Engineering for the future

SANKI REPORT

2012

SANKI ENGINEERING CO., LTD.

“We will contribute to society through engineering” is one of our Company Credos. The fact that we actually realize this philosophy is the corporate value of the Sanki Engineering Group, and we are justly proud of this.

Japan has been undergoing great changes since the Great East Japan Earthquake of March 11, 2011. That event has impacted life and society in huge ways. It has greatly affected not only the methodology related to anti-disaster measures, BCP (Business Continuity Plan), power-saving and energy-saving, but also our personal lifestyles throughout the ways of our daily life and society. This makes us reconsider what we can do and how we should cope with such recent adversity.

The business domains of the Sanki Engineering Group involve various fields of social infrastructure, including the facilities construction business (heating, ventilation, and air conditioning, plumbing, electrical work, information and communications, office relocations, etc.), machinery systems business (material handling systems, conveyors, etc.), environmental systems business (water and sewage treatment facilities, waste incineration facilities, etc.) and more.

While each of these is an individual business, we believe it is our mission to meet society’s needs by working across Group businesses to offer solutions that take advantage of our total engineering strength.

In particular, we have launched a project addressing recovery from the Great East Japan Earthquake and are submitting proposals that use our total engineering strength to help complete that recovery as quickly as possible.

In all our actions, we are constantly considering what society expects of us as well as what we can offer society. This is the spirit with which Sanki Engineering was born, and it is just as relevant today.

Takuichi Kajiura
President

Company Credos

We will contribute to society through engineering

This means that we will make a social contribution through our business.
Sanki Engineering will make continuous contributions to society with its advanced technology, and, especially at the present time, mainly with environmental technology.

We will meet our customers' needs by working with them in good faith.

This means that we will ensure customer satisfaction.
Taking customer and stakeholder needs as our own, we will understand what they are looking for, consider how to respond and act accordingly.

We will act in a considered manner, and always in a spirit of good fellowship.

This means that we will strive for mutual understanding and our actions will be based upon collective knowledge. We will practice communication with care, not only within Sanki Engineering but with our stakeholders as well.

About the Publication of SANKI REPORT

Recent years have brought great changes to our business environment. The environmental and energy problems we face, globalization in so many areas, our ability to respond to crises and so on are all interrelated with each other, making it difficult to predict the future of our business activities. Financial data alone is not sufficient to evaluate modern business activities. Strategy, organization, human resources, governance and so on must be considered in the context of environmental change in order to discuss future predictions and initiatives organically and convincingly.

This understanding inspired us to begin publishing CSR reports in 2005. Starting this year, however, we have renamed the publication SANKI REPORT and designed it to serve as a new communication tool. Our purpose is to provide our stakeholders with a report that will help them better understand Sanki Engineering. This is a new experiment for us. While this report may not contain all the information our readers need to fully understand how our enterprise will grow and continue to thrive in the future, we look forward to improving and expanding it with their cooperation and input.

We hope to hear your opinions and suggestions after you have looked at this report.

Reference Guidelines

- Ministry of the Environment "Environmental Reporting Guidelines 2012"
- Global Reporting Initiative "Sustainability Reporting Guidelines Version 3"
- ISO 26000

Organizations Covered by Report

- Non-financial information basically concerns Sanki Engineering Co., Ltd. alone.
- When the information concerns the Group (e.g., compliance information), the text specifies that this is Group information.
- Financial information shows consolidated Group figures.

Reporting Period

April 2011 - March 2012
(with some information from outside this period)

Precaution on performance outlooks, etc.

In addition to past and present information concerning the Sanki Engineering Group, this report includes targets, plans, outlooks, strategies, forecasts of future performance and so on as based on our medium-term management plan "SANKI VITAL PLAN 90th" and other sources. Please be aware that these forecasts are the best judgments of Sanki Engineering management based on the information available at the time, and actual performance may differ significantly from these forecasts owing to changes in economic conditions, market trends, exchange rates and so on.

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Summaries of Businesses by Segment

Sanki Engineering's CSR Activities

Financial section

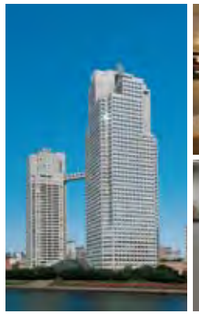
Fiscal 2011 Topics

topics

Head office moved to St. Luke's Tower to better draw out our total engineering strength

In October 2011, we consolidated our operations divisions and major subsidiaries into one location by moving our head office into St. Luke's Tower. This makes it easier for Group employees to communicate between departments and bolsters the total engineering strength of Sanki Engineering.

The new office is equipped for a number of functions. For example, the Foyer, a waiting room next to the reception area, contains displays of Sanki Engineering history and technology. There is also a Smart Office Model Room, while Cafe Session gives employees a place to communicate with each other.



Opening of Sanki Smart Office Demonstration Room

The Sanki Smart Office Demonstration Room opened on the 41st floor along with the Head Office move.

Modeled upon an actual office, the Demonstration Room is a showroom containing building facilities such as entrance & exit control, lighting and air conditioning control system along with IT equipment such as IP telephones, PCs, task lights, electric blinds and more, all interconnected with each other.

Visitors can learn about Sanki Engineering's smart building solutions technology and experience how well it actually works. (cf p. 21.)

Winner of Energy Conservation Center, Japan Chairman's Award for Energy Conservation

The "Nagoya University Hospital Patient Ward, Etc., ESCO Project," a collaboration of Sanki Engineering with Nagoya University, Mitsubishi UFJ Lease & Finance Company Limited and Toyota Enterprise Inc., won the Energy Conservation Center, Japan Chairman's Award at the Energy Conservation Awards, Energy Conservation Case Studies Division.

The ESCO project with integrated management that included operations management of the energy conservation facilities was honored for sharply reducing CO_2 emissions.

Order acceptance of the sewage treatment system for Showa Station

The Research Organization of Information and Systems (ROIS) National Institute of Polar Research (NIPR) placed an order for sewage water treatment systems for the Showa Station at the South Pole in November 2011. Sanki Engineering has since delivered the systems to the institute.

The systems are compact and easy to maintain and manage, securing a high degree of quality of the treated water even in comparison with effluent standards in Japan.

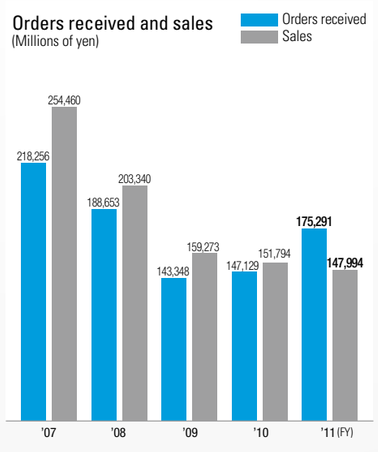
We have long dispatched employees to the Japanese Antarctic Research Expedition in the form of temporary transfers to NIPR. (cf p.44.)

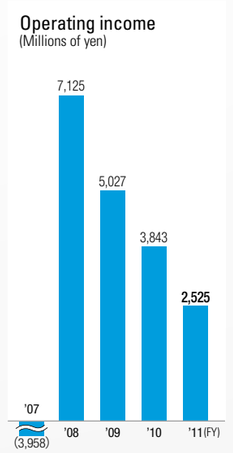
Consolidated financial highlights

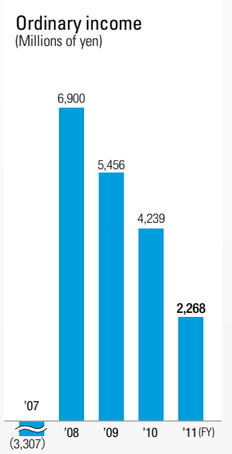
Highlight

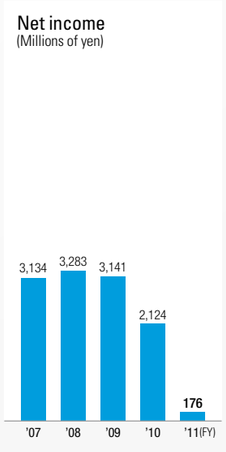
(Millions of yen)

	FY ended March 31, 2008	FY ended March 31, 2009	FY ended March 31, 2010	FY ended March 31, 2011	FY ended March 31, 2012
Fiscal year					
Orders received	¥ 218,256	¥ 188,653	¥ 143,348	¥ 147,129	**¥ 175,291**
Sales	254,460	203,340	159,273	151,794	**147,994**
Operating income or loss	(3,958)	7,125	5,027	3,843	**2,525**
Ordinary income or loss	(3,307)	6,900	5,456	4,239	**2,268**
Net income or loss	3,134	3,283	3,141	2,124	**176**
Cash flows from operating activities	(4,097)	19,177	1,294	11,554	**(2,697)**
Cash flows from investing activities	11,511	1,726	(1,664)	2,610	**(1,046)**
Cash flows from financing activities	(3,812)	(4,377)	(2,936)	(1,883)	**(280)**
Cash and cash equivalents at end of year	¥ 19,617	¥ 36,142	¥ 32,825	¥ 45,135	**¥ 41,097**
As of end of fiscal year under review					
Total assets	215,680	176,664	163,307	158,501	**163,120**
Net assets	80,276	78,780	80,498	79,833	**79,662**
Number of employees	2,225	2,239	2,272	2,316	**2,289**
Per share information					
Earnings per share (yen)	42.42	44.45	42.86	29.67	**2.46**
Book-value per share (yen)	1,086.02	1,065.77	1,119.40	1,115.41	**1,113.70**
Cash dividends (yen)	15.00	15.00	15.00	15.00	**15.00**
Other information					
Equity ratio (%)	37.2	44.6	49.3	50.3	**48.8**
Return on assets (%)	(1.4)	3.5	3.2	2.6	**1.4**
Return on equity (%)	3.7	4.1	3.9	2.7	**0.2**









The History of Sanki Engineering

Sanki's Technology Responds to the Needs of the Era

Laying the Foundation for Technological Competence by Meeting the Needs of the Era

In its earliest years, Sanki Engineering got its start with two major projects for Toyo Rayon (the precursor of Toray Industries, Inc.): its Shiga manufacturing plant and its Aomori ice-making plant and refrigerated warehouse. At that time, the Company worked on steel frame construction and building materials, in addition to heating and sanitation projects.

Hiring highly skilled electrical technicians away from other companies allowed Sanki to venture into the field of electrical construction.

As Sanki was finding its footing technologically, it became aware that cities would inevitably develop urban environmental sanitation systems, so it focused on the current state of trash incineration and prospects in that field and began working on improvements. After repeated tests, surveys, and research projects, it developed its own incinerator for buildings. The Sanshin Building was the first large building in Japan to install this kind of incinerator.

The Toyo Rayon Shiga plant

A trash incinerator

Diversified and Expanded Businesses Led to Greater Technological Competence

In 1930, Sanki entered into a joint venture with the U.S. firm Carrier Engineering to establish Toyo Carrier Industries, which quickly began working on air conditioning projects. By that time, Sanki had already started businesses in areas such as electrical facilities, incinerators, conveyors, and sashes, as well as conducting technological research, and in 1937, it entered into contracts with two more U.S. companies, Dorr Inc. and Oliver, Inc., to market machinery for mining-related chemistry. This represented a further leap in Sanki's technological capabilities.

In addition to heating and cooling, sanitary water supplies, kitchen, electricity, sashes, building incinerators, and other architectural businesses, Sanki also began serving as a general agency for Mosler Safes and Fukokuseki (an artificial stone cladding for decorating the outsides of buildings).

The Nihon Seimei Building, Tokyo

Sanki's Advanced Technology Bolsters a Construction Boom

During the construction boom that occurred right before the outbreak of World War II, Sanki carried out a number of major projects, incorporating the most advanced technology available at the time.

In 1938, Sanki Engineering completed construction of Daiichi Seimei's main building, making it the first building in Japan to have a power supply with the special high voltage of 22kV. The building boasted the largest central monitoring board of any building at that time, located four floors underground.

At the same time, the Company also took a proactive approach to incorporating new technology. In an attempt to develop its machinery manufacturing businesses, it began manufacturing conveyors. This was also the era in which it incorporated electric resistance welded steel tubing technology.

The central monitoring board of Daiichi Seimei's main building

A Proactive Approach to Technological Innovation

In the favorable economic climate of the postwar years, Sanki Engineering's performance improved rapidly, reflecting its projects in building construction and facilities expansion. Sanki installed Japan's first all-fluorescent lighting system in the Taisho Marine and Fire Insurance Building, completed in 1953.

In 1957, Sanki Engineering delivered its roller conveyor to a government-sponsored scientific venture, the Second South Pole Regional Monitoring Team, and it was used in stacking supplies for the winter on the ice.

The Company carried out a project that perfectly equalized air flow and suppressed noise in the high speed ducts in the Ohtemachi Building, which was constructed in that era and was then the largest building in East Asia. The project was completed in only 20 months and represented a major advancement in air conditioning technology.

As part of its urban environmental sanitation business, it also became involved in building sewage disposal facilities.

Fluorescent lighting in the Taisho Marine and Fire Insurance Building

Kumagaya sewage disposal facilities

The History of Sanki Engineering

1925:

Established as an Offshoot of the Machinery Department of Mitsui Bussan

The destruction of brick and steel frame buildings during the Great Tokyo Earthquake of 1923 prompted a subsequent major turn to ferroconcrete construction and an era of large-scale construction projects for the architectural and construction industries. Due to the prevailing trend of modernization, demand for building utilities such as heating, cooling, water supplies and sewage, and electrical fixtures and fittings increased and brought about technological advances.

On April 22, 1925, Sanki Engineering was established as a spin-off from Mitsui Bussan's Machinery Department. It began as a small company with only ¥500,000 in capital and 12 employees.

First President, Meijiro Yasumoto

The 1930s:

Growth Leading Up to Its 10th Anniversary

In 1931, Sanki Engineering moved its main office to the Sanshin Building, which was outfitted with the era's most up-to-date facilities. This move promised new major advances in technology.

In 1933, the Tokyo Nihon Seimei Building (now the Nihonbashi branch of Takashimaya Department Store) was completed, showcasing a compendium of the era's latest technology. This success led to Sanki Engineering becoming one of the biggest suppliers of facilities construction and facilities in Japan. The Company steadily grew and expanded, establishing a branch in Dalian, Manchuria.

In 1935, as it approached its 10th anniversary, Sanki Engineering had five branches and six field offices, as well as three affiliated companies, and over 300 employees.

The Sanshin Building

The 1940s:

Major Construction Orders Due to a Strong Demand for Construction Before World War II

During the period in 1941 before Japan's sudden entry into World War II, there was a strong demand for construction of financial institutions, insurance companies, department stores, and hotels in Japan, and Sanki Engineering participated in one project after another.

However, as the war intensified, the Company was plagued with a chronic shortage of workers and with distribution of goods tightly controlled, there were constant shortages of materials. As the course of the war worsened in 1943, there were emergency metal collection campaigns throughout Japan, which created noticeable shortages. During that period, the Kawasaki and Tsurumi plants were designated as military-industrial plants, and the Company decided to move its headquarters and domestic manufacturing plants to the countryside, but the war ended in August 1945 before these moves could take place.

The Showa Emperor visits the Nakatsu Plant

The 1950s:

Major Advances as Japan Recovers

While still reeling from the shock of losing the war, the people who had guarded the factories in Japan and the people who had returned from the battlefields set about the task of rebuilding the business.

In the Tokyo area, work was available remodeling buildings that the Occupation Forces had taken over, as well as the construction of new bases and barracks. In addition, the outbreak of the Korean War in 1950 led to a war-driven economy, and the Japanese economy as a whole took a favorable turn. This upturn in the domestic economy was reflected in a demand for building construction and improvement in equipment, and Sanki Engineering's performance dramatically improved.

With the expansive new growth, the Company's capital reached ¥1 billion in 1958.

A copy of the Sanki News, the in-house Company publication, from 1958.

The Growth and Development of Technology

1925: **Radio broadcasts begin**
1927: **The first subway opens, linking Ueno and Asakusa**
1931: **Tokyo Haneda International Airport Opens**
1939: **Japan Airlines succeeds in flying between New York and Yokohama**
1942: **Kanmon Tunnel between Honshu and Kyushu opens**
1949: **Hideki Yukawa becomes the first Japanese to win a Nobel Prize**
1953: **Television broadcasts begin**
1958: **Tokyo Tower completed**

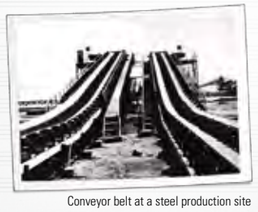
The History of Sanki Engineering

Sanki's Technology Responds to the Needs of the Era

Feature as a Manufacturer that Responds to the Needs of the Era

In addition to long-distance conveyors for coal mines and dam construction frames, there was a growing demand for the kinds of portable conveyors used in steel plants and construction sites, and shipments to clients in various industries increased.

Formerly, sashes could only be made to order, but Sanki Engineering instituted standardization and large-scale manufacturing of sashes for buildings and plants, which were 40% more expensive than wooden construction hardware, not only bringing down the price but also ensuring high quality and timely shipping. The standardized 6S sash was a huge hit and was adopted for construction of plants, schools, offices, hospitals, and other buildings throughout Japan, giving Sanki Engineering the largest share of the market for steel sash manufacturers.



Conveyor belt at a steel production site

6S sashes

Technological Innovations: From Skyscrapers to Clean Rooms

In 1968, Sanki Engineering participated in construction of the heating, ventilation, and air conditioning, plumbing, and electrical equipment for Japan's first real skyscraper, the Kasumigaseki Building. These air conditioning and plumbing facilities received an award from the Society of Heating, Air-Conditioning and Sanitary Engineers of Japan in 1970.

The clean room technology that undergirds the semiconductor industry was developed in the 1970s. Sanki Engineering built Japan's first real large-scale clean room at NEC's Sagamihara plant. During this period, it made innovations in several areas of technology. In the area of mechanical engineering, Sanki Engineering built the world's first unmanned automatic sorting system and airport freight handling system. In the area of environmental technology, its innovations included bringing in continuous sand filtering technology from Sweden.

A clean room

The Kasumigaseki Building

Opening the Way to a New Era: Advances in Environmental and Information Technology

In addition to building Japan's first cogeneration system, Sanki Engineering was a pioneer in taking advantage of unused energy sources, such as developing a power generating system that uses the gas from sewage sludge.

"The environment" and "information" became buzzwords in the 1990s. Sanki Engineering started an information and communications business and developed a great deal of environmental technology, including an ice thermal storage system, sophisticated sewage processing systems, and gas-fired melting furnaces. It also got involved in information-related technology, such as LANs and monitoring and control systems. On the other hand, offices were often integrated or moved, and Sanki Engineering's facility systems business began attracting notice as a unique one-stop business for such moves.

Sophisticated sewage processing facilities

Ice thermal storage system

Towards Environmentally Friendly Technology

The 21st century has brought about increased needs for saving energy and reducing CO_2 emissions. Sanki Engineering is focusing mostly on energy efficiency and has developed a wide variety of energy-saving systems for various fields, including offices, industrial plants, hospitals, and data centers.

It is actively importing technology from Europe, and this has resulted in the development of many major technologies, including Aero Wing, trans heat containers, and next-generation stoker furnaces.

The Shiodome buildings

The History of Sanki Engineering

The 1960s:

Strengthening the Organization Behind Sanki, the Technology Company

Given Sanki Technology's multifaceted policies dating back to the prewar period, it was able to keep up with the innovations in production technology that undergirded Japan's period of rapid growth. It underwent organizational reform to increase production capacity in such well-performing businesses as the 6S Sash and ESCON, while positioning facilities construction as the main pillar of the company, concentrating on building up a new foundation for both its construction materials and machinery businesses. The Sagami plant (now the Yamato Engineering Center), completed in 1963, had production equipment specifically tailored for mass production.

On the occasion of the 1964 Tokyo Olympics, Sanki Engineering participated in two major construction projects that reflected Japan's accomplishments and sophisticated technology: the Yoyogi National Gymnasium and the NHK Broadcasting Center, which became a base for broadcasting to the entire world.

The Yoyogi National Gymnasium

The 1970s:

Large-Scale Organizational Reform for a New Era

The environmental protection movement grew, and the Environmental Agency was launched in 1971. During this era, Sanki Engineering developed a track record in urban waste incineration facilities and industrial wastewater processing equipment and set up an Environmental Administrative Office.

The so-called "Nixon shock"—U.S. President Nixon's sudden decision to establish diplomatic relations with the People's Republic of China—and the first oil shock led to a deep recession in Japan, and companies operated on a reduced scale. Sanki Engineering was no exception, and it spun-off its sash business and instituted centralized controls on the departments as it sought the optimal mix for ensuring the growth of each business.

Overseas, it provided HVAC equipment for satellite communications ground stations in places such as the Middle East, Africa, and Venezuela, and built automotive testing equipment in the Soviet Union.

Suntory Hall, where Sanki Engineering was involved in installing the HVAC and plumbing systems

The 1980s:

The Challenge of Building New Businesses for the Turbulent 21st Century

The Company Credo was formulated in 1980. Later, in 1982, it built a new Technical Research Laboratory in Yamato, Kanagawa prefecture, equipped with large-scale experimental facilities, as a basic research facility for the cutting-edge technology demanded in every field and for developing original proprietary technology and technology that is useful across many business areas. As Japan moved from the Showa era (1926-1989) to the Heisei era (1989-present), people's needs included acquisition of comfortable living spaces, intelligent devices based on rapid progress in computers and communications and the wave of informatization, and urban management, which covers urban planning in general. These needs resulted in Sanki Engineering receiving a series of large-scale orders.

However, the collapse of the bubble economy in 1990 brought about dark days in the Japanese economy, including a reduction in investments in housing, a decrease in personal consumption, and a downward correction in investment in equipment and facilities. Japanese companies were forced to rethink their existing businesses and restructure in order to rejuvenate themselves.

Transport system (Tohan Co., Ltd.)

The 21st Century:

Placing the Global Environment as the Central Focus of the Company, Aiming to Bring About a Sustainable Society

Moving into the 21st century, consideration for the global environment has become an essential corporate responsibility and an important element in Sanki Engineering's business activities. The company opened its Shonan Training Center (in Zushi, Kanagawa prefecture) in 2000 and began training human assets for the new era. It moved its main office from Tokyo's Hibiya district to Nihonbashi in FY2005 and to Tsukiji, Akashi-cho, in FY2011.

