SANKI ENGINEERING CO., LTD.

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SANKI REPORT 2013

Engineering for the future

SANKI REPORT 2013

SANKI ENGINEERING CO., LTD.

To all stakeholders

We aim to increase trust from all stakeholders and become a company that is needed by society by putting into practice our Company Credos.

I would like to express my gratitude to everyone involved with the Sanki Engineering Group, beginning with shareholders and investors and including customers, cooperating companies, business partners and local communities for the understanding and support of the Group's daily business activities.

We are currently faced with diverse challenges that must be resolved in order to create a sustainable society, such as natural disasters, global warming, depletion of energy resources, strain on final landfill sites and dilapidated facilities.

The business domains of the Sanki Engineering Group involve various fields of social infrastructure, including the Facilities Construction Business, which consists primarily of heating, ventilation, and air conditioning, plumbing, electrical systems, smart building solutions and facility systems; the Machinery Systems Business, which consists primarily of material handling systems and conveyors; and the Environmental Systems Business, which consists primarily of water and sewage treatment facilities and waste incineration facilities.

While each of these is an individual business, the integration of business domains across the Group creates "total engineering competency" to meet society's needs. This concept is embodied in one of our Company Credos, "We will contribute to society through engineering."

By putting into practice the Company Credos, we always keep in mind what is needed by society and what we should provide to society in our actions. One of our aims is to raise the corporate value of the Group by contributing to the creation of a sustainable society.

Company Credos

We will contribute to society through engineering

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

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

Takuichi Kajiura
President

Editorial policy

About the publication of SANKI REPORT

Sanki Engineering began publishing CSR reports in fiscal 2005 to disclose non-financial information on such areas as relationships with stakeholders and environmental initiatives.

We started issuing the SANKI REPORT in fiscal 2012, an annual publication that also includes financial information such as operating results, management strategy and business outline.

This report conveys the business activities of the Group over the past year to stakeholders and has been positioned as an important communication tool to boost understanding.

We welcome the honest opinions and requests of stakeholders upon reading this report to help us continue driving sustainable growth for the Sanki Engineering Group together with society.

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 (Fiscal year (FY) 2012)

April 2012 - March 2013
(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.

Contents

The History of Sanki Engineering

Laying the base for technological competence by meeting the needs of the era 1920

Sanki Engineering got underway with two major projects for Toyo Rayon (currently Toray Industries, Inc.), namely its Shiga manufacturing plant and its Aomori ice-making plant and refrigerated warehouse. At that time, Sanki Engineering was engaged mainly in heating, plumbing, steel frame construction and building materials. Sanki Engineering sought electrical technicians externally and ventured into electrical construction before developing a proprietary incinerator for buildings upon recognition of the need for urban environmental sanitation. Installing in the Sanshin Building, Sanki Engineering was the first company in Japan that installed this kind of incinerator for a large building.

Diversified and expanded businesses led to greater technological competence 1930

In 1930, Sanki Engineering started work in the air conditioning business after establishing Toyo Carrier Industries together with US-based Carrier Engineering. In 1937, it concluded sales contracts for machinery used in mining-related chemistry with US-based Dorr Inc. and Oliver, Inc., and expanded its technological capabilities. In addition to heating and cooling, sanitary water supplies, kitchen, electricity, sashes, building incinerators and other architectural businesses, Sanki Engineering also began serving as a general agency for Mosler Safes and Fukokuseki (an artificial stone cladding for decorating the outsides of buildings).

Sanki's advanced technology bolsters a construction boom 1930

During the construction boom that occurred before the outbreak of World War II, Sanki Engineering incorporated the most advanced technology available at the time. To give an example, Sanki Engineering introduced a power supply with the special high voltage of 22kV to Daiichi Seimei's main building completed in 1938, which boasted the largest central monitoring board of any building at the time, located four floors underground. It also started manufacturing conveyors and introduced various new technologies such as electric resistance welded steel tube pipe technology.

A proactive approach to technological innovation 1950

In 1953, Sanki Engineering completed Japan's first all-fluorescent lighting system in the Taisho Marine and Fire Insurance Building and then in 1957 delivered its roller conveyor to the Japanese Antarctic Research Expedition II. Sanki Engineering also carried out a project to equalize airflow and suppress noise in the high-speed ducts inside the Ohtemachi Building, which was the largest building in the East at the time. The project was completed in only 20 months and represented a major advancement in air conditioning technology. It also became involved in night-soil treatment plant disposal facilities.

Feature as a manufacturer that responds to the needs of the era 1960

In addition to long-distance conveyors for coal mines and dam construction frames, demand was rising for portable conveyors used in steel plants and construction sites, and shipments increased. Sanki Engineering developed the high-quality, low-priced, standardized 6S sash, which was broadly adopted in factories and offices nationwide, giving the largest share of the market among steel sash manufacturers.

Wide range of technological innovations 1970

In 1968, Sanki Engineering participated in construction of heating, ventilation, and air conditioning, plumbing and electrial works for Japan's first real skyscraper, the Kasumigaseki Building. Sanki Engineering built Japan's first real large-scale clean room at NEC's Sagamihara plant in the 1970s. Sanki Engineering also built the world's first unmanned automatic sorting system and airport baggage handling system, and its wide range of technological innovations included introducing continuous sand filtering technology from Sweden.

Opening the way to a new era: advances in environmental and information technology 1980

Sanki Engineering started an information and communications business and developed environment-related technology, including an ice thermal storage system, sewage advanced treatment systems, and gasification and melting furnaces in addition to information-related technology, such as LAN and monitoring and control systems. Also, with an increase in office integration and moving, Sanki Engineering's Facility Systems Business began gaining attention as a unique one-stop business for such moves.

Towards environmentally friendly technology 2000

The 21st century has brought about increased need for energy saving and reducing CO_2 emissions. Sanki Engineering 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 type incineration plants.

The 1920s:

1923	Great Tokyo Earthquake strikes. Building modernization drives up demand for building utilities such as heating, cooling, water supplies and sewage, and electrical fixtures and fittings and construction technology advances.
1925	On April 22, Sanki Engineering was established as a spin-off from Mitsui Bussan's Machinery Department with capital of ¥500,000 and 12 staff.
1931	Moves head office to the Sanshin Building.
1933	Completes Tokyo Nihon Seimei Building (currently the Nihonbashi branch of Takashimaya Department Store) and opens a branch in Dalian, Manchuria.
1935	Celebrates 10th anniversary and now comprises five branches, six field offices, three affiliates and around 300 staff.

The 1940s:

1941	Pacific War begins. Sanki Engineering suffers a shortage of workers as well as materials due to tight control over the distribution of goods.
1943	Emergency metal collection campaigns started nationwide. Kawasaki and Tsurumi plants are designated military-industrial plants.
1945	War ends.
1950	The outbreak of the Korean War leads to a war-driven economy and the Japanese economy takes a favourable turn. Expansion of demand for building construction and equipment results in a dramatic improvement in the Company's business performance.
1958	Capital exceeds ¥1 billion.

The 1960s:

1963	Completes Sagami plant (currently Yamato Engineering Center), which has production equipment tailored for conveyor mass production.
1964	Participates in projects on the occasion of the 1964 Tokyo Olympics, including the Yoyogi National Gymnasium and the NHK Broadcasting Center.
1971	Environmental Agency inaugurated. Sanki Engineering develops a track record in municipal solid waste incineration facilities and industrial wastewater treatment facilities, and sets up an Environmental Administration office. Spins off sash business and institutes centralized control on departments. Provides HVAC equipment for satellite communications ground stations in places such as the Middle East, Africa and Venezuela, and builds automotive testing equipment in Russia.

The 1980s:

1982	Builds Technical Research Laboratory equipped with basic research facilities and large-scale experimental facilities in Yamato, Kanagawa Prefecture.
1990	Bubble economy collapses.
2000	Opens Shonan Training Center (Zushi, Kanagawa Prefecture) and strengthens human resource development.
2005	Shifts head office to Nihonbashi.
2011	Shifts head office to Tsukiji.
2012	Launches Smart Building Solution Business to provide Smart Buildings with a focus on energy saving business.

Highlights of Business Activities in Fiscal 2012

Demonstration for an energy self-reliance plant factory in Fukushima

In March 2013, as a part of recovery projects in Shinchi, Fukushima, we held a demonstration for an energy self-reliance plant factory with Fukushima Wagoen Co., Ltd. Previously, fossil fuels were used to manage the temperature in horticultural facilities, including for plastic greenhouse culture. In recent years, however, there are rising needs for more efficient energy use due to increasing energy prices and greater environmental awareness. Demonstration was conducted with the aims of using renewable energy in horticultural facilities and contributing to earthquake disaster recovery.

In the test, a crown temperature control technique (technique to directly heat and cool only the root) in addition to a solar energy collector made by UK-based Kingspan Renewables Co., Ltd. were used to collect heat energy, which was stored in Sanki Engineering's own uniquely developed Trans Heat Container. The energy was then used to heat up the plant factory at night. In addition, we tested energy self-reliance cultivation system using sunlight in combination with a light culture system operated via photovoltaic power generation and special electricity controller.

Going forward, we plan to work together with Fukushima Wagoen to spread the use of solar energy and an energy self-reliance cultivation system from Fukushima.

Developed "L-LAC®" air conditioning system for data centers and created mock-up facility equipment for proving tests

Amid higher density in IT equipment (servers) installed in data centers nowadays, demand has increased for the development of highly efficient cooling technology to cope with the increase in power consumption and heat generation of the servers.

In response, Sanki Engineering developed L-LAC® (Local Air Conditioner), an under-floor local air conditioning system as a cooling technique for data centers collaborated with Nippon Steel & Sumikin Engineering Co., Ltd. L-LAC®, which is based on server cooling technology for data centers, is a compact local air conditioning system installed directly below racks housing high-density servers that cools the servers via combined operation with a downward-blowing air conditioning unit. This enables up to around a 50% reduction in transfer power of air conditioning compared with isolated operation of conventional downward-blowing air conditioning units. Sanki Engineering developed mock-up equipment (simulated data center) with a pilot-scale server room to investigate full-scale experiments of L-LAC®.

Going forward, we will vigorously market L-LAC® as a viable system for a wide variety of data centers with technology to cope with high-density servers. The mock-up equipment will be used as a place for full-scale experiments and examination of devices to cope with even higher-density servers and cloud computing to meet customer's expectations.

Operated the world's first supercharged (turbocharged) fluidized bed incinerator ~ Asakawa Water Reclamation Center~

Tokyo Metropolitan Government Bureau of Sewerage is pushing ahead with initiatives to reduce greenhouse gases emitted in its business activities and introduced Sanki Engineering's supercharged (turbocharged) fluidized bed incinerator, a world-first, at the Asakawa Water Reclamation Center in Hino, Tokyo.

The research and development for this system was conducted in conjunction with Public Works Research Institute, National Institute of Advanced industrial Science and Technology and Tsukishima Kikai Co., Ltd. In the system, sewage sludge is incinerated under a set pressure and the exhaust gas pressure is utilized to drive a supercharger which generates compressed air. This compressed air is then used as combustion air in the incinerator. By doing so, both fluidized bed blower and induced draft blower become unnecessary, thus making it possible not only to save energy but also its space. Compared with conventional fluidized bed incineration, the system can be expected to achieve reductions of around 40% in power consumption, 10% in fuel consumption and 50% in N_2O generation, resulting in a cut of approximately 40% in greenhouse gases from the system overall. In addition, we are implementing a project to retrofit the sewage incinerator for Tokyo Metropolitan Government Bureau of Sewerage's Shingashi Water Reclamation Center in Itabashi Ward, Tokyo, which will be Japan's largest facility using this system when it is completed in 2015.

Developed the industry's fastest-class sample pre-treatment instrument for medical-care and clinical testing facilities

In order to accelerate entry into the medical care and medication market in line with the medium-term management plan, Sanki Engineering concluded a business alliance with Precision Shibazaki Co., Ltd. among others and developed a serum sample pre-treatment instrument (device to distribute the necessary amount of serum from a blood collection tube for laboratory testing to pre-treat the sample) with the industry's fastest-class processing capability and exceptional environmental performance.

The instrument is excellent at correcting the stop position and torque control thanks to the use of a servomotor. It also realizes the industry's fastest-class processing capability (1,000 bottles per hour) as well as space-saving design and energy saving. Total automation is possible, from receipt to transport, pre-treatment and storage, through combination with Sanki Engineering's advanced proprietary technologies.

We commenced sales of the instrument to medical care and clinical testing facilities nationwide in November 2012. Going forward, we will develop devices and peripheral equipment as well as services that meet diverse needs.

Financial and Non-Financial Highlights

Financial data (consolidated)

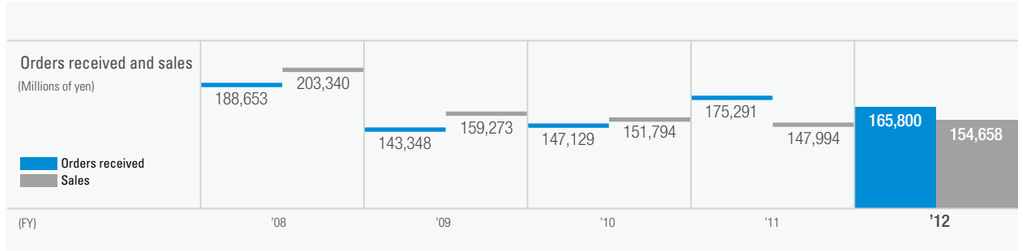
(Millions of yen)

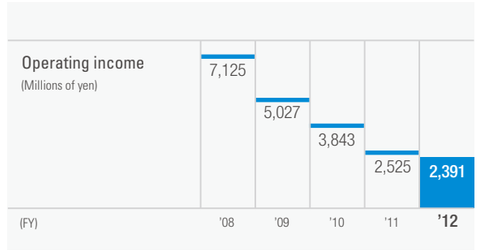
	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013
Fiscal year					
Orders received	188,653	143,348	147,129	175,291	165,800
Sales	203,340	159,273	151,794	147,994	154,658
Selling, general and administrative expenses	14,978	15,419	15,763	15,712	15,199
Operating income or loss	7,125	5,027	3,843	2,525	2,391
Ordinary income or loss	6,900	5,456	4,239	2,268	2,680
Net income or loss	3,283	3,141	2,124	176	(4,992)
Cash flows from operating activities	19,177	1,294	11,554	(2,697)	9,729
Cash flows from investing activities	1,726	(1,664)	2,610	(1,046)	(9,481)
Cash flows from financing activities	(4,377)	(2,936)	(1,883)	(280)	(1,028)
Cash and cash equivalents at end of year	36,142	32,825	45,135	41,097	40,367
As of end of fiscal year under review					
Total assets	176,664	163,307	158,501	163,120	166,477
Net assets	78,780	80,498	79,833	79,662	76,932
Per share information					
Earnings per share (yen)	44.45	42.86	29.67	2.46	(71.04)
Book-value per share (yen)	1,065.77	1,119.40	1,115.41	1,113.70	1,106.32
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00
Other information					
Equity ratio (%)	44.6	49.3	50.3	48.8	46.2
Return on assets (%)	3.5	3.2	2.6	1.4	1.6
Return on equity (%)	4.1	3.9	2.7	0.2	(6.4)

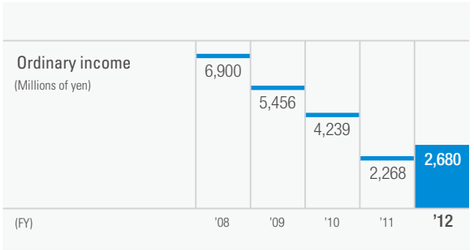
Non-financial data (employees only consolidated, others non-consolidated)

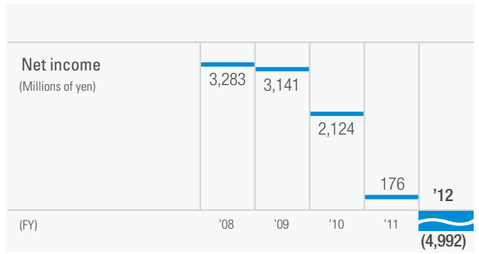
	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013
No. of employees	2,239	2,272	2,316	2,289	2,246
No. of accidents	5	6	11	7	3
Frequency of accidents (%)*	0.41	0.57	1.03	0.68	0.28
CO_2 emissions (t-CO_2)	—	4,390	4,162	3,770	4,308
Waste emissions (t) (From all Company construction sites and Yamato Engineering Center)	17,712	11,272	12,034	12,070	13,757

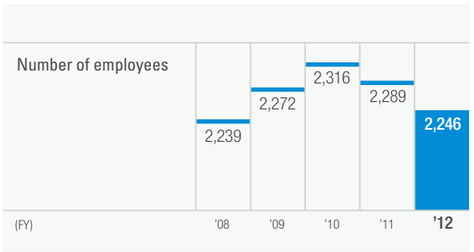
*Since absence from work of more than one day was set as the standard in the year ended March 2011, all prior figures have been restated using the same standard.

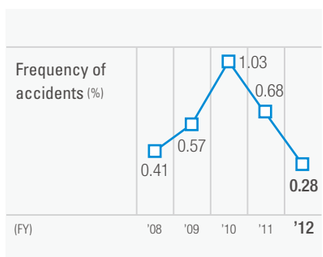


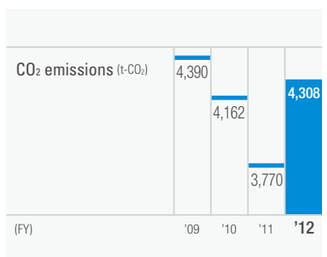


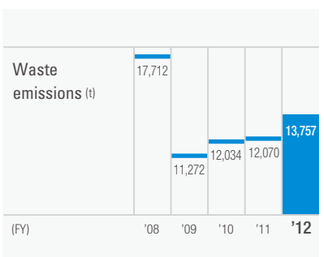












Summaries of Businesses by Segment

Social issues

- Global warming
- Waste processing
- Water resources

Contribute to the resolution of social issues through "total engineering competency"

- Energy resources
- Equipment deterioration

Facilities Construction Business

Main sales items

HVAC system
- HVAC system
- Clean rooms
- Environmental control
- Freezing & refrigeration
- District heating & cooling plant
- Nuclear power-related facilities

Electrical system
- Electrical system
- ICT facilities
- Instrumentation

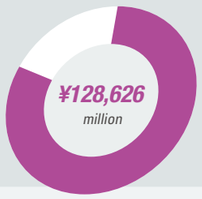
Plumbing & drainage system
- Water supply & drainage
- Kitchen equipment
- Disaster prevention systems

Facility systems
- Dealing rooms
- OA office, relocation
- Financial institution branches and offices

Smart building solutions
- Central monitoring, automated control systems
- IP solutions
- Network solutions

Sales composition

83%



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Machinery Systems Business

Main sales items

Conveyance systems
- Lightweight conveyers
- Environmental-related conveyers
- Distribution-related conveyers
- Sorting devices
- Automated bucket warehouse

Material handling systems
- Clean conveyance systems
- Material handling system
- Airport baggage and cargo handling systems
- FA systems
- Control and information systems

Sales composition

4%

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Environmental Systems Business

Main sales items

Waste treatment
- Waste incineration facilities
- Landfill wastewater treatment facilities

Water treatment
- Water and sewage treatment facilities
- Industrial waste water treatment facilities
- Sludge treatment facilities
- Sludge incineration facilities
- Industrial plant facilities

Sales composition

11%

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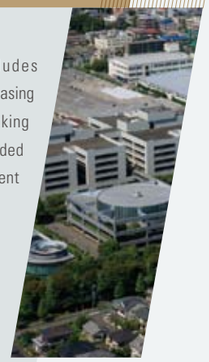
Real Estate Business

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%

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Q Can you describe business performance for the fiscal year ended March 31, 2013 and touch on your first year as president?

