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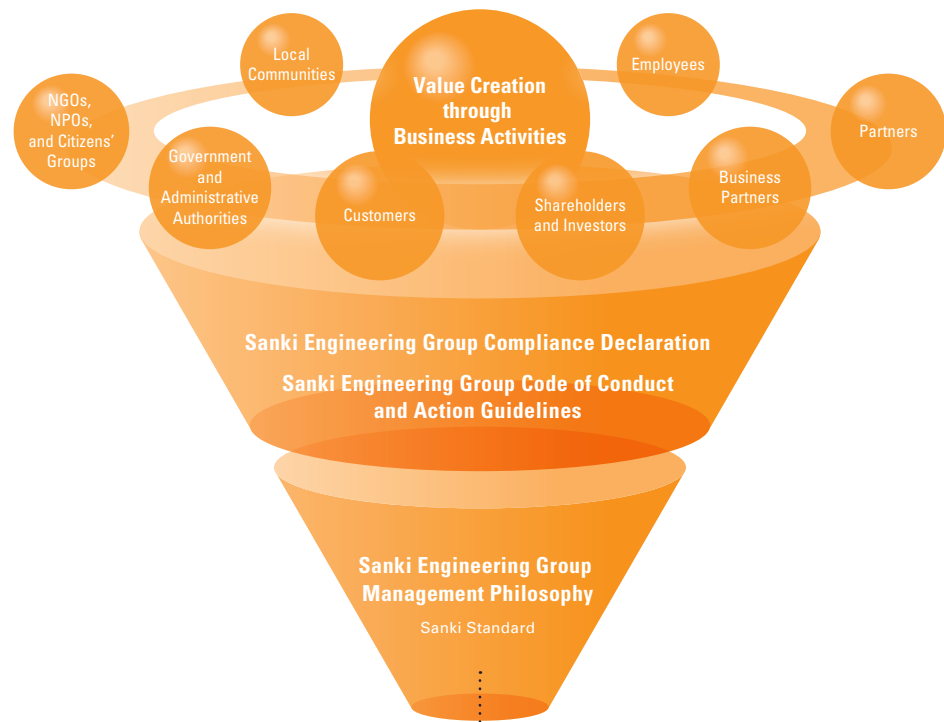
SANKI REPORT 2018





*Engineering
for the Future*

Sanki Engineering Group Philosophy



Sanki Engineering Group Management Philosophy
Sanki Standard

We create comfortable environments through engineering and widely contribute to social development.

We will refine our skills and wisdom with the aim of increasing client satisfaction.
We will place significance on communication and mutual respect.
We will remain aware that we are a member of society and will act accordingly.

The Sanki Engineering Group marked the start of its journey toward the centenary of its founding in 2025 by formulating the Management Vision and the Sanki Engineering Group Management Philosophy, which carries the spirit of the Group's former Corporate Credo, in December 2015.

The Management Philosophy is a comprehensive statement of the Sanki Engineering Group's purpose in society and presents three values. The Sanki Engineering Group is pursuing sustained growth by ensuring all Group executive officers and employees uphold these shared values and is contributing to the creation of a sustainable society. Under the Sanki Engineering Group Compliance Declaration, which summarizes issues related to corporate ethics and legal compliance, all Group executive officers and employees will strive to create value for stakeholders and society at large by performing their daily job duties in accordance with the Sanki Engineering Group Code of Conduct, which lays out the basic principles of appropriate conduct, and the more specific Sanki Engineering Group Action Guidelines.



Editorial Policy

Aiming to Produce a Tool that Further Boosts Understanding of the Group

We have positioned the SANKI REPORT, the annual report of Sanki Engineering, as a key, integrated communication tool for reaching all our stakeholders. We hope it will boost understanding of the Sanki Engineering Group's business activities and future direction and welcome feedback for enhancing our operations and information disclosure.

In compiling the report, we used the following approach in 2018.

- We adopted the Ministry of the Economy, Trade and Industry's "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation" as a reference in the editing of the report.
- We created new pages in the "Value Creation" section to provide an overview of Sanki Engineering's business life cycle (pages 12 and 13).
- We sought to enhance the reporting of results of the Medium-Term Management Plan by adding information on specific aspects (pages 20 to 26).
- We categorized the ESG initiatives and relevant SDGs that are particularly significant for the Sanki Engineering Group (page 26).
- We restructured the Business Report pages to provide more focused information that is easier to read, with messages from officers responsible for the divisions (pages 28 to 38).
- We revised the composition of the corporate governance and environment sections of the CSR Report to make them easier to understand (pages 40 to 43, 62 to 66).

Reference Guidelines

- "International <IR> Framework" of the International Integrated Reporting Council
- Ministry of the Economy, Trade and Industry's "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation"
- Ministry of the Environment's "Environmental Reporting Guidelines 2012"
- GRI Sustainability Reporting Standards 2016
- ISO 26000

Organizations Covered by the Report

- Financial information shows consolidated Group figures.
- Non-financial information is based on non-consolidated figures for Sanki Engineering Co., Ltd. When the information concerns the Group, organizations covered by the data are specified in the text, list or graph.

Reporting Period

April 2017–March 2018 (Some information from outside this period has been included with the period specified.)

Precaution on Performance Outlooks, etc.

In addition to past and present information concerning the Sanki Engineering Group, this report includes the targets, plans, outlooks, strategies, forecasts of future performance and other information drawn from our long-term vision "Century 2025," Medium-term Management Plan "Century 2025" Phase 1 (FY2016–2018) and other sources. Please be aware that these forecasts are the best estimates by Sanki Engineering management and based on the information available at the time, and actual performance may differ significantly from these forecasts, owing to changes such as in economic conditions, market trends and exchange rates.

CONTENTS

- 04 Sanki Engineering Group Philosophy
- 05 Editorial Policy/Contents
- 06 History of Sanki Engineering
- 08 Business Overview by Segment
- 10 Sanki Engineering's Value Creation
- 14 Message from the President
- 20 Progress in the Medium-Term Management Plan

Business Report

- 28 Facilities Construction Business
- 32 Plants & Machinery Business
- 36 Real Estate Business
- 37 Research and Development

CSR Report

Management

- 40 Corporate Governance
- 44 Compliance
- 46 Risk Management
- 48 CSR Management
- 50 Relationship with Customers
- 53 Relationship with Shareholders and Investors
- 54 Relationship with Business Partners
- 56 Health and Safety at Construction Sites
- 58 Relationship with Employees
- 62 Relationship with the Environment
- 67 Relationship with Local Communities

Financial Report and Corporate Information

- 70 Financial Report
- 100 Corporate Information, Business Locations and Group Companies
- 102 Share Information
- 103 Third-Party Opinion



History of Sanki Engineering

Sanki Engineering has developed its business in step with the modernization of Japanese industry over the past nine decades. Under the Sanki Engineering Group Management Philosophy, "We create comfortable environments through engineering and widely contribute to social development," the Company will continue to open new eras with the power of technology toward its 100th anniversary in 2025.

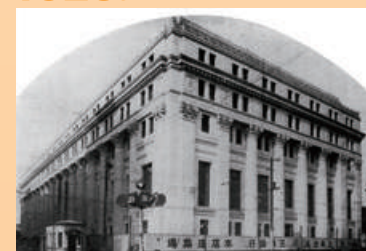
Toward the 100th Anniversary 2025

• History of Sanki Engineering

- | | |
|---|---|
| <p>1923 The Great Tokyo Earthquake strikes, and building modernization drives up demand for building utilities, such as heating, ventilation and air conditioning, water supplies and drainage, and electrical fixtures and fittings, and construction technology advances.</p> <p>1925 On April 22, Sanki Engineering is established as a spin-off from the Machinery Department of the former Mitsui Bussan, with capital of 500,000 yen and 12 employees.</p> <p>1931 Moves the head office to the Sanshin Building.</p> <p>1933 Opens a branch in Dalian, Manchuria.</p> <p>1935 Celebrates the 10th anniversary of its founding, with five branches, six field offices, three affiliates and around 300 employees.</p> <p>1941 The Pacific War begins; Sanki Engineering suffers a shortage of workers as well as materials due to tight control over the distribution of goods.</p> <p>1944 Emergency metal collection campaigns start nationwide. The Kawasaki and Tsurumi plants are designated military industrial plants.</p> <p>1945 War ends.</p> <p>1950 The outbreak of the Korean War leads to a war-driven economy, and the Japanese economy takes a favorable turn. Expansion of demand for building construction and equipment results in dramatic improvement in the Company's business performance.</p> <p>1958 Capital exceeds 1 billion yen.</p> <p>1963 Completes Sagami plant (currently the Yamato Engineering Center), which tailors production equipment for conveyor mass production.</p> <p>1964 Participates in projects on the occasion of the 1964 Tokyo Olympics, including the Yoyogi National Gymnasium and the NHK Broadcasting Center.</p> | <p>1971 The Environmental Agency is inaugurated. Sanki Engineering develops a track record for waste incineration facilities and water and sewerage treatment facilities and sets up the Environmental Administration office.</p> <p>1973 Spins off the sash business.</p> <p>1980 Establishes the Company Credos.</p> <p>1982 Builds the Technical Research Laboratory, equipped with basic research facilities and large-scale experimental facilities in Yamato City, Kanagawa Prefecture.</p> <p>1990 Bubble economy collapses.</p> <p>1997 COP3 conference in Kyoto adopts the Kyoto Protocol on preventing global warming.</p> <p>2000 Opens the Shonan Training Center (Yokosuka City, Kanagawa Prefecture) and strengthens human resource development.</p> <p>2005 Moves the head office to Nihonbashi.</p> <p>2010 Launched the SANKI YOU Eco Contribution Point as a unique social contribution system.</p> <p>2011 Moves the head office to Tsukiji.</p> <p>2012 Launches the Smart Building Solution Business to provide Smart Buildings with a focus on the energy-saving business. Set up the Disaster Reconstruction Project for assisting the reconstruction of regions affected by the Great East Japan Earthquake through Sanki Engineering's business activities.</p> <p>2015 90th Anniversary. Establishes the Sanki Engineering Group Management Philosophy.</p> <p>2016 Launches the long-term vision "Century 2025."</p> <p>2018 All facilities of the Sanki Techno Center opening in October (tentative).</p> |
|---|---|

• Technological Progress

1920s



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

- Provides heating, plumbing, steel frame construction and building materials for two major construction projects: the Shiga manufacturing plant of Toyo Rayon (currently Toray Industries, Inc.) and the refrigerated warehouse of Aomori Seihyo.
- Installs Japan's first centralized air conditioning system for an entire structure at Mitsui's main building.

1930s

Diversified and Expanded Businesses Lead to Greater Technological Competence

- Develops and installs a proprietary incinerator for facilities in the Sanshin Building.
- Establishes Toyo Carrier Industries together with U.S.-based Carrier Engineering and launches the air conditioning business.
- Completes work on the Tokyo Office of Nippon Life Insurance Company (currently Takashimaya Nihonbashi department store).

1940s

Sanki's Advanced Technology Bolsters a Construction Boom

- Starts manufacturing conveyors.
- Concludes sales contracts for machinery used in mining-related chemistry with U.S.-based Dorr Inc. and Oliver, Inc.
- Completes work on the main building of the Dai-ichi Life Insurance Company, Japan's first building with the special high-voltage power reception of 22 kV.

1950s

A Proactive Approach to Technological Innovation



- Completes work on Japan's first all-fluorescent lighting system in the Taisho Marine and Fire Insurance Building.
- Becomes involved in night-soil treatment plant disposal facilities in response to urban hygiene needs.
- Delivers a roller conveyor to the Japanese Antarctic Research Expedition II.



1960s

A Manufacturer that Responds to the Needs of the Times

- Completes work on air conditioning, plumbing and electrical systems for Japan's first skyscraper, the Kasumigaseki Building.
- Develops the standardized "6S sash" and gains the top market share among steel sash manufacturers.

1970s

Wide Range of Technological Innovations

- Completes work on Japan's first large-scale clean room at NEC's Sagamihara plant.
- Develops the world's first completely unmanned automatic sorting system and airport baggage handling system.
- Provides HVAC equipment for satellite communication ground stations in the Middle East and other regions and builds automotive testing equipment in Russia.



1980s

Rising to the Challenge of New Businesses

- Launches the information and communications business.
- Launches the facility systems business to deal with office integration and moving.



1990s

Driving Progress in Environmental and Information Technologies

- Develops environment-related technology, including an ice thermal storage system, sewage advanced treatment systems, and gasification and melting furnaces.



2000s

Meeting the Needs of a Rapidly Advancing Information Society

- Advances network systems, including LAN, building monitoring and automated control.
- Provides air conditioning, plumbing and an open BA system (automated control, BEMS) for the Roppongi Hills building and other construction work.
- Establishes the Energy Solutions Center to promote and develop the energy-saving business and provide sales support.
- Develops and begins sale of clean conveyor facilities in response to growing demand for liquid crystal displays and organic EL panels.



2010s

Contributing to a Sustainable Society by Bolstering the LCE Business

- Promotes the LCE Business, in which the Sanki Engineering Group provides life cycle engineering for buildings and facilities, from planning, design and construction work to maintenance, operation/management, renovation and reconstruction.
- Wins order for the DBO project, a bulk contract encompassing design, construction, management and maintenance.
- Completes hygiene facility for the Tokyo Midtown Hibiya building.



Business Overview by Segment

(year ended March 2018)

Facilities Construction Business

Net sales
139,688 million yen

Net Sales
Composition Ratio **82%**



Our Facilities Construction Business is conducted in ways that are friendly to both people and the environment and through systems that are convenient, comfortable and efficient and also save energy. We are engaged in wide-ranging fields, including designing HVAC and plumbing systems for buildings, an industrial HVAC system, and electrical systems and developing smart building solutions and facility systems.

Main Sales Items

- **HVAC Systems**
 - HVAC systems
 - Industrial HVAC systems
 - Clean rooms
 - Environmental control systems
 - Pharmaceutical and food manufacturing facilities
 - Freezing and refrigeration
 - District heating and cooling plants
 - Nuclear power-related facilities
- **Plumbing and Drainage Systems**
 - Plumbing system for water supply and drainage
 - Kitchen systems
 - Disaster prevention systems
- **Facility Systems**
 - Design for fit-out and relocation of offices and workplaces
 - Consulting for project management
- **Smart Building Solutions**
 - Central monitoring and automated control systems
 - ICT systems
 - Crisis management (BCP) solutions
 - IP phone systems
 - Security systems
- **Electrical Systems**
 - Electrical systems
 - Telecommunication systems
 - Communication-related facilities
 - Electrical civil engineering



Real Estate Business

Net sales
1,755 million yen

Net Sales
Composition Ratio **1%**



Our Real Estate Business includes operations in the areas of real estate leasing and building management. We are striving to expand into higher value-added real estate while taking advantage of our current technology.

Main Sales Items

- **Real Estate Leasing**
 - Land leasing
 - Building leasing
- **Building Maintenance and Management**
 - Facility maintenance and upgrades
 - Facility construction
 - Facility ownership



Plants & Machinery Systems Business

Net sales
29,164 million yen

Net Sales
Composition Ratio **17%**



Machinery Systems Business

Main Sales Items

- **Conveyance Systems**
 - Lightweight conveyors
 - Distribution-related conveyors
 - Sorting devices
 - Automated warehouse
- **Material Handling Systems**
 - FA systems
 - Clean conveyance systems
 - Material handling systems
 - Airport baggage and cargo handling systems
 - Medical handling systems
 - Handling information control systems



We provide material handling systems and conveyance systems that meet customer needs and challenges in supply chain management.

Net Sales
Composition Ratio **5%**

Environmental Systems Business

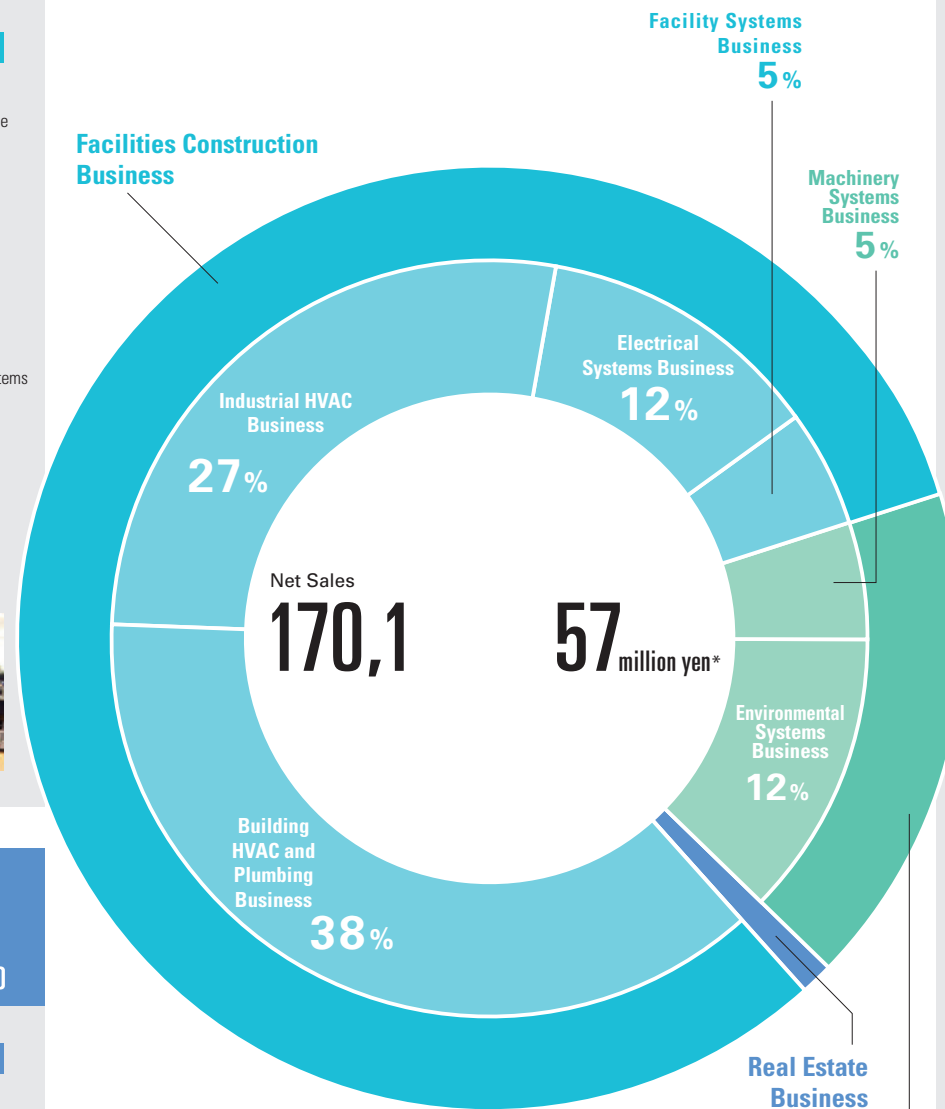
Main Sales Items

- **Waste Treatment**
 - Waste incineration facilities
 - Landfill wastewater treatment facilities
 - Sludge incineration facilities
- **Water Treatment**
 - Water and sewage treatment facilities
 - General and industrial waste disposal and recycling facilities
 - Sludge recycling facilities
 - Industrial wastewater and waste gas treatment facilities
 - Plant facilities for the food and chemical industries



We develop unique facilities and systems for water and sewage treatment and waste treatment to enhance living environments while conserving energy and reducing CO₂ emissions.

Net Sales
Composition Ratio **12%**



*Includes 578 million yen in other net sales and 1,030 million yen in elimination of inter-segment transactions.

Sanki Engineering's Value Creation

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

Capital Resources

- Natural Capital**
 - Input such as energy and water resources
- Social Capital**
 - Reliability and a solid customer base cultivated over 90 years
 - Collaboration between Group companies
 - Stable network of cooperation with subcontractor groups nurtured through longstanding relationships of trust
 - Members of subcontractor groups: 810 companies
- Intellectual Capital**
 - Rich track record and highly specialized technology across broad areas of technology including heating, ventilation and air conditioning; plumbing; electrical systems; ICT; automatic control; water and sewage treatment; incineration and conveyance
- Human Capital**
 - Number of employees (consolidated): 2,384
 - Competent engineers and researchers
 - Sales staff with close relationships with customers
- R&D and Manufacturing Capital**
 - Comprehensive training and research facility, Sanki Techno Center
 - Manufacturing base for equipment and facilities
- Financial Capital**
 - Net assets (consolidated): 86.1 billion yen
 - Sound financial base

Business Activities



Value Created

- Natural Capital**
 - Adopted CO₂ reduction proposals: 353 (consolidated)
 - CO₂ reduction for clients: 47,905 t-CO₂ (consolidated)
 - Contribution to achieving ZEB*¹
- Social Capital**
 - Facilities construction services provided
 - Orders received (consolidated): 191.1 billion yen
 - Net sales (consolidated): 170.1 billion yen
 - Participation in PPP*² and PFI*³ projects
 - Support for customers resuming and reconstructing business after major disasters such as the Great East Japan Earthquake
- Intellectual Capital**
 - Registered patents for newly developed technologies and products: 154 (cumulative total for 2013 to 2017)
- Human Capital**
 - Reinstatement after childcare leave: 100% (non-consolidated)
 - Non-Japanese employees: 18 (non-consolidated)
 - Project management technician (civil works, construction, electrical construction, pipelaying work): 1,112 (non-consolidated)
 - Accident frequency rate: 0.86
- Financial Capital**
 - Cash dividends: 35.00 yen per year
 - Gross profit margin: 14.7% (highest in the past 10 years)

Stakeholders



A Better, Sustainable Society

Creation of Comfortable Environments

Social Issues

- Global environmental issues
- Limited resources and energy
- Declining population and aging society
- Escalation of natural disasters

Social Expectations and Needs

- Decarbonization
- Energy conservation
- Energy creation
- Infrastructure maintenance and upgrades
- Automation, labor-saving solutions and higher productivity
- Safe working environment
- Information security

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

*2 Public Private Partnership: Provides public services through public-private sector collaboration.

