Sanki Engineering Co., Ltd.

1961 Tokyo Stock Exchange First Section

9-Aug.-16

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

FISCO Ltd. Analyst
Noboru Terashima

Growth in all profit categories through 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.

FY3/16 results (Apr 2015-Mar 2016) show orders received of ¥183,270mn (+5.7% y-o-y), net sales of ¥178,901mn (-0.4% y-o-y), gross profit of ¥22,929mn (+27.6% y-o-y), operating income of ¥6,509mn (+120.6% y-o-y), ordinary income of ¥8,135mn (+113.6% y-o-y) and profit attributable to owners of parent of ¥5,327mn (+116.4% y-o-y). In addition to rigorous cost management, there was significant earnings growth in all profit categories as profit margins improved sharply due to improved work efficiency and other factors.

FY3/17 results anticipate orders received of ¥183,000mn (-0.1% y-o-y), net sales of ¥185,000mn (+3.4% y-o-y), operating income of ¥6,500mn (-0.1% y-o-y), ordinary income of ¥7,000mn (-14.0% y-o-y) and profit attributable to owners of parent of ¥4,900mn (-8.0% y-o-y). Given that improvements in profitability in the last period were remarkable, this is a conservative forecast, approximately in line with the previous year, however, given. Amongst other things, that there is ample ongoing construction and the Company continues to promote rigorous cost management, we feel the likelihood of achieving these targets is high.

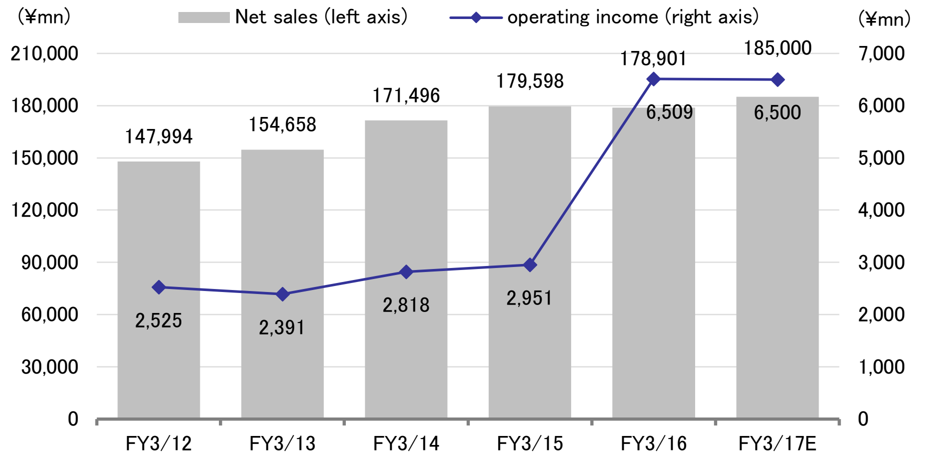
As the Company prepares for the 100th anniversary of its establishment, it has announced its long-term vision "Century 2025" with its goals for the next 10 years. The ultimate goal of this plan is to become the company more selected by customers, however, in its new medium-term management plan for the first three years, "Century 2025" Phase 1, it targets net sales of ¥195bn and operating income of ¥7.5bn in FY3/19. Future measures and progress will be closely followed.

Also, in addition to stable dividends, the Company is proactively implementing shareholder returns via share buybacks and other initiatives, raising its annual dividend payment from ¥20.0 in the previous period to ¥30.0 (a payout ratio of 35.8%), with a regular dividend of ¥18.0 and an extra dividend of ¥12.0. This period the Company is planning to add ¥2.0 to the previous period's ¥18.0 regular dividend for an annual regular dividend of ¥20.0, however, there may be the possibility of increased dividends depending on the level of profits.

Check Point

- Increased orders received for facilities construction overall, with growth in industrial HVAC which is one of the Company's fortes
- Maintaining revenue growth in FY3/17, with many HVAC and plumbing for buildings projects carried over at the beginning of the year
- Posting many qualitative goals in addition to the quantitative targets

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. 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 HVAC, plumbing and electrical 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 April 2015, 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 fiscal 2015.

(2) Outline of Businesses

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

(a) Facilities construction
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 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 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.