The tough business environment continued in the fiscal year ended March 31, 2013, characterized by price competition for orders in Japan, heightened risk in China and acceleration in the shift to overseas production among domestic manufacturers. Against this backdrop, orders received amounted to ¥165,800 million, almost on par with the previous fiscal year with a drop of 5.4%, and sales were ¥154,658 million, up 4.5% year on year, despite falling short of the initial target of ¥170,000 million due to delays in commencement and progress of certain construction projects. In terms of profit, operating income decreased 5.3% year on year to ¥2,391 million and ordinary income increased 18.1% year on year to ¥2,680 million, while Sanki Engineering posted net loss of ¥4,992 million after recording impairment loss of over ¥7,000 million as extraordinary loss due to an inability to quickly anticipate succeeding lessees for a large rental property where the contract period matured at the end of the fiscal year in Real Estate Business.

Since being appointed president, I have advocated the idea of "further boosting total engineering competency," but in all honesty after the past year I have come to realize that this is not an easy job. The concept of "total engineering" is yet to permeate behavior at Sanki Engineering and subsidiaries, while all employees throughout the Group haven't quite come to a full understanding of the philosophy.

One of my missions in order to achieve our objectives as a "total engineering" company is to become a Group comprised of executives and employees with patterns of thinking that drive all sorts of technologies. The important thing is to get customers to understand and trust the technologies that the Group possesses. Although the construction market comprises a large portion of the work we do at Sanki Engineering, we have the ability to provide an array of technologies and equipment in diverse markets. A company like Sanki Engineering is unique and bolstering the "total engineering competency" that comes from this competitive advantage will help drive growth for the organization.

We will achieve the targets of the medium-term management plan and fulfill our social responsibility by leveraging "total engineering competency."

Takuichi Kajiura
President

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

We have been implementing our medium-term management plan "SANKI VITAL PLAN 90th" since fiscal 2011. This is our five-year medium-term management plan that is effective to fiscal 2015, our 90th anniversary. Based on the management philosophy "Through its "total engineering", the Sanki Engineering Group shall promote the diffusion of energy-saving and new-energy systems to help achieve a comfortable low-carbon society," we uphold such basic policies as "Maintain a profitability focus and optimum-sized orders," "Further strengthen Core Businesses and expand Strategic Growth Businesses" and "Exploit and cultivate New Businesses" with the aim of realizing medium- to long-term advancement.

Against this backdrop, progress in the second year of the medium-term management plan SANKI VITAL PLAN 90th in fiscal 2012 was as follows.

1. Core Businesses

We are working to increase orders received by implementing marketing activities and boosting synergies across departments rather than be restricted by the frameworks of each business. We are also looking into different ways to expand business domains from a variety of angles.
We established a Sales Division to promote sales that straddle all businesses in Japan and overseas from fiscal 2013. In addition, we are further strengthening Core Businesses through such means as heightening cost competitiveness by increasing business efficiency.

2. Strategic Growth Businesses

We are striving to expand Strategic Growth Businesses such as life cycle engineering by further deepening ties with subsidiaries and reinforcing Group capabilities. We plan to introduce a consolidated performance evaluation system in fiscal 2013 and maximize Group synergies.

3. Unique New Businesses

We are devising unique, cross-departmental technologies that leverage our "total engineering competency," while increasing customer satisfaction as well as business opportunities. In addition, we are cultivating new business domains by developing new technologies and launching new products to the market in a timely manner.

4. Strengthening the management base

We started reforming the personnel system and performance evaluation system (from fiscal 2013) and established a Risk Management Committee to monitor and control risk.
We also worked to reduce costs by enhancing business efficiency by taking such steps as creating a document preparation support system using IT to assist with operations on the frontline.

Q Can you tell us about business developments overseas?

In February 2013, we established a representative office in Bangkok aimed at expanding business in the Southeast Asia market. We will conduct market surveys not only in Thailand but also in neighboring countries and aim to expand business in the high-growth Southeast Asia region. Further to this, we will work to increase overseas business by making full use of Sanki Engineering's channels, including representative offices in Austria and the United States as well as other overseas subsidiaries.

In order to exploit our technological capability, one of the areas of strength at Sanki Engineering, in the overseas business, it is imperative that we develop local affiliates. If we do not do this, we won't be able to succeed. With this in mind, we have dispatched representatives from Sanki Engineering who are in the midst of training local personnel so that they become proficient in our technologies.

Q Can you tell us about the decision behind your targets for the final year of the plan (consolidated net sales of ¥200 billion and consolidated ordinary income of ¥10 billion for fiscal 2015)?

The business environment has changed dramatically since we formulated SANKI VITAL PLAN 90th.

In the Real Estate Business, profit is expected to decline significantly from fiscal 2013 due to the end of the contract period for a large rental property. Nonetheless, we are not considering lowering our targets in line with changes in the environment. We will cover the decline in the Real Estate Business for example by strengthening Core Businesses, expanding Strategic Growth Businesses and cultivating New Businesses as stated in the medium-term management plan. We aim to steadily implement measures formulated under SANKI VITAL PLAN 90th and achieve our targets for the final year of the plan in fiscal 2015.

We have outlined eight key measures to achieve targets in fiscal 2013, the third year of the medium-term management plan.

1. Promote "total engineering"
2. Strengthen Company-wide cross-departmental sales capability
   (1) Establish Sales Division to promote cross-departmental sales for all businesses worldwide
   (2) Implement recovery projects and focus on hospital, foodstuff, medical care and school fields.
3. Expand Strategic Growth Businesses such as life cycle engineering
4. Increase overseas business
5. Boost management efficiency mainly by effectively controlling expenses and reviewing assets held
6. Develop and appropriately allocate human resources
7. Increase business efficiency through improvement of business processes
8. Enhance corporate value by strengthening risk management and corporate governance

In order to achieve the targets of the final year of the plan, it is essential for employees to have technological capability, the ability to make proposals and take action as well as pride in the Company. I believe we can realize this if we are disciplined in taking solid steps toward our goals.

To achieve this, it is important that Group employees have the same mindset. Executive officers are currently distributing information on this matter to employees and promoting dialog with those on the front line. To give an example, since fiscal 2012 we have provided opportunities to explain information to employees at all locations one hour after announcing financial results.

By enhancing communication in ways such as this, I believe we can make sure we are on the same wavelength throughout the Group and push toward our goals. Fiscal 2012 was a year for formulating various measures, while fiscal 2013 is a crucial year for shifting to genuine action and generating results.

Q Strengthening CSR to ensure ongoing growth is a key management challenge. Can you give us your thoughts on this as well as your desired stance?

CSR at Sanki Engineering is akin to practicing the Company Credos. This idea is expressed within the Company Credos, "We will contribute to society through engineering," and expresses our social responsibility as a company. A priority challenge for Sanki Engineering is to provide technology to society that saves on labor and increases speed, convenience and comfort, thereby resolving customer issues. For Sanki Engineering, B-to-B

represents our basic business configuration and through the business we get from customers we resolve social issues, which may also be potential needs.

At present, there is the problem of excess workload due to a decline in the number of doctors, nurses and teachers at hospitals and schools, a field we are focusing on. Since there is a lack of personnel, doctors, nurses and teachers are forced to manage equipment at these hospitals and schools, which is outside their primary work role. Amid rising need for labor-saving going forward, we hope to make a valuable contribution through "total engineering" aimed at reducing burden on personnel. The mission of the Sanki Engineering Group is not only to respond to customer needs but also to meet potential needs. Our desired stance is to be a company that thinks and acts together with the customer and can earn the trust of society.

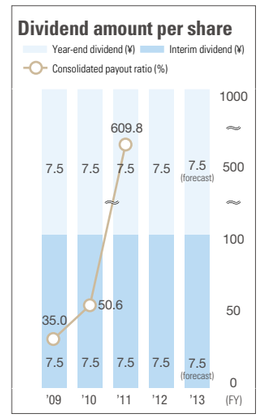
In order to realize this stance, Sanki Engineering revised its Code of Conduct and Action Guidelines in fiscal 2012. We added respect for "international codes of conduct," information disclosure for stakeholders and communication with stakeholders as new items. This was based on changing societal demands and because they are essential in developing overseas business. Our fundamental awareness in overseas business is underpinned by our commitment to drive advancement in each region we operate in upon identification of local needs, culture and customs. To strengthen the development of human resources that can play an active role on the world stage, we started a new training system overseas.

We established a Risk Management Committee in fiscal 2012 as a means to strengthen corporate governance, which we have identified as a critical measure. This Committee comprehensively identifies and manages risk that may inhibit the survival and development of the Sanki Engineering Group in order to prevent it before it occurs. In case the risk does occur, the Committee can enhance corporate value and trust from stakeholders by minimizing loss.

Q Do you have a message for shareholders and other stakeholders?

Returning profits to our shareholders is one of the most important issues for management. Although we recorded

impairment loss associated with the expiration of the contract period for a large rental property in the previous fiscal 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) as a result, the total yearly dividend was ¥15 per share (the same as in the previous year). Our basic policy is to ensure stable dividends going forward. In addition, we repurchased 1,988,000 shares of treasury stock during the fiscal year as a measure to return profit to shareholders and we are retiring and acquiring shares in fiscal 2013. Although the tough business environment is expected to continue, we will do everything we can to increase sales and profit and enhance corporate value by steadily and swiftly implementing measures one by one.



To reiterate, Sanki Engineering will leverage technology matching the needs of the time to meet customer needs, which embodies our significance of existence. As a true "total engineering" company, we will realize the best mix of energy saving and comfortable environment and contribute to society through our core business.

I ask our shareholders for their ongoing support and advice.

Toward Realization of our Medium-Term Management Plan

Aiming for ongoing growth for the Sanki Engineering Group and society

The Sanki Engineering Group conducts business activities with a focus on driving ongoing growth together with society by realizing our Company Credo, "We will contribute to society through engineering." Enhancing corporate value for the Group is indivisible from contributing to the creation of a sustainable society and that's why we have integrated the execution of business with the execution of CSR. In addition, we will make the most of our "total engineering competency" in providing a diverse range of technologies and systems primarily under our Facilities Construction Business, Machinery Systems Business and Environmental Systems Business that contribute to the resolution of various social issues. By doing so, we can fulfill the Group's responsibilities and create the opportunity to bolster competitiveness and ensure growth.

The Sanki Engineering Group is working to achieve the objectives of SANKI VITAL PLAN 90th, our five-year medium-term management plan that runs until fiscal 2015 when we celebrate our 90th anniversary. We are aiming to achieve these objectives by further heightening "total engineering competency" and enabling high-level growth and profitability through measures that are based on our basic policies to "Maintain a profitability focus and optimum-sized orders," "Further strengthen Core Businesses and expand Strategic Growth Businesses" and "Develop and cultivate New Businesses." Achieving these objectives will help us contribute to the realization of a low-carbon society and enhance the corporate value of the Group.

Strengthen management base to support target achievement

The Sanki Engineering Group revised its performance evaluation and personnel system to content that further heightens correlation with business strategy based on the idea that it is human resources that support the growth strategy. We will generate momentum toward target achievement by revitalizing the organization through a system that enables employees who take up the challenge to grow further and play active roles.

2015 90th anniversary
Achieve the targets of the SANKI VITAL PLAN 90th

Consolidated net sales (Unit: ¥100 million)	FY2012 (Results)	FY2015 (Targets)
Core Businesses	1,430	1,760
Facilities Construction	1,193	1,370
Machinery Systems	65	150
Environmental Systems	171	240
Strategic Growth Businesses	92	190
Unique New Businesses	0	20
Real Estate Business	27	30
Adjustments	(3)	—
Total	1,546	2,000
Overseas sales of above amount	18	80
Consolidated ordinary income	26 1.7%	100 5.0%

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

The medium-term management plan
SANKI VITAL PLAN 90th

Management philosophy
Through its "total engineering", the Sanki Engineering Group shall promote the diffusion of energy saving 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

Unique new businesses
- Combine engineering from various businesses
- Energy saving
- new energy

Strategic growth businesses
- Renovation*
- Life cycle engineering
- Integrated networks*

Core businesses
- Building HVAC and Plumbing
- Industrial HVAC
- Machinery Systems
- Electricity
- Environmental Systems
- Facility Systems

Strengthening the management base
- Strengthening the customer base
- Reform of work processes
- Practice of efficient management
- Cultivation and appropriate allocation of human resources

*Integrated as Smart Building Solution Business as of fiscal, 2012

Key measures in fiscal 2013

Core businesses
Strengthen company-wide cross-departmental sales capability:
Establish a Sales Division to promote cross-departmental sales for all businesses worldwide Promote the recovery project and hospital project
Expand overseas business: Make maximum use of channels such as representative offices and local subsidiaries to expand overseas business

Strategic growth businesses
Expand strategic growth mainly for life cycle engineering
Introduce a consolidated performance evaluation system and further promote ties with subsidiaries to strengthen Group capabilities

Unique new businesses
Promote "total engineering": Implement a plan based on an execution plan formulated for each division

Strengthening management base
Increase business efficiency primarily by reducing fixed costs and reviewing assets held
Develop and appropriately allocate human resources: Revise personnel system and performance evaluation system
Increase business efficiency by enhancing business processes and utilizing IT
Boost corporate value by improving risk management and strengthening corporate governance
Reinforce management of risks specified by the Risk Management Committee

Key measures implemented until fiscal 2012

Core businesses
Launched recovery project: Made a proposal leveraging "total engineering competency" aimed at recovery of disaster-affected regions
Launched hospital project: Made a proposal leveraging "total engineering competency" in areas of focus

Strategic growth businesses
Opened a model room in head office: Conveyed the Sanki Smart Office concept

Strengthening the management base
Consolidated head office, divisions and subsidiaries in the Tokyo region into St. Luke's Tower:
Strengthened ties and exploited "total engineering competency"
Established Risk Management Committee: Specified risk and made evaluations
Opened a representative office in Salt Lake City: Expanded overseas business
Opened a representative office in Bangkok: Expanded overseas business

■ Revised performance evaluation system

We added qualitative assessment including non-financial results to conventional quantitative assessment and created a general evaluation system that is coherent with the growth strategy. By incorporating initiatives to help achieve Company-wide shared policies to the evaluation items, such as proposing energy savings and promoting "total engineering," we will strengthen the system for ongoing, stable development of Sanki Engineering.

In addition, we switched from non-consolidated-based evaluation to evaluation on a consolidated basis with the aim of boosting Group capabilities.

Quantitative evaluation
Results
×
Qualitative evaluation
● Problem resolution ● Human resource development ● Internal control ● Other

■ Revised personnel system

In order to develop and appropriately allocate human resources, one of the themes of the medium-term management plan, we created a new personnel system to be a company in which people grow.

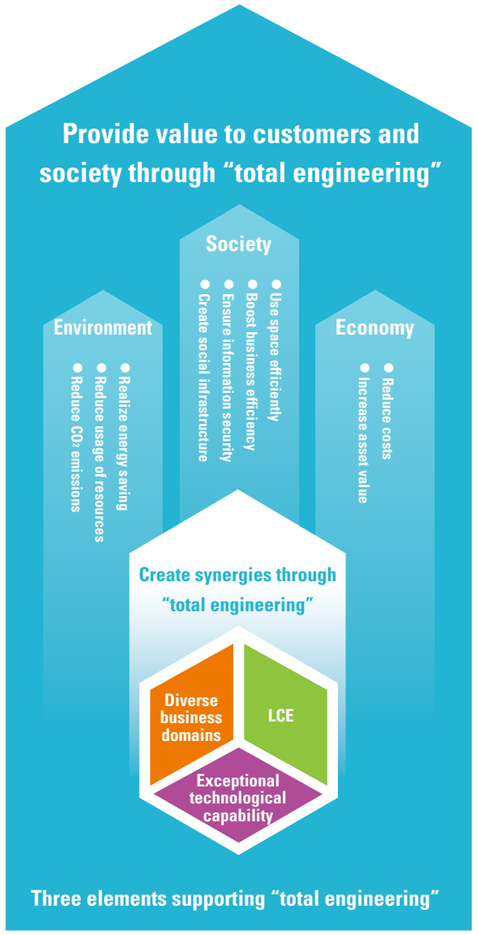
- Encouraged job promotion and transfer between organizations
- Enhanced education of engineers and management
- Introduced "mentor system" for new employees
- Introduced a system that boosts company support for future careers

Furthermore, we incorporated transparent evaluation standards and conditions in line with results and revised conditions for construction managers and full-time officers on the front line to produce a system with a focus on the frontline.

“Total Engineering,” a Strength of Sanki Engineering

Create synergies through “total engineering”

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



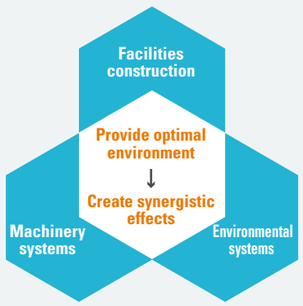
1 Provide an optimal environment by leveraging diverse business domains

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

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

Provide the optimal environment

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



Create synergistic effects

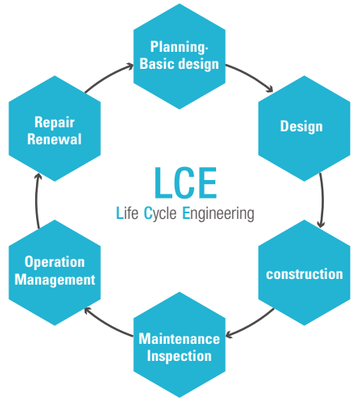
We aim to create synergistic effects by integrating and adding together our abundant experience as well as highly specialized and unique technological capability accumulated in a wide range of business domains.

- Promote energy savings and a reduction in CO_2 emissions
- Boost efficiency of space and enhance business efficiency
- Increase asset value
- Minimize costs

2 Respond to all needs throughout the life cycle

The comprehensive capabilities of the Sanki Engineering Group enable provision of optimal solutions supporting the entire life cycle of facilities from planning, design and construction to maintenance, inspection, operation/management and response to and renewal of facilities.

Life Cycle Engineering (LCE), into which we have actively incorporated state-of-the-art technology, including energy saving, is the second element of “total engineering.”



Responding to customer needs through Life Cycle Engineering

- Provide optimal solutions realized through comprehensive support
- Deliver proposals to reduce life cycle costs through comprehensive judgments
- Provide optimal systems that integrate professionals well versed in facilities and Sanki Engineering Group capabilities

3 Exceptional technological capability

The third element is technological capability, which underpins our wide array of business domains and the creation of synergies through Life Cycle Engineering.

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

Provide value driven by technological capability

- Save energy and reduce CO_2 through multiple technologies with high cost-benefit performance
- Develop unique technology that integrates technologies from different fields
- Utilize the latest highly specialized technology supported by exceptional planning and construction capabilities that combine extensive experience and know-how gained in wide-ranging business domains

FOCUS

Provide Comfortable Spaces through “Total Engineering Competency”

—— Kyorin University Hospital No. 3 Ward

Kyorin University Hospital is an advanced treatment hospital that plays a role as a central medical center in the Tama region of West Tokyo where our concept is to provide an environment in which patients and hospital officials can be comfortable.

The No. 3 Ward completed in August 2012 has a quake-absorbing structure, the fifth of its kind since the outpatient wing was completed in 1998. Sanki Engineering is in charge of the heating, ventilation and air conditioning, plumbing and electrical work, and information and communications facilities construction in the building. Through “total engineering” combined with Sanki Engineering’s technological capability, the building provides a comfortable space and realizes risk and disaster countermeasures as well as energy saving and CO_2 reduction countermeasures. This is an example of contributing to an improvement in the quality of the medical environment.

Kyorin University Hospital No. 3 Ward

10F/B1F/PH2 (Total floor area: approx. 22,000 m²)
Consolidated quake-absorbing structure with the existing surgical wing

A total of 370 beds, including HCU (24 beds), cerebrovascular center
(30 general hospital beds, 9 SCU beds, dedicated rehabilitation facility)
Includes a heliport that can handle large helicopters and a server room

Provision of comfortable space

Comfortable space for medical care

The hospital rooms and corridors mainly use indirect lighting to produce a soft, relaxing space.

As a measure against the odors that are unique to hospitals, we introduced a deodorizing system for the 24 beds on the wing for ear, nose and throat, cerebrovascular center and old-age care. The system incorporates oxygen clusters (deodorizers) into the air supply together with ventilation (air-flow control).

