

FY2019 to FY2021 Sanki Engineering Group Medium-Term Management Plan

# “Century 2025” Phase 2

---

*<Enhance reliability  
and become the company of choice for customers>*

---

# Contents

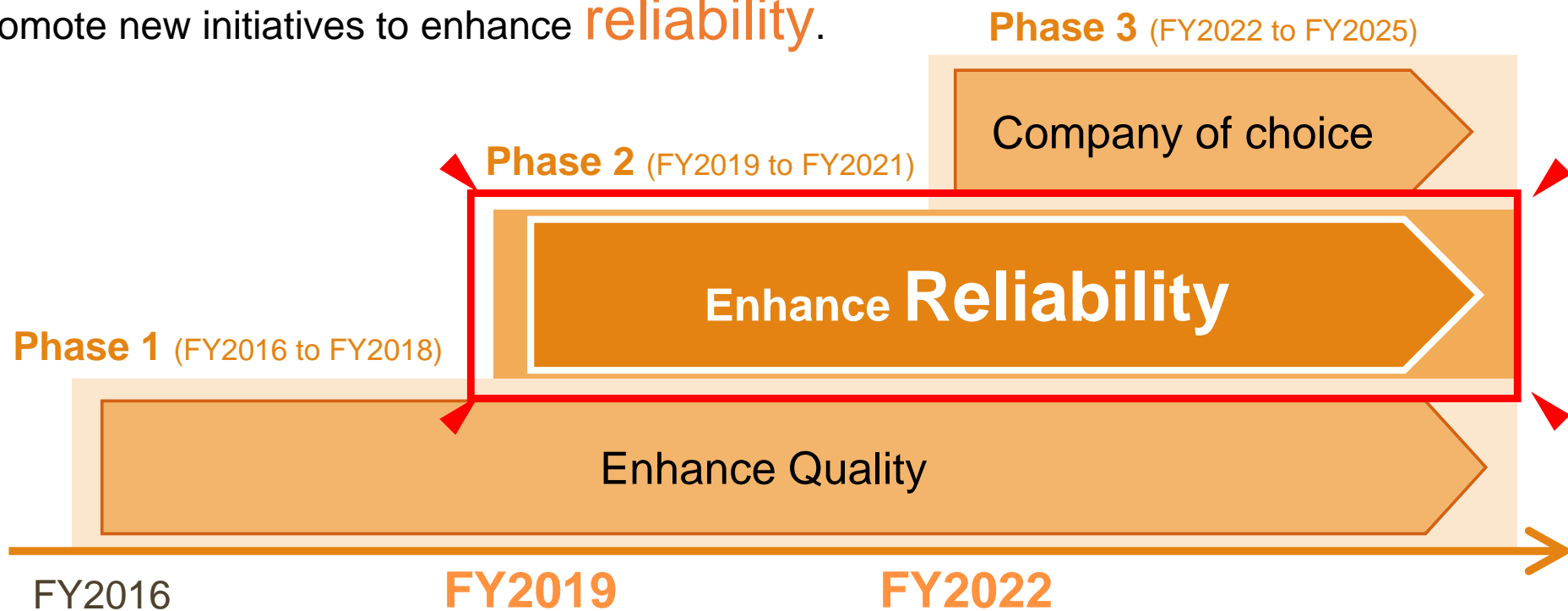
---

- Relationship between the long-term vision and Phase 2
- Reflecting on Phase 1
- Initiatives under Phase 2
- Sanki standard
- Contributing to the Group's SDGs
- Finally

# Relationship between the Long-Term Vision and Phase 2

We aim to further enhance quality and reliability through the long-term vision, “Century 2025,” and become the company of choice for stakeholders.

In Phase 2, we will continue initiatives to enhance quality that were started under Phase 1 and promote new initiatives to enhance **reliability**.



■ Phase 1 ⇒ We will enhance quality by refining our skills and wisdom and developing our human resources as a foundation for responding to change.

■ Phase 2 ⇒ Superior quality generates stakeholder satisfaction, and stakeholder satisfaction and confidence leads to reliability.

■ Phase 3 ⇒ Increased reliability will encourage more stakeholders to choose our company.

