
The 2nd Quarter FY2014 Summary of Financial Results

Nov. 10, 2014

Sanki Engineering Co., Ltd.

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The 2nd quarter FY 2014 Results (Consolidated)

- The sales increased by 12.7% on a year-on-year basis.
- The gross profit margin decreased by 4.4% on a year-on-year basis.

(Millions of yen)

	FY 2009	FY 2010	FY 2011	FY 2012	September 2013 A	FY 2013	September 2014 B	Year on year B - A	Rate of change (%)
Orders received	143,348	147,129	175,291	165,800	86,669	168,295	81,248	(5,420)	(6.3)
Balance carried forward	77,641	72,976	100,272	111,414	131,080	108,219	113,960	(17,120)	(13.1)
Sales	159,273	151,794	147,994	154,658	67,008	171,496	75,507	8,499	12.7
Gross profit	20,447	19,607	18,237	17,590	5,153	18,423	4,925	(227)	(4.4)
Gross profit margin	12.8%	12.9%	12.3%	11.4%	7.7%	10.7%	6.5%	(1.2)%	—
Selling, general and administrative expenses	15,419	15,763	15,712	15,199	7,694	15,604	7,631	(62)	(0.8)
Operating income	5,027	3,843	2,525	2,391	(2,540)	2,818	(2,705)	(165)	—
Ordinary income	5,456	4,239	2,268	2,680	(2,120)	3,146	(2,325)	(204)	—
Net income	3,141	2,124	176	(4,992)	(1,287)	1,763	(1,327)	(39)	—

* For FY 2011, increased amount is 8,065 million yen due to the effect on the result of prior fiscal year blanket order.

Operating Results over the Last 10 Years

(Millions of yen)

Orders received &

sales

300,000

250,000

200,000

150,000

100,000

50,000

0

05

06

07

08

09

10

11

12

13

14

FY

Profit

25,000

20,000

15,000

10,000

5,000

0

-5,000

-10,000

- Ordinary income (right axis)
- Net income (right axis)
- ◆ Orders received (left axis)
- Sales (left axis)

(2014 forecast)

Orders Received by Segment (Consolidated)

(Millions of yen)

Segment		September 2013	September 2014	Year on year	Rate of change (%)
Orders received	Facilities Construction	74,992	69,950	(5,042)	(6.7)
	Machinery Systems	4,623	2,888	(1,735)	(37.5)
	Environmental Systems	6,540	7,971	1,430	21.9
	Sub-total	86,156	80,810	(5,346)	(6.2)
	Real Estate	538	550	12	2.3
	Others	297	228	(68)	(23.1)
	Adjustments	(323)	(340)	(16)	—
Total		86,669	81,248	(5,420)	(6.3)
Orders carried forward	Facilities Construction	105,780	93,936	(11,843)	(11.2)
	Machinery Systems	7,391	3,690	(3,700)	(50.1)
	Environmental Systems	18,085	16,534	(1,550)	(8.6)
	Sub-total	131,257	114,162	(17,094)	(13.0)
	Real Estate	—	—	—	—
	Others	116	80	(35)	(30.3)
	Adjustments	(292)	(283)	9	—
Total		131,080	113,960	(17,120)	(13.1)

Orders Received by Business Area (Consolidated)

(Millions of yen)

Business	September 2013	September 2014	Year on year	Rate of change (%)
HVAC and plumbing	39,294	31,396	(7,897)	(20.1)
Industrial HVAC	20,842	21,943	1,100	5.3
Electrical Systems	9,594	11,807	2,212	23.1
Smart Building Solutions	2,349	1,605	(743)	(31.6)
Facility Systems	2,910	3,197	286	9.8
Facilities Construction Business total	74,992	69,950	(5,042)	(6.7)
Machinery Systems	4,623	2,888	(1,735)	(37.5)
Environmental Systems	6,540	7,971	1,430	21.9
Plant & Machinery Systems Business total	11,164	10,859	(304)	(2.7)
Sub-total	86,156	80,810	(5,346)	(6.2)
Real Estate	538	550	12	2.3
Others	297	228	(68)	(23.1)
Adjustments	(323)	(340)	(16)	-
Total	86,669	81,248	(5,420)	(6.3)

Orders Received by Type

(%. Millions of yen)

	September 2013	September 2014	Year on year	FY 2013
* Construction orders received from general contractor (Non-Consolidated)	52.2	51.3	(0.9)	53.7
Rate of Construction orders received from overseas project (Consolidated)	1.5	1.9	0.4	1.8
<Ref.> Construction orders received from overseas project (Consolidated)	1,291	1,549	257	3,055
Rate of Renewal construction (Consolidated)	53.3	53.8	0.5	52.6
<Ref.> Orders received for renewal construction (Consolidated)	46,185	43,692	(2,493)	88,473
<Ref.> Sales for renewal construction (Consolidated)	35,133	35,116	(17)	98,024

* The ratios and amounts are those in Facilities Construction Business unit.