At each bedside, medical gas, nurse call button, and outlets that meet the needs of clinical departments can also be installed, which provides a medical space that is more comfortable for patients as well as staff.

Contributing to enhanced business efficiency

A total of 91 LAN antennas have been placed inside the No. 3 Ward, enabling hospital staff to operate medical-use laptops around patients.

Also, the barcode band placed on patients’ wrists includes three different barcode numbers for accurate reference in the following areas: (1) patient barcode; (2) barcode concerning medication dispensing; and (3) barcode listed on the medical chart and prescriptions.

Risk and disaster countermeasures

Guaranteed power supply in an emergency

A 1,500 KVA generator for emergencies has been installed on the first basement level which has automatic oil-supply equipment from a storage tank on the premises and water-cooling equipment. This enables 72 hours of continuous operation. The generator ensures power supply to lighting, electrical outlets, air conditioning and water supply and drainage so that medical treatment can also be administered during an emergency.

Highly reliable server room environment

The building has a special server room to store essential, high-security medical data.

Highly efficient air conditioning, double power source, and equipment for fast and duplicate data communication provide a highly efficient server room environment even for servers that generate a lot of heat to process information using the latest thin client system.

Energy saving and CO_2 reduction countermeasures

Providing facilities that are good for the environment

The entire hospital ward is fitted with LED lighting. This helps reduce energy by 15% through straight-pipe fluorescent LED lighting and 40% through fluorescent downlight LED lighting for a total energy savings of 30%. In addition, air conditioning saves energy and reduces CO_2 through an individual air conditioning system.

Meanwhile, the use of highly efficient heat source equipment that can handle partial loading such as periods between cooling and heating contributes to the realization of a hospital ward that is comfortable as well as good to the environment.

Facilities Construction Business

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 address the challenges of globalization.

Summary of results and performance for FY2012

Orders in the Facilities Construction Business were 0.9% higher than the previous fiscal year at ¥136,144 million. Sales amounted to ¥128,626 million, up 11.8% year on year due to an increase in the number of projects carried over from the end of the previous fiscal year. Tough conditions continued, characterized by the shift of domestic manufacturing overseas and delays in executing public work projects, while a more favourable economic outlook emerged from the second half of fiscal 2012. Nonetheless, this was not enough to impact orders and sales. With respect to orders in fiscal 2012, business increased in such areas as HVAC and plumbing for buildings and smart building solutions despite stagnation in industrial HVAC due to on-going sluggish growth in capital investment in the domestic manufacturing industry, including the semiconductor industry. Sales increased year on year in all businesses.

In the information-related facilities field, active marketing activities focused on the L-LAC® air conditioning system for

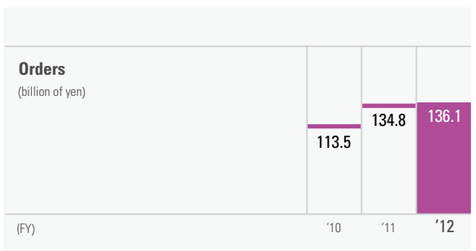
Mitsui Sumitomo Insurance Co., Ltd. New Surugadai Building

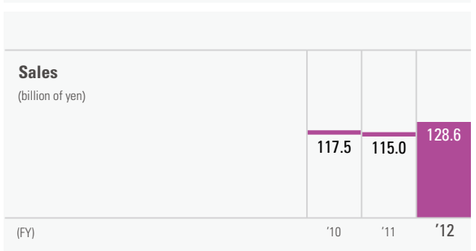
Kobayashi Kako Co., Ltd. Oncology Wing

data centers and other unique technology with the aim of driving growth in orders. We also conducted a proving test aimed at realizing an energy self-sufficient plant factory and constructed a binary power plant as we continue to develop next-generation energy-saving technology and new energy-related technology.

Record of major projects implemented

- Mitsui Sumitomo Insurance Co., Ltd. New Surugadai Building (HVAC, plumbing and electrical work, and smart building solutions)
- Takeda General Hospital Foundation, Takeda General Hospital General Medical Center (HVAC, plumbing work)
- Kobayashi Kako Co., Ltd. Oncology Wing (HVAC, plumbing work)
- Head office moving project of Development Bank of Japan (Project management work)





The 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

Consolidated sales FY2012 (actual)
128.6 (billion of yen)

FY2015 (target)
156.0 (billion of yen)

Progress in the medium-term management plan

1. Of the key measures implemented in the Facilities Construction business, we are focusing on reinforcing Core Businesses. This involves expanding orders for proposed renewal projects in response to the Revised Energy Saving Act, strengthening cost competitiveness, and streamlining and enhancing our bases in Southeast Asia.

   Orders for renewal projects in fiscal 2012 increased by 16.6% year on year. To strengthen cost competitiveness, we bolstered purchasing power by gathering purchasing data and making full use of it, and also reduced burden on construction site managers by improving business processes and created a system that enables them to focus fully on construction.
2. To streamline and enhance our bases in Southeast Asia, we opened a representative office in Bangkok in February 2013 and started operations there in March 2013. We will bolster connections between local subsidiaries overseas and domestic departments by establishing an Overseas Operations Control Office, which will work to promote overseas business and secure human resources.

Initiatives in fiscal 2013

Reconstruction demand to replace dilapidated buildings and needs for energy-saving measures and building maintenance and management are expected to increase from fiscal 2013 onward. The Sanki Engineering Group will promote Life Cycle Engineering that proposes a reduction of overall facility life cycle costs from a comprehensive perspective up to design, construction, maintenance management, repair and renewal of buildings, while contributing to society. In addition, we will establish Food Service Equipment Office to develop the foodstuff facilities business, which includes kitchen equipment and fixtures, and coordinate it with Core Businesses. We plan to promote "total engineering," including hygiene control for foodstuffs, energy saving and power saving, and environmental measures with the aim of differentiating our operations. We also plan to actively implement marketing activities for "system kitchen" that covers all interior construction and related equipment to meet renewal demand.

■ HVAC & Plumbing for Buildings

Business in HVAC & Plumbing for Buildings aims to increase orders with its "total engineering" technology, which enables energy saving and increasing the added value of buildings, by integrating functions such as heating, ventilation and air conditioning, water supply and drainage, and plumbing systems.

From fiscal 2013, we will further increase our overall engineering capabilities in order to enhance our abilities to propose technology solutions to customers. With new technologies unique to Sanki Engineering that not only lead to energy saving and power, but also open the way for reduction in life cycle costs, we will broaden our business fields and guarantee growth potential.


■ Industrial HVAC

In the Industrial HVAC Business, we are proposing solutions for improving and upgrading HVAC equipment in order to save energy by taking advantage of our unique cleanroom technology.

Despite continued stagnation in capital investment in the manufacturing industry in Japan, including the semiconductor industry, orders for cleanrooms for medical manufacturing and food production are on the rise. Going forward, 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, so as to meet the demands arising from newly developing countries.

■ Electrical work

In the Electrical Work Business, we are offering 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.

We aim to achieve stable growth while pursuing comfort and convenience for electrical work required for more advancement, diversification and energy-saving in the future.



■ Smart building solutions

In the Smart Building Solution Business, we provide smart buildings that enhance energy-saving efficiency and comfort through the combination of building automation technology related to HVAC, plumbing and electrical work and information communication technology.

Social needs for smarter buildings are rising, but challenges remain in the implementation phase. In response to these challenges, on certain floors of Sanki Engineering we are introducing an individual lighting control system, developed with the aim of reducing power consumption in lighting. In addition, we worked on research into smart office environments and the effects of reducing electricity in conjunction with Tokyo Metropolitan University and Chiba Institute of Technology. The results of internal proving tests showed that the energy saving rate was around 50% compared with the level prior to system introduction.

■ Facility systems

The Facility Systems Division offers project management service for the worksite, such as office planning, fit-outs and relocation as well as consulting service for strategy and management. In particular, we have a good achievement record including dealing rooms for financial institutions.

Going forward, we will strive to boost customer satisfaction by enhancing expertise and strengthening engineering competency for customers.

Topics 1

Renovation work for the Tokyo Station Hotel in the Tokyo Station Marunouchi Building

The Tokyo Station Marunouchi Building, built in 1914 and nearing 100 years old, has been designated as an important cultural property of the country. The steel-frame brick structure has been loved by people as a symbol of Tokyo with its stately yet warm feel.

Preservation and restoration work for the building began in 2006 and Sanki Engineering was in charge of construction for air conditioning work in the Tokyo Station Hotel in the building. Work was carried out in the backyard of the hotel on basement level two, the wedding salon and office on basement level one, the banquet room and lobby on the first floor, and the guest rooms and lounge from the second to fourth floors. The construction made the most of Sanki Engineering's exceptional technological capability in such areas as energy and electricity savings.

In particular, the guest lounge adopted an underfloor air-conditioning system since the roof is a pyramidal shape and the ceiling is high. Compared with systems in the ceiling, it is possible to focus air conditioning only in the zone where people reside, thus providing a highly energy-efficient space. Going forward, we will promote the development of new technologies to preserve historic buildings and concentrate on creating comfortable spaces to realize a sustainable society.

Topics 2

Facilities supporting Supercomputer "Kei"

RIKEN Advanced Institute for Computational Science Supercomputer "Kei"

Provided by RIKEN

Sanki Engineering was in charge of the air conditioning work of units at the RIKEN Advanced Institute for Computational Science where the supercomputer "Kei" is housed, as well as the electrical work in a three-company joint venture. "Kei" boasts one of the fastest computational speeds in the world with high-density and high-heat-generating calculating machines that reach 12,700 kW overall during peak times. As such, an efficient and stable cooling system is of utmost importance.

Against this backdrop, Sanki Engineering conducted a temperature distribution simulation for cool air and developed various technologies to supply cool water in a uniform manner to the cooling module inside the 864 calculating machines before making advanced adjustments. We also significantly reduced energy through the reuse of waste heat in the cogeneration system as a source of heat. In recognition of design and construction, including this result, we received the Technology Award together with a design company from The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan (SHASE) at the 51st SHASE Awards Ceremony (fiscal 2013).

Machinery Systems Business

Providing logistics systems that meet customer needs and challenges

Sanki Engineering will provide material handling systems corresponding to customers' needs and challenges in supply chain management, and we will deal with the issues of society through the development of technology.

Summary of results and performance for FY2012

Orders for the Machinery Systems Business increased 15.5% year on year to ¥10,817 million due to multiple orders for large cargo handling systems in airport-related facilities where there is relatively minor impact from economic trends. Sales were down 39.9% year on year to ¥6,501 million due to the effect of sales for large-scale delivery facilities in the previous fiscal year.

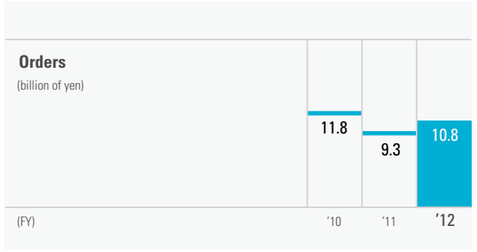
Investment for production facilities, a key market in this business, remained low due to continued stagnation. Despite a brighter outlook from the second half of fiscal 2012, this did not stimulate investment activity for production facilities and stiff price competition for orders continued.

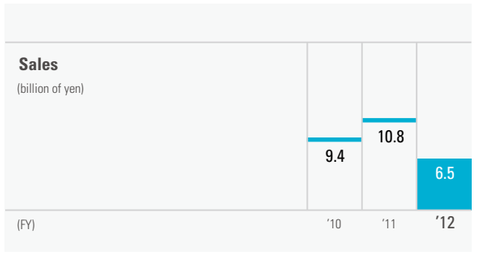
In contrast, the need for energy conservation continues to grow every year and advancements are being made in the development of devices that minimize energy consumption in respective industries. Sanki Engineering developed an energy-efficient conveyor series for logistics equipped with a highly efficient motor boasting around a 40% reduction in power saving (compared with Sanki Engineering's conventional conveyors at 65% load). We will develop a variety of unique products that leverage exceptional technological capability and meet customer needs and challenges.

We will enhance the dedicated website (www.hansou.jp) for transport equipment and systems by providing technical material such as product outline, a simple estimate service and a customer inquiry section in order to secure closer communication with customers.

Record of major projects implemented

- New construction of a line for color filters at Toray Industries, Inc.
- Construction of lithium-ion and layered product transportation facilities at Nissan Motor Co., Ltd.
- Construction project to replace the transport system of the TOHAN Corporation Ageo Center





The 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

Consolidated sales FY2012 (actual)
6.5 (billion of yen)

FY2015 (target)
15.0 (billion of yen)

Progress in the medium-term management plan

1. We have a proven record in significantly reducing power consumption compared with conventional methods through the combination of transport facilities and air conditioning technology based on set conditions in a special environment for the production of lithium-ion batteries following entry into new energy-related markets. However, the market is still not fully mature and there is minimal scope for major business. It is a promising market, however, and we will work to enhance the technologies we already have.
2. In the medical and pharmaceutical field, one of our focuses, we are working to develop the industry's fastest-class sample pre-treatment equipment and roll it out across the entire market.
3. In terms of establishing sales sites overseas, we have narrowed down markets based on the development of competitive products and are looking for partners as well as creating a sales structure and training human resources. In construction results for fiscal 2012, we upgraded delivery facilities for flat-panel displays in Taiwan and Korea.

Initiatives in fiscal 2013

In fiscal 2013, we forecast recovery in private capital investment in line with advancement in the government's economic measures. So that we do not miss this opportunity, we will focus on strengthening proposal-making capabilities, product-development capability and quality in order to provide solutions to customers and drive differentiation.

In particular, in the foodstuffs and pharmaceuticals field, which has been positioned as a future growth market, we will bolster response to inspection lines using sophisticated, accurate sensing devices. At the same time, we will reinforce our role as a system integrator that combines our own material handling with general-purpose robots for the medical and pharmaceuticals field. In accord with response to these growth markets, we will promote response to transport technology under specific environments through integration with air conditioning technology and work to expand sales channels by making use of the Company-wide channel.

We will also strive to develop low-cost products and strengthen ties with sales distributors as a means to expand share of standard-type conveyors. In addition, we will start supply and sale of components and materials incorporating a knock-down method in Japan and in the future look to overseas markets.

Environmental Systems Business

Contribution of fulfilling 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 FY2012

Orders in our Environmental Systems Business were down 42.3% year on year to ¥16,623 million due to delays in orders for water supply and sewage systems from public offices as well as multiple orders for large-scale sludge incineration facilities and long-term, multi-year maintenance agreements in the previous fiscal year. Sales were 13.5% lower than in the previous fiscal year at ¥17,145 million due to strong sales of large-scale waste treatment facilities in the previous fiscal year.

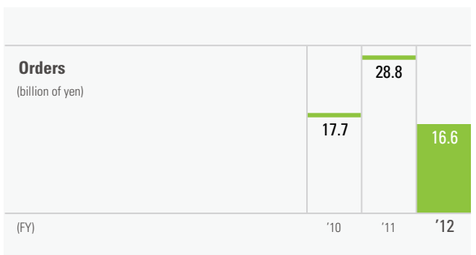
Capital investment in sewerage treatment facilities and waste treatment facilities, key markets in the Environmental Systems Business, has continued to decline little by little since 2000 due to the impact of fiscal austerity measures by local governments and the fact that environmental infrastructure has already been upgraded. Based on this trend, this period calls for extended life and longer service of existing facilities as well as the introduction of energy-saving and energy-creating facilities such as power generation throughout treatment facilities.

We delivered a supercharged (turbocharged) fluidized bed incinerator that we have continued to develop as a facility to meet the needs of the times to the Asakawa Water Reclamation Center, Tokyo, in fiscal 2012 and succeeded with the world's first commercial application. This system is expected to reduce greenhouse gas emissions by 40% compared with conventional systems.

In addition, we completed without problem our recovery project at the Minami-Gamo Purification Center in Sendai City in fiscal 2012 following the Great East Japan Earthquake and then received an order for another recovery project in the same fiscal year. Recovery of the Minami-Gamo Purification Center held great significance for the recovery of key urban infrastructure in Sendai City since the facility serves 710,000 people, 70% of the city's population. Sanki Engineering received an award for our earthquake recovery-related service from Japan Sewage Works Agency. Following the completion of three recovery projects beginning with the Minami-Gamo Purification Center.

Record of major projects implemented

- Supercharged (turbocharged) fluidized bed incinerator at Asakawa Water Reclamation Center, Tokyo
- Reconstruction following the Great East Japan Earthquake
  Japan Sewage Works Agency/Miyagi Prefecture Kennan Purification Center
  Japan Sewage Works Agency/Sendai City Minami-Gamo Purification Center
  Miyagi Prefecture Natori Pumping Station



The medium-term management plan
SANKI VITAL PLAN 90th

Important policies for achieving our goals

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

Consolidated sales FY2012 (actual)
17.1 (billion of yen)

FY2015 (target)
24.0 (billion of yen)

Progress in the medium-term management plan

1. In expanding orders of energy-saving strategic products, we delivered the first supercharged (turbocharged) fluidized bed incinerator and are currently constructing the second. Going forward, we will call attention to its energy-saving effects and greenhouse gas-reduction effects to expand sales.
2. In developing core products for the next generation, we are focusing on "energy saving and energy creation" with the introduction of various technologies. We have now delivered ultra-fine bubble diffusers (product name in Japan: Aero Wing) to more than 300 facilities, which we released to the market over 10 years ago. This product can reduce power consumption by 50% in the reaction tank at sewage treatment plants compared with conventional diffusers. In order to further improve the product value of Aero Wing, we are working to: (1) improve performance of the device itself; (2) maintain long-life performance; and (3) further save energy and operate more efficiently as a system for aeration.

3. In overseas business developments, we are already delivering products to 48 countries and are covering 61 countries in all through 21 distributors worldwide led by AQUACONSULT Anlagenbau GmbH (Austria; 100% owned subsidiary), which manufactures and markets Aero Wing (overseas name: Aero Strip). We are striving to expand into unexplored regions with our product sales network, strengthen ties with leading distributors and enhance product applications.

Initiatives in fiscal 2013

New economic policies center on public works with details said to focus on disaster countermeasures in light of past experience and renewal projects for infrastructure (tunnels and bridges) and capital investment in environment-related facilities is expected to be in line with previous years.

However, the needs of the times have not changed and there are calls for facilities based on the concept "energy saving and energy creation." The time has come to retrofit sewerage treatment facilities and waste treatment facilities all at once as needs increase for extended life and longer service life. In response to the needs, we will propose a combination of a supercharged (turbocharged) fluidized bed incinerator, Aero Wing and its peripheral systems for sewerage treatment facilities and a combination of a boiler-type power generation system and a water-cooled stoker incinerator for waste treatment facilities.

In private projects, we will enhance "total engineering competency," utilize the Company-wide channel and focus on effluent water treatment systems in the medical and pharmaceuticals field in particular.

We will implement activities resolutely toward the realization of a low-carbon society.

Real Estate Business

Enhance added value through facility renewal

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 and performance for FY2012

Sales in the Real Estate Business were ¥2,747 million, down 2.7% year on year due to the impact of rental revision for certain rental properties. Impairment loss of over ¥7,000 million was recorded as extraordinary loss due to the conclusion of the contract period for a large rental property located in Yamato city, Kanagawa Prefecture at the end of the fiscal year and an inability to quickly anticipate succeeding lessees for the property. In addition to seeking lessees, we are looking into the possibility of new effective utilization for the property going forward.

Initiatives in fiscal 2013

In the Real Estate Business, we will work to recreate businesses by improving added value through facility renewal and utilizing idle assets. As a response to aging facilities, we will shift to LED lighting when it is time to change lighting fixtures, renew water heater-chillers with exceptional environmental performance and repair the exterior to maintain and protect asset value.

