Sanki Engineering Co., Ltd.

1961 Tokyo Stock Exchange First Section

6-Feb.-17

Important disclosures and disclaimers appear at the end of this document.

FISCO Ltd. Analyst
Noboru Terashima

Likely to Meet Forecast on Extensive Existing Projects and Rigorous Cost Management

Sanki Engineering Co., Ltd. <1961> (hereafter, "the Company") is an engineering company whose main business is the planning, design, installation, maintenance, repair, sale and consultation for office buildings, schools, hospitals, shopping centers, industrial plants, R&D centers and other facilities. The Company's strengths include comprehensive inter-disciplinary engineering capabilities across a diverse range of business operations, combined with advanced technology and credibility accumulated over its 90-year history.

In 1H FY3/17 (April to September 2016), the Company reported orders received of ¥90,912mn (-8.4% y-o-y), net sales of ¥70,341mn (-6.8%), gross profit of ¥8,144mn (+0.5%), operating income of ¥57mn (-67.6%), ordinary income of ¥368mn (-29.7%) and profit attributable to owners of parent of ¥229mn (-10.1%). While profits declined, we highly evaluate the Company's performance surpassing initial forecast and posted profits in 1H and improved gross profit margin through rigorous cost management, improved work efficiency, and other factors. The 1H results were generally favorable.

The Company retained initial FY3/17 forecast for orders received of ¥183,000mn (-0.1% y-o-y), net sales of ¥185,000mn (+3.4%), operating income of ¥6,500mn (-0.1%), ordinary income of ¥7,000mn (-14.0%), and profit attributable to owners of parent of ¥4,900mn (-8.0%). The Company set the forecast at firm levels roughly on par with the previous year, as it posted a significant rise in profit margin during FY3/16. We expect the Company to attain forecast targets because of extensive existing projects and ongoing promotion of rigorous cost management.

The Company has a long-term vision "Century 2025" that presents goals for the next 10 years ahead of the 100th anniversary of its establishment coming in 2025. Its ultimate goal in this plan is to become increasingly "The Company of Choice," and it targets net sales of ¥195,000mn and operating income of ¥7,500mn for FY3/19 in the "Century 2025" Phase 1, medium-term management plan, which covers the first three years. The Company announced "Sanki Yamato Site Redevelopment Project" <STeP (Sanki Techno Park) Project> as the first initiative of the plan. We will also be closely monitoring future measures and progress.

Additionally, the Company is proactively implementing shareholder returns, including dividend enhancement and share buybacks in recent years, and raised its annual dividend payment from ¥20.0 in FY3/15 (with a regular dividend of ¥15.0 and a commemorative dividend of ¥5.0) to ¥30.0 in FY3/16 (a payout ratio of 35.8%), with a regular dividend of ¥18.0 and an extra dividend of ¥12.0. In FY3/17, the Company plans to add ¥2.0 to the previous period's ¥18.0 regular dividend and thereby lift the annual regular dividend to ¥20.0. We see a possibility of increased dividends depending on the level of profits.

Check Point

- Sustained a profit, despite decreased net sales, thanks to higher gross profit margin
- Average orders value for large projects trending upward over the past few years
- Anticipating orders on large projects in the environmental systems business

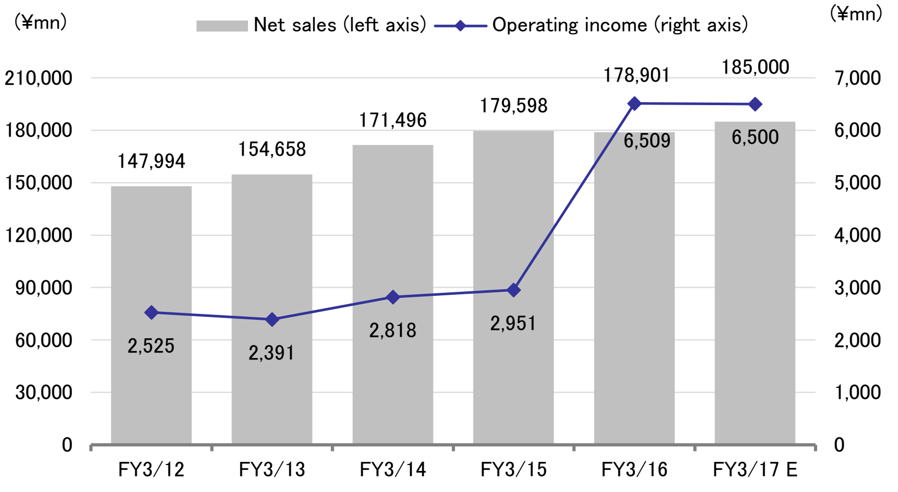
FISCO

Sanki Engineering Co., Ltd.

