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

23-Oct.-15

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FISCO Ltd. Analyst
Noboru Terashima

Sanki Engineering continues to increase sales and profits from FY3/15 and is also making impressive returns to shareholders

Sanki Engineering Co., Ltd. <1961> (hereafter, “the Company”) is an engineering company whose main business is the planning, design, installation, maintenance, and repair of facilities for office buildings, schools, hospitals, and shopping centers, industrial plants, and R&D centers. The Company’s strengths include total engineering capabilities that horizontally combine diverse business operations and advanced technology and credibility accumulated over its 90-year history.

In the fiscal year ended March 31, 2015 (“FY3/15”) the Company recorded year-on-year (y-o-y) increases in both sales and profits. Orders received was ¥173,398mn, up 3.0% y-o-y, consolidated net sales was ¥179,598mn, up 4.7%, gross profit was ¥17,966mn, down 2.5%, operating profit was ¥2,951mn, up 4.7%, ordinary profit was ¥3,809mn, up 21.1%, and net profit was ¥2,461mn, up 39.6%.

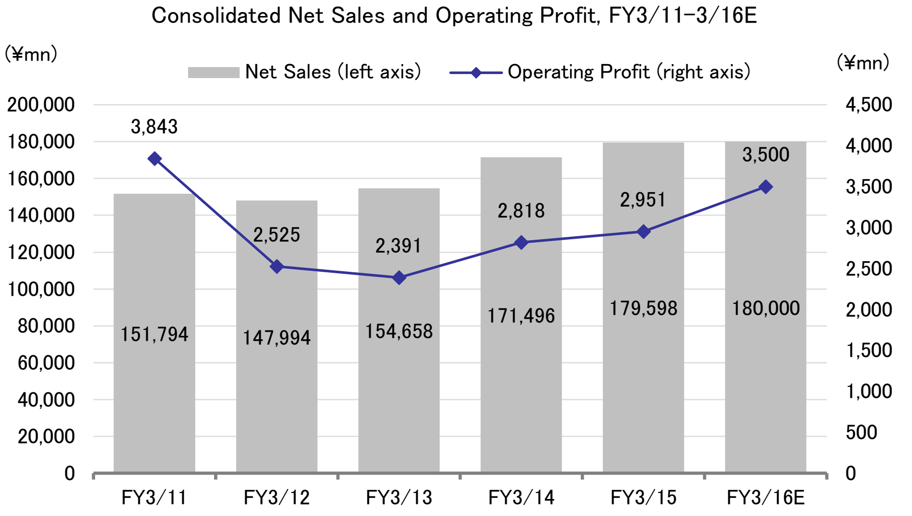
For Q1 FY3/16, sales increased and profits improved compared to the same period of the previous fiscal year (Q1 FY3/15). Orders received was ¥46,385mn, up 9.2% y-o-y, consolidated net sales was ¥34,495mn, up 5.1%, gross profit was ¥3,291mn, up 93.5%, operating loss was ¥630mn, compared to a loss of ¥2,085mn in Q1 FY3/15, ordinary loss was ¥254mn, compared to a loss of ¥1,846mn in Q1 FY3/15, and loss attributable to owners of parent was ¥266mn, compared to a loss of ¥1,215mn in Q1 FY3/15. Companies of this kind of format typically have their profits weighted towards the fourth quarter, and it is common for them to record losses in the first quarter. It is noteworthy that the losses have shrunk considerably compared to Q1 FY3/15.

For full-year business results for FY3/16, the Company is forecasting orders received of ¥185,000mn, up 6.7% y-o-y, net sales of ¥180,000mn, up 0.2%, gross profit of ¥19,200mn, up 6.9%, operating profit of ¥3,500mn, up 18.6%, ordinary profit of ¥4,000mn, up 5.0%, and profit attributable to owners of parent of ¥2,600mn, up 5.6%. The Company aims to increase sales and profits by leveraging the continued boost to the orders environment from capital expenditure recovery within the domestic manufacturing industry in particular, and order received and net sales in this term.