Research and Development

Philosophy on R&D

Sanki Engineering engages in a variety of R&D related to our diverse business domains and works to develop new technology and improve conventional technology through sophisticated capability and experienced engineering. These technological developments enable to meet customer demands and resolve social issues. Our three main areas of focus are “energy saving,” “upgrading” and “renewal.” We aim to provide high value-added solutions by striking a balance between fundamental research that is of benefit for the future and technological development that directly meets market needs.

Our R&D system centers on the Technical Research Institute in Yamato City, Kanagawa Prefecture, our core facility, which links with planning and development departments in each business of Facilities Construction, Machinery Systems and Environmental Systems for R&D across all of Sanki Engineering’s business domains.

Fiscal policy and initiatives at the Technology Research Institute

In fiscal 2012, the Technology Research Institute pursued development that was one step ahead of the market and worked to realize an intrinsic approach to technological development in order to meet customer and social demands based on a policy to “creating shape to market needs with new ideas and speed.”

In fiscal 2013, we will focus on strengthening ties of engineers in differing specialty fields based on the idea of achieving a “breakthrough via total engineering competency.” We will hold study sessions twice a month and gathered in common workspace in order to vitalize communication between engineers. We also aim to create attractive products by integrating the technological capability between other departments.

Initiatives related to intellectual property

Sanki Engineering manages intellectual property based on the Code of Conduct to “manage and protect company rights and assets, and respect the rights and assets of others.” We actively file patent applications under the philosophy that inventions born from design and construction sites are perceived as intellectual property, such as inventions at the Technology Research Institute.

In terms of management, we have assigned a liaison person for intellectual property in each business division, led by the Intellectual Property Department. This person actively uncovers intellectual property through activities to improve construction methods in conjunction with the Intellectual Property Department and also strives to strengthen intellectual property by sharing topics each other that were conceived of at meetings held by parties involved in intellectual property.

Sharing and education on intellectual property information

We have released a database over the internal LAN system that includes an outline reports of business-related patents and patent publications with the aim of sharing intellectual property information. In addition, we provide education on intellectual property to all new employees and work to enhance awareness of the need to protect Sanki Engineering’s technology and not to infringe on the intellectual property rights of other companies.

Distributing information through the Sanki Global Environment Plaza

The Sanki Global Environment Plaza, which was established inside the Technology Research Institute, introduces Company initiatives and R&D related to the environment. Some 500 people, including customers and local residents, visit the Plaza every year.

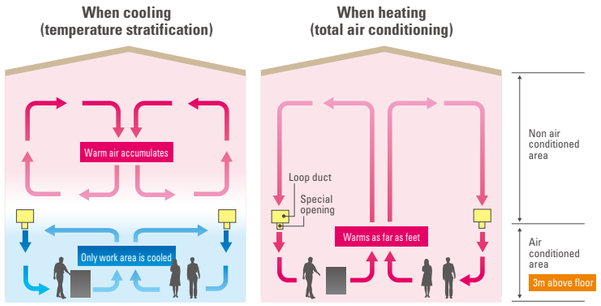
Tour inquiries:
Yamato Engineering Center, Sanki Engineering Co., Ltd.
TEL: +81-46-274-4111

Development results in fiscal 2012

Development of thermal stratification air conditioning system (periloop) for large spaces

Sanki Engineering has developed a thermal stratification air conditioning system (periloop) for large spaces such as factories and gymnasiums. With this system, ducts are placed on the wall about 2-3m above the floor in a loop formation with a special nozzles on the underside of the duct blowing air in the direction of the floor for efficient air conditioning in a large space. Temperature stratification is created when cooling in summer to save energy (up to 40% of energy is saved in the peak of summer), when heating in winter for air conditioning that warms as far as the feet, while cold air is suppressed.

In fiscal 2012, the system was installed for the first time into the new wing of Fuji Heavy Industries' Ltd. Tokyo Office.



Established mock-up data center

A mock-up data center has been established at the Technology Research Institute. This facility is used for full-scale experiments and inspections to improve technological capabilities for data centers, which is our strength field.

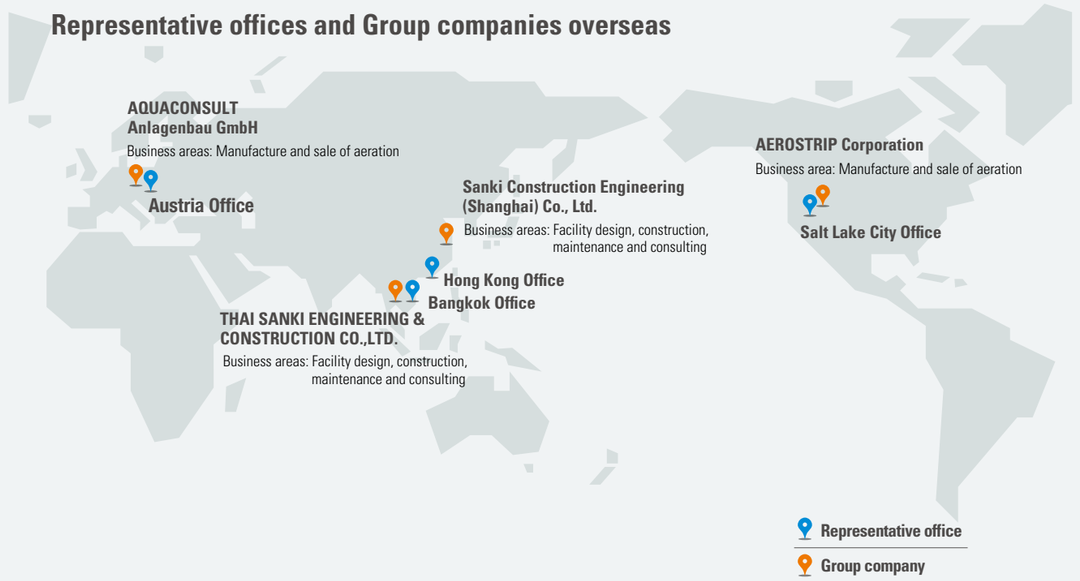
→ P.8

List of Business Locations and Introduction to Group Companies

The Sanki Engineering Group aims to build a comfortable environment for people and the earth by leveraging “total engineering competency” in a wide range of regions and business domains. Together with our customers, we will strive as a Group to contribute to the realization of a comfortable, recycling-oriented society.

Domestic business locations

Representative offices and Group companies overseas



Topics

Opened representative office in Bangkok, Thailand

In February 2013, we opened a representative office in the Thai capital of Bangkok and started operations there in March. The office will research market trends in the high-growth-potential Southeast Asia region, including Thailand, and work to expand overseas business.

Domestic Group companies

Consolidated subsidiaries

Sanki Techno Support Co., Ltd.
Established April 1, 1980 **Capital** ¥100 million
Business areas
- Design, construction, operation/management, maintenance and repair of HVAC, plumbing and electricity work
- Energy saving diagnosis and consulting
- Building IP phone systems, call center systems and networks

Sanki Sangyo Setsubi Co., Ltd.
Established May 1, 1980 **Capital** ¥20 million
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, construction, operation/management, maintenance, upgrading and improving of waste treatment facilities
- Manufacture, sale and installation of solid-liquid separators
- Design, construction and maintenance/management of water/wastewater treatment facilities

Sanki Kankyo Service Co., Ltd.
Established June 29, 1990 **Capital** ¥50 million
Business areas
- Design, construction, management and work contracting of environmental protection facilities including water supply and sewage facilities and waste treatment facilities etc.
- Operation, maintenance and management and sale of chemical products for above facilities

Shin-yu Service Co., Ltd.*

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

*Became a consolidated subsidiary in fiscal 2013.

Non-consolidated subsidiary

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

Affiliates accounted for by the equity method

Ou Clean Technology Co., Ltd.

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

Akita Eco Plash Co., Ltd.

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

Affiliates not accounted for by the equity method

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

Corporate Governance

Sanki engineering's basic concept of corporate governance

Increasing the efficiency of management as a major premise with absolute compliance

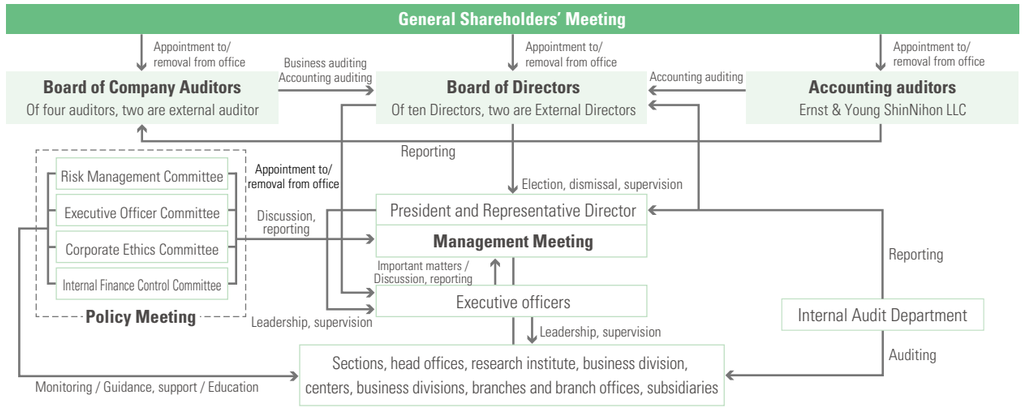
Sanki Engineering positions contribution to society through engineering, communication with all of our shareholders and other stakeholders, and the realization of business activities that make us a company both valued and trusted by the community as our basic management principles. In order to realize this, we recognize that a key management challenge is to boost management efficiency and performance while not compromising to enhance compliance.

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 Department, and accounting auditor in order to ensure the legality and appropriateness of our business procedures.

Diagram of corporate governance system

(As of June 26, 2013)



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 directors and 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 Department, and the Internal Controls Departments. In June 2012, a supplementary external auditor was appointed in order to fill potential future vacancies in the Board.

Risk Management Committee: See p. 38

Internal Financial Control Committee: See p. 37

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, heads of divisions and the Presidents of branches and branch offices, and the CSR Promotion Division functions as the Secretariat. The committee deliberates on action plans and other measures to achieve further penetration and stricter observance of the company's Code of Conduct and Action Guidelines at two regularly scheduled meetings per year.

Internal Audit Department
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 the Administration Division and other divisions. The Section reports the results of its audits to the President, responsible executive officers and auditors.

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.

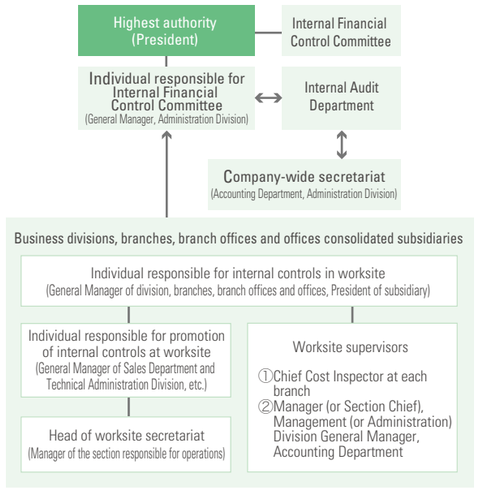
Promotion of Internal Financial Control Commitee

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 to each of our worksites to act as supervisors, constantly overseeing our main work processes.

In fiscal 2012, we verified the effectiveness of all Company-wide control evaluations and IT control evaluations and received an unqualified opinion from our accounting auditor. We will work to enhance our internal control system further and ensure the reliability of our financial reporting.

Internal control promotion structure for 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 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 Sanki Engineering 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 every year. In fiscal 2012, we explained the background and history of past cases concerning surplus materials and waste processing to all employees in order to prevent reoccurrence.

Corporate ethics training themes for fiscal 2012
①Outline of revision to Code of Conduct and Action Guidelines
②Prevention of information leak
③The prevention of sexual harassment and power harassment
④Appropriate processing of surplus material and waste material
⑤Tax inspection findings
⑥Key deficiencies in internal controls

Status of corporate ethics training

Period	Number of participants	Number of enrollments
Aug-Sept 2012	2,211	2,320*

*(As of April 1, 2012)

Questionnaire concerning compliance awareness

Sanki Engineering conducts a yearly survey to ascertain awareness of compliance and CSR among executive officers and employees. In fiscal 2013, we distributed the survey to 2,375 people through e-Learning and 1,824 of them responded. We will use the findings to further nurture awareness.

Corporate ethics hotlines (Whistle-blowing 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 whistle-blower. 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 2012, there were 4 cases of whistle-blowing, which did not concern a major infringement.

Receipt of compliance confirmation sheets from executives and employees

In order to refresh the awareness of all Sanki Engineering Group executives and employees of the responsibilities that they must fulfill in their respective positions and roles, since fiscal 2008 we have distributed compliance confirmation 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.

We have been using e-Learning instead of written materials since fiscal 2013.

Status of distribution of compliance confirmation sheets (Fiscal 2013)

	Sanki Engineering (Relevant employees)	Subsidiaries (Relevant employees)
Compliance confirmation sheets concerning performance of duties	29 (29)	29 (29)
Compliance confirmation sheets	1,984 (2,005)	640 (641)

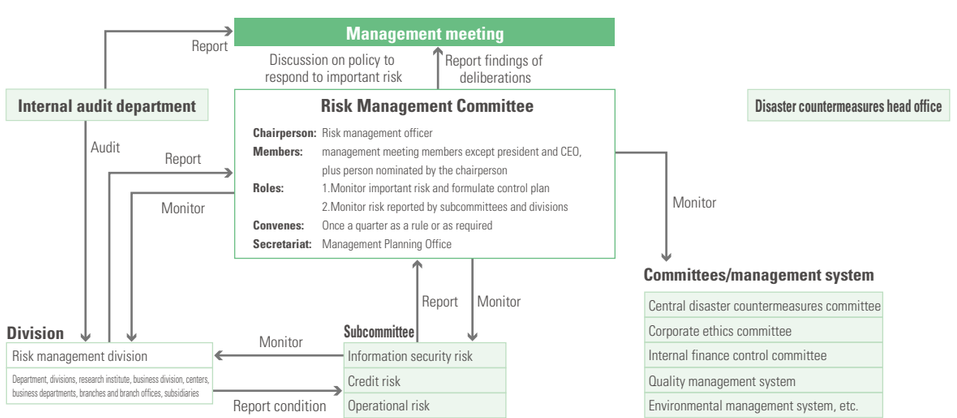
*Compliance confirmation sheets concerning performance of duties are submitted by directors and executive officers.
*Some individuals have not submitted compliance confirmation sheets, but these individuals are on maternity leave, receiving medical treatment, etc.

Established risk management committee

Sanki Engineering has established a Company-wide risk management system to comprehensively identify and manage risk relevant to the Group and prevent it from occurring, and to minimize loss in case it does occur.

We have set up a Risk Management Committee chaired by a risk management officer to monitor important risk throughout the Group, formulate control plans, and monitor risk reported from subcommittees and divisions.

Diagram of Risk management system



Responses to disaster risk (Formulating a BCP)

Sanki Engineering's BCP (Business Continuity Plan) aims to ensure the safety of all related persons, beginning with employees, based on integrated effort from all divisions and employees as well as formulate a framework to contribute to customers and society through swift business restoration in collaboration with business partners.

This plan is revised continuously and in fiscal 2012 we conducted a review of internal systems and procedures (establishment of systems in ordinary times and clarification of behavioural standards and division of roles when a disaster occurs) so that activities can be restored even faster. In fiscal 2013, we will conduct training and examine risks aside from large disasters in order to further enhance effectiveness.

Initiatives to ensure Information security

Sanki Engineering works to handle personal information appropriately to avoid theft or leakage of data provided by customers based on an information security policy formulated in October 2003. In October 2012, we restructured the information security committee into the information security subcommittee in line with the establishment of the Risk Management Committee. By doing so, we can control information security measures Company-wide and manage risk related to information security in an integrated manner.

Information security measures implemented in fiscal 2012 included the following:

①Encoded hard disks on PCs already in the field and encoded PCs in the office when they are replaced as measures to deal with stolen PCs

②Started automatic distribution of a Windows security countermeasures program as an information security measure

③Operated a file transfer system to enable large data that cannot be sent by normal mail to be sent safely outside the company

In fiscal 2013, we plan to create a framework to prevent mail being erroneously sent to an external address and to ensure that unauthorized terminals do not connect to the Company-wide LAN system.

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 2012, we provided education on information security using e-Learning to all Group executives and employees, with 2,315 people taking the course in all. 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

Operation of the BCP depends on employee awareness

When a disaster strikes, a BCP must enable instantaneous decisions on what to do and what to prioritize. The first priority is to confirm the safety of employees and their families as well as other people who are on company premises at the time. Next, under Sanki Engineering's BCP, support systems must be swiftly launched to ensure response to customers.

In addition, as a BCP is not just a plan, it is also important to implement training and testing to confirm the effectiveness of the content that has been formulated. Is it essential that all executive officers and employees are mentally prepared at all times for a potential disaster.

Norisuke Osawa
General Manager of the General Affairs Department, Administration Division

CSR Management

Our basic concept of CSR and our promotion of CSR

Radicating CSR in our operations

The foundation of Sanki Engineering´s 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. At Sanki Engineering, the Corporate Ethics Committee within the corporate governance structure takes on the role of promoting CSR to ensure continued response to societal demands. 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. In addition, we revised these Codes and Guidelines in May 2012 in line with increased expectation in the social responsibilities the company ought to fulfill following issuance of ISO 26000 certification.

The Sanki Engineering Group's code of conduct and action guidelines

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

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."

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.

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.

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.

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.

Protection of the global environment

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

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.

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.

Action Guidelines

Action Guidelines have been established for each code of conduct. There are 34 Action Guidelines in all. The following outlines the key guidelines (Number refers to number within Action Guidelines).

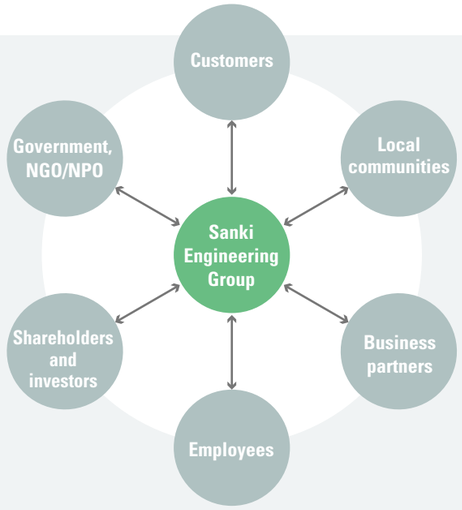
⑮ We shall prevent child labor and forced labor. ⑯ In the course of our business activities, we shall deal with any potential human rights violations. ⑰ We shall eliminate and prevent sexual harassment and power harassment from the worksite. ⑱ We shall respect individuality and diversity, and work to harmonize work and life. ㉒ We shall appropriately manage personal information. ㉙ We shall not provide any favors to public officials (including foreign public officials, etc.) who have a vested interest in the Company. ㉛ We shall contribute to society by helping to develop local communities. ㉜ We shall respect international codes of conduct. ㉝ We shall make our business partners aware of this Code of Conduct and these Action Guidelines, and request adherence.

See the Company website for the entire text of the Action Guidelines.
http://www.sanki.co.jp/corp_outline/compliance/etc01.html

Sanki engineering group and stakeholders

The Sanki Engineering Group has stated as one of its Company Credos "Taking customer and stakeholder needs as our own, we will understand what they are looking for, consider how to respond and act accordingly." The business activities of the Sanki Engineering Group are propped up by the different stakeholders, namely customers, local communities, business partners, employees, shareholders and investors, and government, NGO/NPO and civic groups. Through communication with all of these people, we aim to continually develop the Group and society. This philosophy has been elucidated in the Code of Conduct and Action Guidelines as our responsibility to stakeholders.

Main initiatives with stakeholders



Customers P.42

We shall always take our customer's perspective to provide safe and useful products and services that satisfy our customers and earn their trust.

- Provide information, beginning with website
- Swiftly report trouble and claims and create reports
- Hold technical proposal study sessions

Business partners P.44

We shall build fair, equal and transparent business relationships with all of our business partners and conduct honest transactions when placing orders.