1961 Tokyo Stock Exchange First Section

6-Feb.-17

Results Trends



Company Outline

4 business segments comprising facilities construction, machinery systems, environmental systems and real estate

(1) Company History

Sanki Engineering is a facilities construction company that was established in 1925 as a spin-off of the machinery division of its predecessor, Mitsui & Co., Ltd. <8031>. The first large projects for the Company were the Shiga manufacturing plant of Toyo Rayon (currently Toray Industries, Inc. <3402>), and a refrigerated warehouse for Aomori Seihyo. Initially, the Company engaged in heating, plumbing, steel frame construction and the supply of construction materials. It has subsequently branched out into electrical work, developing integrated plant construction planning, design and installation as its main operations.

After World War II, the Company operations expanded due to the demand derived from the Korean War, and in 1958, the Company's capital exceeded ¥1,000mn. In subsequent years, the Company participated in projects undertaken in preparation to host the Tokyo Olympics in 1964, and grew in tandem with the expansion of the Japanese economy. The Company diversified from the installation of heating, ventilation, air-conditioning (HVAC), plumbing, electrical, and facility systems into other types of installation, such as transport equipment, conveyance systems, water treatment facilities and waste facilities. Today, it is a leading domestic facilities construction company. The Company's shares were listed on the Tokyo Stock Exchange in 1950.

In FY3/16, the Company, which welcomed its 90th anniversary, appointed Mr. Tsutomu Hasegawa as its President. While fundamentally he will be following the path inherited from the previous President, Mr. Takuichi Kajiura, the Company will add President Hasegawa's new strategies to the direction taken to date, with amongst other initiatives, the long-term vision for the 100th anniversary, "Century 2025," announced at the end of FY3/16.

(2) Outline of Business

The Company's main operations may be divided into four business segments: facilities construction, machinery systems, environmental systems, and real estate. An overview of each segment is set out below.

a) Facilities Construction Business
The facilities construction business engages in activities including planning, design, installation, maintenance, and repair of facilities including office buildings, schools, hospitals, shopping centers, factories, R&D centers, and other facilities. This scope of activities handled by this business is extensive and may be further subdivided into the following businesses.

● HVAC and plumbing for buildings
The HVAC and plumbing for buildings business provides HVAC, water supply and drainage systems, plumbing, cooling and freezing systems, area heating and cooling systems, kitchen systems, and disaster readiness systems for general buildings and facilities, such as office buildings, schools, hospitals, department stores, hotels, and warehouses.

● Industrial HVAC
The industrial HVAC business provides HVAC and plumbing for factories and research facilities of all industries, especially clean room systems for plants requiring high levels of cleanliness, such as semiconductor plants, food processing plants, and pharmaceutical plants; special air-conditioning systems and appurtenances for manufacturers of chemicals and medical systems, and the like; and environmental control systems and so forth to automobile manufacturers.

● Electrical systems
The electrical systems business provides electrical systems, communications-related systems, electrical civil works, and so forth.

● Facility systems
The facility systems business offers project management and other services for the construction or relocation of the offices and dealing rooms of financial institutions and other industries. It also provides central monitoring and automatic control systems, Internet protocol (IP) solutions, network solutions, business continuity plan (BCP) solutions and other services for large-scale buildings.

b) Machinery Systems Business
The machinery systems business supplies materials handling systems, including various transportation equipment (conveyors, sorting systems, etc.), and conveyance systems for factories and automated warehouses.

c) Environmental Systems Business
The environmental systems business provides facilities such as water treatment facilities (including facilities to treat drinking water and dispose of sewage, facilities for the disposal of industrial wastewater, and facilities for the treatment or incineration of sludge), facilities for the treatment of waste (including waste incineration facilities, landfill wastewater treatment facilities), and others.

d) Real Estate Business
The real estate business utilizes vacant land, such as former factory sites, and manages real estate lease business and building management business.

Sanki Engineering's main business is the provision of the equipment and solutions as described above. The Company obtains about half of its orders directly from facility owner clients and half indirectly through general contractors.

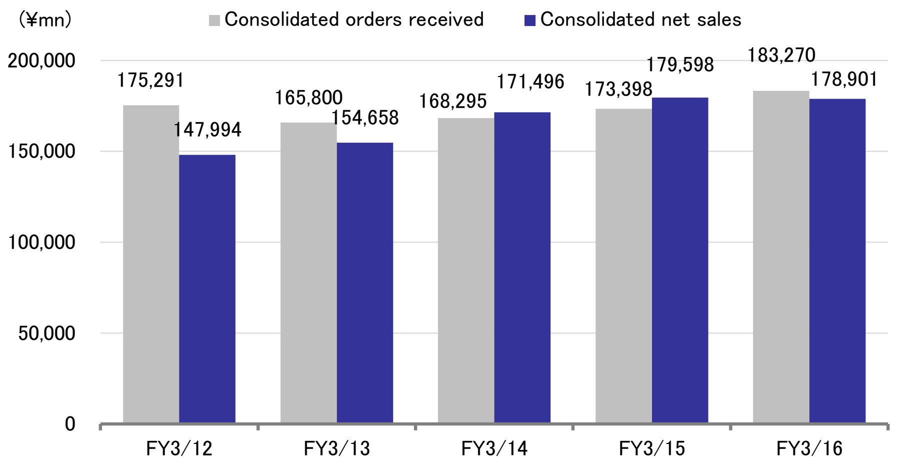
Just as the size of the orders varies widely from a few million yen to a few billion yen, the order completion time varies from a few weeks to a few years for longer orders. The profitability of an order varies and may differ from the originally planned profitability depending on factors such as labor and material costs and the management construction schedule. Some orders end up more profitable than originally planned, and some are less profitable.