In FY2012, Sanki Engineering launched a Smart Building Solution Business and emphasized reduction of the environmental burden through energy efficiency and development of technology to provide comfortable environments.

Kansai International Airport, where Sanki Engineering was involved in constructing sorting facilities related to HVAC, water supply and drainage, plumbing, and international mail

The Growth and Development of Technology

1960: Color television broadcasts begin
1964: The Tokaido Shinkansen begins service

1970: **Wireless phones and picture phones are exhibited at the Osaka World's Fair**
1978: **New Tokyo International Airport (Narita Airport) opens**

1988: **Tokyo Dome completed**
1995: **Windows 95 goes on sale**

2003: **Digital cameras, DVD recorders, and flat-screen television sets take center stage as the "three must-have treasures"**
2008: **The iPhone goes on sale and becomes a massive hit**

Q First, please tell us your thoughts as the new President about what you enthusiastically have in mind and show us the direction of the Company's road ahead?

For the time being, the objective of Sanki Engineering is to fulfill "SANKI VITAL PLAN 90th," the medium-term management plan we announced in September 2010. Under the new organization in effect since April 2012, this is something we must achieve, and we will certainly be able to do so if our employees work together to take firm action on the measures described in the plan. Since the Company's establishment, we've had the good fortune of doing business with good customers and growing along with them. We will continue to make sustainable efforts through engineering for the satisfaction of our customers, by placing the top priority on their demands. Now that I have assumed the office of President, Executive President and Representative Director, this stance remains unchanged, but our management needs to take measures suited to the times. For example, my recognition is that it is time for us to lightly step on the gas pedal to increase our orders. While I am leading Sanki Engineering, my mission is to enhance our corporate value by making sure we meet our medium-term management plans, increase customer satisfaction and lift consolidated sales to ¥200 billion by fiscal 2015, our 90th anniversary year. The challenges of the business environment we face are certainly urgent, but I hope to use Sanki Engineering's total engineering strengths to overcome them. I believe this can be attained through the business expansion by blending our core technologies such as M & E Works (i.e., heating, ventilation, and air conditioning, plumbing and electric works) with the technologies such as conveyance systems, and water and sewage treatment systems that our competitors do not possess.

Q How was the Group's financial performance in the fiscal year ended March 31, 2012?

In fiscal 2011, there was a gradual recovery trend from the sudden slump in business following the Great East Japan Earthquake, but subsequently the European debt crisis and high yen brought private capital investment in the facilities constructions market to a low point. The amount of construction overall was sluggish and the bids more competitive. We have faced this environment by actively proposing energy conservation systems, which is something customers are really looking for. As a member of society, we worked to help achieve a comfortable, low-carbon society, and as an enterprise we endeavored to win more orders while stressing profitability from construction. As a result, orders during the fiscal year increased by 19.1% on a year-on-year basis to ¥175,291 million.

However, the effects of the Great East Japan Earthquake have been delays in construction progress and starts and a decline in rental revenues following revisions to rents of major rental properties in our real estate business, such that sales decreased by 2.5% on a year-on-year basis to ¥147,994 million.

In terms of income, although the Group worked together to improve construction profitability by lowering costs and expenses, this was not enough to offset the decline in sales. Operating income decreased by 34.3% on a year-on-year basis to ¥2,525 million, ordinary income decreased by 46.5% on a year-on-year basis to ¥2,268 million, and net income decreased by 91.7% on a year-on-year basis to ¥176 million.

Q Tell us about the progress of "SANKI VITAL PLAN 90th."

"SANKI VITAL PLAN 90th" is our five-year medium-term management plan that is effective to fiscal 2015, our 90th anniversary year. Upholding the basic policies such as "Maintain a profitability focus and optimum-sized orders," "Further strengthen Core Businesses and expand Strategic Growth Businesses" and "Exploit and cultivate new businesses," we are aiming to achieve medium- to long-term development. In terms of financial performance, our targets for the final year of the plan are ¥200 billion in consolidated sales and ¥10 billion in consolidated ordinary income.

During fiscal 2011, the first year of the plan, we started by reforming the organization, establishing the Sales Administration Division for example, to enhance inter-departmental synergy. We founded the Smart Building Solution Division in April 2012 as a Strategic Growth Business, thus creating an organization capable of quickly responding to customers' multiple needs.

The medium-term management plan sets theme-based action plans that we are carrying out. We have considered more than 300 proposals for initiatives relating to starting new businesses. A number of those proposals have advanced to the next step. As part of expanding our overseas businesses, we have implemented a new overseas training program and begun initiatives that are looking several years ahead. We are also starting to reform the personnel system to better develop our human resources.

As for technical development, the main focus is on promoting technical proposals that include energy conservation, whether we are dealing with core or strategic businesses. This is the major key to achieving the medium-term management plan. Examples of

SANKI VITAL PLAN 90th

Management Philosophy

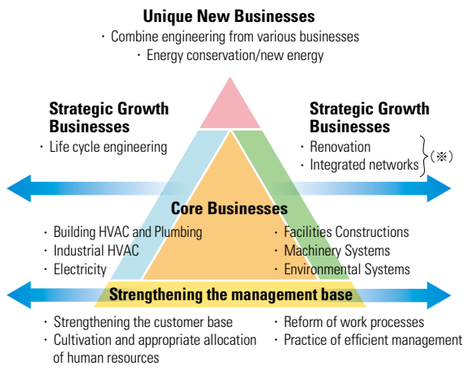
Through its total engineering, the Sanki Engineering Group shall promote the diffusion of energy-conserving and new-energy systems to help achieve a comfortable low-carbon society.

Vision

We shall strengthen Core Businesses, expand Strategic Growth Businesses and create Unique New Businesses to ensure our long-term development.

Financial performance targets

Fiscal 2015 consolidated sales: ¥200 billion
Consolidated ordinary income: ¥10 billion



(※) Integrated as Smart Building Solution Business as of April 1, 2012

Consolidated sales (billion of yen)	FY2011 (actual)	FY2013 (planned)	FY2015 (target)
Core Businesses	136.6	169	176
Facilities constructions	106	132	137
HVAC, plumbing and electricity	102.9	126.5	131
Facility systems	3.1	5.5	6
Machinery systems	10.8	14	15
Environmental systems	19.8	23	24
Strategic Growth Businesses	8.9	15	19
Life cycle engineering	5.4	6	7
Renovation (※)	0.7	4	5
Integrated networks (※)	2.8	5	7
Unique New Businesses	0	0	2
Real estate business	2.8	3	3
Adjusted amount	(0.4)	—	—
Total	147.9	187	200
Of the above			
Facilities constructions overhaul sales	69	80	85
Overseas sales	1.7	5	8
Consolidated ordinary income	2.2 1.5%	7.5 4.0%	10.0 5.0%

(Note) Percentage indicates ratio of consolidated ordinary income to consolidated sales

important technical developments in fiscal 2011 included an "energy-conserving system for data centers" and an "energy-conserving supercharged fluidized incineration system." We also won an energy conservation award (the Energy Conservation Center, Japan Chairman's Award) for an ESCO project at a hospital affiliated with a national university. The trend is continuing in fiscal 2012, with development including such themes as a "temperature stratification air conditioning system for large spaces" and an "energy-conserving logistics conveyor with direct-drive motor."

Q What is your financial outlook for the present term (fiscal year ended March 2012) and specific measures for implementation?

This period we will continue to follow the key measures of "SANKI VITAL PLAN 90th" to turn around our financial performance and achieve our targets. This entails maintaining and expanding our Core Businesses, cultivating and strengthening our Strategic Growth Businesses and keeping up measures to strengthen the management base. We are also taking steps to reduce fixed costs and along with that reviewing our organization and portfolio assets to make management more efficient.

We forecast increasing revenue and profits, with consolidated performance as follows: orders of ¥175 billion (decreased by 0.2% on a year-on-year basis), sales of ¥170 billion (increased by 14.9% on a year-on-year basis), ordinary income of ¥3.4 billion (increased by 49.9% on a year-on-year basis) and net income of ¥1.8 billion (increased by 922.7% on a year-on-year basis).

As for specific initiatives, it is crucial to work cross-organizationally—that is, make sure that different operations divisions are sharing information and technologies with each other so they can solve any issue that customers bring in—and thereby distinguish ourselves from the competition. The relocation of the head office has consolidated all our operations divisions and major subsidiaries in one place, and we have created open spaces where people can trade views freely.

We have also introduced and begun operating a marketing information sharing system. Going forward, we will be reforming awareness in a number of aspects. For example, under the new Earthquake Recovery Project, we have begun activities that promote recovery of disaster-affected areas and are not limited by the boundaries between operations divisions. Actual initiatives like these will help keep things fresh and open. The three representative directors, including myself, work in a common executive office instead of private offices. This is to enhance the exchange of information among our respective areas of responsibility and enable quick decision-making. I myself am going out to workplaces to improve communication with our employees.

I think the President should be like the conductor of an orchestra, and our employees like professional musicians. No matter how talented the individual players, the music will only be beautiful if the orchestra as a whole is playing in harmony. Sanki Engineering is involved in a wide range of business domains, and our customers likewise comprise a variety of fields. For that reason we have gained such varied engineering experience over the years. This is where I get to show my skills as a conductor! (Laughs)

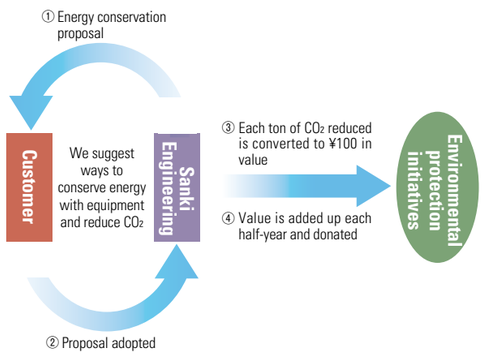
Q What role would you like Sanki Engineering to have in society?

Our Company Credo says, "We will contribute to society through engineering," which is a clear statement of our social responsibility as a business. The Company Credo says, in other words, that the very reason for our existence should be to contribute to society. We put as much stress on conserving energy and reducing environmental burden as we do on offering technologies that save time and labor and enhance convenience and comfort.

In fiscal 2010, we launched the SANKI YOU Eco Contribution Point System, an initiative unlike any other in the construction industry. (cf p. 50.) A total of 129 proposals we made for reducing CO_2 emissions were adopted by customers in fiscal 2011, leading to a total reduction of 31,095 tons. The resulting eco contribution points were worth ¥3,109,500.

We donated the money to the non-profit Environmental Relations, which used it to plant trees. Such an initiative converts our work into figures or physical goods, which helps to make their significance understandable. As I mentioned previously, our major businesses include M & E works (heating, ventilation, and air conditioning, plumbing and electric work), information and communication systems for buildings and factories, and conveyance systems, and water & sewage treatment systems.

SANKI YOU Eco Contribution Point System



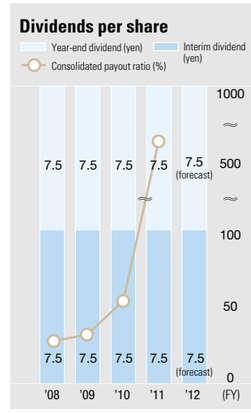
Such facilities are critical to people's lifestyles and business activities. Maintaining them requires much energy. Our business activities are directly connected to lifestyles, enterprises and the environment. Sanki Engineering will practice CSR management proactively, always considering how we can fulfill our responsibility to society by contributing to reduce CO_2 emissions through our core businesses. We will make concerted and united efforts to be an enterprise that is indispensable to our stakeholders.

Q What is your message to the shareholders?

Returning profits to our shareholders is one of the most important issues for management. Although consolidated revenues and profits declined last year, We have secured sufficient resources to maintain payments of stable dividends to our shareholders. We set a year-end dividend of ¥7.50 per share (the same as the previous year) for a total yearly dividend of ¥15 per share (also the same as the previous year).

While the business environment we face is increasingly challenging, we intend to boost revenues and income and live up to our shareholders' expectations. We will do this by steadily and swiftly carrying out reforms (rebuilding our programs and business foundation) to achieve the targets of "SANKI VITAL PLAN 90th."

I ask our shareholders for their ongoing support and advice.



	FY2008 (Period 85)	FY2009 (Period 86)	FY2010 (Period 87)	FY2011 (Period 88)	FY2012 (Period 89)
Interim dividend (yen)	7.5	7.5	7.5	7.5	7.5
Year-end dividend (yen)	7.5	7.5	7.5	7.5	7.5
Consolidated payout ratio (%)	33.7	35.0	50.6	609.8	—

Summaries of Businesses by Segment

SANKI at a Glance

Sales Composition

Facilities Construction Business

HVAC System
- HVAC system
- Clean rooms
- Freezing & refrigeration plant
- District heating & cooling plant
- Nuclear power plant

Plumbing & Drainage System
- Water supply & drainage
- Sanitary equipment
- Kitchen equipment

Fire Services System
- Fire fighting equipment & system

Electrical System
- Electrical system
- ICT facilities
- Instrumentation
- Electrical civil works

Facility Systems
- Financial Offices Creation/Relocation Dealing Rooms, Offices, Branches
- Workplace Planning
- Facility Management

78%

¥115,019 million

Summary of FY2011

In FY2011, we used energy-saving equipment and systems and reduced power consumption to work with an emphasis on proposals and sales of remodeling projects for reassessing and optimizing energy consumption throughout entire buildings. The resulting growth in orders put us above the number of orders for the previous fiscal year in both building HVAC and plumbing, and industrial HVAC. Demand for reduced power consumption and rising energy costs due to the effects of the earthquake have led to further requests for energy-saving equipment, and in these circumstances, we will work on developing new technology and expanding the use of next-generation energy sources, guaranteeing continuous growth for the Company.

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Machinery Systems Business

Material Handling Systems
- Clean transport systems
- Material handling system
- Airport baggage and cargo handling systems
- FA systems
- Control and information systems

Conveyance Systems
- Lightweight capacity conveyer
- Environmental conveyer
- Belt and Roller conveyer
- Sorting device
- Automated packet warehouse

7%

¥10,823 million

Summary of FY2011

The appreciation of the yen in FY2011 led to companies cutting back on investment in equipment, and the total value of orders received fell below the figure for the previous fiscal year, but we worked on selling logistical conveyors with high-efficiency motors and developing the material handling system in aging rooms in lithium-ion battery plants. We did our best to improve earnings while maintaining orders from existing customers while moving forward with expansion into overseas markets.

page 22

Environmental Systems Business

Water treatment
- Water and sewage treatment facilities
- Industrial wastewater treatment facilities
- Sludge treatment facilities
- Sludge incineration facilities
- Industrial plant facilities

Waste treatment
- Waste incineration facilities
- Landfill wastewater treatment facilities

13%

¥19,825 million

Summary of FY2011

In FY2011, the effects of the earthquake caused further demand for energy-saving equipment and systems and increased requirements for disposal of earthquake debris, and Sanki Engineering proposed and developed equipment and systems to deal with these problems. As a result, we succeeded in developing a next-generation sewage sludge incineration system that reduces greenhouse gas emissions and are aiming to increase orders in the area of water processing. We are also enhancing sales support and relationship with technical cooperation, as well as expanding our business overseas.

page 24

Real Estate Business

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

2%

¥2,824 million

Summary of FY2011

Sales in our real estate business in FY2011 were far below those of the previous fiscal year, due to a reduction in earnings from leasing caused by a revision of rental fees in our major rental properties. We plan to deal with aging facilities and reductions in rental earnings caused by revisions of rental fees by adding value to our properties through renewal projects and making use of idle assets to reconstruct our business and maintain stable earnings.

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Reports by Segment

Facilities Construction Business

Point

- **As a result of our efforts to strengthen our proposals and sales and increase orders, orders in the field of both HVAC and plumbing for buildings and industrial HVAC increased over the previous fiscal year.**

- **We aim to achieve the goals in our medium-term management plan, increasing orders mainly in the field of HVAC and plumbing for buildings with our comprehensive energy-saving and low-power engineering technology.**

Medium-Term Management Plan

SANKI VITAL PLAN 90th

Important policies for achieving our goals

- Increasing orders for proposed renewal projects in response to the Revised Energy Saving Act
- Strengthening cost competitiveness
- Developing technology for next-generation energy-saving and new energy
- Streamlining and enhancing our bases in Southeast Asia

(billion of yen)

Facilities construction	FY2011 (actual)	FY2013 (planned)	FY2015 (target)
Consolidated sales	115.0	147.0	156.0

Creating Facilities Construction That is Friendly to Both People and the Environment

Sanki Engineering is creating facilities construction that is friendly to both people and the environment with its convenient, comfortable and yet energy-saving and efficient systems. We will make unceasing efforts to increase our business activities while developing unique new technology and dealing with the challenges of globalization.

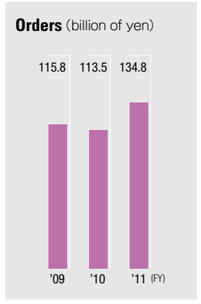
Summary of Results and Performance for FY2011

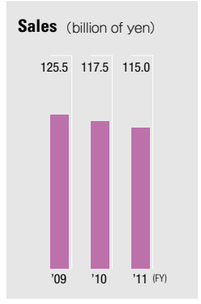
Orders in our facilities construction business were 18.8% higher than in the previous fiscal year at ¥134.8 billion, and sales were 2.2% below the previous fiscal year at ¥115.0 billion.

We strove to increase orders, emphasizing profits from projects and actively pursuing proposals and sales in the areas of energy saving and low power. As a result, we had more orders than in the previous fiscal year in our facilities construction business, in both building HVAC and plumbing, and industrial HVAC.

Record of Major Projects Implemented

- Plans for Redevelopment of Mitsui Memorial Hospital (HVAC, plumbing and electrical equipment works)
- Plans for the Mitsui-Sumitomo Marine and Fire Insurance New Kanda Surugadai Sanchome Building (HVAC, plumbing and electrical equipment works)
- Yokohama West Exist KN Building (HVAC, plumbing and electrical equipment works)
- Additional construction and refurbishing of Daimaru's Umeda Store (HVAC, plumbing and electrical equipment works)





We attempted to increase sales by concentrating on obtaining orders for small projects, especially short-term remodeling projects, in order to compensate for a decrease in the number of projects carried over from the previous year. However, the Great East Japan Earthquake caused delays in both making progress in construction projects and in starting construction, so we ended up with a figure below that of the previous year.

The Market Environment in FY2012

The accelerating shift of manufacturing industries overseas due to such factors as the appreciation of the yen and the Great East Japan Earthquake has tended to cause a decrease in domestic private investment. Moreover, even though there were expectations of a demand for earthquake recovery projects, competition for orders for publicly funded projects is extremely fierce overall, so the business environment in which the Sanki Group finds itself remains harsh.

On the other hand, the demand for remodeling of buildings and facilities to meet increasing demands for energy efficiency as part of moving toward a low-carbon society is expected to expand further, prompted by the Great East Japan Earthquake.

Even in this type of harsh business climate, industrial HVAC and electricity are trending toward a strong recovery, especially in the areas of building HVAC and plumbing, and we believe that small-scale remodeling projects will continue to show a slight increase. In FY2012, we aim to achieve the goals in our medium-term management plan by maintaining our emphasis on profits as we increase the number of appropriately scaled orders with our ability to propose technological solutions, especially in the areas of energy efficiency and low power consumption.

HVAC & Plumbing for Buildings

Given calls for saving electricity and a sharp rise in energy costs due to a supply and demand crunch for electric power in FY2011, societal demands prompted us to intensify efforts toward our aim of optimizing energy consumption for entire buildings.

Sanki Engineering is aiming to increase orders with its comprehensive engineering technology, which enables saving energy and increasing the added value of buildings, by integrating functions such as heating, ventilation and air conditioning, water supply and drainage, and plumbing systems.

We will increase our overall engineering capabilities in order to enhance our abilities to propose technologies to customers. With new technology unique to our Company that leads not only to energy-saving and power-saving, but also to open the way for reduction in life-cycle cost, we will broaden our business fields and guarantee growth potential.

Industrial HVAC

Even in such cutting-edge industries as electronics and pharmaceuticals, increasing numbers of companies were not only faced with recovery from the Great East Japan Earthquake and reassessment of their business continuation plans but also began looking at improving and upgrading their HVAC equipment in order to save energy. We will propose further advanced technologies and solutions to our customers by taking advantage of our conventional unique cleanroom technology.

In addition to the enhancement of our competitiveness in domestic markets, we will pave our way for globalization by streamlining and enhancing our bases especially in Southeast Asia, where many Japanese factories have relocated from Japan, so as to meet the demands arising from newly developing countries.

Facilities Construction Business

Electrical Equipment

Until now, Sanki Engineering has been proposing systems to provide stable power supply and make highly efficient use of electricity in the fields of lighting installation, power substations, monitoring systems, information infrastructure and intelligent building management.

While focusing on the roles of electric systems that will be required for more advancement, diversity and energy-saving, we are aiming to raise the satisfaction level of our customers and to achieve steady growth, seeking amenities and conveniences through proposals for the reduction of power consumption by means of energy-saving lighting, receptacle equipment and the visualization of power consumption.

From the perspective of the customer, we also are aiming to make proposals for power-saving measures and securing of power supply in case of emergency.

Facility Systems

Facility Systems Division offers consulting service and project management service for workplace, such as office planning, fit-outs, and relocation by using Facility Management and Construction Management method. Our over 20 years experience in these services, especially for the trading rooms, headquarters, and branches of financial institutions is very unique and reliable. Our specialized consulting service for workplace planning with workstyle change considering customer's business goal and business process makes optimal work environment and raises customers' productivity and creativity up. We always provide customers the best solutions by taking advantage of our knowledge and technologies in building facilities construction and information communications since Sanki Engineering establishment. Recently, we started devising and marketing of business continuity planning (BCP) and energy saving planning for the office as well.

Topics

Launching Our Smart Building Solution Business

Enhancing Our Ability to Devise Technology in the Areas of Energy Efficiency and Power Conservation

One of the policies we are emphasizing as we move toward achieving the goals of our medium-term management plan is to enhance our ability to devise technology in the areas of energy efficiency and power conservation. As part of this effort, we launched our Smart Building Solutions Business in April 2012.

