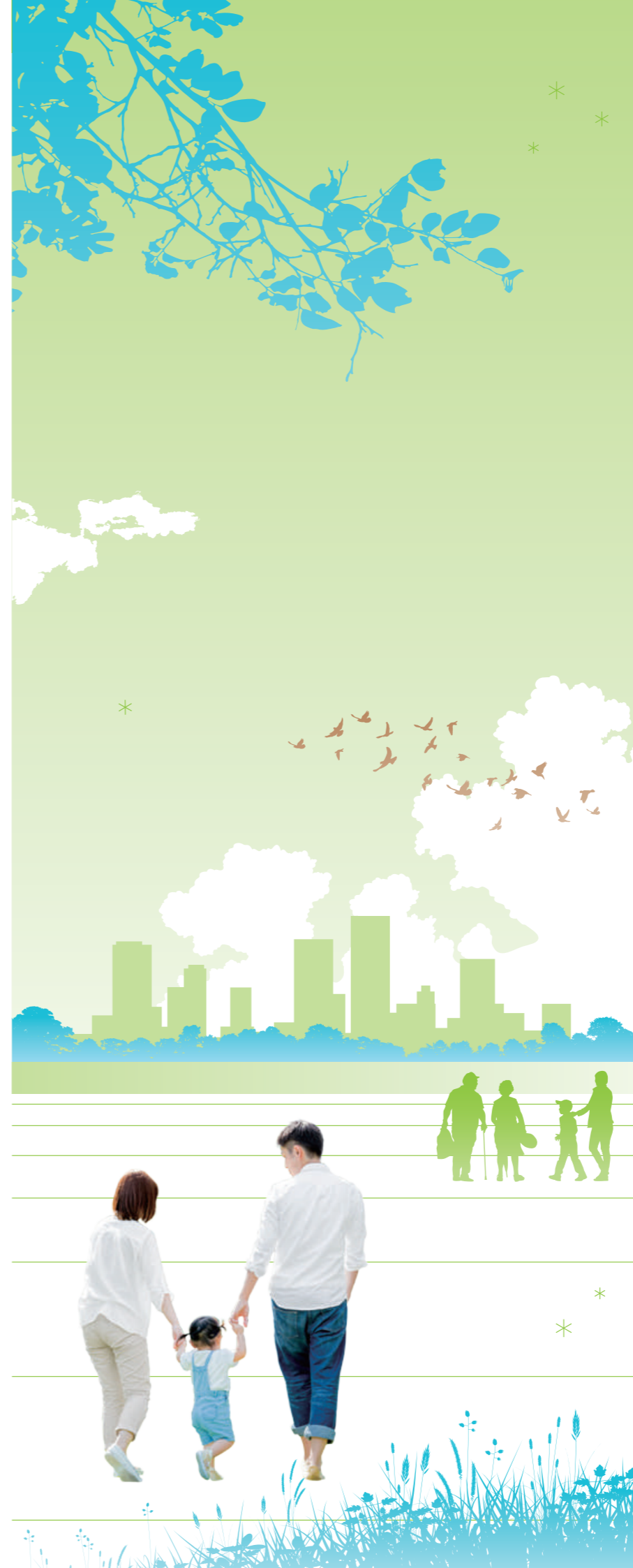




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Engineering for the Future

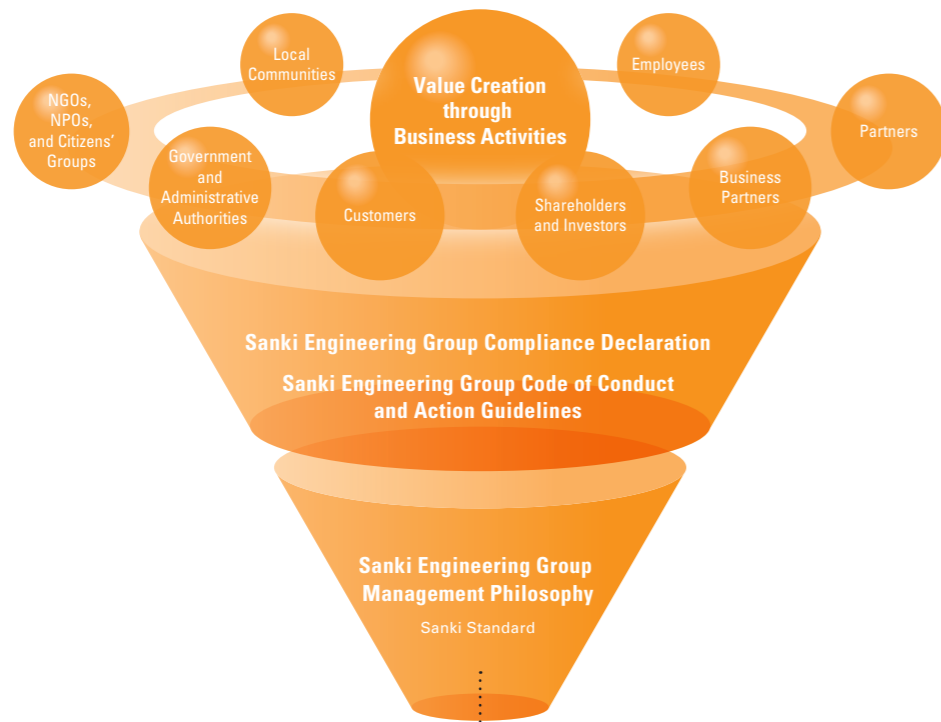
SANKI REPORT 2017





Engineering for the Future

Sanki Engineering Group Philosophy



Sanki Engineering Group Management Philosophy

Sanki Standard

We create comfortable environments 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 2017.

- We created a new page providing an overview of Sanki Engineering's value creation process (pages 10 and 11).
- We added a breakdown of net sales for the Facilities Construction Business in the "Overview of Our Businesses by Segments" page (pages 12 and 13).
- So that the business reports are easier to read, we created lists that summarize the major points of progress made in fiscal 2016 and plans for fiscal 2017 (pages 25, 29 and 53).
- We reported on our ongoing efforts to sort and review our current SDG activities (page 50).
- We added targets and self-assessments to the lists provided at the start of each section of the CSR Report (page 51).
- We added new significant information on the following: assessment of the effectiveness of directors, number of male and female managers, number of employees taking elderly care leave and paid leave, and consolidated data for major environmental items.

Reference Guidelines

- "International <IR> Framework" of the International Integrated Reporting Council
- Ministry of the Environment's "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 2016–March 2017 (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 long-term vision "Century 2025," Medium-term Management Plan "Century 2025" Phase 1 (FY2016–2018), 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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Financial and Non-financial Highlights

(Millions of yen)

Fiscal Year	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017
Orders received	165,800	168,295	173,398	183,270	185,880
Net sales	154,658	171,496	179,598	178,901	168,512
Selling, general and administrative expenses	15,199	15,604	15,015	16,419	16,526
Operating income	2,391	2,818	2,951	6,509	6,012
Ordinary income	2,680	3,146	3,809	8,135	6,880
Profit (loss) attributable to owners of parent*	(4,992)	1,763	2,461	5,327	4,698
Cash flows from operating activities	9,729	(9,403)	(139)	5,220	10,845
Cash flows from investing activities	(9,481)	(3,506)	3,440	5,520	(1,644)
Cash flows from financial activities	(1,028)	(4,152)	(2,901)	(1,826)	(2,458)
Cash and cash equivalents at end of fiscal year	40,367	23,510	23,667	32,501	39,187

* 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 2013 and the year ended March 2015.

As of End of Fiscal Year under Review

Total assets	166,477	170,181	176,382	169,423	166,612
Total net assets	76,932	74,917	84,869	84,557	85,961

Per Share Information

Earnings (loss) per share (yen)	(71.04)	26.46	38.30	83.84	73.91
Book value per share (yen)	1,106.32	1,142.74	1,334.65	1,328.60	1,350.08
Cash dividends per share (yen)	15.00	15.00	20.00* ¹	30.00* ²	30.00*³

*¹ Includes commemorative dividend of 5.0 yen for the 90th anniversary.

*² Includes extra dividend of 12.0 yen. *³ Includes extra dividend of 10.0 yen.

Other Information

Equity ratio (%)	46.2	44.0	48.1	49.8	51.5
Return on assets (%)	1.6	1.9	2.2	4.7	4.1
Return on equity (%)	(6.4)	2.3	3.0	6.3	5.5

Scope of Aggregation	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017
Number of Employees	2,246	2,283	Male: 2,002 Female: 280	Male: 2,022 Female: 287	Male: 2,041 Female: 298
Number of Lost Workday Accidents* ¹	3	11	6* ²	8	7
Frequency of Accidents	0.29	0.98	0.42	0.74	0.69
CO ₂ Emissions (t-CO ₂)	4,308	4,571	4,235	3,711	3,902
Waste Emissions (t)* ³	8,961	13,333	13,380	14,424	15,904

*¹ Data shows the number of victims and serves as the basis of calculating the frequency of accidents.

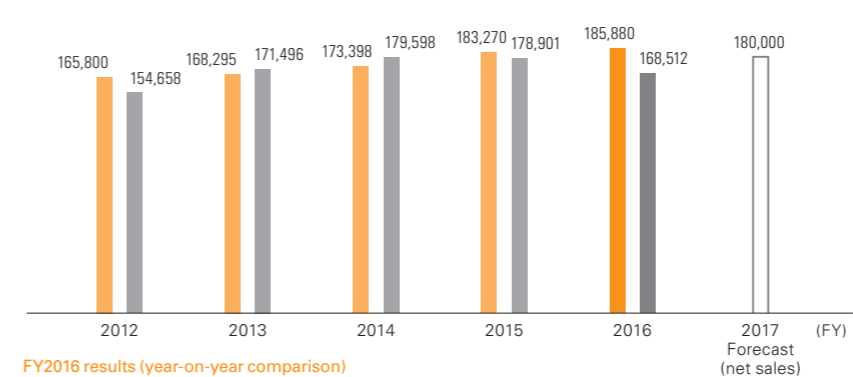
*² Data for the year ended March 31, 2015 have been retroactively revised.

*³ To enhance accuracy, data from the year ended March 31, 2013 onward have been recalculated.

*⁴ We began compiling consolidated data from the year ended March 31, 2017. (See data on page 68.)

Financial Data

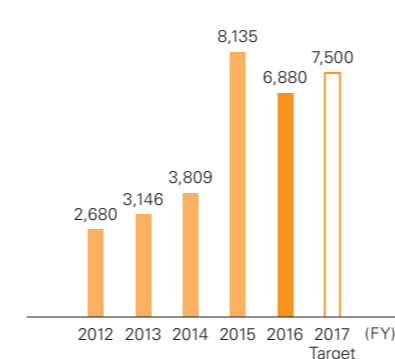
Orders Received and Net Sales (millions of yen)



FY2016 results (year-on-year comparison)

Orders received: +2,609 million yen (up 1.4%) Net sales: -10,389 million yen (down 5.8%)

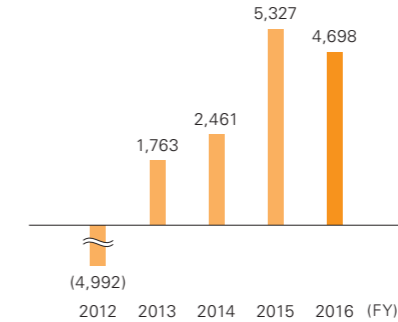
Ordinary Income (millions of yen)



FY2016 results (year-on-year comparison)

-1,254 million yen (down 15.4%)

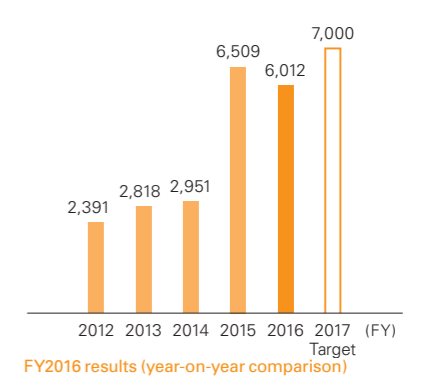
Profit Attributable to Owners of Parent (millions of yen)



FY2016 results (year-on-year comparison)

-629 million yen (down 11.8%)

Operating Income (millions of yen)



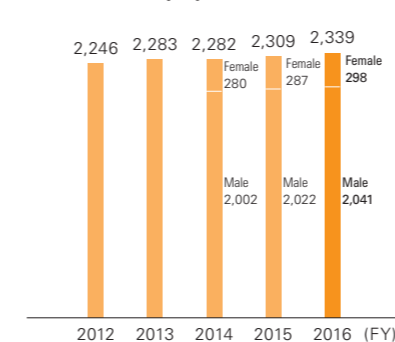
FY2016 results (year-on-year comparison)

-497 million yen (down 7.6%)

In fiscal 2016, while public investment showed signs of bottoming out, private capital investment remained little changed due to the uncertain outlook. The Sanki Engineering Group sought to actively increase orders by pursuing proposal-based sales while enforcing stringent cost control and establishing systems for worksite support, which raised the gross profit margin to a ten-year high. Although net sales declined year-on-year, the balance of orders carried forward surged, enabling us to maintain the high levels of profit achieved in the previous fiscal year.

Non-Financial Data

Number of Employees

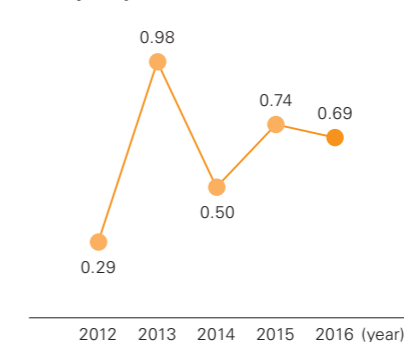


FY2016 results (year-on-year comparison)

Ratio of Female Employees: up 2.5%

We are carrying out various initiatives by setting long-term goals for promoting the career development of women. The number of women in the workforce has continued to rise, in terms of both raw numbers and ratio to all employees.

Frequency of Accidents

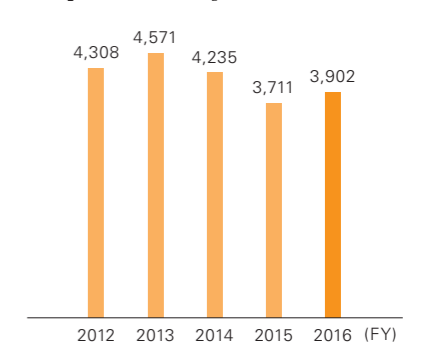


2016 results (year-on-year comparison)

Down 0.05

We were able to reduce the frequency of accidents by implementing various prevention initiatives.

CO₂ Emissions (t-CO₂)



FY2016 results (year-on-year comparison)

+191 t (up 5.1%)

CO₂ emissions rose slightly by 5.1% as a result of activities including energy conservation at offices.

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 toward its 100th anniversary in 2025.

Toward the 100th Anniversary 2025

• History of Sanki Engineering

<p>1923 The Great Tokyo Earthquake strikes, and 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.</p> <p>1925 On April 22, Sanki Engineering is established as a spin-off from the Machinery Department of the former Mitsui Bussan, with capital of 500,000 yen and 12 employees.</p> <p>1931 Moves the head office to the Sanshin Building.</p> <p>1933 Opens a branch in Dalian, Manchuria.</p> <p>1935 Celebrates the 10th anniversary of its founding, with five branches, six field offices, three affiliates and around 300 employees.</p> <p>1941 The Pacific War begins; Sanki Engineering suffers a shortage of workers as well as materials due to tight control over the distribution of goods.</p> <p>1944 Emergency metal collection campaigns start nationwide. The Kawasaki and Tsurumi plants are designated military industrial plants.</p> <p>1945 War ends.</p> <p>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 dramatic improvement in the Company's business performance.</p> <p>1958 Capital exceeds 1 billion yen.</p> <p>1963 Completes Sagami plant (currently the Yamato Engineering Center), which tailors production equipment for conveyor mass production.</p>	<p>1964 Participates in projects on the occasion of the 1964 Tokyo Olympics, including the Yoyogi National Gymnasium and the NHK Broadcasting Center.</p> <p>1971 The Environmental Agency is inaugurated. Sanki Engineering develops a track record for waste incineration facilities and water and sewerage treatment facilities and sets up the Environmental Administration office.</p> <p>1973 Spins off the sash business.</p> <p>1980 Establishes the Company Credos.</p> <p>1982 Builds the Technical Research Laboratory, equipped with basic research facilities and large-scale experimental facilities in Yamato City, Kanagawa Prefecture.</p> <p>1990 Bubble economy collapses.</p> <p>1997 COP3 conference in Kyoto adopts the Kyoto Protocol on preventing global warming.</p> <p>2000 Opens the Shonan Training Center (Yokosuka City, Kanagawa Prefecture) and strengthens human resource development.</p> <p>2005 Moves the head office to Nihonbashi.</p> <p>2011 Moves the head office to Tsukiji.</p> <p>2012 Launches the Smart Building Solution Business to provide Smart Buildings with a focus on the energy-saving business.</p> <p>2015 90th Anniversary Established the Sanki Engineering Group Management Philosophy.</p> <p>2016 Launched the long-term vision "Century 2025."</p>
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1970s

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.



1950s

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 a roller conveyor to the Japanese Antarctic Research Expedition II.

1980s

Opening the Way to a New Era with 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.

1960s

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.



2000s

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 CO₂ emission reduction.
- Begins to actively import technology from Europe and develops a number of major technologies, including AEROWING and Trans Heat containers.

• Technological Progress

1920s



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.

1930s

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).



1940s

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.

Sanki Engineering's Value Creation

Guided by the "Sanki Standard" management philosophy, the Sanki Engineering Group strives to fulfill its mission of realizing all types of comfortable environments and contributing to the development of a sustainable society by creating value at each step of the business process and in every business area.

Capital Resources

- Natural Capital**
 - Input such as energy and water resources
- Social Capital**
 - Orders received (consolidated): 185.8 billion yen
 - Reliability and a solid customer base cultivated over 90 years
 - Members of subcontractor groups: 830 companies
 - Stable network of cooperation with subcontractor groups nurtured through longstanding relationships of trust
- Intellectual Capital**
 - Rich track record and highly specialized technology nurtured over a 90 years
 - 8 areas aligned with the company's proprietary technologies and businesses: heating, ventilation and air conditioning; plumbing; electrical systems; ICT; control; water and sewage treatment; incineration and conveyance
- Financial Capital**
 - Net assets (consolidated): 85.9 billion yen
 - Sound financial base
- Human Capital**
 - Number of employees (consolidated): 2,339
 - Competent engineers and researchers
 - Sales staff with close relationships with customers

Business Activities



Value Created

- Natural Capital**
 - CO₂ reduction proposals: 345 (consolidated)
 - CO₂ reduction: 56,205 t-CO₂ (consolidated)
 - Contribution to achieving ZEB*
- Social Capital**
 - Net sales (consolidated): 168.5 billion yen
 - Participation in PFI and DBO projects
 - Support for customers resuming business after the Great East Japan Earthquake and Kumamoto Earthquake
- Intellectual Capital**
 - Newly developed products and technologies
 - Registered patents (5 years): 180
- Financial Capital**
 - Cash dividends: 30.00 yen per year
 - Enhanced profit margin: 3.4 points increase from fiscal 2014
- Human Capital**
 - Reinstatement after childcare leave: 100% (non-consolidated)
 - Non-Japanese employees: 18 (non-consolidated)
 - Project management technician (civil works, construction, electrical construction, pipe-laying work): 1,123 (non-consolidated)

Stakeholders

- Partners
- Business partners
- Shareholders and investors
- Customers (clients)
- Employees
- Local communities
- Governments
- NGOs and citizen groups

A Better, Sustainable Society

Creation of Comfortable Environments

* ZEB: Net-zero energy buildings maintain comfortable environments while reducing annual energy consumption to as close to zero as possible by enhancing energy saving performance using solar power generation and other measures.

*1 Data on each capital resource are actual results for fiscal 2016
 *2 Composed by referencing the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

Overview of Our Businesses by Segment

(Year ended March 2017)

Facilities Construction Business



Net sales
141,567
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

- Plumbing system for 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
- Crisis management (BCP) solutions
- ICT systems
- IP phone systems
- Security systems

Social Issues and Value Provided

Issues

- Global environmental issues
- Energy resources
- Aging facilities
- Increased running costs
- Securing human resources for operations and management

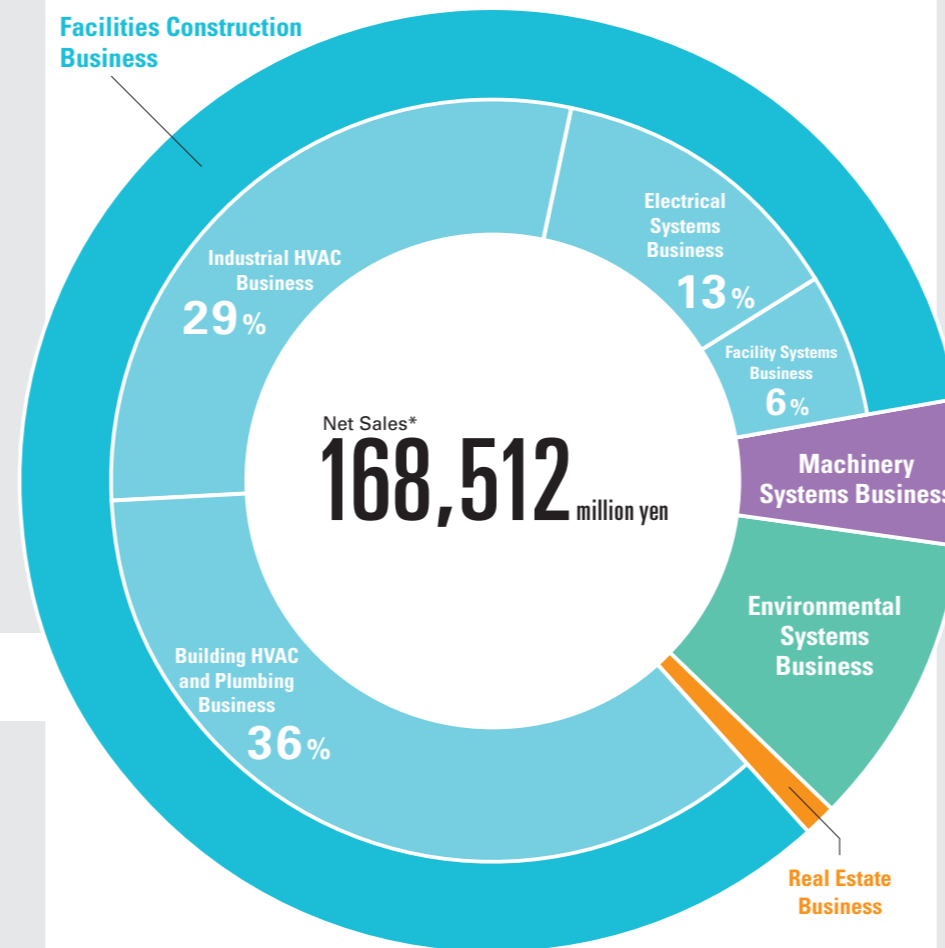
Value

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

Net Sales
Composition Ratio **84%**



Facilities Construction Business



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

Machinery Systems Business



Net sales
8,192
million yen

Net Sales
Composition Ratio **5%**

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



Net sales
1,592
million yen

Net Sales
Composition Ratio **1%**

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



Environmental Systems Business



Net sales
18,271
million yen

Net Sales
Composition Ratio **11%**

* Includes 499 million yen in other net sales and 1,611 million yen in elimination of inter-segment transactions.



Tsutomu Hasegawa

President

Message from the President

We will enhance the quality of our engineering to contribute to the creation of comfortable environments as the company of choice for tomorrow.

Business Environment and Results for Fiscal 2016

Heading into a Gradual Recovery toward 2020

Sanki Engineering creates diverse benefits through engineering, and its operations are broadly spread across several social infrastructure domains, from the Facilities Construction Business, which includes heating, ventilation and air conditioning, water supply and drainage, plumbing, electrical systems, ICT and office relocation, to the Machinery Systems Business, which includes material handling systems and conveyors, to the Environmental Systems Business, which includes water and sewage treatment and waste incineration facilities.

Meanwhile, engineering is a contract-driven business, in which performance depends on the volume of capital investments by clients in the manufacturing and non-manufacturing sectors. Moreover, there are the dual factors of foreign exchange fluctuations and economic trends, which present both opportunities and risks. In terms of cost, fluctuations in the cost of labor and materials pose the greatest risk.

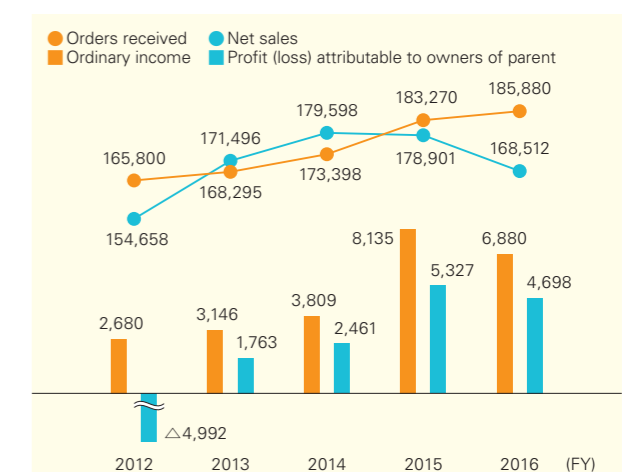
Looking back on the Japanese construction market in fiscal 2016, while a sense of caution remained, capital investment showed a gradual recovery. In construction projects, public investment appeared to have bottomed out, and private investment showed little changed due to an uncertain outlook. Demand for construction has grown ahead of the Tokyo Olympic and Paralympic Games in 2020 and is expected to gather speed from fiscal 2017.

Under these circumstances, the Sanki Engineering Group launched the “Century 2025” long-term vision,

which covers the decade up to our 100th anniversary, and “Century 2025” Phase 1, our new three-year medium-term management plan from fiscal 2016 to fiscal 2018.

In fiscal 2016, orders received amounted to 185,880 million yen (up 1.4% year-on-year) and net sales were 168,512 million yen (down 5.8% year-on-year). We were able to maintain profits at the high levels achieved in the previous year, with an operating income of 6,012 million yen (down 7.6% year-on-year), ordinary income of 6,880 million yen (down 15.4% year-on-year) and net income of 4,698 million yen (down 11.8% year-on-year).

Business Performance (Millions of Yen)



While net sales fell from fiscal 2015, we secured a steady level of stock projects due to a significant increase in the balance carried forward. Our aggressive efforts on thorough cost management and higher work efficiency led to a particularly strong improvement in gross profit margin, enabling us to maintain profits at the high levels achieved in fiscal 2015, despite the decline in sales.

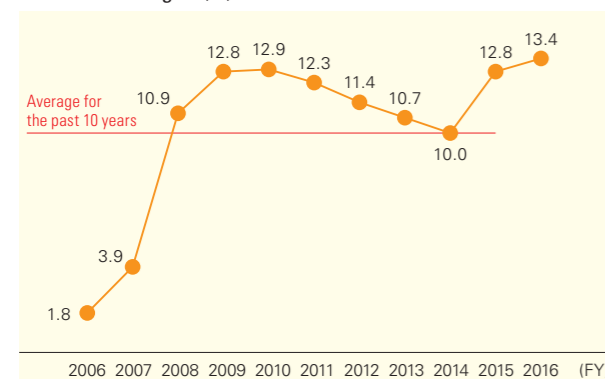
Maintaining Profits at the High Levels Achieved in Fiscal 2015

Although the Sanki Engineering Group reported declines in profit items in fiscal 2016, we nevertheless enjoyed a considerable increase over fiscal 2014 and have maintained high levels of profit. In particular, our gross profit margin rose to its highest point in the past ten years.