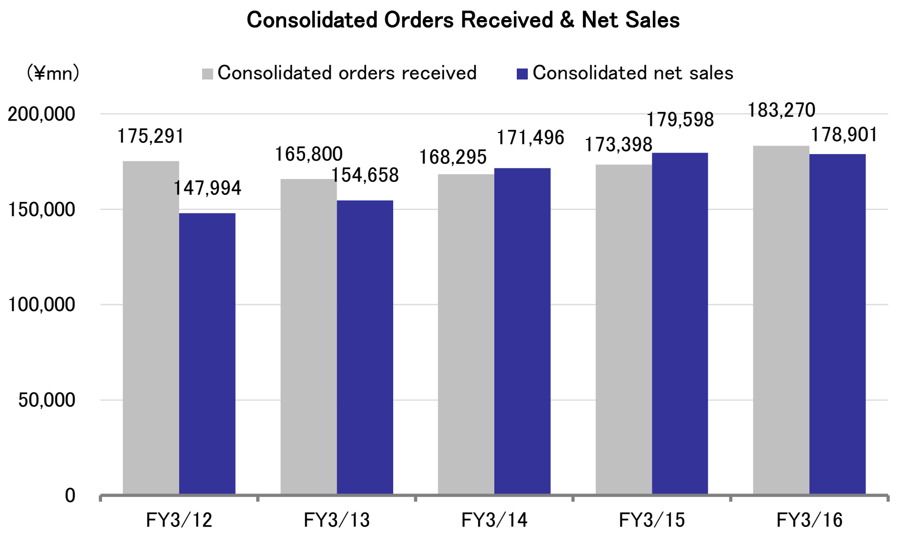
(b) Machinery systems
The machinery systems business supplies materials handling systems, including various transportation equipment (conveyors, sorting systems, etc.), and conveyance systems for factories and automated warehouses.

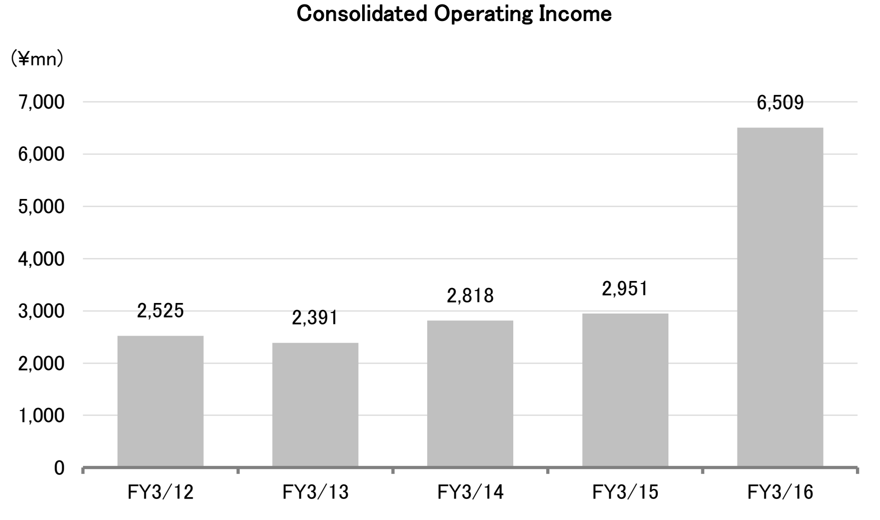
(c) Environmental systems
The environmental systems business provides facilities such as water treatment facilities (including facilities to treat drinking water and dispose of sewage, facilities for the disposal of industrial wastewater, and facilities for the treatment or incineration of sludge), facilities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

(d) Real estate
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.





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

9-Aug.-16

●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 ABENO HARUKAS in Osaka.