FISCO

Sanki Engineering Co., Ltd.
1961 Tokyo Stock Exchange First Section

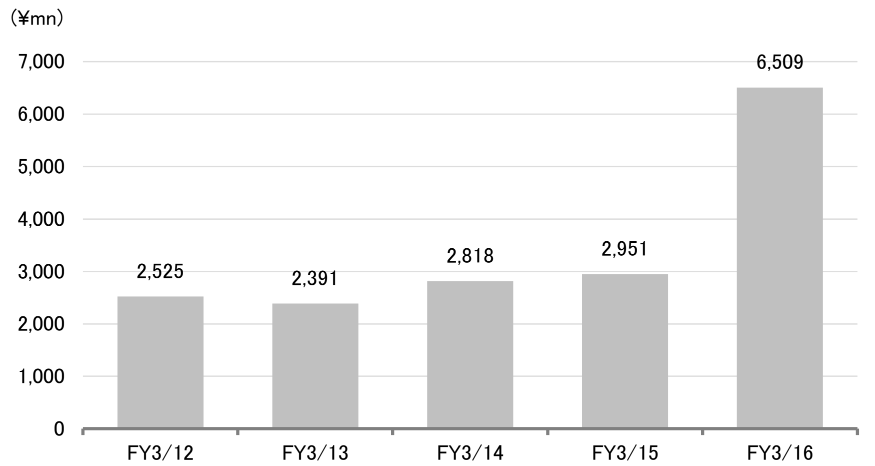
6-Feb.-17

Consolidated Orders Received & Net Sales



Source: Company materials

Consolidated Operating Income



Source: Company materials

Connecting a wide range of businesses horizontally through "total engineering"

(3) Strengths, Distinguishing Traits, and Competitors

● Broad business domain and one-stop shop solutions

It's no exaggeration to say that there are countless companies in Japan providing the same kind of construction and facilities as Sanki Engineering. The Company's strength lies in the wide range of its businesses, which includes HVAC for building, plumbing, industrial HVAC, electrical systems, automated control systems for buildings, transportation systems, and water treatment facilities. The Company can provide services for many types of systems and solutions covering all phases from planning and design, to installation, maintenance, and repair. This capability allows its customers to place one-stop shop orders to resolve their problems. By making optimal use of "total engineering," which combines a wide variety of businesses horizontally, the Company can provide optimal systems with high added value.

FISCO

Sanki Engineering Co., Ltd.
1961 Tokyo Stock Exchange First Section

6-Feb.-17

● Top-class technology and high-quality customer base

One of the Company's main strengths is the advanced technology it has accumulated since before World War II. Moreover, this top-class technology spans a wide range of fields. Furthermore, Sanki Engineering has earned a reputation for reliability over decades of business, which underpins its extensive, high-quality customer base. This can also be considered a strength of the Company. In addition to its prewar achievements, the Company's involvement in numerous post-war projects, including the construction of facilities for the Tokyo Olympics of 1964, have enabled it to obtain orders for recent large projects, such as the ABENO HARUKAS in Osaka.

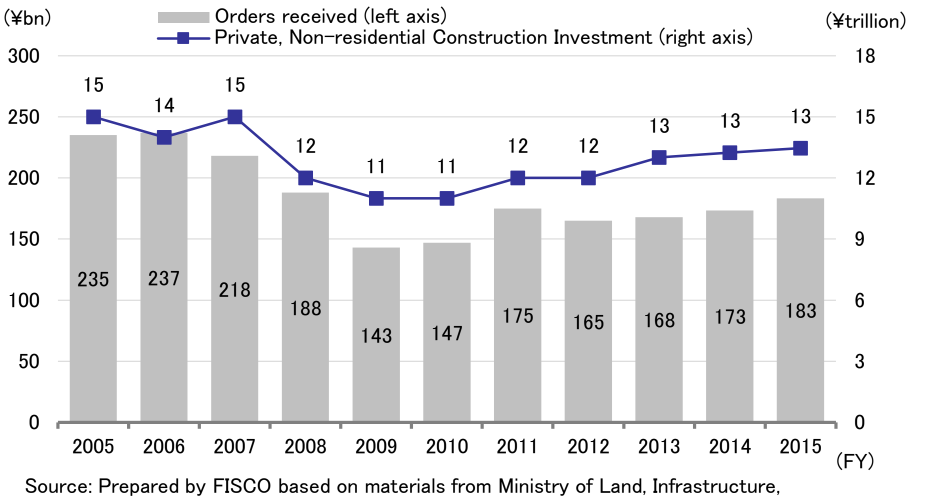
● Main competitors

Sanki Engineering's competitors vary by project, but its main competitors are other large companies such as Takasago Thermal Engineering Co., Ltd. <1969>, Shinryo Corporation (unlisted), Dai-Dan Co., Ltd. <1980>, and Taikisha Ltd. <1979>. Compared to these competitors, Sanki Engineering's strength is its superiority in industrial HVAC systems, such as clean rooms.

