SANKI ENGINEERING CO., LTD.

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SANKIREPORT 2014

SANKI REPORT 2014

Engineering
for
The future

SANKI ENGINEERING CO., LTD.

SANKI ENGINEERING CO., LTD.

To all stakeholders

We provide new value to society by practicing our Company Credos and enhancing “total engineering competency”.

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.

The Sanki Engineering Group contributes to society in various business domains related to social infrastructure, including the Facilities Construction Business, which consists primarily of heating, ventilation and air conditioning, plumbing, electrical systems, information and communications, and office relocation; 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. These businesses are integrated across the Group, creating the capabilities that comprise our “total engineering competency”.

I believe that the Sanki Engineering Group’s enhancement of “total engineering competency” and practice of our Company Credos leads to the provision of new value. We seek a form of business that can provide new value to customers and work actively to communicate with stakeholders with the aim of becoming a corporate group that develops together with them.

Here we provide SANKI REPORT 2014. I hope you gain an understanding of Sanki Engineering Group’s achievements and future direction through this booklet.

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

Aiming to produce a tool that further boosts understanding of the Group

Sanki Engineering began publishing CSR reports in fiscal 2005 to disclose non-financial information on such areas as relationship 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.

The Sanki Engineering Group is developing business activities with the aim of both contributing to a sustainable society and boosting our corporate value through “total engineering”. This report conveys business activities of the Group in fiscal 2013 and future aims that are not included in the financial statements, and we have positioned it as an important communication tool to boost understanding of the Group.

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”
- ISO 26000

Organizations covered by report

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

Reporting period

April 2013 - March 2014 (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.

REPORT 2014

SANKI

Contents

The History of Sanki Engineering

1920

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

Sanki Engineering got underway with two major projects for Toyo Rayon (currently Toray Industries, Inc.), namely its Shiga manufacturing plant and 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. Sanki Engineering installed this incinerator in the Sanshin Building, becoming the first company in Japan to do so in a large building.

The 1920s:

1923
Great Tokyo Earthquake strikes.
Building modernization drives up demand for building utilities such as heating, ventilation and air conditioning, water supplies and drainage, and electrical fixtures and fittings and construction technology advances.

1925
On April 22, Sanki Engineering was established as a spin-off from former 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.

1930

3 Sanki's advanced technology bolsters a construction boom

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.

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 favorable turn. Expansion of demand for building construction and equipment results in a dramatic improvement in the Company's business performance.

1958
Capital exceeds ¥1 billion.

1960

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

In addition to long-distance conveyors for coal mines and dam construction frames, 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, gaining the largest share of the market among steel sash manufacturers.

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.

1980

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

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.

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 (Yokosuka City, Kanagawa Prefecture) and strengthens human resource development.

2005
Shifts head office to Nihonbashi.

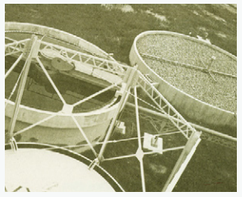
2011
Shifts head office to Tsukiji.

2012
Launches Smart Building Solution Business to provide Smart Buildings with a focus on energy-saving business.

1930

2 Diversified and expanded businesses led to greater technological competence

In 1930, Sanki Engineering began 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).



1950

4 A proactive approach to technological innovation

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.

1970

6 Wide range of technological innovations

In 1968, Sanki Engineering participated in construction of heating, ventilation, and air conditioning, plumbing and electrical systems 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.

2000

8 Towards environmentally friendly technology

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 AEROWING, Trans Heat containers and next-generation stoker-type incineration plants.

Highlights of Business Activities in Fiscal 2013

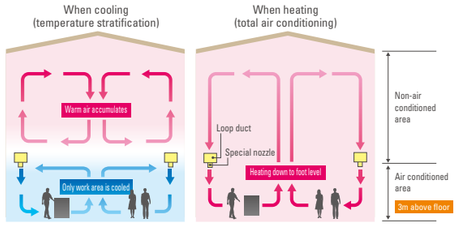
First installation of "Periloop" thermal stratification air conditioning system for large spaces

Highlight 1

"Periloop" is a thermal stratification air conditioning system that improves efficiency in heating and cooling large spaces such as factories and gymnasiums. In this system, ducts are arranged in a loop shape on the wall approximately 3m above the floor and special nozzles on the underside of the ducts blow air in the direction of the floor. In winter, cool air that enters from outside is blocked by a warm air current that acts as a kind of curtain, and the space is heated down to foot level. In summer, cool air is accumulated through the formation of temperature stratification using difference in air density, thus enabling efficient cooling of the workspace.

The system was adopted in a new wing of the Tokyo branch of Fuji Heavy Industries Ltd. in Mitaka City in 2013. The new wing required efficient energy-saving heating and cooling for a large space and to achieve this, the "periloop" thermal stratification air conditioning system was installed. Sanki Engineering was in charge of the construction for the HAVC and plumbing.

We will continue to further develop this system going forward and to promote widespread use with the aims of facilitating energy savings and more comfortable air conditioning for even more customers.




New wing of Fuji Heavy Industries Ltd. Tokyo branch

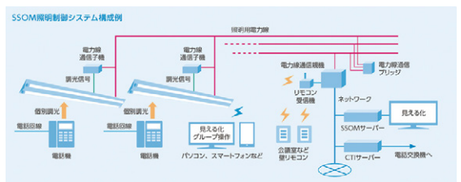
Contributing to the energy-saving of the office through development of SSOM lighting control system

Highlight 2

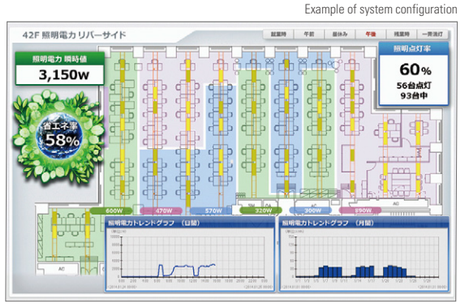
This lighting control system can significantly reduce power consumption of ceiling lights in the office. Lighting accounts for approximately 20% of power consumed in an office building. With the new system, ceiling lighting can now be adjusted and operated on an individual light basis, whereas it previously had to be turned on and off on an area basis. In addition, each person working in the office can operate the lighting remotely in accordance with the brightness required by his or her task. This was proven to result in a halving of the power consumed by lighting without compromising the level of comfort.

This individual lighting control is made possible by the Sanki Smart Office Manager (SSOM = management software for the smart control of power consumption in the office). By further introducing power line communications to SSOM, less wiring is needed and costs are lowered, thus significantly shortening the number of years required to recover initial investment, which was an issue in equipment configuration in the past. The easy-to-use system combines optimal operation methods such as a self-powered switch or phone, and enhances the visibility of power consumption in the office.

We aim to actively roll out this system as a highly effective power-saving solution for offices.



Example of system configuration



Visualization system

Development of conveyor excluding hair in food factories

Highlight 3

In food factory production lines, there are cases when contamination by hair, eyelashes or eyebrow hairs from workers occurs. Each factory works hard on quality control and health and safety, but the reality is that such cases are hard to eliminate. In response to this problem, Sanki Engineering developed a conveyor system that prevents hair from contaminating the line through installation of a small duct system above the conveyor line that blows out cleaning air.

The stronger the gust of air that is blown out from the ducts, the more effective it is in preventing hair from contaminating the line, but one issue was that the air blowing directly onto the bodies of the workers was causing discomfort. In pursuit of a duct installation position that would avoid the eye level of workers, we derived optimum conditions based on tests of air speed and air volume using computer-based air-flow simulations and testing equipment. This system is unique to Sanki Engineering and resolves a social challenge using "total engineering competency". It is highly original in that it integrates air conditioning technology and conveyor technology and can be employed on various manufacturing lines such as in the medical industry and the cosmetics industry.

We are gathering information on different customer needs with the aim of early commercialization and sales of this product.

Launch sales of AEROWING II low pressure-drop membrane panel-type air diffuser

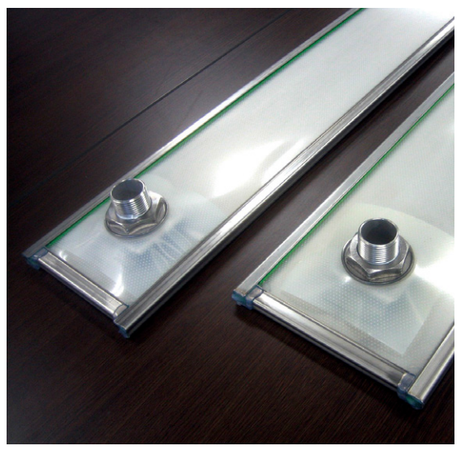
Highlight 4

In March 2014, Sanki Engineering launched sales of AEROWING II, an air diffuser boasting lower pressure loss while maintaining high oxygen transfer efficiency. Wastewater treatment plants have been seeking reductions in power consumption in light of the growing need for energy conservation and the current status of power supply in Japan. The blower, which supplies air to the reaction tank, accounts for 30-50% of total power consumed at wastewater treatment plants, so reducing this rate would contribute significantly to energy savings for the entire facility.

With this in mind, Sanki Engineering developed AEROWING II, an improved version of AEROWING, which is a membrane panel-type air diffuser with a delivery record of about 300 installations in Japan and about 1,000 worldwide at public wastewater treatment facilities. The new system reduces pressure loss with superior energy saving performance while maintaining high oxygen transfer efficiency.

This product has attained "construction technology review and certification" from the Japan Institute of Wastewater Engineering and Technology for new technology in wastewater treatment.

Going forward, we will proactively expand proposal activities of this technology as a realization of energy-saving.



Financial and Non-Financial Highlights

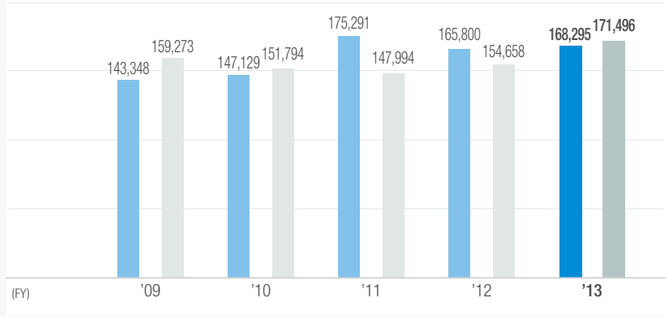
(Unit: Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014
Fiscal year					
Orders received	143,348	147,129	175,291	165,800	168,295
Sales	159,273	151,794	147,994	154,658	171,496
Selling, general and administrative expenses	15,419	15,763	15,712	15,199	15,604
Operating income or loss	5,027	3,843	2,525	2,391	2,818
Ordinary income or loss	5,456	4,239	2,268	2,680	3,146
Net income or loss	3,141	2,124	176	(4,992)	1,763
Cash flows from operating activities	1,294	11,554	(2,697)	9,729	(9,403)
Cash flows from investing activities	(1,664)	2,610	(1,046)	(9,481)	(3,506)
Cash flows from financing activities	(2,936)	(1,883)	(280)	(1,028)	(4,152)
Cash and cash equivalents at end of year	32,825	45,135	41,097	40,367	23,510
As of end of fiscal year under review					
Total assets	163,307	158,501	163,120	166,477	170,181
Net assets	80,498	79,833	79,662	76,932	74,917
Per share information					
Earnings per share (yen)	42.86	29.67	2.46	(71.04)	26.46
Book-value per share (yen)	1,119.40	1,115.41	1,113.70	1,106.32	1,142.74
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00
Other information					
Equity ratio (%)	49.3	50.3	48.8	46.2	44.0
Return on assets (%)	3.2	2.6	1.4	1.6	1.9
Return on equity (%)	3.9	2.7	0.2	(6.4)	2.3

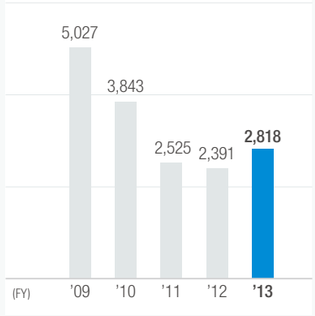
	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014
No. of employees	2,272	2,316	2,289	2,246	2,283
No. of accidents	6	11	7	3	7
Frequency of accidents *	0.57	1.03	0.68	0.28	0.90
CO_2 emissions (t-CO_2)	4,390	4,162	3,770	4,308	4,571
Waste emissions (t) (From all Company construction sites and Yamato Engineering Center)	11,272	12,034	12,070	13,757	15,869

*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 stated using the same standard.

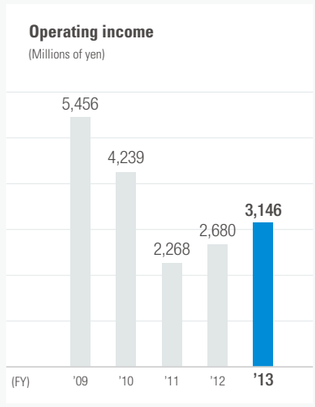
Orders received and sales
(Millions of yen)



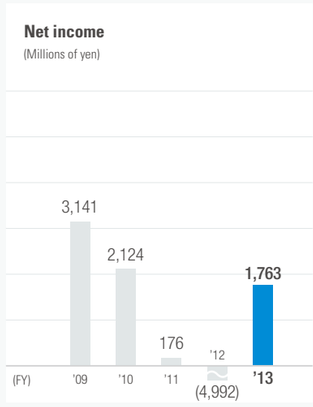
Ordinary income
(Millions of yen)



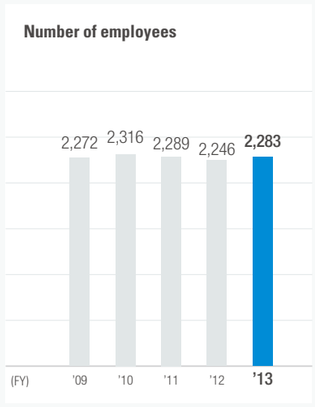
Operating income
(Millions of yen)



Net income
(Millions of yen)

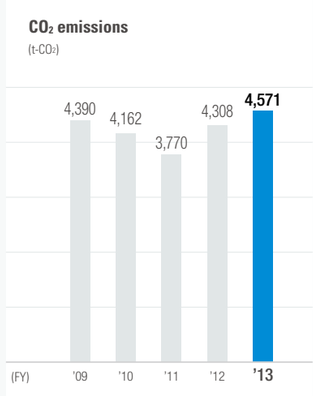


Number of employees

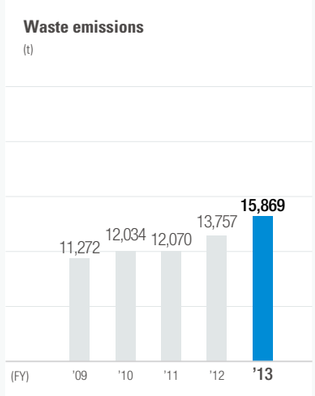


Frequency of accidents

CO_2 emissions
(t-CO_2)



Waste emissions
(t)



Summaries of Businesses by Segment

Facilities Construction Business

P24

Main sales items

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

Electrical systems
- Electrical systems
- ICT facilities
- Instrumentation
- Electrical civil engineering

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

Facility systems
- Dealing rooms
- Office relocation
- Financial institution branches and offices

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

FY2013 results

Sales/Sales composition ratio 84%

Society's demands and value provided

Society's demands
- Global warming issues
- Energy resources issues
- Equipment deterioration
- Increase in running costs
- Secure human resources for operation/management

Value provided
- Provide comfortable space
- Energy and resource conservation
- Extended-life and longer-life facilities
- Reduced life cycle costs
- Improved asset value

Machinery Systems Business

P28

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

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

Sales/Sales composition ratio 6%

Society's demands
- Eliminate product accidents
- Improve productivity
- Shortage of labor
- Improve work environment
- Energy resources issues

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

Environmental Systems Business

P30

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/Sales composition ratio 10%

Society's demands
- Global warming issues
- Energy resources issues
- Aging facilities
- Constraints on final landfill sites
- Water resource issues

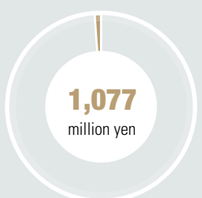
Value provided
- Energy and resource conservation
- Extended-life and longer-life facilities
- Appropriate waste disposal

Real Estate Business

P32

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.

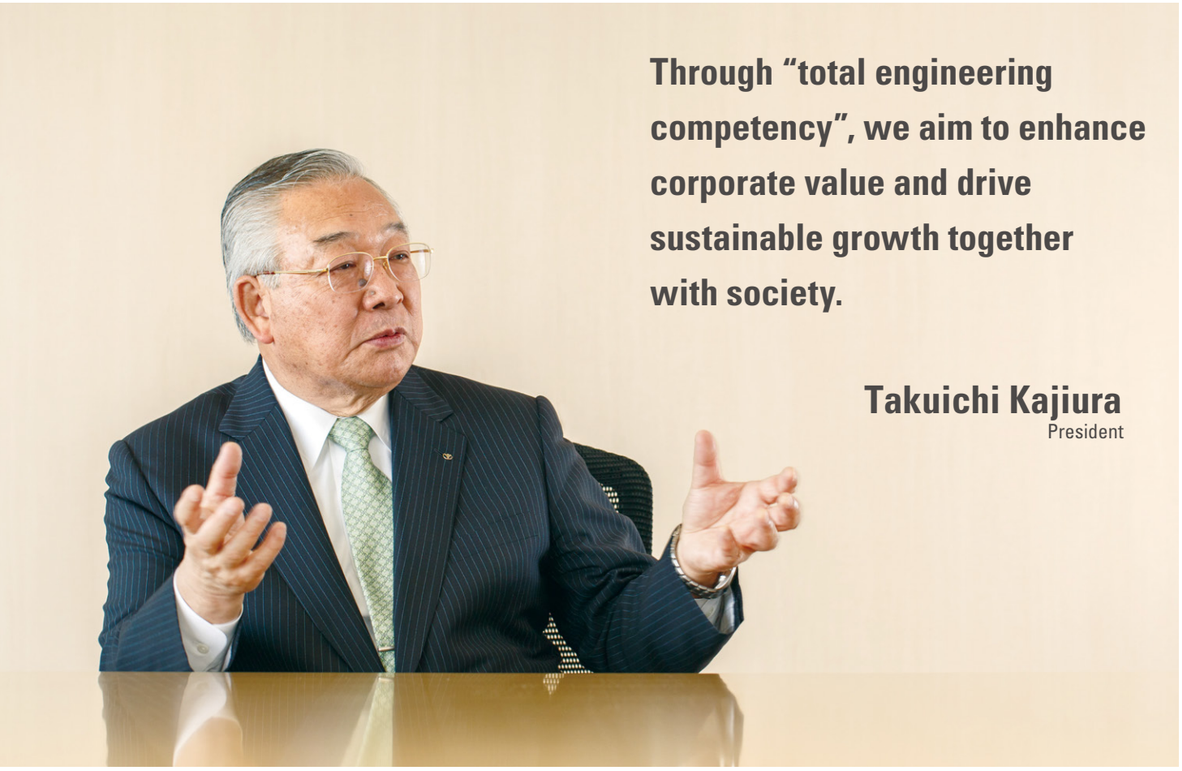
Sales/Sales composition ratio 1%



Society's demands
- Global warming issues
- Energy resources issues
- Aging facilities

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

Each segment includes intersegment transactions



Through “total engineering competency”, we aim to enhance corporate value and drive sustainable growth together with society.

Takuichi Kajiura
President

Q1 First, please tell us about the business environment and results for the fiscal year that ended on March 31, 2014 (fiscal 2013).

A1 The Sanki Engineering Group posted together increases in sales and profit.

The Japanese economy in fiscal 2013 recovered steadily due to government-led fiscal and financial measures. Construction investment rose smoothly in the public sector, supported by a hefty supplementary budget, and private capital investment in Japan recovered moderately owing to resurgence in corporate revenues.

Against this backdrop, the Sanki Engineering Group proactively stepped up proposal-based sales for energy conservation and power saving so as not to miss any opportunity for orders, and worked to expand orders while emphasizing construction-related profits. In fiscal 2013, orders received amounted to ¥168,295 million (up 1.5% year on year) and sales were ¥171,496 million (up 10.9% year on year). In terms of profit, operating income was ¥2,818 million (up 17.9% year on year) and ordinary income, including non-operating income and losses, totaled ¥3,146 million (up 17.4% year on year).

After recognizing a decline in profit brought by the termination of contract period for large rental properties in the Real Estate Business, we began fiscal 2013 with the goal of covering this loss through other businesses. I believe that we were able to clear this challenge as a result of the Group coming together and working as one. Nonetheless, concerns over upward pressure on labor costs and equipment prices as well as other factors in the business environment have made it difficult to maintain profitability. Results in fiscal 2013, including responses to issues such as these, serve as a vital step toward achieving the objectives of our medium-term management plan “SANKI VITAL PLAN 90th” in fiscal 2015, the final fiscal year of the plan.

