

FY2016 Summary of Financial Results

May 12, 2017

Sanki Engineering Co., Ltd.

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Key Points of Financial Results

<Orders received>

Orders received exceeded the previous fiscal year, which was already favorable, due to large-scale projects (particularly in HVAC and Plumbing for Buildings) in Facilities Construction Business, as well as large-scale projects in Environmental Systems during the fiscal year currently under review.

<Net Sales & Profit>

Although net sales fell short of the previous fiscal year, balance carried forward increased greatly, allowing us to secure a certain level of stock projects. In particular, our gross profit margin continued to improve as a result of further pursuing initiatives aimed at rigorous cost management and improving work efficiency. This allowed us to secure profits on par with last year, in spite of the reduction in income.

<Dividends>

Including the extra dividend of 10 yen, which has been paid for the last **2** years, we paid a total annual dividend of **30** yen, which is the same as the previous fiscal year (the regular dividend increased from **18** yen to **20** yen).

【Overall Results】

FY2016 Full-Year Results (Consolidated)

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- Orders received exceeded the last fiscal year, increasing greatly due to large-scale projects in Facilities Construction and Environmental Systems, etc.
 - Net sales fell short of the previous fiscal year, particularly due to the fall in the amount of large-scale projects completed, and as a result, the balance carried forward increased greatly.
 - Although all profit items fell slightly short of FY2015, in which they were at a high level, they were still significantly greater than FY2014, so we continued to maintain a high level.
- In particular, gross profit margin further improved, hitting the highest level in the last 10 years at 13.4%.

(Millions of yen)

	FY 2014	FY 2015	FY 2016	Year on year	Rate of change (%)
Orders received	173,398	183,270	185,880	2,609	1.4
Balance carried forward	102,019	106,388	123,756	17,367	16.3
Net sales	179,598	178,901	168,512	(10,389)	(5.8)
Completed construction contracts	178,220	177,262	166,817	(10,445)	(5.9)
Real Estate and Others	1,378	1,638	1,694	55	3.4
Gross profit	17,966	22,929	22,538	(391)	(1.7)
Completed construction contracts	17,648	22,556	22,184	(371)	(1.6)
Real Estate and Others	318	373	353	(19)	(5.3)
Gross profit margin (%)	10.0	12.8	13.4	0.6 _{pt.}	—
Selling, general and administrative expenses	15,015	16,419	16,526	106	0.6
Operating income (loss)	2,951	6,509	6,012	(497)	(7.6)
Non-operating income	1,607	2,365	1,243	(1,122)	(47.4)
Non-operating expenses	749	740	375	(365)	(49.3)
Ordinary income (loss)	3,809	8,135	6,880	(1,254)	(15.4)
Profit attributable to owners of parent (loss)	2,461	5,327	4,698	(629)	(11.8)

【Orders Received】

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Orders Received by Segment (Consolidated)

- In the Facilities Construction Business, orders received by HVAC and Plumbing for Buildings remained steady, following on from the last fiscal year, due to orders received for large-scale projects. Other segments remained roughly on par with FY2014 despite being down year on year due to occurring on the downward end of the cycle.
- Orders received by Plants & Machinery Systems Business were up to a large extent, with a significant increase in Environmental Systems, which received orders for large-scale projects during the fiscal year under review. This happened in spite of the decline in Machinery Systems, which received orders for large-scale projects in the previous fiscal year.

(Millions of yen)

Segment	FY 2014	FY 2015	FY 2016	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	70,778	66,172	65,763	(409)	(0.6)
Industrial HVAC	46,765	52,522	49,823	(2,699)	(5.1)
Electrical Systems	23,215	22,667	21,576	(1,090)	(4.8)
Facility Systems	9,272	11,070	9,450	(1,620)	(14.6)
Total of Facilities Construction Business	150,032	152,432	146,612	(5,820)	(3.8)
Machinery Systems	5,716	10,309	8,130	(2,178)	(21.1)
Environmental Systems	16,767	19,610	30,626	11,015	56.2
Total of Plant & Machinery Systems Business	22,483	29,919	38,756	8,837	29.5
Sub-total	172,516	182,352	185,369	3,017	1.7
Real Estate Business	1,285	1,532	1,592	59	3.9
Others	481	524	491	(33)	(6.3)
Adjustments *	(884)	(1,139)	(1,573)	(433)	—
Total	173,398	183,270	185,880	2,609	1.4

* Adjustments eliminate inter segment transactions included in each segment.