The Company is currently engaged in medium-term plan, called SANKI VITAL PLAN 90th, which finishes in FY3/16. The Company has targeted consolidated net sales of ¥200,000mn and consolidated recurring profit of ¥10,000mn. However, given the current status these numerical targets will not be easily achieved. The main reasons are waning public-sector investment since the plan started and a decline in profits due to the conclusion of the lease period of major lease projects in the real estate business. However, the plan is not limited to achieving numerical targets. In addition to its quantitative targets, the plan contains many qualitative objectives, and the Company is steadily transforming itself by executing measures to realize them. Furthermore, in addition to paying a stable dividend, the Company takes a progressive approach to shareholder returns including share buybacks. The Company plans to pay an ordinary dividend of ¥18 yen for FY3/16.

Check Point

- A major facility construction company in the Mitsui Group, providing integrated services including facility planning, design, installation, maintenance, and repair
- Continuous increase in sales and profits for FY3/15 and Q1 FY3/15, with a favorable environment for the industry
- Planned ordinary annual dividend of ¥18 for FY3/16



Company Outline

Integrated services including planning, design, installation, maintenance, and repair of facilities

(1) Company History

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

After World War II, the Company increased its business 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 HVAC and plumbing and electrical systems into other types of installation, such as conveyance systems and material handling systems and water treatment facilities and waste facilities. Today, it is a top-class Japanese facility construction company. The Company's shares were listed on the Tokyo Stock Exchange in 1950.

In 2015, the Company marked its 90th founding anniversary, and in April 2015 Tsutomu Hasegawa was newly appointed as representative director and president. His policy is to continue largely unchanged on the course set by his predecessor, former representative director and president Takuichi Kajiura.

A wide range of business fields unrivaled in the industry

(2) Outline of Businesses

Sanki Engineering operates four main businesses: facilities construction, machinery systems, environmental systems, and real estate. These businesses are described below.

(a) Facilities construction
The facilities construction business plans, designs, installs, maintains, and repairs facilities including office buildings, schools, hospitals, shopping centers, plants, and R&D centers. This business has extensive undertakings and is subdivided into the following businesses.

●HVAC and plumbing for buildings
The HVAC and plumbing for buildings business provides heating, ventilation, air-conditioning (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 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 total support from facility planning and design through to relocation in the case of corporate mergers.

●Smart building solutions
The smart building solutions business provides central observation and automatic control systems, Internet protocol (IP) solutions, network solutions, and business continuity plan (BCP) solutions for large buildings.

(b) Machinery systems
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
The environmental systems business provides 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. It also supplies facilities for the treatment of waste (waste incineration facilities, landfill wastewater treatment facilities) and others.

(d) Real estate
The real estate business utilizes vacant lands such as sites of former plants, and manages real estate lease business and building management business.

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

The size of the orders varies widely from a few million yen to a few billion yen, and 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 such factors as the costs of labor or materials and the management construction schedule. Some orders end up more profitable than originally planned, and some are less profitable.

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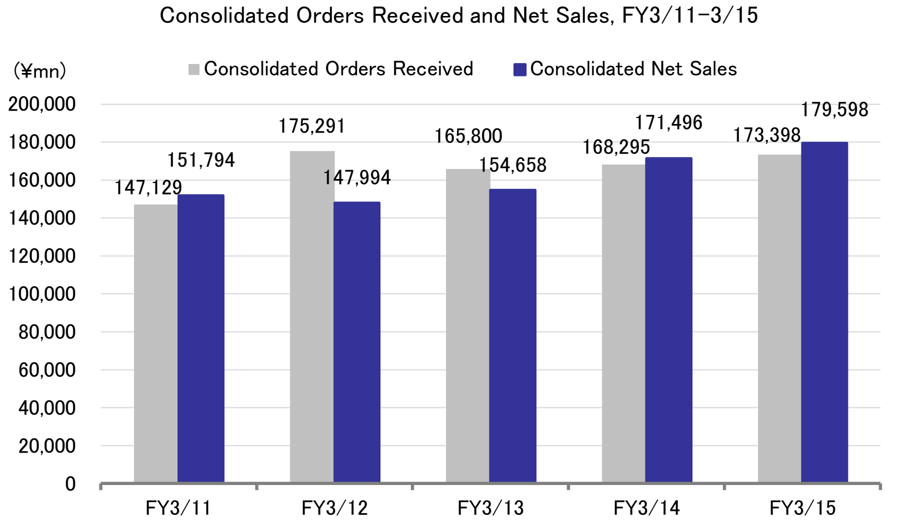