Until fiscal 2014, profit margins tended to fall as net sales rose. However, a change in our profit structure became apparent in fiscal 2015 and has been sustained through fiscal 2016.

Specifically, while we sought to win more orders by aggressively pursuing proposal-based sales activities amid improvements in the external environment, we also strived to enforce thorough cost management and development of site support systems for onsite operations. As a result,

Gross Profit Margins (%)



Under the strategy of enhancing quality regardless of project size, we maintained a high level of performance despite year-on-year declines in net sales and profit. Profitability improved, as evidenced by the rise in gross profit margin to ten-year high levels.

we raised profitability and profit margins even as net sales fell. Nevertheless, we are not adopting an overly simplistic view that would label this an achievement. Yet the fact that we were able to show high profit margins while generally maintaining the same level of net sales can be viewed as a sign of enhancing the quality of our profit structure.

In fiscal 2016, we received a steady flow of orders primarily for major projects, which led to a considerable increase in the balance of orders carried forward.

Review of First Year of Medium-Term Management Plan “Century 2025” Phase 1

Three Years to Refine Human Resources and Technology to Enhance All Quality

Fiscal 2016 was the first year of the medium-term management plan Phase 1, which corresponds to the three-year period of raising quality under the long-term vision, “Century 2025.” The three key initiatives of Phase 1 are: (1) Strengthen Core Businesses, (2) Promote Growth Strategies and (3) Enhance the Sanki Brand. By “quality,” we mean refining the quality of our human resources and technology to enhance the quality of management, which is then reflected in the level of customer satisfaction, ultimately leading to “reliability,” which is the theme of Phase 2.

In the first key initiative of strengthening our core businesses, we carried out site support initiatives for cutting costs and raising operational efficiency in the Facilities Construction Business. In concrete terms, we reduced costs by increasing the number of projects handled by the Procurement Division, bolstered support

programs offered by the Site-Documentation Support Center and invested in ICT for the site, which alleviated site manager workload. This enhanced the quality of construction site management and consequently brought about a positive cycle of fewer accidents and reworks.

In the Machinery Systems Business, we steadily increased orders by developing “hybrid facilities” that combine robots with material handling technology such as conveyors in response to labor-saving needs that have continued to expand in recent years. Looking ahead, the shrinking workforce associated with low birth rates and an aging population will remain a persistent concern in Japan and is expected to broaden opportunities for businesses that address labor shortages, such as conveyance systems and robots.

Won First DBO Order for a Biomass Power Plant Project

In Japan, public infrastructure such as water supply and sewage facilities and waste incineration facilities are aging rapidly, and renewal and reform must be undertaken with due consideration for the environment in line with the future scale of the population and the budget. In this context, we were able to win orders in our Environmental Systems Business, including a DBO*1 waste incineration facility project and a biomass power plant project. The biomass power plant is particularly important, as it will also serve as a test of our ability to maximize proprietary technologies and expand into new business areas. Armed with the latest achievement in stable operations, we intend to seek orders for new projects and furnaces.

With respect to the second key initiative of promoting growth strategies, we made steady progress, such as winning orders and completing large-scale projects that will contribute to our stock business as part of our growth strategy for future business. Meanwhile, the LCE*2 business, in which we provide services throughout the life cycle of a building, is a field that is expected to generate stable demand, even as the population continues to decline. In the years ahead, we will strive to achieve solid corporate growth by developing stock property that corresponds to regional characteristics and industry structure in our Facilities Construction Business, while consistently engaging in DBO and PFI*3 projects in our Environmental Systems Business.

*1 Design Build Operate: A process through which the design, building, operation and maintenance of a project is awarded to a private enterprise as a bulk order.
 *2 Life Cycle Engineering: 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.
 *3 Private Finance Initiative: Private money and expertise are used in the design, construction, maintenance and management of public facilities to provide public services.

Changing Workstyles to Achieve Further Growth

The third key initiative of enhancing the Sanki Brand is directly connected with the theme of Phase 1, which is to enhance quality by refining our technology and human resources. As a member of the Mitsui Group, Sanki Engineering has been passing down the spirit of placing the utmost value in people for nearly 90 years. This is the embodiment of the Sanki spirit of always adopting the customer’s perspective, and enhancing the Sanki spirit will lead to enhancing the Sanki Brand. If all executive officers and employees share and renew their awareness of the value of the Sanki Brand until it becomes the very fiber of their being, we will be able to raise the quality of the actions and work undertaken by each individual.

Meanwhile, we are seeking to foster a comfortable working environment for diverse employees toward becoming the company of choice, our long-term vision for 2025. This is essential as we look ahead to a future that requires more efficient workstyles. We plan to continue reviewing our systems so that both employees and the company can achieve further growth beyond fiscal 2017.

Developing Programs for Creating a Comfortable Working Environment (FY2016–2017)

- Implemented the “Smile Project” for reducing long working hours
- Launched the “Sanki Smile Day” (our own “Premium Friday” initiative for leaving work early)
- Introduced tools for supporting overtime management
- Implemented a telecommuting program
- Introduced a Return to Work program
- Enhanced childcare or elderly care leave program
- Opened a “Women’s Hotline”
- Held a Sanki Ladies’ Roundtable (exchange of views between working mothers)

Long-Term Vision “Century 2025”

The Company of Choice

The Sanki Engineering Group values customers, not only the shareholders and customers from whom we directly receive orders but all our stakeholders. They include owners of facilities, end users, subcontractors, suppliers and students, all as customers. Over the next ten years, we will strive to become the company of choice for all of them.

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.

The Company of Choice

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

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.

Medium-Term Management Plan “Century 2025” Phase 1

Please refer to page 20 for more information.

FY2016

FY2019

FY2022

FY2025





Toward the Second Year of Medium-Term Management Plan "Century 2025" Phase 1 Steadily Promoting the STeP Redevelopment Project

The Sanki Engineering Group is promoting the Sanki Yamato Site Redevelopment Project, "STeP (Sanki Techno Park) Project," to build the foundation for achieving its long-term vision "Century 2025." This redevelopment project primarily targets land and buildings owned by the Group in Yamato City, Kanagawa Prefecture, toward constructing the Sanki Techno Center, reorganizing the manufacturing plants for the Machinery Systems Business, and effectively using corporate assets. In fiscal 2017, the second year of the medium-term management plan Phase 1, the STeP Project will accelerate toward its opening in the autumn of 2018.

The Sanki Techno Center is being constructed with the combined functions of education and training and R&D to achieve the goal of the current medium-term management plan to enhance the quality of our technology and human resources. The center will be equipped with a variety of training rooms, including a large underground space for training employees using actual equipment and a room for conducting integrated training on technologies, skills and safety. In addition, the center will provide ample accommodations so it can be used as a place where technology and skills are improved and handed down to human resources including staff at subcontractors. We will also overhaul the Technical Research and Development Institute as a base for developing next generation technologies and seek to establish it as an open site of research for construction sites around Japan and for people outside the company to engage in open innovation. In addition, the center is scheduled to be used as a base for regional contribution under a cooperation agreement on disaster management with Yamato City.

We have already completed the design for reorganizing the production plants of the Machinery Systems Business, which will be carried out to rebuild aging facilities. The plan will free up 41,300 m² of land, which will be leased to Nippon Life Insurance Company under an agreement to develop a large-scale logistics facility. We expect to earn a stable flow of revenue from the effective long-term use of this asset.

Functions of the Sanki Techno Center



Promoting Globalization to Expand Business

Promoting overseas business development requires a focused effort beyond the current fiscal year. We have reorganized the Overseas Operations Control Office into the International Business Division to establish a system for bolstering our overseas businesses and will also formulate a medium- to long-term plan to expand our operations. We will develop a concrete strategy for globalizing our business to maximize the strength of our involvement across a broad range of social infrastructure and provide solutions suitable for each region.

ESG Initiatives

To Become a Better Company through Our Core Business

Under the medium-term management plan "Century 2025" Phase 1, the Sanki Engineering Group aspires to contribute to a sustainable society through an organic integration of its management and CSR by incorporating the ESG Policy into its management strategy.

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 fields that are being consistently pursued by our three core businesses of Facilities Construction, Machinery Systems, and Environmental Systems. S (Social) calls on us to be aware that we are a member of society and act accordingly, as

expressed in our Management Philosophy, and it embodies our initiatives for meeting various social expectations including workstyle reform and diversity, and serving social needs such as a more comfortable environment. 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 giving top priority to the placing of significance on communication and mutual respect, as declared in the Management Philosophy.

In addition, to follow 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. By practicing these guidelines 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.

Appropriately Returning Profits to Shareholders Maintaining Stable Dividend Payments

Sanki Engineering considers the appropriate return of profits to shareholders as a key management concern. Realizing that dividends form the basis of our policy of shareholder returns, we consider the balance between sustainable corporate development and returns to shareholders, while consistently seeking 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 returns, in light of demands from shareholders, investors and society at large.

Furthermore, we retired 3 million shares of treasury stock in May 2017 and plan to acquire another 3 million shares, valued up to 4 billion yen, within fiscal 2017.

Dividend Payments

	FY2013	FY2014	FY2015	FY2016
Interim dividend (yen)	7.5	7.5	9.0	10.0
Year-end dividend (yen)	7.5	12.5	21.0	20.0
Annual dividend (yen)	15.0	20.0	30.0	30.0
Consolidated payout ratio (%)	56.7	52.2	35.8	40.6

Year-end dividend for FY2014 includes 7.5 yen in regular dividend and 5.0 yen in commemorative dividend for the 90th anniversary.
 Year-end dividend for FY2015 includes 9.0 yen in regular dividend and 12.0 yen in extra dividend.
 Year-end dividend for FY2016 includes 10.0 yen in regular dividend and 10.0 yen in extra dividend.

Looking Ahead to Our First Centenary Broadly Contributing to Social Development through the Power of Engineering

Enhancing the quality of our human resources and technology is vital if we are to become the company of choice by the time we celebrate our first centenary in 2025. We would also like to add that people nurture technology, and as we pursue further advances in technology, people must grow as well. Therefore, the key starting point for becoming the company of choice is to consider human resources and technology as one and to enhance the value of both at the same time.

We have been guided by our Management Philosophy, "We create comfortable environment through engineering and widely contribute to social development." It should be noted that the Paris Agreement came into force in November 2016, and many companies are beginning to respond to the call of the Sustainable Development Goals (SDGs) adopted by the United Nations summit meeting, accelerating the trend of resolving universal social issues, such as reducing greenhouse gases. These developments have a lot in common with our Management Philosophy.

We have been continuously creating new social value by facing social issues, including energy conservation, energy creation, labor saving and automation across broad business areas related to social infrastructure. We intend to steadily enhance the quality of our human resources and technology and earn the trust of our customers for reliability by overcoming each challenge through the power of engineering so we can hold our heads high as we celebrate the coming centenary as the company of choice.



Progress in the Medium-Term Management Plan

▶ Medium-Term Management Plan “Century 2025” Phase 1 (FY2016–2018)

Key Initiatives



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.

<p>Issue Passing on technical skills</p> <p>Strategy We will renovate the Sanki Yamato Building (Yamato City, Kanagawa Prefecture) and reopen it as the Sanki Techno Center. This will be a comprehensive training facility that imparts and develops the technical skills at the backbone of the Sanki Engineering Group.</p>	<p>Issue Anticipating the age of maintaining building stock</p> <p>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.</p>	<p>Issue Developing next-generation technologies</p> <p>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.</p>
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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 (results)	FY2017 (revised plan)	FY2018 (plan)
Net sales	168.5	180.0	195.0
Gross profit (ratio)	22.5 (13.4%)	24.0 (13.3%)	24.0 (12.3%)
Operating income (ratio)	6.0 (3.6%)	7.0 (3.9%)	7.5 (3.8%)
Ordinary income (ratio)	6.8 (4.1%)	7.5 (4.2%)	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
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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

▶ First Year Results (1) Progress in Business Performance

Point

- Maintained a high level of performance despite year-on-year declines in net sales and profit
- Improved profitability profit margin at ten-year high
 - ➔ Achievement under the Medium-Term Management Plan “Century 2025” Phase 1 goal of raising quality
- Steady growth in Group companies
- Maintained the labor force by focusing on hiring
- Paid an ordinary dividend and extraordinary dividend

Summary of Business Performance

Business results for fiscal 2016, the first year of the Medium-Term Management Plan “Century 2025” Phase 1, are shown at right. In particular, all profit margins exceeded the plan.

(Unit: billion yen)

Indicator	FY2016 (plan)	FY2016 (actual results)	Difference (actual results–plan)
Net sales	185.0	168.5	-16.5
Gross profit (ratio)	22.0 (11.9%)	22.5 (13.4%)	+0.5 (+1.5pt)
Operating income (ratio)	6.5 (3.5%)	6.0 (3.6%)	-0.5 (+0.1pt)
Ordinary income (ratio)	7.0 (3.8%)	6.8 (4.1%)	-0.2 (+0.3pt)

Key Initiatives—Fiscal 2016 Results and Fiscal 2017 Policies

Major results for fiscal 2016 and policies for fiscal 2017 regarding the key initiatives of the Medium-Term Management Plan “Century 2025” Phase 1 are as follows.

	Fiscal 2016 Results	Fiscal 2017 Policies
Strengthen Core Businesses	<ul style="list-style-type: none"> Facilities Construction <ul style="list-style-type: none"> Increased number of projects handled by the Procurement Division Expanded worksite support programs Began Design & Engineering Support Center operations Machinery Systems <ul style="list-style-type: none"> Hybrid facilities Environmental Systems <ul style="list-style-type: none"> New dehydrator, biomass power plant and DBO projects for a waste disposal facility Facility Systems <ul style="list-style-type: none"> Projects related to reorganization of regional banks, redevelopment of Tokyo metropolitan area 	<ul style="list-style-type: none"> Facilities Construction <ul style="list-style-type: none"> Review work styles of office workers, expand worksite support operations Machinery, Environment and Facility Systems <ul style="list-style-type: none"> Continue initiatives
Promote Growth Strategies	<ul style="list-style-type: none"> Set up the International Business Division Won large-scale orders to build future stock Developed a visualization system for stock projects 	<ul style="list-style-type: none"> Develop IoT systems Develop stock properties PFI and DBO projects
Enhance the Sanki Brand	<ul style="list-style-type: none"> Developing programs for a more comfortable workplace and welfare benefits Held exchange of views with the president (30 meetings, 240 participants) Held the Sanki Ladies' Roundtable (exchange of views between working mothers) 	<ul style="list-style-type: none"> Reconfirm Sanki Brand values Continue initiatives to enhance communication

► First Year Results (2) Progress in ESG Initiatives

Point

- Develop products and technologies that contribute to reducing society's impact on the environment
- Develop a working environment centered on work style reform
- Bolster the workforce by promoting diversity
- Formulate and announce management strategies
- Further strengthen the governance system

ESG Initiatives—Fiscal 2016 Results and Fiscal 2017 Policies

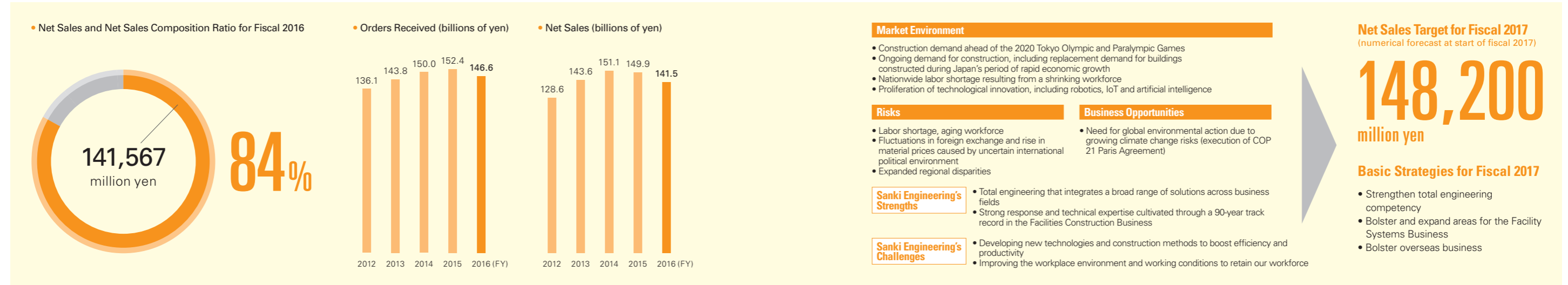
Major results for fiscal 2016 and policies for fiscal 2017 regarding the ESG Policy of the Medium-Term Management Plan "Century 2025" Phase 1 are as follows. We strive to create value for society and to enhance our corporate value through our efforts on ESG.

	Fiscal 2016 Results	Fiscal 2017 Policies
E	<ul style="list-style-type: none"> • "SANKI YOU Eco Contribution Point" (Group) <ul style="list-style-type: none"> - Donations for fiscal 2016 totaled 3,532,900 yen - Cumulative total of donations since fiscal 2010 reached 13,378,500 yen, equivalent to CO₂ reductions of 133,785 tons • Development of Products and Technologies that Contribute to Reducing Environmental Impact <ul style="list-style-type: none"> - Facilities Construction <ol style="list-style-type: none"> 1. ABENO HARUKAS building 55th Society of Heating, Air-Conditioning and Sanitary Engineers of Japan (SHASEJ) Award 2. Nippon Life Insurance Company East building 55th SHASEJ Award 27th Institute of Electrical Installation Engineers of Japan Award - Machinery Systems Reduced electricity consumption of light-duty belt conveyor by 25% compared with conventional conveyors - Environmental Systems Reduced CO₂ emissions of strategic products by 50%, compared to conventional products 	<ul style="list-style-type: none"> • Group <ul style="list-style-type: none"> - "SANKI YOU Eco Contribution Point" • Machinery Systems <ul style="list-style-type: none"> - Focus on marketing the S-CON[®]MINI series • Environmental Systems <ul style="list-style-type: none"> - Expand marketing of the strategic products
S	<ul style="list-style-type: none"> • Promotion of the "Smile Project" for work style reform <ul style="list-style-type: none"> - Set overtime targets and launched "Sanki Smile Day" to reduce long working hours • Enhanced programs for supporting work-life balance to create a comfortable workplace • Promoted diversity <ul style="list-style-type: none"> - Number of non-Japanese employees tripled on a non-consolidated basis and increased by 70% on a consolidated basis compared to fiscal 2011 	<ul style="list-style-type: none"> • Continue to enhance programs • Confirm effectiveness
G	<ul style="list-style-type: none"> • Formulation and announcement of the Long-Term Vision and Medium-Term Management Plan • Further strengthening of the governance system <ul style="list-style-type: none"> - Added one more outside director - Began a self-assessment by board members 	<ul style="list-style-type: none"> • Continue initiatives for ensuring better governance



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.



Summary of Results for Fiscal 2016

A notable aspect of our business performance in fiscal 2016 was that we achieved significant growth in profit, even as orders received and net sales declined. We improved our profit margin by emphasizing profitability in accepting orders and managing construction to stringently manage costs at each worksite, while promoting initiatives to raise quality.

In fiscal 2016, orders received fell 3.8% year-on-year to 146,612 million yen, and net sales declined 5.6% year-on-year to 141,567 million yen. Although each profit item fell somewhat short of the high levels of fiscal 2015, they rose significantly compared to fiscal 2014, thereby maintaining high levels of profit. We have maintained the number of orders for large-scale construction projects at the same level since fiscal 2014 as a result of large-scale redevelopment projects, mainly in metropolitan areas, and robust capital investments by manufacturers. The surge in balance carried forward

Major Projects

- Sumitomo Besshi Hospital building: HVAC systems (Niihama City, Ehime Prefecture; completed in July 2016)
- Ikedamohando Co., Ltd. second production plant: HVAC systems (Nakanikawa-gun, Toyama Prefecture; completed in November 2016)
- Yunohama Hot Spring Source Facilities Co., Ltd.: Large-scale CO₂ reduction project for the Yunohama area (Tsuruoka City, Yamagata Prefecture; completed in February 2017)

is expected to contribute to net sales and profit in and beyond fiscal 2017.

Outline of the Medium-Term Management Plan "Century 2025" Phase I

The market environment for the Japanese construction industry remains favorable amid a recovery in public works projects related to the 2020 Tokyo Olympic and Paralympic Games and Abenomics, and an increase in capital investment by manufacturers due to the weak yen. Demand for construction is expected to remain high beyond 2020 due to the need for equipment upgrades in buildings dating from the construction rush of the bubble economy days and replacement of buildings constructed during the period of rapid economic growth. Meanwhile, the aging of engineers and skilled workers has led to a serious labor shortage, raising the need for labor saving measures such as robotics technologies.

Given this business environment, we must secure profit for our Facilities Construction Business by strategically balancing our construction capabilities against the orders we receive on the back of robust demand and reliably completing the orders we receive. In addition, we must accurately understand customer needs while enhancing our construction abilities and strengthening employee education on component technologies in order to establish an internal structure capable of responding to innovative technologies such

as IoT (Internet of Things). Moreover, we must promote LCE (life cycle engineering) in anticipation of a future market contraction. We intend to actively present proposals for properties in addition to proposals for new customers and new construction projects.

In our 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 in anticipation of redevelopment projects arising from a reorganization in the regional banking sector and hosting of the Tokyo Olympic and Paralympic Games.

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," a Company-wide initiative for reducing long working hours, with the goal of expanding business results by refining work styles.

Progress Report on Medium-Term Management Plan "Century 2025" Phase I

In fiscal 2016, Phase 1's first year, we actively sought orders for large-scale projects and completed

Progress Report for Fiscal 2016 and Plans for Fiscal 2017

Key Initiatives	Progress Report for Fiscal 2016	Plans for Fiscal 2017
Strengthen Core Businesses	<ul style="list-style-type: none"> Implemented measures for reinforcing sales capabilities, such as distributing a sales manual, organizing training and enhancing sales information tools Enhanced construction capabilities and profit margin by improving worksite support operations Promoted the building of a stock-based business through LCE-oriented proposals 	<ul style="list-style-type: none"> Continue measures for reinforcing sales capabilities Review the work styles of office workers and expand worksite support operations
Promote Growth Strategies	<ul style="list-style-type: none"> Promoted total engineering by strengthening internal collaboration Created the International Business Division Improved proposal-making capabilities, strengthened response and raised the productivity of the Facility Systems Business 	<ul style="list-style-type: none"> Take on the challenge of new areas and new technologies by further promoting internal collaboration Expand the scope of the facility systems business
Enhance the Sanki Brand	<ul style="list-style-type: none"> Established an understanding of the Sanki Engineering Group Management Philosophy, Sanki Standard Systematically trained younger employees Promoted the acquisition of qualifications 	<ul style="list-style-type: none"> Create a working environment to secure labor and further enhance working conditions

construction to build stock for the future while also presenting LCE proposals. In addition, we pursued diversified measures to support worksites toward reducing the burden of onsite operations and ensuring reliable construction work.

Specifically, we increased support from the Procurement Division for purchasing operations, expanded operations of the Site-Documentation Support Center and distributed tablet devices to onsite staff to boost operational efficiency and overall work quality. Meanwhile, the Design Support Center, established in fiscal 2016, became fully operational, providing branch and branch offices with support in the areas of sales, design and pre-commissioning adjustments. In sales, we distributed a sales manual, organized training to reinforce sales capabilities and enhanced informational tools by upgrading our sales support system.

Furthermore, strategy meetings were held involving the Facilities Construction, Machinery Systems and Environmental Systems business divisions to exchange information on sales and technology and thereby bolster total engineering capabilities across the Group.

With respect to the Facility Systems Business, which offers planning and design for the construction and relocation of workplaces, we received more orders, primarily from the financial sector, by adding risk control, security and BCP features to our proposals. In network systems engineering, we reinforced our consulting operations mainly for major non-Japanese IT firms and other non-Japanese financial and services companies by harnessing our strengths in responding to IT projects and our information technology. In instrument and



control engineering, we expanded the scope of our sales activities from specific clients to property management companies and architect offices, generating profit by actively presenting technical proposals and reviewing costs.

Plans for Fiscal 2017

Boost Sales Capabilities and Raise the Efficiency of the Design Structure

We will utilize the Smile Project work reforms as an opportunity to review the work styles of office workers, maintain initiatives for bolstering sales capabilities and expand operations for supporting worksites. Also, we will continue to strengthen the design support system to provide nationwide branches with support for their design operations, offer assistance and follow-up on specialized design needs, and develop human resources.

Reinforce the Total Engineering Functions

As of April 1, 2017, we created the Engineering Integration Office by transferring and integrating the operations of the Energy Solutions Center and the Design Support Center of the Technical Administration Division. Our aim is to strengthen our total engineering functions based on internal collaboration and expand worksite support to take on the challenges of new areas and technologies.

Bolster and Expand Areas for the Facility Systems Business

We will continue to focus on design planning and management consulting related to the construction and relocation of workplaces. In addition, we will seek to expand our scope of business by emphasizing our overall competencies, including our instrument and control capabilities for creating comfortable office environments based on a centralized monitoring system, as well as our network systems infrastructure capabilities for raising productivity through the use of ICT.

Strengthen the International Business

Led by the International Business Division, set up on April 1, 2017, we will make the enhancement as well as the company-wide unified deployment of the overseas business through the integrated management of our overseas Group companies, including the Plant and Machinery Business.

Focus

HVAC and Hygiene Facilities that Ensure Safety and Comfort GINZA PLACE

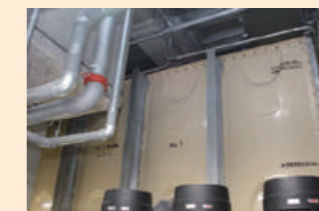
Value Provided by Sanki Engineering

- A proprietary construction method that maintains the building's design and allows it to blend into its surroundings
- Service water operations that continue to operate even in the event of a breakdown
- Highly reliable construction process in which quality is ensured through self-inspection

GINZA PLACE, which opened in September 2016 on a corner of the Ginza Yonchome intersection, is a commercial complex that houses showrooms, restaurants and coffee shops. Sanki Engineering was responsible for setting up the building's HVAC and hygiene facilities.

The building boasts a beautifully designed exterior that matches its surroundings. In constructing the HVAC facility, we came up with creative ideas to avoid affecting the planned design. This involved making adjustments so that the air supply and exhaust vents on the outer walls were completely hidden behind the exterior paneling. With respect to the ventilation method, we used type 1 ventilation based on a mechanical method of air supply and exhaust, and type 3 ventilation based on a mechanical method for exhaust and a natural method for air supply, depending on the specific purpose. For the air conditioning system, we installed packaged energy-saving air conditioners with heat pumps. A service water supply system was constructed to provide a continuous supply of water based on the pressurization water supply method, in which three pumps operate in rotation.