(4) Orders & Economic Environment

Given the nature of Sanki Engineering's businesses, orders received are the most important factor affecting the Company's performance. Annual orders received are greatly affected by the overall Japanese market, or the Japanese macro-economy. As the Company's main business is facilities construction, it is influenced by the macro indicator of private sector non-residential investment. The correlation between orders received and private sector non-residential investment is arguably very high.

Orders Received versus Private, Non-residential Construction Investment



Source: Prepared by FISCO based on materials from Ministry of Land, Infrastructure, Transport and Tourism

Business Trends

Sustained a profit, despite decreased net sales, thanks to higher gross profit margin

(1) 1H FY3/17 Results Overview

● Profits

In 1H FY3/17 (April to September 2016), the Company reported orders received of ¥90,912mn (-8.4% y-o-y), net sales of ¥70,341mn (-6.8%), gross profit of ¥8,144mn (+0.5%), operating income of ¥57mn (-67.6%), ordinary income of ¥368mn (-29.7%), and profit attributable to owners of parent of ¥229mn (-10.1%). While net sales dropped from the previous-year level because of delays in some projects and other factors, the balance of construction work carried forward remained high at ¥126,960mn (+1.0%) at the end of the period. We highly evaluate the Company's performance with sustained profits in 1H, just as a year ago, which was led by further improvement of gross profit margin to 11.6% (vs. 10.7% in 1H FY3/16). The 1H results were generally favorable.

Consolidated Results 1H FY3/17

(¥mn, %)

	1H FY3/16		1H FY3/17			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	99,206	-	90,912	-	-8,293	-8.4
Balance carried forward	125,745	-	126,960	-	1,214	1.0
Net Sales	75,480	100.0	70,341	100.0	-5,139	-6.8
Gross profit	8,103	10.7	8,144	11.6	40	0.5
SG&A expenses	7,926	10.5	8,087	11.5	160	2.0
Operating income	176	0.2	57	0.1	-119	-67.6
Ordinary income	524	0.7	368	0.5	-155	-29.7
Profit attributable to owners of parent	255	0.3	229	0.3	-25	-10.1

Source: Company materials

The Company noted the following factors as sources of the improvement in gross profit margin.

- **Rigorous cost management:** Higher margins via significant increases in operational efficiency as a result of the measures set out below, in addition to rigorous internal cost management that the Company has hitherto promoted.

- **Reductions in negative margin factors:** The environment for orders improved significantly due to an upturn in the operating environment, leading to circumstances where a balance could be struck between costs and quality. Furthermore, delays in construction progress declined as a result of rigorous process control, with profitability (margins) in large-scale projects improving in particular.

- **Establishment of site support structures:** The Company has taken various steps to improve support for site engineers, including purchasing operations support through the Procurement Division and work site documentation and other clerical support via the Site-Documentation Support Center newly established in April 2015, designing work support through the Design & Engineering Support Center newly formed in April 2016, and quality supervision via technical experts, and these efforts are paying off (in the form of improved operational efficiency).

SG&A expenses, meanwhile, increased by ¥160mn, and the SG&A expenses ratio rose from 10.5% a year earlier to 11.5%. Yet, just as in the previous year, operating income secured a profit, in contrast to initial forecast, thanks to improved gross profit margin. This also resulted in ordinary income and profit attributable to owners of parent reported profits to exceed its target.

Consolidated Net Sales & Ordinary Income by Segment

(¥mn, %)

	1H FY3/16		1H FY3/17			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Net Sales	75,480	100.0	70,341	100.0	-5,139	-6.8
HVAC and plumbing for buildings	28,255	37.4	24,001	34.1	-4,254	-15.1
Industrial HVAC	22,230	29.5	22,082	31.4	-147	-0.7
Electrical systems	10,010	13.3	9,065	12.9	-945	-9.4
Facility systems	4,884	6.5	4,587	6.5	-297	-6.1
Facilities construction business	65,381	86.6	59,736	84.9	-5,644	-8.6
Machinery systems	3,307	4.4	4,384	6.2	1,076	32.5
Environmental systems	6,134	8.1	5,782	8.2	-351	-5.7
Real estate business	766	1.0	787	1.1	21	2.7
Others	259	0.3	254	0.4	-4	-1.9
Adjustments	-368	-0.5	-604	-0.9	-235	-
Ordinary Income	524	0.7	368	0.5	-155	-29.7
Facilities construction business	866	-	-15	-	-881	-
Machinery systems	-251	-	119	-	370	-
Environmental systems	-941	-	-755	-	186	-
Real estate business	114	-	103	-	-11	-9.7
Others	17	-	20	-	2	16.2
Adjustments	718	-	895	-	177	24.7

