

The 2nd Quarter FY2017 Summary of Financial Results

November 10, 2017

Sanki Engineering Co., Ltd.

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Key Points of Financial Results

<Orders received>

Industrial HVAC and Electrical Systems firmed; however, HVAC and Plumbing for Buildings declined due to factors such as being on the downward end of an received ordering cycle of large-scale projects, resulting in a decrease in orders received for Facilities Construction Business overall.

On the other hand, Plant & Machinery Systems Business (machinery and environmental) increased significantly, receiving some large-scale projects in this period. As a result, there was an increase in the total amount of orders compared with the same period of the previous year.

<Net Sales & Profit>

Net sales increased overall, due to the dramatic increase in HVAC and Plumbing for Buildings compared with the same period of the previous year.

In terms of profit, gross profit margin improved even more as a result of further pursuing initiatives, including the enhancement of our site support systems. Gross profit, operating income, and ordinary income increased year on year basis.

【Overall Results】

FY2017 2Q Results (Consolidated)

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- Orders received increased greatly, due to factors such as receipt of large-scale project for Plant & Machinery Systems. Net sales exceeded compared with the same period of the previous year overall, due to the dramatic increase in HVAC and Plumbing for Buildings.
- Gross profit margin further improved due to increased construction profitability, and there were increases in gross profit, operating income, and ordinary income.
- Profit attributable to owners of parent decreased due to recording extraordinary loss, such as loss on retirement of noncurrent assets, etc. associated with the Yamato Site Redevelopment Plan.

(Millions of yen)

	September 2015	September 2016	September 2017	Year on year	Rate of change(%)
Orders received	99,206	90,912	95,775	4,862	5.3
Balance carried forward	125,745	126,960	147,026	20,065	15.8
Net sales	75,480	70,341	72,506	2,165	3.1
Completed construction contracts	74,668	69,491	71,561	2,070	3.0
Real Estate and Others	812	849	944	94	11.1
Gross profit	8,103	8,144	9,319	1,174	14.4
Completed construction contracts	7,918	7,940	8,972	1,032	13.0
Real Estate and Others	185	204	346	142	69.9
Gross profit margin(%)	10.7	11.6	12.9	1.3 pt.	—
Selling, general and administrative expenses	7,926	8,087	8,829	742	9.2
Operating income (loss)	176	57	489	432	753.5
Non-operating income	347	311	462	151	48.6
Non-operating expenses	524	368	952	583	158.2
Ordinary income (loss)	(25)	(32)	(1,134)	(1,101)	—
Profit attributable to owners of parent (loss)	255	229	(95)	(324)	—

【Orders Received】

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Orders Received by Segment (Consolidated)

- With regard to Facilities Construction Business, orders received for Industrial HVAC and Electrical Systems, including some large-scale projects, firmed; however, HVAC and Plumbing for Buildings declined due to factors such as being on the downward end of an ordering cycle for large-scale projects, resulting in a decrease in overall Facilities Construction Business compared with the same period of the previous year.
- With regard to Plant & Machinery Systems Business, there was a dramatic increase in both Machinery Systems and Environmental Systems receiving some large-scale projects in this period. As a result, the total amount of orders increased compared with the same period of the previous year. (Millions of yen)

Segment	September 2015	September 2016	September 2017	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	34,023	33,979	28,860	(5,119)	(15.1)
Industrial HVAC	25,294	27,399	27,060	(339)	(1.2)
Electrical Systems	12,699	8,337	10,394	2,057	24.7
Facility Systems	6,623	5,274	5,487	213	4.0
Total of Facilities Construction Business	78,642	74,990	71,803	(3,186)	(4.2)
Machinery Systems	6,981	3,287	6,506	3,218	97.9
Environmental Systems	13,133	12,451	16,634	4,183	33.6
Total of Plant & Machinery Systems Business	20,115	15,738	23,141	7,402	47.0
Sub-total	98,757	90,729	94,945	4,215	4.6
Real Estate Business	766	787	860	73	9.3
Others	272	259	305	45	17.7
Adjustments *	(590)	(864)	(335)	528	—
Total	99,206	90,912	95,775	4,862	5.3

* Adjustments eliminate inter segment transactions included in each segment.

