

FY2018 Summary of Financial Results

May 14, 2019

Sanki Engineering Co., Ltd.

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Key Points of Financial Results

<Orders received>

- In the Facilities Construction Business, there were improvements in all business segments year on year. Of these, Industrial HVAC continued to show great improvements, particularly with regard to large-scale projects.
- As a result, overall orders received greatly exceeded those of the previous fiscal year, and there was also an increase in the balance carried forward to the next period.

<Net Sales & Profits>

- Net sales in the Facilities Construction Business increased year on year for all business segments, with factors such as the increased orders in Industrial HVAC from the previous fiscal year resulting in greatly increased revenue.
- Furthermore, both Machinery Systems and Environmental Systems saw improvements, resulting in a great increase in net sales overall in excess of the previous fiscal year's results and planned values for the final year of the medium-term management plan, "Century2025" Phase1.
- The pace of improvement of gross profit margin slowed somewhat, but remained at a high level due to initiatives such as ongoing thorough cost management and improved work efficiency.
- Furthermore, all profit items increased greatly due to factors such as increased revenue, particularly for Industrial HVAC, and all profit items exceeded the planned values for the final year of the medium-term management plan, "Century2025" Phase1.

<Shareholder Returns, etc.>

- An extra dividend of 20 yen has been paid in addition to the regular dividend of 40 yen, resulting in a total annual dividend of 60 yen, which is an increase of 25 yen from the previous fiscal year.
(total return ratio of 52.9% due to a payout ratio of 40.0% and an acquisition of treasury stock conducted in the second half of the fiscal year)
- Secured ROE of more than 10% due to factors such as a significant increase in net income for the fiscal year.

【Overall Results】

FY2018 Results (Consolidated)

- Orders received increased greatly due to factors such as large-scale orders being received in the Facilities Construction Business, particularly in Industrial HVAC, and balance carried forward also increased.
- Net sales increased in all businesses, led by a dramatic increase in Industrial HVAC, resulting in a great increase year on year.
- All profit items increased greatly due to improvements in gross profit margin through ongoing initiatives to improve work efficiency in addition to the dramatic increase centered on Industrial HVAC.

(Millions of yen)

	FY2016	FY2017	FY2018	Year on year	Rate of change(%)
Orders received	185,880	191,113	217,096	25,983	13.6
Balance carried forward	123,756	144,712	149,495	4,782	3.3
Net sales	168,512	170,157	212,314	42,157	24.8
Completed construction contracts	166,817	168,266	210,245	41,978	24.9
Real estate and others	1,694	1,890	2,069	178	9.5
Gross profit	22,538	25,060	31,684	6,624	26.4
Completed construction contracts	22,184	24,403	30,990	6,587	27.0
Real estate and others	353	656	694	37	5.6
Gross profit margin (%)	13.4	14.7	14.9	0.2 pt.	—
Selling, general and administrative expenses	16,526	18,466	21,046	2,580	14.0
Operating income	6,012	6,593	10,637	4,044	61.3
Non-operating income and loss	867	841	566	(274)	(32.6)
Ordinary income	6,880	7,434	11,204	3,769	50.7
Extraordinary income (loss)	124	(979)	122	1,101	—
Profit attributable to owners of parent (loss)	4,698	3,906	9,046	5,140	131.6

【Orders Received】 Orders Received by Segment (Consolidated)

- In the Facilities Construction Business, there were improvements in all business segments year on year. Of these, Industrial HVAC continued to show great improvements, particularly with regard to large-scale projects, exceeding HVAC and Plumbing for Buildings in real terms.
- In the Plant & Machinery Systems Business, Machinery Systems maintained the high level of the previous fiscal year by receiving large-scale projects. However, Environmental Systems declined year on year due to the impact of a large-scale DBO project received in the previous fiscal year.