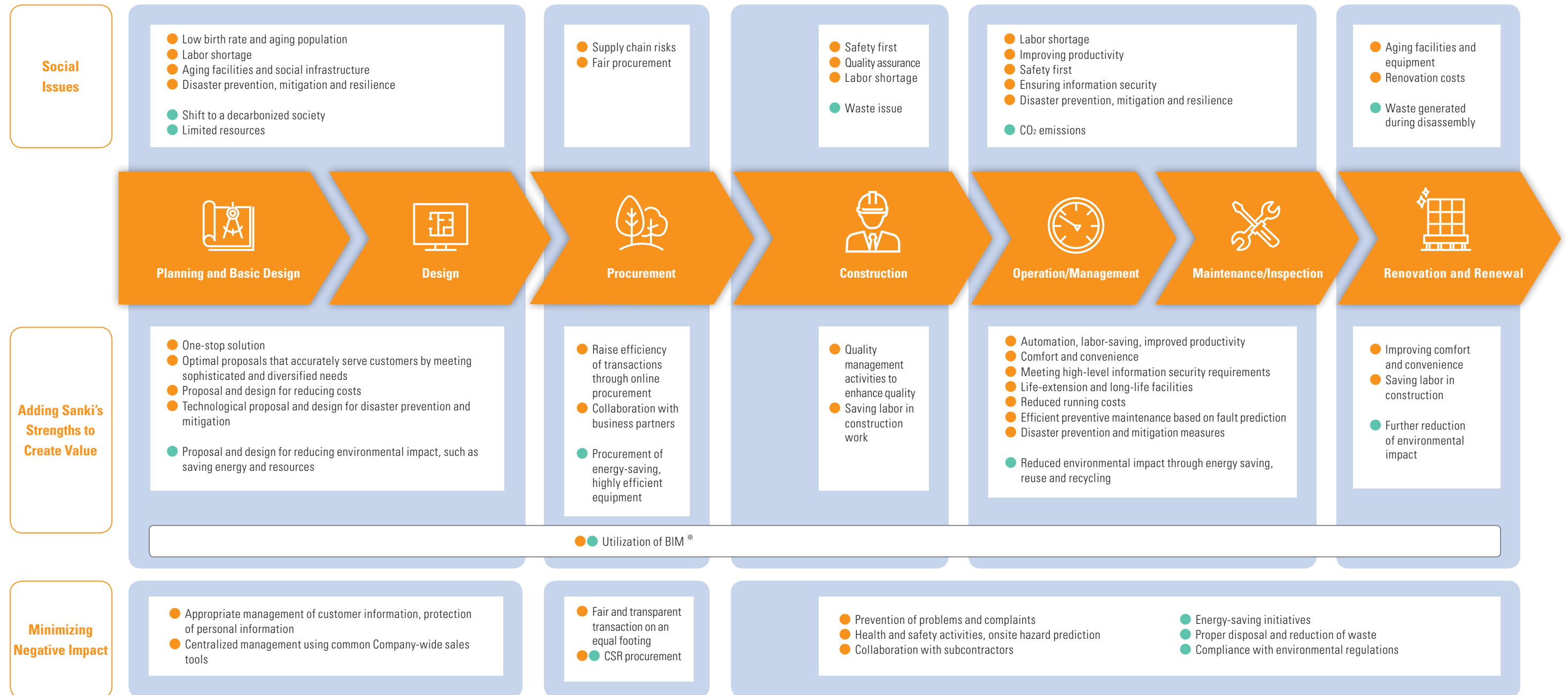
*3 Private Finance Initiative: A major PPP method in which private capital and expertise are used in the design, construction, maintenance and operation of public facilities to provide public services.

Notes:

- Data on each capital resource are actual results for fiscal 2017.
- Composed by referencing the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

Addressing Social Issues throughout the Value Chain

● Related to society ● Related to the environment



*BIM (Building Information Modeling): The concept of constructing a 3D model of a building on a computer and applying the information across the entire process, including design, construction and management.





Tsutomu Hasegawa
President

We will further refine our technical skills and human resources to create comfortable environments as our contribution to society.

Business Environment and Results for Fiscal 2017
Japanese Construction Market Maintains Bullish Tone

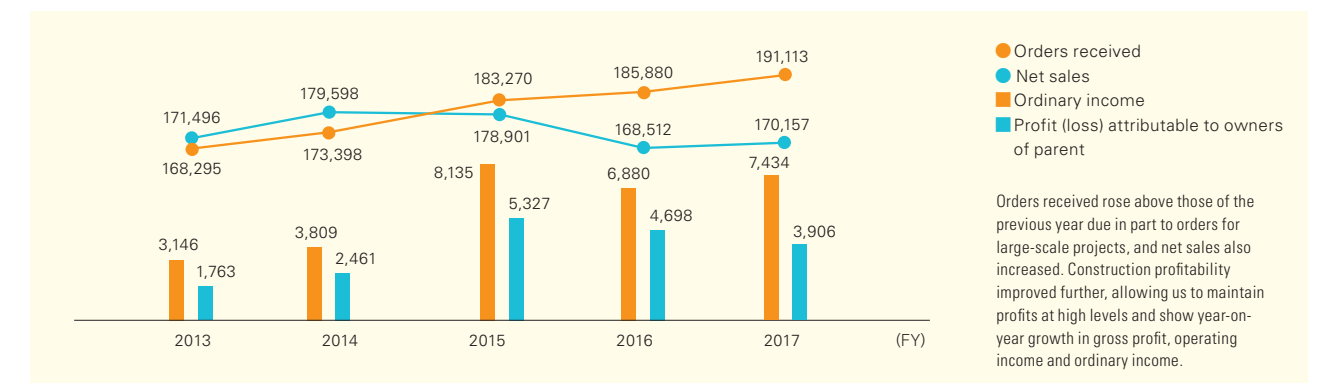
In fiscal 2017, the Japanese construction market maintained its bullish tone on the back of strong corporate earnings and an increase in redevelopment projects in the Tokyo metropolitan area.

The Sanki Engineering Group operates across broad domains of social infrastructure. Our Facilities Construction Business includes heating, ventilation and air conditioning, water supply and drainage, plumbing, electrical systems, ICT and office relocation. Our Machinery Systems Business includes material handling systems and conveyors. And our Environmental Systems Business includes water and sewage treatment as well as waste incineration facilities. Therefore, changes in the external environment have an impact on our business to varying degrees depending on the segment. For example, the impact of the worker shortage, caused by the declining population, has negative and positive aspects. Specifically, there is a negative impact on the Facilities Construction Business, while growing demand for automation provides a business opportunity for the Machinery Systems Business. Nevertheless, the business environment

was on the whole favorable, as the Tokyo Olympic and Paralympic Games, scheduled for 2020, has spurred demand for redevelopment and reconstruction, and continued capital investments by manufacturers, bolstering public and private investment in construction projects.

The Sanki Engineering Group is pursuing its long-term vision "Century 2025" over a ten-year period to become the company of choice by its first centenary in 2025. Furthermore, we have been steadily implementing initiatives for enhancing quality under the medium-term management plan "Century 2025" Phase 1, which covers the first three years of the vision from fiscal 2016 to fiscal 2018. As a result, in fiscal 2017 we saw increases in orders received and net sales as well as operating income and ordinary income. Orders received rose 2.8% year-on-year to 191,113 million yen and net sales rose 1.0% to 170,157 million yen. We were able to maintain profits at the high levels achieved in the previous year, as operating income rose 9.7% year-on-year to 6,593 million yen and ordinary income rose 8.1% to 7,434 million yen. Meanwhile, profit attributable to owners of parent fell 16.9% year-on-year to 3,906 million yen as a result of having reported an extraordinary income and an extraordinary loss.

Business Performance (Millions of Yen)



Long-Term Vision “Century 2025”

The Company of Choice

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

Phase 3 (FY2022–2025) 4-year period to become the company of choice

Increased reliability will encourage more customers to choose our company.

Phase 2 (FY2019–2021) 3-year period to enhance reliability

Superior quality generates customer satisfaction, and customer satisfaction and confidence leads to reliability.

The Company of Choice

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

Phase 1 (FY2016–2018) 3-year period to enhance quality

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

Medium-Term Management Plan “Century 2025” Phase 1

Please refer to pages 20 through 26 for more information.

FY2016

FY2019

FY2022

FY2025

Progress in Medium-Term Management Plan “Century 2025” Phase 1

Securing High Profit Margins

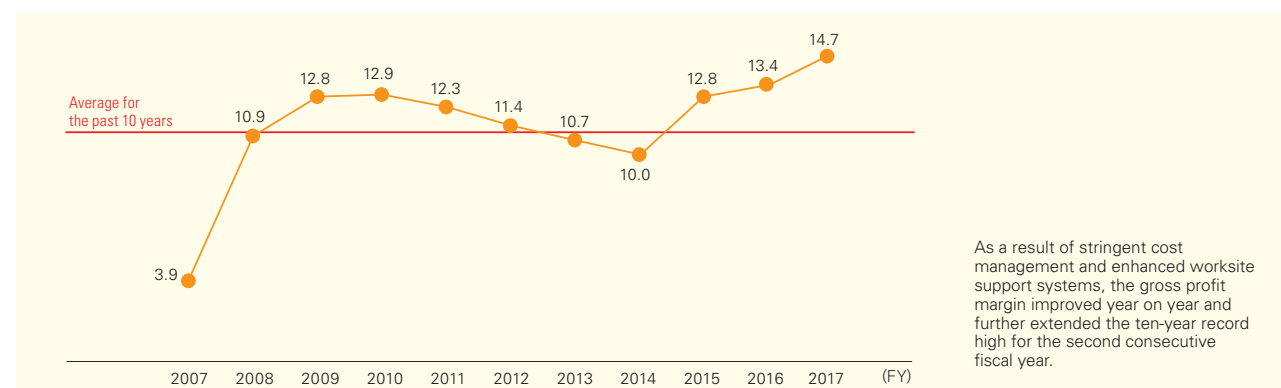
Fiscal 2017 was the second year of the medium-term management plan “Century 2025” Phase 1, which corresponds to the three-year period of enhancing quality under the long-term vision “Century 2025.” As in the first year, we sought to enhance the quality of our technology and human resources toward establishing a foundation responsive to change by implementing three key initiatives: (1) Strengthen core businesses, (2) Promote growth strategies, and (3) Enhance the Sanki Brand.

To strengthen our core businesses, the Facilities Construction Business made progress in the following areas.

- Lowered costs based on the full operation of the Purchasing Web System for digitizing the ordering process.
- Launched the “Smile Site Plan” as a dedicated committee that pursues workstyle reforms for construction site management.
- Actively exchanged opinions with subcontractors to reduce factors that hurt profits, such as reworks, troubles and claims, while also improving profit margins.

While the improvement in profit margins was partly due to the external environment, our series of initiatives on reinforcing the internal control process, including stringent cost management, played a major role. As a

Gross Profit Margins (%)



result, in fiscal 2017 we were able to further extend our gross profit margin for the entire Group, which in the previous year had risen to its highest point in ten years. Achieving high profit margins while maintaining the same level of sales is a trend that is in line with our future direction and also corresponds to enhancing the quality of our profit structure. While ensuring quantity in terms of sales is naturally important, we will continue to carefully balance this value with quality in terms of profit margins as we seek to strengthen our core businesses.

In the Machinery Systems Business, we made progress mainly in meeting labor-saving automation needs arising from the shortage of workers caused by falling birthrates and an aging population, as well as baggage handling needs at airports due to the growing number of inbound visitors to Japan.

- Expanded sales of hybrid facilities that combine conveyors with robots.
- Won a large-scale project order for airport transportation facilities.
- Developed the cross belt sorters CBII and CBIII, the world's fastest conveyor and sorting devices.

In the Environmental Systems Business, we received an order for a large-scale DBO*1 project, in accordance with our policy for developing the LCE*2 business, and pursued initiatives in renewable energy.

- Won the first DBO project order involving new construction for energy-recovery type waste treatment facilities.
- Made a full-scale entry into the market for a wood biomass gasification power generation facility.

*1 Design Build Operate: A process through which the design, building, operation and maintenance of a project is awarded to a private enterprise as a bulk order.

*2 Life Cycle Engineering: A business concept of the Sanki Engineering Group. Throughout the life cycle of a building, we provide services from new construction, repair and maintenance to renewal and reconstruction.

Sanki Techno Center Enhances Quality of Technology and Human Resources

With respect to the second key initiative of promoting growth strategies, the most significant topic of fiscal 2017 was the progress achieved on the STeP (Sanki Techno Park) Project, which is intended to redevelop the Sanki Yamato Site as the foundation upon which to achieve the long-term vision “Century 2025.” The Sanki Techno Center is the core facility of this project and scheduled to come into full operation in October 2018



as a site for research and development, training and study. At the center, we will develop technology that lies at the backbone of the Sanki Engineering Group and hand it down to the next generation. The new Technical Research & Development Institute, equipped with the most advanced facilities, already began operation in March 2018. And in September 2019, we plan to start operation at a new plant for conveyance equipment featuring enhanced operability and compact design.

The Sanki Techno Center is characterized by the following functions and characteristics.

- R&D for promoting and supporting open innovation.
- Education and training with an emphasis on practical drills related to technology, skills and safety.
- Showroom to promote the technical skills of Sanki Engineering.
- Ample training and accommodation facility.
- Temporary shelter under a disaster management agreement with Yamato City.

We will be able to ensure a uniform standard of training for the entire Group and equal educational opportunities by conducting integrated training at the center with its combined education and training functions. As a place where diverse people come and go, we hope it will serve as a catalyst for generating rich communication and synergies, and ultimately for enhancing the quality of our technology and human resources.

Nurturing Practitioners of the Sanki Standard

On the third key initiative of enhancing the Sanki Brand, we have defined our ideal personnel as a practitioner of the Sanki Standard, the management philosophy of Sanki Engineering, which has been passing down the mindset of placing the utmost value in people as members of the Mitsui Group. We have sought to instill among employees the ideal of a person who places top priority on communication and mutual respect and can act as a responsible member of society.

However, given the current concerns surrounding the labor shortage associated with a declining population, management faces the vital issue of securing and educating competent personnel who can become practitioners of the Sanki Standard, which will



in turn determine the continuation of the Company. Sanki Engineering has been promoting diversity and developing an environment for securing personnel for the future through its Smile Project, an industry-leading effort to reduce long working hours, and developing programs for a more comfortable workplace with welfare benefits to enable employees to choose from diverse workstyles. A fulfilling personnel system and comfortable living environment creates peace of mind, which ultimately leads to enhancing the quality of our human resources.

A company's personnel structure is essentially diverse, and we believe that practicing the Sanki Standard provides the ideal universal value that brings together the sensibilities of diverse employees. Promoting diversity and practicing the Sanki Standard have the same aim, which we believe will enhance the Sanki Brand.

Incorporating the ESG Perspective to Management

Fiscal 2018 is the year for rounding out our medium-term management plan "Century 2025" Phase 1 for enhancing quality over a three-year period. We will steadily implement the three key initiatives outlined above while fully leveraging the Sanki Techno Center

Progress on the STeP Plan (Fiscal 2017 to Fiscal 2018)

Facility	Status of Progress
Sanki Techno Center	Mar. 2018 • Technical Research & Development Institute began operation Oct. 2018 • Entire building scheduled to open
Former Yamato site	Apr. 2018 • Demolition completed
New factory	May 2018 • Began construction on a new factory Aug. 2019 • New factory scheduled to start operation

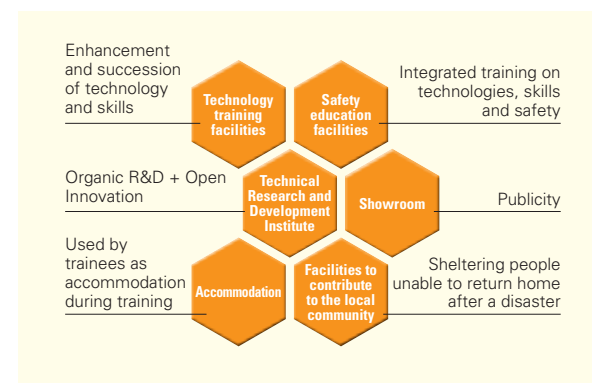
scheduled to open in autumn 2018 and completely implementing the "Smile Site Plan" designed to further bolster site capabilities and reduce the workload of site managers. Moreover, we will summarize the progress and challenges of Phase 1 to formulate the next medium-term management plan, "Century 2025" Phase 2 for fiscal 2019 to fiscal 2021, which will target enhancing reliability.

To ensure that Phase 2 gets a strong start, we must complete the three-year period for enhancing quality and further incorporate ESG (environment, social and governance) perspectives as indicators for corporate sustainability into management. Sanki Engineering's operations have the mission of saving and creating energy, and our business development is directly linked to our contribution to the environment. During a period in which humankind must squarely face up to environmental challenges, the fact that we have been able to address social issues through our core business represents a source of pride.

With respect to the social dimension, we need to establish an environment that allows for employees to continue working for many years. In the "big picture" context of having difficulty adequately meeting the demand for personnel, related areas such as HVAC systems, plumbing and drainage systems and electrical systems must mutually support each other to create better, more efficient workplace environments.

As for governance, which sustains our business activities, we are confident that we are demonstrating effective management. Looking ahead, we will continue to strengthen our governance systems in order to ensure management transparency, validity and agility.

Functions of the Sanki Techno Center



Stable Dividend Payments as Our Basic Policy

Sanki Engineering recognizes the appropriate return of profits to shareholders and investors as a key management concern. Realizing that dividends form the basis of our policy of shareholder returns, we consider the balance between sustainable corporate development and returns to shareholders while consistently seeking to provide stable dividends, as the basis of our policy, and additional dividends in accordance with our financial performance. We will continue to adhere to this policy and will examine comprehensive and stable methods of shareholder returns, in light of demands from shareholders, investors and society at large.

As part of our shareholder return efforts, we retired three million shares of treasury stock in May 2017 and acquired another three million throughout fiscal 2017.

Our Legacy of Contributing to Society through Technology

Under our long-term vision "Century 2025," we are striving to raise our quality and reliability levels toward our goal of becoming the company of choice. We have disclosed the related methods and measures through the medium-term management plan. And we feel that seeking broad social recognition for our work will create another reason for choosing Sanki Engineering.

For example, the general public has little opportunity to come into contact with Sanki Engineering's major technologies, such as our HVAC, plumbing and drainage systems, or waste and water treatment facilities. However, Sanki Brand facilities have been incorporated into many renowned buildings, a fact that generally

surprises people. We have been in business for nearly 100 years because society has called upon our services. Basic human instinct drives us to seek comfort in food, clothing and shelter, and we expect that people will continue to seek advances in establishing even more comfortable environments far into the future.

We have been guided by our Management Philosophy: "We create comfortable environment through engineering and widely contribute to social development." This we believe has much in common with the principles behind the Sustainable Development Goals (SDGs) adopted at the United Nations Summit, while it also offers sound guidelines for the next 100 years. We intend to continue serving society by continuously refining our core technologies for creating comfortable environments. Also, to remain needed by society over the next century, we will consistently refine our human resources and technical skills while winning the public trust by providing comfortable environments that are uniquely associated with Sanki Engineering to achieve sustainable growth.

Dividend Payments

	FY2014	FY2015	FY2016	FY2017
Interim dividend (yen)	7.5	9.0	10.0	15.0
Year-end dividend (yen)	12.5	21.0	20.0	20.0
Annual dividend (yen)	20.0	30.0	30.0	35.0
Consolidated payout ratio (%)	52.2	35.8	40.6	55.5

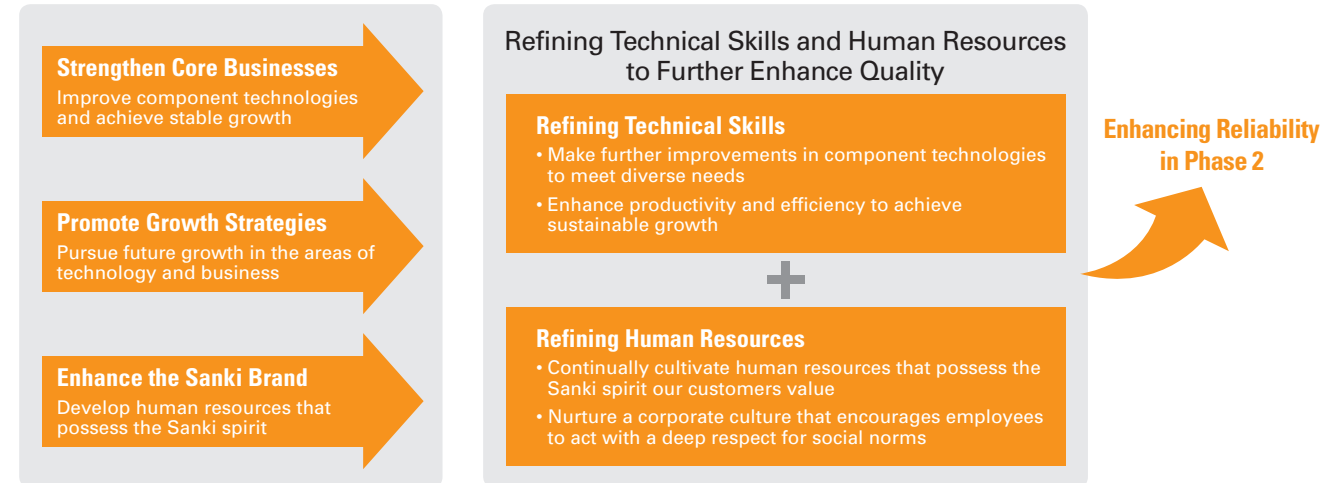
- Year-end dividend for FY2014 includes 7.5 yen in regular dividend and 5.0 yen in commemorative dividend for the 90th anniversary.
- Year-end dividend for FY2015 includes 9.0 yen in regular dividend and 12.0 yen in extra dividend.
- Year-end dividend for FY2016 includes 10.0 yen in regular dividend and 10.0 yen in extra dividend.
- Interim dividend for FY2017 includes 10.0 yen in regular dividend and 5.0 yen in extra dividend.
- Year-end dividend for FY2017 includes 10.0 yen in regular dividend and 10.0 yen in extra dividend.



Progress in the Medium-Term Management Plan

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

Key Initiatives



Priority Issues and Strategies

We will address our priority issues by promoting businesses and pursuing initiatives based on effective strategies to establish a sound foundation for growth.