Q2 Can you tell us about the progress of “SANKI VITAL PLAN 90th”?

A2 We focused on strengthening sales capabilities, creating an environment focused on results, and responding to risk.

Under “SANKI VITAL PLAN 90th”, we are aiming to realize medium- and long-term expansion based on the basic policies of: “Maintain a profitability focus and secure orders on an optimal scale”; “Further strengthen Core Businesses and expand Strategic Growth Businesses”; and “Exploit and cultivate New Businesses”. Here, I will introduce three initiatives out of the variety of measures undertaken in fiscal 2013, the third year of the plan.

First, to strengthen Core Businesses, the Sales Division was set up with the aim of strengthening sales capabilities throughout the entire organization. Its objectives are to further improve proposal-making capabilities and reinforce “total engineering competency”. “Total engineering”, a strength of the Company, enables us to provide a plethora of technology and equipment in broad-reaching markets. In order to leverage this strength, it is imperative to connect respective businesses possessing different technologies via cross-organizational information. The role of the Sales Division is to collect and provide information within and outside the company, and to specialize in a coordinating function to enhance proposal-making capabilities to customers. In these times, it is essential to add value in addition to considering cost. Even in public works, there are a variety of evaluation standards such as technological proposal-making capability and social contribution capability. The Sanki Engineering Group will contribute to issue resolution in these markets and the demands of society while working to further enhance proposal-making capabilities that will lead to growth for our company as well.

Next, we reviewed the personnel system and performance evaluation system. By revising content toward greater coherence with business strategy, we are aiming to create an environment in which employees working to achieve targets can grow and operate more effectively as well as to invigorate the organization and promote target achievement. Moreover, we took measures to improve business processes and enhance efficiency, including responding to labor issues. Work sites tend to be bogged down with a lot of documents and cumbersome operations, so we built-in a system that enables workers to concentrate on their main job of construction, which has improved the situation and enhanced efficiency. We created a work environment that can produce results by utilizing this framework and system.

Finally, on the management side, a new Overseas Risk Subcommittee was established within the Risk Management Committee. Sanki Engineering has been referred to as passive when it comes to overseas expansion. One of the reasons for this is that there are few cases in which we can maximize our strengths locally and that match our profit conditions. As an example, if we venture overseas for the sake of a single project, once it’s completed that’s the end of the story. We don’t think this is meaningful unless we can make use of the Sanki Engineering Group’s comprehensive technological capability and build the brand locally. In order to do this, business must be conducted with an understanding of local country risk, customs and culture, and we set up this subcommittee to serve in an information-gathering capacity. We will make efforts to expand our business overseas while taking into account information from liaison offices and local subsidiaries in respective countries.

(See page 18 for details of “SANKI VITAL PLAN 90th”)

Q3 Can you tell us the key points aimed at achieving targets in the final fiscal year of the plan?

A3 We will achieve targets by utilizing our “total engineering competency” and human resource capabilities.

The ultimate goals of “SANKI VITAL PLAN 90th” are consolidated net sales of ¥200 billion and consolidated ordinary income of ¥10 billion in fiscal 2015. Many things happened between plan formulation and the current fourth year, such as a decline in public investment and a drastic decrease in profit in the Real Estate Business. Nonetheless, we have not lowered our targets and are instead pushing ahead steadily with different measures, with each employee enthusiastically working toward goal achievement. There are two elements that are key to achieving our targets in fiscal 2015.

The first is further strengthening “total engineering competency”. When you hear the phrase “total engineering”, you may think of engineering involving all our businesses, including HVAC and plumbing, and electricity. But in fact, it means that we provide

value to customers by commanding and integrating the Group's wide range of technologies. In addition, we deliver solutions in other fields to customers we have previously connected with through one of our sales items.

Boosting "total engineering competency" has been my main focus since becoming President. Currently, consolidated awareness crossing Group company boundaries is growing stronger, and motivation to create "total engineering" is also rising. Demand will increase going forward, particularly with preparations for the Tokyo Olympics and Paralympics in 2020 and the need to renew aging infrastructure. Sanki Engineering was responsible for the sports stadium, gymnasium and athletes' village facilities at the Tokyo Olympics in 1964, and we will continue to contribute to the society by our Group's strengths, our wide array of business domains and the technologies we possess.

The second is meeting labor needs. As demand increases, a major challenge will be to secure necessary personnel, including site engineers within the Group as well as those from affiliates. Rather than merely seeking to increase personnel for the near future, it is essential that we look further ahead beyond the closing of the Olympics. For that purpose, one further important point is the training and studies of our engineers, and the cultivation of human resources to effectively utilize personnel. At present, we are focusing on education, including OJT (on-the-job training) to enhance wide-ranging basic knowledge and basic technology for our young employees and staff of our affiliates.

Human resources are assets of the company, and we are evaluated by the way our employees act on the front line. I have confidence in the capabilities of Group employees, and if they can embody the reasons Sanki Engineering is so necessary and why we should be chosen over other companies, I believe we can achieve our goals.

Q4 What is Sanki Engineering's philosophy on CSR and what initiatives are you focusing on?

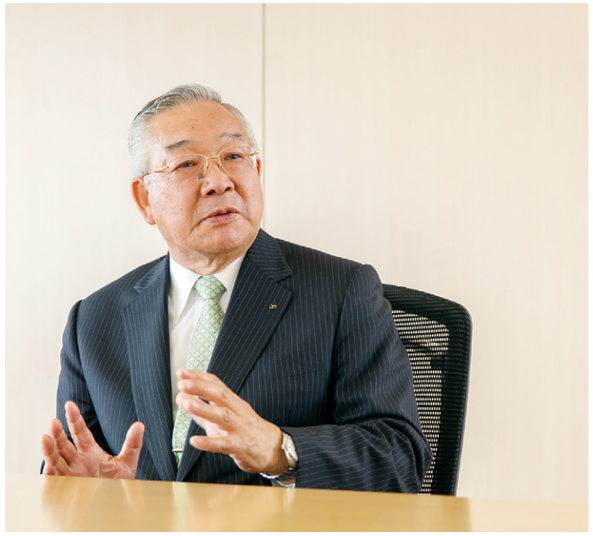
A4 We are concentrating on putting into practice our Company Credos and reestablishing society's trust.

CSR at Sanki Engineering is the practice of the Company Credos itself. This idea is stated in the Company Credos, "We will contribute to society through engineering", and expresses our social responsibility as a corporation. Our company's mission is to provide technology to society that labor saving and speeding, convenience and comfort, thus resolving customer and societal challenges. In order to be an essential entity to society, I believe we must strive to integrate CSR programs into business activities and contribute to both a sustainable society and our own growth by providing value that is unique to the Group.

Sanki Engineering had to undergo an on-site inspection by the Japan Fair Trade Commission on suspicion that we had breached the Anti-Monopoly Act in bidding for the Hokuriku Shinkansen construction project in September 2013. As a result of an internal investigation, it became clear that the act had indeed been violated. I would like to offer my sincerest apologies for the trouble and concern this may have caused our shareholders, investors and all other stakeholders.

The Sanki Engineering Group treats this incident with the utmost gravity and we are working hard to prevent reoccurrence and establish a compliance system. We have implemented various measures to prevent reoccurrence and I am personally making the effort to visit sites, departments and branches around Japan. I have held opinion-exchange sessions with employees on 43 occasions and verified means of eradicating such behavior, with everyone pledging their commitment to ensuring that similar incidents never happen again. Complying with the law should be a matter of course; however, because I don't believe we can fully eradicate such incidents without the proper understanding among all employees in their regular duties of why such behavior is wrong, I had opportunities for direct dialog. Through these, we are exchanging opinions on topics including "the run-up to completion of SANKI VITAL PLAN 90th" and "transformation into a "total engineering" company". First and foremost, we are striving to strengthen the compliance system as an absolute base for reestablishing society's trust.

(See page 38 for details of measures to prevent reoccurrence of non-compliance)



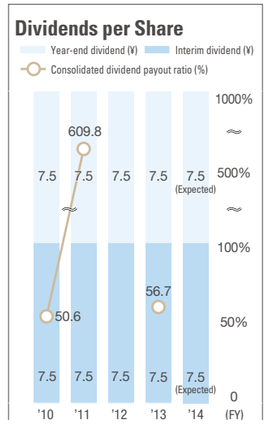
Safety is another characteristic that forms the basis of our business, much like compliance. It is imperative that we formulate and put into effect all manner of measures regarding safety. For example, the effects of simply conducting safety campaigns and putting up posters are insufficient. In this area, executive officers and I take part in direct patrols and talk directly with employees. In fiscal 2013, we focused on preventing falls and other accidents, which have been an issue, and on a campaign to counter heat stroke that has been ongoing since fiscal 2012. As a result, we achieved zero incidents of heat stroke in fiscal 2013. We will never rest on our laurels when it comes to corporate risk. Instead, we will continue to thoroughly implement initiatives.

Q5 Please tell us your philosophy on shareholder return and about dividends.

A5 We are looking into comprehensive measures related to shareholder return.

Sanki Engineering views the return of profits to shareholders as one of our priority issues and recognizes our dividend policy as the basic measure for returning profit to shareholders. In the past, we sought to strike a balance between continuous business development and short-term profit return to shareholders and have increased dividends in line with results and other factors while maintaining a basic policy of ensuring stable dividends. While this policy is fundamental to our operations, we will look into comprehensive measures related to shareholder returns including share buyback.

We set a year-end dividend of ¥7.50 per share for the fiscal year (the same as in the previous fiscal year), and as a result the total yearly dividend was ¥15 per share (the same as in the previous year). Moreover, as in fiscal 2012, we returned profits to shareholders through the buyback of 4 million of our own shares. We plan to provide an annual shareholder dividend of ¥15 per share in fiscal 2014 as well (interim and year-end dividends of ¥7.50 each).



Q6 Do you have a message for your stakeholders?

A6 We will enhance corporate value and grow together with society through "total engineering competency".

The Sanki Engineering Group aims to respond to the demands of society by enhancing corporate value and driving sustainable growth alongside society through the contributions of "total engineering competency". Going forward, we will listen closely to our stakeholders and deepen communication in an effort to meet expectations.

Each employee has a strong sense of ethics and will strive to fulfill his or her responsibility to society. I ask for your continued support and guidance going forward.

Toward Realization of our Medium-Term Management Plan

Leveraging "total engineering"

The Sanki Engineering Group aims to achieve sustainable growth together with society by realizing our Company Credos, "We will contribute to society through engineering". Corporate value for the Group is indivisible from contribution to the creation of a sustainable society, and for this reason we have integrated the execution of our business with the execution of CSR. In addition, we will make the most of our "total engineering competency" to contribute to the resolution of various social issues. This is a responsibility our Group must fulfill, and doing so will bring opportunities for competitiveness and growth.

The Sanki Engineering Group is working to achieve the objectives of "SANKI VITAL PLAN 90th", our medium-term management plan scheduled to finish in fiscal 2015, the year of our 90th anniversary. We are pushing ahead with various measures based on the basic policies of: "Maintain a profitability focus and secure orders on an optimal scale"; "Further strengthen Core Businesses and expand Strategic Growth Businesses"; and "Exploit and cultivate New Businesses". Helping to realize a low-carbon society and further enhancing corporate value through our "total engineering competency" is expected to lead to the achievement of our objectives under the medium-term management plan.

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 energies

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

Core businesses
- HVAC and Plumbing for building
- Facility Systems
- Machinery Systems
- Industrial HVAC
- Environmental Systems
- Electrical Systems

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

* Integrated as Smart Building Solutions Business as of fiscal 2012

Consolidated net sales (Unit: ¥100 million)	FY2013 (Results)		FY2015 (Targets)	
Core Businesses	1,605		1,760	
Facilities Construction	1,335		1,370	
Machinery Systems	98		150	
Environmental Systems	171		240	
Strategic Growth Businesses	101		190	
Unique New Businesses	0		20	
Real Estate Business	10		30	
Other	6		—	
Adjustments	(9)		—	
Total	1,714		2,000	
Overseas sales of above amount	18		80	
Consolidated ordinary income	31	1.8%	100	5.0%

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

2015

Achieve SANKI VITAL PLAN 90th

90th year since founding

2014

Key initiatives for FY2014

Core Businesses
Strengthen customer sales and proposal-based sales functions
Focus Sales Division functions into sales planning and sales development and work to gain customers
Continue promoting Recovery Project and Hospital Project company-wide

Strategic Growth Businesses
Expand growth strategy including Life Cycle Engineering (LCE)
Establish subsidiary site in the Chugoku region and strengthen LCE with enhanced Group coordination

Unique New Businesses
Strengthen "total engineering competency": Promote planning based on an action plan for measures in each division

Strengthening the management base
Foster human resources that can take on the responsibility of developing business overseas
Enhance corporate value by bolstering risk management and corporate governance
Strengthen management of the different areas of risk identified by the Risk Management Committee
Bolster compliance
Eradicate legal violations with thorough legal compliance

2013

Key initiatives taken in FY2013

Core Businesses
Strengthened company-wide cross-departmental sales capability
Established a Sales Division responsible for all businesses and promoted sales proposals mainly to medical institutions and schools
Secured orders on an optimal scale while maintaining a focus on profit

Strategic Growth Businesses
Expanded growth strategy including Life Cycle Engineering (LCE)
Expanded and strengthened LCE by setting up a subsidiary site in the Hokkaido region

Unique New Businesses
Strengthened "total engineering competency"
Newly established the Food Service Equipment Office to strengthen our food service equipment business and coordinated it with our Core Businesses

Strengthening the management base
Revised the personnel system and performance evaluation system
Increased efficiency of on-site operations
Introduced a document creation support system using IT and supported on-site operations
Enhanced corporate value by strengthening risk management and corporate governance
With the aim of expanding overseas business, set up the Overseas Risk Subcommittee to address risk overseas and strengthened supervision

Strengthen customer sales and proposal-based sales functions

We reformed the functions of the Sales Division to enable a focus on sales planning and sales development, which has further strengthened customer sales and proposal-based sales functions. The Sales Division will strive to gain customers to expand our future base in collaboration with the Energy Solutions Center as a support mechanism, primarily through market analysis, sales development, customer management and sales activity management.

Foster global human resources

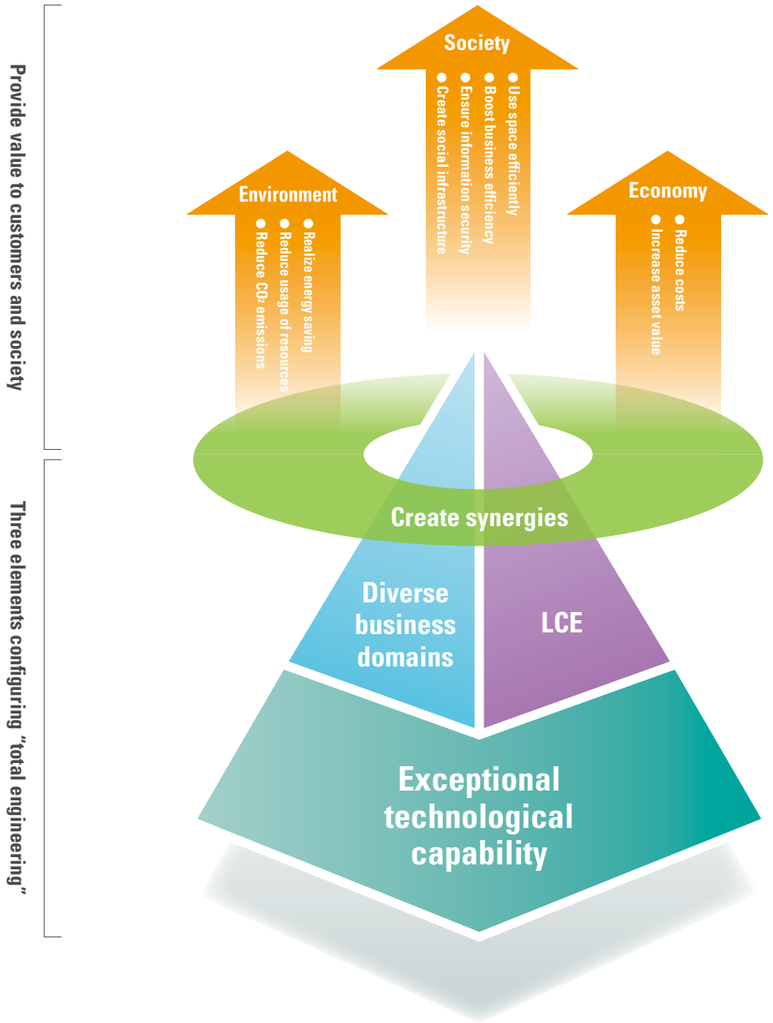
Every year we continue to conduct a program that combines language learning and practical training by utilizing an overseas training system. A total of nine students in two graduating classes have already completed the program, and four of these students have been dispatched overseas to work as local staff. We intend to maintain this training program in fiscal 2014 and beyond, and to promote the development of leaders who can drive future business advancement in Japan and overseas.

“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 optimal solutions throughout the overall life cycle of facilities in the numerous business domains the Group operates in, backed up by exceptional technological capability.

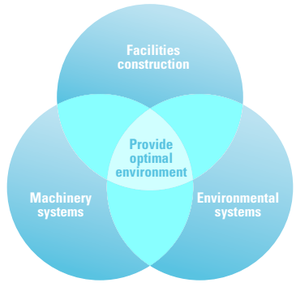
By creating synergies through “total engineering” , we can further boost the value we provide to customers and society. The Sanki Engineering Group delivers one-of-a-kind systems with optimum added value in response to diverse needs related to the environment, society and economy.



Diverse business domains — Provide an optimal environment utilizing wide-ranging business technologies

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

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



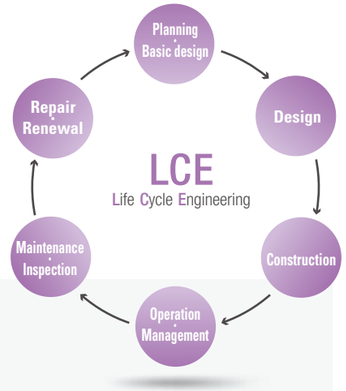
Provide the optimal environment

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

LCE — Respond to all needs throughout the life cycle

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

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

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

Exceptional technological capability — Definitive technology supporting “total engineering”

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

Creating value through “total engineering capability”

Contributing to Japan’s highest skyscraper

Abeno Harukas

Construction of Abeno Harukas, Japan’s highest skyscraper at 300m above ground level, was completed in the Abeno district of Osaka in December 2013. It was built directly on top of Kintetsu Corporation’s Osaka-Abenobashi Station and incorporates advanced urban functionality with environmentally friendly features.

Diverse business domains — **Providing optimum environments through construction in wide-ranging fields**

The Sanki Engineering Group provided “total engineering competency” for Abeno Harukas through construction of HVAC and plumbing, and kitchen systems. By linking each facility and system, we achieved effective energy source use and reduced costs.

LCE — **Responding to diverse needs with the collective capabilities of the Group**

Sanki Engineering is responsible for the design and construction of facilities while Sanki Techno Support is responsible for maintenance. By concentrating the state-of-the-art technologies of the Sanki Engineering Group, we can optimize the entire life cycle in huge complexes.

Advanced technological expertise — **Creating systems that match the specifications of highest skyscraper**

- We introduced Japan’s first indoor biogas system that converts waste generated from each facility into power and hot water energy.
- We implemented a vertical pipe wastewater disposal system, which was previously difficult in super high-rises, by controlling pipe inner pressure and falling velocity.
- Utilizing the characteristics of super high-rise architecture, we introduced a falling water power generation system that uses non-fecal wastewater.


Indoor biogas system


Kitchen systems

“Total engineering” synergy

- State-of-the-art eco-friendly building that reduces environmental burden from multiple perspectives (reduces CO_2 emissions by 25%, saves energy, and cuts down on waste).
- Support the maintenance of a sustainable futuristic building by providing an optimal environment throughout the entire life cycle.

Overview of complex:

60 floors above ground, 5 floors underground (total floor area 306,000m²)

Facilities:

Indoor biogas system, vertical pipe wastewater disposal system, falling water power generator, area heat recovery system, large diameter riser pipework, ice-water thermal storage system, night purge control, outdoor air cooling system, use of reclaimed water (rainwater and non-fecal water), installation of air flow windows, thermal energy pipework connecting the tower and wing annexes

Contributing to production facilities for medical devices

Terumo Yamaguchi Corporation


Membrane separator

Terumo Corporation established Terumo Yamaguchi Corporation in response to increasing production of catheters in line with growing global demand.

Overview of complex:

3 floors above ground (total floor area: 15,348.8m²)

Facilities:

Micro-bubble air diffuser, membrane separator, sludge dehydrator, activated carbon filter

Diverse business domains — **Responsible for clean room utility equipment and wastewater treatment system**

We were responsible for construction of plumbing and wastewater treatment facilities requiring enhancement at production facilities for medical devices.