Until now, Sanki Engineering has focused on expanding its Renovation Business, which undertakes remodeling projects, especially in the areas of building monitoring and controls, while at the same time offering an Integrated Network Business that works on newly constructed office buildings, especially for laying integrated trunk lines. However, given the unstable power supplies since the Great East Japan Earthquake, customers' demands for smart buildings have increased sharply. This prompted us to integrate our Renovation Business and our Integrated Network Business to launch our Smart Building Solution Business, which allows us to offer solutions from both businesses at once and deal with customers' needs in a timely manner.

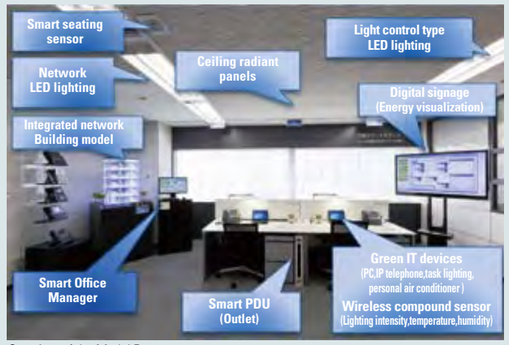
Using Our Strengths in Integrated Engineering to Provide High Value-Added Smart Buildings

We define "smart buildings" as buildings that achieve energy efficiency while pursuing comfort and convenience by means of information and communications technology (ICT).

The Smart Building Solution Business will take our strengths in general engineering and make use of them offer high value-added smart buildings, with energy efficiency and comfort improved through links between building automation (BA) technology in areas such as HVAC, plumbing, power, and ICT. At present, we are actively devising technology mainly for upgrading existing buildings. Our target areas will be projects in large cities such as Tokyo and Osaka, especially commercial and office buildings, hospitals, and schools above a certain size.

Installing Smart Office Model Rooms

We have installed a model room in our main office (St. Luke's Tower, 41st floor) to allow our customers to experience this environment. Customers can see how lighting, air conditioning, and other amenities are controlled to appropriate levels, depending on how many persons enter or leave the room and the level of daylight outside.



Overview of the Model Room

Developing Control Systems In-House

Sanki Smart Office Manager (SSOM), developed in-house, is a control system that optimizes energy use. SSOM allows personal lighting and air conditioning control geared to an individual's actions, and even when it is installed with existing lighting fixtures, customers can expect 60% greater efficiency in lighting.

Another feature is visualization of electrical power. The system measures power consumption in units of blocks or desks within offices and displays it in real time, leading to greater awareness of saving electricity on the part of each individual in the office. As a result of installing SSOM in the offices (with about 50 employees) on the ninth floor of our main office, the employees became more aware of saving electrical power and realized 30% greater efficiency in use of power outlets than in standard offices. In August 2012, we also installed SSOM in our sixth-floor offices.

Reports by Segment

Machinery Systems Business

Point

- **Sales in our Machinery Systems Business were 14.1% higher than in the previous fiscal year at ¥10.823 billion.**
- **We will respond to society's increasingly diverse needs with an emphasis on proposals for efficiency and clean plants as well as energy efficiency.**

Medium-Term Management Plan

SANKI VITAL PLAN 90th

Important policies for achieving our goals

- Venturing into new energy-related markets
- Developing and selling new conveyors for specific markets
- Establishing competitive bases in overseas markets

(billion of yen)

Machinery Systems	FY2011 (actual)	FY2013 (planned)	FY2015 (target)
Consolidated sales	10.8	14.0	15.0

Providing Material Handling Systems for Supply Chain Management

Sanki Engineering has been providing Material Handling systems for supply chain management but we are working on developing technology that can deal with the issues of both customers and society as well as with changing needs.

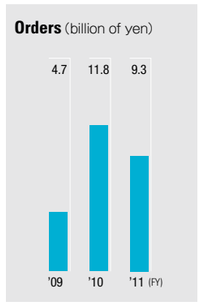
Summary of Results and Performance for FY2011

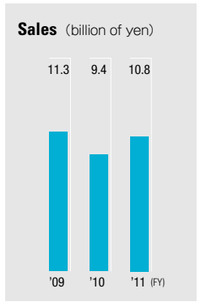
Orders for the Machinery Systems Business were down 21.2% from the previous fiscal year at ¥9.3 billion, but sales were up 14.1% over the previous fiscal year at ¥10.8 billion.

The reason that orders fell below last year's figure is that the effects of the appreciation of the yen led companies to decrease their investment in equipment.

Record of Major Projects Implemented

- Replacement of the Tohan Ageo Center Transport System
- Cubic sorter for the Wakasa Seikatsu Logistics Center (system for sorting by postal code)
- Door-foam equipment for the Hitachi Appliance Tochigi plant





Market Conditions in FY2012

The worsening economic environment and the appreciation of the yen have caused private sector investment in equipment to contract in the medium and long term, and competition among companies is increasingly fierce. Sanki Engineering has been highly-esteemed for Material Handling System (MHS) technologies in the fields of manufacturing and logistics domain. And in recent years, we have been providing the advanced MHS technologies for demands of supply chain management, enterprise resource planning (ERP) for production and distribution and production line in the clean room. Since the Great East Japan Earthquake has prompted an increasing number of companies to reassess their supply chains, we anticipate that they will have increasing needs to construct systems that take disaster recovery into consideration as well as moving freight as quickly, safely, and accurately as possible.

While responding to these societal changes, Sanki Engineering is working on greater energy conservation and efficiency in production and distribution equipment that is essential for our customers' business and contributing to the development and maintenance of logistical systems.

Given the anticipated demand for things like airport baggage and cargo handling systems in developing countries, we are also trying to expand into overseas markets.

Efforts in FY2012

In FY2011, we worked on marketing conveyors with high-efficiency motors and developing systems for efficient transport within low-dew-point control rooms or aging rooms for lithium-ion batteries. Under certain conditions, these systems that we developed can achieve a 60% reduction in annual power consumption compared to conventional systems, when combined with the installation of automated transport devices and HVAC technology.

With investments in equipment shrinking in our main market, Japan, it will be more difficult than before to increase our performance in our business areas, so we will venture into new energy fields and move into automating production lines and reducing the amount of power that they use, as well as developing new conveyors for specific markets.

We are also managing our business with an eye toward expanding into overseas markets.

Reports by Segment

Environmental Systems Business

Point

- **Orders for the Environmental Systems Business increased 62.5% over the previous fiscal year, due to the introduction of new types of incinerators in water processing facilities.**
- **We worked to expand our environmental business overseas, beginning with our ultrafine aeration equipment, for which we established a marketing alliance with a major U.S. company.**

Medium-Term Management Plan

SANKI VITAL PLAN 90th

Important policies for achieving our goals

- Increasing orders for strategic, energy-saving products for sewage processing facilities
- Development of major next-generation products for the field of sewage processing
- Expanding our marketing networks overseas

(billion of yen)

Environmental Systems	FY2011 (actual)	FY2013 (planned)	FY2015 (target)
Consolidated sales	19.8	23.0	24.0

Helping Bring About a Low-Carbon Society through Development of Our Technologically Superior Products

Sanki Engineering is developing energy-saving devices, energy-saving systems, water and waste processing equipment and systems that can deal with problems such as the debris from earthquakes, and is helping bring about a low-carbon society with equipment and systems that reduce greenhouse gas emissions.

Summary of Results and Performance for FY2011

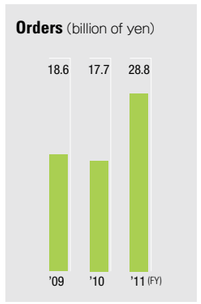
Orders in our Environmental Systems Business were 62.5% higher than in the previous fiscal year, at ¥28.8 billion, while sales were 4.3% lower than in the previous fiscal year at ¥19.8 billion.

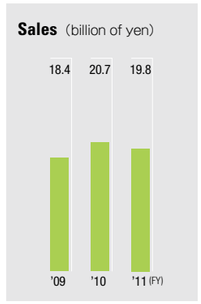
Orders were much higher than in the previous fiscal year due to investment in supercharged fluidized combustion systems (cf. p. 49).

Sales fell as a reflection of sales of large-scale waste processing facilities during the previous year.

Record of Major Projects Implemented

- Tokyo Ukima Water Recycling Center (work on sewage treatment equipment)
- Sapporo Shinkawa Water Recycling Plaza (work on sewage treatment equipment)
- Tokyo Southern Area Sludge Processing Plant (work on sewage treatment equipment)





The Market Environment in FY2012

According to METI, the market for environmental businesses was about ¥60 trillion in 2005 but is expected to be over ¥80 trillion in 2015 and over ¥90 trillion in 2020. On the other hand, since both public and private demand for environmental infrastructure has decreased across the board, production of environmental equipment peaked in FY2001 and has been decreasing. In order to guarantee sales in these areas, it will be essential for us to respond to demands for upgrading and maintenance of existing equipment, to make proposals that take energy efficiency into account, and to pursue technology that allows us to make the best possible proposals for meeting the needs of cities, suburbs, and other areas.

While dealing with the historical and societal factors behind these environmental businesses and the changes they are undergoing, Sanki Engineering is determined to emphasize Environmental Systems as one of its core businesses. Specifically, we will develop our ultrafine aeration equipment (Aero Wing) and its supercharged fluidized combustion system further, cultivate customers in the field of private water processing, expand our waste-related businesses, develop new energy-saving technology, and strengthen our overseas expansion. We will strive to maintain and develop technologically superior products that are not in price competition.

Efforts in FY2012

In FY2011, the Great East Japan Earthquake caused further requirements for energy-saving devices and systems, as well as increasing demand for processing of earthquake debris, and Sanki Engineering's major medium-term policies also involved developing and devising equipment and systems for dealing with these problems. As a result, we succeeded in developing a supercharged fluidized combustion system, a next-generation sewage sludge incinerator that can reduce greenhouse gas emissions, and received orders for two units.

We are also expanding the marketing of our ultrafine aeration device (Aero Wing) overseas. In FY2011, a marketing agreement was concluded between our subsidiary AEROSTRIP and a major North American water processing plant manufacturer, OVIVO USA, LLC, (Texas, USA). This will help us fulfill our aim of using OVIVO USA's nationwide network of agencies to expand our business in North America, as well as in our existing European markets.

We will work on developing technology for water and sewage processing and waste disposal systems to contribute to improvements in our living environment and the realization of a low-carbon society.

Reports by Segment

Real estate Business

Our Real estate Business is involved in leasing operations and building management, and we are working on expanding to include higher value-added properties.

Summary of Results for FY2011

Sales in our Real estate Business were 32.0% below those of the previous fiscal year at ¥2.8 billion, and profits (ordinary income) from the segment were 47.7% below those of the previous fiscal year at ¥1.3 billion.

The Market Environment in FY2012

Our Real estate Business will respond to aging facilities and the drop in rental earnings due to rent revision by raising the added value of properties through facilities upgrades and using underutilized assets to rebuild our business and maintain a stable income.

Research and Development

Aims of Our R&D Projects

While pursuing its diverse businesses, Sanki Engineering is tirelessly conducting various R&D projects. All of them involve us repeating verifications and measurements under specific conditions, and creating highly practical technologies to resolve our customers' problems. Our R&D projects aim to devise high value-added solutions, focusing on energy conservation, upgrading, and renewing, thereby helping create a sustainable society.

Concept of R&D

We primarily develop new core technologies and improve those existing and applicable to architectural equipment (such as ventilation, sanitation, electricity, information, and communication systems), mechanical systems (such as transportation and energy-saving systems), and environmental systems (such as water processing and thermal processing systems). While specializing in development in specific fields, we view events broadly in terms of "air," "water," and "heat," and focus our energies on "creation," "maintenance," and "diagnosis," which enables technologies from different fields to be integrated as multidisciplinary engineering and unique technologies unmatched elsewhere to be created. We embrace the concept of determining what we should "create, "maintain, and "diagnose" from a cross-sectional perspective to encourage unique development.

Our R&D Framework

We have built the Technology Research Institute in Yamato City, Kanagawa Prefecture, alongside our plant facilities, in which most of our R&D activities are performed. Our verification fields include actual buildings and plant facilities. We also engage in joint research with external research and educational institutions and companies.

The Sanki Global Environment Plaza, located within the research institute and offering educational tours, serves as a showroom where our most recent developments are presented.

Sanki Global Environment Plaza
The Sanki Global Environment Plaza showcases our focus on environmental protection, including energy conservation, CO_2 reduction, and recycling of resources.

Major institutions having undertaken joint research with us in 2011:
Tokai University, Fukui University of Technology, Shinshu University, Kanagawa Industrial Technology Center, Chiba University Graduate School, Hokkaido University

Profile of our Technology Research Institute

Analytical Laboratory
This is where we conduct key water quality analyses that are crucial for water supply equipment and sewage processing equipment, and evaluate the environment.

Large Tank
The 125m³ water tank allows us to measure the oxygen transfer efficiency and base flow speed of our ultrafine aeration device and verify the simulation results.

Clean Room
We have set up a Class 1000 clean room, which allows us to evaluate devices requiring a high degree of cleanliness.

Ion Chromatograph
The ion chromatograph, a device for measuring ion components in a solution, is used to evaluate chemicals in clean rooms during the initial construction and operation.

Ventilation Laboratory
In this 200m² testing facility resembling an actual space such as an office, various property verifications such as temperature and airflow can be performed.

Transport Laboratory
We experimentally evaluate non-contact power supply devices and conduct endurance tests on transport conveyers while actually moving objects from one place to another.

Developments since FY2011

- A decontamination system using an acetyl hydroperoxide disinfectant
- Energy-saving supercharged fluidized combustion system (cf. p. 49)
- New engine exhaust-gas treatment system
- Hybrid energy-saving heat source system for data centers (cf. p. 49)
- Temperature stratification ventilation system for large spaces (cf. p. 48)

A new engine exhaust-gas treatment system for processing black smoke emitted from automobile engine testing equipment.

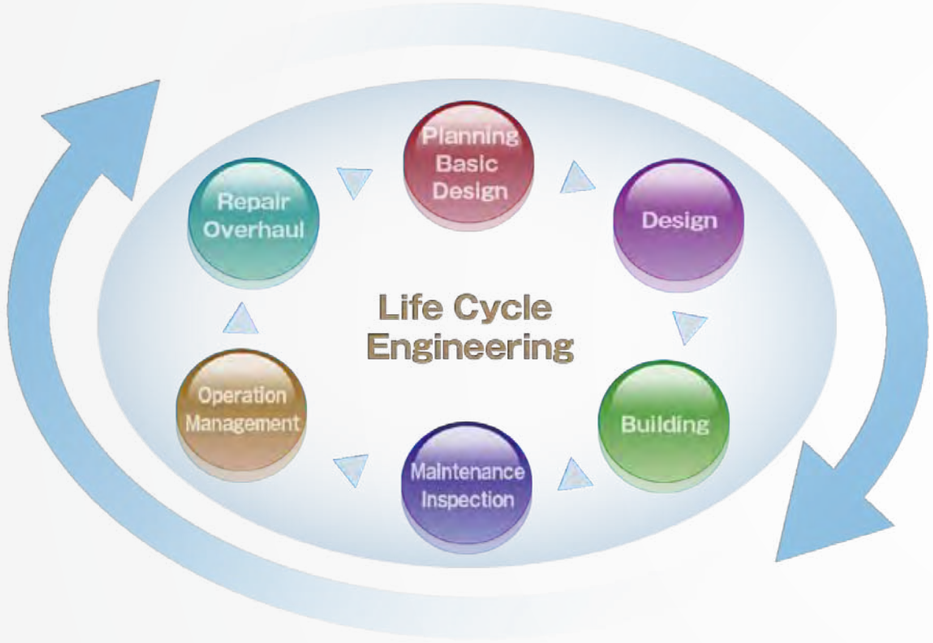
Introduction to Group Companies

The Sanki Engineering Group demonstrates its engineering strength in a wide range of fields in many regions.
Our aim is to build a comfortable environment for our customers and people around the world.
Together with our customers, we work as a Group to help achieve a recycling society.

Life Cycle Engineering (LCE)

Helping Customers by Designing, Building, Operating and Maintaining

The Sanki Engineering Group offers life cycle engineering (LCE) of buildings and facilities.
We work as a Group of knowledgeable facility professionals to provide support from planning, design and building to maintenance, operation/management and repair.



Sanki Techno Support Co., Ltd.

Established April 1, 1980 **Capital** ¥100 million
Business areas

- Design, building, operation/management, maintenance and repair of air conditioning, water supply and drainage sanitation and electricity facilities
- Energy conservation diagnosis and consulting
- Building IP phone systems, call center systems and networks

Sanki Sangyo Setsubi Co., Ltd.

Established May 1, 1980 **Capital** ¥20 million
Business areas

- Installation, relocation, removal and altering of general equipment (production, transportation, etc.)
- Electrical wiring, instrumentation work, computer software changes

Sanki Kako Kensetsu Co., Ltd.

Established September 1, 1980 **Capital** ¥80 million
Business areas

- Design, building, operation/management, maintenance, upgrading and improving of waste treatment facilities
- Manufacture, sale and installation of solid-liquid separators
- Design, building and maintenance/management of water/wastewater treatment facilities

Sanki Kankyo Service Co., Ltd.

Established June 29, 1990 **Capital** ¥50 million
Business areas

- Design, building, administration and work contracting of environmental protection facilities including water supply and sewage facilities
- Operation, maintenance and management and sale of chemical products for above facilities

PFI Okubo Techno Resource Co., Ltd.

Established December 3, 2004 **Capital** ¥10 million
Business areas

- Update, maintenance, management and operation of wastewater treatment facilities and emergency generators at Okubo Water Purification Plant, Saitama Prefecture

Period of business Design and construction 3 years, 4 months; operation, maintenance and management 20 years

Global

Engineering around the World

Recycling Society

Services, Products and More for a Recycling Society

We are engaged in businesses like waste treatment and recycling to protect the environment and achieve a recycling society.

Ou Clean Technology Co., Ltd.

Established February 1, 2005
Capital ¥494,825,000
Business areas Treatment and incineration of industrial and municipal waste and supply of heat

"Contribution to Treating Earthquake Debris"

The city of Hachinohe was among those damaged by tsunami after the Great East Japan Earthquake of March 11, 2011. Ohu Clean Technology, located at the tip of the port island area of the Port of Hachinohe, suffered tsunami damage to its incineration facility equipment. Recovery took about two months.

Following the recovery, the company showed that it has a key social mission by starting to receive industrial waste from the border area of Aomori and Iwate prefectures as well as waste fertilizer from a similarly damaged fertilizer plant nearby and earthquake debris from Hachinohe City.

Akita Eco Plash Co., Ltd.

Established February 13, 2004
Capital ¥250 million
Business areas Waste plastic processing and production of recycled products

"Plant Factory Pedestals Support Recovery"

Among other materials, Akita Eco Plash recycles container and packaging plastic from households and turns them into plastic products like rain barrels, plant factory pedestals and U-shaped gutters.

These products are in use at San'ichi Farm, a plant factory in Natori City, Miyagi Prefecture, designated as a Great East Japan Earthquake Recovery Project. Leaf lettuce and other vegetables are now grown hydroponically with rainwater and without agricultural chemicals. They rest on pedestals on top of fields that were damaged by seawater.

Tomakomai Netsu Service Co., Ltd.

Established July 20, 1971
Capital ¥200 million
Business areas Heat supply to multi-unit housing, operation and maintenance of cleaning center facilities

Shin-yu Service Co., Ltd.

Established August 1, 1980
Capital ¥10 million
Business areas Insurance agency, leasing

Topics

Support for Thailand Flooding

Thai Sanki Engineering & Construction mobilized more than 9,000 workers for recovery from major flooding in Thailand in September 2011, thus helping customers carry on production.

Corporate Governance

Sanki Engineering's Basic Concept of Corporate Governance

Increasing the efficiency of management with absolute compliance as the watchword

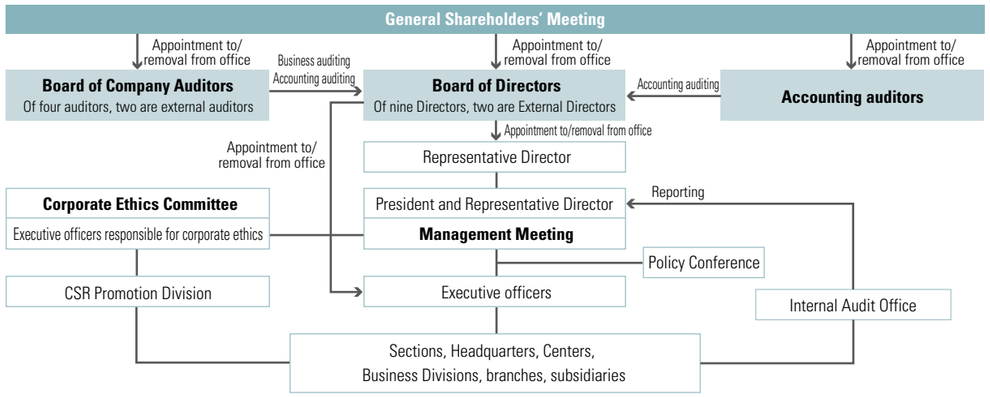
Sanki Engineering positions contribution to society through engineering, communication with all of our shareholders and other stakeholders, and the realization of business activities that make us a company both valued and trusted by the community as our basic management principles. We further position the achievement of improved business results through increased management efficiency, with absolute compliance as the watchword, as an important management objective towards the realization of these goals.

Corporate governance system

In order to increase business efficiency and speed up the decision-making process, we are 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. We also have a system in place by means of which the decision-making process of our Board of Directors and the execution of business affairs by our executive officers are subject to multifaceted monitoring and restraints from external executive officers, a Board of Company Auditors (including external auditors), an Internal Audit Office, and accounting in order to verify the legality and appropriateness of our business procedures.

Diagram of corporate governance system

(As of June 27, 2012)



Board of Directors

The Board of Directors meets at least once a month in order to decide on important matters and supervise the status of execution of business affairs.

Management Meeting

Made up of executive officers nominated by the President. Meets weekly to deliberate on important matters, including those to be discussed by the Board of Directors.

Board of Company Auditors

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

Corporate Ethics Committee

With the President as Chairperson, via this committee executive officers nominated by the President to be responsible for corporate ethics oversee all matters related to corporate ethics. The Committee is made up of executive officers and the Presidents of affiliates and branches, and the CSR Promotion Division functions as the Secretariat. The committee deliberates on action plans and other measures to achieve further penetration and stricter observance of the company's Code of Conduct and Action Guidelines at two regularly scheduled meetings per year.