# Reflecting on Phase 1

# Reflecting on Phase 1 (Key Initiatives)

Initiative		Results	Initiatives under Phase 2
Initiatives to strengthen core businesses	Facilities Construction Business	<b>Increased productivity at construction sites</b> through the introduction of electronic procurement, establishment of on-site support mechanisms, creation of design support systems, and implementing the unique “Smile Site Plan” on-site support measure.	Increase effectiveness
	Machinery Systems Business	<b>Meeting the the need for labor reduction</b> through the introduction of integrated robotic systems and systems for logistics facilities	Build up the records from said introductions
	Environmental Systems Business	<b>Response to changes in social structure, as well as energy saving and energy creating needs</b> , through receipt of orders for DBO projects and full-scale entry into the biomass gasification generation market	Build up steady records
Initiatives to promote growth strategy	Redevelopment of Yamato area	Promoted creation of the Sanki Techno Center, construction of the Machinery Systems Division’s Yamato Product Center, and redevelopment of land for leasing	Full-scale operation
	Challenge to expand business areas and create new technologies	<b>Created an environment for developing new technology</b> by rebuilding the R&D Center (former Technical Research & Development Institute), and developed an aluminum refrigerant piping method that achieves labor reduction	Promotion of open innovation
	Promotion of stock-based businesses	<b>Secured future stock projects</b> and promoted LCE by actively accepting orders for new large-scale construction projects and challenging ourselves to undertake DBO projects for waste incineration facilities	Build up steady records
	Expansion of scope of Facility Systems Business	<b>Build up records in PM, CM , and the smart building business (instrumentation, and ICT systems)</b>	Expand scope of sales
Initiatives to enhance the Sanki Brand	Enhance the Sanki spirit of group employees	<b>Reformed awareness through internal communication</b> such as by holding meetings to exchange opinions (CCUs) attended by employees and management (the President and division chiefs)	Continue
	Create better working conditions	Conducted a series of initiatives under the Smile Project, which is a unique project to combat long work hours, and <b>conducted systemic reform to allow for diverse working styles</b>	Providing better frameworks
	Review operational processes	Introduced a range of health and safety-related tools, provided in-depth education relating to such, and promoted upskilling by providing training for young workers from veterans	Utilize the Sanki Techno Center

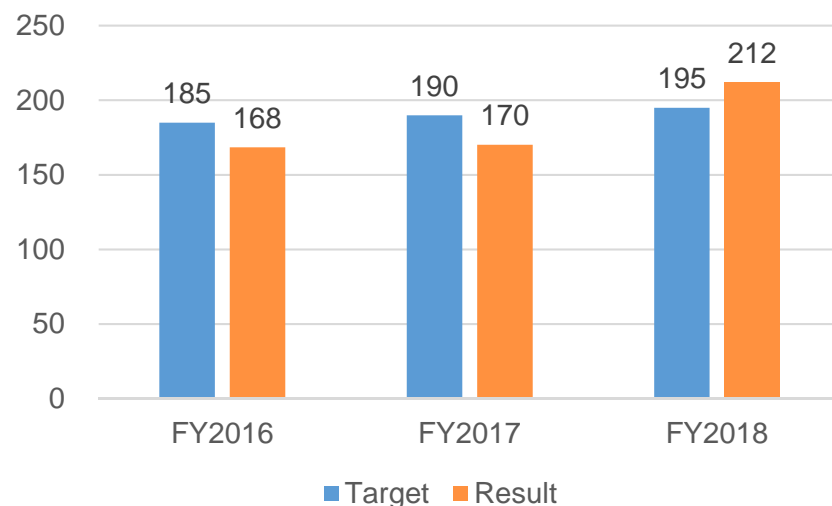
[Notes]

- DBO (Design Build Operate) is a means of achieving the private management of publicly owned facilities by placing a blanket order for design, building, operation, and maintenance with a private enterprise
- PM(Property Management) is a series of tasks that aims to increase the asset value of individual real estate assets. For the Company, this particularly relates to proposals to increase asset value through facility management
- CM (Construction Management) is a series of tasks for which a company is contracted by the customer to manage entire construction work projects from a neutral standpoint, to ensure that construction progresses smoothly
- LCE (Life Cycle Engineering) is a business concept created by the Group to provide new construction, management, maintenance, renewal, and reconstruction services throughout a building’s lifecycle
- CCU (Century Communication Up) is a communication method that is unique to the Group. A range of communication is conducted, such as between the President and employees, between division chiefs and their subordinates, and between female employees

# Reflecting on Phase 1 (Consolidated Results)

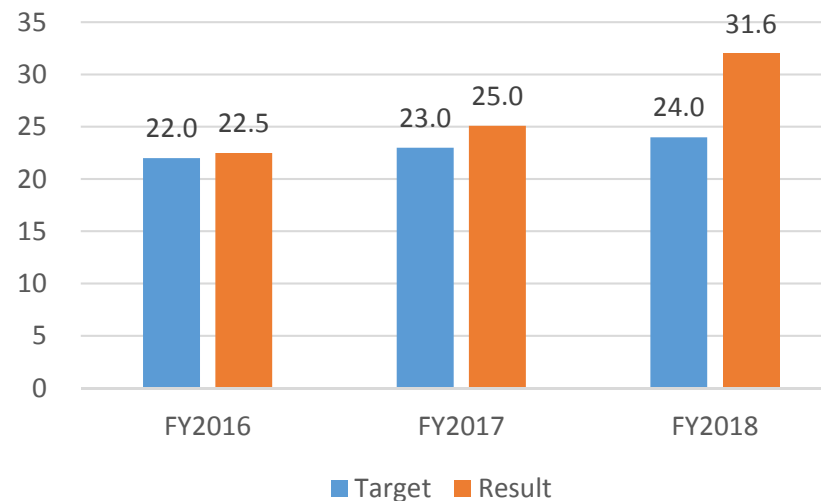
(Unit: billion yen)