- Responsible for HVAC/dust prevention system, utility system, and heat source equipment essential for the clean room.
- Responsible for all areas from design to construction of wastewater treatment facilities enabling advanced processing.

Advanced technological expertise — **Accommodate the strict standards and ensured the advanced safety required of production facilities for medical devices**

- Created a production line in compliance with product quality management standards (GMP).
- Accommodated strict water outflow standards based on Seto Inland Sea environmental preservation measures and minimized environmental impact on the surrounding area.

“Total engineering” synergy

- Considering ways to optimize the entire system, we created flexible facilities that can be adapted to expansion and changes in the production line.
- Improved work efficiency and energy efficiency through comprehensive equipment design.

Facilities Construction Business

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

Orders (billions of yen)

Sales (billions of yen)

Summary of results and performance for FY2013

Orders in the Facilities Construction Business were 5.7% higher than the previous fiscal year at ¥143,839 million. Sales amounted to ¥143,697 million, up 11.7% from the previous fiscal year due to an increase in the number of projects carried over from the end of the previous fiscal year. As the yen continued to depreciate while stock prices continued to climb under the influence of governmental economic and financial measures, resurgence in exports and improvement in corporate revenues, mainly in the manufacturing industry, led to signs of recovery in construction investment in Japan, including deferred maintenance, which had been restrained previously. As a result, orders were up in all businesses compared to the previous fiscal year. Nonetheless, concerns remain over upward pressure on labor costs and the cost of resources, equipment and materials, resulting in an environment in which it is becoming increasingly difficult to secure profitability. While focusing on construction profits, we worked to expand orders so as not to let opportunities slip by.

Sanki Engineering strives to differentiate its offerings through comprehensive engineering of each of our component technologies, including hygiene management for food products, energy and power conservation, and environmental measures in kitchen systems used in facilities such as hotels, hospitals, factories and office buildings. In fiscal 2013, we strengthened our organization by newly setting up the Food Service Equipment Office. We are expanding sales of the "kitchen system" that covers all interior construction and related equipment to meet improvement demands. Moreover, we are aiming to gain orders for food production factories that conduct advanced hygiene management. Beginning with clean technology to guarantee a high degree of cleanliness in each process, from material receipt to product shipment, we make proposals for all areas of basic planning, construction execution design, actual construction and maintenance, from efficient production equipment layout, all the way up to conveyance systems and waste and wastewater treatment.

Record of major projects implemented

- Kintetsu Abeno Harukas Tower Building (HVAC and plumbing work)
- Improvement work for Mitsui Sumitomo Insurance Co., Ltd.'s Kanda Surugadai Sanchome Project (HVAC, plumbing and electrical systems, and facility systems)
- Construction of Hamanomachi Hospital for Federation of National Public Service Personnel Mutual Aid Associations (HVAC and plumbing work)
- Toyota Motor Corporation's New Experiment Wing (HVAC, electrical systems)

The medium-term management plan
SANKI VITAL PLAN 90th

FY2015 (target)
156.0 billion of yen

Important policies for achieving our goals

- Increasing orders for proposed improvement projects
- Strengthening cost competitiveness
- Developing technology for next-generation energy-saving and new energies
- Strengthening and enhancing our bases in Southeast Asia

Progress in the medium-term management plan

Strengthen Core Businesses

● Increasing orders for proposed improvement projects

We are continuing to focus on proposal-based improvement projects to meet customer challenges and needs and are proposing proactive solutions through integrated departmental efforts.

● Strengthening cost competitiveness

We are working to gather purchase data and strengthen purchase power. We are also creating a system to reduce work burden for on-site managers and improve business processes. We are making effective use of this system to execute continual improvements and reviews.

● Expanding orders in strategic fields such as information-related facilities

We are proactively proposing unique technology such as "L-LAC®" , in HVAC systems for data centers. Moreover, in May 2014 we announced the development of "Front Air®", a high-heat-generating server cooling system to counter the high density and increased heat generation from power consumed in server racks.

● Developing technology for next-generation energy-saving and new energies

We are continuing to develop next-generation energy savings and new energy-related technologies, including demonstration experiments aimed at realizing energy self-sufficient plant factories.

● Strengthening and enhancing our bases in Southeast Asia

We coordinate local overseas subsidiaries with domestic departments by way of the Overseas Operations Control Office established in fiscal 2013 to carefully consider risk and develop and strengthen overseas business. The opening ceremony for a representative office in Bangkok was held in April 2013.

Expand Strategic Growth Businesses

● Life cycle engineering

We are expanding life cycle engineering in coordination with the Group company, Sanki Techno Support Co., Ltd. by making proposals starting from the design stage up to the life cycle plan following completion of construction.

● Renovation

Renovation refers to large-scale improvement work for existing buildings that involves changing functionality and enhancing features and value. In terms of renovation, we are working to make total engineering proposals and to raise asset value for customers.

● Integrated networks

Creating an integrated network for HVAC and plumbing, water supply and drainage, electrical systems and a fourth element infrastructure generates many benefits such as enhanced building operational efficiency and real estate value, lower costs, energy savings, intelligent systems and greater stability. We are marketing this as a smart building solution.

Toward achieving the objectives of the medium-term management plan

Demand is growing for building reconstruction due to aging structures while needs continue to increase for energy-saving measures as well as building maintenance and management. The Sanki Engineering Group will continue to promote life cycle engineering by making proposals for entire facilities from a comprehensive perspective, from the maintenance, management, improvement and renovation of buildings to their design and construction. In order to enhance the information-gathering and proposal-making capabilities necessary to achieve this, we are providing training to strengthen our marketing capabilities. Moreover, we place emphasis on reinforcing construction capabilities in response to challenges related to worker shortage, labor costs and rising material prices, and to this end, we will strengthen ties between sites and administration and supporting departments as a means to enhance the quality of safety, quality and cost. In addition, we will continue to contribute to the resolution of social issues such as global warming, energy resource issues, and aging facilities together with our efforts to achieve plan objectives.

■HVAC and plumbing for buildings

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

Of these, we are marketing our services to schools and medical facilities as a key field and are working proactively on plans for the new construction and rebuilding of large-scale structures. With new technologies unique to Sanki Engineering that not only lead to energy saving and power saving, but also open the way for reduction in life cycle costs, we will broaden our business fields.

■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. Of these, we have positioned electronics industry high precision equipment, medical and pharmaceutical, food product, and automotive-related sectors as key fields.

Energy saving measures are directly connected to product price competition owing to rising energy costs, and Sanki Engineering makes proposals with a focus on reducing life cycle costs.

■Electrical systems

In the Electrical Systems 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.

Going forward, demand for further sophistication, diversification and energy conservation will increase. In response, we will aim to contribute to reductions in power consumption and greater comfort and convenience primarily by boosting energy savings in lighting and power outlets and making power usage more visible. Additionally, we will focus on proposals that incorporate power-saving measures and guaranteeing power during emergencies.

■Smart building solutions

In the Smart Building Solutions 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 systems and information communication technology. The Energy Solution Center proposes technology developed by the Technical Research & Development Institute, and the Electrical & Network Systems Engineering Department and Instrument & Control Engineering Department provide installation and construction as part of a system that connects energy-saving technologies at each stage.

In January 2014, we developed an SSOM individual lighting control system applying to various offices. Since this has the effect of halving power consumption from lighting as well as reduced wiring and lower costs, we are proactively marketing it as a practical power-saving solution.

■Facility systems

The Facility Systems Division offers design planning and project management services for the office or the workplace, such as fit-outs and relocation. Consulting services for offices and workplaces are another of our main functions. In particular, we have an excellent achievement record for office relocation such as dealing rooms for financial institutions, we have an excellent achievement record for office relocation.

We are focusing on creating new value and further strengthening our engineering capabilities by making use of our unique know-how and integrating moving engineering with facilities management.

(Building monitoring systems and security systems, which were previously included in the Smart Building Solutions Business, were transferred to the Facility Systems Business, which is expanding proposals for similar projects, as of April 2014 to create structural synergistic effects.)

Topics 1

Toyota Research and Development Center (China) Corporation

Installation of energy-saving systems adapted to the local environment

Sanki Engineering and a local subsidiary in Shanghai were responsible for low and high temperature environment testing facilities and wind tunnel environment testing equipment as well as HVAC, water supply and drainage, and plumbing work for an experiment wing of the Toyota Research and Development Center (China) Corporation (TMEC) in Changsu, Jiangsu Province, China. Established in 2010, TMEC held an opening ceremony upon initial completion in 2013, and marked the completion of the second phase of construction with a ceremony in July 2014. TMEC is the first development site for hybrid vehicles outside Japan, and research is being done there to lower the cost of these vehicles. It is an important base that aims to drive the future spread of hybrid vehicles in China.

The low and high temperature environment testing facilities installed by Sanki Engineering and a Shanghai local subsidiary allow the temperature of the testing room to be varied from -40°C to 50°C, making it applicable to environments found throughout the vast territory of China. Moreover, HVAC, water supply and drainage as well as plumbing facilities employ energy-saving devices and use reclaimed drainage water among other measures to introduce energy-saving design into each location.

Topics 2

Hakkaisan Brewery Co., Ltd.

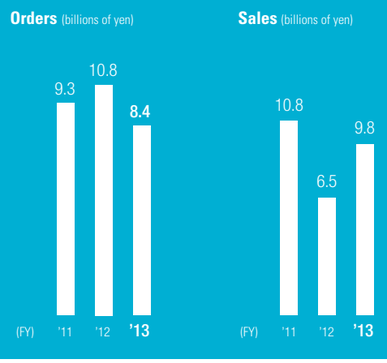
Snow cooling system using natural energy

Hakkaisan Brewery Co., Ltd., known for its signature brand of local Niigata sake "Hakkaisan", built a room for storing snow in 2013 that uses snow to mature sake at cool temperatures. Sanki Engineering was responsible for construction of the air conditioning and plumbing as well as a cooling system that utilizes natural energy.

The snow storage facility can store around 1,000 ton of snow fallen in winter and keep it throughout the summer as well. The facility features another storeroom for the sake within the same space as the snow storeroom. Cool air emanating from the surface of the snow flows into the sake storeroom via natural convection, thus enabling cooling of the entire space without the use of power. About a maximum of 400,000 liters of sake can be stored in the storeroom. Moreover, the cold air can be sent into the adjacent product storehouse (fermentation room) for use as snow-based air-conditioning. In this system, numerical analysis of temperature distribution is used in advance confirmation prior to construction and actual measurements during operation, helping maintain a favorable environment all year round.

Machinery Systems Business

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



Summary of results and performance for FY2013

Orders in the Machinery Systems Business were down 21.6% from the previous fiscal year at ¥8,482 million, as domestic capital investment in the manufacturing industry fell short of full-fledged recovery. Nonetheless, sales increased 51.4% compared with the previous fiscal year to ¥9,846 million, due to an increase in the number of projects carried over from the end of the previous fiscal year.

In the Factory Automation (FA) field, although we expected to see investment in production equipment in Japan accompanying the demise of the strong yen, no growth was recorded due to a wait-and-see attitude following the consumption tax hike, and since production facilities could already handle the rush in demand prior to the increase in consumption tax. Moreover, with regard to the transfer of production facilities overseas, the move toward local production for local consumption is advancing continuously for equipment not deemed to be of high added value, even with the weak yen. In the midst of this market environment, demand for equipment used in production lines in such areas as food products and containers for convenience stores and supermarkets, and streamlining of equipment in the amusement and book printing industries were observed.

Additionally, in the logistics field, we provided sorting and conveyance equipment as well as picking systems on the back of buoyant demand for equipment in the logistics industry related to mail order and home delivery services. In the area of airport equipment, where the Company has earned high praise and the trust of customers, we strengthened existing airport facilities in the luggage conveyance field and introduced the latest high-tech storage and logistics systems for cargo conveyance, despite a lull in new large-scale contracts for airports in Japan.

In the medical field, with rising demand for labor-saving devices backed by safety, we are working to develop dispensers for blood tests and products using robots.

Record of major projects implemented

- Mail order company: Introduced the "Cubic-Sorter System" for sorting small packages
- Mobile phone sales company: Introduced "PICKOLLO" for automatic picking system of rechargeable battery

The medium-term management plan
SANKI VITAL PLAN 90th

FY2015 (target)
15.0 billion of yen

Important policies for achieving our goals

- Entering new energy-related markets
- Developing and marketing new-type conveyors for specific markets
- Establishing competitive bases in overseas markets

Progress in the medium-term management plan

Strengthen Core Businesses

Entering new energy-related markets

- In solar batteries, we are making an approach in line with signs of recovery in domestic manufacturers following the impact of stalled operations at solar power generation manufacturers in China. In lithium batteries, we will expand sales to meet solid demand for stationary equipment (mainly home use).

Developing and marketing new-type conveyors for specific markets

- Our business division operates under the idea that "all employees are developers", and we are focusing on the development of conveyor-related equipment in the three industrial markets of food products, pharmaceuticals, and cosmetics sundry goods.

Establishing competitive bases in overseas markets

- We are conducting market analysis while carefully considering risk in order to select countries that are emerging as markets and countries that will serve as production bases.

S-Con Mini SIMPLE

PICKOLLO

Cubic-Sorter System

Toward achieving the objectives of the medium-term management plan

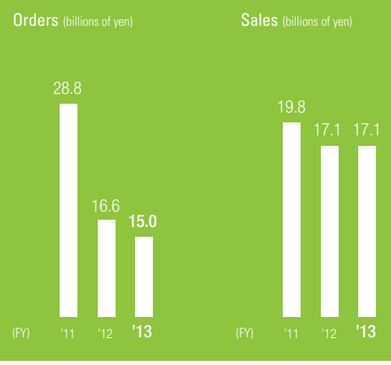
With the aim of achieving our objectives, we are focusing on three key areas: "Strengthen product appeal to expand profits in standard equipment businesses", "Expand sales in non-manufacturing industry fields such as medicine and pharmaceuticals and logistics", and "Strengthen technological capability through combination with robots". To this end, we established a sales development team and a dedicated development team that are working with a focus on the field of medicine and pharmaceuticals.

S-Con Mini SIMPLE, which was launched in 2014, has enhanced product appeal that matches customers' needs for lighter weight, more compact design and lower price, and we are aiming to increase our industry share. In addition, we are conducting R&D using robots as system integrators and setting various recognition devices and operating software such as 3D vision. During fiscal 2014, we will establish a robot center inside the Yamato Engineering Center in Kanagawa Prefecture with plans to use it as a place to display various robots and conveyance systems as well as for handling tests.

In conveyance technology, we will integrate HVAC technology and food production equipment/machinery technology to differentiate our products from other companies' through "total engineering" . We will also contribute to society by providing numerous one-of-a-kind products with enhanced added value such as labor-saving features.

Environmental Systems Business

In water treatment and waste treatment facilities, we will work to develop products and systems that conserve resources and lower greenhouse gas emissions as well as deal with problems such as debris from earthquakes, while contributing to the realization of a low-carbon society.



Summary of results and performance for FY2013

Orders in our Environmental Systems Business were down 9.6% from the previous fiscal year to ¥15,029 million, due to the impact of delays in orders for water supply and sewage systems from public offices. Sales were 0.1% upper than the previous fiscal year at ¥17,169 million.

Public investment for fiscal 2013 in public works such as sewage treatment and waste treatment facilities, which are key markets in the Environmental Systems Business, was concentrated in social infrastructure, including aging roads and bridges. Environment-related capital investment has been on the decline, and in particular, orders for the sewage-related sector have dipped and the scale of projects has contracted dramatically. Conversely, existing facilities have entered a period of mass upgrades, and demand continues for life extension and longer service life as well as the installation of energy-creating equipment required for energy-saving treatment facilities and a stable power supply over the medium to long term.

In March 2014, we launched sales of AEROWING II, a low-pressure drop membrane panel-type air diffuser that contributes to a reduction in power consumption at sewage treatment centers. This system makes improvements to AEROWING, which has already been installed in approximately 300 public sewage treatment facilities in Japan and about 1,000 worldwide. AEROWING II maintains high oxygen transfer efficiency while further reducing pressure loss. (For details, see page 9 under Highlights of Business Activities)

In addition, in light of the need to conserve and create energy as well as the conditions of electric power in recent times, we developed and began sales of a small-scale binary cycle power generation system that can generate power using unused waste heat from factories, geothermal heat, and hot spring heat. As small-scale binary cycle power generation systems come into the spotlight, the Company's products have a variety of exceptional features such as high power generation efficiency, ease of maintenance, and the ability to generate high power output even during waste heat load fluctuation.

Record of major projects implemented

- Shimoda Water Purification Center: Installed first AEROWING II system
- Terumo Yamaguchi Corporation: Wastewater treatment system

* "Total engineering" with Facilities Construction Business Division (HVAC and plumbing work)

The medium-term management plan
SANKI VITAL PLAN 90th

FY2015 (target)
24.0 billion of yen

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

Progress in the medium-term management plan

Strengthen Core Businesses

1. We established a sales expansion system and have launched marketing activities for AEROWING II as a means to expand strategic energy-saving products for sewage treatment facilities. In addition, we will conduct continued marketing using actual performance data from a supercharged (turbocharged) fluidized bed incinerator installed at the Asakawa Water Reclamation Center in Tokyo.

2. We are developing next version core products for the Environmental Systems Business. These include AEROWING II, a low-pressure drop membrane panel-type air diffuser, and Weedless V, a low power agitator installed in the upper part of a water tank, in response to the need for a reduction in power consumption while maintaining processed water quality at sewage treatment facilities. We also developed a small-scale binary cycle power generating system in response to needs for energy creation.

3. We established a sales system for AEROWING (overseas name: AEROSTRIP) as a means to expand the sales network overseas. We have already concluded a sales alliance agreement with OVIVO USA, LLC, a leading plant manufacturer in the North American market. AEROSTRIP Corporation (USA; 100% owned subsidiary) of AQUACONSULT, which supplies AEROWING to this company, has been placed under the umbrella of AQUACONSULT Anlagenbau GmbH (Austria; 100% owned subsidiary). Through this, we have centralized our system for instructions and orders as well as information exchange, and established a system to further strengthen sales promotion activities in North America.


Small binary power-generating system


Weedless V

Toward achieving the objectives of the medium-term management plan

In the Environmental Systems Business, we focus on the development and sales expansion of products that meet needs for continuous energy saving and energy creation. We will propose the supercharged (turbocharged) fluidized bed incinerator, AEROWING, and its peripheral systems to sewage treatment facilities, as well as power-generating systems to waste treatment facilities and private factories that generate waste heat. Moreover, the Sanki Engineering Group will meet needs for life extension and longer service life by providing customers with a strength of the Group, life cycle engineering from the planning of facilities to their design, construction, follow-up service, maintenance, and management.

In private projects, we will leverage the channels of the entire organization as a "total engineering" company and focus on expanding sales of water and wastewater treatment systems for the medical and pharmaceutical fields.

As part of a society that demands energy and resource conservation we will pursue added value relative to life cycle costs, ease of maintenance and management, and extended life and longer service life needs, and contribute to the realization of a low-carbon society.

Real Estate Business

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

Summary of results and performance for FY2013

Sales in the Real Estate Business fell 60.8% from the previous fiscal year to ¥1,077 million, due to the conclusion of the contract period in the previous fiscal year for a large rental property located in Yamato City, Kanagawa Prefecture.

In each facility, we made upgrades in response to aging equipment and fixtures to maintain and secure rental revenues. This included renewing lighting fixtures with LED lighting, upgrading water heaters and coolers in HVAC, and repairing the external walls.

Initiatives in FY2014

The large rental property located in Yamato City, Kanagawa Prefecture was named “Sanki Yamato Building” whose contract period has concluded on April 1, 2013. Going forward, a challenge for fiscal 2014 will be to examine the possibility of effective utilization of this asset and to draft plans from this investigation into concrete measures.

In other properties, we will strive to secure stable revenues by restructuring our business, such as through enhancing added value by upgrading facilities and utilizing idle assets.

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. We believe that this technological development will meet customer needs and lead to the resolution of social problems. Our three main areas of focus are “energy saving”, “upgrading” and “renovation”. 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.

Also, we are conducting R&D covering all of our business domains based on a framework coordinated with the business division, the Technical Research & Development Institute is placed as the core of our R&D.

Initiatives related to intellectual property

Sanki Engineering manages intellectual property based on the code of conduct to “manage and reasonably 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 Technical Research & Development Institute.

In terms of management, we have assigned a liaison person for intellectual property in each business division, led by the Intellectual Property Department. The liaison person proactively investigates intellectual property, for example from activities to improve construction methods, and internally provides information from meetings with intellectual property officials. Moreover, we are working to enhance awareness in order to protect our own technology and to ensure the intellectual property rights of other companies are not violated, through such means as sharing intellectual property-related information via a database that includes an overview of patents and public notifications concerning business, and conducting intellectual property training for new recruits.