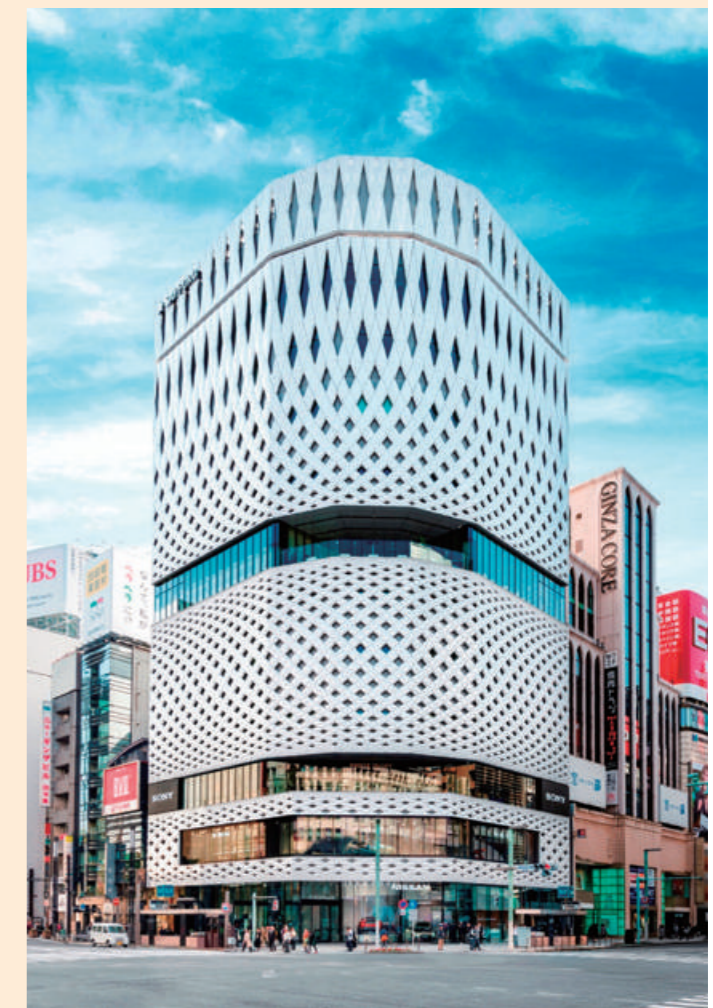
The quality of the construction process was safeguarded due to the creation of self-inspection records to facilitate consistent inspections for the same items and from the same perspective. The construction work was highly reliable, thus ensuring the security of business owners for many years to come.



Water receiving tank installed in the machinery room on the second basement floor



Sprinkler pumps installed on the second basement floor



Outdoor packaged air conditioners installed on the roof

Building description

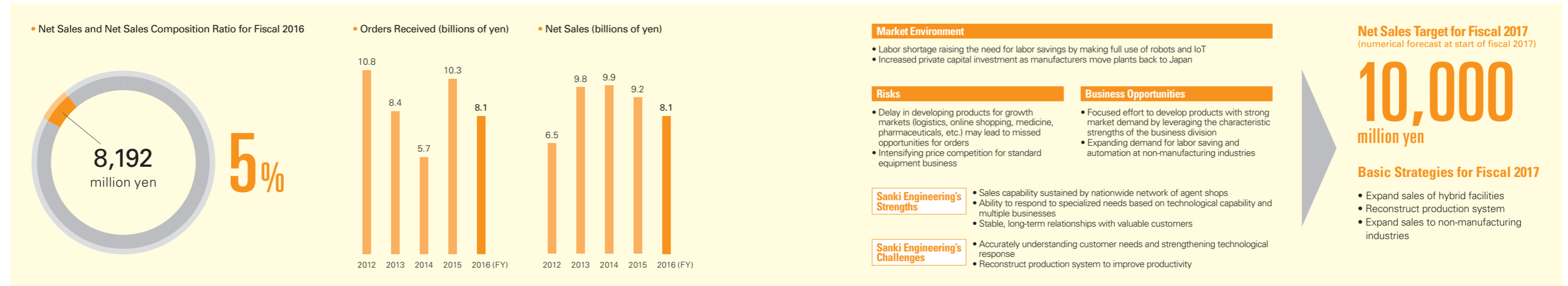
- GINZA PLACE

Sanki Engineering's role

- Construction of HVAC and hygiene facilities

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.

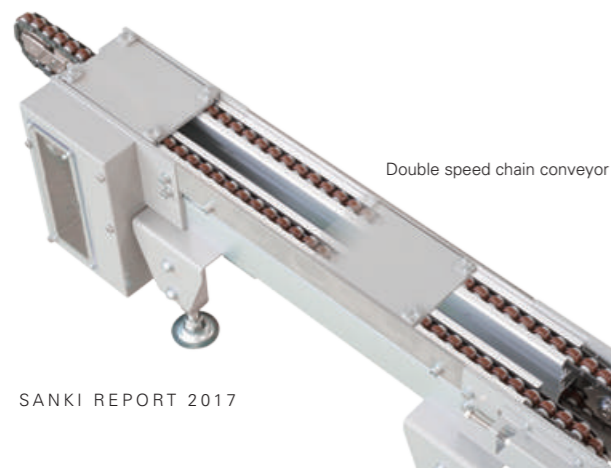


Summary of Results for Fiscal 2016

In fiscal 2016, while the pace of capital investments in industrial machinery remained steady, the delay in a large-scale project of a major customer caused orders received to fall 21.1% from the previous year to 8,130 million yen and net sales to decrease by 11.1% year-on-year to 8,192 million yen. However, net sales of standard equipment increased 10.0% on the year, primarily due to robust demand for light-duty belt conveyors.

Major Projects

- Production line for organic EL panels (completed in December 2016)
- Production line for lithium batteries (delivered in March 2017)
- Automatic assembly system for foldable containers (developed in March 2017)
- Double speed chain conveyor (developed in March 2017)



Outline of the Medium-Term Management Plan "Century 2025" Phase I

In the business environment surrounding machinery systems, labor shortages caused by the economic recovery and anticipation of a diminished future workforce due to a declining birthrate have given rise to the need for automation and labor savings, a trend that is spreading from manufacturing to non-manufacturing industries, and we are expected to quickly develop proposals and deliver systems that incorporate robots.

To achieve continuous growth in this context, it is essential that we accurately understand customer needs and strengthen our technological responsiveness while also reconstructing our production system. We are seeking to reform the structure of the Machinery Systems Business to ensure stable and lasting profit by replacing the corporate goal of enhancing quality over the three-year period with establishing a solid foothold under the following business strategies.

- Capture a greater share of the market for standard conveyors
- Expand sales of hybrid facilities that combine robots and conveyors
- Disseminate the Sanki brand and increase market share in non-manufacturing industries
- Develop innovative products and enhance engineering capabilities
- Improve productivity by creating an efficient production system

Progress Report on Medium-Term Management Plan "Century 2025" Phase I

As an overall direction, we endeavored to strengthen our core business by expanding sales of standard conveyors to ensure steady future profit. To promote our growth strategy, we continued to develop hybrid facilities, a proven strategic product that combines robots and conveyors, as a solution to the labor saving, automation needs caused by the shortage of workers. As a result, we were able to increase the numbers of both projects and orders received. The following is a summary of our progress in fiscal 2016.

- We sought to expand our share in the market for environmentally friendly standard conveyors that reduce energy consumption by increasing the number of sales bases and strengthening a community-based sales structure.
- We reviewed our sales organizational structure and established a dedicated group to provide a rapid response focused on hybrid facilities that combine robots and conveyors, enabling us to respond to many business inquiries. Moreover, we further enhanced the Industrial Robot Utilization Center, set up at the Yamato site in fiscal 2014, to respond more promptly to customer needs for a

Progress Report for Fiscal 2016 and Plans for Fiscal 2017

Key Initiatives	Progress Report for Fiscal 2016	Plans for Fiscal 2017
Strengthen Core Businesses	<ul style="list-style-type: none"> Expanded the market for standard products such as conveyors Enhanced the efficiency of production by outsourcing operations to companies in Japan and overseas 	<ul style="list-style-type: none"> Build a community-based sales structure Develop products for logistics operations
Promote Growth Strategies	<ul style="list-style-type: none"> Increased orders received for hybrid facilities by pursuing market strategies that maximize strengths Formulated a reconstruction plan for production facilities and completed the design for a new plant 	<ul style="list-style-type: none"> Strengthen our alliance with external system integrators Facilitate the continuation of business during the relocation to a temporary production plant
Enhance the Sanki Brand	<ul style="list-style-type: none"> Promoted the division slogan "meeting the needs expressed by the customer" 	<ul style="list-style-type: none"> Address customer needs through updated products and new product development Emphasize building relationships of trust with customers

workable solution. The knowledge we have been accumulating through demonstration experiments has begun to contribute to profit, and we intend to develop this operation as an additional pillar of business.

- (3) We will develop new products targeting non-manufacturing industries and begin sales in fiscal 2017 toward raising recognition of the Sanki brand and expanding market share.
- (4) We are developing innovative products and enhancing our engineering capabilities in collaboration with our Technical Research & Development Institute and through alliances with business partners and participation in industry-academia projects.
- (5) As part of the Sanki Techno Park Project (STeP), the redevelopment project for the Sanki Yamato Site, a new production base utilizing the latest IT technologies including IoT will be completed in 2019. The new structure is expected to dramatically improve our productivity and customer service.

Plans for Fiscal 2017

In fiscal 2017, the second year of "Century 2025" Phase 1, we will implement plans in line with the previously mentioned business strategies, with an emphasis on the following five points.

Promoting Community-Based Sales

We will bolster our sales base to promptly respond to customer needs and win more orders for standard conveyors as well as other equipment.

Promoting the Hybrid Facilities Business

To handle hybrid facilities, we will train and increase our system integrator (SI) sales force and reinforce our alliances with external SI companies. We will also engage in solution-based sales by effectively using the Industrial Robot Utilization Center to conduct conveyance experiments that will enable us to identify problems and propose solutions. By doing so, we will enhance the customer's sense of security and satisfaction toward winning more orders.

Enhance the Lineup and Bolster Products for Logistics Operations

We will enhance the lineup of products for non-manufacturing industries, such as new sorting systems and high-speed roller conveyors, to expand business.

Promoting Total Engineering

We will develop closer internal and external collaboration between sales information and technological expertise to enhance our engineering capabilities.

Reconstructing Manufacturing Functions

We will reconstruct our manufacturing functions in line with progress made in our STeP project, to select and concentrate products in anticipation of an expanded businesses related to hybrid systems.



KIREI series wide-width conveyor (developed in March 2017)



Shuttle conveyor (aluminum type)

Focus

Belt Conveyor with Automatic Telescopic Function Shuttle Conveyor

Value Provided by Sanki Engineering

- Contribution to saving labor and energy and raising productivity at a food production plant
- Capacity to handle hard and soft products (from canned food to cookie dough)
- Superior structure for maintenance and hygiene

In food production plants, objects carried by a single row of conveyors must be mass processed in an oven or freezer, requiring several rows of conveyors. To meet the diverse needs and requirements of customers, we developed the Shuttle Conveyor, which automatically expands to match the broader width of the next conveyor onto which the objects are transferred. Our concept was to meet the needs of food production sites with the following features: (1) the capacity to handle soft objects that cannot be handled by robots, (2) a stainless steel body that is resistant to corrosion and can be washed using water, and (3) a hygienic structure that allows for the removal of the belt. Applications include: (1) random settings for the transfer pitch and count per array, (2) sorting to several lines, (3) side-tracking of defective products, (4) securing a passage along the line, and (5) placement of products into cases.

Many inquiries for the Shuttle Conveyor were received during the development stage, and we are accumulating a steady track record of delivery. In addition to the stainless steel version, we can also manufacture a lightweight, compact aluminum version compatible with our mainstay product, the S-CON[®]MINI series. Looking ahead, we will seek to expand sales beyond food production plants to a broader range of customers.



Shuttle conveyor (stainless type)

Example of operation using the shuttle conveyor



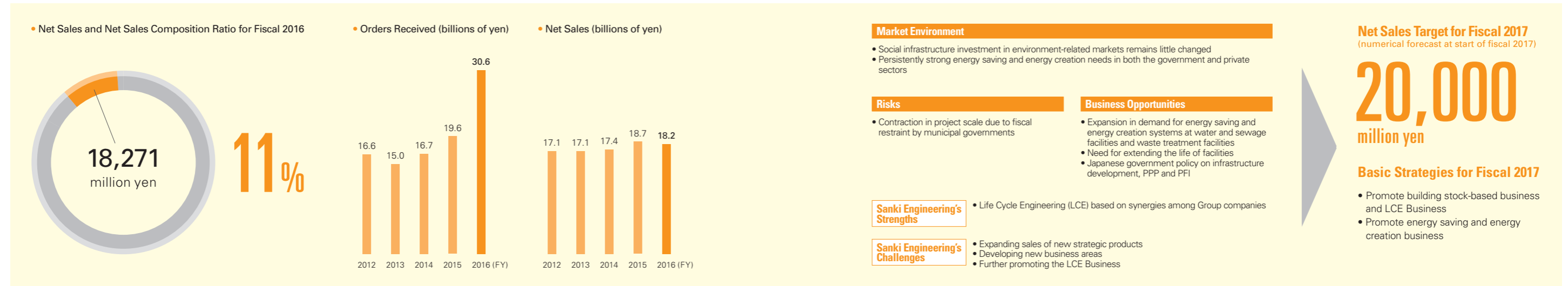
Watch the video.

Major Developments and Projects

- Shuttle conveyor (developed in September 2016, delivered in November to a food manufacturer)
- KIREI series wide-width conveyor (developed in March 2017)

Environmental Systems Business

Sanki Engineering develops products and systems for water and sewage treatment and waste treatment facilities that serve social needs such as conserving resources and lowering greenhouse gas emissions toward the creation of a low-carbon society.



Summary of Results for Fiscal 2016

In fiscal 2016, as we enjoyed a steady stream of orders related to public works projects that constitute the mainstay of the Environmental Systems Business, we sought to leverage our proprietary technologies to expand into new business areas, winning large orders, including DBO*1 projects for renovation works on key facilities at waste treatment facilities. We also bolstered our core businesses and received orders for the new decanter centrifuge, which is one of our strategic products.

As a result, orders received was 30,626 million yen, which is 56.2% more than the previous fiscal year and showed solid performance. And while net sales fell 2.5% to 18,271 million yen from last fiscal year, due to a decline in delivery of completed construction contracts of large-scale projects, they remained at high levels compared with fiscal 2014.

Major Projects

- Maintenance and operation of the Northern Wastewater Treatment Plant in Yamato City (from October 2016 until September 2021)
- Renovation works on key facilities of the Sendai Clean Center in Satsuma-Sendai City (to be completed in March 2020), maintenance and operation (from April 2017 until March 2040)
- Construction of the No. 4 sludge incineration facility, Minami-Gamo Wastewater Treatment Plant, Sendai City (to be completed in March 2020)

Outline of the Medium-Term Management Plan "Century 2025" Phase I

As dwindling public investment is expected to diminish our primary market, the Environmental Systems Business has entered a period of structural reform that includes advancing into new business areas.

Although social infrastructure investments have been little changed in environment-related markets, there are persistently strong energy saving and energy creation needs in both the government and private sectors. We believe that the key to expanding business is to actively market strategic products that are suited to the business environment, while simultaneously exploring new business areas that maximize our proprietary technologies, while seeking to further develop our LCE Business.

To strengthen our core businesses, we will focus on marketing strategic products for water and sewage treatment facilities and waste treatment facilities, which will reach their peak of the equipment renewal phase between 2020 and 2030 in Japan, thereby promoting the building of stock-based businesses.

We will also actively develop our next strategic products and accelerate their introduction to the markets. Moreover, amid a contraction in the scale of environment-related projects, we will strive to improve profitability by increasing productivity.

In expanding our business areas, we will reinforce our response to energy saving and creating needs,

as well as our efforts in LCE Business, based on the accumulated strengths of our customer channels, products and technologies. We will seek to extend the current scope of our business and explore new possibilities for our proprietary technologies by continuing to conduct research, analysis and investment in fields bordering our businesses, where we can expect synergies. Also, we will actively engage in Japanese government-industry collaborations, such as PPP*2, PFI*3 and DBO projects, which are being promoted in the face of a declining population.

*1 Design Build Operate: PPP method in which project design, construction, operation and maintenance are awarded to a private enterprise as a bulk order.

*2 Public Private Partnership: Provides public services through public-private sector collaboration.
*3 Private Finance Initiative: A major PPP method in which private capital and expertise are used in the design, construction, maintenance and operation of public facilities to provide public services.

Progress Report on Medium-Term Management Plan "Century 2025" Phase I

In fiscal 2016, we steadily increased the sales by bolstering proposal-based sales of strategic products in our core businesses. We received a steady flow of orders for AEROWING II, an ultra-fine bubble air diffuser that significantly reduces the electricity consumed by blowers at wastewater treatment facilities. Orders

Progress Report for Fiscal 2016 and Plans for Fiscal 2017

Key Initiatives	Progress Report for Fiscal 2016	Plans for Fiscal 2017
Strengthen Core Businesses	<ul style="list-style-type: none"> Orders increasing for a new type of dehydrator, one of our strategic products 	<ul style="list-style-type: none"> Expand sales of dehydrators Develop an ultra-fine bubble air diffuser
Promote Growth Strategies	<ul style="list-style-type: none"> Won first order for a biomass plant through closer collaboration with other divisions Won first order for a DBO project 	<ul style="list-style-type: none"> Expand sales of biomass power plants Further expand business areas
Enhance the Sanki Brand	<ul style="list-style-type: none"> Implemented human resource development plans to enhance the level of technical proposals and appropriately allocated engineers 	<ul style="list-style-type: none"> Strengthen the development of enterprising personnel capable of developing overseas business and undertaking proposal-based sales

also grew for SANDEC G3, an energy-saving decanter centrifuge. To further expand the sales of this new decanter centrifuge, we base our sales activities on solution proposals as we fully apply the data from our ongoing field demonstrations against various properties of sludge.

We won a new order to construct a sludge incineration facility for the Minami-Gamo Purification Center in Sendai City using our supercharged fluidized bed incinerator system, which has been 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 also promoted total engineering that maximizes our component technologies to expand our business areas. In the case of the woody biomass power generation plant installed at the biomass power plant constructed in Nagai City, Yamagata Prefecture, by NKC Nagai Green Power, we undertook the entire project, from taking the order to construction, by generating synergies with other divisions.

And the challenges we have taken on to develop new schemes for energy saving and energy creation have begun to show results, as in our participation in demonstrations for the “Breakthrough by Dynamic Approach in Sewage High Technology (B-DASH) Project” commissioned by Japan’s Ministry of Land, Infrastructure, Transport and Tourism.

Meanwhile, the Group companies have also made steady progress in our LCE Business by winning an

order to renovate key facilities of the Sendai Clean Center in Satsuma-Sendai City, which was the Group’s first DBO project. Another order was received for the maintenance and operation of the Northern Wastewater Treatment Plant in Yamato City. We will continue our efforts through our Environmental Systems Business to win orders for DBO and PFI projects and to bolster the LCE Business.

Plans for Fiscal 2017

Further Expanding our Business Areas

We will expand the areas in which we can maximize our component technologies, unrestrained by the current scope of our businesses. In particular, we will seek to develop proprietary technologies in the energy saving and creation fields of our Environmental Systems Business, especially biomass power generation, by exploring opportunities in fields with promising markets. Also, we will seek synergies with other divisions and Group companies to reinforce our efforts to launch strategic products in fields such as medicine, pharmaceuticals and food products.

Expanding our Marketing Networks Overseas

We will continue to expand our marketing network centered on AEROWING with AQUACONSULT Anlagenbau GmbH. We will seek 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 allocate engineers appropriately. 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 each staff in charge. 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 who are capable of searching for emerging business “seeds” and giving material to form products, developing overseas business, and undertaking proposal-based sales.



Woody biomass power generation plant of NKC Nagai Green Power

Focus

Research into Downsizing Sewage Facilities Commissioned by the National Institute for Land and Infrastructure Management B-DASH Project

Value Provided
by Sanki
Engineering

- Reduced life cycle costs through downsizing
- Energy saving and stable effluent quality
- Easy maintenance and operation

A reduction of wastewater inflow at sewage treatment facilities is expected in Japan as a result of the nation’s declining population. This will lead to the need for a new wastewater treatment technology that can efficiently bring down costs and achieve downsizing. To address this, a joint research group of six members*, including Sanki Engineering, has been engaged in the “Breakthrough by Dynamic Approach in Sewage High Technology (B-DASH) Project,” commissioned by Japan’s Ministry of Land, Infrastructure, Transport and Tourism.

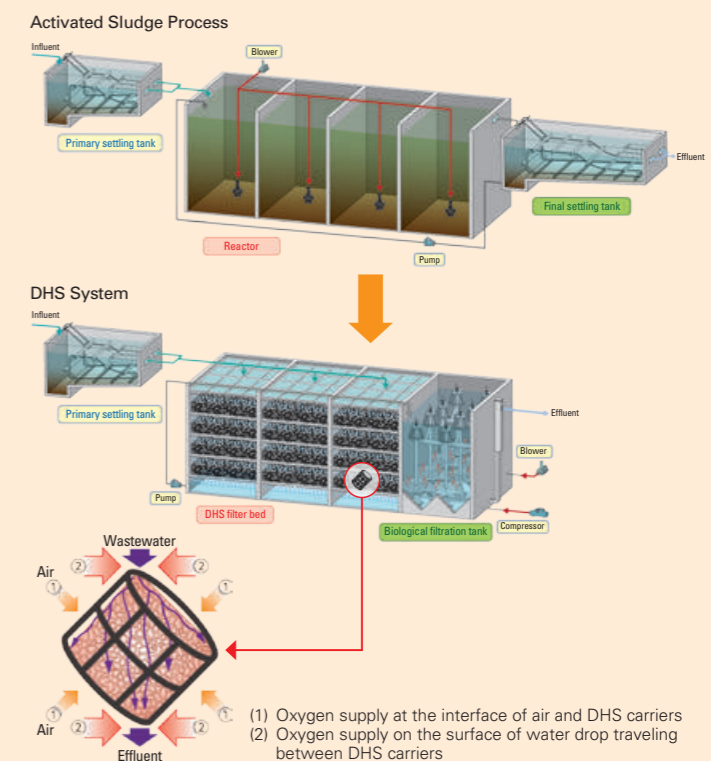
The “Demonstration of Flow Fluctuation Tracking Type Wastewater Treatment Technology Using a DHS System” is currently underway in Susaki City, Kochi Prefecture. The DHS System is a wastewater treatment technology that combines a DHS filter bed filled with sponge carriers and a biological filtration tank on a mobile bed. It is easy to operate and manage compared to the conventional activated sludge process. Moreover, it allows for efficient downsizing in response to reduced inflow to the sewage treatment facility, which is expected to result in cost reductions and energy savings during upgrades and operation. In future, we will continue to verify this technology.

* Sanki Engineering Co., Ltd.; Tohoku University; National Institute of Technology, Kagawa College; National Institute of Technology, Kochi College; Japan Sewage Works Agency and Susaki City.



Demonstration facility at the wastewater treatment plant in Susaki City, Kochi Prefecture

Comparison of Water Treatment Flow between Conventional Activated Sludge Process and DHS System (under Demonstration)



Name of Demonstration

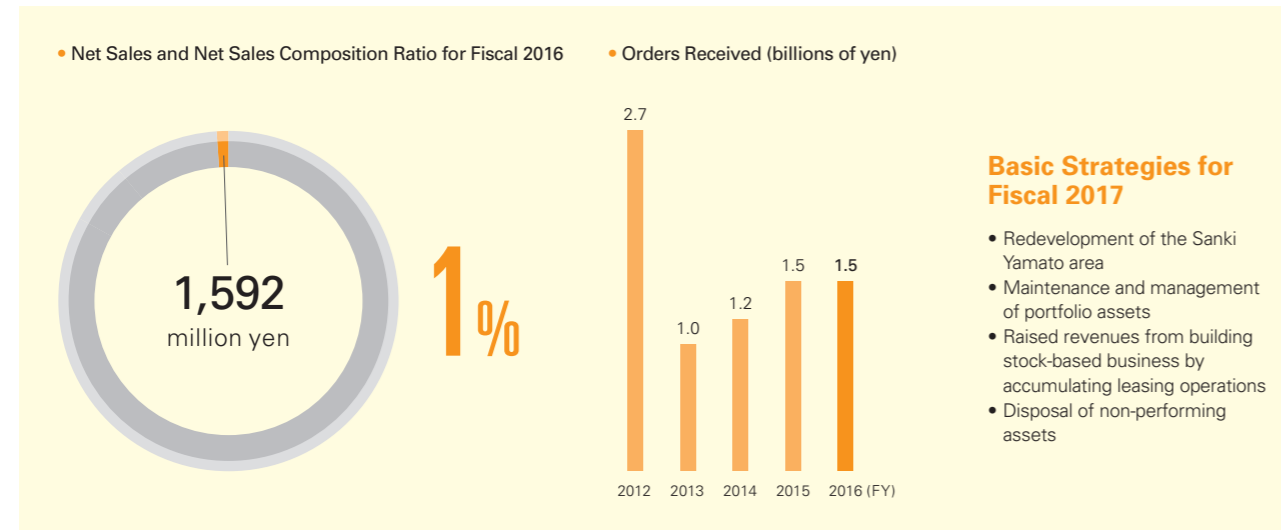
- Demonstration of Flow Fluctuation Tracking Type Wastewater Treatment Technology Using a DHS System

Demonstration Field

- Susaki Wastewater Treatment Plant (Susaki City, Kochi Prefecture)

Real Estate Business

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



Summary of Results for Fiscal 2016

Net sales rose 3.9% from the previous fiscal year to 1,592 million yen. This was primarily due to developments related to the Sanki Yamato Building, which had been a pending issue for the Real Estate Business. We actively sought tenants for the building by constructing a negotiation room in the entrance hall on the first floor and creating an office environment for greater tenant convenience. As a result, we signed on three tenants, two of which moved in during fiscal 2016, and the third in fiscal 2017.

In the office leasing market of the Japanese real estate sector, vacancy rates have continued to improve for three consecutive years amid strong demand in the Tokyo metropolitan area. The growth rate for office floor area remains high, and the office market in Tokyo is expected to expand further as new office

space continues to be supplied in response to large-scale development. In addition, vacancy rates in outlying regions improved remarkably due to the limited supply of new offices. 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 began preparatory construction work in the Sanki Yamato site for the Sanki Techno Center, which will serve as a new research and training base for raising the technical capabilities of the Sanki Engineering Group. We also plan to turn the surplus land resulting from the reorganization of the site into rental property and will lay the groundwork by the end of fiscal 2017.

Initiatives for Fiscal 2017

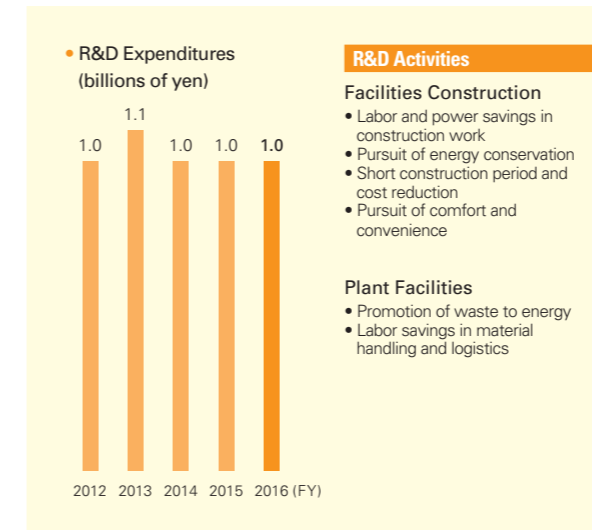
In fiscal 2017, we will apply Sanki Engineering's technologies and know-how to the maintenance and management of portfolio assets while continuously promoting energy conservation.

We will renovate the food court in the "Molive" shopping mall in Moriyama City, Shiga Prefecture, for the first time in 23 years. And we plan to differentiate the shopping mall from rival facilities in the region by maintaining and managing a shopping center that local residents choose for its comfortable spaces.

Looking ahead, we will continue to actively seek tenants for the Sanki Yamato Building and raise the occupancy rate while striving to increase net sales and profit for the Real Estate Business.