- Operate business partner reporting system
- Communicate through regular briefing sessions and training sessions
- Evaluate business partners

Shareholders and investors P.45

We shall disclose the company information necessary to increase management transparency in an appropriate and timely manner and earn the trust of society.

- Disclose company information in a timely and appropriate manner
- Hold regular shareholder meetings and financial presentation meetings
- Return profit in an appropriate manner (stable dividends)

Employees P.46

We shall ensure that every individual is able to work safely and healthily in line with a basic policy of respect for human rights.

- Promote diversity and a work-life balance
- Create a company in which human resources are developed and appropriately assigned positions.
- Implement special safety patrols to prevent accidents.

Local communities P.50

We shall work on social contribution activities and environmental conservation activities as a member of the local community.

- Dispatch South Pole Regional Monitoring Team
- Interact with local communities through Sanki Nature Park/accepting social studies field trips
- Conduct cleanups and environmental beautification activities

Government, NGO/NPO P.52

We shall cooperate with government and related groups to resolve environmental and social problems in line with social rules and laws.

- Donate to NPO projects
- Promote dialog through collaborations and support activities
- Cooperate, liaise and share information on environmental improvement activities, etc.

Our Relationship with Our Customers

The group acts as one to pursue improvement of customer satisfaction

Sanki Engineering 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.

We introduced the business support system SSSS (Tetris) in fiscal 2010 to share information concerning customers' requests and other information throughout the Company and to make rapid and appropriate responses.

In order to provide service and proposals from the customer's perspective, we held 43 technical proposal study sessions and two in-house training sessions for sales staff Company-wide in fiscal 2012. In fiscal 2013, we will establish a Sales Division that will share information, liaise with other departments Company-wide and integrate technologies.

Initiatives to ensure quality

Philosophy on quality

Sanki Engineering conducts operational procedures and risk assessments based on past experience and shares cases of failure internally in order to prevent quality-related accidents. We believe that preventing similar accidents and the same claims from reoccurring as well as being able to respond quickly and appropriately in the event of an accident leads to improve customer satisfaction.

Quality management system based on ISO 9001

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. Each business division has over 10 years of experience and we are conducting activities in fiscal 2013 that aim to integrate these management systems.

Operating a design review system

We systemized design review in 1982 led by Chief engineers,* who are the top engineers, and division directors. Inspection from multiple perspectives enables us to check if the design satisfies the customer's requirements and provides the opportunity for feedback to designers to ensure continuous improvement. In fiscal 2012, we conducted design review for 186 facility construction projects, 18 machinery system projects and 33 environmental system projects.

*Chief engineers
Chief engineers provide advice and guidance across all technical areas as the top specialists in technical fields, such as quality audit and design review, to achieve quality assurance.

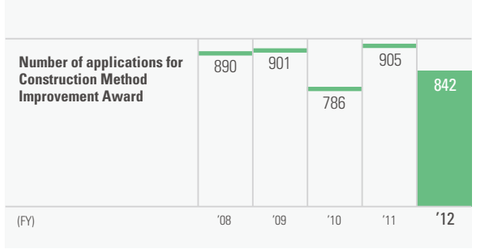
Share information on trouble and claims and prevent reoccurrence

We treat information on troubles and 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 send bulletins on troubles and claims arising in the areas of sales, design and construction to managers in charge and prepare Troubles and Claim Reports that state corrective and preventive measures on the basis of these bulletins. In case the problem includes a technical cause that the chief engineers deem necessary to notify all employees, we issue technological instruction manuals and technological information to prevent the problem reoccurring.

Sharing expertise and information towards the achievement of increased quality

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 2012, we received 842 award proposals. Among them, we present the Contribution to Customers Award, honoring initiatives that improve customers' business efficiency.

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 the Machinery Systems Business, we release technical materials such as CAD data and technical drawings as well as a glossary of terms on a dedicated information website (hansou.jp), which specializes in transportation devices and systems. We also provide support through full-time staff at the Customer Center.

Dedicated information website (hansou.jp)

Fostering human resources to sustain our technological level

It is important to develop human resources to improve and maintain the quality of products and services. To ensure the transmission and improvement of technological capability in the field of on-site construction and encourage the acquisition of qualifications, Sanki Engineering established the Technical Training Center, which is working to enhance technical education and training toward qualification attainment. In addition, we are striving to increase skills by fostering internal auditors as part of our quality-related education.

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

Qualification	FY 2011	FY 2012	FY 2013
Professional engineer	89	93	**90**
Project management technician (Civil works/Construction/Electrical construction/Pipe-laying work)	1,234	1,212	**1,170**
Architect	36	40	**40**
Facilities construction architect	257	250	**235**
Electrical engineer	184	176	**168**
Chief electrical engineer	39	37	**34**
First class instrument engineer	291	292	**284**
Fire protection engineer	749	724	**691**
Qualified management engineer	1,629	1,634	**1,624**

Initiatives to develop human resources in fiscal 2012

Initiatives	Training	Details of training	Results
Initiatives at the Technology Research Institute	Workshop on acquiring qualification	Training sessions on test preparation for becoming a project management technician or construction equipment engineer	125 participants
	Step-up workshop 1. Inexperienced, amateurs 2. Person with basic qualification 3. Person with actual qualification	Training according to the amount of actual experience or technical level of the trainee	259 participants
Initiatives to pass on technology	Strengthen training for construction management	· Strengthen training for design and facilities construction using actual equipment inside the Shonan Training Center · Strengthen training for facilities construction such as for construction drawings and supporting metallic materials · Establish training for automated control	—
	Introduce technical master system*	Prepare for introduction of technical master system* (start system in fiscal 2013)	—
Enhance technology at Group companies and affiliates	Introduce cases at briefings and liaison meetings held at branches and branch offices	Introduce cases of claims that have actually arisen	Tokyo 12 times, Tohoku branch office twice
	Conference on electrical construction quality for all stores (Shonan Training Center)	Grant internally certified qualification Sanki Engineering-certified Class A Electrical Engineer to participants who took part in written and practical tests using materials on actual claims against the company	19 affiliates and 20 electrical engineers participated

*Technical master system: A system in which efforts are made to improve the capabilities of technical staff and pass down technology through on-the-job-training (OJT) conducted by persons with high technical skills and experience in management at a branch or branch office.

Voice

Thoughts of a technical master

Itaru Kai
Technical Master, Technical Administration Division, Mechanical & Electrical Contracting Headquarters

When trouble occurs at a site, the person in charge is required to come up with the best resolution by referencing information learned in textbooks and training as well as past examples of success and failure. As technical masters, we use our extensive experience and knowledge to provide guidance and support on things learned from the past according to the level of the individual and the conditions of the site, which should lead to an increase in capabilities at the site. Nowadays it is possible to get information without conversation, but things never go exactly as stated in the manual on site. One of our aims is to get people to understand the importance of learning from the past through conversation when we visit a site. This is also one of the techniques we pass down. In particular, we would like young site managers to ask anything they like because a lot of beneficial information can be gleaned from conversations.

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

Sanki Engineering is working to build equal, fair and transparent relationships with our business partners, with respect for the stipulations of the relevant laws and 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 (3,094 companies as of March 31, 2013). 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 whistle-blowing hotline for business partners

Seeking to prevent any improper transactions, we have established and are operating a whistle-blowing 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 May 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. We also conduct safety patrols in conjunction with business partners, confirming the conditions of health and safety at construction sites and offering guidance.

A total of eight subcommittees were established at the Tokyo branch (duct, plumbing, heat-retention, etc.) to conduct activities to enhance quality, ensure safety and reduce costs.

Key members of management such as branch and branch office managers represent the company at regular liaison meetings.

Verifying relationships with business partners

We are working to enhance quality and improve operations throughout the supply chain through annual surveys on the actual condition of dealings with business partners. As part of this initiative, we create a construction results evaluation table and assess items such as quality, price, delivery and safety based on appraisal standards pursuant to a quality management system (ISO 9001). We notify the business partners of the results and exchange information on a timely basis in order to make improvements.

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

Sanki Engineering aims to disclose required corporate information in an easy-to-understand, fair, speedy, timely and appropriate manner pursuant to the stipulations of our Disclosure Policy on the company website. We also disclose information that we are not obliged to disclose by law or regulation if we deem it useful to shareholders and investors with the aim of gaining trust and understanding.

Going forward, we will ensure management transparency pursuant to the Financial Instruments and Exchange Act and the Timely Disclosure Rules set forth in the Tokyo Stock Exchange.

Our Disclosure Policy can be accessed on our website.
Information for Investors >> Disclosure Policy
http://www.sanki.co.jp/stockholder/disclosure.html

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 2012, a total of 97 people participated), individual meetings as necessary in response to requests, and tours of our Technical Research Laboratories. On our website "", 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 2012 this was June 27, and in 2013, June 26). 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
http://www.sanki.co.jp/stockholder/index.html

Our basic policy concerning returns to shareholders

Dividends are the fundamental means of returning profits to shareholders

At Sanki Engineering, dividends form the basis of our policy to return profit to shareholders and we view the return of profit to shareholders as a key management issue. We aim to provide stable dividends while considering the balance between sustainable corporate development and short-term returns to shareholders based on our basic policy of shareholder return. In light of demands from shareholders, investors and society at large, we examine comprehensive methods of shareholder return, including share buybacks.

We also invest internal retained earnings in new businesses and technological development in order to strengthen competitiveness and create a basis for business development with the objective of continually boosting corporate value.

Our Relationship with Our Employees

Our thinking with regard to our employees

Employees are a vital asset for a company

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.

The technical capabilities and skills of each employee are precious assets of the company and we believe that human resources are indispensable to an organization. As such, we are creating an environment that nurtures human resources so that they can work to their full potential.

Promoting diversity

A System in which diverse personnel can succeed

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

Changes in employee data

	FY 2008	FY 2009	FY 2010	FY 2011	**FY 2012**
Number of employees Figures in parentheses are consolidated	1,947 (2,239)	1,974 (2,272)	2,001 (2,316)	1,965 (2,289)	**1,918** **(2,246)**
Average age	42.6	42.7	42.5	42.8	**42.7**
Average number of years of employment	18.9	18.8	18.5	18.6	**18.4**
Number of new recruits	101	94	98	63	**55**
Number of disabled employees Ratio of disabled employees (%)	34 1.85	37 1.94	37 1.98	35 1.80	**36** **1.97**
Number of reemployed post-retirement-age employees	35	43	43	53	**55**
Number of employees taking child raising leave	5	8	12	15	**10**

*As of March 31 in each fiscal year

Employees by age (Non-consolidated) (No. of people)

	20s	30s	40s	50s	60s	70s	**Total**
Male	288	355	525	309	211	1	**1,689**
Female	91	70	49	16	3	0	**229**
Total	379	425	574	325	214	1	**1,918**

*As of March 31, 2013

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 2012, Sanki Engineering had 36 disabled employees, representing 1.97% of our workforce. Although the legal employment rate for disabled workers became 2.0% in April 2013, we had 37 disabled workers on our books as of June 1, representing 2.04% 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. We shifted rank and file occupations to local occupations in fiscal 2013.

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 2013, we had hired eight 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. Some 55 employees used the system in fiscal 2012.

Promoting work-life balance

We are working to enhance various support systems so that employees can handle both work and home-life. 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.* The percentage of employees using the refresh leave system in fiscal 2012 stood at 88%.

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 worksite.

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. We have established various training schemes associated with each career such as management training, technical training and training by domain in order to strengthen specialized skills, technical skills and management skills and boost personal growth.

In order to be a company in which people grow

We created a new personnel system to become a company in which people grow in line with the key theme of our medium-term management plan to "develop and appropriately allocate human resources."

First, we introduce a framework of company support to realize future careers and aim to create an environment that provides everyone with equal opportunity. We clarify evaluation standards and recognize actual capability fairly in order to realize conditions suitable to work content. As part of these efforts, rank and file occupations that were limited to supplementary-type work were shifted to local occupations in April 2013. We believe that the growth of each employee is directly linked to the development of Sanki Engineering and will implement further initiatives with this in mind going forward.

New overseas training program

In fiscal 2012, we established a one-year overseas training program in order to foster personnel with high ability to communicate and adapt to diverse environments. The program involves practical training at one of our overseas worksites.

In fiscal 2012, five people were dispatched overseas under this system.

Responses to harassment

As part of our attempts to prevent sexual harassment, we formulated guidelines and published them on our website in 1999, and we established a system offering consultation on the subject at each branches and branch offices. In addition, we provide consultation on a variety of issues that include power harassment, abuse and bullying in the worksite. We set up a counter staffed by qualified external counselors in August 2011 to make it easy for employees to seek consultation.

Maintaining and increasing the health of our employees

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. A consultation center has been set up outside the company where employees and their families can receive consultation on mental and physical concerns as well as medical-, nursing- and childcare-related issues free of charge. The privacy of callers is strictly protected.

Voice

Learned a lot in overseas training

I underwent language training in Singapore that started in April 2012, which involved general English conversation lessons as well as business English lessons once a week at the National University of Singapore. The practical training was held in Thailand starting in July and here I mainly visited customers together with the local president and managers, while I also learned practical accounting skills. What impressed me the most was the fact that each person is trying hard to boost skills through personal investment, even those who are already fully functioning members of society. At the same time, it made me acutely aware of my own skill deficiency in a global setting. That's when I realized that I simply needed to learn a lot of different things. In addition to needing to boost my English skill, this is just a means to an end with the most important thing being what kind of work I do and what kind of human relationships I build by using English.

Koichi Kita (back row, third from left),
Bangkok Representative Office, Overseas Operations Control Office, Mechanical & Electrical Contracting Headquarters

Health and Safety in the Worksite

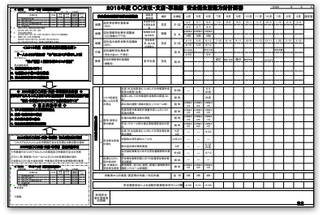
Our occupational health and safety management system

Promoting initiatives towards an accident-free worksite

Based on our Basic Health and Safety Principles, and with the realization of accident-free, bright and satisfying worksites as our ultimate goal, we are working together with our business partners to promote health and safety initiatives.

We introduced an occupational health and safety management system (Sanki OHSMS) in October 2001, making us one of the first to do so in the facilities construction industry. 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. We are also working to reduce and remove potential risk of labor accidents and improve the levels of health and safety.

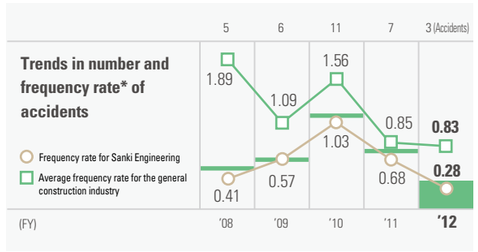
In fiscal 2013, we integrated health and safety action policies and plans that were previously separate at each branch and branch office to make a unified Company-wide system. We are also working to make our PDCA for risk management more visible, notably the identification of cause, improvement and prevention measures.



Health and safety action policies and plans

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 supervisors and workers, acting together as one.



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 worksite 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 worksite per one million working hours, this figure indicates the frequency with which accidents occur.

Overview of Fiscal 2012 Initiatives

In fiscal 2012, we worked on initiatives in three areas of focus: ① Prevention of accidents from falls; ② Strengthening of health and safety guidance; and ③ Elimination of accidents during summer. 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 extreme heat in fiscal 2011, and we created prevention campaign posters and enhanced our education on the matter by training heat stroke prevention instructors. As a result, we had zero cases of heat stroke requiring time off work in fiscal 2012.

In addition, we practiced a safety campaign in which employees in the Machinery Systems Administration Division wear red wristbands that read "Danger! Machine in operation!" Every person involved in operations on the worksite wears the wristbands with the aim of increasing awareness of danger and preventing accidents.

Into the future, we will continue to increase awareness of health and safety in the worksite 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.

Wristband that says "Danger! Machine in operation!"

Thorough health and safety education

Conducting education for Sanki employees and the employees of our business partners

To ensure safety in the worksite, for employees we provide health and safety education at designated educational institutions and in classes taught by in-house instructors. Besides educating employees, we provide education to people who are newly visiting a worksite by using health and safety notebooks.

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 2012, we provided education to a total of 2,380 employees of Sanki and our business partners.

Number of individuals receiving health and safety education in fiscal 2012

	Number (Figures in brackets refer to employees of business partners)	
Special education	1,159	(902)
Education on health and safety, including for foremen	1,221	(737)
Total	2,380	(1,639)

*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 branch and branch office with the participation of top management. Top management provides direction for prioritizing safety and quality as part of social responsibility, which Sanki Engineering ought to address, and for reducing risk by creating worksites in which each person is aware of the dangers and warns others.

We also conduct a variety of safety patrols in order to raise safety awareness among workers on construction sites. In addition to patrols by top management and staff members of business divisions, branches and branch offices patrols by site supervisors, and patrols by the proprietors of business partners, we also conduct special summer joint patrols and year-end joint patrols as special events.

Meeting on safety at the Chubu branch

Voice

Conducting more independent-minded patrols

When I first got involved with this work, safety patrols were seen as patrols to be done by the general contractor, but recently, based on direction from Sanki Engineering, patrols are to be led by the affiliate itself as the business proprietor.

Even if work rules are fully understood in the course of operations at a worksite, sometimes over-seriousness can lead to divergence from the rules and there may be times that one becomes oblivious to the danger simply from constant exposure.

Now the business proprietor who is closest to the workers patrols the worksite and calls out to people to make sure rules are not being ignored. If people know they are being observed, it can help prevent accidents. This is a really effective method.

Going forward, I hope that Sanki Engineering and cooperative committees work closely together to achieve the ultimate aim of creating accident-free, bright and satisfying worksites.

Mr. Yuji Shoji

President of Tohoku Sanki cooperative committees, Director of Sankyo Co., Ltd Sendai Office

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. As means to contribute to society through core business, we dispatch team members to the Japanese Antarctic Research Expedition and conduct other social activities that involve deepening interaction 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

In May 2012, we launched the Earthquake Recovery Project where the technology and know-how of the Sanki Engineering Group are put to use as much as possible to meet the needs of the disaster-affected area. Team members have visited the area many times to gather information on what kind of support the people actually need. We are also participating in a project being implemented by the Reconstruction Agency called Yuinoba in which large private support companies are matched with companies damaged in the disaster.

Topics&Voice

Dispatching members to the Japanese Antarctic Research Expedition

Sanki Engineering has cooperated with observation projects to Antarctica since 1991 after adopting the Protocol on Environmental Protection to the Antarctic Treaty. Efforts include dispatching nine engineers as environmental conservation officials on the Japanese Antarctic Research Expedition. We just added a 10th member to the over-wintering party for the 54th Japanese Antarctic Research Expedition and our technology and human resources are contributing to environmental conservation at Showa Station.

Photo by Nobuaki Kadota, a member of the 53rd Japanese Antarctic Research Expedition

Contributing to society, carrying out duties as a team and a lot of moving experiences

For one year and two months from December 2011, I stayed at Showa Station as a member of the over-wintering team. The 53rd over-winter team comprised 31 people in all, including the team leader, 12 in the observation group and 18 in the logistics group. I belonged to the environmental conservation group within the logistics group and was mainly in charge of treating sewage and waste from the base. We also constructed a new wastewater treatment facility designed and produced by Sanki Engineering.

In 2012, the condition of the ice was particularly severe and for the first time in 18 years our expedition SHIRASE was unable to berth at Showa Station, which meant supplies didn't arrive as planned, making it tough. Nonetheless, we were still able to complete our planned mission without trouble.

Advancements have been made in infrastructure at the base and it was possible to use the phone, email and Internet, so it was pretty comfortable and not too inconvenient at all. There was also a place to grow vegetables and although it didn't yield many it still gave me the chance to eat raw produce every now and then. In addition, I was lucky enough to experience some amazing sights that I'll never forget, like the aurora and penguins.

With 31 people each with different specialty roles living in close quarters, it is imperative to cooperate and support one another so that the overall mission of the team in addition to individual missions can be achieved. I learned the importance of communication and involving those around me to maximize the respective capabilities of each person to get the job done. I hope to make the most of this experience in my work in the future.