Source: Company materials

Facilities construction business booked ¥59,736mn in net sales, an 8.6% y-o-y drop. HVAC and plumbing for buildings declined 15.1% to ¥24,001mn, but industrial HVAC, a Company's strength, performed relatively well with just a 0.7% dip to ¥22,082mn. Net sales also fell 9.4% to ¥9,065mn in electrical systems and 6.1% to ¥4,587mn in facility systems. While these results were down y-o-y, they stayed within the forecast range. Machinery systems posted sharply higher net sales with a 32.5% gain to ¥4,384mn led by completion of large projects booked as orders in FY3/16. Environmental systems had a 5.7% decline in net sales to ¥5,782mn. Yet the weaker result is not a concern because net sales regularly fluctuate at the fiscal-year level because this segment mainly handles water and sewage treatment plant projects. The other business segments were generally on track with forecast, though the value is low.

Ordinary income results by segments were a ¥15mn loss in facilities construction business, a ¥119mn profit in machinery systems (aided by large projects), and a ¥755mn loss in environmental systems, working out to a ¥651mn loss in facilities project business as a whole (vs. a ¥325mn loss in 1H FY3/16). This outcome is roughly in line with expectations and is not a concern. In fact, 1H income has substantially improved by comparison to where it stood 4-5 years ago.

Average order value per large project trending upward over the past few years

Orders Received by Segment

(¥mn, %)

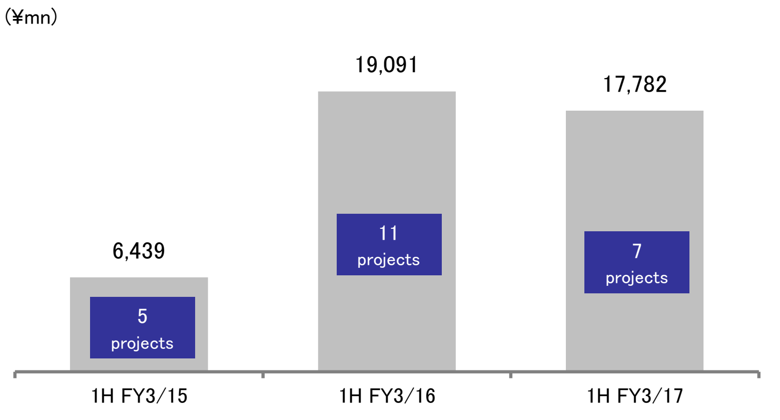
	1H FY3/16		1H FY3/17			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	99,206	100.0	90,912	100.0	-8,293	-8.4
HVAC and plumbing for buildings	34,023	34.3	33,979	37.4	-44	-0.1
Industrial HVAC	25,294	25.5	27,399	30.1	2,104	8.3
Electrical systems	12,699	12.8	8,337	9.2	-4,362	-34.4
Facility systems	6,623	6.7	5,274	5.8	-1,349	-20.4
Facilities construction business	78,642	79.3	74,990	82.5	-3,651	-4.6
Machinery systems	6,981	7.0	3,287	3.6	-3,694	-52.9
Environmental systems	13,133	13.2	12,451	13.7	-682	-5.2
Real estate business	766	0.8	787	0.9	21	2.7
Others	272	0.3	259	0.3	-13	-4.9
Adjustments	-590	-0.6	-864	-1.0	-273	-

Source: Company materials

Orders received by overall facilities construction business declined 4.6% y-o-y to ¥74,990mn. Specifically, Industrial HVAC, in which the Company specializes, was strong with orders received rising 8.3% to ¥27,399mn, driven by relatively firm capital investment activities in electrical machinery, automobile, and other manufacturing industries. We think the vibrant trend in industrial HVAC orders has positive implications for the Company's future earnings. Orders received by electrical systems dropped sharply with a 34.4% y-o-y decline to ¥8,337mn, though mainly because of pullback from abnormally high orders of large projects during the past two years. We believe the 1H orders received trend returned to the Company's normal level. For plant facilities, orders received were down 52.9% in machinery systems to ¥3,287mn and 5.2% in environmental systems to ¥12,451mn. The steep orders drop in machinery systems stems from an unfavorable comparison with large project orders from the previous year (as noted above) and is not a reason for concern.

The Company booked ¥17,782mn in large-scale projects (exceeding ¥1bn) for seven projects (versus the previous year's ¥19,091mn for 11 orders). Orders volume and the number of projects fell y-o-y, but average orders value per large project has been rising over the past few years.