### Net sales



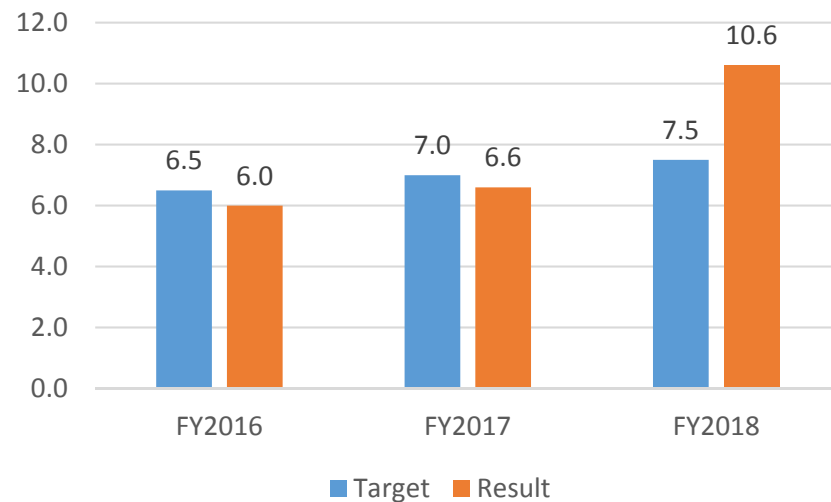
(Unit: billion yen)

### Gross profit



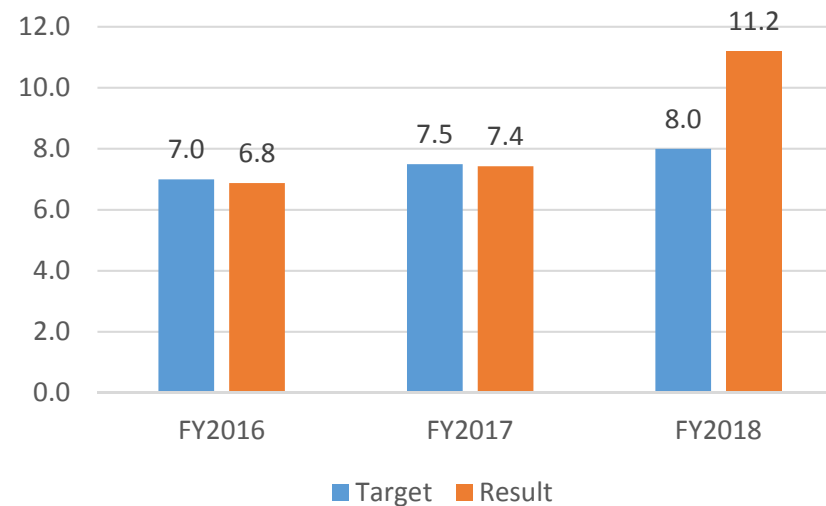
(Unit: billion yen)