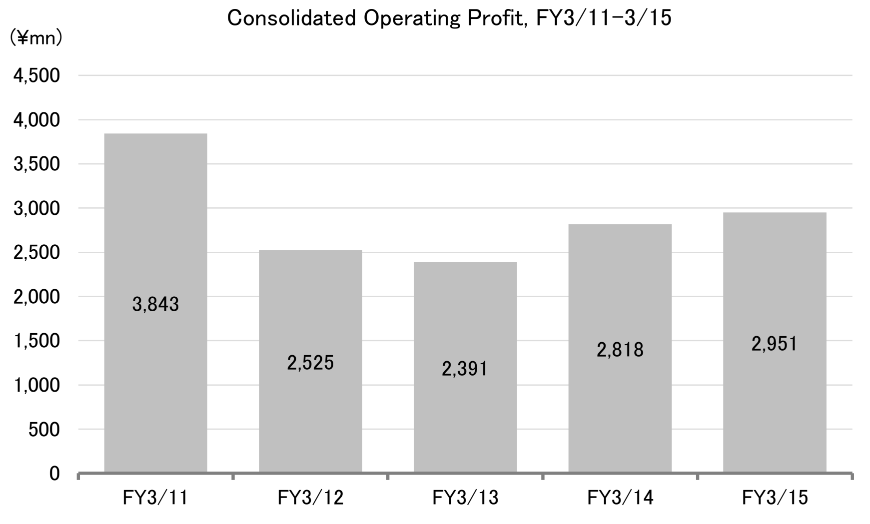

Connecting a wide range of business fields and businesses horizontally through “total engineering”

(3) Strengths, Distinguishing Traits, and Competitors

●Wide scope of business areas and one-stop solutions

There are countless companies in Japan providing the same kind of construction and facilities as the 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 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.

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●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 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.

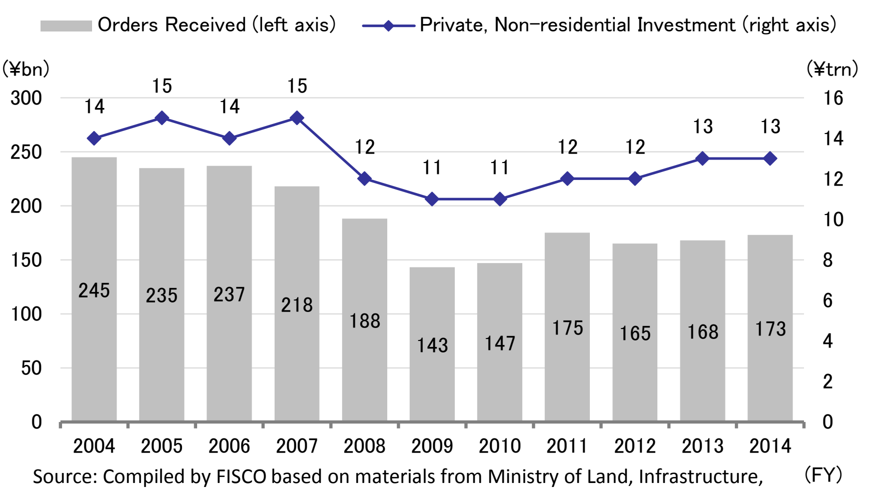
●Main competitors
Sanki Engineering's competitors vary by project, but its main competitors are other large companies such as Takasago Thermal Engineering Co., Ltd. <1969>, Shinryo Corporation (unlisted), Dai-Dan Co., Ltd. <1980>, and Taikisha Ltd. <1979>. Compared to these competitors, Sanki Engineering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