Major Projects

- New Tsuchiura City Hall Building
(Heating, Ventilation, and Air Conditioning(HVAC) works,
plumbing works) < renovation work >
- Sumitomo Besshi Hospital
(HVAC works, plumbing works) < new construction work >
- Suntory World Research Center
(HVAC works) < new construction work >
- Tsuyuhashi Water Prossing Center
(Water and sewage plant works) < overall renovation work >

Sales and Profit Trends (Consolidated)

- Total sales increased, but gross profit margin decreased by 1.2% due to rising labor cost and rising construction materials and equipment costs.

(Millions of yen)

	FY 2010	FY 2011	FY 2012	September 2013 A	FY 2013	September 2014 B	Year on year B - A
Total sales	151,794	147,994	154,658	67,008	171,496	75,507	8,499
Facilities Construction Business and Plants & Machinery Systems Business*	17,009	16,844	16,163	5,010	18,111	4,755	(255)
Real Estate Business and others	2,597	1,392	1,426	142	311	169	27
Gross profit	19,607	18,237	17,590	5,153	18,423	4,925	(227)
Facilities Construction Business and Plants & Machinery Systems Business*	11.5%	11.6%	10.6%	7.5%	10.6%	6.3%	(1.2)%
Gross profit margin	12.9%	12.3%	11.4%	7.7%	10.7%	6.5%	(1.2)%
Selling, general and administrative expenses	15,763	15,712	15,199	7,694	15,604	7,631	(62)
Operating income (loss)	3,843	2,525	2,391	(2,540)	2,818	(2,705)	(165)
Operating profit margin	2.5%	1.7%	1.5%	(3.8)%	1.6%	(3.6)%	0.2%
Ordinary income (loss)	4,239	2,268	2,680	(2,120)	3,146	(2,325)	(204)
Extraordinary income (gain)	463	617	7,271	(35)	(8)	18	53
Net income (net loss)	2,124	176	(4,992)	(1,287)	1,763	(1,327)	(39)

*Plants & Machinery Systems Business : Machinery Systems Business and Environmental Systems Business.

Quarterly Results (Consolidated)

- Provision for loss on construction contracts increase amount, factoring in rising labor cost and rising construction materials and equipment costs. (Millions of yen)

	FY 2012				FY 2013				FY 2014	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Orders received	38,810	43,431	36,770	46,788	40,928	45,740	35,543	46,083	42,489	38,758
Sales	29,592	34,347	38,244	52,473	29,463	37,544	41,281	63,206	32,825	42,682
Gross profit	2,395	3,145	4,321	7,727	1,771	3,381	4,134	9,135	1,700	3,224
Gross profit margin	8.1%	9.2%	11.3%	14.7%	6.0%	9.0%	10.0%	14.5%	5.2%	7.6%
Selling, general and administrative expenses	3,842	3,633	3,659	4,064	3,809	3,884	3,579	4,330	3,786	3,845
Operating income (loss)	(1,446)	(487)	662	3,662	(2,037)	(503)	554	4,805	(2,085)	(620)
Operating profit margin	(4.9)%	(1.4)%	1.7%	7.0%	(6.9)%	(1.3)%	1.3%	7.6%	(6.4)%	(1.5)%
Ordinary income (loss)	(1,240)	(467)	600	3,787	(1,713)	(406)	567	4,699	(1,846)	(478)
Extraordinary income (gain)	120	121	(18)	7,047	6	(42)	(1)	29	—	18
Net income (net loss)	(865)	(403)	248	(3,971)	(1,043)	(244)	363	2,687	(1,215)	(111)
Provision for loss on construction contracts (balance at the end of period)	474	593	586	801	481	577	600	567	724	1,236
Provision (or reversal of provision) for loss (gain) on construction contracts	(23)	118	(6)	214	(319)	95	22	(33)	157	511
Balance carried forward (at the end of period) subjected to provision for loss on construction contracts	2,700	3,700	3,600	5,300	4,300	5,100	4,900	5,500	7,300	8,100