### Operating income

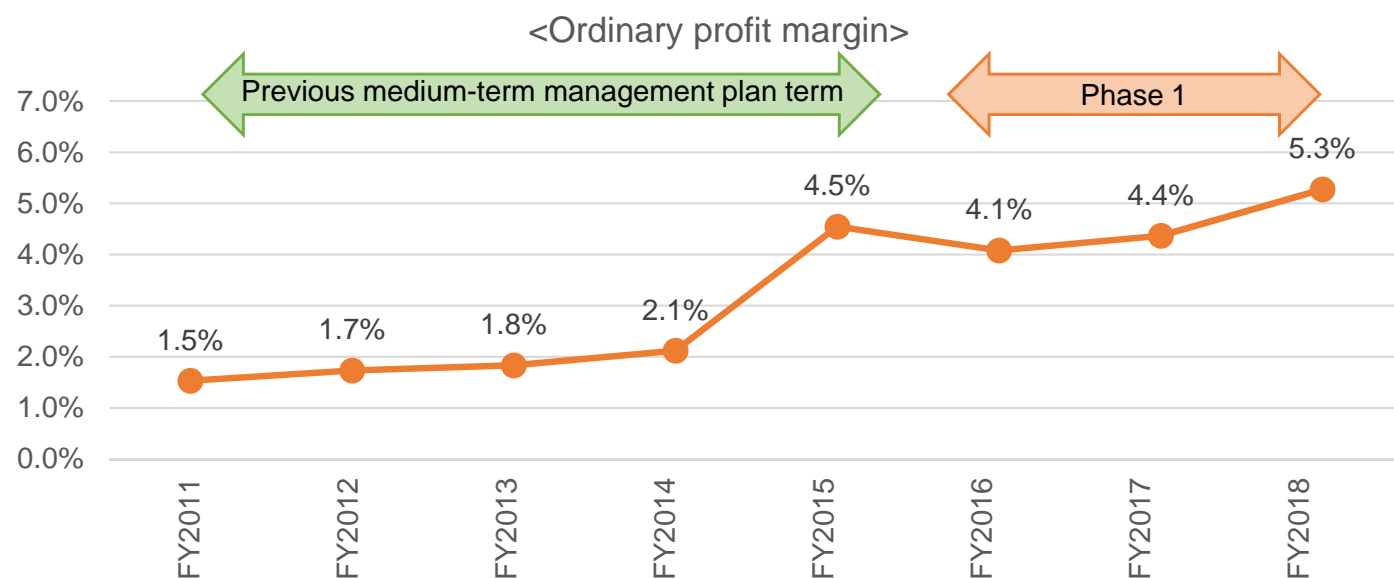
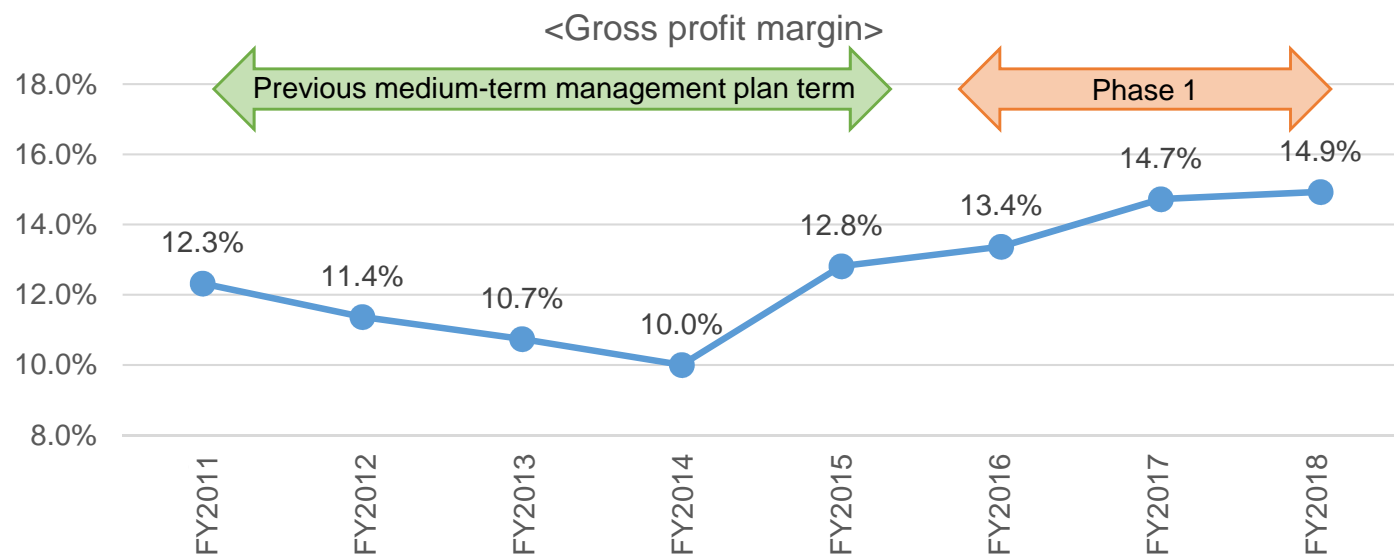


(Unit: billion yen)

### Ordinary income



# Reflecting on Phase 1 (Consolidated Results)



Pursued measures to improve quality  
↓  
Both the gross profit margin and the ordinary profit margin increased compared to the term of the previous medium-term management plan