Large-Scale Projects with Orders Exceeding ¥1bn



Source: Prepared by FISCO Ltd. from the Company's materials

Breakdown of Large-Scale Projects with Orders Exceeding ¥1bn

(projects, ¥mn)

	1H FY3/15	1H FY3/16	1H FY3/17
Office	-	2	3
Hospital	2	1	-
Research institute	1	1	-
Factory	1	3	2
Waste processing facility	-	3	-
Power station and transformers	-	-	1
Water and sewage treatment facility	1	-	1
School buildings and lecture halls	-	1	-
Total	5	11	7
(direct orders)	1	3	5
(orders value)	6,439	19,091	17,782
(orders value per project)	1,287	1,735	2,540

Total orders received value declined 8.4% y-o-y to ¥90,912mn in 1H FY3/17 given these trends, though the balance of construction work carried forward at the and of period remained high at ¥126,960mn (+1.0%).

● Financial Condition

As regards the financial condition at the end of 1H FY3/17, current assets were ¥95,581mn (a decline of ¥19,910mn from the previous FY end), however, this was mainly due to decline in trade notes and accounts receivable of ¥24,667mn. Noncurrent assets declined ¥4,079mn to ¥49,851mn from the previous FY end, however, this was due to factors such as a decline in the market value of investment securities of ¥3,803mn resulting from share price declines. As a result, total assets at the end of the period were ¥145,433mn, a decline of ¥23,989mn from the previous FY end.

Current liabilities were down by ¥19,504mn to ¥53,359mn, mainly due to a ¥16,817mn decline in trade notes and accounts payable. Noncurrent liabilities fell by ¥853mn to ¥11,148mn, largely owing to a ¥966mn decline in deferred tax liabilities. These results contributed to a ¥20,357mn drop in total liabilities to ¥64,507mn at the end of 1H FY3/17. Additionally, total net assets declined by ¥3,631mn to ¥80,925mn primarily due to a drop in unrealized gains on available-for-sale securities and other factors.

Consolidated Balance Sheet

(¥mn)

	FY3/16	1H FY3/17	Difference
Cash and deposits	26,501	30,966	4,465
Notes and accounts receivable on completed construction contracts and other	71,246	46,578	-24,667
Current assets	115,491	95,581	-19,910
Tangible fixed assets	8,715	8,487	-227
Intangible fixed assets	533	485	-48
Investments and other assets	44,682	40,878	-3,803
Noncurrent assets	53,931	49,851	-4,079
Total assets	169,423	145,433	-23,989
Notes and accounts payable on construction contracts and other	51,460	34,643	-16,817
Short-term borrowings	5,672	5,674	2
Payments received for work in progress	3,140	5,879	2,739
Current liabilities	72,863	53,359	-19,504
Obligations for retirement pay	1,834	2,014	179
Deferred tax liabilities	4,742	3,775	-966
Noncurrent liabilities	12,001	11,148	-853
Total liabilities	84,865	64,507	-20,357
Total net assets	84,557	80,925	-3,631

Source: Company materials

● Cash flows

In 1H FY3/17, cash flows from operating activities rose by ¥3,502mn, thanks mainly to collection of trade notes and accounts receivable (down by ¥23,772mn) exceeding payments for trade notes and accounts payable (down by ¥16,799mn), cash flows from investing activities dropped by ¥397mn, and cash flows from financing activities dropped by ¥1,573mn, primarily because of ¥1,334mn in dividend payments.

Cash and cash equivalents at period-end of 1H FY3/17 increased by ¥1,432mn from end-FY3/16 to ¥33,933mn.

Consolidated Cash Flows Statement

(¥mn)

	1H FY3/16	1H FY3/17
Cash flows from operating activities	-1,330	3,502
Pretax profit	499	336
Change in trade notes and accounts receivable (- indicates increase)	21,112	23,772
Change in trade notes and accounts payable (- indicates increase)	-16,694	-16,799
Cash flows from investing activities	5,599	-397
Cash flows from financing activities	-1,010	-1,573
Change in cash and cash equivalents	3,209	1,432
Period-end balance of cash and cash equivalents	26,877	33,933

Source: Company materials

Anticipating orders for large projects in the environmental systems business

(2) Company Forecast for FY3/17

The Company retained initial FY3/17 forecast for net sales of ¥185,000mn (+3.4% y-o-y), operating income of ¥6,500mn (-0.1%), ordinary income of ¥7,000mn (-14.0%) and profit attributable to owners of parent of ¥4,900mn (-8.0%).