<p>Issue Passing on technical skills</p> <p>Strategy We will renovate the Sanki Yamato Building (Yamato City, Kanagawa Prefecture) and reopen it as the Sanki Techno Center. This will be a comprehensive training facility that imparts and develops the technical skills at the backbone of the Sanki Engineering Group.</p>	<p>Issue Anticipating the age of maintaining building stock</p> <p>Strategy We will give a boost to the LCE business, as described in SANKI VITAL PLAN 90th. This will bolster our business foundation, allowing us to maintain sound corporate management, even if the construction market experiences a slowdown.</p>	<p>Issue Developing next-generation technologies</p> <p>Strategy We will establish a new R&D base inside the Sanki Techno Center. There we will develop technologies for the next generation while keeping up with advances in new technologies such as robotics, IoT, and AI.</p>
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Financial Performance Targets and Results

(Unit: billion yen)

Indicator	FY2016 (Results)	FY2017 (Results)	FY2018 (Plan)
Net sales	168.5	170.1	187.0
Gross profit (ratio)	22.5 (13.4%)	25.0 (14.7%)	26.8 (14.3%)
Operating income (ratio)	6.0 (3.6%)	6.5 (3.9%)	7.5 (4.0%)
Ordinary income (ratio)	6.8 (4.1%)	7.4 (4.4%)	8.0 (4.3%)

► Second Year Results (1) Progress in Business Performance

Point

- Orders received exceeded that in the previous fiscal year due in part to orders for large-scale projects
- Continuous improvement in profitability. Gross profit margin extended to ten-year highs
 - Positive result of enhancing quality under the Medium-Term Management Plan “Century 2025” Phase 1
- Year-on-year growth in sales and profit, while ordinary income target was essentially achieved under the medium-term management plan
- Promoted the STeP Plan (construction of the Sanki Techno Center, temporary relocation of the Machinery Systems plant, and other activities)
- Paid out returns including extraordinary dividends for the third consecutive year

Summary of Business Performance

Business results for fiscal 2017, the second year of the Medium-Term Management Plan “Century 2025” Phase 1, are shown at right. In particular, the gross profit margin improved further compared to the previous fiscal year.

(Unit: billion yen)

Indicator	FY2017 (Initial Forecast)	FY2017 (Results)	Difference (Results-initial Forecast)
Net sales	180.0	170.1	-9.9
Gross profit (ratio)	24.0 (13.3%)	25.0 (14.7%)	1.0 (+1.4 pt)
Operating income (ratio)	7.0 (3.9%)	6.5 (3.9%)	-0.5 (±0 pt)
Ordinary income (ratio)	7.5 (4.2%)	7.4 (4.4%)	-0.1 (+0.2 pt)

Key Initiatives—Fiscal 2017 Results and Fiscal 2018 Objectives

	Fiscal 2017 Results	Fiscal 2018 Objectives
Strengthen Core Businesses	<ul style="list-style-type: none"> • Facilities Construction <ul style="list-style-type: none"> - Expanded worksite support initiatives (created an online procurement system, enhanced support operations) • Facility Systems: <ul style="list-style-type: none"> - Expanded PM^{*1} and SI^{*2} operations for fit-out and relocation of offices • Plant and Machinery Machinery Systems: <ul style="list-style-type: none"> - Received a major order for an airport conveyance facility - Developed the world’s fastest conveyor and sorting device • Environmental Systems: <ul style="list-style-type: none"> - Won our first order for the DBO project involving new construction work (won an order for the DBO project for a second consecutive year) 	<ul style="list-style-type: none"> • Facilities Construction <ul style="list-style-type: none"> - Review the work styles of site managers, expand support operations by office workers • Facility Systems: <ul style="list-style-type: none"> - Present proposals for office in line with work style reform • Plant and Machinery Machinery Systems: <ul style="list-style-type: none"> - Steadily promote plans for new plant construction and relocation - Make a full-scale entry into the logistics market • Environmental Systems: <ul style="list-style-type: none"> - Expand sales of strategic products
Promote Growth Strategies	<ul style="list-style-type: none"> • Won strategic large-scale orders to build future stock • Made full-scale entry into the woody biomass power generation plant market 	<ul style="list-style-type: none"> • Develop IoT systems • Develop stock properties • Proactively engage in PFI and DBO projects
Enhance the Sanki Brand	<ul style="list-style-type: none"> • Developed programs for a more comfortable workplace and welfare benefits • Held an exchange of views between division chiefs and young employees (about 700 participants) • Held the 2nd Sanki Ladies’ Roundtable (meeting for female engineers) • Doubled the number of press releases on technological development 	<ul style="list-style-type: none"> • Continue initiatives to enhance communication • Develop a new Sanki brand

*1 Project Management: Performing of tasks, including the formulation of plans and management of their execution, to facilitate the completion of a project.
*2 System Integration: Performing of tasks, including planning, design, development and operations, toward offering solutions to issues that clients face and that are based on a comprehensive understanding of their businesses.

▶ Second Year Results (2) Sanki Techno Center

Point

- Created as a place for imparting and developing the Sanki Engineering Group's technical skills
- Extend medium to long term investments for the future as a strategic base for enhancing the quality of our technologies and human resources
- Provide efficient and systematic education related to practical technology, skills, safety awareness and other areas that supplement classroom learning and on-the-job training
- Provide quality training for subcontractors to improve their technology, quality of facility construction, and safety, and to further strengthen our partnerships

New Site for Research and Development, Training and Study for Enhancing the Quality of Our Technology and Human Resources

As a key initiative of our Medium-Term Management Plan "Century 2025" Phase 1 (FY2016–2018), we are seeking to refine our technology and human resources to pass on and develop our technical skills while enhancing quality in all areas of our business. The Sanki Techno Center is a comprehensive training and research facility central to the Sanki Yamato Site Redevelopment Project (STeP) under Phase 1, and its grand opening is scheduled for October 2018.

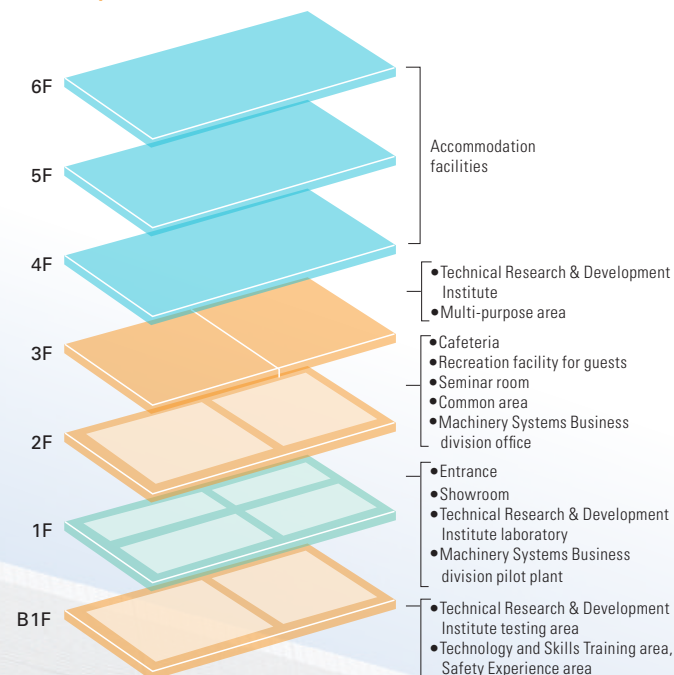
STeP Project

The STeP (Sanki Techno Park) Project involves the redevelopment of land and buildings at the Sanki Yamato Site, owned by Sanki Engineering and primarily covering the Sanki Yamato Building and former Yamato Engineering Center sites in Yamato City, Kanagawa Prefecture. The project includes the construction of the Sanki Techno Center, which is a comprehensive training and research facility, the reorganization of conveyance system factories, and the effective utilization of existing assets.

● Description of the Sanki Techno Center

Floor area : approx. 46,162 m²
 Structure : SRC, 6 floors above and 1 floor below ground
 Address : 1623-14 Shimo-tsuruma, Yamato City,
 Kanagawa Prefecture

Floor Map



Training Area

Systematic Learning of Practical Technology, Skills and Safety Awareness

The training curriculum used at the Sanki Techno Center will be divided broadly into the categories of management, technology and skills, as well as safety. In addition to seminars for new employees, we will organize practical training by rank to supplement the experience acquired at each workplace. Apart from the lecture rooms that will be used as classrooms for basic courses, the center also houses the Technology and Skills Training area and Safety Experience area in a large space on the first basement floor, spanning roughly 2,000 m². These will serve as the core of the center's education and training functions. Construction site mock-ups have been installed in various locations so that participants can apply their minds and bodies during training, enabling them, through classroom lectures and on-the-job training, to efficiently and systematically acquire practical knowledge related to technology, skills, and safety awareness, which had been only possible at actual construction sites. There will also be a section where individuals can learn about past problems and industrial accidents so that they can prepare for future incidents and develop an understanding about emergency response. We plan to actively encourage subcontractors to participate, particularly in the skill and technology training and safety training, with the aim of enhancing the quality of all human resources and technologies at the Sanki Engineering Group's construction sites.



open lab model that will emphasize working with both internal and external collaborators, including other companies and universities.



Showroom

Conveying the Ability and Possibilities of Total Engineering

The showroom will convey the past, present and future initiatives of the Sanki Engineering Group under the themes of "Amenity," "Ecology & Energy," "Industry" and "Environment." We will communicate the ability and possibilities of our total engineering and seek new solutions through dialogue with customers.



Accommodation Facility and Amenities

Offering a Comfortable and Vigorous Learning Environment

We intend for the Sanki Techno Center to become a facility that encourages active exchanges between training participants and researchers. It houses a variety of areas for communication, including a café, a large tatami-floored room and a lounge. The center also offers a comfortable lodging facility with ample accommodations, a cafeteria and a gym for overnight training and educational programs.



Base for Regional Contribution

Offering Temporary Shelter in Times of Disaster

The Sanki Techno Center will serve not only as an education and research base for the Sanki Engineering Group and its subcontractors but also as a base for regional exchange. Under an agreement concluded with Yamato City in 2013, the Sanki Yamato Site (Yamato Engineering Center) will be made available as a temporary shelter for those who are unable to return home in the wake of a disaster. We will continue to develop the Sanki Techno Center's functions as a shelter with a focus on its lodging facility.

▶ Second Year Results (3) Progress in ESG Initiatives

Point

- Develop products and technologies that contribute to realizing a decarbonized society
- Create a good working environment
- Bolster the workforce by promoting diversity
- Further strengthen the governance system

ESG Initiatives—Fiscal 2017 Results and Fiscal 2018 Objectives

	Fiscal 2017 Results	Fiscal 2018 Objectives
E	<ul style="list-style-type: none"> • Continued to extend donations through the “SANKI YOU Eco Contribution Point” program • Won an order for the DBO project to build a new energy-recovery waste treatment facility • Delivered a woody biomass gasification power generation facility • Delivered an advanced energy-saving facility in Shanghai City, China, through a partnership with NEDO and others • Registered as a “ZEB Planner” under the new licensing system introduced by Japan’s Ministry of Economy, Trade and Industry in FY2017 	<ul style="list-style-type: none"> • Continue donations through the “SANKI YOU Eco Contribution Point” program • Contribute solutions to global environmental issues, including decarbonization and energy creation
S	<ul style="list-style-type: none"> • Sanki Engineering’s unique “Smile Project” work style reform entered its third year • Launched the “Smile Site Plan” focused on work styles at construction sites • Established a “Women’s Hotline” exclusively for consultations by female employees • Held an exchange of views between division chiefs and young employees • Held the “2nd Sanki Ladies’ Roundtable” meeting for female engineers 	<ul style="list-style-type: none"> • Confirm the effectiveness of initiatives on promoting diversity • Enhance the effectiveness of work style reform • Promote work style reform through the continuation of the “Smile Project” and “Smile Site Plan” • Implement initiatives aimed at enhancing communication
G	<ul style="list-style-type: none"> • Added to the content of self-assessment by the Board of Directors • Held a board member meeting to exchange views on overall corporate governance • Began revising procedures for submitting agendas to the Meeting of Board of Directors 	<ul style="list-style-type: none"> • Continue efforts to ensure stronger governance

Case 1 Reducing Environmental Impact with a Woody Biomass Gasification Power Generation Facility

In July 2017, commercial operations began at the woody biomass gasification power generation facility we built for NKC Nagai Green Power Co., Ltd. in Nagai City, Yamagata Prefecture.

As the severity of global warming increases, woody biomass energy generated by wood and forest thinnings is expected to replace fossil fuel as an alternative source of energy with less environmental impact. Compared with conventional biomass power generation, in which wood is burned directly to generate steam that turns the turbines, biomass gasification uses flammable gas generated by heating wood and therefore offers higher power generation efficiency at a smaller scale.

The facility in Nagai is capable of generating 14.8 million kWh of electricity, equivalent to the annual power needs of 3,000 households. It boasts the world’s highest level of power generation per furnace within the class of biomass gasification facilities having a capacity below 20 million kWh, and more than twice the power generation efficiency compared to the same size of facilities based on steam turbines. Plans are also underway to supply residual hot water from power generation to farms and various facilities in the neighboring area to efficiently use hot wastewater.

Sanki Engineering will continue to develop products and technologies to reduce society’s impact on the environment.



Woody biomass gasification power generation plant of NKC Nagai Green Power Co., Ltd.

Case 2 Exploring and Implementing Work Style Reform that Meets Actual Worksite Needs to Become the Company of Choice

Guided by its management philosophy: “We place significance on communication and mutual respect,” Sanki Engineering set up the “Smile Site Plan” work style reform expert committee in November 2017. The committee focuses on construction site operations and strives to create a working environment in which each individual employee can thrive.

Seeking to create a better working environment, Sanki Engineering launched the “Smile Project” in 2015, which is led by the president. Under the project, we have been actively reforming internal systems, such as limiting overtime and improving childcare and nursing leave programs.

Sanki Engineering is involved in wide-ranging operations with different work styles at each site. We therefore decided to set up a committee specifically for operations at construction sites, comprising directors and members from relevant divisions, to review operations as well as explore and implement initiatives for reducing the workload.

The committee will particularly categorize onsite operations into tasks that should be handled by specific staff, tasks that can be handled by others, and overlapping tasks, toward reducing the respective workloads and bolstering construction site capabilities and quality.

Based on the review, the Technical Support Center was created as a new organization that specializes in providing support and guidance to onsite operations, starting in fiscal 2018.

Sanki Engineering will continue to create good working environments toward the “Century 2025” long-term vision of becoming the company of choice.



► Sanki Engineering Group's ESG Initiatives and Contribution to SDGs

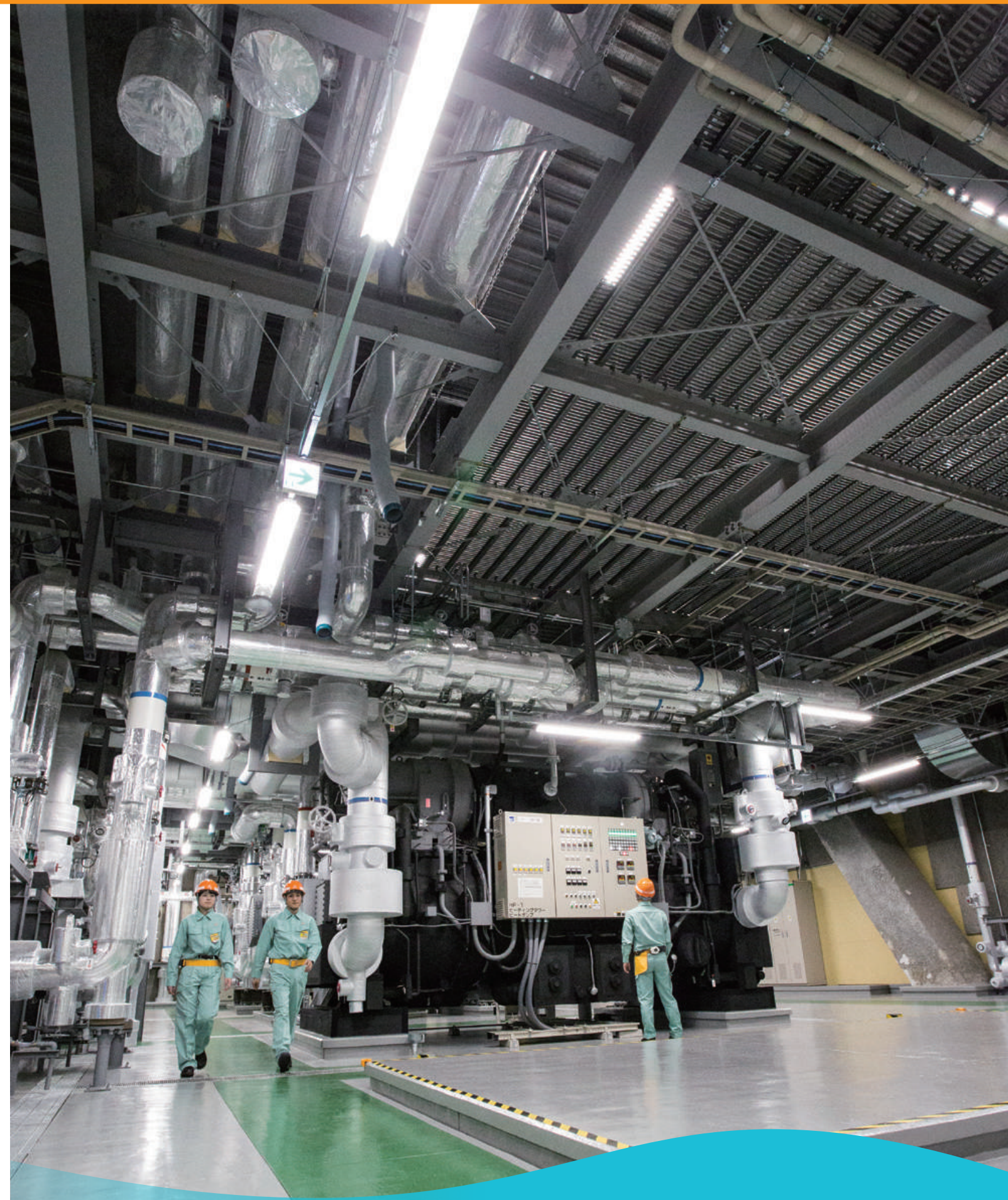
Companies are required to minimize the negative impact of their business activities while maximizing their positive impact and contributing to the sustainable development of society.

The Sanki Engineering Group will seek to meet the expectations and requirements of society by addressing the following long-term issues through its business activities.

These issues are related to initiatives for the Sustainable Development Goals (SDGs), which are international goals for creating a world that "leaves no one behind," and companies as well as countries are required to actively participate. Through its business activities, the Sanki Engineering Group will play a role in resolving medium- to long-term social issues, as designated in the SDGs.



	Initiatives	Most Relevant SDGs
E	<p>Following the signing of the Paris Agreement, decarbonization has become a global concern. We must strive to achieve a sustainable society by separating consumption of energy and resources from economic development.</p> <p>In the Sanki Engineering Group's business, namely the construction of facilities for buildings and plants, we must constantly contend with the propositions of saving and generating energy. Our business development is directly linked to environmental issues, enabling us to contribute solutions through engineering.</p> <ul style="list-style-type: none"> Contribution to resolving global environmental issues, including decarbonization and energy creation through technology Initiatives for realizing ZEB (net zero energy buildings) Reduction of environmental impact resulting from business activities 	
S	<p>Safe, highly reliable and sustainable infrastructure is essential to society. We will promote work style reforms to ensure that diverse human resources can create higher value and grow together.</p> <ul style="list-style-type: none"> Contribution to the construction of social infrastructure Promotion of work style reform Promotion of diversity 	
G	<p>Strengthening corporate governance and pursuing compliance and risk management initiatives are the foundation of our business activities and constitute key actions for increasing the soundness and sustainability of our operations.</p> <ul style="list-style-type: none"> Strengthened corporate governance Thorough compliance Reinforced risk management 	



Business Report

Facilities Construction Business

Refining Our Technologies to Meet Diverse Social Needs

The Facilities Construction Business has been providing total engineering encompassing various technologies, including HVAC systems, plumbing and drainage systems, electrical systems and ICT systems to create comfortable environments that are optimized for diverse social needs. At the same time, we have worked on saving energy and reducing greenhouse gases in each respective engineering field toward realizing a decarbonized society.

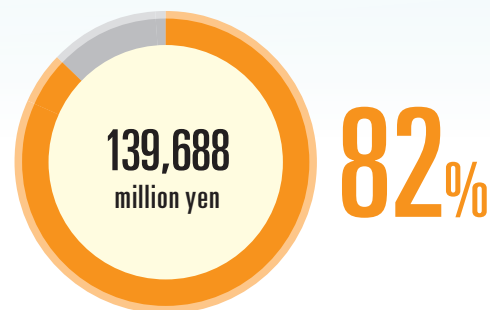
We remain committed to refining our technological capabilities, which are central to our identity, to continue creating comfortable environments a step ahead of the times for the benefit of society as a whole. We will also help attain the SDGs in areas where we have a competitive advantage, such as community development and industrialization, to achieve our own sustainable development.



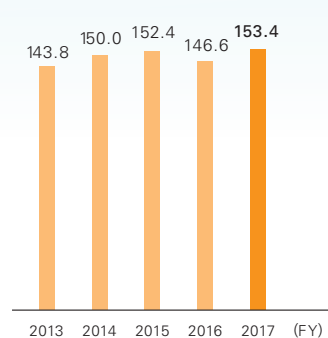
Eiji Mitsuishi

Director, Senior Executive Office and General Manager, Mechanical & Electrical Contracting Headquarters

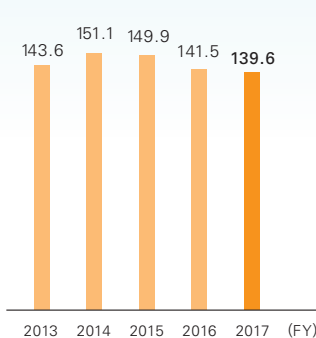
Net Sales and Net Sales Composition Ratio for Fiscal 2017



Orders Received (Billions of Yen)



Net Sales (Billions of Yen)



Market Conditions

- Ongoing demand for construction, including replacement demand and redevelopment for buildings constructed during Japan's period of rapid economic growth
- Expansion in capital investment led by the manufacturing industry
- Nationwide labor shortage resulting from a shrinking workforce
- Proliferation of technological innovation, including robotics, IoT and AI

Opportunities and Risks

- Need for global environmental action due to growing climate change risks (Paris Agreement came into effect)
- Labor shortage, aging workforce
- Fluctuations in foreign exchange and rise in material prices caused by uncertain international political environment
- Regional disparities in economic conditions and demand

Key Initiatives of the Medium-Term Management Plan

- Key Initiative 01 Reinforcing Sales Capabilities**
We will pursue efficient work styles for sales personnel while enhancing systems for providing sales support to reinforce our sales capabilities.
- Key Initiative 02 Reinforcing Construction Capabilities and Enhancing Quality**
We will enhance construction capabilities and raise profitability by reviewing the work styles of site managers and improving construction site support operations.
- Key Initiative 03 Bolstering Collaboration with Subcontractors**
We will bolster our construction framework by closely collaborating with subcontractors through liaison meetings and seminars.

