

# **The 3rd Quarter FY2016 Summary of Financial Results**

**Feb 8, 2017**

**Sanki Engineering Co., Ltd.**

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# Key Points of Financial Results

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## 〈Orders received〉

The overall orders received by Facilities Construction Business decreased year-on-year basis, especially by HVAC and Plumbing for Buildings segment and Electrical Systems segment, because of a decline in large-scale projects. While orders received by Machinery Systems decreased compared with the same period of the previous year, in which a large-scale project order was received, those by Environmental Systems greatly increased because of a large-scale project order received in this period. That led to the increase in orders received by the overall Plant & Machinery Systems Business. The overall orders received by the whole company marked lower than that period.

## 〈Net Sales , Profit〉

Net sales, especially in HVAC and Plumbing for Buildings, declined from the same period of the previous year. On the profit side, gross profit margin continued to be improved because of improved work efficiency in addition to rigorous cost management ; while operating income, ordinary income, and profit attributable to owners of parent declined due to the decreased sales.

# 【 Overall Results 】

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## The 3rd Quarter FY 2016 Results(Consolidated)

- Orders received decreased because of a decline in large-scale projects year-on-year basis, along with net sales.
- Although operating income, ordinary income, and profit attributable to owners of parent declined from the high level in the same period of the previous year, they all exceeded those in the same period of FY2014. Gross profit margin continued to be improved.

(Millions of yen)

	December 2014	December 2015	December 2016	Year on year	Rate of change(%)
Orders received	137,172	147,517	138,163	(9,354)	(6.3)
Balance carried forward	122,738	127,033	129,988	2,955	2.3
Net sales	122,653	122,503	114,563	(7,940)	(6.5)
Completed construction contracts	121,670	121,264	113,289	(7,975)	(6.6)
Real Estate and Others	982	1,238	1,274	35	2.9
Gross profit	9,678	14,146	13,710	(435)	(3.1)
Completed construction contracts	9,433	13,845	13,431	(413)	(3.0)
Real Estate and Others	245	301	279	(21)	(7.3)
Gross profit margin(%)	7.9	11.5	12.0	0.5 <sub>pt</sub>	—
Selling, general and administrative expenses	11,183	11,709	11,885	175	1.5
Operating income (loss)	(1,504)	2,436	1,825	(611)	(25.1)
Non-operating income	1,150	960	904	(56)	(5.9)
Non-operating expenses	359	318	274	(43)	(13.6)
Ordinary income (loss)	(713)	3,079	2,454	(624)	(20.3)
Profit attributable to owners of parent (loss)	(207)	2,045	1,578	(466)	(22.8)

# 【 Orders Received 】

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## Orders Received by Segment (Consolidated)

- The overall orders received by Facilities Construction Business decreased year-on-year basis, especially by HVAC and Plumbing for Buildings segment and Electrical Systems segment, because of a decline in large-scale projects.
- Orders received by Machinery Systems decreased compared with the same period of the previous year, in which a large-scale project order was received.
- Orders received by Environmental Systems substantially increased year-on-year basis because of a large-scale project order received in this period. As a result, those by the overall Plant & Machinery Systems Business turned to increase.

(Millions of yen)

Segment	December 2014	December 2015	December 2016	Year on year	Rate of change(%)
HVAC and Plumbing for Buildings	57,864	56,509	50,074	(6,435)	(11.4)
Industrial HVAC	34,485	38,977	35,684	(3,293)	(8.5)
Electrical Systems	19,218	18,239	14,570	(3,668)	(20.1)
Facility Systems	7,120	8,745	7,898	(846)	(9.7)
<b>Total of Facilities Construction Business</b>	<b>118,689</b>	<b>122,472</b>	<b>108,228</b>	<b>(14,244)</b>	<b>(11.6)</b>
Machinery Systems	4,492	8,684	5,689	(2,994)	(34.5)
Environmental Systems	13,271	15,670	23,900	8,229	52.5
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>17,763</b>	<b>24,355</b>	<b>29,590</b>	<b>5,235</b>	<b>21.5</b>
<b>Sub-total</b>	<b>136,453</b>	<b>146,827</b>	<b>137,818</b>	<b>(9,008)</b>	<b>(6.1)</b>
Real Estate Business	912	1,148	1,189	41	3.6
Others	353	411	371	(40)	(9.9)
Adjustments *	(546)	(870)	(1,216)	(345)	—
<b>Total</b>	<b>137,172</b>	<b>147,517</b>	<b>138,163</b>	<b>(9,354)</b>	<b>(6.3)</b>

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

# 【Net Sales】

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## Net Sales by Segment (Consolidated)

- Net sales, especially in HVAC and Plumbing for Buildings, decreased substantially, and as a result, the balance carried forward of this segment amounts to approximately 65,400 million yen.
- Net sales in Industrial HVAC continued to keep the high performance in the same period of the previous year.

