SANKI ENGINEERING CO., LTD.

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SANKI ENGINEERING CO., LTD.

Engineering for the Future

SANKI REPORT 2016

Tsutomu Hasegawa
President

Guided by our newly established “Sanki Engineering Group Management Philosophy,” we will hone our technology and human resources to create comfortable environments throughout society.

I would like to express our heartfelt gratitude to each and every stakeholder of the Sanki Engineering Group for their ongoing support and understanding.

Sanki Engineering was spun off as a small company with twelve employees from the Machinery Department of the former Mitsui & Co. in 1925, a year and a half after the Great Kanto Earthquake, to engage in the reconstruction effort. In the decades that followed, the Sanki Engineering Group’s operations have expanded to encompass a broad range of social infrastructure to meet the varied needs of Japanese society, and today the Group comprises the Facilities Construction Business including HVAC, plumbing and drainage, electrical systems, ICT facilities and office relocation, the Machinery Systems Business including material handling systems and conveyance systems, and the Environmental Systems Business including water and sewage treatment facilities and waste treatment facilities.

Having celebrated our 90th anniversary last year, we are taking the first steps in 2016 toward our 100th anniversary in 2025. In December 2015, the “Sanki Engineering Group Management Philosophy” was established based on the Company Credo set forth in 1980. Moving forward, our Management Philosophy will guide us as we seek to provide engineering services that deliver satisfaction to our customers at all times.

This fiscal year also marks the launch of our new medium-term management plan “Century 2025” Phase 1 and the start of our three-year initiatives for enhancing quality. We are deeply committed to our most important mission of creating comfortable environments and contributing to the sustainable development of society as we strive to raise the medium- to long-term corporate value of the Sanki Engineering Group.

History of Sanki Engineering

Sanki Engineering celebrated its 90th anniversary on April 22, 2015, representing nine decades of keeping pace with the modernization of Japanese industry. Under the Sanki Engineering Group Management Philosophy, "We create comfortable environments through engineering and widely contribute to social development," the Company will continue to open new eras with the power of technology.

The 1920s

1923 Great Tokyo Earthquake strikes. Building modernization drives up demand for building utilities, such as heating, ventilation and air conditioning, water supplies and drainage, and electrical fixtures and fittings, and construction technology advances.
1925 On April 22, Sanki Engineering was established as a spin-off from the Machinery Department of the former Mitsui Bussan, with capital of ¥500,000 and 12 staff.

The 1930s

1931 Moves head office to the Sanshin Building.
1933 Opens a branch in Dalian, Manchuria.
1935 Celebrates the 10th anniversary of its founding, with five branches, six field offices, three affiliates and around 300 staff.

The 1940s

1941 Pacific War begins. Sanki Engineering suffers a shortage of workers as well as materials due to tight control over the distribution of goods.
1944 Emergency metal collection campaigns started nationwide. Kawasaki and Tsurumi plants are designated military industrial plants.
1945 War ends.

The 1950s

1950 The outbreak of the Korean War leads to a war-driven economy and the Japanese economy takes a favorable turn. Expansion of demand for building construction and equipment results in a dramatic improvement in the Company's business performance.
1958 Capital exceeds ¥1 billion.

The 1960s

1963 Completes Sagami plant (currently Yamato Engineering Center), which has production equipment tailored for conveyor mass production.
1964 Participates in projects on the occasion of the 1964 Tokyo Olympics, including the Yoyogi National Gymnasium and the NHK Broadcasting Center.

Laying the base for technological competence by meeting the needs of the era

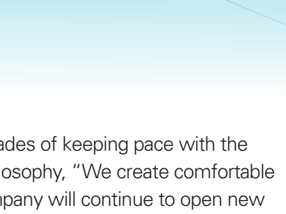
- Provides heating, plumbing, steel frame construction and building materials for two major construction projects: the Shiga manufacturing plant of Toyo Rayon (currently Toray Industries, Inc.) and the refrigerated warehouse of Aomori Seihyo.
- Installs Japan's first centralized air conditioning system for an entire structure at Mitsui's main building.

Diversified and expanded businesses lead to greater technological competence

- Develops and installs a proprietary incinerator for facilities in the Sanshin Building.
- Establishes Toyo Carrier Industries together with U.S.-based Carrier Engineering and launches the air conditioning business.
- Completes work on the Tokyo Office of Nippon Life Insurance Company (currently Takashimaya Nihonbashi department store).

Sanki's advanced technology bolsters a construction boom

- Starts manufacturing conveyors.
- Concludes sales contracts for machinery used in mining-related chemistry with U.S.-based Dorr Inc. and Oliver, Inc.
- Completes work on the main building of the Dai-ichi Life Insurance Company, Japan's first building with the special high-voltage power reception of 22 kV.



A proactive approach to technological innovation

- Completes work on Japan's first all-fluorescent lighting system in the Taisho Marine and Fire Insurance Building.
- Becomes involved in night-soil treatment plant disposal facilities in response to urban hygiene needs.
- Delivers roller conveyor to the Japanese Antarctic Research Expedition II.

Feature as a manufacturer that responds to the needs of the times

- Completes work on air conditioning, plumbing and electrical systems for Japan's first skyscraper, the Kasumigaseki Building.
- Develops the standardized "6S sash" and gains the top market share among steel sash manufacturers.

The 1970s

1971 Environmental Agency inaugurated. Sanki Engineering develops a track record for waste incineration facilities and water and sewerage treatment facilities and sets up the Environmental Administration office.
1973 Spins off sash business.

The 1980s

1980 Establishes the Company Credos.
1982 Builds Technical Research Laboratory equipped with basic research facilities and large-scale experimental facilities in Yamato City, Kanagawa Prefecture.

The 1990s

1990 Bubble economy collapses.
1997 COP3 conference in Kyoto adopts Kyoto Protocol on preventing global warming.

The 2000s

2000 Opens Shonan Training Center (Yokosuka City, Kanagawa Prefecture) and strengthens human resource development.
2005 Moves head office to Nihonbashi.

The 2010s

2011 Moves head office to Tsukiji.
2012 Launches the Smart Building Solution Business to provide Smart Buildings with a focus on the energy-saving business.

2015 90th Anniversary

Established the Sanki Engineering Group Management Philosophy.

2016 Launched long-term vision "Century 2025."

Wide range of technological innovations

- Completes work on Japan's first large-scale clean room at NEC's Sagamihara plant.
- Develops the world's first completely unmanned automatic sorting system and airport baggage handling system.
- Provides HVAC equipment for satellite communication ground stations in the Middle East and other regions and builds automotive testing equipment in Russia.

Opening the way to a new era: advances in environmental and information technology

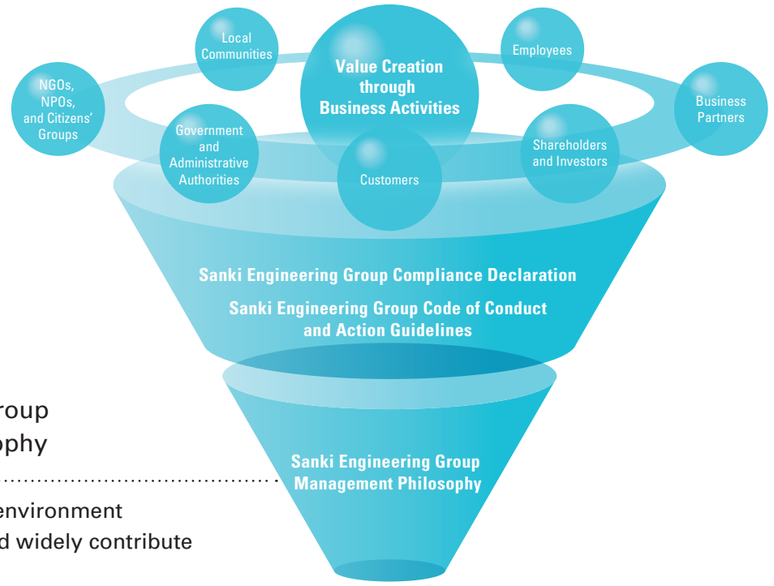
- Launches the information and communications business.
- Launches the facility systems business to deal with office integration and moving.
- Develops environment-related technology, including an ice thermal storage system, sewage advanced treatment systems, and gasification and melting furnaces.

Toward environmentally friendly technology

- Develops a wide variety of energy-saving systems for various fields, including offices, industrial plants, hospitals and data centers, to meet the increased needs for energy saving and reducing CO_2 emissions.
- Begins to actively import technology from Europe and develops a number of major technologies, including AEROWING and Trans Heat containers.

2025 Toward the 100th Anniversary

Sanki Engineering Group Philosophy



Sanki Engineering Group Management Philosophy

We create comfortable environment through engineering and widely contribute to social development.

We will refine our skills and wisdom with the aim of increasing client satisfaction.
We will place significance on communication and mutual respect.
We will remain aware that we are a member of society and will act accordingly.

The Sanki Engineering Group marked the start of its journey toward the centenary of its founding in 2025 by formulating the Management Vision and the "Sanki Engineering Group Management Philosophy," which carries the spirit of the Group's former Corporate Credo, in December 2015.

The Management Philosophy is a comprehensive statement of the Sanki Engineering Group's purpose in society and presents three values. The Sanki Engineering Group is pursuing sustained growth by ensuring all Group executive officers and employees uphold these shared values and is contributing to the creation of a sustainable society. Under the "Sanki Engineering Group Compliance Declaration," which summarizes issues related to corporate ethics and legal compliance, all Group executive officers and employees will strive to create value for stakeholders and society at large by performing their daily job duties in accordance with the "Sanki Engineering Group Code of Conduct," which lays out the basic principles of appropriate conduct, and the more specific "Sanki Engineering Group Action Guidelines."

Editorial Policy

Aiming to produce a tool that further boosts understanding of the Group
We have positioned the "SANKI REPORT," the annual report of Sanki Engineering, as a key, integrated communication tool for reaching all our stakeholders. The report provides financial information, including financial performance and a business overview, along with management strategies and a report on corporate social responsibility activities with respect to each stakeholder. We hope it will further boost understanding of the Sanki Engineering Group's philosophy, business activities and future direction and we welcome feedback for enhancing our operations and information disclosure. In compiling the report, we adopted the following approach in 2016.

- We reviewed the Sanki Engineering Group's system of principles in accordance with the establishment of the Sanki Engineering Group Management Philosophy;
- We created a section to provide an outline of our strategies and explain our various measures in accordance with the formulation of our long-term vision and new medium-term management plan;
- We added an analysis of our business performance in the Financial and Non-Financial Highlights section;
- We created a list of key guidelines and results for fiscal 2015 and key guidelines for fiscal 2016 at the beginning of the CSR report as a progress report on our activities;
- We augmented the information concerning our corporate governance and internal controls to provide a progress report on ongoing initiatives aimed at further strengthening our corporate governance; and
- We sought to enhance our quantitative data by newly disclosing employee information on a consolidated and gender-segregated basis.

Reference guidelines
- Ministry of the Environment "Environmental Reporting Guidelines 2012"
- GRI Sustainability Reporting Guidelines Ver. 4 (G4)
- ISO 26000

Organizations covered by the report
- Financial information shows consolidated Group figures.
- Non-financial information is based on non-consolidated figures for Sanki Engineering Co., Ltd. When the information concerns the Group, organizations covered by the data are specified in the text, list or graph.

Reporting period
April 2015–March 2016 (Some information from outside this period has been included with the period specified.)

Precaution on performance outlooks, etc.

In addition to past and present information concerning the Sanki Engineering Group, this report includes the targets, plans, outlooks, strategies, forecasts of future performance and other information drawn from our medium-term management plan "SANKI VITAL PLAN 90th," long-term vision "Century 2025," "FY2016-2018 Medium-term Management Plan Century 2025 Phase 1" and other sources. Please be aware that these forecasts are the best estimates by Sanki Engineering management and based on the information available at the time, and actual performance may differ significantly from these forecasts, owing to changes such as in economic conditions, market trends and exchange rates.

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We will strive to be the company of choice by enhancing quality and reliability as we approach our first centenary.

Tsutomu Hasegawa
President

Business Environment and Results for Fiscal 2015

In the final year of our medium-term management plan, we achieved significant gains in all profit items.

In fiscal 2015, public investments in the Japanese construction market continued to decline, while private capital investments followed a gradual path to recovery.

Under these circumstances, the Sanki Engineering Group sought to put the finishing touches to our medium-term management plan "SANKI VITAL PLAN 90th" (hereafter "VITAL PLAN") covering fiscal years 2011 to 2015.

In fiscal 2015, orders received amounted to ¥183,270 million (up 5.7% year on year) and net sales were ¥178,901 million (down 0.4% year on year). In terms of profit, we enjoyed favorable results in all items and reported significant gains, with an operating income of ¥6,509 million (up 120.6% year on year), ordinary income of ¥8,135 million (up 113.6% year on year) and net income of ¥5,327 million (up 116.4% year on year). Our equity ratio rose to 49.8%, thereby maintaining a sound financial condition. ROE continued to improve at 6.3% (up 3.3 percentage points from the previous year), and we sought to further enhance our capital efficiency. Although we fell short of our final target under the VITAL PLAN of ¥200 billion in net sales and ¥10 billion in ordinary income, we achieved a certain level of success through a vigorous effort bolstered at times by market momentum.

Group Initiatives for Fiscal 2015

The rapid growth in our performance in fiscal 2015 was made possible by a company-wide effort.

In fiscal 2015, we pursued initiatives such as strengthening divisional collaboration by revitalizing communication, reducing the operational burden of worksites by establishing the Procurement Division and maintaining the Site-Documentation Support Center to bolster site support systems, stringently managing costs, raising operational efficiency by having technical experts conduct quality audits and forging closer relationships with subcontractors. In particular, higher worksite efficiency has proved remarkably effective, as employees themselves have noted. As for strengthening our management base, we launched the "Smile Project," which aims to promote initiatives against long working hours in order to improve the working environment. We will continue our efforts related to these measures as the drivers of our new medium-term management plan.

Formulation and Significance of Our Long-Term Vision "Century 2025"

We will hone our technology and human resources to realize our vision of becoming the company of choice.

This year, after reflecting on our achievements and shortfalls under the VITAL PLAN, we laid out our new long-term vision, "Century 2025," which consists of three phases.

This ten-year vision is based on two presuppositions. First, while the Olympic and Paralympic Games, scheduled to take place in Tokyo in 2020, have breathed new life into the construction market, the outlook beyond the Games remains uncertain. Therefore, we divided the ten-year vision into three phases and will review our initiatives every three years to respond to changes in the market environment. Second, ten years from now in 2025, the Sanki Engineering Group will celebrate its first century.

Our goal for the next ten years, ending in 2025, is to become the company of choice by enhancing quality and reliability. The key phrase "company of choice" was derived from opinions expressed by employees when former President and current Chairman Takuichi Kajiura asked them about the kind of company they wanted Sanki Engineering to be during a series of Company visits several years ago. I believe this vision is significant because the medium-term management plan reflects the shared aspirations of our employees across the Company.

The facilities and systems sector is one area that rarely undergoes a paradigm shift involving the challenge of differentiation. While human resources represent an integral aspect of technology at every worksite, the quality of human resources in their interactions with customers is a decisive factor in winning orders. Honing our superior technology and the quality of the human resources who deliver it creates the twin pillars for becoming the company of choice. Each employee who is part of our workforce of over 2,000 represents the Sanki Engineering Group and directly mirrors the quality of management.

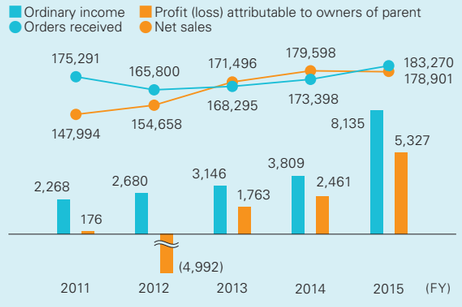
Launch of "Century 2025," and Current Issues and Initiatives for Phase 1

We will enhance quality during Phase 1 through three initiatives.

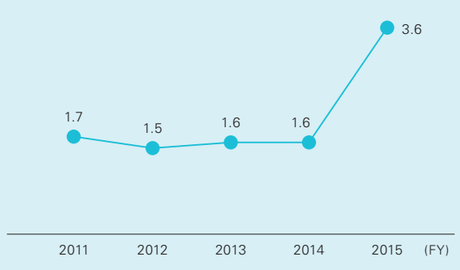
We will strive to enhance quality during Phase 1 of our new medium-term management plan "Century 2025," covering the fiscal years from 2016 to 2018. Enhancing technology and human resources is a fundamental corporate task, and I believe that the results of these efforts will be seen in the level of customer satisfaction and ultimately in other indicators, such as financial

Progress in SANKI VITAL PLAN 90th (FY2011–2015)

Business performance (consolidated) (millions of yen)



Ratio of operating income to net sales (consolidated) (%)



Targets and results in the final fiscal year

Targets
Consolidated net sales: ¥200 billion
Consolidated ordinary income: ¥10 billion

Results for the final year
Consolidated net sales: ¥178.9 billion
Consolidated ordinary income: ¥8.1 billion

Improvement in productivity

Effective initiatives raised productivity, including the establishment of the Site-Documentation Support Center and Procurement Division, and ICT-based operational improvements.

Operating income, which signifies the efficiency of core business, improved significantly in fiscal 2015.

performance. This is a time-consuming effort precisely because of its fundamental nature, and that is why we must make it our top priority and work on it constantly.

The three key initiatives of Phase 1 are: (1) Strengthen Core Businesses, (2) Promote Growth Strategies, and (3) Enhance the Sanki Brand.

(1) Strengthen Core Businesses: This set of initiatives is carried forward from the VITAL PLAN and centered on maintaining and achieving the stable growth of our businesses. We will seek to resolve the worker shortage in our Facilities Construction Business by raising operational efficiency through actions such as establishing the Procurement Division and Site-Documentation Support Center and ICT-based operational improvements. To increase profitability for the Plant & Machinery Systems Business, we will implement a market strategy that will leverage the strengths of the Machinery Systems Business, such as new product development, while also seeking to boost efficiency and reduce costs by reconstructing the production system. In the Environmental Systems Business, we will bolster the ability of the main businesses to develop and expand sales of strategic products while seeking to expand into the business fields of energy saving and energy creation. Enhancing the technical skills as well as the productivity and efficiency of each business is essential to reinforcing our core businesses.

(2) Promote Growth Strategies: We will seek growth for future technologies and domains. Our Yamato site will be redeveloped to open the Sanki Techno Center (tentative name), which will serve as the flagship facility for promoting "Century 2025," and restructure the production facilities in an effort to create a platform upon which to meet the challenges of new technologies and domains that will lead us into Phase 2 and beyond. We consider the building stock-based business as a growth strategy and important portfolio strategy. While new construction and renovation of

facilities depend on the customer investment plans, there is consistent demand for the LCE Business*1, in which we provide services throughout the life cycle of a building, encompassing new construction, repair and maintenance, renewal and reconstruction. We will endeavor to diversify our sources of profit by promoting the building of stock-based businesses to offer a robust response to emerging needs in the uncertain market environment that lies beyond the Tokyo Olympic and Paralympic Games.

(3) Enhance the Sanki Brand: I believe that the Sanki spirit lying at the heart of our development of human resources is rooted in the Mitsui spirit. Sanki Engineering was born from the Machinery Department of the former Mitsui & Co., and we have always valued the spirit of Mitsui. Founder Takatoshi Mitsui's slogan, "cash only, no inflated pricing," is the very basis of customer satisfaction and means that we tell no lies and that we engage in an honest business. Mitsui is people, and the same thing can be said about Sanki Engineering. In a practice that in fiscal 2016 is marking its fourth year, new employees during their first year training visit the Shinnyo-do in Kyoto, a temple with close ties to the Mitsui family and the site of Takatoshi Mitsui's tomb, to study the Mitsui way of thinking. This thinking has been incorporated in the Sanki Engineering Group Management Philosophy, laid out in 2015. To develop human resources with the Sanki spirit, we have introduced an e-learning educational program to provide universal education for the entire Group. The pursuit of customer satisfaction leads to the betterment of society as a whole and contributes to the creation of a sustainable society. We will seek to raise the quality of the actions and work undertaken by each individual by sharing this value among all executive officers and employees.

Executing Our Fiduciary Responsibility

We seek to fulfill our responsibilities to society and shareholders by adhering to our ESG Policy and Corporate Governance Guidelines.

The ESG Policy incorporated into "Century 2025" Phase 1 is intended to fulfill our responsibilities to society through the organic integration and strategic deployment of management and CSR.

In E (environment), the Sanki Engineering Group will seek to protect the environment, conserve energy and realize a low-carbon society through engineering, which represents both the core of our business and an opportunity for growth. S (Social) calls on us to be conscious of being a member of society and act accordingly, as expressed in our Management Philosophy, and it embodies all of our initiatives for meeting the various expectations of society. G (Governance) is the foundation that sustains our business activities. We seek to strengthen our systems to ensure the transparency, validity and agility of management with an emphasis on placing significance on communication and respecting each other, as declared in the Management Philosophy.

In addition, in following through on the Corporate Governance Code we began applying in June 2015, we established the Sanki Engineering Corporate Governance Guidelines in December of the same year to clarify the Group's basic approach to corporate governance and guidelines for our initiatives. We will continue to strengthen our corporate governance system and engagement with shareholders and investors to enhance the medium- to long-term corporate value of the Group.

Appropriate Profit Sharing

Sanki Engineering will examine comprehensive methods of shareholder return while effectively balancing business investments and returning profits to shareholders.

Dividends form the basis of our policy of returning profit to shareholders, and while considering the balance between sustainable corporate development and short-term returns to shareholders, we have consistently sought to provide stable dividends as the basis of our policy and to provide additional dividends in accordance with our financial performance. We will continue to adhere to this policy and will examine comprehensive and stable methods of shareholder return, in light of demands from shareholders, investors and society at large.

Dividend payments

	FY2012	FY2013	FY2014	FY2015
Interim dividend (¥)	7.5	7.5	7.5	9.0
Year-end dividend (¥)	7.5	7.5	12.5	21.0
Consolidated payout ratio (%)	–	56.7	52.2	35.8

Year-end dividend for FY2014 includes ¥7.5 in regular dividend and ¥5.0 in commemorative dividend for the 90th anniversary.
Year-end dividend for FY2015 includes ¥9.0 in regular dividend and ¥12.0 in extra dividend.

The Challenge ahead toward Our First Centenary in 2025

The new Management Philosophy embodies our aspirations for the future of Sanki Engineering.

In December 2015, we formulated the Sanki Engineering Group Management Philosophy as the first step toward our centenary. The philosophy of creating a comfortable environment through engineering and widely contribute to social development expresses the

reason that the Sanki Engineering Group exists.

While manufacturing is referred to as monozukuri, or the creation of objects, Sanki Engineering's business involves the creation of environments. Our Environmental Systems Business creates better living environments through water and sewage treatment facilities and waste treatment facilities, while in our HVAC Business we create environments that raise productivity at work and also create special workplace environments such as clean rooms. Moreover, as the Sanki Engineering Group continues to take on the challenge of realizing a sustainable society, the comfortable environment we envisage for society in 2025 encompasses an even wider purpose and objective.

We are striving for a comfortable environment of the future that is comfortable not only for the people who live in it but also for the entire planet. Japan's Basic Energy Plan (approved by the cabinet in 2014), stipulates the goal of making all new buildings ZEBs*2 by 2030. Also, in 2015, the Paris Agreement was adopted at the COP21 conference. Amid the growing need for countermeasures to global warming, contributing to the resolution of this issue through the power of technology and creating a comfortable environment for people and the Earth present both a mission and an opportunity to attain greater competitiveness for the Sanki Engineering Group.

Now, having taken the first steps toward our centenary, we are resolved to take on the challenges of myriad possibilities by harnessing the unique strengths of our Group in a renewed effort to become the company of choice.

*1 Life cycle engineering business: the Sanki Engineering Group's business concept under which we provide services throughout the life cycle of a building, encompassing new construction, repair and maintenance, renewal and reconstruction.
*2 Zero-energy buildings: Buildings that reduce net annual energy consumption to close to zero through improved energy efficiency and the introduction of solar power while maintaining a comfortable environment.

New Long-Term Vision and Medium-Term Management Plan

“Century 2025”—Long-Term Vision for Our 100th Anniversary

The Sanki Engineering Group formulated “Century 2025” as a long-term vision to guide us toward our 100th anniversary and enable us to continue providing customers with the value generated by the Group.
We will strive to enhance our medium- to long-term corporate value through initiatives based on this vision.

Long-Term Vision “Century 2025”

The company of choice

The Sanki Engineering Group values the customers from whom we directly receive orders, and we view all our stakeholders, including owners of facilities, end users, shareholders, subcontractors, suppliers and students, as customers. Over the next ten years, we will strive to become the company of choice for all our customers.

Three Phases

We have divided the ten-year period into three phases and will proceed by setting key goals and formulating a medium-term management plan for each phase.

Phase 3 (FY2022–2025)
4-year period to become the company of choice
Increased reliability will encourage more customers to choose our company.

Phase 2 (FY2019–2021)
3-year period to enhance reliability
Superior quality generates customer satisfaction, and customer satisfaction and confidence leads to reliability.

Phase 1 (FY2016–2018)
3-year period to enhance quality
We will enhance quality by refining our skills and wisdom and developing our human resources as a foundation for responding to change.

The Company of Choice
We will strive over the next 10 years to become the company of choice for customers by further enhancing the quality and reliability we provide.

Medium-Term Management Plan “Century 2025” Phase 1 More information on the next page

FY2016 FY2019 FY2022 FY2025

Current Status

1. Review of Previous Medium-Term Management Plan “SANKI VITAL PLAN 90th” (FY2011–2015)

Progress in Key Initiatives

Key initiatives	Results
Strengthen core businesses	1. Facilities Construction Business: improved profitability due to site support initiatives 2. Machinery Systems Business: introduced a new conveyor model to the market and developed new markets in areas such as healthcare 3. Environmental Systems Business: introduced strategic products to the market and gained new clients
Promote growth strategies	1. LCE business: established a Group-wide understanding of the business concept 2. Renovation business and integrated networks business: restructured and absorbed into a new organization
Develop Sanki’s unique new businesses	Created a framework for new businesses; consideration in process
Strengthen the management base	Introduced a new personnel system and reviewed operational processes, the effects of which have been gradually felt
Alliances, M&A	Acquired AEROSTRIP Corporation in FY2012 and strengthened a collaborative framework with AQUACONSULT Anlagenbau GmbH in the U.S.

Target Achievement

Targets
Consolidated net sales: ¥200 billion
Consolidated ordinary income: ¥10 billion

Results for FY2015
Consolidated net sales: ¥178.9 billion
Consolidated ordinary income: ¥8.1 billion

2. Assessment of Business Environment and Tasks

Facilities Construction Business
- Nationwide labor shortage resulting from a shrinking workforce
- Proliferation of technological innovation, including robotics, IoT, and artificial intelligence
- Uncertain market outlook beyond the 2020 Tokyo Olympic and Paralympic Games

→
- Enhance construction systems and bolster worker education in component technologies*1
- Establish in-house systems responsive to technological innovations, including IoT
- Reinforce the LCE business*2 to prepare for future market contraction

Machinery Systems Business
- Labor shortage raising the need for labor saving by making full use of robots and IoT
- Increased private capital investment as manufacturers move plants back to Japan

→
- Accurately understand customer needs and reinforce technological responsiveness
- Restructure the production system to improve productivity

Environmental Systems Business
- Declining social infrastructure investment in environment-related markets
- Persistently strong energy saving and energy creation needs in both the government and private sectors

→
- Expand sales of strategic products
- Develop new business areas
- Increase the impetus for promoting the LCE business

*1 Component technology: The basic unit of technologies that serve as the backbone of the Sanki Engineering Group, including heating, ventilation and air conditioning, water supply and drainage, plumbing, electrical systems, kitchen systems, conveyance, water treatment and waste treatment.
*2 Life Cycle Engineering Business: A business concept of the Sanki Engineering Group. Throughout the life cycle of a building, we provide services from new construction, repair and maintenance to renewal and reconstruction.

New Long-Term Vision and Medium-Term Management Plan

Medium-Term Management Plan for Fiscal 2016–2018
“Century 2025” Phase1

Key Initiatives

Strengthen Core Businesses
Improve component technologies and achieve stable growth

Promote Growth Strategies
Pursue future growth in the areas of technology and business

Enhance the Sanki Brand
Develop human resources that possess the Sanki spirit

Phase 1 = Quality

Refining Technical Skills and Human Resources to Further Enhance Quality

Refining Technical Skills
- Make further improvements in component technologies to meet diverse needs
- Enhance productivity and efficiency to achieve sustainable growth

+

Refining Human Resources
- Continually cultivate human resources that possess the Sanki spirit our customers value
- Nurture a corporate culture that encourages employees to act with a deep respect for social norms

Enhancing Reliability in Phase 2

Priority Issues and Strategies

We will address our priority issues by promoting businesses and pursuing initiatives based on effective strategies to establish a sound foundation for growth.

Priority Issue

Passing on technical skills

Strategy We will renovate the Sanki Yamato Building (Yamato City, Kanagawa Prefecture) and reopen it as the Sanki Techno Center (tentative name). This will be a comprehensive training facility that imparts and develops the technical skills at the backbone of the Sanki Engineering Group.

Priority Issue

Anticipating the age of maintaining building stock

Strategy We will give a boost to the LCE business, as described in SANKI VITAL PLAN 90th. This will bolster our business foundation, allowing us to maintain sound corporate management, even if the construction market experiences a slowdown.

Priority Issue

Developing next-generation technologies

Strategy We will establish a new R&D base inside the Sanki Techno Center. Here we will develop technologies for the next generation while keeping up with advances in new technologies such as robotics, IoT, and artificial intelligence.

Financial Performance Targets

By promoting the above initiatives, we will seek to maintain steady financial improvement and stable growth toward substantially enhancing our corporate value.

(Unit: billion yen)

Indicator	FY2016	FY2017	FY2018
Net sales	185.0	190.0	195.0
Gross profit (ratio)	22.0 (11.9%)	23.0 (12.1%)	24.0 (12.3%)
Operating income (ratio)	6.5 (3.5%)	7.0 (3.7%)	7.5 (3.8%)
Ordinary income (ratio)	7.0 (3.8%)	7.5 (3.9%)	8.0 (4.1%)

ESG Policy

To practice management with a sustainability mindset, we will uphold our ESG Policy in efforts to enhance our corporate value in the medium to long term.

Environment	Social	Governance
• Renew awareness of how the Sanki Engineering Group’s businesses directly contribute to protecting the global environment • Develop systems and products that have less impact on the environment	• Continue the “SANKI YOU Eco Contribution Point” donation activity • Create better working environments by addressing long working hours and expanding the role of women and the elderly	• Implement the Sanki Engineering Corporate Governance Guidelines • Enhance the Group risk management system • Maintain and develop a corporate culture of ethical conduct based on compliance with rules of conduct

Business Report

Financial and Non-financial Highlights

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016
Fiscal year					
Orders received	175,291	165,800	168,295	173,398	**183,270**
Net sales	147,994	154,658	171,496	179,598	**178,901**
Selling, general and administrative expenses	15,712	15,199	15,604	15,015	**16,419**
Operating income	2,525	2,391	2,818	2,951	**6,509**
Ordinary income	2,268	2,680	3,146	3,809	**8,135**
Profit (loss) attributable to owners of parent*	176	(4,992)	1,763	2,461	**5,327**
Cash flows from operating activities	(2,697)	9,729	(9,403)	(139)	**5,220**
Cash flows from investing activities	(1,046)	(9,481)	(3,506)	3,440	**5,520**
Cash flows from financing activities	(280)	(1,028)	(4,152)	(2,901)	**(1,826)**
Cash and cash equivalents at end of fiscal year	41,097	40,367	23,510	23,667	**32,501**
As of end of fiscal year under review					
Total assets	163,120	166,477	170,181	176,382	**169,423**
Total net assets	79,662	76,932	74,917	84,869	**84,557**
Per share information					
Earnings (loss) per share (yen)	2.46	(71.04)	26.46	38.30	**83.84**
Book value per share (yen)	1,113.70	1,106.32	1,142.74	1,334.65	**1,328.60**
Cash dividends per share (yen)	15.00	15.00	15.00	20.00*1	**30.00*2**
Other information					
Equity ratio (%)	48.8	46.2	44.0	48.1	**49.8**
Return on assets (%)	1.4	1.6	1.9	2.2	**4.7**
Return on equity (%)	0.2	(6.4)	2.3	3.0	**6.3**

* The revised Accounting Standard for Business Combination and other standards have been applied from the year ended March 2016. Accordingly, "Profit (loss) attributable to owners of parent" as listed in the consolidated fiscal year under review, is equivalent to "Net income" listed for the consolidated fiscal years between the year ended March 2012 and the year ended March 2015.

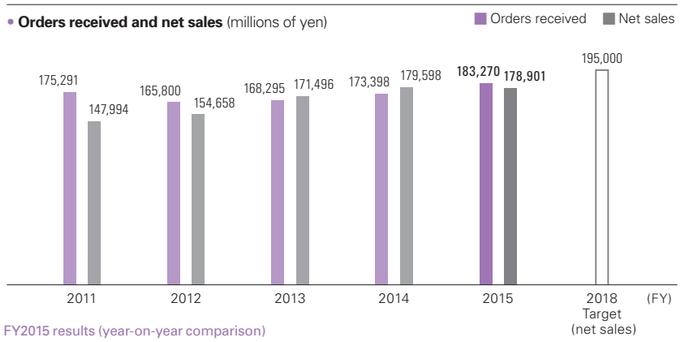
*1 Includes ¥5.0 commemorative dividends for the 90th anniversary.
*2 Includes ¥12.0 extra dividends.

	Scope of aggregation	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016
Number of employees	Consolidated	2,289	2,246	2,283	2,282 Male: 2,002 Female: 280	**2,309** **Male: 2,022** **Female: 287**
Number of lost workday accidents*1	Construction sites of Sanki Engineering	9	3	11	6	**8**
Frequency of accidents	Construction sites of Sanki Engineering	0.85	0.29	0.98	0.42	**0.74**
CO_2 emissions (t-CO_2)	Sanki Engineering Co., Ltd.	3,770	4,308	4,571	4,235	**3,711**
Waste emissions (t)*2	Sites where Sanki Engineering is the prime contractor and the Yamato Engineering Center	12,070	8,961	13,333	13,380	**14,424**

*1 Data for the year ended March 31, 2015 have been retroactively revised.
*2 To enhance accuracy, data from the year ended March 31, 2013 onward have been recalculated.