Major Results for Fiscal 2017

We responded to robust construction demand by pursuing a strategy for seeking orders that correspond to Sanki Engineering's construction capabilities and securing solid profits from orders received. We enjoyed favorable results from industrial HVAC systems centered on large-scale projects, resulting in a year-on-year increase in orders received. While net sales declined from the previous fiscal year, we were able to secure high profit margins by improving construction quality based on enhancements made to the construction site support system and by allocating engineers across branch and branch offices, with due consideration to the state of the economy and orders received in each region.

Meanwhile, we achieved progress on the Medium-Term Management Plan based on the Smile Site Plan, a subcommittee dedicated to reforming work styles

by enhancing construction site capabilities, improving quality and reducing the site manager workload. Under the plan, we were able to identify challenges and issues for raising construction site efficiency, in cooperation with subcontractors. We also sought to improve operational efficiency by making use of ICT, such as by developing an online procurement system and constructing a system for searching internal technical material, which contributed to the higher profit margins.

Major Projects

- Nippon Life Hospital (completed in January 2018)
- Tokyo Midtown Hibiya (completed in February 2018)
- Hibiya Heat Supply Center (completed in February 2018)
- 260 facilities of the Toshiba Memory Yokkaichi Plant (completed in March 2018)

Policies and Outlook for Fiscal 2018

● Improvement of Execution Quality at Construction Sites

We will continue efforts from fiscal 2017 to enhance our construction framework by seeking orders that correspond to our construction capabilities and promoting construction site support. Recently we have established the Technical Support Center as a unit specializing in support for construction sites toward improving the quality of their technical capabilities. In addition, we will accelerate our efforts to create good working environments by seeking closer collaboration with each branch and branch office under the Smile Site Plan, which is focused on construction site work styles.

● Promoting the Approach of Meet Customer Needs

Sanki Engineering was registered as a ZEB Planner that can offer consultation to clients planning to adopt the ZEB^{*1} concept, promoted by the Agency of Natural Resources and Energy of the Ministry of Economy, Trade and Industry. We have taken this opportunity to further bolster our efforts to reduce our carbon footprint.

Moreover, we are introducing and strengthening BIM^{**2}, which is emerging as the mainstream modeling method in the facility construction industry, in an effort to cut costs, lower risks and respond faster to more closely reflect customer needs.

● Bolstering and Expanding the Scope of the Facility Systems Business

We will focus on design planning and management consulting related to the construction and relocation of workplaces. In addition, we will seek to expand our scope of business. We will focus on design planning and management consulting related to the construction and relocation of workplaces. In addition, we will seek to expand our scope of business in the areas of instrument and control engineering, for centralized monitoring systems that create comfortable office environments, and of network systems infrastructure with ICT systems, which raise productivity.

Also, we will propose office environments that respond to work style reform through our New Office Project, allowing for the optimal use of ICT tools.

● Strengthening the International Business

The International Business Division, set up in fiscal 2017, leads supervision and management of the Group's overseas companies to strengthen the Plants & Machinery Systems Business and other overseas businesses and pursue Group-wide initiatives so that we can spread the Sanki brand abroad.

Net Sales Target for Fiscal 2018
(numerical forecast at start of fiscal 2018)
151,200 million yen

*1 ZEB (Net-Zero Energy Buildings): Buildings that maintain comfortable environments while reducing annual energy consumption to as close to zero as possible by enhancing energy saving performance using solar power generation and other measures.

**2 BIM (Building Information Modeling): The concept of constructing a 3D model of a building on a computer and applying the information across the entire process, such as design, execution, progress and management.

Focus

An Environmentally Friendly, Disaster-Resistant Commercial Complex Tokyo Midtown Hibiya

Value Provided
by Sanki
Engineering

- Water supply and drainage systems that sustain environmental features and BCP measures
- Fire protection systems that flexibly respond to specific situations
- Stringent safety management and highly reliable execution of workability

Relevant SDGs



In March 2018, Tokyo Midtown Hibiya, a commercial complex intended to become a new center of arts and culture, opened in Chiyoda-ku, Tokyo, at the former site of the Sanshin Building, where Sanki Engineering once maintained its head office. Sanki Engineering is responsible for the hygiene facilities of the entire building, which was newly constructed at this site, and its deep company connections.

The building houses commercial and office space on 4 floors below ground and 35 floors above ground. Stringent environmental consideration and BCP measures are considered as key design concepts. To realize these concepts, we constructed a facility with four water supply systems for potable water, recycled water (service water), makeup water used in cooling towers, and water for the plants, as well as six drainage systems for gray water, kitchen wastewater, rainwater, and drains for mechanical systems.

To be ready in the event of a disaster, the building can store about a week's worth of both tap water and recycled water. We also developed a mechanism for using recycled water and rainwater as makeup water for cooling towers.

Fire extinguishing facilities are provided through indoor fire hydrants and sprinklers installed throughout the building. To offer flexibility for a variety of situations, a foam fire extinguishing system was installed in the basement parking lot where water cannot be used, and environmentally friendly nitrogen fire extinguishing systems were incorporated into the electrical room, generator room and mechanical parking system.

Facility construction involved the use of aerial platforms, and we were able to provide highly reliable construction work based on stringent safety management.

Purpose of Building

- Office and commercial facility

Type of Work

- Construction of hygiene facilities



Entrance installed with fire sprinklers



Elevated tank for recycled water

Exterior of Tokyo Midtown Hibiya

Focus

Reducing the Facility's Annual Power Supply by Approximately 40% DOUP™, Energy-Saving HVAC System for Clean Rooms

Value Provided
by Sanki
Engineering

- Reducing energy used in supplying power for the facility
- Lower risk of product contamination by limiting dust diffusion
- Enhanced productivity through effective use of floor space

Relevant SDGs



Sanki Engineering developed DOUP™, an energy-saving HVAC system. Drawing upon years of accumulated know-how, our technology conserves energy by providing separate air conditioning for the operation area, which requires high levels of cleanliness, and the maintenance area, which is subject to high temperatures generated by production equipment.

In a typical clean room used for pre-processing semiconductors, production equipment is placed in a large partition-free space. After dust removal and cooling, very clean air is supplied by the ceiling-mounted HVAC in an even flow to simultaneously maintain the cleanliness of the operation area in front of the production equipment where product is handled, and the maintenance area where the equipment itself is installed.

Meanwhile, DOUP™ begins securing a high level of cleanliness for the operation area by supplying a concentrated down-flow of purified air. This air is then supplied to the maintenance area to form an up-flow to

cool the production equipment, thus enabling efficient use of HVAC air.

Optimizing the temperature of the chilled water used in the cold heat source reduces the power supplied to the system during the peak summer season. When this strategy is combined with other energy-saving methods, annual power supply can be reduced by up to 40%. Moreover, since the system requires no space for cooling coils, the floor area can be more effectively used, thereby boosting productivity.

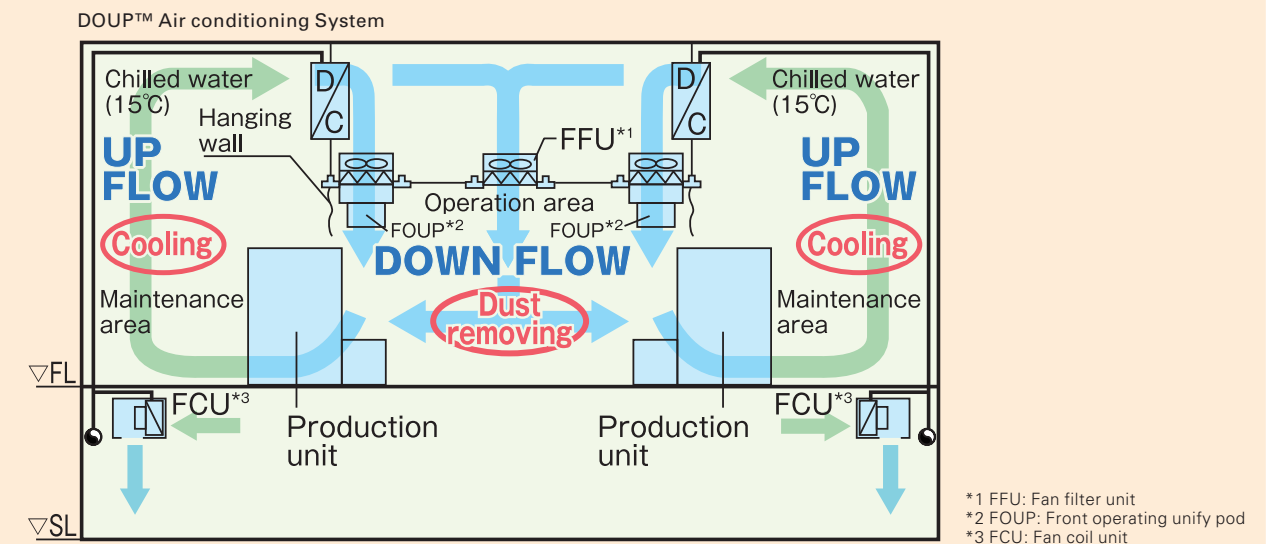
We plan to actively promote sales of this system as an energy-saving technology for clean rooms that also reduces environmental impact.

Purpose of Building

- Clean room for pre-processing semiconductors

Type of Work

- Construction of HVAC facility



Plants & Machinery Systems Business

Contributing to Society by Applying Technology to Create Comfortable Environments

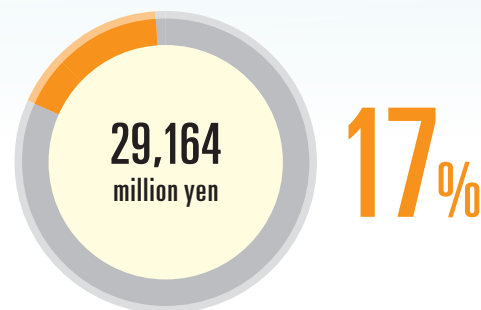
In our Machinery Systems Business, we strive to meet future labor shortages by using conveyors to reduce personnel and automate logistics systems. In our Environmental Systems Business, we seek to conserve energy and curtail greenhouse gas emissions at water treatment and domestic waste plants. The Plants & Machinery Systems Business creates comfortable environments through these two areas that broadly contribute to social development. While it may not be obvious to the general public, "comfort" is an essential aspect of society and a consideration that requires constant technological innovation. We aspire to help achieve the SDGs, particularly in the areas of industrial development, the environment and energy conservation, by continuously providing comfortable environments that are optimized to meet future needs.



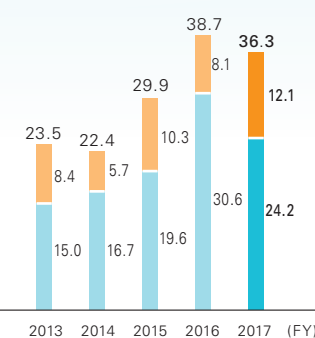
Takashi Motomatsu

Director, Senior Executive Officer and General Manager, Plants & Machinery Systems Headquarters

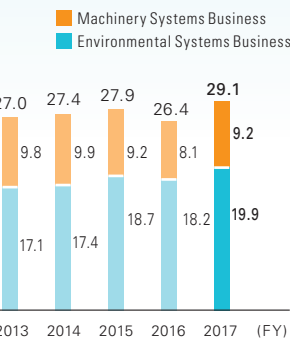
Net Sales and Net Sales Composition Ratio for Fiscal 2017



Orders Received (Billions of Yen)



Net Sales (Billions of Yen)



Machinery Systems Business

Market Conditions

- The declining population is driving advances in IoT and AI, and a wider use of robots, for saving labor at worksites
- Manufacturers are returning to Japan to avoid a variety of overseas risks

Opportunities and Risks

- Timely development and commercialization of products that meet market needs
- Recruitment of engineers to keep up with advances in IoT and AI, and promoting the introduction of robots
- System for ensuring reliability and assurance on quality

Key Initiatives of the Medium-Term Management Plan

- 01 Broadening the Product Lineup for Logistics Operations**
Enhance our lineup of products for logistics facilities to meet growing demand that arise from the expansion in e-commerce
- 02 Promoting the Hybrid Facilities Business**
Focus on increasing sales of hybrid facilities that combine conveyors and robots
- 03 Reconstructing Manufacturing Functions**
Implement plans for improving productivity toward the scheduled start of operations at new conveyor production facility in August 2019

Environmental Systems Business

Market Conditions

- Social infrastructure investment in environment-related markets remains at the same level
- Persistent needs for energy saving and energy creation in both the public and private sectors

Opportunities and Risks

- Government's policy for promoting PPP and PFI
- Expansion in demand for energy saving and energy creation systems at water treatment and domestic waste plants
- Contraction in project scale and consolidation of facilities due to the declining population and fiscal restraint by municipal governments

Key Initiatives of the Medium-Term Management Plan

- 01 Expanding Sales of Strategic Products**
Reinforce our core business by expanding sales of products that meet energy saving and energy creating needs
- 02 Promoting the LCE Business**
Conduct a collaborative Group effort to expand the LCE business, such as upgrading, maintaining and managing water treatment plants
- 03 Developing New Business Areas**
Explore new business areas in which we can leverage our proprietary technologies in the Environmental Systems Business

Machinery Systems Business

Major Results for Fiscal 2017

As part of our efforts to bolster our core business, we pursued sales activities that closely reflected customer needs and nurtured trust, and we were rewarded with an order for a large-scale airport conveyance facility. Moreover, we were able to increase orders significantly as well as sales of standard conveyors by offering a firm response to growing demand from corporate capital investment. As a result, orders received and net sales for fiscal 2017 rose considerably from the previous fiscal year.

Furthermore, we began full-scale marketing of hybrid facilities that combine robots and conveyors with the goal of addressing labor saving and automation needs driven by the shortage of labor over the past few years. In a new move, we launched sales of the CB II cross belt sorter, our new high-speed conveyor and sorting device offering the top-class sorting speed in Japan, targeting the logistics market, which faces a severe labor shortage due to the expansion of e-commerce.



ASKUL Value Center Hidaka

Major Product Development and Projects

- ASKUL Value Center Hidaka (completed in September 2017)
- CB II Cross Belt Sorter (developed in January 2018)

Policies and Outlook for Fiscal 2018

● Promoting the Hybrid Facilities Business under Leadership of the Solutions Division

In fiscal 2018, the Solutions Division was established as a dedicated unit for further expanding sales of hybrid facilities, which showed favorable results last year. We will satisfy even higher requirements from our customers with systems that incorporate robots and peripheral devices into the material handling technology that we have cultivated over the years.

● Expanding Sales of a High-Speed Conveyor and Sorter for Logistics Operations in the Home Delivery, Distribution and Postal Service Industries

We are targeting the home delivery, distribution and postal service industries in our development of a business that includes expanding sales of the CB II cross belt sorter, a high-speed conveyor and sorting device. At the same time we are developing peripheral devices and commercializing the CB III cross belt sorter, one of the fastest of its kind in the world.

● Enhancing Productivity

As part of the STeP project currently underway at the Sanki Yamato site, we are building a new plant that will serve as our base for MONOZUKURI (manufacturing). After its completion in August 2019, this will be our main production facility plant for conveyance systems. We plan to make full use of cutting-edge digital technologies to construct a highly efficient production system. To that end, we are currently implementing various preparations at the plant's temporary location in order to improve productivity.

Net Sales Target for Fiscal 2018
(numerical forecast at start of fiscal 2018)

12,000 million yen

Environmental Systems Business

Major Results for Fiscal 2017

In fiscal 2017, while orders received decreased year-on-year due to the large order received last year, net sales increased as we steadily completed our backlog of construction work.

We made a full-scale entry into the market of woody biomass gasification power generation facilities and handled construction of the plant facility for the power generation facility built by NKC Nagai Green Power Co., Ltd. in Nagai City, Yamagata Prefecture. Since becoming fully operational in July 2017, the facility has maintained regular commercial operations. In addition, we further developed our LCE business and won our first order for a DBO project to build an energy-recovery-type waste treatment facility involving new construction work.

In overseas business, our Group company AQUACONSULT Anlagenbau GmbH opened a new branch office in Germany to expand sales of ultra-fine bubble air diffusers for wastewater treatment in the European market.



Woody biomass gasification power generation facility of NKC Nagai Green Power Co., Ltd.

Major Orders Received

- Construction and operation of the Tenzan area energy-recovery-type waste treatment facility
- Renovation work for key facilities of the Tsushima Clean Center
- Construction of facilities, including the secondary reaction tank of the Tsuzuki Wastewater Treatment Plant

Policies and Outlook for Fiscal 2018

● Promoting the Woody Biomass Gasification Power Generation Business

We made a full-scale entry into this market in fiscal 2017 and will continue to seek new orders and pursue further technological innovation.

The technological difficulties of generating power through biomass gasification in Japan are known. We will seek to win greater recognition by maintaining stable operations of our existing facilities and emphasizing the superiority of our technology.

● Expanding Infrastructure Maintenance and Upgrades, and Strategic Products

Public projects for wastewater treatment and domestic waste plants have constituted the core of the Environmental Systems Business. However, since such facilities are already serving customers and providing their services throughout the country, the main market is shifting to maintaining and upgrading their offerings.

Accordingly, we will develop technologies that address the needs of the times and enhance the LCE Business. At the same time, we will keep up our efforts to increase orders for strategic products, including SANDEC G3, an energy-saving decanter centrifuge; AEROWING II, an ultra-fine bubble air diffuser; and the turbocharged fluidized bed combustion system.

Net Sales Target for Fiscal 2018
(numerical forecast at start of fiscal 2018)

22,000 million yen

Focus

Offering the World's Fastest Processing Speeds

Cross Belt Sorters CB II and CB III for Belt Conveyors

Value Provided by Sanki Engineering

- Top class in operational speed of carriers in Japan, approaching the highest speeds in the world
- Accurate sorting of transported objects with varying shapes
- Can be accommodated within a compact layout

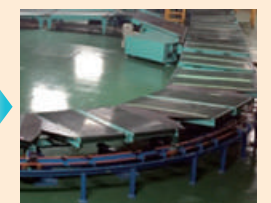
Relevant SDGs



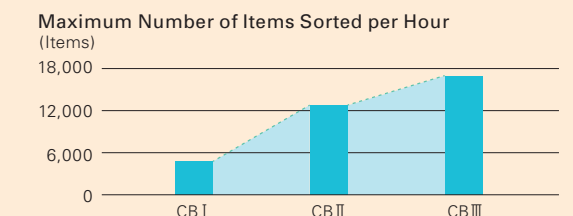
The recent expansion in e-commerce has led to a dramatic rise in the quantity and variety of home delivered items, thereby increasing the urgency of realizing fast, accurate logistics systems. Taking advantage of the know-how accumulated by providing conveyors and sorting devices for airport baggage and large cargo, Sanki Engineering began sales of its CB II cross belt sorter, capable of accurate, high-speed sorting of transported items having various shapes, including thin items, bags and boxes. The CB II can also be installed in a compact layout inside warehouses and other such facilities. It operates at the speed of 160 meters per minute, which is among the fastest in Japan, and can sort up to 12,800 items per hour. We are currently working on commercializing the CB III cross belt sorter, which offers even faster processing speeds, to support further expansion of the logistics market.



CB II



CB III, among the world's fastest sorters, under development



Saving Energy with a Slim Design

SANDEC G3 Energy-Saving Decanter Centrifuge

Value Provided by Sanki Engineering

- Slim design for energy conservation
- Simple configuration for ease of maintenance and management
- High centrifugal operation to reduce the moisture content of sludge

Relevant SDGs

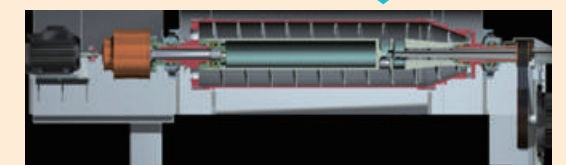


It is said that in large cities more than 1% of electricity is consumed at public sewage facilities. About 30% of that is used for thickening and dewatering sludge separated from sewage, and this has raised the need for energy-friendly dewatering machines.

SANDEC G3 decanter centrifuge, a technology imported by Sanki Engineering, could save energy as a result of its slim body design. Its simple configuration enhances operability and workability while also reducing the process and cost of maintenance and management. Compared to conventional decanter centrifuges, the centrifugal force of SANDEC G3's conveyor, used to separate moisture contained in the sludge, can be increased, thereby reducing moisture in the dewatered sludge. This can significantly lower the amount of supplementary fuel used for incinerating the sludge.



SANDEC G3 installed at the Hachioji Water Reclamation Center



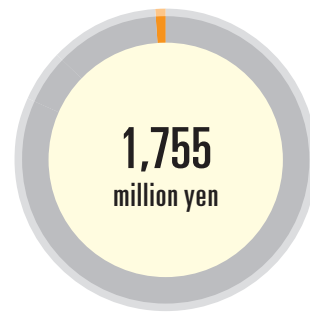
Saving energy with a slim design

This product was developed through a technical collaboration with Alfa Laval AB.

Real Estate Business

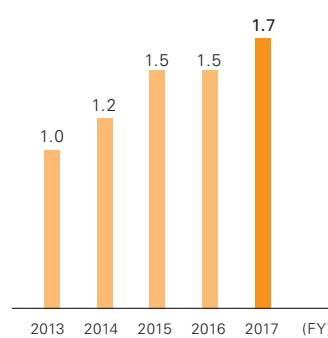
Our Real Estate Business is engaged in leasing operations and building management while striving to increase the added value of our properties.

