

The 2nd Quarter FY2018 Summary of Financial Results

November 9, 2018

Sanki Engineering Co., Ltd.

Contents

Key Points of Financial Results	03
FY2018 2Q Results – Cumulative Results (Consolidated)	04
Orders Received by Segment (Consolidated)	05
Net Sales by Segment (Consolidated)	06
Ordinary Income and loss by Segment (Consolidated)	07
Quarterly Results (Consolidated)	08
Operating Results over the Last 5 Years (Consolidated) <Orders Received/Net Sales>	09
Operating Results over the Last 5 Years (Consolidated) <Profit>	10
Orders Received by Industry (Consolidated)	11
Orders Received by Type	12
Main Major Large Projects Received	13
Main Major Completed Construction Projects	14
Major Projects over 1 Billion Yen (by Industry)	15
Profit Improvement Factors and Measures	16
Balance Sheet (Consolidated)	17
Statement of Cash Flows (Consolidated)	18
Dividends and Others	19
FY 2018 Full-Year Forecast	20
FY2018 Forecast of Orders Received and Net Sales by Segment (Consolidated)	21

Key Points of Financial Results

<Orders Received>

In the Facilities Construction Business, there was a great increase in Industrial HVAC, particularly with regard to large-scale projects.

Building HVAC and Electrical Systems also firmed with year-on-year increases. Machinery Systems maintained its level year on year; however, Environmental Systems decreased due to the effect of receiving large-scale projects in the same period of the previous year.

As a result, overall orders received exceeded those in the same period of the previous year, and there was also an increase in the balance carried forward to the next period.

<Net Sales & Profit>

Net sales in the Facilities Construction Business increased year on year due to great increases in Industrial HVAC, etc. However, the Plant & Machinery Systems Business remained steady, resulting in a great increase in net sales overall.

As a result of our continued initiatives for thorough cost management and improvement of work efficiency, etc. we have seen a year-on-year improvement in gross profit margin. In addition, higher profit, etc. was seen in all profit items due to higher net sales, particularly in Industrial HVAC.

【Overall Results】

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FY2018 2Q Results - Cumulative Results (Consolidated)

- Orders received, net sales, and balance carried forward all increased year on year due to favorable results in the Facilities Construction Business, etc.
- Gross profit margin improved year-on-year, and gross profit, operating income, and all profit items increased as a result of further continuing initiatives including the enhancement of our site support system. (Millions of yen)

	September 2016	September 2017	September 2018	Year on year	Rate of change(%)
Orders received	90,912	95,775	103,819	8,044	8.4
Balance carried forward	126,960	147,026	167,809	20,783	14.1
Net sales	70,341	72,506	80,723	8,216	11.3
Completed construction contracts	69,491	71,561	79,710	8,148	11.4
Real estate and others	849	944	1,012	68	7.3
Gross profit	8,144	9,319	10,771	1,452	15.6
Completed construction contracts	7,940	8,972	10,407	1,434	16.0
Real estate and others	204	346	363	17	4.9
Gross profit margin(%)	11.6	12.9	13.3	0.4 pt.	—
Selling, general and administrative expenses	8,087	8,829	9,644	814	9.2
Operating income (loss)	57	489	1,126	637	130.1
Net non-operating income and loss (Cost)	311	462	413	(49)	(10.7)
Ordinary income (loss)	368	952	1,540	587	61.7
Net extraordinary income (loss)	(32)	(1,134)	(150)	984	—
Profit attributable to owners of parent (loss)	229	(95)	796	891	—

【Orders Received】 Orders Received by Segment (Consolidated)

- In the Facilities Construction Business, there was a great increase in Industrial HVAC, particularly with regard to large-scale projects relating to electrical machinery and semiconductor industries. Building HVAC and Electrical Systems also firmed with great increases for the entire business.
- Machinery Systems maintained its level from the previous fiscal year, in which orders were received for large-scale projects; however, Environmental Systems decreased due to the effect of receiving large-scale projects in the same period of the previous fiscal year. (Millions of yen)