Profit and loss by Segment (Consolidated)

Segment		September 2013 A	September 2014 B	Year on year B-A	Rate of change (%)
Sales	Facilities Construction	57,806	64,749	6,942	12.0
	Machinery Systems	4,262	4,864	601	14.1
	Environmental Systems	4,559	5,401	841	18.5
	Sub-total	66,628	75,014	8,386	12.6
	Real Estate	538	550	12	2.3
	Others	300	242	(57)	(19.2)
	Adjustments	(458)	(300)	158	—
	Total	67,008	75,507	8,499	12.7
Segment Profit (loss)	Facilities Construction	(1,790)	(2,011)	(221)	—
	Machinery Systems	(150)	(54)	96	—
	Environmental Systems	(1,011)	(931)	80	—
	Sub-total	(2,952)	(2,996)	(43)	—
	Real Estate	61	111	50	81.9
	Others	28	22	(6)	(21.8)
	Adjustments	742	537	(204)	(27.6)
	Total	(2,120)	(2,325)	(204)	—

(Millions of yen)

Balance Sheet (Consolidated)

• Provision for loss on construction contracts increased amount, factoring in rising labor cost and rising construction materials and equipment costs.

• Capital adequacy ratio is 49.5% and maintained the soundness .

(Millions of yen)

	End of FY 2010	End of FY 2011	End of FY 2012	End of FY 2013 A	End of September 2013 B	B-A	Rate of change (%)
Current assets	110,677	114,866	111,146	115,941	100,365	(15,575)	(13.4)
Non-current assets	47,824	48,254	55,331	54,239	53,777	(461)	(0.9)
Investment securities	14,727	16,672	27,946	31,283	33,805	2,522	8.1
Current liabilities	61,544	65,860	73,540	78,736	61,247	(17,488)	(22.2)
Provision for loss on construction contracts	222	497	801	567	1,236	669	118.1
Non-current liabilities	17,123	17,597	16,004	16,526	16,566	39	0.2
Net assets	79,833	79,662	76,932	74,917	76,329	1,412	1.9
Valuation difference on available-for-sale securities	1,740	2,538	6,631	9,095	10,804	1,708	18.8
Total net assets	158,501	163,120	166,477	170,181	154,143	(16,037)	(9.4)
Book-value per share (yen)	1,115.41	1,113.70	1,106.32	1,142.74	1,200.45	57.71	5.1
Capital adequacy ratio (%)	50.3	48.8	46.2	44.0	49.5	5.5	-
Interest-bearing liabilities (consolidated)	5,508	6,329	7,240	6,576	6,464	(111)	(1.7)

Statements of Cash Flows (Consolidated)

(Millions of yen)

	FY 2010	FY 2011	FY 2012	September 2013 A	FY 2013	September 2014 B	year on year B-A
Cash flows from operating activities	11,554	(2,697)	9,729	222	(9,403)	1,535	1,312
Cash flows from investing activities	2,610	(1,046)	(9,481)	656	(3,506)	27	(629)
Cash flows from financing activities	(1,883)	(280)	(1,028)	(3,212)	(4,152)	(2,247)	965
Cash and cash equivalent at end of year	45,135	41,097	40,367	38,183	23,510	22,732	(15,450)

【 Breakdown of cash flows from operating activities 】

Ordinary income (loss)	4,239	2,268	2,680	(2,120)	3,146	(2,325)	(204)
Decrease (increase) in notes and accounts receivable - trade	5,196	(7,668)	2,348	16,602	(14,613)	20,607	4,004
Increase (decrease) in notes and accounts payable - trade	(254)	6,404	480	(15,250)	5,989	(14,379)	870
Other	2,373	(3,702)	4,220	990	(3,926)	(2,368)	(3,358)

Dividends and Payout Ratio

- Continuing stable dividend (15 yen / share year)
- Share holder return with share by back have been carried out consecutive thee years, also treasury stock erasure have been carried out secondary to the last year.
- 1,000 share of unit stocks was changed to 100 share of unit stocks on September 1,2014.