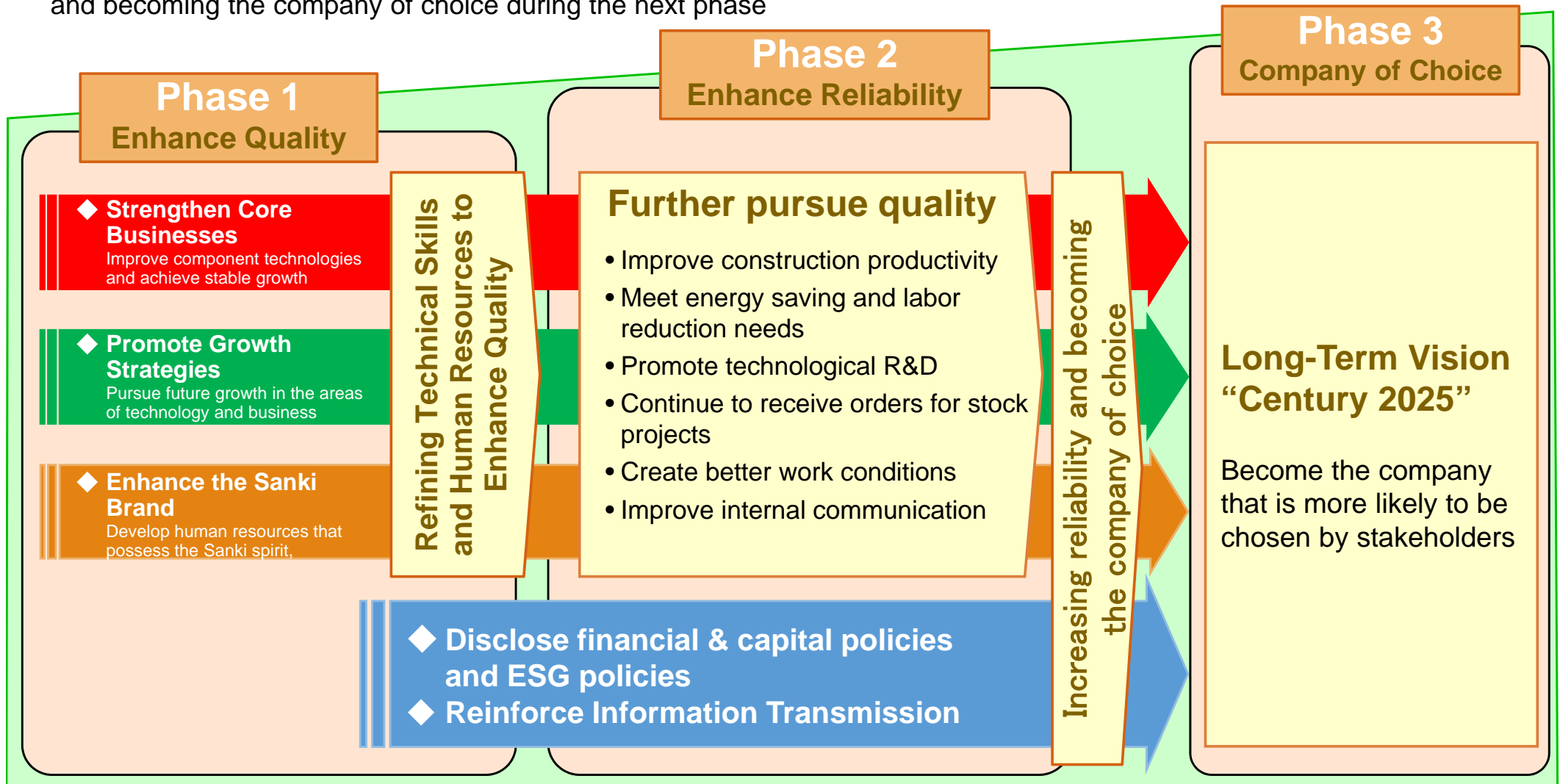
## Initiatives Under Phase 2



# Basic Policy of Phase 2

In Phase 2, we will **enhance reliability** by

- ① In addition to further pursuing the measures in Phase 1 aimed at improving the quality of technology and human resources,
- ② enhancing understanding of the company by disclosing financial & capital policies and ESG policies, and by strengthening transmission of information and becoming the company of choice during the next phase



# Phase 2 Business Environment and Issues

## ● Social environments in which the Group operates

Social environment	Issues
◆ Global movement away from carbon in order to achieve Paris Agreement targets	Promoting introduction of systems that conserve and generate energy
◆ Trend towards declining birth rate, aging population, and declining population in Japan	Catering to labor reduction and automation needs
◆ Advance workstyle reforms	Reduce total working hours by improving productivity

## ● Business environment in the segment in which the Group operates

Segment	Business environment	Issues
<b>Facilities Construction Business</b>	<ul style="list-style-type: none"> <li>◆ Firm demand for large urban redevelopment projects and capital investment in the manufacturing industry, etc.</li> <li>◆ Rapidly changing social needs against a backdrop of changing social structures and technological innovation, etc.</li> <li>◆ Implementation of i-Construction and BIM, etc.</li> <li>◆ Globalization of the Japanese manufacturing industry</li> </ul>	<ul style="list-style-type: none"> <li>◆ Receiving orders for future stock projects for LCE and preventing long working hours and overwork</li> <li>◆ Improving specialist knowledge and component technologies</li> <li>◆ Speeding up development of ICT, AI, and cloud computing technologies</li> <li>◆ Constructing sturdy management bases at overseas locations</li> </ul>
<b>Machinery Systems Business</b>	<ul style="list-style-type: none"> <li>◆ Trend towards labor reduction and automation</li> <li>◆ Expansion of logistics market</li> </ul>	<ul style="list-style-type: none"> <li>◆ Expanding business reach for hybrid systems that combine robotics and transport facilities</li> <li>◆ Developing market for material handling systems for logistics facilities</li> </ul>
<b>Environmental Systems Business</b>	<ul style="list-style-type: none"> <li>◆ Change in scale of infrastructure facilities in line with changes to the composition of the population</li> <li>◆ Need to update and increase efficiency of aging environmental systems facilities</li> <li>◆ Promotion of facilities planning and operation by the private sector</li> </ul>	<ul style="list-style-type: none"> <li>◆ Developing a new system to deal with load fluctuation</li> <li>◆ Acquiring technology aimed at energy saving and labor reduction</li> <li>◆ Acquiring bid requirements for DBO projects, etc.</li> </ul>