Segment	September 2016	September 2017	September 2018	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	33,979	28,860	32,385	3,524	12.2
Industrial HVAC	27,399	27,060	38,495	11,434	42.3
Electrical Systems	8,337	10,394	12,013	1,618	15.6
Facility Systems	5,274	5,487	5,350	(137)	(2.5)
Total of Facilities Construction Business	74,990	71,803	88,244	16,440	22.9
Machinery Systems	3,287	6,506	6,536	30	0.5
Environmental Systems	12,451	16,634	8,776	(7,857)	(47.2)
Total of Plant & Machinery Systems Business	15,738	23,141	15,313	(7,827)	(33.8)
Sub-total	90,729	94,945	103,557	8,612	9.1
Real Estate Business	787	860	923	62	7.3
Others	259	305	320	15	5.1
Adjustments *	(864)	(335)	(982)	(647)	—
Total	90,912	95,775	103,819	8,044	8.4

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

【Net Sales】

Net Sales by Segment (Consolidated)

- Net sales in the Facilities Construction Business increased year on year due to great increases in Industrial HVAC, etc. The Plant & Machinery Systems Business remained steady; however, there was a great increase in overall net sales as a result of contributions from the Facilities Construction Business.

(Millions of yen)

Segment	September 2016	September 2017	September 2018	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	24,001	27,802	27,111	(690)	(2.5)
Industrial HVAC	22,082	20,898	29,774	8,875	42.5
Electrical Systems	9,065	8,785	8,647	(138)	(1.6)
Facility Systems	4,587	3,687	4,460	773	21.0
Total of Facilities Construction Business	59,736	61,173	69,993	8,819	14.4
Machinery Systems	4,384	4,522	4,377	(145)	(3.2)
Environmental Systems	5,782	6,139	6,132	(7)	(0.1)
Total of Plant & Machinery Systems Business	10,166	10,662	10,509	(153)	(1.4)
Sub-total	69,903	71,835	80,502	8,666	12.1
Real Estate Business	787	860	923	62	7.3
Others	254	291	295	3	1.3
Adjustments *	(604)	(482)	(998)	(516)	—
Total	70,341	72,506	80,723	8,216	11.3

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

【Profit】

Ordinary Income and Loss by Segment (Consolidated)

(Millions of yen)

Segment		September 2016	September 2017	September 2018	Year on year	Rate of change(%)
Segment Profit (Loss)	Facilities Construction	(15)	597	1,600	1,002	167.6
	Machinery Systems	119	6	(78)	(85)	—
	Environmental Systems	(755)	(789)	(758)	30	—
	Sub-total	(651)	(184)	763	947	—
	Real Estate Business	103	238	266	28	11.8
	Others	20	42	26	(15)	(35.9)
	Adjustments *	895	856	483	(373)	(43.5)
	Total	368	952	1,540	587	61.7

* The amount of adjustments of profit and loss by segment indicates the amount of the Company-level profit and loss not distributed into each segment. The Company-level profit and loss mainly consists of that of interests and dividends not attributable to each segment, and the balance of allocations for the Company-level expenses. 7

【Overall Results】 Quarterly Results (Consolidated)

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(Millions of yen)