Financial Data

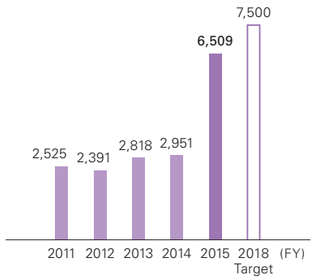
• **Orders received and net sales** (millions of yen)



FY2015 results (year-on-year comparison)

Orders received: 9,872 million yen (up 5.7%); Net sales: 697 million yen (down 0.4%)

• **Operating income** (millions of yen)

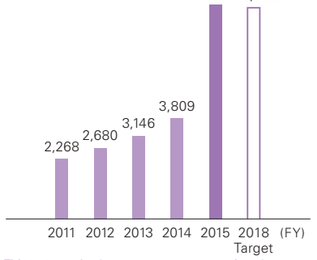


FY2015 results (year-on-year comparison)

3,558 million yen (up 120.6%)

In fiscal 2015, the construction industry in Japan continued to show signs of a decline in public spending while there was a gradual recovery in private capital investment. Total orders received rose steadily by 5.7% on the year, as orders received increased by 1.6% year-on-year in our core Facilities Construction Business, by 80.4% in the Machinery Systems Business due to large-scale projects, and by 17.0% in the Environmental Systems Business. Total net sales remained little changed at 0.4% from fiscal 2014, as declines in the Facilities Construction and Machinery Systems businesses were offset by growth in the Environmental Systems Business. We reported significant increases in all items with respect to profit, due to thorough cost control and the establishment of a system to support worksite operations.

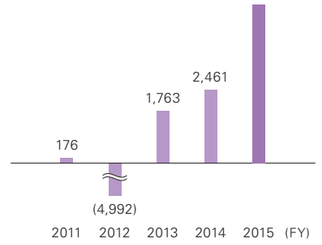
• **Ordinary income** (millions of yen)



FY2015 results (year-on-year comparison)

4,326 million yen (up 113.6%)

• **Profit attributable to owners of parent** (millions of yen)

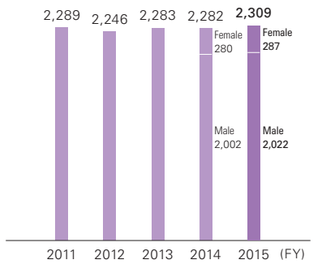


FY2015 results (year-on-year comparison)

2,866 million yen (up 116.4%)

Non-Financial Data

• **Number of employees**

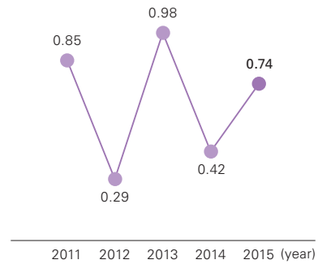


FY2015 results (year-on-year comparison)

Ratio of female employees: up 2.5%

The ratio of female employees in the workforce increased from fiscal 2014. Promoting the career development of women requires the accumulation of long-term initiatives, which we intend to continue.

• **Frequency of accidents**

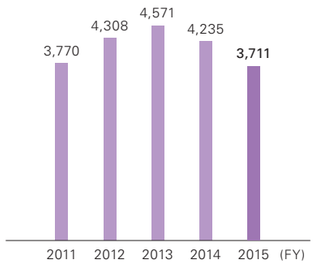


2015 results (year-on-year comparison)

Up 0.32 percentage point

There was a total of 12 accidents, of which 8 led to lost workdays. Compared to 2014, when there was a total of 22 accidents of which 6 involved lost workdays, the number of serious accidents increased in 2015. However, we were able to achieve a significant decrease in the total number of accidents.

• **CO_2 emissions** (t-CO_2)



FY2015 results (year-on-year comparison)

524 t-CO_2 (down 12.3%)

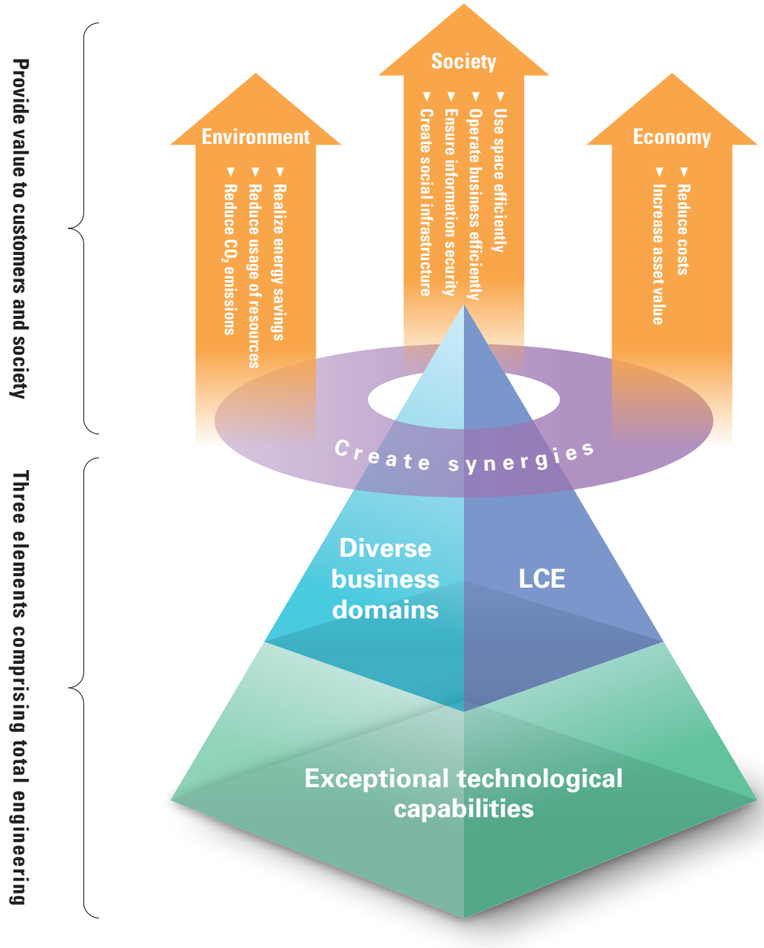
CO_2 emissions declined by 12.3% as a result of activities including energy conservation at offices.

Sanki Engineering's Strengths

Total Engineering

Create synergies through total engineering

"Total engineering" is one of the areas of comparative advantage of the Sanki Engineering Group. The term refers to our ability to provide optimal solutions throughout the overall life cycle of facilities in the numerous business domains the Group operates in, backed up by exceptional technological capabilities. By creating synergies through total engineering, we can further boost the value we provide to customers and society. The Sanki Engineering Group delivers systems with optimum added value in response to diverse needs related to the environment, society and economy.

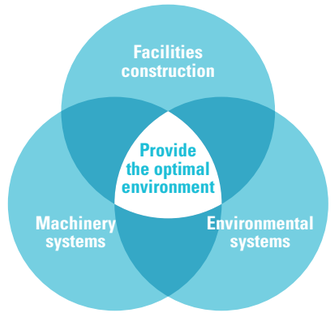


Diverse business domains

Provide an optimal environment utilizing wide-ranging business technologies

The Sanki Engineering Group covers a wide range of business areas, beginning with the Facilities Construction Business, which consists primarily of heating, ventilation and air conditioning, plumbing, electrical systems, kitchen systems and smart building solutions as well as facility systems. In addition, we are engaged in the Machinery Systems Business, consisting mainly of logistics systems and transportation equipment, and the Environmental Systems Business, comprising water and sewage treatment facilities and waste treatment facilities.

By effectively integrating these businesses, we can provide the optimal environment for our customers. This is the key element of total engineering.



Provide the optimal environment

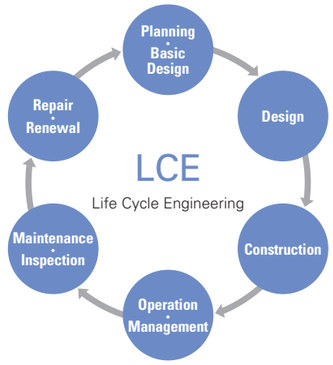
- Respond to every need in terms of building facilities and deliver one-stop solutions
- Propose optimal energy-saving measures from an all-round perspective
- Supply one-of-a-kind systems by optimizing needs

LCE

Respond to all needs throughout the life cycle

The comprehensive capabilities of the Sanki Engineering Group enable provision of optimal solutions at every stage with a focus on the entire life cycle of facilities, from planning, design and construction to maintenance, inspection, operation/management, renewal and reconstruction.

Life cycle engineering (LCE), into which we have been actively incorporating state-of-the-art technologies, as well as energy savings, is the second element of total engineering.



Responding to customer needs through LCE

- Integrate Group capabilities and provide optimal solutions in the life cycle of facilities
- Make multiple-perspective proposals aiming to reduce life cycle costs
- Provide steady support through professionals well-versed in customers' facilities

Exceptional technological capabilities

Definitive technology supporting total engineering

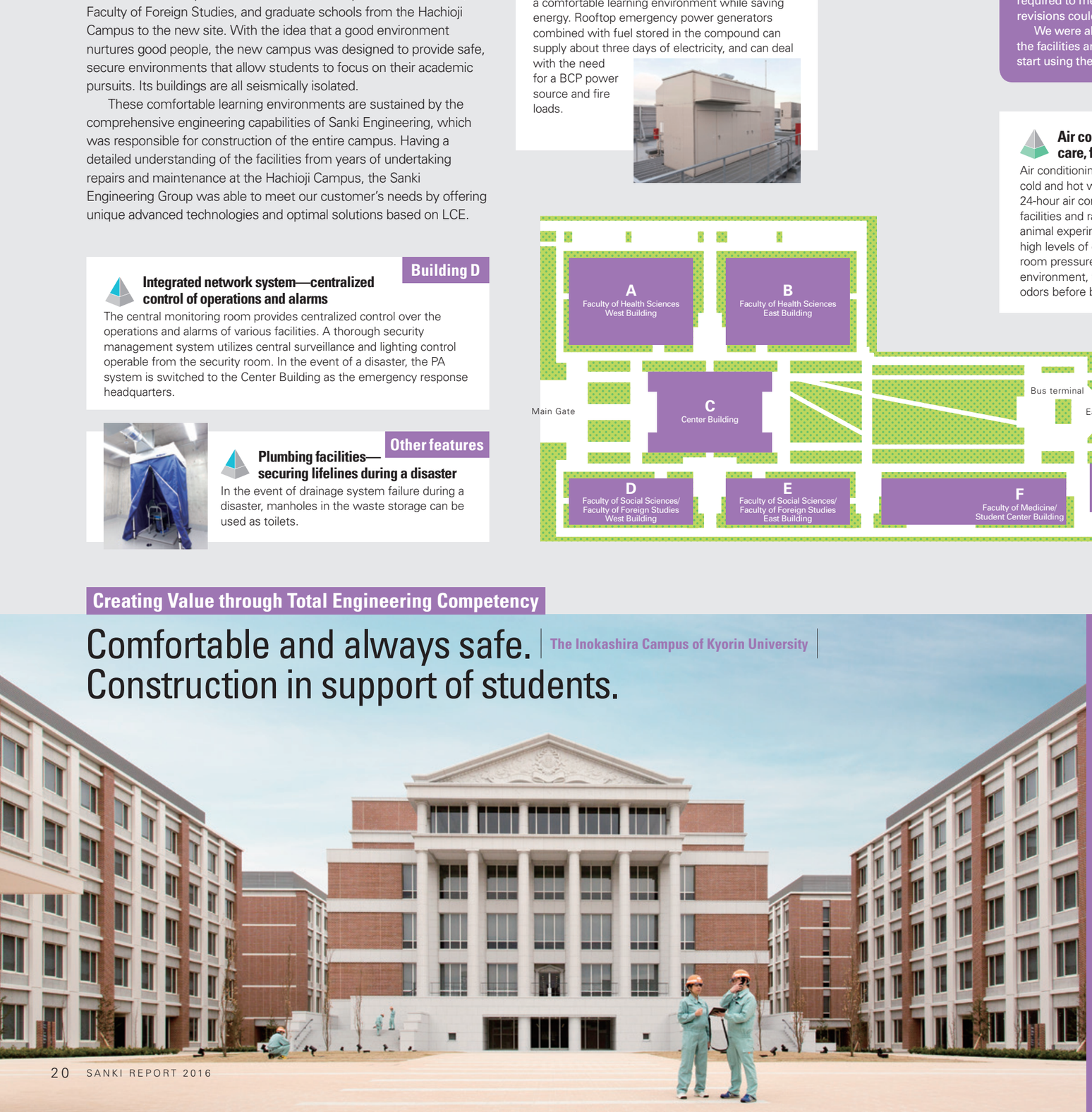
The third element is technological capability, which underpins our wide range of business domains and the creation of synergies through LCE.

The Sanki Engineering Group can provide optimal solutions in line with customer needs through its multiple, unique and highly specialized technologies. We will maximize synergistic effects by integrating various technologies from diverse business domains and generating new value.

Creating Value through Total Engineering Competency

Comfortable and always safe. Construction in support of students.

The Inokashira Campus of Kyorin University



In January 2016, we completed construction of the Inokashira Campus of Kyorin University, a project commemorating the university's 50th anniversary. In response to the growing need to ease commuting and to encourage academic exchange between faculties, the university relocated its Faculty of Health Sciences, Faculty of Social Sciences, Faculty of Foreign Studies, and graduate schools from the Hachioji Campus to the new site. With the idea that a good environment nurtures good people, the new campus was designed to provide safe, secure environments that allow students to focus on their academic pursuits. Its buildings are all seismically isolated.

These comfortable learning environments are sustained by the comprehensive engineering capabilities of Sanki Engineering, which was responsible for construction of the entire campus. Having a detailed understanding of the facilities from years of undertaking repairs and maintenance at the Hachioji Campus, the Sanki Engineering Group was able to meet our customer's needs by offering unique advanced technologies and optimal solutions based on LCE.

Overview of the building

Site area: Approx. 3.47 ha
Total floor area: Approx. 46,500 m²

Site composition

A: Faculty of Health Sciences West Building: 5 floors above ground (training and research)
B: Faculty of Health Sciences East Building: 5 floors above ground (training and research)
C: Center Building: 5 floors above ground (lobby and academic office, library, administrative functions)
D: Faculty of Social Sciences/Faculty of Foreign Studies West Building: 5 floors above ground
E: Faculty of Social Sciences/Faculty of Foreign Studies East Building: 5 floors above ground
F: Faculty of Medicine/Student Center Building: 5 floors above ground (student cafeteria, international communication center, clubrooms)
Attached building: 1 floor above ground (security room, garbage collection point, bicycle parking area, bus station)

Special features

HVAC and plumbing facilities
- Air conditioning based on simultaneous cold/hot water supply type air-cooled chiller
- Clean room for animal experiments
- Installation of silencers to reduce noise in the neighborhood
- Exhaust filtering units with sterilization and deodorization effects
- Rainwater filtering facility
- Automatic shutdown valves for water receiving tank during an earthquake

Electrical facilities
- Centrally controlled disaster prevention facilities for all buildings
- Whole building LED lighting (excludes machinery room)
- Emergency power generators

Integrated network facility and ICT facility
- Centralized control over operations and alarms of facilities from the central monitoring room
- Wireless LAN system based on an integrated distribution system for phone and LAN lines
- Placement of phones that are usable during power outages as a BCP measure

Kitchen system
- High-speed dishwasher system

Building D

Integrated network system—centralized control of operations and alarms

The central monitoring room provides centralized control over the operations and alarms of various facilities. A thorough security management system utilizes central surveillance and lighting control operable from the security room. In the event of a disaster, the PA system is switched to the Center Building as the emergency response headquarters.

Other features

Plumbing facilities—securing lifelines during a disaster

In the event of drainage system failure during a disaster, manholes in the waste storage can be used as toilets.

Building A

Electric facilities—a stable supply of electricity

Electricity is supplied from this building to the rest of the campus. All lighting fixtures are LED, creating a comfortable learning environment while saving energy. Rooftop emergency power generators combined with fuel stored in the compound can supply about three days of electricity, and can deal with the need for a BCP power source and fire loads.

Fully leveraging our total engineering competency through information sharing and in-house collaboration

The Sanki Engineering Group has overall responsibility for the campus facilities. As a result, we were able to effectively apply our total engineering competency to many aspects of the worksite. Emphasis on close collaboration within the Group integrated the technical skills and strengths related to facilities. Frequent joint meetings laterally disseminated information. For specialized facilities such as the research laboratories, we held detailed hearings with each professor and revised our designs as required to meet their requests. We used shared folders to manage updated information, so that the revisions could be reflected in constrction in a timely manner.

We were able to provide an optimal system for the customer by facilitating communication between the facilities and efficiently managing worksites. Because facilities prove their worth once customers start using them, I hope to offer long-term support to sustain these comfortable environments.

Kenji Miyamoto
Chief Site Director, Manager of Engineering 3, The 1st Air-conditioning & Plumbing Field Engineering Department, Tokyo Branch

Building B

Air conditioning facilities—thorough hygiene care, from indoor environments to emissions

Air conditioning systems that can simultaneously supply cold and hot water were installed in rooms that require 24-hour air conditioning, such as animal experiment facilities and radiation laboratories. Clean rooms for animal experiments are consistently maintained at high levels of cleanness through minutely adjusted room pressure. With due consideration for the natural environment, the air is filtered to eliminate bacteria and odors before being released externally.

Plumbing facilities—effective use of rainwater and a stable supply of drinking water in times of disaster

Tap water and service water are supplied to each building from the machine room of the water receiving tank. Rainwater stored in Buildings A and C is filtered inside Building B before being supplied as service water. In the event of an earthquake, the water receiving tank automatically shuts down the valves to prevent leakage from damaged service pipes, securing up to 90 tonnes of drinking water.

Plumbing facilities—a safe wastewater treatment system

Group company Sanki Kako Kensetsu Co., Ltd. was responsible for wastewater treatment and applied its technological expertise to construction work. Through a system that can handle specialized effluents, such as lab waste, wastewater is discharged safely using unique pH adjustment and sterilization technology.

Building F

Kitchen systems—optimal design for efficient working environments

We created a safe, secure working environment for serving meals, taking into account the number of people eating, the frequency of serving each menu item, and the traffic flow of kitchen workers, while also considering efficient kitchen facilities for serving a wide range of meals for a thousand people and hygienic zoning.

ICT facility—a stable network environment

Server room measures were taken to prevent contamination by metal whiskering* that affects electronic equipment. The stable network environment has an integrated distribution system shared by telephone lines and LAN, creating a Wi-Fi environment. The building also has phones that work during power outages caused by natural disaster.

* The natural forming of whisker-like crystal fibers on metal surfaces, which can cause short circuits.

Overview of Our Businesses by Segments

Facilities Construction Business

Page 24

• FY2015 Results

Net sales and net sales composition ratio

149,952 million yen

• Main Sales Items

HVAC systems
- HVAC systems
- Industrial HVAC systems
- Clean rooms
- Environmental control facilities
- Pharmaceutical and food manufacturing facilities
- Freezing and refrigeration
- District heating and cooling plants
- Nuclear power-related facilities

Plumbing and drainage systems
- Water supply and drainage
- Kitchen systems
- Disaster prevention systems

Facility systems
- Design for fit-out and relocation of offices and workplaces
- Consulting for project management

Electrical systems
- Electrical systems
- Telecommunication systems
- Communication-related facilities
- Electrical civil engineering

Smart building solutions
- Central monitoring and automated control systems
- ICT systems
- IP phone systems
- Security systems

• Social issues and value provided

Issues
- Global environmental issues
- Energy resources
- Equipment deterioration
- Increased running costs
- Securing human resources for operations and management

Value
- Comfortable spaces
- Energy and resource conservation
- Extended-life and longer-life facilities
- Reduced life cycle costs
- Improved asset value

Machinery Systems Business

Page 28

• FY2015 Results

Net sales and net sales composition ratio

9,217 million yen

• Main Sales Items

Conveyance systems
- Lightweight conveyors
- Distribution-related conveyors
- Sorting devices
- Automated warehouse

Material handling systems
- FA systems
- Clean conveyance systems
- Material handling systems
- Airport baggage and cargo handling systems
- Medical handling systems
- Handling information control systems

• Social issues and value provided

Issues
- Eliminating product accidents
- Improving productivity
- Response to shortage of labor
- Improving the work environment
- Energy resources

Value
- Safe and secure product inspection
- Labor-saving solutions
- Response to declining birthrate and aging society
- Comfortable work environment
- Reduced running costs
- Energy and resource conservation

Environmental Systems Business

Page 32

• FY2015 Results

Net sales and net sales composition ratio

18,734 million yen

• Main Sales Items

Waste treatment
- Waste incineration facilities
- Landfill wastewater treatment facilities
- Sludge incineration facilities

Water treatment
- Water and sewage treatment facilities
- General and industrial waste disposal and recycling facilities
- Sludge recycling facilities
- Industrial wastewater and waste gas treatment facilities
- Plant facilities for the food and chemical industries

• Social issues and value provided

Issues
- Global warming
- Energy resources
- Aging facilities
- Constraints on final landfill sites
- Water resources

Value
- Energy and resource conservation
- Extended-life and longer-life facilities
- Appropriate waste disposal

Real Estate Business

Page 36

• FY2015 Results

Net sales and net sales composition ratio

1,532 million yen

• Main Sales Items

Our real estate business includes operations in the areas of real estate leasing and building management. We are striving to expand into higher value-added real estate while taking advantage of our current technology.

• Social issues and value provided

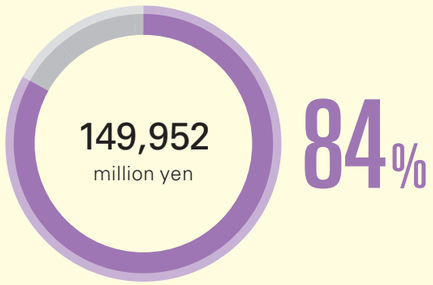
Issues
- Global warming
- Energy resources
- Aging facilities

Value
- Energy and resource conservation
- Extended-life and longer-life facilities
- Improved asset value
- Reduced running costs

Facilities Construction Business

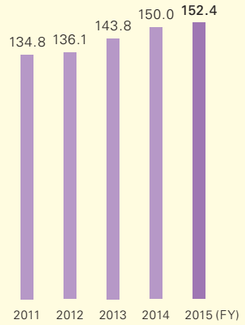
Sanki Engineering is creating facilities construction that is friendly to both people and the environment through systems that are convenient, comfortable and efficient and also save energy. We continue to aggressively pursue this business and its global expansion while developing unique new technologies.

• Net sales and net sales composition ratio for FY2015

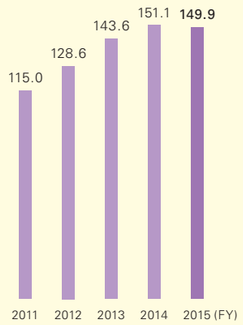


84%

• Orders received (billions of yen)



• Net sales (billions of yen)



Market environment

- Nationwide labor shortage resulting from a shrinking workforce
- Proliferation of technological innovation, including robotics, IoT and artificial intelligence
- Uncertain market outlook beyond the 2020 Tokyo Olympic and Paralympic Games
- Financial concerns stemming from Britain's exit from the EU

Risks

- Labor shortage, aging workforce
- Decline in capital investment by manufacturers due to the stronger yen
- Slowdown in global investments due to cheaper resources, a slump in the Chinese economy and other factors

Business opportunities

- Rise in the use of renewable energy sources
- Need for energy-saving solutions (adoption of the Paris agreement against global warming at COP21)

Sanki Engineering's strengths

- Total technological capabilities that integrate a broad range of solutions across business fields
- Strong response, technical expertise and reliability cultivated through a 90-year track record

Sanki Engineering's challenges

- Developing new technologies and construction methods to boost efficiency and productivity
- Establishing an overseas business base and responding to country risks

Net sales target for FY2016

(Numerical forecast at start of FY2016)

154.9 billion yen

Basic strategies for FY2016

- Cut costs and raise operational efficiency, reform sales and design organizations
- Promote building stock-based business
- Bolster and expand areas for the Facility Systems Business

Summary of Results for Fiscal 2015

Fiscal 2015 marked the final year of our previous medium-term management plan "SANKI VITAL PLAN 90th," and we forged ahead to achieve our targets. We enjoyed brisk business, particularly in industrial HVAC for manufacturers led by the electronic, electrical machinery and automobile industries. We took care, however, to not take the favorable market environment for granted and sought to prepare for the future by developing human resources and strengthening sales and construction capabilities.

As a result, orders received were 1.6% higher than in the previous fiscal year at ¥152,432 million, while net sales fell slightly by 0.8% from the previous fiscal year to ¥149,952 million due to an increase in balance carried forward.

A notable aspect of our business performance in fiscal 2015 was the fact that we achieved significant growth in profit even as orders received and net sales remained largely unchanged. The first reason behind the rise in profit is thorough cost control by each worksite. By reinforcing process management, we were able to increase the number of construction projects with improved revenues and decrease the number of projects with declining revenues such as reworks. We were also able to reduce the workload of onsite staff by setting up the Procurement Division, which supports purchasing operations through centralized purchasing and other means, and the Site-Documentation Support Center, which supports the administrative work at each site. These measures facilitated the creation of a working environment that allowed staff to concentrate on highly specialized tasks, such as process management and quality control, which contributed to strengthening the construction capabilities of our business as a whole and improved the conditions for generating revenue.

Since fiscal 2015, we have been promoting the "Smile Project" to improve revenue by reducing the workload of employees and thereby raise operational efficiency, and we are gradually seeing the effects of the project. In addition, we have achieved the desired results for each of the basic strategies we have been pursuing in this business. As part of our efforts to bolster sales capabilities, we began by reforming the functions of the Sales Division and followed up by promoting Company-wide information sharing, including paying customer visits and holding sales strategy meetings through the collaboration of sales staff at the Sales Division and each branch and branch office.

With respect to bolstering our solution proposal capability, we reorganized the Smart Building Solutions Business by integrating it into the Facility Systems Business Division. We have thereby strengthened our system for conducting sales by offering integrated project proposals for the construction and relocation of workplaces and for smart building solutions.

Apart from these measures, we sought to conserve resources at construction sites and reduce construction costs by adopting a construction method using aluminum coolant pipes. In the area of human resource development, we supported employee efforts to obtain qualifications and promoted education through on-the-job training.

Major Projects

- Chukyo Television Broadcasting Company building: HVAC systems (completed in November 2015)
- DNP Ichigaya-Takajomachi Building: HVAC systems (completed in December 2015)

Review of the Previous Medium-Term Management Plan

In our efforts to strengthen core businesses, we improved profitability by implementing thorough cost control and enhanced measures for worksite support. We will continue to focus on shifting our emphasis from sales amount to profit margin and seek to strengthen our core businesses as the basis of our management. To expand strategic growth businesses, we have been pursuing life cycle engineering (LCE), in which we provide services throughout the life cycle of a facility, encompassing planning, design, construction, management, maintenance, repair and renewal. We have observed a steady increase in the number of repair and renewal projects and will seek to secure operation and management personnel responsible for management and maintenance to respond to growing demand.

To create unique new businesses, we undertook research, analysis and investment in domains within the scope of our core businesses, where we can expect a synergistic effect, as well as other areas, and we plan to maintain effective measures under the new medium-term management plan.

Outline of the New Medium-Term Management Plan

The market environment for the Japanese construction industry is on a recovery path that is expected to continue to 2018 or 2019. The outlook for the market environment beyond the 2020 Tokyo Olympic and Paralympic Games, however, is uncertain, and we may experience a nationwide labor shortage caused by the declining workforce, along with rising costs of labor, material and equipment.

To ensure continuous growth for the construction industry, we must adopt innovative technologies such

as robotics, IoT and artificial intelligence, adapt our business model and develop overseas markets. In the Facilities Construction Business, we will improve on the management methods and improvement strategies that were effective under the previous medium-term management plan, while further promoting the "Smile Project" toward the goal of expanding business results through enhanced quality.

Strengthen Core Businesses

Reduce costs and raise operational efficiency

We will strengthen our procurement functions to reduce costs and improve our profit margin. We will further enhance the Site-Documentation Support Center as an entity that provides support for administrative tasks such as site documentation, to raise operational efficiency so that site managers can allocate more time to process management and quality control. In addition, we will actively deploy ICT and other means for reconstructing onsite operational processes to raise efficiency even further in an effort to boost productivity while reducing the burden of site managers. With respect to reducing construction costs, we will seek to raise our profit margin by horizontally deploying activities for improving construction methods, such as the development of energy-saving equipment for installing devices, and seek to reduce costs by addressing issues that are unique to each worksite.

Review sales and design structures

We will forge closer relationships with our customers by reviewing our sales system and promoting the use of ICT. Also, we will seek to more promptly meet customer needs with a higher level of technical competence by reconstructing the design support system through which the branch and branch offices receive assistance from headquarters for specialized design projects.

Promote Growth Strategies

Promote the building of stock-based businesses

We will provide LCE that caters to each stage of a building's life cycle, from new construction, repairs and maintenance to renewal and reconstruction, to prepare for a decline in the construction market by diversifying our revenue streams.

Strengthen and expand areas of the Facility Systems Business

We will strengthen our sales and production systems to expand our businesses, and formulate strategies for leveraging our strengths in instrument and control engineering and network systems engineering. We will work toward our goal of expanding areas of the business to property management and construction management. We will also strengthen our solution-based sales in areas such as risk management, BCP and security.

Key Strategies for Fiscal 2016

Review sales and design structures

The Design Support Center was established in April 2016. We will reinforce our Company-wide system to provide assistance for each branch office nationwide on design and specialized design needs as well as human resource development. Also, we will bolster our sales capabilities by reorganizing the Planning Department of the Mechanical & Electrical Contracting Headquarters and the Sales Division into the Sales Administration Division. ICT will be utilized to raise the efficiency of site operations and share information on sales.

Promote the building of stock-based businesses

We will seek to expand areas of our business and generate profit through LCE by strengthening our proposals for new customers and the properties we have already completed, in addition to developing proposals for our existing customers and properties.

Since LCE requires highly specialized human resources, we will consider adopting mid-career hiring and the establishment of a training facility (tentatively named Sanki Techno Center) for educating and training younger employees to secure operation and management personnel.

Strengthen and expand areas of the Facility Systems Business

The Facility Systems Business Division provides services for the construction and relocation of offices and workplaces, such as design planning, management and consulting, as well as offering proposals for smart buildings that enhance energy conservation and comfort. We will continue our efforts from fiscal 2015 and engage with a renewed vigor in proposal-based sales for customers of Sanki Engineering technologies in the areas of instrument and control engineering and network systems engineering. Our technological capabilities will be bolstered by expanding opportunities for integrated offerings that include LCE.

Focus 1

Equipped with the capacity to continue broadcasting for at least a week, even in the event of a maximum-scale earthquake

The New Building for the Chukyo Television Broadcasting Company

Value provided by Sanki Engineering

- Energy-saving facilities with hot and cold water directly supplied by district heating and cooling plants
- HVAC operation that clears stringent building noise regulations, equivalent to recording studios

Features

- Company building with unique exterior
- Various disaster-proof measures, including a base isolation structure adopted for the first time by a Nagoya area broadcaster

The new building for the Chukyo Television Broadcasting Company was completed in November 2015 as a landmark in the large-scale redevelopment district south of Nagoya Station. To ensure continuous broadcasting capability in the event of a major disaster, the building was constructed with a base isolation structure, emergency power generators and two separate systems for electricity and water. Sanki Engineering was responsible for the HVAC system. The work involved dealing with pressure and temperature limitations to enable direct supply and use of hot and cold water from district heating and cooling plants instead of using heat exchangers, stringent noise regulations for studios and announce booths that are unique to a TV station, and installing facilities inside the limited ceiling space. Sanki addressed these issued with advanced design and construction technologies.

Building description •New company building of Chukyo Television Broadcasting Co., Ltd. (broadcasting station) **Sanki Engineering's role** •Construction of HVAC facility

Focus 2

Balancing comfortable space with energy conservation through redevelopment focused on scenery, environment, and community

DNP Ichigaya-Takajomachi Building

Value provided by Sanki Engineering

- Unit-based method to balance high quality and a significantly shorter construction period with consideration for the surrounding environment
- Flexible response to client requests and changing circumstances by connecting all site workers with tablet devices

Features

- Sanki played a central role in the large-scale redevelopment project for harmoniously combining scenery, the environment, and the community
- Achieved a balance between comfortable space and energy conservation through the use of motion sensors and heat pumps

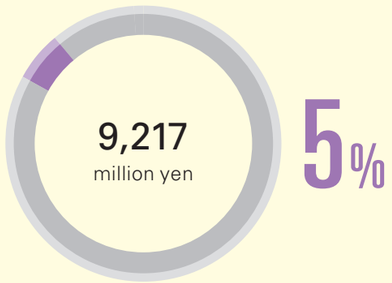
The DNP Ichigaya-Takajomachi Building, comprising an office and plant complex, was built on the former site of the Ichigaya Plant, the first plant of the Dai Nippon Printing Company that had sustained Japan's publishing culture since it was constructed in 1886. Sanki Engineering was responsible for the construction of its HVAC system. By integrating air conditioners and other facilities into a single module, we were able to dramatically shorten the construction period while paying due consideration for the neighboring residential area. We adopted floor vent air conditioning for the employee cafeteria so that people would not feel the airflow, and we achieved a balance between a comfortable space and energy conservation by automatically opening and closing vents using motion sensors and heat pumps.

Building description •DNP Ichigaya-Takajomachi Building (office and plant) **Sanki Engineering's role** •Construction of HVAC facility

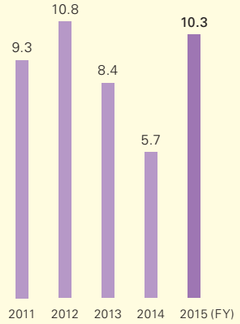
Machinery Systems Business

Sanki Engineering provides material handling systems that correspond with customer needs and challenges in supply chain management, and we also address issues facing society through the development of technology.

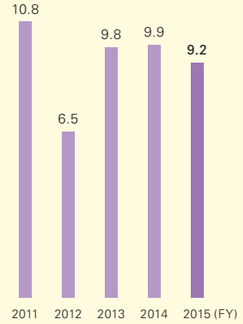
• Net sales and net sales composition ratio for FY2015



• Orders received (billions of yen)



• Net sales (billions of yen)



Market environment

- Labor shortage raising the need for labor saving by making full use of robots and IoT
- Increased private capital investment as manufacturers move plants back to Japan

Risks

- Delay in developing products for growth markets (logistics, online shopping, medicine and pharmaceuticals, etc.) may lead to missed opportunities for orders
- Intensifying price competition for standard equipment business

Business opportunities

- Focused effort to develop products with strong market demand by leveraging the characteristic strengths of the business division
- Expanding demand for labor saving and automation at non-manufacturing industries

Sanki Engineering's strengths

- Sales capability sustained by nationwide network of agent shops
- Ability to respond to specialized needs based on technological capability and multiple businesses
- Stable, long-term relationships with valuable customers

Sanki Engineering's challenges

- Accurately understanding customer needs and strengthening technological response
- Reconstruct production system to improve productivity

Sales target for FY2016

(Numerical forecast at start of FY2016)

9.5 billion yen

Basic strategy for FY2016

- Reorganize SI sales force
- Reconstruct production system
- Expand sales to non-manufacturing industries

Summary of Results for Fiscal 2015

In fiscal 2015, orders received rose by 80.4% from the previous fiscal year to ¥10,309 million due to the stable performance of the standard equipment business and an increase in orders for major projects for plant facilities such as large-scale material handling systems. Net sales fell 7.4% from the previous fiscal year to ¥9,217 million despite steady progress in construction, due to a decrease in construction work carried forward at the end of the previous fiscal year. In the market environment, there was strong demand for labor saving due to concerns over the workforce shortage, and also a need for developing new products that incorporate new technologies such as robots. Under these conditions, the Machinery Systems Business Division pursued the following business strategies.