(Millions of yen)

Segment	December 2014	December 2015	December 2016	Year on year	Rate of change(%)
HVAC and Plumbing for Buildings	50,235	45,088	39,264	(5,824)	(12.9)
Industrial HVAC	33,154	35,880	35,706	(174)	(0.5)
Electrical Systems	14,449	15,573	14,271	(1,302)	(8.4)
Facility Systems	6,376	7,124	7,296	171	2.4
<b>Total of Facilities Construction Business</b>	<b>104,215</b>	<b>103,667</b>	<b>96,537</b>	<b>(7,129)</b>	<b>(6.9)</b>
Machinery Systems	7,437	5,811	5,908	97	1.7
Environmental Systems	10,256	12,038	11,515	(523)	(4.3)
<b>Total of Plant &amp; Machinery Systems Business</b>	<b>17,694</b>	<b>17,850</b>	<b>17,424</b>	<b>(426)</b>	<b>(2.4)</b>
<b>Sub-total</b>	<b>121,909</b>	<b>121,517</b>	<b>113,961</b>	<b>(7,555)</b>	<b>(6.2)</b>
Real Estate Business	912	1,148	1,189	41	3.6
Others	364	401	363	(37)	(9.4)
Adjustments *	(533)	(564)	(952)	(387)	—
<b>Total</b>	<b>122,653</b>	<b>122,503</b>	<b>114,563</b>	<b>(7,940)</b>	<b>(6.5)</b>

\* 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		December 2014	December 2015	December 2016	Year on year	Rate of change(%)
Segment Profit (Loss)	Facilities Construction	(987)	2,869	1,425	(1,443)	(50.3)
	Machinery Systems	20	(77)	45	122	—
	Environmental Systems	(797)	(867)	(204)	663	—
	Sub-total	(1,763)	1,924	1,266	(657)	(34.2)
	Real Estate Business	176	164	147	(16)	(10.2)
	Others	35	52	25	(26)	(51.3)
	Adjustments *	838	938	1,014	76	8.1
	Total	(713)	3,079	2,454	(624)	(20.3)

\* 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 Result】

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## Quarterly Results (Consolidated)

(Millions of yen)

	FY2014				FY2015				FY2016		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Orders received	42,489	38,758	55,923	36,226	46,385	52,820	48,311	35,753	55,338	35,573	47,250
Net sales	32,825	42,682	47,145	56,945	34,495	40,985	47,022	56,397	33,866	36,474	44,222
Gross profit	1,700	3,224	4,753	8,287	3,291	4,812	6,043	8,783	3,905	4,238	5,566
Gross profit margin(%)	5.2	7.6	10.1	14.6	9.5	11.7	12.9	15.6	11.5	11.6	12.6
Selling, general and administrative expenses	3,786	3,845	3,552	3,831	3,921	4,005	3,783	4,709	4,171	3,915	3,798
Operating income (loss)	(2,085)	(620)	1,201	4,456	(630)	807	2,259	4,073	(265)	323	1,767
Operating profit margin(%)	(6.4)	(1.5)	2.5	7.8	(1.8)	2.0	4.8	7.2	(0.8)	0.9	4.0
Ordinary income (loss)	(1,846)	(478)	1,612	4,522	(254)	778	2,554	5,055	27	341	2,085
Extraordinary income (loss)	—	(18)	(116)	(312)	(55)	30	96	(371)	—	(32)	(43)
Profit attributable to owners of parent (loss)	(1,215)	(111)	1,119	2,669	(266)	521	1,790	3,282	(2)	232	1,349