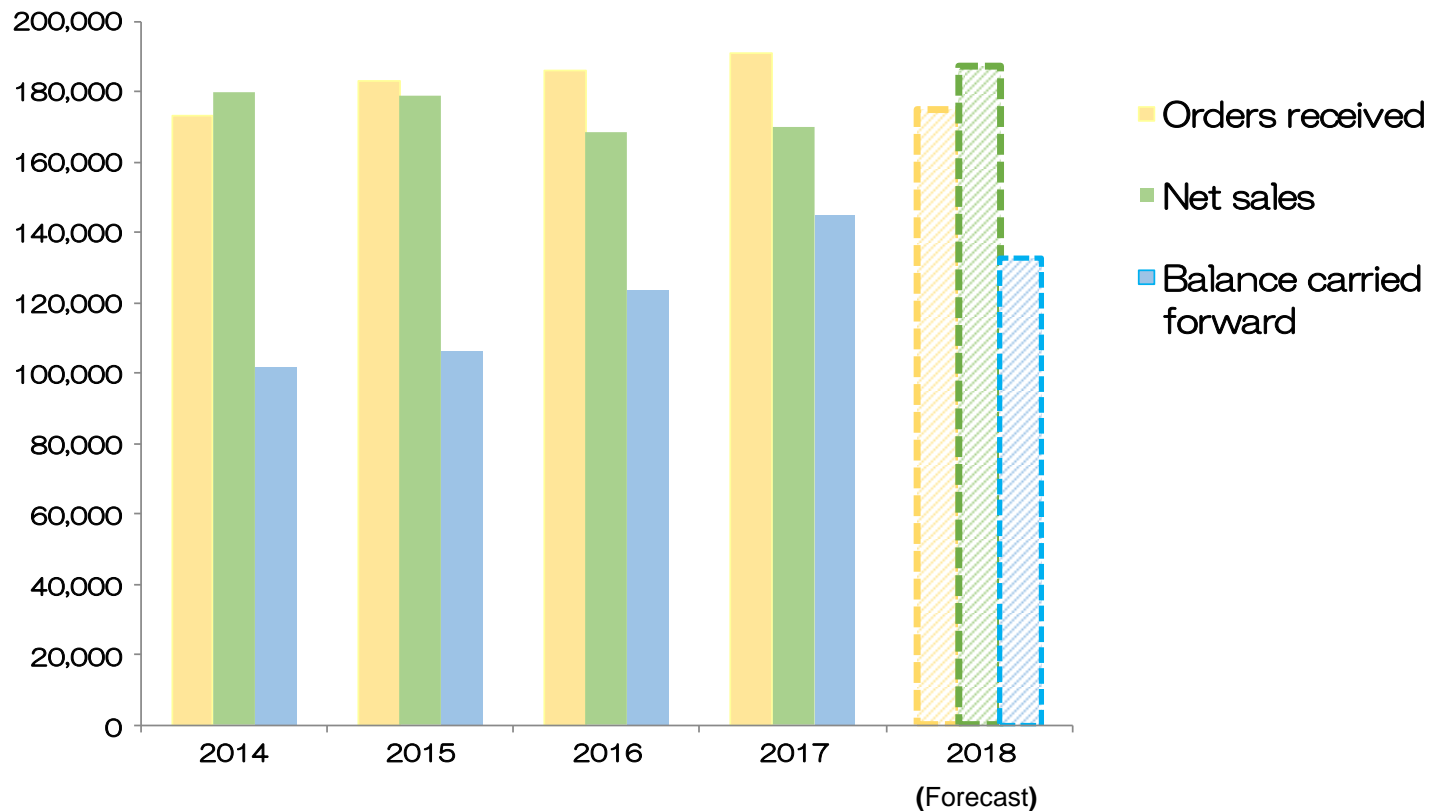
	FY2016				FY2017				FY2018	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Orders received	55,338	35,573	47,250	47,716	38,209	57,566	43,881	51,456	50,885	52,934
Net sales	33,866	36,474	44,222	53,949	32,933	39,573	43,102	54,548	35,252	45,470
Gross profit	3,905	4,238	5,566	8,827	3,482	5,837	5,995	9,744	4,329	6,442
Gross profit margin(%)	11.5	11.6	12.6	16.4	10.6	14.8	13.9	17.9	12.3	14.2
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
Operating income (loss)	(265)	323	1,767	4,187	(960)	1,450	1,802	4,300	(242)	1,369
Operating profit margin(%)	(0.8)	0.9	4.0	7.8	(2.9)	3.7	4.2	7.9	(0.7)	3.0
Ordinary income (loss)	27	341	2,085	4,425	(593)	1,546	2,093	4,388	92	1,447
Extraordinary income (loss)	—	(32)	(43)	200	(327)	(806)	(381)	536	(147)	(3)
Profit attributable to owners of parent (loss)	(2)	232	1,349	3,119	(604)	508	1,119	2,882	(66)	862