In a breakdown of net sales it is expected that facilities construction business will account for ¥154,900mn (+3.3% y-o-y). By business line HVAC and plumbing for buildings, as it has ample work carried over at the beginning of the period, will be ¥70,900mn (+9.9%), industrial HVAC is expected to be ¥52,000mn (-0.2%), roughly on par with the previous year in light of favorable orders received in 1H. However, given that industrial HVAC has a certain amount of work in hand, there is the potential for it to exceed the forecast. Given that both electrical and facility systems performed well last period, it is forecast that net sales will be ¥22,000mn (-4.2%) and ¥10,000mn (-4.0%), respectively, due to a reaction against the (high levels in the) previous period. Net sales for plant & machinery systems business are expected to be basically in line with the previous period, with machinery systems at ¥9,500mn (+3.1%), and environmental systems at ¥19,000mn (+1.4%).

Orders received are expected to be ¥145,900mn (-4.3% y-o-y) in the core facilities construction business. By business line, HVAC and plumbing for buildings and industrial HVAC orders are expected to stay at roughly prior-year levels of ¥64,900mn (-1.9%) and ¥52,000mn (-1.0%), respectively. The Company projects declines in orders for electrical systems and facility systems to ¥19,000mn (-16.2%) and ¥10,000mn (-9.7%), respectively because of strong levels in the previous year. In the plant & machinery systems business, the Company expects a decline in machinery systems orders to ¥9,500mn (-7.8%) as a reaction against large-scale orders received in the previous period, but an increase in environmental systems to ¥26,000mn (+32.6%) as large orders are anticipated.

FY3/17 Results Forecast

(¥mn, %)

	FY3/16		FY3/17 E			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	183,270	100.0	183,000	100.0	-270	-0.1
HVAC and plumbing for buildings	66,172	36.1	64,900	35.4	-1,272	-1.9
Industrial HVAC	52,522	28.7	52,000	28.4	-522	-1.0
Electrical systems	22,667	12.4	19,000	10.4	-3,667	-16.2
Facility systems	11,070	6.0	10,000	5.5	-1,070	-9.7
Facilities construction business	152,432	83.2	145,900	79.7	-6,532	-4.3
Machinery systems	10,309	5.6	9,500	5.2	-809	-7.8
Environmental systems	19,610	10.7	26,000	14.2	6,390	32.6
Real estate business	1,532	0.8	1,600	0.9	68	4.4
Others	524	0.3	500	0.3	-24	-4.6
Adjustments	-1,139	-0.6	-500	-0.3	639	-
Net Sales	178,901	100.0	185,000	100.0	6,099	3.4
HVAC and plumbing for buildings	64,492	36.0	70,900	38.3	6,408	9.9
Industrial HVAC	52,084	29.1	52,000	28.1	-84	-0.2
Electrical systems	22,958	12.8	22,000	11.9	-958	-4.2
Facility systems	10,416	5.8	10,000	5.4	-416	-4.0
Facilities construction business	149,952	83.7	154,900	83.7	4,948	3.3
Machinery systems	9,217	5.2	9,500	5.1	283	3.1
Environmental systems	18,734	10.5	19,000	10.3	266	1.4
Real estate business	1,532	0.9	1,600	0.9	68	4.4
Others	542	0.3	500	0.3	-42	-7.7
Adjustments	-1,077	-0.6	-500	-0.3	577	-
Gross profit	22,929	12.8	23,000	12.4	71	0.3
Operating income	6,509	3.6	6,500	3.5	-9	-0.1
Ordinary income	8,135	4.5	7,000	3.8	-1,135	-14.0
Profit attributable to owners of parent	5,327	3.0	4,900	2.6	-427	-8.0

Source: Company materials

Overall, given that currently there is ample work in hand, we feel there is every likelihood that the Company will achieve the above targets. Going forward, the point to pay attention to is avoiding unexpectedly unprofitable projects by rigorous progress management. In respect of orders also, the environment surrounding the construction and HVAC industries is one of flow, and given that there is expected to be an ample volume of works, it is felt that it is possible for the Company to secure their target for orders received.

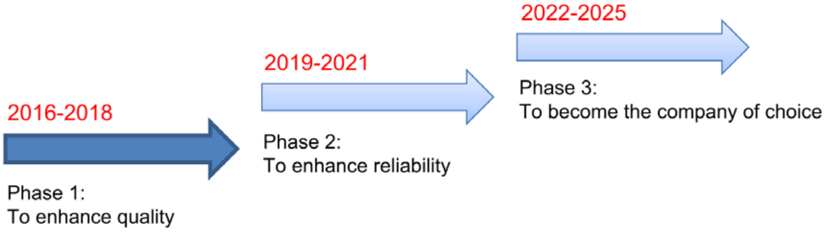
In respect of gross profit margins, the Company is cautiously looking for a slight decline to 12.4% from the high level of 12.8% in the previous period. However, in practice, in order to secure profits the Company will continue to further promote work site support structures, and along with further raising materials procurement bargaining power via the Procurement Division, will continue to support work site purchasing operations through ongoing integrated management. Additionally, it will continue to provide documentation support for operations such as work site clerical processing via the Site-Documentation Support Center, by seconding staff from the Center. Through these initiatives, by reducing the burden at the work site, the Company may focus on primary work site management, and in rigorous quality and progress control, by eliminating reworking, downtime and other inefficiencies, there is room for improving margins. Accordingly, in addition to an upward revision in net sales, there is also the potential for margins to exceed expectations, and it may be anticipated that operating income will exceed initial expectations.