# Key Initiatives in Phase 2

## 1. Initiatives to strengthen core businesses

[Improve component technologies and achieve stable growth]

Segment	Initiatives
<b>Facilities Construction Business</b>	Improving productivity and maintaining high profitability by establishing company-wide organizational construction systems, including subcontractors, and utilizing the “Sanki Techno Center”
	Improving construction quality through the use of digital tools such as ICT and BIM
	Improving quality of sales and design by revitalizing internal communication
<b>Facility Systems Business</b>	Providing new consulting services
<b>Machinery Systems Business</b>	Expanding hybrid system products and services to meet labor reduction and automation needs
	Establishing production management systems and improving productivity at the new “Yamato Product Center” plant
<b>Environmental Systems Business</b>	Proactively receive orders for infrastructure facilities corresponded to changes in the society and environment, such as the declining population
	Developing energy saving and energy creating fields such as biomass gasification power generation facilities

# Key Initiatives in Phase 2

## 2. Initiatives to promote growth strategy

[Pursue future growth in the areas of technology and business]

Item	Initiatives
<b>Developing next-generation technologies through the R&amp;D Center</b>	Developing technology in digital fields such as ICT, AI, and cloud computing using open innovation
<b>Further catering to labor reduction and automation needs</b>	Creating next-generation technology at the new “Yamato Product Center” plant
<b>Steady development of overseas businesses</b>	Rebuilding foundations for local systems with an eye to business tie-ups and M&A
<b>Rebuilding the food service equipment business</b>	Utilizing the food service equipment plans and management knowhow accumulated by the Company
<b>Promoting stock-based businesses for the future</b>	Proactively receiving orders for new large-scale construction projects and DBO projects to expand LCE projects

[Note]

- Stock-based businesses are businesses that are based on the Group's ample stock of construction , particularly focused on the LCE business. They also include businesses for which stable long-term income is anticipated, through means such as long-term operation and management contracts based on the PFI method, which are anticipated to increase in the future

# Key Initiatives in Phase 2

## 3. Initiatives to enhance the Sanki Brand

[Develop human resources that possess the Sanki spirit and contribute to society]

Item	Initiatives
<b>Enhancing quality of human resources and technology</b>	Utilizing the “Sanki Techno Center” to provide thorough education and training on topics such as technology, safety, ethics, management, and manners for everyone from new employees to veteran employees, including subcontractors
	Establishing better frameworks relating to HR, salaries, and welfare, etc. through communication
	Developing a healthy workforce and enabling the coexistence of a diverse workforce through the “Smile Work Guidelines”
<b>Social contribution activities</b>	Contributing to the resolution of global environmental problems through business activities
	Proactively support culture and sports activities, starting with environmental activities

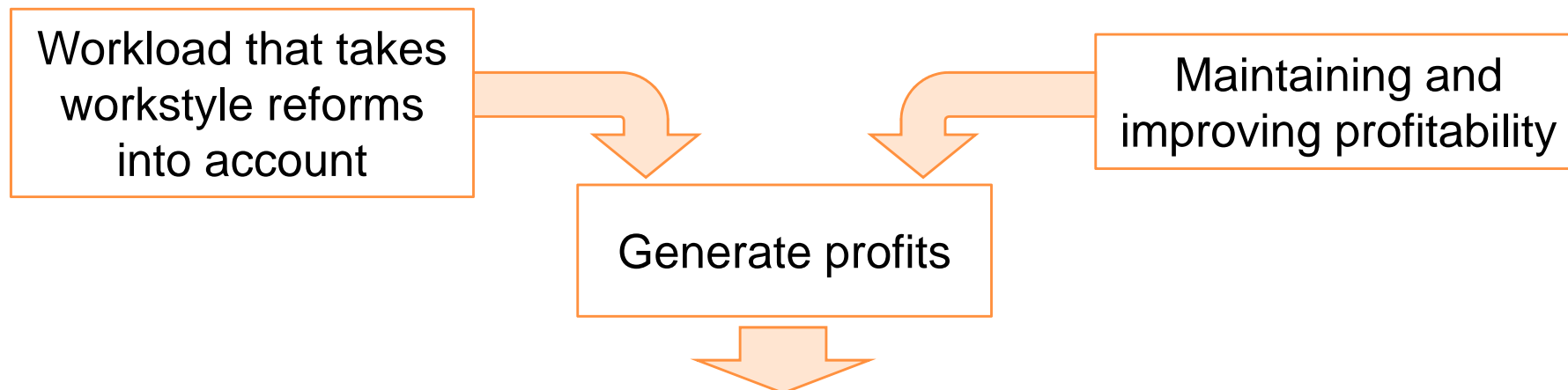
[Note]