Order environment greatly affected by macro-economic trends; private-sector non-residential investment a key focus

(4) Orders and Economic Environment

Given the nature of Sanki Engineering's businesses, orders received are the most important factor affecting the Company's sales and profits. Annual orders received are greatly affected by the overall Japanese market, or the Japanese macro-economy, particularly by private-sector investment in non-residential structures. The Company's main business is facilities construction, and the chart below shows the strong correlation between the Company's annual orders received and annual investment by Japan's private sector in non-residential structures.

Orders Received versus Private, Non-residential Investment



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

Business Trends

In FY3/15 the Company absorbed increased labor costs and materials prices to achieve profit growth

(1) FY3/15 Results

Earnings
In the fiscal year ended March 31, 2015 ("FY3/15") the Company recorded year-on-year (y-o-y) increases in both sales and profits. Orders received was ¥173,398mn, up 3.0% y-o-y, consolidated net sales was ¥179,598mn, up 4.7%, gross profit was ¥17,966mn, down 2.5%, operating profit was ¥2,951mn, up 4.7%, ordinary profit was ¥3,809mn, up 21.1%, and net profit was ¥2,461mn, up 39.6%.

Consolidated Results, FY3/15 versus FY3/14

(¥mn, %)

	FY3/14		FY3/15			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Balance carried forward from previous year	111,414	-	108,219	-	-3,195	-2.9
Orders received	168,295	-	173,398	-	5,103	3.0
Balance carried forward to next year	108,219	-	102,019	-	-6,199	-5.7
Net sales	171,496	100.0	179,598	100.0	8,102	4.7
Gross profit	18,423	10.7	17,966	10.0	-456	-2.5
SG&A expenses	15,604	9.1	15,015	8.4	-589	-3.8
Operating profit	2,818	1.6	2,951	1.6	132	4.7
Ordinary profit	3,146	1.8	3,809	2.1	662	21.1
Net profit	1,763	1.0	2,461	1.4	698	39.6

Total orders received was ¥173,398mn, up 3.0% y-o-y. In the facilities construction business, orders received was ¥150,032mn, up 4.3%, including strong performances in industrial HVAC at ¥46,765mn, up 17.3%, electrical systems at ¥23,215mn, up 20.1%, and facility systems at ¥6,196mn, up 26.9%. Industrial HVAC is one of the Company's relatively stronger fields, and is showing a recovery trend in the electrical and machinery and automotive industries especially, driven by a Japanese manufacturers returning to domestic their operations.

Orders received in the machinery systems business was ¥5,716mn, down 32.6% y-o-y, with the decline mainly attributable to a major project in FY3/14 that was not recorded in FY3/15. Orders received in the environmental systems business was ¥16,767mn, up 11.6%, reflecting the acquisition of a relatively large order related to a water treatment facility.

In net sales by segment, the facilities construction business recorded net sales of ¥151,169mn, up 5.2% y-o-y, the machinery systems business ¥9,953mn, up 1.1%, and the environmental systems business ¥17,485mn, up 1.8%.

In profits, the gross profit margin declined to 10.0% from 10.7% in FY3/14. The decline was mainly attributable to the Company recording a ¥747mn increase in provision for loss on construction contracts (¥233mn reversal recorded in FY3/14) for the period in response to increases in labor costs and materials prices causing some construction projects to become unprofitable.

On the other hand, selling, general and administrative (SG&A) expenses decreased by ¥589mn from FY3/14, while operating profit increased by 4.7% y-o-y and an improvement in operating cash flow drove a 21.1% increase in recurring profit and a 39.6% increase in net profit.