	FY 2010	FY 2011	FY 2012	FY 2013	September 2014
Earnings per share (yen)	29.67	2.46	(71.04)	26.46	(20.45)
Cash dividend per share (yen)	15	15	15	15	7.5
Payout ratio (consolidated) (%)	50.6	609.8	–	56.7	–
Number of shareholders at year end	3,881	4,015	4,169	3,598	3,407
Stock price at year end(yen)	524	447	492	654	815
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)	2.7%	0.2%	(6.4)%	2.3%	(3.5)%
ROA (Return on Assets)	2.6%	1.4%	1.6%	1.9%	(2.9)%

Midterm Management Plan

“SANKI VITAL PLAN 90th ” priority measures of 4th Year

1. **Promoting total engineering strength.**
Promote the plan based on action plans of each department.
2. **Enhancement sales of cross-sectional the SANKI Group.**
Reform function of Sales Division and enhance Sales Marketing and Proposed Sales for customer due to specialized business planning function and business strategy function.
Remote Earthquake Recovery project and Hospital facility project.
3. **Expansion of growth strategy business such as Life Cycle Engineering.**
Enhance and expand Life Cycle Engineering with the SANKI Group cooperation by expanding the number of subsidiary office.
4. **Expand overseas businesses.**
On going training system overseas and cultivate human resources who can play and on active role in the world stage.
5. **Improvement corporate value by strengthening corporate governance and risk management.**
Strengthen management in each item of risk which exposed by the risk management committee.
6. **Enhancement of compliance**
 - ・Eradication of law violation by observance of laws and regulations based on “The SANKI Engineering Group Compliance Manifesto” and “The SANKI Group standard rule of Conduct and Action”.
 - ・Establishment of the Antimonopoly Act Compliance Program.

FY 2014 Forecast I (Consolidated)

(Millions of yen)

	Forecast August 8,2014			Forecast November 10,2014			Diff.		
	The1st Quarter ~ The2st Quarter	The 3st Quarter ~ The 4st Quarter	Full Year	The1st Quarter ~ The2st Quarter	The 3st Quarter ~ The 4st Quarter	Full Year	The1st Quarter ~ The2st Quarter	The 3st Quarter ~ The 4st Quarter	Full Year
Orders received	81,000	94,000	175,000	81,248	93,752	175,000	248	(248)	—
Sales	78,000	102,000	180,000	75,507	104,493	180,000	(2,493)	2,493	—
Operating income	(1,600)	4,800	3,200	(2,705)	5,905	3,200	(1,105)	1,105	—
Ordinary income	(1,500)	5,000	3,500	(2,325)	5,825	3,500	(825)	825	—
Net income	(1,000)	3,200	2,200	(1,327)	3,527	2,200	(327)	327	—

FY 2014 Forecast II (Consolidated)

(Millions of yen)

	FY 2010	FY 2011	FY 2012	FY 2013 A	Forecast FY 2014 B	Diff. B - A	Rate of change (%)
Orders received	147,129	175,291	165,800	168,295	175,000	6,705	4.0
Balance carried forward	72,976	100,272	111,414	108,219	103,219	(5,000)	(4.6)
Sales	151,794	147,994	154,658	171,496	180,000	8,504	5.0
Gross profit	19,607	18,237	17,590	18,423	18,800	377	2.0
Facilities construction Business and Plants & Machinery Systems Business	17,009	16,844	16,163	18,111	18,700	589	3.3
Gross profit margin	12.9%	12.3%	11.4%	10.7%	10.4%	(0.3)%	-
Facilities construction Business and Plants & Machinery Systems Business	11.5%	11.6%	10.6%	10.6%	10.5%	(0.1)%	-
Operating income	3,843	2,525	2,391	2,818	3,200	382	13.6
Ordinary income	4,239	2,268	2,680	3,146	3,500	354	11.3
Net income	2,124	176	(4,992)	1,763	2,200	437	24.8

FY 2014 Forecast by Segment (Consolidated)

(Millions of yen)

	Orders received			Sales		
	FY 2013 (result)	FY 2014 (forecast)	Diff.	FY 2013 (result)	FY 2014 (forecast)	Diff.
Facilities Construction	143,839	147,900	4,061	143,697	149,900	6,203
Machinery Systems	8,482	9,000	518	9,846	10,000	154
Environmental Systems	15,029	17,000	1,971	17,169	19,000	1,831
Facilities Construction Business and Plants & Machinery Systems Business total	167,352	173,900	6,548	170,713	178,900	8,187
Real Estate	1,077	1,100	23	1,077	1,100	23
Other	583	600	17	607	600	(7)
Adjustments	(717)	(600)	117	(902)	(600)	302
Total	168,295	175,000	6,705	171,496	180,000	8,504