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 System

Using an open innovation platform of collaboration among business divisions centered on our Technical Research & Development Institute, we conduct R&D for new technologies, refine proprietary technologies, pursue higher quality, conduct basic research and investigate new technologies. Plans are currently underway to construct the Sanki Techno Center as our new R&D base. Looking ahead, we will review and reorganize our R&D structure, which includes updating the Technical Research & Development Institute, and foster personnel with the aim of generating more synergies.

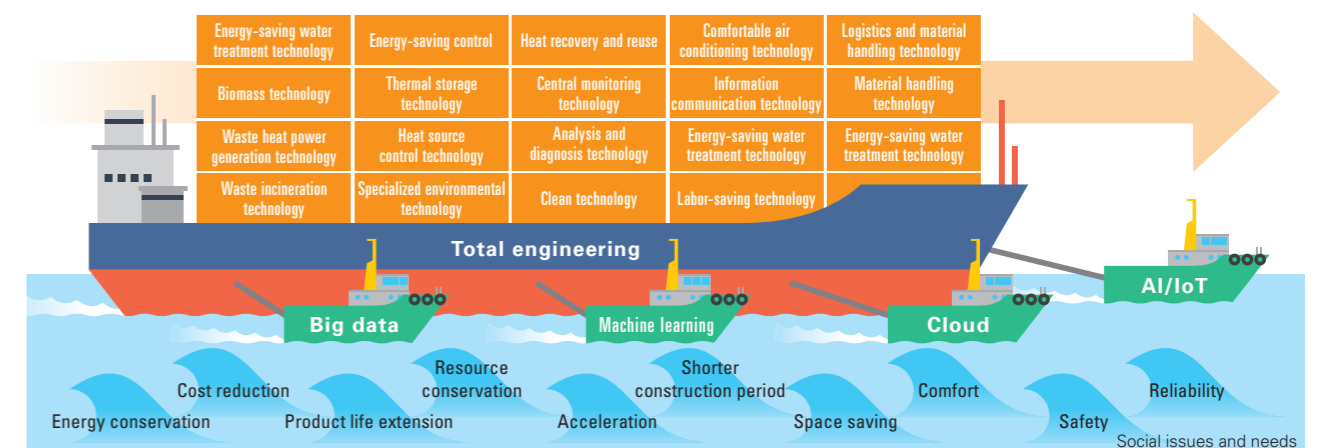
Intellectual Property Initiatives

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 is assigned to each business division to identify intellectual property from activities being undertaken and share information from meetings with intellectual property officials across the Company. Also, we 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 and e-learning for employees in their third and seventh year. 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.

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. In particular, we are striving to develop technologies with high added value by applying information communication technology, AI and big data analysis.

Areas of Recent Research and Development



Focus

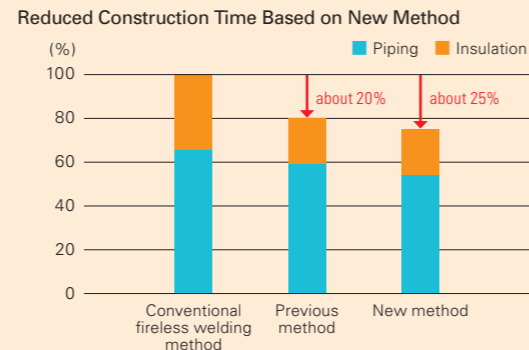
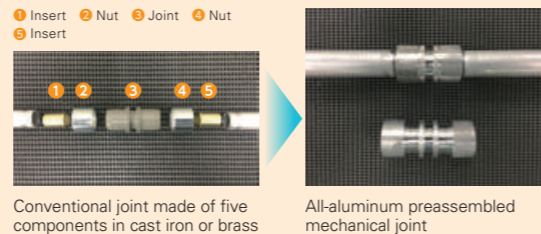
Developed a New Construction Method that Reduces Work by 25% Aluminum Refrigerant Piping and Mechanical Joints

Value Provided
by Sanki
Engineering

- Enhanced transportability and workability through the use of lightweight aluminum piping
- Easy-to-use mechanical joints that reduce variance in quality
- Work reduction by about 25% to address labor shortage

In the construction industry, the dwindling workforce and aging of skilled workers have brought about the need for measures to maintain and raise the quality of facilities construction with a smaller labor force. In this context, we collaborated with a joint manufacturer to develop a new construction method in preparation for the anticipated growth in demand for refrigerant piping.

The new method involves aluminum pipes that are 50% lighter than the copper pipes commonly used. Combined with our newly developed all-in-one mechanical joints, made entirely of aluminum, the new pipes will help to reduce labor associated with transport and handling. Specialized hand-held tools are used during construction work, ensuring high quality without depending on skilled workers, thus offering another solution to the labor shortage. Moreover, the construction work becomes simpler and more reliable than using conventional methods, resulting in a roughly 25% reduction in construction time. This will allow for high-quality construction at renovation sites and projects with limited construction time.



Providing the Customer's Solution of Choice, from an Open R&D Environment Integrating Knowledge and Technology

For its 100th anniversary, Sanki Engineering set its sights on becoming the company of choice. The challenge ahead in our R&D, centered on the Technical Research & Development Institute, is to enhance the capabilities of each researcher while bolstering our ability to develop solutions for customers by applying agile thinking. One of the pillars of our response is the Sanki Techno Center, scheduled to open in autumn 2018 as our new center for research and employee education.

The center will be equipped with the latest facilities to conduct experiments for considering and evaluating measures that point toward the optimal solution

for customer needs. Furthermore, we will engage in open innovation by closely communicating with customers, companies in other industries and subcontractors to pursue research that delivers next-generation products. Results will be shared with each business division at the frontlines of worksites, where prompt feedback should quickly result in solutions that will earn customer trust.

Looking ahead, we intend to play a key role as the company of choice, as an organization with the wisdom and knowledge to meet the most challenging of customer expectations and solve their problems.



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



Basic Philosophy

Guided by its Management Philosophy, the Sanki Engineering Group strives to achieve sustainable growth and enhance corporate value over the medium to long term by engaging in dialogue with shareholders, investors, customers and other stakeholders. In accordance with this basic governance policy, premised on thorough compliance, we seek to make decisions in a transparent, fair, timely and decisive manner and to develop an efficient system of operational execution to enhance our business performance.

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)
<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.

WEB [Corporate Governance Report](http://www.sanki.co.jp/corporate/governance/report.html)
<http://www.sanki.co.jp/corporate/governance/report.html> (in Japanese)

Strengthening the Effectiveness of the Governance System

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

Main Measures to Strengthen Governance System Effectiveness

Increasing the Number of External Directors

We increased the number of external directors from two to three in fiscal 2016 to further strengthen management oversight.

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](https://www.sanki.co.jp/corporate/governance/guideline.html)
(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 mainly of external directors and auditors, is held once every quarter to openly exchange views and necessary information and to develop a common awareness of issues.

Training for Officers

When directors and auditors are appointed, we provide them 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.

Assessing the Effectiveness of the Board of Directors

To determine the effectiveness of the Board of Directors, we conduct an annual assessment in which the directors themselves verify their deliberation process and identify possible improvements. This is to enhance the board's effectiveness and ensure the transparency of management by disclosing the results.

During an assessment of board meetings held in fiscal 2016, we conducted a questionnaire survey to review issues identified in the previous year and reviewed the status of the Company's response to actions required by the Corporate Governance Code. In June 2017, the directors and auditors met for a free exchange of opinions and a self-assessment based on the results. The aim of these activities was to confirm that our governance system was functioning effectively, share outstanding issues and reach agreement on continuing certain initiatives.

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	○	○	○	Determined by the Board of Directors following deliberation by the Advisory Committee on Nomination and Remuneration
External director	○	-	-	
Full-time auditor	○	○	-	Determined through consultation among auditors
External auditor	○	-	-	

Remuneration for Directors and Auditors (Fiscal 2015)

Category	Persons receiving payment	Total payment
Directors (external directors)	9 (3)	360,818 (29,700)
Auditors (external auditors)	5 (2)	88,200 (21,600)

Internal Controls

Basic Policy and Systems for Internal Controls

Basic Policy and Systems for Internal Controls Under its Basic Policy on Internal Financial Control, Sanki

Engineering is developing and operating a system to ensure the legality, soundness and transparency of its operational execution. Particularly with respect to the whistleblowing system, we set up dedicated internal and external contact points for reporting violations of the Anti-Monopoly Act. And together with the reporting system for corporate ethics in general, we are working to raise the effectiveness of compliance.

In fiscal 2016, we established a system for reporting to the full-time auditor so that the whistleblowing system can be operated independently of business execution divisions.

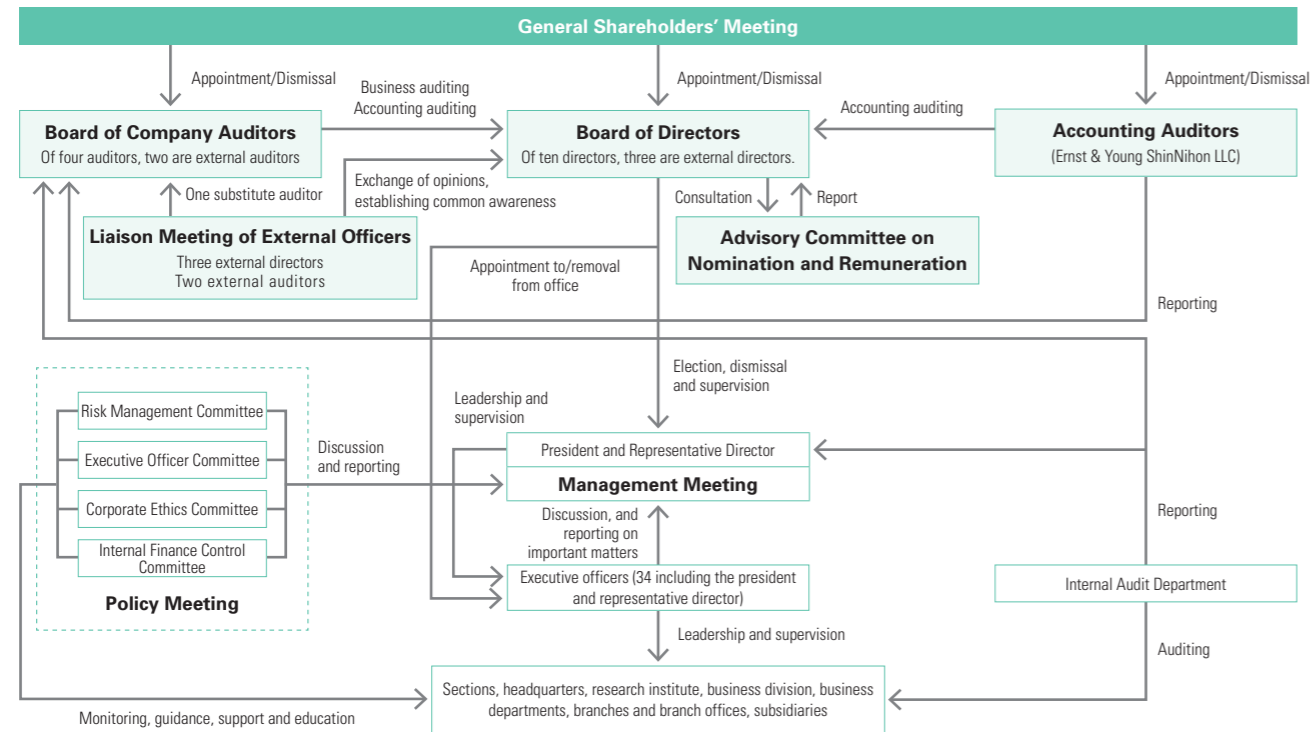
The Board of Directors makes decisions on issues stipulated by laws, regulations and the Articles of Incorporation, as well as on issues related to the execution of operations. The Management Meeting is held each week to ensure the effective execution of duties in accordance with the rules for discussion and reporting. To further strengthen management oversight, the Liaison Meeting of External Directors, consisting of external directors, is convened to exchange necessary information and share awareness of issues.

To ensure effective auditing, the auditors attend meetings, offer their opinions as necessary, receive reports from accounting auditors and the Internal Audit Department, request that this department investigate and report on its findings if needed, and discuss matters as required. In addition, the full-time auditor regularly exchanges opinions with the presidents and auditors of Group companies to ascertain the status of internal controls across the Group.

Ensuring the Reliability of Financial Reporting

The Internal Finance Control Committee meets four times a year to conduct our financial reporting in accordance with the internal control framework stipulated by the Financial Instruments Exchange Act of Japan and is 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 2016, 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 27, 2017)



Business Execution System

Board of Directors

The Board of Directors holds a meeting, led by the chairman, at least once a month to deliberate on important matters and supervise the status of execution of business affairs. Of the 13 meetings convened by the board in fiscal 2016, the average attendance of external directors was 100%, and that for external auditors was 77%.

Management Meeting

The meeting consists of directors and executive officers nominated by the president and meets weekly as an advisory body to the president. It deliberates on important matters, including those to be discussed by the Board of Directors. Fifty-one meetings were convened in fiscal 2016.

Policy Meeting
Risk Management Committee: See page 48.

Executive Officer Committee

Consisting of executive officers, the committee meets roughly every three months to discuss the policies expressed by the president and executive officers responsible for departments, report on the status of business execution by each executive officer and discuss initiatives for achieving the medium-term management plan. Eight meetings were convened in fiscal 2016.

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, which consists of executive officers. 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

This committee is chaired by the president, consists of executive officers, and meets four times a year. Its 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

This committee consists mainly of the president and external directors and is chaired by an external director. It deliberates on matters including the nomination of candidates for directors and auditors and the system for and level of remuneration. It meets as needed; four meetings were convened in fiscal 2016.

Auditing System

Board of Company Auditors

Meeting at least six times a year, this board monitors the status of governance and audits the execution of duties by directors as an independent body entrusted by shareholders. Members attend board and other important meetings, review the status of operations and assets, and maintain close contact with the accounting auditors, the Internal Audit Department and the internal controls departments. A supplementary external auditor has been appointed to fill any future external auditor vacancies. Nine meetings were convened in fiscal 2016.

Internal Audit Department

This department conducts internal audits of the execution of operations by 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 department exchanges opinions with or makes proposals concerning the improvement or correction of a problem to the internal controls departments, and reports the results of its audits to the president.

Executives of the Sanki Engineering Group (as of August 10, 2017)



Full-time Auditor Masato Komura	Director Takashi Motomatsu	Representative Director Hidemi Fujii	Representative Director Nobuo Kumura	Director Eiji Mitsuishi	Director Hirokazu Ishida	Full-time Auditor Hirotohi Fukui
External Auditor Takeo Inokuchi	External Director Hiroki Nishio	Representative Director and President Tsutomu Hasegawa	Director and Chairman Takuichi Kajiuira	External Director Yukiteru Yamamoto	External Director Makoto Nukaga	External Auditor Mamoru Norisada
Director	Chairman					Takuichi Kajiuira
Representative Director	President					Tsutomu Hasegawa
	Vice President and Executive Officer					Nobuo Kumura
	Vice President and Executive Officer					Hidemi Fujii
Director	Senior Executive Office, and General Manager, Mechanical & Electrical Contracting Headquarters					Eiji Mitsuishi
	Managing Executive Officer, and General Manager, Plants & Machinery Systems Headquarters					Takashi Motomatsu
	Managing Executive Officer, and General Manager, Sales Administration Division, Mechanical & Electrical Contracting Headquarters					Hirokazu Ishida
External Director						Yukiteru Yamamoto*
						Hiroki Nishio*
						Makoto Nukaga*
Full-time Auditor						Masato Komura
						Hirotohi Fukui
External Auditor						Takeo Inokuchi
						Mamoru Norisada*

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

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

Compliance Reference Documents
Reference 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. In fiscal 2016, the committee convened twice.

Compliance Promotion Activities

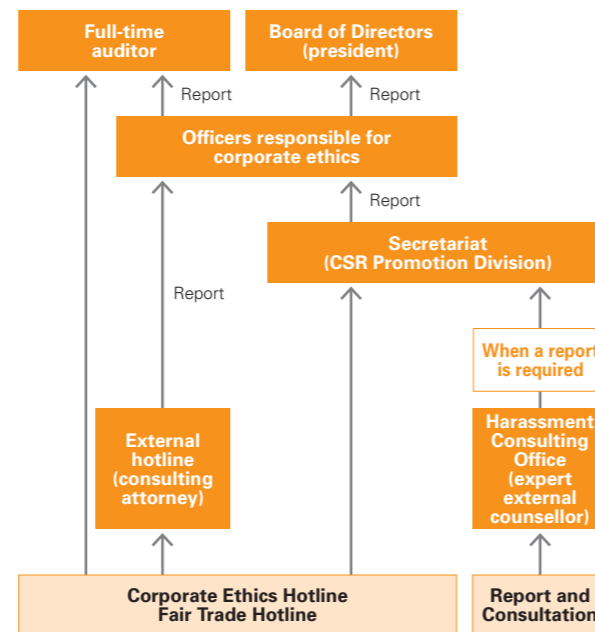
Whistleblowing System

We have set up corporate ethics hotlines for whistleblowers, both within and outside the Company. The internal hotline goes to the full-time auditor and the CSR Promotion Division, while the external hotline goes to our consulting attorney's office. We act swiftly to resolve the issues that are reported, with consideration for the protection of anyone seeking consultation or providing information in accordance with the Corporate Ethics Regulations. All of the reported information is presented to the executives responsible for corporate ethics, and important information is reported to the Board of Directors and the Management Meeting. In fiscal 2016, there were 22 reported incidents (19 internally and three 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.

The names of individuals who report to the corporate ethics hotlines will be handled in secrecy by the executives responsible for corporate ethics and will not be disclosed to others without the reporter's prior consent. The reporter will not be placed at a disadvantage for consulting or reporting to the hotline.

In addition, we began operating the new Fair Trade Hotline in January 2016 for reporting of violations of the Anti-Monopoly Act.

Whistleblowing System



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. There were no serious compliance violations, such as illegal acts, unethical behavior or unfair practices, in fiscal 2016.

Number of Persons Submitting Compliance Confirmation Sheets (Fiscal 2017)

	Sanki Engineering (relevant employees)	Subsidiaries (relevant employees)
Compliance confirmation sheets concerning performance of duties	35 (35)	47 (47)
Compliance confirmation sheets	1,997 (2,023)	354 (358)

- 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 for all employees on a regular basis in order to ensure thorough compliance with the Code of Conduct and Action Guidelines. We also hold training on the Anti-Monopoly Act for newly assigned sales staff.

Results of Corporate Ethics Training (Fiscal 2016)

Course	Theme	Target	Frequency and participation (attendance rate)
Corporate ethics training	Prevention of insider trading, compliance with the Anti-Monopoly Act and Subcontractors Act	Group executive officers and employees	36 times 2,330 employees (97%)
Compliance training	Appropriate accounting practice, management of working hours	Group executive officers and employees	36 times 2,196 employees (92%)

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 prevent and eliminate any harassment by consistently carrying out preventive education through corporate ethics training and division training.

Results of Questionnaire Regarding Compliance Awareness for 2017

Survey period: May 2017
Participants: All Group executive officers and employees

Do you understand the Sanki Engineering Group Code of Conduct and Action Guidelines?

I have an adequate understanding.	34%
I have a general idea.	54%
I do not have an adequate understanding.	12%

Are you aware of the Corporate Ethics Hotline and Fair Trade Hotline?

Yes	97%
No	3%

Do you know that business partners can also report to the hotlines?

Yes	78%
No	22%

Compliance Audit

The Internal Audit Department conducts compliance audits and seeks to strengthen compliance by providing guidance on legal compliance and through monitoring. In fiscal 2016, internal audits were carried out at 24 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

Measures in an Ongoing Effort to Prevent Recurrence

The following are major measures we undertook between fiscal 2013 and fiscal 2016. Looking ahead, we will continue our Group-wide effort to prevent violations of the Anti-Monopoly Act in fiscal 2017.

Policies and Manuals

- Formulated the Sanki Engineering Group Compliance Declaration and Sanki Engineering Group Behavioral Standards.
- Distributed the Compliance Handbook.
- Issued an Anti-Monopoly Act Compliance Manual.
- Clearly stipulated breaches of laws such as the Anti-Monopoly Act as grounds for disciplinary action.

Structural Reinforcements

- 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.
- Established a Compliance Risk Subcommittee within the Risk Management Committee.
- Reconsidered membership in outside groups.
- Began an in-house leniency system (voluntary reporting system).

Training and Education

- Submitted compliance confirmation sheets.
- Boosted awareness of compliance-related hotlines.
- Top management visited all business bases to hold special corporate training sessions through direct exchange with all Group executives and employees.
- Held training on the Anti-Monopoly Act for newly assigned sales staff.

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

To prevent violations of laws and regulations, we

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 on October 21, 2013
Revised on April 1, 2015
Revised again on January 1, 2016

- No discussion, exchange of information, adjustment, or decision upon the following between businesses shall take place.
 - Method of selecting prospective candidates for a contract
 - Prospective contract candidates
 - Bidding price
 - Estimated price
 - Eagerness for contract, results of sales activities, contract results, number of times nominated, etc.
 - Order amount in stock, order reserve
 - 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.
 - 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. Furthermore, if the topic turns to such a matter during the course of the proceedings, you must immediately leave the meeting and the fact must be noted and reported to your superior.
 - 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.
 - 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.
 - 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.
 - 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.
 - These standards shall apply to the following cases as well.
 - When a trade association acts as agent
 - When the public office offering the contract offers an agreement based on a method of estimate adjustment
 - 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 (Fair Trade Hotline), irrespective of whether or not it concerns you.
 - 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 April 1, 2015.
- Additional clause: These standards shall be implemented as of January 1, 2016.

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
Revised again on April 1, 2017

(Our Code of Conduct is expressed in clauses 1 to 8, each followed by Action Guidelines from ① to ⑳.)

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.

- 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.
- 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.
- 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.

- We will disclose company information, including information concerning our business activities and our financial status, to our stakeholders in a timely and appropriate manner.
- We will prioritize communication with our stakeholders in order to live up to the trust placed in us by society.
- 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.

- 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.
- 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.
- 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.
- We will not exploit our position as the contracting party in order to coerce our business partners to engage in any improper actions.
- In negotiating the offering of contracts, etc., we will not pursue individual profit.
- 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.

- We will ensure that every individual is able to work safely and healthily at all of our worksites, including construction sites.
- 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.
- We will not benefit from child labor or forced labor in our business activities.
- 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.
- We will eliminate harassment (including but not limited to sexual harassment, power harassment, and harassment related to maternity leave and childcare or nursing leave) from the workplace, and we will prevent any deterioration in the working environment.
- We will respect the privacy, individuality, and diversity of each person, and we will work to harmonize work and life.

Management of company assets

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.

- We will manage company assets appropriately and in accordance with the rules, and we will not use them for other than business purposes.
- 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.
- We will manage information appropriately, based on our information systems use standards.
- In addition to protecting information provided by customers, we will treat all personal information that we receive appropriately and manage it safely.
- 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.

- 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.
- 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, recycling, and the preservation of biodiversity and ecosystems.
- 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.

- 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.

- 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.
- 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.
- We will not perform any actions that damage the good name or prestige of our company.
- 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.
- 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.
- We will make our business partners aware of this Code of Conduct and these Action Guidelines, and we will request their observance of them.
- 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 conducting normal business operations and prevent such risks from materializing, and also to minimize loss in the case that it does occur.

We set up the 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

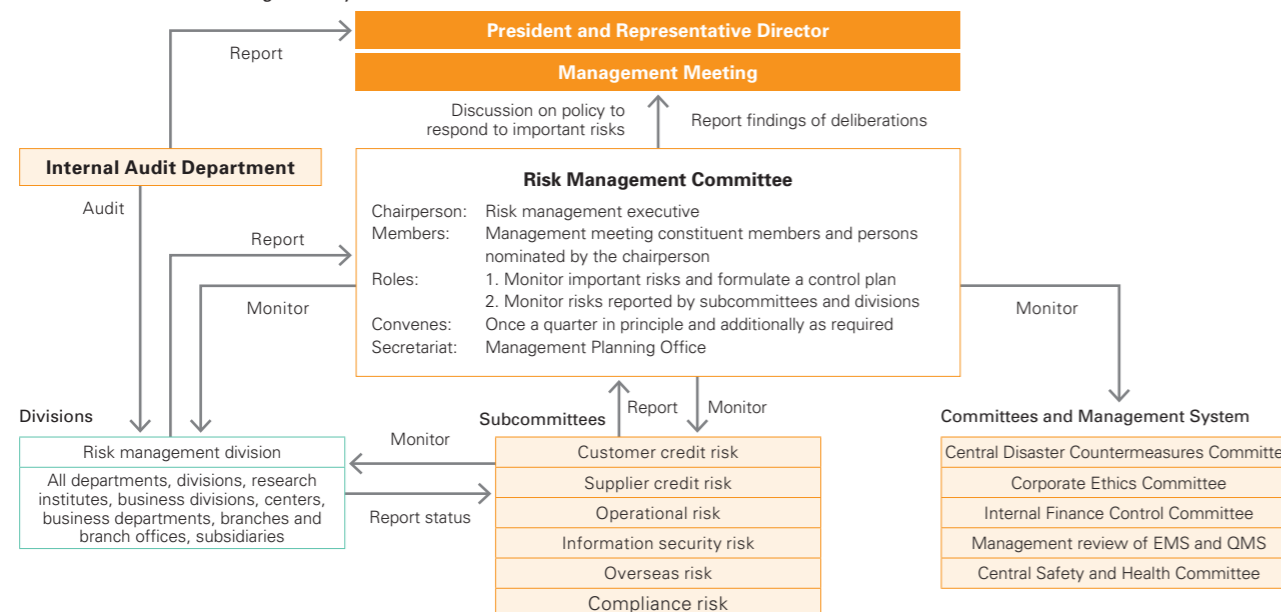
Each fiscal year, the Risk Management Committee identifies risks that affect business activities and conducts a risk assessment based on frequency of occurrence and impact on management. The

committee receives reports from the risk management subcommittees to monitor risks and consider necessary countermeasures, provides instructions and confirms the status of progress. In particular, we are focused on pursuing preventive measures, confirming preventive measures and managing signs that precede the occurrence of each risk. The Risk Management Committee convened four times in fiscal 2016 to assess the impact of each risk in order to prevent their occurrence, discuss countermeasures and confirm progress. Moreover, after the Kumamoto Earthquake in April 2016, we took action in accordance with our BCP manual and then verified our response and identified improvements related to our BCP.

Major Countermeasures in Fiscal 2016

Risk	Countermeasures
Customer credit	<ul style="list-style-type: none"> Reviewed our risk management structure and system (including consolidated subsidiaries)
Supplier credit	<ul style="list-style-type: none"> Expanded and reselected target companies, dispersed suppliers
Operational	<ul style="list-style-type: none"> Ensured the effectiveness of our BCP Promoted measures against long working hours, including the Smile Project
Information security	<ul style="list-style-type: none"> Reinforced antivirus software Held a simulation drill for handling targeted email attacks (including subsidiaries)
Overseas	<ul style="list-style-type: none"> Added measures on infectious diseases to the Overseas Crisis Management Manual and Overseas Safety Measures Manual
Compliance	<ul style="list-style-type: none"> Revised the reporting format in order to visualize the quarterly status report

Framework of the risk management system



Responding to Disaster Risks through the BCP

The Sanki Engineering Group's BCP aims to ensure the safety of all related persons, including employees, based on the integrated efforts 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 develop internal systems and procedures (system maintenance starting under ordinary conditions and clarification of behavioral standards and division of roles in a disaster) and conduct drills and e-learning with Group companies so that restoration activities can be implemented more promptly.

