,171	4,442	271	6.5
Operating income (loss)	(630)	(265)	(960)	(694)	—
Non-operating income	488	400	446	46	11.6
Non-operating expenses	112	106	79	(27)	(25.5)
Ordinary income (loss)	(254)	27	(593)	(621)	—
Profit attributable to owners of parent (loss)	(266)	(2)	(604)	(601)	—

【Orders Received】

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Orders Received by Segment (Consolidated)

- HVAC and Plumbing for Buildings, Industrial HVAC, and Environmental Systems in particular have seen a decline due to the effect of having received orders of large-scale projects during the same period of the previous year.
- Machinery Systems saw an increase due to the receipt of a large-scale project during this period. (Millions of yen)

Segment	June 2015	June 2016	June 2017	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	13,674	19,835	13,346	(6,489)	(32.7)
Industrial HVAC	13,896	17,756	11,552	(6,204)	(34.9)
Electrical Systems	5,126	5,068	3,259	(1,809)	(35.7)
Facility Systems	3,979	3,210	2,410	(799)	(24.9)
Total of Facilities Construction Business	36,677	45,871	30,568	(15,302)	(33.4)
Machinery Systems	4,477	2,030	3,720	1,690	83.2
Environmental Systems	4,842	7,459	3,520	(3,938)	(52.8)
Total of Plant & Machinery Systems Business	9,320	9,489	7,240	(2,248)	(23.7)
Sub-total	45,997	55,360	37,809	(17,550)	(31.7)
Real Estate Business	381	388	419	31	8.0
Others	142	142	178	36	25.3
Adjustments *	(135)	(552)	(198)	354	—
Total	46,385	55,338	38,209	(17,129)	(31.0)

* 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, having the abundant large-scale projects balance carried forward at the beginning of this period, increased compared with the same period of the previous year. Those in other facilities and plant construction segments decreased, resulting in a slight decrease overall. (Millions of yen)

Segment	June 2015	June 2016	June 2017	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	13,572	12,161	13,134	973	8.0
Industrial HVAC	9,923	10,351	9,437	(914)	(8.8)
Electrical Systems	4,759	4,410	3,983	(426)	(9.7)
Facility Systems	1,957	1,729	1,355	(373)	(21.6)
Total of Facilities Construction Business	30,213	28,653	27,912	(741)	(2.6)
Machinery Systems	1,587	2,434	2,230	(204)	(8.4)
Environmental Systems	2,331	2,576	2,487	(88)	(3.4)
Total of Plant & Machinery Systems Business	3,919	5,010	4,718	(292)	(5.8)
Sub-total	34,132	33,663	32,630	(1,033)	(3.1)
Real Estate Business	381	388	419	31	8.0
Others	125	126	159	33	26.2
Adjustments *	(144)	(312)	(276)	35	—
Total	34,495	33,866	32,933	(933)	(2.8)

* Adjustments eliminate inter segment transactions included in each segment.

Ordinary Income and Loss by Segment (Consolidated)

(Millions of yen)

Segment		June 2015	June 2016	June 2017	Year on Year	Rate of change (%)
Segment Profit (Loss)	Facilities Construction	121	46	(610)	(656)	—
	Machinery Systems	(171)	121	28	(93)	(76.4)
	Environmental Systems	(689)	(546)	(565)	(18)	—
	Sub-total	(739)	(378)	(1,146)	(768)	—
	Real Estate Business	66	62	101	39	63.1
	Others	10	14	39	24	172.4
	Adjustments *	407	329	411	82	25.1
	Total	(254)	27	(593)	(621)	—

* 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)

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(Millions of yen)