【Net Sales】

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Net Sales by Segment (Consolidated)

- Although net sales fell short of the previous fiscal year, particularly in Facilities Construction (HVAC and Plumbing for Buildings), where large-scale projects were notably down, overall balance carried forward amounted to 123,756 million yen (of which HVAC and Plumbing for Buildings accounts for 60,013 million yen).
- Net sales by Industrial HVAC, Electrical Systems, and Facility Systems all fell short of the previous fiscal year; however, they were equivalent to those in FY2014.

(Millions of yen)

Segment	FY 2014	FY 2015	FY 2016	Year on year	Rate of change (%)
HVAC and Plumbing for Buildings	72,371	64,492	60,376	(4,116)	(6.4)
Industrial HVAC	47,015	52,084	49,440	(2,644)	(5.1)
Electrical Systems	21,884	22,958	21,542	(1,416)	(6.2)
Facility Systems	9,897	10,416	10,208	(208)	(2.0)
Total of Facilities Construction Business	151,169	149,952	141,567	(8,384)	(5.6)
Machinery Systems	9,953	9,217	8,192	(1,024)	(11.1)
Environmental Systems	17,485	18,734	18,271	(463)	(2.5)
Total of Plant & Machinery Systems Business	27,439	27,951	26,464	(1,487)	(5.3)
Sub-total	178,608	177,904	168,032	(9,872)	(5.5)
Real Estate Business	1,285	1,532	1,592	59	3.9
Others	508	542	499	(43)	(7.9)
Adjustments *	(803)	(1,077)	(1,611)	(533)	—
Total	179,598	178,901	168,512	(10,389)	(5.8)

* 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		FY 2014	FY 2015	FY 2016	Year on year	Rate of change (%)
Segment Profit (Loss)	Facilities Construction	2,943	7,698	6,404	(1,293)	(16.8)
	Machinery Systems	105	275	(138)	(413)	—
	Environmental Systems	24	(315)	671	987	—
	Sub-total	3,073	7,658	6,938	(719)	(9.4)
	Real Estate Business	207	233	189	(43)	(18.8)
	Others	48	52	22	(30)	(57.2)
	Adjustments *	479	191	(270)	(461)	—
	Total	3,809	8,135	6,880	(1,254)	(15.4)

* 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)

	FY 2014				FY 2015				FY 2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Orders received	42,489	38,758	55,923	36,226	46,385	52,820	48,311	35,753	55,338	35,573	47,250	47,716
Net sales	32,825	42,682	47,145	56,945	34,495	40,985	47,022	56,397	33,866	36,474	44,222	53,949
Gross profit	1,700	3,224	4,753	8,287	3,291	4,812	6,043	8,783	3,905	4,238	5,566	8,827
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	16.4
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	4,640
Operating income (loss)	(2,085)	(620)	1,201	4,456	(630)	807	2,259	4,073	(265)	323	1,767	4,187
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	7.8
Ordinary income (loss)	(1,846)	(478)	1,612	4,522	(254)	778	2,554	5,055	27	341	2,085	4,425
Extraordinary income (loss)	—	(18)	(116)	(312)	(55)	30	96	(371)	—	(32)	(43)	200
Profit attributable to owners of parent (loss)	(1,215)	(111)	1,119	2,669	(266)	521	1,790	3,282	(2)	232	1,349	3,119