In fiscal 2016, we relocated the directors' offices from the upper floors to the lower floors to ensure the functionality of the emergency response headquarters, which will be set up in the event of a disaster. Furthermore, we conducted a drill on the assumption that the head office sustained damage and another office served as an alternative headquarters. Also, by modifying the way our safety confirmation system operates, we sought to raise the effectiveness of our BCP by expanding the system's coverage in terms of disaster type and region and conducted a drill.

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, those traveling overseas on business, and their families) in 2014, which are revised each year.

The Risk Management Manual for Overseas Operations stipulates the rules and response procedures for crises that could occur in foreign countries. The manual was revised due to expansion of the scope of the 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. As part of our activities to develop our management system, we use checklists to confirm the status of information security measures during onsite inspections by supervisors at each branch.

In fiscal 2016, we held two subcommittee meetings. To strengthen our countermeasures for information security risks, we reinforced our antivirus software, conducted a simulation drill for handling targeted email attacks (including subsidiaries), constructed a cloud-based onsite data sharing system and carried out regular audits.

Key Information Security Measures

Type	Action
Dissemination of rules	<ul style="list-style-type: none"> 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 onsite inspections
Information device management	<ul style="list-style-type: none"> Encryption of information terminals Regular inventory reviews
Prevention of unauthorized use	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Antivirus measures, automatic updating of security patches Web filtering, countermeasures against unsolicited emails Monitoring of illegal outbound data streams
Measures for social media	<ul style="list-style-type: none"> Instill an understanding among Group employees using guidelines Improving the level of security regarding social media

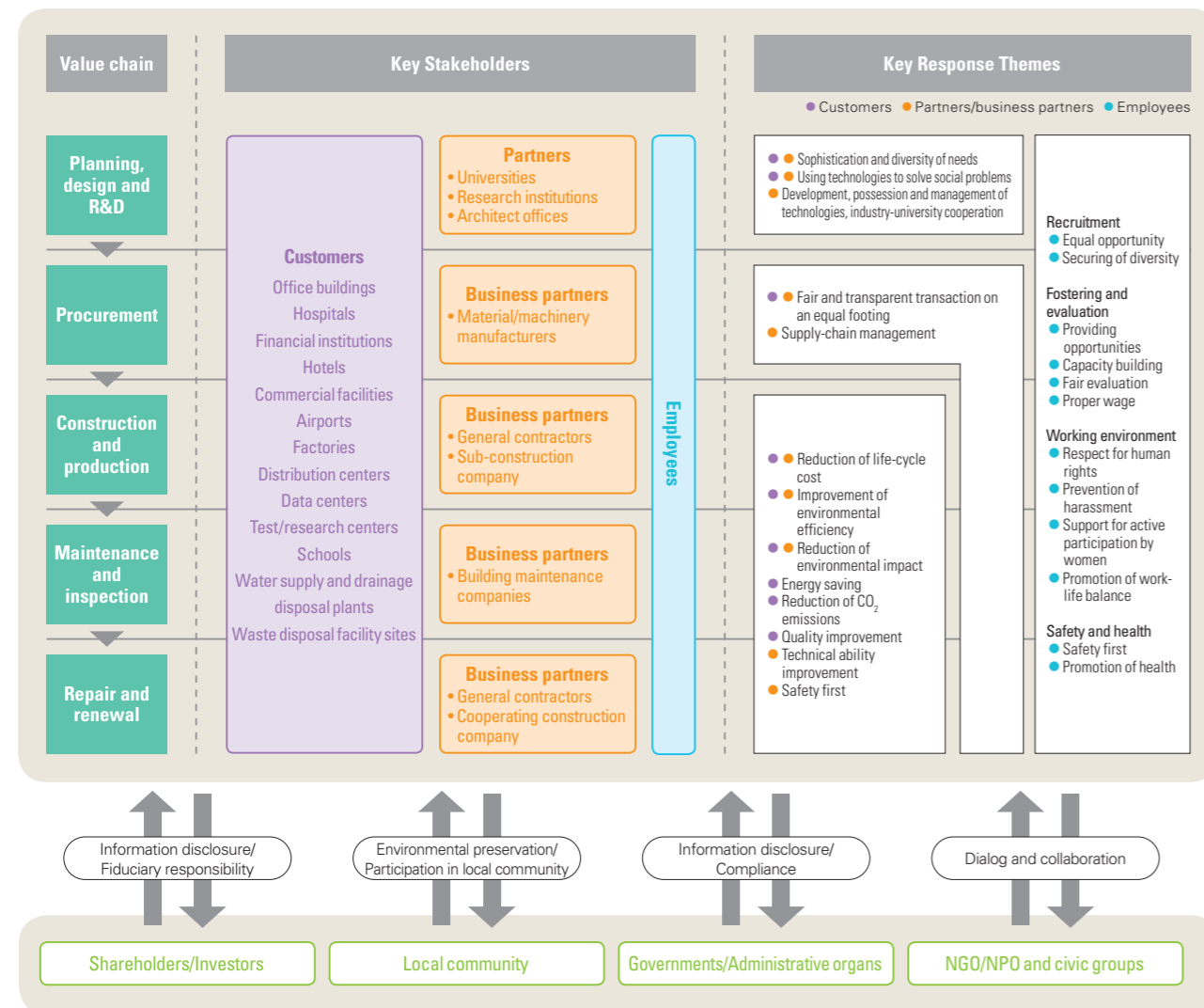
Response to ESG Issues in Value Chain

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.



The Sanki Engineering Group strives to attain the United Nations' Sustainable Development Goals (SDGs) through its business activities and is currently reviewing its initiatives and considering ways to contribute further.

Value Chain and Stakeholders



Major Action Policies and Results for Fiscal 2016 and Major Action Policies for Fiscal 2017

	Fiscal 2016			Self-evaluation	Fiscal 2017	Report Pages
	Major Action Policies	Primary Goals	Major Results		Major Action Policies	
Customers	• Nationwide development of Site-Documentation Support Centers	• 5 branch offices, 150 requests per year	• 5 branch offices, 171 requests per year	◎	• Nationwide development of Site-Documentation Support Centers	52-54
	• Reduce the number of problems and complaints during construction per year	• Target for the number of problems and complaints per year: reduce by 15% from previous fiscal year	• Roughly the same number as in the previous fiscal year	△	• Reduce the number of problems and complaints during construction per year	
	• Reinforce training for new employees and for construction management	• Training for new employees: period extended • Training for construction management: cumulative number of participants: 430	• Training for new employees: basic skills training and safety training extended to 4.5 months • Training for construction management: cumulative number of participants: 443	○	• Strengthen guidance for site managers	
Shareholders and Investors	• Expand opportunities for dialogue with institutional investors and individual investors	• Revitalize the general shareholders' meeting • Expand opportunities for IR meetings with domestic and overseas investors	• Increased shareholder attendance (1.5 times the previous year) due to first general shareholders' meeting held outside the company • Aggregate total of companies with which individual meetings were held: 43	○	• Promote dialogue with shareholders • Enhance IR activities for institutional investors and individual investors	55
	• Provide consistent, steady returns to shareholders	• Paid stable dividends in principle and provided special dividends depending on profit	• Consolidated payout ratio for the year ended March 31, 2017: 40.6% • Special dividend of 10 yen per share	○	• Provide consistent, steady returns to shareholders	
Business Partners	• Continue training for procurement staff	• Training for procurement staff: 19 sessions	• Trained procurement staff: 19 sessions	○	• Promote online procurement	56 and 57
	• Strengthen cooperation through subcontractor groups	• Expand the scope of participation for the nationwide Liaison Meeting Participants: 18 companies	• Increased participants to the nationwide Liaison Meeting: from 18 to 19 companies	○	• Strengthen cooperation through subcontractor groups	
	• Strengthen relationships through an awards program aimed at enhancing quality and technology	• Enhance the Sanki Super Meister System and Sanki Best Partner Award	• Distinction under the Sanki Super Meister System given to 14 individuals, and the Sanki Best Partner Award given to 130 companies	○	• Strengthen relationships with subcontractors	
Health and Safety at Worksites	• Deploying preventive measures to coincide with the timing of past accidents	• Number of accidents in the first quarter: less than the average (six incidents) for the past three years	• Decreased from six to three incidents	◎	• Deploy measures against the three major categories of accidents	58 and 59
	• Deploying preventive measures based on the type of accident	• Number of "caught/pinched" type accidents: less than the average (seven incidents) for the past three years	• Decreased from seven to two incidents	◎	• Elevate awareness levels	
	• Enhancing knowledge and capabilities through education	• Implementing education	• Implemented onsite training, including special training on scaffolding	◎	• Enhance knowledge and capabilities related to health and safety	
Employees	• Promote diversity	• Review various programs (expand programs supporting work-life balance)	• Established a half-day off program and an anniversary leave program • Launched Sanki Smile Day • Implemented diversity training	◎	• Enhance training programs to develop human resources with the Sanki spirit	60-63
	• Consider and promote measures to address long working hours	• Develop measures to address long working hours	• Set goals for each division, assigned leaders to promote measures • Held regular meetings and subcommittee meetings at each division	○	• Implement measures outlined in the Smile Project	
Environment	• Providing products and services to help reduce CO ₂ emissions of customers	• Increase orders for proposals to reduce CO ₂ emissions compared to fiscal 2016	• CO ₂ reductions (orders, non-consolidated): 27,319 t-CO ₂ /year (up 39% from FY2016)	○	• Providing products and services to help reduce CO ₂ emissions of customers	64-68
	• Properly dispose and reduce industrial waste	• Determine the total volume of industrial waste generated by the Sanki Engineering Group	• Determined the consolidated volume of industrial waste	○	• Properly dispose of and reduce industrial waste	
Local Communities	• Regional disaster prevention	• Participate in regional disaster prevention activities	• Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center	○	• Regional disaster prevention	69 and 70
	• Conservation of the local environment	• Participate in local cleanup activities	• Held Group-wide activities in over 30 locations	○	• Conservation of the local environment	
	• Supporting the development of the next generation	• Provide educational opportunities such as environmental seminars	• Offered 9 social study tours for a total of 443 students	○	• Support 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	Fiscal 2016				Fiscal 2017	
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies	Assessment
<ul style="list-style-type: none"> More effectively respond to increasingly sophisticated and diversified customer needs Enhance the accuracy of quality management Improve construction quality and pass on technologies 	<ul style="list-style-type: none"> Nationwide development of Site-Documentation Support Centers Reduce the number of problems and complaints during construction per year 	<ul style="list-style-type: none"> 5 branch offices, 150 requests per year Target for the number of problems and complaints per year: reduce by 15% from previous fiscal year 	<ul style="list-style-type: none"> 5 branch offices, 171 requests per year Roughly the same number as in the previous fiscal year 	<ul style="list-style-type: none"> Target for the number of problems and complaints per year: reduce by 15% from previous fiscal year 	<ul style="list-style-type: none"> Nationwide development of Site-Documentation Support Centers Reduce the number of problems and complaints during construction per year 	<ul style="list-style-type: none"> Target for the number of problems and complaints per year: reduce by 15% from previous fiscal year
	<ul style="list-style-type: none"> Reinforce training for new employees and for construction management 	<ul style="list-style-type: none"> Training for new employees: period extended Training for construction management: cumulative number of participants: 430 	<ul style="list-style-type: none"> Training for new employees: basic skills training and safety training extended to 4.5 months Training for construction management: cumulative number of participants: 443 	<ul style="list-style-type: none"> Strengthen guidance for site managers 	<ul style="list-style-type: none"> Strengthen guidance for site managers 	<ul style="list-style-type: none"> Strengthen guidance for site managers

Responses to Sophisticated and Diverse Customer Needs

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 2016

Exhibitions	Exhibited Products
FOOD FACTORY 2016	Self-washing belt conveyor (bubbling type), chilled food conveyor (with chilled stacker), high luminance multicolor LED conveyor
Regenerative Medicine Japan 2016	CPCube®, open stage seminars (twice), panel exhibits
Waterworks Exhibition in Kyoto 2016 (50th Waterworks Exhibition)	Report on PFI Okubo, UV sterilizer
ENEX 2017	Energy saving proposals and case study presentations, Eco Searcher, periloop, Trans Heat containers, energy-saving belt conveyors for logistics operations, AEROSTRIP, panel exhibits
3rd Interphex Osaka	CPCube®, Wide Area Clean System, MEDIFORT, high luminance multicolor LED conveyor, AGV, continuous heat sterilization apparatus, presentation booths for medical facilities, panel exhibits
MACS 2017 Multi-System Exhibition for Smart Air Conditioning and Sanitation	Aluminum refrigerant pipes and mechanical joints, periloop

Initiatives to Ensure Quality

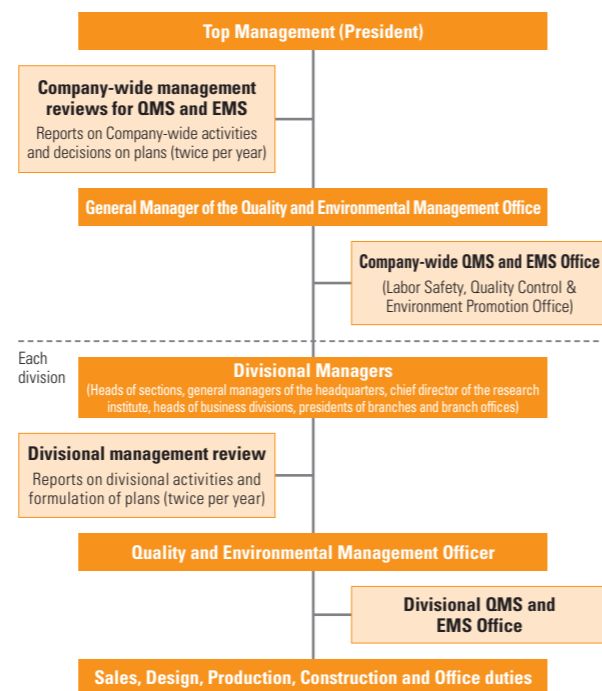
Philosophy on Quality and the Quality Management System

Our facilities construction, machinery systems and

environmental systems divisions have obtained ISO 9001 and ISO 14001 certification, and we conduct quality management by integrating these standards.

In the external audit conducted in fiscal 2016, we were commended particularly for providing educational programs for younger engineers and using iPads to efficiently coordinate between divisions, manage schedules and share internal information. We will continue to advance quality management in accordance with the 2015 edition of the ISO 9001 and ISO 14001 standards.

Framework for Promoting the Quality and Environmental Management System



Quality Management Activities

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

In fiscal 2016, we enhanced our site support based

on improved communication and promoted rapid, constructive responses to problems and complaints. As a result, we created a working environment that allows onsite managers to focus more closely on their tasks, which in turn has enhanced customer satisfaction.

In fiscal 2017, we will seek to raise the level of customer satisfaction across the entire Group by preventing the recurrence of problems and complaints and by establishing an objective scorecard as a new criteria for assessing customer satisfaction.

Providing Operational Support for Worksites

We are striving to improve operational efficiency by bolstering the Site-Documentation Support Center, which handles administrative tasks such as preparing documents and making CAD drawings on behalf of site managers.

In fiscal 2016, we reviewed our operational processes by reducing and digitizing onsite documentation and considering the construction of a new system to expand the center's operations. We received 171 requests for support from the five branch offices, exceeding our annual target of 150 requests.

In fiscal 2017, we will disseminate information on the types of support the center offers and continue developing its operational support system.

The Design Support Center was established in fiscal 2016 to provide technical support, cultivate human resources and pass on technology, mainly through specialized design projects. We sought to improve the design capabilities of the five branch offices through on-the-job training while also supporting and coordinating a total of 61 specialized design projects. In fiscal 2017, we will incorporate the center into the Engineering Integration Office with the aim of continuing to enhance and reinforce our technical support.

Quality Management Activities by Technical Experts

Technical experts who have experience as branch or branch office managers work under the direction of the quality assurance administrator and visit worksites to conduct construction audits and quality reviews, as a means of preventing problems and complaints, while also mentoring junior employees.

To achieve our fiscal 2016 target of strengthening our response to problems and complaints, we worked on promptly dispatching staff to sites and thoroughly disseminating information through the horizontal distribution of technical memos for sharing information. 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 Occurrence of Problems and Complaints

We share our quality-related experiences across the Company by means of technical documents in order to prevent the occurrence of incidents and complaints related to quality or, in the event that they do occur, to quickly and effectively handle them.

Information about problems and complaints are distributed to construction engineers through a flash bulletin, the "weekly bulletin" (a weekly meeting of the Problems and Claims Evaluation Committee that is also attended by Group companies), and the "monthly bulletin," along with updates on the causes of issues, corrective measures and preventive measures. In January 2017, we began using posters at worksites to raise awareness of preventing problems and complaints.

With regard to the number of problems and complaints that occur during construction, we set the more challenging target of a 15% reduction for fiscal 2016. However, we were unable to attain the target, as the number of such cases remained roughly the same year-on-year. In fiscal 2017, we will continue to pursue quantitative targets and focus on preventing and effectively handling problems and complaints.

VOICE

My Focus Is on Accumulating Technology and Passing Down Worksite Capabilities

Seiji Katae
Quality Assurance Administrator,
Technical Administration Division



As the Quality Assurance Administrator responsible for the Company's construction facilities design and construction engineering, I have been helping to enhance the worksite capabilities of managers through such activities as design reviews at all branches, meetings to review the start of construction and to prevent problems, and construction audits. In addition to reviewing construction quality and performance and identifying improvements in construction methods and operations, I have sought to give due recognition to improvement efforts, thereby avoiding problems and additional costs to raise profits. Our research pursuits require constant commitment, and we must build on the technologies we have developed. Cultivating human resources skilled in both technology and communication is also crucial. We are currently planning the construction of the Sanki Techno Center with the utmost care to reflect the opinions of the worksite. I have high hopes that this facility will accelerate our search for a solution to the propositions of accumulating technology and passing down worksite capabilities to the next generation.



Relationship with Shareholders and Investors

Construction Method Improvement Award and other Technical Awards

Each year, we commend innovative ideas from the worksite as improvements in construction methods. In fiscal 2016, we received a record 1,170 proposals and presented Construction Method Improvement Awards for three proposals, include one Contribution to Customers Award.

Changes in the Number of Personnel with Quality-Related Qualifications (Totals as of April 1 for Each Fiscal Year)

Qualification	FY2016	FY2017
Professional engineer	95	97
Project management technician (civil works/construction/electrical construction/pipe-laying work)	1,127	1,123
Architect	42	44
Facilities construction architect	207	208
Electrical engineer	164	157
Chief electrical engineer	33	33
First class instrument engineer	283	285
Fire protection engineer	675	675
Qualified managing engineer	1,668	1,695

Cumulative figures are shown for all qualifications.

Action Plans for Fiscal 2017

We designated reducing problems and complaints during construction as our main action policy for fiscal 2017 and will strive to achieve a year-on-year reduction target of 19%. In fiscal 2016, we sought to prevent problems by more rapidly identifying their causes and formulating preventive measures. We will further accelerate this process in fiscal 2017 while spreading

awareness to reduce the number of problems. Also, we will seek to enhance our support for site documentation by reducing the volume of documents and constructing a digital documentation system. In the area of technical support and guidance, we plan to develop a system that will allow for technical information searches across the Group. Moreover, we will coordinate between branches, branch offices and the Engineering Integration Office to organize on-the-job training and provide technical support from design to construction.

Fostering Human Resources to Sustain Our Technological Level

The Technical Training Center fosters human resources by helping employees acquire basic skills, brush up on skills and attain qualifications. New employees receive four and a half months of basic training and safety 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 drawings, responding to problems and complaints, and case studies.

To prepare for the opening of the Techno Center in fiscal 2018, we will reinforce practical training in fiscal 2017 as well as hands-on practice and drills using actual machinery to enhance our engineers' skills.

Major Human Resources Development Activities for Fiscal 2016

Initiatives	Training	Details of Training	Results
Employee training (Technical Training Center)	Training for new employees	• Education for new businesspersons, basic skills	51 participants
	Correspondence course for attaining qualifications	• Exam preparation for employees who want to be managing engineers and for building, mechanical and electrical engineers	189 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 the amount of practical experience and skill level • Practical drills and practice by repetition to develop a sound grasp of skills	7 sessions 161 participants
Initiatives for passing on technology	Strengthen training on construction engineering and construction management	• Strengthen practice to enhance skills for making and reading drawings • Strengthen practical drills on case study explanation, practice and presentation • Strengthen hands-on training using machinery and facilities	443 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 onsite commencement discussions and construction audits	21 technical experts 2,510 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 the internally certified qualification, Sanki Engineering-certified Class A Electrical Engineer.	20 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: 8, Kansai branch: 2, Chubu branch: 12, Hokkaido branch: office: 2, Hokuriku branch office: 7

Important Issues	Fiscal 2016				Fiscal 2017
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Timely and appropriate information disclosure Shareholder return 	<ul style="list-style-type: none"> Expand opportunities for dialogue with institutional investors and individual investors 	<ul style="list-style-type: none"> Revitalize the general shareholders' meeting Expand opportunities for IR meetings with domestic and overseas investors 	<ul style="list-style-type: none"> Increased shareholder attendance (1.5 times the previous year) due to first general shareholders' meeting held outside the company Aggregate total of companies with which individual meetings were held: 43 	○	<ul style="list-style-type: none"> Promote dialogue with shareholders Enhance IR activities for institutional investors and individual investors
	<ul style="list-style-type: none"> Provide consistent, steady returns to shareholders 	<ul style="list-style-type: none"> Paid stable dividends in principle and provided special dividends depending on profit 	<ul style="list-style-type: none"> Consolidated payout ratio for the year ended March 31, 2017: 40.6% Special dividend of 10 yen per share 	○	<ul style="list-style-type: none"> 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 dialogue 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 [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/)
<http://www.sanki.co.jp/en/ir/disclosure/>

Communication with Shareholders and Investors

In June 2016, we held the 92nd annual general meeting of shareholders at a hotel in Tokyo, after shifting the venue from the previous conference room at the head office. As a result, about 1.5 times more shareholders attended than in the previous year, and they offered their opinions and asked questions.

For investors we hold events such as results briefings for investment analysts and institutional investors (twice a year; a total of 87 people participated in fiscal 2016) and individual meetings as necessary in

response to requests. 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 and supplementary materials on our English language website for overseas investors.

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 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 2017, we paid a total dividend per share of 30.0 yen, which included a regular dividend of 10.0 yen for the interim period, and a regular dividend of 10.0 yen and an extra dividend for the second consecutive year of 10.0 yen, totaling 30.0 yen, for the full-year period. Furthermore, in May 2017 we retired 3 million shares of treasury stock and also decided to acquire another 3 million shares (worth up to 4.0 billion yen) of treasury stock during fiscal 2017 in an effort to improve capital efficiency.



Relationship with Business Partners

Important Issues	Fiscal 2016				Fiscal 2017
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Thoroughly ensure equal, fair and transparent transactions Improve quality through cooperation with business partners 	<ul style="list-style-type: none"> Continue training for procurement staff 	<ul style="list-style-type: none"> Training for procurement staff: 19 sessions 	<ul style="list-style-type: none"> Trained procurement staff: 19 sessions 	○	<ul style="list-style-type: none"> Promote online procurement Strengthen cooperation through subcontractor groups Strengthen relationships with subcontractors
	<ul style="list-style-type: none"> Strengthen cooperation through subcontractor groups 	<ul style="list-style-type: none"> Expand the scope of participation for the nationwide Liaison Meeting Participants: 18 companies 	<ul style="list-style-type: none"> Increased participants to the nationwide Liaison Meeting: from 18 to 19 companies 	○	
	<ul style="list-style-type: none"> Strengthen relationships through an awards program aimed at enhancing quality and technology 	<ul style="list-style-type: none"> Enhance the Sanki Super Meister System and Sanki Best Partner Award 	<ul style="list-style-type: none"> Distinction under the Sanki Super Meister System given to 14 individuals, and the Sanki Best Partner Award given to 130 companies 	○	

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. Upon starting business with a new company, such as a construction subcontractor, materials manufacturer, agent or expense-related business partner, we assign a business partner code based on objective standards covering various areas, including the registration status of quality and environmental management systems, financial conditions, procurement track records, delivery, pricing, and response to problems and complaints.

Procurement System and Execution of Action Plans

Reducing costs and improving our profit ratio are important initiatives 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 undertake centralized procurement and make price adjustments based on surveys for all offices by negotiating prices

for all offices and sharing procurement-related information across the company. In fiscal 2016, we focused on digitizing the ordering process, and by April 2017 all offices had begun operating under the new system, thereby enhancing the operational efficiency of divisions related to technology and procurement. Going forward, we will continue to digitize delivery requests and plan to start the system in November 2017.

Seminars and Training for Procurement Staff

We organize seminars and training as needed to promote appropriate procurement activities and enhance the purchasing and negotiating skills of procurement staff. In addition to company-wide training, an annual training session is held within each section to ensure thorough adherence to corporate ethics and enhance compliance awareness among procurement staff. In fiscal 2016, we held a study group on information security to re-evaluate related compliance issues. We also held 14 study groups as a means of developing procurement and negotiating skills, of which six were organized for the entire company. Moreover, we encouraged procurement staff to obtain registered qualifications such as instrument engineer and facilities construction architect to enhance the skills and knowledge of procurement staff. And we sought to train employees on electronic ordering procedures by holding 29 internal seminars for all offices, with a total attendance of about 1,200 employees.

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, 2017, we received pledge letters from 3,717 companies.

Operation of Whistleblowing Hotlines

We operate a Corporate Ethics Hotline to prevent any improper transactions. 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. We set up the Liaison Meeting for Subcontractor Groups, which meets twice a year to strengthen our cooperative relationship. In fiscal 2016, members gathered to share information and exchange views on subjects such as long working hours.

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 2016, a total of 14 foremen were certified. From fiscal 2015, 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 2016, the Sanki Best Partner Award was presented to 130 companies during safety and quality conferences held across the country.

Support System for the Acquisition of Qualifications

To support subcontractors in upgrading their technical skills, we subsidize the acquisition of qualifications. In fiscal 2016, we promoted the Central Safety and Health Committee's system to encourage its use.

VOICE

Motivated by the Best Partner Award to Maintain Our Zero Accident and Zero Disaster Record

Noboru Tachibana
Chairman, Osaka Sanki Health and Safety Cooperative Association
Representative Director, Fujio Equipment Industry Co., Ltd.



Since 2001 we have been involved in many worksites operated by Sanki Engineering, which I feel is at the top level in the industry in terms of its safety measures and working environments. We too have always worked hard with the awareness that handing over a site without accident or disaster is the best way to generate sales. And we were delighted to receive the Best Partner Award for two consecutive years, in fiscal 2015 and fiscal 2016.

The construction industry faces a number of issues, including non-enrollment of social insurance, shortage of labor and deterioration of skills. In the years ahead we hope that Sanki Engineering will guide us in addressing these issues.

VOICE

Placing a Top Priority on Safety and Health to Bring the Worksite Together as a Team Based on Mutual Trust

Toshio Hayama
Representative Director, Noumiko Co., Ltd.



For many years we have been involved in painting and scaffolding at worksites operated by Sanki Engineering's Chugoku branch office. And we serve as one of the executive members of the Chugoku Sanki Health and Safety Cooperative Association.

It is an honor to have been presented with the Sanki Best Partner Award for fiscal 2016 from among so many companies. Having been reminded anew that safety is the top priority, we will strive to ensure zero accidents and zero disasters as we continue our work far into the future. Also, we will maintain close communication with Sanki Engineering staff, our own staff and everyone involved in construction work so that we can unite worksite as a single team based on mutual trust.