With respect to standard equipment, we sought to promote sales of cost-competitive products and to cut costs without allowing for exceptions. We worked with other divisions to develop products with high added value that met the needs of specialized markets, while developing markets for priority products such as conveyors by making improvements in collaboration with the Technical Research and Development Institute.

Concrete results include the sales launch of our cost-competitive new conveyor "Simple," chilled food conveyors that meet specialized needs with higher added value generated through the joint efforts of the HVAC, conveyance and food equipment and facilities sections, and the high-luminance multicolor LED conveyor. We also sought to bolster our technology for integrating robots into systems by setting up the Robot Utilization Center in the Yamato Engineering Center as a facility capable of conducting demonstrations and experiments for industrial robots. Having thus established a system for responding to customer inquiries, we pursued sales activities to promote systems incorporating industrial robots taking full advantage of the center, identifying markets where we have a technological advantage and working aggressively to win orders.

Major developments and projects

- Yokota U.S. Air Base cargo handling system (completed in June 2015)

S-CON®MINI Simple conveyor

Orders for high value-added products increased owing to a number of major orders we received at the start of the fiscal year for clean room conveyance systems.

In our robot business, we are shifting our emphasis from conventional use as assistants to human operators to automated facilities for saving labor that address the worker shortage. We believe this trend will accelerate in the coming years, and the Machinery Systems Business Division intends to concentrate its resources into this area to seize the business opportunity.

Review of the Previous Medium-Term Management Plan

In fiscal 2015, we reexamined the market environment to conduct an overall review of the divisional medium-term plan we formulated in fiscal 2013, and we created the Machinery Systems Business Division Group Medium-Term Plan.

The plan, while moving in step with the wider medium-term management plan for the entire Company, is intended to reform the structure of the Machinery Systems Business to ensure stable and lasting profit based on three key elements: (1) clarifying the functions of the division; (2) reconstructing manufacturing functions; and (3) strengthening development functions through alliances.

Key Issues for the Division

1. Clarifying the functions of the division
   - Review production costs without allowing for exceptions
   - Focus resources on systems incorporating robots
   - Build a community-based, customer-oriented sales structure
2. Reconstructing manufacturing functions
   - Raise efficiency of the production base
   - Review the production management system encompassing ordering, production arrangement and shipping
   - Strengthen design and product development capabilities
3. Strengthening development functions through alliances
   - Analyze market (customer and competition) trends and reflect them in flexible selection and concentration
   - Strengthen development capability by forging technology alliances with partners in Japan and overseas
   - Promote alliances (industry-academia-government collaborations, sales alliances, etc.)

Outline of the New Medium-Term Management Plan

Capital investment by private companies, which has a major impact on the business condition of this division, has shifted from a recovery based on export growth and a return to production in Japan reflecting the weakening of the yen since fiscal 2013 to a standstill in the latter half of fiscal 2015, as the shift toward a stronger yen caused by concerns over the international situation and other issues applied the brakes on exports.

In particular, there are signs that small and mid-sized enterprises are beginning to postpone capital investments, in a trend that is expected to become more prominent after fiscal 2016.

On the other hand, labor shortages due to fewer successors and an aging workforce have become a serious issue for Japanese industries, leading to the growing need for automation based on the introduction of robot technology.

Under these circumstances, ensuring continuous growth for the Machinery Systems Business requires accurately grasping customer needs and strengthening our technological response while raising productivity by reconstructing our production system.

Strengthen Core Businesses

Market strategies that maximize strengths

We will position material handling systems incorporating robots to meet automation needs as our strategic product and focus our resources on cultivating the system integrator (SI) and developing new products.

Promote Growth Strategies

Reconstruction of the production system

We will boost overall efficiency and reduce costs in our production base at the Yamato site plant by fundamentally reconstructing the physical aspects, including the production process, and production and inventory spaces, and reviewing the organic aspects of our production management system, from order receiving and production arrangement to shipping and inventory management.

Enhance the Sanki Brand

To clearly demonstrate our customer-first approach, we will uphold "meeting the needs expressed by the customer" as the division slogan and seek to disseminate it among our staff. We will continue to emphasize building relationships of trust with our customers and strive to become "The Company of Choice," as laid out in our new medium-term management plan.

Key Strategies for Fiscal 2016

Key elements of the medium-term plan for the division are reflected in the division's initiatives for fiscal 2016.

Organization and system that embody our market strategy

Robot-related endeavors are being promoted in a joint effort by industry, academia and government under the government's Japan Revitalization Strategy. Accordingly, the Machinery Systems Business Division has positioned material handling systems incorporating robots as a strategic product and is striving to develop and possess new products and systems.

The essential element for enhancing customer satisfaction in this area is the SI, who is responsible for designing and operating systems that combine material handling with robots. In the reorganization undertaken by the division in April 2016, a team of robot system integrators was set up in the sales section to improve our response to customers in this area through efforts that include alliances with other SI companies. We are concurrently bolstering our sales capability by implementing centralized management of robot-related information and utilizing trading houses for developing businesses centered on the area.

Reconstruction of manufacturing functions

The Machinery Systems Business Division is the only division of Sanki Engineering with manufacturing operations. Clearly, therefore, reducing division costs begins with raising the efficiency of our manufacturing operations. We will seek to develop businesses with a leading edge in cost competitiveness by steadily implementing reconstruction, as laid out in the divisional medium-term plan.

Focus

Fully-automated air cargo handling

U.S. Air Force Yokota Air Base Cargo Handling System

Value provided by Sanki Engineering

- Large volume, high-speed handling using large-scale stacker cranes
- Advanced backup functions, redundancy and safety to ensure uninterrupted operation
- System compliant with the extremely stringent security standards of the U.S. Forces

Elevating transfer vehicle (ETV) used to transport cargo

Lift conveyor

Automated warehouse

Features

- Shortened cargo loading time to one fourth of the previous facility
- Redundancy and safety cultivated through experience with air cargo handling facilities

The Yokota Air Base is the headquarters of the U.S. Air Force in Japan. Sanki Engineering was responsible for construction work for upgrading the air cargo handling facility at the base, which serves as the relay hub of air transport for the entire Far East region.

In the latest upgrade, we improved the facility by fully automating cargo handling, which had previously been done by hand, and shortened the time taken to load cargo from as long as 6 hours to an hour and a half. The main facility comprises two large-scale stacker cranes that can handle a maximum weight of 6.8 tons at a maximum speed of 122 meters per minute when traveling and 18.3 meters per minute when hoisting cargo.

We take pride in holding the top share in Japan for airport cargo handling facilities and believe our position is due to the high recognition we have gained for the redundancy in our system, which ensures that flights are not delayed in the event of mechanical or system failure. Due to its military role, the latest facility required advanced backup functions and redundancy, which has allowed us to fully demonstrate our technological capability.

Furthermore, since the computer system controlling fully-automated operation was connected to the U.S. military network, we developed the system under extremely high security conditions compared to the past in order to guard against hacking and other risks.

The facility

- U.S. Air Force Yokota Air Base

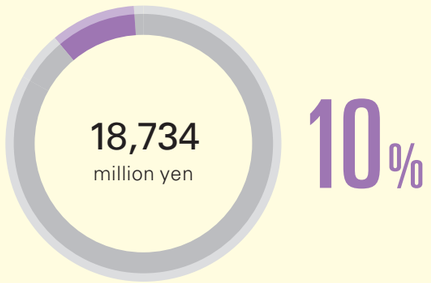
Sanki Engineering's role

- Upgrade of the air cargo handling facility

Environmental Systems Business

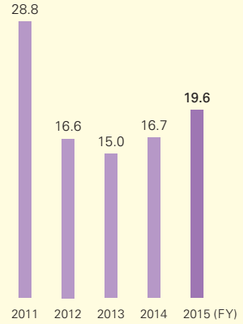
Sanki Engineering develops products and systems for water and sewage treatment facilities and waste treatment facilities that conserve resources and lower greenhouse gas emissions toward creating a low-carbon society.

• Net sales and net sales composition ratio for FY2015

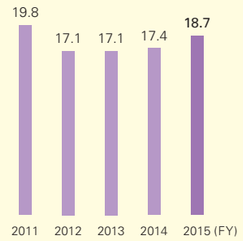


10%

• Orders received (billions of yen)



• Net sales (billions of yen)



Market environment

- Declining social infrastructure investment in environment-related markets
- Persistently strong energy saving and energy creation needs in both the government and private sectors

Risks

- Fluctuations in the mid- to long-term supply of electricity
- Contraction in project scale and decline in capital investment due to fiscal restraint by municipal governments

Business opportunities

- Expanded demand for energy saving and energy creation systems at water and sewage facilities and waste treatment facilities
- Need for extending the life of facilities
- Japanese government's bold policy on infrastructure development, PPP and PFI

Sanki Engineering's strengths

- Life cycle engineering based on synergies with Group companies

Sanki Engineering's challenges

- Expanding sales of strategic products
- Developing new business areas
- Further promoting LCE business

Sales target for FY2016

(Numerical forecast at start of FY2016)

19.0 billion yen

Basic strategy for FY2016

- Promote building stock-based business and LCE business
- Promote energy creation

Summary of Results for Fiscal 2015

In fiscal 2015, orders received rose 17.0% from the previous fiscal year to ¥19,610 million. Net sales were 7.1% higher than in the previous fiscal year at ¥18,734 million.

We achieved the following concrete results in our business performance for fiscal 2015.

First, we were able to steadily increase sales of our strategic product AEROWING II, an ultra-fine bubble air diffuser. We also received the second order for the SANDEC G3, an energy-saving centrifugal dehydrator. These two sewage treatment products have been certified as standard models by the Japan Sewage Works Agency and have now entered the stage of full-scale marketing, with steadily increasing orders.

In addition, we have completed the second unit of our small-scale binary cycle power generating system, which offers a highly efficient way of generating electricity from unused waste heat at low to medium temperatures.

Major projects

- Improvement work for key facilities at the Clean Haramachi Center of Minami Soma City (to be completed in March 2019)
- Nomi City Beautification Center waste incineration facility reform (to be completed in March 2019)

Our supercharged fluidized bed incinerator system received a technology certification from the Tokyo metropolitan government. It was recognized with the Minister of Economy, Trade and Industry Award in the 41st Excellent Environmental Equipment Awards and the Grand Prize in the 17th Infrastructure Technology Development Award, both representing the highest awards. We will seize this opportunity to further expand sales. In fiscal 2015, we also completed two restoration projects, installing a reaction tank and final sedimentation tank at the Minami-Gamo Purification Center in Miyagi Prefecture, which suffered extensive damage from the Great East Japan Earthquake.

Our Group companies made steady progress in the LCE business, which provides a full line of services from facility planning to design, construction, after-sales service, maintenance and management. Sanki Kako Kensetsu Co., Ltd. received orders for major waste incineration projects, including reform at the Clean Haramachi Center of Minami Soma City and the Nomi City Beautification Center, and an order for a long-term upgrade and repairs at the Waste Disposal Center of the Shuto Environmental and Hygiene Cooperative Business Association. Sanki Kankyo Service Co., Ltd. won a subcontracting contract for comprehensive management of a sewage treatment facility.

Review of the Previous Medium-Term Management Plan

Strengthen Core Businesses

Expanding orders for strategic energy-saving products for sewage treatment facilities

We pursued development and sales expansion of strategic products such as the AEROWING II and the energy-saving centrifugal dehydrator, which contribute to reducing electricity consumption at sewage treatment facilities, the energy-saving centrifugal dehydrator and the chain flight sludge collector with anti-seismic functions. We also focus our efforts on achieving a high score at biddings of the comprehensive evaluation method and presenting technical proposals for large-scale projects, which consequently have won us more orders.

Energy-saving centrifugal dehydrator SANDEC G3

Expanding our marketing networks overseas

AEROWING is our strategic product manufactured and sold by AQUACONSULT Anlagenbau GmbH (a wholly owned subsidiary) based in Austria, which is at the center of our global marketing drive. We have been enjoying solid demand for upgrades to AEROWING in Europe and North America, and orders have grown steadily in the North American market in particular, where we have concluded a sales alliance with Ovivo USA, LLC, a leading plant manufacturer.

Create Unique New Businesses

Developing technology for next-generation energy saving and energy creation

We have been expanding the development and sales of products that meet the growing needs for conserving and creating energy. Since fiscal 2013, we have commercialized a small-scale binary cycle electricity generation system that can generate electricity using unused waste heat at low to medium temperatures discharged from private-sector factories, geothermal heat, and hot spring heat. While large-scale systems have already been commissioned, the reduced scale of our system is expected to fill applications in diverse heat sources. The first system delivered by the Sanki Engineering Group in fiscal 2013 has already begun generating electricity at a private company, and we delivered a second unit in fiscal 2015. Our system boasts exceptional features such as high electricity generation efficiency and ease of maintenance, and we are planning to further expand sales over the coming years.

Outline of the New Medium-Term Management Plan

Among the target areas of social infrastructure investment, investment in the environment-related market is declining. Meanwhile, there is a strong need for energy saving and energy creation in both government and private sectors.

To ensure continuous growth for the Environmental Systems Business under these circumstances, we must expand sales of strategic products, develop new business areas and further promote the LCE business.

Strengthen Core Businesses

Strengthening our key businesses

We will expand sales of strategic products while accelerating the pace of development and market launch of our next strategic products. We will also seek to improve profitability by raising productivity to maintain our competitive edge amid the diminishing size of the environment-related markets.

Promote Growth Strategies

Expanding our business areas

In response to the growing need for conserving and creating energy, we will reinforce our LCE business initiatives by building on the customer channels, products and technologies we have cultivated over the years.

We will continuously undertake research, analysis and investments unrestrained by the current scope of our businesses, targeting fields that lie on the boundaries of our existing businesses, where we can expect a synergistic effect, in order to expand areas in which we can maximize our component technologies. We will seek opportunities for developing new fields that demonstrate an affinity with environmental systems technology, which also represents an attractive market.

Expanding our marketing networks overseas

We will continue to expand our marketing network centered on AEROWING with AQUACONSULT Anlagenbau GmbH. We will collaborate more closely with leading agents in each region while also seeking new agents and marketing channels to meet the demand from substantial upgrades in North America and Europe and to cultivate new demand from countries in Asia and the Middle East.

Enhance the Sanki Brand

Due in part to the adoption of comprehensive bidding evaluation methods by municipal governments, there is now a greater need to enhance the level of technical proposals and appropriately allocate engineers. As we work to reinforce and pass on technical skills, we will also formulate plans for human resource development that incorporate the attainment of qualifications to raise the capabilities of every employee. Furthermore, to address the pressing need to develop personnel who can demonstrate their talents in new business domains, such as industrial plants and overseas business, we will strengthen the development of enterprising personnel, such as searching for emerging business "seeds" and giving material form to products, developing overseas business, and undertaking proposal-based sales.

Key Strategies for Fiscal 2016

Strengthening our LCE business and developing the energy saving and energy creation fields

Water supply and sewage systems and waste treatment facilities in Japan will collectively enter a renewal phase between 2020 and 2030, thereby accelerating demand for system upgrades and life extensions. Meanwhile, the volatility of electricity supply has led to a persistent need to conserve and create energy.

In our water supply and sewage systems business, we will continue to expand the sales of strategic products, such as the AEROWING II, an energy-saving centrifugal dehydrator, a supercharged fluidized bed incinerator, and a small-scale binary cycle power generating system, while also seeking to boost efficiency by strengthening collaboration with Group companies. Moreover, we will strive to meet the need for technologies that reduce power consumption while maintaining processed water quality by continuing to develop products and systems for saving and generating energy.

In our waste business, to secure and increase business opportunities, we will organize and reconstruct the Group-wide system to pursue proposal-based sales for new projects and large-scale repair of projects implemented in the past.

In the private sector, we will seek synergies with other divisions and Group companies to reinforce our efforts to launch strategic products in fields such as energy creation, medicine, pharmaceuticals and food products. In particular, we will work on the development and market introduction of new strategic products, such as woody biomass power generation plants, to address diverse needs.

Focus

Disaster restoration project for a sewage treatment facility

Minami-Gamo Purification Center

Value provided by Sanki Engineering

- Enhanced energy conservation, maintenance and management using the AEROWING ultra-fine bubble air diffuser
- System of solid long-term support based on our total engineering competency and LCE

AEROWING panels can be uniformly laid out to fit the shape of the tank.

Final sedimentation tank

Monorail sludge collector

Features

- Future-oriented sewage treatment facility that can withstand earthquakes and tsunami while caring for the environment

The Minami-Gamo Purification Center in Sendai City, Miyagi Prefecture treats about 70% of the city's wastewater. Sanki Engineering has undertaken construction of various facilities since 1964, the year of the Tokyo Olympic Games. We were involved in the immediate aftermath of the Great East Japan Earthquake in 2011, when the center was damaged by the earthquake and tsunami.

Various creative ideas were incorporated into the disaster prevention design of this restoration project, such as elevation levels that take tsunami heights into account, watertight doors and solar power generation units to enable minimum water processing even in the event of a power outage. Sanki Engineering was responsible for constructing the reaction tank and final sedimentation tank. The reaction tank is where organic matter in wastewater is decomposed by microorganisms. Installing the AEROWING allowed for significant reductions in electricity consumption as well as improved performance in terms of intermittent operation and facility longevity. The final sedimentation tank processes the sludge generated by treating sewage. Here we adopted a monorail sludge collector, offering high scraping capability and seismic resistance as well as being easy to manage.

In addition to the machinery systems, we worked on the construction of HVAC and hygiene facilities and sought to achieve overall optimization by harnessing our total engineering competency. Moreover, we will be responsible for the maintenance, repair and operation management following completion of the project, to provide long-term support toward ensuring the plant's stable operation.

Building description

- Sewage treatment facility

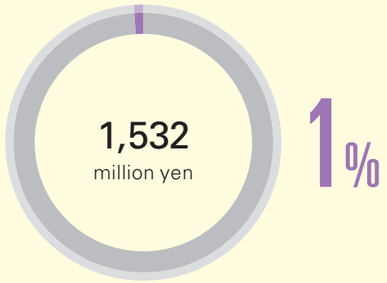
Sanki Engineering's role

- Construction of reaction tank, final sedimentation tank, water diversion, disinfection and other facilities, HVAC and hygiene facilities
- Maintenance, repair and operation management

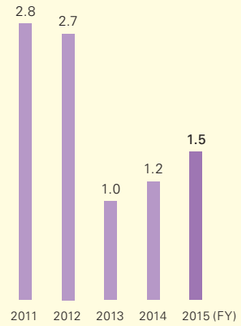
Real Estate Business

Our Real Estate Business is engaged in leasing operations and building management and is striving to increase the added value of our properties.

• Net sales and net sales composition ratio for FY2015



• Net sales (billions of yen)



Basic strategy for FY2016

- Redevelopment of Yamato Engineering Center area
- Maintenance and management of portfolio assets
- Raised revenues from building stock-based business by accumulating leasing operations
- Disposal of non-performing assets

Summary of Results for Fiscal 2015

In the Real Estate Business, net sales rose 19.3% from the previous fiscal year to ¥1,532 million. The higher net sales were due to a change in October 2014 in the management structure of a commercial complex owned by Sanki Engineering accompanied by a change in the name of the complex from "LaLaport Moriyama" to "Molive," which boosted net sales throughout the year. Also, we began leasing the former site of our dormitory for unmarried employees in Haneda, Tokyo, as a parking lot and renting out apartments that were formerly used as employee housing on the open market, which also had the effect of raising net sales.

In the office leasing market of the Japanese real estate sector, vacancy rates have continued to improve amid strong demand in the Tokyo metropolitan area and limited supply of new space. Vacancy rates have also remained comparatively steady in the outlying regions. Meanwhile, in building facilities we continue to see a prominent need for energy and resource conservation, extending the life of aging buildings and achieving longer life for facilities.

Under these circumstances, we enhanced the comfort of visitors to our commercial complex in fiscal 2015 by making detailed repairs, upgrading the air conditioning unit and fixing the parking lot pavement.

With regard to the Sanki Yamato Building, we began seeking tenants for sections of the building toward securing stable income.

Initiatives for Fiscal 2016

In fiscal 2016, we will apply Sanki Engineering's technologies and know-how to the maintenance and management of portfolio assets while continuously promoting energy conservation.

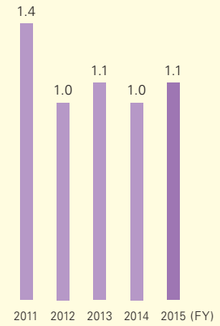
We will seek to maintain the stable business model of leasing our Haneda property as a parking lot in fiscal 2016, building on the steady results already observed since we started doing this in the first half of fiscal 2015.

As for the Sanki Yamato Building, after seeking tenants for sections of the building since fiscal 2015, tenants began to fill the property this fiscal year. We will therefore continue to search for tenants and strive to raise the occupancy rate toward securing a stable flow of revenue.

Research and Development

Sanki Engineering conducts a variety of research and development activities to ensure our business operations meet customer needs and address issues faced by society.

• R&D Expenditures (billions of yen)



R&D activities

- Refinement and application development for proprietary technologies
- Promotion of higher quality
- Pursuit of energy conservation
- Investigation of new technologies and R&D

Initiatives in new fields

- Meeting labor-saving needs associated with the decline in the working population while maintaining and enhancing construction quality
- Applying our technologies to the fields of medicine, pharmaceuticals, automotives, and new technologies
- Promoting open innovation

Basic Approach

We engage in research and development relevant to our diverse business activities toward our goal of providing high-value-added solutions that contribute to the creation of a sustainable society. We develop innovative technologies by highly expert engineers; refine our proprietary technologies to expand practical applications through demonstration experiments, analysis and evaluation; and conduct basic research and investigate new technologies.

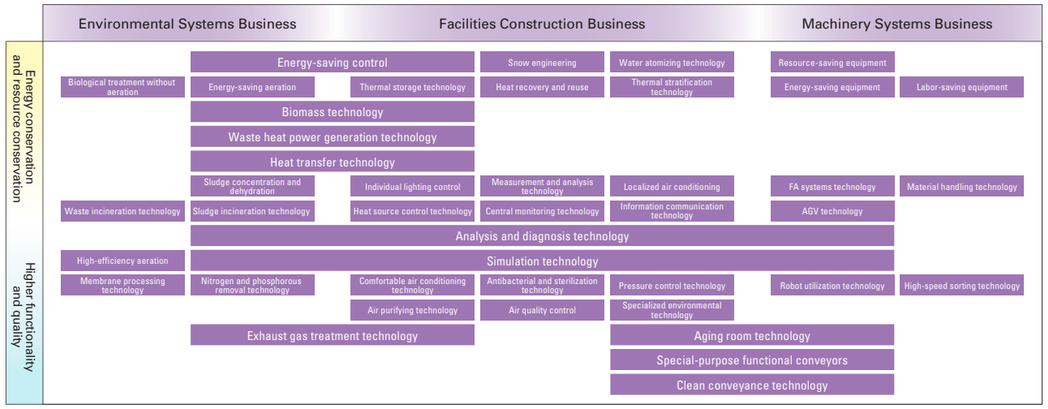
R&D System

Using an open innovation platform of collaboration among business divisions centered on our Technical Research & Development Institute, we conduct research and development for new technologies, refine proprietary technologies, pursue higher quality, conduct basic research and investigate new technologies. As part of the Sanki Techno Center (tentative name) project, which is proceeding under our medium-term management plan, we will update the Technical Research & Development Institute to generate additional synergies.

Intellectual Property Initiatives

The Intellectual Property Department responsibly manages intellectual property in accordance with our established rules. To strengthen our oversight and utilization of intellectual property, a liaison person is assigned to each business division to identify intellectual property from activities being undertaken to improve construction methods and share information from meetings with intellectual property officials across the Company. We also address risks by maintaining and making available Group-wide a database of Company intellectual property as well as patent summaries and public notifications. In addition to providing intellectual property training for new recruits, we organize Group training on risk management for employees in their third and seventh years. By sharing information and implementing regular training and education, we are working to enhance awareness in order to protect our own technology and ensure that we do not infringe upon the intellectual property rights of other companies.

R&D technology map



HVAC heat source optimization system, real time, all the time

EcoSearcher®

Focus

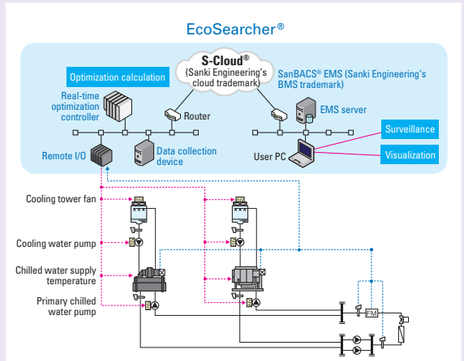
Value provided by Sanki Engineering

- Saves about 10% more energy than conventional optimization systems through real-time calculations based on actual measured values
- Offers versatile connectivity including compatibility with existing systems and choice of optimization range

Features

- Real-time optimization through the simultaneous control of four units to minimize energy consumption
- Highly accurate optimization based on measured values during operation instead of advance estimates (patent pending)
- Energy management system for analyzing collected data for use by the controller

In January 2016, we announced the EcoSearcher® for minimizing the overall energy consumption of HVAC heat sources by calculating target values for each unit in real time. Unlike conventional optimization methods based on advance estimates, measured values are used to calculate the optimal values at any given moment, thereby enhancing the accuracy of calculations and expanding control functions. Our test calculations show that EcoSearcher® can save approximately 30% more energy compared to not using any optimization measures and approximately 10% more energy compared to conventional optimization methods.



VOICE

Nurturing resourceful personnel to take on challenges in pursuit of quality, and harnessing our total technological capabilities to create solutions for diverse needs

I began working as general manager of the Technical Research & Development Institute in April 2016. I am resolved to fulfill my role, making full use of the experiences I have gained as an engineer to further enhance our development capabilities.

Our customers require responses that are tailored to the different specifications they have for each project. The "Sanki spirit" is embodied in our total technological capabilities, which allow us to meet diverse customer needs by creating solutions through the synergies of various fields, including construction, electrical engineering, ICT, conveyance and environmental engineering. The nurturing of resourceful personnel who can create better solutions by combining knowledge with wisdom then becomes even more important.

For this reason, we will focus on honing the technical skills of each individual researcher during the first three years of our new medium-term management plan. We will boldly take on the challenges posed by emerging needs and technologies in pursuit of quality worthy of customer trust. To do this, we will seek to bolster our foundational research and broaden our perspective by taking full advantage of discussion forums such as conference presentations and internal briefings as well as proposals to customers that incorporate the confirmation and improvement of results and effects.

Our greatest mission as a company with a strength in facilities is to contribute to energy conservation and a low-carbon society, a mission that we have pursued for over 90 years since our founding. In addition, we will employ new technologies such as ICT, AI and robots, which have recently attained commercial applicability, to produce even better results for customers over the coming years.

Kazuaki Iijima
Executive Officer, General Manager of Technical Research & Development Institute

CSR Report

Corporate Governance

Basic Philosophy

The Sanki Engineering Group conducts management with the goal of contributing to society through engineering, communicating with our shareholders and other stakeholders, and engaging in business activities that make us a company both valued and trusted by the community. We believe the key management challenge for attaining this goal is to build on a foundation of thorough compliance in order to establish a corporate structure that enhances our performance by raising management efficiency.

Establishment of the Corporate Governance Guidelines

We established the Sanki Engineering Corporate Governance Guidelines in December 2015 to clarify the Sanki Engineering Group's basic philosophy and policy on corporate governance. Under the guidelines, we will further reinforce our corporate governance to achieve sustainable growth for the Group and enhance its corporate value over the medium to long term.

WEB Sanki Engineering Corporate Governance Guidelines (in Japanese)
https://www.sanki.co.jp/corporate/governance/guideline.html

Corporate Governance

Corporate Governance System

We adopted a Company with Board of Company Auditors system with dedicated, full-time auditors as our form of corporate governance. Under this structure, the auditors and the Board of Auditors exercise oversight over the execution of duties by directors, the accounting auditors auditing the financial statements and other documents, and the Board of Directors responsible for making decisions on material issues. In addition, we seek to increase management efficiency and speed up the decision-making process by employing an executive officer system in which we divide management functions between the Board of Directors, which is responsible for decision-making and supervision functions, and executive officers, who are responsible for the execution of business affairs.

Strengthening the Governance System

We are strengthening our system in line with the Sanki Engineering Corporate Governance Guidelines to realize effective corporate governance.

Main Measures for Strengthening the Governance System

Self-evaluation by the Board of Directors
To enhance the effectiveness of the Board of Directors, in fiscal 2016 we created an opportunity for the board to verify its deliberation process and annually identify areas of improvement, to analyze and evaluate the overall effectiveness of the board and utilize the results to improve future operations. We will disclose a summary of the evaluation results.

Independence Standards for External Officers
We have established our standards on the independence of external officers to ensure further transparency, and we are striving to strengthen objective oversight of management.

WEB Independence Standards for External Officers
(Appendix for the Sanki Engineering Corporate Governance Guidelines) (in Japanese)
https://www.sanki.co.jp/corporate/governance/guideline.html

Liaison Meeting of External Officers
A liaison meeting comprising external officers is held once every quarter to openly exchange views and necessary information and to develop a common awareness of issues.

Training for Officers
We provide directors and auditors, when they are appointed, with information on our corporate history, achievements and future business plans as well as on legal, financial and accounting issues. Following their appointment, we give them opportunities for training related to the supervision and auditing of management and for acquiring knowledge.

• Officer Remuneration
In fiscal 2015, Sanki Engineering established the Advisory Committee on Nomination and Remuneration under the Board of Directors, comprising the president, external directors and others, to nominate candidates for directors and auditors and to deliberate on matters including the system and level of remuneration.

We decide on remuneration for directors and auditors within the limits adopted by our general shareholders' meeting, based on the three components of fixed remuneration, bonus and stock options. Each fiscal year, we decide the amount separately for directors and auditors depending on their full-time or part-time status, with due consideration for balancing each of the following elements and ensuring that the amount is aligned with the long-term interests of shareholders and offers sufficient motivation for maximizing corporate value.

- Fixed remuneration: rank and scope of responsibilities
- Bonus: portion linked to performance during the period
- Stock options: granted according to rank as a long-term incentive

Elements and procedures for remuneration for directors and auditors

Category	Fixed remuneration	Bonus	Stock options	Procedure
Full-time director	○	○	○	Decided by the Board of Directors following deliberation by the Advisory Committee on Nomination and Remuneration
Part-time director	○	–	–	
Full-time auditor	○	○	–	Decided by consultation among auditors
Part-time auditor	○	–	–	

Remuneration for directors and auditors (fiscal 2015)

Category	Number of persons receiving payment	Total amount of payment
Directors (external directors)	10 (2)	¥282,809,000 (¥18,480,000)
Auditors (external auditors)	4 (2)	¥79,920,000 (¥18,480,000)

Internal Controls

Basic policy and systems for internal controls

Sanki Engineering adopted its Basic Policy on Internal Financial Control at a meeting of the Board of Directors in May 2006 to set up a system of internal controls for ensuring the legality, soundness and transparency of its management. Since then, we have sought to establish and manage the system in accordance with the policies adopted by the Board of Directors by continuously revising this policy as necessary.

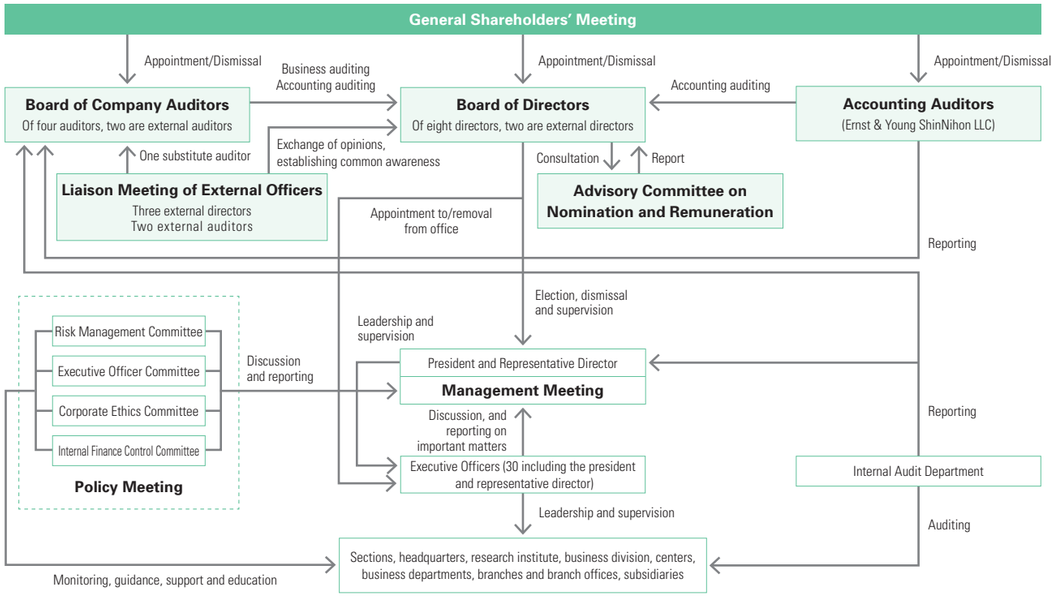
In May 2015, we revised the Basic Policy on Internal Financial Control in response to the revision in the Companies Act to establish a system that enables Sanki Engineering to supervise its subsidiaries and improve the functionality of the system of auditing conducted by its auditors.

We strive to increase the effectiveness of our internal controls by strengthening various systems. As a system for ensuring effective auditing by auditors, the auditors exchange opinions with the president, accounting auditors and the Internal Audit Department, and the full-time auditors attend important meetings such as the Management Meeting, Risk Management Committee and meetings of executive officers to confirm the operating status of the internal controls system. We also organize exchanges of views between the auditors at Sanki Engineering and the presidents of subsidiaries to reinforce effective control over subsidiaries. Furthermore, the Internal Audit Department confirms the status of risk management at each division through regular internal audits to verify the adequacy of our risk management.

Ensuring the reliability of financial reporting

We have established an Internal Finance Control Committee to conduct our financial reporting in accordance with the internal control framework stipulated by the Financial Services Agency standards and are seeking to bolster this system. Moreover, we are promoting the establishment and appropriate management of an internal control system to safeguard the reliability of our financial reporting by having the committee deliberate on the assessment and response with respect to the financial risks within each department and subsidiary. Under the system, a report is produced to ensure that internal controls related to financial reporting are being exercised effectively. In the report for fiscal 2015, auditors expressed their opinion that our financial reports have been presented in an appropriate manner in all material aspects.

Framework of the Corporate Governance System (As of June 29, 2016)



Business Execution System

Board of Directors
The Board of Directors meets at least once a month in order to deliberate on important matters and supervise the status of execution of business affairs. Thirteen meetings of the board were convened in fiscal 2015.

Management Meeting
The meeting consists of directors and executive officers nominated by the president and meets weekly to deliberate on important matters, including those to be discussed by the Board of Directors. Fifty meetings were convened in fiscal 2015.

Policy Meeting
Risk Management Committee: See page 48.

Executive Officer Committee
Made up of executive officers, the committee meets at least once every three months to discuss the policies expressed by the president and executive officers responsible for departments and to report on the status of business execution by each executive officer.