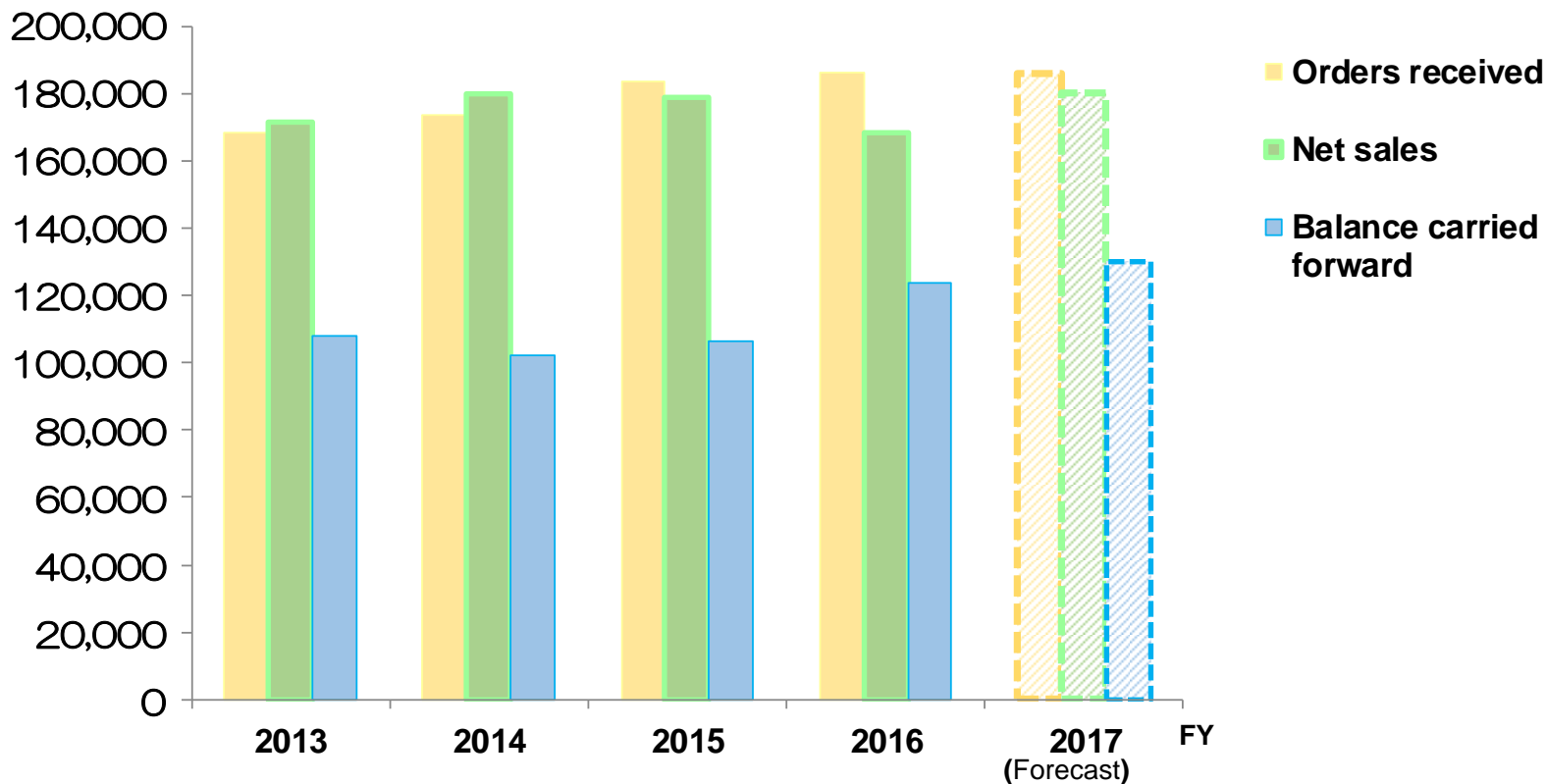
【Operating Results】

Operating Results over the Last 5 Years (Consolidated)

<Orders Received / Net Sales>



(Millions of yen)