Distributing information through the Sanki Global Environment Plaza

The Sanki Global Environment Plaza, which was established in the Technical Research & Development Institute, introduces Company efforts 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: 046-274-4111

Message

From Technical Research & Development Institute

Creating appealing products and proactively supporting the site

The Technical Research & Development Institute conducts fundamental research and investigation of new technologies in addition to developing technologies. The institute has been focusing on 3 initiatives since fiscal 2013.

The first is site visits. The objectives are to get first-hand insight into needs at actual sites that cannot be obtained solely within the confines of the institute, and to provide direct technical support. By doing so, we go beyond waiting for requests from customers and sales, and seek to discover potential needs.

Second, we are taking measures to counter the rising cost of labor and price of resources, equipment, and materials, which are key management issues. We are confronting these challenges from the perspective of technological development by saving labor in construction and evaluating new resources, equipment, and materials as well as construction methods.

Third, we are promoting cross-departmental development. Since the Sanki Engineering Group maintains a wide range of business domains, we retain engineers who possess a variety of specialized capabilities. We create new value by leveraging this strength and integrating technologies, which we refer to as cross-departmental development. We hold study sessions twice a month and have set up a consolidated business space for engineers from all departments to invigorate communication between engineers. Thanks to this initiative, the number of cases of development that leverage the strengths of the Group has been increasing.

In fiscal 2014, we will further promote these efforts and continue with activities to create appealing products and actively support site by fusing society’ s needs with those of the Company.

Hirotoshi Fukui
Executive Officer, Chief Director of Technical Research & Development Institute

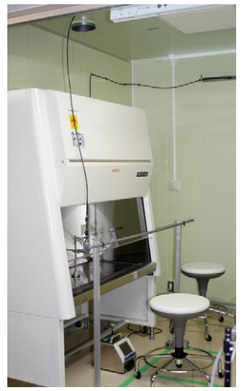
TOPICS

Develop cell culture facilities for regenerative medicine

Regenerative medicine is currently attracting interest from society for its ability to regenerate dysfunctional tissue and organs and restore functionality. Cell culture for regenerative medicine uses small-scale bio clean room facilities called Cell Processing Centers (CPC). This is a new field of technology, so necessary and sufficient equipment specifications are under development and pursuing the suitable design for the equipment is not expected to be exceeded.

For certifying performance of equipments, Sanki Engineering created a mockup facility within the Technical Research & Development Institute aimed at developing technology, and developed an air cleaning technique that reuses exhaust air from the biosafety cabinet (BSC), the core equipment inside the CPC. By rectifying the exhaust air and supplying it to the inside of the CPC, the air inside the CPC becomes a one-directional down flow. This results in the ability to keep the air clean by handling less air volume than before, leading to further energy savings of 20%.

We will contribute to the development of the regenerative medicine industry by promoting further development using mockup facilities and gathering the opinions of actual users.



Corporate Governance

Basic philosophy

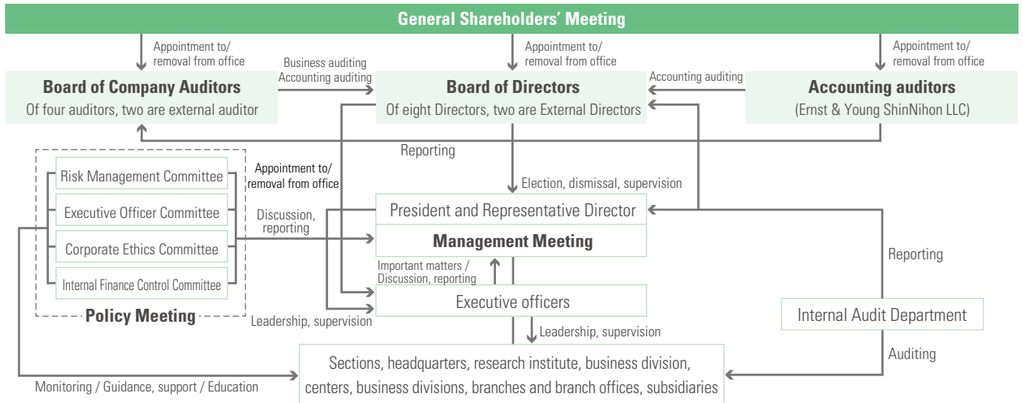
Sanki Engineering identifies contribution to society through engineering, communication with all of our shareholders and other stakeholders, and the realization of business activities that make us a company both valued and trusted by the community as our basic management principles. In order to realize this, we recognize that a key management challenge is to boost management efficiency and performance with uncompromising enhancement of compliance.

Corporate governance system

In order to increase management 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 system of legality and appropriateness of our business procedures.

Framework of corporate governance system

(As of June 26, 2014)



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. 40

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

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.

An Overview of the Executives (As of June 26, 2014)

1	Representative Director and President	Takuichi Kajiura
2	Representative Director and Senior Executive Officer, and General Manager, M&E Contracting Headquarters	Tsutomu Hasegawa
3	Director, Senior Executive Officer	Tetsuo Usui
4	Director, Managing Executive Officer, and General Manager, Administration Division	Mamoru Shimma
5	Director, Managing Executive Officer, and General Manager, CSR Promotion Division	Nobuo Kumura
6	Director, Managing Executive Officer, Deputy General Manager of M&E Contracting Headquarters (eastern Japan, western Japan control)	Hidemi Fujii
7	External Director	Yukiteru Yamamoto
8	External Director	Hiroki Nishio
9	Full-time Auditor	Toshikatsu Yasunaga
10	Full-time Auditor	Masato Komura
11	External Auditor	Takeo Inokuchi
12	External Auditor	Mamoru Norisada

Corporate Governance

Compliance-related initiatives

For Sanki Engineering, 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, for which our President acts as Chairperson.

Despite this, Sanki Engineering had to undergo an on-site inspection by the Japan Fair Trade Commission on suspicion that we breached the Anti-Monopoly Act in bidding for the Hokuriku Shinkansen construction project in September 2013. In order to never again become the subject of suspicions of a breach of compliance, we formulated the Sanki Engineering Group Compliance Declaration and the Sanki Engineering Group Behavioral Standards to ensure that business activities adhere to behavioral norms and guidelines based on compliance with laws and regulations and corporate ethics, throughout the Group and across all businesses irrespective of civil-service projects.

Sanki Engineering Group Compliance Declaration

Formulated: October 21, 2013

A policy of conducting business activities in compliance with laws and regulations and based on corporate ethics is the major premise behind the operations undertaken by the Sanki Engineering Group, and is set forth in the Sanki Engineering Group Code of Conduct and Action Guidelines.

Activities related to the granting of contracts are also subject to this and the third provision of the Code of Conduct stipulates, "In seeking to win contracts, we will observe the rules of fair market competition".

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

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

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

Sanki Engineering Group Behavioral Standards

Formulated: October 21, 2013

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

Additional clause: These standards shall be implemented as of October 21, 2013.

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

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

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

Contribution to society through business activities

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

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

Disclosure of company information

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

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

Fair market competition and trading

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

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

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

Respect for human rights

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

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

Management of company finances

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

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

Protection of the global environment

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

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

Prevention of association with anti-social elements

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

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

Respect for social rules

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

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

Corporate Governance

Concerning breach of the Anti-Monopoly Act in the Hokuriku Shinkansen construction project and measures to prevent reoccurrence

Although Sanki Engineering has always worked to comply with laws and regulations since its earliest days, we had to undergo an on-site inspection by the Japan Fair Trade Commission on suspicion that we had breached the Anti-Monopoly Act in bidding for the Hokuriku Shinkansen construction project in September 2013. As a result of an internal investigation, it became clear that there had indeed been a breach of the Anti-Monopoly Act. We would like to offer our most sincere apologies to shareholders, investors and all other stakeholders for the concern and trouble we caused.

Sanki Engineering realizes the serious nature of this matter and has cut the monthly remuneration of six executive officers, including the President and Representative Director, the executive officer in charge of the division involved in this matter, and the executive officer in charge of the management department, by 20 - 30% for a period of three months in order to clarify the locus of responsibility in light of the gravity of the situation.

Going forward, we will work to strengthen compliance and thoroughly enforce and strictly execute measures to prevent reoccurrence in order to eradicate actions that violate laws and regulations. The Sanki Engineering Group will work as one to regain the trust of everyone as quickly as possible.

Measures carried out to prevent reoccurrence

(1) We revised the "Code of Conduct for Business with Public Offices" on October 21, 2013 and formulated the Sanki Engineering Group Compliance Declaration and Sanki Engineering Group Behavioral Standards.
(2) From October to December 2013, we convened the Corporate Ethics Committee and held special training on corporate ethics for all executive officers of the Group as a means to redouble efforts concerning the Anti-Monopoly Act. At the same time, we submitted a pledge outlining compliance with the Act.
Moreover, we distributed the Compliance Handbook to all executive officers of the Group in order to boost awareness and informed them again of the compliance wistle-blowing system.
(3) We assigned a compliance manager to each operational department in February 2014 and resolved to perform an inspection of the process for deciding on the bid amount for public works, led by the CSR Promotion Division. In addition, we made it compulsory to submit an application in advance and an attended report when attending a meeting with any same industry companies.

New measures to prevent reoccurrence

In order to totally eradicate risk of breaching the Anti-Monopoly Act, we formulated the Sanki Engineering Group's initiatives (daily activities, regulations) as the efficient and practical Anti-Monopoly Act Compliance Program, and we will make sure that it becomes ingrained throughout the entire Group.
In fiscal 2014, we will undertake the following concrete measures.

- Clearly stipulate breaches of laws such as the Anti-Monopoly Act that are grounds for disciplinary action
- Promote further understanding by carrying out training that uses the Anti-Monopoly Act Compliance manual
- Prevent risk from arising by establishing a Compliance Risk Subcommittee within the Risk Management Committee
- Reconsider membership in outside groups (businesses in same industry)
- Create a compliance system for overseas subsidiaries

Compliance Handbook

Corporate ethics hotlines (Whistle-blowing system)

We have set up "corporate ethics hotlines" both within and outside the company as an internal reporting system. 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 2013, there were 8 reported incidents (seven internally and one externally).

In addition, we created a new corporate ethics hotline card that we are distributing in order to raise awareness of this system throughout the entire Group.

Receipt of compliance confirmation sheets from all executives and employees

In order to refresh the awareness of all Group executives and employees of the responsibilities that they must fulfill in their respective positions and roles, compliance confirmation sheets are submitted at the beginning of each fiscal year covering items such as observance of the Code of Conduct and Action Guidelines, and eliminating criminal elements and groups. We have been using e-Learning instead of written materials since fiscal 2013.

Status of submission of compliance confirmation sheets (Fiscal 2014)

	Sanki Engineering (Relevant employees)	Subsidiaries (Relevant employees)
Compliance confirmation sheets concerning performance of duties	28 (28)	27 (27)
Compliance confirmation sheets	1,985 (2,020)	338 (343)

* 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.

Questionnaire concerning compliance awareness

Sanki Engineering conducts a yearly survey to ascertain awareness of compliance and CSR among executive officers and employees. In fiscal 2014, we conducted a survey in which respondents could answer freely on such matters as overall compliance with the Code of Conduct and Action Guidelines, harassment, and comprehension of the training. The contents of the survey covered a wide range of topics, so we will introduce only the most important elements.

Results of questionnaire regarding compliance awareness

- Survey period: April 30 to May 16, 2014
- Participants: All Group executive officers and employees
- Response format: Anonymous
- Distributed: 2,429; Returned: 1,924 (79.2%)

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

	2014
Yes, they are adequate	80.6%
No, they are still insufficient	17.8%
Other	1.6%

Q: What do you think CSR means for the company? (Multiple selections possible)

	2014
Conducting social contribution activities	64.3%
Adhering to laws and regulations	81.1%
Protecting the environment	44.7%
Increasing profit, paying taxes and dividends to shareholders	26.0%
Providing good services and products	45.0%
Meeting society's expectations through business activities	55.9%

Q: In what kinds of situations did you utilize the SANKI REPORT 2013? (Multiple selections possible)

	2014
When conducting marketing to customers	30.4%
When I wanted to confirm the philosophy of the management executive	26.2%
When I wanted to learn about the business of other departments	26.0%
When I wanted to confirm CSR activities	24.4%
Preparation for and review of internal training	13.4%

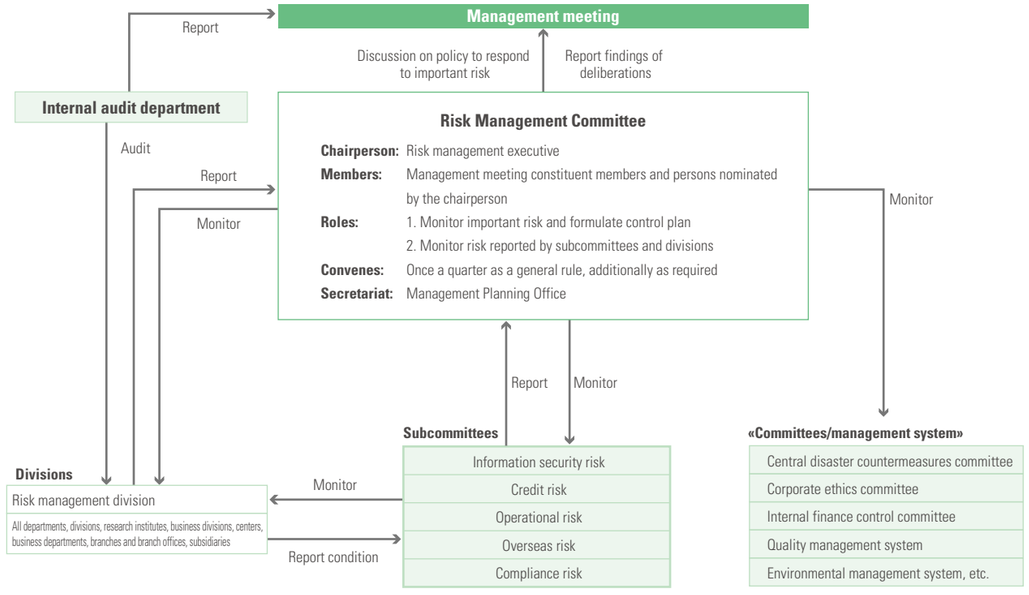
Corporate Governance

Risk management system

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 the case that it does occur. We newly set up a Risk Management Committee in fiscal 2012 that is chaired by a risk management officer to monitor important risk throughout the Group, formulate control plans, and monitor risk reported from subcommittees and divisions.

The Risk Management Committee convened a total of 4 times in fiscal 2013 to report on risk that had arisen, to investigate risk in order to prevent actualization, and to implement countermeasures. Moreover, we established new subcommittees for overseas risk and compliance risk, creating a system to promote the development and reinforcement of the management system.

Framework 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.

In fiscal 2013, we conducted drills and made investigations into other risk aside from large-scale disasters in order to further enhance effectiveness, after conducting a review of internal systems and procedures (system maintenance starting under ordinary conditions and clarification of behavioral standards and division of roles in a disaster) for when a disaster strikes, so that restoration activities can be implemented more promptly.

Topics

Conducting BCP drills

On December 9, 2013, Sanki Engineering conducted initial response drills as part of our BCP for the Kanto region. In order to examine the effectiveness of the BCP, we held practical drills for the first time with a focus on initial response in a disaster. On the day, we conducted drills in a "blind scenario format" assuming that an earthquake with an intensity of upper-6 on the Shindo scale (M7.3) had occurred directly under Tokyo at 1 PM during working hours on a weekday, and that the status of facilities inside the head office building, public transportation, infrastructure, etc. was initially unclear but gradually came to light. We also conducted "safety confirmation" drills to report on the safety of employees and their families and the status of property damage. In addition, we set up an "integrated disaster countermeasures head office" including the President and conducted drills in such areas as gathering information on injured persons and providing aid, responding to customers on premises, evaluating whether or not to return home and where to stay the night, external reporting, confirming the status of damage to company facilities, and gathering information on damage to customers and planning emergency countermeasures. A total of 1,355 people participated and we examined the BCP manual, selecting issues that need to be improved.

In addition, we conducted BCP drills for a second time in May 2014. On this occasion, we held recovery drills on-site, which focused on responding to customers. Going forward, we will create measures that are effective and can be adapted to the circumstances by conducting continuous training.

Also, we will expand training in phases at branches and branch offices.

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 our "information security policy". We have established an information security risk subcommittee within the Risk Management Committee as a management system. Through this system, we can control information security measures Company-wide and manage risk related to information security in an integrated manner.

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 2013, we implemented a compliance awareness questionnaire along with e-Learning to cultivate awareness regarding risk. By continuing to carry out these measures in the future, we will seek to raise our level of information security still further.

Initiatives concerning social media

Social media continues to grow rapidly in today's society, and it is necessary to be careful when using it due to the significant social impact it can have irrespective of the user's intentions.

In order to ensure accurate and effective use of social media, in September 2013, we formulated guidelines for employees of the Group concerning its utilization. The guidelines have been included in the newly created Compliance Handbook, and we are working to ingrain them, while at the same time making efforts to enhance the level of information security including social media.

CSR Management

Our CSR philosophy and promotion system

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.

CSR Manifesto and our Code of Conduct and Action Guidelines

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 the Code and Guidelines in May 2012 to content that meets societal demands in light of the issuance of ISO 26000 amid increasing calls for social responsibility that companies must adhere to.

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 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, government and NGO/NPO. Through communication with all of these individuals, 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.

CSR Corporate ethics training

Sanki Engineering conducts corporate ethics training annually in order to ensure thorough compliance with the Code of Conduct and Action Guidelines. In fiscal 2013, 2,216 people took one of 32 courses offered between June and August. The themes of the training were prevention of insider trading, harassment prevention, points of caution in conclusion of contracts, and management training for internal controls. Special corporate ethics training regard to the Anti-Monopoly Act held during October through December has been undertaken by 2,298 people across 30 occasions. This training divides participants into sales staff and others, with sales staff receiving more detailed instruction regarding compliance with the Anti-Monopoly Act.

Main initiatives with stakeholders

Customers P.44

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

Government, NGO/NPO P.54

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.

Local communities P.52

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

Shareholders and investors P.47

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.48

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

Business partners P.46

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

Our Relationship with Our Customers

Communication with our customers

Sanki Engineering actively participates in exhibitions so customers can become familiar with our unique technology utilizing comprehensive engineering and in order to cultivate new sales domains. In fiscal 2013, we took part in 8 events where we provided technical information related to energy conservation and showcased our total engineering competency through press statements on new technologies, panel displays and exhibits of full-scale machinery.

[Exhibition participation in fiscal 2013]

- 24th Design, Engineering & Manufacturing Solutions Expo
- 26th Interphex Japan
- 12th Multi-system exhibition for smart Air-Conditioning and Sanitation
- Health ingredients & Safety and technology Japan 2013
- 38th Hospex Japan 2013
- 2nd Data Center Expo (Autumn)
- ENEX 2014 – 38th Energy and Environment Exhibition
- Sewage Works Exhibition '13 Tokyo

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 improving customer satisfaction.

Quality Management System

Sanki Engineering conducts quality management based on ISO 9001 at our department of Facilities Construction, Machinery Systems and Environmental Systems. By autumn 2014, we aim to integrate timeframes for QMS and EMS internal and external audits in preparation for revisions to ISO standards and to reduce the burden of site managers' auditing duties. Through this, we plan to enable quality management, safety management and environmental protection with a focus on enhancing customer satisfaction.

Quality Management Activities by Technical Masters

Visiting activity by persons with high technical skills and experience in management at a branch or branch office to sites to prevent trouble and complaints and a technical master system to nurture and guide junior employees were inaugurated in 2013. Technical masters attend construction audits during each process and stage to provide technical checks and construction guidance on-site. Technical masters checked drawings approximately 120 times in fiscal 2013. Technical masters were renamed technical experts in fiscal 2014 and integrated into the chief engineer office. Efforts are being made to strengthen ties with chief engineers and create a system that maximizes their collective capabilities.

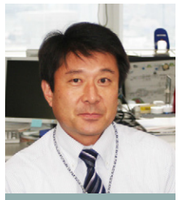
Construction Method Improvement Award and Other Technical Awards

We present the Construction Method Improvement Award every year to commend innovations in construction techniques at worksites. In fiscal 2013, we gave out five Construction Method Improvement Awards and three Contribution to Customers Awards from the 842 award proposals received. We established the Superior Foreman Commendation System in fiscal 2014 and will evaluate foremen from cooperating companies who have top class skills.

Share information on trouble and complaints and ensure swift resolution

We debate the week's bulletins on trouble and complaints and convene meetings to evaluate trouble and complaints that require a decision. In fiscal 2013, we added a human factor to decision classifications. Such analysis helps prevent trouble stemming from human factors. In addition, material in the form of monthly reports is distributed to construction engineers, which includes the cause of issues, introduction to cases, corrective measures, and preventive measures as a means to notify the entire company and prevent reoccurrence.