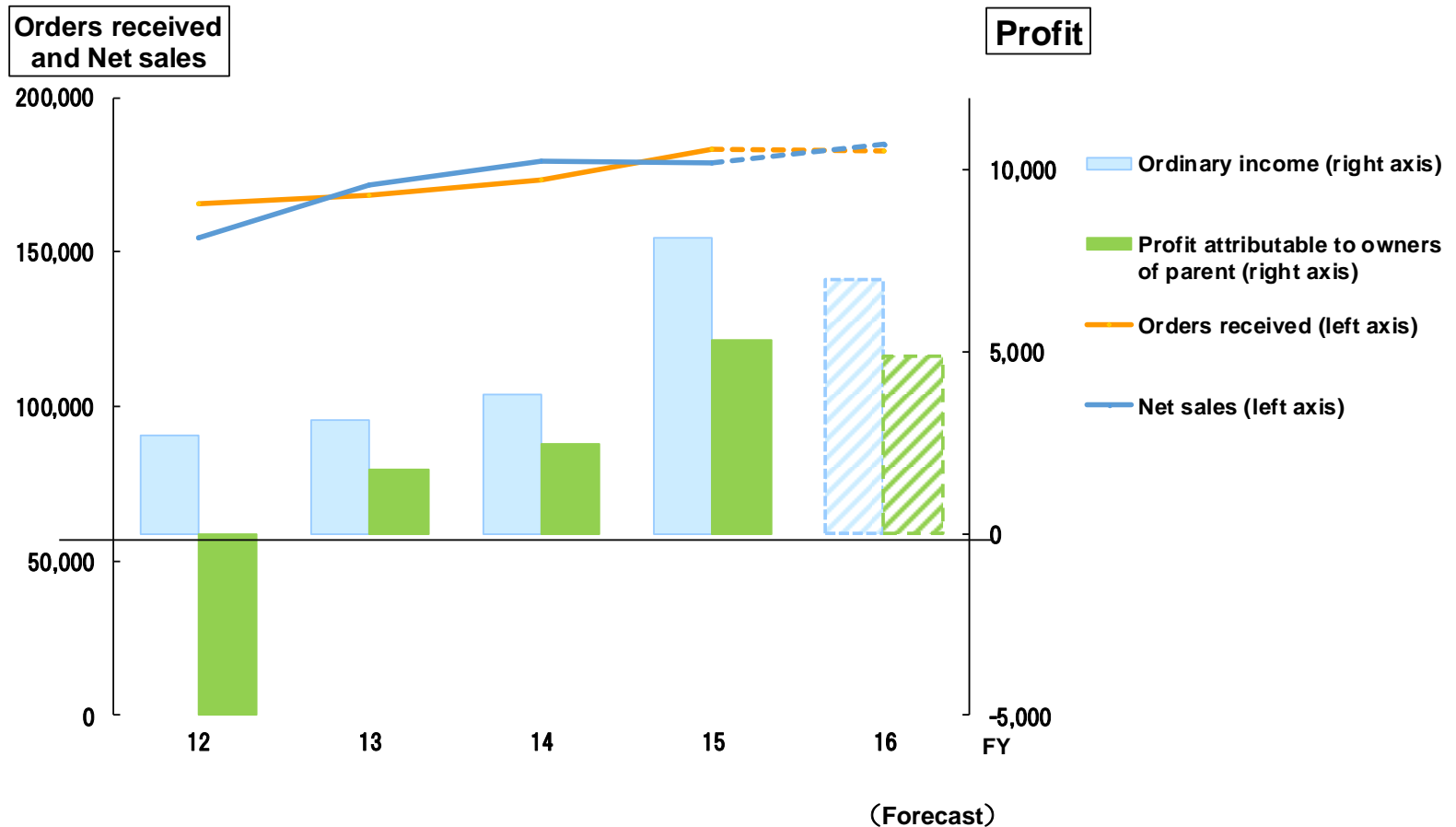


# 【Operating Results】

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## Operating Results over the Last 5 Years (Consolidated)

(Millions of yen)