【Operating Results】

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

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(Millions of yen)

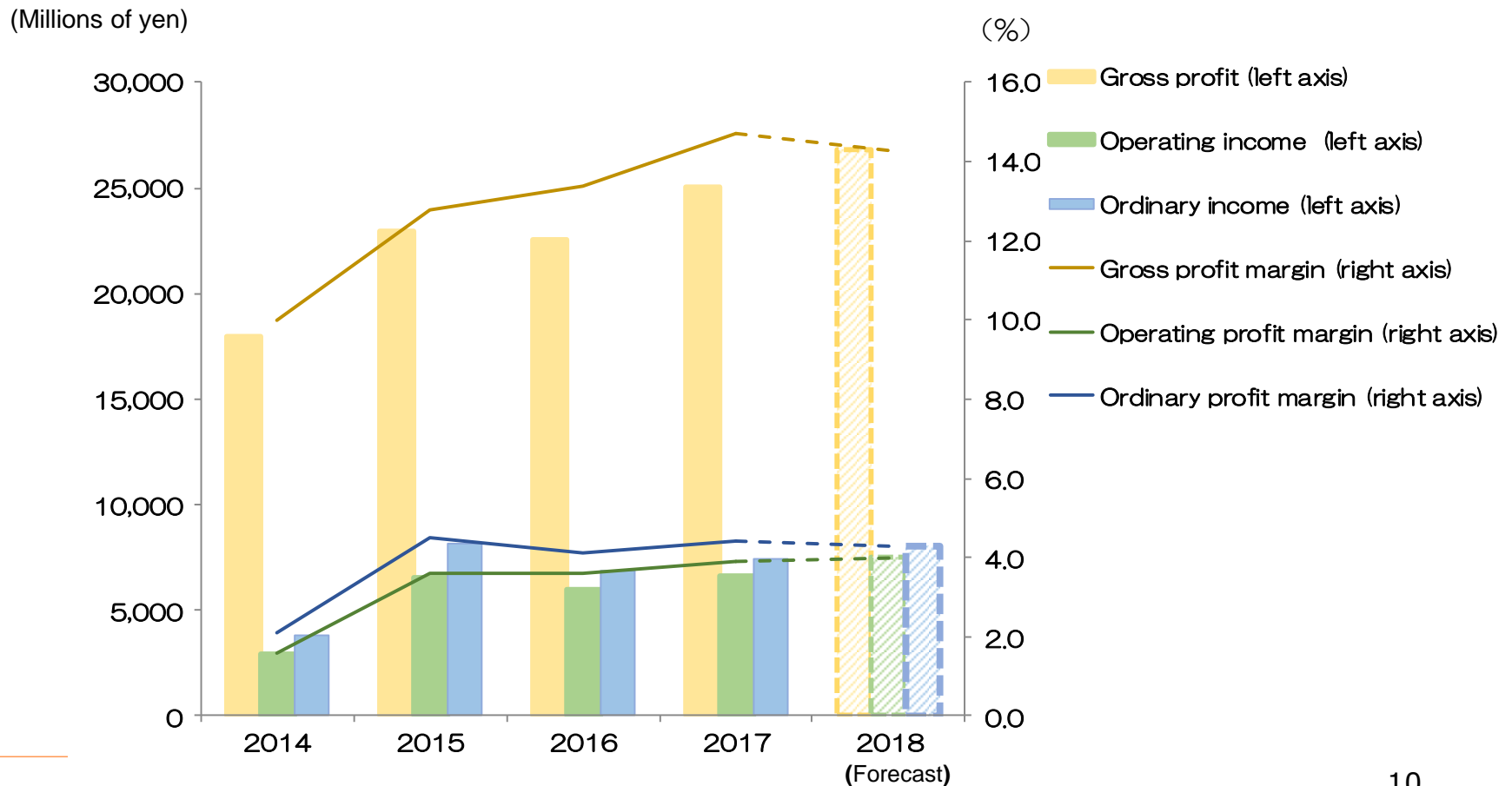


【Operating Results】

Operating Results over the Last 5 Years

(Consolidated) <Profit>