Health and Safety at Worksites



Important Issues	Fiscal 2016				Fiscal 2017
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Deploying preventive measures to coincide with the timing of past accidents 	<ul style="list-style-type: none"> Number of accidents in the first quarter: less than the average (six incidents) for the past three years 	<ul style="list-style-type: none"> Decreased from six to three incidents 	◎	<ul style="list-style-type: none"> Deploy measures against the three major categories of accidents Elevate awareness levels Enhance knowledge and capabilities related to health and safety
	<ul style="list-style-type: none"> Deploying preventive measures based on the type of accident 	<ul style="list-style-type: none"> Number of "caught/pinched" type accidents: less than the average (seven incidents) for the past three years 	<ul style="list-style-type: none"> Decreased from seven to two incidents 	◎	
	<ul style="list-style-type: none"> Enhancing knowledge and capabilities through education 	<ul style="list-style-type: none"> Implementing education 	<ul style="list-style-type: none"> Implemented onsite training, including special training on scaffolding 	◎	

Health and Safety Environment of the Construction Industry

The Tokyo 2020 Olympic Games will take place in three years, and amid growing demand for construction, the industry has faced issues such as securing labor and improving work efficiency. It is also pursuing government-led initiatives to introduce ICT and cultivate female engineers. Due to advances in safety equipment and systems, the number of industrial accidents in fiscal 2016 continued to decrease in all industries, including construction. The shortage of labor and skilled workers, however, poses the potential risk of increasing work-related accidents and requires continued attention.

Improving health is another issue faced by the construction industry. Long working hours have come under particular public scrutiny and require an industry-wide response. Sanki Engineering has addressed these changes by taking action on health and safety, including measures to support mental health based on the results of stress-related checkups of all employees.

Health and Safety Policy and Structure

The Sanki Engineering Group introduced an occupational health and safety management system (Sanki OHSMS) in 2001, one of the first in the construction facilities industry, and it has since worked on it together with 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/en/csr/safety/)
<https://www.sanki.co.jp/en/csr/safety/>

Initiatives in Fiscal 2016

Key Items Implemented in Fiscal 2016

Our analysis of accidents that occurred in fiscal 2015 revealed frequent occurrences at the start of the year, from April through June. As for our priority areas of focus, we found that while accidents in the "falls/tumbles" category have declined, those in the "caught/pinched" category continued to occur frequently. Since the overall number of accidents is declining, we designed our slogan and key actions to keep in mind the importance of showing mutual respect among colleagues and cooperating to create a safe worksite.

Outline of Activities in Fiscal 2016

Policy of the Central Safety and Health Committee Chairperson

- Slogan
 "Everyone's Safety Means Yours Too—Creating Safe Workplaces Together"
 Stay alert and never be too confident. Talk to each other as a means of avoiding dangerous situations.

Key Actions

- Deploying preventive measures to coincide with the timing of past accidents
 - Launched an Early Spring Safety Campaign from April to June. Issued reminders on Fridays, since accidents most frequently occur on Saturdays.
 - Carried out special joint safety patrols to closely inspect worksites, during the summer and before and after year-end.
- Deploying preventive measures based on accident type
 - Carried out focused inspections on caught/pinched, heat stroke, falls/tumbles and other categories during special joint safety patrols, during the summer and before and after year-end.
 - Distributed "Accident Case Studies 2," which covers a broader range of categories.
- Increasing capabilities through education
 - Held special training on scaffolding following a regulatory revision and skill development training for foremen.
 - Conducted 8 types of training on health and safety for 53 new employees.
 - Opened a health and safety portal site using iPad apps.



Stickers attached to helmets alerted workers to preventive action in an effort to reduce the number of accidents.

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. In fiscal 2016, the president and Central Safety and Health Committee chairperson attended the convention for all offices. 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.



Worksite safety patrol accompanied by the president (at right)

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, Health, Quality Management & 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.

Furthermore, as growing construction demand leads to an increase in foreign workers, Sanki Engineering spent twice as much time than its statutory obligation to provide a safety seminar through an interpreter for three Vietnamese technical interns at an affiliate company. We will continue providing optimal education on health and safety to meet the needs of each site's workforce.

Number of Participants in Health and Safety Training (Fiscal 2016)*

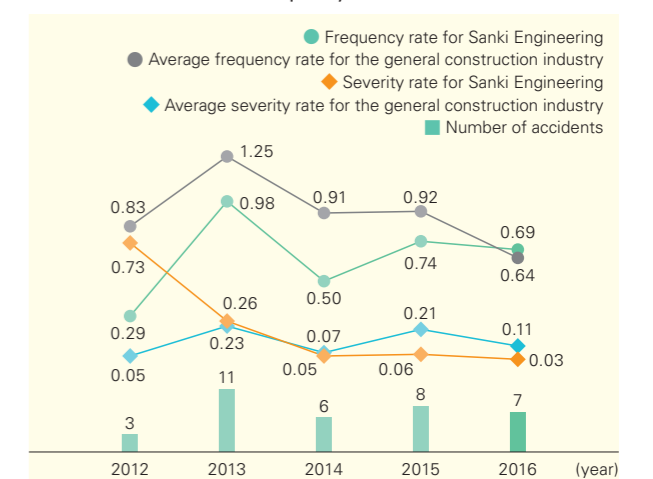
Type	Number of Participants (from Subcontractors)
Special education, etc.	2,473 (1,902)
Health and safety training, including foremen	256 (178)
In-house health and safety training	119 -
Other client-focused training	223 (211)
Total	3,071 (2,291)

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

Accidents during 2016

In 2016, 12 accidents occurred (4 lost workday accidents, 8 with no lost workdays), the same number as in 2015, although the accidents were less severe. We were able to halve the number of accidents during the first quarter (April to June) from a three-year average of 6 incidents. Accidents in the "falls/tumbles" category, however, which had been on the decline, increased from 1 in 2015 to 3. And while the number of accidents has generally fallen, we are seeing a greater variety of accidents, including minor incidents. Therefore, handling dangers that cannot be predicted on the basis of reviewing past developments will hold the key to eliminating accidents.

Number of Accidents and Frequency Rate



Scope: Sanki Engineering worksites (Sanki Engineering Co., Ltd. and business partners)
 Number of accidents: interrupted work for one day or longer (the number of accidents shown in the graph reflects the number of victims, which was used to calculate accident frequency and therefore does not correlate with the number previously cited on this page)
 Source for average frequency rate and severity 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.
 • Severity rate: calculated as the number of lost workdays caused by accidents in the worksite per one thousand working hours; this figure indicates the severity of the accidents.
 • The frequency rates for 2014 have been retroactively revised.

Activities Plans for Fiscal 2017

Considering the social and industry environment as well as the number and nature of accidents in 2016, we are focusing on the following key action areas for safety in fiscal 2017: (1) deploying measures against the three major categories of accidents, (2) sharpening awareness, and (3) enhancing knowledge and capabilities, and on (4) boosting mental and physical health, as our key action area for health.



Relationship with Employees

Important Issues	Fiscal 2016				Fiscal 2017
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Promote diversity Develop and appropriately allocate human resources Create a comfortable working environment 	<ul style="list-style-type: none"> Promote diversity 	<ul style="list-style-type: none"> Review various programs (expand programs supporting work-life balance) 	<ul style="list-style-type: none"> Established a half-day off program and an anniversary leave program Launched Sanki Smile Day Implemented diversity training 	◎	<ul style="list-style-type: none"> Enhance training programs to develop human resources with the Sanki spirit
		<ul style="list-style-type: none"> Consider and promote measures to address long working hours 	<ul style="list-style-type: none"> Develop measures to address long working hours 	<ul style="list-style-type: none"> Set goals for each division, assigned leaders to promote measures Held regular and subcommittee meetings at each division 	

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 programs toward our goal of creating a working environment that is even more pleasant for employees.

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 2017, we hired 92 new graduates, of which 20 are women and 72 are men. We are also actively hiring foreign nationals, and as of April 1, 2017, 18 people from China, Peru, South Korea, Thailand, Vietnam and the U.K. are working with us, an increase of 4 from the previous year. Under our medium-term management plan, we will continue to actively hire foreign nationals to steadily develop our

overseas operations and promote diversity and develop employees who can play an active role on the world stage.

Promoting Women's Careers

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 programs. 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 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 Step Up training 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 diversity training (target: general managers and department managers).
 - Continued conducting Step Up training for employees who moved into regional positions.
- FY2016** • Continued conducting our diversity training (target: general managers and department managers).
 - Continued conducting Step Up training for employees who moved into regional positions.
 - Held a roundtable discussion for working mothers.

VOICE



Creating an Even More Comfortable Workplace by Spreading the Word about Work-Life Balance Programs throughout the Company

Mina Yoshioka
1st Engineering Section
1st Project Management Department
Facility Systems Business Division

I'm raising two children while working full time in a career-track position mainly involving project management for constructing networks at financial institutions. In my division, there were very few precedents for women in such positions returning to work after giving birth, so when I returned to my job I had to improvise a new workstyle with my supervisor. Today the company has an established system and more women are balancing work and family. Above all, we have the understanding and cooperation of our coworkers, which has been the key to continue working.

To foster an even more comfortable environment for employees seeking to balance work and family, we must widely publicize our programs among employees and disclose information through means such as roundtable discussions. Most importantly we must speak up for ourselves to propose better workstyles.

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

- Period: from April 1, 2016 to March 31, 2021
- 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%.

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, 2017, a total of 38 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.

Employee Data (as of March 31 of Each Fiscal Year)

		FY2012	FY2013	FY2014			FY2015			FY2016		
				Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of employees*	Consolidated	2,246	2,283	2,002	280	2,282	2,022 (637)	287 (5)	2,309 (642)	2,041 (653)	298 (5)	2,339 (658)
	Non-consolidated	1,918	1,908	1,668 (497)	240 (3)	1,908 (500)	1,677 (550)	249 (3)	1,926 (553)	1,678 (572)	255 (3)	1,933 (575)
Average age	Non-consolidated	42.7	42.7	43.5	35.8	42.6	43.7	36.1	42.7	43.8	36.5	42.8
Average number of years of employment	Non-consolidated	18.4	18.2	19.0	12.7	18.2	18.8	12.9	18.1	19.0	13.3	18.2
Number of new recruits	Consolidated	-	-	-	-	-	111	20	131	81	20	101
	Non-consolidated	55	92	78	17	95	75	18	93	60	16	76
Number of employed post-retirement-age employees	Consolidated	-	-	-	-	-	234	2	236	235	5	240
	Non-consolidated	166	189	200	3	203	188	2	190	183	4	187
Employment of people with disabilities	Number of employees with disabilities	36	39	-	-	37	-	-	32	-	-	30
	Ratio of employees with disabilities (%)	1.97	2.13	-	-	2.11	-	-	1.80	-	-	1.69

* Figures in parentheses signify the number of managers.

Employees by Age (as of March 31, 2017)

	10s	20s	30s	40s	50s	60s	70s	80s	Total
Consolidated	0 (0)	408 (85)	515 (95)	719 (80)	424 (33)	269 (5)	4 (0)	0 (0)	2,339 (298)
Non-consolidated	0 (0)	378 (83)	422 (79)	569 (65)	352 (24)	210 (4)	2 (0)	0 (0)	1,933 (255)

* Figures in parentheses signify the number of women.

Creating Workplaces for People with Disabilities

We are working to create an environment in which employees with disabilities can work comfortably over long periods. In fiscal 2016, we began holding problem-solving seminars for employees who are hearing-impaired, during which we also exchanged views reflected in workplace management. Moreover, we 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 2016, we reemployed 25 additional retired employees on a consolidated basis, an increase from 18 in the previous fiscal year.

Developing and Evaluating Human Resources

Personnel System Aimed at Making Our Company Become a Workplace Where 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.

Once a year, all employees fill in a Career Development Sheet and receive feedback on their career plan through an interview with their supervisors. Another system allows employees to bypass their superiors and speak directly with the Human Resources Department. These measures are offered separately from the evaluation system.

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.

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	Leadership position training Management training Section chief training	Executive officer training Department manager 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-positioned staff training Qualification training Step 1 training Step 2 training Step 3 training	
	Plant & Machinery Systems Divisions	Qualification training New recruit orientation Inspector education Training on our products and systems	
Quality & Environment System training	ISO 9001/ISO 14001 New recruit orientation Career-positioned staff training	Education to develop internal auditors	

Promoting Workstyle Reform

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 have been expanding these systems in response to employee requests, and we also began implementing a childcare and nursing care leave program that exceeds the statutory requirement in April 1, 2017.

Number of Employees on Childcare Leave, Nursing Care Leave and Paid Leave

		FY 2012	FY2013	FY2014	FY2015	FY2016
Childcare leave	Consolidated	-	-	-	10 (2)	16 (1)
	Non-consolidated	10	16	9 (0)	7 (1)	13 (1)
Nursing care leave	Consolidated	-	-	-	-	0 (0)
	Non-consolidated	-	-	-	-	0 (0)
Paid leave ratio (%)	Non-consolidated	-	34.7 Male 31.6 Female 57.6	35.6 Male 32.6 Female 56.4	41.8 Male 38.8 Female 62.1	50.5 Male 47.6 Female 69.5

Figures in parentheses signify the number of men.

Major Programs Supporting Work-Life Balance (non-consolidated) (as of April 2017)

Area	Program	Details
Work	Refresh leave	Five consecutive days of leave for each five-year period of employment using employee's 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
	Half-day off	Paid leave for half a day at a time
	Anniversary leave	A planned paid leave on special dates for employees or their families, requested at the start of the fiscal year
	Sanki Smile Day (new)	Encouraging employees to take a full or half day of paid leave on payday and avoid overtime
Childcare and nursing care	Return to Work program (new)	Employees who have left the company for reasons such as childbirth, childcare, nursing care or a spouse's transfer can apply for reinstatement
	Nursing leave	Can be obtained five times for up to 180 days per person
	Short-time working	The reduction of scheduled working hours or the delay of starting/finishing times for childcare or elderly care; for childcare, it is available until the child reaches the third grade of elementary school
	Reserved leave	The use of reserved days off as leave for childcare or elderly care
	Support for childcare leave and reinstatement	An interview is held with the supervisor before and after applying for childcare leave

Smile Project

To address long working hours, we launched the Company-wide Smile Project led by the president. 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. In fiscal 2017, we will continue our efforts to create an even more comfortable workplace by reviewing our internal programs and introducing new systems under the "Employee First" slogan.



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 became the first construction equipment company to be recognized by the City of Nagoya as a company supporting childcare.



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. We have also been working to prevent employees from developing mental health issues by conducting checkups for stress-related symptoms, even before this became mandatory under Japan's revised Japan's Industrial Safety and Health Act in 2014.

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	Fiscal 2016				Fiscal 2017
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Protect the global environment by means of our exceptional technological capability Minimize the environmental impact caused by our business activities 	<ul style="list-style-type: none"> Providing products and services to help reduce CO₂ emissions of customers 	<ul style="list-style-type: none"> Increase orders for proposals to reduce CO₂ emissions compared to fiscal 2016 	<ul style="list-style-type: none"> CO₂ reductions (orders, non-consolidated): 27,319 t-CO₂/year (up 39% from fiscal 2016) 	○	<ul style="list-style-type: none"> Providing products and services to help reduce CO₂ emissions of customers
	<ul style="list-style-type: none"> Properly dispose and reduce industrial waste 	<ul style="list-style-type: none"> Determine the total volume of industrial waste generated by the Sanki Engineering Group 	<ul style="list-style-type: none"> Determined the consolidated volume of industrial waste 	○	<ul style="list-style-type: none"> Properly dispose of and reduce 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 medium-term management plan. At the same time we are making the necessary revisions in response to regulatory trends in Japan and overseas.

Sanki Engineering Environmental Policy

Established: April 1, 2015
Revised: April 1, 2017

The Sanki Engineering Group recognizes environmental issues as key management issues and will actively engage in protecting the working environment, local environment and global environment as a corporate citizen.

We have established our environmental goals and framework of action in Japan as follows.

- We will strive to prevent environmental pollution and work further toward conserving resources and energy, reducing industrial waste, promoting recycling, preserving biodiversity and protecting ecosystems.
- We will actively develop proposals on resource and energy conservation when designing facilities.
- We will comply with laws and regulations related to the environment and with external requirements agreed to by the Sanki Engineering Group.

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 2016 found no issues of non-compliance.

Reference **Quality and Environmental Management System** P.52

Major Activities in Fiscal 2016

In fiscal 2016, we organized employee training with an emphasis on the 2015 version of ISO standards, which we will apply to our operations starting in April 2017.

We began by providing an e-learning program for employees at all Group companies to develop an understanding of the new ISO standards. Meetings were then held to explain the Environmental Manual and Standards that were revised in accordance with the 2015 version. We also sought to enhance understanding of the revisions among employees through channels such as the company-wide QMS and EMS management reviews. Having trained employees, we are now fully prepared to receive an external screening in fiscal 2017 for the transition to 2015 standards.

Beyond these activities, we addressed the issue of materials containing asbestos, which are expected to be discharged in greater volume during renovation work, by revising our Basic Flow Chart of Procedures for Handling Asbestos to list the legal requirements for each stage of the process, from preparation to completing disposal, in order to ensure compliance. We also sought to prepare for emergencies such as natural disasters, which have been occurring with increasing frequency, by conducting drills to ensure that staff know how to use the items in the Emergency Supply Kit distributed to all Group employees.

Developing Environmental Leaders

We encourage employees to acquire environment-related qualifications in response to regulatory changes. 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, 2017)

Qualification	Count	
	Consolidated	Non-consolidated
Certified environmental measurer	8	7
Supervisor of management of industrial waste subject to special control	174	153
Pollution prevention manager*	71	48

* When the same person holds several qualifications, it counts as one person.

With respect to our environmental management system, we provide introductory training on ISO every year to new recruits as well as midcareer recruits. We also offer training to develop internal environmental auditors qualified to conduct simultaneous ISO 9001/ISO 14001 audits.

Number of Employees Qualified as Internal Auditors (as of March 31, 2017)

Qualification	Count	
	Consolidated	Non-consolidated
Internal auditing (QMS)	1,002	959
Internal auditing (EMS)	1,094	1,027
Internal auditing (QMS/EMS)	902	887

Environmental Education

In fiscal 2016, all Group employees took part in an e-learning program aimed at preventing problems and complaints related to the environment. In fiscal 2017, we will organize a lecture on the environment under the theme of saving energy and resources and conduct e-learning on preserving biodiversity and protecting ecosystems, which were added to our Environmental Policy.

Moreover, we will continue to improve our communication by sharing information about the environment.

Initiatives to Prevent Global Warming and Save Energy and Resources

Contributing to Conservation of the Global Environment with Our Exceptional Technological Capabilities

In November 2016, the Paris Agreement came into force as an international effort on climate change, and companies have been entrusted with a significant role in reducing global greenhouse gases.

One mission of our environmental management is to develop and introduce technologies and products that lead to energy conservation and the reduction of CO₂ and lifecycle costs by improving functionality and comfort through the technology of each of our businesses. To that end, 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 CO₂ Reduction and Outcomes (CO₂ reduction unit: t-CO₂/year)

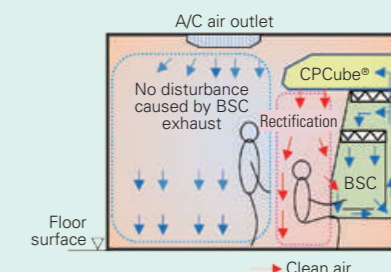
Category	Status	FY2014		FY2015		FY2016	
		Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction
Proposals	Consolidated	-	-	418	36,147	345	56,205
	Non-consolidated	430	50,449	413	35,074	313	54,877
Orders received	Consolidated	-	-	205	20,680	183	27,624
	Non-consolidated	213	21,059	200	19,607	168	27,319

Technological Developments that Have Contributed to Conservation of the Global Environment

CPCube® Air Flow Optimization System Contributes to Saving Energy at Advanced Medical Sites

Regenerative medicine is attracting attention as a treatment for recovering tissue and organ functions by using culture technology. Cells are cultured in clean rooms, which require particularly high levels of cleanliness and stringent control over temperature and humidity. However, many facilities are necessary to create such an environment, including HVAC systems, heat source equipment and filters that shut out dust, which raises energy consumption.

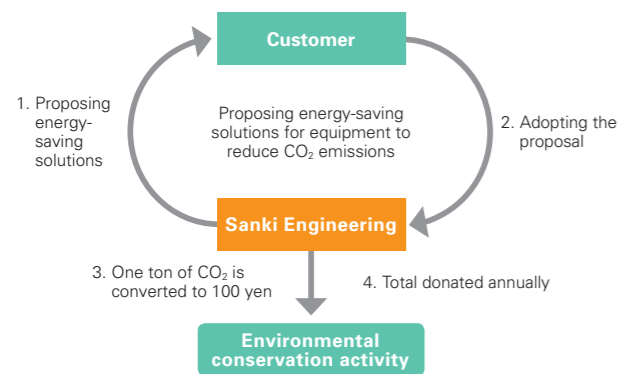
CPCube® is a unique technology that rectifies air flow and was developed by Sanki Engineering in 2015. It achieves the same degree of cleanliness as conventional cleanrooms for regenerative medicine with 20% less air flow. Making regenerative medicine widely available in the future will require creating environments in which cells can be handled with greater ease and safety, and CPCube® has generated interest in Japan and overseas as an energy-saving technology that contributes to advanced medicine.



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 CO₂ 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 2015 and the first half of fiscal 2016, customers adopted 292 of our proposals, resulting in donations totaling 3,532,900 yen (equivalent to a 35,329 t-CO₂ reduction), raising the overall total of donations since the start of the program in fiscal 2010 to 13,378,500 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 2016, 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)	1,068,000 yen in the second half of FY2015
Shinwa Gakuen	Tree planting to create a forest within the Shonan Village (Yokosuka, Kanagawa Prefecture)	1,000,000 yen in the second half of FY2015
		1,464,900 yen in the first half of FY2016

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 2016, we achieved a reduction of 8.5% from the 2012 level in energy consumption Company-wide.

In fiscal 2016, we also began compiling energy consumption data at offices of Group companies. Consolidated energy consumption for fiscal 2016 was equivalent to 1,800 kl of crude oil and CO₂ emissions generated by energy use was 3,589 t-CO₂. Looking ahead, we will continue to reduce energy use across the Sanki Engineering Group.

• Campaign to Reduce Copy Paper

To accurately grasp the state of copy paper consumption, since fiscal 2015 we have been surveying inventory and consumption at the end of each fiscal year. We used around 19,489,000 sheets of copy paper in fiscal 2016, down 6.8% from the previous year. Also, we began compiling data for Group companies in fiscal 2016, and consolidated consumption of copy paper for the year was around 21,581,000. We will continue to pursue initiatives for reducing paper use, including paperless meetings, for the Sanki Engineering Group.

Proper Disposal of Waste

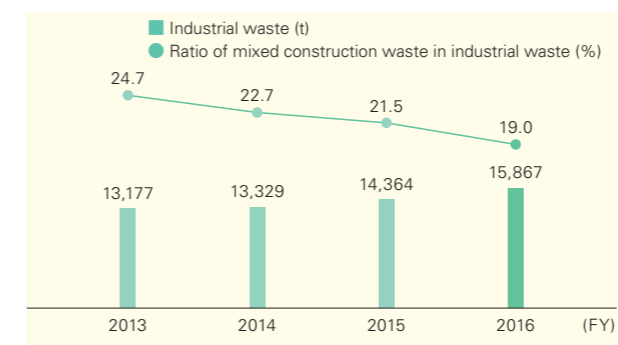
Current State of Industrial Waste

With respect to industrial waste discharged at our construction sites, we seek to understand the current status by compiling data on waste discharged at sites where Sanki Engineering is the prime contractor. Also, we began collecting data for Group companies, and as a result, the consolidated volume of waste discharged in fiscal 2016 totaled 17,909 tons.

Industrial waste discharged by Sanki Engineering alone was 15,867 tons in fiscal 2016, an increase of 1,503 tons from fiscal 2015. This was due to a single engineering project that generated a massive amount of rubble, which was transported to recycling facilities for disposal under a recycling contract. Excluding the rubble, industrial waste discharged by the Sanki Engineering Group fell by 300 tons from fiscal 2015.

We will continue to monitor and analyze the status of industrial waste discharged by the entire Group in an effort to reduce our impact on the environment. In addition, we have been introducing best practices for reducing industrial waste through our corporate intranet. As of April 2017, a total of 43 cases have been shared.

Waste Discharged at Sites where Sanki Engineering is the Prime Contractor

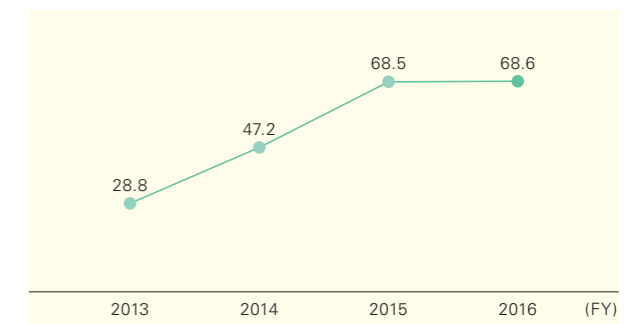


Introduction of a Digital Manifest

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 2017, 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 was 68.6% on a consolidated basis and 67.9% on a non-consolidated basis in fiscal 2016. We will continue to use digital manifests and promote proper disposal. In fiscal 2017, we will continue to engage in initiatives for improving the rate of introduction of digital manifests.

At the same time, we will review their management toward constructing a system that will provide detailed information on waste 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 engineers to ensure environmental conservation at the Japanese Antarctic Research Expedition since the Protocol on Environmental Protection to the Antarctic Treaty was adopted in 1991. We have dispatched a total of 12 engineers to the Antarctic Research Expedition and contribute to conserving the Antarctic environment at the Showa Station.

VOICE

New Wastewater Treatment Facility Begins Full-scale Operation to Protect the Antarctic Environment

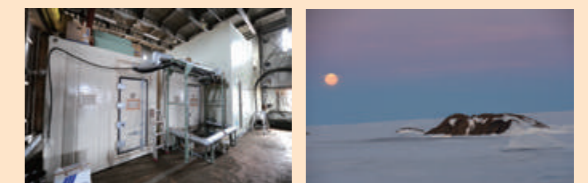
I spent 14 months, starting in December 2015, with the 57th overwintering expedition at Japan's Showa Station in Antarctica, where I worked on treating domestic wastewater and waste.

A new wastewater treatment facility based on the membrane separation activated sludge process came online during the 56th expedition, and I took over the responsibility of ensuring its round-the-clock operation. During the winter, I was faced with various problems related to the initial stage of operations, such as frozen pipes and abnormalities in the sewage tank's heating unit. Both day and night, I tended the facility, which was located at some distance from the living quarters, and worked to solve the problems one by one. I also created a maintenance and management manual. In February 2017, with the new facility up and running, I completed the disassembly of the old wastewater facility delivered by Sanki Engineering, which had continued functioning for nearly 20 years.

Being able to join the expedition during the transition to the new wastewater treatment facilities has been an invaluable experience. In the years ahead, I will offer my support so that the new facility can continue to protect the Antarctic environment, just as the old one had done.