Net Sales and Net Sales Composition Ratio for Fiscal 2017



1%

Net Sales (Billions of Yen)



Basic Strategies for Fiscal 2018

- Effective use of portfolio assets
- Maintenance and management of portfolio assets
- Raise revenues from building stock-based business by accumulating leasing operations
- Disposal of non-performing assets

Major Results of Fiscal 2017

In the office leasing market of the Japanese real estate sector, demand remains strong in the Tokyo metropolitan area, where vacancy rates have continued to improve for four consecutive years. Vacancy rates in outlying regions are also on the rise. In building facilities, we continue to see a pronounced need to conserve energy and resources, extend the life of aging buildings and ensure longer life for facilities. Under these circumstances, we pursued initiatives for the effective use of the real estate we own in Yamato City, Kanagawa Prefecture.

- Began construction of the Sanki Techno Center, the strategic base for research and education aimed at raising the quality of human resources and technologies.
- Decided to lease the space created by the

consolidation of our manufacturing plants at the former Yamato Engineering Center to Nippon Life Insurance Company. Plans are underway to build a large-scale logistics facility in the approximately 41,300 m² space. The lease of this land is expected to generate stable long-term revenue.

- Rental income from the Sanki Daiwa Building increased as three new tenants, who signed rental agreements between fiscal 2016 and 2017, opened for business. We will continue to seek new tenants.

As a result of these initiatives, overall net sales increased from the previous fiscal year. In the area of managing portfolio assets, we overhauled the food court inside the "Molive" shopping mall in Moriyama City, Shiga Prefecture, to enhance asset value.

Policies and Outlook for Fiscal 2018

In fiscal 2018, we will continue to seek increased sales and profit for the real estate business by applying Sanki Engineering's technologies and know-how to the maintenance and management of portfolio assets. Once demolition work for facilities at the site of the former Yamato Engineering Center is completed, we will start leasing the land to Nippon Life Insurance Company. Meanwhile, we will open a restaurant space at the Sanki Yamato Building and repair the elevators while continuously seeking new tenants to raise the occupancy rate. At the "Molive" shopping mall in

Moriyama City, Shiga Prefecture, we plan to re-cover the floor of the common passageway and repair the escalators to increase tenant satisfaction.

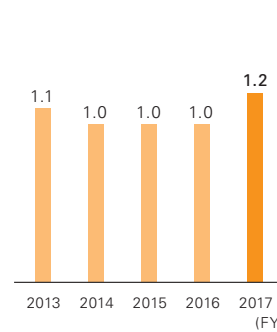
Net Sales Target for Fiscal 2018
(numerical forecast at start of fiscal 2018)

1,800 million yen

Research and Development

Sanki Engineering conducts a variety of research and development activities to ensure our business operations meet customer needs and address issues faced by society.

R&D Expenditures (Billions of Yen)



R&D Activities

Facilities Construction

- Labor and power savings in construction work
- Pursuit of energy conservation
- Short construction period and cost reduction
- Pursuit of comfort and convenience

Plant Facilities

- Promotion of waste power generation
- Labor savings, energy savings and a speeding up in material handling and logistics

R&D System

Led by our Technical Research & Development Institute, we have been collaborating with each business division to pursue R&D for new technologies, refine and upgrade proprietary technologies, conduct basic research and investigate new technologies. In March 2018, the Technical Research & Development Institute was opened in the Sanki Technical Center, ahead of other areas of the center still under construction, to serve as our new R&D base. We will seek even closer collaboration with partners inside and outside the Group to pursue a new initiative for open innovation in a free and vigorous R&D environment equipped with the latest ICT infrastructure.

Basic Approach and System

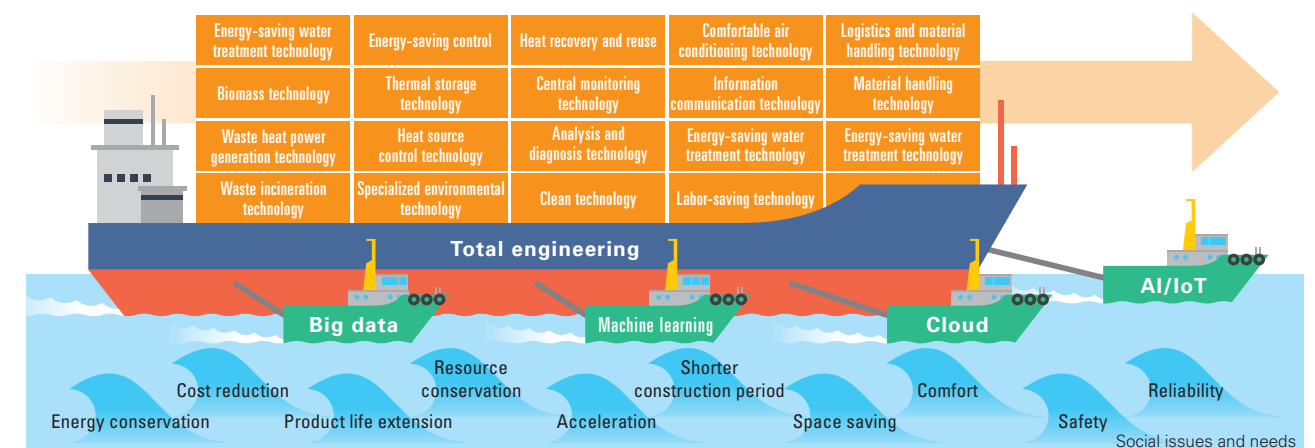
We engage in research and development relevant to our diverse business activities toward our goal of providing high added-value solutions that contribute to the creation of a sustainable society.

We develop innovative technologies by highly expert engineers; refine our proprietary technologies to expand practical applications through demonstration experiments, analysis and evaluation; and conduct basic research and investigate new technologies. In particular, we strive to develop technologies with high added value by applying information communication technology, AI, IoT and big data analysis as well as labor-saving technologies for construction work.

Intellectual Property Initiatives

The Intellectual Property Department responsibly manages intellectual property in accordance with our established rules. To protect and use intellectual property, a liaison is assigned to each business division to identify intellectual property from our activities and share information through meetings and internal LAN. Also, we address risks by maintaining and making available a Group-wide database as well as patent summaries and public notifications. We organize training for risk management involving intellectual property based on e-learning for employees in their third and seventh year. By sharing information, training and education, we enhance our potential to protect and utilize our own technology and not to infringe upon other companies' rights.

Areas of Recent Research and Development



Focus

Our R&D Base at the Sanki Techno Center

New Technical Research & Development Institute



- Open innovation based on closer collaboration with partners inside and outside the Group
- Latest ICT infrastructure to enable the use of AI and IoT
- Development environment that allows researchers to freely apply our component technologies

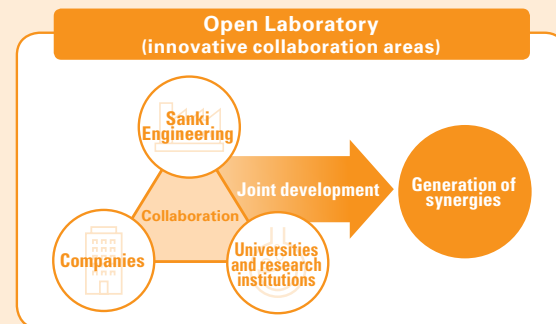
Relevant SDGs



In March 2018, the new Technical Research & Development Institute opened as the key facility for ensuring the future of R&D at the Sanki Engineering Group. It is equipped with the latest ICT infrastructure to enable the use of AI and IoT as well as multi-purpose labs, various analysis chambers and outdoor testing facilities that provide an environment in which researchers can freely apply the component technologies we have cultivated over the years.

While research was conducted in individual rooms according to research themes at the former Technical Research & Development Institute, the new facility has

adopted an open laboratory design featuring open spaces without partitions that encourage informal interaction among researchers. To promote open innovation, we also created innovative collaboration areas, where corporate and academic R&D partners as well as staff from the internal business divisions can gather under a common research theme and engage in joint development. We expect to generate synergies and accelerate development by engaging in R&D that emphasizes lateral connections across the spectrum of total engineering.



Meeting Complex Challenges based on the Open Laboratory Approach to Broadly Contribute to Society with Rapid R&D

The challenges facing R&D today, primarily at our Technical Research & Development Institute, straddle diverse fields and appear to exceed the ability of our accumulated engineering technology and knowledge to meet them. On the other hand, challenges that seemed insurmountable in the past are increasingly being met from new strategies made possible by utilizing the latest ICT, such as AI and IoT, leading to the unearthing of new seeds of technology.

The new Technical Research & Development Institute, established in March 2018 in advance of the opening of the Sanki Techno Center, will address these complex challenges through

an open laboratory approach. The initiative is intended to realize rapid, high-quality development by seeking to engage as many sources as possible rather than limiting itself to a handful of researchers tackling an issue. We have created an ideal environment in which researchers can enthusiastically demonstrate the full extent of their abilities to resolve shared problems. We will make maximum use of this environment and rise to a difficult challenge by combining both internal and external knowledge, thus expanding the range of solutions we offer through total engineering and contributing broadly to society.



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





Corporate Governance Guidelines

We established the Sanki Engineering Corporate Governance Guidelines to clarify the Sanki Engineering Group's basic philosophy and policy on corporate governance. Once a year, we review the status of our compliance with the Corporate Governance Code. And we will continuously seek to enhance our corporate governance under the guidelines in order to achieve sustainable growth for the Group and strengthen its corporate value over the medium to long term.

WEB Sanki Engineering Corporate Governance Guidelines (in Japanese)
<https://www.sanki.co.jp/corporate/governance/guideline.html>

Corporate Governance System

● Corporate Governance System

We adopted a Company with Board of Company Auditors system with dedicated, full-time auditors as our form of corporate governance. Under this structure, the auditors and the Board of Auditors exercise oversight over the execution of duties by directors, the accounting auditors auditing the financial statements and other documents as well as the Board of Directors

responsible for making decisions on material issues. In addition, to increase management efficiency and simultaneously speed up the decision-making process, we employ an executive officer system in which we divide management functions between the Board of Directors, responsible for decision-making and supervision functions, and executive officers, responsible for the execution of business affairs.

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

Corporate Governance System Outline (as of June 27, 2018)

	Number of Persons
Chairman of the Board of Directors	Director and Chairman
Directors (women) (term: 1 year)	12 (0)
External Directors (independent directors)	3 (3)
Executive officers	36
Those also serving as directors	7
Auditors (women)	5 (0)
External auditors (independent directors)	3 (2)

Frequency of Major Meetings (Fiscal 2017)

Meeting	Frequency	Average Attendance of External Directors
Board of Directors	13	91%
Board of Auditors	8	94%
Management Meeting	50	(attended by only internal directors)

● Strengthening the Effectiveness of the Governance System

We are strengthening our system in line with the Sanki Engineering Corporate Governance Guidelines.

• Separately Scheduling Management Meetings and Board of Directors' Meetings

To secure adequate time to discuss the risks inherent in the agendas submitted to the Board of Directors, we are no longer holding Management Meetings and Board of Directors' meetings on the same day, as we had in the past. Since fiscal 2018, we began holding these meetings, in principle, on different days with the exception of the day of our financial results announcement, thereby raising the effectiveness of the Board of Directors.

• Liaison Meeting of External Officers

A liaison meeting, comprising mainly of external directors and auditors, is held once every quarter to openly exchange views and necessary information and to develop a common awareness of issues.

• Training for Officers

We provide newly appointed directors and auditors with information on Sanki Engineering, including our history, achievements and future business plans, as well as legal, financial and accounting issues. During their terms

in office, we continue to offer regular opportunities for obtaining knowledge related to the supervision and auditing of management.

● Assessing the Effectiveness of the Board of Directors

The directors conduct an annual self-assessment to verify their deliberation process and identify possible improvements as well as to analyze and evaluate the effectiveness of the process toward improving the board's effectiveness and disclosing a summary of the results.

Fiscal 2017 Efforts to Assess the Effectiveness of the Board of Directors

Self-assessment by Directors

- Requested that directors complete a questionnaire focused on possible improvements over the previous fiscal year
- The board assessed the results of analysis and confirmed the appropriate functioning of the board
- Tasks for further invigorating the board included enhancing access to information concerning the Management Meeting and risks

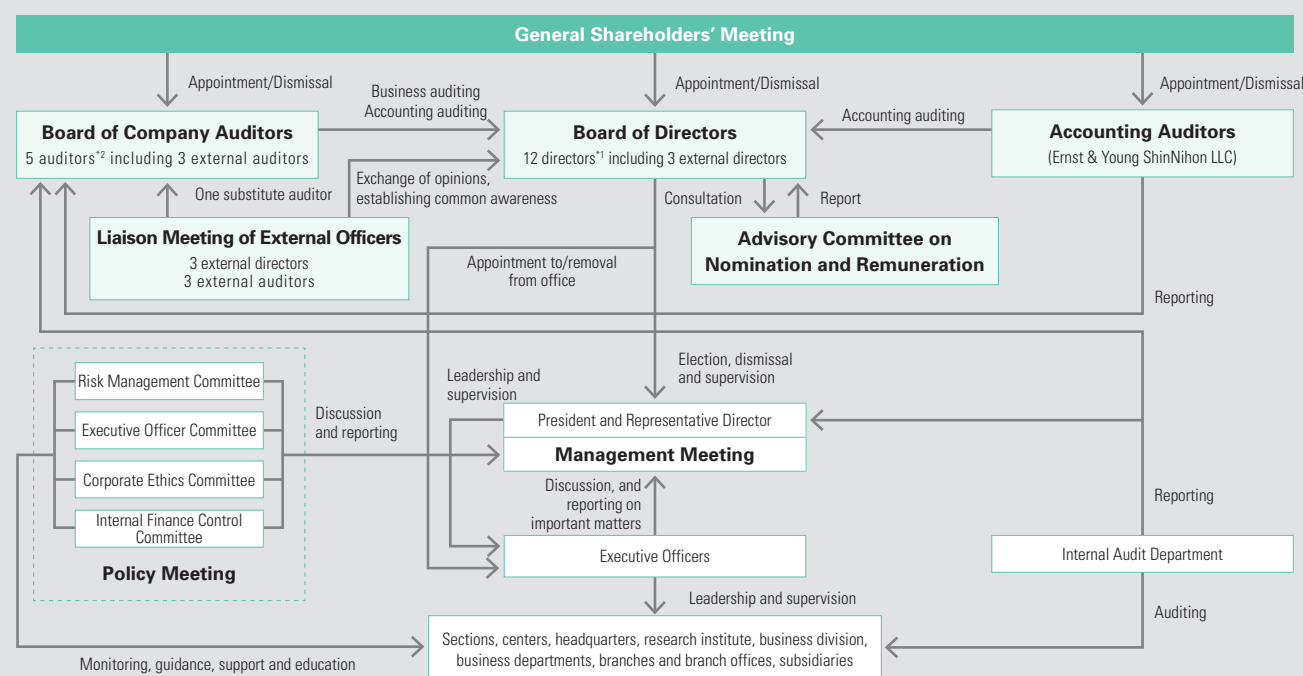
Priority Survey on Themes to Be Discussed by the Board

- Particularly high priority was given to how the board should function, such as balancing supervision and execution

Feedback and Exchange of Views on Corporate Governance in General

- Predominant opinions included conducting deeper discussions on medium- to long-term strategy, holding dialogues with stakeholders and reflecting these talks in management

Framework of the Corporate Governance System (as of June 27, 2018)



*1 The Articles of Incorporation stipulate that the number of directors shall not exceed 16.
*2 One of the auditors possesses a degree of knowledge of finance and accounting.

● Business Execution System

Board of Directors

The Board of Directors holds a meeting, led by the chairman, at least once a month to deliberate on important matters and supervise the status of execution of business affairs.

Management Meeting

The meeting consists of directors and executive officers nominated by the president and, in principle, meets weekly as an advisory body to the president. It deliberates on important matters, including those to be discussed by the Board of Directors.

Policy Meeting

Risk Management Committee → See page 46.

Executive Officer Committee

Consisting of executive officers and presidents of the Group companies, the committee meets at least four times a year to discuss the policies expressed by the president and executive officers responsible for departments, report on the status of business execution by each executive officer and Group company president and discuss initiatives for achieving the medium-term management plan.

Corporate Ethics Committee

The meeting consists of executive officers and is chaired by the president. The executive officers responsible for corporate ethics and nominated by the president oversee all matters related to corporate ethics. The committee deliberates on plans for the implementation and observance of the Code of Conduct and Action Guidelines during the biannual meetings. The committee deliberates on action plans and other measures to achieve further penetration and stricter observance of the Company's Code of Conduct and Action Guidelines at two regularly scheduled meetings per year.

Internal Finance Control Committee

This committee consists of executive officers, is chaired by the president, and meets four times a year. Its central role is Group-wide control, including review and decision making concerning important matters regarding internal controls for financial reporting.

Advisory Committee on Nomination and Remuneration

This committee consists mainly of the president and external directors and is chaired by an external director. It deliberates on matters including the nomination of candidates for directors and the system for and level of remuneration, and it meets as needed.

● Auditing System

Board of Company Auditors

The board consists of auditors, from whom a chairperson is selected, and meets at least six times a year to monitor the status of governance and audits the execution of duties by directors as an independent body entrusted by shareholders. Members attend board and other important meetings, review the status of operations and assets, and maintain close contact with the accounting auditors, the Internal Audit Department and the internal controls departments. A supplementary external auditor has been appointed to fill any future external auditor vacancies.

Internal Audit Department

This department conducts internal audits of the execution of operations by business divisions in accordance with the Auditing Plan for that fiscal year. It verifies the internal management system including its appropriateness and efficiency. As necessary, the department exchanges opinions with or makes proposals concerning the improvement or correction of a problem to the internal controls departments and reports the results of its audits to the president and auditors.

● Appointment of Directors and Independence of External Directors

The Advisory Committee on Nomination and Remuneration considers candidates for directors and submits the results to the Board of Directors for deliberation. Appointments are finalized by a resolution at the general shareholders' meeting. We have established standards on the independence of external directors to raise the objectivity of their oversight of management.

WEB Independence Standards for External Officers (Appendix for the Sanki Engineering Corporate Governance Guidelines) (in Japanese) <https://www.sanki.co.jp/corporate/governance/guideline.html>

● Officer Remuneration

Sanki Engineering has established the Advisory Committee on Nomination and Remuneration under the Board of Directors, comprising the president, external directors and others, to nominate candidates for directors and to deliberate on matters including the system and level of remuneration.

The remuneration for directors and auditors comprises, within the limits adopted by our general shareholders' meeting, of fixed remuneration, bonus and stock options. Each fiscal year, we decide the amount separately for directors and auditors depending on their full-time or part-time status, with due consideration for balancing each of the following elements and ensuring that the amount is aligned with the long-term interests of shareholders and offers sufficient motivation for maximizing corporate value.

- Fixed remuneration: rank and scope of responsibilities
- Bonus: portion linked to performance during the period
- Stock options: granted according to rank as a long-term incentive

Elements and Procedures for Remuneration for Directors and Auditors

Category Procedure	Fixed Remuneration	Bonus	Stock Options	Procedure
Full-time director	○	○	○	Determined by the Board of Directors following deliberation by the Advisory Committee on Nomination and Remuneration
External director	○	—	—	
Full-time auditor	○	○	—	Determined through consultation among external auditors
External auditor	○	—	—	

Remuneration for Directors and Auditors in Fiscal 2017

Category	Persons Receiving Payment	Total Payment (thousands of yen)
Directors (external directors)	11 (3)	448,920 (32,400)
Auditors (external auditors)	4 (2)	89,200 (21,600)

● Internal Controls

• Basic Policy and Systems for Internal Controls

Under its Basic Policy on Internal Financial Control, Sanki Engineering is developing and operating a system to ensure the legality, soundness and transparency of its operational execution. Moreover, we have established a whistleblowing system that comprises contact points for corporate ethics in general, dedicated internal and external contact points for reporting violations of the Anti-Monopoly Act as well as a system for reporting to the full-time auditor as efforts to stringently enforce compliance.