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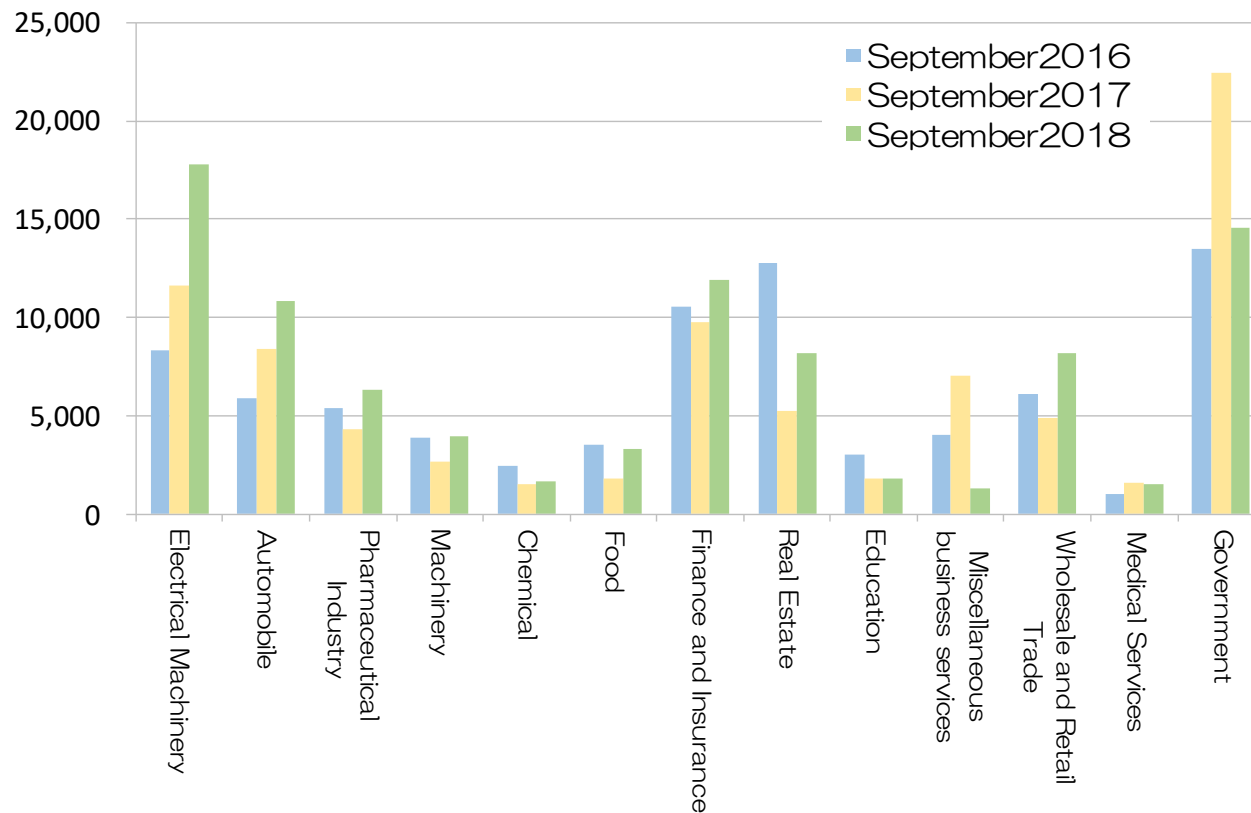


【Orders Received】

Orders Received by Industry (Consolidated)

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(Millions of yen)



【Orders Received】 Orders Received by Type

(Millions of yen)