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

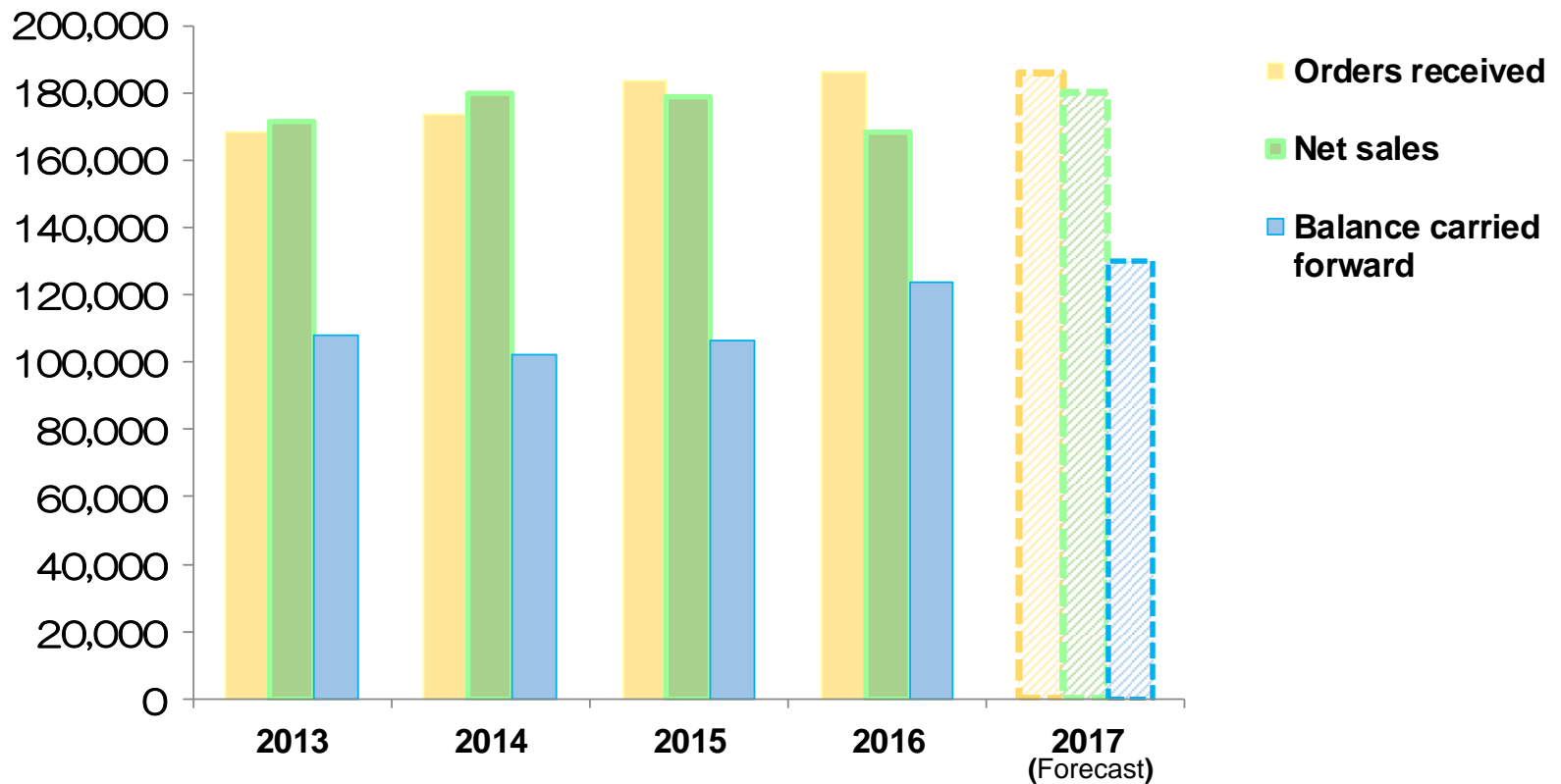
【Operating Results】

Operating Results over the Last 5 Years(Consolidated)

<Orders Received/Net Sales>

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(Millions of yen)