Voice



Technical Control Section, Technical Control Department, Technical Administration Division

Shigeru Mizoue

I deliver bulletins when trouble or a complaint arises in a Facilities Constructions department and make sure it is sent to the entire company. There are around 300 cases a year, but we share technical information quickly within the company to minimize disturbance to customers.

The cause of trouble or a complaint may be a product defect by the manufacturer, a problem with maintenance or management, or aging equipment, but it's also true that many causes exist on the construction company side. I feel that as a recent trend, there have been many cases caused by a lack of reporting, contacting and consultation. As an example, communication on site is extremely important since unforeseen work and sole operation often lead to trouble and complaints.

I hope that people read even bulletins that do not directly concern them, and that bulletins on trouble and complaints help prevent accidents or reoccurrence.

Fostering human resources to sustain our technological level

Sanki Engineering provides education at our Technical Training Center to improve basic knowledge, enhance construction management skills, and promote attainment of qualifications. In fiscal 2013, we incorporated such areas as drawing production skills, response methods to trouble and complaints, and prevention of trouble through risk prediction into the skill level training and provided practical training focused on actual exercises.

Changes in the number of personnel with quality-related qualifications

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

Qualification	FY 2012	FY 2013	FY 2014
Professional engineer	93	90	92
Project management technician (Civil works/Construction/ Electrical construction/Pipe-laying work)	1,212	1,170	1,154
Architect	40	40	41
Facilities construction architect	250	235	221
Electrical engineer	176	168	169
Chief electrical engineer	37	34	33
First class instrument engineer	292	284	299
Fire protection engineer	724	691	690
Qualified management engineer	1,634	1,624	1,650

Initiatives to develop human resources in fiscal 2013

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	121 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	140 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*	Technical master system* has started from fiscal 2013 (Technical expert system from fiscal 2014)	—
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, Kansai 4 times, Tohoku branch office once
	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.

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 aim to keep everyone informed through in-house education by distributing 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 (3,347 companies as of March 31, 2014). 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.

Strengthening cooperation with business partners

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 2013. In December 2013, posters for the corporate ethics hotline were displayed in places that catch the eye of suppliers such as on-site offices in an effort to promote use of the reporting system.

Communication with subcontractors

Cooperation with our business partners is essential to our ability to provide higher-quality equipment and services. At Sanki Engineering, each of our Sales Division and our branches establishes cooperative committees with business partners, 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 held once a month and training workshops. In addition, we offer a variety of programs taught by Sanki Engineering employees, including occupational health and safety education and education towards the acquisition of qualifications, and conduct joint safety patrols confirming the conditions of health and safety and offering guidance.

Implementing various labor-saving projects

At a liaison meeting held at the Tokyo branch, 7 labor-saving projects were established and activities are being implemented to improve quality, secure safety, and reduce cost and work hours. In labor-saving projects in 2013, we conducted examinations of quality, workability, labor-saving, and other areas for resin pipes from each manufacturer at suppliers' distribution warehouses with facilities capable of experimentation and training sessions.

Workshop on labor-saving projects

Investigation of quality and workability

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 feed back the results to the business partners and exchange information on a timely basis in order to make improvements.

Our Relationship with Our Shareholders and Investors

Timely and appropriate information disclosure

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 Investor Relations >> Disclosure Policy
http://www.sanki.co.jp/en/ir/disclosure/

Communication with shareholders and investors

Opportunities for communication

We conduct events including results briefings for investment analysts and institutional investors (twice a year, in May and November; in fiscal 2013, a total of 85 people participated), individual meetings as necessary in response to requests, and tours of our Technical Research Laboratories. Also, 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 2014 this was 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.

Financial results briefing

Enhancing information disclosure on the Web

In order to further communicate with shareholders and investors, we overhauled our website in August 2014. In addition to the existing disclosed information, we improved and expanded financial highlights and added new segment information. We also introduced our company history and business activities.

We publish IR information on our website.
Information for Investor Relations >> IR Library
http://www.sanki.co.jp/en/ir/

Our basic policy concerning returns to shareholders

Shareholder return

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.

Employing disabled workers

We are working to create an environment in which disabled employees can feel secure. (Number of disabled employees as of June 1, 2014: 38; employment ratio: 2.09%)

Career change system

In order to give those in regional positions increased opportunities to show their abilities, we have introduced a career change system for comprehensive work (34 people have changed careers as of April 1, 2014).

Hiring foreign employees

As part of our mid-term plan, we are making active efforts to recruit foreign employees under the aim of fostering foreign personnel (8 employees from 3 different countries have been hired as of April 1, 2014).

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 for the reemployment of workers following retirement. (55 employees took advantage of the system in fiscal 2013.)

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. In addition, we aim to create a workplace environment in which women can play a more active role on site, and are working to select issues and build a framework for this purpose.

Changes in employee data

	FY 2009	FY 2010	FY 2011	FY 2012	**FY 2013**
Number of employees Figures in parentheses are consolidated	1,974 (2,272)	2,001 (2,316)	1,965 (2,289)	1,918 (2,246)	**1,908** **(2,283)**
Average age	42.7	42.5	42.8	42.7	**42.7**
Average number of years of employment	18.8	18.5	18.6	18.4	**18.2**
Number of new recruits	94	98	63	55	**92**
Number of disabled employees Ratio of disabled employees (%)	37 1.94	37 1.98	35 1.80	36 1.97	**39** **2.13**
Number of reemployed post-retirement-age employees	43	43	53	55	**38**
Number of employees taking child-raising leave	8	12	15	10	**16**

*As of March 31 in each fiscal year

Promoting work-life balance

We are working to enhance various support systems so that employees can handle both work and home-life. 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 reserved leave* (87% of employees took advantage of this system in fiscal 2013) and a system in which employees can also use their reserved leave for childcare and family care.

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 3 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 unused leave from the past 10 years and use it in the event of injury or illness occurring outside the worksite.

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

	20s	30s	40s	50s	60s	70s	**Total**
Male	302	341	527	299	206	1	**1,676**
Female	97	61	57	15	2	0	**232**
Total	399	402	584	314	208	1	**1,908**

*As of March 31, 2014

Topics

Acquired Next-generation accreditation mark KURUMIN and recognized by Nagoya City as a Company that Supports Child-Raising

Sanki Engineering has been recognized as a general business that conforms to next-generation standards based on the Act on Advancement of Measures to Support Raising the Next Generation and as a company that actively adheres to this act by the Tokyo Labor Bureau in fiscal 2013, thereby attaining the KURUMIN accreditation mark.

In addition, the Chubu branch was certified by Nagoya City as a company that supports child-raising. This recognizes companies that actively implement activities that are conducive to child-raising as part of measures to support child-raising in Nagoya City, and the branch was the first to attain the certification in the construction equipment industry.

The Company will continue working to create a pleasant workplace environment for employees.

Next-generation accreditation mark KURUMIN

Nagoya City certification mark for companies that support child-raising

Responses to harassment

As part of our attempts to prevent sexual harassment, we formulated guidelines, and we established a system offering consultation on the subject at each branch and branch office. In addition, we provide consultation on a variety of issues occurring in the worksite including power harassment. We set up a counter staffed by qualified external counselors to make it easy for employees to seek consultation.

Maintaining and increasing the health of our employees

To ensure that our employees and their families are able to work in good health both mentally and physically, we introduced a 24-hour telephone health consultation service. 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.

Fostering human resources

Training systems for each 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 training systems 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 in fiscal 2013 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, we established an "early career system" for young employees in their 20s and introduced a framework aimed at providing multiple work experiences by enabling job rotation and inter-organizational transfers.

Implementing an overseas training program

In fiscal 2012, we established a one-year overseas training program in order to foster personnel with a high ability to communicate and adapt to diverse environments. The program involves practical training at one of our overseas worksites. In fiscal 2013, 4 people were dispatched overseas under this system.

Health and Safety in the Worksite

Social trends and the construction industry

Recently in Japan, demand in the entire construction industry is increasing due mainly to full-scale restoration and reconstruction work following the Great East Japan Earthquake and improvement of aging equipment at public and private facilities. Against this background construction industry is being forced to implement policies in response to personnel shortages at sites and onsite management. In line with this, occupational accidents throughout the construction industry are on the rise.

Moreover, natural disasters believed to be caused by climate change are increasing, including heat waves in summer, typhoons, and localized heavy rainfall.

In light of this, efforts directed toward safety and health in the site environment are necessary.

Our occupational health and safety management system

In the midst of such a social environment, Sanki Engineering aims to create accident-free, bright and satisfying site as our ultimate goal as stated in our Basic Health and Safety Principles. We introduced an occupational health and safety management system (Sanki OHSMS) in October 2001 and are working on this together with our affiliates.

We have been striving to improve health and safety action policies and plans since 2013 and to make our PDCA cycle for risk management more visible, notably the identification of cause, improvement and prevention measures. Moreover, we formulated policies and key items for the next fiscal year related to challenges that emerged from fiscal year results and are focusing on efforts to resolve these challenges.

Fiscal 2013 results

Key items implemented

In fiscal 2013, we took steps to prevent accidents based on the following three key items.

Eliminate accidents from falls

We conducted a campaign in July and October to prevent accidents from falls. As a result, we reduced the number of accidents caused by falling from high places to one incident.

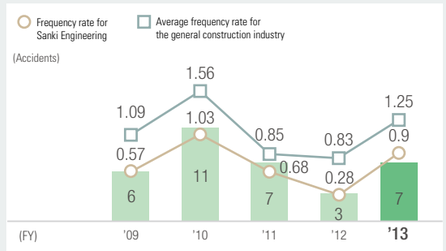
Prevent incision wounds

We achieved zero incidents of accidents caused by cuts and scrapes by making it compulsory to wear gloves to prevent incision wounds.

Strengthen health and safety education

We prepared educational tools to promote acquisition of qualifications required for on-site work and to prevent the concealment of work injuries.

Trends in number and frequency rate* of accidents



Source for average frequency rate for the general construction industry: Survey on Industrial Accidents, Ministry of Health, Labour and Welfare

* From fiscal 2010, accidents resulting in one or more days' absence from the 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.

Holding safety conventions and safety patrols

Every year during June, the preparatory month for National Safety Week, Sanki Engineering holds safety conventions at each branch and branch office with the participation of top management. We also conduct a variety of safety patrols in order to raise safety awareness. All directors including the President participate in joint summer and year-end patrols, visiting approximately 100 sites throughout the company totally.

Health and safety education

Sanki Engineering provides training on health and safety for employees and affiliates at designated educational institutes and in classes taught by in-house instructors. In order to improve the quality of education by in-house instructors, we set up educational support teams for each branch within the Labor Safety, Quality Control & Environment Promotion Office to enable a system of dispatching specialist instructors nationwide. We also provide education using health and safety handbooks for new visitors to worksites and through joint efforts with Sanki Health and Safety Cooperative Associations. In fiscal 2013, we provided education to a total of 1,516 employees of Sanki and our business partners.

Number of individuals receiving health and safety education in fiscal 2013

Number (Figures in brackets refer to employees of business partners)		
Special education	1,190	(946)
Education on health and safety, including for foremen	326	(302)
Total	1,516	(1,248)

* 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 institutes is excluded from the figures.

Topics

Campaign to eliminate accidents from falls

In fiscal 2013, we undertook a campaign to prevent accidents from scaffold falls and to "give a shout" with the aim of eliminating accidents from falls. We created tools according to the demands of the site and education methods that led to efforts to enhance health and safety.

■**Round 1:** We aimed to "give a shout" to one another by calling out points that require caution and also prepared stickers indicating items to be inspected prior to scaffold work.

■**Round 2:** We made leaflets and had a discussion among all employees on the causes of examples of accidents and countermeasures during the morning meeting.

Voice

Industrial Health Officer, Construction Section, Labour Standards Department, Aichi Labour Bureau

Mr. Tsutomu Hamada

Safety is defined as "freedom from unacceptable risk". To put it the other way around, this means that certain risks (residual risks) are deemed acceptable and it is due to these risks that accidents may occur. "Acceptable" does not mean that accidents are tolerated as a result, but that the possibility of accidents is acknowledged and efforts are made to acquire the knowledge and take the steps required to appropriately respond to said risks.

It is the job of management to make sure employees have this knowledge and are equipped to take necessary action, but it's the job of each worker to do their part and comply with requirements. Communication is essential for this. I strongly feel that the Sanki Engineering Group is ensuring that this concept is fully understood and taking innovative steps to invigorate communication throughout the company. Going forward, I would like to see the promotion of proactive health and safety management and the continued cultivation of safe and secure workplaces.

Health and safety guidelines for fiscal 2014

The central safety and health committee chairperson's policy for fiscal 2014 was determined by the philosophy of the chairperson of the committee in addition to challenges identified from social, industrial and corporate trends as well as the key action item results for fiscal 2013. The philosophy of the committee chairperson is "Never give up on our goal of zero accidents", and the policy slogan is "Work Procedures: Discuss Thoroughly. Colleagues' Opinions: Listen Carefully". The subtitle is "Communicate! Experience, Technique and Onsite Risk", with the aim of reducing the risk of accidents through communication based on discussion and listening. Key action items are as follows.

Eliminate risk that leads to accidents from falling or tumbling

Conduct scaffold-related education including experiential training in order to boost the capabilities of site managers and employees with less experience.

Take steps to prevent occurrence of accidents in summer through autumn

Conduct an autumn accident prevention campaign in September and October.

Increase capabilities through education

- Undertake measures to prevent trouble due to airborne asbestos
- Prepare tools to clearly demonstrate the most basic educational content onsite
- Each executive office creates tools to enhance knowledge and capabilities

Our Relationship with Local Communities

Our thinking with regard to local communities

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 a means to contribute to society through our core business, we conduct 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.

Main social contribution activities in fiscal 2013

Concluded an agreement to provide facilities in times of disaster

In light of experiences during the Great East Japan Earthquake, there has been a move by local governments in each region nationwide to secure temporary facilities that can accept people affected by a disaster, under the assumption that many people will not be able to return to their homes following a major disaster.

In Yamato City, Kanagawa Prefecture, various measures are being taken to prevent disasters and reduce damage such as revising the regional disaster prevention plan in order to ensure the safety of citizens and avoid chaos when a disaster strikes. As part of these efforts, city officials approached us to see if we could provide our large-scale facilities for use as temporary shelters, and in November 2013 we concluded an agreement stating that we would provide facilities as temporary shelters for those unable to return home in a disaster. Going forward, together with Yamato City officials, we intend to plan and conduct training in coordination with local public transport.

Cleanup, environmental beautification and cultural activities

Each branch and branch office participates in cleanup activities for areas surrounding offices and worksites, as well as environmental beautification activities organized by local governments. In fiscal 2013, we engaged in a variety of activities, including cleanup activities around St. Luke's Tower, where our head office is located, and beautification activities for a river near the Yamato Engineering Center. The Hokkaido branch took part in the "Love Earth Clean-Up in Hokkaido" event on Ishikari Beach.

In Yoichi, Hokkaido, we held workshops that were attended by local elementary and junior high school teachers. They learned about the snowmelt water on roads and water discharged into rivers that are used in water treatment processes. The aim of the activities was to help schools provide education on the role of drainage and the principles of water treatment.

Welcoming social studies tours by local elementary schools

The Yamato Engineering Center in Yamato City, Kanagawa Prefecture participates with local cleanup activities and events organized by the city as well as parent-child seminars as part of its social contribution activities. In addition, it holds social study tours twice a year for local elementary schools.

A total of 186 fifth-grade students from Kitayamato Elementary School took the tour in July 2013 while 105 third-grade students from Chuuourinkan Elementary School took the tour in November. The tours included a look at the factory inside the premises, and the children learned about the equipment that the Company provides to airport facilities for use in transporting hand luggage. At Sanki Nature Park, where spot-billed ducks have been observed breeding, the children listened attentively to the tour guide's stories of 8 chicks that had flown the nest.

On June 11, 2013, the Sanki Nature Park at the Yamato Engineering Center recorded its 3,000th visitor since opening to the public in 2005. This milestone event was attended by a group of five housewives living in Sagamihara who are walking enthusiasts. They were presented with a commemorative gift by Yamato Engineering Center.

A spot-billed mother and her ducklings were observed again in June 2014, one year later. The ducklings can be seen swimming with ease and flitting from pond to pond under the watchful eyes of the mother duck this year as well.

Donations and contributions

In fiscal 2013, in addition to making donations to universities and research institutes, we also supported cultural activities through donations to the Japan Philharmonic Orchestra, the Japan Chamber Music Foundation, and other institutions. In addition, each of our branches and Group companies take part in a variety of activities in which anyone can get involved, 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.

Donating blood

Our head office began blood donation activities in November 2013. A total of 89 people donated blood in one day.

Many of the participants expressed their satisfaction at being able to help save precious lives, and the day provided the opportunity for each employee to further deepen their connection with society.

Our Relationship with the Environment

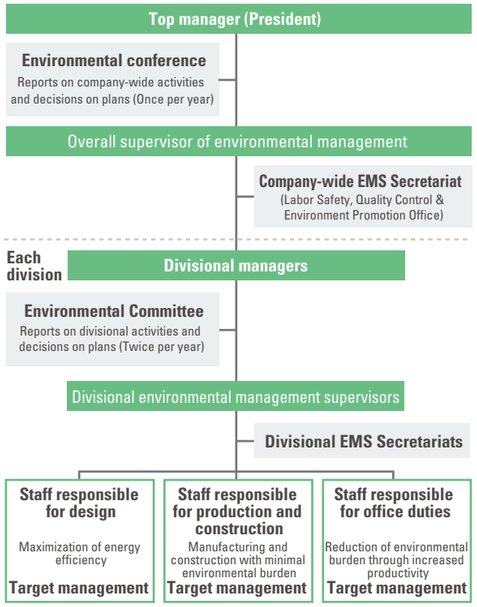
Environmental management at Sanki Engineering

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 at 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

System for promotion of environmental management



Environmental management system (EMS)

Our entire company received ISO 14001 certification including two of our subsidiaries (Sanki Kakou kensetsu Co., Ltd. and Sanki Kankyo Service Co., Ltd.).

In fiscal 2013, two external ISO 14001 audits were conducted and no cases of non-compliance were found.

Plans are in place to conduct internal audits in fiscal 2014 while considering integration of this system with the quality management system.

Conducting environmental education

Developing human resources from an environmental perspective

We offer introductory training in EMS and other forms of education every year to new recruits, as well as mid-career recruits. In fiscal 2013, 79 employees received training to become internal environmental auditors, bringing the total number of people qualified to conduct internal environmental audits to 899 on a non-consolidated basis and 942 on a group-wide basis.

Trends in number of employees with environment-related qualifications

(Number of employees as of April 1 each year)

	FY 2011	FY 2012	FY 2013	**FY 2014**
Certified environmental measurer	8	8	7	**7**
Supervisor of management of industrial waste subject to special control	115	124	127	**130**
Pollution prevention manager	71	75	73	**71**

Education on harmful substances such as asbestos

We conducted awareness-raising activities for employees in response to a forecasted increase in emissions of construction waste containing asbestos and revision to the Air Pollution Control Act enacted in fiscal 2014.

We implemented an e-Learning program to disseminate basic knowledge about asbestos to all group employees including executive officers, with all 2,383 people targeted for the course completing it. We also created posters related to the appropriate treatment of asbestos, PCBs, CFCs and halon and distributed them to be posted at construction sites.

Environmental lecture meetings

Sanki Engineering continues to hold environmental lecture meetings with presentations by company and external instructors in order to increase awareness of environmental conservation among all of our executives and employees. We use a tele-conferencing system to enable company-wide participation. Two courses were held in fiscal 2013 on the following topics, and a total of 582 people were attended.

6th Environmental Lecture Meeting:
May 30, 2013
Topic: "Why the environment now?"
Lecturer: Ms. Atsuko Suzuki, Director of NPO Environmental Relations
Participants: 280

7th Environmental Lecture Meeting:
December 11, 2013
Topic: "Why did the Fukushima nuclear accident occur? What lessons have we learned?"
Lecturer: Mr. Keiichi Tadaki, lawyer at Mori Hamada & Matsumoto
Participants: 302

Dissemination of environment-related information

The Global Environment Department manages a column with environment-related information on the company's internal website as a tool to disseminate information to employees. We aim to foster awareness among employees by transmitting information in a timely manner within and outside the company.

Initiatives to prevent global warming and save energy

Protecting the environment by means of our exceptional technological capability

One mission of our environmental management is to develop and introduce technology and products that lead to energy conservation and the reduction of CO_2 and lifecycle costs by improving functionality and comfort through the technology of each of our business. In addition, the Energy Solutions Center is working to improve activities on an ongoing basis by collecting energy-related information and supporting technical development and proposals to customers.

