Sanki Engineering Co., Ltd.

1961 Tokyo Stock Exchange First Section

19-Feb.-16

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FISCO Ltd. Analyst
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All profits increased by through extensive cost management

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 Q2 FY3/16 (April to September 2015), orders received was ¥99,206mn, up 22.1% y-o-y, consolidated sales were down marginally, at ¥75,480mn, gross profit was ¥8,103mn, up 64.5%, and operating profit was ¥176mn, compared with a loss of ¥2,705mn in the previous corresponding period. Ordinary profit was ¥524mn, compared with an ordinary loss of ¥2,325mn a year earlier, and profit attributable to owners of parent was ¥255mn, from a loss attributable to owners of parent ¥1,327mn in the previous corresponding term. Extensive cost management, an improved order environment, and other factors enabled the company to significantly enhance margins and increase profits across the board.

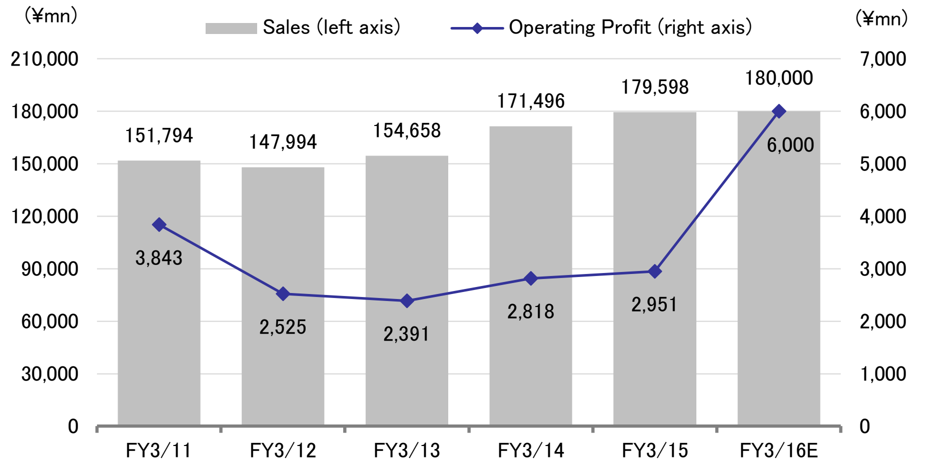
For the full year, management forecasts orders received of ¥185,000mn, up 6.7% y-o-y, sales of ¥180,000mn, up 0.2%, an operating profit of ¥6,000mn, up 103.3%, ordinary profit of ¥6,500mn, up 70.6%, and profit attributable to owners of parent of ¥4,400mn, up 78.8%. In light of solid H1 results, management lifted its initial forecasts (operating profit of ¥3,500mn, ordinary profit of ¥4,000mn and profit attributable to owners of parent of ¥2,600mn). An abundance of current construction orders, continued extensive cost management, and other factors make it highly likely that the Company will reach its targets.

The Company is in medium-term management plan, called SANKI VITAL PLAN 90th, which finishes in FY3/16. The Company has targeted consolidated 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 of major lease projects in the real estate business. 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. The Company plans to announce a new medium-term management plan by next fiscal year and the contents of the plan should attract considerable attention. 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. It is worth noting that if management reaches its earnings targets the dividend payout ratio would reach 44%.

Check Point

- Connecting a wide range of business fields and businesses horizontally through "total engineering"
- Full-year forecasts raised in view of strong H1 results
- Many quantitative profit goals accompanying qualitative targets

Consolidated Sales and Operating Profit



Company Outline

Four main businesses: facilities construction, machinery systems, environmental systems, and real estate

(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 FY3/16, 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.