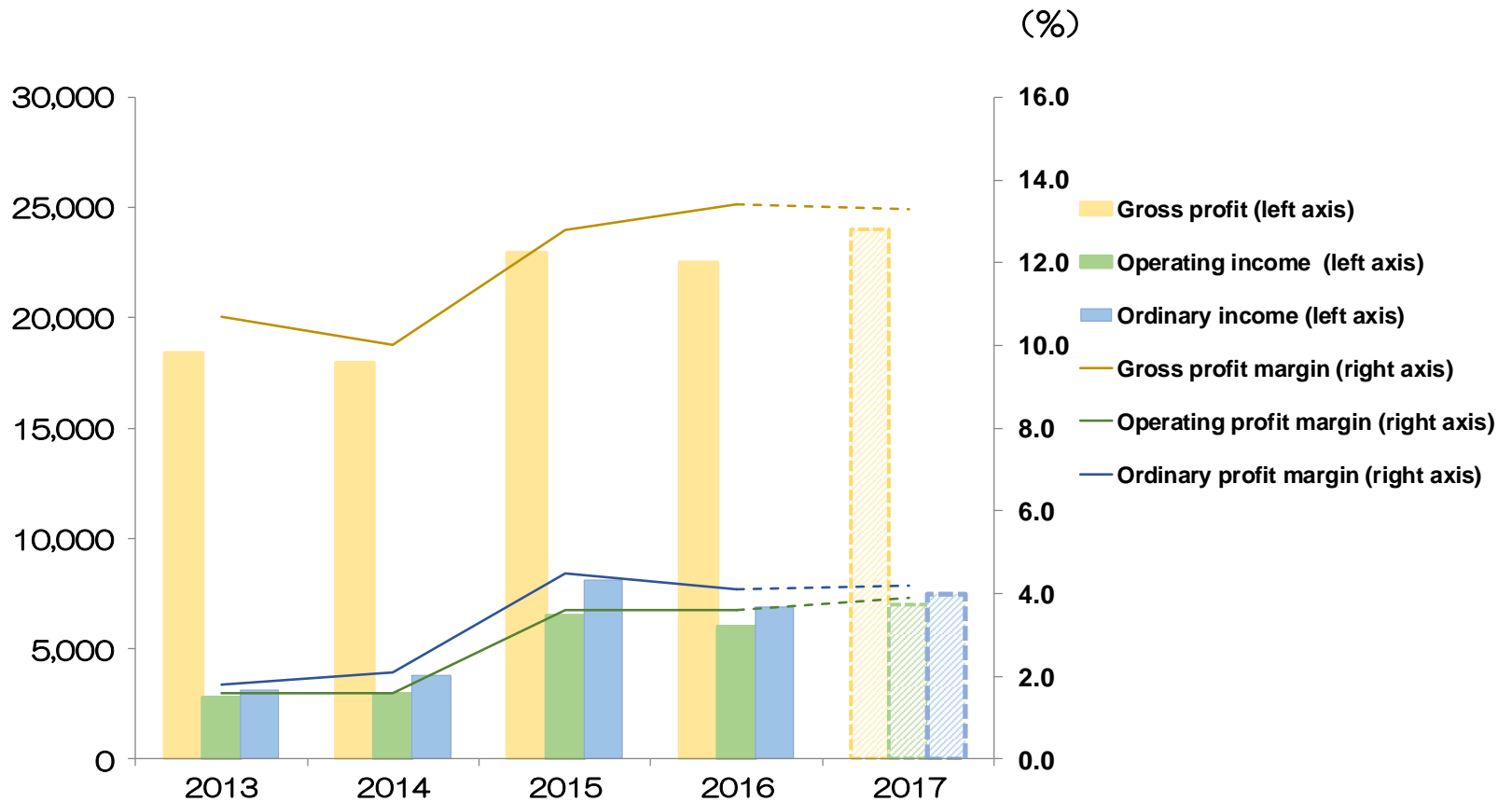


【Operating Results】

Operating Results over the Last 5 Years (Consolidated)