Internal Audit Office

This section conducts internal audits of the operations of each of the company's business divisions, based on the Auditing Plan for that fiscal year. It verifies the appropriateness, efficiency, etc. of the internal management system. As necessary, the Internal Auditing Section exchanges opinions with or makes proposals concerning the improvement or correction of a problem to the Internal Controls Departments of Administration Division and other divisions. The Section reports the results of its audits to the President.

Executive Officers

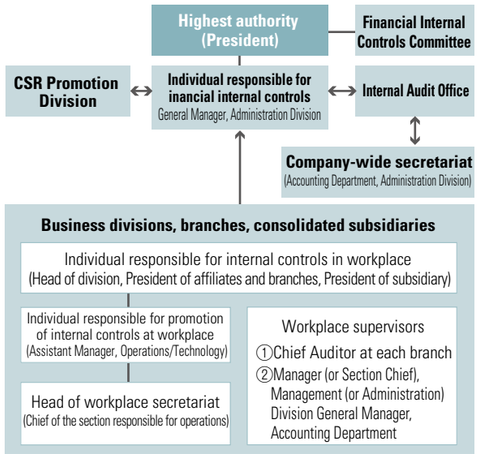
Appointed by the Board of Directors, the executive officers are responsible for and possess authority in relation to the execution of the affairs that fall under their purview.

System for the Promotion of Internal Controls in relation to Financial Reporting

Supervision of Our Main Work Processes

In order to ensure the reliability of financial reporting demanded by the Financial Instruments and Exchange Act, we operate a system to promote internal controls, with the President as the highest authority. As an independent initiative on our own part, we also appoint Chief Auditors with specialized knowledge and experience of construction from the Chief Auditors Section of the CSR Promotion Division to each of our workplaces to act as supervisors, constantly overseeing our main work processes.

In fiscal 2011, we verified the effectiveness of our internal controls, and we received an unqualified opinion from our auditing firm. We will continue to maintain the effectiveness of our internal controls, and go on working to ensure the reliability of our financial reporting.



Highest authority: President

Responsible for all aspects of internal controls related to financial reporting.

Individual responsible for financial internal controls (General Manager of Administration Division)

The executive officer responsible for internal controls related to financial reporting, acting as an aide to the President.

Financial Internal Controls Committee

With the president acting as Chairperson, this committee deliberates and makes decisions on important matters in the area of internal controls related to financial reporting, and plays a central role in company-wide regulation.

Our Basic Concept of CSR and Our Promotion of CSR

Making CSR Part of Our Work Procedures

The foundation of our CSR initiatives is our continuing effort to contribute to society through our business while respecting social norms as a corporate citizen, and we take communication with our stakeholders very seriously as a means of enabling us to gain an accurate understanding of the demands of society. This in itself is the practice of our Corporate Credo, which we formulated in 1980. To enable us to go on responding to the demands of society, we have established a CSR Promotion Division as part of our corporate governance system, and we are working steadily to make CSR part of our management practice, towards the realization of socially responsible corporate management.

Formulation of Our Code of Conduct and Action Guidelines (The Sanki Engineering Group CSR Manifesto)

We formulated our Corporate Ethics Regulations in December 2002. The Corporate Ethics Regulations stipulated that we should create a Code of Conduct and Action Guidelines, and establish a structure centering on the Corporate Ethics Committee in order to ensure that they took root and were observed. Based on the spirit of the Corporate Credo, the Code of Conduct and Action Guidelines are not limited to simply requiring observance of laws and regulations, but represent our CSR manifesto, indicating how Sanki Engineering executives and employees should behave as corporate citizens. At Sanki Engineering, we are attempting to ensure that the concept of CSR penetrates into our daily duties throughout our organization.

Revision of Code of Conduct and Action Guidelines

Climate change and human rights issues are only some of the diverse problems facing contemporary society. In addition, the social responsibilities expected to be fulfilled by companies are increasing, for example with the issuing of ISO 26000, standards for corporate social responsibility, in November 2010 by the International Organization for Standardization (ISO). In order to enable us to respond to these social trends, we therefore revised our Code of Conduct and Action Guidelines in May 2012.

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

Formulated on December 1, 2002
Revised on May 1, 2012

[The colored sentences (1-8) are our Code of Conduct, while the sentences in black print ((1)-(34)) are our Action Guidelines]

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.

①Taking 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.

②We 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.

③In 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.

④We will disclose company information, including information concerning our business activities and our financial status, to our stakeholders in a timely and appropriate manner.

⑤We will prioritize communication with our stakeholders in order to live up to the trust placed in us by society.

⑥We 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.

⑦We will pursue profits by means of free and fair competition, observing the stipulations of the Anti-Monopoly Act and other relevant laws and regulations.

⑧We 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.

⑨We 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.

⑩We will not exploit our position as the contracting party in order to coerce our business partners to engage in any improper actions.

⑪In negotiating the offering of contracts, etc., we will not pursue individual profit.

⑫We 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.

⑬We will ensure that every individual is able to work safely and healthily at all of our worksites, including construction sites.

⑭We 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.

⑮We will not benefit from child labor or forced labor in our business activities.

⑯In the course of our business activities, we will consider our impact on human rights, and we will deal with any potential human rights violations.

⑰We will eliminate sexual harassment and power harassment from the workplace, and we will prevent any deterioration in the working environment.

⑱We will respect the privacy, individuality, and diversity of each person, and we will work to harmonize work and life.

Management of company finances

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

⑲We will manage company assets appropriately and in accordance with the rules, and we will not use them for other than business purposes.

⑳We 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.

㉑We will manage information appropriately, based on our information security policy.

㉒In addition to protecting information provided by customers, we will treat all personal information that we receive appropriately and manage it safely.

㉓We 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.

㉔In 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.

㉕In our respective workplaces, we will strive to prevent pollution and environmental contamination, and we will work to promote conservation of resources and energy, reduction of industrial waste, and recycling.

㉖In our business activities, we will always consider our impact on the environment, and we will respect environment-related laws and regulations and actively work towards 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.

㉗If 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 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.

㉘In 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.

㉙When 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.

㉚We will not perform any actions that damage the good name or prestige of our company.

㉛We will work to contribute to society as a good corporate citizen and member of society, seeking to contribute to the development of local communities.

㉜When we engage in business activities overseas, we will respect international norms of behaviour, while adhering to the principle of respect for the rule of law.

㉝We will make our business partners aware of this Code of Conduct and these Action Guidelines, and we will request their observance of them.

㉞All 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.

Corporate Governance (Compliance)

Our Concept of Compliance and Our Management System

Absolute Compliance is the Foundation of a Trusted Company

Compliance at Sanki Engineering is not restricted to simply obeying laws and regulations. We have a broader understanding of compliance as conforming to the standards of society, and we believe that compliance is the requirement that must be fulfilled above all others by a corporate citizen. Absolute compliance is in itself the foundation for being a company that is trusted by society. Based on our recognition of the overwhelming importance of compliance, we are pushing ahead with Group-wide compliance initiatives centering on our Corporate Ethics Committee, of which our President acts as Chairperson.

Corporate Ethics Training

We conduct corporate ethics training for all Group executives and employees in order to further diffuse the Code of Conduct and Action Guidelines throughout the Group and provide information on the latest trends in laws and regulations.

In fiscal 2011, our corporate ethics training took up the following themes for detailed coverage: (1)The introduction of a provision prohibiting involvement with organized crime groups in contracts with subcontractors, etc. (2)The prevention of sexual harassment and power harassment (3)Changes to the corporate ethics hotlines (4)The enactment of the Security Export Control Regulations (5)Appropriate accounting procedures (Case studies of improper procedures)

Status of corporate ethics training

	Period	Number of participants	Number of enrollments
Aug-Sept 2011		2,065	2,368*

* (As of April 1, 2011)

Training at our Yamato Engineering Center

Corporate ethics hotlines (Whistleblowing system)

We have set up corporate ethics hotlines both within and outside the company to enable employees to blow the whistle. The internal hotline goes to the CSR Promotion Division, while the external hotline goes to our consulting attorney's office. We act with appropriate haste to resolve the issues that are reported, with consideration of the protection of the consultant and the whistleblower. All of the reported information is presented to the executives responsible for corporate ethics, and important information is reported to the Management Meeting. In fiscal 2011, there was one case of whistleblowing, which did not concern a major infringement.

Receipt of check sheets from 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, since fiscal 2008 we have distributed check sheets at the beginning of each fiscal year covering items such as observance of the Code of Conduct and Action Guidelines and association with criminal elements and groups.

Because of the occurrence of an incident involving improper accounting practice in relation to proceeds from the sale of leftover and scrap materials, the fiscal 2012 check sheet contains an added item concerning proper accounting procedure in these cases.

Status of distribution of check sheets (Fiscal 2012)

	Sanki Engineering (Relevant employees)	Subsidiaries (Relevant employees)
Check sheets concerning performance of duties	37(37)	26(26)
Check sheets	2,067(2,083)	569(570)

* Check sheets concerning performance of duties are submitted by directors and executive officers.
* Some individuals have not submitted check sheets, but these individuals are on maternity leave, receiving medical treatment, etc.

Avoidance of involvement with criminal elements or groups

In accordance with the enforcement of regulations concerning the exclusion of organized crime groups by municipalities throughout the country, since October 2011 we have requested pledge letters regarding avoidance of involvement with criminal elements and groups from our subcontractors and other business partners (companies to which we offer contracts). As of the end of March 2012, we have received pledges from approximately 2,600 companies.

Questionnaire concerning Compliance Awareness

Continuous Checking of Awareness of Compliance and CSR

Every fiscal year we conduct a questionnaire survey of all Group executives and employees to check their awareness of compliance and of CSR. Based on the results of this survey, we put a variety of initiatives into effect, seeking to foster increased compliance and CSR awareness.

Results of questionnaire concerning compliance awareness (Excerpt)

Survey period: April 16-26, 2012 // Subjects: All Group executives and employees // Type of response: Anonymous // Number of questionnaires distributed: 2,426 / Number of responses: 2,057 (84.8%)

The questionnaire covers a wide range of subjects, and we present only the main themes here.

Q: What would you do if you were aware of a violation of the Code of Conduct and Action Guidelines, and the situation was not resolved despite the fact that you had cautioned the person concerned or consulted with other employees?

(%)

	FY 2010	FY 2011	FY 2012
Report the incident	78.6	75.9	76.9
Not report the incident	20.9	24.1	23.1

The percentage of respondents answering "Not report the incident" declined against the preceding fiscal year, and when we checked the reasons for not reporting, we observed a decline in trust in the corporate ethics hotlines. We therefore believe that it will be necessary in future to issue information to assist in recovering trust in the hotlines.

Q: What do you believe that CSR consists of for Sanki Engineering? (Multiple choice)

(%)

	FY 2010	FY 2011	FY 2012
To obey laws and regulations	85.7	80.5	80.0
To respond to social expectations through our business activities	60.4	58.2	56.0
To perform activities that contribute to society	53.3	64.1	60.7
To protect the global environment (To contribute to reduced CO_2 emissions through the supply of energy-conserving technologies)	29.8	58.6	46.1
To provide excellent services and products	25.6	48.6	49.0
To increase profits and pay taxes, and offer dividends to shareholders	17.9	25.6	27.6

The percentage of respondents answering "To protect the global environment (To contribute to reduced CO_2 emissions through the supply of energy-conserving technologies)," which corresponds to our Management Principle "Contribute to the realization of a low-carbon society," declined against fiscal 2011, and we therefore believe that it will be necessary to achieve further penetration of the Management Principles.

Incident of improper accounting procedure in relation to the proceeds of sales of leftover and scrap materials: Apology and Report

As a result of our tax examination for fiscal 2011, we were advised that our accounting procedures in relation to proceeds from the sale of leftover and scrap materials were improper. We immediately launched an investigation via our Internal Audit Committee, which also contains external experts. As a result of this investigation, it was judged that at some worksites, mainly between fiscal 2006 and fiscal 2008, proceeds from the sale of leftover and scrap materials had not been credited to the company, but had been used for expenses at the worksites themselves. We offer our sincere apologies for having caused our shareholders and investors, and all of our stakeholders, concern as a result of these incidents.

We view this matter with the utmost seriousness, and we have been dealing with it strictly and appropriately throughout fiscal 2011, for example by taking disciplinary action against the individuals involved. In addition to this, recognizing that trust is a company's most important asset, we are putting in place measures to prevent a reoccurrence of the problem, for example by making renewed efforts to ensure that employees have a thorough knowledge of the operating rules we formulated in 2009, and we are working to restore trust in our company.

Corporate Governance (Risk Management)

Our Basic Guidelines for Risk Management

At Sanki Engineering, the department responsible for responding to specific business risks (risks related to compliance, information security, quality, profit and loss, the environment, disasters, etc.) formulates rules and guidelines and conducts responses as necessary. On this page, we discuss our initiatives in the areas of disaster risk and information security.

Responses to Disaster Risk

Formulation of the Sanki BCP : Response to a Large-scale Disaster

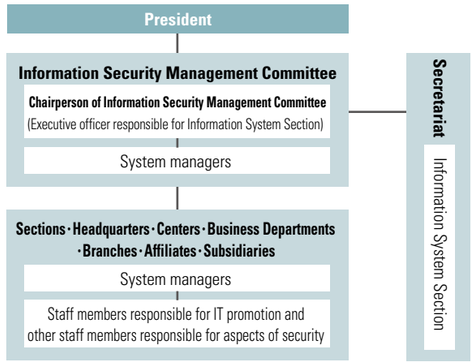
Learning from the experience of the Great East Japan Earthquake that struck in 2011, we formulated the draft business continuity plan (BCP) that we were already drawing up into the Sanki BCP: Response to a Large-scale Disaster in June 2011. The plan positions the five responses listed below as absolute priorities, and clarifies the advance preparations to be made in order to ensure that they can be implemented. Because our BCP focuses on customer-centered responses, ensuring a support system for customers and putting advance measures in place are important elements.

①Rapid establishment and effective functioning of Disaster Response headquarters.
②Establishment of safety confirmation system for employees and their families.
③Clarification of the chain of command in order to ensure that employees are appropriately allocated in response to the situation.
④Formulation of measures to ensure power supply and communications until the public infrastructure is brought back into operation.
⑤Securing of personnel, materials and equipment, and transportation methods to enable the rapid establishment of a system to assist in the recovery of customers' facilities.

Initiatives to Ensure Information Security

Activities based on Our Information Security Policy

Sanki Engineering has established a system for the promotion of information security with our president in the position of highest responsibility, and we are pushing ahead with activities based on our Information Security Policy, formulated in October 2003. We are making particular efforts in the appropriate handling of important information provided to us by our customers, including personal information, to ensure that it will not be stolen, leaked, or exposed in any other way.



Thoroughgoing Efforts to Increase Awareness and provide Education in the Area of Information Security

Making use of e-learning, we are working to ensure that each of our executives and employees has a thorough grounding in information security and the handling of personal information. In fiscal 2011, we offered training in the area to 54 new recruits, and achieved a 100% completion rate. Since fiscal 2003, we have provided training to more than 3,000 members of staff.

We will continue our intensive efforts to increase awareness and education into the future, seeking to raise our level of information security still further.

Voice

Improving information security in the workplace

In fiscal 2011 we deployed software to encrypt the hard drives of the computers in our workplaces as a measure against information leaks should they be lost or stolen. However, this does not mean that computers are no longer lost or stolen. I believe that the important thing in terms of information security, prior to systemic measures, is the awareness of information security possessed by each of our employees. I seek to create mechanisms enabling continuous education using e-learning and other methods, in order to increase concern for information security among all of our executives and employees.

Information System office,
CSR Promotion Division
Shigenori Iwase

Our Relationship with Our Customers

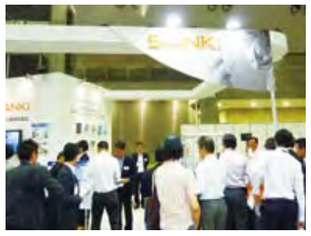
Responding to Customers' Needs

The Group Acts as One to Increase Customer Satisfaction

Based on the concept of "Feeling as one with our customers and responding to their needs in good faith," which forms part of our Company Credo, we proceed on the basis of close cooperation between all involved departments throughout the entire process from understanding what the customer needs, to design, development, construction and after service, pursuing customer satisfaction with the Group working as a single unit.

In particular, we offer a range of energy-conserving proposals in order to assist our customers in their efforts to conserve energy. Please see our Environment pages (pages 48-49) for information on these proposals and on our energy-conserving technologies.

In fiscal 2010, we introduced the business support system SSSS (Tetris) to enable us to share information concerning customers' requests and other information throughout the company and to make fast and appropriate responses. Our services and proposals are created from the customer's perspective, and in order to ensure their further enhancement, in fiscal 2011 we established a new Sales Administration Division, and we also enhanced our in-house training for sales staff.



Providing the latest energy conservation information at an exhibition

Initiatives to Ensure Quality

Continuous Improvement through the Operation of a Quality Management System

Our Facilities Construction Business Division, Machinery Systems Business Division, and Environmental Systems Business Division are each operating quality management systems based on ISO 9001, and are working to increase product quality by making continuous improvements. Employing quality management systems tailored to the details of their specific areas of business, and basing their efforts on the spirit of the Company Credo, each division is deploying quality management guidelines and using other initiatives in order to create systems enabling us to respond to our customers' needs.

Information on Claims

We treat information on claims as an important company asset, and we share details on the background to the occurrence of the problem and its status, using this information to help us prevent the same thing from occurring at other worksites. We employ a system under which we send bulletins on claims arising in the areas of construction and building management to all our branches by email, and we formulate Claim Reports detailing corrective measure and preventive measures on the basis of these bulletins. In the case of problems the details of which necessitate the involvement of our Chief Engineers* in order to resolve the issues, and that have technological causes for which it is considered that company-wide measures to prevent a reoccurrence are necessary, we issue technological instruction manuals and technological information to prevent the problem from arising again.

***Chief Engineers**

The highest position for a specialist in a technological field. The Chief Engineers' main role is to pass on technological expertise via supervision of construction projects. In addition to this, the Chief Engineers also inspect quality and conduct design checks in order to guarantee quality, and offer advice and guidance across the entire range of technological issues.

Sharing Expertise and Information towards the Achievement of Increased Quality

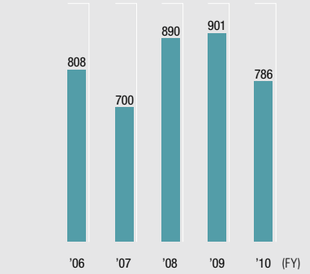
Since fiscal 2002, we have offered the Construction Method Improvement Award to commend innovations in construction techniques on the worksite and reexaminations of techniques from a technological perspective. In fiscal 2010, we newly established the Contribution to Customers Award, honoring proposals that increase our customers' work efficiency, and from fiscal 2011 we expanded the scope of the award to take in the entire Group.

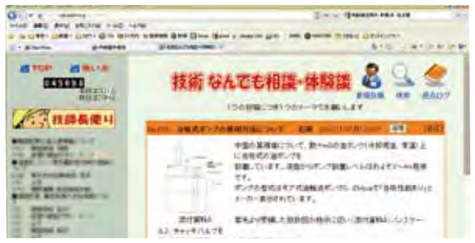
All of the proposals submitted for the awards can be searched in the Treasure Chest of Construction Method Improvements on our in-house website, enabling us to share and spread examples of improvements such as day-to-day innovations in construction methods, the introduction of new technologies and changes in management methods.

In addition to these initiatives, since fiscal 2008 we have provided a notice board on our in-house website offering consultations and the opportunity to discuss experiences concerning any aspect of technology, as a system to enable our engineers to directly query in-house specialists concerning technological problems or questions that arise on the site and to share technological knowledge. We have also published the Chief Engineers' Bulletin every month since fiscal 2009, enabling our engineers to learn about sophisticated technologies from our Chief Engineers.

Meeting for the presentation of the fiscal 2010 Construction Method Improvement Award (September 2011)

Changes in the number of submissions for the Construction Method Improvement Award





Top page of our board for technological consultation and discussion

Fostering Human Resources to Sustain Our Technological Level

Viewing the fostering of human resources who will contribute to the realization of quality as the most important factor in stabilizing and further improving the quality of our products and services, we work to enhance our technological education and support the improvement of the technological capability of our employees and our business partners.

In order to ensure the transmission and improvement of technological expertise in the field of onsite construction and encourage the acquisition of qualifications, in fiscal 2010 we established our Technology Training Center as a specialist educational division, and we are working to foster human resources able to oversee design and construction from broader perspectives.

In addition, given that it is also important to increase awareness of safety and quality among our employees, we impart a sense of the importance of these factors through site visits by top management. We will continue to enhance our development of human resources to sustain our technological level in addition to working to improve quality.

Enhancement of Quality Education and Training for the Acquisition of Qualifications

Quality education at Sanki Engineering is implemented around the twin axes of introductory education when employees enter the company and education for internal auditors, with the realization of increased skills through the conducting of internal audits in the field once a year as its foundation. Because a variety of qualifications are necessary when engaging in work in the construction industry, we are also working to enhance our training programs for the acquisition of qualifications.

Changes in the number of personnel with quality-related qualifications

(Total number as of April 1 for each fiscal year)

Qualification	FY 2010	FY 2011	FY 2012
Professional engineer	83	89	93
Project management technician (Civil works/Construction/Electrical construction/Pipe-laying work)	1,225	1,234	1,212
Architect	32	36	40
Facilities construction architect	261	257	250
Electrical engineer	184	184	176
Chief electrical engineer	38	39	37
First class instrument engineer	282	291	292
Fire protection engineer	744	749	724
Qualified management engineer	1,546	1,629	1,634

Support for Improvement of the Technological Capacity of Our Business Partners

Seeking to provide technological support to our business partners and improve their technological level, we have held the All-branches Electrical Engineering Quality Convention continuously since 2002. In fiscal 2012, 20 electrical engineers from 19 business partners recommended by Sanki Engineering branches participated, and took part in written and practical tests drawing on materials including actual claims against the company. All the participants received the in-house certified qualification Sanki Engineering-certified Class A Electrical Engineer.

Performing a practical test at the All-branches Electrical Engineering Quality Convention

Our Relationship with Our Business Partners

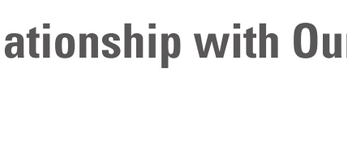
Building Fair, Equal, and Transparent Business Relationships

Conducting Transactions in Accordance with the Relevant Laws and Regulations and the Related Contracts

We work to build equal, fair and transparent relationships with our business partners, with respect for the stipulations of the relevant laws and the related contracts as a major prerequisite.