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Orders Received and Orders Carried Forward (by Segment, FY3/15 versus FY3/14)

(¥mn, %)

	Segment	FY3/14	FY3/15		
		Amount	Amount	y-o-y change	% change
Orders Received	Facilities construction	143,839	150,032	6,193	4.3
	HVAC and plumbing for buildings	74,921	70,778	-4,143	-5.5
	Industrial HVAC	39,870	46,765	6,895	17.3
	Electrical systems	19,328	23,215	3,887	20.1
	Smart building solutions	4,834	3,076	-1,758	-36.4
	Facility systems	4,884	6,196	1,311	26.9
	Machinery systems	8,482	5,716	-2,766	-32.6
	Environmental systems	15,029	16,767	1,737	11.6
	Sub total	167,352	172,516	5,163	3.1
	Real estate	1,077	1,285	208	19.3
	Other	583	481	-101	-17.4
	Adjustments	-717	-884	-167	-
	Total	168,295	173,398	5,103	3.0
Orders Carried Over	Facilities construction	88,735	87,599	-1,136	-1.3
	Machinery systems	5,666	1,429	-4,237	-74.8
	Environmental systems	13,964	13,245	-718	-5.1
	Sub total	108,367	102,275	-6,092	-5.6
	Real estate	-	-	-	-
	Other	94	68	-26	-27.8
	Adjustments	-242	-323	-81	-
	Total	108,219	102,019	-6,199	-5.7

Consolidated Net Sales and Ordinary Profit by Segment, FY3/15 versus FY3/14

(¥mn, %)

	FY3/14		FY3/15			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Net Sales	171,496	100.0	179,598	100.0	8,102	4.7
Facilities construction	143,697	83.8	151,169	84.2	7,471	5.2
Machinery systems	9,846	5.7	9,953	5.5	106	1.1
Environmental systems	17,169	10.0	17,485	9.7	316	1.8
Real estate	1,077	0.6	1,285	0.7	208	19.3
Other	607	0.4	508	0.3	-99	-16.4
Adjustments	-902	-0.5	-803	-0.4	98	-
Ordinary Profit by Segment	3,146	1.8	3,809	2.1	662	21.1
Facilities construction	3,260	-	2,943	-	-316	-9.7
Machinery systems	-287	-	105	-	392	-
Environmental systems	-23	-	24	-	48	-
Real estate	147	-	207	-	60	41.4
Other	63	-	48	-	-14	-22.6
Adjustments	-13	-	479	-	492	-

Quarterly Results

(¥mn)

	FY3/14				FY3/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross profit margin	6.0%	9.0%	10.0%	14.5%	5.2%	7.6%	10.1%	14.6%
Operating profit (- indicates loss)	-2,037	-503	554	4,805	-2,085	-620	1,201	4,456
Provision for loss on construction contracts (balance at the end of period)	481	577	600	567	724	1,236	989	1,314
Provision (or reversal of provision) for loss (gain) on construction contracts	-319	95	22	-33	157	511	-246	324
Balance carried forward (at the end of period) subjected to provision for loss on construction contracts	4,355	5,190	4,993	5,554	7,329	8,131	5,376	4,388

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●Financial condition

Consolidated Balance Sheet, FY3/15 versus FY3/14

(¥mn)

	End FY3/14	FY3/15	change
Cash and deposits	23,510	29,267	5,756
Trade notes and accounts receivable	78,101	77,388	-713
Current assets	115,941	116,224	282
Tangible fixed assets	9,878	9,269	-608
Intangible fixed assets	436	370	-66
Investments and other assets	43,924	50,517	6,592
Fixed assets	54,239	60,157	5,917
Total assets	170,181	176,382	6,200
Trade notes and accounts payable	57,888	56,137	-1,750
Short-term borrowings	6,576	5,672	-904
Payments received for work in progress	5,489	2,636	-2,852
Current liabilities	78,736	72,106	-6,630
Deferred tax liabilities	2,260	6,843	4,583
Obligations for retirement pay	8,231	5,384	-2,847
Fixed liabilities	16,526	19,406	2,879
Total liabilities	95,263	91,512	-3,751
Total net assets	74,917	84,869	9,952