【Net Sales】

Net Sales by Segment (Consolidated)

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- Net sales increased overall for Facilities Construction Business, due to a dramatic increase in HVAC and Plumbing for Buildings over the previous fiscal year, having the abundant large-scale projects balance carried forward at the beginning of the fiscal year.
- Plant & Machinery Systems Business also increased, recording an overall increase compared with the same period of the previous year. (Millions of yen)

Segment	September 2015	September 2016	September 2017	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	28,255	24,001	27,802	3,801	15.8
Industrial HVAC	22,230	22,082	20,898	(1,184)	(5.4)
Electrical Systems	10,010	9,065	8,785	(279)	(3.1)
Facility Systems	4,884	4,587	3,687	(900)	(19.6)
Total of Facilities Construction Business	65,381	59,736	61,173	1,437	2.4
Machinery Systems	3,307	4,384	4,522	138	3.2
Environmental Systems	6,134	5,782	6,139	357	6.2
Total of Plant & Machinery Systems Business	9,441	10,166	10,662	495	4.9
Sub-total	74,823	69,903	71,835	1,932	2.8
Real Estate Business	766	787	860	73	9.3
Others	259	254	291	36	14.4
Adjustments *	(368)	(604)	(482)	122	—
Total	75,480	70,341	72,506	2,165	3.1

* 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 2015	September 2016	September 2017	Year on year	Rate of change(%)
Segment Profit (Loss)	Facilities Construction	866	(15)	597	612	—
	Machinery Systems	(251)	119	6	(112)	(94.2)
	Environmental Systems	(941)	(755)	(789)	(33)	—
	Sub-total	(325)	(651)	(184)	466	—
	Real Estate Business	114	103	238	134	130.6
	Others	17	20	42	21	101.0
	Adjustments *	718	895	856	(39)	(4.4)
	Total	524	368	952	583	158.2

* 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)