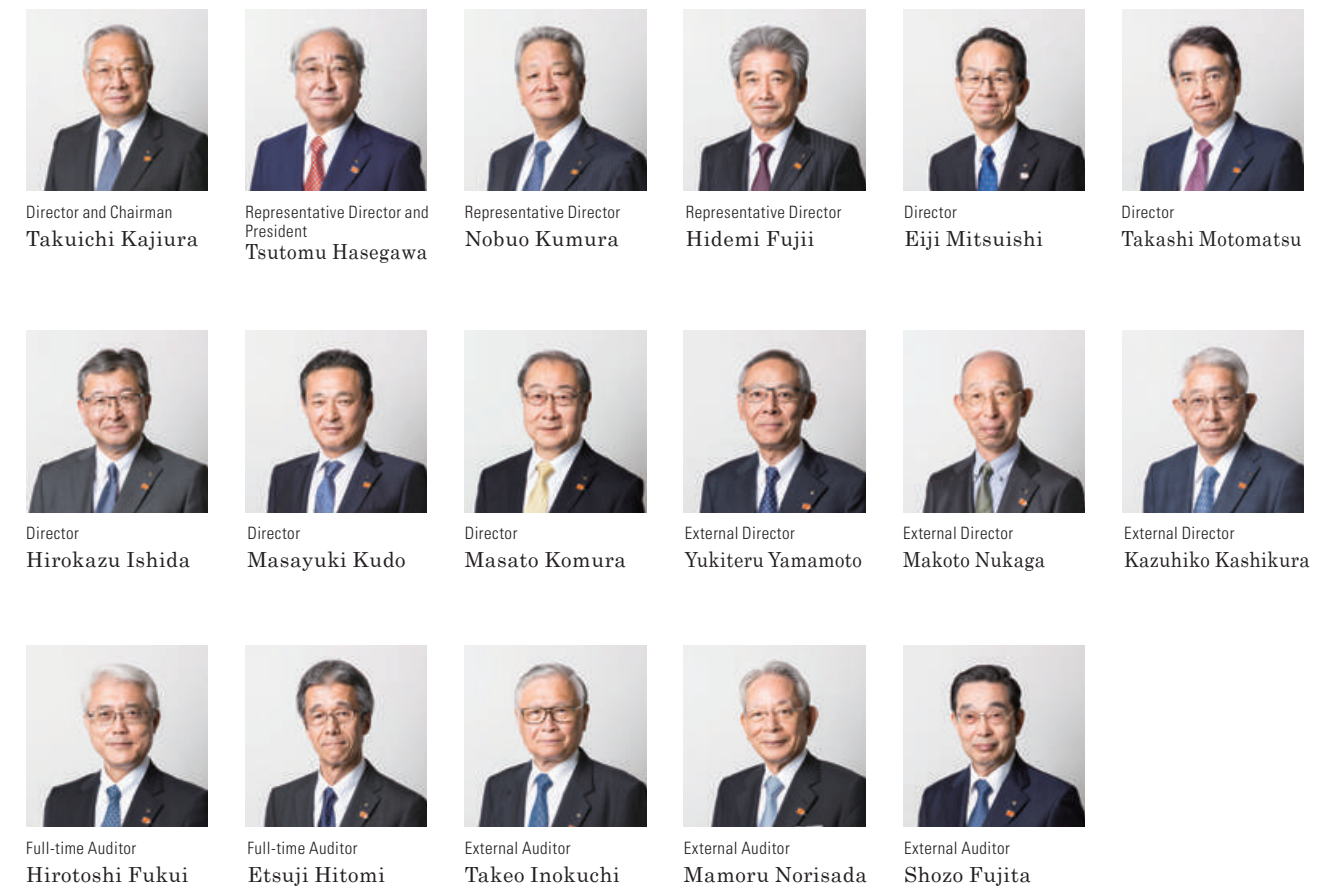
The Board of Directors makes decisions on issues stipulated by laws, regulations and the Articles of Incorporation as well as on issues related to the execution of operations. Furthermore, it exercises oversight to ensure that operations are being effectively executed. The Management Meeting is held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

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

• Ensuring the Reliability of Financial Reporting

The Internal Finance Control Committee meets four times a year to conduct our financial reporting in accordance with the internal control framework stipulated by the Financial Instruments Exchange Act of Japan. Moreover, we are promoting the establishment and appropriate management of an internal control system to safeguard the reliability of our financial reporting by having the committee deliberate on the assessment and response with respect to the financial risks within each department and subsidiary. A report is produced in adherence with the internal control reporting system to ensure that internal controls related to financial reporting are being exercised effectively. In the report for fiscal 2016, auditors expressed their opinion that our financial reports have been presented in an appropriate manner in terms of all material aspects.

Executives of the Sanki Engineering Group (as of June 27, 2018)



Director	Chairman	Takuichi Kajiura
Representative Director	President	Tsutomu Hasegawa
	Vice President and Executive Officer	Nobuo Kumura
	Vice President and Executive Officer	Hidemi Fujii
Director	Senior Executive Officer	General Manager, Mechanical & Electrical Contracting Headquarters
	Senior Executive Officer	General Manager, Plants & Machinery Systems Headquarters
	Senior Executive Officer	General Manager, Management Planning Office
	Managing Executive Officer	
External Director		Eiji Mitsuishi
		Takashi Motomatsu
		Hirokazu Ishida
		Masayuki Kudo
		Masato Komura
		Yukiteru Yamamoto*
		Makoto Nukaga*
		Kazuhiko Kashikura*
Full-time Auditor		Hirotohi Fukui
		Etsuji Hitomi
External Auditor		Takeo Inokuchi
		Mamoru Norisada*
		Shozo Fujita*

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



Management Compliance

Basic Philosophy

The Sanki Engineering Group strives to maintain legally compliant behavior based on corporate ethics across all aspects of its operations by upholding the Sanki Engineering Group Compliance Declaration, the Sanki Engineering Group Code of Conduct and Action Guidelines and the Sanki Engineering Group Conduct Standards.

The Sanki Engineering Group Code of Conduct and Action Guidelines was revised in April 2017.

WEB Sanki Engineering Group Compliance Declaration, Sanki Engineering Group Conduct Standards
<https://www.sanki.co.jp/en/csr/policy/compliance.html#etc02>

WEB Sanki Engineering Group Code of Conduct and Action Guidelines
<https://www.sanki.co.jp/en/csr/policy/conduct-code.html>

Compliance Promotion System

We have established a Corporate Ethics Committee, chaired by the president, who nominates officers responsible for corporate ethics to oversee the committee's activities. In principle, it meets twice a year to review, monitor and provide guidance with respect to compliance guidelines and action plans for the entire Group. In fiscal 2017, the committee convened twice.

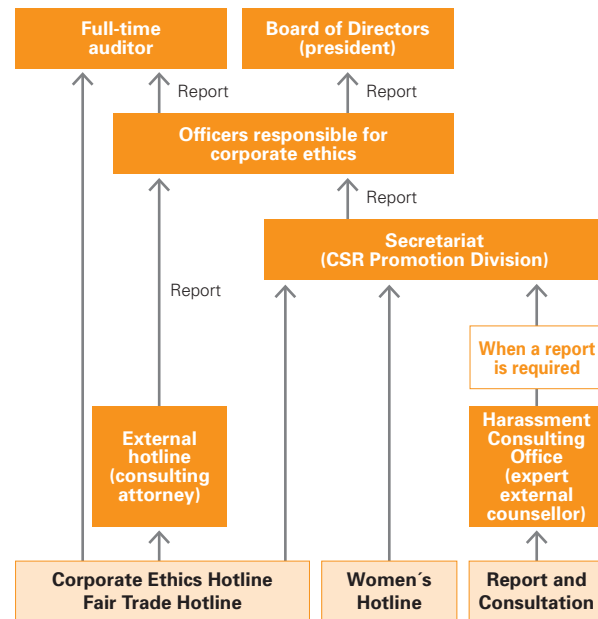
Compliance Promotion Activities

● Whistleblowing System

We have set up corporate ethics hotlines for whistleblowers, both within and outside the Company. The internal hotline goes to the full-time auditor and the CSR Promotion Division, while the external hotline goes to our consulting attorney's office. We act swiftly to resolve the issues that are reported, with consideration for the protection of anyone seeking consultation or providing information in accordance with the Corporate Ethics Regulations. All of the reported information is presented to the executives responsible for corporate ethics, and important information is reported to the Board of Directors and the Management Meeting. In fiscal 2017, there were 11 reported incidents (11 internally and 0 externally), and all incidents have been appropriately handled. The names of individuals who report to the corporate ethics hotlines will be handled in secrecy by the executives responsible for corporate ethics and will not be disclosed to others without the reporter's prior consent. The reporter will not be placed at a disadvantage for consulting or reporting to the hotline. We are also distributing a corporate ethics hotline card in order to raise awareness of this system

throughout the entire Group. In addition, we began operating the Fair Trade Hotline in fiscal 2016 for reporting of violations of the Anti-Monopoly Act. No violations were reported in fiscal 2017.

Whistleblowing System



● Receipt of Compliance Confirmation Sheets from All Executives and Employees

In order to refresh the awareness of all Group executives and employees of the responsibilities that they must fulfill in their respective positions and roles, compliance confirmation sheets covering items such as observance of the Code of Conduct and Action Guidelines, and eliminating criminal elements and groups, are submitted at the beginning of each fiscal year. In fiscal 2017, there were no serious compliance violations, such as illegal acts, unethical behavior or unfair practices.

Number of Persons Submitting Compliance Confirmation Sheets (Fiscal 2018)

	Sanki Engineering (relevant employees)	Subsidiaries (relevant employees)
Compliance confirmation sheets concerning performance of duties ^{*1}	37 (37)	46 (46)
Compliance confirmation sheets ^{*2}	2,014 (2,031)	384 (385)

*1 Compliance confirmation sheets concerning performance of duties are submitted by directors and executive officers.

*2 Individuals who have not submitted compliance confirmation sheets are on maternity leave, receiving medical treatment, etc.

● Corporate Ethics Training

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

Results of Corporate Ethics Training (Fiscal 2017)

Theme	Target	Frequency and participation (attendance rate)
Sanki Engineering Group Code of Conduct and Action Guidelines, compliance with the Anti-Monopoly Act, preventing harassment	Group executive officers and employees	37 times 2,361 employees (97%)

● Compliance Awareness Survey

We conduct an annual awareness survey on issues such as compliance and CSR targeting all executive officers and employees. Survey results are disclosed to all of them and used to monitor and improve the effectiveness of our CSR activities and identify human rights risks. We noted feedback and issues concerning harassment in the results of the questionnaire and from the current state of reports, and we are taking action to prevent and eliminate any harassment by consistently carrying out preventive education through corporate ethics training and division training.

Results of Questionnaire Regarding Compliance Awareness for 2018

Survey period: May 2018
 Participants: All Group executive officers and employees

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

I have an adequate understanding.	41%
I have a general idea.	51%
I do not have an adequate understanding.	8%

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

Yes	98%
No	2%

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

Yes	84%
No	16%

Q Do you know that you can report directly to the full-time auditor?

Yes	80%
No	20%

● Compliance Audit

The Internal Audit Department conducts compliance audits and seeks to strengthen compliance by providing guidance on legal compliance and through monitoring. In fiscal 2017, internal audits were carried out at 20 worksites including those of 3 domestic subsidiaries and 2 overseas subsidiaries. In addition, to raise awareness at our construction sites, we conduct onsite hearings with site managers to gain a better understanding of the situation.

Strengthening Anti-Monopoly Act Compliance

● Measures in an Ongoing Effort to Prevent Recurrence

The following are major measures we undertook between fiscal 2013 and fiscal 2017. Looking ahead, we will continue our Group-wide effort to prevent violations of the Anti-Monopoly Act in fiscal 2018.

Policies and Manuals

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

Structural Reinforcements

- Established a comprehensive, Group-wide Anti-Monopoly Act Compliance Program at a meeting of the Board of Directors and implemented the program.
- Assigned a compliance manager in each department and began supervising the process for deciding the bid amount for public works and operating a compulsory system of advance approval and reporting when attending a meeting with any companies in the same industry.
- Introduced regular rotations for sales staff assignments.
- Established a Compliance Risk Subcommittee within the Risk Management Committee.
- Reconsidered membership in outside groups.
- Began an in-house leniency system (voluntary reporting system).

Training and Education

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



Risk Management

Risk Management Policy and System

Sanki Engineering has established a Company-wide risk management system based on its Risk Management Rules to comprehensively identify risks that pose an obstacle to conducting normal business operations and prevent such risks from materializing, and also to minimize loss in the case that it does occur.

We set up the Risk Management Committee, chaired by a risk management officer, to centrally manage Group-wide risk and implement an organized response. In principle, the committee convenes once every quarter to monitor important risk throughout the Group, formulate control plans, and monitor risk reported from subcommittees and divisions. To enhance the effectiveness of our risk assessment and control, we have set up risk management subcommittees to address specific risks under the Risk Management Committee. In addition, the Internal Audit Department conducts regular audits to check the status of risk management at each division and verify the appropriateness of risk management.

Risk Management Activities

Each fiscal year, the Risk Management Committee identifies risks that affect business activities and conducts a risk assessment based on frequency of occurrence and impact on management. The committee receives reports from the risk management subcommittees to monitor risks and consider necessary countermeasures, provides instructions and confirms the status of progress.

The committee convened four times in fiscal 2017 to reconfirm risk control procedures and review the current status of priority risk management. It also conducted an inspection and review based on a risk matrix to ascertain whether or not priority risks are being properly assessed.

Major Countermeasures in Fiscal 2017

Risk	Countermeasures
Customer credit	<ul style="list-style-type: none"> Risk management framework and system incorporating consolidated subsidiaries
Supplier credit	<ul style="list-style-type: none"> Expanded and reselected target companies, dispersed suppliers Surveyed price trends
Operational	<ul style="list-style-type: none"> Ensured the effectiveness of our BCP Promoted measures against long working hours, including the Smile Project
Information security	<ul style="list-style-type: none"> Reinforced antivirus software Held a simulation drill for handling targeted email attacks (including subsidiaries)
Overseas	<ul style="list-style-type: none"> Reviewed the Overseas Crisis Management Manual and Overseas Safety Measures Manual
Compliance	<ul style="list-style-type: none"> Opened the Women's Hotline whistleblowing system

Responding to Disaster Risks through the BCP

The Sanki Engineering Group's BCP aims to ensure the safety of all related persons, including employees, based on the integrated efforts of all divisions and employees. The Company has also formulated a framework to contribute to customers and society through swift business restoration in collaboration with business partners. We have sought to maintain our system under normal conditions and clearly establish the codes of action and division of roles for times of disaster in order to ensure that restoration activities can be implemented more promptly. To date, we have relocated the directors' offices from the upper floors to the lower floors to ensure the functionality of the emergency response headquarters, conducted a drill on the assumption that the head office sustained damage and another office served as an alternative headquarters and modified the way we operate our safety confirmation system.

In fiscal 2017, we sought to raise the effectiveness of our BCP by conducting a more realistic drill based on specific damage scenarios in addition to our regular simulation drills for large-scale disasters.



BCP drill

natural disaster, the prevention of damage from crime and other risk, compliance with anti-corruption laws, personnel/labor management of locally employed staff, religion and other related matters to help overseas employees and other people reduce risk and respond to emergencies.

In fiscal 2017, following the establishment of the Overseas Operations Control Office, the presidents of three overseas Group companies reported the risk management status at their respective companies to the Risk Management Committee meeting, which verified their findings.

Initiatives to Ensure Information Security

The Group handles information provided by customers in accordance with our Information Security Risk Management Rules. We have established an information security risk subcommittee within the Risk Management Committee as a management system.

Through the system, we can control information security measures Company-wide and manage risk related to information security in an integrated manner. As part of our activities to develop our management system, we use checklists to confirm the status of information security measures during onsite inspections by supervisors at each branch and branch office.

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

In fiscal 2017, we held two subcommittee meetings.

Key Information Security Measures

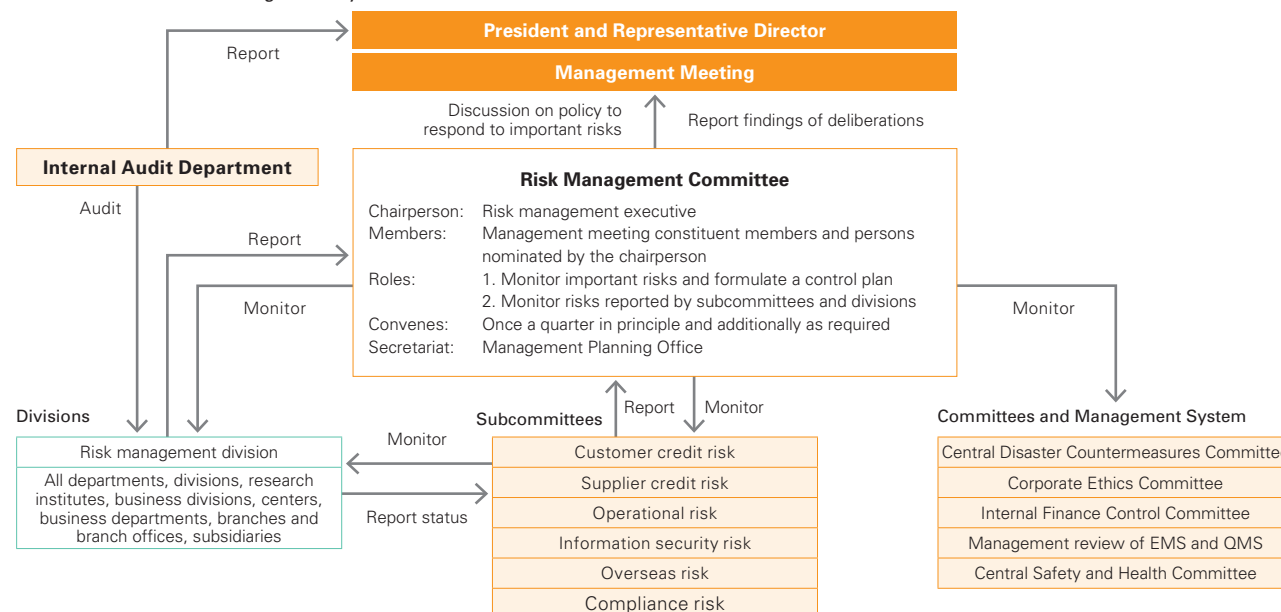
Type	Action
Dissemination of rules	<ul style="list-style-type: none"> All Group executive officers and employees take an e-learning course Corporate ethics training, submission of confirmation forms (once a year) Training on preventing targeted email attacks (conducted twice) Status review of information security countermeasures during onsite inspections (8 sites)
Information device management	<ul style="list-style-type: none"> Encryption of information terminals Regular inventory reviews (conducted once)
Prevention of unauthorized use	<ul style="list-style-type: none"> ID and password management, secure room Confirmation using asset management tools Preventing non-Company owned PCs brought into the office from being connected to the in-house network
Prevention of unauthorized use	<ul style="list-style-type: none"> Antivirus measures, automatic updating of security patches (once a month) Web filtering, countermeasures against unsolicited emails Monitoring of illegal outbound data streams
Measures for social media	<ul style="list-style-type: none"> Instill an understanding among Group employees using guidelines Improving the level of security regarding social media

Strengthening Risk Management in Overseas Operations

We have formulated the Risk Management Manual for Overseas Operations for the head office and overseas bases as well as the Manual to Ensure Safety in Foreign Countries for overseas employees, those traveling overseas on business, and their families, which are revised each year.

The Risk Management Manual for Overseas Operations stipulates the rules and response procedures for crises that could occur in foreign countries. It covers various crisis situations such as preventing physical harm to overseas employees and others, addressing violation of laws, responding to the mass media and dealing with litigation. The Manual to Ensure Safety in Foreign Countries was compiled as a practical guide and includes actual situations and checklists that cover actions required in the event of a terrorist attack or

Framework of the Risk Management System



Promoting CSR Activities

The Sanki Engineering Group promotes CSR activities through a Group-wide effort based on its Code of Conduct and Action Guidelines, and deliberation and review of important matters concerning CSR are conducted by the Corporate Ethics Committee. Under

this system, we pursue our CSR initiatives in each phase of our value chain while ensuring communication with diverse stakeholders and reflecting societal demands on business activities.

Key Stakeholders of the Sanki Engineering Group

	Outline of Stakeholders		Main Responsibilities of the Sanki Engineering Group	Major Methods of Engagement
Customers	Office buildings, factories, airports, distribution/ research/ data centers, hospitals, schools, etc.	We construct facilities and provide systems and technical services for a broad range of social infrastructure projects.	<ul style="list-style-type: none"> Resolve issues for customers and society at large Provide construction and technical services with high added value Enhance customer satisfaction in terms of quality, delivery and cost 	<ul style="list-style-type: none"> Dialogue through sales activities and meetings Websites and showrooms Exhibits at trade shows and exchange of views
Shareholders and Investors	Number of shareholders: approx. 3,200 (as of March 31, 2018)	Sanki Engineering has approx. 63 million shares outstanding. Financial institutions account for about 42% of ownership, foreign corporations for about 29%, and individuals and others for about 16% (as of March 31, 2018).	<ul style="list-style-type: none"> Enhance corporate value Ensure a stable return of profits and appropriate allocation of management resources Conduct timely and adequate disclosure of corporate information 	<ul style="list-style-type: none"> General shareholders meeting, shareholder reports Results briefings, one-on-one IR interviews and response to inquiries IR website, SANKI REPORT
Business Partners	Subcontractors, general contractors, material/ machinery manufacturers, building maintenance companies, etc.	Business partners offer crucial support to Group operations through the Subcontractor Group system, based on relationships of trust fostered over many years.	<ul style="list-style-type: none"> Build fair, equal and transparent business relationships Strengthen relationships of trust and collaboration Ensure health and safety and create good working environments Respect human rights 	<ul style="list-style-type: none"> Dialogue through daily purchasing activities Collaboration and support through the Subcontractor Group Corporate Ethics Hotline
Partners	Universities, research institutions, architecture offices, etc.	Collaboration with these partners constitutes a key element of the Group's technological capacity.	<ul style="list-style-type: none"> Pursue open innovation Build equal and fair relationships 	<ul style="list-style-type: none"> Industry-university collaboration Dialogue at the Open Lab
Employees	Number of employees Consolidated: 2,384 Non-consolidated: 1,969 (as of March 31, 2018)	The Group derives its competence from the individual abilities of its diverse human resources characterized by the Sanki Spirit.	<ul style="list-style-type: none"> Ensure equal opportunity and fair evaluation Cultivate human resources, develop capabilities and promote diversity Ensure health and safety and create good working environments Respect human rights 	<ul style="list-style-type: none"> Interviews with supervisors, training Various reporting and consulting channels Labor-Management Council Website and intranet
Local Communities	Areas around construction sites and offices	We develop our business activities in various areas both in Japan and overseas.	<ul style="list-style-type: none"> Develop social infrastructure Pay due consideration to local communities and the environment Disclose information 	<ul style="list-style-type: none"> Branch and branch office counters Briefings related to construction work Dialogue through contributions to local communities
Governments and Administrative Bodies	Central and local governments Water supply and drainage disposal plants, waste disposal facility sites	We operate under the supervision of central and local governments, which are also customers of the Group.	<ul style="list-style-type: none"> Comply with laws, regulations and administrative guidance Pay taxes Develop social infrastructure Contribute to local disaster prevention 	<ul style="list-style-type: none"> Various applications Branch and branch office counters Briefings and reports related to construction work Dialogue through industry associations

Major Action Policies and Results for Fiscal 2017 and Major Action Policies for Fiscal 2018