(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

This fiscal year, the facility systems business absorbed the smart building solutions business.
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 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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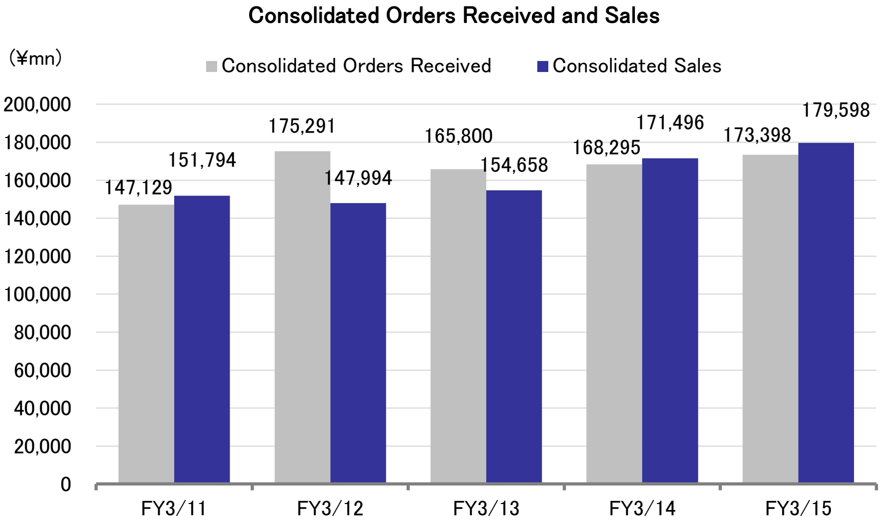

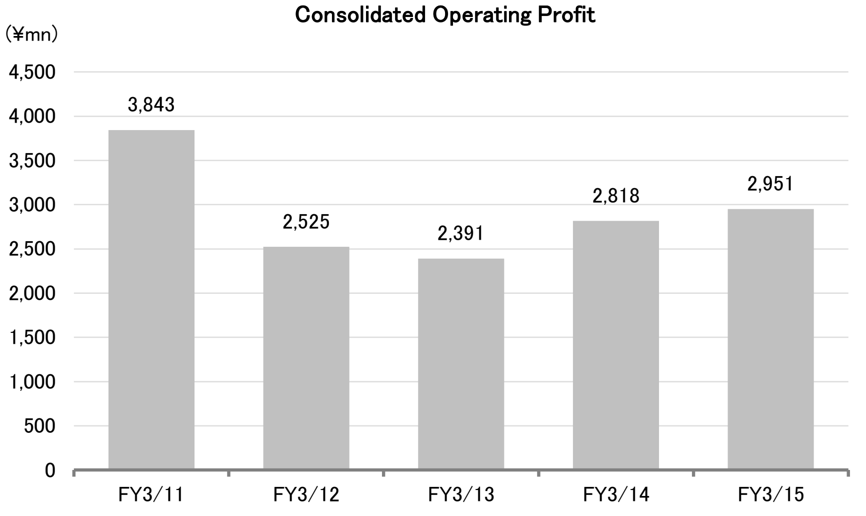

Connecting a wide range of businesses horizontally through "total engineering"

(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 ABENO HARUKAS in Osaka.

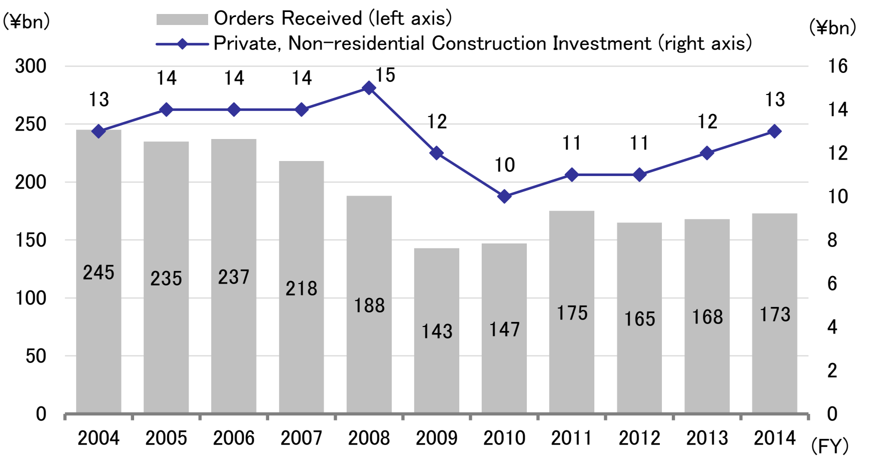
●Main competitors

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.

(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 construction. The Company's main business is facilities construction, and there seems to be a strong correlation between the Company's annual orders received and annual investment by Japan's private sector in non-residential construction.