SANKI

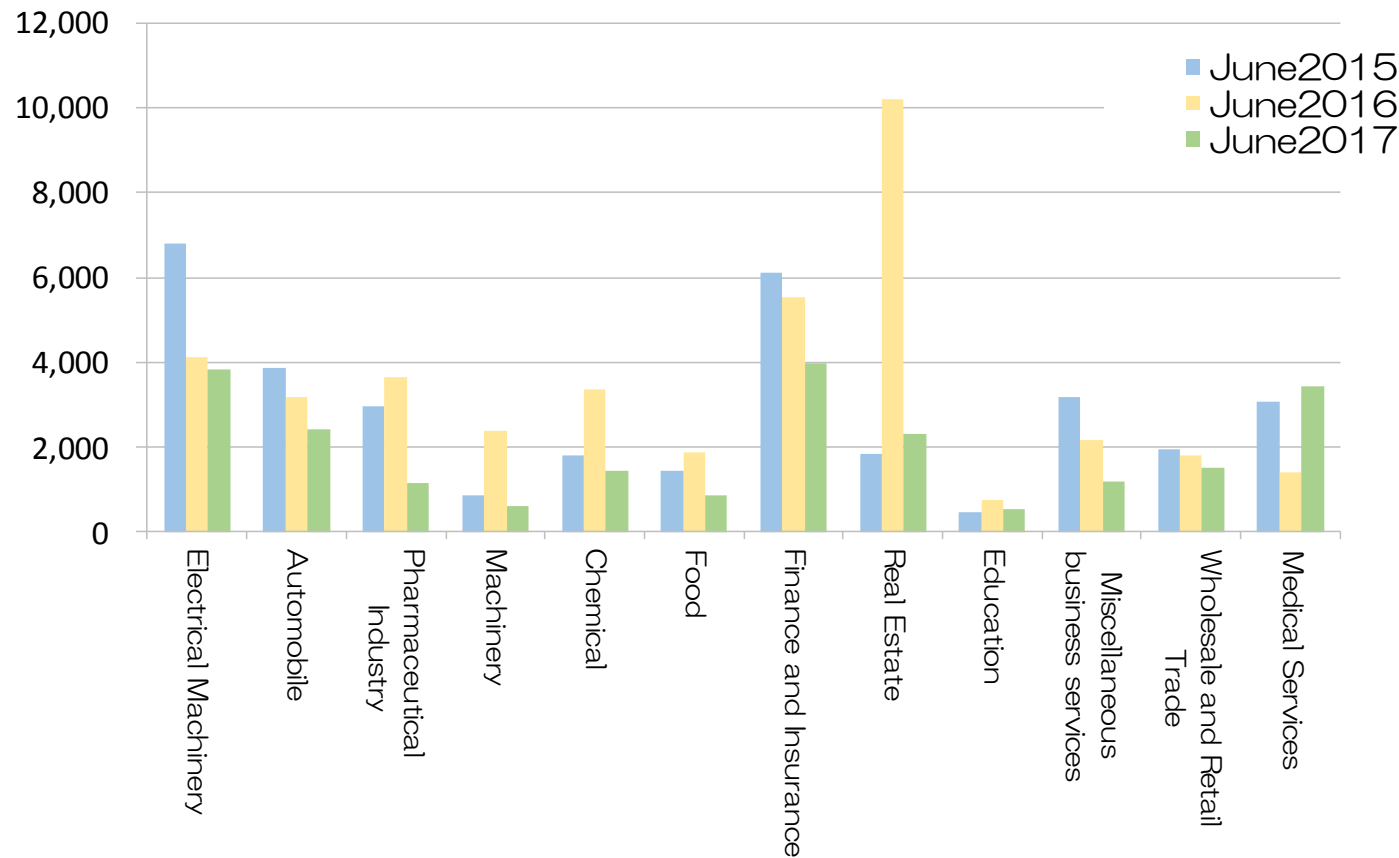
<Profit>



【Orders Received】

Orders Received by Industry (Consolidated)

(Millions of yen)



[Orders Received]

Orders Received by Type

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(Millions of yen)

	FY 2014	FY 2015	FY 2016	June 2016 A	June 2017 B	Year on Year B-A
Orders received (Non-consolidated : Facilities Construction Business)	143,708	145,069	139,997	44,245	28,864	(15,380)
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	68,963	72,751	61,493	16,054	12,436	(3,617)
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	48.0	50.1	43.9	36.3	43.1	6.8 pt.
Orders received (Consolidated)	173,398	183,270	185,880	55,338	38,209	(17,129)
Orders received from overseas projects (Consolidated) *	2,931	2,343	1,612	468	270	(197)
Rate of orders received from overseas projects (Consolidated) (%)	1.7	1.3	0.9	0.8	0.7	(0.1) pt.
Orders received for renewal construction (Consolidated)	93,339	99,920	101,114	23,724	22,446	(1,277)
Rate of orders received for renewal construction (Consolidated) (%)	53.8	54.5	54.4	42.9	58.7	15.8 pt.
<Ref.> Net sales for renewal construction (Consolidated)	96,468	96,325	93,602	20,525	17,113	(3,412)

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

【Orders Received & Net Sales】

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Major Projects Received and Major Completed Construction Projects

○Major Projects Received

- **Pharmaceutical Yokohama Research Institute**
(HVAC and Plumbing for Buildings) <New construction work>

Other 1 project (Machinery Systems)

○Major Completed Construction Projects

- **Nakanoshima Festival Tower West**
(Office HVAC) <New construction work>
- **NKC Nagai Green Power,**
Wood Biomass Gasification Power Generation Facility
(Facilities Construction and Plant Systems)
<New construction work>