My successor, Daiki Kataoka, is currently doing the winter shift at Showa Station with the 54th over-wintering team and seems to be doing well. He is working to ensure environmental conservation at the base by maintaining and managing existing wastewater treatment facilities, which includes inspection of water processing equipment and facilities and analysis of water quality, as well as managing waste.

Photo by Shimizu, a member of the 53rd Japanese Antarctic Research Expedition

Environmental Protection Supervisor,
53rd Japanese Antarctic Research Expedition
Nobuaki Kadota (left in photo)

Environmental Protection Supervisor,
54th Japanese Antarctic Research Expedition
Daiki Kataoka (right in photo)

Nobuaki Kadota
Planning Section, Planning Department, Environmental Systems Administration Division, Plants & Machinery Systems

Main activities for social contribution in fiscal 2012

Sanki Nature Park/Social studies field tour receive

The Sanki Nature Park at the Yamato Engineering Center in Yamato City, Kanagawa Prefecture was developed in 2005 with a biotope that makes maximum use of natural purifying effects. Visitors have the opportunity to see a multitude of different living creatures and it is being used as a place for nature observation classes for nearby schools and as a place to come and relax for local residents. In 2012, the park received a total of 541 visitors, including 174 fifth-year students from Kitayamato Elementary School, 96 third-year students from Chuuourinkan Elementary School and 271 local residents. Students from Kitayamato Elementary School and Chuuourinkan Elementary School also came on a social studies field trip to learn about what we do in addition to visiting the park. Through activities such as this, we will promote interaction with people from the local community.

Letters from an elementary school student and teacher who took the tour

Elementary school students studying about the Nature Park and the mechanism of the factory.

Cleanups and beautification of the environment by branches

Our branches and Group companies clean up around their respective surrounding areas and participate in environmental beautification events organized by their municipalities. In fiscal 2012, we conducted a variety of activities that included a cleanup organized by The Former Foreign Settlement Of Kobe with participation by the Kobe branch and a rubbish collection event as part of a beach walk with participation by the Hokkaido branch. The Chubu branch has been designated as an exceptional ecological business site by Nagoya City for active environmental efforts in the course of business activities.

"Clean strategy" being implemented by the Kobe branch

Certificate for being an exceptional ecological business site received from Nagoya City

Donations and contributions

In fiscal 2012, 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 take part in a variety of activities that anyone can get involved in, namely donating used stamps and cards and collecting bottle caps for ecological purposes. We will continue with initiatives that stimulate employees to think about recycling and the environment.

Eco caps collected at head office

Our Relationship with the Environment

Environmental management of Sanki Engineering

Sanki Engineering believes that environmental problems represent an important management issue and we advance environmental management with the aim of fulfilling two missions (see table below). We have constructed a system for the promotion of environmental management with our president as the overall director. At Company-wide environmental conferences, which convene once a year, each of our divisions reports on its activities and we decide on future plans. We are working to enhance our environmental activities through a PDCA cycle that calls for efficient and ongoing operation of our environmental management system (EMS).

Environmental management of Sanki Engineering: Two missions

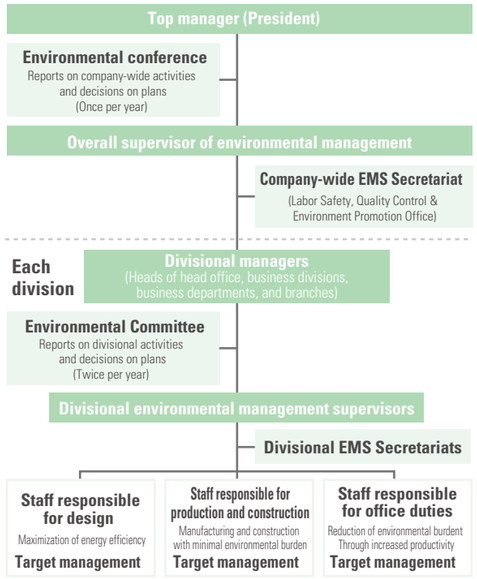
To protect the global environment by means of our advanced technological capability	To minimize the environmental burden caused by our business activities
• Development and introduction of technologies for exploitation of energy • Development and introduction of technologies for the effective use of energy • Development and introduction of technologies enabling reuse of resources	• 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 to include two of our subsidiaries (Sanki Kakou and Sanki Kankyo Service Co., Ltd.).

The external audit and ongoing audit of ISO 14001 showed no issues of noncompliance in fiscal 2012. There were also no incidences or breaches of environmental laws or regulations.

System for promotion of environmental management



Conducting environmental education

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. 546 people took courses that were held twice in fiscal 2012 under the following themes.

4th Environmental Lecture Meeting: May 30, 2012 (Wednesday)
Theme: Trends in the Development through to Practical Application of Technologies for the Use of Renewable Energies
Lecturer: Mr. Hironao Matsubara, Chief Researcher and Director, Institute for Sustainable Energy Policies
Participants: 307

5th Environmental Lecture Meeting: November 16, 2012 (Friday)
Theme: Japan's Energy Management (Government) and Use of Nuclear Power
Lecturer: Mr. Akihiro Sawa, Research Director of the International Environment and Economy Institute
Participants: 239


Lecture by Chief Researcher Mr. Hironao Matsubara


Lecture by Research Director Mr. Akihiro Sawa

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 2012, 96 employees received training to become internal environmental auditors, bringing our total number of qualified staff to 899.

We are conducting environmental education in order to minimize environmental burden based on concrete environmental targets for local employees of overseas subsidiaries (Shanghai, Thailand).

Trends in number of employees with environment-related qualifications

(Number as of April 1 each year)

	FY 2010	FY 2011	FY 2012	**FY 2013**
Certified environmental measurer	9	8	8	**7**
Supervisor of management of industrial waste subject to special control	96	115	124	**127**
Pollution prevention manager	70	71	75	**73**

Linking with the local community for environmental action

We are working on environmental education and environmental conservation activities in conjunction with the local community. We conserved green spaces and implemented a project to develop more greenery through actions such as a committee to improve the environment in Yamato.

Minimizing the burden on the environment caused by our business activities

We are enhancing energy-saving activities in our offices

Sanki Engineering was designated as a "specific business operator" based on the Revised Energy Saving Act. We are implementing various energy-saving activities throughout the Company. At head office we performed trials on shielding blinds, promoted cool business attire earlier in summer and encouraged warm business attire in winter, while at the Chubu branch we switched to LED lighting and at head office and the Hokuriku branch office we segmented lighting areas and introduced highly efficient chillers in the Technology Research Institute. 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 our Toyota branch office facility.

Going forward, we will work to further reduce energy saving with our goal to reduce energy saving by 6% relative to fiscal 2012 (crude oil conversion: kℓ) in the five-year period between fiscal 2013 and fiscal 2017.

Management of harmful substances

We are creating a system that enables us to confirm the status of hazardous waste emitted from worksites such as CFCs, halon and asbestos, and that these substances are being appropriately managed. Through this system, we will work to ensure appropriate management and reduction of harmful substances.

Protecting the environment by means of our exceptional technological capability

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 saving energy and reducing life cycle costs. In the Environmental Systems Business, we are working to reduce energy saving and CO_2 through the introduction of a supercharged (turbocharged) fluidized incinerator at a sewage treatment facility and a boiler-type power generation system at a waste treatment facility.

At our Energy Solutions Center, 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

(FY)

	2010		2011		**2012**	
	Number	CO_2 reduction	Number	CO_2 reduction	Number	CO_2 reduction
Proposed solutions	341	77,769	355	88,480	**366**	**78,549**
Orders received	116	19,954	129	31,095	**136**	**18,889**

*The unit of CO_2 reduction is t-CO_2/year.

SANKI YOU eco contribution point system

We launched the SANKI YOU Eco Contribution Point System in October 2010. 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 one-ton reduction in CO_2), which are aggregated for the entire company. In fiscal 2012, proposals made by us and adopted by our customers resulted in the reduction of 18,889 tons of CO_2 emissions, equivalent to 1,888,900 yen when converted to 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 third donation was to a tree-planting project for a watershed protection forest in the Hida-Takayama area. Around 30 people took part in the tree-planting event organized by the project, including employees and their families. The fourth donation was made to a tree-planting project to foster a woodland suitable for breeding fish in Miyako City, Iwate Prefecture and to help drive recovery in the disaster-affected area.

*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.

Group photo of people who took part in the tree-planting project in the Hida-Takayama area

Outcomes of donations to tree-planting projects

	Amount of donation	CO_2 reduction resulting from proposal	Number of trees planted
1st: Takayama City, Gifu Prefecture (Donation made May 31, 2011) Tree-planting project for a watershed protection forest	Second half, 2010: 725,200 yen	7,252 tons	207
2nd: Sammu City, Chiba Prefecture (Donation made December 28, 2011) Develop a base for semi-urban woodland activities	First half, 2011: 1,390,100 yen	13,901 tons	397
3rd: Takayama City, Gifu Prefecture (Donation made July 31, 2012) Tree-planting project for a watershed protection forest	Second half, 2011: 1,719,400 yen	17,194 tons	491
4th: Miyako City, Iwate Prefecture (Donation made on December 28, 2012) Tree-planting project to foster woodlands suitable for breeding fish and to help drive recovery in the disaster-affected area	First half, 2012: 576,600 yen	5,766 tons	164

Voice — Through tree-planting activities in the Hida-Takayama area

In November 2012, we started tree-planting activities in the Hida-Takayama area, Gifu Prefecture in an event jointly run between head office, the Chubu branch and Hokuriku branch office with support from the NPO Environmental Relations.

A total of 30 people, including employees and their families, planted young Japanese zelkova and beech trees in degraded forestland. The site is on a steep slope that even makes it difficult to stand. It started raining midway through and we got covered in mud, but we still managed to plant 300 trees.

I often hear the term "environment" these days, but I rarely do anything environment-related in my daily life. On this occasion I got to plant each tree with my bare hands so I could really feel that I was doing something good for the environment. It was a great opportunity to give consideration to the natural environment together with my family.

Environmental activities must be done with a view to passing them on from parent to child and to expand them to the region and society rather than just implementing a one-off action. I hope to see the trees we have planted grow into a lush forest and make a visit sometime in the future.

Hiroto Fukuyama
Administration Section, Administration Department, Chubu branch

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.

In fiscal 2012, the number of sheets of copy paper purchased increased beyond the level of sales growth. Going forward, we will examine measures to reduce this. In addition, CO_2 emissions increased due to a significant change in the emission factor, although they decreased by 10% year on year when calculated on a fiscal 2011 basis. The key reason for the change in emission factor was the halt to nuclear power facilities. The amount of energy consumed decreased by 8.3% over the three-year period from fiscal 2010 on a crude oil conversion basis and going forward we will strive to make continuous improvements.

Scope of aggregation:Sanki Engineering as a whole, or designated sections
Period:April 2012 – March 2013
Guidelines for reference:
①Environmental Accounting Guidelines, Ministry of the Environment (2005 edition)
②Environmental Accounting Guidelines for the Construction Industry (2002 edition)

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	56,688	0
Resource recycling costs	Cost of waste disposal (Construction sites)	360,193	0
Management costs	Cost of operating ISO 14001	2,465	0
	Cost of environment-related education	510	0
	Cost of exhibiting in exhibitions / publishing materials	35,134	0
	Cost of replacing lights with LEDs	6,040	0
	Cost of introducing shielding blinds	7,390	0
	Cost of cutting back vegetation at Yamato Engineering Center / Cost of maintaining Nature Park	4,719	0
R&D costs	Cost of environmental protection-related R&D	346,012	0
Social activities costs	Donations to environmental protection-related organizations	2,616	0
	Cost of participating in environmental protection activities and supporting education	3,948	0

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

	Details	FY2008	FY2009	FY2010	FY2011	FY2012
Resources consumed	Number of sheets of copy paper purchased for offices (1,000 sheets)	18,601	17,960	18,696	18,768	**20,511**
	Volume of water used at Yamato Engineering Center (m^3)	14,552	15,023	12,120	15,828	**15,506**
Energy consumed	Energy consumed by offices (Crude oil equivalent; kℓ)	—	2,021	2,056	1,922	**1,853**
CO_2 emissions ($t\text{-}CO_2$)	As a result of energy consumption in offices	—	3,377	3,146	2,931	**3,419 (2,624)***
	As a result of energy consumption at worksites	—	1,013	1,016	839	**889**
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	**13,757**
Green purchasing of stationery (1,000 yen)		12,506	24,480	32,506	28,537	**31,453**

*Emissions calculated from the emission factor of FY2011.

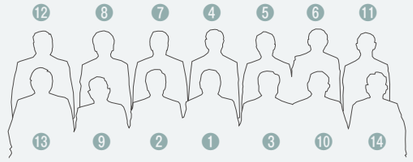
Economic effects of environmental protection measures

(1,000 yen)

Related departments	Details	FY2008	FY2009	FY2010	FY2011	FY2012
Construction sites	Profit from sale of scrap, etc.	34,316	22,768	66,615	88,238	**138,390**
Yamato Engineering Center	Profit from sale of scrap, etc.	188	36	98	327	**398**
Company-wide	Subsidy to introduce eco-cars	—	—	—	—	**2,700**

*Income from the sale of scrap from construction sites, etc. in fiscal 2010 and 2011 has been recalculated based on a change of computation method.

An Overview of the Executives



1	Representative Director and President	**Takuichi Kajiura**
2	Representative Director and Senior Executive Officer	**Takeo Kubota**
3	Representative Director and Senior Executive Officer, and General Manager, Mechanical & Electrical Contracting Headquarters	**Tsutomu Hasegawa**
4	Director, Senior Executive Officer, and General Manager, CSR Promotion Division	**Masato Komura**
5	Director, Senior Executive Officer, and General Manager, Plants & Machinery Systems Headquarters	**Tetsuo Usui**
6	Director, Managing Executive Officer, and General Manager, Administration Division	**Mamoru Shimma**
7	Director, Managing Executive Officer, and General Manager, Kansai Branch (in charge of western Japan)	**Nobuo Kumura**
8	Director, Managing Executive Officer, and General Manager, Tokyo Branch (in charge of eastern Japan)	**Hidemi Fujii**
9	External Director	**Hiroshi Nishimura**
10	External Director	**Mitsuhiro Masumi**
11	Full-time Auditor	**Keiji Akamatsu**
12	Full-time Auditor	**Toshikatsu Yasunaga**
13	External Auditor	**Takeo Iguchi**
14	External Auditor	**Mamoru Norisada**

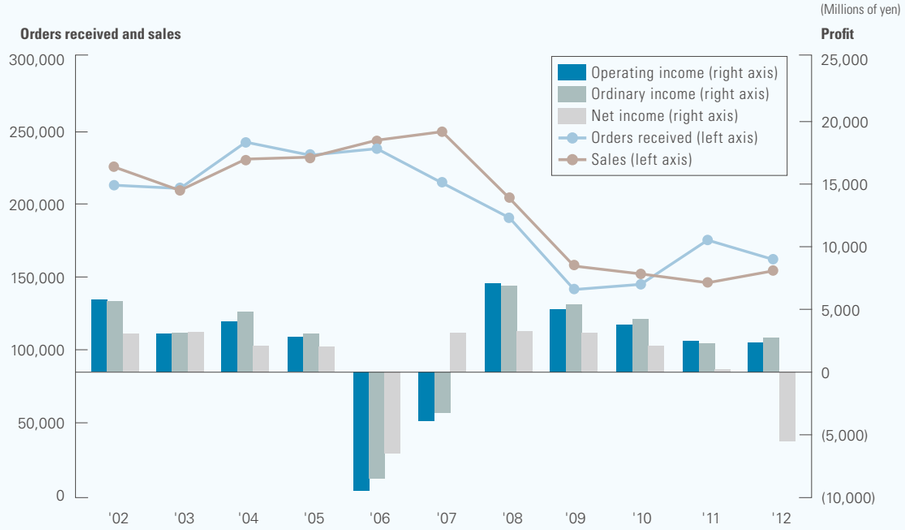
Financial Report

Financial Section

11-year Consolidated Financial Summary

(Millions of yen)

	Year ended March 31, 2003	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2007	Year ended March 31, 2008	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013
Fiscal year											
Orders received	¥ 214,276	¥ 212,379	¥ 245,047	¥ 235,401	¥ 237,022	¥ 218,256	¥ 188,653	¥ 143,348	¥ 147,129	¥ 175,291	¥ 165,800
Balance carried forward	145,544	143,999	155,876	153,593	144,456	108,253	93,566	77,641	72,976	100,272	111,414
Sales	221,635	213,924	233,170	237,684	246,159	254,460	203,340	159,273	151,794	147,994	154,658
Selling, general and administrative expenses	16,040	15,657	14,948	14,426	13,994	13,962	14,978	15,419	15,763	15,712	15,199
Operating income or loss	5,805	3,314	4,281	2,892	(9,502)	(3,958)	7,125	5,027	3,843	2,525	2,391
Ordinary income or loss	5,782	3,533	4,946	3,319	(8,782)	(3,307)	6,900	5,456	4,239	2,268	2,680
Net income or loss	3,214	3,644	2,600	2,355	(6,536)	3,134	3,283	3,141	2,124	176	(4,992)
Cash flows from operating activities	(20,808)	11,942	(3,151)	(5,557)	(2,819)	(4,097)	19,177	1,294	11,554	(2,697)	9,729
Cash flows from investing activities	3,468	(9,839)	7,662	(1,024)	2,833	11,511	1,726	(1,664)	2,610	(1,046)	(9,481)
Cash flows from financing activities	(3,021)	(3,345)	(3,315)	(3,067)	(2,697)	(3,812)	(4,377)	(2,936)	(1,883)	(280)	(1,028)
Cash and cash equivalents at end of year	¥ 28,416	¥ 27,170	¥ 28,365	¥ 18,717	¥ 16,018	¥ 19,617	¥ 36,142	¥ 32,825	¥ 45,135	¥ 41,097	¥ 40,367
As of end of fiscal year under review											
Total assets	214,605	220,563	240,234	245,367	251,323	215,680	176,664	163,307	158,501	163,120	166,477
Net assets	80,016	86,491	87,774	98,333	88,943	80,276	78,780	80,498	79,833	79,662	76,932
Number of employees	2,463	2,371	2,327	2,332	2,179	2,225	2,239	2,272	2,316	2,289	2,246
Per share information											
Earnings per share (yen)	41.04	46.93	34.49	31.46	(88.47)	42.42	44.45	42.86	29.67	2.46	(71.04)
Book-value per share (yen)	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	1,106.32
Cash dividends (yen)	15.00	15.00	18.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Other information											
Equity ratio (%)	37.3	39.2	36.5	40.1	35.4	37.2	44.6	49.3	50.3	48.8	46.2
Return on assets (%)	2.6	1.6	2.1	1.4	(3.5)	(1.4)	3.5	3.2	2.6	1.4	1.6
Return on equity (%)	4.0	4.4	3.0	2.5	(7.0)	3.7	4.1	3.9	2.7	0.2	(6.4)



Business Overview for the Year Ended March 31, 2013

Operations overview

In spite of a recovery trend in both public investment and private investment in the construction sector, there was no effect of this recovery trend to the Sanki Engineering Group business and conditions continued to be severe due to intensifying order price competition. Against this backdrop, the Sanki Engineering Group increased orders by actively promoting proposal-based sales of energy- and power-saving systems in order to avoid missing the chance to receive orders, while placing emphasis on construction profitability. With regard to consolidated results for this fiscal year, orders received decreased by 5.4% year-on-year to 165,800 million yen, net sales increased by 4.5% year-on-year to 154,658 million yen and the balance carried forward was up 11.1% year-on-year to 111,414 million yen. Operating income decreased by 5.3% year-on-year to 2,391 million yen due to the emergence of certain unprofitable business and delays in construction progress, despite efforts to lower costs and expenses throughout the Group. Ordinary income, including non-operating income and expenses, increased by 18.1% year-on-year to 2,680 million yen, while net loss was 4,992 million yen due to the recording of impairment loss in an amount exceeding 7.0 billion yen for part of assets held as extraordinary loss.