(Millions of yen)

Segment	FY 2016	FY 2017	FY 2018	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	65,763	62,274	65,639	3,364	5.4
Industrial HVAC	49,823	58,907	82,729	23,821	40.4
Electrical Systems	21,576	22,675	23,342	667	2.9
Facility Systems	9,450	9,585	10,821	1,236	12.9
Total of Facilities Construction Business	146,612	153,443	182,533	29,089	19.0
Machinery Systems	8,130	12,100	12,049	(50)	(0.4)
Environmental Systems	30,626	24,247	21,705	(2,541)	(10.5)
Total of Plant & Machinery Systems Business	38,756	36,347	33,755	(2,592)	(7.1)
Sub-total	185,369	189,791	216,288	26,497	14.0
Real Estate Business	1,592	1,755	1,926	170	9.7
Others	491	587	960	372	63.5
Adjustments *	(1,573)	(1,020)	(2,078)	(1,057)	—
Total	185,880	191,113	217,096	25,983	13.6

* “Adjustments” eliminate internal transactions included in each segment.

【Net Sales】

Net Sales by Segment (Consolidated)

- In the Facilities Construction Business, factors such as increased orders in Industrial HVAC in both the previous fiscal year and this fiscal year resulted in greatly increased revenue. HVAC and Plumbing for Buildings, Electrical Systems, and Facility Systems also firmed, resulting in a year-on-year improvements for all business segments.
- In the Plant & Machinery Systems Business, both Machinery Systems and Environmental Systems improved.
- As a result, there was a great increase in net sales for the company as a whole, which greatly exceeded planned values for the final year of the medium-term management plan, “Century2025” Phase1, amounting to 210 billion yen. (Millions of yen)

Segment	FY 2016	FY 2017	FY 2018	Year on year	Rate of Change (%)
HVAC and Plumbing for Buildings	60,376	63,782	71,558	7,776	12.2
Industrial HVAC	49,440	46,556	73,493	26,936	57.9
Electrical Systems	21,542	20,653	23,214	2,561	12.4
Facility Systems	10,208	8,695	11,033	2,337	26.9
Total of Facilities Construction Business	141,567	139,688	179,300	39,611	28.4
Machinery Systems	8,192	9,254	11,791	2,536	27.4
Environmental Systems	18,271	19,909	20,471	562	2.8
Total of Plant & Machinery Systems Business	26,464	29,164	32,263	3,099	10.6
Sub-total	168,032	168,853	211,563	42,710	25.3
Real Estate Business	1,592	1,755	1,926	170	9.7
Others	499	578	718	139	24.2
Adjustments*	(1,611)	(1,030)	(1,893)	(863)	—
Total	168,512	170,157	212,314	42,157	24.8

* “Adjustments” eliminate internal transactions included in each segment.

【Profit】

Ordinary Income and Loss by Segment (Consolidated)

(Millions of yen)

Segment		FY 2016	FY 2017	FY 2018	Year on year	Rate of Change (%)
Segment Profit (Loss)	Facilities Construction	6,404	6,010	9,905	3,895	64.8
	Machinery Systems	(138)	(40)	238	279	—
	Environmental Systems	671	575	312	(263)	(45.8)
	Sub-total	6,938	6,545	10,456	3,910	59.8
	Real Estate Business	189	476	471	(4)	(1.0)
	Others	22	49	52	2	6.0
	Adjustments*	(270)	362	223	(139)	(38.4)
	Total	6,880	7,434	11,204	3,769	50.7

* The adjustments for segment profit (loss) include the adjustments for whole company profit (loss) that are not distributed into individual reporting segments, reversal of interest liabilities that have been internally allocated into individual reporting segments, and adjustments due to the posting of extraordinary income (loss) attributable to each segment.

【Overall Results】

Quarterly Results (Consolidated)

(Millions of yen)