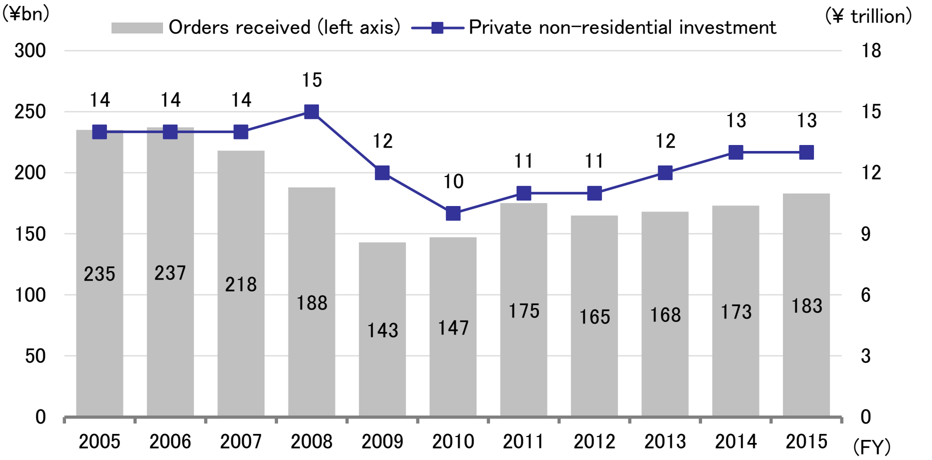
●Main competitors

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 Investment



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

■ Business Trends

Growth in all profit categories through rigorous cost management

(1) FY3/16 Results Overview

●Profits

In FY3/16 results there were orders received of ¥183,270mn (+5.7% y-o-y), net sales of ¥178,901mn (-0.4% y-o-y), gross profit of ¥22,929mn (+27.6% y-o-y), operating income of ¥6,509mn (+120.6% y-o-y), ordinary income of ¥8,135mn (+113.6% y-o-y) and profit attributable to owners of parent of ¥5,327mn (+116.4% y-o-y). The balance of construction works carried over from the previous period was ¥106,388mn (+4.3% y-o-y). While net sales were flat with the previous year, there was significant earnings growth in all profit categories as profit margins improved sharply.

FISCO

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

9-Aug.-16

FY3/16 Results

(Units: ¥mn, %)

	FY3/15		FY3/16			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	173,398	-	183,270	-	9,871	5.7
Balance carried forward to next year	102,019	-	106,388	-	4,368	4.3
Net Sales	179,598	100.0	178,901	100.0	-696	-0.4
Gross profit	17,966	10.0	22,929	12.8	4,963	27.6
SG&A expenses	15,015	8.4	16,419	9.2	1,404	9.4
Operating income	2,951	1.6	6,509	3.6	3,558	120.6
Ordinary income	3,809	2.1	8,135	4.5	4,325	113.6
Profit attributable to owners of parent	2,461	1.4	5,327	3.0	2,866	116.4

The gross profit margin of 12.8% (versus 10.0% in the previous period), improved significantly, with the main factors behind gross profit margin improvement being those points set out below.

- **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. Further, 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:** In order to provide operational support at work sites, from April 2015 the Company has engaged in purchasing operations support via the Procurement Division, work site documentation and other clerical support via the Site-Documentation Support Center, and quality control via technical experts, with the results of these initiatives now beginning to merge (in the form of improved operational efficiency).

On the other hand, the actual amount of SG&A rose ¥1,404mn, with its ratio versus net sales rising from 8.4% a year earlier to 9.2%, however, this fell within expectations. As a result, given that gross profit rose significantly, there was also a significant year-on-year rise in operating income, and in line with this significant rises also in ordinary income and profit attributable to owners of parent.

Looking at quarterly trends in provisioning against losses on construction contracts, in the first half (to Q2 FY3/16), a profit from a reversal of provisions against losses on construction contracts booked in the previous period, FY3/15, was recorded. For the full-year also there was a reversal (i.e. profit) from these provisions of ¥128mn, which contributed significantly to improvement in profit margins.

Quarterly Results

(Units: ¥mn)

	FY3/15				FY3/16			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross profit margin	5.2%	7.6%	10.1%	14.6%	9.5%	11.7%	12.9%	15.6%
Operating income (- indicates loss)	- 2,085	- 620	1,201	4,456	- 630	807	2,259	4,073
Provisions for losses on construction contracts (balance at the end of period)	724	1,236	989	1,314	1,045	777	828	1,186
Provision (or reversal of provision) for loss (gain) on construction contracts (- indicates profit)	157	511	- 246	324	- 269	- 267	50	357
Balance carried forward (at the end of period) subjected to balance (at the end of period) for loss on construction contracts	7,329	8,131	5,376	4,388	2,451	1,661	1,090	6,134

FISCO

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

9-Aug.-16

Consolidated Net Sales & Ordinary Income Segment

(Units: ¥mn, %)