	FY 2017			Self-evaluation	FY 2018	Report Pages
	Major Action Policies	Primary Goals	Major Results		Major Action Policies	
Customers	<ul style="list-style-type: none"> Nationwide development of Site-Documentation Support Centers 	<ul style="list-style-type: none"> Total number of requests: 1,834(250 requests at 5 branch offices) 	<ul style="list-style-type: none"> Total number of requests: 2,031 (296 requests at 5 branch offices) 	○	<ul style="list-style-type: none"> Expand operational assistance through branches and branch offices 	50-52
	<ul style="list-style-type: none"> Reduce the number of problems and complaints during construction per year 	<ul style="list-style-type: none"> Reduce the number of problems and complaints by 15% year on year 	<ul style="list-style-type: none"> Roughly the same number as in the previous fiscal year 	△	<ul style="list-style-type: none"> Reduce the number of problems and complaints during construction per year 	
	<ul style="list-style-type: none"> Strengthen guidance for site managers 	<ul style="list-style-type: none"> Conduct training on construction technology and management for all applicants 	<ul style="list-style-type: none"> Cumulative number of participants: 461 	○	<ul style="list-style-type: none"> Strengthen practical training using actual machines and facilities and hands-on practice and drills 	
Shareholders and Investors	<ul style="list-style-type: none"> Promote dialogue with shareholders Enhance IR activities for institutional investors and individual investors 	<ul style="list-style-type: none"> Revitalize the general shareholders' meeting Expand opportunities for IR meetings with domestic and overseas investors 	<ul style="list-style-type: none"> Increased shareholder attendance Aggregate total of companies with which individual meetings were held: 57 (increased by 14 YoY) Exhibited at IR event for individual investors 	○	<ul style="list-style-type: none"> Promote dialogue with shareholders Enhance IR activities for institutional investors and individual investors 	53
	<ul style="list-style-type: none"> Provide consistent, steady returns to shareholders 	<ul style="list-style-type: none"> Paid stable dividends in principle and provided special dividends depending on business performance 	<ul style="list-style-type: none"> Paid an annual dividend of 35 yen per share (including a special dividend of 15 yen per share) Retired and acquired 3 million shares of Company stock, respectively 	○	<ul style="list-style-type: none"> Provide consistent, steady returns to shareholders 	
Business Partners	<ul style="list-style-type: none"> Promote online procurement system 	<ul style="list-style-type: none"> Digitize operations 	<ul style="list-style-type: none"> Digitization of order request forms and claim forms for completed work: over 70% Company-wide 	○	<ul style="list-style-type: none"> Further enhance procurement efficiency 	54-55
	<ul style="list-style-type: none"> Strengthen relationships with subcontractors 	<ul style="list-style-type: none"> Continue hearings 	<ul style="list-style-type: none"> Hearings: 63 companies 	○	<ul style="list-style-type: none"> Visit business partners 	
	<ul style="list-style-type: none"> Strengthen cooperation through subcontractor groups 	<ul style="list-style-type: none"> Expand the scope of participation for the nationwide Liaison Meeting Participants: 19 companies 	<ul style="list-style-type: none"> Number of participating companies: 19 	○	<ul style="list-style-type: none"> Strengthen cooperation through subcontractor groups 	
Health and Safety at Construction Sites	<ul style="list-style-type: none"> Deploy measures against the three major categories of accidents 	<ul style="list-style-type: none"> 30% reduction from the average for the past three years 	<ul style="list-style-type: none"> Reduced by 43% 	○	<ul style="list-style-type: none"> Deploy measures against the three major categories of accidents 	56-57
	<ul style="list-style-type: none"> Elevate awareness levels 	<ul style="list-style-type: none"> Launch a web portal on the health and safety portal site 	<ul style="list-style-type: none"> Launched a portal site and distributed videos and email 	◎	<ul style="list-style-type: none"> Implement accident prevention measures for subcontractors 	
	<ul style="list-style-type: none"> Enhance knowledge and capabilities related to health and safety 	<ul style="list-style-type: none"> Expand education for new employees 	<ul style="list-style-type: none"> Increased the number of courses from 8 in FY2016 to 12 	◎	<ul style="list-style-type: none"> Develop health and safety education to sharpen awareness 	
Employees	<ul style="list-style-type: none"> Enhance training programs to develop human resources with the Sanki spirit 	<ul style="list-style-type: none"> Deepen understanding of diversity Further revitalize the organization Hold exchanges of views between division heads 	<ul style="list-style-type: none"> Offered programs for overcoming individual weaknesses and developing strengths Implemented early training for manager candidates About 120 sessions attended by about 700 	○	<ul style="list-style-type: none"> Implement training programs for boosting overall levels as a culmination of the final year of the medium-term management plan Hold exchanges of views with the president 	58-61
	<ul style="list-style-type: none"> Implement measures outlined in the "Smile Project" 	<ul style="list-style-type: none"> Consider measures for each workplace 	<ul style="list-style-type: none"> Launched the Smile Site Plan to implement measures at construction sites 	◎	<ul style="list-style-type: none"> Implement measures under the "Smile Project" 	
Environment	<ul style="list-style-type: none"> Providing products and services to help reduce CO₂ emissions of customers 	<ul style="list-style-type: none"> Increase orders for proposals to reduce CO₂ emissions compared to fiscal 2016 	<ul style="list-style-type: none"> Reduced 27,319 t-CO₂ in FY2016 Reduced 16,599 t-CO₂ in FY2017 	△	<ul style="list-style-type: none"> Providing products and services to help reduce CO₂ emissions of customers 	62-66
	<ul style="list-style-type: none"> Properly dispose of and reduce industrial waste 	<ul style="list-style-type: none"> Promote the proper disposal of materials containing asbestos 	<ul style="list-style-type: none"> Completed preparation of the Basic Flow Chart of Procedures for Handling Asbestos 	○	<ul style="list-style-type: none"> Improve the introduction rate of digital manifests 	
Local Communities	<ul style="list-style-type: none"> Regional disaster prevention 	<ul style="list-style-type: none"> Participate in regional disaster prevention activities 	<ul style="list-style-type: none"> Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center 	○	<ul style="list-style-type: none"> Regional disaster prevention 	67-68
	<ul style="list-style-type: none"> Conservation of the local environment 	<ul style="list-style-type: none"> Participate in local cleanup activities 	<ul style="list-style-type: none"> Held Group-wide activities in over 30 locations 	○	<ul style="list-style-type: none"> Conservation of the local environment 	
	<ul style="list-style-type: none"> Supporting the development of the next generation 	<ul style="list-style-type: none"> Provide educational opportunities such as environmental seminars 	<ul style="list-style-type: none"> Offered 6 social study tours for a total of 179 students 	○	<ul style="list-style-type: none"> Supporting the development of the next generation 	

Self-evaluation ◎ Achieved and goal exceeded ○ Almost achieved as planned △ Not achieved and unresolved issues remain



Relationship with Customers



Important Issues	FY2017				FY2018	
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies	Assessment
<ul style="list-style-type: none"> More effectively respond to increasingly sophisticated and diversified customer needs Enhance the accuracy of quality management Improve construction quality and pass on technologies 	<ul style="list-style-type: none"> Nationwide development of Site-Documentation Support Centers 	<ul style="list-style-type: none"> Total number of requests: 1,834(250 requests at 5 branch offices) 	<ul style="list-style-type: none"> Total number of requests: 2,031 (296 requests at 5 branch offices) 	○	<ul style="list-style-type: none"> Expand operational assistance through branches and branch offices 	○
	<ul style="list-style-type: none"> Reduce the number of problems and complaints during construction per year 	<ul style="list-style-type: none"> Reduce the number of problems and complaints by 15% year on year 	<ul style="list-style-type: none"> Roughly the same number as in the previous fiscal year 	△	<ul style="list-style-type: none"> Reduce the number of problems and complaints during construction per year 	○
	<ul style="list-style-type: none"> Strengthen guidance for site managers 	<ul style="list-style-type: none"> Conduct training on construction technology and management for all applicants 	<ul style="list-style-type: none"> Cumulative number of participants: 461 	○	<ul style="list-style-type: none"> Strengthen practical training using actual machines and facilities and hands-on practice and drills 	

Response to Sophisticated and Diverse Customer Needs

To fully demonstrate the Sanki Engineering Group's comprehensive capabilities and proposal-making capabilities, we have been strengthening the functions of our sales organization at the head office by integrating operations to boost sales management, planning, development, support and sales capabilities related to the construction facilities business. We will meet the increasingly sophisticated and diversified needs of customers and thereby continue to earn their trust and appreciation.

Communication with Our Customers

The Sanki Engineering Group actively participates in exhibitions to introduce customers to our unique technology utilizing comprehensive engineering and open up new sales opportunities.

Exhibition Participation in Fiscal 2017

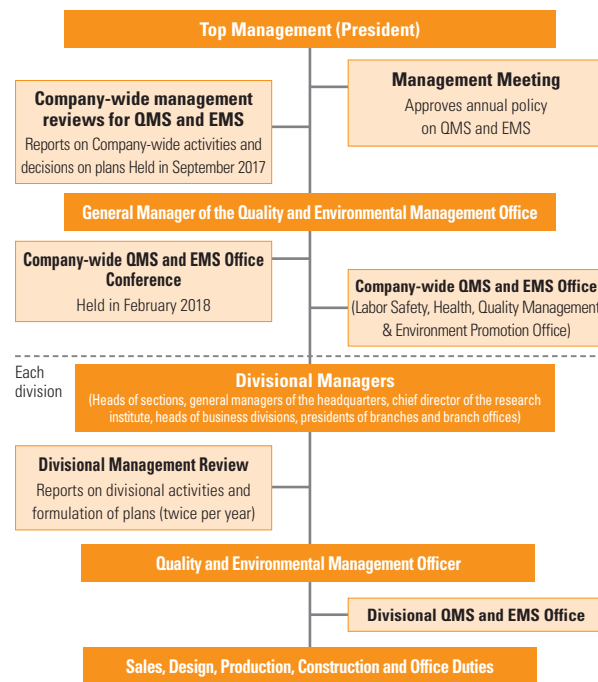
Exhibitions	Exhibited Items
Sewage Works exhibition '17 Tokyo	Supercharged fluidized bed incinerator, AEROWING, SANDEC G3, and a demonstration of the flow fluctuation tracking type wastewater treatment technology using a DHS system commissioned under the B-DASH Project
Waterworks Exhibition in Takamatsu 2017 (51st Waterworks Exhibition)	Report on PFI Okubo, UV sterilizer
ENEX 2018 42nd Exhibition for Harmony between the Global Environment and Energy	Energy-related technologies and presentation of actual cases
4th INTERPHEX OSAKA Pharmaceutical R&D and Manufacturing Expo/Conference (part of Medical Japan Osaka 2018)	CPCube®, Wide Area Clean System, MEDIFORT®, AGV, and the continuous heat sterilization apparatus
HVAC&R Japan 2018	Aluminger™ aluminum refrigerant piping method, and the EcoSearcher® real-time heat source optimization system

Initiatives to Ensure Quality

Philosophy on Quality and the Quality Management System

Since April 2017, we have been operating an integrated quality management system based on the ISO 9001 (QMS) and ISO 14001 (EMS) standards in our facilities construction, machinery systems and environmental systems divisions. In fiscal 2017, we held discussions on raising the efficiency of system operations and reviewed our activities during the Company-wide QMS and EMS Office Conference.

Framework for Promoting the Quality and Environmental Management System



Quality Management Activities

We advance construction quality with an emphasis on improving communication. Enhancing our support for construction sites and offering rapid, constructive responses

to problems and complaints are areas in which we consistently seek to raise our standards. In fiscal 2017, we revamped our criteria for assessing customer satisfaction. Combined with detailed revisions and consolidation of our documentation and rules, we have developed an even stronger connection between customer satisfaction and quality management at our construction sites.

Providing Operational Support for Construction sites

To reduce the workload on site managers and enable them to spend more time on construction work and quality management, we provide operational support from the perspectives of site documentation as well as design and technology.

The Site-Documentation Support Center was set up in fiscal 2015 to consolidate and support administrative work, and it received 2,031 requests in fiscal 2017, an increase of roughly 1.4 times since it was launched. In fiscal 2018, the center was restructured into a new system under which its operations are handled by support divisions modeled after the centers that were set up in each branch and branch office, and the Labor Safety, Health, Quality Management & Environment Promotion Office. We are also raising operational efficiency by reducing and digitizing documents of construction sites. The Design Support Center assists operations at five branch offices. In fiscal 2017, this center sought to enhance design capabilities through on-the-job training while providing design and technical assistance for 89 projects, including those on a large scale and in the medical area. In fiscal 2018, we will widen the scope of support to the Building HVAC and Plumbing Business in line with organizational expansion.

Quality Management Activities by Technical Experts

Highly skilled former branch and branch office managers work as "Technical Experts" under the direction of the quality assurance administrator and visit construction sites to conduct construction audits and quality reviews, as a means of preventing problems and complaints, while also mentoring junior employees.

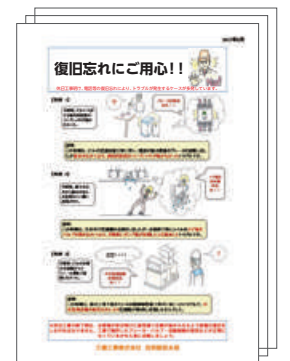
We set goals each year to strengthen our response to problems and complaints as an ongoing initiative, promptly dispatching staff to sites and thoroughly disseminating information across the Company by issuing and sharing technical memos. Consistent quality management led by the Quality Assurance Administrator Office has enabled us to effectively exercise the total engineering competency of the Sanki Engineering Group at our construction sites.

Sharing Information and Preventing the Occurrence of Problems and Complaints

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

Information about problems and complaints are distributed to construction engineers through a flash bulletin, the "weekly bulletin" (a weekly meeting of the Problems and Claims Evaluation Committee, which is also attended by Group companies), and the "monthly bulletin," which discusses the causes of issues, corrective measures and preventive measures. In January 2017, we began distributing posters to construction sites each month to raise awareness of preventing problems and complaints.

We have been seeking to reduce the number of problems and complaints by 15% year on year. However, the number of such cases remained little changed from fiscal 2016 and fiscal 2017. We will continue to pursue quantitative targets in fiscal 2018 and strengthen our response.



Poster for raising awareness of preventing problems and claims

Voice Seeking to Transfer and Reinforce Our Technology through Individual Efforts and Dialogue

Yoshiya Sakurai
Quality Assurance Administrator,
Technical Administration Division



As the Quality Assurance Administrator for the electrical systems of construction facilities, I formulate and revise the manual of engineering instructions and working instructions, organize review meetings on electrical system technology and the conference on electrical construction quality, and offer support to transfer and reinforce our technology through design reviews, meetings to review the start of construction, prior review meetings on trouble prevention and construction audits. During new employee training and skill-based training, I advise participants to learn by preparing construction drawings based on blueprints so that they may identify problems. Knowledge of rules and regulations, design, technology and construction work is required to prepare a construction drawing as well as consideration of the costs and conducting research. When that is not enough to solve a problem, you can consult others, and the dialogue will confirm and enhance the technical skills of the worker and those consulted. I hope this will enable us to transfer and reinforce our technology, which will serve as the basis for winning customer trust and increasing orders and profits, ultimately benefiting society.



Relationship with Shareholders and Investors

● Technical Awards for Improving Construction Methods and Operational Processes

In fiscal 2017, we began presenting awards for excellent ideas that improve operational processes, such as raising efficiency, in addition to ideas that improve construction work. As a result, we received a record 1,480 applications in fiscal 2017 and presented 10 awards for improvements in construction methods and operational processes as well as 2 Contribution to Customers Awards.

● Action Plans for Fiscal 2018

We designated reducing problems and complaints during construction as our action policy for fiscal 2018 and aim to achieve a year-on-year reduction target of 15%. We strive to prevent problems by identifying their causes and quickly developing prevention plans. Moreover, we will continue to accelerate this process and disseminate information to reduce the number of problems. Meanwhile, we have been advancing our site documentation support by reducing the volume of documents and establishing a digital documentation system, and in fiscal 2017 we set up a search system for technical information across the Group for technical support and guidance. We will continue to provide technical support from design to construction by organizing on-the-job training in coordination with branches, branch offices and the Engineering Integration Office.

Fostering Human Resources to Sustain Our Technological Level

The Technical Training Center fosters human resources

by helping employees acquire basic skills, brush up on skills and attain qualifications. New employees receive four and a half months of basic training and safety training.

We provide a three-stage program for construction management engineers based on the level of each individual's skills in design, construction engineering, construction management and other areas. These programs are focused on case studies and practical drills for subjects such as design calculation, construction management, making drawings, responding to problems and complaints.

We will further enhance our engineers' skills by improving hands-on practice and drills using actual machinery and facilities at the Sanki Techno Center, which will open in October 2018 to offer the combined functions of education, training and R&D.

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

Qualification	FY2017	FY2018
Professional engineer	97	92
Project management technician (civil works/construction/electrical construction/pipe-laying work)	1,123	1,112
Architect	44	42
Facilities construction architect	208	210
Electrical engineer	157	153
Chief electrical engineer	33	29
First class instrument engineer	285	284
Fire protection engineer	675	683
Qualified managing engineer	1,695	1,659

*Cumulative figures are shown for all qualifications.

Major Skill Development Activities for Fiscal 2017

Initiatives	Training	Details of Training	Results
Initiatives at the Technical Training Center	Training for new employees	• Education for new businesspersons, basic skills	67 participants
	Correspondence course for attaining qualifications	• Exam preparation for employees who want to be managing engineers and for building, mechanical and electrical engineers	214 participants
	Skill-based training Step 1 training: for inexperienced workers and novices Step 2 training: for workers with basic skills Step 3 training: for workers with practical skills	• Five-day training session for Steps 1 through 3 for improving skills • Optional program based on the amount of practical experience and skill level • Practical drills and practice by repetition to develop a sound grasp of skills	7 sessions 168 participants
Initiatives for passing on technology	Strengthen training on construction engineering and construction management	• Strengthen practice to enhance skills for making and reading drawings • Strengthen practical drills on case study explanation, practice and presentation • Strengthen visual confirmation-based training using machinery and facilities	461 participants (cumulative total)
	On-the-job-training by technical experts	• Practical on-the-job training offered by technical experts selected from all branches who participate in onsite commencement discussions and construction audits	21 technical experts 2,222 site visits (cumulative total)
Initiatives for Group companies and subcontractors	Conference on electrical construction quality for all branches	• Test of practical skills for electrical technicians from subcontractors of all branches, written exam based on past cases. Participants receive the internally certified qualification, Sanki Engineering-certified Class A Electrical Engineer	18 subcontractors 20 participating technicians
	Explanation of problems and complaints	• Introduce cases at briefings and liaison meetings held at branches and branch offices	Number of sessions Tokyo branch: 11 Kansai branch: 19 Chubu branch: 12 Hokkaido branch office: 3 Hokuriku branch office: 3 Chugoku branch office: 2 Tohoku branch office: 3

Important Issues	FY2017				FY2018
	Major Action Policies	Primary Goals	Results	Assessment	
<ul style="list-style-type: none"> Timely and appropriate information disclosure Shareholder return 	<ul style="list-style-type: none"> Promote dialogue with shareholders Enhance IR activities for institutional investors and individual investors 	<ul style="list-style-type: none"> Revitalize the general shareholders' meeting Expand opportunities for IR meetings with domestic and overseas investors 	<ul style="list-style-type: none"> Increased shareholder attendance Aggregate total of companies with which individual meetings were held: 57 (increased by 14 YoY) Exhibited at IR event for individual investors 	○	<ul style="list-style-type: none"> Promote dialogue with shareholders Enhance IR activities for institutional investors and individual investors Provide consistent, steady returns to shareholders
	<ul style="list-style-type: none"> Provide consistent, steady returns to shareholders 	<ul style="list-style-type: none"> Paid stable dividends in principle and provided special dividends depending on business performance 	<ul style="list-style-type: none"> Paid an annual dividend of 35 yen per share (including a special dividend of 15 yen per share) Retired and acquired 3 million shares of Company stock, respectively 	○	

Fulfilling Our Responsibilities to Shareholders and Investors

We clarified our basic approach to issues, including ensuring the rights and equal treatment of shareholders, appropriate disclosure of information and transparency and dialogue with shareholders, in the Sanki Engineering Corporate Governance Guidelines established in December 2015. We are resolved to fulfill our responsibilities to shareholders and investors by following these guidelines.

WEB Sanki Engineering Corporate Governance Guidelines
<https://www.sanki.co.jp/en/csr/policy/conduct-code.html>

● Timely and Appropriate Information Disclosure

Sanki Engineering strives to disclose required corporate information in an easy-to-understand, fair, speedy, timely and appropriate manner pursuant to the stipulations of our Disclosure Policy. We also disclose information beyond legal mandates when we deem such information to be useful to shareholders and investors and to ensure management transparency. In addition, we facilitate the effective exercise of voting rights by shareholders through efforts such as releasing the convocation notice of shareholders' meetings well in advance and posting information at an early date on our corporate website, in English and Japanese.

WEB Disclosure Policy
<https://www.sanki.co.jp/ir/disclosure/>

● Communication with Shareholders and Investors

In June 2016, we changed the venue of our annual general meeting of shareholders from a conference room at the head office to a hotel in Tokyo. We were consequently able to welcome and hear the opinions and questions of even more shareholders, at the 93rd annual general meeting held in June 2017, than in the previous year.

We engage our investors by holding results briefings

for analysts and institutional investors twice a year. In fiscal 2017, 83 people participated. We also held 57 individual IR meetings, convened as needed throughout the year. For the first time, we exhibited at an IR event for individual investors to offer information about Sanki Engineering at our booth. We are actively striving to understand the minds and needs of individual investors while creating more opportunities for dialogue.



Results briefing for investors

● Our Basic Policy Concerning Returns to Shareholders and Track Record

Dividend payments form the basis of our policy on providing shareholder returns and represent a key management issue. In accordance with our basic policy, we endeavor to provide stable dividends by balancing sustainable corporate development with returns to shareholders. We invest internal retained earnings in new businesses and technological development to strengthen competitiveness and create a basis for business development with the objective of continually boosting corporate value.

For the fiscal year ended March 2018, we paid a full-year dividend totaling 35.0 yen, up 5.0 yen from the previous year, including a regular dividend of 10.0 yen and a special dividend of 5.0 yen for the interim period, and a regular dividend of 10.0 yen and an extra dividend of 10.0 yen.

In fiscal 2017, we made a further effort to improve capital efficiency by retiring 3 million shares of treasury stock in May and acquiring another 3 million shares of Company stock, worth approximately 3.7 billion yen, by December.