In addition to clearly specifying the nature of our relationship with our business partners in our Code of Conduct, we distribute manuals of contracting procedure to all executives and employees that, among other details, prohibit the abuse of a superior bargaining position.

The signing of a basic construction contracting agreement is a prerequisite for our transactions; following agreement on the conditions of the individual contract, we are scrupulous regarding the conclusion of the individual contract by means of the issuing of order forms and acknowledgments of orders received. From fiscal 2011 onwards, we have also requested the submission of pledge letters regarding avoidance of involvement with criminal elements and groups from our business partners. We decide to undertake transactions based on a wide variety of objective criteria, including the status of functioning of quality and environmental management systems, construction ability, status of management, quality, construction outcomes, and cost.



Establishment and Operation of Whistleblowing Hotline for Business Partners

Seeking to prevent any improper transactions, we have established and are operating a whistleblowing hotline for our business partners. No information was received from business partners in fiscal 2011. Following on from the revision of our Code of Conduct and Action Guidelines, in June 2012 we contacted approximately 1,100 business partners to inform them of the revisions and request their cooperation, and at this time we also requested once again that they make use of the hotline.

Strengthening Cooperation with Business Partners

Communication via Liaison Meetings and Training Workshops

Cooperation with our business partners is essential to our ability to provide our customers with higher-quality equipment and services. At Sanki Engineering, our Sales Division and each of our branches establishes cooperative committees with business partners from which it is requesting construction work, and we also work to improve technologies and realize goals including thorough quality management and occupational health and safety management at our business partners by means of regular liaison meetings and training workshops. In addition to these efforts, we offer a variety of programs taught by Sanki Engineering employees, including occupational health and safety education and education towards the acquisition of qualifications.

Branch managers and other top company officials attend regular liaison meetings as company representatives

Conducting Evaluations of Our Business Partners

Every year we conduct evaluations of our business partners, working to achieve increased quality throughout our supply chain and improve business operations. We objectively evaluate a variety of factors, including the quality of construction outcomes, cost, delivery, and safety, based on the evaluation criteria stipulated by our quality management system (ISO 9001). We notify our business partners of the results of the evaluations, and exchange opinions towards the achievement of improvements as necessary.

Voice

Strengthening cooperation with our business partners – Initiatives of the Tokyo Branch

At the Tokyo Branch, we hold regular liaison meetings with our main business partners once a month, at which we secure the necessary workforce and solve problems, for example by introducing new worksites and reporting on the operating status and problems of existing sites. When accidents or problems occur, we immediately determine the causes and propose appropriate measures, notifying each of our worksites and our business partners. Since last fiscal year, we have launched eight working groups with our main business partners, and we are moving ahead with initiatives to further increase quality, ensure safety, and reduce costs. In the future, I want to aim towards the creation of an even higher-quality community with our business partners.

Ikuo Karibe, Tokyo Branch

Our Relationship with Our Shareholders and Investors

Ensuring Management Transparency by Disclosing Information in a Timely and Appropriate Manner

Our Thinking regarding Disclosure of Information

We strive to disclose information in a timely and appropriate manner, based on our Disclosure Policy "IR Policy" and in accordance with the relevant laws and regulations and the rules stipulated by the stock exchanges on which we are listed. Even if laws and regulations enforce no obligation to disclose information, our principle is to actively make available information that we judge to be of use to our shareholders and investors.

Into the future, we will continue to increase our management transparency through the disclosure of the necessary company information in a timely and appropriate manner, seeking to be a company that is both trusted and respected.

Our Disclosure Policy can be accessed on our website.
Information for Investors >> Disclosure Policy

Communication with Shareholders and Investors

Communication by a Variety of Means

We conduct events including results briefings for investment analysts and institutional investors (twice a year, in May and November; in fiscal 2011, a total of 99 people participated), individual meetings as necessary in response to requests, and tours of our Technical Research Laboratories. On our website "IR Library", in addition to materials used at our results briefings and press releases, we publish information including earnings summaries, securities reports, and notifications for shareholders. This broad range of IR activities enables us to maintain communication with our shareholders and investors, and all of our other stakeholders.

Our President and executive officers responsible for management provide explanations at a results briefing

General Shareholders' Meeting

To enable more of our shareholders to attend our general shareholders' meeting, we make it a rule to hold it one or two days before most other companies hold theirs (in 2011 this was June 28, and in 2012, June 27). We work to increase convenience for our shareholders in other ways as well, for example by publishing notification of the meeting on our website.

We will go on working to actively communicate with our shareholders and investors, and we will make effective use of the opinions that they offer in our business management.

We publish IR information on our website.
Information for investors >> IR Library

Our Basic Policy concerning Returns to Shareholders

Dividends are the Fundamental Means of Returning Profits to Shareholders

Sanki Engineering sees returning profits to shareholders as one of its most important management duties. With the offering of dividends as our basic means of returning profits, we give consideration to the achievement of a balance between sustainable corporate development and short-term returns to shareholders. Based on demands from shareholders, investors, and society more generally, we examine comprehensive methods of offering returns to shareholders, including buybacks of our own shares, with the offering of stable dividends as our basic principle.

We also effectively invest retained funds in areas including the development of new businesses and new technologies, seeking to achieve sustainable increases in our company value by means of enhancing our competitiveness and building the foundations for further corporate development.

Our Relationship with Our Employees

Our Thinking with Regard to Our Employees

Employees are a Vital Asset for a Company

We see employees as a vital asset for a company, as essential human resources. We attach overriding importance to the hiring, development and utilization of human resources, while also promoting diversity. Our Company Credo contains the phrase "Act in a considered manner, and always in a spirit of good fellowship," and on the basis of this concept we strive to create a working environment and a corporate culture in which all employees grow together with the company, respect each other's individuality, and are able to succeed and thrive.

Promoting Diversity

A System in which Diverse Personnel can Succeed

We believe that promoting diversity among our employees and creating working environments in which diverse personnel are able to display their particular talents leads to increased company value, and we are therefore actively working to establish a variety of systems to make this a reality.

Employing Disabled Workers

We are working to create an environment in which disabled employees can feel secure and display their abilities to the greatest possible extent.

As of the end of fiscal 2011, Sanki Engineering had 35 disabled employees, representing 1.80% of our workforce.

Work Transfer System

In fiscal 2007, seeking to create more opportunities for rank and file employees to demonstrate their abilities, we introduced a work transfer system enabling employees to upgrade to career positions. To date, 33 employees have made use of the system.

Hiring Foreign Employees

Our mid-term plan that commenced in fiscal 2011, SANKI VITAL PLAN 90th, positions efforts to foster foreign employees as a means of strengthening our management foundations, and we are making active efforts to recruit foreign employees on this basis. As of April 2012, we had hired seven employees from three countries.

System for Reemploying Workers following Retirement

Seeking to provide employment opportunities for older workers with advanced skills and expertise, we led our industry by introducing a system in 2001 for the reemployment of workers following retirement.

Changes in employee data

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of employees Figures in parentheses are consolidated	1,950 (2,225)	1,947 (2,239)	1,974 (2,272)	2,001 (2,316)	1,965 (2,289)
Figures in parentheses are consolidated	42.6	42.6	42.7	42.5	42.8
Average number of years of employment	19.0	18.9	18.8	18.5	18.6
Number of new recruits	152	101	94	98	63
Number of disabled employees	32	34	37	37	35
Ratio of disabled employees (%)	1.73	1.85	1.94	1.98	1.80
Number of reemployed post-retirement-age employees	35	35	43	43	53
Number of employees taking child raising leave	5	5	8	12	15

*Figures for number of new recruits differ from the figures published in our 2011 report because of changes to the standards for aggregation

Fostering Human Resources

Systems to provide Support in line with Career Plan

Sanki Engineering has created its personnel system based on the concept of rewarding individuals for their abilities and their efforts. In evaluating our employees, we do not use a performance-based method that focuses only on results; rather, we evaluate both results and processes, and on this basis revise annual salaries based on our published wage scale.

Our training programs provide support tailored to our employees' career paths, for example through management training, technological training, and training in individual fields in order to enable each of our employees to enhance their specialized abilities and their technological and managerial capabilities and to grow as individuals.

Training for new recruits

New Overseas Training Program

In fiscal 2012, we established a one-year overseas training program in order to foster personnel with a high level of ability to communicate and to adapt to diverse environments. We call for applicants within the company, and those selected receive practical training at one of our overseas workplaces. To date, four employees have been dispatched overseas under this system.

Promoting Work-life Balance

Support Systems making it Possible to Balance Work and Family

In our quest to enable each of our employees to harmonize work and other aspects of their lives and to display their abilities while experiencing a sense of challenge and fulfillment, we are working to enhance a variety of systems we have in place to make it possible for employees to balance work and family. In fiscal 2011 we introduced a "refresh leave" system under which employees are able to take five consecutive days of leave for each five years of employment using their accumulated reserved leave.*

Since 1992 we have had a child raising leave system, and in 2002 we introduced a family care leave system. Employees are also able to use reserved leave for these purposes.

As a system for the benefit of managers of construction sites, we also have a continuous leave system for construction managers that enables these employees to take three days of consecutive leave when they have been onsite continuously for a period of six months or more, and when they transfer to the next site.

*Reserved leave: A unique Sanki Engineering system under which employees are able to reserve their untaken leave for the past 10 years and use it in the event of injury or illness occurring outside the workplace.

Responses to Harassment

We have newly established a Counseling Service with Qualified External Counselors

As part of our attempts to prevent sexual harassment, we formulated guidelines and published them on our website in 1999, and we created a system offering consultation on the subject at each of our workplaces. Today we offer consultation on a variety of problems, including power harassment. In August 2011, we newly established a counseling service giving employees access to qualified external counselors.

Maintaining and increasing the Health of Our Employees

We are creating an Environment in which Employees are able to Work Secure in a Sense of Psychological and Physical Wellbeing

To ensure that our employees are able to work secure in the knowledge that they and their families are in good health both mentally and physically, in April 2008 we introduced a 24-hour telephone health consultation service. The consultants are based outside the company, and employees and their family members are able to discuss any concerns they might have over their physical or mental health, in addition to subjects including medical treatment, care, and child raising, free of charge. The privacy of callers is strictly protected.

Health and Safety in the Workplace

Our Occupational health and Safety System

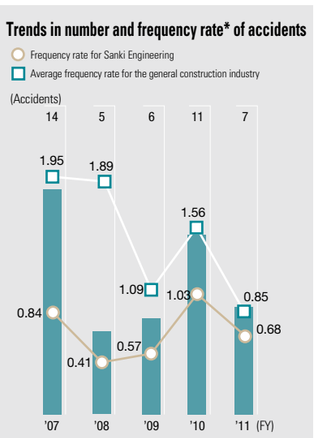
Promoting Initiatives towards an Accident-free Workplace

Based on our Basic Health and Safety Principles, and with the realization of accident-free, bright and satisfying workplaces as our ultimate goal, we are working together with our business partners to promote health and safety initiatives. In our attempt to eliminate or minimize potential risks that might lead to accidents in the workplace, we were among the first in the Facilities construction industry to introduce an occupational health and safety management system (the Sanki OHSMS, introduced in October 2001), and we implement organized and continuous safety management tailored to the specific characteristics of each of our business divisions, based on health and safety guidelines formulated every year.

Basic Health and Safety Principles

①Health and safety take precedence over all other considerations.
②Health and safety are an important responsibility for the entire organization (including business partners)
③In the area of health and safety, we will always take the opportunity for dialogue, and we will decide on and implement measures based on relationships of trust.
④Health and safety will be promoted by everyone concerned, with Sanki Engineering and its business partners, and managers and workers, acting together as one.

Trends in number and frequency rate* of accidents



Source for average frequency rate for the general construction industry: Survey on Industrial Accidents, Ministry of Health, Labour and Welfare
※From fiscal 2010, accidents resulting in one or more days' absence from the workplace became the subject of the statistics; figures for fiscal 2009 and before have been corrected on the same basis.
※Data for Sanki Engineering is measured for the fiscal year (April – March), while data for the general construction industry is measured for the calendar year (January – December).
*Frequency rate: Calculated as the number of deaths and injuries caused by accidents in the workplace per one million working hours, this figure indicates the frequency with which accidents occur.

Overview of Fiscal 2011 Initiatives

In fiscal 2011, we pursued initiatives with the following three areas as points of focus: (1)Enhancement of risk assessment (2)Strengthening of measures to eliminate accidents or illness in the summer months (3)Promotion of taking health and safety qualifications. In the area of eliminating accidents or illness during the summer months, we made use of lessons learned from incidents of heat stroke during the record hot temperatures in fiscal 2010, and we created prevention campaign posters and enhanced our education on the matter by training heat stroke prevention instructors. As a result, we only had one case of heat stroke in fiscal 2011. Into the future, we will continue to increase awareness of health and safety in the workplace by measures including thorough health and safety education, the holding of safety conventions and the conducting of safety patrols, and the publication of information including Health and Safety News, aiming to realize zero accidents.

Heat stroke prevention campaign poster


三機工業株式会社 安全推進室 発行　2011年10月25日

安全衛生ニュース
（2011年10月号）

9月は無災害でしたので、中部支社の安全新聞(あんぜんさん)を紹介します。

After months in which no accidents have occurred,
Health and Safety News introduces positive examples from various workplaces.

Thorough Health and Safety Education

Conducting Education for Sanki Employees and the Employees of Our Business Partners

To ensure safety in the workplace, we offer education to people who are newly visiting a worksite by means of health and safety notebooks, and for employees we provide health and safety education at designated educational institutions and in classes taught by in-house instructors. In cooperation with the Sanki Health and Safety Cooperative Associations, we also offer the health and safety education stipulated by the Industrial Safety and Health Act to Sanki employees and the employees of our business partners. In fiscal 2011, we provided education to a total of 1,971 employees of Sanki and other companies.

Number of individuals receiving health and safety education in fiscal 2011

	Number (Figures in brackets refer to employees of business partners)	
Special education	1,253	(1,092)
Education to increase skills	6	(6)
Health and safety education	712	(477)
Total	1,971	(1,575)

*Limited to education by in-house instructors provided by Sanki Engineering or by Sanki Engineering in cooperation with the Sanki Health and Safety Cooperative Associations; education provided at designated educational institutions is excluded from the figures.

Safety Conventions and Safety Patrols

Raising Safety Awareness with the Participation of Top Management

Every year during June, the preparatory month for National Safety Week, we hold safety conventions at each of our workplaces with the participation of top management. We also conduct a variety of safety patrols in order to raise safety awareness among workers on construction sites. In addition to patrols including patrols conducted by the top management and staff members of business divisions and branches, patrols conducted by site supervisors, and patrols conducted by the proprietors of business partners, we also conduct special summer joint patrols and year-end joint patrols as special events.

Safety convention at Kansai branch

Takuichi Kajiura, Sanki's President, participates in a special summer safety patrol

Working as one with Sanki Engineering to promote health and safety – Safety at Sanki's Chubu branch

Voice

The history of Sanki Engineering's Nagoya branch over the course of the past almost 50 years, has been a history of safety. Commencing from ensuring that workers wear their helmets, morning assemblies and TBM have become a fixed custom, and the company has truly made safety profitable. Today, with risk assessment as its basis, the company's corporate culture is becoming a safety culture backed by affection. As a business partner of Sanki Engineering, we are thankful for this working environment, and, without relying on others and never forgetting the basic dictum that our safety is our own responsibility, we are aiming towards the realization of zero accidents.

Toyoaki Hayashi,
Chairman, Chubu Sanki Engineering Health and Safety Cooperative Association
President, Sogo Engineering, Ltd.

***TBM**: An abbreviation of toolbox meeting. Before the day's work commences on a site, workers assemble at each area of work in order to discuss procedure, check safety, etc.

Our Relationship with Local Communities

Our Thinking with regard to Local Communities

Promoting Activities that Contribute to Society as a Good Corporate Citizen

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. Based on this guiding principle, we work to contribute to society through our business, for example by dispatching team members to the Japanese Antarctic Research Expedition, and at the same time we make efforts to contribute to society around our worksites, seeking to deepen our relations with local communities. Into the future, we will constantly maintain our awareness that we are a member of civil society, and we will go on fulfilling our corporate social responsibility while maintaining active communication with the members of our local communities and all of our stakeholders.

Offering Support following the Great East Japan Earthquake

Following the Great East Japan Earthquake of March 2011, the Sanki Group and our business partners joined together as one in working towards the reconstruction and recovery of the affected regions.

In addition to immediately making donations on behalf of the company, we also called for donations from the executives and staff members of Group companies.

From the initial stages following the earthquake, our Comprehensive Disaster Response Headquarters went into action, and exerted its utmost efforts in providing support for our workplaces in the affected area and aiding in the recovery of our customers' facilities.

In May 2012, we established an Earthquake Recovery Project in the affected areas (Headquarters) and in our head office (Secretariat), and we are working to make the Group's technologies and expertise of use to the needs of the affected area, even if only in a small way.

Our executives and staff members are one in praying for the recovery of the affected areas even a little earlier, and we will maintain our support into the future.

Dispatch of Team Members to the Japanese Antarctic Research Expedition

We have cooperated in Antarctic research since 1991, the year of adoption of the Protocol on Environmental Protection to the Antarctic Treaty; for example, we have dispatched eight engineers to supervise environmental protection as members of the Japanese Antarctic Research Expedition. As of the present, we have dispatched our ninth engineer to be a member of the winter team of the 53rd Japanese Antarctic Research Expedition, and our technologies are contributing to the protection of the environment at Syowa Station in the Antarctic. Next fall, we plan to dispatch our 10th engineer to the winter team.

Participating in the Japanese Antarctic Research Expedition

Voice

I started my life as a member of the winter team of the 53rd Japanese Antarctic Research Expedition in February 2012. As the team member responsible for environmental protection, my main duties are managing and maintaining the sewage treatment equipment and managing waste. This year for the first time in 18 years, the Antarctic exploration ship Shirase was unable to make landfall at Syowa Station, and so the amount of supplies able to be transported was limited. This has necessarily meant that the provision of infrastructure over the summer months at the station has been cut back from initial plans. Happily, though, all of the parts for the new sewage treatment equipment sent by Sanki arrived, and I was able to successfully complete its installation with the help of numerous team members. During March, we worked at fever pitch to prepare for the winter shut-in, for example by collecting and gathering together scattered materials and equipment and waste, and storing it in places in which it would not be buried by snow.

When things began to calm down a bit in April, the onslaught of blizzards meant that we were busy with removing snow from around the station, and when I looked up it was May. The polar night, when the sun never sets, had arrived. This period is perfectly suited to observing the aurora. I have watched it many times, but it always fills me with wonder. I am in good mental and physical health, and every day is rich as I am surrounded by characterful individuals and exposed to stimulating and thrilling experiences.

Nobuaki Kadota,
Environmental Protection Supervisor,
53rd Japanese Antarctic Research Expedition

Main Activities for Social Contribution in Fiscal 2011

Cleanups and beautification of the Environment by Branches

In addition to actively conducting cleanups of their respective surrounding areas, our branches and Group companies also participate in events organized by their municipalities and engage in activities to beautify the environment. Yamato Engineering Center, where we also have a factory, conducts regular cleanups, and also accepts visits from neighboring elementary school students on social studies field trips. In fiscal 2011, 281 students visited the facility.


Yamato Engineering Center: Social studies field trip for students of a neighboring elementary school


Toyota branch: Traffic safety activities


Head office: Cleaning the Nihonbashi Bridge


Chugoku branch: Cleaning Heiwa Avenue

Donations and Contributions

In fiscal 2011, in addition to making donations to universities and research institutes, we also supported cultural activities through donations to the New National Theater, the Japan Chamber Music Foundation, and other institutions. In addition, each of our branches and Group companies actively engaged in a variety of activities in which it was easy for employees to take part, such as donating used stamps and cards, collecting bottle caps and pull tabs for recycling, and giving blood.


Head office: Donation of unused office supplies


Collection of bottle caps for recycling

Sanki Nature Park

Established in 2005 as a biotope to make the greatest possible use of the self-purifying powers of the natural environment, the Sanki Nature Park receives numerous visitors, for example serving as a classroom for observation of the natural environment for students in the local area, and is also a place for local residents to relax. Today, many creatures can be seen in the park, making it possible for it to also be used as a venue for teaching the importance of biodiversity.


Yamato Engineering Center: Nature Park

Our Relationship with the Environment

Environmental Management of Sanki Engineering

In Advancing Environmental Management, We fulfill Two Missions

Sanki Engineering believes that environmental problems represent an important management issue, and we advance environmental management with the aim of fulfilling two missions: To protect the global environment by means of our advanced technological expertise, and to reduce the burden on the environment caused by our business activities. We have constructed a system for the promotion of environmental management with our President as its overall director. At company-wide environmental conferences, each of our divisions reports on its activities and we decide on future plans, and we continually enhance our environmental activities through the efficient and continuous operation of our environmental management system (EMS).

Environmental management of Sanki Engineering: Two missions

To protect the global environment by means of our advanced technological expertise

- Development and introduction of technologies for exploitation of energy
- Development and introduction of technologies for the effective use of energy
- Development and introduction of technologies enabling reuse of resources

To reduce the environmental burden caused by our business activities

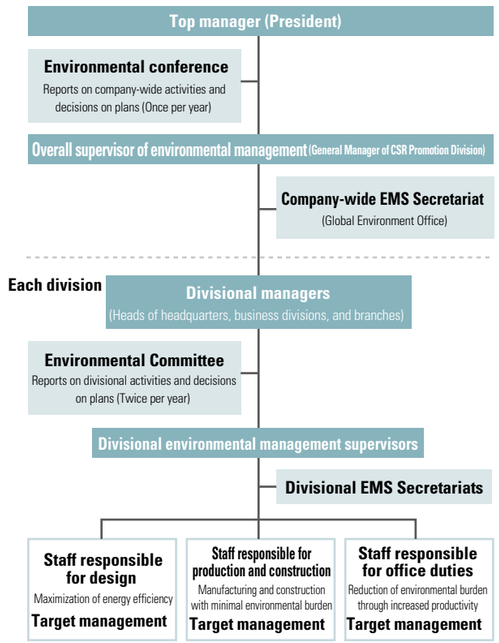
- Minimization of consumption of energy and resources
- Reduction of waste and promotion of recycling
- Provision of environmental education for employees

Environmental Management System (EMS)

Our entire company received ISO 14001 certification in 2006. In 2011, the scope of the certification was broadened to include two of our subsidiaries (Sanki Kakou and Sanki Kankyo Service Co., Ltd.).