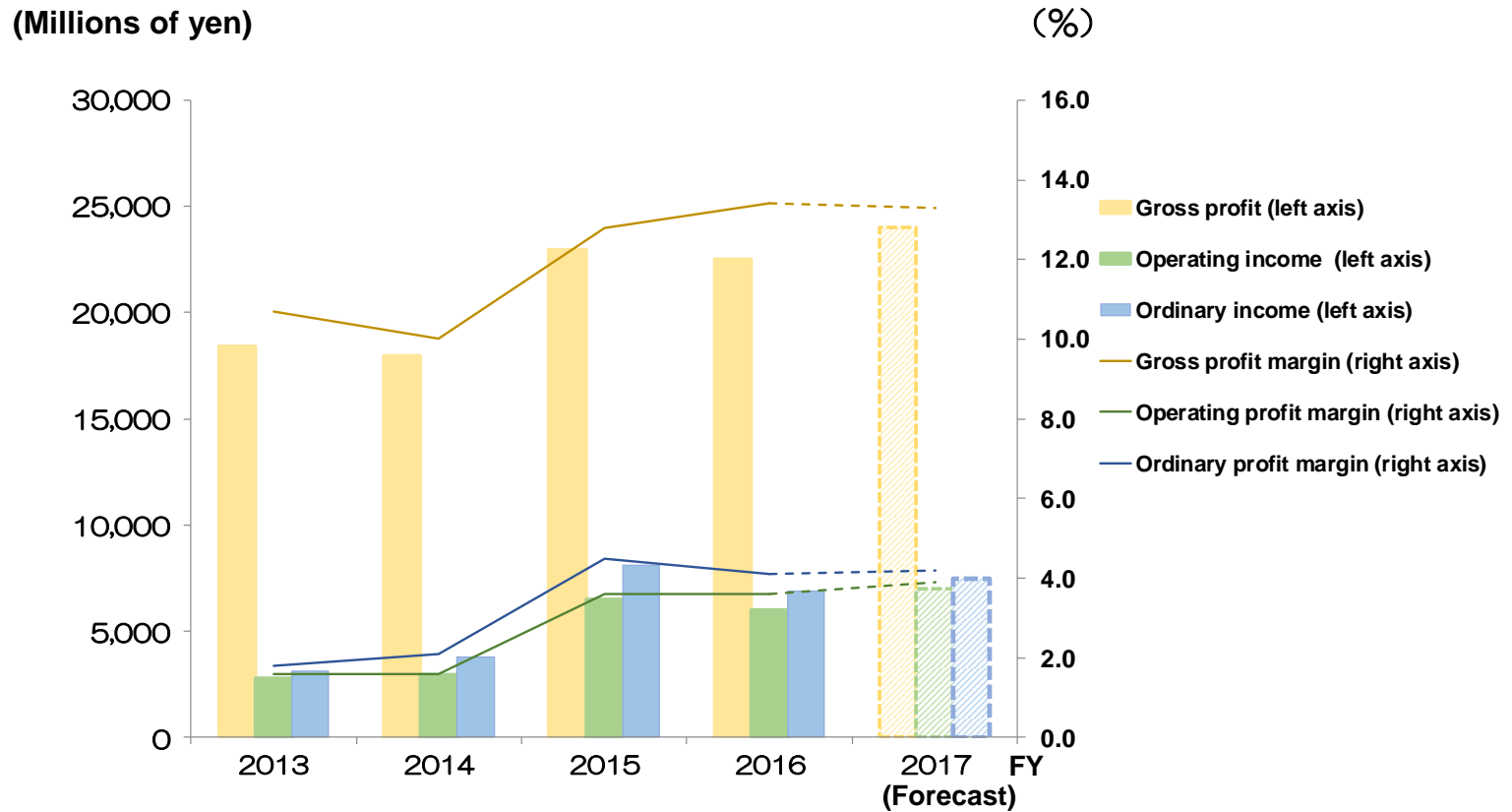


【Operating Results】

Operating Results over the Last 5 Years (Consolidated)