Segment overview

Facilities construction

Orders received increased by 0.9% year-on-year to 136,144 million yen, sales increased by 11.8% to 128,626 million yen and segment income (ordinary income) amounted to 1,196 million yen relative to segment loss (ordinary loss) of 561 million yen in the previous fiscal year. Sales and income were up due to an increase in the amount of construction carried forward from the end of the previous fiscal year.

Machinery systems

Orders received increased by 15.5% year-on-year to 10,817 million yen, while sales decreased by 39.9% year-on-year to 6,501 million yen and segment loss (ordinary loss) was 1,119 million yen compared with segment loss of 187 million yen in the previous fiscal year. Although orders received increased due to orders for large transport related equipment, sales and segment income (ordinary income) decreased due to the sales of large transport related equipment recorded in the previous fiscal year.

Environmental systems

Orders received decreased by 42.3% year-on-year to 16,623 million yen, while sales decreased by 13.5% year-on-year to 17,145 million yen and segment income (ordinary income) decreased by 21.6% to 689 million yen. Orders received decreased significantly as a result of delays in orders for water and sewage treatment facilities from public office as well as the substantial amount of orders received in the previous fiscal year. Sales and segment income (ordinary income) decreased due to the sales of a large-scale waste treatment plant recorded in the previous fiscal year.

Real estate

Sales decreased by 2.7% year-on-year to 2,747 million yen and segment income (ordinary income) decreased by 2.0% year-on-year to 1,305 million yen. Sales and income were down due to rent revision for certain rental properties.

Challenges to be addressed

In terms of future outlook, investment in construction is forecast to improve on the back of progress in governmental economic measures and demand for energy conservation and renewable energy is expected to expand further as energy prices rise with the weak yen. In contrast, we expect it to be difficult to secure profit again on account of intensifying price competition and increasing equipment prices due to the weak yen.

Amid these circumstances, we will combine our strengths to bolster our sales capabilities aimed at securing optimized-size orders while maintaining a focus on profit, and based on our medium-term management plan (SANKI VITAL PLAN 90th), further reinforce our Core Businesses and expand our Strategic Growth Businesses as well as cultivate and foster new businesses. In addition, for the Real Estate Business, we will look into new tenants for a large rental property that recorded an impairment loss this fiscal year due to the exit of tenants and aim to make new effective use of it. We will also take steps to remedy other facilities that are aging, enhance added value by upgrading facilities and make use of idle assets. By recreating business in this and other ways, we are working to secure stable profitability.

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	134,878	**136,144**	1,266	0.9%	115,019	**128,626**	13,606	11.8%	(561)	**1,196**	1,758	——
Machinery systems	9,361	**10,817**	1,455	15.5%	10,823	**6,501**	(4,321)	(39.9%)	(187)	**(1,119)**	(931)	——
Environmental systems	28,833	**16,623**	(12,209)	(42.3%)	19,825	**17,145**	(2,680)	(13.5%)	879	**689**	(190)	(21.6%)
subtotal	173,072	**163,585**	(9,487)	(5.5%)	145,669	**152,273**	6,604	4.5%	130	**766**	635	488.7%
Real estate	2,824	**2,747**	(76)	(2.7%)	2,824	**2,747**	(76)	(2.7%)	1,331	**1,305**	(26)	(2.0%)
Adjustments	(606)	**(533)**	72	——	(498)	**(362)**	136	——	806	**608**	(197)	——
Total	175,291	**165,800**	(9,490)	(5.4%)	147,994	**154,658**	6,663	4.5%	2,268	**2,680**	411	18.1%

Consolidated Balance Sheet

March 31, 2013

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Assets		
Current assets:		
Cash and deposits	¥ 31,098	**¥ 36,368**
Notes and accounts receivable on completed construction contracts and other	65,375	**63,288**
Securities	9,999	**3,999**
Inventories:		
Costs on uncompleted construction contracts	2,125	**1,529**
Raw materials and supplies	445	**249**
Deferred tax assets	1,809	**1,889**
Other	4,298	**4,103**
Allowance for doubtful accounts	(285)	**(282)**
Total current assets	114,866	**111,146**
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	46,873	**39,848**
Accumulated depreciation	(34,030)	**(34,672)**
Buildings and structures, net	12,842	**5,176**
Machinery, equipment, vehicles, and tools, furniture and fixtures	4,204	**3,987**
Accumulated depreciation	(3,695)	**(3,585)**
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	508	**402**
Land	4,468	**4,331**
Lease assets	284	**401**
Accumulated depreciation	(45)	**(84)**
Lease assets, net	239	**317**
Total property, plant and equipment	18,058	**10,227**
Intangible assets	414	**491**
Investments and other assets:		
Investment securities *(Note 1)*	16,672	**27,946**
Long-term loans receivable	409	**346**
Prepaid pension cost	7,646	**7,312**
Deferred tax assets	125	**136**
Lease and guarantee deposits	1,057	**1,067**
Insurance funds	1,006	**950**
Other *(Note 1)*	4,341	**7,972**
Allowance for doubtful accounts	(1,478)	**(1,120)**
Total investments and other assets	29,781	**44,612**
Total noncurrent assets	48,254	**55,331**
Total assets	¥ 163,120	**¥ 166,477**

*See notes to consolidated financial statements.

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other	¥ 51,350	**¥ 51,853**
Short-term loans payable	5,669	**6,920**
Lease obligations	34	**57**
Income taxes payable	561	**2,497**
Deferred tax liabilities	14	**10**
Advances received on uncompleted construction contracts	2,788	**5,332**
Accrued bonuses	1,917	**2,176**
Accrued directors' bonuses	46	**83**
Accrued warranty costs	471	**345**
Accrued loss on construction contracts	497	**801**
Other	2,508	**3,461**
Total current liabilities	65,860	**73,540**
Noncurrent liabilities:		
Long-term loans payable	660	**320**
Lease obligations	231	**331**
Deferred tax liabilities	2,463	**2,408**
Accrued retirement benefits	8,288	**7,313**
Accrued directors' retirement benefits	522	**275**
Accrued loss on guarantees	24	**29**
Other	5,407	**5,327**
Total noncurrent liabilities	17,597	**16,004**
Total liabilities	83,458	**89,544**
Net assets:		
Shareholders' equity:		
Capital stock	8,105	**8,105**
Capital surplus	4,181	**4,181**
Retained earnings	66,905	**60,855**
Treasury stock	(1,936)	**(2,750)**
Total shareholders' equity	77,256	**70,391**
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	2,538	**6,631**
Foreign currency translation adjustment	(132)	**(90)**
Total accumulated other comprehensive income	2,405	**6,540**
Total net assets	79,662	**76,932**
Total liabilities and net assets	¥ 163,120	**¥ 166,477**

*See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Net sales:		
Net sales of completed construction contracts	¥ 145,170	**¥ 151,910**
Net sales of real estate business and other	2,824	**2,747**
Total net sales	147,994	**154,658**
Cost of sales:		
Cost of sales of completed construction contracts *(Note 1)*	128,325	**135,746**
Cost of sales on real estate business and other	1,431	**1,321**
Total cost of sales	129,757	**137,068**
Gross profit:		
Gross profit on completed construction contracts	16,844	**16,163**
Gross profit on real estate business and other	1,392	**1,426**
Total gross profit	18,237	**17,590**
Selling, general and administrative expenses:		
Employees' salaries and allowances	6,076	**6,050**
Provision for bonuses	844	**950**
Provision for directors' bonuses	46	**83**
Retirement benefit expenses	642	**552**
Provision for directors' retirement benefits	193	**–**
Provision for doubtful accounts	157	**28**
Depreciation	472	**433**
Other	7,279	**7,099**
Total selling, general and administrative expenses	15,712	**15,199**
Operating income	2,525	**2,391**
Non-operating income:		
Interest income	71	**58**
Dividends income	331	**515**
Insurance income	47	**155**
Gain on sales of waste materials	62	**108**
Other	178	**112**
Total non-operating income	691	**951**
Non-operating expenses:		
Interest expense	85	**95**
Equity in losses of affiliates	480	**6**
Foreign exchange losses, net	45	**160**
Provision for doubtful accounts	63	**72**
Rework cost on construction contracts	90	**70**
Other	183	**257**
Total non-operating expenses	947	**662**
Ordinary income	2,268	**2,680**
Extraordinary income:		
Gain on sales of noncurrent assets	526	**26**
Gain on sales of investment securities	25	**47**
Gain on reversal of subscription rights to shares	45	**–**
Total extraordinary income	598	**74**
Extraordinary loss:		
Impairment loss *(Note 2)*	–	**7,071**
Loss on disaster	85	**–**
Loss on sales of noncurrent assets	–	**7**
Loss on retirement of noncurrent assets	91	**61**
Loss on sales of investment securities	–	**27**
Loss on valuation of investment securities	427	**176**
Headquarters relocation expenses	80	**–**
Provision for doubtful accounts	529	**–**
Total extraordinary losses	1,215	**7,345**
Income (loss) before income taxes and minority interests	1,651	**(4,591)**
Income taxes:		
Income taxes-current	648	**2,681**
Income taxes-correction	231	**–**
Income taxes-deferred	595	**(2,280)**
Total income taxes	1,475	**401**
Income (loss) before minority interests	176	**(4,992)**
Net income (loss)	176	**(4,992)**
Income (loss) before minority interests	176	**(4,992)**
Other comprehensive income (Note 3):		
Unrealized gains on available-for-sale securities	797	**4,092**
Deferred gains or losses on hedges	(4)	**–**
Foreign currency translation adjustment	(21)	**42**
Total other comprehensive income	772	**4,134**
Comprehensive income (loss)	¥ 948	**¥ (857)**
Comprehensive income (loss) attributable to:		
Shareholders of Sanki Engineering Co., Ltd.	¥ 948	**¥ (857)**
Minority interests	¥ –	**¥ –**

*See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	¥ 8,105	**¥ 8,105**
Balance at the end of current period	8,105	**8,105**
Capital surplus		
Balance at the beginning of current period	4,181	**4,181**
Balance at the end of current period	4,181	**4,181**
Retained earnings		
Balance at the beginning of current period	67,802	**66,905**
Changes in items during the period:		
Dividends from surplus	(1,072)	**(1,058)**
Net income (loss)	176	**(4,992)**
Total changes in items during the period	(896)	**(6,050)**
Balance at the end of current period	66,905	**60,855**
Treasury stock		
Balance at the beginning of current period	(1,934)	**(1,936)**
Changes in items during the period:		
Purchase of treasury stock	(1)	**(814)**
Total changes in items during the period	(1)	**(814)**
Balance at the end of current period	(1,936)	**(2,750)**
Total shareholders' equity		
Balance at the beginning of current period	78,154	**77,256**
Changes in items during the period:		
Dividends from surplus	(1,072)	**(1,058)**
Net income (loss)	176	**(4,992)**
Purchase of treasury stock	(1)	**(814)**
Total changes in items during the period	(898)	**(6,864)**
Balance at the end of current period	¥ 77,256	**¥ 70,391**
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities		
Balance at the beginning of current period	¥ 1,740	**¥ 2,538**
Changes in items during the period:		
Net changes in items other than shareholders' equity	797	**4,092**
Total changes in items during the period	797	**4,092**
Balance at the end of current period	2,538	**6,631**
Deferred gains or losses on hedges		
Balance at the beginning of current period	4	**–**
Changes in items during the period:		
Net changes in items other than shareholders' equity	(4)	**–**
Total changes in items during the period	(4)	**–**
Balance at the end of current period	–	**–**
Foreign currency translation adjustment		
Balance at the beginning of current period	(111)	**(132)**
Changes in items during the period:		
Net changes in items other than shareholders' equity	(21)	**42**
Total changes in items during the period	(21)	**42**
Balance at the end of current period	(132)	**(90)**
Total accumulated other comprehensive income		
Balance at the beginning of current period	1,633	**2,405**
Changes in items during the period:		
Net changes in items other than shareholders' equity	772	**4,134**
Total changes in items during the period	772	**4,134**
Balance at the end of current period	2,405	**6,540**
Subscription rights to shares		
Balance at the beginning of current period	45	**–**
Changes in items during the period:		
Net changes in items other than shareholders' equity	(45)	**–**
Total changes in items during the period	(45)	**–**
Balance at the end of current period	–	**–**
Total net assets		
Balance at the beginning of current period	79,833	**79,662**
Changes in items during the period:		
Dividends from surplus	(1,072)	**(1,058)**
Net income (loss)	176	**(4,992)**
Purchase of treasury stock	(1)	**(814)**
Net changes in items other than shareholders' equity	726	**4,134**
Total changes in items during the period	(171)	**(2,729)**
Balance at the end of current period	¥ 79,662	**¥ 76,932**

*See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	¥ 1,651	**¥ (4,591)**
Depreciation and amortization	1,367	**1,207**
Impairment loss	–	**7,071**
Amortization of goodwill	71	**–**
Headquarters relocation expenses	80	**–**
Increase (decrease) in allowance for doubtful accounts	667	**(361)**
Decrease in provision for retirement benefits	(489)	**(642)**
Increase (decrease) in provision for directors' retirement benefits	43	**(246)**
Increase in provision for loss on construction contracts	275	**302**
Interest and dividends income	(402)	**(574)**
Interest expense	85	**95**
Equity in losses of affiliates	480	**6**
Gain on sales of property, plant and equipment	(526)	**(18)**
Gain on sales of investment securities	(25)	**(20)**
(Increase) decrease in notes and accounts receivable on completed construction contracts and other	(7,668)	**2,348**
(Increase) decrease in costs on uncompleted construction contracts	(479)	**595**
Increase in notes and accounts payable on construction contracts and other	6,404	**480**
(Decrease) increase in advances received on uncompleted construction contracts	(449)	**2,543**
(Decrease) increase in other current liabilities	(1,523)	**653**
Other	(1,515)	**1,024**
Subtotal	(1,955)	**9,875**
Interest and dividends received	401	**573**
Interest paid	(83)	**(94)**
Income taxes paid	(1,060)	**(805)**
Income taxes refunded	–	**180**
Net cash (used in) provided by operating activities	(2,697)	**9,729**
Cash flows from investing activities:		
Payments into time deposits	(50)	**(4,200)**
Proceeds from withdrawal of time deposits	50	**300**
Purchase of property, plant and equipment	(814)	**(335)**
Proceeds from sales of property, plant and equipment	664	**128**
Purchase of investment securities	(1,563)	**(6,477)**
Proceeds from sales of investment securities	234	**971**
Proceeds from redemption of investment securities	–	**294**
Execution of loan	(22)	**(105)**
Collection of loans receivable	110	**76**
Proceeds from maturity of insurance funds	227	**148**
Other	115	**(282)**
Net cash used in investing activities	(1,046)	**(9,481)**
Cash flows from financing activities:		
Net increase in short-term loans payable	16	**1,233**
Proceeds from long-term loans payable	1,000	**–**
Repayments of long-term loans payable	(194)	**(340)**
Purchase of treasury stock	(1)	**(814)**
Repayments of lease obligations	(28)	**(50)**
Cash dividends paid	(1,072)	**(1,058)**
Net cash used in financing activities	(280)	**(1,028)**
Effect of exchange rate changes on cash and cash equivalents	(14)	**51**
Net decrease in cash and cash equivalents	(4,038)	**(729)**
Cash and cash equivalents at beginning of period	45,135	**41,097**
Cash and cash equivalents at end of period *(Note 1)*	¥ 41,097	**¥ 40,367**

*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: 4

Names of unconsolidated subsidiaries:

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

(3) Reasons for exclusion of unconsolidated subsidiaries from consolidation

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

3. Application of the equity method

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

Unconsolidated subsidiaries: —

Affiliates: 2

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

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

Unconsolidated subsidiaries: 4

Affiliates: 2

Names of unconsolidated subsidiaries and affiliates:

Tomakomai Netsu Services Co., Ltd.
Shin-yu Services 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 four 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.

Available-for-sale securities:

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

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

Derivatives

Derivatives are stated at fair value.

Inventories

Costs on uncompleted construction contracts:

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

Raw materials and supplies:

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

(2) Depreciation of significant assets

Property, plant and equipment (excluding lease assets)

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

Intangible assets (excluding lease assets)

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

Lease assets

Finance lease assets which transfer ownership title to the lessee

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

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

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

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

(3) Significant provisions and allowances

Allowance for doubtful accounts

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

Accrued bonuses

Accrued 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 directors' bonuses

Accrued directors' 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 warranty costs

Accrued warranty costs are provided at an estimated amount based on historical experience and certain other factors.

Accrued loss on construction contracts

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

Accrued retirement benefits

Accrued 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 directors' retirement benefits

Accrued directors' retirement benefits 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.

(Additional information)

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

As a result, the estimated amount of retirement benefits to be paid to directors and corporate auditors of those companies is included in accrued directors' retirement benefits on the consolidated balance sheet as of March 31, 2013.

Accrued loss on guarantees

Accrued 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 foreign currency translation adjustment 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) 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.

(8) Other

Consumption taxes:

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

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

Accounting Standards issued but not yet effective

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

1. Outline

Accounting treatments of unrecognized actuarial gains and losses and prior service cost as well as the calculation method for the retirement benefit obligation and service cost will be changed.

2. Effective date

The Company will apply this standard and related guidance from the fiscal year ending March 31, 2014. However, the calculation method for the retirement benefit obligation and service cost is to be applied from beginning of the fiscal year ending March 31, 2015.

3. Effect of the change

The Company is currently evaluating the effect of these modifications on its consolidated financial statements.

Accounting Changes

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012 to reflect the methods prescribed in the amended Corporation Tax Law.

The effect of this change on operating income, ordinary income, and loss before income taxes and minority interests for the year ended March 31, 2013 was immaterial.

Changes in Presentation of Consolidated Financial Statements

Consolidated Statement of Income and Comprehensive Income

Insurance income and gain on sales of waste materials, which were included in "Non-operating income – Other" for the year ended March 31, 2012, are presented separately on the consolidated statement of income and comprehensive income for the year ended March 31, 2013 because their each amount exceeds 10% of the total non-operating income.

For these changes, the consolidated statement of income and comprehensive income for the year ended March 31, 2012 is re-presented. As a result, "Non-operating income - Other" of ¥288 million for the year ended March 31, 2012 is reclassified as "Insurance income" of ¥47 million, "Gain on sales of waste materials" of ¥62 million and "Non-operating income - Other" of ¥178 million.

Foreign exchange losses and provision of allowance for doubtful accounts, which were included in "Non-operating expenses – Other" for the year ended March 31, 2012, are presented separately on the consolidated statement of income and comprehensive income for the year ended March 31, 2013 because their each amount exceeds 10% of the total non-operating expenses.

For these changes, the consolidated statement of income and comprehensive income for the year ended March 31, 2012 is re-presented. As a result, "Non-operating expenses - Other" of ¥292 million for the year ended March 31, 2012 is reclassified as "Foreign exchange losses" of ¥45 million, "Provision of allowance for doubtful accounts" of ¥63 million and "Non-operating expenses - Other" of ¥183 million.

Notes to Consolidated Balance Sheet

(Note 1)

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

Investments and other assets (time deposits)

(Millions of yen)

2011	2012
¥ –	¥ 4,200

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

Investment securities

(Millions of yen)

2011	2012
¥ 5	¥ 5

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

Investments and other assets (time deposits)

(Millions of yen)

2011	2012
¥ 33	¥ 33

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

Investments and other assets (time deposits)

(Millions of yen)

2011	2012
¥ 10	¥ 10

Notes to Consolidated Statement of Income and Comprehensive Income

(Note 1)

Provision for loss on construction contracts included in cost of sales for the years ended March 31, 2012 and 2013 are as follows:

(Millions of yen)

2011	2012
¥ 275	¥ 302

(Note 2)

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

Impairment losses were recognized for the following assets for the year ended March 31, 2013:

(Millions of yen)

Location	Use	Asset class	Amount
Meguro-ku, Tokyo, and others	Business-use assets	Land, Buildings, Structures	¥ 46
Yamato-shi, Kanagawa	Assets used for the real estate business	Buildings, Structures	7,025

The Company groups its business-use fixed assets based on the three business segments (facilities construction, machinery systems and environmental systems) to perform assessments of impairment losses. For idle assets and assets used for the real estate business, the Company determines whether or not indications of impairment exist on an individual asset basis. Fixed assets of its consolidated subsidiaries are grouped as one unit for each company.
The net book value of the business-use assets was reduced to their respective net realizable value (i.e., expected sales amount) since the Company decided to sell these assets. The reduction was recognized as the impairment loss in the extraordinary losses.
The net book value of the assets used for the real estate business was reduced to their respective recoverable amount (i.e., estimate based on the real-estate appraisal value) because the lease contract for these assets expired and the Company has little expectation for rental revenues from these assets in the next or the near future years. The reduction was recognized as the impairment loss in the extraordinary losses.