- Smile Work Guidelines are guidelines that are unique to the Group, which provide tips on how to promote diverse work styles

# Financial & Capital Policies in Phase 2

## Financial & capital policies

Raising medium- and long-term corporate value



Item	Initiatives
<b>Investments in the future</b>	Strengthen investments for future growth, such as R&D, capital investments and education
<b>Return of profits to stakeholders</b>	<ul style="list-style-type: none"><li>• Set total return ratio as targets and return profits to shareholders in a stable and continuous manner</li><li>• Return funds to business partners by improving payment terms and other means</li></ul>
<b>Improved capital efficiency</b>	<ul style="list-style-type: none"><li>• Continuously reduce strategic shareholdings</li><li>• Review the composition of equity capital and ensure the flexibility and maneuverability of capital policies</li></ul>

ROE of 8.0% or more

# ESG Policies in Phase 2

## ESG Policies

【Create sustainable social value】

Item	Initiatives
<b>E (Environment)</b>	<ul style="list-style-type: none"><li>• Contribute to global environmental problems through business activities by decarbonization, saving energy and creating energy</li><li>• Continue with “SANKI YOU Eco Contribution Points”</li><li>• Continue to participate in cultivating “Sanki Forest” and the afforestation projects</li></ul>
<b>S (Society)</b>	<ul style="list-style-type: none"><li>• Pursue workstyle reforms by continuing with the “Smile Project” and “Smile Site Plan”</li><li>• Carry out measures to improve communication</li><li>• Proactively carry out cultural and sports support, starting with environmental activities</li></ul>
<b>G (Governance)</b>	Continue with initiatives aimed at achieving better governance, based on “Sanki Engineering’s Corporate Governance Guidelines”

# Reinforce Information Transmission in Phase 2

## Proactive transmission of information

【Spread Sanki brand even more within and outside of the Company】

Item	Initiatives
<b>Augment IR activities</b>	<ul style="list-style-type: none"><li>• Disclose basic policies for financial &amp; capital policies</li><li>• Continue to create opportunities for dialogue with shareholders and investors (such as implementation of corporate tours)</li><li>• Continue to participate in exhibitions for individual investors</li><li>• Augment the integrated corporate report, “SANKI REPORT”</li></ul>
<b>Expand PR activities</b>	<ul style="list-style-type: none"><li>• Continue to participate in exhibitions that have a high marketing effect</li><li>• Promoting understanding of the Company through corporate messaging and advertising</li><li>• Appeal to a wide range of customers using a wide variety of media</li></ul>



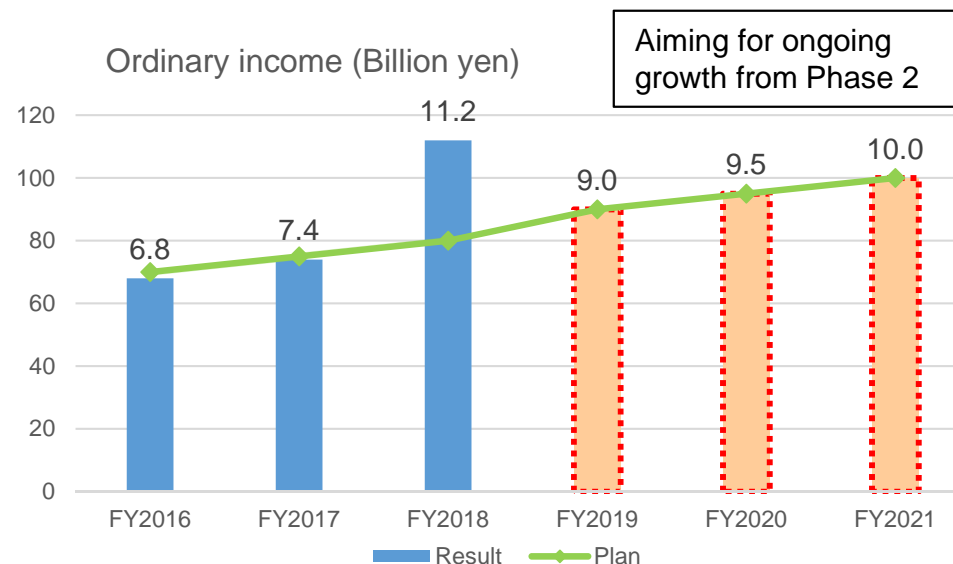
# Financial Performance Targets in Phase 2

Aiming for sustainable growth and medium- to long-term increases in corporate value.