<Profit>

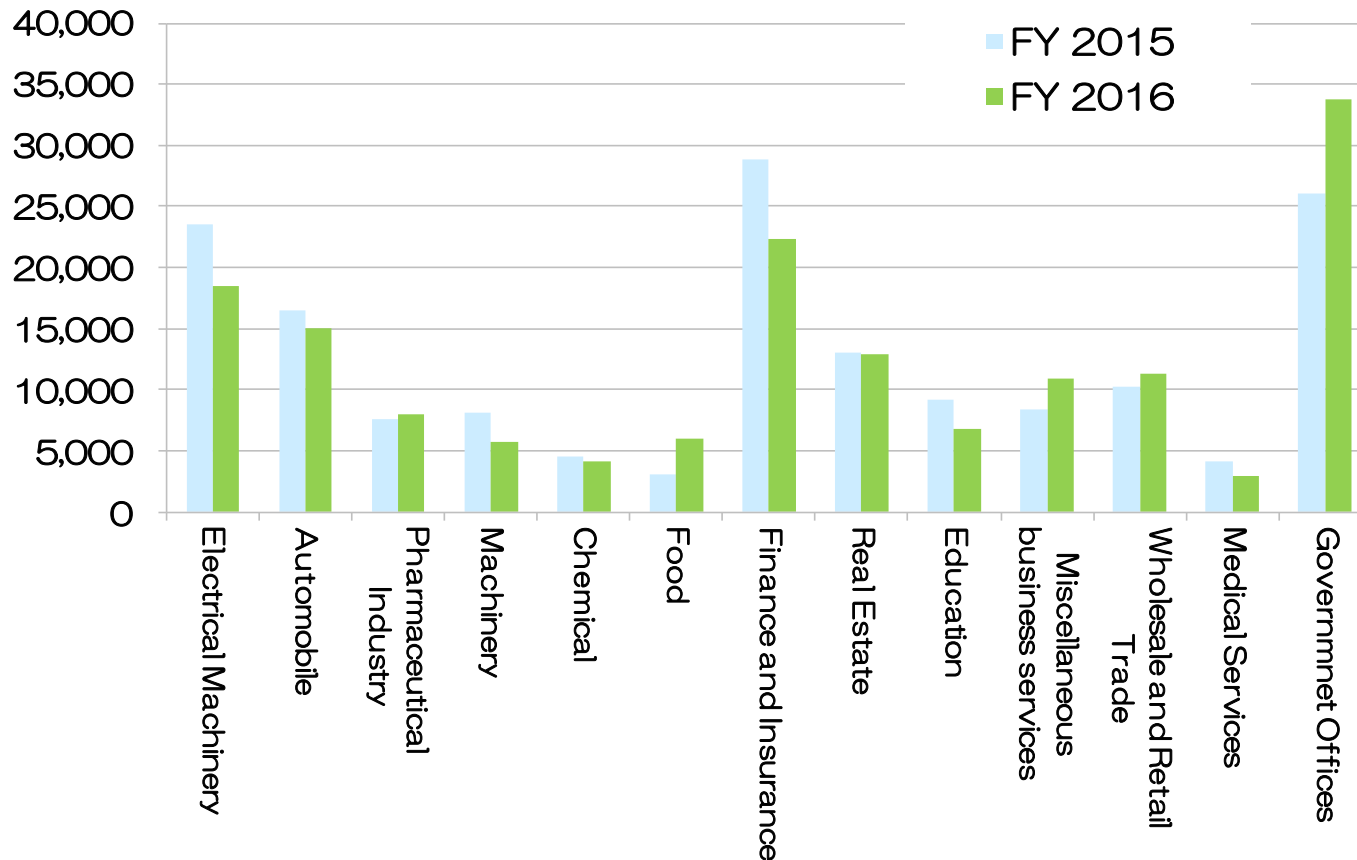


【Orders Received】

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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 A	FY 2016 B	Diff. B-A
Orders received (Non-consolidated : Facilities Construction Business)	137,027	143,708	145,069	139,997	(5,071)
Orders received from general contractors (Non-consolidated : Facilities Construction Business)	73,608	68,963	72,751	61,493	(11,257)
Rate of orders received from general contractors (Non-consolidated : Facilities Construction Business) (%)	53.7	48.0	50.1	43.9	(6.2) pt.
Orders received (Consolidated)	168,295	173,398	183,270	185,880	2,609
Orders received from overseas projects (Consolidated) *	3,055	2,931	2,343	1,612	(730)
Rate of orders received from overseas projects (Consolidated) (%)	1.8	1.7	1.3	0.9	(0.4) pt.
Orders received for renewal construction (Consolidated)	88,473	93,339	99,920	101,114	1,194
Rate of orders received for renewal construction (Consolidated) (%)	52.6	53.8	54.5	54.4	(0.1) pt.
<Ref.> Net sales for renewal construction (Consolidated)	98,024	96,468	96,325	93,602	(2,723)

*Orders received by SANKI CONSTRUCTION ENGINEERING(SHANGHAI)CO.,LTD. (1,100 millions of yen in FY 2016), unconsolidated subsidiary, are not included in orders received from overseas projects.