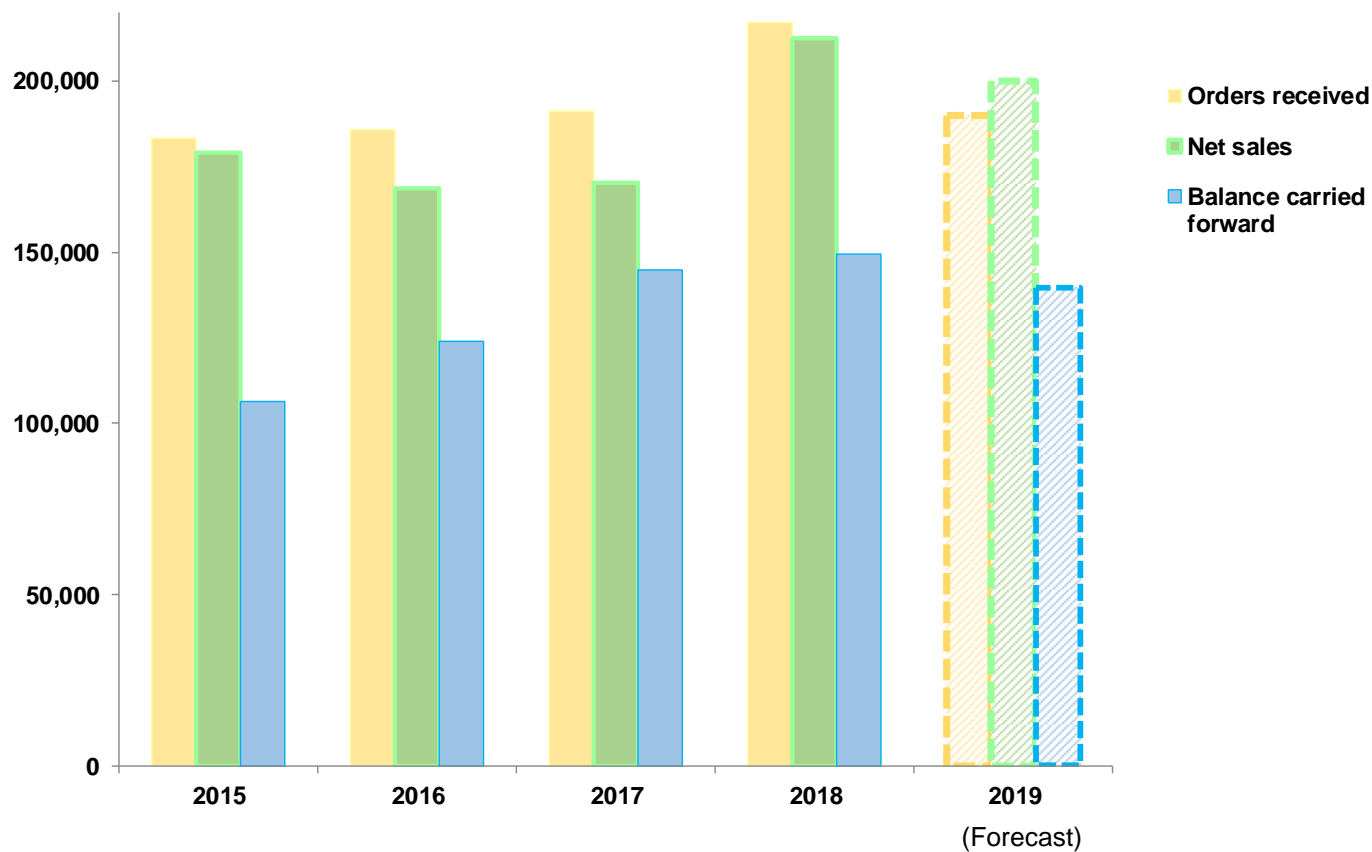
	FY 2016				FY 2017				FY 2018			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Orders received	55,338	35,573	47,250	47,716	38,209	57,566	43,881	51,456	50,885	52,934	51,228	62,048
Net sales	33,866	36,474	44,222	53,949	32,933	39,573	43,102	54,548	35,252	45,470	61,323	70,267
Gross profit	3,905	4,238	5,566	8,827	3,482	5,837	5,995	9,744	4,329	6,442	8,654	12,258
Gross profit margin (%)	11.5	11.6	12.6	16.4	10.6	14.8	13.9	17.9	12.3	14.2	14.1	17.4
Selling, general and administrative expenses	4,171	3,915	3,798	4,640	4,442	4,386	4,193	5,443	4,571	5,072	4,965	6,437
Operating income (loss)	(265)	323	1,767	4,187	(960)	1,450	1,802	4,300	(242)	1,369	3,688	5,821
Operating profit margin (%)	(0.8)	0.9	4.0	7.8	(2.9)	3.7	4.2	7.9	(0.7)	3.0	6.0	8.3
Ordinary income (loss)	27	341	2,085	4,425	(593)	1,546	2,093	4,388	92	1,447	3,848	5,815
Extraordinary income (loss)	—	(32)	(43)	200	(327)	(806)	(381)	536	(147)	(3)	(1,167)	1,439
Profit attributable to owners of parent (loss)	(2)	232	1,349	3,119	(604)	508	1,119	2,882	(66)	862	1,743	6,505