	FY3/15		FY3/16			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Net Sales	179,598	100.0	178,901	100.0	-696	-0.4
HVAC and plumbing for buildings	72,371	40.3	64,492	36.0	-7,878	-10.9
Industrial HVAC	47,015	26.2	52,084	29.1	5,069	10.8
Electrical systems	21,884	12.2	22,958	12.8	1,073	4.9
Facility systems	9,897	5.5	10,416	5.8	518	5.2
Facilities construction business	151,169	84.2	149,952	83.8	-1,216	-0.8
Machinery systems	9,953	5.5	9,217	5.2	-736	-7.4
Environmental systems	17,485	9.7	18,734	10.5	1,248	7.1
Real estate business	1,285	0.7	1,532	0.9	247	19.3
Others	508	0.3	542	0.3	34	6.7
Adjustments	-803	-0.4	-1,077	-0.6	-274	-
Ordinary Income	3,809	-	8,135	4.5	4,325	113.6
Facilities construction business	2,943	-	7,698	-	4,755	161.6
Machinery systems	105	-	275	-	170	162.3
Environmental systems	24	-	-315	-	-340	-
Real estate business	207	-	233	-	25	12.1
Others	48	-	52	-	3	7.8
Adjustments	479	-	191	-	-287	-

Net sales in the facilities construction business were ¥149,952mn (-0.8% y-o-y). HVAC and plumbing for buildings declined 10.9% y-o-y to ¥64,492mn, however, industrial HVAC, which the Company specializes in, rose 10.8% y-o-y to ¥52,084mn. Machinery systems net sales were ¥9,217mn (-7.4% y-o-y), a significant decline in revenues from the previous period, however, as there was little construction work in hand at the beginning of the period, this fell within expectations. On the contrary, the fact that it was limited to a single-digit decline in revenues may be regarded as a good recovery. Net sales for environmental systems performed relatively soundly at ¥18,734mn (+7.1% y-o-y), with solid performance in subsidiary orders being the main cause. Amounts for other operating departments are small, however, results were broadly in line with plans.

Further, in ordinary income by segment ordinary income in the facilities construction business improved ¥4,755mn from ¥2,943mn in the previous period to ¥7,698mn. Given that overall ordinary income improvement was ¥4,325mn arguably most of the improvement was contributed by the facilities construction business.

Growth in all profit categories through rigorous cost management

Orders Received by Segment

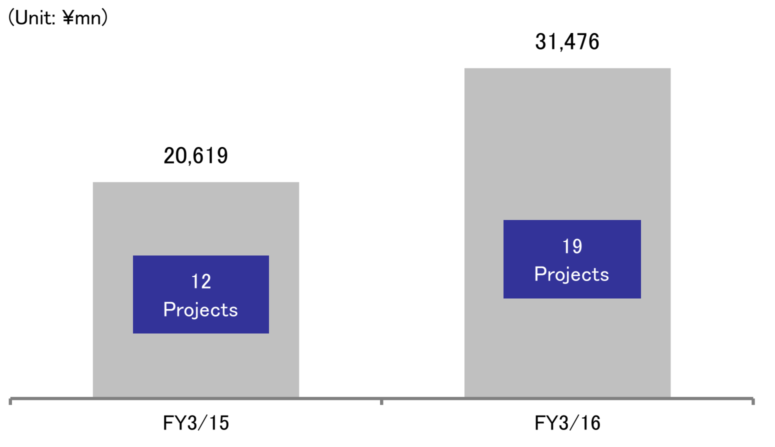
(Units: ¥mn, %)

	FY3/15		FY3/16			
	Amount	Ratio	Amount	Ratio	y-o-y change	% change
Orders received	173,398	100.0	183,270	100.0	9,871	5.7
HVAC and plumbing for buildings	70,778	40.8	66,172	36.1	-4,605	-6.5
Industrial HVAC	46,765	27.0	52,522	28.7	5,756	12.3
Electrical systems	23,215	13.4	22,667	12.4	-548	-2.4
Facility systems	9,272	5.3	11,070	6.0	1,797	19.4
Facilities construction business	150,032	86.5	152,432	83.2	2,400	1.6
Machinery systems	5,716	3.3	10,309	5.6	4,593	80.4
Environmental systems	16,767	9.7	19,610	10.7	2,842	17.0
Real estate business	1,285	0.7	1,532	0.8	247	19.3
Others	481	0.3	524	0.3	42	8.9
Adjustments	-884	-0.5	-1,139	-0.6	-254	-

Overall facilities construction business orders received were ¥152,432mn (+1.6% y-o-y). In particular, there was sound performance in industrial HVAC orders received which were ¥52,522mn (+12.3% y-o-y) and facilities systems orders received which were ¥11,070mn (+19.4% y-o-y), both of which are the Company's fortes. The reason for this was increased plant investment activity domestically in the electrical and automobile manufacturing sectors amidst yen depreciation. Also, in plant & machinery systems business orders for both machinery systems and environmental systems rose, being ¥10,309mn (+80.4% y-o-y and ¥19,610mn (+17.0% y-o-y) respectively. In particular, in industrial HVAC and machinery systems securing orders for large-scale projects contributed to significant increases in orders received.