Small-scale binary cycle power generation system

In conjunction with Sun-Wa Technos Corporation, we commercialized a 125 kW small-scale binary cycle power generation system that uses low- and medium-temperature heat waste of around 135-250°C. The system features high power generation efficiency and ease of maintenance and is capable of high power output even during waste heat load fluctuation.

Supercharged (turbocharged) fluidized bed incinerator

We introduced the world's first supercharged (turbocharged) fluidized bed incinerator at the Asakawa Water Reclamation Center in Hino, Tokyo. This system saves energy and space and reduces greenhouse gases by approximately 40% compared with conventional systems.

S-CON Mini Series

The new S-CON Mini uses biomass plastic that blends organic resources extracted from corn for the component parts that use plastic in standard products. It includes a motor structure that uses a permanent magnet and it enhances efficiency while controlling power loss, thus reducing power consumption by around 25%.

Proposals for CO_2 reduction and outcomes

	FY 2011		FY 2012		**FY 2013**	
	Number	CO_2 reduction	Number	CO_2 reduction	Number	CO_2 reduction
Proposed solutions	355	88,480	366	78,549	**322**	**48,817**
Orders received	129	31,095	136	18,889	**124**	**11,273**

*Emission reduction unit is t-CO_2/year.

Our Relationship with the Environment

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 2013, proposals made by us and adopted by our customers resulted in the reduction of 11,273 tons of CO_2 emissions, equivalent to 1,127,300 yen when converted to Eco Contribution Points.

Donation to tree-planting projects

Recipients of donations in fiscal 2013 were selected from the framework of environmental preservation activities mainly handled by private non-profit organizations. This year, we selected the NPO Environmental Relations and the NPO Laboratory of Earth Conscious Life.

Donation history for tree-planting projects

Recipient	Projects donated to	Amount donated
NPO Environmental Relations	Cultivation of fish-breeding forests and tree planting in disaster-affected area (Miyako City, Iwate Prefecture)	2H FY 2012
		¥588,700
NPO Laboratory of Earth Conscious Life	Tree planting to create a beech forest (Kijimadaira, Nagano Prefecture)	2H FY 2012
		¥723,600
		1H FY 2013
		¥349,000

We donated to the NPO Laboratory of Earth Conscious Life for the first time in fiscal 2013. The beneficiary of the donation was a project to plant trees to create a beech forest in Kijimadaira, Nagano Prefecture, where plans are being made to return vacant pasture land that is not currently being used to its former beech forest state. Saplings growing at the edges of the area's remaining beech forest are being dug up and replanted in order to restore the native beech forest that covered the area prior to the pasture land. Replanting saplings of the beech tree, which is the tree most suited to the snowy climate of Kimadaira, has been reported on by the Japanese Forest Society and highly praised as an ideal method of preserving biodiversity and genetic diversity.

Volunteers after planting of a beech tree (Kijimadaira)

Initiatives in the office

Energy conservation activities in the office

Sanki Engineering promotes energy-saving activities based on a company-wide objective for its EMS activities to reduce energy consumption by 6% compared with fiscal 2012 over a five-year period from fiscal 2013 to fiscal 2017. In fiscal 2013, we achieved a reduction of 8.7% in energy consumption company-wide.

In addition, the company has developed the SSOM lighting control system in which office workers themselves individually control single light sources. The system is designed to cut power consumption of ceiling lights in the office. In order to test this technology, it has been introduced experimentally and the effects are being measured. The system has primarily been installed on the fifth floor and the sixth floor area of the Tokyo branch, and the 42nd floor area of the Mechanical & Electrical Contracting Headquarters (St. Luke's Tower), with projections of a 60% reduction in power consumption from lighting as a result. Moreover, the Technology Research and Development Institute (Yamato City, Kanagawa Prefecture), and the Toyota branch office use renewable energy such as solar power.

Reducing copy paper

Comparing the purchase volume of copy paper in fiscal 2012 and fiscal 2013, even though the completed construction revenue grew by 12.1%, copy paper usage increased by only 3.9%. This can be attributed to activities such as going paperless in meetings, and we intend to continue with such initiatives going forward.

Proper disposal of waste

Industrial waste generated

The volume of industrial waste generated at construction sites has been increasing annually since fiscal 2009. Comparing fiscal 2012 and fiscal 2013, the generated volume of industrial waste increased by 15.4% while construction revenue from renovation projects increased 12.9%. Since renovation projects generate a large amount of industrial waste, analysis suggests that this is the primary cause of the increase in waste.

Introduction of a digital manifest

With the aim of ensuring proper disposal of industrial waste, we are pushing ahead with the introduction of a digital manifest. In fiscal 2013, we conducted awareness-boosting activities for all related departments throughout the company in order to expand the ASP service "e-reverse", which was first introduced at Kansai branch worksites to streamline office work. As a result, 7 departments, including 3 branches and 2 branch offices, as well as one Group company have introduced the digital manifest system as of June 2014 (including partial introduction).

Topics

Dispatching members to the Japanese Antarctic Research Expedition

Daiki Kataoka, in charge of environmental protection for the 54th Japanese Antarctic Research Expedition (Photo by Mr. Taniguchi, a member of the 54th Japanese Antarctic Research Expedition)

(Photo by Kataoka, a member of the 54th Japanese Antarctic Research Expedition)

Since 1991, 10 engineers from Sanki Engineering have been assigned to the National Institute of Polar Research and dispatched to Antarctica as part of the Japanese Antarctic Research Expedition. During that period, they conducted research into waste and wastewater treatment in the area. Based on this expertise, they carried out planning and construction, and installed the first-ever wastewater treatment facility at Showa Station.

I had stayed at Showa Station as a member of the 54th overwintering expedition for about 14 months from December 2012. The 54th overwintering expedition comprised 30 members in total, including one expedition leader, 12 members of the observation group, and 17 members of the logistics group. I was in charge of environmental conservation within the logistics group and worked toward preservation of the Antarctic environment primarily by carrying out processing of the everyday drainage water and waste generated on the base.

For wastewater treatment, we revised the operating method of the system and changed part of it in order to further purify the wastewater after processing and ensure stable discharge, with the aim of reducing the environmental burden on Antarctica. As a result, we vastly improved the quality of water being discharged and were able to reduce impact on the Antarctic ecosystem.

In recent years, sea ice had been thick and the Antarctic observation ship SHIRASE had been unable to berth at Showa Station for two years in a row. Waste had been left behind at Showa Station since the 52nd expedition, and with limited storage space, we sorted the waste as soon as winter began. During winter we proactively collected waste left around the station and on the Antarctic Continent, and prepared it for retrieval by the SHIRASE.

The next year (2014), the SHIRASE finally managed to berth, and was able to take a large amount of waste back to Japan. With limited loading time, we spent all night transporting the waste onto the ship, and accumulated the largest amount of waste ever recorded for the trip back.

This year, my successor, Shigematsu will take part in the 56th overwintering expedition bound for Antarctica. I hope to pass on my experiences so far, and provide support from Japan so that I can continue contributing to the environmental preservation of Antarctica.

Aerowing Section, Aeration System Department,
Environmental Systems Administration Division,
Plants & Machinery Systems Headquarters
Daiki Kataoka

Our Relationship with the Environment

Environmental accounting

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

Scope of aggregation: Sanki Engineering as a whole, or designated sections
Period: April 2013 – March 2014
Guidelines for reference:
①Environmental Accounting Guidelines, Ministry of the Environment (2005 edition)
②Environmental Accounting Guidelines for the Construction Industry (2002 edition)

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

(Unit: 1,000 yen)

	Details of main initiatives	Environmental protection costs
Global environmental protection costs	Cost of disposal of waste CFCs and halons	**54,004**
Resource recycling costs	Cost of waste disposal (Construction sites)	**412,898**
Management costs	Cost of operating under ISO 14001	**6,379**
	Cost of environment-related education	**472**
	Cost of exhibiting in exhibitions / publishing materials	**10,868**
	Cost of introducing SSOM lighting control system	**7,155**
	Cost of cutting back vegetation at Yamato Engineering Center/ Cost of maintaining Nature Park	**3,688**
R&D costs	Cost of environmental protection-related R&D	**421,111**
Social activities costs	Donations to environmental protection-related organizations	**1,961**
	Cost of participating in environmental protection activities and supporting education	**2,438**

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

	Details	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Resources consumed	Number of sheets of copy paper purchased for offices (1,000 sheets)	17,960	18,696	18,768	20,511	**21,309**
	Volume of water used at Yamato Engineering Center (m^3)	15,023	12,120	15,828	15,506	**17,187**
Energy consumed	Energy consumed by offices (Crude oil equivalent; kℓ)	2,021	2,056	1,922	1,853	**1,691**
CO_2 emissions (tCO_2)	As a result of energy consumption in offices	3,377	3,146	2,931	3,419	**3,490**
(The CO_2 emission factor has been increasing since FY 2012)	As a result of energy consumption at worksites	1,013	1,016	839	889	**1,081**
Volume of industrial waste	Amount of industrial waste from company-wide construction sites and Yamato Engineering Center (t)	11,272	12,034	12,070	13,757	**15,869**
Green purchasing of stationery (1,000 yen)		24,480	32,506	28,537	31,453	**31,762**

Economic effects of environmental protection measures

(Unit: 1,000 yen)

Related departments	Details	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Construction sites	Profit from sale of scrap, etc.	22,768	66,615	88,238	138,390	**143,463**
Yamato Engineering Center	Profit from sale of scrap, etc.	36	98	327	398	**295**
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.

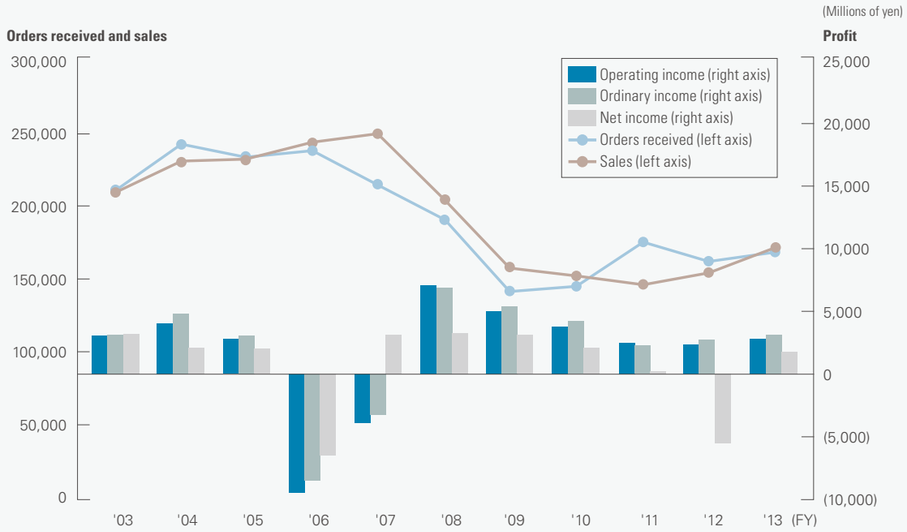
Financial Report

Financial Section

11-year Consolidated Financial Summary

(Millions of yen)

	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	Year ended March 31, 2014
Fiscal year											
Orders received	¥212,379	¥245,047	¥235,401	¥237,022	¥218,256	¥188,653	¥143,348	¥147,129	¥175,291	¥165,800	**¥168,295**
Balance carried forward	143,999	155,876	153,593	144,456	108,253	93,566	77,641	72,976	100,272	111,414	**108,219**
Sales	213,924	233,170	237,684	246,159	254,460	203,340	159,273	151,794	147,994	154,658	**171,496**
Selling, general and administrative expenses	15,657	14,948	14,426	13,994	13,962	14,978	15,419	15,763	15,712	15,199	**15,604**
Operating income or loss	3,314	4,281	2,892	(9,502)	(3,958)	7,125	5,027	3,843	2,525	2,391	**2,818**
Ordinary income or loss	3,533	4,946	3,319	(8,782)	(3,307)	6,900	5,456	4,239	2,268	2,680	**3,146**
Net income or loss	3,644	2,600	2,355	(6,536)	3,134	3,283	3,141	2,124	176	(4,992)	**1,763**
Cash flows from operating activities	11,942	(3,151)	(5,557)	(2,819)	(4,097)	19,177	1,294	11,554	(2,697)	9,729	**(9,403)**
Cash flows from investing activities	(9,839)	7,662	(1,024)	2,833	11,511	1,726	(1,664)	2,610	(1,046)	(9,481)	**(3,506)**
Cash flows from financing activities	(3,345)	(3,315)	(3,067)	(2,697)	(3,812)	(4,377)	(2,936)	(1,883)	(280)	(1,028)	**(4,152)**
Cash and cash equivalents at end of year	¥27,170	¥28,365	¥18,717	¥16,018	¥19,617	¥36,142	¥32,825	¥45,135	¥41,097	¥40,367	**¥23,510**
As of end of fiscal year under review											
Total assets	220,563	240,234	245,367	251,323	215,680	176,664	163,307	158,501	163,120	166,477	**170,181**
Net assets	86,491	87,774	98,333	88,943	80,276	78,780	80,498	79,833	79,662	76,932	**74,917**
Number of employees	2,371	2,327	2,332	2,179	2,225	2,239	2,272	2,316	2,289	2,246	**2,283**
Per share information											
Earnings per share (yen)	46.93	34.49	31.46	(88.47)	42.42	44.45	42.86	29.67	2.46	(71.04)	**26.46**
Book-value per share (yen)	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	**1,142.74**
Cash dividends (yen)	15.00	18.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	**15.00**
Other information											
Equity ratio (%)	39.2	36.5	40.1	35.4	37.2	44.6	49.3	50.3	48.8	46.2	**44.0**
Return on assets (%)	1.6	2.1	1.4	(3.5)	(1.4)	3.5	3.2	2.6	1.4	1.6	**1.9**
Return on equity (%)	4.4	3.0	2.5	(7.0)	3.7	4.1	3.9	2.7	0.2	(6.4)	**2.3**



Business Overview for the Year Ended March 31, 2014

Operations overview

In the construction sector, public investment increased steadily, supported by large-scale supplementary budgets while private capital investment recovered moderately on the back of resurgence in corporate earnings. The business environment of the Sanki Engineering Group was characterized by an upward trend in labor costs and equipment prices, and it is becoming difficult to secure profitability. In light of these circumstances, we aggressively promoted proposal-based sales for energy- and power-saving systems while emphasizing construction profitability, in an effort to expand orders and avoid missing opportunities for orders. As a result, with regard to consolidated results for this fiscal year, orders received increased by 1.5% year-on-year to 168,295 million yen, net sales increased by 10.9% year-on-year to 171,496 million yen and the balance carried forward was down 2.9% year-on-year to 108,219 million yen. Operating income increased by 17.9% year-on-year to 2,818 million yen due to an increase in sales and profit in equipment and construction-related business, mainly in the Facilities Construction Business, despite a decrease associated with the termination of the contract period for a large rental property in the Real Estate Business. Ordinary income increased by 17.4% to 3,146 million yen and net income returned to profitability with a total of 1,763 million yen compared with a net loss of 4,992 million yen in the previous fiscal year.

Note that Shin-yu Service Co., Ltd., which was newly included in the scope of consolidation this fiscal year, has been classified under "Other" as a business segment not included in the reporting segments. This company is a subsidiary mainly responsible for functions supplementing operations such as commission of general business affairs and leasing and insurance agency work.

Segment overview

Facilities Construction Business

Orders received increased by 5.7% year-on-year to 143,839 million yen, sales increased by 11.7% year-on-year to 143,697 million yen and segment income increased by 172.6% to 3,260 million yen due to a shift to favorable conditions in the field of HVAC and plumbing for buildings. Sales and income were up on the back of an increase in the amount of construction carried forward from the end of the previous fiscal year.

Machinery Systems Business

Orders received decreased by 21.6% year-on-year to 8,482 million yen as growth in orders did not reach full-scale recovery in terms of domestic capital investment in the manufacturing industry. Sales increased by 51.4% to 9,846 million yen, on the other hand, due to an increase in the amount of construction carried forward from the end of the previous fiscal year. Segment loss amounted to 287 million yen compared with segment loss of 1,119 million yen in the previous fiscal year.

Environmental Systems Business

Orders received decreased by 9.6% year-on-year to 15,029 million yen due to the impact of delays in orders for water and sewage treatment facilities from government offices. Sales were roughly on par with the previous fiscal year, increasing by 0.1% year on year to 17,169 million yen while significant segment loss was posted at 23 million yen compared with segment income of 689 million yen in the previous fiscal year.

Real Estate Business

Both orders received and sales decreased by 60.8% year-on-year to 1,077 million yen. Segment income decreased by 88.7% year-on-year to 147 million yen. Sales and income declined significantly due to the impact of the expiration of the contract period for a large rental property.

Other

Orders received were 583 million yen, sales were 607 million yen and segment income was 63 million yen.

Challenges to be addressed

In terms of future outlook, in the construction industry, which had been undergoing prolonged contraction, there has been momentum in reconstruction work following the Great East Japan Earthquake and an increase in public construction projects owing to the Plan for National Resilience. Together with the economic recovery, construction plans for buildings and condominium complexes have continued steadily in the private sector. Moreover, urban development is being planned ahead of the 2020 Tokyo Olympics, and the business environment is forecast to take a turn for the better.

Additionally, demand for improvements to facilities to make them more energy-efficient and demand for implementation of renewable energy are expected to grow further as a result of rising energy prices associated with the weak yen.

Conversely, with concentration of construction demand over a short period and concerns over rising labor costs and equipment prices, we expect that it will remain difficult to secure profitability.

Against this background, we will bolster our sales capabilities in order to secure orders on an optimal scale while maintaining a focus on profit. Based on our medium-term management plan SANKI VITAL PLAN 90th, we will further reinforce our Core Businesses and expand our Strategic Growth Businesses, as well as cultivate and foster new businesses.

Segment information

(Millions of yen)

	Orders received				Sales				Segment income			
Segment	FY 2012	FY 2013	Diff.	Change	FY 2012	FY 2013	Diff.	Change	FY 2012	FY 2013	Diff.	Change
Facilities construction	136,144	143,839	7,694	5.7%	128,626	143,697	15,071	11.7%	1,196	3,260	2,064	172.6%
Machinery systems	10,817	8,482	(2,334)	(21.6%)	6,501	9,846	3,344	51.4%	(1,119)	(287)	832	———
Environmental systems	16,623	15,029	(1,593)	(9.6%)	17,145	17,169	24	0.1%	689	(23)	(712)	———
Subtotal	163,585	167,352	3,766	2.3%	152,273	170,713	18,440	12.1%	766	2,949	2,183	285.0%
Real estate	2,747	1,077	(1,670)	(60.8%)	2,747	1,077	(1,670)	(60.8%)	1,305	147	(1,158)	(88.7%)
Others	———	583	583	———	———	607	607	———	———	63	63	———
Adjustments	(533)	(717)	(184)	———	(362)	(902)	(540)	———	608	(13)	(621)	———
Total	165,800	168,295	2,495	1.5%	154,658	171,496	16,837	10.9%	2,680	3,146	466	17.4%

Cash Flows

Cash flows from operating activities

Net cash used in operating activities was 9,403 million yen compared with 9,729 million yen net cash provided in the previous fiscal year. This was mainly due to an increase in notes and accounts receivable as well as payment of corporate taxes.

Cash flows from investing activities

Net cash used in investing activities was 3,506 million yen compared with 9,481 million yen net cash used in the previous fiscal year. This was due mainly to the acquisition of commercial paper with a redemption period exceeding three months and to payments into time deposits with a term exceeding one year.

Cash flows from financing activities

Net cash used in financing activities was 4,152 million yen compared with 1,028 million yen net cash used in the previous fiscal year. This was due mainly to purchase of treasury stock and cash dividends paid.

(Millions of yen)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	YoY change
Cash flows from operating activities	1,294	11,554	(2,697)	9,729	(9,403)	(19,133)
Cash flows from investing activities	(1,664)	2,610	(1,046)	(9,481)	(3,506)	5,975
Cash flows from financing activities	(2,936)	(1,883)	(280)	(1,028)	(4,152)	(3,123)
Cash and cash equivalents at end of period	32,825	45,135	41,097	40,367	23,510	(16,857)

Dividend information

Sanki Engineering's basic policy of profit allocation is to enhance shareholder return in a stable and continuous manner. In the fiscal year ended March 31, 2014, we provided a total yearly dividend of 15 yen. The consolidated dividend payout ratio was 56.7%.