【Operating Results】

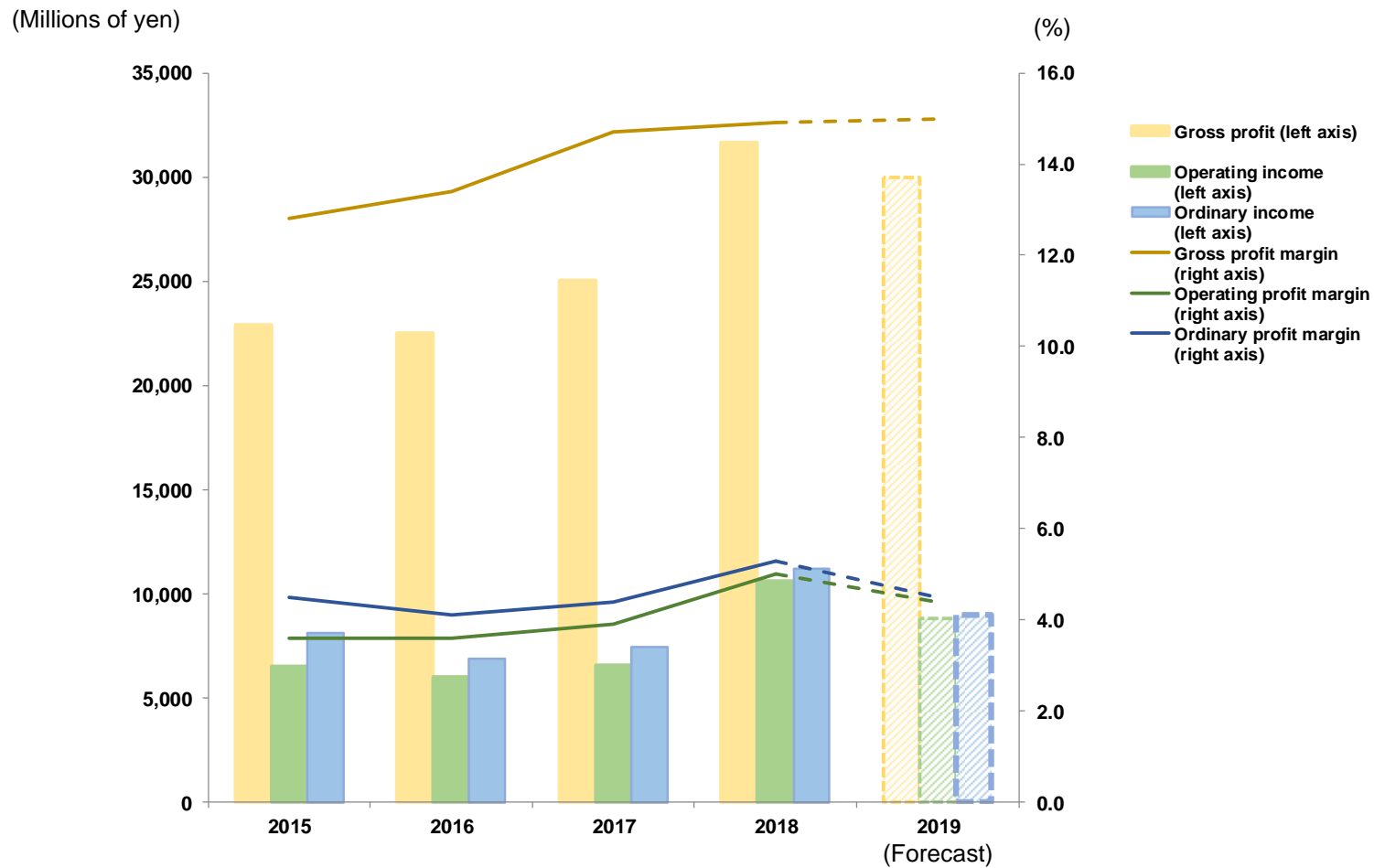
Operating Results over the most recent 5 years (Consolidated) <Orders Received/Net Sales>