Orders Received versus Private, Non-residential Construction Investment



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

Business Trends

All profits increased by through extensive cost management

(1) Q2 FY3/16 Results

●Profits

In Q2 FY3/16 (April to September 2015), orders received was ¥99, 206mn, up 22.1% y-o-y, sales were unchanged, at ¥75,480mn, gross profit was ¥8,103mn, up 64.5%, and operating profit was ¥176mn, from an operating loss of ¥2,705mn in the previous corresponding period. Ordinary profit was ¥524mn, compared with an ordinary loss of ¥2,325mn a year earlier. Profit attributable to owners of parent was ¥255mn, from a loss of ¥1,327mn a year earlier. Orders received was ¥99,206mn, up 22.1%, and construction work carried forward was ¥125,745mn, up 10.3%.

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While sales were in line with the initial projection of ¥76,000mn, operating profit, ordinary profit, and profit attributable to owners of parent all significantly outperformed the projected ¥1,900mn operating loss, ¥1,700mn ordinary loss, and ¥1,200mn loss attributable to owners of parent. The main factors in the improvement of ¥2,850mn in ordinary profit were a ¥1,971mn improvement in the profit margin, a ¥1,206mn reduction in the provision for loss on construction contracts, a ¥295mn increase in expenses, and a ¥32mn decrease in non-operating income.

Consolidated Results, Q2 FY3/16

(¥mn, %)

	Q2 FY3/15		Q2 FY3/16			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	81,248	-	99,206	-	17,957	22.1
Balance carried forward to next year	113,960	-	125,745	-	11,784	10.3
Sales	75,507	100.0	75,480	100.0	-27	-0.0
Gross profit	4,925	6.5	8,103	10.7	3,178	64.5
SG&A expenses	7,631	10.1	7,926	10.5	295	3.9
Operating profit	-2,705	-	176	0.2	2,882	-
Ordinary profit	-2,325	-	524	0.7	2,850	-
Profit attributable to owners of parent	-1,327	-	255	0.3	1,582	-

The gross profit margin climbed from 6.5% a year earlier to 10.7%. The Company has attributed this improvement to the following factors.

- **Extensive cost management :** The Company boosted cost management more extensively than anticipated. This resulted in a reduced provision for loss on construction contracts and enhanced the profit margin.

- **Improvement of order environment :** Demand improved amid better industry conditions and a reduction in less profitable orders.

- **Maintenance of site support system :** Since April 2015, the Company has supported engineers at work sites in various ways. This has included purchasing operation assistance from the Procurement Division, work site support from the Site-Documentation Support Center, and quality controls from technical experts. These initiatives have begun to bear fruit.

- **Strengthening of relations with business partners :** Through existing initiatives, such as convening Liaison Meetings for business partners and establishing the Sanki Super Meister System, the Company reinforced ties with business partners in various regions while fostering work quality improvements and passing skills down to younger employees.

At the same time, SG&A expenses jumped by ¥295mn. As a result, the ratio of SG&A to sales rose from 10.1%, to 10.5%, although such an increase was expected. With the gross profit margin climbing significantly, the Company posted ¥176mn in operating profit. In line with operating profit, it also posted ordinary profit and the profit attributable to owners of parent.

Quarterly trends for the provision for loss on construction contracts show just two provisions in H1, which resulted in a reversal (profits). This contributed significantly to a profit margin improvement.

Quarterly Results

(¥mn)

	FY3/15				FY3/16	
	Q1	Q2	Q3	Q4	Q1	Q2
Gross profit margin	5.2%	7.6%	10.1%	14.6%	9.5%	11.7%
Operating profit (- indicates loss)	-2,085	-620	1,201	4,456	-630	807
Provision for loss on construction contracts (balance at the end of period)	724	1,236	989	1,314	1,045	777
Provision (or reversal of provision) for loss (gain) on construction contracts (- indicates reversal)	157	511	-246	324	-269	-267
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	1,661

Consolidated Sales and Ordinary Profit by Segment

(¥mn, %)