Corporate Ethics Committee
The president serves as the chairperson and nominates executive officers as officers responsible for corporate ethics, who oversee all matters related to corporate ethics through this committee. The committee is made up of executive officers, heads of divisions and the presidents of branches and branch offices, and the CSR Promotion Division functions as the secretariat. The committee deliberates on action plans and other measures to achieve further penetration and stricter observance of the Company's Code of Conduct and Action Guidelines at two regularly scheduled meetings per year.

Internal Finance Control Committee
Chaired by the president, this committee's central role is Group-wide control, including review and decision-making concerning important matters regarding internal controls for financial reporting.

Advisory Committee on Nomination and Remuneration
The committee mainly consists of the president and external directors and deliberates on matters including the nomination of candidates for directors and auditors and system and level of remuneration.

Auditing System

Board of Company Auditors
Convening at least six times a year, the auditors attend board meetings and other important meetings and offer opinions as necessary. The board conducts accounting auditing and business auditing activities in cooperation with the accounting auditors, the Internal Audit Department, and the Internal Controls Departments. In June 2012, a supplementary external auditor was appointed to fill potential future vacancies in the board.

Internal Audit Department
This department conducts internal audits of the operations of each of the Company's business divisions in accordance with the Auditing Plan for that fiscal year. It verifies the internal management system including its appropriateness and efficiency. As necessary, the Internal Auditing Department exchanges opinions with or makes proposals concerning the improvement or correction of a problem to the internal controls departments of the Administration Division and other divisions. The department reports the results of its audits to the president, responsible executive officers and auditors.

Executives of the Sanki Engineering Group (As of June 29, 2016)

Full-time Auditor	Director	Director	Director	Director	Full-time Auditor
Masato Komura	Takashi Motomatsu	Nobuo Kumura	Hidemi Fujii	Yoshio Kawabe	Hirotoshi Fukui

External Auditor	External Director	Representative Director and President	Representative Director and Chairman	External Director	External Director	External Auditor
Takeo Inokuchi	Hiroki Nishio	Tsutomu Hasegawa	Takuichi Kajiura	Yukiteru Yamamoto	Makoto Nukaga	Mamoru Norisada

Representative Director	Chairman	Takuichi Kajiura
	President	Tsutomu Hasegawa
Director	Senior Executive Officer, and General Manager, CSR Promotion Division	Nobuo Kumura
	Senior Executive Officer, and General Manager, Mechanical & Electrical Contracting Headquarters	Hidemi Fujii
	Managing Executive Officer, and General Manager, Plants & Machinery Systems Headquarters	Takashi Motomatsu
	Executive Officer, and General Manager, Administration Division	Yoshio Kawabe
External Director		Yukiteru Yamamoto*
		Hiroki Nishio*
		Makoto Nukaga*
Full-time Auditor		Masato Komura
		Hirotoshi Fukui
External Auditor		Takeo Inokuchi
		Mamoru Norisada*

* Independent directors have been appointed in accordance with the listing rules of the Tokyo Stock Exchange.

Compliance

Basic Philosophy

The Sanki Engineering Group strives to maintain legally compliant behavior based on corporate ethics across all aspects of its operations by upholding the Sanki Engineering Group Code of Conduct and Action Guidelines, the Sanki Engineering Group Compliance Declaration and the Sanki Engineering Group Behavioral Standards.

Reference Compliance Reference Documents
PP. 46 and 47

Compliance Promotion System

We have established a Corporate Ethics Committee, chaired by the president, who nominates officers responsible for corporate ethics to oversee the committee's activities. In principle, the committee meets twice a year to review, monitor and provide guidance with respect to compliance guidelines and action plans for the entire Group.

Compliance Promotion Activities

Corporate ethics hotlines (whistleblowing system)

We have set up corporate ethics hotlines both within and outside the Company. The internal hotline goes to the CSR Promotion Division, while the external hotline goes to our consulting attorney's office. We act with haste to resolve the issues that are reported, with consideration for the protection of anyone seeking consultation or providing information. All of the reported information is presented to the executives responsible for corporate ethics, and important information is reported to the Management Meeting. In fiscal 2015, there were nine reported incidents (seven internally and two externally), and all incidents have been appropriately handled. We are also distributing a corporate ethics hotline card in order to raise awareness of this system throughout the entire Group.

In addition, we began operating a new Fair Trade Hotline in January 2016.

Receipt of Compliance Confirmation Sheets from all Executives and Employees

In order to refresh the awareness of all Group executives and employees of the responsibilities that they must fulfill in their respective positions and roles, compliance confirmation sheets covering items such as observance of the Code of Conduct and Action Guidelines, and eliminating criminal elements and groups, are submitted at the beginning of each fiscal year using the e-Learning method.

There were no serious compliance violations, such as illegal acts, unethical behavior or unfair practices, in fiscal 2015.

Number of persons submitting compliance confirmation sheets (fiscal 2016)

	Sanki Engineering (relevant employees)	Subsidiaries (relevant employees)
Compliance confirmation sheets concerning performance of duties	32 (32)	23 (23)
Compliance confirmation sheets	1,895 (1,933)	363 (369)

- Compliance confirmation sheets concerning performance of duties are submitted by directors and executive officers.
- Individuals who have not submitted compliance confirmation sheets are on maternity leave, receiving medical treatment, etc.

Corporate ethics training

Sanki Engineering conducts corporate ethics training on a regular basis in order to ensure thorough compliance with the Code of Conduct and Action Guidelines.

Results of corporate ethics training (fiscal 2015)

Course	Theme	Target	Frequency and participation
Corporate ethics training	Respect for diversity—Creating a working environment in which individuals can shine	Group employees	33 times 2,324 employees

Compliance awareness survey

We conduct an annual awareness survey on issues such as compliance and CSR targeting all executive officers and employees. Survey results are used to monitor and improve the effectiveness of CSR activities. We noted feedback and issues concerning harassment in the results of the questionnaire and from the current state of reports, and we are taking action to eliminate any harassment by consistently carrying out preventive education through corporate ethics training and division training.

Results of questionnaire regarding compliance awareness for 2016

Survey period: April and May, 2016
Participants: All Group executive officers and employees

Q. Do you think Company initiatives concerning compliance are adequate?

Yes	Fiscal 2015	83.4%
	Fiscal 2016	82.0%

Q. Do you know about the Fair Trade Hotline?

Yes	No	No response
97.1%	2.4%	0.5%

Compliance Audit

The Internal Audit Department conducts internal audits and seeks to strengthen compliance by providing guidance on legal compliance and through monitoring. In fiscal 2015, internal audits were carried out at 25 worksites including those of 7 subsidiaries. In addition, to raise awareness at our construction sites, we conduct onsite hearings with site managers to gain a better understanding of the situation.

Strengthening Anti-Monopoly Act Compliance

Breach of the Anti-Monopoly Act in the Hokuriku Shinkansen construction project

Sanki Engineering breached the Anti-Monopoly Act in bidding for the Hokuriku Shinkansen construction project, for which the Company was subject to an onsite inspection by the Japan Fair Trade Commission in 2013. In order to regain society's trust, we are steadfastly and thoroughly enforcing measures to prevent recurrence.

Measures taken in a continuing effort to prevent recurrence

The following are major measures we have been undertaking up to fiscal 2015.

Measures carried out in fiscal 2013 to prevent recurrence

- Formulated the Sanki Engineering Group Compliance Declaration and Sanki Engineering Group Behavioral Standards.
- Held special training on corporate ethics for all executive officers and employees of the Group and submitted a pledge outlining compliance with the act.
- Distributed the Compliance Handbook to all executive officers and employees of the Group in order to boost awareness and informed them again of the compliance whistleblowing system.
- Assigned a compliance manager to each operational department.

Measures carried out in fiscal 2014 to prevent recurrence

- Established a comprehensive, Group-wide Anti-Monopoly Act Compliance Program at a meeting of the Board of Directors, and implemented the program.
- Assigned a compliance manager in each department and began supervising the process for deciding on the bid amount and operating a compulsory system of advance approval and reporting when attending a meeting with any companies in the same industry.
- Introduced regular rotations for sales staff assignments.
- Issued an Anti-Monopoly Act Compliance Manual.
- Established a Compliance Risk Subcommittee within the Risk Management Committee to prevent risks from materializing.
- Clearly stipulated breaches of laws such as the Anti-Monopoly Act as grounds for disciplinary action.
- Top management visited all business bases to hold special corporate ethics training sessions using the Anti-Monopoly Act Compliance Manual through direct exchange with all of the Group's executives and employees. A total of 2,098 participants attended 47 sessions from November 2014 to February 2015.
- Reconsidered membership in outside groups.

Measures carried out in fiscal 2015 to prevent recurrence

- Utilized e-learning to instill a thorough awareness of Anti-Monopoly Act compliance.
- Ensured a thorough awareness of the content of cease and desist orders among 2,023 Group employees of Sanki Engineering and 533 employees of subsidiaries.
- Conducted training for sales staff. A total of 3 sessions were held, and all 199 targeted staff attended. New sales staff study this issue through e-learning immediately they have been assigned.
- Began an in-house leniency system (voluntary reporting system). Organized a system for voluntary reporting by officers and employees using a dedicated hotline. Carried out the following measures to ensure the effectiveness of system operation.
  (1) Establishment of the Fair Trade Hotline
  (2) The Internal Audit Department of the CSR Promotion Division conducts an annual audit of the reporting system and reports its findings to the president, general manager of the CSR Promotion Division and a full-time auditor.
  (3) The CSR Promotion Division monitors the situation through the corporate ethics survey and submits a status report to the Management Meeting.
  (4) When the system is determined to not be functioning based on the results of auditing and monitoring, the CSR Promotion Division will promptly revise it.

We will continue to exert a Group-wide effort in fiscal 2016 to prevent any recurrence in violations of the Anti-Monopoly Act. At the same time, we will move beyond simply implementing the measures to appropriately providing feedback in order to improve the activities.

Sanki Engineering Group Compliance Declaration, Sanki Engineering Group Behavioral Standards, and Code of Conduct and Action

In order to never again cause reason for suspicion of a breach of compliance, we have formulated the Sanki Engineering Group Compliance Declaration and the Sanki Engineering Group Behavioral Standards to ensure that business activities adhere to behavioral norms and guidelines based on compliance with laws and regulations and corporate ethics, throughout the Group and across all businesses.

Sanki Engineering Group Compliance Declaration

Formulated: October 21, 2013

A policy of conducting business activities in compliance with laws and regulations and based on corporate ethics is the major premise behind the operations undertaken by the Sanki Engineering Group, and is set forth in the Sanki Engineering Group Code of Conduct and Action Guidelines. Activities related to the granting of contracts are also subject to this and the third provision of the Code of Conduct stipulates, "In seeking to win contracts, we will observe the rules of fair market competition."

Nonetheless, we have formulated the Sanki Engineering Group Behavioral Standards in order to clarify the above points in line with changes in the environment surrounding the Company in recent times.

Essential components of bidding for any contract include acting as an honest and fair competitor, or in other words, acting in accordance with the independent judgments of the Company. Employees must strictly refrain from behavior swayed by the intentions of other companies or that impacts the actions of another company. When bidding for a contract, it is unethical to talk with other bidders or take action to force an adjustment, actions which breach the Company's policy.

Accordingly, we declare as Company policy that all Sanki Engineering Group executive officers and employees shall comply faithfully with the items stipulated in the Sanki Engineering Group Behavioral Standards.

Sanki Engineering Group Behavioral Standards

Formulated: October 21, 2013

Sanki Engineering Group Behavioral Standards
Formulated: October 21, 2013

1. No discussion, exchange of information, adjustment, or decision upon the following between businesses shall take place.
   (1) Method of selecting prospective candidates for a contract
   (2) Prospective contract candidates
   (3) Bidding price
   (4) Estimated price
   (5) Eagerness for contract, results of sales activities, contract results, number of times nominated, etc.
   (6) Order amount in stock, order reserve
2. Approval shall be gained from your superior before attending a meeting between businesses in the same industry. Following the meeting, record of the content must be made and shall be reported to your superior.
3. Such meetings shall not be attended if knowledge has been obtained in advance that the topic of the meeting between businesses will concern a matter related to any of the items in Provision 1 above.
4. Even when decisions on method of selecting prospective contract candidates, prospective contract candidates, or bidding price are made based on the guidance or at the request of the public office offering the contract, you must not adhere to this since it is a violation of the Anti-Monopoly Act.
5. When setting up a joint-venture group to participate in a tender bid, you must not negotiate or exchange opinions regarding the formation of said group in a manner that includes persons aside from those that may be involved as partners.
6. A subcontractor transaction or transaction that may be seen as giving benefits must not be undertaken between the successful tender bidder and another participating bidder for a property since this may lead to suspicions of bid-rigging in the background.
7. Actions that in any way hinders or excludes participation in a bid on the part of other businesses or force another business to withdraw from a bid shall not be taken.
8. These standards shall apply to the following cases as well.
   (1) When a trade association acts as agent
   (2) When the public office offering the contract offers an agreement based on a method of estimate adjustment
9. In the case that you come into contact with a fact or information that suggests the existence of bid-rigging in the Company's business activities, you must report this to your superior or via the reporting system (corporate ethics hotline) irrespective of whether or not it concerns you.
10. In the case that a doubt arises over the application of these standards, you shall make judgment based on the "Guidelines Concerning the Activities of Firms and Trade Associations with Regard to Public Bids" (Public Bidding Guideline) issued by the Japan Fair Trade Commission on January 1, 2010.
    Additional clause: These standards shall be implemented as of October 21, 2013.

The Sanki Engineering Group's Code of Conduct and Action Guidelines

Formulated on December 1, 2002
Revised on May 1, 2012
Revised again on June 2, 2014

(Our Code of Conduct is expressed in clauses 1 to 8, each followed by Action Guidelines from ① to ㉞.)

Contribution to society through business activities

1. Always taking our customers' perspective, we will provide safe and useful products and services that satisfy our customers and earn their trust, and we will contribute to the development of society through Total Engineering.

① Taking our customers' needs seriously, we will present solutions based on our superior technological capacity as engineering professionals, enabling us to provide safe and useful products and services.
② We will strictly manage confidential information belonging to our customers that we have access to in the course of our work, and we will only use such information for legitimate purposes.
③ In the course of our business activities, we will present accurate information concerning our products and services, and we will not make any statements that might potentially be misunderstood by our customers.

Disclosure of company information

2. Recognizing our social responsibility as a listed corporation, we will disclose the company information necessary to increasing our management transparency in an appropriate and timely manner, improving our level of communication with our stakeholders and earning their trust.

④ We will disclose company information, including information concerning our business activities and our financial status, to our stakeholders in a timely and appropriate manner.
⑤ We will prioritize communication with our stakeholders in order to live up to the trust placed in us by society.
⑥ We will not engage in insider trading or any form of buying or selling of shares, etc., that may arouse suspicions of insider trading.

Fair market competition and trading

3. In seeking to win contracts, we will observe the rules of fair market competition, and in issuing contracts we will build fair, equal and transparent business relationships with all of our business partners*, and we will conduct honest transactions, in accordance with the stipulations of the related laws and regulations and the relevant contracts.

* Business partners: Subcontractors and companies from which we purchase materials, etc.

⑦ We will pursue profits by means of free and fair competition, observing the stipulations of the Anti-Monopoly Act and other relevant laws and regulations.
⑧ We will not make decisions based on discussion of prospective recipients of contracts or the method of selection of prospective recipients of contracts with companies involved in the contract bidding process, and we will not exchange information concerning the granting of contracts.
⑨ We will always adopt a fair and unbiased viewpoint in our dealings with business partners, and we will conduct honest transactions in accordance with the stipulations of the related laws and regulations and the relevant contracts.
⑩ We will not exploit our position as the contracting party in order to coerce our business partners to engage in any improper actions.
⑪ In negotiating the offering of contracts, etc., we will not pursue individual profit.
⑫ We will not accept any entertainment, gifts, or other economic benefits from our business partners that exceed the bounds of ordinary social etiquette.

Respect for human rights

4. In all of our business activities, we will respect the human rights of every individual with whom we have dealings, and we will eliminate discrimination and any actions that impair the dignity of the individual.

⑬ We will ensure that every individual is able to work safely and healthily at all of our worksites, including construction sites.
⑭ We will not discriminate or perform any action that impairs the dignity of the individual on the basis of sex, age, place of birth, nationality, race, ethnicity, creed, religion, physical characteristics, disabilities, etc.
⑮ We will not benefit from child labor or forced labor in our business activities.
⑯ In the course of our business activities, we will consider our impact on human rights, and we will deal with any potential human rights violations.
⑰ We will eliminate sexual harassment and power harassment from the workplace, and we will prevent any deterioration in the working environment.
⑱ We will respect the privacy, individuality, and diversity of each person, and we will work to harmonize work and life.

Management of company finances

5. We will work to manage and protect company rights and assets, both tangible and intangible, and will not use these for inappropriate purposes such as personal use; in addition, we will respect the rights and assets of others.

⑲ We will manage company assets appropriately and in accordance with the rules, and we will not use them for other than business purposes.
⑳ We will secure and preserve company rights and assets, including intellectual property rights, and we will also respect the rights and assets of others and avoid violating those rights.
㉑ We will manage information appropriately, based on our information systems use standards.
㉒ In addition to protecting information provided by customers, we will treat all personal information that we receive appropriately and manage it safely.
㉓ We will strictly manage company confidential information; during their period of employment our employees will ensure that there are no leaks or disclosures of information, and will continue to do so after having left employment, without observing fixed procedures. The same holds true for the confidential information of others.

Protection of the global environment

6. We will make active efforts for the protection of regional environments and the global environment.

㉔ In our design of facilities, etc., we will contribute to the realization of a low-carbon society by actively proposing means of conserving resources and energy.
㉕ In our respective workplaces, we will strive to prevent pollution and environmental contamination, and we will work to promote conservation of resources and energy, reduction of industrial waste, and recycling.
㉖ In our business activities, we will always consider our impact on the environment, and we will respect environment-related laws and regulations and actively work toward the resolution of environmental problems.

Prevention of association with anti-social elements

7. We will resolutely reject advances from anti-social elements that threaten the order and safety of civil society, and we will have no association with such elements.

㉗ If we receive improper requests or demands from anti-social elements or groups that represent a threat to the order and safety of civil society, we will not yield to these requests or demands but will resolutely reject them. In addition, we will not conduct any transaction with anti-social elements or groups, or individuals associated with such elements or groups, for any reason whatsoever, and will break off any contact with such elements or groups.

Respect for social rules

8. Maintaining a constant awareness that we are members of society, we will follow social rules and actively contribute to society, working to win the trust of the community.

㉘ In the performance of our work duties, we will observe the stipulations of the Construction Industry Act and other relevant laws and regulations, our Code of Conduct and Action Guidelines, and our company regulations, and we will follow social rules, maintaining a constant awareness that we are members of society.
㉙ When we stand to gain from such activities, we will not offer any favors such as entertainment or gifts to public officials or any equivalent person (including foreign public officials), and even when we do not stand to gain we will not offer entertainment, gifts, etc., to such persons that exceed the bounds of ordinary social intercourse. We will not provide any economic benefits such as entertainment or gifts that exceed the bounds of ordinary social common sense to the executives or employees of our customers. In addition, when the company rules of our customers prohibit the provision of entertainment, we will follow those rules.
㉚ We will not perform any actions that damage the good name or prestige of our company.
㉛ We will work to contribute to society as a good corporate citizen and member of society, seeking to contribute to the development of local communities.
㉜ When we engage in business activities overseas, we will respect both the rules of the area in which we are conducting business and the international code of conduct.
㉝ We will make our business partners aware of this Code of Conduct and these Action Guidelines, and we will request their observance of them.
㉞ All personnel in managerial positions will actively practice the precepts of this Code of Conduct and these Action Guidelines, and will provide instructions and engage in supervision to ensure that the personnel under their management also observe them.

Risk Management

Risk Management Policy and System

Sanki Engineering has established a Company-wide risk management system based on its Risk Management Rules to comprehensively identify risks that pose an obstacle to achieving our business goals and prevent such risks from materializing, and also to minimize loss in the case that it does occur.

We have set up a Risk Management Committee, chaired by a risk management officer, to centrally manage Group-wide risk and implement an organized response. In principle, the committee convenes once every quarter to monitor important risk throughout the Group, formulate control plans, and monitor risk reported from subcommittees and divisions. To enhance the effectiveness of our risk assessment and control, we have set up risk management subcommittees to address specific risks under the Risk Management Committee. In addition, the Internal Audit Department conducts regular audits to check the status of risk management at each division and verify the appropriateness of risk management.

Risk Management Activities

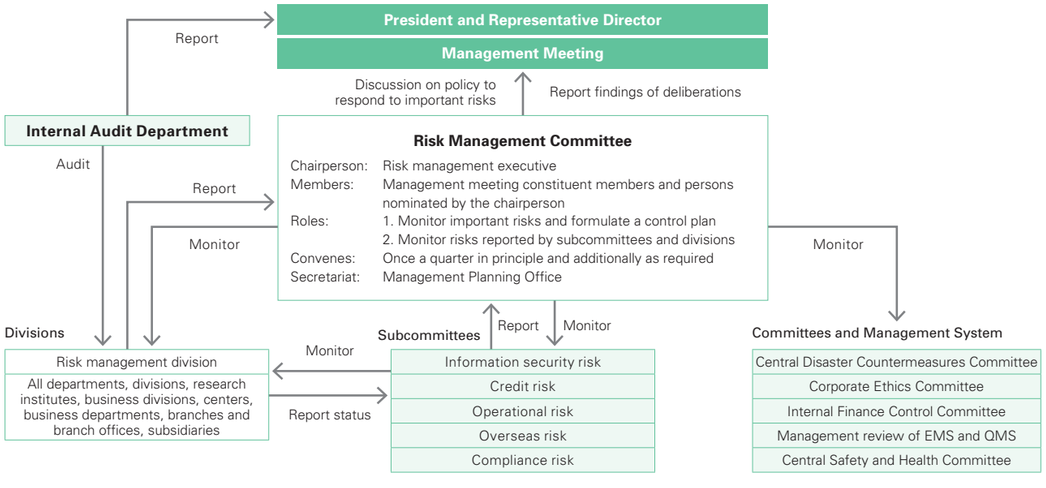
Each fiscal year, the Risk Management Committee identifies risks that affect business activities and conducts a risk assessment based on frequency of occurrence and impact on management. The committee receives reports from the risk management subcommittees to monitor risks and consider necessary countermeasures, provides instructions and confirms the status of progress. Since fiscal 2015, we have been pursuing initiatives particularly focused on preventive measures. We are specifically emphasizing items on our risk management list related to preventive management and confirming preventive measures for addressing each risk.

The Risk Management Committee convened four times in fiscal 2015 to assess the impact of each risk in order to prevent their occurrence, discuss countermeasures and confirm progress.

Major countermeasures carried out in fiscal 2015

Risk	Countermeasures
Information security	• Revise the Guidelines for Information Security Countermeasures in response to reinforcing information security countermeasures • Bolster measures for employees of subcontractors • Hold a simulation drill for handling targeted email attacks (including subsidiaries)
Credit	• Monitor and controlled credit risks related to customers and suppliers
Business continuity plan (BCP)	• Integrate the BCPs of Group companies to establish a BCP for the Sanki Engineering Group • Disaster prevention education through e-learning
Overseas	• Expand the scope of risks to be addressed, and revised and issued the Overseas Crisis Management Manual and Overseas Safety Measures Manual
Compliance	• Hold corporate ethics training

Framework of the risk management system



Responding to Disaster Risks through the BCP

The Sanki Engineering Group's business continuity plan (BCP) aims to ensure the safety of all related persons, including employees, based on the integrated effort of all divisions and employees. The Company has also formulated a framework to contribute to customers and society through swift business restoration in collaboration with business partners. We continuously conduct drills and develop internal systems and procedures (system maintenance starting under ordinary conditions and clarification of behavioral standards and division of roles in a disaster) so that restoration activities can be implemented more promptly.

In fiscal 2015, we created an action plan to enhance the effectiveness of our BCP. We also organized e-learning courseware to raise employee awareness of disaster prevention at Group companies. Looking ahead, we will develop closer collaboration between Sanki Engineering and its subsidiaries by constructing an effective BCP and carrying out joint training as part of Group BCP activities.

Strengthening Risk Management in Overseas Operations

Consistently efficient international business operations require stronger measures for controlling a wide range of overseas risks in regard to both prevention and remediation. The Risk Management Committee issued the Risk Management Manual for Overseas Operations (for the head office and overseas bases) and the Manual to Ensure Safety in Foreign Countries (for overseas employees, overseas business trippers and their families) in 2014, which are revised each year.

The Risk Management Manual for Overseas Operations stipulates rules and response procedures for crises that could occur in foreign countries. The manual was revised due to an expansion of the scope of area covered, from preventing physical harm to overseas employees and other people, to encompassing steps to address violations of laws, responding to mass media and dealing with matters concerning lawsuits. The Manual to Ensure Safety in Foreign Countries was compiled as a practical guide and includes actual situations and checklists that cover actions required in the event of a terrorist attack or natural disaster, the prevention of damage from crime and other risk, compliance with anti-corruption laws, personnel/labor management of locally employed staff, religion and other related matters to help overseas employees and other people reduce risk and respond to emergencies.

Initiatives to Ensure Information Security

The Group handles information provided by customers in accordance with our Information Security Risk Management Rules. We have established an information security risk subcommittee within the Risk Management Committee as a management system. Through this system, we can control information security measures Company-wide and manage risk related to information security in an integrated manner. In fiscal 2015, we held two subcommittee meetings to reinforce our countermeasures for information security risks by implementing actions focused on stringently managing information devices, such as clarifying standards for installing security cables to external HDDs, strengthening security passwords for PC logins and conducting regular audits. As part of our activities to develop our management system, we began using checklists to confirm the status of information security measures during internal audits and on-site inspections by supervisors at each branch.

Key information security measures

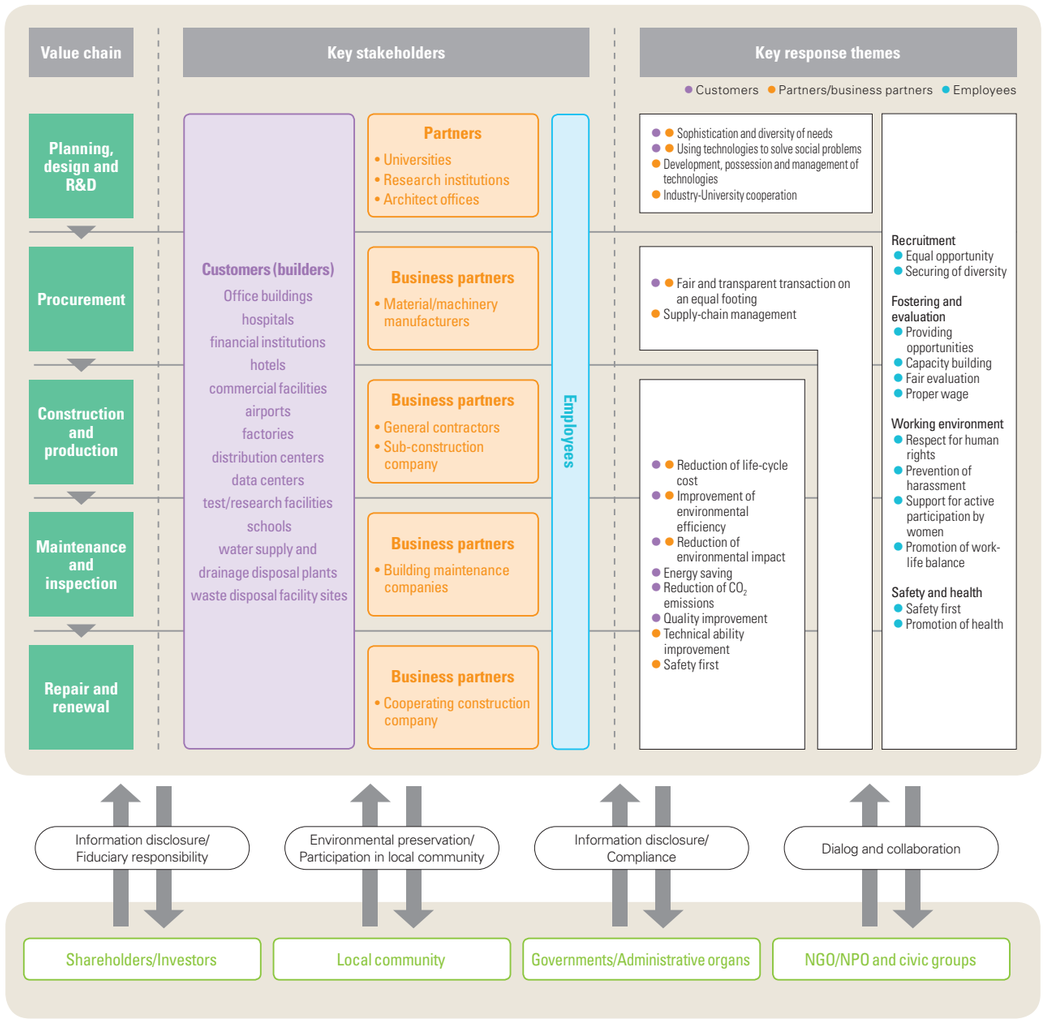
Type	Actions
Dissemination of rules	• All Group executive officers and employees take an e-Learning course • Corporate ethics training, submission of confirmation forms • Training on preventing targeted email attacks was conducted twice • Status review of information security countermeasures during on-site inspections
Information device management	• Encryption of information terminals • Regular inventory reviews
Prevention of unauthorized use	• ID and password management, secure room • Confirmation using asset management tools • Preventing non-company owned PCs brought into the office from being connected to the in-house network
Prevention of unauthorized use	• Antivirus measures, automatic updating of security patches • Web filtering, countermeasures against unsolicited emails • Monitoring of illegal outbound data streams
Measures for social media	• Instill understanding among Group employees using guidelines • Improving level of security regarding social media

CSR Management

Response to ESG Issues in Value Chain

The CSR Promotion Division is responsible for promotion of CSR activities of the Group based on the Code of Conduct and Action Guidelines. Deliberations and review of important matters concerning CSR are conducted by the Corporate Ethics Committee. Under this system, while ensuring communication with diverse stakeholders and reflecting societal demands on business activities, we are addressing ESG (Environment, Society and Governance) challenges at each stage of our value chain.

Value chain and stakeholders



Major Action Policies and Results for Fiscal 2015 and Major Action Policies for Fiscal 2016

	Important Issues	Fiscal 2015		Self-evaluation	Fiscal 2016	Report Pages
		Major Action Policies	Major Results		Major Action Policies	
Customers	• More effectively respond to increasingly sophisticated and diversified customer needs • Enhance the accuracy of quality management • Improve construction quality and pass on technologies	Establish a site support system through the Site-Documentation Support Center	Total number of requests: 1,379 Rate of utilization by targeted sites: over 70%	◎	Nationwide development of Site-Documentation Support Centers	PP. 52–54
		Problems and complaints during construction: set annual target	Problems and complaints during construction: accomplished target	○	Problems and complaints during construction: reduce number of occurrences per year	
		Strengthen training for construction management	426 participants (cumulative total)	○	Training for new employees: extend duration to 4.5 months Training for construction management: increase number of days on which course is held	
Shareholders and Investors	• Timely and appropriate information disclosure • Shareholder return	Enhance two-way communication	Aggregate total of companies with which individual meetings were held: 25	○	Expand opportunities for dialog with individual investors	P. 55
		Provide consistent, steady returns to shareholders	Consolidated payout ratio for the year ended March 31, 2016: 35.8%	○	Provide consistent, steady returns to shareholders	
Business Partners	• Thoroughly ensure equal, fair and transparent transactions • Improve quality through cooperation with business partners	Strengthen supervision over fair and proper transactions	Training for procurement staff: 4 sessions	○	Continue training for procurement staff	PP. 56,57
		Strengthen cooperation through subcontractor groups	Expanded scope of participation for nationwide Liaison Meeting Participants: 18 companies	○	Strengthen cooperation through subcontractor groups	
		Strengthen relationships through an awards program aimed at enhancing quality and technology	Distinction under the Sanki Super Meister System given to 13 individuals, and Sanki Best Partner Award given to 124 companies	◎	Strengthen relationships through an awards program aimed at enhancing quality and technology	
Health and Safety at Worksites	• Rising demand in the construction industry • Shortage of construction workers, and the aging and shrinking of the skilled workforce • Growing risk of work accidents due to overworked laborers or lack of experience	Deploying measures against the two major categories of accidents	Two major categories of accidents declined by half, with "caught/pinched" accidents dropping slightly from 7 to 5 incidents.	○	Deploying preventive measures to coincide with the timing of past accidents	PP. 58,59
		Implementing preventive measures against recurrent accidents	Strengthened educational activities such as distributing "Accident Case Studies"	○	Deploying preventive measures based on the type of accident	
		Skill improvement through training	Implemented onsite training, including special training on scaffolding	○	Enhancing knowledge and capabilities through education	
Employees	• Promote diversity • Develop and appropriately allocate human resources • Create a comfortable working environment	Promote diversity	Formulated the Action Plan based on the Act of Promotion of Women's Participation and Advancement in the Workplace, and carried out training programs on diversity	○	Enhance training programs to develop human resources with the Sanki spirit	PP. 60–63
		Consider and promote measures to address long working hours	Launched the "Smile Project" and held subcommittee conferences	◎	Implement measures outlined in the "Smile Project"	
Environment	• Protect the global environment by means of our exceptional technological capability • Minimize the environmental impact caused by our business activities	Providing products and services to help reduce CO_2 emissions of customers	Actual orders for CO_2 reductions: 200 projects; CO_2 reductions: 19,607 t-CO_2/year	○	Providing products and services to help reduce CO_2 emissions of customers	PP. 64–68
		Properly dispose and reduce industrial waste	Began aggregating data on industrial waste Promoted onsite sorting activities	○	Properly dispose industrial waste	
Local Communities	• Coordination with local communities • Contribution to society as a corporate citizen	Regional disaster prevention	Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center	○	Regional disaster prevention	PP. 69,70
		Conservation of the local environment	Group-wide activities carried out at more than 30 locations	○	Conservation of the local environment	
		Supporting the development of the next generation	Offered 9 social study tours for a total of 443 students	○	Supporting the development of the next generation	

Self-evaluation ◎ Achieved, and we exceeded the goal ○ Almost achieved as planned △ Not achieved, and issues remain unresolved

Relationship with Customers

Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• More effectively respond to increasingly sophisticated and diversified customer needs • Enhance the accuracy of quality management • Improve construction quality and pass on technologies	Establish a site support system through the Site-Documentation Support Center	Total number of requests: 1,379 Rate of utilization by targeted sites: over 70%	Nationwide development of Site-Documentation Support Centers
	Problems and complaints during construction: set annual target	Problems and complaints during construction: accomplished target	Problems and complaints during construction: reduce number of occurrences per year
	Strengthen training for construction management	426 participants (cumulative total)	Training for new employees: extend duration to 4.5 months Training for construction management: increase number of days on which course is held

Responses to Sophisticated and Diverse Customer Needs

In fiscal 2015, we narrowed down our target customers to streamline operations. Since April 2016, we have strengthened the functions of our sales organization at the head office by integrating operations to boost sales management, planning, development, support and sales capabilities related to the construction facilities business. By honing our proposal-making capabilities based on our total engineering competency, we will strive to continue responding to increasingly sophisticated and diversified customer needs and thereby continue to earn their trust and appreciation.