The results of external audits and internal environmental audits have shown no major incidents of noncompliance in the past five years.

System for promotion of environmental management



Voice

We fulfill two missions in our environmental management

In relation to our mission to protect the global environment by means of our technological expertise, our core business area, the SANKI YOU Eco Contribution Point System, launched in October 2010 in order to further invigorate our proposals of energy-saving, energy creation, and energy storage solutions to our customers, has found a steady footing. (→P50)

With regard to our other mission, to reduce the burden on the environment caused by our business activities, in fiscal 2010 we formulated a three-year plan to cut power consumption in our business activities by 10%. During the plan period, the effects of the Great East Japan Earthquake resulted in a restricted power supply, and in the second year of the plan we achieved reductions in advance of our targets. In fiscal 2012, the final year of the plan, we are extending our measures to also encompass facility investments, seeking to achieve results above our 10% target.

We are already steadily proceeding towards the achievement of our goals, but we will not be satisfied with this, instead constantly pushing ahead towards ever higher targets.

Masato Komura,
Director, Senior Executive Officer,
and General Manager, CSR Promotion Division

Conducting Environmental Education

By enhancing Our Environmental education, we seek to increase Awareness of Environmental Protection among All Employees

Environmental Lecture Meetings

In order to increase awareness of environmental protection among all of our executives and employees, we hold environmental lecture meetings via our tele-conferencing system, offering presentations by company and external instructors. We held environmental lecture meetings twice in fiscal 2011, with 540 people participating. In fiscal 2012, we have held one environmental lecture meeting, as described below.

4th Environmental Lecture Meeting: May 30, 2012

Theme: Trends in the Development through to Practical Application of Technologies for the Use of Renewable Energies
Presenter: Hironao Matsubara, Senior Researcher and Director, Institute for Sustainable Energy Policies
Number of participants: 307

The environmental lecture was relayed to offices outside the Head Office by television hook-up

Other Education

We offer introductory training in EMS and other forms of education every year to new recruits, as well as mid-career recruits. In fiscal 2011, 78 employees received training to become internal environmental auditors, bringing our total number of qualified staff to 858.

Trends in number of employees with environment-related qualifications

(Number as of April 1 each year)

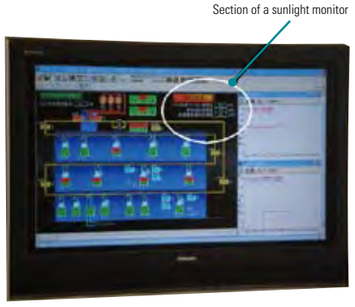
	FY 2009	FY 2010	FY 2011	**FY 2012**
Certified environmental measurer	9	9	8	**8**
Supervisor of management of industrial waste subject to special control	78	96	115	**124**
Pollution prevention manager	67	70	71	**75**

Minimizing the Burden on the Environment caused by Our Business Activities

We are Enhancing Energy-saving Activities in Our Offices

In October 2010, having become a Designated Business under the Revised Energy Saving Act, we set the target for our office energy-saving activities of reducing energy consumption in the three-year period between fiscal 2010 and fiscal 2012 by 10% against fiscal 2009. We put a variety of energy-saving measures into effect, such as switching to LED lighting in the Chubu branch, and testing the use of screens and allowing employees to do away with neckties and suit coats earlier in the Head Office. In response to the electricity shortage following the Great East Japan Earthquake, our initiatives included strictly enforcing no-overtime days and switching all employees' computers to power-saving mode.

In another initiative, we are proceeding experimentally with the use of natural energies, introducing solar and wind power at the Technical Research Laboratories in our Yamato Engineering Center and solar power in the Toyota branch facility.



Solar generation at the Toyota branch facility

Protecting the Environment by means of Our Technological Expertise

We are contributing to the Realization of a Low-carbon Society by providing Total Engineering

Sanki Engineering's business activities contribute to the protection of the environment through our presentation of Total Engineering, our company's strength. In our facilities construction and machinery systems business, in addition to seeking functionality and user-friendliness, we are constantly working to develop new systems to assist in conserving energy and reducing lifecycle costs. In addition, in our environmental systems business, we are working to conserve energy and reduce CO_2 emissions through the provision of water purification technologies, sewage treatment technologies, and comprehensive waste treatment technologies.

At our Energy Solutions Center (established in 2009), in addition to collecting data concerning subjects including the effective use of energy and energy conservation to support technological development and the proposal of solutions to customers, we also manage data on these proposals and their implementation, and on orders received and construction work performed, seeking to make constant improvements.

Proposals for CO_2 reduction and outcomes in fiscal 2011

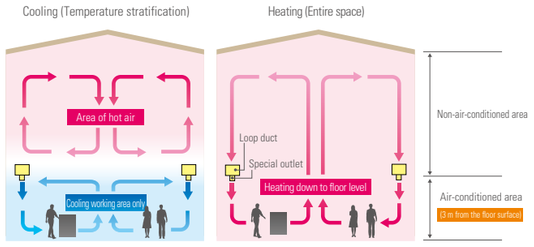
	Number	CO_2 reduction (t-CO_2/year)
Proposed solutions	355	88,480
Orders received	129	31,095

Data on Energy-saving Technologies Announced in Fiscal 2011 Onward

Temperature stratification air-conditioning system for large spaces

Air-conditioning systems for large spaces such as factories and gymnasiums condition the air over the entire space, despite the fact people are only working or exercising in a space up to two to three meters above the floor surface. Consequently this present various problems, such as high power consumption and the need to change equipment for summer and winter.

Under such circumstances, we have developed a temperature stratification air-conditioning system for large spaces that conserves energy while cooling the air in summer by generating temperature layers, and controls cold air and provides warmth down to floor level when heating the air in winter. By installing an air outlet at a position three meters or more above the floor surface, the floor space can be used effectively, and energy saving and comfort can both be achieved at the same time.



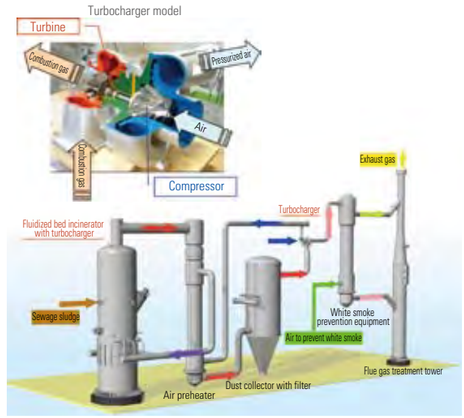
Conveyor belt achieving a significant reduction in power consumption

There is further increasing demand for energy saving in various industries and fields, regardless of whether systems are intended for industrial or domestic use. We have therefore developed an energy-conserving conveyor belt by reexamining the conveyor structure, developing a dedicated energy-saving motor (direct drive) for the conveyor belt, and installing it as standard. The conveyer belt developed reduces power consumption by approximately 40% (in-house comparison with our conventional conveyer belts under a 65% load). This has helped save energy in various distribution facilities such as delivery centers, distribution warehouses, truck terminals, airports and post offices. The product went on sale in July 2012.

Energy-conserving supercharged fluidized combustion system

There is a significant demand to reduce greenhouse gas emissions during the operation of fluidized bed sewage sludge incineration facilities. To meet this demand, we have developed an energy-conserving fluidized combustion system, and thus succeeded in saving a significant amount of energy.

The new system combines a fluidized bed incinerator and a supercharger, thereby reducing greenhouse gas emissions by approximately 40% (reduction in power consumption of approximately 40%, fuel consumption by 10%, and N_2O emissions by 50%). The system is scheduled to commence operation in Japan in March 2013.



System for Data Centers

Hybrid energy-conserving heat source system

We have developed the "S Module," a hybrid energy-conserving heat source system, capitalizing on natural energy as far as possible, as a system intended for data centers. This system is capable of operating with high efficiency, in accordance with the cooling load. Achieving a coefficient of performance (COP) of 8.1 at a load factor of 70%, the system leads the way in terms of domestic energy-saving performance.

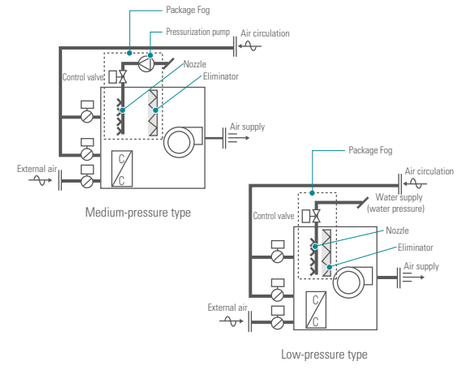
Features of the S Module

①Switching control in accordance with cooling load and external air conditions
②Positive use of free cooling achieved by continuously assessing cooling performance
③Automatic judgment of conditions for switching to completely free cooling
④Minimized transport energy achieved by non-valve connection

Energy-saving air-conditioning system

Cooling using external air during winter and more temperate months is an effective method of controlling energy consumption in data centers, but the task of maintaining appropriate indoor humidity had remained unaccomplished.

To accomplish this task, we developed an air-conditioning system capable of capitalizing on the energy-saving effect achieved by external air cooling during winter and the more temperate months. This air conditioner uses an internal spray humidification system called Package Fog as a method of providing the necessary humidity for cooling via external air. By using this system, the annual energy-saving effect has been boosted to a level three to five times higher than steam humidification systems, and the volume of water used annually for humidification has been reduced to one-third of that of drip humidification systems.



SANKI YOU Eco Contribution Point System

Sanki Engineering's main areas of business include HVAC and plumbing equipment, electrical wiring and equipment, information and communications equipment, clean water and sewage treatment facilities, and transportation machinery and equipment for buildings and factories. The operation of this equipment necessitates the use of large amounts of energy, and our business can therefore in itself be seen as directly contributing to global warming. Based on this realization, we launched the SANKI YOU Eco Contribution Point System in October 2010 in order to adopt a clear stance, together with our customers, in relation to contributing to the prevention of global warming and the realization of sustainable societies.

Under this system, when we propose an energy-saving solution to a customer that reduces CO_2 emissions, and that proposal is adopted, the amount of the achieved emissions reduction is converted to "Eco Points" (100 yen per 1 ton reduction in CO_2), which are aggregated for the entire company. The resulting funds are then used to support non-profit environmental protection activities. In addition to enabling us to share our concern for the prevention of global warming with the customers who accept and apply our proposals, this system enables our employees across the fields of sales, design, technology and development to experience a real sense of the direct connection of their own jobs to the protection of the environment.

In fiscal 2011, proposals made by us and adopted by our customers resulted in the reduction of 31,095 tons of CO_2 emissions, equivalent to 3,109,500 yen when converted into Eco Contribution Points.

Contribution to Tree-planting Projects

With a focus on non-profit organizations, we sought a recipient for our donations working in the area of environmental protection activities. We settled on the Present Tree* project conducted by the NPO Environmental Relations.

Our second donation was to a tree-planting project seeking to create a base for semi-urban woodland activities in Sanmu City, Chiba Prefecture. Our third donation, like the first, was made to a tree-planting project in a watershed protection forest in the Hida-Takayama area. We also participated in tree-planting events organized by these projects.

*Present Tree
As its name suggests, Present Tree is a project that seeks to restore forests by planting seedlings in areas that have not been replanted after clearing, areas struck by disaster, burnt-out areas, etc., as a gift to loved ones and to the planet's future.

Outcomes of donations to tree-planting projects

Tree-planting project	Amount of donation	CO_2 reduction resulting from proposal	Number of trees planted
1st: Takayama City, Gifu Prefecture (Donation made May 31, 2011)	Second half, 2010: 725,200yen	7.252tons	207
2nd: Sammu City, Chiba Prefecture (Donation made December 28, 2011)	First half, 2011: 1,390,100yen	13.901tons	397
3rd: Takayama City, Gifu Prefecture (Donation made July 31, 2012)	Second half, 2011: 1,719,400yen	17.194tons	491

Voice

As SANKI YOU Eco Contribution Points accumulate, the forests grow!

Thanks to businesses that have made efforts to save energy based on proposals from Sanki Engineering, we have been able to plant more than 1,000 trees on abandoned land.

With "Plant a tree on a special day!" as our slogan, Present Tree attempts to revive forests through the planting of commemorative trees on denuded land and other barren areas. To date, we have received support from approximately two million people. A distinguishing feature of our project is that the people who plant trees as part of it look after those trees for 10 years or more following their planting. During this period, the attachment they initially feel exclusively for "their own" tree grows to become a concern for the forest as a whole. They come to visit the forest, and as they do so, they begin to interact with the surrounding region and with the people who live there. This is Present Tree's true goal. Without human and economic interaction, there can be no regional revival and development, and without regional revival, there can be no revival of the forests. I would like to offer my sincere thanks to everyone who has supported regional revival through their business activities.

Atsuko Suzuki,
Chief Executive
NPO Environmental Relations Association

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 as a whole, or designated sections
Period: April 2011 – March 2012
Guidelines for reference:
①Environmental Accounting Guidelines, Ministry of the Environment (2005 edition)
②Environmental Accounting Guidelines for the Construction Industry (2002 edition)

Fiscal 2011 Environmental Protection Costs

(Expenditures for environmental protection in our business activities are divided into expenses and investments for aggregation)

(1,000 yen)

	Details of main initiatives	Environmental protection costs	
		Expenses	Investments
Global environmental protection costs	**Cost of disposal of waste CFCs and halons**	51,241	0
Resource recycling costs	**Cost of waste disposal (Construction sites)**	315,012	0
Management costs	**Cost of operating ISO 14001**	2,716	0
	Cost of environment-related education	184	0
	Cost of exhibiting in exhibitions / publishing materials	33,839	0
	Cost of replacing lights with LEDs	3,700	0
	Cost of introducing presence sensors	130	0
	Cost of cutting back vegetation at Yamato Engineering Center / Cost of maintaining Nature Park	4,066	0
R&D costs ※	**Cost of environmental protection-related R&D**	346,392	10,716
Social activities costs	**Donations to environmental protection-related organizations**	2,435	0
	Cost of participating in environmental protection activities and supporting education	2,003	0

※As a result of revision of the accounting standards, expenses appear to have increased and investments to have decreased.

Outcomes of Environmental Protection (Annual comparison of resources consumed, emitted gas, green purchasing results and waste products)

	Details	FY 2008	FY 2009	FY 2010	**FY 2011**
Resources consumed	**Number of sheets of copy paper purchased for offices (1,000 sheets)**	18,601	17,960	18,696	**18,768**
	Volume of water used at Yamato Engineering Center (m³)	14,552	15,023	12,120	**15,828**
Energy consumed	**Energy consumed by offices (Crude oil equivalent; kl)**		2,021	2,056	**1,922**
CO_2 emissions (t-CO_2)	**As a result of energy consumption in offices**		3,377	3,146	**2,931**
	As a result of energy consumption at worksites		1,013	1,016	**839**
Volume of industrial waste	**Amount of industrial waste from company-wide construction sites and Yamato Engineering Center (t)**	17,712	11,272	12,034	**12,070**
Green purchasing of stationery (1,000 yen)		12,506	24,480	32,506	**28,537**

Economic Effects of Environmental Protection Measures

(1,000 yen)

Related departments	Details	FY 2008	FY 2009	FY 2010	**FY 2011**
Construction sites	Profit from sale of scrap, etc.	34,316	22,768	5,412	**15,053**
Yamato Engineering Center	Profit from sale of scrap, etc.	188	36	98	**327**

Sanki's Management Team

An Overview of the Executives
(As of June 27, 2012)

1	Representative Director and President	**Takuichi Kajiura**
2	Representative Director and Senior Executive Officer	**Takeo Kubota**
3	Representative Director and Senior Executive Officer	**Akio Yamashita**
4	Director, Senior Executive Officer, and General Manager, CSR Promotion Division	**Masato Komura**
5	Director, Senior Executive Officer, and General Manager, Sales Administration Division	**Tsutomu Hasegawa**
6	Director, Managing Executive Officer, General Manager, Environmental Systems Administration Division	**Tetsuo Usui**
7	Director, Managing Executive Officer, and General Manager, Administration Division	**Mamoru Shinma**
8	External Director	**Hiroshi Nishimura**
9	External Director	**Mitsuhiro Masumi**
10	Full-time Auditor	**Keiji Akamatsu**
11	Full-time Auditor	**Toshikatsu Yasunaga**
12	External Auditor	**Takeo Iguchi**
13	External Auditor	**Mamoru Norisada**

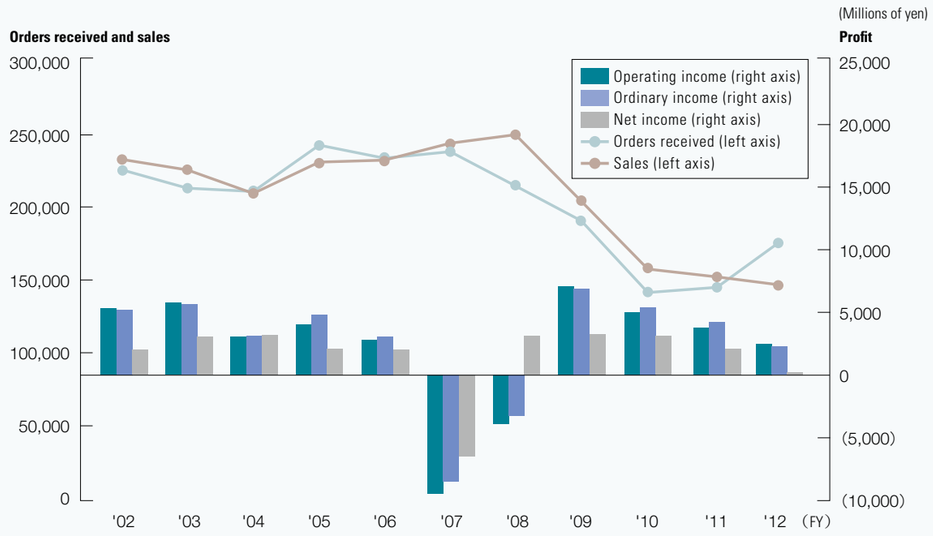
Financial section

Financial section

11-year consolidated financial summary

(Millions of yen)

	FY ended March 31, 2002	FY ended March 31, 2003	FY ended March 31, 2004	FY ended March 31, 2005	FY ended March 31, 2006	FY ended March 31, 2007	FY ended March 31, 2008	FY ended March 31, 2009	FY ended March 31, 2010	FY ended March 31, 2011	FY ended March 31, 2012
Fiscal year											
Orders received	¥ 225,576	¥ 214,276	¥ 212,379	¥ 245,047	¥ 235,401	¥ 237,022	¥ 218,256	¥ 188,653	¥ 143,348	¥ 147,129	**¥ 175,291**
Balance carried forward	152,904	145,544	143,999	155,876	153,593	144,456	108,253	93,566	77,641	72,976	**100,272**
Sales	236,291	221,635	213,924	233,170	237,684	246,159	254,460	203,340	159,273	151,794	**147,994**
Selling, general and administrative expenses	15,797	16,040	15,657	14,948	14,426	13,994	13,962	14,978	15,419	15,763	**15,712**
Operating income or loss	5,345	5,805	3,314	4,281	2,892	(9,502)	(3,958)	7,125	5,027	3,843	**2,525**
Ordinary income or loss	5,161	5,782	3,533	4,946	3,319	(8,782)	(3,307)	6,900	5,456	4,239	**2,268**
Net income or loss	2,301	3,214	3,644	2,600	2,355	(6,536)	3,134	3,283	3,141	2,124	**176**
Cash flows from operating activities	(8,099)	(20,808)	11,942	(3,151)	(5,557)	(2,819)	(4,097)	19,177	1,294	11,554	**(2,697)**
Cash flows from investing activities	(7,809)	3,468	(9,839)	7,662	(1,024)	2,833	11,511	1,726	(1,664)	2,610	**(1,046)**
Cash flows from financing activities	(5,335)	(3,021)	(3,345)	(3,315)	(3,067)	(2,697)	(3,812)	(4,377)	(2,936)	(1,883)	**(280)**
Cash and cash equivalents at end of year	¥ 48,805	¥ 28,416	¥ 27,170	¥ 28,365	¥ 18,717	¥ 16,018	¥ 19,617	¥ 36,142	¥ 32,825	¥ 45,135	**¥ 41,097**
As of end of fiscal year under review											
Total assets	236,725	214,605	220,563	240,234	245,367	251,323	215,680	176,664	163,307	158,501	**163,120**
Net assets	79,910	80,016	86,491	87,774	98,333	88,943	80,276	78,780	80,498	79,833	**79,662**
Number of employees	2,429	2,463	2,371	2,327	2,332	2,179	2,225	2,239	2,272	2,316	**2,289**
Per share information											
Earnings per share (yen)	28.89	41.04	46.93	34.49	31.46	(88.47)	42.42	44.45	42.86	29.67	**2.46**
Book-value per share (yen)	1,031.64	1,036.44	1,145.59	1,187.36	1,330.41	1,203.57	1,086.02	1,065.77	1,119.40	1,115.41	**1,113.70**
Cash dividends (yen)	15.00	15.00	15.00	18.00	15.00	15.00	15.00	15.00	15.00	15.00	**15.00**
Other information											
Equity ratio (%)	33.8	37.3	39.2	36.5	40.1	35.4	37.2	44.6	49.3	50.3	**48.8**
Return on assets (%)	2.2	2.6	1.6	2.1	1.4	(3.5)	(1.4)	3.5	3.2	2.6	**1.4**
Return on equity (%)	2.9	4.0	4.4	3.0	2.5	(7.0)	3.7	4.1	3.9	2.7	**0.2**



Business overview for FY 2012 (fiscal year ended March 31, 2012)

Operations overview

Sanki Engineering began to make an effort on a company-wide basis to contribute to the realization of a comfortable low-carbon society, in response to the demand for an energy-saving system and a new energy system from our clients. As a total engineering company, we are implementing this under the management policy of the mid-term management plan (SANKI VITAL PLAN 90th), which has started in this fiscal year.