Performance in orders for large-scale projects (exceeding ¥1bn) were sound overall, reaching ¥31,476mn over 19 projects (versus ¥20,619mn for 12 projects the previous period). By client industry also there was a broad range as set out below.

Large-Scale Projects with Orders Exceeding ¥1bn



Source: Prepared by FISCO from the Company's results overview

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

(Units: project)

	FY3/15	FY3/16
Office	2	3
Complex building	-	1
Commercial facility	1	1
Factory	1	5
School	-	1
Hospital	2	2
R&D facility	2	1
Government office	2	-
Waste processing facility	-	3
Water and sewage treatment facility	1	1
Other facilities	1	1
Total	12	19

Source: Prepared by FISCO from the Company's results overview

Under these circumstances, overall orders received were ¥183,270mn (+5.7% y-o-y), with the balance of construction work carried over from the end of the period being ¥106,388mn (+4.3% y-o-y).

●Financial Condition

As regards the financial condition at the end of FY3/16, current assets were ¥115,491mn (a decline of ¥732mn from the previous period-end), however, this was mainly due to declines in cash and deposits of ¥2,766mn and trade notes and accounts receivable of ¥3,534mn. Noncurrent assets declined ¥6,226mn from the previous period-end to ¥53,931mn, however, this was due to factors such as a decline in the market value of investment securities of ¥4,914mn resulting from share price declines. As a result, total assets at the end of the period were ¥169,423mn, a decline of ¥6,958mn from the previous period-end.

Current liabilities were ¥72,863mn, an increase of ¥757mn from the previous period-end, however, this was mainly the result of declines in trade notes and accounts payable of ¥4,676mn, despite a rise of ¥503mn in payments received for work in progress. Noncurrent liabilities were ¥12,001mn, a decline of ¥7,404mn from the previous period-end, however, this was mainly due to factors such as declines of ¥2,101mn in deferred tax liabilities and ¥3,549mn in obligations for retirement pay. As a result, total liabilities at the period-end were ¥84,865mn, a decline of ¥6,647mn from the previous period-end. Also, due to declines in unrealized gains on available-for-sale securities and other factors, total net assets declined ¥311mn from the previous period-end to ¥84,557mn.

Consolidated Balance Sheet

(Units: ¥mn)

	FY3/15	FY3/16	y-o-y change
Cash and deposits	29,267	26,501	-2,766
Trade notes and accounts receivable	74,781	71,246	-3,534
Current assets	116,224	115,491	-732
Tangible assets	9,269	8,715	-554
Intangible assets	370	533	162
Investments and other assets	50,517	44,682	-5,834
Noncurrent assets	60,157	53,931	-6,226
Total Assets	176,382	169,423	-6,958
Trade notes and accounts payable	56,137	51,460	-4,676
Short-term borrowings	5,672	5,672	-0
Payments received for work in progress	2,636	3,140	503
Current liabilities	72,106	72,863	757
Obligations for retirement pay	5,384	1,834	-3,549
Deferred tax liabilities	6,843	4,742	-2,101
Noncurrent liabilities	19,406	12,001	-7,404
Total liabilities	91,512	84,865	-6,647
Total net assets	84,869	84,557	-311

●Cash flows

In respect of cash flows in FY3/16, cash flows from operating activities increased ¥5,220mn, however, this was mainly due to the recording of ¥7,834mn in pretax profits, despite payments for trade notes and accounts payable exceeding collections of trade notes and accounts receivable. There was an increase of ¥5,520mn in cash flows from investing activities, however, this was mainly due to ¥5,600mn in income as a result of withdrawals from time deposits. Cash flows from financing activities declines ¥1,826mn, however, this was mainly due to dividend payments of ¥1,366mn.

As a result, FY3/16 period-end cash and cash equivalents increased ¥8,833mn compared to the previous period-end, with the period-end balance standing at ¥32,501mn.