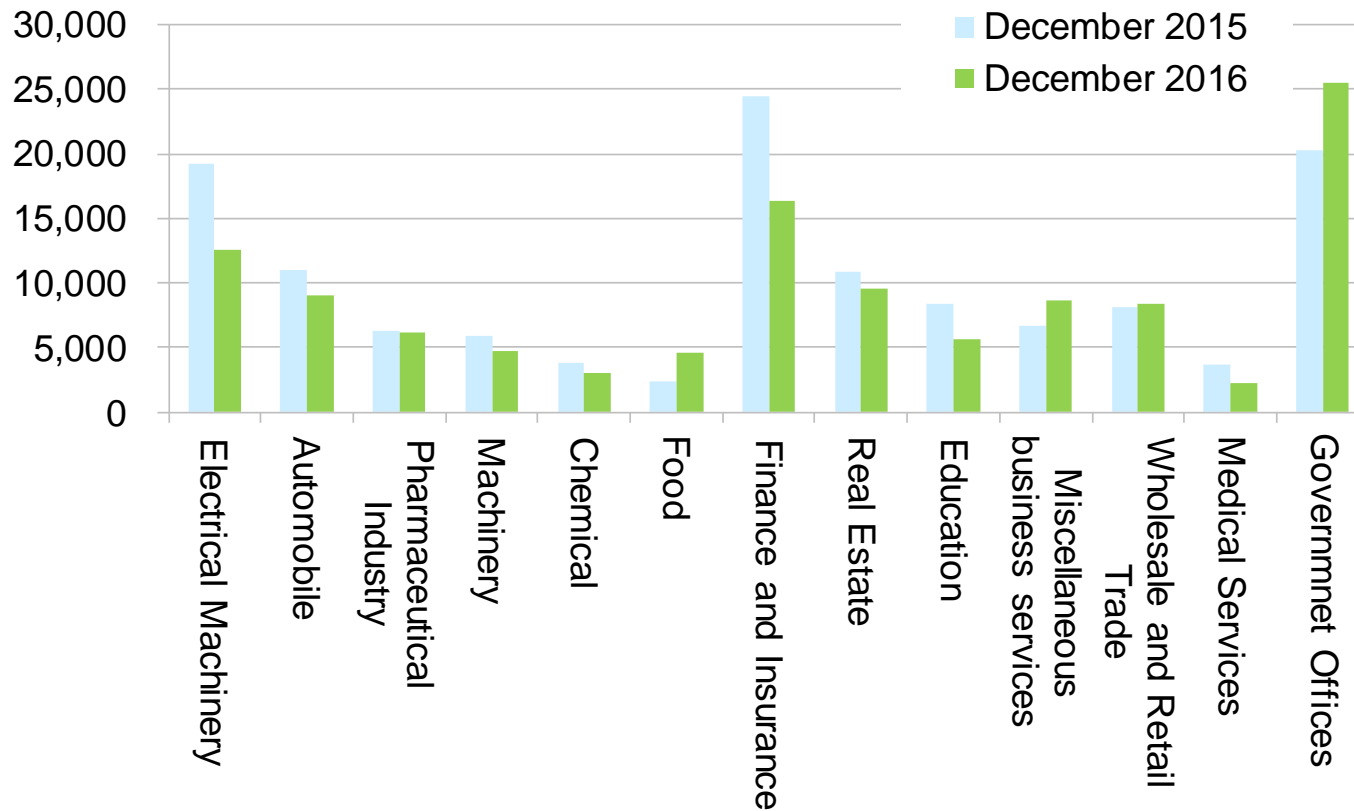


# 【Orders Received】

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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 2013	FY 2014	FY 2015	December 2015	December 2016	Diff.
Orders received (Non-consolidated : Facilities Construction Business)	137,027	143,708	145,069	117,229	103,753	(13,476)
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	73,608	68,963	72,751	59,494	41,432	(18,062)
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	53.7	48.0	50.1	50.8	39.9	(10.9) pt.
Orders received(Consolidated)	168,295	173,398	183,270	147,517	138,163	(9,354)
Orders received from overseas projects (Consolidated) *	3,055	2,931	2,343	1,744	1,018	(725)
Rate of orders received from overseas projects (Consolidated) (%)	1.8	1.7	1.3	1.2	0.7	(0.5) pt.
Orders received for renewal construction (Consolidated)	88,473	93,339	99,920	75,847	77,258	1,411
Rate of orders received for renewal construction (Consolidated) (%)	52.6	53.8	54.5	51.4	55.9	4.5 pt.
<Ref.>Net sales for renewal construction (Consolidated)	98,024	96,468	96,325	62,858	63,444	586

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

# 【Orders Received】

## Major Projects

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- **Bank of Yokohama , Head Office**  
( Air Conditioning (HVAC) works )  
< Renovation work >
- **NKC Nagai Green Power , Power Generation Facility**  
( Air Conditioning (HVAC) works )  
< New construction work >
- **Takeda Pharmaceutical Company Limited , HIKARI Factory**  
( Air Conditioning (HVAC) works )  
< New construction work >
- **The North Purification Center of the YAMATO City**  
( Sewage treatment facilities )  
< Maintenance management >
- **Renovation work in Sendai Clean Center**  
( General waste treatment facilities )  
< Renovation work , Operation management >

**Other 5 projects**

- 
- The property name is the name which is being used in us and is sometimes different from the name on the construction contract.