The consolidated performance for this fiscal year was as follows: orders received increased by 19.1% on a year-on-year basis to 175,291 million yen, while sales decreased by 2.5% on a year-on-year basis to 147,994 million yen, and balance carried forward increased by 37.4% on a year-on-year basis to 100,272 million yen. Operating income decreased by 34.3% on a year-on-year basis to 2,525 million yen, ordinary income decreased by 46.5% on a year-on-year basis to 2,268 million yen, and net income decreased by 91.7% on a year-on-year basis to 176 million yen.

Segment overview

Facilities construction

Orders received increased by 18.8% on a year-on-year basis to 134,878 million yen, while sales decreased by 2.2% on a year-on-year basis to 115,019 million yen. The segment loss (ordinary loss) amounted to 561 million yen (the segment income of the prior year was 1,540 million yen).

Orders received increased in Building air-conditioning and Industrial air-conditioning, driven by promoting proposal-based sales of energy and power-saving systems proactively, in order to avoid missing a chance to receive orders, while putting emphasis on profitability of constructions.

In respect of sales and the segment income or loss, we focused on receiving minor work orders, mainly renewal constructions that require a short construction period, and strived to expand sales by increased orders and to reduce costs and expenses, for covering the decline in construction carried forward from the prior fiscal year. Nevertheless, an ordinary loss was recorded since the loss due to the delay in the start and progress of construction work, which was due to the great Eastern Japan Earthquake, was not absorbed during the year.

Machinery systems

Orders received decreased by 21.2% on a year-on-year basis, to 9,361 million yen, while sales increased by 14.1% on a year-on-year basis, to 10,823 million yen. The segment loss (ordinary loss) amounted to 187 million yen (the segment loss for the same period in the previous year was 675 million yen).

Although orders received were below the level of the prior year because companies revised downward their capital expenditure plans, the segment loss was improved by increased sales.

Environmental systems

Orders received increased by 62.5% on a year-on-year basis to 28,833 million yen, while sales decreased by 4.3% on a year-on-year basis to 19,825 million yen. The segment income (ordinary income) decreased by 10.7% on a year-on-year basis to 879 million yen.

Orders received sharply increased attributed mainly to the introduction of a new incinerator to a water treatment plant. While sales and the segment income decreased in comparison of the previous year, since the sales of a large-scale waste treatment plant were recorded in the previous consolidated fiscal year.

Real estate

Sales decreased by 32.0% on a year-on-year basis to 2,824 million yen, and the segment income (ordinary income) decreased by 47.7% on a year-on-year basis to 1,331 million yen.

Sales and income decreased due to the influence of the revision of the rent for the main rental property.

Segment information

(Millions of yen)

	Orders received				Sales				Segment income			
Segment	**2011**	**2012**	**Diff.**	**Change**	**2011**	**2012**	**Diff.**	**Change**	**2011**	**2012**	**Diff.**	**Change**
Facilities construction	113,502	134,878	21,375	18.8%	117,556	115,019	(2,537)	(2.2%)	1,540	(561)	(2,102)	———
Machinery systems	11,886	9,361	(2,524)	(21.2%)	9,486	10,823	1,337	14.1%	(675)	(187)	488	———
Environmental systems	17,740	28,833	11,093	62.5%	20,714	19,825	(889)	(4.3%)	984	879	(105)	(10.7%)
subtotal	143,128	173,072	29,944	20.9%	147,758	145,669	(2,089)	(1.4%)	1,849	130	(1,719)	(93.0%)
Real estate	4,154	2,824	(1,330)	(32.0%)	4,154	2,824	(1,330)	(32.0%)	2,547	1,331	(1,215)	(47.7%)
Adjustments	(154)	(606)	(451)	———	(118)	(498)	(379)	———	(157)	806	963	———
Total	147,129	175,291	28,162	19.1%	151,794	147,994	(3,799)	(2.5%)	4,239	2,268	(1,970)	(46.5%)

Consolidated Balance Sheets

March 31, 2011 and 2012

(Millions of yen)

	2011	2012
Assets		
Current assets:		
Cash and time deposits	¥ 31,137	¥ 31,098
Trade notes and accounts receivable on completed construction contracts	58,276	65,375
Securities	13,998	9,999
Inventories:		
Expenditures for construction contracts in progress	1,652	2,125
Materials and supplies	391	445
Deferred tax assets	2,415	1,809
Other current assets	2,963	4,298
Less allowance for doubtful receivables	(158)	(285)
Total current assets	110,677	114,866
Fixed assets:		
Tangible fixed assets:		
Buildings and structures	46,718	46,873
Less accumulated depreciation	(33,628)	(34,030)
Buildings and structures, net	13,089	12,842
Machinery, transportation equipment, and tools, furniture and fixtures	4,369	4,204
Less accumulated depreciation	(3,648)	(3,695)
Machinery, transportation equipment, and tools, furniture and fixtures, net	721	508
Land	4,517	4,468
Leased assets	242	284
Less accumulated depreciation	(21)	(45)
Leased assets, net	220	239
Total tangible fixed assets	18,548	18,058
Intangible fixed assets:		
Goodwill	71	—
Other intangible fixed assets	415	414
Total intangible fixed assets	486	414
Investments and other non-current assets:		
Investment securities	14,727	16,672
Long-term loans receivable	541	409
Prepaid pension cost	8,065	7,646
Deferred tax assets	121	125
Lease deposits	1,524	1,057
Insurance premiums	1,129	1,006
Other non-current assets	3,617	4,341
Less allowance for doubtful receivables	(938)	(1,478)
Total investments and other non-current assets	28,788	29,781
Total fixed assets	47,824	48,254
Total assets	¥ 158,501	¥ 163,120

(Millions of yen)

	2011	2012
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Trade notes and accounts payable on construction contracts	¥ 44,961	¥ 51,350
Short-term loans payable	5,507	5,669
Lease obligations	24	34
Accrued income taxes	761	561
Deferred tax liabilities	8	14
Advances received on construction contracts in progress	3,237	2,788
Accrued employees' bonuses	2,159	1,917
Accrued bonuses to directors and corporate auditors	41	46
Accrued compensation for completed construction contracts	729	471
Accrual for loss on construction contracts in progress	222	497
Accrual for headquarters relocation expenses	269	—
Other current liabilities	3,620	2,508
Total current liabilities	61,544	65,860
Non-current liabilities:		
Long-term loans payable	0	660
Lease obligations	225	231
Deferred tax liabilities	2,274	2,463
Accrued employees' retirement benefits	9,197	8,288
Accrued retirement benefits to directors and corporate auditors	478	522
Accrual for loss on guarantees	25	24
Other non-current liabilities	4,921	5,407
Total non-current liabilities	17,123	17,597
Total liabilities	78,667	83,458
Net assets:		
Shareholders' equity:		
Common stock	¥ 8,105	¥ 8,105
Capital surplus	4,181	4,181
Retained earnings	67,802	66,905
Treasury stock	(1,934)	(1,936)
Total shareholders' equity	78,154	77,256
Accumulated other comprehensive income:		
Net unrealized gains on other securities	1,740	2,538
Net deferred gains on hedges	4	—
Translation adjustments	(111)	(132)
Total accumulated other comprehensive income	1,633	2,405
Stock subscription rights	45	—
Total net assets	79,833	79,662
Total liabilities and net assets	¥ 158,501	¥ 163,120

*See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

(Millions of yen)

	2011	2012
Sales:		
Completed construction contracts	¥ 147,639	¥ 145,170
Real estate and other	4,154	2,824
Total sales	151,794	147,994
Cost of sales:		
Completed construction contracts (Note 1)	130,630	128,325
Real estate and other	1,556	1,431
Total cost of sales	132,186	129,757
Gross profit:		
Completed construction contracts	17,009	16,844
Real estate and other	2,597	1,392
Total gross profit	19,607	18,237
Selling, general and administrative expenses:		
Salaries and wages	6,226	6,076
Provision for employees' bonuses	959	844
Provision for bonuses to directors and corporate auditors	41	46
Provision for employees' retirement benefits	644	642
Provision for retirement benefits to directors and corporate auditors	193	193
Provision for doubtful receivables	66	157
Depreciation and amortization	486	472
Other	7,145	7,279
Total selling, general and administrative expenses	15,763	15,712
Operating income	3,843	2,525
Non-operating income:		
Interest income	67	71
Dividends income	374	331
Other	417	288
Total non-operating income	859	691
Non-operating expenses:		
Interest expense	93	85
Equity in losses of affiliates	34	480
Rework cost on construction contracts	47	90
Other	288	292
Total non-operating expenses	463	947
Ordinary income	4,239	2,268
Special gains:		
Gain on sales of fixed assets	—	526
Gain on sales of investment securities	623	25
Gain on expiration of stock subscription rights	—	45
Gain on transition of retirement benefit plans	39	—
Total special gains	¥ 663	¥ 598
Special losses:		
Impairment loss (Note 2)	165	—
Loss on natural disaster	12	85
Loss on disposal of fixed assets	69	91
Loss on devaluation of investment securities	121	427
Headquarters relocation expense	644	80
Provision for loss on guarantees	25	—
Provision for doubtful receivables	20	529
Cumulative effect on prior years of adopting the accounting standard for asset retirement obligations	67	—
Total special losses	1,126	1,215
Income before income taxes and minority interests	3,776	1,651
Income taxes:		
Current	867	648
Additional taxes for prior years	—	231
Deferred	784	595
Total income taxes	1,652	1,475
Income before minority interests	2,124	176
Net income	2,124	176
Income before minority interests	2,124	176
Other comprehensive income (Note 3):		
Net unrealized (losses) gains on other securities	(1,414)	797
Net deferred gains (losses) on hedges	4	(4)
Translation adjustments	(63)	(21)
Total other comprehensive income	(1,473)	772
Comprehensive income	¥ 650	¥ 948
Total comprehensive income attributable to:		
Shareholders of Sanki Engineering Co., Ltd.	¥ 650	¥ 948
Minority interests	¥ —	¥ —

*See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

(Millions of yen)

	2011	2012
Shareholders' equity		
Common stock		
Balance at beginning of the year	¥ 8,105	¥ 8,105
Balance at end of the year	8,105	8,105
Capital surplus		
Balance at beginning of the year	4,181	4,181
Balance at end of the year	4,181	4,181
Retained earnings		
Balance at beginning of the year	66,761	67,802
Changes during the year:		
Cash dividends	(1,075)	(1,072)
Net income	2,124	176
Effect of changes in scope of consolidation	(7)	—
Total changes during the year	1,040	(896)
Balance at end of the year	67,802	66,905
Treasury stock		
Balance at beginning of the year	(1,712)	(1,934)
Changes during the year:		
Acquisition of treasury stock	(222)	(1)
Total changes during the year	(222)	(1)
Balance at end of the year	(1,934)	(1,936)
Total shareholders' equity		
Balance at beginning of the year	77,336	78,154
Changes during the year:		
Cash dividends	(1,075)	(1,072)
Net income	2,124	176
Acquisiton of treasury stock	(222)	(1)
Effect of changes in scope of consolidation	(7)	—
Total changes during the year	817	(898)
Balance at end of the year	78,154	77,256
Accumulated other comprehensive income		
Net unrealized gains on other securities		
Balance at beginning of the year	3,155	1,740
Changes during the year:		
Net changes in items other than shareholders' equity	(1,414)	797
Total changes during the year	(1,414)	797
Balance at end of the year	1,740	2,538
Net deferred gains on hedges		
Balance at beginning of the year	—	4
Changes during the year:		
Net changes in items other than shareholders' equity	4	(4)
Total changes during the year	4	(4)
Balance at end of the year	4	—
Translation adjustments		
Balance at beginning of the year	(38)	(111)
Changes during the year:		
Effect of changes in scope of consolidation on translation adjustments	(9)	—
Net changes in items other than shareholders' equity	(63)	(21)
Total changes during the year	(72)	(21)
Balance at end of the year	(111)	(132)
Total accumulated other comprehensive income		
Balance at beginning of the year	3,116	1,633
Changes during the year:		
Effect of changes in scope of consolidation on translation adjustments	(9)	—
Net changes in items other than shareholders' equity	(1,473)	772
Total changes during the year	(1,482)	772
Balance at end of the year	1,633	2,405
Stock subscription rights		
Balance at beginning of the year	46	45
Changes during the year:		
Net changes in items other than shareholders' equity	(0)	(45)
Total changes during the year	(0)	(45)
Balance at end of the year	45	—
Total net assets		
Balance at beginning of the year	80,498	79,833
Changes during the year:		
Cash dividends	(1,075)	(1,072)
Net income	2,124	176
Acquisition of treasury stock	(222)	(1)
Effect of changes in scope of consolidation	(7)	—
Effect of changes in scope of consolidation on translation adjustments	(9)	—
Net changes in items other than shareholders' equity	(1,473)	726
Total changes during the year	(665)	(171)
Balance at end of the year	¥ 79,833	¥ 79,662

*See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Millions of yen)

	2011	2012
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 3,776	¥ 1,651
Depreciation and amortization	1,448	1,367
Impairment loss	165	—
Amortization of goodwill	71	71
Gain on transition of retirement benefit plans	(39)	—
Headquarters relocation expense	644	80
Cumulative effect on prior years of adopting the accounting standard for asset retirement obligations	67	—
(Decrease) increase in allowance for doubtful receivables	(20)	667
Decrease in accrued employees' retirement benefits	(2,070)	(489)
(Decrease) increase in accrued retirement benefits to directors and corporate auditors	(27)	43
(Decrease) increase in accrual for loss on construction contracts in progress	(154)	275
Interest and dividends income	(442)	(402)
Interest expense	93	85
Equity in losses of affiliates	34	480
Gain on sales of fixed assets	—	(526)
Gain on sales of investment securities	(623)	(25)
Decrease (increase) in trade notes and accounts receivable on completed construction contracts	5,196	(7,668)
Decrease (increase) in expenditures for construction contracts in progress	4,693	(479)
(Decrease) increase in trade notes and accounts payable on construction contracts	(254)	6,404
Decrease in advances received on construction contracts in progress	(2,624)	(449)
Increase (decrease) in other current liabilities	539	(1,523)
Other	1,139	(1,515)
Subtotal	11,612	(1,955)
Interest and dividends received	451	401
Interest paid	(91)	(83)
Income taxes paid	(541)	(1,060)
Income taxes refunded	123	—
Net cash provided by (used in) operating activities	11,554	(2,697)
Cash flows from investing activities:		
Increase in time deposits	—	(50)
Decrease in time deposits	—	50
Purchases of fixed assets	(450)	(814)
Proceeds from sales of fixed assets	13	664
Purchases of investment securities	(423)	(1,563)
Proceeds from sales of investment securities	1,035	234
Proceeds from redemption of investment securities	1,000	—
Execution of loans	(116)	(22)
Collection of loans receivable	107	110
Refund of insurance premiums	1,574	227
Other	(131)	115
Net cash provided by (used in) investing activities	2,610	(1,046)
Cash flows from financing activities:		
(Decrease) increase in short-term loans payable	(186)	16
Proceeds from long-term loans payable	—	1,000
Repayment of long-term loans payable	(380)	(194)
Purchases of treasury stock	(222)	(1)
Payment of lease obligations	(18)	(28)
Cash dividends paid	(1,075)	(1,072)
Net cash used in financing activities	(1,883)	(280)
Effect of exchange rate changes on cash and cash equivalents	(24)	(14)
Net increase (decrease) in cash and cash equivalents	12,256	(4,038)
Cash and cash equivalents at beginning of year	32,825	45,135
Increase in cash and cash equivalents due to a new consolidation	26	—
Increase in cash and cash equivalents due to a merger with an unconsolidated subsidiary	27	—
Cash and cash equivalents at end of year (Note 1)	¥ 45,135	¥ 41,097

*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: 6

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

(2) Number of unconsolidated subsidiaries: 5

Names of unconsolidated subsidiaries:

Tomakomai Netsu Services Co., Ltd.
Shin-yu Services Co., Ltd.
Shanghai Sanki Engineering Consulting Co., Ltd.
Sanki Construction Engineering (Shanghai) Co., Ltd.
AEROSTRIP Corporation

(3) Reasons for exclusion of unconsolidated subsidiaries from consolidation

The five 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: 2

Akita Eco Plash Co., Ltd.
Ou Clean Technology Co., Ltd.

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

Unconsolidated subsidiaries: 5

Affiliates: 2

Names of unconsolidated subsidiaries and affiliates:

Tomakomai Netsu Services Co., Ltd.
Shin-yu Services Co., Ltd.
Shanghai Sanki Engineering Consulting Co., Ltd.
Sanki Construction Engineering (Shanghai) Co., Ltd.
AEROSTRIP Corporation
SHUN HING-SANKI JV LIMITED
PFI Okubo Techno Resource Co., Ltd.

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

The five unconsolidated subsidiaries and two affiliates 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 was 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.

Other 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

Expenditures for construction contracts in progress:

Expenditures for construction contracts in progress are stated at cost by the individual identification method.

Materials and supplies:

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

Tangible fixed assets (excluding leased assets)

Depreciation is calculated by the declining-balance method, except for the tangible fixed assets 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 fixed assets (excluding leased 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).

Leased 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 the fixed assets 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 accruals and allowances

Allowance for doubtful receivables

The allowance for doubtful receivables 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.

Accrued employees' bonuses

Accrued employees' bonuses are 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.

Accrued bonuses to directors and corporate auditors

Accrued bonuses to directors and corporate auditors are 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.

Accrued compensation for completed construction contracts

Accrued compensation for completed construction contracts is provided at an estimated amount based on historical experience and certain other factors.

Accrual for loss on construction contracts in progress

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

Accrued employees' retirement benefits

Accrued employees' retirement benefits are provided based on the retirement benefit obligation and the fair value of the plan assets as adjusted for the net unrecognized actuarial gain or loss and unrecognized 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.

Accrued retirement benefits to directors and corporate auditors

Accrued retirement benefits to directors and corporate auditors are 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.

Accrual for loss on guarantees

The accrual for loss on guarantees is provided at an amount of estimated loss on fulfillment of guarantee obligations.

(4) 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.

(5) 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 presented as translation adjustments in net assets.

(6) 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.

(7) Amortization of goodwill

Goodwill recognized for AQUACONSULT Anlagenbau GmbH, a consolidated subsidiary, is amortized using the straight-line method over a period of five years.

(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.

Changes in Presentation of Consolidated Financial Statements

Consolidated Statement of Income and Comprehensive Income

Exchange loss, net, which was presented separately for the year ended March 31, 2011 is included in "Non-operating expenses – Other" on the consolidated statement of income and comprehensive income for the year ended March 31, 2012 because the amount is not greater than 10% of the total non-operating expenses.

Rework cost on construction contracts, which was included in "Non-operating expenses - Other" for the year ended March 31, 2011 is presented separately on the consolidated statement of income and comprehensive income for the year ended March 31, 2012 due to its increased materiality.

For these changes, the consolidated statement of income and comprehensive income for the year ended March 31, 2011 is re-presented. As a result, "Exchange loss, net" of ¥69 million and "Non-operating expenses - Other" of ¥265 million for the year ended March 31, 2011 are reclassified as "Rework cost on construction contracts" of ¥47 million and "Non-operating expenses - Other" of ¥288 million.

Additional Information

Effective April 1, 2011, the Company has applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 issued on December 4, 2009).

Notes to Consolidated Statements of Income and Comprehensive Income

(Note 1)

(Reversal of accrual) provision for loss on construction contracts in progress included in cost of sales for the years ended March 31, 2011 and 2012 are as follows:

(Millions of yen)

2011	2012
¥ (154)	¥ 275

(Note 2)

Impairment losses were recognized for the following assets for the ended March 31, 2011:

(Millions of yen)

Location	Use	Asset class	Amount
Hakone Ashigarashimo-gun, Kanagawa	Business-use assets (*1)	Land, Buildings	¥ 149
Chuo-ku, Tokyo, and others	Business-use assets (*2)	Buildings, Tools, furniture and fixture, and others	224
Onobaru Izumi-shi, Kagoshima	Idle assets	Land, Buildings, Structures	15

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.

(*1) Since the Company decided to sell these business-use assets, their net book value was reduced to the respective net realizable value (i.e., expected sales amount). The reduction was recognized as the impairment loss in the special losses.

(*2) The net book value of these business-use assets was reduced to their respective recoverable amount (i.e., memorandum amount) with the decision for the headquarters relocation. The reduction was recognized as the headquarters relocation expense in the special losses.

The net book value of the idle assets was reduced to their respective recoverable amount (i.e., estimate based on the assessed value for the property tax) due to a significant decline in their market value. The reduction was recognized as the impairment loss in the special losses.

No impairment losses were recognized for the year ended March 31, 2012.

(Note 3)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2012:

(Millions of yen)

Net unrealized gains (losses) on other securities:	
Amount arising during the year	¥ 596
Reclassification adjustments for gains and losses included in net income	406
Amount before tax effect	1,002
Tax effect	(204)
Net unrealized gains (losses) on other securities	797
Net deferred gains (losses) on hedges:	
Amount arising during the year	(4)
Reclassification adjustments for gains and losses included in net income	(2)
Amount before tax effect	(7)
Tax effect	2
Net deferred gains (losses) on hedges	(4)
Translation adjustments:	
Amount arising during the year	(21)
Total other comprehensive income	¥ 772

Notes to Consolidated Statements of Changes in Net Assets

[For the year ended March 31, 2011]

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

Type of stock	As of April 1, 2010	Increase during the year	Decrease during the year	As of March 31, 2011
Common stock	74,461,156	—	—	74,461,156

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

Type of stock	As of April 1, 2010	Increase during the year	Decrease during the year	As of March 31, 2011
Common stock	2,590,156	339,028	—	2,929,184

(Note) Increase of 339,028 shares was due to purchase of treasury stock of 336,000 shares from dissenting shareholders in accordance with Article 797, Section 1 of the Corporation Law and repurchase of fractional shares of 3,028.

3. Details of stock subscription rights were as follows:

	Type of stock subscription rights	Balance as of March 31, 2011 (millions of yen)
The Company (Parent company)	Stock options	45
Total		45

4. Cash dividends

(1) Cash dividends paid by the Company were as follows:

Resolution	Type of stock	Total amount of cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
June 25, 2010 Ordinary general meeting of shareholders	Common stock	539	7.50	March 31, 2010	June 28, 2010
November 10, 2010 Meeting of board of directors	Common stock	536	7.50	September 30, 2010	December 10, 2010

(2) Cash 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 stock	Total amount of cash dividends (millions of yen)	Source of dividends	Cash dividends per share (yen)	Record date	Effective date
June 28, 2011 Ordinary general meeting of shareholders	Common stock	536	Retained earnings	7.50	March 31, 2011	June 29, 2011

Notes to Consolidated Statements of Changes in Net Assets

[For the year ended March 31, 2012]

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

Type of stock	As of April 1, 2011	Increase during the year	Decrease during the year	As of March 31, 2012
Common stock	74,461,156	—	—	74,461,156

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

Type of stock	As of April 1, 2011	Increase during the year	Decrease during the year	As of March 31, 2012
Common stock	2,929,184	2,705	—	2,931,889

(Note) Increase of 2,705 shares was due to repurchase of fractional shares.