●Cash flows

Consolidated Cash Flow Statement, FY3/15 versus FY3/14

(¥mn)

	FY3/14	FY3/15
Cash flows from operations	-9,403	-139
Pretax profit (- indicates loss)	3,154	3,362
Change in trade notes and accounts receivable (- indicates increase)	-14,613	1,041
Change in trade notes and accounts payable (- indicates decrease)	5,989	-1,766
Cash flows from investing	-3,506	3,440
Cash flows from financing	-4,152	-2,901
Change in cash and cash equivalents	-16,953	156
Period-end balance of cash and cash equivalents	23,510	23,667

The Company recorded increases in sales and profit in Q1 FY3/16 with a favorable environment for the industry

●Business results for Q1 FY3/16

For Q1 FY3/16, sales increased and profits improved compared to the same period of the previous fiscal year (Q1 FY3/15). Orders received was ¥46,385mn, up 9.2% y-o-y, consolidated net sales was ¥34,495mn, up 5.1%, gross profit was ¥3,291mn, up 93.5%, operating loss was ¥630mn, compared to a loss of ¥2,085mn in Q1 FY3/15, ordinary loss was ¥254mn, compared to a loss of ¥1,846mn in Q1 FY3/15, and loss attributable to owners of parent was ¥266mn, compared to a loss of ¥1,215mn in Q1 FY3/15. Companies of this kind of format typically have their profits weighted towards the fourth quarter, and it is common for them to record losses in the first quarter. It is noteworthy that the losses have shrunk considerably compared to Q1 FY3/15.

Total orders received was ¥46,385mn, up 9.2% y-o-y. In facilities construction, orders received was ¥36,677mn, down 2.0%; however, in industrial HVAC orders received greatly increased ¥13,896mn, up 31.5%, notably continuing a strong performance from FY3/15. In smart building solutions, orders received was ¥1,274mn, up 66.3%, and in facility systems ¥2,704mn, up 47.1%, showing steady growth. In machinery systems orders received was ¥4,477mn, up 183.4%, and in environmental systems ¥4,842mn, up 49.7%, both making significant gains.

Overall net sales was ¥34,495mn, up 5.1% y-o-y. In facilities construction, net sales was ¥30,213mn, up 6.5%, in machinery systems ¥1,587mn, down 23.0%, and in environmental systems ¥2,331mn, up 8.9%.

Consolidated Results, Q1 FY3/16

(¥mn, %)

	Q1 FY3/15	Q1 FY3/16		
	Amount	Amount	y-o-y change	% change
Orders received	42,489	46,385	3,896	9.2
Facilities construction	37,434	36,677	-757	-2.0
Machinery systems	1,579	4,477	2,897	183.4
Environmental systems	3,233	4,842	1,608	49.7
Real estate	270	381	111	41.2
Other	122	142	20	16.6
Adjustments	-151	-135	15	-
Balance carried forward to next year	117,883	113,910	-3,973	-3.4
Net sales	32,825	34,495	1,669	5.1
Facilities construction	28,365	30,213	1,847	6.5
Machinery systems	2,061	1,587	-473	-23.0
Environmental systems	2,141	2,331	190	8.9
Real estate	270	381	111	41.2
Other	109	125	15	14.4
Adjustments	-122	-144	-21	-
Gross profit (- indicates loss)	1,700	3,291	1,590	93.5
SG&A expenses	3,786	3,921	134	3.6
Operating profit (- indicates loss)	-2,085	-630	1,455	-
Ordinary profit (- indicates loss)	-1,846	-254	1,592	-
Profit attributable to owners of parent (- indicates loss)	-1,215	-266	948	-

* "Net profit" used in FY3/15 has been changed to "Profit (loss) attributable to owners of parent"