	FY2015	FY2016	FY2017	September 2017	September 2018	Diff.
Orders received (Non-consolidated : Facilities Construction Business)	145,069	139,997	147,013	68,608	83,942	15,333
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	72,751	61,493	67,345	28,459	36,415	7,955
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	50.1	43.9	45.8	41.5	43.4	1.9 pt.
Orders received (Consolidated)	183,270	185,880	191,113	95,775	103,819	8,044
Orders received from overseas projects (Consolidated) *	2,343	1,612	1,246	562	1,588	1,025
Rate of orders received from overseas projects (Consolidated) (%)	1.3	0.9	0.7	0.6	1.5	0.9 pt.
Orders received for renewal construction (Consolidated)	99,920	101,114	101,597	53,670	62,119	8,448
Rate of orders received for renewal construction (Consolidated) (%)	54.5	54.4	53.2	56.0	59.8	3.8 pt.
<Ref.> Net sales for renewal construction (Consolidated)	96,325	93,602	94,601	37,338	43,488	6,150

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

【Orders Received】

Main Major Large Projects Received

- **Nissay Logistics Center, Machida
(HVAC, Plumbing, and Electrical Systems) <New construction work>**
- **NGK Ceramic Device Co., LTD., Tajimi Plant
(HVAC Systems) <New construction work>**
- **Toshiba Memory Corporation Yokkaichi Plant Building 260, Stage 4
(HVAC Systems) <Expansion>**
- **Sony Semiconductor Manufacturing Corporation,
Yamagata Technology Center
(HVAC and Electrical Systems) <Renovation work>**
- **Tokyo Metropolitan Higashiyamato Medical Center for the Severely
Disabled
(Plumbing Systems) <Renovation work>**
- **Takashimaya EAST BUILDING Hotel Conversion
(HVAC and Plumbing Systems) <Renovation work>**
- **Toshiba Memory Corporation Iwate Building 510, Stage 1
(HVAC Systems) <New construction work>**

2 other projects

【Net Sales】**Main Major Completed Construction Projects**

- **Toyota Motor Corporation PI Tower
(HVAC and Electrical Systems) <New construction work>**
- **Nihonbashi 2-Chome Type-1 Urban Area Redevelopment
Project (Districts C & D)
(Plumbing Systems) <New construction work>**
- **Toshiba Memory Corporation Yokkaichi Plant Building 260,
Stage 3
(HVAC Systems) <New construction work>**
- **Fukuoka High and District Court/ Family Court/Summary Court
Office
(HVAC and Plumbing Systems) <New construction work>**

【Orders Received】 Major Projects over 1 Billion Yen (by Industry)

	September 2016		September 2017		September 2018				
Office	3	7 Projects (17,852 million yen)	1	8 Projects (19,052 million yen)	1	9 Projects (15,873 million yen)			
Hotel	—		—		1				
Factory	2		2		5				
Research institute	—		1		—				
Logistics Center	—		—		1				
Hospital	—		—		1				
Others	—		1		—				
Railway, Airport	—		* Orders received from Customers : 5 Projects		1		* Orders received from Customers : 6 Projects	—	* Orders received from Customers : 4 Projects
Power station, Substation	1		* Orders received from general contractors :2 Projects		—		* Orders received from general contractors :2 Projects	—	* Orders received from general contractors : 5 Projects
Waste processing facility	—				2			—	
Water and sewage treatment facility	1		—		—				

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

- Improvement of the external environment
- Thorough cost management (thorough internal control processes)
- Developing site support systems
 - Improved support for purchasing operations by the Procurement Division (established in 2015) (Webification of the purchasing operations)
 - Expanded support for on-site documentation creation at each branch office
 - Expanded support for design work by the Design and Engineering Support Center (established in 2016)
 - Established the Technical Support Center, specializing in support and guidance for site operation (established 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)

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(Millions of yen)

	End of FY 2017	September 2018	Diff.	Rate of change(%)	September 2017
Current assets	122,901	111,664	(11,236)	(9.1)	98,663
Noncurrent assets	54,112	58,446	4,333	8.0	55,599
Current liabilities	73,787	65,731	(8,055)	(10.9)	58,314
Noncurrent liabilities	17,035	17,414	378	2.2	11,478
Total net assets	86,191	86,965	773	0.9	84,469
Total assets	177,014	170,110	(6,903)	(3.9)	154,263
Book-value per share (yen)	1,419.77	1,431.40	11.63	0.8	1,367.78
Equity ratio (%)	48.6	51.0	2.4	—	54.6
Interest-bearing liabilities (consolidated)	13,504	12,790	(713)	(5.3)	5,483