Communication with Our Customers

Sanki Engineering actively participates in exhibitions so that customers can become familiar with our unique technology utilizing comprehensive engineering and in order to open up new sales opportunities.

Exhibition participation in fiscal 2015

Exhibition	Exhibited products
Interphex Japan	CPCube, Wide Area Clean System, AGV, continuous heat sterilization apparatus, presentation booths for pharmaceuticals and regenerative medicine
Sewage Works Exhibition	Supercharged fluidized bed incinerator, AEROWING, SANDEC G3, report on Antarctica
Health Ingredients and Safety & Technology Japan	Self-washing belt conveyor, chilled food conveyor, high-luminance multicolor LED conveyor
Data Center Expo	Front Air, white data center, L-LAC, Package Fog
HOSPEX	MEDIFORT, AGV, continuous heat sterilization apparatus, presentation booths related to hospital facilities
ENEX	Proposals for energy-saving measures and presentation of case studies, Eco Searcher, periloop, Trans Heat containers, energy-saving belt conveyors for logistics operations, AEROSTRIP
JFMA FORUM	SSOM, facility management

Initiatives to Ensure Quality

Philosophy on quality and the quality management system

Our facilities construction, machinery systems and environmental systems divisions have obtained ISO 9001 certification, and we conduct quality management on the basis of this standard. By promoting effective quality management and continuous operational improvements based on the specific quality policies for each division, we have been able to ensure the provision of high-quality products and technical services and deliver greater customer satisfaction.

In the external audit conducted in fiscal 2015, we were particularly commended for our Company-wide effort to enhance customer satisfaction, establish a worksite support structure and improve convenience in our workplace through the use of IT. We will continue to advance quality management in accordance with the 2015 edition of the ISO 9001 standard.

Quality management activities

To seek improvements that are closely linked to our operations, we are promoting activities for raising construction quality by returning to the basics of the ISO standards.

In fiscal 2015, we reduced the on-site workload by simplifying the evaluation method for our subcontractors and developing some unified documentation formats. We created a working environment that allows on-site managers to focus more closely on their tasks, which in turn has enhanced customer satisfaction.

In fiscal 2016, we reviewed the quality management activities of the previous year and formulated the Company-wide QMS Action Policy. We will strive to improve communication as part of this policy, placing particular emphasis on gathering opinions from the worksite through the internal quality audit and utilizing the feedback to raise operational efficiency toward more closely aligning our management system with our operations.

Providing operational support for worksites

In fiscal 2015, we established the Site-Documentation Support Center, which processes administrative tasks such as preparing documents and making CAD drawings, to reduce the workload of site managers and secure as much time as possible for construction management and quality management. Also, we began providing support for the worksites of the Tokyo branch and received 1,379 requests with over 70% of the targeted sites making use of the center. We publicized the center through activities such as visits to each site, which resulted in increasing the number of both first-time requests and repeat requests from the same worksite during the second half of the fiscal year, thus further reducing on-site workload. We started developing Site-Documentation Support Centers across the country in April 2016 to give a further boost to the support structure. Specifically, we have been directly supporting five branch offices, while sharing information on the content of support among support staff assigned by each branch office in order to comprehensively enhance operational efficiency across the Company.

Quality management activities by technical experts

We continue to manage a Technical Expert System, in which persons with high technical skills and branch or branch office managers visit worksites to do such work as construction audits or quality reviews to prevent problems and complaints while also mentoring junior employees. To achieve our fiscal 2015 target of strengthening our response to problems or complaints, we worked on promptly dispatching staff to sites and thoroughly disseminating information through the horizontal distribution of technical memos for sharing information. As of April 1, 2016, 24 people, including 5 Quality Assurance Administrators and 19 technical experts, have been providing on-the-job training and making quality improvements at these sites. The superiority of our total engineering competency has been more effectively exercised at the worksites by establishing a consistent quality management system led by the Quality Assurance Administrator Office.

Sharing information and preventing the recurrence of problems and complaints

We share our quality-related experiences across the Company through technical documents (manuals, information and memos) to prevent incidents or complaints related to quality from occurring or, in the event that they do occur, quickly and effectively handle them.

Information about problems and complaints are distributed to construction engineers through a flash bulletin, the "weekly bulletin" (a meeting held once a week to evaluate problems and complaints), and the "monthly bulletin," along with updates on the causes of issues, corrective measures and preventive measures. In fiscal 2015, we expanded the scope of the Problems and Claims Evaluation Committee to include Group companies.

We monitor the number of problems and complaints that occur during construction as a key indicator of quality control. In fiscal 2015, we set an annual numerical target for such incidents and successfully achieved the target. This improvement is attributed to the enhanced audits and instructions at the key initiative sites and to a more extensive, horizontal sharing of information through the wider distribution of bulletins.

VOICE

My top priority for customer satisfaction as someone engaged in manufacturing

Kazuhiko Yokota
Quality Assurance Administrator, Technical Administration Division

As the Quality Assurance Administrator supervising the Company's construction facilities design and construction engineering, my work includes conducting technical patrols and construction audits at our construction sites. Each worksite undergoes at least three construction audits. We start by identifying the issues and thoroughly checking construction quality and performance. Our sites vary from locations that handle specialized techniques to others that take on even greater challenges, and junior employees are placed in charge depending on the circumstances. Therefore, my job also involves following up on on-the-job training for these employees. We hope to pass on our technologies by working together with the goal of developing our technological capabilities and on-site performance. As someone engaged in manufacturing, my top priority is customer satisfaction, and I strive to consistently offer reliable results by paying close attention to performance as well as ease of operation and maintenance.

Construction Method Improvement Award and other technical awards

We present the Construction Method Improvement Award every year to commend our staff for their innovation in construction techniques at worksites. In fiscal 2014, we had 1,161 proposals; 6 received the Construction Method Improvement Award, and 3 received the Contribution to Customers Award.

Changes in the number of personnel with quality-related qualifications (total number as of April 1 for each fiscal year)

Qualification	FY2015	FY2016
Professional engineer	89	95
Project management technician (civil works/ construction/electrical construction/pipe-laying work)	1,126	1,127
Architect	43	42
Facilities construction architect	210	207
Electrical engineer	165	164
Chief electrical engineer	30	33
First class instrument engineer	282	283
Fire protection engineer	658	675
Qualified managing engineer (total)	1,650	1,668

Data for FY2015 have been retroactively revised.

Action plans for fiscal 2016

We designated the enhancing of on-site support through better communication as our main action policy for fiscal 2016, and we will work to develop even closer communication between the head office and worksites while also gathering opinions to expand the scope of support.

In fiscal 2015, we improved the speed with which we disseminated information horizontally throughout the organization once a problem or complaint occurred. In fiscal 2016, we will seek to shorten the time it takes to submit a follow-up report on problems and complaints by speeding up the process of identifying the causes and planning preventive measures.

Fostering Human Resources to Sustain our Technological Level

The Technical Training Center fosters human resources by helping employees acquire basic skills, brush up on their skills and attain qualifications. New employees receive two and a half months of basic training and an additional six months of extended on-the-job training. We provide a three-stage program for construction management engineers based on the level of each individual's skills in design, construction engineering, construction management and other areas. These programs are focused on practical applications and drills for subjects such as design calculation, making and reading drawings, and responding to problems and complaints.

In fiscal 2016, we will extend the initial training for new employees to four and a half months to provide a program with enriched content. In the future, we plan to reinforce practical training as well as hands-on practice and drills using actual machinery to enhance the skills of our engineers.

Major human resources development activities for fiscal 2015

Initiatives	Training	Details of training	Results
Employee training (Technical Training Center)	Training for new employees	• Education for new businesspersons, basic skills	57 participants
	Correspondence course for attaining qualifications	• Exam preparation for employees who want to be managing engineers and for building, mechanical and electrical engineers	138 participants
	Skill-based training Step 1 training: for inexperienced workers and novices Step 2 training: for workers with basic skills Step 3 training: for workers with practical skills	• Five-day training session for Steps 1 through 3 for improving skills • Optional program based on amount of practical experience and level of skills • Practical drills and practice by repetition to develop a sound grasp of skills	7 sessions 165 participants
Initiatives for passing on technology	Strengthen training on construction engineering and construction management (specific components of skill-based training)	• Strengthen practice to enhance skills for making and reading drawings • Strengthen practical drills on case study explanation, practice and explanation • Strengthen hands-on training using machinery and facilities	426 participants (cumulative total)
	On-the-job-training by Technical Experts	• Practical on-the-job training offered by technical experts selected from all branches who participate in on-site commencement discussions and construction audits	19 technical experts 1,749 site visits (cumulative total)
Initiatives for Group companies and subcontractors	Conference on electrical construction quality for all branches	• Test of practical skills for electrical technicians from subcontractors of all branches, written exam based on past cases. Participants receive internally certified qualification Sanki Engineering-certified Class A Electrical Engineer.	19 subcontractors 20 participating technicians
	Explanation of problems and complaints	• Introduce cases at briefings and liaison meetings held at branches and branch offices	Number of sessions: Tokyo branch: 12, Kansai branch: 3, Chubu branch: 12, Hokkaido branch: office: 1, Hokuriku branch office: 7

Relationship with Shareholders and Investors

Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• Timely and appropriate information disclosure • Shareholder return	Enhance two-way communication	Aggregate total of companies with which individual meetings were held: 25	Expand opportunities for dialog with individual investors
	Provide consistent, steady returns to shareholders	Consolidated payout ratio for the year ended March 31, 2016: 35.8%	Provide consistent, steady returns to shareholders

Fulfilling our Responsibilities to Shareholders and Investors

We clarified our basic approach to issues, including ensuring the rights and equal treatment of shareholders, appropriate disclosure of information and transparency and dialog with shareholders, in the Sanki Engineering Corporate Governance Guidelines established in December 2015. We are resolved to fulfill our responsibilities to shareholders and investors by following these guidelines.

Reference Establishment of the Sanki Engineering Corporate Governance Guidelines P. 40

Timely and Appropriate Information Disclosure

Sanki Engineering strives to disclose required corporate information in an easy-to-understand, fair, speedy, timely and appropriate manner pursuant to the stipulations of our Disclosure Policy. We also disclose information beyond legal mandates when we deem such information to be useful to shareholders and investors and to ensure management transparency. In addition, we facilitate the effective exercise of voting rights by shareholders through efforts such as releasing the convocation notice of shareholders' meetings well in advance and posting information at an early date on our corporate website.

WEB Disclosure Policy
http://www.sanki.co.jp/en/ir/disclosure/

Communication with shareholders and investors

We hold events such as results briefings for investment analysts and institutional investors (twice a year; a total of 84 people participated in fiscal 2015), individual meetings as necessary in response to requests, and tours of the Technical Research & Development Institute. Feedback received from investors through our IR activities is relayed to management in an effort to maintain two-way communication.

Furthermore, we seek to enhance the content of information disclosed in the investor relations section of our Japanese language website through featured content, such as the "Sanki for Beginners—Fast Facts Index," an easy-to-understand outline of characteristics of our business. And we disclose the same quarterly financial data on our English language website for overseas investors.

Results briefing

Our Basic Policy Concerning Returns to Shareholders

At Sanki Engineering, dividends form the basis of our policy to return profit to shareholders, and we view this return of profit as a key management concern. We strive to provide stable dividends and balance sustainable corporate development with short-term returns to shareholders in accordance with our basic policy of shareholder return. We invest internal retained earnings into new businesses and technological development to strengthen competitiveness and create a basis for business development with the objective of continually boosting corporate value. For the fiscal year ended March 2016, we paid a total dividend per share of ¥30.0, which included a regular dividend of ¥9.0 for the interim period, and a regular dividend of ¥9.0 and an extra dividend of ¥12.0, totaling ¥21.0, for the full-year period.

Relationship with Business Partners

Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• Thoroughly ensure equal, fair and transparent transactions • Improve quality through cooperation with business partners	Strengthen supervision over fair and proper transactions	Training for procurement staff: 4 sessions	Continue training for procurement staff
	Strengthen cooperation through subcontractor groups	Expanded scope of participation for nationwide Liaison Meeting Participants: 18 companies	Strengthen cooperation through subcontractor groups
	Strengthen relationships through an awards program aimed at enhancing quality and technology	Distinction under the Sanki Super Meister System given to 13 individuals, and Sanki Best Partner Award given to 124 companies	Strengthen relationships through an awards program aimed at enhancing quality and technology

Basic Principle

The Sanki Group Code of Conduct and Action Guidelines stipulates the conduct of fair transactions with all business partners. We therefore conduct business with our partners in order to promote free market competition and in accordance with the relevant laws and individual contracts.

Under this basic principle, we endeavor to build trust with our business partners in order to jointly provide the high-quality systems as well as services to customers.

Building Fair, Equal and Transparent Business Relationships

Thoroughly ensuring fair and transparent transactions

Sanki Engineering is committed to building equal, fair and transparent relationships with our business partners. Our Code of Conduct clearly specifies the nature of our relationship with business partners, and we strive to keep everyone informed through in-house training and the distribution of contract procedure manuals, which prohibit the abuse of a superior bargaining position.

Signed basic construction contracts are required before any transactions take place. Once we have reached agreement on the conditions of an individual contract, we scrupulously follow through on its execution through the issuance of purchase orders and order confirmation documents. Transactions are based on a wide array of objective criteria, including the effectiveness of quality and environmental management systems, construction ability, management status, quality, previous work performance, and cost. In fiscal 2015, contractors were the designated subject of credit management. However, from fiscal 2016 the scope has been expanded to include materials manufacturers and agents with the objective of constructing a sustainable supply chain.

Procurement system and execution of action plans

Cost reduction is an important initiative in our new medium-term management plan, and to this end we have been pursuing strategic procurement activities. We set up the Procurement Division in April 2015 to bolster our procurement functions and are seeking to lower costs by exercising centralized control over procurement toward improving our profit ratio. In fiscal 2015, we achieved a further 4.3% reduction in costs compared to our initial cost target for the technical department.

Training for procurement staff

To ensure that procurement is conducted appropriately, we hold quarterly study groups for staff responsible for procurement. In fiscal 2015, we sought to strengthen their skills and knowledge through training covering a broad range of subjects, including promoting CSR procurement such as green procurement, and offering practical guidance, including the use of estimate software to reduce costs.

Handling anti-social forces

We avoid any involvement with anti-social forces in our procurement activities. Consequently, we only conduct transactions with companies that have no involvement with anti-social forces, and we request all of our business partners to submit a letter pledging the avoidance of involvement with anti-social forces. As of March 31, 2016, we received pledge letters from 3,624 companies.

Operation of whistleblowing hotlines

While we had operated a whistleblowing hotline for business partners to prevent any improper transactions, we are currently seeking to merge this into our better-known system of corporate ethics hotlines. Posters for the hotlines are displayed in places that catch the eyes of business partners, such as on-site offices in an effort to promote use of the reporting system.

Strengthening Cooperation with Business Partners

Communication with business partners

We strive to enhance quality and improve operations in a joint effort with our business partners. Under this initiative, we maintain open communications for exchanging ideas for improvement.

Joint improvement activities with the subcontractor groups

Sanki Engineering has established a subcontractor group at each division, branch and branch office as part of our effort to enhance our construction capabilities. In addition to monthly liaison meetings, we hold joint labor-saving projects and sessions, providing yet another opportunity for us to improve our technical skills and enhance supervision of worksite safety and health. We also review and guide group members on safety and health issues through training or qualification courses led by our employees, or by conducting joint patrols. In June 2015, we convened the second Liaison Meeting for Subcontractor Groups. We expanded the scope of participation for this meeting to include branch general managers and branch office general managers in addition to representatives from the head office and regional offices. A total of 18 subcontractors gathered from across the country to share information and exchange views on subjects such as worksite safety and health. Since fiscal 2015, we have held the meeting to strengthen cooperative relationships twice a year, in June and November.

Sanki Super Meister System

The Sanki Super Meister System certifies and commends foremen of Group subcontractors whose superior construction techniques have significantly contributed to elevating the quality of our construction work. In fiscal 2015, a total of 13 foremen were certified. We also began rewarding the companies for their foremen who have consistently contributed to enhancing worksite quality by granting subsidies designed to encourage further quality improvements.

Sanki Best Partner Award

The Sanki Best Partner Award was established in April 2016 to express both our gratitude to subcontractors who have significantly contributed to the development of the Sanki Engineering Group and our hope for their continued success as valued partners. In fiscal 2015, the Sanki Best Partner Award was presented to 124 companies during safety and quality conferences held across the country starting in June 2016.

Support system for the acquisition of qualifications

To support subcontractors in upgrading their technical skills, we subsidize the acquisition of qualifications. In fiscal 2015, we promoted the Central Safety and Health Committee's system to encourage its use.

Creating safe worksites by combining the strengths of Sanki Engineering and its subcontractors

VOICE

The Sanki Health and Safety Cooperative Association plays the vital role of conducting activities for boosting the capabilities of the Sanki Engineering Group as a whole. These include raising the level of worksite capabilities and promoting safety and hygiene. The upcoming Tokyo Olympic and Paralympic Games present us with opportunities for major projects, and I am convinced that in addition to the skills of Sanki employees, the capabilities of subcontractors that constitute the operational force on the ground will be essential in bringing the Group to a higher level. There have been growing concerns in recent years that the aging of artisans, a decline in technical skills and the reduced size of the operational force may increase the risks of disasters and accidents related to safety and hygiene. The association holds seminars on safety and skills (32 sessions are planned for fiscal 2016), making more comfortable workplaces for young people, and conducting safety patrols. I have worked with Sanki Engineering since I was 18, and through this long relationship I have grown increasingly aware of how much the company values its contractors. I will continue working with Sanki for the thorough management of safety and to enhance worksite capabilities through information sharing and cooperation.

Kimio Abe
Chairman, Sanki Health and Safety Cooperative Association
President, Kinoshita-setsubi Co., Ltd.

Health and Safety at Worksites


Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• Rising demand in the construction industry • Shortage of construction workers, and the aging and shrinking of the skilled workforce • Growing risk of work accidents due to overworked laborers or lack of experience	Deploying measures against the two major categories of accidents	Two major categories of accidents declined by half, with "caught/pinched" accidents dropping slightly from 7 to 5 incidents.	Deploying preventive measures to coincide with the timing of past accidents
	Implementing preventive measures against recurrent accidents	Strengthened educational activities such as distributing "Accident Case Studies"	Deploying preventive measures based on the type of accident
	Skill improvement through training	Implemented onsite training, including special training on scaffolding	Enhancing knowledge and capabilities through education

Health and Safety Environment of the Construction Industry

Demand for construction in Japan has been growing due to the economic boom fueled by Abenomics, earthquake disaster reconstruction, and the need to address aging public and private infrastructure. Meanwhile, the balance of labor supply and demand in this industry has been worsening because of the shrinking workforce and especially due to an aging skilled workforce. Although a review of all industries shows that the number of industrial work accidents in the construction industry has remained little changed, a shortage of workers and experts can lead to a risk of work-related accidents. Meanwhile, a revision in Japan's Industrial Safety and Health Act has made it mandatory for all workplaces employing 50 people or more to conduct checkups of all employees for stress-related symptoms as well as scaffolding training for employees who handle its assembly. Sanki Engineering has been engaged in health and safety activities that take into account all of these changes surrounding the industry.

Health and Safety Policy and Structure

We introduced an occupational health and safety management system (Sanki OHSMS) in 2001, one of the first in the construction facilities industry, and have since worked on it together with our affiliate companies. A Company-wide health and safety activities plan is prepared based on the Health and Safety Guidelines, which is established under the Sanki Engineering Group Basic Health and Safety Principles every year in order to increase transparency of our PDCA cycles, including the analysis of risk factors and implementation of remedial and preventive actions.

WEB Sanki Engineering Group Basic Health and Safety Principles
https://www.sanki.co.jp/csr/safety/

Initiatives in Fiscal 2015

Key items implemented in fiscal 2015

An analysis of accidents occurring in 2014 found that accidents in the "caught/pinched" and "falls/tumbles" categories accounted for over 50% of all industrial accidents, and that in addition to falls from mobile scaffolding, recurrent accidents were still occurring frequently. In fiscal 2015, we worked on three key actions by upholding the below slogan to remain mindful of seeking closer communication, applying the lessons from past accidents and achieving zero industrial accidents.

Outline of activities in fiscal 2015

Policy of the Central Safety and Health Committee Chairperson

- Slogan
  "Apply the lessons of the past for a safe future"
  Look back! Review past accidents! Follow proper work procedures!

Key actions

1. Measures against the two major categories of accidents ("caught/pinched" and "falls/tumbles")
   - Carried out a campaign for preventing the two major types of accidents to coincide with Safety Week events.
   - Renewed our commitment to preventing the two major types of accidents during the period by emphasizing accident prevention through the year-end and into the new year.
2. Implementing preventive measures against recurrent accidents
   - Distributed the "Accident Case Studies" to all staff, including affiliate companies (85% satisfaction rating).
   - Notified the whole Company about the more significant types of accidents that are excluded from the official count.
3. Increase capabilities through education
   - Distributed the "Emergency Response" leaflets, which are to be carried at all times
   - Demonstrated an inspection method for mobile scaffolding during safety and quality conventions.
   - Carried out special training on scaffolding following regulatory revision.

A well-received handbook case for convenient carrying of the health and safety handbook and qualifications.

Safety and quality conventions and safety patrols

Every year in June, the preparatory month for National Safety Week, Sanki Engineering holds safety and quality conventions at each head office, branch and branch office with the participation of top management. In fiscal 2015, the president and Central Safety and Health Committee chairperson attended the convention for all offices to raise safety awareness throughout the Company. We also conduct special joint safety patrols during which the president and directors tour 40 worksites in the summer and around the end of the year.


President (at right) accompanies special joint safety patrol at a worksite

Health and safety training

For our own employees and the staffs at affiliate companies, Sanki Engineering provides health and safety training led by in-house instructors or at designated training institutes. The instructors are dispatched by the Branch Education Support Team of the Labor Safety, Quality Control & Environment Promotion Office. For newcomers to the worksite, we provide a health and safety orientation using health and safety handbooks and joint training sessions with the Sanki Health and Safety Cooperative Association.

Number of participants in health and safety training (fiscal 2015)*

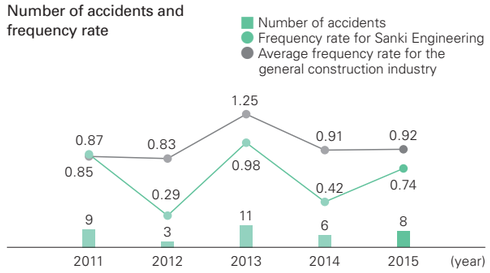
Type	Number of participants (from subcontractors)
Special education	2,813 (2,144)
Health and safety training, including foremen	120 (73)
Total	2,933 (2,217)

* Limited to training by in-house instructors, not including training at designated educational institutions.

Accidents during 2015

In 2015, 12 accidents occurred (8 lost workday accidents, and 4 with no lost workdays), representing a significant decrease from 2014, during which 22 accidents occurred (6 lost workday accidents and 16 with no lost workdays). Due to the heightened awareness developed through initiatives for preventing the two major categories of accidents and recurrent accidents, and special training on scaffolding, falls and tumbles which frequently occur in the construction industry fell to 2 incidents from 6 in 2014. However, half of the 12 accidents in 2015 involved more than 4 lost workdays, which is a serious development. Moreover, the "caught/pinched" type accidents were still occurring frequently (41.7% in 2015), and we believe that a continuous effort to prevent these type of accidents is essential for eliminating work-related accidents.

Number of accidents and frequency rate



Scope: Sanki Engineering worksites (Sanki Engineering Co., Ltd. and business partners)
Number of accidents: interrupted work for 1 day or longer
Source for average frequency rate for the general construction industry: Survey on Industrial Accidents, Ministry of Health, Labor and Welfare
- Frequency rate: Calculated as the number of deaths and injuries caused by accidents in the worksite per one million working hours; this figure indicates the frequency with which accidents occur.
- The number of accidents for 2014 has been retroactively revised.

Activities Plans for Fiscal 2016

Considering the social and industry environment as well as the number and nature of accidents in 2015, we are focusing on these key action areas in fiscal 2016: (1) deploying preventive measures to coincide with the timing of past accidents, (2) deploying preventive measures based on the type of accidents, and (3) enhancing knowledge and capabilities through education.

Relationship with Employees

Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• Promote diversity • Develop and appropriately allocate human resources • Create a comfortable working environment	Promote diversity	Formulated the Action Plan based on the Act of Promotion of Women's Participation and Advancement in the Workplace, and carried out training programs on diversity	Enhance training programs to develop human resources with the Sanki spirit
	Consider and promote measures to address long working hours	Launched the "Smile Project" and held subcommittee conferences	Implement measures outlined in the "Smile Project"

Our Commitment to Employees

The Sanki Engineering Group is guided by its management philosophy: "We place significance on communication and mutual respect," as it strives to create a working environment and a corporate culture in which all employees grow with the Company, respect each other's individuality, and are able to succeed and thrive. We know that all of the technical capabilities and skills of our employees are valuable assets and that each of our employees is an invaluable human resource. We are therefore creating an environment that fosters the development of human resources based on our unique Sanki spirit, which enables them to work to their full potential.

Promoting Diversity

The Sanki Engineering Group believes that creating working environments in which various personnel are able to demonstrate their particular capabilities will raise the value of our company. With this in mind, we are cultivating a corporate culture that respects the diversity of employees and establishing various systems.

Respecting diversity in employment

We seek to bring on board human resources that differ in gender and nationality as well as in talent and personality. In our hiring process, staff from the sales, design and technology divisions join the human resources department to ensure fairness based on multiple perspectives. In fiscal 2015, we hired 68 new graduates, of which 14 are women and 54 are men. Recruitment of foreign nationals had formed a part of our previous mid-term plan, which included the goal of developing our employees who can play an active role on the world stage. As of April 1, 2016, 14 people from China, Peru, South Korea, Thailand and the U.K. are working with us, an increase of 2 from the previous year. We will actively hire foreign nationals under our new medium-term management plan to steadily develop our overseas operations and promote diversity.

Promoting women's roles

We believe that creating opportunities in which our female employees can demonstrate their talents further would lead to sustainable growth of our company and in turn boost our corporate value. We therefore continue to upgrade our personnel system and introduce new systems. The following are the major measures that we have taken.

FY2007
- Introduced a career change system that allows female employees to change their career type from general office to main career-track positions.

FY2009
- Launched full-scale recruitment of new female graduates as career-track employees.

FY2013
- Eliminated all general-office positions by shifting them into regional positions and conducted special training programs for those in regional positions.
- Acquired the Kurumin mark, a certificate granted to companies that support childcare and based on the Act on Advancement of Measures to Support Raising Next-Generation Children.

FY2014
- Conducted the Step Up Program for employees who moved into regional positions.
- Joined the Action Plan on Women's Active Participation in the Workplace advocated by the Keidanren (Japan Business Federation).
- Published our voluntary actions related to the preferment of female executives and managers.

FY2015
- Conducted a diversity training program (target: general managers and department managers).
- Continued conducting the Step Up Program for employees who moved into regional positions.

VOICE

Creating systems for further advancements in the career development of women

Tomoko Kozawa
Manager of Personnel Section, Human Resources Department, Administration Division

As the manager of human resources, I am involved in a broad range of operations, from designing personnel systems to pay structure and health management. The construction industry, to which we belong, has long been a male-oriented workplace. Due to this culture, we are dealing with some unique issues. We are promoting diversity through measures primarily focused on promoting women. However, instead of considering this a women's issue, we have sought to reform the workstyles and mindset of all our employees, including men, by launching the "Smile Project" in fiscal 2015 as a means of addressing long working hours. Meanwhile, our training sessions for women in regional positions are encouraging more female employees to seek career advancement. I intend to continue developing systems that allow for diverse workstyles by incorporating regulatory revisions and meeting employee needs in accordance with our management philosophy.

To create an environment in which our female employees can continuously develop their careers based on the Act of Promotion of Women's Participation and Advancement in the Workplace – commonly referred to as the Act for Promoting Women's Careers – we have formulated the following Action Plan and are pursuing various measures to promote women's careers.

Action Plan under the Act for Promoting Women's Careers

1. Period: from April 1, 2016 to March 31, 2021
2. Goals
   - Goal 1: Extend the average service years of female employees by 20% from the current level.
   - Goal 2: Actively allocate women in career-track positions to the sales division to double the current ratio.
   - Goal 3: Raise the ratio of female managers to the construction industry average of 1%.

Employee data (as of March 31 of each fiscal year)

		Scope of aggregation	FY2011	FY2012	FY2013	FY2014			FY2015		
						Male	Female	Total	Male	Female	Total
Number of employees*		Consolidated	2,289	2,246	2,283	2,002	280	2,282	2,022 (637)	287 (5)	2,309 (642)
		Non-consolidated	1,965	1,918	1,908	1,668 (497)	240 (3)	1,908 (500)	1,677 (550)	249 (3)	1,926 (553)
Average age		Non-consolidated	42.8	42.7	42.7	43.5	35.8	42.6	43.7	36.1	42.7
Average number of years of employment		Non-consolidated	18.6	18.4	18.2	19.0	12.7	18.2	18.8	12.9	18.1
Number of new recruits		Consolidated	–	–	–	–	–	–	111	20	131
		Non-consolidated	63	55	92	78	17	95	75	18	93
Number of employed post-retirement-age employees		Consolidated	–	–	–	–	–	–	234	2	236
		Non-consolidated	147	166	189	200	3	203	188	2	190
Employment of people with disabilities	Number of employees with disabilities	Non-consolidated	35	36	39	–	–	37	–	–	32
	Ratio of employees with disabilities (%)	Non-consolidated	1.80	1.97	2.13	–	–	2.11	–	–	1.80

* Figures in parentheses signify the number of managers.

Employees by age (as of March 31, 2016)

	10s	20s	30s	40s	50s	60s	70s	80s	Total
Consolidated	2 (2)	404 (85)	509 (88)	728 (80)	392 (30)	273 (2)	0(0)	1(0)	2,309 (287)
Non-consolidated	2 (2)	377 (82)	412 (75)	593 (66)	324 (22)	217 (2)	0(0)	1(0)	1,926 (249)

Figures in parentheses signify the number of women.

Career change system

Sanki Engineering introduced a system that allows employees to change their career type from general offices to main career-track positions. As of April 1, 2016, a total of 36 employees who have changed their career type are succeeding in main career-track positions nationwide. In fiscal 2015, we revised the requirements for switching career type to expand opportunities for as many employees as possible to demonstrate their abilities.

Creating workplaces for people with disabilities

We are working to create an environment in which employees with disabilities can work comfortably over long periods. To that end, we organize opportunities for employees with disabilities to exchange views with each other and incorporate their voice into workplace management. We also prepared against disasters by installing lamps bearing evacuation instructions to hearing-impaired employees in an effort to establish a safe working environment.

System for reemploying workers following retirement

Seeking to provide employment opportunities for older employees with advanced skills and expertise, we led the industry by introducing a system for the reemployment of employees following retirement. In fiscal 2015, we reemployed 18 additional retired employees on a consolidated basis.

Developing and Evaluating Human Resources

Personnel system aimed at making our company become a workplace in which people grow

In fiscal 2013, we introduced a new personnel system to become a company in which people grow. We instituted the personnel system to ensure that every employee is equally provided with opportunities and the right to fair evaluation and treatment. As part of this, the "early career system" for employees in their 20s was introduced to provide them with experiences in different jobs early on in their career development. The key initiative of our new medium-term management plan is to develop human resources that possess the Sanki spirit. Accordingly, we launched our efforts to enhance employee education and working conditions at Group companies in fiscal 2016, and we plan to carry out additional initiatives in the future.

Education and training system

We maintain training systems associated with each career path, such as management training, technical training and training by field in order to strengthen specialized skills, technical skills and management skills and boost personal growth. We also operate an overseas language and job training program, designed to develop human resources that are adaptable to diverse environments, and we dispatched one employee under the program in fiscal 2015. Meanwhile, to pass on our technological capabilities to overseas Group companies, we invited two local employees from a Sanki Engineering subsidiary in Thailand to come to Japan for technical training.

Training system

		Younger employees	Mid-career employees	Executives
Management training		New recruit training Education by mentors Third-year training Fifth-year training Seventh-year training	Management training Section chief training	Executive officer training Department manager training Diversity training
Safety Training		New recruit training Qualification training Career-positioned staff training		
Corporate ethics training		Corporate ethics training		
Technical training	Facilities Construction Equipment Division	Qualification training Career staff training New recruit orientation Step 1 training Step 2 training Step 3 training		
	Plant & Machinery Systems Divisions	Qualification workshop New recruit training Inspector education Training on our products and systems		
	Quality & Environment System training	ISO 9001/ISO 14001 New recruit training Career staff training	Education to develop internal auditors	

Fostering a Comfortable Working Environment

Promoting work-life balance

We endeavor to provide our male and female employees with systems that support their work-and-life balance so that they can continue to work, worry-free, as they experience various life events. We conducted a survey on workstyles in October 2015 and introduced a new system for supporting work-life balance based on the feedback that we received from employees.

Major systems supporting work-life balance

Area	System	Details
Work	Refresh leave system	A system under which employees are able to take five consecutive days of leave for each five years of employment using their reserved leave
	Consecutive leave for onsite workers (construction site workers)	Three consecutive days of leave after staying at a worksite for more than six months or before moving to another worksite
	Half-day off system (new)	A system that allows employees to take paid leave half a day at a time
	Anniversary leave system (new)	A system that allows employees to take a planned paid leave by declaring special dates for themselves or for their families at the start of the fiscal year
Childcare and nursing care	Reserved leave system	A system that allows for the use of reserved days off as leave for childcare or elderly care
	Short-time working system	A system that allows for the reduction of scheduled working hours or the delay of starting/finishing times for childcare or elderly care

Number of employees on childcare leave

Scope of aggregation	FY2011	FY2012	FY2013	FY2014			FY2015		
				Male	Female	Total	Male	Female	Total
Consolidated	–	–	–	–	–	–	2	8	10
Non-consolidated	15	10	16	0	9	9	1	6	7

"Smile Project"

To address long working hours and resolve what has been a persistent management issue at Sanki Engineering, we launched the Company-wide "Smile Project," which is led by the president, in July 2015. Guided by slogans for reducing long working hours, such as "Have the will to take leave," "Create an environment conducive to taking leave" and "Have the resolve to let workers take leave," we are seeking to improve our working environment by carrying out wide-ranging measures. These include holding regular meetings on the issue, convening subcommittee meetings at each division to analyze issues and develop basic guidelines, and conducting activities to raise awareness among employees.

"Smile Project" posters

Acquiring the Kurumin mark and recognition for supporting childcare by the City of Nagoya

In 2015, we were granted an update for the Kurumin mark, a certificate granted by the Tokyo Labor Bureau of the Ministry of Health, Labour and Welfare and based on the Act on Advancement of Measures to Support Raising Next-Generation Children, for meeting certain criteria as a company supporting childcare. In 2014 the Chubu Branch was recognized by the City of Nagoya as a company supporting childcare, becoming the first construction equipment company to receive this certification.