(Note 3)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2012 and 2013:

(Millions of yen)

	2011	2012
Unrealized gains on available-for-sale securities:		
Amount arising during the year	¥ 596	**¥ 6,183**
Reclassification adjustments for gains and losses included in net income	406	**38**
Amount before tax effect	1,002	**6,221**
Tax effect	(204)	**(2,128)**
Unrealized gains on available-for-sale securities	797	**4,092**
Deferred gains or 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	**–**
Deferred gains or losses on hedges	(4)	**–**
Foreign currency translation adjustment:		
Amount arising during the year	(21)	**42**
Total other comprehensive income	¥ 772	**¥ 4,134**

Notes to Consolidated Statement 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 shares	As of April 1, 2011	Increase	Decrease	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 shares	As of April 1, 2011	Increase	Decrease	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. Dividends

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

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
June 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) Dividends with the record date within this fiscal year and the effective date after the end of this fiscal year were as follows:

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
June 27, 2012 Ordinary general meeting of shareholders	Common stock	536	Retained earnings	7.50	March 31, 2012	June 28, 2012

[For the year ended March 31, 2013]

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

Type of shares	As of April 1, 2012	Increase	Decrease	As of March 31, 2013
Common stock	74,461,156	–	–	74,461,156

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

Type of shares	As of April 1, 2012	Increase	Decrease	As of March 31, 2013
Common stock	2,931,889	1,990,094	–	4,921,983

(Note) Increase of 1,990,094 shares was due to purchase of treasury shares of 1,988,000 by resolution of the board of directors and repurchase of fractional shares of 2,094.

3. Dividends

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

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
June 27, 2012 Ordinary general meeting of shareholders	Common stock	536	7.50	March 31, 2012	June 28, 2012
November 9, 2012 Meeting of board of directors	Common stock	521	7.50	September 30, 2012	December 10, 2012

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

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
June 26, 2013 Ordinary general meeting of shareholders	Common stock	521	Retained earnings	7.50	March 31, 2013	June 27, 2013

Notes to Consolidated Statement of Cash Flows

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

(Millions of yen)

	2011	2012
Cash and deposits	¥ 31,098	¥ 36,368
Short-term investments (securities) with a maturity within three months after the acquisition date	9,999	3,999
Cash and cash equivalents	¥ 41,097	¥ 40,367

Financial Instruments

1. Overview

1) Policy for financial instruments

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

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

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

Trade receivables - notes and accounts receivable on completed construction contracts and other - 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 - notes and accounts payable on construction contracts and other - have payment due dates within one year.

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

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

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

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

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

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

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

2. Estimated fair value of financial instruments

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

(Millions of yen)

	2011			2012		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Assets:						
1) Cash and deposits	¥ 31,098	¥ 31,098	¥ —	¥ 36,368	¥ 36,368	¥ —
2) Notes and accounts receivable on completed construction contracts and other	65,375	65,375	—	63,288	63,288	—
3) Securities and investment securities:						
Held-to-maturity debt securities	10,798	10,801	2	4,503	4,511	7
Available-for-sale securities	13,127	13,127	—	24,814	24,814	—
Total assets	120,399	120,401	2	128,975	128,982	7
Liabilities:						
Notes and accounts payable on construction contracts and other	51,350	51,350	—	51,853	51,853	—
Total liabilities	51,350	51,350	—	51,853	51,853	—
Derivative transactions*	¥ —	¥ —	¥ —	¥ (158)	¥ (158)	¥ —

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

(Note 1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

1) Cash and deposits

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

2) Notes and accounts receivable on completed construction contracts and other

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, 2013, 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:

Notes and accounts payable on construction contracts and other

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

Derivatives:

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

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

(Millions of yen)

Type	Carrying Value	
	2011	2012
Unlisted stocks	¥ 2,120	¥ 2,002

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 deposits	¥ 31,090	¥ —	¥ —	¥ —	¥ 36,360	¥ —	¥ —	¥ —
Notes and accounts receivable on completed construction contracts and other	65,375	—	—	—	63,288	—	—	—
Securities and investment securities:								
Held-to-maturity securities (corporate bonds)	10,294	—	504	—	4,199	—	304	—
Available-for-sale securities with maturity date (corporate bonds)	—	201	298	—	—	—	—	109
Total	¥ 106,759	¥ 201	¥ 803	¥ —	¥ 103,847	¥ —	¥ 304	¥ 109

Securities

1) Trading securities

Not applicable, because the Company and its consolidated subsidiaries had no trading securities both at March 31, 2012 and 2013.

2) Held-to-maturity debt securities

(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	2,300	5	1,304	1,312	7
Other	—	—	—	—	—	—
Subtotal	2,294	2,300	5	1,304	1,312	7
Securities whose carrying value exceeded their fair value						
Government bonds	—	—	—	—	—	—
Corporate bonds	8,504	8,501	(2)	3,199	3,198	(0)
Other	—	—	—	—	—	—
Subtotal	8,504	8,501	(2)	3,199	3,198	(0)
Total	¥ 10,798	¥ 10,801	¥ 2	¥ 4,503	¥ 4,511	¥ 7

3) Available-for-sale 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	¥ 11,881	¥ 8,020	¥ 3,861	¥ 24,549	¥ 14,525	¥ 10,023
Bonds	—	—	—	109	107	2
Other	—	—	—	—	—	—
Subtotal	11,881	8,020	3,861	24,659	14,633	10,026
Securities whose acquisition cost exceeded their carrying value						
Stock	745	804	(58)	155	162	(7)
Bonds	499	505	(5)	—	—	—
Other	—	—	—	—	—	—
Subtotal	1,245	1,309	(63)	155	162	(7)
Total	¥ 13,127	¥ 9,329	¥ 3,797	¥ 24,814	¥ 14,796	¥ 10,018

4) Information regarding sales of securities classified as available-for-sale 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	¥ 46	¥ 25	¥ —	¥ 469	¥ 47	¥ 27
Bonds	—	—	—	503	—	0
Other	187	—	1	—	—	—
Total	¥ 234	¥ 25	¥ 1	¥ 973	¥ 47	¥ 27

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

5) Impairment loss on securities

An impairment loss on investment securities of ¥427 million (available-for-sale securities with market value of ¥404 million and equity securities of unconsolidated subsidiaries of ¥23 million) was recorded for the year ended March 31, 2012, and an impairment loss on investment securities of ¥176 million (available-for-sale securities with market value of ¥58 million and available-for-sale securities for which it is extremely difficult to determine the fair value of ¥118 million) was recorded for the year ended March 31, 2013.

For available-for-sale securities with market value, if the fair value of each security has declined by more than 30% from the acquisition cost, the Company and its consolidated subsidiaries recognize an impairment loss after considering the potential recoverability. For available-for-sale 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

1. Currency-related transactions

[For the year ended March 31, 2012]

Not applicable

[For the year ended March 31, 2013]

(Millions of yen)

Type of transactions	Type of derivatives	Notional amounts		Fair value	Unrealized gain (loss)
		(total)	(over one year)		
Transactions outside of market	Forward exchange contracts Sell: U.S.Dollars	¥ 1,243	¥ 746	¥1,400 (Note)	¥ (158)

(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, 2012 and 2013

2) Derivative transactions, to which hedge accounting is applied

1. Currency-related transactions

[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 Sell: U.S.Dollars	Notes and accounts receivable on completed construction contracts and other	¥ 336	—	(*)

* Since the fair values of forward exchange contracts to which the assigning method was applied were treated as part of the hedged notes and accounts receivable on completed construction contracts and other, 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, 2013]

Not applicable

2. Interest-related transactions

Not applicable both for the years ended March 31, 2012 and 2013

Retirement Benefits

1) Summary of retirement benefit plans for employees

The Company and its consolidated subsidiaries including foreign consolidated subsidiaries 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.

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, 2012 and 2013 for the Company's and its consolidated subsidiaries' defined benefit plans:

(Millions of yen)

	2011	2012
Retirement benefit obligation	¥ (23,858)	¥ (25,170)
Plan assets at fair value	11,838	13,086
Assets in trust for employees' retirement benefit	7,102	7,248
Unfunded retirement benefit obligation	(4,917)	(4,836)
Unrecognized actuarial loss	4,912	5,270
Unrecognized prior service cost	(636)	(434)
Amounts recognized in the consolidated balance sheets, net	(642)	(0)
Prepaid pension cost	7,646	7,312
Provision for retirement benefits	¥ (8,288)	¥ (7,313)

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, 2012 and 2013.

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 ¥61 million at March 31, 2013 are included in "Current liabilities - Other."

3) The components of retirement benefit expenses for the years ended March 31, 2012 and 2013 are outlined as follows:

(Millions of yen)

	2011	2012
Service cost *2	¥ 908	¥ 860
Interest cost	491	470
Expected return on plan assets	(330)	(337)
Amortization of unrecognized actuarial loss	483	366
Amortization of unrecognized prior service cost	(202)	(202)
Total retirement benefit expenses	1,350	1,158
Other *3	90	95
Total	¥ 1,441	¥ 1,253

*1: In addition to the amount presented above, additional retirement benefits of ¥21 million and ¥17 million were paid for the years ended March 31, 2012 and 2013, 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 rates	2.0%	1.2%
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, 2012 and 2013 were as follows:

(Millions of yen)

	2011	2012
1. Deferred tax assets		
Allowance for doubtful accounts	¥ 399	¥ 380
Accrued bonuses	731	831
Accrued business taxes	46	211
Impairment loss	—	2,546
Accrued warranty costs	179	130
Accrued loss on construction contracts	189	304
Accrued retirement benefits	5,464	2,611
Accrued directors' retirement benefits	225	107
Loss on devaluation of investment securities	610	653
Loss on devaluation of utility rights	190	168
Tax loss carryforward	274	—
Other	729	823
Subtotal	9,040	8,769
Valuation allowance for deferred tax assets	(1,448)	(3,325)
Total deferred tax assets	7,591	5,443
2. Deferred tax liabilities		
Gain on contribution of securities to retirement benefit trust	(4,380)	—
Deferred capital gains for tax purposes	(910)	(889)
Gain on valuation of investment securities	(1,470)	(1,470)
Unrealized gains on available-for-sale securities	(1,258)	(3,386)
Other	(114)	(90)
Total deferred tax liabilities	(8,134)	(5,836)
Net deferred tax liabilities	¥ (542)	¥ (392)

2) The reconciliations of the significant difference between the statutory tax rates and the effective tax rates reflected in the consolidated statement of income and comprehensive income for the years ended March 31, 2012 and 2013 are presented as follows:

	2011	2012
Statutory tax rates	40.7 %	38.0 %
Items permanently not deductible for tax purposes	10.7	(3.0)
Items permanently not taxable	(6.0)	3.4
Inhabitants' per capita taxes	6.3	(2.1)
Amortization of goodwill	1.8	—
Valuation allowance	15.3	(42.3)
Effect of revision of tax return	11.1	—
Effect of changes in effective statutory tax rate	(2.8)	(2.6)
Equity in losses of affiliates	11.8	(0.1)
Research and development tax credit	—	1.5
Other	0.4	(1.5)
Effective tax rates	89.3 %	(8.7) %

Investment and Rental Properties

The Company owns commercial facilities and housing for rent in Kanagawa Prefecture and other areas. Profit from renting those real-estate properties was ¥1,392 million and ¥1,426 million for the years ended March 31, 2012 and 2013, respectively. Rental revenues were recorded as net sales of real estate business and other, and rental expenses as cost of sales on real estate business and other. In addition, impairment loss on rental real-estate properties of ¥7,025 million was recorded as extraordinary loss for the year ended March 31, 2013.

Carrying value on the consolidated balance sheets and corresponding fair value of those rental real-estate properties for the years ended March 31, 2012 and 2013 were as follows:

(Millions of yen)

	2011	2012
Carrying value		
At beginning of the year	¥ 11,644	**¥ 10,987**
Net change during the year	(656)	**(7,465)**
At end of the year	10,987	**3,521**
Fair value at end of the year	¥ 24,902	**¥ 12,866**

Notes:

1) The carrying value represents the acquisition cost less accumulated depreciation and impairment loss.
2) Decrease in the carrying value included in the net change during the year was mainly due to depreciation of ¥749 million for the year ended March 31, 2012, and depreciation of ¥652 million and impairment loss of ¥7,025 million for the year ended March 31, 2013.
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 to third 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 expenses	50	0	3	—	54	30	85
Equity in earnings (losses) of affiliates	—	—	4	—	4	(484)	(480)

(Millions of yen)

2012	Reportable segments						
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments (Note 1)	Consolidated (Note 2)
Sales :							
Sales to third parties	**¥ 128,358**	**¥ 6,501**	**¥ 17,038**	**¥ 2,747**	**¥ 154,646**	**¥ 12**	**¥ 154,658**
Inter-segment sales and transfers	**267**	**0**	**106**	**—**	**374**	**(374)**	**—**
Total sales	**¥ 128,626**	**¥ 6,501**	**¥ 17,145**	**¥ 2,747**	**¥ 155,020**	**¥ (362)**	**¥ 154,658**
Segment profit (loss)	**¥ 1,196**	**¥ (1,119)**	**¥ 689**	**¥ 1,305**	**¥ 2,071**	**¥ 608**	**¥ 2,680**
Other items:							
Depreciation	**¥ 377**	**¥ 74**	**¥ 80**	**¥ 652**	**¥ 1,184**	**¥ 23**	**¥ 1,207**
Amortization of goodwill	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Interest income	**23**	**0**	**6**	**—**	**29**	**28**	**58**
Interest expenses	**48**	**2**	**6**	**—**	**56**	**38**	**95**
Equity in earnings (losses) of affiliates	**—**	**—**	**3**	**—**	**3**	**(9)**	**(6)**

(Note 1)

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 and dividends income and reversal of interest expenses of ¥395 million which had been allocated to each of the reportable segments for administrative purpose.

Adjustments for segment profit or loss of ¥608 million for the year ended March 31, 2013 included corporate general profits of ¥191 million which were not allocable to the reportable segments such as interest and dividends income and reversal of interest expenses of ¥417 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, 2012 and 2013]

1. Product and service information

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

2. Geographical information

(1) Sales

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

(2) Property, plant and equipment

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

3. Major customer information

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

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

[For the year ended March 31, 2012]

Not applicable

[For the year ended March 31, 2013]

(Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Adjustments (Note)	Consolidated
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 7,071	¥ 7,071

(Note)
Adjustments of ¥7,071 million were impairment loss on rental real-estate properties of ¥7,025 million and impairment loss on welfare facilities to be sold of ¥46 million.

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

[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	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

[For the year ended March 31, 2013]

Not applicable

(Information about gain on negative goodwill by reportable segment)

[For the years ended March 31, 2012 and 2013]

Not applicable

Per Share Data

	2011	2012
Net assets per share	¥ 1,113.70	¥ 1,106.32
Net income (loss) per share	¥ 2.46	¥ (71.04)

Disclosure of diluted net income per share for the year ended March 31, 2012 was omitted because it had no dilutive effect although there was the dilutive potential.
Disclosure of diluted net income per share for the year ended March 31, 2013 was omitted because net loss was recorded and there were no dilutive shares for the year.

Basis for the calculation of net income (loss) per share for the years ended March 31, 2012 and 2013 is summarized as follows:

(Millions of yen)

	2011	2012
Net income (loss)	¥ 176	¥ (4,992)
Amount not attributable to shareholders of common stock	–	—
Net income (loss) attributable to common stock	¥ 176	¥ (4,992)
Average number of shares of common stock outstanding	71,530 thousand shares	70,273 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 (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.	–

Subsequent Events

1. Introduction of stock-based compensation in the form of stock options for directors and corporate officers

It was resolved at the 89th ordinary general meeting of shareholders of the Company held on June 26, 2013 and the meeting of its board of directors held on the same date that the Company would adopt a stock-based compensation plan under which its directors (except outside directors) and corporate officers are granted as compensation for their services stock options to purchase the Company's common stock, in accordance with the Corporation Law.

2. Acquisition of treasury stock

It was resolved at the meeting of its board of directors held on May 13, 2013 that the Company would acquire its treasury stock in accordance with Article 156 as applied with relevant changes in interpretation pursuant to the provision of Article 165, Section 3 of the Corporation Law.

(1) Purpose of acquisition

To exercise agile capital policies in response to changes in business environment and to return profits to shareholders

(2) Outline of items related to acquisition

1) Type of stock:	Common stock of the Company
2) Total number of shares to be acquired:	4,000,000 shares (upper limit)
3) Total amount of acquisition costs:	¥3,000 million (upper limit)
4) Period of acquisition:	From May 14 to September 30, 2013
5) Acquisition method:	Purchase on the Tokyo Stock Exchange

3. Retirement of treasury stock

According to the resolution at the meeting of its board of directors held on May 13, 2013, the Company has retired its treasury stock in accordance with Article 178 of the Corporation Law as follows:

1) Type of stock:	Common stock of the Company
2) Total number of shares retired:	4,800,000 shares
3) Retirement date:	May 20, 2013
4) Total number of shares issued after retirement:	69,661,156 shares

Independent Auditor's Report

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
Sanki Engineering Co., Ltd.

We have audited the accompanying consolidated financial statements of Sanki Engineering Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, 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, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

June 26, 2013
Fukuoka, Japan

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Corporate Information and Share Information

As of March 31, 2013

Corporate information

Company name	SANKI ENGINEERING CO., LTD.
Date of establishment	April 22, 1925
Stated capital	8,105.18 million yen
Representative	Takuichi Kajiura, President
Principal lines of business	Facilities construction, plant systems, real estate
Number of employees	Consolidated: 2,246 Non-consolidated: 1,918
Offices	Branch: 3 Branch office: 15 Laboratory: 1
Head office	8-1, Akashicho, Chuo-ku, Tokyo

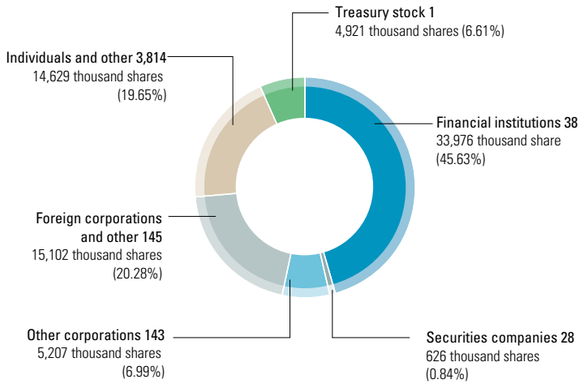
Share information

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	4,169

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.	6,700	9.63
Meiji Yasuda Life Insurance Company	6,000	8.63
Nippon Life Insurance Company	5,840	8.40
Sanki Kyoueikai	2,741	3.94
Japan Trustee Services Bank, Ltd. (Trust account)	2,437	3.50
The Master Trust Bank of Japan, Ltd. (Trust account)	2,290	3.29
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,288	3.29
CBNY DFA International Cap Value Portfolio	1,537	2.21
State Street Bank and Trust Company 505103	1,341	1.93
Sanki Engineering employee shareholders' association	1,222	1.76

*Although the company holds 4,921 thousand shares of treasury stock, the company is excluded from the major shareholders listed above.
Shareholding ratio is calculated excluding treasury stock.