	Q2 FY3/15		Q2 FY3/16			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Sales	75,507	100.0	75,480	100.0	-27	-0.0
HVAC and plumbing for buildings	31,051	41.1	28,255	37.4	-2,795	-9.0
Industrial HVAC	21,272	28.2	22,230	29.5	957	4.5
Electrical systems	8,480	11.2	10,010	13.3	1,530	18.1
Facility systems	3,945	5.2	4,884	6.5	939	23.8
Facilities construction	64,749	85.8	65,381	86.6	632	1.0
Machinery systems	4,864	6.4	3,307	4.4	-1,556	-32.0
Environmental systems	5,401	7.2	6,134	8.1	732	13.6
Real estate	550	0.7	766	1.0	216	39.3
Other	242	0.3	259	0.3	17	7.0
Adjustments	-300	-0.4	-368	-0.5	-68	-
Ordinary profit	-2,325	-	524	0.7	2,850	-
Facilities construction	-2,011	-	866	-	2,878	-
Machinery systems	-54	-	-251	-	-196	-
Environmental systems	-931	-	-941	-	-10	-
Real estate	111	-	114	-	3	2.7
Other	22	-	17	-	-4	-22.7
Adjustments	537	-	718	-	180	-

Sales of the facilities construction business was up 1.0% y-o-y to ¥65,381mn. Performances were particularly favorable in electrical systems and facility systems. Machinery systems sales fell significantly by 32.0% to ¥3,307mn, although this was expected owing to a decline in orders received during the previous fiscal year. Sales of environmental systems rose 13.6% to ¥6,134mn, owing mainly to strong orders received at subsidiaries. Other businesses performed basically as expected, although the figures were small.

Ordinary profit from facilities construction was ¥866mn, a ¥2,878mn turnaround from a ¥2,011mn ordinary loss a year earlier. Since the Company's ordinary profit improved ¥2,850mn, facilities construction accounted for the bulk of that gain.

Orders Received by Segment

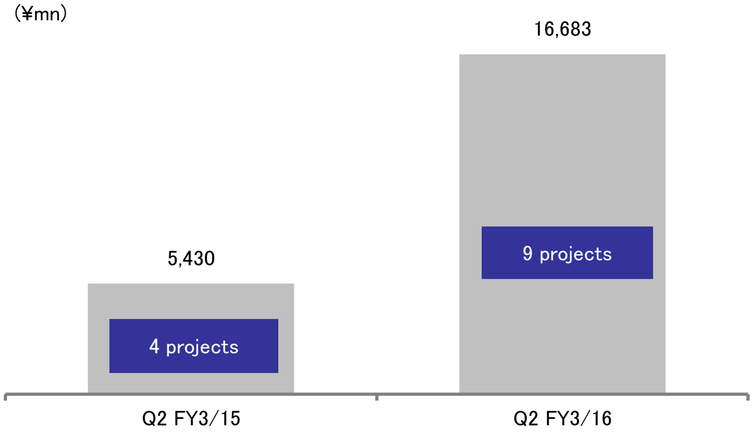
(¥mn, %)

	Q2 FY3/15		Q2 FY3/16			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	81,248	100.0	99,206	100.0	17,957	22.1
HVAC and plumbing for buildings	31,396	38.6	34,023	34.3	2,627	8.4
Industrial HVAC	21,943	27.0	25,294	25.5	3,351	15.3
Electrical systems	11,807	14.5	12,699	12.8	892	7.6
Facility systems	4,803	5.9	6,623	6.7	1,820	37.9
Facilities construction	69,950	86.1	78,642	79.3	8,691	12.4
Machinery systems	2,888	3.6	6,981	7.0	4,093	141.7
Environmental systems	7,971	9.8	13,133	13.2	5,161	64.8
Real estate	550	0.7	766	0.8	216	39.3
Other	228	0.3	272	0.3	43	19.0
Adjustments	-340	-0.4	-590	-0.6	-249	-

Total orders received for facilities construction was up 12.4% to ¥78,642mn, so orders received increased in all businesses. The Company did particularly well in the key industrial HVAC business, with orders rising 15.3% to ¥25,294mn, and in facility systems, where orders climbed 37.9% to ¥6,623mn. The gains stemmed from electronics manufacturers, automakers, and other producers starting to boost capital investment in Japan against the backdrop of a lower yen. On Plant & Machinery Systems Business, orders received for machinery systems jumped 141.7% to ¥6,981mn, while orders received for environmental systems rose 64.8% to ¥13,133mn, reflecting large-scale project.

Overall, the Company did well, receiving 9 projects worth more than ¥1bn each, for a total of ¥16,683mn. This compared with 4 projects totaling ¥5,430mn in Q2 FY3/15). As shown below, orders by business were from diverse fields.