Tomoya Iwatsuki
Environmental Protection Staff
57th Japanese Antarctic Research Expedition



The new wastewater treatment facility



Relationship with Local Communities

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	40,281
Resource recycling costs	Cost of waste disposal (construction sites)	373,150
Management costs	Cost of operating under ISO 14001	2,463
	Cost of environment-related education	62
	Cost of exhibiting in exhibitions/publishing materials	27,155
	Cost of cutting back vegetation at Yamato Engineering Center/Cost of maintaining Nature Park	3,656
R&D costs	Cost of environmental protection-related R&D	675,492
Social activities costs	Donations to environmental protection-related organizations	4,573
	Cost of participating in environmental protection activities and supporting education	2,755

Effects of Environmental Protection (Annual Comparison of Resources Consumed, Emitted Gas, Green Purchasing Results and Waste Products)

Details			FY2013	FY2014	FY2015	FY2016
Resources consumed	Number of sheets of copy paper purchased for offices (1,000 sheets)	Consolidated	-	-	-	21,581
		Non-consolidated	19,632	20,194	20,468	19,443
	Number of sheets of copy paper used (1,000 sheets)	Non-consolidated	-	20,035	20,916	19,489
	Volume of water used at Yamato Engineering Center (m ³)	Non-consolidated	17,187	22,945	28,427	15,341
Energy consumed	Energy consumed by offices (crude oil equivalent; kl)	Consolidated	-	-	-	1,800
		Non-consolidated	1,691	1,643	1,589	1,696
CO ₂ emissions (t-CO ₂)	As a result of energy consumption in offices (t-CO ₂)	Consolidated	-	-	-	3,589
		Non-consolidated	3,490	3,402	3,174	3,377
	As a result of energy consumption at worksites (t-CO ₂)	Non-consolidated	1,081	833	537	525
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)	Consolidated	-	-	-	17,946
		Non-consolidated	13,333	13,380	14,424	15,904
	Green purchasing of stationery (1,000 yen)	Non-consolidated	46,810	38,713	46,569	55,657

Economic Effects of Environmental Protection Measures

(Unit: 1,000 yen)

Related Departments	Details	FY2013	FY2014	FY2015	FY2016
Construction sites	Profit from sale of scrap, etc.	143,463	138,042	107,624	80,060
Yamato Engineering Center	Profit from sale of scrap, etc.	295	548	249	90

Important Issues	Fiscal 2016				Fiscal 2017
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Coordination with local communities Contribution to society as a corporate citizen 	Regional disaster prevention	Participate in regional disaster prevention activities	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	Participate in local cleanup activities	Held Group-wide activities in over 30 locations	○	Conservation of the local environment
	Supporting the development of the next generation	Provide educational opportunities such as environmental seminars	Offered 9 social study tours for a total of 443 students	○	Support 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.

Sanki Forest Commemorating Our 90th Anniversary

In September 2016, we held a weeding event at the Sanki Forest in Kai City, Yamanashi Prefecture, where we had planted a thousand trees in October 2015 to commemorate the 90th anniversary of our founding. With the help of staff from the local forestry cooperative, 25 of our employees used sickles to clear underbrush as volunteers.



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. Each year, the Yamato Engineering Center also offers space for the Yamato City Fire Brigade to conduct fire drills. Also, Sanki Engineering participates in the Yamato City Fire Prevention Association's fire prevention skills competition, and in fiscal 2016 it won first place in the Type 2 Fire Hydrant division.

Letter of Appreciation from the Tokyo Fire Department's Kyobashi Fire Station

On Ambulance and Rescue Day on September 9, 2016, the Tokyo Sanki Health and Safety Cooperative Association received a letter of appreciation from the head of the Kyobashi Fire Station of the Tokyo Fire Department for its outstanding service in promoting emergency administration by actively seeking to acquire knowledge and skills related to emergency aid. The letter recognized the educational program for preventing heat stroke and standard first aid training, provided seven times since 2014.

Chubu Branch Receives Letter of Appreciation from Aichi Prefecture

In recognition of its longstanding campaign against violence, the Chubu Branch received a letter of appreciation at a conference on safe town development on October 18, 2016. Presenting the letter was Aichi Governor Hideaki Omura, who is honorary chairman of the Public Interest Incorporated Foundation Aichi People's Council Against Violence.

Cleanup and Environmental Beautification Activities

Each branch, branch office and Group company participates in cleanup activities in areas around their offices or worksites as well as environmental beautification activities organized by local governments. In fiscal 2016, we participated in cleanup activities around our head office and the Yamato Engineering Center, while the Hokkaido branch joined "Love Earth Clean Up" in the Hokkaido campaign.

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.



Left: Participants of the Hokkaido campaign's "Love Earth Clean Up"
Right: Cleanup activity in the Agami area of Tsushima

Sanki Nature Park Visitors Exceed 10,000

On August 19, 2016, visitors to the Sanki Nature Park biotope, at the Yamato Engineering Center, exceeded 10,000 for the first time since the park was opened to the public in 2005. The 1,000-square-meter area includes a large pond, smaller ponds, a marsh, a stream, walking paths and other features that contribute to preserving biodiversity by providing wildlife with space to rest and breed. Spotbilled ducks have been migrating to the park since it was opened and were observed breeding for the fourth year in 2016. 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.

Supporting the Development of the Next Generation

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.

On November 19, 2016, we held the environmental seminar "Looking at the Earth Today from Antarctica"

at a civic study center in response to a request from Yamato City, Kanagawa Prefecture. We introduced to the public the ways we are protecting the Antarctic environment by treating wastewater and other waste at the Showa Base.



Environmental seminar

Sanki Kankyo Service Welcomes Social Studies Tours by Local Schools

Our Group company Sanki Kankyo Service Co., Ltd. hosts field trips for elementary schoolchildren at its offices and water purification plant. In May 2016, the Imakane Office in Hokkaido welcomed 36 students from Imakane and Tanekawa elementary schools. In August, the Sea Clean Suttsu and Suttsu Water Purification Center in Hokkaido received 21 students from Suttsu Elementary School, and in September, Sea Clean Suttsu welcomed 9 children from Oshoro Elementary School. And in November, the Oshamanbe Office in Hokkaido received 32 students from Oshamanbe Elementary School and the Ryotsu Office in Niigata Prefecture welcomed 28 students from Kamo Elementary School. The students learned about the role and workings of the sewerage system.

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 2016, 73 employees at the head office and 53 employees at the Yamato Engineering Center donated blood in November 2016 and January 2017, respectively.

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.



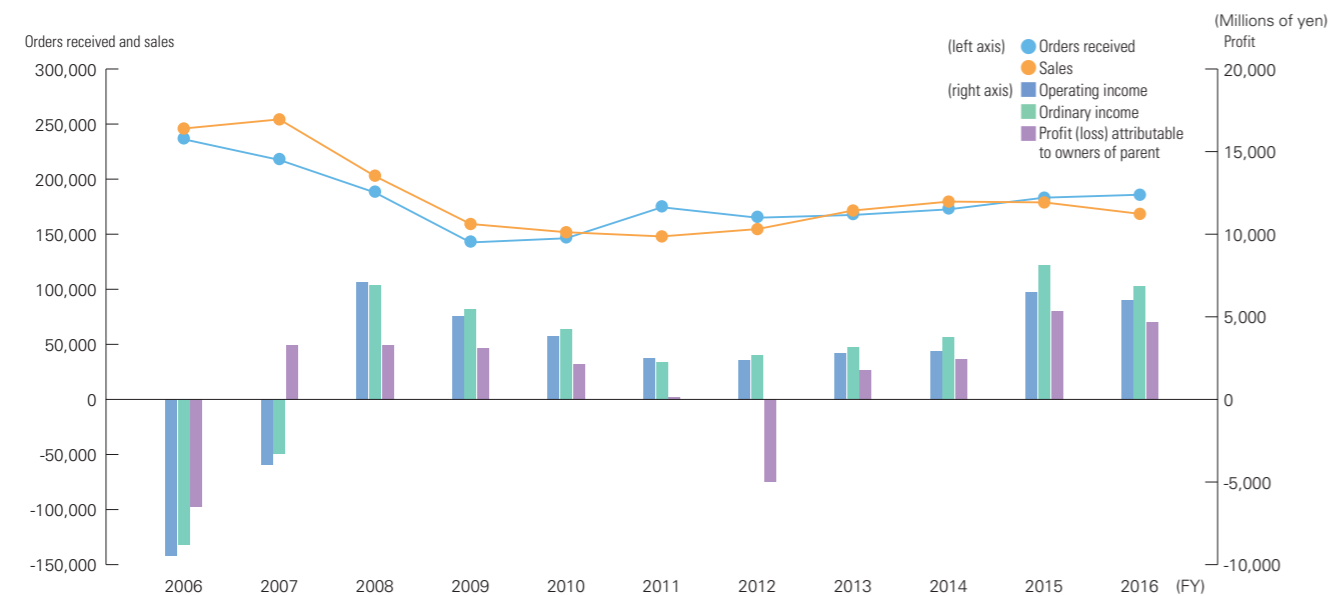
Financial Report

11-year Consolidated Financial Summary

(Millions of yen)

Fiscal year	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	Year ended March 31, 2017
Fiscal year											
Orders received	237,022	218,256	188,653	143,348	147,129	175,291	165,800	168,295	173,398	183,270	185,880
Balance carried forward	144,456	108,253	93,566	77,641	72,976	100,272	111,414	108,219	102,019	106,388	123,756
Net sales	246,159	254,460	203,340	159,273	151,794	147,994	154,658	171,496	179,598	178,901	168,512
Selling, general and administrative expenses	13,994	13,962	14,978	15,419	15,763	15,712	15,199	15,604	15,015	16,419	16,526
Operating income or loss	(9,502)	(3,958)	7,125	5,027	3,843	2,525	2,391	2,818	2,951	6,509	6,012
Ordinary income or loss	(8,782)	(3,307)	6,900	5,456	4,239	2,268	2,680	3,146	3,809	8,135	6,880
Profit (loss) attributable to owners of parent*	(6,536)	3,134	3,283	3,141	2,124	176	(4,992)	1,763	2,461	5,327	4,698
Cash flows from operating activities	(2,819)	(4,097)	19,177	1,294	11,554	(2,697)	9,729	(9,403)	(139)	5,220	10,845
Cash flows from investing activities	2,833	11,511	1,726	(1,664)	2,610	(1,046)	(9,481)	(3,506)	3,440	5,520	(1,644)
Cash flows from financing activities	(2,697)	(3,812)	(4,377)	(2,936)	(1,883)	(280)	(1,028)	(4,152)	(2,901)	(1,826)	(2,458)
Cash and cash equivalents at end of fiscal year	16,018	19,617	36,142	32,825	45,135	41,097	40,367	23,510	23,667	32,501	39,187
As of end of fiscal year under review											
Total assets	251,323	215,680	176,664	163,307	158,501	163,120	166,477	170,181	176,382	169,423	166,612
Net assets	88,943	80,276	78,780	80,498	79,833	79,662	76,932	74,917	84,869	84,557	85,961
Number of employees	2,179	2,225	2,239	2,272	2,316	2,289	2,246	2,283	2,282	2,309	2,339
Per share information											
Earnings per share (yen)	(88.47)	42.42	44.45	42.86	29.67	2.46	(71.04)	26.46	38.30	83.84	73.91
Book-value per share (yen)	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	1,350.08
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	20.00	30.00	30.00
Other information											
Equity ratio (%)	35.4	37.2	44.6	49.3	50.3	48.8	46.2	44.0	48.1	49.8	51.5
Return on assets (%)	(3.5)	(1.4)	3.5	3.2	2.6	1.4	1.6	1.9	2.2	4.7	4.1
Return on equity (%)	(7.0)	3.7	4.1	3.9	2.7	0.2	(6.4)	2.3	3.0	6.3	5.5

* 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 2007 and the year ended March 2015.



Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets:		
Cash and deposits	¥ 26,501	¥ 34,187
Notes and accounts receivable on completed construction contracts and other	71,246	58,168
Electronically recorded monetary claims	4,267	8,570
Securities	6,999	6,999
Inventories:		
Costs on uncompleted construction contracts (Note 4)	2,268	1,692
Raw materials and supplies	468	453
Deferred tax assets	2,062	1,615
Other	1,760	3,231
Allowance for doubtful accounts	(84)	(13)
Total current assets	115,491	114,906
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	38,998	39,364
Accumulated depreciation	(35,112)	(35,363)
Buildings and structures, net	3,885	4,001
Machinery, equipment, vehicles, and tools, furniture and fixtures	3,452	3,187
Accumulated depreciation	(3,057)	(2,789)
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	395	397
Land	3,959	3,958
Lease assets	636	676
Accumulated depreciation	(170)	(205)
Lease assets, net	466	470
Construction in progress	8	21
Total property, plant and equipment	8,715	8,849
Intangible assets	533	542
Investments and other assets:		
Investment securities (Note 1 and 2)	34,789	32,497
Long-term loans receivable	169	145
Asset for retirement benefits	4,503	4,493
Lease and guarantee deposits	1,145	1,256
Insurance funds	419	486
Deferred tax assets	206	237
Other (Note 2)	4,558	4,151
Allowance for doubtful accounts	(1,109)	(955)
Total investments and other assets	44,682	42,314
Total noncurrent assets	53,931	51,705
Total assets	¥ 169,423	¥ 166,612

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other	¥ 51,460	¥ 48,277
Short-term loans payable	5,672	5,654
Lease obligations	139	158
Income taxes payable	2,125	887
Advances received on uncompleted construction contracts	3,140	5,728
Provision for bonuses	2,861	2,285
Provision for directors' bonuses	120	143
Provision for warranty costs	849	422
Provision for loss on construction contracts (Note 4)	1,186	970
Provision for loss on compensations	30	-
Deferred tax liabilities	18	22
Other	5,258	4,223
Total current liabilities	72,863	68,776
Noncurrent liabilities:		
Long-term loans payable	320	-
Lease obligations	506	452
Liability for retirement benefits	1,834	2,274
Provision for directors' retirement benefits	79	79
Deferred tax liabilities	4,742	4,187
Other	4,518	4,881
Total noncurrent liabilities	12,001	11,875
Total liabilities	84,865	80,651
Net assets:		
Shareholders' equity:		
Capital stock	8,105	8,105
Capital surplus	4,181	4,181
Retained earnings	65,586	68,314
Treasury stock	(2,258)	(2,251)
Total shareholders' equity	75,614	78,348
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	13,012	10,928
Foreign currency translation adjustment	(53)	(125)
Retirement benefits asset and liability adjustments	(4,135)	(3,337)
Total accumulated other comprehensive income	8,822	7,465
Subscription right to shares	90	126
Non-controlling interests	30	19
Total net assets	84,557	85,961
Total liabilities and net assets	¥ 169,423	¥ 166,612

See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Net sales:		
Net sales of completed construction contracts	¥ 177,262	¥ 166,817
Net sales of real estate business and other	1,638	1,694
Total net sales	178,901	168,512
Cost of sales:		
Cost of sales of completed construction contracts (Notes 1 and 2)	154,706	144,632
Cost of sales on real estate business and other	1,265	1,340
Total cost of sales	155,971	145,973
Gross profit:		
Gross profit on completed construction contracts	22,556	22,184
Gross profit on real estate business and other	373	353
Total gross profit	22,929	22,538
Selling, general and administrative expenses:		
Employees' salaries and allowances	6,392	6,303
Provision for bonuses	1,224	930
Provision for directors' bonuses	120	144
Retirement benefit expenses	545	943
Depreciation	383	369
Other (Note 1)	7,752	7,834
Total selling, general and administrative expenses	16,419	16,526
Operating income	6,509	6,012
Non-operating income:		
Interest income	31	20
Dividends income	675	684
Insurance income	653	247
Equity in earnings of affiliates	771	-
Reversal of allowance for doubtful accounts	-	113
Other	234	177
Total non-operating income	2,365	1,243
Non-operating expenses:		
Interest expense	86	84
Provision of allowance for doubtful accounts	255	-
Repair expenses for construction contracts	205	67
Other	193	222
Total non-operating expenses	740	375
Ordinary income	8,135	6,880
Extraordinary income:		
Gain on sales of noncurrent assets	58	-
Gain on sales of investment securities	155	650
Total extraordinary income	214	650
Extraordinary loss:		
Impairment loss (Note 3)	423	17
Loss on retirement of noncurrent assets	36	419
Office transfer expenses	-	44
Settlement package	-	43
Loss on transfer of stock of affiliates	55	-
Total extraordinary losses	514	525
Profit (loss) before income taxes	7,834	7,004
Income taxes:		
Income taxes-current	2,413	1,833
Income taxes-deferred	75	482
Total income taxes	2,489	2,315
Profit (loss)	¥ 5,345	¥ 4,688
Profit (loss) attributable to:		
Owners of parent	¥ 5,327	¥ 4,698
Non-controlling interests	¥ 17	¥ (9)
Other comprehensive income (Note 4):		
Unrealized gains on available-for-sale securities	¥ (2,319)	¥ (2,084)
Foreign currency translation adjustment	(102)	(71)
Remeasurements of defined benefit plans	(1,882)	798
Total other comprehensive income	(4,304)	(1,357)
Comprehensive income	¥ 1,041	¥ 3,330
Comprehensive income attributable to:		
Owners of parent	¥ 1,023	¥ 3,341
Non-controlling interests	¥ 17	¥ (10)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

[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
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)		-
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						Total net assets
	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	
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							-
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

[For the year ended March 31, 2017]

(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	¥ 65,586	¥ (2,258)	¥ 75,614
Changes in items during the period					
Dividends from surplus			(1,970)		(1,970)
Profit (loss) attributable to owners of parent			4,698		4,698
Purchase of treasury stock					-
Disposal of treasury stock			(0)		6
Transfer of loss on disposal of treasury stock			0		(0)
Change of scope of equity method					-
Net changes in items other than shareholders' equity					
Total changes in items during the period	-	-	2,727	6	2,734
Balance at the end of current period	¥ 8,105	¥ 4,181	¥ 68,314	¥ (2,251)	¥ 78,348

	Accumulated other comprehensive income						Total net assets
	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	
Balance at the beginning of current period	¥ 13,012	¥ (53)	¥ (4,135)	¥ 8,822	¥ 90	¥ 30	¥ 84,557
Changes in items during the period							
Dividends from surplus							(1,970)
Profit (loss) attributable to owners of parent							4,698
Purchase of treasury stock							-
Disposal of treasury stock							6
Transfer of loss on disposal of treasury stock							-
Change of scope of equity method							-
Net changes in items other than shareholders' equity	(2,084)	(71)	798	(1,356)	36	(10)	(1,330)
Total changes in items during the period	(2,084)	(71)	798	(1,356)	36	(10)	1,403
Balance at the end of current period	¥ 10,928	¥ (125)	¥ (3,337)	¥ 7,465	¥ 126	¥ 19	¥ 85,961

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ 7,834	¥ 7,004
Depreciation and amortization	723	718
Impairment loss	423	17
Loss on retirement of noncurrent assets	36	419
Office transfer expenses	–	44
Increase (decrease) in allowance for doubtful accounts	445	(128)
(Decrease) increase in liability for retirement benefits	(3,985)	1,606
Decrease in provision for directors' retirement benefits	(43)	–
Decrease in provision for loss on construction contracts	(128)	(215)
Decrease in provision for loss on compensations	(441)	(30)
Interest and dividends income	(706)	(705)
Interest expense	86	84
Equity in earnings of affiliates	(771)	–
(Gain) loss on sales of property, plant and equipment	(58)	2
Gain on sales of investment securities	(155)	(649)
Loss on transfer of stock of affiliates	55	–
Decrease in notes and accounts receivable on completed construction contracts and other	1,940	8,808
Decrease in costs on uncompleted construction contracts	202	575
Decrease in notes and accounts payable on construction contracts and other	(4,666)	(3,180)
Increase in advances received on uncompleted construction contracts	503	2,588
Increase (decrease) in other current liabilities	2,244	(783)
Other	2,219	(2,705)
Subtotal	5,758	13,472
Interest and dividends received	711	707
Interest paid	(86)	(83)
Income taxes paid	(1,415)	(3,205)
Income taxes refunded	252	0
Payments for office transfer expenses	–	(44)
Net cash provided by operating activities	5,220	10,845
Cash flows from investing activities:		
Payments into time deposits	–	(29)
Proceeds from withdrawal of time deposits	5,600	333
Purchase of securities	(1,500)	(5,000)
Proceeds from redemption of securities	500	4,000
Purchase of property, plant and equipment	(120)	(452)
Proceeds from sales of property, plant and equipment	75	9
Purchase of investment securities	(28)	(1,328)
Proceeds from sales of investment securities	1,170	1,008
Proceeds from redemption of investment securities	–	200
Execution of loan	(4)	(61)
Collection of loans receivable	98	27
Proceeds from maturity of insurance funds	33	57
Other	(303)	(408)
Net cash provided by (used in) investing activities	5,520	(1,644)
Cash flows from financing activities:		
Net (decrease) increase in short-term loans payable	(0)	2
Repayments of long-term loans payable	(340)	(340)
Purchase of treasury stock	(0)	–
Proceeds from exercise of stock options	0	0
Repayments of lease obligations	(119)	(150)
Cash dividends paid	(1,366)	(1,970)
Net cash used in financing activities	(1,826)	(2,458)
Effect of exchange rate changes on cash and cash equivalents	(81)	(57)
Net increase in cash and cash equivalents	8,833	6,686
Cash and cash equivalents at beginning of period	23,667	32,501
Cash and cash equivalents at end of period (Note 1)	¥ 32,501	¥ 39,187

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: 4

Names of unconsolidated subsidiaries:

Tomakomai Netsu Services Co., Ltd.
Sanki Construction Engineering (Shanghai) Co., Ltd.
AEROSTRIP Corporation
Sendai Kankyochozen Co., Ltd.

(3) Reasons for exclusion of unconsolidated subsidiaries from consolidation

The four 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: –

* Ouclean Technology Co., Ltd., an affiliate which had been accounted for by the equity method for the year ended March 31, 2016, was excluded from application of the equity method because the Company transferred all shares of the affiliate in this fiscal year.

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

Unconsolidated subsidiaries: 4

Affiliates: 1

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

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

The four 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, 2017.

(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, 2017, net sales of completed construction contracts of ¥94,389 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.

Changes in Presentation of Consolidated Financial Statements

Consolidated Statement of Cash Flows

"Loss on retirement of noncurrent assets", which was included in "Cash flows from operating activities-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 cash flows has been reclassified, and as a result, "Cash flows from operating activities-Other" of ¥2,255 million in the prior fiscal year has been divided into "Loss on retirement of noncurrent assets" of ¥36 million and "Cash flows from operating activities-Other" of ¥2,219 million in the consolidated statement of cash flows for the prior fiscal year provided herein.

Additional Information

Implementation Guidance on Recoverability of Deferred Tax Assets

The Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016) from the beginning of the fiscal year ended March 31, 2017.

Notes to Consolidated Balance Sheet

(Note 1)

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

	(Millions of yen)	
	FY2015	FY2016
Stock	¥ 332	¥ 422
Other equity securities	117	117

(Note 2)

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

	(Millions of yen)	
	FY2015	FY2016
Investment securities	¥ 5	¥ 5

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

	(Millions of yen)	
	FY2015	FY2016
Investments and other assets (time deposits)	¥ 33	¥ 29

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

	(Millions of yen)	
	FY2015	FY2016
Investments and other assets (time deposits)	¥ 10	¥ 10

(Note 3)

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

	(Millions of yen)	
	FY2015	FY2016
Guarantee for borrowings by Kokyuki Allergy Center ESCO Co., Ltd.	¥ 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)	
	FY2015	FY2016
Guarantee to capital investors of THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.	¥ 29	¥ 30

(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)	
	FY2015	FY2016
	¥ 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, 2016 and 2017 are as follows:

(Millions of yen)	
FY2015	FY2016
¥ 1,091	¥ 1,084

(Note 2)

Provision for loss on construction contracts included in cost of sales for the years ended March 31, 2016 and 2017 are as follows:

(Millions of yen)	
FY2015	FY2016
¥ (128)	¥ (215)

(Note 3)

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 fixtures	¥ 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, furniture and fixtures have been recognized as the impairment loss in the extraordinary losses.

Impairment losses were recognized for the following assets for the year ended March 31, 2017:

(Millions of yen)			
Location	Use	Asset class	Amount
Yamato-shi, Kanagawa	Idle assets	Machinery and equipment	¥ 17

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 idle assets which were hardly expected to be used in the future was reduced to the estimated recoverable amount. The estimated recoverable amount was based on their net realizable value, which was deemed to be zero for the idle assets that were hard to be sold. The reduction was 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, 2016 and 2017:

(Millions of yen)		
	FY2015	FY2016
Unrealized gains on available-for-sale securities:		
Amount arising during the year	¥ (3,832)	¥ (2,419)
Reclassification adjustments for gains and losses included in net income	(0)	(638)
Amount before tax effect	(3,833)	(3,057)
Tax effect	1,513	973
Unrealized gains on available-for-sale securities	(2,319)	(2,084)
Foreign currency translation adjustment:		
Amount arising during the year	(102)	(71)
Remeasurements of defined benefit plans:		
Amount arising during the year	(3,078)	(239)
Reclassification adjustments for gains and losses included in net income	435	1,396
Amount before tax effect	(2,643)	1,156
Tax effect	760	(357)
Remeasurements of defined benefit plans	(1,882)	798
Total other comprehensive income	¥ (4,304)	¥ (1,357)

Notes to Consolidated Statement of Changes in Net Assets

[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.

[For the year ended March 31, 2017]

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

(Shares)

Type of shares	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
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, 2016	Increase	Decrease	As of March 31, 2017
Common stock	3,107,491	-	9,000	3,098,491

(Note) Decrease of 9,000 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, 2017
The Company (Parent company)	Stock options	126
Total		126

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 29, 2016 Ordinary general meeting of shareholders	Common stock	1,334	21.00	March 31, 2016	June 30, 2016
November 11 2016 Meeting of board of directors	Common stock	635	10.00	September 30, 2016	December 9, 2016

(Note) Dividends of ¥21.00 per share as a resolution at the June 29, 2016 Ordinary general meeting of shareholders included an extra dividend of ¥12.00.

(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 27, 2017 Ordinary general meeting of shareholders	Common stock	1,271	Retained earnings	20.00	March 31, 2017	June 28, 2017

(Note) Dividends of ¥20.00 per share include an extra dividend of ¥10.00.

Notes to Consolidated Statement of Cash Flows

(Note 1)

Reconciliation of cash and deposits to cash and cash equivalents:

(Millions of yen)

	FY2015	FY2016
Cash and deposits	¥ 26,501	¥ 34,187
Short-term investments (securities) with a maturity within three months after the acquisition date	5,999	4,999
Cash and cash equivalents	¥ 32,501	¥ 39,187

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 sheet, 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)

	FY2015			FY2016		
	Carrying value*	Estimated fair value*	Unrealized gain (loss)	Carrying value*	Estimated fair value*	Unrealized gain (loss)
Assets:						
1) Cash and deposits	¥ 26,501	¥ 26,501	¥ -	¥ 34,187	¥ 34,187	¥ -
2) Notes and accounts receivable on completed construction contracts and other	71,246	71,246	-	58,168	58,168	-
3) Electronically recorded monetary claims	4,267	4,267	-	8,570	8,570	-
4) Securities and investment securities:						
Held-to-maturity debt securities	7,302	7,307	5	7,101	7,105	3
Available-for-sale securities	33,047	33,047	-	29,790	29,790	-
Total assets	142,366	142,371	5	137,818	137,822	3
Liabilities:						
Notes and accounts payable on construction contracts and other	(51,460)	(51,460)	-	(48,277)	(48,277)	-
Total liabilities	(51,460)	(51,460)	-	(48,277)	(48,277)	-
Derivative transactions	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

* The liabilities are indicated by parentheses.