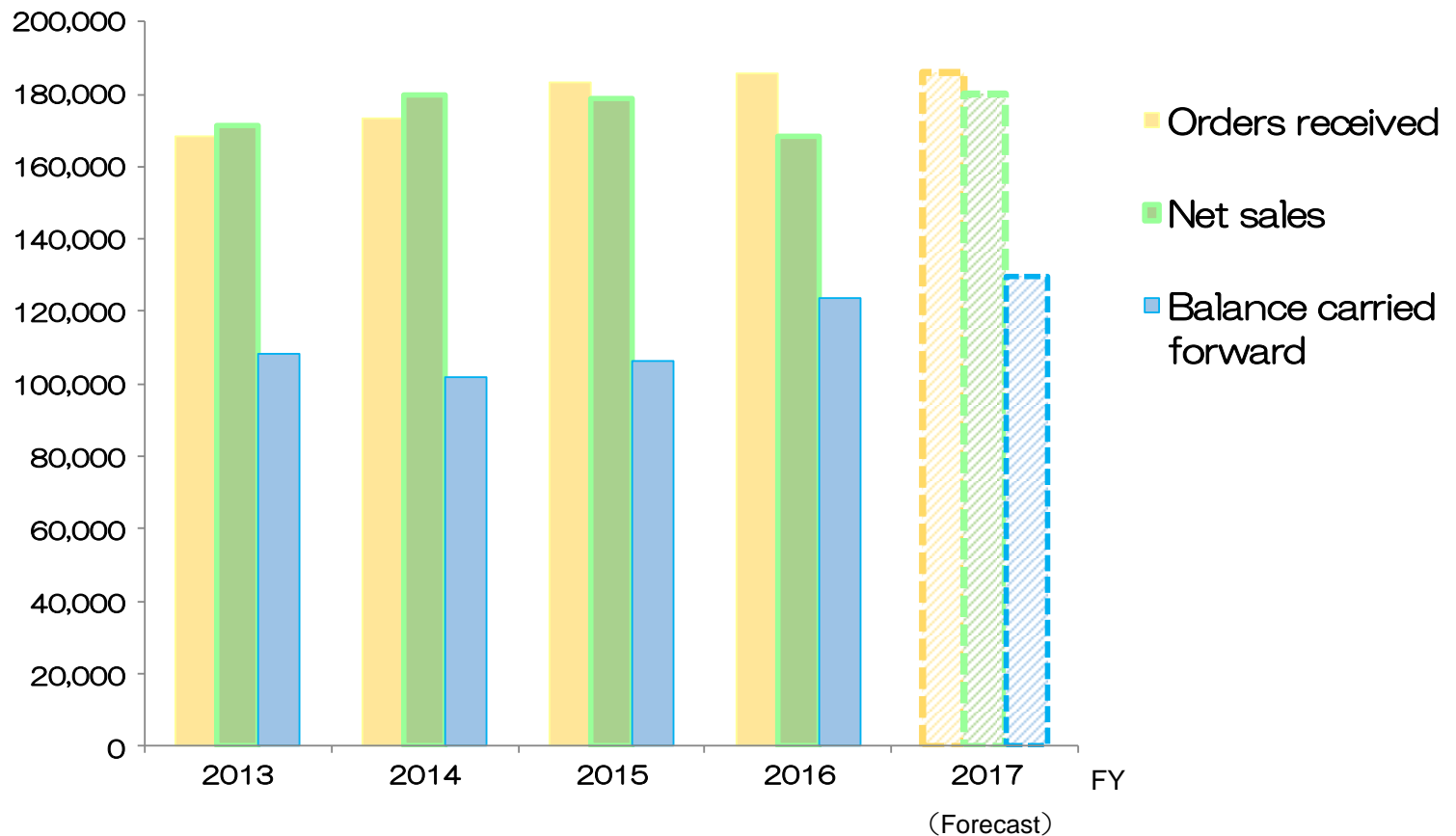
	FY2015				FY2016				FY2017	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Orders received	46,385	52,820	48,311	35,753	55,338	35,573	47,250	47,716	38,209	57,566
Net sales	34,495	40,985	47,022	56,397	33,866	36,474	44,222	53,949	32,933	39,573
Gross profit	3,291	4,812	6,043	8,783	3,905	4,238	5,566	8,827	3,482	5,837
Gross profit margin(%)	9.5	11.7	12.9	15.6	11.5	11.6	12.6	16.4	10.6	14.8
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
Operating income (loss)	(630)	807	2,259	4,073	(265)	323	1,767	4,187	(960)	1,450
Operating profit margin(%)	(1.8)	2.0	4.8	7.2	(0.8)	0.9	4.0	7.8	(2.9)	3.7
Ordinary income (loss)	(254)	778	2,554	5,055	27	341	2,085	4,425	(593)	1,546
Extraordinary income (loss)	(55)	30	96	(371)	—	(32)	(43)	200	(327)	(806)
Profit attributable to owners of parent (loss)	(266)	521	1,790	3,282	(2)	232	1,349	3,119	(604)	508

【Operating Results】

Operating Results over the Last 5 Years (Consolidated) <Orders Received/Net Sales>

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(Millions of yen)