# 【Orders Received】

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## Major Projects over 1 Billion yen(By Industry)

	December 2014		December 2015		December 2016	
Office	1	<b>9 Projects</b> (16,733 million yen) * Orders received from customers : 2 Project * Orders received from general contractors : 7 Projects	3	<b>16 Projects</b> (28,026 million yen) * Orders received from customers : 5 Projects * Orders received from general contractors : 11 Projects	3	<b>10 Projects</b> (31,760 million yen) * Orders received from customers : 7 Projects * Orders received from general contractors : 3 Projects
Complex building	—		1		—	
Commercial facility	1		1		—	
Factory	—		3		2	
School	—		1		—	
Hospital	2		2		1	
Research institute	2		1		1	
Government office building	1		—		—	
Waste processing facility	1		3		1	
Power station, Substation	—		—		1	
Water and sewage treatment facility	1		—		1	
Others	—		1		—	

# 【 Profit 】

## Profit Improvement Factors and Measures

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- Improvement of the external environment.
- Thorough cost management.
- Development of the site support system.
  - Purchasing operations support by the Procurement Division.
  - Documentation support by the Site-Documentation Support Center.
  - Design work support by Design & Engineering Support Center.
  - Quality management activities by technical experts.
- Strengthening of relations with business partners.
  - Enforcement of the liaison Meeting for Subcontractor Groups.
  - Establishment of the Sanki Super Meister System.
  - Enforcement of the Sanki Best Partners Choice System

# 【Financial Condition】

## Balance Sheet (Consolidated)

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(Millions of yen)

	December 2015	End of FY 2015	December 2016	Diff.	Rate of change(%)
Current assets	103,887	115,491	103,755	(11,736)	(10.2)
Noncurrent assets	59,026	53,931	54,598	667	1.2
Current liabilities	61,970	72,863	61,513	(11,349)	(15.6)
Noncurrent liabilities	15,241	12,001	12,495	493	4.1
Total net assets	85,701	84,557	84,344	Δ213	(0.3)
Total assets	162,913	169,423	158,354	(11,069)	(6.5)
Book-value per share (yen)	1,346.73	1,328.60	1,324.94	Δ3.66	(0.3)
Equity ratio (%)	52.5	49.8	53.2	3.4 pt.	—
Interest-bearing liabilities (consolidated)	5,308	5,992	4,888	(1,103)	(18.4)

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# Statements of Cash Flows (Consolidated)

- It decreases in the balance of cash and cash equivalents less than at the end of the previous fiscal year (increases year-on-year basis).

Cash flows from operating activities was increased by the collection of receivables.

Cash flows from investing activities was decreased by purchases of investment securities.

Cash flows from financing activities was decreased by payment of dividends.

(Millions of yen)

	FY 2012	FY 2013	FY 2014	FY 2015	December 2015	December 2016
Cash flows from operating activities	9,729	(9,403)	(139)	5,220	(1,383)	3,837
Cash flows from investing activities	(9,481)	(3,506)	3,440	5,520	6,620	(1,452)
Cash flows from financing activities	(1,028)	(4,152)	(2,901)	(1,826)	(2,474)	(3,183)
Cash and cash equivalents at end of period	40,367	23,510	23,667	32,501	26,370	31,595



# 【Overall Forecast】 FY2016 Forecast (Consolidated)

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- The overall FY2016 forecast as of February 8, is not changed from the initial forecast as of May 13.