Consolidated Cash Flows Statement

(Units: ¥mn)

	FY3/15	FY3/16
Cash flows from operating activities	- 139	5,220
Pretax profit (- indicates loss)	3,362	7,834
Change in trade notes and accounts receivable (- indicates increase)	1,041	1,940
Change in trade notes and accounts payable (- indicates decrease)	-1,766	- 4,666
Cash flows from investment activities	3,440	5,520
Cash flows from financing activities	- 2,901	-1,826
Change in cash and cash equivalents	156	8,833
Period-end balance of cash and cash equivalents	23,667	32,501

Maintaining revenue growth in FY3/17, with many HVAC and plumbing for building construction projects carried over at the beginning of the year

(2) Company Forecast for FY3/17

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

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 the beginning of the period, will be ¥72,900mn (+13.0% y-o-y), while industrial HVAC will, partly a reaction to (high levels in the) previous period is expected to be ¥50,000mn (-4.0% y-o-y), with a lull in capital expenditure especially in export related sectors. 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 facilities systems performed well last period, it is forecast that net sales will be ¥22,000mn (-4.2% y-o-y) and ¥10,000mn (-4.0% y-o-y) 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% y-o-y), and environmental systems at ¥19,000mn (+1.4% y-o-y).

Orders received are expected to be ¥149,900mn (-1.7% y-o-y) in the core facilities construction business. By business line, HVAC and plumbing for buildings is expected to see continuing high order levels and be ¥68,900mn (+4.1% y-o-y), however, it is expected that industrial HVAC will be ¥50,000mn (-4.8% y-o-y), taking the view that there will be a lull in capital expenditure in export related sectors. It is expected that in respect of electrical and facilities systems there will be minor declines to ¥21,000mn (-7.4% y-o-y) and ¥10,000mn (-9.7% y-o-y) respectively. In the plant & machinery systems business equipment business, as a reaction against the large-scale order received in the previous period, machinery systems are only expected to be ¥9,500mn (-7.8% y-o-y), while conversely, due to expectations of large-scale orders, environmental systems are expected to reach ¥22,000mn (+12.2% y-o-y).

FY3/17 Results Forecast

(Units: ¥mn, %)

	FY3/16		FY3/17F			
	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	68,900	37.7	2,728	4.1
Industrial HVAC	52,522	28.7	50,000	27.3	-2,522	-4.8
Electrical systems	22,667	12.4	21,000	11.5	-1,667	-7.4
Facility systems	11,070	6.0	10,000	5.5	-1,070	-9.7
Facilities construction business	152,432	83.2	149,900	81.9	-2,532	-1.7
Machinery systems	10,309	5.6	9,500	5.2	-809	-7.8
Environmental systems	19,610	10.7	22,000	12.0	2,390	12.2
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	-56.1
Net Sales	178,901	100.0	185,000	100.0	6,099	3.4
HVAC and plumbing for buildings	64,492	36.0	72,900	39.4	8,408	13.0
Industrial HVAC	52,084	29.1	50,000	27.0	-2,084	-4.0
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	83.8	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	-53.6
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

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 margin, 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.

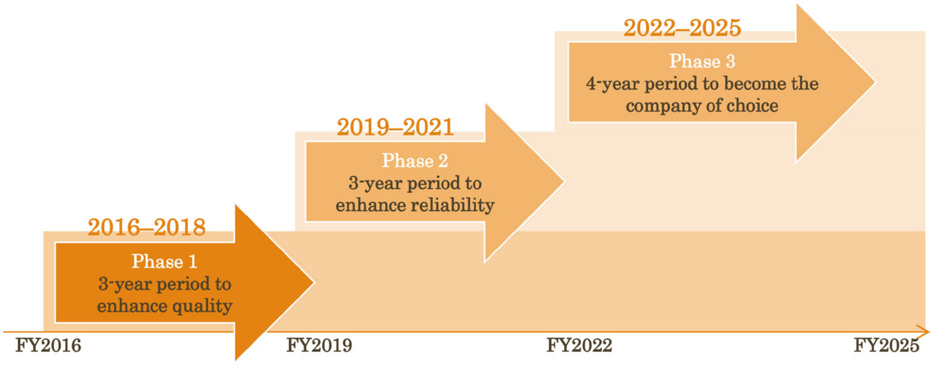
Medium-Term Management Plan

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

(1) Overview of the Long-Term Vision “Century 2025”