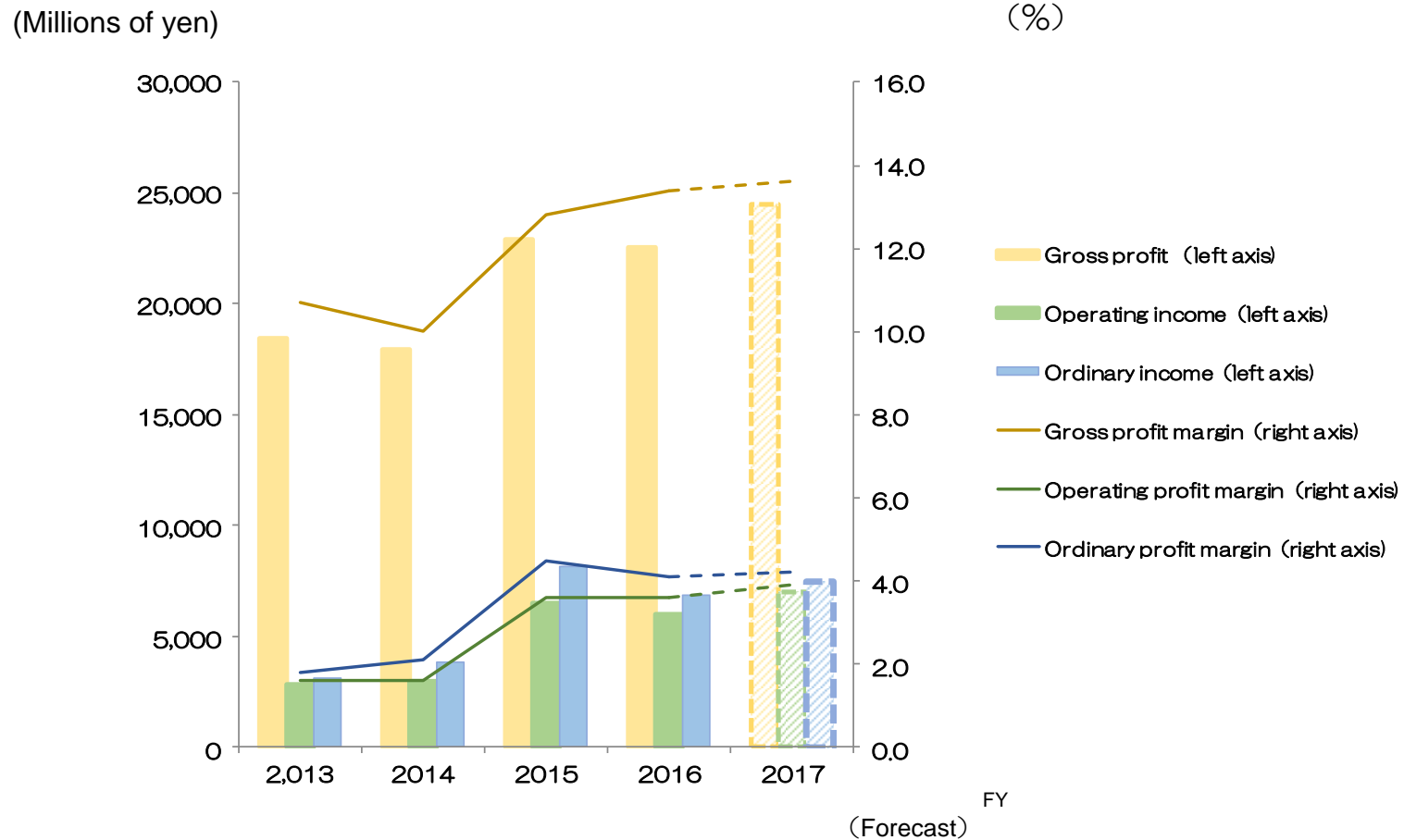


【Operating Results】

Operating Results over the Last 5 Years

(Consolidated) <Profit>

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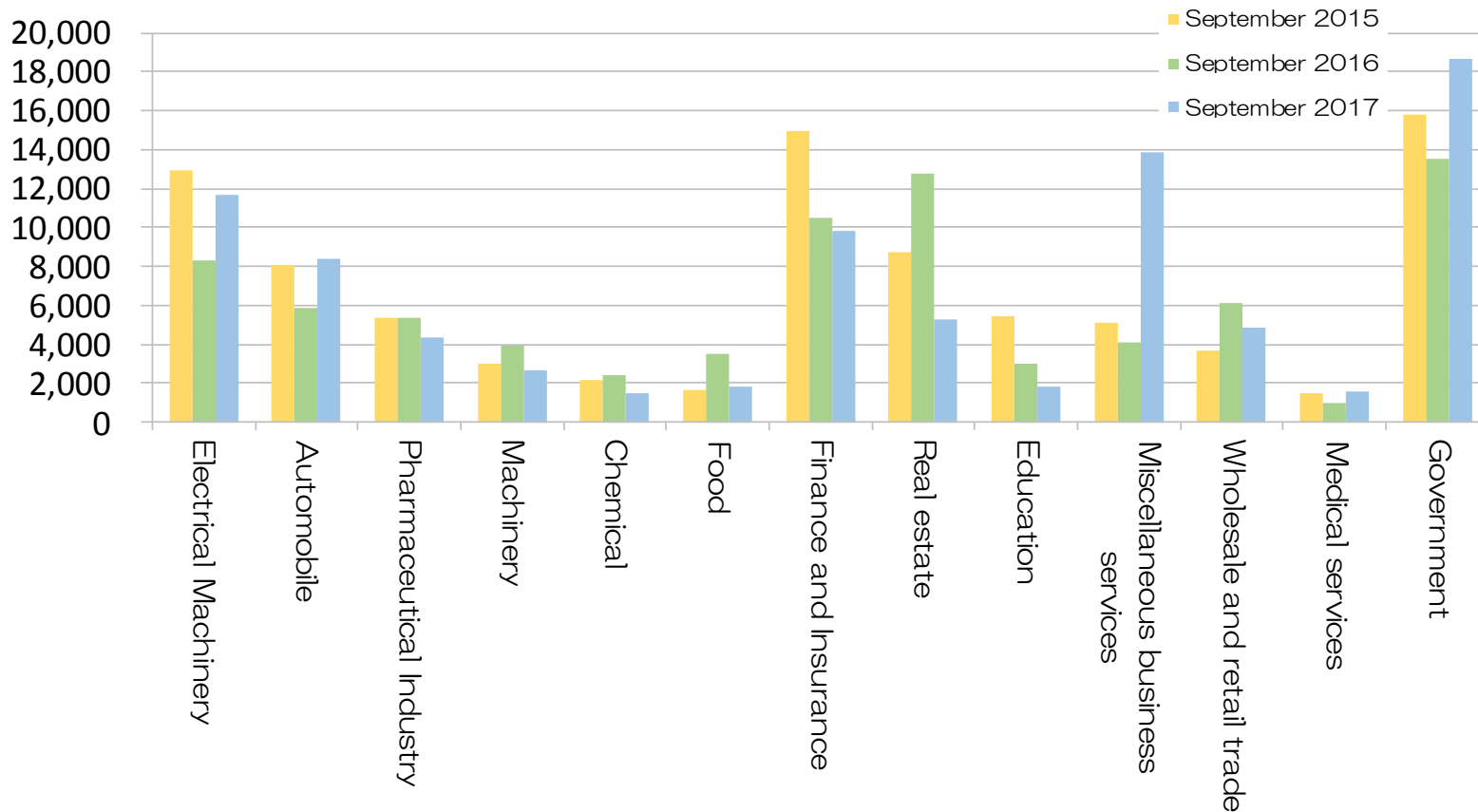


[Orders Received]

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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	September 2016	September 2017	Diff.
Orders received (Non-consolidated : Facilities Construction Business)	143,708	145,069	139,997	71,860	68,608	(3,252)
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	68,963	72,751	61,493	28,045	28,459	414
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	48.0	50.1	43.9	39.0	41.5	2.5 pt.
Orders received(Consolidated)	173,398	183,270	185,880	90,912	95,775	4,862
Orders received from overseas projects (Consolidated) *	2,931	2,343	1,612	803	562	(241)
Rate of orders received from overseas projects (Consolidated) (%)	1.7	1.3	0.9	0.9	0.6	(0.3) pt.
Orders received for renewal construction (Consolidated)	93,339	99,920	101,114	46,047	53,670	7,622
Rate of orders received for renewal construction (Consolidated) (%)	53.8	54.5	54.4	50.7	56.0	5.3 pt.
<Ref.>Net sales for renewal construction (Consolidated)	96,468	96,325	93,602	39,106	37,338	(1,768)

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

【Orders Received】

Main Major Projects Received

○Major Projects Received

- **Pharmaceutical Yokohama Research Institute
(HVAC and Plumbing for Buildings) <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
(Waste treatment facilities) <Renovation>**
- **Waste Treatment Facilities with Energy Recovery Type
in the Tenzan area
(Waste treatment facilities) <New construction, operation,
and maintenance>**

Four other projects

Main Major Completed Construction Projects

○Major Completed Construction Projects

- **Saitama Sekishinkai Hospital, HVAC work for hospital relocation (HVAC work) <New construction work>**
- **Yokota Air Base Yokota High School, machinery work for reconstruction (HVAC and plumbing work) <New construction work>**
- **Nakanoshima Festival Tower West (Office HVAC) <New construction work>**
- **Takamatsu Sunport Combined Government Offices (South building) (HVAC and plumbing work) <New construction work>**
- **NKC Nagai Green Power, Wood Biomass Gasification Power Generation Facility (HVAC and Plant Systems) <New construction work>**