Statement of Profit and loss (Consolidated)

(Millions of yen)

	September 2013	Ratio (%)	September 2014	Ratio (%)	Diff.	Rate of change (%)
Completed construction contracts ⁽¹⁾	66,432	99.1 ^(A)	74,912	99.2 ^(D)	8,479	12.8
Real estate and others ⁽²⁾	576	0.9 ^(B)	595	0.8 ^(E)	19	3.4
Sales	67,008	100.0^(C)	75,507	100.0^(F)	8,499	12.7
Completed construction contracts ⁽³⁾	5,010	7.5 ^{*1}	4,755	6.3 ^{*3}	(255)	(5.1)
Real estate and others ⁽⁴⁾	142	24.7 ^{*2}	169	28.5 ^{*4}	27	19.1
Gross profit	5,153	7.7	4,925	6.5	(227)	(4.4)
Selling, general and administrative expenses	7,694	11.7	7,631	10.1	(62)	(0.8)
Operating income	(2,540)	(3.8)	(2,705)	(3.6)	(165)	-
Non-operating income	686	1.0	734	1.0	48	7.1
Non-operating expenses	266	0.4	354	0.5	88	33.2
Ordinary income	(2,120)	(3.2)	(2,325)	(3.1)	(204)	-
Extraordinary gains	179	0.3	-	-	(179)	-
Extraordinary losses	143	0.2	18	0.0	(125)	(87.4)
Income before income taxes and minority interests	(2,084)	(3.1)	(2,343)	(3.1)	(258)	-
Net income	(1,287)	(1.9)	(1,327)	(1.8)	(39)	-

(A)(B)(D) and (E) indicate composition ratio. (C)=(A)+(B), (F)=(D)+(E)

*1-4 indicate each profit margin. *1 = (3)/(1), *2=(4)/(2), *3=(3)/(1), *4=(4)/(2)

Statement of Profit and loss (Non-consolidated)

(Millions of yen)

	September 2013	Ratio (%)	September 2014	Ratio (%)	Diff.	Rate of change (%)
Completed construction contracts ⁽¹⁾	61,031	99.1 ^(A)	69,096	99.2 ^(D)	8,064	13.2
Real Estate and Others ⁽²⁾	538	0.9 ^(B)	550	0.8 ^(E)	12	2.3
Sales	61,569	100.0^(C)	69,646	100.0^(F)	8,077	13.1
Completed construction contracts ⁽³⁾	4,268	7.0 ^{*1}	3,958	5.7 ^{*3}	(309)	(7.3)
Real Estate and Others ⁽⁴⁾	107	20.0 ^{*2}	126	23.0 ^{*4}	18	17.4
Gross profit	4,376	7.1	4,085	5.9	(291)	(6.7)
Selling, general and administrative expenses	7,078	11.5	6,988	10.1	(89)	(1.3)
Operating income	(2,702)	(4.4)	(2,903)	(4.2)	(201)	—
Non-operating income	1,051	1.7	1,157	1.7	105	10.1
Non-operating expenses	290	0.5	275	0.4	(14)	(5.1)
Ordinary income	(1,940)	(3.2)	(2,021)	(2.9)	(80)	—
Extraordinary gains	179	0.3	—	—	(179)	—
Extraordinary losses	143	0.2	18	0.0	(125)	(87.4)
Income before income taxes and minority interests	(1,905)	(3.1)	(2,039)	(2.9)	(134)	—
Net income	(1,046)	(1.7)	(964)	(1.4)	82	—

(A)(B)(D) and (E) indicate composition ratio. (C)=(A)+(B), (F)=(D)+(E)

*1-4 indicate each profit margin. *1 = (3)/(1), *2=(4)/(2), *3=(3)/(1), *4=(4)/(2)

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 Nov.10, 2014.

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>

- Overall economic impact of natural disasters and other.
- Sudden changes in demand in main markets (especially construction market in Japan).
- Credit exposure of client companies.
- Sudden changes in material and equipment cost and labor cost.
- Stock market fluctuations.
- Increase in retirement benefits and debt.
- Accident and disaster in Facilities construction and other.
- Risk in Real Estate Business.
- Risk in Regal action.

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