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Dividends per share	¥15	¥15	¥15	¥15	¥15
Consolidated dividend payout ratio	35.0%	50.6%	609.8%	———	56.7%

Consolidated Balance Sheet

March 31, 2014

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Assets		
Current assets:		
Cash and deposits	¥ 36,368	**¥ 23,510**
Notes and accounts receivable on completed construction contracts and other	63,288	**78,101**
Securities	3,999	**3,998**
Inventories:		
Costs on uncompleted construction contracts	1,529	**1,863**
Raw materials and supplies	249	**417**
Deferred tax assets	1,889	**1,661**
Other	4,103	**6,715**
Allowance for doubtful accounts	(282)	**(328)**
Total current assets	111,146	**115,941**
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	39,848	**39,795**
Accumulated depreciation	(34,672)	**(34,860)**
Buildings and structures, net	5,176	**4,934**
Machinery, equipment, vehicles, and tools, furniture and fixtures	3,987	**3,756**
Accumulated depreciation	(3,585)	**(3,310)**
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	402	**445**
Land	4,331	**4,124**
Lease assets	401	**509**
Accumulated depreciation	(84)	**(134)**
Lease assets, net	317	**374**
Total property, plant and equipment	10,227	**9,878**
Intangible assets	491	**436**
Investments and other assets:		
Investment securities *(Note 1)*	27,946	**31,283**
Long-term loans receivable	346	**258**
Prepaid pension cost	7,312	**—**
Asset for retirement benefits	—	**3,587**
Deferred tax assets	136	**130**
Lease and guarantee deposits	1,067	**1,080**
Insurance funds	950	**241**
Other *(Note 1)*	7,972	**8,463**
Allowance for doubtful accounts	(1,120)	**(1,121)**
Total investments and other assets	44,612	**43,924**
Total noncurrent assets	55,331	**54,239**
Total assets	¥ 166,477	**¥ 170,181**

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other	¥ 51,853	**¥ 57,888**
Short-term loans payable	6,920	**6,576**
Lease obligations	57	**72**
Income taxes payable	2,497	**625**
Deferred tax liabilities	10	**27**
Advances received on uncompleted construction contracts	5,332	**5,489**
Accrued bonuses	2,176	**2,286**
Accrued directors' bonuses	83	**75**
Accrued warranty costs	345	**428**
Accrued loss on construction contracts	801	**567**
Other	3,461	**4,698**
Total current liabilities	73,540	**78,736**
Noncurrent liabilities:		
Long-term loans payable	320	**—**
Lease obligations	331	**363**
Deferred tax liabilities	2,408	**2,260**
Accrued retirement benefits	7,313	**—**
Liability for retirement benefits	—	**8,231**
Accrued directors' retirement benefits	275	**219**
Accrued loss on guarantees	29	**29**
Other	5,327	**5,422**
Total noncurrent liabilities	16,004	**16,526**
Total liabilities	89,544	**95,263**
Net assets:		
Shareholders' equity:		
Capital stock	8,105	**8,105**
Capital surplus	4,181	**4,181**
Retained earnings	60,855	**58,935**
Treasury stock	(2,750)	**(2,444)**
Total shareholders' equity	70,391	**68,777**
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	6,631	**9,095**
Foreign currency translation adjustment	(90)	**29**
Retirement benefits asset and liability adjustments	—	**(3,011)**
Total accumulated other comprehensive income	6,540	**6,114**
Subscription right to shares	—	**25**
Total net assets	76,932	**74,917**
Total liabilities and net assets	¥ 166,477	**¥ 170,181**

See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Net sales:		
Net sales of completed construction contracts	¥ 151,910	**¥ 170,336**
Net sales of real estate business and other	2,747	**1,159**
Total net sales	154,658	**171,496**
Cost of sales:		
Cost of sales of completed construction contracts *(Note 1)*	135,746	**152,224**
Cost of sales on real estate business and other	1,321	**848**
Total cost of sales	137,068	**153,072**
Gross profit:		
Gross profit on completed construction contracts	16,163	**18,111**
Gross profit on real estate business and other	1,426	**311**
Total gross profit	17,590	**18,423**
Selling, general and administrative expenses:		
Employees' salaries and allowances	6,050	**6,022**
Provision for bonuses	950	**1,006**
Provision for directors' bonuses	83	**75**
Retirement benefit expenses	552	**497**
Provision for doubtful accounts	28	**42**
Depreciation	433	**398**
Other	7,099	**7,559**
Total selling, general and administrative expenses	15,199	**15,604**
Operating income	2,391	**2,818**
Non-operating income:		
Interest income	58	**45**
Dividends income	515	**506**
Insurance income	155	**105**
Gain on sales of waste materials	108	**123**
Other	112	**226**
Total non-operating income	951	**1,007**
Non-operating expenses:		
Interest expense	95	**96**
Equity in losses of affiliates	6	**107**
Foreign exchange losses, net	160	**126**
Provision for doubtful accounts	72	**37**
Other	327	**311**
Total non-operating expenses	662	**679**
Ordinary income	2,680	**3,146**
Extraordinary income:		
Gain on sales of noncurrent assets	26	**181**
Gain on sales of investment securities	47	**163**
Total extraordinary income	74	**345**
Extraordinary loss:		
Impairment loss *(Note 2)*	7,071	**143**
Loss on sales of noncurrent assets	7	**8**
Loss on retirement of noncurrent assets	61	**30**
Loss on sales of investment securities	27	**—**
Loss on valuation of investment securities	176	**—**
Loss on valuation of stock of unconsolidated subsidiaries	—	**153**
Total extraordinary losses	7,345	**336**
(Loss) income before income taxes and minority interests	(4,591)	**3,154**
Income taxes:		
Income taxes-current	2,681	**959**
Income taxes-deferred	(2,280)	**431**
Total income taxes	401	**1,391**
(Loss) income before minority interests	(4,992)	**1,763**
Net (loss) income	(4,992)	**1,763**
(Loss) income before minority interests	(4,992)	**1,763**
Other comprehensive income *(Note 3)*:		
Unrealized gains on available-for-sale securities	4,092	**2,464**
Foreign currency translation adjustment	42	**120**
Total other comprehensive income	4,134	**2,584**
Comprehensive (loss) income	¥ (857)	**¥ 4,348**
Comprehensive (loss) income attributable to:		
Shareholders of Sanki Engineering Co., Ltd.	¥ (857)	**¥ 4,348**
Minority interests	¥ —	**¥ —**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

[For the year ended March 31, 2013]

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	¥ 8,105	¥ 4,181	¥ 66,905	¥ (1,936)	¥ 77,256
Changes in items during the period					
Dividends from surplus			(1,058)		(1,058)
Net (loss) income			(4,992)		(4,992)
Change in scope of consolidation					—
Purchase of treasury stock				(814)	(814)
Retirement of treasury stock					—
Net changes in items other than shareholders' equity					
Total changes in items during the period	—	—	(6,050)	(814)	(6,864)
Balance at the end of current period	¥ 8,105	¥ 4,181	¥ 60,855	¥ (2,750)	¥ 70,391

	Accumulated other comprehensive income					
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
Balance at the beginning of current period	¥ 2,538	¥ (132)	¥ —	¥ 2,405	¥ —	¥ 79,662
Changes in items during the period						
Dividends from surplus						(1,058)
Net (loss) income						(4,992)
Change in scope of consolidation						—
Purchase of treasury stock						(814)
Retirement of treasury stock						—
Net changes in items other than shareholders' equity	4,092	42	—	4,134	—	4,134
Total changes in items during the period	4,092	42	—	4,134	—	(2,729)
Balance at the end of current period	¥ 6,631	¥ (90)	¥ —	¥ 6,540	¥ —	¥ 76,932

[For the year ended March 31, 2014]

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	**¥ 8,105**	**¥ 4,181**	**¥ 60,855**	**¥ (2,750)**	**¥ 70,391**
Changes in items during the period					
Dividends from surplus			**(1,013)**		**(1,013)**
Net (loss) income			**1,763**		**1,763**
Change in scope of consolidation			**44**		**44**
Purchase of treasury stock				**(2,408)**	**(2,408)**
Retirement of treasury stock			**(2,714)**	**2,714**	**—**
Net changes in items other than shareholders' equity					
Total changes in items during the period	**—**	**—**	**(1,919)**	**305**	**(1,614)**
Balance at the end of current period	**¥ 8,105**	**¥ 4,181**	**¥ 58,935**	**¥ (2,444)**	**¥ 68,777**

	Accumulated other comprehensive income					
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
Balance at the beginning of current period	**¥ 6,631**	**¥ (90)**	**¥ —**	**¥ 6,540**	**¥ —**	**¥ 76,932**
Changes in items during the period						
Dividends from surplus						**(1,013)**
Net (loss) income						**1,763**
Change in scope of consolidation						**44**
Purchase of treasury stock						**(2,408)**
Retirement of treasury stock						**—**
Net changes in items other than shareholders' equity	**2,464**	**120**	**(3,011)**	**(426)**	**25**	**(401)**
Total changes in items during the period	**2,464**	**120**	**(3,011)**	**(426)**	**25**	**(2,015)**
Balance at the end of current period	**¥ 9,095**	**¥ 29**	**¥ (3,011)**	**¥ 6,114**	**¥ 25**	**¥ 74,917**

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Cash flows from operating activities:		
(Loss) income before income taxes and minority interests	¥ (4,591)	**¥ 3,154**
Depreciation and amortization	1,207	**740**
Impairment loss	7,071	**143**
(Decrease) increase in allowance for doubtful accounts	(361)	**46**
Decrease in provision for retirement benefits	(642)	**—**
Decrease in liability for retirement benefits	—	**(35)**
Decrease in provision for directors' retirement benefits	(246)	**(60)**
Increase (decrease) in provision for loss on construction contracts	302	**(233)**
Interest and dividends income	(574)	**(551)**
Interest expense	95	**96**
Equity in losses of affiliates	6	**107**
Gain on sales of property, plant and equipment	(18)	**(172)**
Gain on sales of investment securities	(20)	**(163)**
Decrease (increase) in notes and accounts receivable on completed construction contracts and other	2,348	**(14,613)**
Decrease (increase) in costs on uncompleted construction contracts	595	**(314)**
Increase in notes and accounts payable on construction contracts and other	480	**5,989**
Increase in advances received on uncompleted construction contracts	2,543	**144**
Increase in other current liabilities	653	**998**
Other	1,024	**(1,588)**
Subtotal	9,875	**(6,311)**
Interest and dividends received	573	**554**
Interest paid	(94)	**(95)**
Income taxes paid	(805)	**(3,554)**
Income taxes refunded	180	**2**
Net cash provided by (used in) operating activities	9,729	**(9,403)**
Cash flows from investing activities:		
Payments into time deposits	(4,200)	**(600)**
Proceeds from withdrawal of time deposits	300	**—**
Purchase of securities	—	**(3,998)**
Purchase of property, plant and equipment	(335)	**(549)**
Proceeds from sales of property, plant and equipment	128	**287**
Purchase of investment securities	(6,477)	**(139)**
Proceeds from sales of investment securities	971	**407**
Proceeds from redemption of investment securities	294	**200**
Execution of loan	(105)	**(9)**
Collection of loans receivable	76	**194**
Proceeds from maturity of insurance funds	148	**844**
Other	(282)	**(141)**
Net cash used in investing activities	(9,481)	**(3,506)**
Cash flows from financing activities:		
Net increase in short-term loans payable	1,233	**(323)**
Repayments of long-term loans payable	(340)	**(340)**
Purchase of treasury stock	(814)	**(2,408)**
Repayments of lease obligations	(50)	**(66)**
Cash dividends paid	(1,058)	**(1,013)**
Net cash used in financing activities	(1,028)	**(4,152)**
Effect of exchange rate changes on cash and cash equivalents	51	**108**
Net decrease in cash and cash equivalents	(729)	**(16,953)**
Cash and cash equivalents at beginning of period	41,097	**40,367**
Increase in cash and cash equivalents due to inclusion in consolidation	—	**96**
Cash and cash equivalents at end of period *(Note 1)*	¥ 40,367	**¥ 23,510**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Basis of Preparation of Consolidated Financial Statements

1. Basis of Preparation

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

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

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

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

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 7

Names of consolidated subsidiaries:

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

* Shin-yu Service Co., Ltd. was newly included in consolidation due to its increased significance for the year ended March 31, 2014.

(2) Number of unconsolidated subsidiaries: 3

Names of unconsolidated subsidiaries:

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

(3) Reasons for exclusion of unconsolidated subsidiaries from consolidation

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

3. Application of the equity method

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

Unconsolidated subsidiaries: —

Affiliates: 2

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

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

Unconsolidated subsidiaries: 3

Affiliates: 2

Names of unconsolidated subsidiaries and affiliates:

Tomakomai Netsu 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 three 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 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 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, 2014.

Accrued loss on guarantees

Accrued loss on guarantees is provided at an amount of estimated loss on fulfillment of guarantee obligations.

(4) Accounting for retirement benefits

Method of attributing expected benefits to periods of service

The retirement benefit obligation for employees is attributed to each period by the straight-line method.

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

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

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

Adoption of simplified method for small-scale corporation

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

(5) Recognition criteria for significant revenues and expenses

Recognition criteria for revenues and costs of construction contracts

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

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

Other construction contracts:

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

For the year ended March 31, 2014, net sales of completed construction contracts of ¥98,176 million was recognized by the percentage-of-completion method.

(6) Foreign currency translation

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

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

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

(7) Hedge accounting

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

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

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

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

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

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

(9) Other

Consumption taxes:

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

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

Accounting Changes

Application of accounting standards for retirement benefits

The Company adopted "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) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014.

These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as a liability for retirement benefits and for recording the excess amount of pension plan assets over the retirement benefit obligation as an asset for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Section 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits asset and liability adjustments of accumulated other comprehensive income.

As a result of this change, the asset and the liability for retirement benefits were recognized at the amount of ¥3,587 million and ¥8,231 million, respectively, as of March 31, 2014. In addition, accumulated other comprehensive income decreased by ¥3,011 million.

The effect of this change on net assets per share is disclosed in "Per Share Data" of "Notes to Consolidated Financial Statements".

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

The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for the retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

2. Effective date

Revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the 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.

Changes in Presentation of Consolidated Financial Statements

Consolidated Statement of Income and Comprehensive Income

"Rework cost on construction contracts", which was presented separately for the year ended March 31, 2013, is included in "Non-operating expenses-Other" on the consolidated statement of income and comprehensive income for the year ended March 31, 2014 because its amount is not greater than 10% of the total non-operating expenses.

For this change, the consolidated statement of income and comprehensive income for the year ended March 31, 2013 is represented. As a result, "Rework cost on construction contracts" of ¥70 million and "Non-operating expenses-Other" of ¥257 million for the year ended March 31, 2013 are reclassified as "Non-operating expenses-Other" of ¥327 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)

FY 2012	FY 2013
¥ 4,200	**¥ 4,500**

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

Investment securities

(Millions of yen)

FY 2012	FY 2013
¥ 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)

FY 2012	FY 2013
¥ 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)

FY 2012	FY 2013
¥ 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, 2013 and 2014 are as follows:

(Millions of yen)

FY 2012	FY 2013
¥ 302	**¥ (233)**

(Note 2)

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.

Impairment losses were recognized for the following assets for the year ended March 31, 2014:

(Millions of yen)

Location	Use	Asset class	Amount
Osaka-shi, Osaka,	Business-use assets	Land, Buildings, Structures	¥ 143

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.

(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, 2013 and 2014:

(Millions of yen)

	FY 2012	FY 2013
Unrealized gains on available-for-sale securities:		
Amount arising during the year	¥ 6,183	**¥ 3,969**
Reclassification adjustments for gains and losses included in net income	38	**(163)**
Amount before tax effect	6,221	**3,806**
Tax effect	(2,128)	**(1,342)**
Unrealized gains on available-for-sale securities	4,092	**2,464**
Foreign currency translation adjustment:		
Amount arising during the year	42	**120**
Total other comprehensive income	¥ 4,134	**¥ 2,584**

Notes to Consolidated Statement of Changes in Net Assets

[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

[For the year ended March 31, 2014]

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

Type of shares	As of April 1, 2013	Increase	Decrease	As of March 31, 2014
Common stock	74,461,156	—	4,800,000	69,661,156

(Note) Decrease of 4,800,000 shares was due to retirement of treasury shares by resolution of the board of directors.

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

Type of shares	As of April 1, 2013	Increase	Decrease	As of March 31, 2014
Common stock	4,921,983	4,002,221	4,800,000	4,124,204

(Note) Increase of 4,002,221 shares was due to purchase of treasury shares of 4,000,000 by resolution of the board of directors and repurchase of fractional shares of 2,221. Decrease of 4,800,000 shares was due to retirement of treasury shares by resolution of the board of directors.

3. Details of subscription rights to shares were as follows (millions of yen)

	Type of subscription rights to shares	Balance as of March 31, 2014
The Company (Parent company)	Stock options	25
Total		25

4. Dividends

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

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
June 26, 2013 Ordinary general meeting of shareholders	Common stock	521	7.50	March 31, 2013	June 27, 2013
November 8, 2013 Meeting of board of directors	Common stock	491	7.50	September 30, 2013	December 10, 2013

(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, 2014 Ordinary general meeting of shareholders	Common stock	491	Retained earnings	7.50	March 31, 2014	June 27, 2014

Notes to Consolidated Statement of Cash Flows

(Note 1)

Reconciliation of cash and deposits to cash and cash equivalents:

(Millions of yen)

	FY 2012	FY 2013
Cash and deposits	¥ 36,368	¥ 23,510
Short-term investments (securities) with a maturity within three months after the acquisition date	3,999	—
Cash and cash equivalents	¥ 40,367	¥ 23,510

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)

	FY 2012			FY 2013		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Assets:						
1) Cash and deposits	¥ 36,368	¥ 36,368	¥ —	¥ 23,510	¥ 23,510	¥ —
2) Notes and accounts receivable on completed construction contracts and other	63,288	63,288	—	78,101	78,101	—
3) Securities and investment securities:						
Held-to-maturity debt securities	4,503	4,511	7	4,302	4,310	7
Available-for-sale securities	24,814	24,814	—	28,516	28,516	—
Total assets	128,975	128,982	7	134,431	134,439	7
Liabilities:						
Notes and accounts payable on construction contracts and other	51,853	51,853	—	57,888	57,888	—
Total liabilities	51,853	51,853	—	57,888	57,888	—
Derivative transactions*	¥ (158)	¥ (158)	¥ —	¥ (301)	¥ (301)	¥ —

* 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, 2014, 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	
	FY 2012	FY 2013
Unlisted stocks	¥ 2,002	¥ 2,462

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)

	FY 2012				FY 2013			
	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	¥ 36,360	¥ —	¥ —	¥ —	¥ 23,449	¥ —	¥ —	¥ —
Notes and accounts receivable on completed construction contracts and other	63,288	—	—	—	78,101	—	—	—
Securities and investment securities:								
Held-to-maturity securities (corporate bonds)	4,199	—	304	—	3,998	—	303	—
Available-for-sale securities with maturity date (corporate bonds)	—	—	—	109	—	—	—	106
Total	¥ 103,847	¥ —	¥ 304	¥ 109	¥ 105,549	¥ —	¥ 303	¥ 106

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

(Millions of yen)

	FY 2012						FY 2013					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	¥ 6,580	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 6,256	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable	340	320	—	—	—	—	320	—	—	—	—	—
Lease obligations	57	62	39	22	15	192	72	52	35	28	21	225
Total	¥ 6,977	¥ 382	¥ 39	¥ 22	¥ 15	¥ 192	¥ 6,649	¥ 52	¥ 35	¥ 28	¥ 21	¥ 225

Securities

1) Trading securities

Not applicable, because the Company and its consolidated subsidiaries had no trading securities both at March 31, 2013 and 2014.

2) Held-to-maturity debt securities

(Millions of yen)

Type	FY 2012			FY 2013		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Securities whose fair value exceeded their carrying value						
Government bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	1,304	1,312	7	303	312	8
Other	—	—	—	—	—	—
Subtotal	1,304	1,312	7	303	312	8
Securities whose carrying value exceeded their fair value						
Government bonds	—	—	—	—	—	—
Corporate bonds	3,199	3,198	(0)	3,998	3,997	(1)
Other	—	—	—	—	—	—
Subtotal	3,199	3,198	(0)	3,998	3,997	(1)
Total	¥ 4,503	¥ 4,511	¥ 7	¥ 4,302	¥ 4,310	¥ 7

3) Available-for-sale securities

(Millions of yen)

Type	FY 2012			FY 2013		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeded their acquisition cost						
Stock	¥ 24,549	¥ 14,525	¥ 10,023	¥ 28,194	¥ 14,348	¥ 13,846
Bonds	109	107	2	—	—	—
Other	—	—	—	1	0	0
Subtotal	24,659	14,633	10,026	28,195	14,349	13,846
Securities whose acquisition cost exceeded their carrying value						
Stock	155	162	(7)	213	233	(20)
Bonds	—	—	—	106	107	(0)
Other	—	—	—	0	0	(0)
Subtotal	155	162	(7)	321	342	(21)
Total	¥ 24,814	¥ 14,796	¥ 10,018	¥ 28,516	¥ 14,691	¥ 13,825

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

(Millions of yen)

Type	FY 2012			FY 2013		
	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	¥ 469	¥ 47	¥ 27	¥ 299	¥ 162	¥ 0
Bonds	503	—	0	108	1	—
Other	—	—	—	—	—	—
Total	¥ 973	¥ 47	¥ 27	¥ 407	¥ 163	¥ 0

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

5) Impairment loss on securities

An impairment loss on investment securities of ¥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, and an impairment loss on investment securities of ¥153 million (stock of unconsolidated subsidiaries with no market value of ¥153 million) was recorded for the year ended March 31, 2014.