The Kurumin mark for support of raising next-generation children

City of Nagoya certification for companies supporting childcare

Respect for human rights

We declared our respect for human rights in the Sanki Group Code of Conduct and Action Guidelines, which prohibits discrimination based on nationality, gender, age and disability and endeavors to instill respect for human rights across the Company through various means, such as educational programs. Guidelines for preventing sexual harassment are stated and a system offering consultation on sexual or power harassment and other workplace issues is established at each branch and branch office. A counter staffed by qualified external counselors has also been set up to make it easy for employees to seek consultation.

Maintaining and improving employee health

To ensure that our employees and their families are able to work in good health, both mentally and physically, we introduced a 24-hour telephone health consultation service. The service was set up outside the Company and enables employees and their families to receive consultation on mental and physical concerns, as well as medical-, nursing- and childcare-related issues, free of charge. The privacy of callers is strictly protected.

Sound employer-employee relationships

The human resources department and the employees union at Sanki Engineering meet monthly to discuss improvements in the workplace environment and the development or operation of Company systems. We also provide the employees union with opportunities to present their proposals or requests to management.

Relationship with the Environment

Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• Protect the global environment by means of our exceptional technological capability • Minimize the environmental impact caused by our business activities	Providing products and services to help reduce CO_2 emissions of customers	Actual orders for CO_2 reductions: 200 projects; CO_2 reductions: 19,607 t-CO_2/year	Providing products and services to help reduce CO_2 emissions of customers
	Properly dispose and reduce industrial waste	Began aggregating data on industrial waste Promoted onsite sorting activities	Properly dispose industrial waste

Environmental Management at Sanki Engineering

Promoting environmental management

Sanki Engineering believes that environmental problems represent an important management issue, and we therefore promote environmental management based on the Sanki Engineering Environmental Policy. We will continue to engage in environmental activities with a firm vision of the future under the ESG policy laid out in our new medium-term management plan.

Sanki Engineering Environmental Policy (Excerpt)

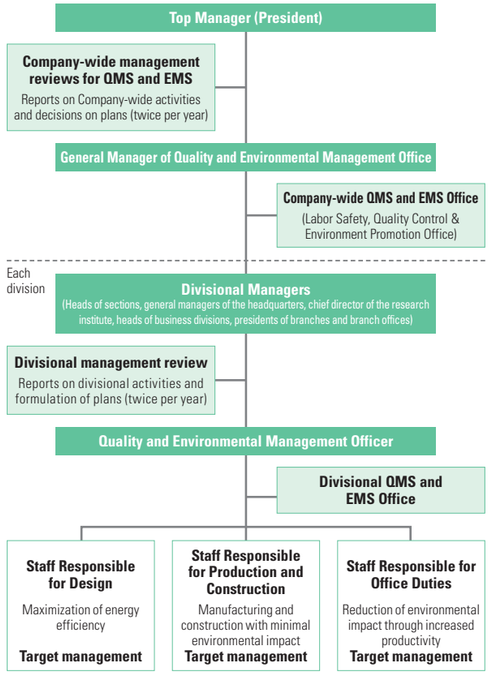
1. We will strive to prevent environmental pollution and work further toward conserving resources and energy, reducing industrial waste, and promoting recycling.
2. We will actively develop proposals on resource and energy conservation when designing facilities.
3. We will comply with laws and regulations related to the environment and with external requirements agreed to by the Sanki Engineering Group.
4. We will set environmental goals and targets for each workplace and strive to achieve and exceed them.
5. We will disseminate and deepen understanding of the Environmental Policy by implementing educational activities on environmental preservation for employees of the Sanki Engineering Group and cooperative companies.
6. This Environmental Policy will be disclosed to the general public.

Environmental management system

We have constructed a system for implementing environmental management (ISO 14001) with our president as the top manager. At management reviews, conducted twice a year, each of our divisions reports on its activities and we decide on future plans. The entire Company has received ISO 14001 certification, including our Group companies, Sanki Kakou Kensetsu Co., Ltd. and Sanki Kankyo Service Co., Ltd. An external audit conducted in fiscal 2015 found no issues of non-compliance.

In February 2016, we formulated a new EMS Action Policy while returning to our original goal of reducing our environmental impact through EMS activities aligned with our main business. In addition, we constructed a system that integrates EMS with our quality management system (ISO 9001), including actions such as integrating the Environmental Conference we had been convening on a standalone basis into a Company-wide conference, and we are consistently and effectively managing this system. There were no incidents of legal violations by the Company in fiscal 2015.

Framework for promoting the environmental management system



Developing environmental leaders

We encourage employees to acquire environment-related qualifications toward enhancing our response capabilities for business. In particular, we are planning to increase the number of managers of special controlled wastes.

Number of employees with environment-related qualifications
(As of April 1 of each year)

	FY2014	FY2015	FY2016
Certified environmental measurer	7	7	7
Supervisor of management of industrial waste subject to special control	130	145	154
Pollution prevention manager	71	68	72

To strengthen our environmental management system, we provide introductory training on ISO every year to new recruits as well as midcareer recruits. In fiscal 2015, 34 employees received training to become internal environmental auditors, bringing the total number of people qualified to conduct internal environmental audits to 1,080 on a non-consolidated basis and 1,104 on a consolidated basis. Since December 2015, we have organized 19 additional sessions to educate employees on conducting simultaneous ISO 9001/ISO 14001 audits. As a result, a total of 887 internal auditors were qualified to conduct simultaneous audits as of March 2016.

Environmental education

In order to gain basic environmental knowledge and deepen understanding of environmental issues, we have been consistently communicating relevant information through the intranet. Following a review in July 2016, we narrowed down the content, made it easier to read, and selected topics that more closely reflected actual operations, such as hazardous substance management.

In fiscal 2014, we set up the Hazardous Substance Management Group within the Labor Safety, Quality Control & Environment Promotion Office to address the issue of materials containing asbestos, which are expected to be discharged with increasing frequency at construction sites. The Group is involved in activities for ensuring appropriate procedures and disposal of this material. Specifically, the Group issued a Company-wide directive to have on hand Sanki Engineering's own Basic Flow Chart of Procedures for Handling Asbestos at designated sites. We have also responded to the Fluorocarbon Emissions Control Law by investigating the total volume of fluorocarbons in storage and reporting the results to the Company-wide Conference and by promoting inspections of air conditioners.

Initiatives to Prevent Global Warming and Save Energy and Resources

Contributing to conservation of the global environment with our exceptional technological capabilities

As evidenced by the adoption of the Paris Agreement at COP21, the need to protect the global environment through actions such as preventing global warming is becoming increasingly urgent around the world. One mission of our environmental management is to develop and introduce technologies and products that lead to energy conservation and the reduction of CO_2 and lifecycle costs by improving functionality and comfort through the technology of each of our businesses. In addition, the Energy Solutions Center is working to improve activities on an ongoing basis by collecting energy-related information and supporting technical development and proposals to customers.

Proposals for CO_2 reduction and outcomes

	FY2013		FY2014		FY2015	
	Number	CO_2 reduction	Number	CO_2 reduction	Number	CO_2 reduction
Proposals	322	48,817	430	50,449	413	35,074
Received orders	124	11,273	213	21,059	200	19,607

• CO_2 reduction unit: t-CO_2/year

Technological developments that have contributed to conservation of the global environment

EcoSearcher® real-time heat source optimization system
This real-time optimization system constantly minimizes total energy consumption across the entire system by using actual measured values for optimization calculations as required. It saves energy by 30% when no optimization is involved and by 10% compared to a conventional method.

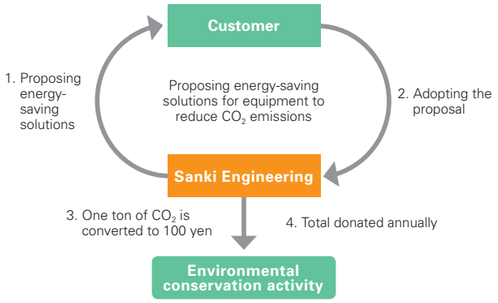
SANDEC G3 centrifugal dehydrator for sewage treatment facilities
We significantly reduced electricity consumption by applying proprietary technologies, such as effectively using kinetic energy during dehydration, reducing power loss due to friction, and reducing the energy of effluent discharge. As a result, the SANDEC G3 offers high performance while saving energy and space. The first unit was installed at the Katsunishi Purification Center in Kasugai City in 2015.

Energy-saving belt conveyor system for logistics sites
We were able to cut power consumption by approximately 40% compared to a conventional system by raising the efficiency of the conveyor mechanism and mounting a high-efficiency DD motor. Patents have been obtained in 18 countries in recognition of superior performance, including ease of maintenance, fatigue strength, and long operating life. The product sustains material handling sites around the world.

SANKI YOU Eco Contribution Point System

We launched the SANKI YOU Eco Contribution Point System in October 2010. Under the system, when we propose an energy-saving solution that reduces CO_2 emissions to a customer, and that proposal is adopted, the amount of the achieved emissions reduction is converted to Eco Contribution Points, which are used to subsidize environmental conservation activities such as those explained below. In the second half of fiscal 2014 and the first half of fiscal 2015, customers adopted 251 of our proposals, resulting in donations totaling 2,114,300 yen (equivalent to a 21,143 t-CO_2 reduction), raising the overall total of donations since the start of the program in fiscal 2010 to 9,845,600 yen.

SANKI YOU Eco Contribution Point System



• Donations to tree-planting projects

Recipients of donations were selected from the framework of global environmental preservation activities mainly handled by private non-profit organizations. In fiscal 2015, we donated to two projects and our employees participated in the activities.

Donation history for tree-planting project

Recipient	Project	Amount Donated
NPO Laboratory of Earth Conscious Life	Tree planting to create a beech forest (Kijimadaira, Nagano Prefecture)	613,000 yen in the second half of FY2014
		888,800 yen in the first half of FY2015
NPO Environmental Relation	Cultivation of fish-breeding forests and tree planting in a disaster-affected area (Miyako City, Iwate Prefecture)	612,500 yen in the second half of FY2014

Initiatives in the Office

• Energy conservation activities

Sanki Engineering promotes energy-saving activities based on a Company-wide objective for its EMS activities to reduce energy consumption by 6% compared to fiscal 2012 over a five-year period from fiscal 2013 to fiscal 2017. In fiscal 2015, we achieved a reduction of 14.2% from the 2012 level in energy consumption Company-wide.

• Energy conservation in the office and campaign to reduce copy paper

We changed all landline phones throughout the Company to PHS in order to raise operational efficiency. By doing so, we eliminated construction work for wiring and change of settings that had been necessary each time we had modified the office layout. As a result, we were able to reduce annual energy consumption for construction work on layout changes as well as the use of resources such as cables and waste that would have been generated. We also saved on the cost of construction work.

To accurately grasp the state of copy paper consumption, we have been surveying inventory and consumption at the end of each fiscal year and compiling results into data sets since fiscal 2015. The number of sheets of copy paper used in fiscal 2015 was around 20,916,000. We will continue managing paper consumption and efforts to reduce usage, including paperless meetings.

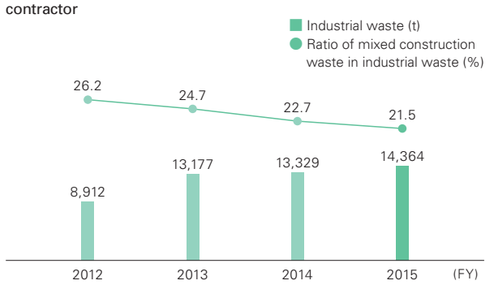
Proper Disposal of Waste

Current state of industrial waste and proper disposal

We took action to reduce industrial waste generated at construction sites as well as to ensure proper disposal. To accurately grasp the current status of our discharge of industrial waste, we have been aggregating the volume of industrial waste discharged at sites under our direct management as prime contractors. Over the past four years, the volume of our industrial waste has risen. In particular, a recent comparison between fiscal 2014 and fiscal 2015 shows an increase of 1,035 tons. This was mainly caused by an increase in the volume of materials removed by repair work. Sorting, recycling, and reducing the volume of their materials has been difficult.

Given this situation, in fiscal 2015 we began compiling suggestions from divisions, including ideas and process improvements for reducing industrial waste, and published them on the intranet in an effort to horizontally deploy best practices throughout the Company. As of April 2016, a total of 38 suggestions have been published, and we plan to continuously update this information.

Waste discharged at sites where Sanki Engineering is the prime contractor

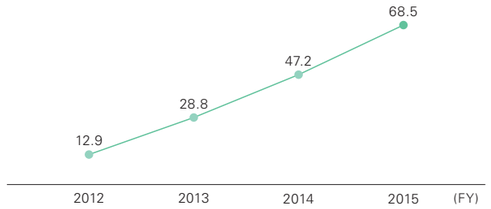


Introduction of a digital manifest

With the aim of ensuring the proper disposal of industrial waste, we are pushing ahead with the introduction of a digital manifest. As of April 2016, 8 departments, including 3 branches and 3 branch offices, as well as two Group companies have introduced the digital manifest system (including partial introduction.) As a result, the rate of introduction of digital manifests to the total number of manifests issued has been improving each year from fiscal 2012 to fiscal 2015.

The rate of introduction rose by 21.3 percentage points to 68.5% in fiscal 2015. We will continue to use digital manifests and promote proper disposal.

Rate of introduction of digital manifests (%)



Dispatching engineers to the Japanese Antarctic Research Expedition

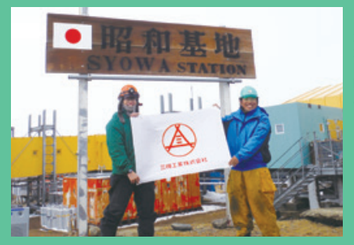
Sanki Engineering has been cooperating with Antarctic research by dispatching 11 engineers to observe environmental conservation at the Japanese Antarctic Research Expedition since the Protocol on Environmental Protection to the Antarctic Treaty was adopted in 1991. Sanki dispatched the twelfth engineer to the 57th Antarctic Research Expedition team and contributes to conserving the Antarctic environment at the Showa Station.

New wastewater treatment facility contributes to preservation of the Antarctic environment

VOICE

I spent 14 months, beginning in December 2014, with the 56th overwintering expedition at Japan's Showa Station in Antarctica and worked on treating wastes and domestic wastewater as a staff member responsible for environmental protection.

The greatest achievement during my term was to start the full-time operation of a new wastewater treatment facility, where the membrane separation activated sludge process is used. Although the facility was installed at the station in 2011, it took many years to transport equipment there because the ice breaker, Shirase, was not able to access it. Finally, full-scale operation started in November 2015. There were tough moments during the launch phase, such as working outdoors with temperatures at 20 degrees below zero and collaborating with staff in Japan across a six-hour time difference to solve problems, but I feel a sense of satisfaction for having fulfilled my responsibility as part of the expedition. My assignment to the Showa Station ended in February 2016, and another employee has taken over my work. From Japan, I will offer my support so that Sanki Engineering can continuously contribute to environmental protection activities in Antarctica.



Kotaro Shigematsu (at left)
2nd Engineering Section
2nd Water Engineering Department
Environmental Systems Administration Division

Environmental Accounting

To enable us to proceed with our environmental protection initiatives efficiently and effectively, we determine and publish the cost of environmental protection in our business activities and the outcomes of our environmental protection initiatives.

Scope of aggregation: Sanki Engineering Co., Ltd. (unconsolidated) or designated sections
Period: April 2015–March 2016
Guidelines for reference: (1) Environmental Accounting Guidelines, Ministry of the Environment (2005 edition),
(2) Environmental Accounting Guidelines for the Construction Industry (2002 edition)

Environmental protection costs (aggregated expenditures for environmental protection in our business activities)

(Unit: 1,000 yen)

Details of Main Initiatives		Environmental Protection Costs
Global environmental protection costs	Cost of disposal of waste CFCs and halons	49,254
Resource recycling costs	Cost of waste disposal (construction sites)	403,032
Management costs	Cost of operating under ISO 14001	2,873
	Cost of environment-related education	189
	Cost of exhibiting in exhibitions/publishing materials	45,217
	Cost of cutting back vegetation at Yamato Engineering Center/ Cost of maintaining Nature Park	3,919
R&D costs	Cost of environmental protection-related R&D	214,089
Social activities costs	Donations to environmental protection-related organizations	6,654
	Cost of participating in environmental protection activities and supporting education	3,745

Effects of environmental protection (annual comparison of resources consumed, emitted gas, green purchasing results and waste products)

Details		FY2012	FY2013	FY2014	FY2015
Resources consumed	Number of sheets of copy paper purchased for offices (1,000 sheets)	20,511	19,632	20,194	20,468
	Number of sheets of copy paper used (1,000 sheets)	–	–	20,035	20,916
	Volume of water used at Yamato Engineering Center (m^3)	15,506	17,187	22,945	28,427
Energy consumed	Energy consumed by offices (crude oil equivalent; kl)	1,853	1,691	1,643	1,589
CO_2 emissions (t-CO_2)	As a result of energy consumption in offices (t-CO_2)	3,419	3,490	3,402	3,174
	As a result of energy consumption at worksites (t-CO_2)	889	1,081	833	537
Volume of industrial waste	Amount of industrial waste discharged at sites under our direct management as a prime contractor and the Yamato Engineering Center (t)	8,961	13,333	13,380	14,424
Green purchasing of stationery (1,000 yen)		45,269	46,810	38,713	46,569

Notes: Volumes of industrial waste from fiscal 2012 to fiscal 2014 have been recalculated to enhance the accuracy of the data. Green purchasing results from fiscal 2012 to fiscal 2014 have been recalculated due to a change in the scope of aggregation.

Economic effects of environmental protection measures

(Unit: 1,000 yen)

Related departments	Details	FY2012	FY2013	FY2014	FY2015
Construction sites	Profit from sale of scrap, etc.	138,390	143,463	138,042	107,624
Yamato Engineering Center	Profit from sale of scrap, etc.	398	295	548	249
Other	Subsidy to introduce eco-cars (ended in FY2012)	2,700	–	–	–

Relationship with Local Communities

Important Issues	Major Action Policies for Fiscal 2015	Major Results for Fiscal 2015	Major Action Policies for Fiscal 2016
• Coordination with local communities • Contribution to society as a corporate citizen	Regional disaster prevention	Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center	Regional disaster prevention
	Conservation of the local environment	Group-wide activities carried out at more than 30 locations	Conservation of the local environment
	Supporting the development of the next generation	Offered 9 social study tours for a total of 443 students	Supporting the development of the next generation

Our Approach to Local Communities

As stated in the Sanki Group Code of Conduct and Action Guidelines, "We seek to contribute to society in order to aid in the development of local communities as a good corporate citizen and member of society," and our activities reflect this principle. Looking ahead, we will continue to fulfill our corporate social responsibility while maintaining active communication with stakeholders in the communities where we operate.

Planting Trees to Commemorate our 90th Anniversary

To commemorate the 90th anniversary of our founding, we took part in a tree planting event in Kai City, Yamanashi Prefecture. The president along with 93 employees from across Japan who had gathered for the event planted trees by hand. With the cooperation of staff at the local forestry cooperative, we planted a total of 1,000 trees in the area, which we named the "Sanki Forest."

Participants of the tree planting event

Coordination with Local Communities

Agreement for the provision of facilities in times of disaster

In fiscal 2013, as a means for preventing disasters and reducing damage, Yamato City in Kanagawa Prefecture concluded an agreement with the Company (Yamato Engineering Center), which maintains large-scale facilities in the city. Under the terms of the agreement, we will make the Yamato Engineering Center available as temporary shelters for those unable to return home in the event of a disaster and provide water, toilets and a stockpile of emergency provisions. The Yamato City council on emergency response for residents unable to return home was established under the agreement, and we participated in consultations and training with the council in fiscal 2015. A separate agreement was signed between Yamato City, Sanki Engineering and Sanki Kankyo Service in fiscal 2013 for the recovery of sewage treatment facilities in Yamato City following a disaster. Under the agreement, we will toward early recovery in the event of a large-scale disaster.

Dispatching lecturers for community safety and health education

As a member of the Chuo-Chiyoda-Bunkyo Branch of the Japan Construction Occupational Safety and Health Association, the Company contributes to community safety and health education by dispatching employees as lecturers for courses on heat stroke prevention, safety and other issues.

Cleanup and Environmental Beautification Activities

Each branch, branch office and Group company participates in cleanup activities in areas around

Cleanup on the beach near the Minami-Gamo Purification Center

Cleanup near the Shimanto Central Sewage Management Center

their offices or worksites as well as environmental beautification activities organized by local governments. In fiscal 2015, we participated in cleanup activities around our head office and the Yamato Engineering Center, while the Hokkaido branch joined the Cleanup Beach Walk event at Sansen-hama beach in Ishikari Bay. Also, Group company Sanki Kako Kensetsu cleaned up its neighborhood and collected illegally dumped waste. On a Group-wide basis, we carried out activities in more than 30 local communities.

Enriching the Public Experience and Value of Sanki Nature Park

At the Yamato Engineering Center, the Sanki Nature Park biotope was opened to the public in 2005. This 1,000-square-meter park consists of a large pond, small ponds, a marsh, a stream, walking paths and other features that contribute to preserving biodiversity by providing wildlife with a resting and breeding place in this area. Spotbilled ducks have been migrating to the park since it was opened and were observed breeding for the third year in 2015. The adorable ducklings have become popular among visitors. We have also made the park available to neighborhood nursery schools as a place for nurturing the community's next generation.

Welcoming Social Studies Tours by Local Schools

Yamato Engineering Center

As part of its social contribution activities, the Yamato Engineering Center participates in local cleanup activities and events organized by Yamato City as well as parent-child seminars. In addition, it has been conducting social study tours twice a year for local elementary schools since fiscal 2008.

In 2015, we received 190 fifth-grade students from Kitayamato Elementary School in July and 90 third-grade students from Chuorinkan Elementary School in November. The students toured the factory inside the premises and learned about conveyors that transport luggage at airports. Also in November 2015, 10 students in the first grade at the Tsuchiura 1st High School in Ibaraki Prefecture visited the Sanki Global Environment Plaza.

Sanki Kankyo Service

In October 2015, the Oshamanbe Office in Hokkaido received 32 fourth-grade students from Oshamanbe Elementary School, while the Ryotsu Office in Niigata Prefecture offered tours for 12 fourth-grade students from Ryotsu Elementary School in September and 37 fourth-grade students from Kamo Elementary School in October. They learned about the workings of the sewerage system and the role of microorganisms.

Elementary school social studies tour (Yamato Engineering Center)

Donating Blood

Our head office began encouraging employees to donate blood in 2013. Since blood for transfusions cannot be artificially produced or stored for an extended period, we will cooperate on an ongoing basis with the corporate blood donation program. In fiscal 2015, 61 employees at the head office and 59 employees at the Yamato Engineering Center donated blood in November 2015 and January 2016, respectively.

Employees donating blood

Donations and Contributions

In addition to making donations to universities and research institutes, we also supported cultural activities through donations to the Japan Philharmonic Orchestra, the Japan Chamber Music Foundation and other institutions. In addition, each of our branches and Group companies take part in a variety of activities in which anyone can get involved, such as by donating used stamps and cards and collecting bottle caps for ecological and charitable purposes.

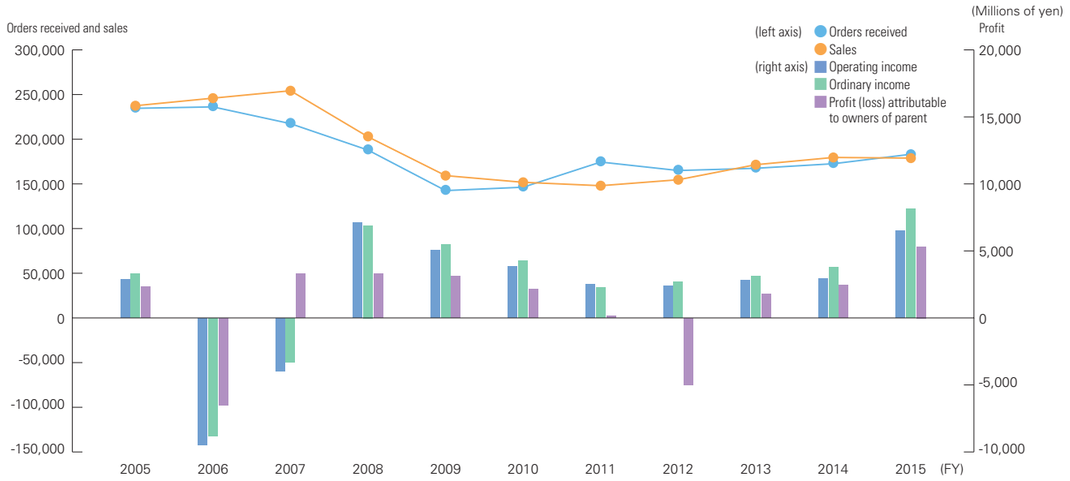
Financial Report and Corporate Information

11-year Consolidated Financial Summary

(Millions of yen)

	Year ended March 31, 2006	Year ended March 31, 2007	Year ended March 31, 2008	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016
Fiscal year											
Orders received	235,401	237,022	218,256	188,653	143,348	147,129	175,291	165,800	168,295	173,398	**183,270**
Balance carried forward	153,593	144,456	108,253	93,566	77,641	72,976	100,272	111,414	108,219	102,019	**106,388**
Net sales	237,684	246,159	254,460	203,340	159,273	151,794	147,994	154,658	171,496	179,598	**178,901**
Selling, general and administrative expenses	14,426	13,994	13,962	14,978	15,419	15,763	15,712	15,199	15,604	15,015	**16,419**
Operating income or loss	2,892	(9,502)	(3,958)	7,125	5,027	3,843	2,525	2,391	2,818	2,951	**6,509**
Ordinary income or loss	3,319	(8,782)	(3,307)	6,900	5,456	4,239	2,268	2,680	3,146	3,809	**8,135**
Profit (loss) attributable to owners of parent*	2,355	(6,536)	3,134	3,283	3,141	2,124	176	(4,992)	1,763	2,461	**5,327**
Cash flows from operating activities	(5,557)	(2,819)	(4,097)	19,177	1,294	11,554	(2,697)	9,729	(9,403)	(139)	**5,220**
Cash flows from investing activities	(1,024)	2,833	11,511	1,726	(1,664)	2,610	(1,046)	(9,481)	(3,506)	3,440	**5,520**
Cash flows from financing activities	(3,067)	(2,697)	(3,812)	(4,377)	(2,936)	(1,883)	(280)	(1,028)	(4,152)	(2,901)	**(1,826)**
Cash and cash equivalents at end of fiscal year	18,717	16,018	19,617	36,142	32,825	45,135	41,097	40,367	23,510	23,667	**32,501**
As of end of fiscal year under review											
Total assets	245,367	251,323	215,680	176,664	163,307	158,501	163,120	166,477	170,181	176,382	**169,423**
Net assets	98,333	88,943	80,276	78,780	80,498	79,833	79,662	76,932	74,917	84,869	**84,557**
Number of employees	2,332	2,179	2,225	2,239	2,272	2,316	2,289	2,246	2,283	2,282	**2,309**
Per share information											
Earnings per share (yen)	31.46	(88.47)	42.42	44.45	42.86	29.67	2.46	(71.04)	26.46	38.30	**83.84**
Book-value per share (yen)	1,330.41	1,203.57	1,086.02	1,065.77	1,119.40	1,115.41	1,113.70	1,106.32	1,142.74	1,334.65	**1,328.60**
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	20.00	**30.00**
Other information											
Equity ratio (%)	40.1	35.4	37.2	44.6	49.3	50.3	48.8	46.2	44.0	48.1	**49.8**
Return on assets (%)	1.4	(3.5)	(1.4)	3.5	3.2	2.6	1.4	1.6	1.9	2.2	**4.7**
Return on equity (%)	2.5	(7.0)	3.7	4.1	3.9	2.7	0.2	(6.4)	2.3	3.0	**6.3**

* The revised Accounting Standard for Business Combination and other standards have been applied from the year ended March 2016. Accordingly, "Profit (loss) attributable to owners of parent" as listed in the consolidated fiscal year under review, is equivalent to "Net income" listed for the consolidated fiscal years between the year ended March 2006 and the year ended March 2015.



Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets:		
Cash and deposits *(Note 2)*	¥ 29,267	**¥ 26,501**
Notes and accounts receivable on completed construction contracts and other	74,781	**71,246**
Electronically recorded monetary claims	2,607	**4,267**
Securities	–	**6,999**
Inventories:		
Costs on uncompleted construction contracts *(Note 4)*	2,471	**2,268**
Raw materials and supplies	476	**468**
Deferred tax assets	1,965	**2,062**
Other	4,754	**1,760**
Allowance for doubtful accounts	(99)	**(84)**
Total current assets	116,224	**115,491**
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	39,289	**38,998**
Accumulated depreciation	(34,846)	**(35,112)**
Buildings and structures, net	4,442	**3,885**
Machinery, equipment, vehicles, and tools, furniture and fixtures	3,560	**3,452**
Accumulated depreciation	(3,154)	**(3,057)**
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	406	**395**
Land	3,964	**3,959**
Lease assets	629	**636**
Accumulated depreciation	(176)	**(170)**
Lease assets, net	453	**466**
Construction in progress	3	**8**
Total property, plant and equipment	9,269	**8,715**
Intangible assets	370	**533**
Investments and other assets:		
Investment securities *(Note 1 and 2)*	39,704	**34,789**
Long-term loans receivable	197	**169**
Asset for retirement benefits	6,709	**4,503**
Lease and guarantee deposits	1,121	**1,145**
Insurance funds	345	**419**
Deferred tax assets	206	**206**
Other *(Note 2)*	3,077	**4,558**
Allowance for doubtful accounts	(845)	**(1,109)**
Total investments and other assets	50,517	**44,682**
Total noncurrent assets	60,157	**53,931**
Total assets	¥ 176,382	**¥ 169,423**

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other	¥ 56,137	**¥ 51,460**
Short-term loans payable	5,672	**5,672**
Lease obligations	80	**139**
Income taxes payable	806	**2,125**
Advances received on uncompleted construction contracts	2,636	**3,140**
Provision for bonuses	2,176	**2,861**
Provision for directors' bonuses	80	**120**
Provision for warranty costs	459	**849**
Provision for loss on construction contracts *(Note 4)*	1,314	**1,186**
Provision for loss on compensations	–	**30**
Deferred tax liabilities	23	**18**
Other	2,717	**5,258**
Total current liabilities	72,106	**72,863**
Noncurrent liabilities:		
Long-term loans payable	660	**320**
Lease obligations	424	**506**
Liability for retirement benefits	5,384	**1,834**
Provision for directors' retirement benefits	122	**79**
Provision for loss on guarantees	34	**–**
Provision for loss on compensations	471	**–**
Deferred tax liabilities	6,843	**4,742**
Other	5,465	**4,518**
Total noncurrent liabilities	19,406	**12,001**
Total liabilities	91,512	**84,865**
Net assets:		
Shareholders' equity:		
Capital stock	8,105	**8,105**
Capital surplus	4,181	**4,181**
Retained earnings	61,659	**65,586**
Treasury stock	(2,267)	**(2,258)**
Total shareholders' equity	71,678	**75,614**
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	15,332	**13,012**
Foreign currency translation adjustment	48	**(53)**
Retirement benefits asset and liability adjustments	(2,253)	**(4,135)**
Total accumulated other comprehensive income	13,127	**8,822**
Subscription right to shares	51	**90**
Non-controlling interests	12	**30**
Total net assets	84,869	**84,557**
Total liabilities and net assets	¥ 176,382	**¥ 169,423**

See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net sales:		
Net sales of completed construction contracts	¥ 178,220	**¥ 177,262**
Net sales of real estate business and other	1,378	**1,638**
Total net sales	179,598	**178,901**
Cost of sales:		
Cost of sales of completed construction contracts *(Notes 1 and 2)*	160,572	**154,706**
Cost of sales on real estate business and other	1,059	**1,265**
Total cost of sales	161,632	**155,971**
Gross profit:		
Gross profit on completed construction contracts	17,648	**22,556**
Gross profit on real estate business and other	318	**373**
Total gross profit	17,966	**22,929**
Selling, general and administrative expenses:		
Employees' salaries and allowances	5,963	**6,392**
Provision for bonuses	926	**1,224**
Provision for directors' bonuses	80	**120**
Retirement benefit expenses	588	**545**
Depreciation	371	**383**
Other *(Note 1)*	7,085	**7,752**
Total selling, general and administrative expenses	15,015	**16,419**
Operating income	2,951	**6,509**
Non-operating income:		
Interest income	43	**31**
Dividends income	592	**675**
Insurance income	169	**653**
Equity in earnings of affiliates	–	**771**
Reversal of allowance for doubtful accounts	273	**–**
Other	529	**234**
Total non-operating income	1,607	**2,365**
Non-operating expenses:		
Interest expense	89	**86**
Equity in losses of affiliates	295	**–**
Provision of allowance for doubtful accounts	–	**255**
Repair expenses for construction contracts	59	**205**
Other	305	**193**
Total non-operating expenses	749	**740**
Ordinary income	3,809	**8,135**
Extraordinary income:		
Gain on sales of noncurrent assets	–	**58**
Gain on sales of investment securities	290	**155**
Total extraordinary income	290	**214**
Extraordinary loss:		
Impairment loss *(Note 3)*	189	**423**
Loss on sales of noncurrent assets	51	**–**
Loss on retirement of noncurrent assets	25	**36**
Loss on transfer of stock of affiliates	–	**55**
Provision for loss on compensations	471	**–**
Total extraordinary losses	737	**514**
Profit (loss) before income taxes	3,362	**7,834**
Income taxes:		
Income taxes-current	1,245	**2,413**
Income taxes-deferred	(384)	**75**
Total income taxes	861	**2,489**
Profit (loss)	¥ 2,501	**¥ 5,345**
Profit (loss) attributable to:		
Owners of parent	¥ 2,461	**¥ 5,327**
Non-controlling interests	¥ 39	**¥ 17**
Other comprehensive income *(Note 4)*:		
Unrealized gains on available-for-sale securities	¥ 6,236	**¥ (2,319)**
Foreign currency translation adjustment	(8)	**(102)**
Remeasurements of defined benefit plans	758	**(1,882)**
Total other comprehensive income	6,986	**(4,304)**
Comprehensive income	¥ 9,487	**¥ 1,041**
Comprehensive income attributable to:		
Owners of parent	¥ 9,474	**¥ 1,023**
Non-controlling interests	¥ 12	**¥ 17**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

[For the year ended March 31, 2015]

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	¥ 8,105	¥ 4,181	¥ 58,935	¥ (2,444)	¥ 68,777
Cumulative effect of change in accounting principle			3,008		3,008
Restated balance at the beginning of current period	8,105	4,181	61,943	(2,444)	71,785
Changes in items during the period					
Dividends from surplus			(968)		(968)
Profit (loss) attributable to owners of parent			2,461		2,461
Purchase of treasury stock				(1,604)	(1,604)
Disposal of treasury stock		(0)		3	3
Transfer of loss on disposal of treasury stock		0	(0)		–
Retirement of treasury stock			(1,778)	1,778	–
Change of scope of equity method					–
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	–	(284)	177	(107)
Balance at the end of current period	¥ 8,105	¥ 4,181	¥ 61,659	¥ (2,267)	¥ 71,678