Orders Received (by Segment Q1 FY3/16 versus Q1 FY3/15)

(¥mn, %)

	Segment	Q1 FY3/15	Q1 FY3/16		
		Amount	Amount	y-o-y change	% change
Orders Received	Facilities construction	37,434	36,677	-757	-2.0
	HVAC and plumbing for buildings	18,077	13,674	-4,403	-24.4
	Industrial HVAC	10,568	13,896	3,328	31.5
	Electrical systems	6,183	5,126	-1,056	-17.1
	Smart building solutions	766	1,274	508	66.3
	Facility systems	1,838	2,704	865	47.1
	Machinery systems	1,579	4,477	2,897	183.4
	Environmental systems	3,233	4,842	1,608	49.7
	Sub total	42,248	45,997	3,748	8.9
	Real estate	270	381	111	41.2
	Other	122	142	20	16.6
	Adjustments	-151	-135	15	-
	Total	42,489	46,385	3,896	9.2

In profits, gross profit was ¥3,291mn, up 93.5% y-o-y, with the significant y-o-y increase reflecting sales growth and an improved profit margin. Operating profit, ordinary profit, and profit attributable to owners of parent also improved.

The Company recorded a reversal of provision for loss on construction contracts of ¥269mn for Q1 FY3/16, and the balance carried forward (at the end of period) subjected to provision for loss on construction contracts had also declined from FY3/15. These results indicate that a decline in unprofitable projects is driving a significant improvement in the profit margin.

As the above results show, the Company has made a strong start in Q1 FY/316.

Quarterly Results

(¥mn, %)

	FY3/15				FY3/16
	Q1	Q2	Q3	Q4	Q1
Gross profit margin	5.2%	7.6%	10.1%	14.6%	9.5%
Operating profit (- indicates loss)	-2,085	-620	1,201	4,456	-630
Ordinary profit (- indicates loss)	-1,846	-478	1,612	4,522	-254
Profit attributable to owners of parent	-1,215	-111	1,119	2,669	-266
Provision for loss on construction contracts (balance at the end of period)	724	1,236	989	1,314	1,045
Provision (or reversal of provision) for loss (gain) on construction contracts (- indicates reversal)	157	511	-246	324	-269
Balance carried forward (at the end of period) subjected to provision for loss on construction contracts	7,329	8,131	5,376	4,388	2,451

* "Net profit" used in FY3/15 has been changed to "Profit (loss) attributable to owners of parent"

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(2) Company Forecast for FY3/16

For FY3/16, Sanki Engineering forecasts a 0.2% y-o-y rise in consolidated net sales to ¥180,000mn, an 18.6% increase in operating profit to ¥3,500mn, a 5.0% upturn in ordinary profit to ¥4,000mn, and a 5.6% advance in profit attributable to owners of parent to ¥2,600mn. The Company forecasts a 6.7% y-o-y rise in orders received, to ¥185,000mn, a 4.9% increase in orders carried forward to ¥107,019mn, a 6.9% increase in gross profit to ¥19,200mn, and a gross profit margin of 10.7%, up from 10.0% in FY3/15.

The facility construction industry, including the Company, is currently benefitting from a favorable environment, and the Q1 FY3/16 results show a strong start. The Company aims to increase sales and profits by leveraging the boost from the orders environment, and by securing order recieved and net sales in this term, particularly in the industrial HVAC business.

Furthermore, the Company is taking steps to increase its earning capacity by reducing the burden on site work, establishing a new Procurement Division to boost its negotiating power and support site purchasing operations through centralized management. Site documentation works will also be supported by the establishment of a Site-Documentation Support Center. The Company will establish an environment where site managers can focus on their original task of construction work, and reduce the workload on sites, while maintaining and improving the quality management of its construction work.