SANKI

(Millions of yen)

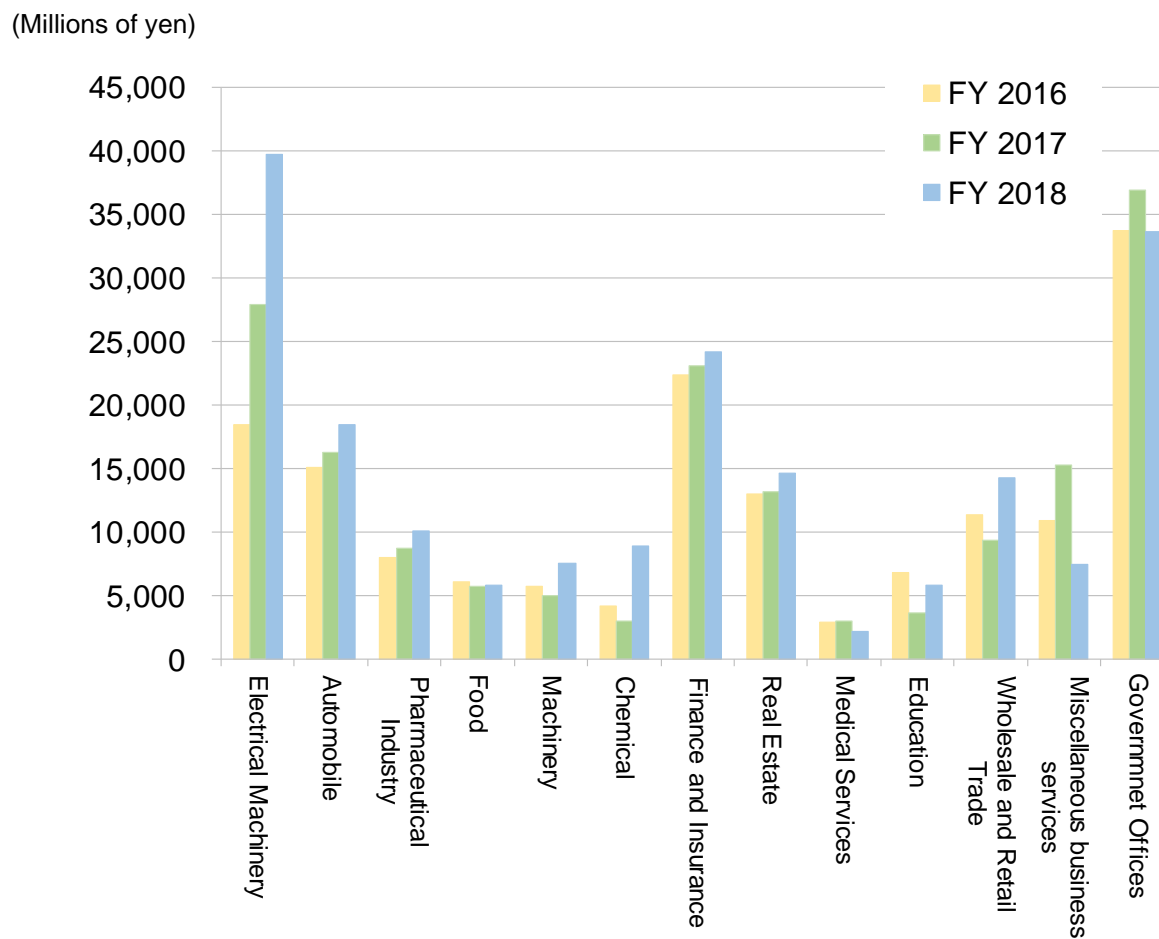


【Operating Results】 Operating Results over the most recent 5 years (Consolidated) <Profit>



【Orders Received】

Orders Received by Industry (Consolidated)