* 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. 17

[CF]

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents decreased from the end of the previous fiscal year (an increase year on year)
 The increase in cash flows from operating activities is mainly due to the continued collection of receivables to a level surpassing the decrease in accounts payable
 The decrease in cash flows from investment activities is mainly due to the acquisition of tangible fixed assets
 The decrease in cash flows from financing activities is mainly due to the repayment of long-term loans and the payment of dividends

(Millions of yen)

	FY 2014	FY 2015	FY 2016	FY 2017	September 2017	September 2018
Cash flows from operating activities	(139)	5,220	10,845	6,306	1,556	1,434
Cash flows from investing activities	3,440	5,520	(1,644)	(2,510)	(2,599)	(2,051)
Cash flows from financing activities	(2,901)	(1,826)	(2,458)	1,814	(3,813)	(2,007)
Cash and cash equivalents at end of period	23,667	32,501	39,187	44,866	34,359	42,195

Capital investment (including intangible assets)	395	855	1,015	3,772	720	4,842
Depreciation and amortization	723	723	718	818	392	531

【Shareholder Returns】 Dividends and Others

- Interim dividends for FY2018 were regular dividends of 20 yen per share (interim dividends for FY2017 were 15 yen per share). The full-year forecast is for 40 yen, which is 5 yen more than the 35 yen in the previous fiscal year (regular dividend).
- Retirement of 1 million shares of treasury stock and acquisition of a further 1 million shares of treasury stock are scheduled to occur by the end of FY2018 as part of our shareholder returns policy.

	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 period	3,375	3,397	3,157	3,243
Stock price at end of period (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

<Reference>

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

September 2017	FY 2018 (Forecast)
13.15	97.37
20	40
—	—
—	—
20	40
	41.1
3,170	
1,220	
—	1,000
—	1,000

	6.7
	5.1

【Overall Forecast】

FY 2018 Full-Year Forecast

The FY2018 full-year forecast has been upwardly revised for all items, including orders received, due to exceeding values stated in the initial forecast.

(Millions of yen)

	FY 2018 Forecast (as of August 10)			FY 2018 Forecast (as of November 9)			Diff.		
	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	90,000	85,000	175,000	103,819	81,181	185,000	13,819	(3,819)	10,000
Balance carried forward	155,712	132,712	132,712	167,809	130,712	130,712	12,097	(2,000)	(2,000)
Net sales	79,000	108,000	187,000	80,723	118,277	199,000	1,723	10,277	12,000
Gross profit	10,000	16,800	26,800	10,771	17,829	28,600	771	1,029	1,800
Gross profit margin (%)	12.7	15.6	14.3	13.3	15.1	14.4	0.6Pt.	(0.5)Pt.	0.1Pt.
Operating income (loss)	500	7,000	7,500	1,126	7,074	8,200	626	74	700
Ordinary income (loss)	800	7,200	8,000	1,540	7,360	8,900	740	160	900
Profit attributable to owners of parent (loss)	400	5,100	5,500	796	5,104	5,900	396	4	400

【Forecast of Orders Received and Net Sales】

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

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(Millions of yen)

Segment		FY 2018 Orders Received Forecast (as of November 9)	FY 2018 Net sales Forecast (as of November 9)
	HVAC and Plumbing for Buildings	58,400	63,300
	Industrial HVAC	63,000	70,000
	Electrical Systems	21,000	20,000
	Facility Systems	9,800	9,900
Total of Facilities Construction Business		152,200	163,200
	Machinery Systems	12,000	12,000
	Environmental Systems	19,000	22,000
Total of Plant & Machinery Systems Business		31,000	34,000
Sub-total		183,200	197,200
Real Estate Business		1,800	1,800
Others		500	500
Adjustments*		(500)	(500)
Total		185,000	199,000

*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 November 9, 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 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.

For inquiries, please contact:

Corporate Communications
Department

TEL: +81-3-6367-7041