(Millions of yen)

	FY 2016 Forecast (as of February 8)
	Total
Orders received	183,000
Net sales	185,000
Operating income	6,500
Ordinary income	7,000
Profit attributable to owners of parent	4,900

<Reference> Medium-Term Management Plan “Century2025” Phase1 Financial Performance Targets		
FY2016	FY2017	FY2018
—	—	—
185,000	190,000	195,000
6,500	7,000	7,500
7,000	7,500	8,000
—	—	—

## 【Forecast of Orders Received and Net Sales】

### FY2016 Forecast of Orders Received and Net Sales by Segment (Consolidated)

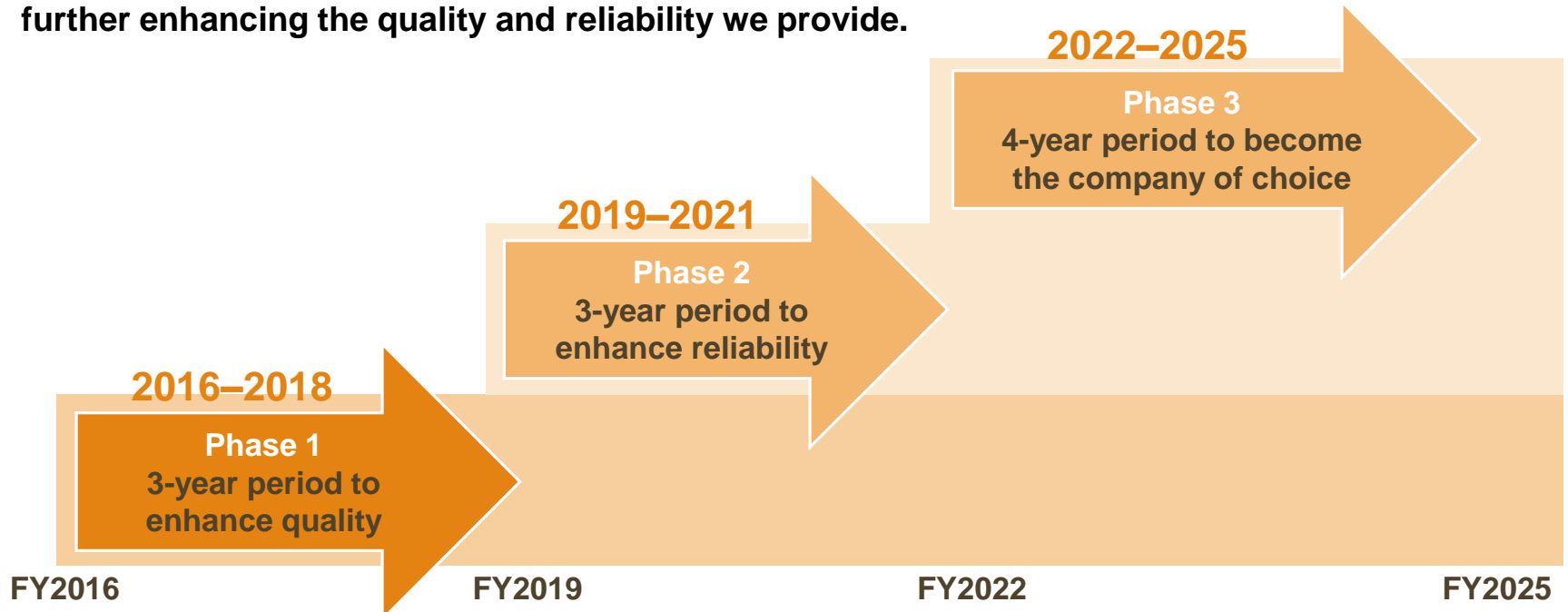
(Millions of yen)

Segment		FY 2016 Orders Received Forecast (as of February 8)	FY 2016 Net sales Forecast (as of February 8)
	HVAC and Plumbing for Buildings	64,900	70,900
	Industrial HVAC	52,000	52,000
	Electrical Systems	19,000	22,000
	Facility Systems	10,000	10,000
Total of Facilities Construction Business		145,900	154,900
	Machinery Systems	9,500	9,500
	Environmental Systems	26,000	19,000
Total of Plant & Machinery Systems Business		35,500	28,500
Sub-total		181,400	183,400
Real Estate Business		1,600	1,600
Others		500	500
Adjustments*		(500)	(500)
Total		183,000	185,000

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

# Long-Term Vision “Century 2025”

We will strive over the next 10 years to become the company of choice for customers by further enhancing the quality and reliability we provide.