【Orders Received】 Orders Received by Type

(Millions of yen)

	FY 2015	FY 2016	FY 2017 A	FY 2018 B	Diff. B-A
Orders received (Non-consolidated: Facilities Construction Business)	145,069	139,997	147,013	173,553	26,539
Orders received from general contractors (Non-consolidated: Facilities Construction Business)	72,751	61,493	67,345	78,304	10,959
Rate of orders received from general contractors (Non-consolidated: Facilities Construction Business) (%)	50.1	43.9	45.8	45.1	(0.7) pt.
Orders received (Consolidated)	183,270	185,880	191,113	217,096	25,983
Orders received from overseas projects (Consolidated)*	2,343	1,612	1,246	2,379	1,133
Rate of orders received from overseas projects (Consolidated) (%)	1.3	0.9	0.7	1.1	0.4 pt.
Orders received for renewal construction (Consolidated)	99,920	101,114	101,597	117,619	16,021
Rate of orders received for renewal construction (Consolidated) (%)	54.5	54.4	53.2	54.2	1.0 pt.
<Ref.> Net sales for renewal construction (Consolidated)	96,325	93,602	94,601	116,627	22,025

* Orders received by SANKI CONSTRUCTION ENGINEERING (SHANGHAI) CO., LTD. (1,115 millions of yen in FY2018), an unconsolidated subsidiary, are not included in orders received from overseas projects.

【Orders Received】

Main Large-Scale Projects Received

Property name	Item of construction	Type of construction	Location
Nissay Logistics Center, Machida	HVAC, Plumbing and Electrical systems	New construction work	Kanagawa
NGK Ceramic Device Co., Ltd., Tajimi Plant	HVAC systems	New construction work	Gifu
Toshiba Memory Corporation, Yokkaichi Plant Building 260, Stage 4	HVAC systems	Expansion	Mie
Sony Semiconductor Manufacturing Corporation, Yamagata Technology Center	HVAC and Electrical systems	Renovation	Yamagata
Tokyo Metropolitan Higashiyamato Medical Center for the Severely Disabled	Plumbing systems	Renovation	Tokyo
Takashimaya East Building Hotel Conversion	HVAC and Plumbing systems	Renovation	Osaka
Toshiba Memory Iwate Corporation, Iwate Building 510, Stage 1	HVAC systems	New construction work	Iwate
RIKEN: Works to enhance facilities for a next-generation ultra-high-speed computer system in fiscal 2018	HVAC systems	Expansion	Hyogo
Toyota Motor Corporation PI Tower Project Phase 2	HVAC and Electrical systems	New construction Renovation	Aichi
Shiseido: East Saito New Site Construction Project (tentative name)	HVAC and Plumbing systems	New construction work	Osaka
New HVAC equipment construction such as facilities construction for District B-1 of the Toranomom/Azabudai Type-1 Urban Area Redevelopment Project (wholly shared construction area, etc.)	HVAC systems	New construction work	Tokyo
Nissay Training Center	HVAC systems	Renovation	Chiba
Narita International Airport: Works to expand the T1S#53 make-up conveyor and enhance BHS capacity	Transport facilities	Renewal	Chiba
Ochi General Administration Association: Works to construct common garbage incinerator	Construction of waste treatment facilities	New construction work	Shimane

9 other projects

* The property name is the name being used by the Company. This may differ from the name used on the construction contract.

【Net Sales】

Main Large-Scale Completed Construction Projects

Property name	Item of construction	Type of construction	Location
Toyota Motor Corporation PI Tower Project	HVAC and Electrical systems	New construction work	Aichi
Nihonbashi 2-Chome Type-1 Urban Area Redevelopment Project (Districts C & D)	Plumbing and Electrical systems	New construction work	Tokyo
Toshiba Memory Corporation, Yokkaichi Plant Building 260, Stage 3	HVAC systems	Expansion	Mie
Fukuoka High and District Court/Family Court/Summary Court Office	HVAC, Plumbing systems	New construction work	Fukuoka
Yokohama Business Park A1 Building	HVAC systems	Renovation	Kanagawa
Toshiba Memory Yokkaichi Plant Building 260, Stage 4	HVAC systems	Expansion	Mie
Nihonbashi 2-Chome Type-1 Urban Area Redevelopment Project (District B)	HVAC, Plumbing and Electrical systems	Renovation	Tokyo
Nihonbashi Muromachi Mitsui Tower	Plumbing systems	New construction work	Tokyo
Nissay Crea Tower	HVAC systems	New construction work	Tokyo
NGK Ceramic Device Co., Ltd., Tajimi Plant	HVAC systems	New construction work	Gifu
Toyota Motor Corporation PI Tower Project Phase 2	HVAC and Electrical systems	New construction work and Renovation	Aichi