【Orders Received】

Major Projects

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- **Building Construction (high rise tower) for Toranomon 1-chome Type 1 City Redevelopment Project**
(Air Conditioning (HVAC) works) <New construction work>
- **Bank of Yokohama, Head Office**
(Air Conditioning (HVAC) works) <Renovation work>
- **NKC Nagai Green Power Generation Facility**
(Air Conditioning (HVAC) works) <New construction work>
- **Daimaru Shinsaibashi Store Rebuilding Plan**
(Air Conditioning (HVAC) works) <New construction work>
- **Takeda Pharmaceutical Company Limited, HIKARI Plant**
(Air Conditioning (HVAC) works) <New construction work>
- **Toyota Motor Corporation PI Tower Project**
(Air Conditioning (HVAC) works) <New construction work>
- **Minami-Gamo Purification Center No. 4 Sludge Incineration Facility Construction in Sendai City**
(Sewage treatment facilities) <Expansion>
- **Renovation Work of Sendai Clean Center in Satsuma-Sendai City**
(General waste treatment facilities) <Renovation work to basic facilities, operation management>
- **The North Purification Center in Yamato City**
(Sewage treatment facilities) <Maintenance management>

6 other projects

【Orders Received】

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Major Projects over 1 Billion Yen (by Industry)

	FY 2014		FY 2015		FY 2016	
Office	2	12 Projects (20,619 million yen) * Orders received from customers : 4 Projects * Orders received from general contractors : 8 Projects	3	19 Projects (31,476 million yen) * Orders received from customers : 6 Projects * Orders received from general contractors : 13 Projects	4	15 Projects (40,057 million yen) * Orders received from customers : 9 Projects * Orders received from general contractors : 6 Projects
Complex building	—		1		—	
Commercial facility	1		1		1	
Factory	1		5		4	
School	—		1		—	
Hospital	2		2		1	
Research institute	2		1		1	
Government office building	2		—		—	
Waste processing facility	—		3		1	
Power station, Substation	—		—		1	
Water and sewage treatment facility	1		1		2	
Others	1		1		—	

Profit Improvement Factors and Measures

- Improvement of the external environment
- Thorough cost management
- Developing site support systems
 - Purchasing operations support by the Procurement Division
 - Documentation support by the Site-Documentation Support Center
 - Design work support by the Design and Engineering Support Center (established in April 2016)
 - 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 Choice System

【Financial Conditions】

Balance Sheet (Consolidated)

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(Millions of yen)

	End of FY 2015	End of FY 2016	Year on year	Rate of change (%)
Current assets	115,491	114,906	(585)	(0.5)
Noncurrent assets	53,931	51,705	(2,225)	(4.1)
Current liabilities	72,863	68,776	(4,087)	(5.6)
Noncurrent liabilities	12,001	11,875	(126)	(1.1)
Total net assets	84,557	85,961	1,403	1.7
Total assets	169,423	166,612	(2,810)	(1.7)
Book-value per share (yen)	1,328.60	1,350.08	21.48	1.6
Equity ratio (%)	49.8	51.5	1.7 pt.	—
Interest-bearing liabilities (consolidated)	5,992	5,654	(337)	(5.6)

[CF]**SANKI**

Statement of Cash Flows (Consolidated)

- The balance of cash and cash equivalents increased year on year.
The increase in cash flows from operating activities is mainly due to the continued recovery of receivables and the inclusion of income before taxes and other adjustments.
The decrease in cash flows from investment activities is mainly due to the acquisition of investment securities.
The decrease in cash flows from financing activities is mainly due to the payment of dividends.

(Millions of yen)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Cash flows from operating activities	9,729	(9,403)	(139)	5,220	10,845
Cash flows from investing activities	(9,481)	(3,506)	3,440	5,520	(1,644)
Cash flows from financing activities	(1,028)	(4,152)	(2,901)	(1,826)	(2,458)
Cash and cash equivalents at end of FY	40,367	23,510	23,667	32,501	39,187

Capital investment (including intangible assets)	645	545	395	855	1,015
Depreciation and amortization	1,207	740	723	723	718

【Shareholder Returns】

Dividends and Others

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- Including the extra dividend of 10 yen, we paid a total annual dividend of 30 yen, which is the same as the previous fiscal year (the regular dividend increased from 18 yen to 20 yen).