Medium-Term Management Plan

Long-term Vision for the 100th Anniversary, initially developing a three-year Medium-Term Management Plan to raise “Quality”

(1) The Long –Term Vision “Century 2025”

The Company has a 10-year long-term vision “Century 2025” that covers from FY3/17 to FY3/26, ahead of the 100th anniversary of its establishment.The ultimate goal of this long-term vision is to be “The Company of Choice.” The Company has divided the 10 years into three phases in order to achieve this goal and the Company’s policy is to implement business strategies promoted in each phase of medium-term management plan.



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.

(2) Overview of the Sanki Yamato Site Redevelopment Project <STeP (Sanki Techno Park) Project>

The Company cited “redevelopment of the Yamato site” as an important measure in the new medium-term management plan “Century 2025” Phase 1, and it announced “STeP (Sanki Techno Park Project)” as the redevelopment plan. The plan largely calls for 1) building Sanki Techno Center, 2) reorganizing manufacturing plants in the machinery systems business, and 3) making effective use of existing assets, and the Company disclosed an overview of Sanki Techno Center as a first initiative.

One of the aims of “Century 2025” Phase 1 is “refining technical skills and human resources” and the Company highlights the following points as actual issues.

○ Human resources
- Improve and pass along techniques and skills
- Training (including partner firms)

○ Facilities
- Enhance research facilities
- Need for education and training using actual equipments
- Consolidation of educational and training sites and opportunities

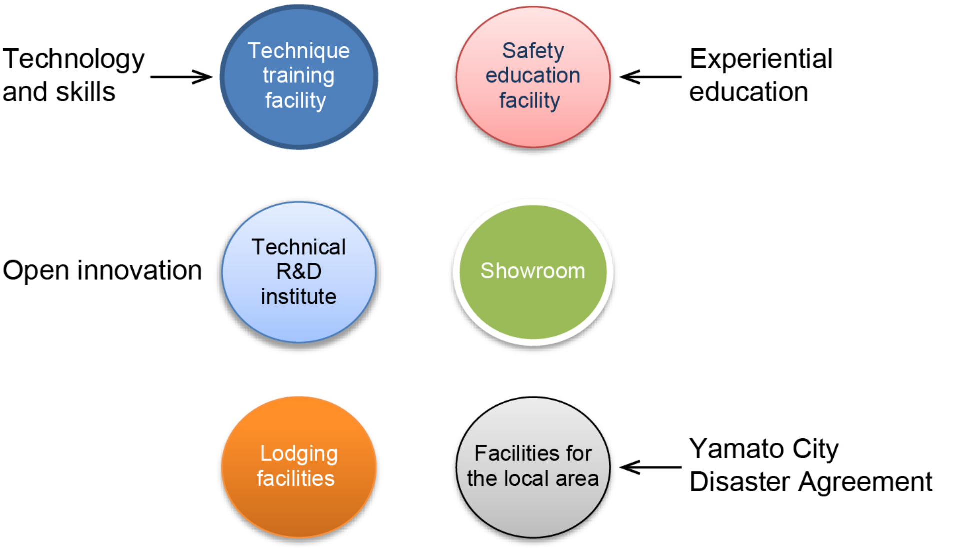
The Company decided to build the Sanki Techno Center, a comprehensive training and research facility, with the following functions in the current Sanki Yamato Building Site in order to resolve these issues.

○ 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

The Company intends to begin preparatory works from FY3/17, complete renovations during FY3/18, and open the center around summer 2018. It is still calculating the investment budget and plans to announce specifics in the near future.



The Company is reviewing the STeP plan’s second (reorganization of manufacturing plants in the machinery systems business) and third (making effective use of existing assets) initiatives and hopes to announce specifics in the near future.

Shareholder Returns

Proactively buying back and retiring shares from the market as a shareholder return initiative

The Company is also proactive in respect of shareholder returns. As an initial shareholder return initiative it has proactively undertaken share buybacks and retirement from the market. In FY3/14 the Company acquired 4 million shares and retired 4.8 million shares. In FY3/15 Q2 the Company acquired 2 million shares and retired 3 million shares.

Further, regarding dividends, the Company has to date continued to pay a stable annual dividend of ¥15, however, (with 90th anniversary commemorative dividend of ¥5) also paid in FY3/15 an annual dividend of ¥20. In FY3/16, in addition to raising the annual regular dividend to ¥18, due to sound results performance the Company paid an extra dividend of ¥12, and as a result paid a total annual dividend of ¥30 (or a payout ratio of 35.8%). The dividend for FY3/17 is planned to be ¥20, however, there is also the possibility of increased dividends depending on results going forward.

We feel that his positive attitude towards shareholder returns should be regarded highly.

FISCO

Disclaimer