【Orders Received】

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Major Projects over 1 Billion Yen (by Industry)

	June 2015		June 2016		June 2017	
Office	1	5 Projects (6,678 million yen) * Orders received from customers : 1 Project * Orders received from general contractors : 4 Projects	1	5 Projects (13,806 million yen) * Orders received from customers : 4 Projects * Orders received from general contractors : 1 Project	—	2 Projects (4,110 million yen) * Orders received from customers : 1 Project * Orders received from general contractors : 1 Project
Factory	2		2		—	
Research institute	1		—		1	
Railway, Airport	—		—		1	
Water and sewage treatment facility	—		1		—	
Power station, Substation	—		1		—	
Waste processing facility	1		—		—	

Profit Improvement Factors and Measures (Consolidated)

- 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 target of documentation support by the Site-Documentation Support Center (established in 2015)
 - Expanded support for design work by the Design and Engineering Support Center (established in 2016)
 - 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 System

【Financial Conditions】

Balance Sheet (Consolidated)

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(Millions of yen)

	End of FY 2016	June 2017	Diff.	Rate of change (%)	June 2016
Current assets	114,906	98,291	(16,615)	(14.5)	98,761
Noncurrent assets	51,705	54,490	2,784	5.4	50,567
Current liabilities	68,776	55,231	(13,544)	(19.7)	57,367
Noncurrent liabilities	11,875	12,388	512	4.3	11,023
Total net assets	85,961	85,161	(799)	(0.9)	80,938
Total assets	166,612	152,781	(13,830)	(8.3)	149,329
Book-value per share (yen)	1,350.08	1,337.52	(12.56)	(0.9)	1,271.88
Equity ratio (%)	51.5	55.7	4.2 pt.	—	54.1
Interest-bearing liabilities (consolidated)	5,654	4,797	(856)	(15.2)	5,138

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents increased compared with both at the end of the same period in the preceding year and at the end of the preceding fiscal year.
- The increase in cash flows from operating activities was mainly due to the collection of receivables.
- The decrease in cash flows from investing activities was mainly due to savings in time deposits.
- The decrease in cash flows from financing activities was mainly due to the repayment of short-term loans and the payment of dividends.

(Millions of yen)

	FY 2013	FY 2014	FY 2015	FY 2016	June 2016	June 2017
Cash flows from operating activities	(9,403)	(139)	5,220	10,845	3,375	4,390
Cash flows from investing activities	(3,506)	3,440	5,520	(1,644)	(573)	(1,733)
Cash flows from financing activities	(4,152)	(2,901)	(1,826)	(2,458)	(2,224)	(2,167)
Cash and cash equivalents at end of FY	23,510	23,667	32,501	39,187	33,047	39,660

【Overall Forecast】

FY2017 Forecast (Consolidated)

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Higher revenue and profit are forecast in association with the increase in balance carried forward for construction contracts (no change from the initial forecast at the beginning of this period).

(Millions of yen)

	FY 2016 Results			FY 2017 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	90,912	94,967	185,880	93,000	93,000	186,000	2,088	(1,967)	120
Net sales	70,341	98,171	168,512	75,000	105,000	180,000	4,659	6,829	11,488
Gross profit	8,144	14,394	22,538	8,800	15,200	24,000	656	806	1,462
Operating income(loss)	57	5,955	6,012	300	6,700	7,000	243	745	988
Ordinary income(loss)	368	6,511	6,880	600	6,900	7,500	232	389	620
Profit attributable to owners of parent (loss)	229	4,468	4,698	300	4,700	5,000	71	232	302

【Forecast of Orders Received and Net Sales】

FY2017 Forecast of Orders Received and Net Sales by Segment (Consolidated)

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(Millions of yen)

Segment		FY 2017 Orders received Forecast	FY 2017 Net sales Forecast
	HVAC and Plumbing for Buildings	71,700	69,700
	Industrial HVAC	49,000	46,000
	Electrical Systems	22,000	23,000
	Facility Systems	9,500	9,500
Total of Facilities Construction Business		152,200	148,200
	Machinery Systems	12,000	10,000
	Environmental Systems	20,000	20,000
Total of Plant & Machinery Systems Business		32,000	30,000
Sub-total		184,200	178,200
Real Estate Business		1,800	1,800
Others		500	500
Adjustments*		△500	△500
Total		186,000	180,000

* 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 August 10, 2017.

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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