One other project

【Orders Received】

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Major Projects Received over 1 Billion Yen (by Industry)

	September 2015		September 2016		September 2017	
Office	2	11 Projects (19,091 million yen) * Orders received from Customers : 3 Projects * Orders received from general contractors : 8 Projects	3	7 Projects (17,852 million yen) * Orders received from Customers : 5 Projects * Orders received from general contractors : 2 Projects	1	8 Projects (19,052 million yen) * Orders received from Customers : 6 Projects * Orders received from general contractors : 2 Projects
Factory	3		2		2	
Hospital	1		—		—	
Research institute	1		—		1	
Railway, Airport	—		—		1	
Waste processing facility	3		—		2	
Power station, Substation	—		1		—	
Water and sewage treatment facility	—		1		—	
Others	—		—		1	
School building, Lecture hall	1		—		—	

【Profit】**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 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)
 - 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 System

【Financial Conditions】

Balance Sheet (Consolidated)

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(Millions of yen)

	End of FY 2016	September 2017	Diff.	Rate of change(%)	September 2016
Current assets	114,906	100,231	(14,675)	(12.8)	95,581
Noncurrent assets	51,705	55,378	3,672	7.1	49,851
Current liabilities	68,776	58,349	(10,426)	(15.2)	53,359
Noncurrent liabilities	11,875	12,790	915	7.7	11,148
Total net assets	85,961	84,469	(1,491)	(1.7)	80,925
Total assets	166,612	155,609	(11,002)	(6.6)	145,433
Book-value per share (yen)	1,350.08	1,367.78	17.70	—	1,271.10
Equity ratio (%)	51.5	54.2	2.7 pt.	—	55.6
Interest-bearing liabilities (consolidated)	5,654	5,483	(171)	(3.0)	5,824

【CF】

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Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents decreased from the end of the previous fiscal year (a slight increase year on 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 purchase of treasury stock and the payment of dividends.

(Millions of yen)

	FY 2013	FY 2014	FY 2015	FY 2016	September 2016	September 2017
Cash flows from operating activities	(9,403)	(139)	5,220	10,845	3,502	1,556
Cash flows from investing activities	(3,506)	3,440	5,520	(1,644)	(397)	(2,599)
Cash flows from financing activities	(4,152)	(2,901)	(1,826)	(2,458)	(1,573)	(3,813)
Cash and cash equivalents at end of period	23,510	23,667	32,501	39,187	33,933	34,359

Capital investment (including intangible assets)	545	395	855	1,015	126	720
Depreciation and amortization	740	723	723	718	338	392

【Shareholder Returns】 Dividends and Others

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- Interim dividends for FY2017 are 15 yen per share (interim dividends for FY2016 were 10 yen per share).
Annual dividends are scheduled to increase from 20 yen to 30 yen per share.

	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 period	3,598	3,375	3,397	3,157
Stock price at end of period (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 2016	FY 2017 (Forecast)
(1.51)	80.13
10	20
—	—
5	10
15	30
	37.4
2,909	
1,262	
1,955	
3,000	

<Reference>

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

	5.7
	4.6

【Overall Forecast】

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FY2017 Full Year Forecast (Consolidated)

- There is no change to the initial forecast values from May 12, 2017.

(Millions of yen)

	FY 2017 Forecast (as of November 10)
	Total
Orders received	186,000
Net sales	180,000
Operating income	7,000
Ordinary income	7,500
Profit attributable to owners of parent	5,000

【Forecast of Orders Received and Net Sales】

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

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Segment		FY 2017 Orders Received Forecast (as of November 10)	FY 2017 Net sales Forecast (as of November 10)
	HVAC and Plumbing for Buildings	65,700	69,700
	Industrial HVAC	51,000	46,000
	Electrical Systems	22,000	23,000
	Facility Systems	9,500	9,500
Total of Facilities Construction Business		148,200	148,200
	Machinery Systems	12,000	10,000
	Environmental Systems	24,000	20,000
Total of Plant & Machinery Systems Business		36,000	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 November 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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