- Phase 1 → We will enhance quality by refining our skills and wisdom and developing our human resources as a foundation for responding to change.
  - Phase 2 → Superior quality generates customer satisfaction, and customer satisfaction and confidence leads to reliability.
  - Phase 3 → Increased reliability will encourage more customers to choose our company.

## Medium-Term Management Plan “Century 2025” Phase1

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### Key Initiatives and Strategies

#### 1. Passing on Technical Skills

We will renovate the Sanki Yamato Building (Yamato City, Kanagawa Prefecture) and reopen it as the Sanki Techno Center (tentative name). This will be a comprehensive training facility that imparts and develops the technical skills at the backbone of the Sanki Engineering Group.

#### 2. Anticipating the Age of Maintaining Building Stock

We will give a boost to the LCE business, as described in our SANKI VITAL PLAN 90<sup>th</sup>. This will bolster our business foundation, allowing us to maintain sound corporate management, even if the construction market experiences a slowdown.

#### 3. Developing Next-Generation Technologies

We will establish a new R&D base inside the Sanki Techno Center. Here we will develop technologies for the next generation while keeping up with advances in new technologies such as robotics, IoT, and artificial intelligence.

Redevelopment of land and buildings we hold as our real estate in the Sanki Yamato Site (Sanki Yamato Building and Yamato Engineering Center, both in the Yamato City, Kanagawa Prefecture)

1. Building “Sanki Techno Center”
2. Reorganizing manufacturing plants in the machinery systems business
3. Making effective use of existing assets

# The Outline of Sanki Techno Center

## <How we want it to be>

Medium-Term Management Plan  
 “Century 2025” Phase1  
 Enhancing “Quality” of our Technical Skills  
 and Human Resources

## <Challenges>

Human  
resources

- ✓ Improve and pass along techniques and skills
- ✓ Training (including partner firms)

Facilities

- ✓ Expand training facilities
- ✓ Need for education and training using actual equipments
- ✓ Consolidation of educational and training sites and opportunities

## <Educational and training facility>

- Extensive training rooms
- Simulation with actual equipments using large underground space
- Integrated training for techniques, skills, and safety
- Utilization of teachers with advanced careers
- Sufficient lodging facilities

## <R&D facility>

- Development site for next-generation technologies
- Expanded showroom

## <Others>

- Regional contributions

Realize improvement of various aspects of our “quality” such as technical quality and profit margin

## Medium-Term Management Plan “Century 2025” Phase1

### ESG Policy

Organically Integrate Existing Activities and Seek Strategic Deployment

	Outline
<b>Environment</b>	<p>As evidenced by the Paris Agreement, which created an international framework against global warming, and the Act on Promotion of Global Warming Countermeasures as well as other legislation passed in Japan in response, protecting the global environmental is becoming even more important. Recognizing that the business of the Sanki Engineering Group could have a direct impact on protecting the global environment:</p> <ol style="list-style-type: none"> <li>1. In our core Facilities Construction Business, we will contribute to reducing greenhouse gas emissions in the industrial and operational sectors of society by developing and providing various facilities and systems for air conditioning, plumbing, electricity, and network systems, as well as related services;</li> <li>2. In our Plant and Facilities Division, we will develop equipment that offers greater energy savings; and</li> <li>3. We will be mindful of reducing the impact on the global environment in all aspects of our business operations and pursue activities based on ISO 14000.</li> </ol>
<b>Social</b>	<ol style="list-style-type: none"> <li>1. We will continue our SANKI YOU Eco Contribution Point social contribution activity, in which we extend donations to environmental conservation organizations according to the level of reduction in greenhouse gas emissions.</li> <li>2. We intend to create work environments that are even more worker friendly by implementing measures against long working hours and expanding opportunities for women and the elderly.</li> </ol>
<b>Governance</b>	<ol style="list-style-type: none"> <li>1. In fiscal 2016, we will launch a full-scale initiative under the Sanki Engineering Corporate Governance Guidelines established in December 2015.</li> <li>2. Under the leadership of the Board of Directors, we will operate and improve our internal control system and risk management systems to emphasize effectiveness.</li> <li>3. We will abide by our rules of conduct, including the Sanki Engineering Group Compliance Declaration, Sanki Engineering Group Code of Conduct and Action Guidelines, and Sanki Engineering Group Behavioral Standards and Guidelines, and strive to maintain and develop our corporate culture of ethical conduct.</li> </ol>

## 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 February 8,2017.

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.

For inquiries please contact:

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