The Company has been engaged in its previous medium-term management plan “SANKI VITAL PLAN 90th”, which finished in FY3/16. That plan contained numerical targets for net sales of ¥200,000mn and ordinary income of ¥10,000mn, however, unfortunately actual results fell slightly short of these targets. However, considering amongst other things declines in public works expenditure and declines in profits in line with the expiration of large-scale rental property contracts in its real estate business in the period since the plan was drafted, arguably the targets were basically achieved. Further, the medium-term management plan’s targets were not merely the attainment of numerical targets. Apart from the quantitative profit targets, the Company put forward numerous qualitative targets, and we deem that its implementation of initiatives aimed at these targets is a point worthy of recognition.

Additionally, the Company has announced its 10-year long-term vision “Century 2025”, from this FY3/17 period to FY3/26. The ultimate goal of this long-term vision is to be “The Company of Choice”, and in order to achieve this goal, the Company’s policy is to promote business strategies for the next 10 years, divided into the three phases set out below.



■ 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) Main Initiatives and Financial Performance Targets of the New Medium-Term Management Plan “Century 2025” Phase 1

Key initiatives of the first step, Phase 1, are: (1) strengthening core businesses, (2) promoting growth strategies and (3) enhancing the Sanki brand, with implementation of the initiatives below mapping out the way forward.

1. Strengthening Core Businesses: improving component technologies to achieve stable growth

●Facilities Construction Business
- Reduce costs and raise operational efficiency: strengthening procurement capabilities, reducing work site operational burden, etc.
- Review sales and design structures: promoting ICT usage, restructuring design support system, etc.
- Strengthen Facility Systems Business: strengthening sales and production structures aimed at operational expansion etc.

●Machinery Systems Business
- Market strategies that maximize Company’s strengths: developing material handling systems incorporating robots, etc.
- Restructure the production system: restructuring production system at the Yamato factory, etc.

FISCO

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

9-Aug.-16

●Environmental Systems Business

• Strengthen main businesses: expanding sales of strategic products, developing new strategic products, enhancing productivity, etc.
• Expand business areas: developing energy saving and energy creation business areas, etc.

2. Initiatives for promoting growth strategies: pursuing growth in technologies and business areas for the future

●Redevelop the Yamato site

• Establish new training and research facilities that can enhance technology: renovation of the Sanki Yamato Building into the "Sanki Techno Center (tentative name)"
• Restructure the production facilities: refurbishment of the plants at the Yamato site

●Expand business areas as well as challenging new technologies: renovations of the laboratory seeking to provide a solid response to the advances in next-generation technologies, expansion of business in the kitchen systems field, steady development of overseas businesses, etc.

●Promote buildings stock-based businesses: promotion of engineering operations that responds to each stage of a buildings's life cycle, (new construction→repair and maintenance→renovation →reconstruction)

●Expand areas of Facility Systems Business: expand into new business areas such as property management and strengthen solution sales such as crisis management, security and other areas

●Invest in Growth: proactive investment, not only in existing business domains, but also in areas that can utilize component technologies, etc.

3. Initiatives for enhancing the Sanki brand: developing human resources that possess the Sanki spirit

●Enhance the Sanki spirit of Group employees: develop educational programs that utilize e-learning in addition to classroom-style training, also improve education at each of nationwide bases and divisions

●Create better working conditions: consistently pursue greater fairness in corporate programs, wage structure, and other systems, promote measures to prevent overly long working hours

●Review operational processes: promoting initiatives for lowering the incidence of accidents, reworking, and problems caused by overstraining or erratic behavior, etc.

●Financial Performance Targets

Financial performance targets in "Century 2025" Phase 1 include FY3/19 net sales of ¥195bn, gross profit of ¥24bn (representing a margin of 12.3% of net sales).

Considering current levels of net sales and profits, as well as changes in the operating environment in the lead up to the Tokyo Olympics, these financial performance targets will not be so difficult to achieve. However, in addition to achieving those targets, it is essential to pay attention to how much the Company's "quality" can be improved in the three years of this medium-term management plan, Phase 1.

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. Subsequently, in FY3/16 although it did not undertake a large-scale share buyback, there were 66,661,156 shares outstanding and 3,107,491 held as treasury shares (recorded at ¥2,258mn on the balance sheet.)

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 for 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 this period 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.

Disclaimer