■ Medium-term Management Plan

The Company plans steadily transform itself by executing measures for realizing qualitative targets

The Company is currently engaged in medium-term management plan, called SANKI VITAL PLAN 90th, which finishes in FY3/16. Under this plan, the Company has targeted consolidated net sales of ¥200,000mn and consolidated ordinary profit of ¥10,000mn. However, given the current status these targets will be difficult to achieve. The main reasons are waning public-sector investment since the plan started and a decline in profits due to the conclusion of the lease period of major lease projects in the real estate business. However, the plan is not limited to achieving numerical targets. In addition to its quantitative targets the plan contains many qualitative objectives, and the Company is steadily transforming itself by executing measures to realize them.

Former representative director and senior executive officer Tsutomu Hasegawa has been appointed as the new president from FY3/16 (appointed April 1, 2015). He intends to continue along the same course as his predecessor, former president Takuichi Kajiura, and to implement the following key policies.

●Promote total engineering
- Maintain a system of Group-wide cooperation by revitalizing divisional communication

●Improve profitability by reducing the operational burden at site work
- Reduce the burden on site work, by establishing a new Procurement Division to boost its negotiating power and supporting site purchasing operations through centralized management
- Support site work by establishment of the Site-Documentation Support Center. Create an environment where site managers can focus on core operations

●Enhance corporate value through corporate governance
- Improve governance by response to the Corporate Governance Code
- Promote constructive dialog with shareholders and other stakeholder

●Expand overseas business
- Strengthen management base of THAI SANKI ENGINEERING & CONSTRUCTION Co., Ltd.

●Enhance compliance
- Achieve company-wide penetration of compliance programs based on the Sanki Engineering Group Compliance Declaration and the Sanki Engineering Group Behavioral Standards

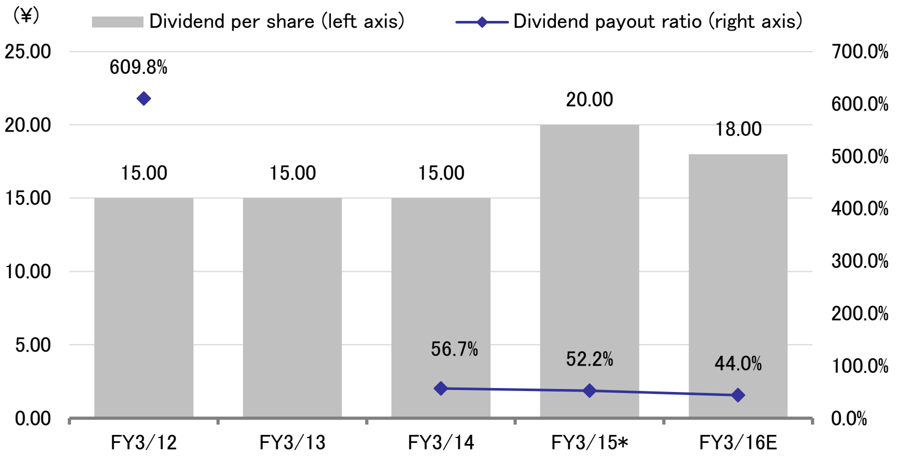
Shareholder Returns

The Company is forecasting an increase in its ordinary dividend for FY3/16, and is making impressive active share buybacks

The Company is proactive on making returns to shareholders and has a clear policy. Regarding dividends, the Company has continued to pay stable annual dividends of ¥15 (a commemorative dividend of ¥5 was also paid in FY3/15), and plans to pay an ordinary dividend of ¥18 for FY3/16.

Furthermore, as another measure for returning profits to shareholders, the Company is aggressively buying back its own shares from the stock market and retiring them. In FY3/14, it bought back 4,000,000 shares and retired 4,800,000 shares. In FY3/15, it bought back 2,000,000 shares and retired 3mn shares. As a result, at the end of FY3/15, the Company had 66,661,156 shares outstanding and 3,119,468 treasury shares valued at ¥2,267mn on the balance sheet. This positive attitude towards shareholder returns should be highly appreciated.

Dividends for FY3/12 to FY3/16E



*Including a 90th anniversary commemorative dividend of ¥5

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