Major Project Orders Exceeding ¥1bn



Breakdown of Major Project Orders Exceeding ¥1bn

	Q2 FY3/15	Q2 FY3/16
Office	-	2
Hospital	2	1
Research institute	1	1
Factory	-	2
Waste processing facility	-	3
Water and sewage treatment facility	1	-
Total	4	9

Source: Compiled by FISCO based on financial highlights

Total orders received was thus ¥99,206mn, up 22.1% y-o-y. Orders carried forward at the end of Q2 FY3/16 was up 10.3% to ¥125,745mn.

●Financial condition

At the end of Q2 FY3/16, current assets were ¥93,720mn, down ¥22,503mn y-o-y. This was due mainly to declines of ¥4,389mn in cash and deposits and ¥21,443mn in trade notes and accounts receivable. Fixed assets were ¥56,405mn, down ¥3,752mn, largely because of a ¥3,480mn loss on valuation of investment securities. Total assets thus stood at ¥150,126mn, down ¥26,256mn.

Current liabilities were ¥54,146mn, down ¥17,960mn. This was largely because of a ¥16,697mn decrease in trade notes and accounts payable and a ¥373mn increase in payments received for work in progress. Total liabilities were therefore down ¥23,524mn to ¥67,988mn. Total net assets dropped ¥2,731mn to ¥82,137mn, reflecting a decline in the valuation difference on available-for-sale securities.

Consolidated Balance Sheet

(¥mn)

	End FY3/15	End Q2 FY3/16	Change
Cash and deposits	29,267	24,877	-4,389
Trade notes and accounts receivable	74,781	53,337	-21,443
Current assets	116,224	93,720	-22,503
Tangible fixed assets	9,269	9,070	-198
Intangible fixed assets	370	401	31
Investments and other assets	50,517	46,932	-3,584
Fixed assets	60,157	56,405	-3,752
Total assets	176,382	150,126	-26,256
Trade notes and accounts payable	56,137	39,439	-16,697
Short-term borrowings	5,672	5,674	1
Payments received for work in progress	2,636	3,010	373
Current liabilities	72,106	54,146	-17,960
Deferred tax liabilities	6,843	5,913	-930
Obligations for retirement pay	5,384	915	-4,469
Fixed liabilities	19,406	13,841	-5,564
Total liabilities	91,512	67,988	-23,524
Total net assets	84,869	82,137	-2,731

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●Cash flows

In Q2 FY3/16, net cash used in operating activities was ¥1,330mn, owing mainly to ¥4,244mn in spending on additional contributions to retirement benefit trust fund and to corporate income taxes paid. Net cash provided by investing activities was ¥5,599mn income, mostly as a result of ¥5,600mn by refund of time deposits. Net cash used in financing activities was ¥1,010mn, the prime element being ¥968mn by cash dividends paid.

As a result of these factors, cash and cash equivalents increased ¥3,209mn y-o-y to ¥26,877mn at the end of Q2 FY3/16.

Consolidated Cash Flow Statement

(¥mn)

	Q2 FY3/15	Q2 FY3/16
Cash flows from operations	1,535	-1,330
Pretax profit (- indicates loss)	-2,343	499
Change in trade notes and accounts receivable (- indicates increase)	20,607	21,112
Change in trade notes and accounts payable (- indicates decrease)	-14,379	-16,694
Cash flows from investing	27	5,599
Cash flows from financing	-2,247	-1,010
Change in cash and cash equivalents	-778	3,209
Period-end balance of cash and cash equivalents	22,732	26,877

Full-year forecasts raised in view of strong H1 results

(2) Company Forecast for FY3/16

For FY3/16, Sanki Engineering initially forecast a 6.7% y-o-y rise in orders received to ¥185,000mn, a 0.2% increase in consolidated sales to ¥180,000mn, and an 18.6% gain in operating profit to ¥3,500mn. It also looked for a 5.0% upturn in ordinary profit to ¥4,000mn and a 5.6% gain in profit attributable to owners of parent to ¥2,600mn. The Company raised its forecasts in light of strong H1 results. While retaining its projections of a 6.7% y-o-y rise in orders received to ¥185,000mn and a 0.2% increase in consolidated sales to ¥180,000mn, management now anticipates a 103.3% increase in operating profit to ¥6,000mn, a 70.6% rise in ordinary profit to ¥6,500mn, and a 78.8% advance in profit attributable to owners of parent to ¥4,400mn.