(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, 2017, 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	
	FY2015	FY2016
Unlisted stocks	¥ 1,438	¥ 2,605

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)

	FY2015				FY2016			
	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	¥ 26,492	¥ -	¥ -	¥ -	¥ 34,179	¥ -	¥ -	¥ -
Notes and accounts receivable on completed construction contracts and other	71,246	-	-	-	58,168	-	-	-
Electronically recorded monetary claims	4,267	-	-	-	8,570	-	-	-
Securities and investment securities:								
Held-to-maturity securities (corporate bonds)	6,999	102	200	-	6,999	101	-	-
Available-for-sale securities with maturity date (corporate bonds)	-	101	-	-	-	-	-	116
Total	¥ 109,007	¥ 203	¥ 200	¥ -	¥ 107,918	¥ 101	¥ -	¥ 116

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

(Millions of yen)

	FY2015					FY2016						
	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	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 5,334	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	340	320	-	-	-	-	320	-	-	-	-	-
Lease obligations	139	132	98	249	22	3	158	124	263	46	16	2
Total	¥ 5,811	¥ 452	¥ 98	¥ 249	¥ 22	¥ 3	¥ 5,813	¥ 124	¥ 263	¥ 46	¥ 16	¥ 2

Securities

1) Trading securities

Not applicable, because the Company and its consolidated subsidiaries had no trading securities both at March 31, 2016 and 2017.

2) Held-to-maturity debt securities

(Millions of yen)

Type	FY2015			FY2016		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Securities whose fair value exceeded their carrying value						
Government bonds	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Corporate bonds	1,302	1,308	5	101	105	3
Other	-	-	-	-	-	-
Subtotal	1,302	1,308	5	101	105	3
Securities whose carrying value exceeded their fair value						
Government bonds	-	-	-	-	-	-
Corporate bonds	4,999	4,999	(0)	4,999	4,999	(0)
Other	1,000	1,000	-	2,000	1,999	(0)
Subtotal	5,999	5,999	(0)	6,999	6,999	(0)
Total	¥ 7,302	¥ 7,307	¥ 5	¥ 7,101	¥ 7,105	¥ 3

3) Available-for-sale securities

(Millions of yen)

Type	FY2015			FY2016		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeded their acquisition cost						
Stock	¥ 32,490	¥ 13,883	¥ 18,606	¥ 29,480	¥ 13,958	¥ 15,521
Bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	32,490	13,883	18,606	29,480	13,958	15,521
Securities whose acquisition cost exceeded their carrying value						
Stock	456	508	(51)	193	216	(22)
Bonds	101	101	(0)	116	118	(1)
Other	-	-	-	-	-	-
Subtotal	557	610	(52)	310	334	(24)
Total	¥ 33,047	¥ 14,493	¥ 18,554	¥ 29,790	¥ 14,292	¥ 15,497

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

(Millions of yen)

Type	FY2015			FY2016		
	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	¥ 1,164	¥ 154	¥ -	¥ 892	¥ 638	¥ -
Bonds	-	-	-	100	-	0
Other	5	0	-	16	11	0
Total	¥ 1,170	¥ 155	¥ -	¥ 1,009	¥ 650	¥ 0

(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 ¥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, and an impairment loss on investment securities of ¥1 million (available-for-sale securities for which it is deemed extremely difficult to determine the fair value of ¥1 million) was recorded for the year ended March 31, 2017. 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

Not applicable both for the years ended March 31, 2016 and 2017

2. Interest-related transactions

Not applicable both for the years ended March 31, 2016 and 2017

2) Derivative transactions, to which hedge accounting is applied

1. Currency-related transactions

Not applicable both for the years ended March 31, 2016 and 2017

2. Interest-related transactions

Not applicable both for the years ended March 31, 2016 and 2017

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, 2016 and 2017 are as follows:

	(Millions of yen)	
	FY2015	FY2016
Balance at the beginning of the year	¥ 20,041	¥ 22,153
Service cost	998	1,177
Interest cost	235	78
Actuarial loss	2,070	50
Retirement benefit paid	(1,192)	(1,066)
Other	(0)	(0)
Balance at the end of the year	¥ 22,153	¥ 22,393

(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, 2016 and 2017 are as follows:

	(Millions of yen)	
	FY2015	FY2016
Balance at the beginning of the year	¥ 21,366	¥ 24,821
Expected return on plan assets	545	566
Actuarial loss	(1,007)	(189)
Contributions by employers	4,500	-
Retirement benefits paid	(582)	(587)
Balance at the end of the year	¥ 24,821	¥ 24,611

3. The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2016 and 2017 for the Company's and its consolidated subsidiaries' defined benefit plans:

	(Millions of yen)	
	FY2015	FY2016
Retirement benefit obligation under the funded plans	¥ 21,716	¥ 21,886
Plan assets at fair value	(24,821)	(24,611)
	(3,105)	(2,724)
Retirement benefit obligation under the unfunded plans	437	506
Net asset for retirement benefits	(2,668)	(2,218)
Liability for retirement benefits in the balance sheet	1,834	2,274
Asset for retirement benefits in the balance sheet	(4,503)	(4,493)
Net asset for retirement benefits	¥ (2,668)	¥ (2,218)

4. The components of retirement benefit expenses for the years ended March 31, 2016 and 2017 are as follows:

	(Millions of yen)	
	FY2015	FY2016
Service cost	¥ 998	¥ 1,177
Interest cost	235	78
Expected return on plan assets	(545)	(566)
Amortization of actuarial loss	478	1,396
Amortization of prior service cost	(43)	-
Other	6	5
Retirement benefit expenses	¥ 1,131	¥ 2,090

(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, 2016 and 2017 are as follows:

	(Millions of yen)	
	FY2015	FY2016
Prior service cost	¥ (43)	¥ -
Actuarial (loss) gain	(2,599)	1,156
Total	¥ (2,643)	¥ 1,156

6. The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2017 are as follows:

	(Millions of yen)	
	FY2015	FY2016
Unrecognized actuarial loss	¥ 5,971	¥ 4,815
Total	¥ 5,971	¥ 4,815

7. The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2016 and 2017 are as follows:

	FY2015	FY2016
Bonds	42 %	39 %
Stocks	19	26
Short-term funds	13	9
Life insurance general accounts	21	23
Other	5	3
Total	100 %	100 %

(Note) The plan assets included the retirement benefit trust for the corporate pension plans, which comprised 12% and 8% of the total at March 31, 2016 and 2017, respectively, as well as the retirement benefit trust for the lump-sum payment plans, which comprised 27% of the total both at March 31, 2016 and 2017.

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:

	FY2015	FY2016
Discount rate (defined-benefit corporate pension plan)	0.408 %	0.408 %
Discount rate (lump-sum payment plans)	0.279 %	0.279 %
Expected long-term rate of return on plan assets	2.0-2.5 %	2.0-2.5 %

3) Defined contribution plans

The amount contributed to the defined contribution plan by the Company for the years ended March 31, 2016 and 2017 was ¥110 million and ¥114 million, respectively.

Stock Options

1) Stock option expenses were included in "Selling, general and administrative expenses" for the years ended March 31, 2016 and 2017 were ¥46 million and ¥42 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)	2016 Stock option (Share subscription rights)
Name of company	The Company	The Company	The Company	The Company
Resolution date	June 26, 2013	June 26, 2014	June 25, 2015	June 29, 2016
Title and number of individuals covered by the plan:				
Directors (except external directors)	8	6	6	6
Corporate officers (except persons concurrently serving as a director)	20	20	25	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	Common stock 52,000 shares
Grant date	July 11, 2013	July 11, 2014	July 10, 2015	July 14, 2016
Conditions for being vested	None	None	None	None
Required service period	None	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	July 15, 2016 to July 14, 2046

(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, 2017:

Stock option activity	2013 Stock option (Share subscription rights)	2014 Stock option (Share subscription rights)	2015 Stock option (Share subscription rights)	2016 Stock option (Share subscription rights)
Share subscription rights which are not yet vested (Number of shares):				
Outstanding at March 31, 2016	-	-	-	-
Granted	-	-	-	52,000 shares
Forfeited	-	-	-	-
Vested	-	-	-	52,000 shares
Outstanding at March 31, 2017	-	-	-	-
Share subscription rights which have already been vested (Number of shares):				
Outstanding at March 31, 2016	32,000 shares	36,000 shares	52,000 shares	-
Vested	-	-	-	52,000 shares
Exercised	3,000 shares	3,000 shares	3,000 shares	-
Forfeited	-	-	-	-
Outstanding at March 31, 2017	29,000 shares	33,000 shares	49,000 shares	52,000 shares
Exercise price (Yen)	¥ 1	¥ 1	¥ 1	¥ 1
Weighted average exercise price (Yen)	¥ 863	¥ 863	¥ 863	-
Fair value per stock at the grant date (Yen)	¥ 579	¥ 695	¥ 896	¥ 822

3) Fair value at the grant date for stock options which were issued during the year ended March 31, 2017 was estimated using the Black-Scholes option pricing model with the following assumptions.

	2016 Stock option (Share subscription rights)
Expected volatility (Note 1)	31.173%
Expected holding period (Note 2)	2.7 years
Expected dividend (Note 3)	¥ 18 per share
Risk-free rate (Note 4)	(0.355%)

(Note 1) The volatility of the share price is estimated based on the market prices of the Company's stock from November 1, 2013 to July 14, 2016.

(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 an extra dividend of ¥12.00) for the year ended March 31, 2016.

(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, 2016 and 2017 were as follows:

	(Millions of yen)	
	FY2015	FY2016
1. Deferred tax assets		
Allowance for doubtful accounts	¥ 214	¥ 196
Provision for bonuses	898	721
Accrued business taxes	175	103
Impairment loss	1,923	1,817
Provision for warranty costs	256	130
Provision for loss on construction contracts	366	300
Liability for retirement benefits	2,184	2,051
Provision for directors' retirement benefits	29	28
Loss on devaluation of investment securities	440	240
Loss on devaluation of utility rights	134	128
Other	762	805
Subtotal	7,384	6,522
Valuation allowance for deferred tax assets	(2,219)	(2,180)
Total deferred tax assets	5,165	4,341
2. Deferred tax liabilities		
Deferred capital gains for tax purposes	(686)	(673)
Gain on valuation of investment securities	(1,263)	(1,263)
Unrealized gains on available-for-sale securities	(5,541)	(4,568)
Other	(165)	(193)
Total deferred tax liabilities	(7,657)	(6,698)
Net deferred tax liabilities	¥ (2,492)	¥ (2,356)

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, 2017 is presented as follows:

	FY2016
Statutory tax rate	30.9 %
Items permanently not deductible for tax purposes	2.1
Items permanently not taxable	(0.6)
Inhabitants' per capita taxes	1.4
Valuation allowance	(2.5)
Research and development tax credit	(1.0)
Donation not deductible for tax purposes	0.8
Difference of statutory tax rate between the Company and its consolidated subsidiaries	1.0
Other	1.0
Effective tax rate	33.1 %

(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.

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 ¥271 million and ¥276 million for the years ended March 31, 2016 and 2017, 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.

Carrying value on the consolidated balance sheet and corresponding fair value of those rental real estate properties for the years ended March 31, 2016 and 2017 were as follows:

	(Millions of yen)	
	FY2015	FY2016
Carrying value		
At beginning of the year	¥ 3,868	¥ 3,962
Net change during the year	94	(43)
At end of the year	3,962	3,918
Fair value at end of the year	¥ 14,159	¥ 20,070

Notes:

- The carrying value represents the acquisition cost less accumulated depreciation and impairment loss.
- 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. Increase in the carrying value included in the net change during the year was mainly due to acquisition of rental real estate properties of ¥394 million, and decrease in the carrying value mainly due to depreciation of ¥250 million and transfer of properties of ¥177 million resulting from change of their usage, for the year ended March 31, 2017.
- 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, 2016]

	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.

[For the year ended March 31, 2017]

(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	¥ 140,722	¥ 8,191	¥ 17,862	¥ 1,589	¥ 168,366	¥ 102	¥ 168,468	¥ 43	¥168,512
Inter-segment sales and transfers	845	0	409	2	1,258	396	1,655	(1,655)	-
Total sales	¥141,567	¥ 8,192	¥ 18,271	¥ 1,592	¥169,624	¥ 499	¥170,123	¥ (1,611)	¥168,512
Segment profit (loss)	¥ 6,404	¥ (138)	¥ 671	¥ 189	¥ 7,127	¥ 22	¥ 7,150	¥ (270)	¥ 6,880
Other items:									
Depreciation	¥ 330	¥ 33	¥ 81	¥ 276	¥ 721	¥ 0	¥ 721	¥ (2)	¥ 718
Interest income	9	0	4	-	13	0	13	7	20
Interest expenses	47	0	3	-	51	-	51	33	84
Extraordinary Income	598	0	47	-	646	-	646	3	650
Gain on sales of investment securities	598	0	47	-	646	-	646	3	650
Extraordinary loss	118	4	24	24	172	-	172	353	525

(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 ¥270 million for the year ended March 31, 2017 included corporate general loss of ¥75 million which was not allocable to the reportable segments, reversal of interest expenses of ¥279 million which had been allocated to each of the reportable segments for administrative purpose, and adjustments of ¥474 million for having recognized gain on sales of investment securities and others attributable to each of the reportable segments as the extraordinary income. The corporate general profit and loss consisted mainly of general and administrative expenses, interest income (expense), and dividends income.

(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, 2016 and 2017]

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, 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.

[For the year ended March 31, 2017]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Other	Total	Adjustments (Note)	Consolidated
Impairment loss	¥-	¥-	¥ 17	¥-	¥-	¥ 17	¥-	¥ 17

(Information about amortization and balance of goodwill by reportable segment)

[For the years ended March 31, 2016 and 2017]

Not applicable

(Information about gain on negative goodwill by reportable segment)

[For the years ended March 31, 2016 and 2017]

Not applicable

Per Share Data

	FY2015	FY2016
Net assets per share	¥ 1,328.60	¥ 1,350.08
Profit (loss) attributable to owners of parent per share:		
Basic	¥ 83.84	¥ 73.91
Diluted	¥ 83.70	¥ 73.74

Basis for the calculation of basic and diluted profit (loss) attributable to owners of parent per share is summarized as follows:

(Millions of yen)

	FY2015	FY2016
Basic:		
Profit (loss) attributable to owners of parent	¥ 5,327	¥ 4,698
Amount not available to shareholders of common stock	-	-
Profit (loss) attributable to owners of parent available to shareholders of common stock	¥ 5,327	¥ 4,698
Average number of shares of common stock outstanding	63,550 thousand shares	63,561 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)	108 thousand shares (108 thousand shares)	148 thousand shares (148 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	-	-

Subsequent Events

1. Acquisition of treasury stock

It was resolved at the meeting of its board of directors held on May 12, 2017 that the Company would acquire its treasury stock in accordance with Article 156 as applied with relevant changes in interpretation pursuant to the provision of Article 165, Section 3 of the Corporation Law.

- (1) Purpose of acquisition
To exercise agile capital policies in response to changes in business environment and to conduct a return to shareholders
- (2) Outline of items related to acquisition
 - 1) Type of stock: Common stock of the Company
 - 2) Total number of shares to be acquired: 3,000,000 shares (upper limit)
 - 3) Total amount of acquisition costs: ¥4,000 million (upper limit)
 - 4) Period of acquisition: From May 15, 2017 to March 31, 2018
 - 5) Acquisition method: Purchase on the Tokyo Stock Exchange

2. Retirement of treasury stock

According to the resolution at the meeting of its board of directors held on May 12, 2017, the Company has retired its treasury stock in accordance with Article 178 of the Corporation Law as follows:

- 1) Type of stock: Common stock of the Company
- 2) Total number of shares retired: 3,000,000 shares
- 3) Retirement date: May 22, 2017
- 4) Total number of shares issued after retirement: 63,661,156 shares



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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, 2017, 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, 2017, 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 27, 2017
Fukuoka, Japan

A member firm of Ernst & Young Global Limited

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, 2017)

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

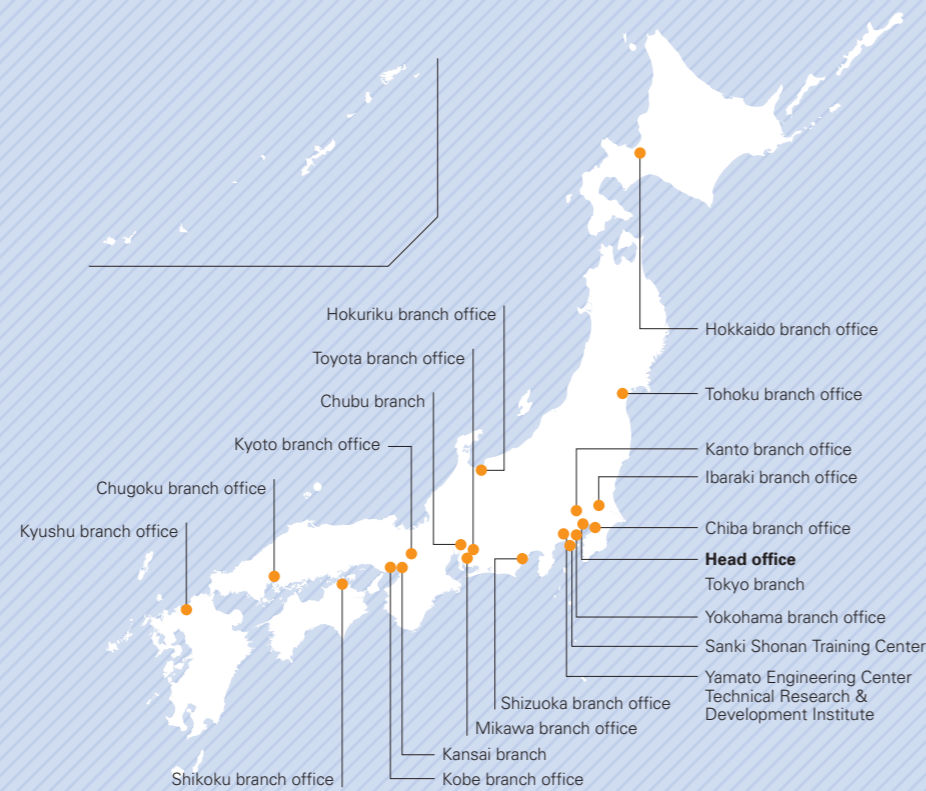
Principal lines of business
Facilities construction, plant and machinery systems, real estate

Number of employees
Consolidated: 2,339
Non-consolidated: 1,933

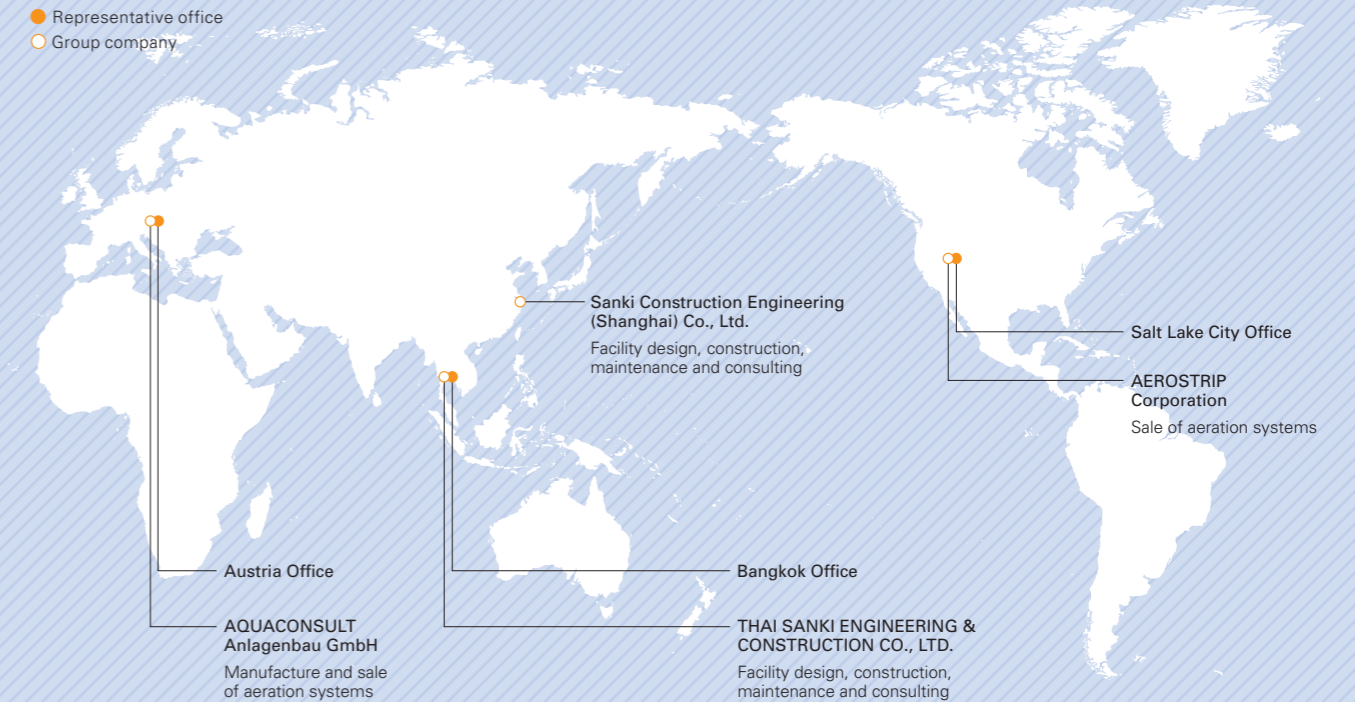
Offices
Branches: 3
Branch offices: 15
Laboratory: 1

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

Sanki Partners Co., Ltd.

Established: August 1, 1980
Capital: 10 million yen
Business areas: Insurance agency, leasing and temporary staffing
(The company's name was changed from Shin-yu Service Co., Ltd. in April 2017.)

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: May 6, 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 20, 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

Sendai Kankyo Hozen Co., Ltd.

Established: November 7, 2016
Capital: 100 million yen
Business areas: Management of operation and maintenance for the renovation work for key facilities of the Sendai Clean Center

Affiliate Not Accounted for by the Equity Method

PFI Okubo Techno Resource Co., Ltd.

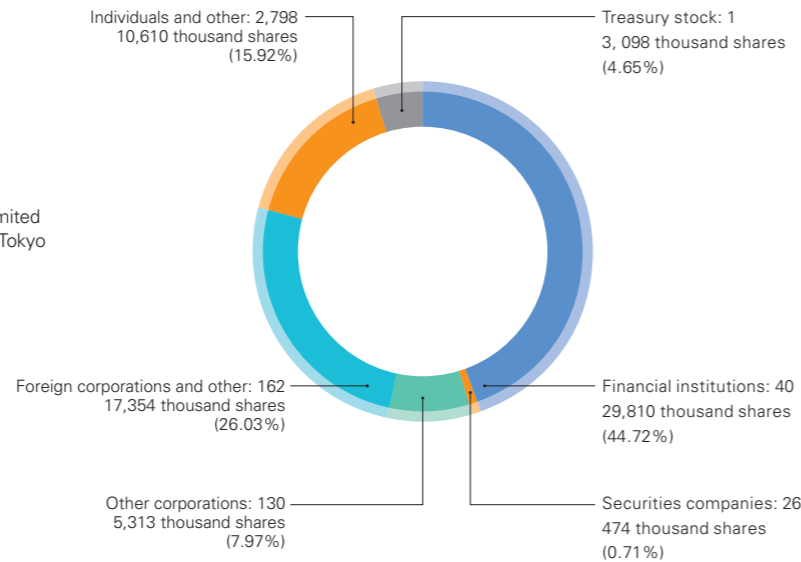
Established: December 3, 2004
Capital: 10 million yen
Business areas: Updating, maintenance, management and operation of wastewater treatment facilities and emergency generators at the Okubo Water Purification Plant, Saitama Prefecture
Period of business: 3 years and 4 months for design and construction; 20 years for operation, maintenance and management

Share Information

Share Information (as of March 31, 2017)

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	3,157
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)	2,820	4.44
Sanki Kyoeikai	2,634	4.14
The Master Trust Bank of Japan, Ltd. (Trust account)	2,057	3.24
State Street Bank and Trust Company 505223	1,716	2.70
JP Morgan Chase Bank 380684	1,501	2.36
DFA International Small Cap Value Portfolio	1,296	2.04
Employee Shareholders Association	1,145	1.80

Notes
 1. Although the Company holds 3,098 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



1. Strengthening the Governance System

From a global perspective, many see the organizational design of Japanese corporations as structured in such a way that governance is being hampered. But this is not the case at Sanki Engineering, which has applied various concepts to avoid that structure, reflecting its full awareness of the need to enforce governance. While Sanki Engineering's current organizational structure is a Company with Board of Company Auditors, as is true of most Japanese companies, it has evidently sought to overcome the weaknesses of this organizational design by various means. For instance, it incorporated an executive officer system into its management organization to separate the functions of decision-making and supervision from those involving the execution of business. Also, it stipulated the independence standards for its external officers, three of whom it assigned to the ten-member Board of Directors. Moreover, the Company started evaluating the effectiveness of its Board of Directors in fiscal 2016, and the results were published in this year's SANKI REPORT. I highly commend these efforts as strides forward in building a sound organization for the long term.

2. Disclosing the Value Creation Process Model

A major achievement this fiscal year was the formulation and disclosure of the value creation process model. The Company presented a new business model for realizing a sustainable society, revealing a management policy based on integrated thinking that was not previously seen in the diagram for the Total Engineering concept. By so doing, it has declared its shift to a business model compatible with a sustainable society, taking an evolutionary step that brings the SANKI REPORT closer to its intended form as an integrated report. I hope that this momentum will lead the Company toward further integrating the value creation model into its management strategy and beyond merely disclosing the model diagram.

3. Progress Assessment of the Medium-Term Management Plan

The Company is in the midst of Phase 1 of its medium-term management plan "Century 2025," and disclosed the results of its progress assessment from the plan's first year in regard to financial performance and ESG-related initiatives. PDCA management is essential for independent initiatives of any kind, whether they be business activities or ESG management. And this makes it necessary for the Company to conduct an internal assessment of its progress. Generally, assessment results are not disclosed and seeing what progress is being made under the plan is often difficult for outsiders. In this sense, Sanki Engineering has made an excellent effort, and I hope it will continue disclosing its assessments of progress.

4. Other Improvements

The Company responded to a point raised in the previous fiscal year by disclosing the number of employees on elderly care leave. It also disclosed the paid leave ratio, and the fact that this ratio is on the rise reflects well on the Company.

5. Challenges Ahead

Several sets of data should be addressed among the Company's quantitative targets. First is the ratio of employees with disabilities, which has been declining over the past few years and fell below the statutory requirement in the previous fiscal year. Companies must make an effort to maintain the ratio at legally required levels, so prompt improvement is called for. Second is the volume of industrial waste, which has risen over the past several years. While an explanation is offered for the higher volume recorded this fiscal year, the gradual increase over the longer term may require a review of the Company's system for managing waste. Similarly, the rise in CO₂ emissions amid declining sales also raises concern.

The challenge that lies ahead in the medium to long term is the deployment of ESG management across the supply chain. In his message at the beginning of this report, the president mentioned promoting globalization as an issue in which a focused effort will be made in the coming years. Since concerns over human rights and environmental risks in the overseas supply chain are greater by several magnitudes, the Company should establish a management system for its domestic supply chain as part of its effort to expand its overseas business.

Response to Third-Party Opinion

Thank you very much for your valuable insights from various perspectives regarding the SANKI REPORT 2017.

This is the sixth fiscal year since we began compiling an integrated report, and we appreciate your commendations of our efforts to strengthen our governance system, formulate and disclose our value creation process model, and disclose our assessment of progress made in our medium-term management plan "Century 2025" Phase 1. We will continue striving to provide a useful and appealing report for all our stakeholders.

We will consider the ratio of employees with disabilities and volume of industrial waste and CO₂ emissions, which were pointed out this year, as challenges going forward, and we will strive for improvements and provide detailed explanations.

In addition, we will continue to work on our initiatives for constructing a robust supply chain management system.

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.

Mikio Hirose
 Managing Executive Officer, General Manager, CSR Promotion Division