	Phase 1 (FY2016 to FY2018) Result			Phase 2 (FY2019 to FY2021) Target		
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
<b>Net sales</b>	¥168.5 bn	¥170.1 bn	¥212.3 bn	¥200 bn		
<b>Gross profit (ratio)</b>	¥22.5 bn (13.4%)	¥25.0 bn (14.7%)	¥31.6 bn (14.9%)	¥30.0 bn (15.0%)	¥31.0 bn (15.5%)	¥32.0 bn (16.0%)
<b>Ordinary income (ratio)</b>	¥6.8 bn (4.1%)	¥7.4 bn (4.4%)	¥11.2 bn (5.3%)	¥9.0 bn (4.5%)	¥9.5 bn (4.8%)	¥10.0 bn (5.0%)

Approach to setting targets: Earnings were strong in fiscal 2018 due to robust capital investments by our customers in the manufacturing sector during this fiscal year. We have set targets for fiscal 2019 and beyond that take into account the possibility of a slowdown in this demand.

Phase 2 Management targets	
<b>Ordinary profit margin</b>	5.0% and higher (final fiscal year)
<b>Dividends</b>	Annual dividends per share of ¥60 and higher
<b>Acquisition of treasury stock</b>	About 5 million shares
<b>Total return ratio</b>	70 % or higher
<b>ROE</b>	8.0 % or higher (final fiscal year)



# Sanki Standard

## 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

#### Providing Satisfaction for Customers

Sanki's technology plays a role in improving the quality of products and services created by clients

This is an example of putting the Sanki Engineering Group Management Philosophy of "we create comfortable environments through engineering and widely contribute to social development" into practice and I think this is what reliability looks like

To that end, we must improve our technology to cater to a range of needs and earnestly promote "refining our skills and wisdom with the aim of increasing client satisfaction"

#### Company of Choice

It is not enough to rely solely on Sanki's technology

Trust between people, a spirit of mutual cooperation, and a spirit of mutual growth are important

It is also important to ensure that the entire Sanki group is trusted by society and is a trusted brand through our compliance, stable management, and corporate culture in order to be chosen by our customers and all of our stakeholders.

"We will remain aware that we are a member of society and will act accordingly," and we will continuously and systematically implement policies in-line with this

Our long-term vision, "Century" 2025 is a reflection of Sanki Engineering Group Management Philosophy

President **Tsutomu Hasegawa**

# Contributing to the Group's SDGs

## Four sustainable initiatives for the future



Technology that excludes factors which cause discomfort, such as heat and cold, and provides a suitable environment is essential to human activities  
This kind of technology can be said to be essential to ensure a healthy lifestyle, promote welfare and high-quality education, and provide a suitable environment for activities, so Sanki Engineering creates a comfortable environment and contributes to the broader development of society through "Sanki Standard = Engineering."



We support cutting-edge industry with Sanki Engineering's unique technologies, such as clean room technology and transport technology.  
We support Japanese cutting-edge industry through clean systems that have clean capabilities to the high standard required by the semiconductor and pharmaceutical fields and that combine energy efficiency with space-saving features, environmental testing equipment and exhaust gas treatment equipment that work in all weather conditions, which is essential in the automotive industry, and high-level luggage transport technology that supports the operation of international airports.  
We work with other companies in the Mitsui Group.



As a response to global environmental issues, corporate measures to combat global warming are an essential social requirement, Sanki Engineering provides general support for energy efficiency measures for buildings, from energy analysis through to planning, design, and construction. We contribute to the prevention of global warming by coordinating a range of measures that are matched to the needs of clients and the characteristics of local communities, from introducing highly efficient systems and optimal control through to utilization of as yet unutilized heat and energy generation.



Providing fresh and safe water to everyone. Cleaning dirty water and returning it to the environment.  
We work to conserve the environment and create a recycling-based society, preserve biodiversity, and contribute to the sustainability of nature's bounty through the application of the unique engineering of Sanki Engineering.



# Finally

---

The Sanki Group aims to become a company that all of our stakeholders **rely on** by providing precise engineering and thorough communication

As a result, I believe that we will become a company **of choice** as described in the long-term vision

We will achieve sustainable growth and medium to long-term increases in corporate value

## Remarks on Business Forecast

The descriptions contained in these materials, except for those as to past or present facts, are based on anticipations, assumptions, evaluations and estimations in light of the information available at the present moment.

Therefore, the actual results may differ from those presented herein as a consequence of various factors, including uncertainties and prospective changes in the economic environment.

### <Major factors>

- Credit exposures of client companies.
- Sudden changes in material and equipment cost and labor cost.
- Stock Market fluctuations.
- Increase in retirement benefits or debts.
- Country risk.
- Accident or disaster in facilities construction and other.
- Outbreak of the unprofitable project
- Risk in the Real Estate Business.
- Risk of legal action.
- Risk of legal regulation.
- Risk of the natural disasters.