5 other project

【Orders Received】

Main Large-Scale Projects Received over 1 Billion Yen (by Industry)

	FY2016		FY2017		FY2018	
Office	4	15 Projects (40,057 million yen) * Orders received from customers: 9 Projects * Orders received from general Contractors : 6 Projects	2	20 Projects (40,822 million yen) * Orders received from customers: 9 Projects * Orders received from general Contractors : 11 Projects	2	23 Projects (55,118 million yen) * Orders received from customers : 10 Projects * Orders received from general Contractors : 13 Projects
Commercial facility	1		—		—	
Complex building	—		—		1	
Hotel	—		1		1	
Factory	4		6		10	
Logistics Center	—		—		1	
Multiple – dwelling complex	—		2		1	
Hospital	1		1		1	
Research institute	1		1		1	
General government buildings	—		—		1	
Gymnasium	—		1		1	
Other building interiors	—		3		1	
Railway, Airport	—		1		1	
Power station, Substation	1		—		—	
Waste processing facility	1		2		1	
Water treatment plants and sewage plants	2	—	—			

【Profit】**Profit Improvement Factors and Measures**

- Strong business environment
- Thorough cost management (thorough internal control processes)
- Developing site support systems
 - Improved support for purchasing operations by the Procurement Division (established in fiscal 2015) (web-based procurement system)
 - Expanded support for on-site document creation at each branch office
 - Expanded support for design work by the Design and Engineering Support Center (established in fiscal 2016)
 - Establishment of Technology Support Center specializing in support and guidance for on-site operations (fiscal 2018)
 - 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)

(Millions of yen)

	End of FY 2017	End of FY 2018	Year on year	Rate of change (%)
Current assets	122,901	141,342	18,441	15.0
Notes and accounts receivable on completed construction contracts and other	64,458	85,243	20,784	32.2
Noncurrent assets	54,112	53,979	(133)	(0.2)
Investment securities	31,927	27,879	(4,047)	(12.7)
Current liabilities	73,787	91,317	17,530	23.8
Notes and accounts payable on construction contracts and other	49,854	68,286	18,431	37.0
Noncurrent liabilities	17,035	14,232	(2,803)	(16.5)
Total net assets	86,191	89,772	3,581	4.2
Total assets	177,014	195,321	18,307	10.3
Book-value per share	1,419.77	1,502.53	82.76	5.8
Equity ratio (%)	48.6	45.8	(2.8) pt.	—
Interest-bearing liabilities (consolidated)	13,504	12,094	(1,409)	(10.4)

* As we have applied Partial Amendments to Accounting Standard for Tax Effect Accounting, etc. since the 1st quarter of FY2018, the FY2017 balance sheet has been partially rearranged. As a result, the equity ratio has also changed.

【CF】 Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents decreased year on year
 - The increase in cash flows from operating activities is mainly due to the inclusion of income before taxes and other adjustments, despite the increase in income taxes paid
 - The decrease in cash flows from investment activities is mainly due to the acquisition of property, plant and equipment
 - The decrease in cash flows from financing activities is mainly due to the repayment of long-term loans payable, expenditure from the purchase of treasury stock, and the payment of dividends

(Millions of yen)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Cash flows from operating activities	(139)	5,220	10,845	6,306	6,786
Cash flows from investing activities	3,440	5,520	(1,644)	(2,510)	(3,775)
Cash flows from financing activities	(2,901)	(1,826)	(2,458)	1,814	(5,215)
Cash and cash equivalents at end of period	23,667	32,501	39,187	44,866	42,612

Capital investment (including intangible assets)	395	855	1,015	3,772	6,110
Depreciation and amortization	723	723	718	818	1,340

【Shareholder Returns】 Dividends and Others

- In addition to the regular dividend of 40 yen, an extra dividend of 20 yen is paid, resulting in an annual dividend of 60 yen (increase of 25 yen year on year).
- The payout ratio is 40%. The total return ratio is 52.9% due to an acquisition of 1 million shares of treasury stock conducted in the second half of fiscal 2018.
- ROE exceeded 10% due to a significant increase in net income for the fiscal year.