For securities with market value, if the fair value of each security has declined by more than 30% from the acquisition cost, the Company and its consolidated subsidiaries recognize an impairment loss after considering the potential recoverability. For securities for which it is 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, 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	¥ (158) (Note)	¥ (158)

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

[For the year ended March 31, 2014]

(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	¥ 1,240	—	¥ (301) (Note)	¥ (301)

(Note) Fair value was estimated based on the price information provided by the financial institutions.
The valuation method of fair value has been changed since the year ended March 31, 2014 that excludes the contract value for the calculation, in which the contract amounts had been taken into consideration in the previous year. The retrospective revaluation of fair value as of March 31, 2013 has been performed accordingly.

2. Interest-related transactions

Not applicable both for the years ended March 31, 2013 and 2014

2) Derivative transactions, to which hedge accounting is applied

1. Currency-related transactions

Not applicable both for the years ended March 31, 2013 and 2014

2. Interest-related transactions

Not applicable both for the years ended March 31, 2013 and 2014

Retirement Benefits

[For the year ended March 31, 2013]

1) Summary of retirement benefit plans for employees

The Company and its consolidated subsidiaries including foreign 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 sheet at March 31, 2013 for the Company's and its consolidated subsidiaries' defined benefit plans:

	(Millions of yen)
Retirement benefit obligation	¥ (25,170)
Plan assets at fair value	13,086
Assets in trust for employees' retirement benefit	7,248
Unfunded retirement benefit obligation	(4,836)
Unrecognized actuarial loss	5,270
Unrecognized prior service cost	(434)
Amounts recognized in the consolidated balance sheets, net	(0)
Prepaid pension cost	7,312
Provision for retirement benefits	¥ (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, 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 year ended March 31, 2013 are outlined as follows:

	(Millions of yen)
Service cost *2	¥ 860
Interest cost	470
Expected return on plan assets	(337)
Amortization of unrecognized actuarial loss	366
Amortization of unrecognized prior service cost	(202)
Total retirement benefit expenses	1,158
Other *3	95
Total	¥ 1,253

*1: In addition to the amount presented above, additional retirement benefits of ¥17 million were paid for the year ended March 31, 2013. 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:

Discount rate	1.2%
Expected rate of return on plan assets	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.

[For the year ended March 31, 2014]

1) Summary of retirement benefit plans for employees

The Company has funded defined benefit plans as well as a defined contribution plan. Its consolidated subsidiaries including foreign subsidiaries have unfunded defined benefit plans.

Under the defined-benefit corporate pension plan, which is a funded plan, covered employees are entitled to lump-sum or, annuity payments based on their basic rates of pay and length of service. For the defined-benefit corporate pension plan, a retirement benefit trust has been established.

Under the lump-sum payment plans, covered employees are entitled to lump-sum payments based on their basic rates of pay and length of service. The lump-sum payment plans are principally unfunded plans. However, the Company's lump-sum payment plan has funded status as a result of establishment of a retirement benefit trust.

The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances.

For the lump-sum payment plans of the consolidated subsidiaries, liabilities and expenses for retirement benefits are calculated using the simplified method.

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

1. The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows:

	(Millions of yen)
Retirement benefit obligation at April 1, 2013	¥ 25,170
Service cost	940
Interest cost	297
Actuarial loss	491
Retirement benefit paid	(1,585)
Other	1
Retirement benefit obligation at March 31, 2014	¥ 25,316

2. The changes in the plan assets during the year ended March 31, 2014 are as follows:

	(Millions of yen)
Plan assets at April 1, 2013	¥ 20,334
Expected return on plan assets	326
Actuarial gain	544
Contributions by employers	—
Retirement benefits paid	(532)
Plan assets at March 31, 2014	¥ 20,672

3. The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet at March 31, 2014 for the Company's and its consolidated subsidiaries' defined benefit plans:

	(Millions of yen)
Retirement benefit obligation under the funded plans	¥ 24,961
Plan assets at fair value	(20,672)
	4,289
Retirement benefit obligation under the unfunded plans	354
Net liability for retirement benefits	4,644
Liability for retirement benefits in the balance sheet	8,231
Asset for retirement benefits in the balance sheet	(3,587)
Net liability for retirement benefits	¥ 4,644

4. The components of retirement benefit expenses for the year ended March 31, 2014 are as follows:

	(Millions of yen)
Service cost	¥ 940
Interest cost	297
Expected return on plan assets	(326)
Amortization of actuarial loss	306
Amortization of prior service cost	(202)
Other	18
Retirement benefit expenses	¥ 1,034

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

5. Unrecognized prior service cost and unrecognized actuarial loss included in retirement benefits asset and liability adjustments of accumulated other comprehensive income (before tax effect) at March 31, 2014 are as follows:

	(Millions of yen)
Unrecognized prior service cost	¥ (232)
Unrecognized actuarial loss	4,911
Total	¥ 4,679

6. The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2014 are as follows:

Bonds	37%
Stock	21
Short-term funds	5
Life insurance general accounts	21
Other	16
Total	100%

(Note) The plan assets included the retirement benefit trust for the corporate pension plans, which comprised 22% of the total, as well as the retirement benefit trust for the lump-sum payment plans, which comprised 11% of the total, at March 31, 2014.

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

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

Discount rate	1.2%*
Expected long-term rate of return on plan assets (principally)	2.5%*

* The weighted average rate is presented.

3) Defined contribution plans

The amount contributed to the defined contribution plan by the Company for the year ended March 31, 2014 was ¥98 million.

Stock Options

1) Stock option expense of ¥25 million was included in "Selling, general and administrative expenses" for the year ended March 31, 2014.

2) 1. Description on the stock option plan:

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

(Note) An individual to whom the share subscription rights are granted (a "Holder") can exercise the rights only for the period of 10 days following the date of his retirement from the position of a director and/or corporate officer. All the share subscription rights of a Holder must be exercised at one time.

In the event that a Holder died, one of his heirs, spouse or one of first-degree family, can exercise the share subscription rights in place of the Holder. In that case, all the rights must be exercised at one time.

2. The following table summarizes stock option activity under the stock option plan referred to above during the year ended March 31, 2014:

Stock option activity	2013 Stock option (Share subscription rights)
Share subscription rights which are not yet vested (Number of shares):	
Outstanding at March 31, 2013	—
Granted	44,000 shares
Forfeited	—
Vested	44,000 shares
Outstanding at March 31, 2014	—
Share subscription rights which have already been vested (Number of shares):	
Outstanding at March 31, 2013	—
Vested	44,000 shares
Exercised	—
Forfeited	—
Outstanding at March 31, 2014	44,000 shares
Exercise price (yen)	¥ 1
Weighted average exercise price (yen)	—
Fair value per stock at the grant date (yen)	¥ 579

3) Fair value at the grant date for stock options which were issued during the year ended March 31, 2014 was estimated using the Black-sholes option pricing model with the following assumptions.

	2013 Stock option (Share subscription rights)
Expected volatility (Note 1)	30.039 %
Expected holding period (Note 2)	3.2 years
Expected dividend (Note 3)	¥ 15 per share
Risk-free rate (Note 4)	0.172 %

(Note1) The volatility of the share price is estimated based on the market prices of the Company's stock from April 30, 2010 to July 11, 2013.
(Note2) The expected holding period is estimated based on the weighted average period of the grant date to the date when the share subscription rights become exercisable, that is the date of each Holder's retirement from the position of a director and/or corporate officer, assuming that each Holder exercises his rights as soon as the rights become exercisable.
(Note3) The expected dividend is based on the dividends paid for the year ended March 31, 2013.
(Note4) Risk-free interest rate is the yield on government bonds for the period that corresponds to the remaining life of the option.

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

Tax-effect Accounting

1) The significant components of deferred tax assets and liabilities at March 31, 2013 and 2014 were as follows:

(Millions of yen)

	FY 2012	FY 2013
1. Deferred tax assets		
Allowance for doubtful accounts	¥ 380	¥ 431
Accrued bonuses	831	819
Accrued business taxes	211	50
Impairment loss	2,546	2,355
Accrued warranty costs	130	151
Accrued loss on construction contracts	304	202
Accrued retirement benefits	2,611	—
Liability for retirement benefits	—	4,074
Accrued directors' retirement benefits	107	85
Loss on devaluation of investment securities	653	621
Loss on devaluation of utility rights	168	165
Other	823	1,027
Subtotal	8,769	9,986
Valuation allowance for deferred tax assets	(3,325)	(3,312)
Total deferred tax assets	5,443	6,673
2. Deferred tax liabilities		
Deferred capital gains for tax purposes	(889)	(832)
Gain on valuation of investment securities	(1,470)	(1,470)
Unrealized gains on available-for-sale securities	(3,386)	(4,729)
Other	(90)	(135)
Total deferred tax liabilities	(5,836)	(7,167)
Net deferred tax liabilities	¥ (392)	¥ (494)

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, 2013 and 2014 are presented as follows:

	FY 2012	FY 2013
Statutory tax rate	38.0 %	38.0 %
Items permanently not deductible for tax purposes	(3.0)	4.6
Items permanently not taxable	3.4	(3.5)
Inhabitants' per capita taxes	(2.1)	3.0
Valuation allowance	(42.3)	(1.3)
Effect of changes in effective statutory tax rate	(2.6)	4.2
Equity in losses of affiliates	(0.1)	1.3
Research and development tax credit	1.5	(1.3)
Other	(1.5)	(0.9)
Effective tax rates	(8.7) %	44.1 %

3) The "Act for Partial Amendment of the Income Tax Act, etc". was promulgated on March 31,2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.
As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled for the fiscal year beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥134 million and increase deferred income taxes by ¥134 million as of and for the year ended March 31, 2014.

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 ¥1,426 million and ¥235 million for the years ended March 31, 2013 and 2014, 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, 2013 and 2014 were as follows:

(Millions of yen)

	FY 2012	FY 2013
Carrying value		
At beginning of the year	¥ 10,987	¥ 3,521
Net change during the year	(7,465)	37
At end of the year	3,521	3,559
Fair value at end of the year	¥ 12,866	¥ 13,188

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 ¥652 million and impairment loss of ¥7,025 million for the year ended March 31, 2013. Increase in the carrying value included in the net change during the year was mainly due to acquisition of rental real estate properties of ¥280 million, and decrease in the carrying value mainly due to depreciation of ¥234 million, for the year ended March 31, 2014.
3) The fair value is estimated for major rental properties based on the appraisal value obtained from outside real estate appraisers with reasonable adjustments for timing and for the other rental properties based on the assessed value for fixed-asset taxes.

Segment Information

(Segment Information)

1. Outline of reportable segments

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

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

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

Effective the beginning of the year ended March 31, 2014, Shin-yu Services Co., Ltd. was newly included in consolidation. The subsidiary's business segments, which are not reportable segments, are stated as "Other".

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

Accounting policies of the segments are substantially the same as those described in "Basis of Preparation of Consolidated Financial Statements". Segment performance is evaluated based on ordinary income or loss. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

Segment assets and liabilities are not disclosed because they are not reviewed to make decisions on resource allocation or to assess performance.

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

[For the year ended March 31, 2013]

(Millions of yen)

	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
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 ¥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.

[For the year ended March 31, 2014]

(Millions of yen)

	Reportable segments								
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Sales :									
Sales to third parties	¥ 143,361	¥ 9,846	¥ 17,067	¥ 1,077	¥ 171,352	¥ 132	¥ 171,484	¥ 11	¥ 171,496
Inter-segment sales and transfers	336	0	101	—	438	475	914	(914)	—
Total sales	¥ 143,697	¥ 9,846	¥ 17,169	¥ 1,077	¥ 171,791	¥ 607	¥ 172,398	¥ (902)	¥ 171,496
Segment profit (loss)	¥ 3,260	¥ (287)	¥ (23)	¥ 147	¥ 3,096	¥ 63	¥ 3,159	¥ (13)	¥ 3,146
Other items:									
Depreciation	¥ 347	¥ 60	¥ 76	¥ 235	¥ 719	¥ 0	¥ 719	¥ 21	¥ 740
Interest income	16	0	5	—	22	0	22	23	45
Interest expenses	48	0	5	—	54	—	54	41	96
Equity in earnings (losses) of affiliates	—	—	1	—	1	—	1	(108)	(107)

(Note 1)

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

Business segments of Shin-yu Services Co., Ltd., which was newly consolidated for the year ended March 31, 2014, were included in "Other".

(Note 2)

Adjustments for segment profit or loss of ¥13 million for the year ended March 31, 2014 included corporate general losses of ¥224 million which were not allocable to the reportable segments such as foreign exchange losses and reversal of interest expenses of ¥211 million which had been allocated to each of the reportable segments for administrative purpose.

(Note 3)

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

(Other Information)

[For the years ended March 31, 2013 and 2014]

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, 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.

[For the year ended March 31, 2014] (Millions of yen)

	Facilities construction	Machinery systems	Environmental systems	Real estate	Other	Total	Adjustments (Note)	Consolidated
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 143	¥ 143

(Note)
Adjustments of ¥143 million were impairment loss on welfare facilities to be sold.

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

[For the years ended March 31, 2013 and 2014]
Not applicable

(Information about gain on negative goodwill by reportable segment)

[For the years ended March 31, 2013 and 2014]
Not applicable

Per Share Data

	FY 2012	FY 2013
Net assets per share	¥ 1,106.32	¥ 1,142.74
Net income (loss) per share	¥ (71.04)	¥ 26.46
Diluted net income per share	¥ —	¥ 26.45

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 and diluted net income per share is summarized as follows:

(Millions of yen)

	FY 2012	FY 2013
Basic:		
Net income (loss)	¥ (4,992)	¥ 1,763
Amount not attributable to shareholders of common stock	—	—
Net income (loss) attributable to common stock	¥ (4,992)	¥ 1,763
Average number of shares of common stock outstanding	70,273 thousand shares	66,637 thousand shares
Diluted:		
Adjustments to net income	—	—
Increase in shares of common stock (Of which, exercise of stock subscription rights)	— (—)	31 thousand shares (31 thousand shares)
Outline of dilutive potential which was not included in calculation of diluted net income per share due to non-dilutive effect	—	—

As stated in “Accounting Changes” of “Notes to Consolidated Financial Statements”, the Company adopted “Accounting Standard for Retirement Benefits” and applied the provisional treatment set out in Section 37 of the standard at the end of the year ended March 31, 2014.
As a result of this change, net assets per share decreased by ¥45.96 at March 31, 2014.

Subsequent Events

1. Retirement of treasury stock

According to the resolution at the meeting of its board of directors held on May 13, 2014, the Company has retired its treasury stock in accordance with Article 178 of the Corporation Law as follows:

1) Type of stock:	Common stock of the Company
2) Total number of shares retired:	3,000,000 shares
3) Retirement date:	May 20, 2014
4) Total number of shares issued after retirement:	66,661,156 shares

2. Acquisition of treasury stock

It was resolved at the meeting of its board of directors held on June 26, 2014 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:	2,000,000 shares (upper limit)
3) Total amount of acquisition costs:	¥1,700 million (upper limit)
4) Period of acquisition:	From June 27 to September 30, 2014
5) Acquisition method:	Purchase on the Tokyo Stock Exchange

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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

June 26, 2014
Fukuoka, Japan

Ernst & Young Shinnihon LLC

A member firm of Ernst & Young Global Limited

(As of March 31, 2014)

Corporate information

Company name	SANKI ENGINEERING CO., LTD.
Date of establishment	April 22, 1925
Stated capital	8,105.18 million yen (As of March 31, 2014)
Representative	Takuichi Kajiura, President
Principal lines of business	Facilities construction, plant & machinery systems, real estate
Number of employees	Consolidated: 2,283 Non-consolidated: 1,908 (As of March 31, 2014)
Offices	Branch: 3 Branch Office: 15 Laboratory: 1 (As of June 26, 2014)
Head office	8-1, Akashicho, Chuo-ku, Tokyo

Share information

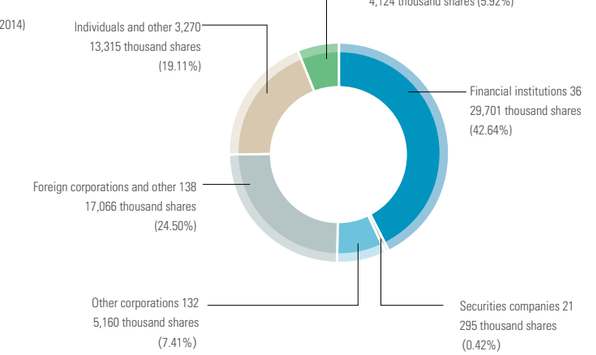
(As of March 31, 2014)

Fiscal year	April 1 to March 31 of the following year
Annual general meeting of shareholders	Late June, every year
Trading unit	1,000 shares (Changed to 100 shares on September 1, 2014)
Number of shares authorized	192,945,000 shares
Number of shares issued	69,661,156 shares
Number of shareholders	3,598

Transfer agent and special account management institution
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku, Tokyo

Stock exchange listing	Tokyo Stock Exchange
Securities code	1961

Ownership statistics



Major shareholders

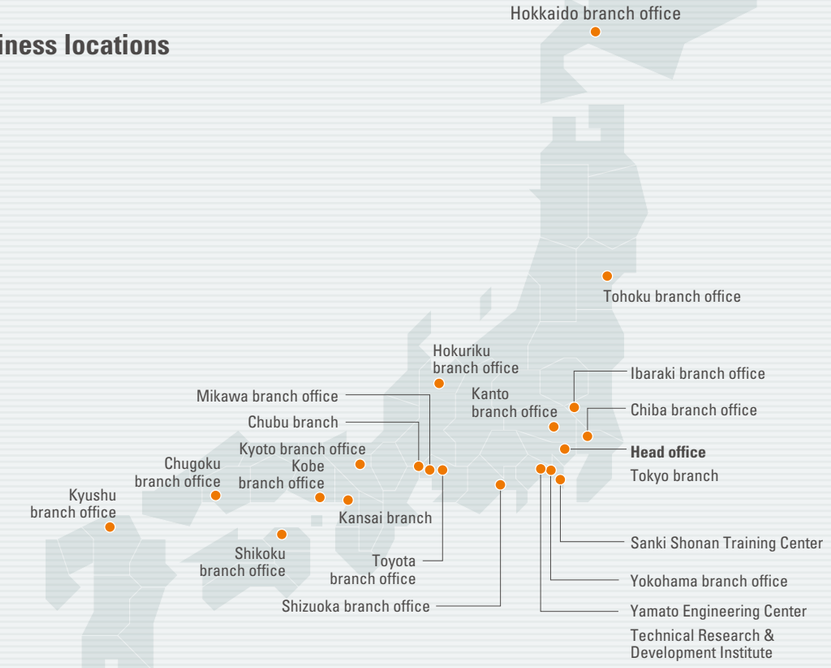
	Number of shares held (thousand shares)	Shareholding ratio (%)
Mitsui Life Insurance Company Limited.	6,500	9.92
Meiji Yasuda Life Insurance Company	5,700	8.70
Nippon Life Insurance Company	5,256	8.02
Sanki Kyoueikai	2,823	4.31
Japan Trustee Services Bank, Ltd. (Trust account)	2,571	3.92
CBNY DFA International Cap Value Portfolio	1,642	2.51
The Master Trust Bank of Japan, Ltd. (Trust account)	1,538	2.35
Sanki Engineering employee shareholders' association	1,223	1.87
JP Morgan Chase Bank 385093	1,168	1.78
Ono Pharmaceutical Co., Ltd.	1,060	1.62

* Although the company holds 4,124 thousand shares of treasury stock, the company is excluded from the major shareholders listed above. Shareholding ratio is calculated excluding treasury stock.

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, low-carbon society.

Domestic business locations



Representative offices and Group companies overseas

Consolidated subsidiaries

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

Sanki Sangyo Setsubi Co., Ltd.
Established May 1, 1980 Capital ¥20 million
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

THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.

Established	June, 2008
Capital	฿16 million
Business areas	Facility design, construction, maintenance and consulting

AQUACONSULT Anlagenbau GmbH
Acquired a controlling interest in September, 2006

Capital	€18 thousand
Business areas	Manufacture and sale of aeration

Shin-yu Service Co., Ltd.* *Became a consolidated subsidiary in fiscal 2013.

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

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