	Accumulated other comprehensive income						
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥ 9,095	¥ 29	¥ (3,011)	¥ 6,114	¥ 25	¥ –	¥ 74,917
Cumulative effect of change in accounting principle							3,008
Restated balance at the beginning of current period	9,095	29	(3,011)	6,114	25	–	77,925
Changes in items during the period							
Dividends from surplus							(968)
Profit (loss) attributable to owners of parent							2,461
Purchase of treasury stock							(1,604)
Disposal of treasury stock							3
Transfer of loss on disposal of treasury stock							–
Retirement of treasury stock							–
Change of scope of equity method							–
Net changes in items other than shareholders' equity	6,236	18	758	7,013	25	12	7,051
Total changes in items during the period	6,236	18	758	7,013	25	12	6,944
Balance at the end of current period	¥ 15,332	¥ 48	¥ (2,253)	¥ 13,127	¥ 51	¥ 12	¥ 84,869

[For the year ended March 31, 2016]

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	**¥ 8,105**	**¥ 4,181**	**¥ 61,659**	**¥ (2,267)**	**¥ 71,678**
Cumulative effect of change in accounting principle					**–**
Restated balance at the beginning of current period	**8,105**	**4,181**	**61,659**	**(2,267)**	**71,678**
Changes in items during the period					
Dividends from surplus			**(1,366)**		**(1,366)**
Profit (loss) attributable to owners of parent			**5,327**		**5,327**
Purchase of treasury stock				**(0)**	**(0)**
Disposal of treasury stock		**(1)**		**8**	**7**
Transfer of loss on disposal of treasury stock		**1**	**(1)**		**–**
Retirement of treasury stock					**–**
Change of scope of equity method			**(33)**		**(33)**
Net changes in items other than shareholders' equity					
Total changes in items during the period	**–**	**–**	**3,927**	**8**	**3,936**
Balance at the end of current period	**¥ 8,105**	**¥ 4,181**	**¥ 65,586**	**¥ (2,258)**	**¥ 75,614**

	Accumulated other comprehensive income						
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of current period	**¥ 15,332**	**¥ 48**	**¥ (2,253)**	**¥ 13,127**	**¥ 51**	**¥ 12**	**¥ 84,869**
Cumulative effect of change in accounting principle							**–**
Restated balance at the beginning of current period	**15,332**	**48**	**(2,253)**	**13,127**	**51**	**12**	**84,869**
Changes in items during the period							
Dividends from surplus							**(1,366)**
Profit (loss) attributable to owners of parent							**5,327**
Purchase of treasury stock							**(0)**
Disposal of treasury stock							**7**
Transfer of loss on disposal of treasury stock							**–**
Retirement of treasury stock							**–**
Change of scope of equity method							**(33)**
Net changes in items other than shareholders' equity	**(2,319)**	**(102)**	**(1,882)**	**(4,304)**	**38**	**17**	**(4,247)**
Total changes in items during the period	**(2,319)**	**(102)**	**(1,882)**	**(4,304)**	**38**	**17**	**(311)**
Balance at the end of current period	**¥ 13,012**	**¥ (53)**	**¥ (4,135)**	**¥ 8,822**	**¥ 90**	**¥ 30**	**¥ 84,557**

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ 3,362	**¥ 7,834**
Depreciation and amortization	723	**723**
Impairment loss	189	**423**
(Decrease) increase in allowance for doubtful accounts	(588)	**445**
Increase (decrease) in liability for retirement benefits	54	**(3,985)**
Decrease in provision for directors' retirement benefits	(97)	**(43)**
Increase (decrease) in provision for loss on construction contracts	747	**(128)**
Increase (decrease) in provision for loss on compensations	471	**(441)**
Interest and dividends income	(635)	**(706)**
Interest expense	89	**86**
Equity in losses (earnings) of affiliates	295	**(771)**
Loss (gain) on sales of property, plant and equipment	51	**(58)**
Gain on sales of investment securities	(290)	**(155)**
Loss on transfer of stock of affiliates	–	**55**
Decrease in notes and accounts receivable on completed construction contracts and other	1,041	**1,940**
(Increase) decrease in costs on uncompleted construction contracts	(607)	**202**
Decrease in notes and accounts payable on construction contracts and other	(1,766)	**(4,666)**
(Decrease) increase in advances received on uncompleted construction contracts	(2,866)	**503**
(Decrease) increase in other current liabilities	(1,607)	**2,244**
Other	1,091	**2,255**
Subtotal	(340)	**5,758**
Interest and dividends received	632	**711**
Interest paid	(89)	**(86)**
Income taxes paid	(1,135)	**(1,415)**
Income taxes refunded	792	**252**
Net cash (used in) provided by operating activities	(139)	**5,220**
Cash flows from investing activities:		
Payments into time deposits	(1,100)	**–**
Proceeds from withdrawal of time deposits	500	**5,600**
Purchase of securities	(6,997)	**(1,500)**
Proceeds from redemption of securities	11,000	**500**
Purchase of property, plant and equipment	(202)	**(120)**
Proceeds from sales of property, plant and equipment	147	**75**
Purchase of investment securities	(133)	**(28)**
Proceeds from sales of investment securities	642	**1,170**
Execution of loan	(67)	**(4)**
Collection of loans receivable	59	**98**
Proceeds from maturity of insurance funds	8	**33**
Other	(416)	**(303)**
Net cash provided by investing activities	3,440	**5,520**
Cash flows from financing activities:		
Net decrease in short-term loans payable	(924)	**(0)**
Proceeds from long-term loans payable	1,000	**–**
Repayments of long-term loans payable	(320)	**(340)**
Purchase of treasury stock	(1,604)	**(0)**
Proceeds from exercise of stock options	0	**0**
Repayments of lease obligations	(84)	**(119)**
Cash dividends paid	(968)	**(1,366)**
Net cash used in financing activities	(2,901)	**(1,826)**
Effect of exchange rate changes on cash and cash equivalents	(242)	**(81)**
Net increase in cash and cash equivalents	156	**8,833**
Cash and cash equivalents at beginning of period	23,510	**23,667**
Cash and cash equivalents at end of period *(Note 1)*	¥ 23,667	**¥ 32,501**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Basis of Preparation of Consolidated Financial Statements

1. Basis of Preparation

Sanki Engineering Co., Ltd. (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Law of Japan and, therefore, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 7

Names of consolidated subsidiaries:
Sanki Techno Support Co., Ltd.
THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.
Sanki Sangyo Setsubi Co., Ltd.
Sanki Kako Kensetsu Co., Ltd.
Sanki Kankyo Services Co., Ltd.
AQUACONSULT Anlagenbau GmbH
Shin-yu Services Co., Ltd.

(2) Number of unconsolidated subsidiaries: 3

Names of unconsolidated subsidiaries:
Tomakomai Netsu Services Co., Ltd.
Sanki Construction Engineering (Shanghai) Co., Ltd.
AEROSTRIP Corporation

(3) Reasons for exclusion of unconsolidated subsidiaries from consolidation

The three unconsolidated subsidiaries above were excluded from consolidation because their total assets and sales and the Company's equity in their net income and retained earnings were not material to the consolidated financial statements.

3. Application of the equity method

(1) Number of companies to which the equity method of accounting has been applied:

Unconsolidated subsidiaries: –
Affiliates: 1
Ou Clean Technology Co., Ltd.
* Akita Eco Plash Co., Ltd., an affiliate which had been accounted for by the equity method for the year ended March 31, 2015, was excluded from application of the equity method because the Company transferred a part of shares of the affiliate in this fiscal year.

(2) Number of companies excluded from application of the equity method:

Unconsolidated subsidiaries: 3
Affiliates: 1
Names of unconsolidated subsidiaries and affiliates:
Tomakomai Netsu Services Co., Ltd.
Sanki Construction Engineering (Shanghai) Co., Ltd.
AEROSTRIP Corporation
PFI Okubo Techno Resource Co., Ltd.

(3) Reasons for exclusion of unconsolidated subsidiaries and affiliates from the equity method of accounting

The three unconsolidated subsidiaries and one affiliate referred to above were excluded from being accounted for by the equity method because the Company's equity in their net income and retained earnings were not material to the consolidated financial statements.

4. Fiscal year end of the consolidated subsidiaries

Names and the fiscal year end of the consolidated subsidiaries whose fiscal year end is different from that of the consolidated financial statements:

Name	Fiscal year end
AQUACONSULT Anlagenbau GmbH	December 31
THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.	December 31

Financial statements of the above subsidiaries were consolidated on the basis of its own fiscal year end. However, the necessary adjustments were made to reflect any significant transactions from the fiscal year end of the subsidiary to that of the consolidated financial statements.

5. Accounting policies

(1) Valuation policies for significant assets

Securities

Held-to-maturity securities:

Held-to-maturity securities are stated at cost and amortized by the straight-line method.

Available-for-sale securities:

Marketable securities are stated at fair value with any changes in unrealized gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method.

Nonmarketable securities are stated at cost determined by the moving average method.

Derivatives

Derivatives are stated at fair value.

Inventories

Costs on uncompleted construction contracts:

Costs on uncompleted construction contracts are stated at cost by the individual identification method.

Raw materials and supplies:

Raw materials and supplies are carried at cost determined by the moving average method (in the case that the net selling value falls below the cost at the end of the period, the book value on the balance sheet is carried at the net selling value on the balance sheet, regarded as decreased profitability of assets).

(2) Depreciation of significant assets

Property, plant and equipment (excluding lease assets)

Depreciation is calculated by the declining-balance method, except for property, plant and equipment of the foreign consolidated subsidiaries which are depreciated by the straight-line method. The useful lives and the residual value are primarily in accordance with those stipulated in the Corporation Tax Law.

Intangible assets (excluding lease assets)

Depreciation is calculated by the straight-line method. Depreciation of the software for internal use is computed by the straight-line method over the useful life of the software (principally 5 years).

Lease assets

Finance lease assets which transfer ownership title to the lessee

Depreciation of finance lease assets which transfer ownership titles to the lessee is calculated by the same method as that for property, plant and equipment owned.

Finance lease assets which do not transfer ownership title to the lessee

Depreciation of finance leases assets which do not transfer ownership title to the lessee is calculated by the straight-line method over the respective lease terms with a nil residual value.

Finance leases which do not transfer ownership title to the lessee, entered into on or before March 31, 2008, are accounted for as operating leases.

(3) Significant provisions and allowances

Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. The allowance consists of an estimate of the uncollectible amounts with respect to specific receivables plus a percentage based on historical losses on accounts receivable.

Provision for bonuses

Provision for bonuses is stated at an estimate of the amounts to be paid by the Company and its consolidated subsidiaries for services rendered by the balance sheet date.

Provision for directors' bonuses

Provision for directors' bonuses is stated at an estimate of the amounts to be paid by the Company and its consolidated subsidiaries for services rendered by the balance sheet date.

Provision for warranty costs

Provision for warranty costs is provided at an estimated amount based on historical experience and certain other factors.

Provision for loss on construction contracts

Provision for loss on construction contracts is provided at an amount of estimated loss if a significant amount of loss is expected to occur for uncompleted construction contracts and the amount of the loss can be reasonably estimated.

Provision for loss on compensations

Provision for loss on compensations is provided at an amount of estimated loss on acceptance of claims for damages.

Provision for directors' retirement benefits

Provision for directors' retirement benefits is stated at 100% of the amount which would be required to be paid if all directors and corporate auditors resigned their positions at the balance sheet date.

At the meetings of board of directors of the Company and its domestic consolidated subsidiaries held in March 2012, it was resolved that their retirement benefit plans for directors and corporate auditors be terminated on March 31, 2012. Subsequently, at the ordinary general meeting of shareholders of each company held in June 2012, it was resolved that retirement benefits shall be paid to directors and corporate auditors, who were incumbent as of the close of the said shareholders' meeting, for their individual service periods to March 31, 2012. It was also resolved that retirement benefits shall be paid at the time of their individual retirement and that the amount to be paid and the payment method for directors would be determined at the meeting of the board of directors and for corporate auditors by mutual agreement among the corporate auditors.

As a result, the estimated amount of retirement benefits to be paid to directors and corporate auditors of those companies is included in accrued directors' retirement benefits on the consolidated balance sheet as of March 31, 2016.

Provision for loss on guarantees

Provision for loss on guarantees is provided at an amount of estimated loss on fulfillment of guarantee obligations. No provision for loss on guarantees was recognized at March 31, 2016 because the loss estimate was null.

(4) Accounting for retirement benefits

Method of attributing expected benefits to periods of service

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Method of amortization for actuarial gain or loss, and prior service cost

Prior service cost is amortized by the straight-line method over a period (10 years) within the average estimated remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period (10 years) within the average estimated remaining years of service of the eligible employees.

Adoption of simplified method for small-scale corporation

The liability for retirement benefits and the retirement benefit expenses for each consolidated subsidiary are calculated based on the retirement benefit obligation which is stated at the amount that would be paid if all eligible employees voluntarily terminated their employment at the end of the period.

(5) Recognition criteria for significant revenues and expenses

Recognition criteria for revenues and costs of construction contracts

Construction contracts, of which the percentage of completion can be reliably estimated:

Revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost.

Other construction contracts:

Revenues and costs of construction contracts, of which the percentage of completion cannot be reliably estimated, are recognized by the completed-contract method.

For the year ended March 31, 2016, net sales of completed construction contracts of ¥98,435 million was recognized by the percentage-of-completion method.

(6) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the year-end date of the consolidated financial statements, with the resulting translation gains and losses credited or charged to income.

Receivables and payables denominated in foreign currencies hedged by the forward exchange contracts which qualify for the assigning method of hedge accounting are translated into yen at their respective forward exchange contract rates.

The assets and liabilities and the revenue and expense accounts of the foreign subsidiaries are translated into yen at the exchange rates prevailing at the fiscal year-end date of those respective companies. The resulting translation adjustments are included in foreign currency translation adjustment and minority interests in net assets.

(7) Hedge accounting

Principally, deferral hedge accounting is applied for derivatives which qualify as hedges. For the forward exchange contracts which meet certain criteria, the assigning method is applied.

Hedging instruments are the forward exchange contracts, and hedged items are receivables, payables and forecasted transactions denominated in foreign currencies.

The Company uses the forward exchange contracts for the purpose of mitigating risks arising from fluctuations in foreign currency exchange rates. The Company does not enter into derivative transactions for speculation.

Hedge effectiveness is assessed quarterly by matching changes in market prices/rates or cash flows of hedged items with those of hedging instruments. Hedge effective is not assessed if the substantial terms and conditions of the forward exchange contracts and the hedged items are the same because their correlation in future fluctuation in exchange rates is ensured.

(8) Scope of cash and cash equivalents in the consolidated statement of cash flows

The scope of cash and cash equivalents in the consolidated statement of cash flows covers cash on hand, deposits which can be easily withdrawn at any time, and highly liquid investments with a maturity of three months or less when purchased.

(9) Other

Consumption taxes:

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

However, non-deductible consumption taxes charged on assets are recognized as expenses for the period when the related transactions have occurred.

Accounting Changes

The Company and its domestic consolidated subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4), effective from April 1, 2015. As a result, under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of profit (loss) attributable to owners of parent was amended, the reference to "minority interests" was changed to "non-controlling interests," and accounting treatment for adjustments to provisional amounts during measurement period was also changed.

These revised accounting standards and guidance were applied prospectively from the beginning of the year ended march 31, 2016 in accordance with transitional treatments stipulated in the accounting standards.

On the consolidated statement of cash flows for the year ended March 31, 2016, the presentation was changed so that cash flows on acquisition and/or sale of stock of subsidiaries without change in scope of consolidation were presented under "Cash flows from financing activities" while expenses related to such transactions as well as acquisition-related costs on acquisition of stock of subsidiaries with change in scope of consolidation were presented under "Cash flows from operating activities".

Application of the revised accounting standards and guidance had no effect on the consolidated financial statements or the per share data for the year ended March 31, 2016.

Accounting Standards Issued But Yet Effective

Implementation Guidance on Recoverability of Deferred Tax Assets

On March 28, 2016, the ASBJ issued "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

(1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of Japanese Institution of Certified Public Accounting Audit Committee Report No. 66 "Audit Treatment on Determining the Recoverability of Deferred tax Assets," whereby companies are categorized into five categories and differed tax assets are calculated based on each of these categories.

1. Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
2. Category requirements for (Category 2) and (Category 3)
3. Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
4. Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
5. Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending March 31, 2017.

(3) Impact of adopting revised implementation guidance

The Company is currently evaluating the effect of adopting these revised implementation guidance on its consolidated financial statements.

Changes in Presentation of Consolidated Financial Statements

Consolidated Statement of Income and Comprehensive Income

"Foreign exchange gains, net", which was separately presented in the prior fiscal year, has been included in "Non-operating income-Other" in the current fiscal year because the amount for the current fiscal year was null.

To reflect this change in presentation, the consolidated statement of income and comprehensive income has been reclassified, and as a result, "Foreign exchange gains, net" of ¥143 million and "Non-operating income-Other" of ¥386 million that were separately presented under "Non-operating income, in the prior fiscal year have been reclassified into "Non-operating income-Other" of ¥529 million in the consolidated statement of income and comprehensive income for the prior fiscal year provided herein.

In addition, "Foreign exchange losses, net" has been included in "Non-operating expenses-Other" in the consolidated statement of income and comprehensive income for the current fiscal year due to its financial immateriality.

"Repair expenses for construction contracts", which was included in "Non-operating expenses-Other" in the prior fiscal year, has been separately presented in the current fiscal year due to its increased financial materiality.

To reflect this change in presentation, the consolidated statement of income and comprehensive income has been reclassified, and as a result, "Non-operating expense-Other" of ¥364 million in the prior fiscal year has been reclassified into "Repair expenses for construction contracts" of ¥59 million and "Non-operating expenses-Other" of ¥305 million in the consolidated statement of income and comprehensive income for the prior fiscal year provided herein.

Additional Information

Liability for retirement benefits

The Company made an additional contribution of ¥4,500 million to the retirement benefit trust to reinforce financial condition of its retirement benefit plans. As a result, the liability for retirement benefits decreased by the same amount at March 31, 2016.

Notes to Consolidated Balance Sheet

(Note 1)

Investment securities included the following shares of unconsolidated subsidiaries and affiliates:

(Millions of yen)

	FY2014	FY2015
Stock	¥ 421	**¥ 332**
Other equity securities	117	**117**

(Note 2)

1) The following assets have been pledged for opening the letter of credits:

(Millions of yen)

	FY2014	FY2015
Cash and deposits (time deposits)	¥ 5,300	**¥ –**

2) The following assets have been pledged as collateral for loans payable of the affiliates and others:

(Millions of yen)

	FY2014	FY2015
Investment securities	¥ 5	**¥ 5**

3) The following assets have been pledged as guarantees for the payment of trade payable by the consolidated subsidiaries:

(Millions of yen)

	FY2014	FY2015
Investments and other assets (time deposits)	¥ 33	**¥ 33**

4) The following assets have been pledged as guarantees for losses regarding capital investments in the consolidated subsidiaries:

(Millions of yen)

	FY2014	FY2015
Investments and other assets (time deposits)	¥ 10	**¥ 10**

(Note 3)

1) The following guarantees have been provided for the loans:

(Millions of yen)

	FY2014	FY2015
Guarantee for borrowings by Kokyuki·Allergy Center ESCO Co., Ltd.	¥ 6	**¥ 3**

The above amounts represent the Company's share of the joint liability on the guarantee.

2) The following guarantees have been provided for losses regarding capital investments in the consolidated subsidiaries:

(Millions of yen)

	FY2014	FY2015
Guarantee to capital investors of THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.	¥ –	**¥ 29**

(Note 4)

Regarding the construction contracts which were expected to incur losses, costs on uncompleted construction contracts were not offset with provision for loss on construction contracts but both of those balances were presented at the gross amount on the consolidated balance sheet.

The balance of costs on uncompleted construction contracts corresponding to provision for loss on construction contracts were as follows:

(Millions of yen)

FY2014	FY2015
¥ 594	**¥ 575**

Notes to Consolidated Statement of Income and Comprehensive Income

(Note 1)

Research and development expenses included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2015 and 2016 are as follows:

(Millions of yen)

FY2014	FY2015
¥ 1,014	**¥ 1,091**

(Note 2)

Provision for loss on construction contracts included in cost of sales for the years ended March 31, 2015 and 2016 are as follows:

(Millions of yen)

FY2014	FY2015
¥ 747	**¥ (128)**

(Note 3)

Impairment losses were recognized for the following assets for the year ended March 31, 2015:

(Millions of yen)

Location	Use	Asset class	Amount
Ota-ku, Tokyo	Business-use assets	Buildings, Structures, Tools, furniture and fixture	¥ 102
Hatsukaichi-shi, Hiroshima, and others	Assets used for the real estate business	Land, Buildings	86

The Company groups its business-use fixed assets based on the three business segments (facilities construction, machinery systems and environmental systems) to perform assessments of impairment losses. For idle assets and assets used for the real estate business, the Company determines whether or not indications of impairment exist on an individual asset basis. Fixed assets of its consolidated subsidiaries are grouped as one unit for each company.

The net book value of the business-use assets was reduced to zero since the Company decided to dispose these assets. The reduction of ¥60 million for buildings and the removal cost of ¥41 million have been recognized as the impairment loss in the extraordinary losses.

The net book value of the assets used for the real estate business was reduced to their respective recoverable amount (i.e., estimated based on the real estate appraisal value) because the recoverable amount of these assets was lowered significantly due to changes of their usage. The reduction of ¥30 million for land and ¥56 million for buildings were recognized as the impairment loss in the extraordinary losses.

Impairment losses were recognized for the following assets for the year ended March 31, 2016:

(Millions of yen)

Location	Use	Asset class	Amount
Yamato-shi, Kanagawa	Business-use assets	Buildings,Structures, Machinery and equipment, Tools, furniture and fixture	¥ 423

The Company groups its business-use fixed assets based on the three business segments (facilities construction, machinery systems and environmental systems) to perform assessments of impairment losses. For idle assets and assets used for the real estate business, the Company determines whether or not indications of impairment exist on an individual asset basis. Fixed assets of its consolidated subsidiaries are grouped as one unit for each company.

The net book value of the business-use assets which were not expected to be used in the future was reduced to the memorandum value with estimated recoverable amounts of zero since the Company decided to carry out its plan to redevelop Yamato area. The reduction of ¥403 million for buildings, ¥14 million for structures, ¥4 million for machinery and equipment and ¥0 million for tools, furnitures and fixture have been recognized as the impairment loss in the extraordinary losses.

(Note 4)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2016:

(Millions of yen)

	FY2014	FY2015
Unrealized gains on available-for-sale securities:		
Amount arising during the year	¥ 8,851	**¥ (3,832)**
Reclassification adjustments for gains and losses included in net income	(288)	**(0)**
Amount before tax effect	8,562	**(3,833)**
Tax effect	(2,326)	**1,513**
Unrealized gains on available-for-sale securities	6,236	**(2,319)**
Foreign currency translation adjustment:		
Amount arising during the year	(8)	**(102)**
Remeasurements of defined benefit plans:		
Amount arising during the year	956	**(3,078)**
Reclassification adjustments for gains and losses included in net income	394	**435**
Amount before tax effect	1,350	**(2,643)**
Tax effect	(592)	**760**
Remeasurements of defined benefit plans	758	**(1,882)**
Total other comprehensive income	¥ 6,986	**¥ (4,304)**

Notes to Consolidated Statement of Changes in Net Assets

[For the year ended March 31, 2015]

1. Types and total number of shares issued were as follows:

(Shares)

Type of shares	As of April 1, 2014	Increase	Decrease	As of March 31, 2015
Common stock	69,661,156	–	3,000,000	66,661,156

(Note) Decrease of 3,000,000 shares was due to retirement of treasury shares by resolution of the board of directors.

2. Types and number of treasury shares were as follows:

(Shares)

Type of shares	As of April 1, 2014	Increase	Decrease	As of March 31, 2015
Common stock	4,124,204	2,001,264	3,006,000	3,119,468

(Note) Increase of 2,001,264 shares was due to purchase of treasury shares of 2,000,000 by resolution of the board of directors and repurchase of fractional shares of 1,264. Decrease of 3,006,000 shares was due to retirement of treasury shares of 3,000,000 by resolution of the board of directors and disposal of treasury shares of 6,000 upon exercise of share subscription rights under the stock option plans.

3. Details of subscription rights to shares were as follows:

(Millions of yen)

	Type of subscription rights to shares	Balance as of March 31, 2015
The Company (Parent company)	Stock options	51
Total		51

4. Dividends

(1) Dividends paid by the Company were as follows:

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 26, 2014 Ordinary general meeting of shareholders	Common stock	491	7.50	March 31, 2014	June 27, 2014
November 10, 2014 Meeting of board of directors	Common stock	476	7.50	September 30, 2014	December 10, 2014

(2) Dividends with the record date within this fiscal year and the effective date after the end of this fiscal year were as follows:

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 25, 2015 Ordinary general meeting of shareholders	Common stock	794	Retained earnings	12.50	March 31, 2015	June 26, 2015

(Note) Dividends of ¥12.50 per share include a commemorative dividend of ¥5.00 for the 90th anniversary of the Company's foundation.

[For the year ended March 31, 2016]

1. Types and total number of shares issued were as follows:

(Shares)

Type of shares	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Common stock	66,661,156	–	–	66,661,156

2. Types and number of treasury shares were as follows:

(Shares)

Type of shares	As of April 1, 2015	Increase	Decrease	As of March 31, 2016
Common stock	3,119,468	23	12,000	3,107,491

(Note) Increase of 23 shares was due to repurchase of fractional shares. Decrease of 12,000 shares was due to disposal of treasury shares upon exercise of share subscription rights under the stock option plans.

3. Details of subscription rights to shares were as follows:

(Millions of yen)

	Type of subscription rights to shares	Balance as of March 31, 2016
The Company (Parent company)	Stock options	90
Total		90

4. Dividends

(1) Dividends paid by the Company were as follows:

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 25, 2015 Ordinary general meeting of shareholders	Common stock	794	12.50	March 31, 2015	June 26, 2015
November 10, 2015 Meeting of board of directors	Common stock	571	9.00	September 30, 2015	December 10, 2015

(Note) Dividends of ¥12.50 per share as a resolution at the June 25, 2015 Ordinary general meeting of shareholders included a commemorative dividend of ¥5.00 for the 90th anniversary of the Company's foundation.

(2) Dividends with the record date within this fiscal year and the effective date after the end of this fiscal year were as follows:

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 29, 2016 Ordinary general meeting of shareholders	Common stock	1,334	Retained earnings	21.00	March 31, 2016	June 30, 2016

(Note) Dividends of ¥21.00 per share include an extra dividend of ¥12.00.

Notes to Consolidated Statement of Cash Flows

(Note 1)

Reconciliation of cash and deposits to cash and cash equivalents:

(Millions of yen)

	FY2014	FY2015
Cash and deposits	¥ 29,267	**¥ 26,501**
Time deposits with a maturity of more than three months	(5,600)	**–**
Short-term investments (securities) with a maturity within three months after the acquisition date	–	**5,999**
Cash and cash equivalents	¥ 23,667	**¥ 32,501**

Financial Instruments

1. Overview

1) Policy for financial instruments

The Company and its consolidated subsidiaries (collectively, the "Group") invest funds in financial instruments such as debt securities with high credit ratings and with low risk for loss of principal. The Group raises funds through borrowings from banks and life insurance companies.

The Group uses derivatives for the purpose of reducing the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies and the interest rate fluctuation risk for borrowings. The Group does not enter into derivative transactions for speculative purposes.

2) Types of financial instruments and related risks, and risk management for financial instruments

Trade receivables - notes and accounts receivable on completed construction contracts and other, and electronically recorded monetary claims - are exposed to credit risk in relation to customers. To manage credit risk arising from trade receivables, each related division of the Group monitors due dates and outstanding balances by individual customer. Further, it periodically monitors credit worthiness of the main customers.

Securities and investment securities are composed mainly of held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relations. These investment securities are exposed to market fluctuation risk. The Group periodically reviews the fair values of such investment securities and the financial position of the issuers.

Most of the trade payables - notes and accounts payable on construction contracts and other - have payment due dates within one year.

Regarding derivative transactions, the Group uses derivatives for the purpose of reducing the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies and the interest rate fluctuation risk for borrowing.

Those derivative transactions are entered into based on actual needs for hedging risks and not for speculative or trading purposes.

In conducting derivative transactions, the Group follows the internal policies established by the financial division, which set forth delegation of authority and maximum upper limit on position.

In addition, to mitigate the credit risk of derivatives, the Group transacts only with financial institutions which have a high credit rating.

Trade payables and borrowings are exposed to liquidity risk. Each company of the Group prepares and updates its cash flow plans monthly to manage liquidity risk.

3) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives in "Derivatives" of "Notes to Consolidated Financial Statements" are not necessarily indicative of the actual market risk involved in derivative transactions.

2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets, estimated fair value and unrealized gain (loss) are summarized in the following table. The following table does not include financial instruments for which it is extremely difficult to determine fair value. (Please refer to Note 2 below.)

(Millions of yen)

	FY2014			FY2015		
	Carrying value	Estimated fair value	Unrealized gain (loss)	**Carrying value**	**Estimated fair value**	**Unrealized gain (loss)**
Assets:						
1) Cash and deposits	¥ 29,267	¥ 29,267	¥ –	**¥ 26,501**	**¥ 26,501**	**¥ –**
2) Notes and accounts receivable on completed construction contracts and other	74,781	74,781	–	**71,246**	**71,246**	**–**
3) Electronically recorded monetary claims	2,607	2,607	–	**4,267**	**4,267**	**–**
4) Securities and investment securities:						
Held-to-maturity debt securities	303	310	7	**7,302**	**7,307**	**5**
Available-for-sale securities	36,858	36,858	–	**33,047**	**33,047**	**–**
Total assets	143,818	143,825	7	**142,366**	**142,371**	**5**
Liabilities:						
Notes and accounts payable on construction contracts and other	(56,137)	(56,137)	–	**(51,460)**	**(51,460)**	**–**
Total liabilities	(56,137)	(56,137)	–	**(51,460)**	**(51,460)**	**–**
Derivative transactions*	¥ (5)	¥ (5)	¥ –	**¥ –**	**¥ –**	**¥ –**

* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

(Note 1)

Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

1) Cash and deposits

Since all the deposits are short-term, their carrying value approximates the fair value.

2) Notes and accounts receivable on completed construction contracts and other, and 3) Electronically recorded monetary claims

The fair value of these receivables and claims is based on the present value of the receivables categorized by age, discounted by a discount rate that reflects the remaining term and the credit risk. It was determined that, as of March 31, 2016, the fair value of these receivables and claims was almost equal to their carrying value.

4) Securities and investment securities

The fair value of stocks is based on quoted market prices. The fair value of debt securities is based on either quoted prices or prices provided by the financial institutions making markets in those securities. For information on securities classified by holding purpose, please refer to "Securities" of "Notes to Consolidated Financial Statements."

Liabilities:

Notes and accounts payable on construction contracts and other

Since these payables are settled in a short period of time, their carrying value approximates the fair value.

Derivatives:

Please refer to "Derivatives" of "Notes to Consolidated Financial Statements."

(Note 2) Carrying value of financial instruments for which it is extremely difficult to determine the fair value

(Millions of yen)

Type	Carrying value	
	FY2014	**FY2015**
Unlisted stocks	¥ 2,542	**¥ 1,438**

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in "Assets: 4) Securities and investment securities" of the above table.

(Note 3) Redemption schedule for receivables, claims and securities with maturities

(Millions of yen)

	FY2014				FY2015			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 28,694	¥ –	¥ –	¥ –	**¥ 26,492**	**¥ –**	**¥ –**	**¥ –**
Notes and accounts receivable on completed construction contracts and other	74,781	–	–	–	**71,246**	**–**	**–**	**–**
Electronically recorded monetary claims	2,607	–	–	–	**4,267**	**–**	**–**	**–**
Securities and investment securities:								
Held-to-maturity securities (corporate bonds)	–	103	200	–	**6,999**	**102**	**200**	**–**
Available-for-sale securities with maturity date (corporate bonds)	–	101	–	–	**–**	**101**	**–**	**–**
Total	¥ 106,082	¥ 204	¥ 200	¥ –	**¥ 109,007**	**¥ 203**	**¥ 200**	**¥ –**

(Note 4) Redemption schedule for long-term loans payable, lease obligations and other interest-bearing debts

(Millions of yen)

	FY2014						FY2015					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	¥ 5,332	¥ –	¥ –	¥ –	¥ –	¥ –	**¥ 5,332**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ –**
Long-term loans payable	340	340	320	–	–	–	**340**	**320**	**–**	**–**	**–**	**–**
Lease obligations	80	62	55	48	247	10	**139**	**132**	**98**	**249**	**22**	**3**
Total	¥ 5,752	¥ 402	¥ 375	¥ 48	¥ 247	¥ 10	**¥ 5,811**	**¥ 452**	**¥ 98**	**¥ 249**	**¥ 22**	**¥ 3**

Securities

1) Trading securities
Not applicable, because the Company and its consolidated subsidiaries had no trading securities both at March 31, 2015 and 2016.

2) Held-to-maturity debt securities

(Millions of yen)

Type	FY2014			FY2015		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Securities whose fair value exceeded their carrying value						
Government bonds	¥ –	¥ –	¥ –	**¥ –**	**¥ –**	**¥ –**
Corporate bonds	303	310	7	**1,302**	**1,308**	**5**
Other	–	–	–	**–**	**–**	**–**
Subtotal	303	310	7	**1,302**	**1,308**	**5**
Securities whose carrying value exceeded their fair value						
Government bonds	–	–	–	**–**	**–**	**–**
Corporate bonds	–	–	–	**4,999**	**4,999**	**(0)**
Other	–	–	–	**1,000**	**1,000**	**–**
Subtotal	–	–	–	**5,999**	**5,999**	**(0)**
Total	¥ 303	¥ 310	¥ 7	**¥ 7,302**	**¥ 7,307**	**¥ 5**

3) Available-for-sale securities

(Millions of yen)

Type	FY2014			FY2015		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeded their acquisition cost						
Stock	¥ 36,621	¥ 14,230	¥ 22,390	**¥ 32,490**	**¥ 13,883**	**¥ 18,606**
Bonds	–	–	–	**–**	**–**	**–**
Other	5	4	1	**–**	**–**	**–**
Subtotal	36,626	14,234	22,391	**32,490**	**13,883**	**18,606**
Securities whose acquisition cost exceeded their carrying value						
Stock	130	132	(2)	**456**	**508**	**(51)**
Bonds	101	103	(1)	**101**	**101**	**(0)**
Other	–	–	–	**–**	**–**	**–**
Subtotal	232	235	(3)	**557**	**610**	**(52)**
Total	¥ 36,858	¥ 14,470	¥ 22,388	**¥ 33,047**	**¥ 14,493**	**¥ 18,554**

4) Information regarding sales of securities classified as available–for-sale securities:

(Millions of yen)

Type	FY2014			FY2015		
	Proceeds from sales	Gross realized gain on sales	Gross realized loss on sales	Proceeds from sales	Gross realized gain on sales	Gross realized loss on sales
Stock	¥ 538	¥ 290	¥ 0	**¥ 1,164**	**¥ 154**	**¥ –**
Bonds	105	–	2	**–**	**–**	**–**
Other	–	–	–	**5**	**0**	**–**
Total	¥ 643	¥ 290	¥ 2	**¥ 1,170**	**¥ 155**	**¥ –**

(Note) "Securities classified as available-for-sale securities" presented above include securities for which it is extremely difficult to determine the fair value.