	FY 2014	FY 2015	FY 2016	FY 2017
Earnings per share (yen)	38.30	83.84	73.91	63.02
Cash dividends per share: regular dividends (yen)	15	18	20	20
Cash dividends per share: commemorative dividends (yen)	5	—	—	—
Cash dividends per share: extra dividends (yen)	—	12	10	15
Cash dividends per share (yen)	20	30	30	35
Payout ratio (consolidated) (%)	52.2	35.8	40.6	55.5
Number of shareholders at end of FY	3,375	3,397	3,157	3,243
Stock price at end of FY (yen)	930	901	958	1,188
Acquisition of treasury stock (thousand shares)	2,000	—	—	3,000
Retirement of treasury stock (thousand shares)	3,000	—	—	3,000

September 2018	FY 2018
13.15	150.02
20	40
—	—
—	20
20	60
	40.0
3,170	3,381
1,220	1,210
—	1,000
—	1,000

ROE (Return on Equity) (%)	3.0	6.3	5.5	4.5
ROA (Return on Assets) (%)	2.2	4.7	4.1	4.3

	10.3
	6.0

【Overall Forecast】

FY2019 Full-Year Forecast (Consolidated)

(Millions of yen)

	FY 2015	FY 2016	FY 2017	FY 2018 A	Initial forecast for FY 2019 B	Increase/ Decrease B-A	Rate of change (%)
Orders received	183,270	185,880	191,113	217,096	190,000	(27,096)	(12.5)
Balance carried forward	106,388	123,756	144,712	149,495	139,495	(10,000)	(6.7)
Net sales	178,901	168,512	170,157	212,314	200,000	(12,314)	(5.8)
Gross profit	22,929	22,538	25,060	31,684	30,000	(1,684)	(5.3)
Gross profit margin (%)	12.8	13.4	14.7	14.9	15.0	0.1	—
Operating income	6,509	6,012	6,593	10,637	8,800	(1,837)	(17.3)
Ordinary income (loss)	8,135	6,880	7,434	11,204	9,000	(2,204)	(19.7)
Profit attributable to owners of parent	5,327	4,698	3,906	9,046	6,200	(2,846)	(31.5)
Dividends per share (yen)	30	30	35	60	60	—	—

【Forecast of Orders Received and Net Sales】

FY2019 Forecast of Orders Received and Net Sales by Segment (Consolidated)

SANKI

(Millions of yen)

Segment		FY 2019 Orders Received Forecast	FY 2019 Net sales Forecast
	HVAC and Plumbing for Buildings	62,000	66,000
	Industrial HVAC	59,000	63,000
	Electrical Systems	23,000	24,000
	Facility Systems	11,000	10,000
Total of Facilities Construction Business		155,000	163,000
	Machinery Systems	12,000	12,000
	Environmental Systems	21,000	23,000
Total of Plant & Machinery Systems Business		33,000	35,000
Sub Total		188,000	198,000
Real Estate Business		2,000	2,000
Others		600	600
Adjustments*		(600)	(600)
Total		190,000	200,000

* Adjustments eliminate inter-segment transactions included in each segment.

Remarks on Business Forecast

The descriptions contained in these materials, 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 14, 2019.

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 exposures of client companies.
- Sudden changes in material and equipment cost and labor cost.
- Stock Market fluctuations.
- Increase in retirement benefits or debts.
- Country risk.
- Accident or disaster in facilities construction and other.
- Outbreak of the unprofitable project.
- Risk in the Real Estate Business.
- Risk of legal action.
- Risk of legal regulation.
- Outbreak to the natural disasters.

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