3. Cash dividends

(1) Cash dividends paid by the Company were as follows:

Resolution	Type of stock	Total amount of cash dividends (millions of yen)	Cash dividends per share (yen)	Record date	Effective date
June 28, 2011 Ordinary general meeting of shareholders	Common stock	536	7.50	March 31, 2011	June 29, 2011
November 11, 2011 Meeting of board of directors	Common stock	536	7.50	September 30, 2011	December 9, 2011

(2) Cash 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 stock	Total amount of cash dividends (millions of yen)	Source of dividends	Cash dividends per share (yen)	Record date	Effective date
June 27, 2012 Ordinary general meeting of shareholders	Common stock	536	Retained earnings	7.50	March 31, 2012	June 28, 2012

Notes to Consolidated Statements of Cash Flows

(Note 1) Reconciliation of cash and time deposits to cash and cash equivalents: (Millions of yen)

	2011	2012
Cash and time deposits	¥ 31,137	¥ 31,098
Short-term investments (securities) with a maturity within three months after the acquisition date	13,998	9,999
Cash and cash equivalents at end of year	¥ 45,135	¥ 41,097

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 - trade notes and accounts receivable on completed construction contracts - 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.

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 - trade notes and accounts payable on construction contracts - have payment due dates within one year.

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

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

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

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

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

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

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

2. Estimated fair value of financial instruments

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

(Millions of yen)

	2011			2012		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Assets:						
1) Cash and time deposits	¥ 31,137	¥ 31,137	¥ —	¥ 31,098	¥ 31,098	¥ —
2) Trade notes and accounts receivable on completed construction contracts	58,276	58,276	—	65,375	65,375	—
3) Securities and investment securities:						
Held-to-maturity debt securities	14,493	14,496	2	10,798	10,801	2
Other securities	11,689	11,689	—	13,127	13,127	—
Total assets	115,596	115,598	2	120,399	120,401	2
Liabilities:						
Trade notes and accounts payable on construction contracts	44,961	44,961	—	51,350	51,350	—
Total liabilities	44,961	44,961	—	51,350	51,350	—
Derivatives	¥ 7	¥ 7	¥ —	¥ —	¥ —	¥ —

(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 time deposits

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

2) Trade notes and accounts receivable on completed construction contracts

The fair value of these receivables 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, 2012, the fair value of these receivables was almost equal to their carrying value.

3) 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:

Trade notes and accounts payable on construction contracts

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	
	2011	2012
Unlisted stocks	¥ 2,139	¥ 2,120

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: 3) Securities and investment securities" of the above table.

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

(Millions of yen)

	2011				2012			
	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 time deposits	¥ 31,126	¥ —	¥ —	¥ —	¥ 31,090	¥ —	¥ —	¥ —
Trade notes and accounts receivable on completed construction contracts	58,276	—	—	—	65,375	—	—	—
Securities and investment securities:								
Held-to-maturity securities (corporate bonds)	13,998	—	400	94	10,294	—	504	—
Othersecurities with maturitydate (corporate bonds)	—	—	—	—	—	201	298	—
Total	¥ 103,401	¥ —	¥400	¥94	¥ 106,759	¥ 201	¥ 803	¥ —

Securities

1) Trading securities

Not applicable, because the Company and its consolidated subsidiaries had no trading securities both at March 31, 2011 and 2012.

(Millions of yen)

Type	2011			2012		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Securities whose fair value exceeded their carrying value						
Government bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	2,294	2,303	9	2,294	2,300	5
Other	—	—	—	—	—	—
Subtotal	2,294	2,303	9	2,294	2,300	5
Securities whose carrying value exceeded their fair value						
Government bonds	–	–	–	–	–	–
Corporate bonds	12,199	12,192	(6)	8,504	8,501	(2)
Other	–	–	–	–	–	–
Subtotal	12,199	12,192	(6)	8,504	8,501	(2)
Total	¥ 14,493	¥ 14,496	¥ 2	¥ 10,798	¥ 10,801	¥ 2

3) Other securities

(Millions of yen)

Type	2011			2012		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeded their acquisition cost						
Stock	¥ 8,477	¥ 5,224	¥ 3,253	¥ 11,881	¥ 8,020	¥ 3,861
Bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	8,477	5,224	3,253	11,881	8,020	3,861
Securities whose acquisition cost exceeded their carrying value						
Stock	3,023	3,480	(457)	745	804	(58)
Bonds	–	–	–	499	505	(5)
Other	188	189	(1)	–	–	–
Subtotal	3,211	3,670	(459)	1,245	1,309	(63)
Total	¥ 11,689	¥ 8,894	¥ 2,794	¥ 13,127	¥ 9,329	¥ 3,797

4) Information regarding sales of securities classified as other securities:

(Millions of yen)

Type	2011			2012		
	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	¥ 1,035	¥ 623	¥ 1	¥ 46	¥ 25	¥ –
Bonds	–	–	–	–	–	–
Other	–	–	–	187	–	1
Total	¥ 1,035	¥ 623	¥ 1	¥ 234	¥ 25	¥ 1

(Note) "Securities classified as other 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 other securities of ¥121 million (marketable other securities of ¥101 million and other securities for which it is extremely difficult to determine the fair value of ¥19 million) was recorded for the year ended March 31, 2011, and an impairment loss on investment securities of ¥427 million (marketable other securities of ¥404 million and equity securities of unconsolidated subsidiaries of ¥23 million) was recorded for the year ended March 31, 2012.

For marketable other securities, 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 other securities for which it is 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
Not applicable both for the years ended March 31, 2011 and 2012

2) Derivative transactions, to which hedge accounting is applied

1.Currency-related transactions

[For the year ended March 31, 2011]

(Millions of yen)

Hedge accounting method	Type of derivatives	Major hedged items	Notional amounts		Fair value
			(total)	(over one year)	
Principle method	Forward exchange contracts Buy: U.S.Dollars	Investment securities	¥ 158	–	¥ 7
Assigning method for forward exchange contracts	Forward exchange contracts Sell: U.S.Dollars	Trade notes and accounts receivable on completed construction contracts	1,111	–	(*)

*Since the fair values of forward exchange contracts to which the assigning method was applied were treated as part of the hedged trade notes and accounts receivable on completed construction contracts, their fair values were included in those notes and accounts receivables.

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

[For the year ended March 31, 2012]

(Millions of yen)

Hedge accounting method	Type of derivatives	Major hedged items	Notional amounts		Fair value
			(total)	(over one year)	
Assigning method for forward exchange contracts	Forward exchange contracts	Trade notes and accounts receivable on completed construction contracts	¥ 336	–	(*)

*Since the fair values of forward exchange contracts to which the assigning method was applied were treated as part of the hedged trade notes and accounts receivable on completed construction contracts, their fair values were included in those notes and accounts receivables.

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

2.Interest-related transactions

Not applicable both for the years ended March 31, 2011 and 2012

Retirement Benefits

1) Summary of retirement benefit plans for employees
The Company and its consolidated subsidiaries including foreign consolidated subsiteiaries have set up a lump-sum payment plan as a defined benefit plan. The Company also has a defined-benefit corporate pension plan and a defined contribution pension plan. The Company has established an employees' retirement benefit trust. The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances. The Company has amended a part of its retirement benefit plans and transferred the tax-qualified pension plan to the defined contribution pension plan on October 1, 2010.

2) The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2011 and 2012 for the Company's and its consolidated subsidiaries' defined benefit plans:

(Millions of yen)

	2011	2012
Retirement benefit obligation	¥ (24,882)	¥ (23,858)
Plan assets at fair value	11,754	11,838
Assets in trust for employees' retirement benefit	7,094	7,102
Unfunded retirement benefit obligation	(6,033)	(4,917)
Unrecognized actuarial loss	5,740	4,912
Unrecognized prior service cost	(838)	(636)
Amounts recognized in the consolidated balance sheets, net	(1,131)	(642)
Prepaid pension cost	8,065	7,646
Accrued employees' retirement benefits	¥ (9,197)	¥ (8,288)

The retirement benefit obligation for each consolidated subsidiary is stated at the amount which would be required to be paid if all employees covered by the plans voluntarily terminated their employment at March 31, 2011 and 2012.

Effects of the transition of the tax-qualified pension plan to the defined contribution pension plan for the year ended March 31, 2011 were as follows:

(Millions of yen)

Decrease in retirement benefit obligation	¥ 6,974
Decrease in plan assets at fair value	(4,319)
Decrease in assets in trust for employees' retirement benefit	(456)
Decrease in unrecognized actuarial loss	(867)
Decrease in accrued employees' retirement benefits	¥ 1,330

The amount of assets to be transferred to the defined contribution plan was ¥380 million, which was planned to be transferred in 4 years. The untransferred assets of ¥151 million at March 31, 2012 are included in "Other current liabilities" and "Other non-current liabilities."

3) The components of retirement benefit expenses for the years ended March 31, 2011 and 2012 are outlined as follows:

(Millions of yen)

	2011	2012
Service cost *2	¥ 921	¥ 908
Interest cost	678	491
Expected return on plan assets	(403)	(330)
Amortization of unrecognized actuarial loss	427	483
Amortization of unrecognized prior service cost	(202)	(202)
Total retirement benefit expenses	1,421	1,350
Gain on transition to the defined contribution plan	(39)	–
Other *3	37	90
Total	¥ 1,419	¥ 1,441

*1: In addition to the amount presented above, additional retirement benefits of ¥22 million and ¥21 million were paid for the years ended March 31, 2011 and 2012, respectively. These expenses have been included in cost of sales, and selling, general and administrative expenses.
*2: The consolidated subsidiaries' retirement benefit expenses have been included in the service cost.
*3: "Other" shows the amount contributed to the defined contribution plan.

4) The assumptions used in accounting for retirement benefits were as follows:

	2011	2012
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%

The retirement benefit obligation has been attributed to each year by the straight-line method over the estimated years of service of the eligible employees.

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

Unrecognized actuarial gain or loss is amortized commencing 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 remaining years of service of the eligible employees.

Tax-effect Accounting

1) The significant components of deferred tax assets and liabilities at March 31, 2011 and 2012 were as follows:

(Millions of yen)

	2011	2012
1. Deferred tax assets		
Allowance for doubtful receivables	¥ 270	¥ 399
Accrued bonuses	880	731
Accrued compensation for completed construction contracts	295	179
Accrual for loss on construction contracts in progress	91	189
Accrued employees' retirement benefits	6,376	5,464
Accrued retirement benefits to directors and corporate auditors	236	225
Loss on devaluation of investment securities	638	610
Loss on devaluation of utility rights	222	190
Loss on construction contracts under percentage-of-completion method	110	—
Impairment loss	98	—
Headquarters relocation expense	262	—
Tax loss carryforward	—	274
Other	933	775
Subtotal	10,416	9,040
Valuation allowance for deferred tax assets	(1,357)	(1,448)
Total deferred tax assets	9,059	7,591
2. Deferred tax liabilities		
Gain on valuation of securities contributed to employees' retirement benefit trust	(5,001)	(4,380)
Deferred capital gains for tax purposes	(1,060)	(910)
Gain on revaluation of investment securities	(1,678)	(1,470)
Net unrealized holding gain on other securities	(1,053)	(1,258)
Other	(11)	(114)
Total deferred tax liabilities	(8,805)	(8,134)
Net deferred tax assets (liabilities)	¥ 254	¥ (542)

2) The reconciliations of the significant difference between the statutory tax rate and the effective tax rates reflected in the consolidated statements of income and comprehensive income for the years ended March 31, 2011 and 2012 are presented as follows:

(Millions of yen)

	2011	2012
Statutory tax rate	40.7 %	40.7 %
Items permanently not deductible for tax purposes	4.8	10.7
Items permanently not taxable	(2.9)	(6.0)
Inhabitants' per capita taxes	2.8	6.3
Amortization of goodwill	0.8	1.8
Valuation allowance	(0.5)	15.3
Effect of revision of tax return	0.2	11.1
Effect of changes in effective statutory tax rate	–	(2.8)
Equity in losses of affiliates	0.4	11.8
Research and development tax credit	(2.1)	—
Other	(0.4)	0.4
Effective tax rates	43.8 %	89.3 %

3) The "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective for fiscal years beginning on or after April 1, 2012.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.7% to 38.0% for the temporary differences and tax loss carryforward expected to be realized or settled in the periods from April 1, 2012 to March 31, 2015 and to 35.6% for temporary differences and tax loss carryforward expected to be realized or settled for fiscal years beginning on or after April 1, 2015. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities (net of deferred tax assets) by ¥224 million and deferred income taxes by ¥46 million as of and for the year ended March 31, 2012 and to increase net unrealized gains on other securities by ¥178 million as of March 31, 2012.

Investment and Rental Properties

The Company owns research facilities, commercial facilities and housing for rent in Kanagawa Prefecture and other areas. Profit from renting those real-estate properties was ¥2,597 million and ¥1,392 million for the years ended March 31, 2011 and 2012, respectively. Rental revenues were recorded as sales - real estate and other, and rental expenses as cost of sales - real estate and other.

Carrying value on the consolidated balance sheets and corresponding fair value of those rental real-estate properties for the years ended March 31, 2011 and 2012 were as follows:

(Millions of yen)

	2011	2012
Carrying value		
At beginning of the year	¥ 12,413	¥ 11,644
Net change during the year	(769)	(656)
At end of the year	11,644	10,987
Fair value at end of the year	¥ 26,154	¥ 24,902

Notes:

1) The carrying value represents the acquisition cost less accumulated depreciation.
2) Decrease in the carrying value included in the net change during the year was mainly due to depreciation of ¥781 million and ¥749 million for the years ended March 31, 2011 and 2012, respectively.
3) The fair value is estimated for major rental properties based on the appraisal value obtained from outside real-estate appraisers with reasonable adjustments for timing and for the other rental properties based on the assessed value for fixed-asset taxes.

Segment Information

(Segment Information)

1. Outline of reportable segments

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

The Group's business divisions are based on the activities of the Company. The six 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

(Millions of yen)

	2011						
	Reportable segments						
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments (Note 1)	Consolidated (Note 2)
Sales :							
Sales tothird parties	¥ 117,427	¥ 9,486	¥ 20,706	¥ 4,154	¥ 151,775	¥ 19	¥ 151,794
Inter-segment sales and transfers	129	—	8	—	137	(137)	—
Total sales	¥ 117,556	¥ 9,486	¥ 20,714	¥4,154	¥ 151,913	¥ (118)	¥ 151,794
Segment profit (loss)	¥ 1,540	¥ (675)	¥ 984	¥ 2,547	¥ 4,396	¥ (157)	¥ 4,239
Other items:							
Depreciation	¥ 406	¥ 138	¥ 93	¥ 781	¥ 1,419	¥ 28	¥ 1,448
Amortization of goodwill	—	—	71	—	71	—	71
Interest income	16	0	10	—	26	40	67
Interest expense	48	0	3	—	52	41	93
Equity in earnings (losses) of affiliates	—	—	7	—	7	(42)	(34)

(Millions of yen)

	2012						
	Reportable segments						
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments (Note 1)	Consolidated (Note 2)
Sales :							
Sales tothird parties	**¥ 114,525**	**¥ 10,816**	**¥ 19,812**	**¥ 2,824**	**¥147,979**	**¥ 15**	**¥ 147,994**
Inter-segment sales and transfers	**493**	**7**	**12**	**—**	**513**	**(513)**	**—**
Total sales	**¥ 115,019**	**¥ 10,823**	**¥ 19,825**	**¥2,824**	**¥148,493**	**¥ (498)**	**¥ 147,994**
Segment profit (loss)	**¥ (561)**	**¥ (187)**	**¥ 879**	**¥ 1,331**	**¥ 1,462**	**¥ 806**	**¥ 2,268**
Other items:							
Depreciation	**¥ 396**	**¥ 103**	**¥ 90**	**¥ 748**	**¥ 1,340**	**¥ 27**	**¥ 1,367**
Amortization of goodwill	**—**	**—**	**71**	**—**	**71**	**—**	**71**
Interest income	**15**	**0**	**6**	**—**	**22**	**49**	**71**
Interest expense	**50**	**0**	**3**	**—**	**54**	**30**	**85**
Equity in earnings (losses) of affiliates	**—**	**—**	**4**	**—**	**4**	**(484)**	**(480)**

(Note 1)

Adjustments for segment profit or loss of ¥157 million for the year ended March 31, 2011 included corporate general losses of ¥578 million which were not allocable to the reportable segments such as adjustments for expenditures for construction contracts in progress, and reversal of interest expenses of ¥421 million which had been allocated to each of the reportable segments for administrative purpose.

Adjustments for segment profit or loss of ¥806 million for the year ended March 31, 2012 included corporate general profits of ¥411 million which were not allocable to the reportable segments such as interest income and dividend income, and reversal of interest expenses of ¥395 million which had been allocated to each of the reportable segments for administrative purpose.

(Note 2)

Segment profit was adjusted to be equal to ordinary income in the consolidated financial statements.

(Other Information)

[For the years ended March 31, 2011 and 2012]

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) Tangible fixed assets

Disclosure of tangible fixed assets information has been omitted because the tangible fixed assets located in Japan accounted for over 90% of the tangible fixed assets 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, 2011]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments (Note)	Consolidated
Impairment loss	¥ 15	¥ —	¥ —	¥ —	¥ 15	¥ 374	¥ 389

(Note)

Adjustments of ¥374 million were impairment loss in connection with headquarters relocation of ¥224 million and impairment loss on welfare facilities to be sold of ¥149 million.

The impairment loss in connection with headquarters relocation was included in headquarters relocation expense in special losses.

[For the year ended March 31, 2012]

Not applicable

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

[For the year ended March 31, 2011]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments	Consolidated
Amortization for the year	¥ —	¥ —	¥ 71	¥ —	¥ 71	¥ —	¥ 71
Balance of goodwill at end of the year	¥ —	¥ —	¥ 71	¥ —	¥ 71	¥ —	¥ 71

[For the year ended March 31, 2012]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments	Consolidated
Amortization for the year	¥ —	¥ —	¥ 71	¥ —	¥ 71	¥ —	¥ 71
Balance of goodwill at end of the year	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

(Information about gain on negative goodwill by reportable segment)

[For the years ended March 31, 2011 and 2012]

Not applicable

Per Share Data

	2011	2012
Net assets per share	¥ 1,115.41	**¥ 1,113.70**
Net income per share	¥ 29.67	**¥ 2.46**

Although there was the dilutive potential, disclosure of diluted net income per share was omitted because it had no dilutive effect.

Basis for the calculation of net income per share for the years ended March 31, 2011 and 2012 is summarized as follows:

(Millions of yen)

	2011	2012
Net income	¥ 2,124	**¥ 176**
Amount not attributable to shareholders of common stock	–	**–**
Net income attributable to common stock	¥ 2,124	**¥ 176**
Average number of shares of common stock outstanding	71,601 thousand shares	**71,530** thousand shares
Outline of dilutive potential which was not included in calculation of diluted net income per share due to non-dilutive effect	Stock subscription rights: 782 rights	Stock subscription rights: 782 rights (Note) Since the exercise period of the stock subscription rights expired on July 25, 2011, all the rights have been forfeited as of March 31, 2012.

Independent Auditor's Report

Ernst & Young ShinNihon LLC

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, 2012, 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, 2012, 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, 2012
Fukuoka, Japan

Corporate information and share information

As of March 31, 2012

Corporate information

Company name	SANKI ENGINEERING CO., LTD.
Company name in English	SANKI ENGINEERING CO., LTD.
Date of establishment	April 22, 1925
Stated capital	8,105.18 million yen
Representative	Takuichi Kajiura, President (as of April 27, 2012)
Principal lines of business	Facilities construction, plant systems, real estate
Number of employees	Consolidated: 2,289 Non-consolidated: 1,965
Offices	Regional office: 3 Branch: 15 Laboratory: 1
Head office	8-1, Akashicho, Chuo-ku, Tokyo

Share information

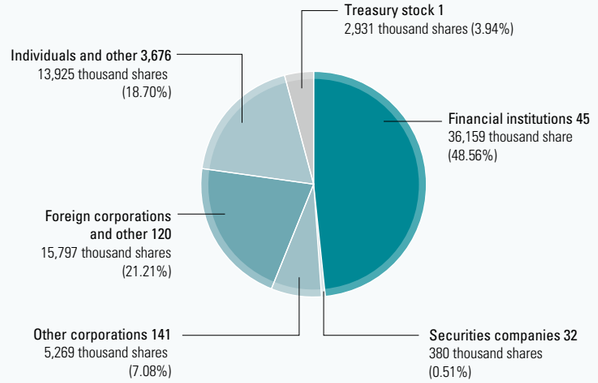
Fiscal year	April 1 to March 31 of the following year
Annual general meeting of shareholders	Late June
Trading unit	1,000 shares
Number of shares authorized	192,945,000 shares
Number of shares issued	74,461,156 shares
Number of shareholders	4,015

Transfer agent

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

	Number of shares held (thousand shares)	Shareholding ratio (%)
Mitsui Life Insurance Company Limited.	7,000	9.79
Nippon Life Insurance Company	6,078	8.50
Meiji Yasuda Life Insurance Company	6,000	8.39
Japan Trustee Services Bank, Ltd. (Trust account)	2,816	3.94
Sanki Kyoueikai	2,571	3.59
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,442	3.41
The Master Trust Bank of Japan, Ltd. (Trust account)	2,419	3.38
CBNY DFA International Cap Value Portfolio	1,508	2.11
Sanki Engineering employee shareholders' association	1,159	1.62
Northern Trust Company AVFC RE Northern Trust Guernsey Irish Clients	1,105	1.54

※Although the company holds 2,931 thousand shares of treasury stock, the company is excluded from the major shareholders listed above. Shareholding ratio is calculated excluding treasury stock.

SANKI ENGINEERING CO., LTD.

SANKI ENGINEERING CO., LTD.

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