5) Impairment loss on securities
An impairment loss on investment securities of ¥0 million (available-for-sale securities for which it is deemed extremely difficult to determine the fair value of ¥0 million) was recorded for the year ended March 31, 2015, and an impairment loss on investment securities of ¥4 million (available-for-sale securities for which it is deemed extremely difficult to determine the fair value of ¥4 million) was recorded for the year ended March 31, 2016.
For securities with market value, if the fair value of each security has declined by more than 30% from the acquisition cost, the Company and its consolidated subsidiaries recognize an impairment loss after considering the potential recoverability. For securities for which it is deemed extremely difficult to determine the fair value, if the net assets per share of each security based on the issuer's most recent financial statements available has declined by more than 50% from the acquisition cost, the Company and its consolidated subsidiaries recognize an impairment loss after considering the potential recoverability.

Derivatives

1) Derivative transactions, to which hedge accounting is not applied

1. Currency-related transactions

[For the year ended March 31, 2015]

(Millions of yen)

Type of transactions	Type of derivatives	Notional amounts		Fair value	Unrealized gain (loss)
		(total)	(over one year)		
Transactions outside of market	Forward exchange contracts Sell: U.S.Dollars	¥ 954	–	¥ (5) (Note)	¥ (5)

(Note) Fair value was estimated based on the price information provided by the financial institutions.

[For the year ended March 31, 2016]
Not applicable

2. Interest-related transactions

Not applicable both for the years ended March 31, 2015 and 2016

2) Derivative transactions, to which hedge accounting is applied

1. Currency-related transactions

Not applicable both for the years ended March 31, 2015 and 2016

2. Interest-related transactions

Not applicable both for the years ended March 31, 2015 and 2016

Retirement Benefits

1) Summary of retirement benefit plans for employees

The Company has funded defined benefit plans as well as a defined contribution plan. Its consolidated subsidiaries including foreign subsidiaries have unfunded defined benefit plans.
Under the defined-benefit corporate pension plan, which is a funded plan, covered employees are entitled to lump-sum or annuity payments based on their basic rates of pay and length of service. For the defined-benefit corporate pension plan, a retirement benefit trust has been established.
Under the lump-sum payment plans, covered employees are entitled to lump-sum payments based on their basic rates of pay and length of service. The lump-sum payment plans are principally unfunded plans. However, the Company's lump-sum payment plan has funded status as a result of establishment of a retirement benefit trust.
The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances.
For the lump-sum payment plans of the consolidated subsidiaries, liabilities and expenses for retirement benefits are calculated using the simplified method.

2) Defined benefit plans (including plans accounted for using the simplified method)

1. The changes in the retirement benefit obligation for the years ended March 31, 2015 and 2016 are as follows:

(Millions of yen)

	FY2014	FY2015
Balance at the beginning of the year	¥ 25,316	**¥ 20,041**
Cumulative effect of change in accounting policy	(4,673)	**–**
Restated balance at the beginning of the year	20,642	**20,041**
Service cost	1,008	**998**
Interest cost	243	**235**
Actuarial loss	170	**2,070**
Retirement benefit paid	(2,023)	**(1,192)**
Other	0	**(0)**
Balance at the end of the year	¥ 20,041	**¥ 22,153**

(Note) Retirement benefit expenses of the consolidated subsidiaries applying a simplified method have been included in the service cost.

2. The changes in the plan assets for the years ended March 31, 2015 and 2016 are as follows:

(Millions of yen)

	FY2014	FY2015
Balance at the beginning of the year	¥ 20,672	**¥ 21,366**
Expected return on plan assets	410	**545**
Actuarial gain	1,126	**(1,007)**
Contributions by employers	–	**4,500**
Retirement benefits paid	(842)	**(582)**
Balance at the end of the year	¥ 21,366	**¥ 24,821**

3. The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2015 and 2016 for the Company's and its consolidated subsidiaries' defined benefit plans:

(Millions of yen)

	FY2014	FY2015
Retirement benefit obligation under the funded plans	¥ 19,647	**¥ 21,716**
Plan assets at fair value	(21,366)	**(24,821)**
	(1,719)	**(3,105)**
Retirement benefit obligation under the unfunded plans	393	**437**
Net liability for retirement benefits	(1,325)	**(2,668)**
Liability for retirement benefits in the balance sheet	5,384	**1,834**
Asset for retirement benefits in the balance sheet	(6,709)	**(4,503)**
Net liability for retirement benefits	¥ (1,325)	**¥ (2,668)**

4. The components of retirement benefit expenses for the years ended March 31, 2015 and 2016 are as follows:

(Millions of yen)

	FY2014	FY2015
Service cost	¥ 1,008	**¥ 998**
Interest cost	243	**235**
Expected return on plan assets	(410)	**(545)**
Amortization of actuarial loss	583	**478**
Amortization of prior service cost	(188)	**(43)**
Other	19	**6**
Retirement benefit expenses	¥ 1,255	**¥ 1,131**

(Note) The consolidated subsidiaries' retirement benefit expenses have been included in the service cost.

5. The components of retirement benefits asset and liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2016 are as follows:

(Millions of yen)

	FY2014	FY2015
Prior service cost	¥ (188)	¥ 43
Actuarial loss	1,539	2,599
Total	¥ 1,350	¥ 2,643

6. The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2016 are as follows:

(Millions of yen)

	FY2014	FY2015
Unrecognized prior service cost	¥ (43)	¥ –
Unrecognized actuarial loss	3,371	5,971
Total	¥ 3,328	¥ 5,971

7. The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2015 and 2016 are as follows:

	FY2014	FY2015
Bonds	37 %	42 %
Stocks	22	19
Short-term funds	7	13
Life insurance general accounts	22	21
Other	12	5
Total	100 %	100 %

(Note) The plan assets included the retirement benefit trust for the corporate pension plans, which comprised 18% and 12% of the total at March 31, 2015 and 2016, respectively, as well as the retirement benefit trust for the lump-sum payment plans, which comprised 11% and 27% of the total at March 31, 2015 and 2016, respectively.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

8. The assumptions used in accounting for the above plans are as follows:

	FY2014	FY2015
Discount rate (defined-benefit corporate pension plan)	1.200 %	0.408 %
Discount rate (lump-sum payment plans)	1.200 %	0.279 %
Expected long-term rate of return on plan assets	2.5 %(principally)	2.0~2.5 %

(Note) The discount rate used at the beginning of the year ended March 31, 2016 was 1.200%. However, it was reviewed at the end of the year and, as a result, was changed to 0.408% and 0.279% for the defined-benefit corporate pension plan and for the lump-sum payment plans, respectively, because the change in the discount rates had significant effects on the retirement benefit obligations.

3) Defined contribution plans

The amount contributed to the defined contribution plan by the Company for the years ended March 31, 2015 and 2016 was ¥106 million and ¥110 million, respectively.

Stock Options

1) Stock option expenses were included in "Selling, general and administrative expenses" for the years ended March 31, 2015 and 2016 were ¥29 million and ¥46 million, respectively.

2) 1. Description of the stock option plans:

Stock option plans	2013 Stock option (Share subscription rights)	2014 Stock option (Share subscription rights)	2015 Stock option (Share subscription rights)
Name of company	The Company	The Company	The Company
Resolution date	June 26, 2013	June 26, 2014	June 25, 2015
Title and number of individuals covered by the plan:			
Directors (except external directors)	8	6	6
Corporate officers (except persons concurrently serving as a director)	20	20	25
Type and number of shares to be issued upon exercise of the share subscription rights	Common stock 44,000 shares	Common stock 42,000 shares	Common stock 52,000 shares
Grant date	July 11, 2013	July 11, 2014	July 10, 2015
Conditions for being vested	None	None	None
Required service period	None	None	None
Exercise period (Note)	July 12,2013 to July 11, 2043	July 12, 2014 to July 11, 2044	July 11, 2015 to July 10, 2045

(Note) An individual to whom the share subscription rights are granted (a "Holder") can exercise the rights only for the period of 10 days following the date of his retirement from the position of a director and/or corporate officer. All the share subscription rights of a Holder must be exercised at one time.
In the event that a Holder died, one of his heirs, spouse or one of first-degree family, can exercise the share subscription rights in place of the Holder. In that case, all the rights must be exercised at one time.

2. The following table summarizes stock option activity under the stock option plans referred to above during the year ended March 31, 2016:

Stock option activity	2013 Stock option (Share subscription rights)	2014 Stock option (Share subscription rights)	2015 Stock option (Share subscription rights)
Share subscription rights which are not yet vested (Number of shares):			
Outstanding at March 31, 2015	–	–	–
Granted	–	–	52,000 shares
Forfeited	–	–	–
Vested	–	–	52,000 shares
Outstanding at March 31, 2016	–	–	–
Share subscription rights which have already been vested (Number of shares):			
Outstanding at March 31, 2015	38,000 shares	42,000 shares	–
Vested	–	–	52,000 shares
Exercised	6,000 shares	6,000 shares	–
Forfeited	–	–	–
Outstanding at March 31, 2016	32,000 shares	36,000 shares	52,000 shares
Exercise price (Yen)	¥ 1	¥ 1	¥ 1
Weighted average exercise price (Yen)	¥ 985	¥ 985	–
Fair value per stock at the grant date (Yen)	¥ 579	¥ 695	¥ 896

3) Fair value at the grant date for stock options which were issued during the year ended March 31, 2016 was estimated using the Black-Scholes option pricing model with the following assumptions.

	2015 Stock option (Share subscription rights)
Expected volatility (Note 1)	28.839 %
Expected holding period (Note 2)	3.0 years
Expected dividend (Note 3)	¥ 15 per share
Risk-free rate (Note 4)	0.028 %

(Note 1) The volatility of the share price is estimated based on the market prices of the Company's stock from July 11, 2012 to July 10, 2015.

(Note 2) The expected holding period is estimated based on the weighted average period of the grant date to the date when the share subscription rights become exercisable, that is the date of each Holder's retirement from the position of a director and/or corporate officer, assuming that each Holder exercises his rights as soon as the rights become exercisable.

(Note 3) The expected dividend is based on the dividends paid (excluding a commemorative dividend of ¥5.00 for the 90th anniversary of the Company's foundation) for the year ended March 31, 2015.

(Note 4) Risk-free interest rate is the yield on government bonds for the period that corresponds to the remaining life of the option.

4) Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of vested options is calculated only based on the number of options that have actually forfeited .

Tax-effect Accounting

1) The significant components of deferred tax assets and liabilities at March 31, 2015 and 2016 were as follows:

(Millions of yen)

	FY2014	FY2015
1. Deferred tax assets		
Allowance for doubtful accounts	¥ 178	¥ 214
Provision for bonuses	722	898
Accrued business taxes	85	175
Impairment loss	2,013	1,923
Provision for warranty costs	149	256
Provision for loss on construction contracts	430	366
Liability for retirement benefits	1,545	2,184
Provision for directors' retirement benefits	45	29
Loss on devaluation of investment securities	468	440
Loss on devaluation of utility rights	141	134
Other	1,241	762
Subtotal	7,023	7,384
Valuation allowance for deferred tax assets	(2,517)	(2,219)
Total deferred tax assets	4,506	5,165
2. Deferred tax liabilities		
Deferred capital gains for tax purposes	(739)	(686)
Gain on valuation of investment securities	(1,332)	(1,263)
Unrealized gains on available-for-sale securities	(7,055)	(5,541)
Other	(73)	(165)
Total deferred tax liabilities	(9,201)	(7,657)
Net deferred tax liabilities	¥ (4,695)	¥ (2,492)

2) The reconciliation of the significant difference between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income and comprehensive income for the year ended March 31, 2015 is presented as follows:

	FY2014
Statutory tax rate	35.6 %
Items permanently not deductible for tax purposes	3.8
Items permanently not taxable	(6.6)
Inhabitants' per capita taxes	2.8
Valuation allowance	(12.2)
Effect of changes in effective statutory tax rate	2.0
Equity in losses of affiliates	3.1
Research and development tax credit	(1.9)
Other	(1.0)
Effective tax rate	25.6 %

(Note) Disclosure of the reconciliation of the difference between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income and comprehensive income for the year ended March 31, 2016 is omitted because the difference is immaterial.

3) The "Act for Partial Amendment of the Income Tax Act, etc." and the "Act for Partial Amendment of the Local Tax Act, etc." were enacted on March 29, 2016. As a result, the statutory tax rate used for calculating deferred tax assets and liabilities has been changed from 32.3% for the prior fiscal year to 30.9% and 30.6% for the temporary differences expected to be realized or settled in the fiscal years beginning on April 1, 2016 and 2017, and for those expected to be realized or settled in the fiscal years beginning on or after April 1, 2018, respectively.
These tax rate changes resulted in a decrease of ¥175 million in deferred tax liabilities (after deducting deferred tax assets), an increase of ¥35 million in income taxes-deferred, an increase of ¥304 million in unrealized gains on available-for-sale securities and a decrease of ¥93 million in remeasurements of defined benefit plans.

Investment and Rental Properties

The Company owns commercial facilities and housing for rent in Kanagawa Prefecture and other areas. Profit from renting those real estate properties was ¥230 million and ¥271 million for the years ended March 31, 2015 and 2016, respectively. Rental revenues were recorded as net sales of real estate business and other, and rental expenses as cost of sales on real estate business and other. In addition, impairment loss on rental real estate properties of ¥86 million was recorded as extraordinary loss for the year ended March 31, 2015.
Carrying value on the consolidated balance sheet and corresponding fair value of those rental real estate properties for the years ended March 31, 2015 and 2016 were as follows:

(Millions of yen)

	FY2014	FY2015
Carrying value		
At beginning of the year	¥ 3,559	¥ 3,868
Net change during the year	308	94
At end of the year	3,868	3,962
Fair value at end of the year	¥ 13,518	¥ 14,159

Notes:
1) The carrying value represents the acquisition cost less accumulated depreciation and impairment loss.
2) Increase in the carrying value included in the net change during the year was mainly due to acquisition of rental real estate properties of ¥114 million, and transfer of properties of ¥534 million resulting from changes of their usage, and decrease in the carrying value mainly due to impairment loss of ¥86 million and depreciation of ¥250 million, for the year ended March 31, 2015. Increase in the carrying value included in the net change during the year was mainly due to acquisition of rental real estate properties of ¥307 million, and decrease in the carrying value mainly due to depreciation of ¥253 million, for the year ended March 31, 2016.
3) The fair value is estimated for major rental properties based on the appraisal value obtained from outside real estate appraisers with reasonable adjustments for timing and for the other rental properties based on the assessed value for fixed-asset taxes.

Segment Information

(**Segment Information**)

1. Outline of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Executive Committee to make decisions on resource allocation and to assess performance.

The Group's business divisions are based on the activities of the Company. The consolidated subsidiaries of the Company conduct their respective business operations in cooperation with the relevant business divisions of the parent.

Thus, the Group consists of the segments based on the Company's business divisions. It has four reportable segments: "Facilities construction" offers general facilities construction services, "Machinery systems" offers services of industrial facilities such as FA systems, logistics systems and conveyor equipment, "Environmental systems" offers services of environmental sanitation equipment such as equipment for cleaning sewers, and "Real estate" offers services of rental and administration of real estate.

2. Calculation method for sales, profits or losses and other items by reportable segment

Accounting policies of the segments are substantially the same as those described in "Basis of Preparation of Consolidated Financial Statements." Segment performance is evaluated based on ordinary income or loss. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties. Segment assets and liabilities are not disclosed because they are not reviewed to make decisions on resource allocation or to assess performance.

3. Sales, profits or losses and other items by reportable segment

[For the year ended March 31, 2015]

(Millions of yen)

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total				
Sales :									
Sales to third parties	¥ 150,838	¥ 9,953	¥ 17,387	¥ 1,285	¥ 179,464	¥ 124	¥ 179,588	¥ 9	¥ 179,598
Inter-segment sales and transfers	330	0	98	–	429	383	813	(813)	–
Total sales	¥ 151,169	¥ 9,953	¥ 17,485	¥ 1,285	¥ 179,893	¥ 508	¥ 180,402	¥ (803)	¥ 179,598
Segment profit (loss)	¥ 2,943	¥ 105	¥ 24	¥ 207	¥ 3,281	¥ 48	¥ 3,330	¥ 479	¥ 3,809
Other items:									
Depreciation	¥ 322	¥ 51	¥ 79	¥ 251	¥ 705	¥ 0	¥ 705	¥ 18	¥ 723
Interest income	17	0	5	–	22	0	22	20	43
Interest expenses	47	0	5	–	53	–	53	36	89
Equity in earnings (losses) of affiliates	–	–	(35)	–	(35)	–	(35)	(259)	(295)

(Note 1)
The category of "Other" includes business segments which are not reportable segments, such as leasing services, insurance agency services and others.

(Note 2)
Adjustments for segment profit or loss of ¥479 million for the year ended March 31, 2015 included corporate general profit of ¥229 million which were not allocable to the reportable segments such as interest income and dividends income and reversal of interest expenses of ¥249 million which had been allocated to each of the reportable segments for administrative purpose.

(Note 3)
Segment profit was adjusted to be equal to ordinary income in the consolidated financial statements.

[For the year ended March 31, 2016]

(Millions of yen)

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total				
Sales :									
Sales to third parties	¥ 149,349	¥ 9,208	¥ 18,689	¥ 1,530	¥ 178,777	¥ 117	¥ 178,895	¥ 6	¥ 178,901
Inter-segment sales and transfers	602	8	45	2	659	424	1,083	(1,083)	–
Total sales	¥ 149,952	¥ 9,217	¥ 18,734	¥ 1,532	¥ 179,437	¥ 542	¥ 179,979	¥ (1,077)	¥ 178,901
Segment profit (loss)	¥ 7,698	¥ 275	¥ (315)	¥ 233	¥ 7,891	¥ 52	¥ 7,943	¥ 191	¥ 8,135
Other items:									
Depreciation	¥ 330	¥ 52	¥ 79	¥ 253	¥ 714	¥ 0	¥ 714	¥ 8	¥ 723
Interest income	12	0	4	–	16	0	16	14	31
Interest expenses	45	0	4	–	49	–	49	36	86
Equity in earnings (losses) of affiliates	–	–	(180)	–	(180)	–	(180)	951	771

(Note 1)
The category of "Other" includes business segments which are not reportable segments, such as leasing services, insurance agency services and others.

(Note 2)
Adjustments for segment profit or loss of ¥191 million for the year ended March 31, 2016 included corporate general loss of ¥1,120 million and equity in earnings of affiliates of ¥951 million which were not allocable to the reportable segments and reversal of interest expenses of ¥360 million which had been allocated to each of the reportable segments for administrative purpose. The corporate general loss consisted mainly of general and administrative expenses.

(Note 3)
Segment profit was adjusted to be equal to ordinary income in the consolidated financial statements.

(**Other Information**)

[For the years ended March 31, 2015 and 2016]

1. Product and service information

Disclosure of product and service information has been omitted because similar information was disclosed in "Segment information."

2. Geographical information

(1) Sales

Disclosure of geographical sales information has been omitted because the sales to third parties of the Japan operation accounted for over 90% of the sales in the consolidated statements of income and comprehensive income.

(2) Property, plant and equipment

Disclosure of property, plant and equipment information has been omitted because property, plant and equipment located in Japan accounted for over 90% of property, plant and equipment in the consolidated balance sheets.

3. Major customer information

Disclosure of major customer information has been omitted because the sales to any specific customers of third parties did not account for over 10% of the sales in the consolidated statements of income and comprehensive income.

(Information about impairment losses on tangible fixed assets by reportable segment)

[For the year ended March 31, 2015]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Other	Total	Adjustments (Note)	Consolidated
Impairment loss	¥ –	¥ –	¥ –	¥ –	¥ –	¥ –	¥ 189	¥ 189

(Note)
Adjustments of ¥189 million were impairment loss on welfare facilities of ¥102 million to be disposed of and impairment loss on rental properties of ¥86 million.

[For the year ended March 31, 2016]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Other	Total	Adjustments (Note)	Consolidated
Impairment loss	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ 423**	**¥ 423**

(Note)
Adjustments of ¥423 million were impairment loss resulting from the Company's decision to carry out its plan to redevelop Yamato area.

(Information about amortization and balance of goodwill by reportable segment)

[For the years ended March 31, 2015 and 2016]
Not applicable

(Information about gain on negative goodwill by reportable segment)

[For the years ended March 31, 2015 and 2016]
Not applicable

Per Share Data

	FY2014	FY2015
Net assets per share	¥ 1,334.65	**¥ 1,328.60**
Profit (loss) attributable to owners of parent per share:		
Basic	¥ 38.30	**¥ 83.84**
Diluted	¥ 38.26	**¥ 83.70**

Basis for the calculation of basic and diluted profit (loss) attributable to owners of parent per share is summarized as follows:

(Millions of yen)

	FY2014	FY2015
Basic:		
Profit (loss) attributable to owners of parent	¥ 2,461	**¥ 5,327**
Amount not available to shareholders of common stock	–	**–**
Profit (loss) attributable to owners of parent available to shareholders of common stock	¥ 2,461	**¥ 5,327**
Average number of shares of common stock outstanding	64,275 thousand shares	**63,550 thousand shares**
Diluted:		
Adjustments to profit (loss) attributable to owners of parent	–	**–**
Increase in shares of common stock (Of which, exercise of stock subscription rights)	69 thousand shares (69 thousand shares)	**108 thousand shares (108 thousand shares)**
Outline of dilutive potential which was not included in calculation of diluted profit (loss) attributable to owners of parent per share due to non-dilutive effect	–	**–**

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
Sanki Engineering Co., Ltd.

We have audited the accompanying consolidated financial statements of Sanki Engineering Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income and comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanki Engineering Co., Ltd. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young ShinNihon LLC

June 29, 2016
Fukuoka, Japan

Corporate Information, Business Locations and Group Companies

The Sanki Engineering Group aims to build a comfortable environment for people and the Earth by leveraging "total engineering competency" in a wide range of regions and business domains. Together with our customers, we will strive as a group to contribute to the realization of a sustainable society.

(As of March 31, 2016)

Corporate information

Company name
Sanki Engineering Co., Ltd.

Date of establishment
April 22, 1925

Stated capital
8,105.18 million yen

Representative
Tsutomu Hasegawa, President

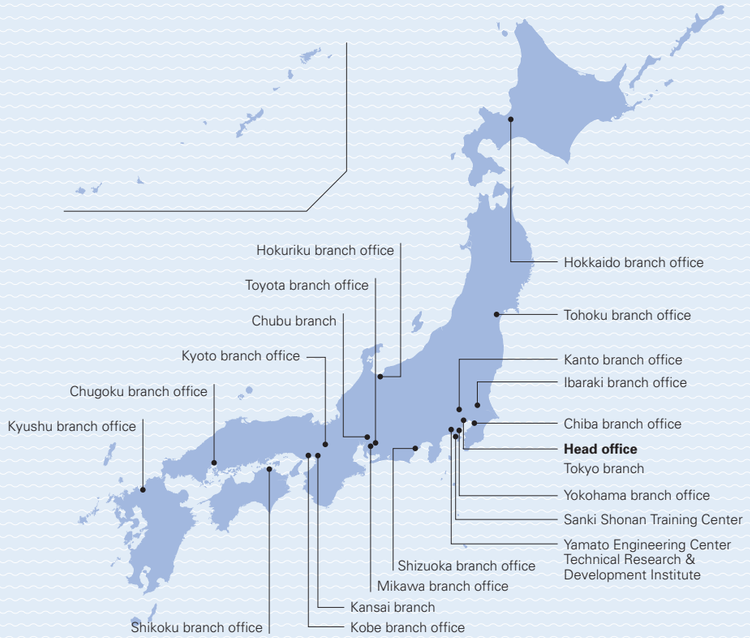
Principal lines of business
Facilities construction, plant and machinery systems, real estate

Number of employees
Consolidated: 2,309
Non-consolidated: 1,926

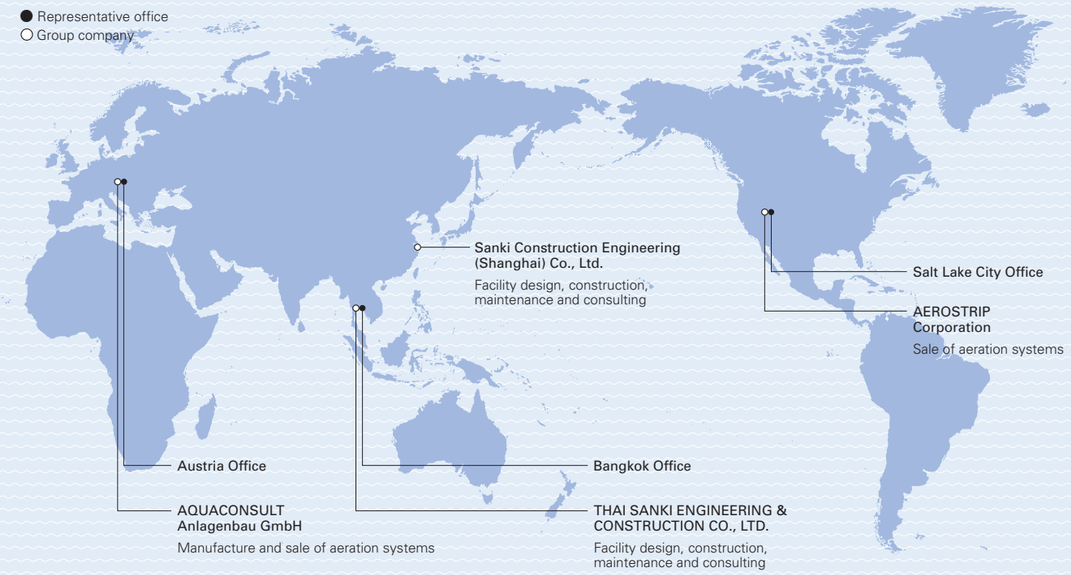
Offices
Branches: 3
Branch offices: 15
Laboratory: 1

Head office
8-1 Akashi-cho, Chuo-ku, Tokyo

Domestic business locations



Representative offices and Group companies overseas



Consolidated subsidiaries

Sanki Techno Support Co., Ltd.
Established April 1, 1980
Capital 100 million yen
Business areas
- Design, construction, operation/management, repair and maintenance of HVAC, plumbing and electricity work
- Energy saving diagnosis and consulting
- Building IP phone systems, call center systems and networks

Sanki Sangyo Setsubi Co., Ltd.
Established May 1, 1980
Capital 20 million yen
Business areas
- Installation, relocation, removal and altering of general equipment (production, transportation, etc.)
- Electrical wiring, instrumentation work and computer software changes

Sanki Kako Kensetsu Co., Ltd.
Established September 1, 1980
Capital 80 million yen
Business areas
- Design, construction, operation/management, maintenance, upgrading and improving of waste treatment facilities
- Manufacture, sale and installation of solid-liquid separators
- Design, construction and maintenance/management of water/wastewater treatment facilities

Sanki Kankyo Service Co., Ltd.
Established June 29, 1990
Capital 50 million yen
Business areas
- Design, construction, management and work contracting of environmental protection facilities, including water supply and sewage facilities and waste treatment facilities, etc.
- Operation, maintenance and management, and sale of chemical products for these facilities

Shin-yu Service Co., Ltd.
Established August 1, 1980
Capital 10 million yen
Business areas Insurance agency and leasing

AQUACONSULT Anlagenbau GmbH
Acquired a controlling interest in September 2006
Capital 18 thousand euro
Business areas Manufacture and sale of aeration systems

THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.
Established June 2008
Capital 16 million baht
Business areas Facility design, construction, maintenance and consulting

Non-consolidated subsidiaries

Tomakomai Netsu Service Co., Ltd.
Established July 20, 1971
Capital 200 million yen
Business areas Heat supply to multi-unit housing, and operation and maintenance of cleaning center facilities

Sanki Construction Engineering (Shanghai) Co., Ltd.
Established July 2005
Capital 12.4 million U.S. dollars
Business areas Facility design, construction, maintenance and consulting

AEROSTRIP Corporation
Became a wholly owned subsidiary in September 2006
Capital 100 U.S. dollars
Business areas Sale of aeration systems

Affiliate accounted for by the equity method

Ou Clean Technology Co., Ltd.
Established February 1, 2005
Capital 494.825 million yen
Business areas Treatment and incineration of industrial and general waste and supply of heat

Affiliate not accounted for by the equity method

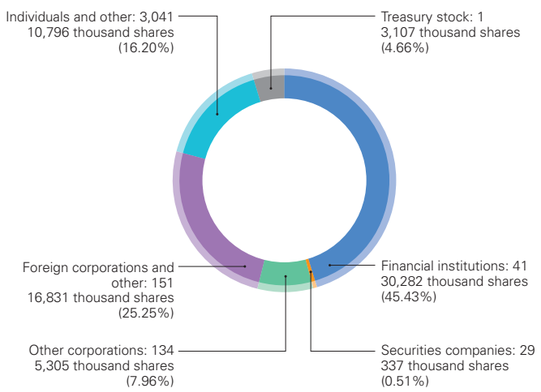
PFI Okubo Techno Resource Co., Ltd.
Established December 3, 2004
Capital 10 million yen
Business areas Updating, maintenance, management and operation of wastewater treatment facilities and emergency generators at the Okubo Water Purification Plant, Saitama Prefecture
Period of business 3 years and 4 months for design and construction; 20 years for operation, maintenance and management

Share Information

Share information (as of March 31, 2016)

Fiscal year	April 1 to March 31 of the following year
Annual general meeting of shareholders	Late June each year
Trading unit	100 shares
Number of authorized shares	192,945,000
Number of issued shares	66,661,156
Number of shareholders	3,397
Transfer agent and special account management institution	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Stock exchange listing	Tokyo Stock Exchange
Securities code	1961

Ownership statistics



Major shareholders

Name of shareholder	Number of shares held (thousand shares)	Shareholding ratio (%)
Mitsui Life Insurance Company, Limited	6,300	9.91
Meiji Yasuda Life Insurance Company	5,700	8.97
Nippon Life Insurance Company	4,672	7.35
Japan Trustee Services Bank, Ltd. (Trust account)	3,063	4.82
Sanki Kyoueikai	2,563	4.03
The Master Trust Bank of Japan, Ltd. (Trust account)	1,878	2.96
State Street Bank and Trust Company 505223	1,710	2.69
JP Morgan Chase Bank 385093	1,561	2.46
State Street Bank and Trust Company 505103	1,350	2.12
CBNY DFA International Small Cap Value Portfolio	1,299	2.05

Notes
1. Although the Company holds 3,107 thousand shares of treasury stock, it is excluded from the list of major shareholders. Calculation of shareholding ratio excludes treasury stock.
2. The list covers beneficial shareholders whose shareholdings as of the end of the fiscal year under review had been confirmed by the Company.

Third-Party Opinion

Yoshinao Kozuma
Professor,
Faculty of Economics,
Sophia University

1. Formulation of the Group Management Philosophy and Long-term Vision

This fiscal year the Company began work on innovating its management system, which will significantly impact the future of its CSR management. One of its efforts was to codify the basic concept of Group management, expressed in the past through the "Management Vision" and "Company Credos," into the "Sanki Engineering Group Management Philosophy." By doing this, the Company has reconfirmed its aspiration of contributing to the development of a sustainable society while striving to achieve sustainable growth for the Group itself and has declared its resolve to promote corporate management based on the creation of shared value.

The Company has also formulated the "Century 2025" long-term vision toward its 100th anniversary in 2025, incorporating the three-phase Medium-Term Management Plan into the vision to clarify the direction of Group management over the mid to long term. Particularly noteworthy is the inclusion of the "ESG Policy" for "Phase 1," which starts in fiscal 2016, with specific targets for action clearly stated for each area of ESG. These factors will enhance the quality of CSR management and represent highly commendable aspects of this fiscal year.

2. Evolution of the Compliance System

The Company has continued to implement preventive measures in the wake of its breach of the Anti-Monopoly Act that occurred in 2013. In addition to the series of measures that were launched in fiscal 2013 and fiscal 2014, the Company has rigorously sought to establish awareness of compliance by having all Group employees confirm the significance of the cease and desist order and by providing an e-learning program to train employees, including all sales personnel. It also launched the "in-house leniency system (whistleblowing system)." While the breach itself was deplorable, the consistent efforts to strengthen and promote preventive measures demonstrate Sanki Engineering's earnest reflection on the incident and its strong commitment to preventing a recurrence. I highly commend the Company's stance and hope it will continue these activities going forward.

3. Monitoring CSR Management Guidelines and Achievements

In response to past recommendations, the Company has begun to disclose a list of action guidelines and achievements that allow us to visualize the overall progress of its CSR management. This is another commendable aspect of this fiscal year. Presenting guidelines for the next fiscal year alongside the guidelines and results of this fiscal year raises the significance of assessing the achievements in the coming fiscal year.

Unfortunately, the lack of specific targets makes it impossible to understand the process and reasoning behind the Company's self-evaluation based on the actual results. I recommend that the Company consider disclosing specific targets in order to implement stringent PDCA management and improve the transparency of information disclosure.

4. Other Improvements

There were many other improvements. For example, the Company has disclosed the number of employees on childcare leave on a consolidated basis and by gender and the number of re-employed post-retirement-age employees on a consolidated basis. It has also retroactively disclosed past figures for "change in company-wide waste discharged at sites where Sanki Engineering is the prime contractor," which is valuable in assessing the state of waste management. It has thus sought to improve its information disclosure of various items. In addition, it has formulated an action plan, complete with specific targets, in accordance with the Act of Promotion of Women's Participation and Advancement in the Workplace.

As the Company improves its disclosure, however, attention is also drawn to the fact that its ratio of employees with disabilities is provided on a non-consolidated basis and that no information has been provided on the number of employees on elderly care leave, which has become standard practice among listed companies.

5. Development in Initiatives for the Supply Chain

In business sectors such as construction, where operational efficiency depends on building favorable relationships with cooperative companies, initiatives encompassing the supply chain have a considerable influence on CSR management. CSR procurement along with environmental measures and respect for human rights at affiliated companies represent issues of particular importance, and the Company must focus on these areas in the years ahead. I hope it will construct a robust supply chain through quality CSR management while avoiding any interruptions in its operations and build upon this foundation to achieve long-term growth for the Sanki Engineering Group.

Response to Third-Party Opinion

Thank you very much for your valuable insights from various perspectives regarding the SANKI REPORT 2016.

This is the fifth fiscal year since we began compiling an integrated report, and we appreciate your commendations of our efforts to innovate our management system through the establishment of the Sanki Engineering Group Management Philosophy and "Century 2025" long-term vision, as well as our disclosure of information about our CSR management initiatives, including compliance. We will continue striving to provide a useful and appealing report for all our stakeholders.

With respect to the recommendation of setting targets for each item of our CSR management and implementing PDCA cycles based on those targets, we intend to proceed with due consideration for developing an evaluation system with greater transparency. We will also seek to improve our disclosure of information regarding our employment of people with disabilities and elderly care leaves.

In addition, we will continue to work on our initiatives for constructing a robust supply chain.

By utilizing the SANKI REPORT to further advance our business activities, we will seek to continuously contribute to social development by creating comfortable environments and operations.

Nobuo Kumura
Director, Senior Executive Officer, and General Manager, CSR Promotion Division