The Company forecasts a 3.8% y-o-y rise in orders received to ¥155,700mn for the core facilities construction business. While projecting a 13.8% decline in electrical systems orders received to ¥20,000mn in a rebound from the previous term, the Company forecasts an 11.2% increase in industrial HVAC to ¥52,000mn, and a 18.6% increase in facility systems to ¥11,000mn. For the plants and machinery systems business, management anticipates a gain of 40.0% to ¥8,000mn for machinery systems and a rise of 19.3% to ¥20,000mn for environmental systems.

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FY3/16 forecasts

(¥mn, %)

	FY3/15		FY3/16 forecasts as of November 10, 2015			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	173,398	100.0	185,000	100.0	11,602	6.7
HVAC and plumbing for buildings	70,778	40.8	72,700	39.3	1,922	2.7
Industrial HVAC	46,765	27.0	52,000	28.1	5,232	11.2
Electrical systems	23,215	13.4	20,000	10.8	-3,215	-13.8
Facility systems	9,272	5.3	11,000	5.9	1,728	18.6
Facilities construction	150,032	86.5	155,700	84.2	5,668	3.8
Machinery systems	5,716	3.3	8,000	4.3	2,284	40.0
Environmental systems	16,767	9.7	20,000	10.8	3,233	19.3
Real estate	1,285	0.7	1,200	0.6	-85	-6.6
Other	481	0.3	600	0.3	119	24.7
Adjustments	-884	-0.5	-500	-0.3	384	-
Sales	179,598	100.0	180,000	100.0	402	0.2
HVAC and plumbing for buildings	72,371	40.3	66,700	37.1	-5,671	-7.8
Industrial HVAC	47,015	26.2	52,000	28.9	4,985	10.6
Electrical systems	21,884	12.2	21,000	11.7	-884	-4.0
Facility systems	9,897	5.5	11,000	6.1	1,103	11.1
Facilities construction	151,169	84.2	150,700	83.7	-469	-0.3
Machinery systems	9,953	5.5	9,000	5.0	-953	-9.6
Environmental systems	17,485	9.7	19,000	10.6	1,515	8.7
Real estate	1,285	0.7	1,200	0.7	-85	-6.6
Other	508	0.3	600	0.3	92	18.1
Adjustments	-803	-0.4	-500	-0.3	303	-
Operating profit	2,951	1.6	6,000	3.3	3,049	103.3
Ordinary profit	3,809	2.1	6,500	3.6	2,691	70.6
Net profit	2,461	1.4	4,400	2.4	1,939	78.8

With a heavy backlog of construction orders at this juncture, the Company should comfortably attain its targets. The focus for management should be on avoiding unforeseen unprofitable work by extensively managing progress. The operating environment for the construction and HVAC sector is favorable, so with plenty of work the Company should be able to reach its targets for orders received.

The Company plans to continue reinforcing its site support structure to generate earnings. One initiative has been for the Procurement Division to enhance negotiating clout while supporting site purchasing through centralized management. Another move has been to dispatch employees from the Site-Documentation Support Center to assist with paperwork at work sites. The idea is to improve profit margins by empowering site managers to concentrate on their main tasks by alleviating deskwork, contributing to progress and quality management and ultimately eliminating rework. This approach already began to prove fruitful in H1. It will naturally be important for the Company to continue such efforts.

■ Medium-term Management Plan

Many quantitative profit goals accompanying 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 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 continuously.

●Promote total engineering

• Maintain a system of Group-wide cooperation by revitalizing divisional communication

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●Improve profitability by reducing the operational burden at site work

- Reduce the burden on site work, by establishing a 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 by bolstering corporate governance

- Lead by the Board of Directors, improve governance in responding 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.

●Raster compliance

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

Also, the Company is working on its next medium-term management plan. This initiative is scheduled for announcement during this term, and while the numerical targets, management policies, and other details are unclear at this point, they should attract considerable attention.

Shareholder Returns

Aggressively buying back and retiring shares to enhance shareholder returns

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 Q2 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.

Disclaimer