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Earnings per share (yen)	(71.04)	26.46	38.30	83.84	73.91
Cash dividends per share: regular dividends (yen)	15	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	15	20	30	30
Payout ratio (consolidated) (%)	—	56.7	52.2	35.8	40.6
Number of shareholders at end of FY	4,169	3,598	3,375	3,397	3,157
Stock price at end of FY (yen)	492	654	930	901	958
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) (%)	(6.4)	2.3	3.0	6.3	5.5
ROA (Return on Assets) (%)	1.6	1.9	2.2	4.7	4.1

【Overall Forecast】

FY2017 Forecast (Consolidated)

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(Millions of yen)

	FY 2013	FY 2014	FY 2015	FY 2016 A	FY 2017 Forecast B	Increase/ decrease B-A	Rate of change (%)
Orders received	168,295	173,398	183,270	185,880	186,000	120	0.1
Balance carried forward	108,219	102,019	106,388	123,756	129,756	6,000	4.8
Net sales	171,496	179,598	178,901	168,512	180,000	11,488	6.8
Gross profit	18,423	17,966	22,929	22,538	24,000	1,462	6.5
Gross profit margin (%)	10.7	10.0	12.8	13.4	13.3	(0.1)	—
Operating income (loss)	2,818	2,951	6,509	6,012	7,000	988	16.4
Ordinary income (loss)	3,146	3,809	8,135	6,880	7,500	620	9.0
Profit attributable to owners of parent (loss)	1,763	2,461	5,327	4,698	5,000	302	6.4

[Forecast of Orders Received and Net Sales]

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

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(Millions of yen)

Segment		FY 2017 Orders received Forecast	FY 2017 Net sales Forecast
	HVAC and Plumbing for Buildings	71,700	69,700
	Industrial HVAC	49,000	46,000
	Electrical Systems	22,000	23,000
	Facility Systems	9,500	9,500
Total of Facilities Construction Business		152,200	148,200
	Machinery Systems	12,000	10,000
	Environmental Systems	20,000	20,000
Total of Plant & Machinery Systems Business		32,000	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.

Progress of the Medium-Term Management Plan (1) (Priority Measures)

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Results of the First Fiscal Year of “Century 2025”

Policies for FY2017

Strengthen Core Businesses

- Facilities Construction
Increase in quantity handled by the Procurement Division
Expansion of site support menu
Operation of the Design & Engineering Support Center
- Machinery Systems: Hybrid facilities
- Environmental Systems: New dehydrators, biomass power generation plants, and DBO waste treatment facilities
- Facility Systems: Restructured local banks, redevelopment projects in Tokyo

- Facilities Construction
Expansion of site support activities through review of work styles for office workers
- Machinery/Environmental/Facility Systems strategy continuation

Promote Growth Strategies

- Established the International Business Division
- Received orders for large-scale projects which will become future stock
- Developed a “visualization” system for stock projects

- IoT-related development
- Building up stock projects
- PFI/DBO projects

Enhance the Sanki Brand

- Established systems that are more conducive to work and provided full welfare services
- Meetings to exchange opinions with the president (held 30 times with 240 participants in total)
- Sanki Ladies’ Conference

- Renewal of Sanki brand awareness
- Continuation of strategies to improve communication

Progress of the Medium-Term Management Plan (2) (ESG)

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Results of the First Fiscal Year of “Century 2025”

E

- Whole group SANKI YOU eco contribution points
- Facilities Construction
 - Received Society of Heating, Air-Conditioning and Sanitary Engineers of Japan Award
 - Received Institute of Electrical Installation Engineers of Japan Award
- Machinery Systems
 - Reduced electricity usage by 25% with lightweight conveyors
- Environmental Systems
 - Reduced electricity usage and CO₂ emissions by 50% through 3 strategic products

S

- Work style reform “Smile Project”
 - Established systems that are more conducive to work
 - Tripled foreign workers compared to 5 years ago (diversity)

G

- Formulated and released the Long-Term Vision and Medium-Term Management Plan
 - Increased the number of external directors by 1
 - Instituted self-evaluation by the Board of Directors

Policies for FY2017

- Whole group SANKI YOU eco contribution points
- Machinery Systems
 - Focus on increasing sales of the S-CON MINI
- Environmental Systems
 - Increase sales of 3 strategic products

- Continue system reform
- Assess effectiveness

- Continue initiatives for better governance

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 May 12, 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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