Relationship with Business Partners

Important Issues	FY2017				FY2018	
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies	
<ul style="list-style-type: none"> Thoroughly ensure equal, fair and transparent transactions Improve quality through cooperation with business partners 	Promote online procurement system	Digitize operations	Digitization of order request forms and claim forms for completed work: over 70% Company-wide	○	Further enhance procurement efficiency	
	Strengthen relationships with subcontractors	Continue hearings	Hearings: 63 companies	○	Visit business partners	
	Strengthen cooperation through subcontractor groups	Expand the scope of participation for the nationwide Liaison Meeting Participants: 19 companies	Number of participating companies: 19	○	Strengthen cooperation through subcontractor groups	

Basic Principle

The Sanki Group Code of Conduct and Action Guidelines stipulates that we engage in fair transactions with all business partners. We promote free market competition and conduct business in good faith and in accordance with the relevant laws and individual contracts.

Under this basic principle, we endeavor to build trust with our business partners to jointly provide high-quality systems and services to customers.

Building Fair, Equal and Transparent Business Relationships

Thoroughly Ensuring Fair and Transparent Transactions

To build and maintain equal, fair and transparent relationships with our business partners, we develop and distribute an order procedure manual that prohibits the abuse of a superior bargaining position and strive to ensure thorough compliance by providing employee education each year. As is customary, upon starting business with a new company, such as a construction subcontractor, materials manufacturer, agent or expense-related business partner, we assign a business partner code based on objective standards covering various areas, including the registration status of quality and environmental management systems, financial conditions, procurement track records, delivery, pricing, and response to problems and complaints.

Procurement System and Execution of Action Plans

Reducing costs and improving our profit ratio are important initiatives in our new medium-term management plan, and to this end the Procurement Division has been negotiating prices for all offices and sharing procurement-related information across the Company through centralized procurement and making price adjustments based on surveys for all offices. In fiscal 2016, we began digitizing the ordering process, and by April 2017 divisions related to technology and procurement

at all offices had begun operating under the new system. Moreover, we began digitizing claim forms for completed work in November 2017. Of those surveyed to verify the impact, more than 70% of users inside and outside the Company indicated that digitizing the forms for ordering and completed work claims reduced the time spent on these operations.

Seminars and Training for Procurement Staff

We organize seminars and training as needed to promote appropriate procurement activities and enhance the purchasing and negotiating skills of procurement staff. In fiscal 2017, we held study groups for Procurement Division operations covering topics such as criteria for making decisions on pricing, price negotiating know-how and future business improvements, to develop procurement and negotiating skills. In addition, we encouraged procurement staff to obtain registered qualifications for certified procurement professionals (CPP), instrument engineers and fundamental information technology engineers, among others, to enhance their skills and knowledge. Also, we sought to train employees on electronic acceptance and processing by holding 19 internal seminars for all offices, with about 650 employees in attendance.

Handling Anti-social Forces

Sanki Engineering is committed to eliminating anti-social forces from its procurement activities. We clearly state this as a precondition for doing business with us and request that business partners submit a letter pledging to sever any ties with anti-social forces. As of March 31, 2018, we have received pledges from 3,749 companies.

Operation of Internal Whistleblowing Hotlines

We operate a Corporate Ethics Hotline to prevent any improper transactions. In fiscal 2017, we sought to ensure fair transactions in good faith by asking business partners in letters for their cooperation with the internal whistleblowing hotlines.

Strengthening Cooperation with Business Partners

Providing Feedback to Business Partners on Safety Management

To raise quality and improve operations across the supply chain, we annually survey the status of our business partners and, as part of this initiative, conduct an assessment of their safety management. We provide them with feedback on the results and exchange information on improvements as needed to enhance their safety management capabilities.

Communication with Business Partners

We strive to enhance quality and improve operations in a joint effort with our business partners. Under this initiative, we maintain open communications for exchanging ideas on improvements.

Joint Improvement Activities with Subcontractor Groups

Sanki Engineering has established subcontractor groups at each branch, branch office and division as part of our effort to bolster our construction system. In addition to monthly liaison meetings, we hold joint labor-saving projects and seminars to enhance technical skills and thoroughly enforce quality management and supervision of safety and health at construction sites. Moreover, we review the status of safety and health management and offer guidance by organizing safety and health education as well as courses on obtaining qualifications led by Sanki Engineering employees, and by conducting joint patrols. To forge an even stronger cooperative relationship, we set up the Liaison Meeting for Subcontractor Groups, which meets twice a year. In fiscal 2017, members shared information and exchanged views on subjects such as the Construction Career Up System*, which was led by the Ministry of Land, Infrastructure and Transport.

*An initiative led by Japan's Ministry of Land, Infrastructure and Transport and intended to create a database containing the résumés and qualifications of skilled construction workers based on common industry standards to ensure the proper evaluation and compensation for skilled construction workers, encourage younger people to work in the construction industry and help skilled workers develop their careers.

Sanki Super Meister System

The Sanki Super Meister System certifies and commends foremen of Group subcontractors whose superior construction techniques have significantly contributed to elevating the quality of our construction work. In fiscal 2017, 16 foremen were certified. In fiscal 2015, we began rewarding subcontractors to which the foremen belong

with subsidies designed to encourage further quality improvements, from the standpoint of promoting consistent contributions to quality.

Sanki Best Partner Program

The Sanki Best Partner Program was established to commend subcontractors that have significantly contributed to the development of the Sanki Engineering Group. In fiscal 2017, we presented the award to 129 companies during safety and quality conferences held across the country.

Support System for the Acquisition of Qualifications

To support subcontractors in upgrading their technical skills, we subsidize the acquisition of qualifications. Since fiscal 2016, we have been publicizing the system during Central Safety and Health Committee meetings to encourage its use.

Voice

Expecting Sanki Engineering to Lead by Constructing an Even Better System

Nobuhiro Senga
Vice President,
Fujikizai Co., Ltd.



The system for digitizing the order and acceptance process offers considerable value by reducing costs and shortening the time required. Digitization is expected to proceed at an even faster pace to achieve operational efficiency, and I hope Sanki Engineering will become a leader by constructing an even better system in the years ahead.

Voice

Digitization of Purchase Order Forms and Invoices Raises Efficiency in Many Ways

Ryukichi Konishi
Managing Executive Officer,
Totech Corporation



The latest move to digitize purchase order forms and invoices had the effect of raising efficiency in the following areas of our in-house operations. First, it has shortened the time required from pricing to receipt of payments since we can now obtain orders and request payment on a real-time basis. Second, it has reduced labor by eliminating the process of dispatching billing and order confirmation statements via courier, while the use of electronic authentication has cut the costs of stamp duties and printing. As a result, we were able to improve efficiency at all our nationwide sites. Also, we have made progress by meeting the needs for rapidly acquiring information and reducing costs. The latest procedure lists outstanding orders to prevent missed invoices, which should enable us to recover funds more quickly, and we therefore intend to make full use of it in our operations.



Health and Safety at Construction Sites



Important Issues	FY2017				FY2018	
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies	Assessment
<ul style="list-style-type: none"> Rising demand in the construction industry Shortage of construction workers and the aging and shrinking of the skilled workforce Growing risk of work accidents due to overworked laborers or lack of experience 	<ul style="list-style-type: none"> Deploy measures against the three major categories of accidents 	<ul style="list-style-type: none"> 30% reduction from the average for the past three years 	<ul style="list-style-type: none"> Reduced by 43% 	○	<ul style="list-style-type: none"> Deploy measures against the three major categories of accidents 	○
	<ul style="list-style-type: none"> Elevate awareness levels 	<ul style="list-style-type: none"> Launch a web portal on the health and safety portal site 	<ul style="list-style-type: none"> Launched a portal site and distributed videos and email 	◎	<ul style="list-style-type: none"> Implement accident prevention measures for subcontractors 	◎
	<ul style="list-style-type: none"> Enhance knowledge and capabilities related to health and safety 	<ul style="list-style-type: none"> Expand education for new employees 	<ul style="list-style-type: none"> Increased the number of courses from 8 in FY2016 to 12 	◎	<ul style="list-style-type: none"> Develop health and safety education to sharpen awareness 	◎

Health and Safety Environment of the Construction Industry

The Tokyo 2020 Olympic Games will take place in two years, and amid growing demand for construction, the industry has faced such issues as securing labor and improving work efficiency. The Japanese government is leading initiatives to introduce ICT and cultivate female engineers, and in fiscal 2018 the Ministry of Land, Infrastructure and Transport launched the "Construction Career Up System" for securing and cultivating competent personnel. The shortage of labor and skilled workers poses a potential risk of increasing work-related accidents and requires continued attention, while long working hours and mental health remain ongoing issues. The Sanki Engineering Group has continued to address these changes by taking action on health and safety.

Health and Safety Policy and Structure

The Sanki Engineering Group was one of the first in the construction facilities industry to introduce an occupational health and safety management system (Sanki OHSMS) in 2001 and has since engaged in activities in partnership with subcontractors. Under the Sanki Engineering Group Basic Health and Safety Principles, we formulate a Company-wide health and safety activities plan based on the Safety Guidelines for each year. Also, we seek to visualize our PDCA cycles, including the analysis of risk factors and implementation of remedial and preventive actions.

WEB [Sanki Engineering Group Basic Health and Safety Principles](https://www.sanki.co.jp/en/csr/safety/)
<https://www.sanki.co.jp/en/csr/safety/>

Initiatives in Fiscal 2017

Key Items Implemented in Fiscal 2017

A review of the accidents that occurred in fiscal 2016 shows that while those in the "caught/pinched" category decreased, those in the "falls/tumbles" category are on the rise again after having declined in fiscal 2015. As a result, we attained our numerical targets for accidents but failed to reduce the number from the previous year. Accordingly, in our slogan and key actions, we emphasize the need for all employees to sharpen their awareness so they recognize diverse risks and notice changes in their physical and mental conditions.

Outline of Activities in Fiscal 2017

Policy of the Central Safety and Health Committee Chairperson

- Slogan
 "Catch the Danger Signs! Create a Pleasant Workplace!"
 Look out for each other toward our common goal of raising the quality of health and safety.

Key Actions Safety

- Deploy measures against the three major categories of accidents (traffic, caught/pinched, falls/tumbles)
 - Launched the "SAN-3-3 Campaign" during National Safety Week in July
 - Carried out inspections focused on the three major categories of accidents
- Elevate awareness levels
 - Launched a health and safety portal, centralized the source of information and improved website content
 - Began distributing video tools for health and safety inspections and health and safety handbooks
- Enhance knowledge and capabilities related to health and safety
 - Carried out educational measures with due consideration for diversity (younger employees, women, foreigners and others)
 - Promoted education by setting numerical targets for each division, enhanced education for improving various skills

Health

- Boost mental and physical health
 - Lowering the rate of positive findings in health checkups and rate of high stress scores in stress-related checkups

Safety and Quality Conventions and Safety Patrols

Every year in June, the preparatory month for National Safety Week, Sanki Engineering holds safety and quality conventions at each branch, branch office and division. In fiscal 2017, the president and Central Safety and Health Committee chairperson attended the convention for all offices. We also conduct special joint safety patrols, during which the president and directors tour 38 construction sites in the summer and before and after year-end.



Safety patrol in a construction site accompanied by the president (at right)

Health and Safety Training

For our own employees and for staff employed by subcontractors, Sanki Engineering provides health and safety training led by in-house instructors or at designated training institutes. In particular, we recommended that staff take part in special training on scaffolding following regulatory revisions and skill development training for foremen, and attendance increased significantly. For newcomers to the construction site, we provide a health and safety orientation using handbooks and joint training sessions with the Sanki Health and Safety Cooperative Association. In fiscal 2017, we carried out educational plans for each division by setting numerical targets.

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

Number of Participants in Health and Safety Training (Fiscal 2017)*

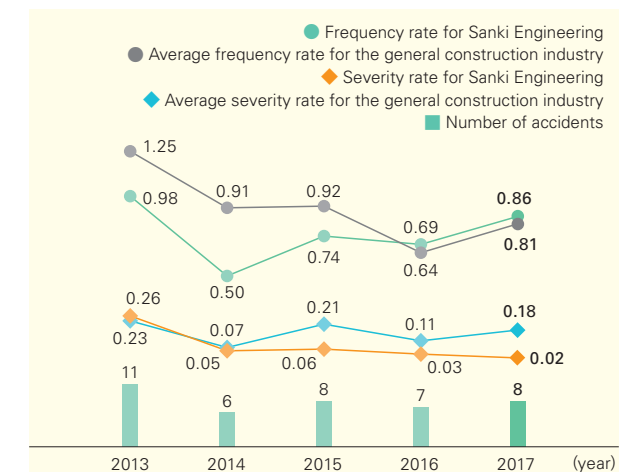
Type	Number of Participants (from Subcontractors)
Special education and other courses	2,661 (1,504)
Health and safety training, including foremen	380 (268)
In-house health and safety training	294 (-)
Other client-focused training	508 (460)
Total	3,843 (2,232)

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

Accidents during 2017

In 2017, 16 accidents occurred (8 lost workday accidents, 8 with no lost workdays), and we were unable to reduce incidents from the previous year. According to our analysis, 50% of the accidents involved either workers in their 20s or those with less than five years' experience, and there was an increase in accidents at primary subcontractors that were not members of the Cooperative Association. While the number of serious accidents has fallen, there is a slight increase in minor accidents. The results show that preventing the three major categories of accidents and bolstering preventive measures at subcontractors remain key issues.

Number of Accidents, Frequency Rate and Severity Rate



Scope: Sanki Engineering construction sites (Sanki Engineering Co., Ltd. and business partners)
 Number of accidents: interrupted work for one day or longer (number of accidents shown in the graph reflects the number of victims, which was used to calculate accident frequency and therefore does not correlate with the number previously cited on this page)
 Source for average frequency rate and severity rate for the general construction industry: Survey on Industrial Accidents, Ministry of Health, Labor and Welfare
 • Frequency rate: calculated as the number of deaths and injuries caused by accidents in the construction site per one million working hours; this figure indicates the frequency with which accidents occur.
 • Severity rate: calculated as the number of lost workdays caused by accidents in the construction site per one thousand working hours; this figure indicates the severity of the accidents.

Activities Plan for Fiscal 2018

Considering the social and industry environment as well as the number and nature of accidents in 2017, we are focusing on the following key action areas for safety in fiscal 2018: (1) deploying measures against the three major categories of accidents, (2) implementing accident prevention measures for subcontractors, and (3) developing health and safety education to sharpen the senses.



Relationship with Employees

Important Issues	FY2017				FY2018
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Promote diversity Develop and appropriately allocate human resources Create a comfortable working environment 	<ul style="list-style-type: none"> Enhance training programs to develop human resources with the Sanki spirit 	<ul style="list-style-type: none"> Deepen understanding of diversity Further revitalize the organization Hold exchanges of views between division heads 	<ul style="list-style-type: none"> Offered programs for overcoming individual weaknesses and developing strengths Implemented early training for manager candidates About 120 exchange sessions attended by about 700 division heads 	○	<ul style="list-style-type: none"> Implement training programs for boosting overall levels as a culmination of the final year of the medium-term management plan Hold exchanges of views with the president
	<ul style="list-style-type: none"> Implement measures outlined in the "Smile Project" 	<ul style="list-style-type: none"> Consider measures for each workplace 	<ul style="list-style-type: none"> Launched the Smile Site Plan to implement measures at construction sites 	◎	<ul style="list-style-type: none"> Implement measures under the "Smile Project"

Our Commitment to Employees

Guided by our management philosophy: "We place significance on communication and mutual respect," we endeavor to create a working environment and a corporate culture in which all employees grow with the Company, respect individuality and are able to succeed and thrive. We know that the technical capabilities and skills of our employees are valuable assets and that each of our employees is an invaluable human resource. We are therefore creating an environment that fosters the development of human resources based on our unique Sanki spirit, which enables them to work to their full potential.

Promoting Diversity

The Sanki Engineering Group believes that creating working environments in which various personnel are able to demonstrate their particular capabilities will raise the value of our company. With this in mind, we are cultivating a corporate culture that respects the diversity of employees and establishing various programs toward our goal of creating a working environment that is even more pleasant for employees.

● Respecting Diversity in Employment

We seek to bring on board human resources that differ in gender and nationality as well as in talent and personality. Staff from the sales, design, technology and other divisions join the human resources department to ensure fairness based on multiple perspectives. In April 2018, we hired 80 new graduates, of which 71 are men and 9 are women. We are also actively hiring foreign nationals, and as of April 1, 2018, 18 people from China, Peru, South Korea, Thailand, Vietnam and the U.K. are working with us, of which 5 are women and 13 are men. Under our medium-term management plan, we will continue to actively hire foreign nationals to steadily develop our overseas operations and promote diversity.

● Promoting Women's Careers

We believe that creating opportunities in which our female employees can demonstrate their talents further would lead to sustainable growth of our company and in turn boost our corporate value. We therefore continue to upgrade our personnel system and introduce new programs. The following are the major measures that we have taken.

- FY2007** • Introduced a career change system that allows female employees to change their career type from general-office to career-track positions.
- FY2009** • Launched full-scale recruitment of new female graduates as career-track employees.
- FY2013** • Eliminated all general-office positions by shifting them into regional positions and conducted special training for those in regional positions.
 - Acquired the Kurumin mark, a certificate granted to companies that support childcare and based on the Act on Advancement of Measures to Support Raising Next-Generation Children.
- FY2014** • Launched and continued Step Up training for employees who moved into regional positions.
 - Joined the Action Plan on Women's Active Participation in the Workplace advocated by the Keidanren (Japan Business Federation) and published our voluntary actions related to the promotion of female executives and managers.
- FY2015** • Launched and continued diversity training for general managers and department managers.
- FY2016** • Held a roundtable discussion for working mothers.
- FY2017** • Opened the "Women's Hotline" which accepts consultations.
 - Held a roundtable meeting for female engineers.

To create an environment in which our female employees can continuously develop their careers based on the Act of Promotion of Women's Participation and Advancement in the Workplace—commonly referred to as the Act for Promoting Women's Careers—we have formulated the following Action Plan and are pursuing various measures to promote women's careers.

Action Plan under the Act for Promoting Women's Careers

- Period: from April 1, 2016 to March 31, 2021
- Goals
 - Goal 1: Extend the average service years of female employees by 20% from the current level.
 - Goal 2: Actively allocate women in career-track positions in the sales division to double the current ratio.
 - Goal 3: Raise the ratio of female managers to the construction industry average of 1%.

● Career Change System

Sanki Engineering introduced a system that allows employees to change their career type from regional positions to career-track positions. As of April 1, 2018, a total of 41 employees who have changed their career type are succeeding in main career-track positions nationwide.

● Creating Workplaces for Persons with Disabilities

We regularly hire persons with disabilities and are working to create an environment in which they can work comfortably over long periods. We hold problem-solving seminars, exchanges of views and management training for employees who are hearing-impaired to promote workplace management so that all employees can thrive. Moreover, in an effort to establish a safe working environment, all offices have been installed with lamps that bear evacuation instructions for hearing-impaired employees in the event of a disaster.

Voice

Designing Stronger Careers through an Effective Return to Work Program

Akiko Miyamoto
Analysis and Diagnosis Section,
Technical Research & Development Institute



I left my job when my husband was transferred but was reinstated under the Return to Work program introduced in fiscal 2017. A female manager served as an example for me, and I decided that I wanted to contribute to the Company by applying the skills and experience I had acquired. I am currently raising two children while working full-time in a regional position, and I feel I have developed a good balance between work and family. The introduction of this program offers more options for pursuing work while dealing with job transfers or nursing needs in the family and will enable us to design stronger careers.

● System for Reemploying Workers Following Retirement

Seeking to provide employment opportunities for older employees with advanced skills and expertise, we led the industry by introducing a system for the reemployment of employees following retirement. In fiscal 2017, we reemployed 222 retired employees on a consolidated basis, compared with 240 in fiscal 2016.

Developing and Evaluating Human Resources

● Personnel System for Supporting Workplaces Where People Grow

Our personnel system ensures equal opportunity and fair evaluation and treatment for all employees while also supporting employee initiatives for career development. As part of this, we introduced an early career system for employees in their 20s to provide them with experiences in different jobs early on in their career development.

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

We will continue enhancing employee education and working conditions at Group companies to develop human resources that possess the Sanki spirit, a key initiative of our new medium-term management plan.

Voice

Contributing to Society beyond My Work at the Company with the Support of Colleagues

Takayuki Ochiai
2nd Design Section, 2nd Design
Division, Kansai Branch



I joined the Company in 1997 and have been engaged in design operations since fiscal 2009. In the meantime, I have remained committed to rugby for the hearing-impaired and was named coach of Japan's national team for the World Deaf Rugby 7's Australia competition in December 2017. As I sought to balance work with rugby, the Company offered to sponsor me, and I enjoyed the support and understanding of my colleagues as well, which made it possible for me to participate in the competition fully prepared. Contributing to society beyond your job can raise motivation toward your daily work and lead to personal growth. I am grateful to everyone who has given me this opportunity.

● Education and Training System

We maintain training systems associated with each career path, such as management training, technical training and training by field of expertise in order to strengthen specialized skills, technical skills and management skills and boost personal growth. We also operate an overseas language and job training program, designed to develop human resources that are adaptable to diverse environments.

Training System

	Younger Employees	Mid-career Employees	Executives
Management Training	New recruit training Education by mentors Third-year training Fifth-year training Seventh-year training	Leadership position training Management training Section chief training	Executive officer training Department manager training
Safety Training	New recruit training Qualification training Career-positioned staff training		
Corporate Ethics Training	Corporate ethics training Corporate ethics training		
Facilities Construction Equipment Division	Qualification training Career-positioned staff training		
Plant & Machinery Systems Divisions	Qualification training New recruit orientation Inspector education Training on our products and systems		
Quality & Environment System training	ISO 9001/ISO 14001 New recruit orientation Career-positioned staff training Education to develop internal auditors		

Promoting Workstyle Reform

● Promoting Work-Life Balance

We have been augmenting our programs in response to employee requests for broad support of a healthy balance of work and personal life so that both male and female employees can continue to work with a sense of security while attending to various life events.

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

		FY2013	FY2014	FY2015	FY2016	FY2017
Childcare leave	Consolidated	–	–	10 (2)	16 (1)	20 (2)
	Non-consolidated	16	9 (0)	7 (1)	13 (1)	16 (2)
Nursing care leave	Consolidated	–	–	–	0 (0)	0 (0)
	Non-consolidated	–	–	–	0 (0)	0 (0)
Paid leave ratio (%)	Consolidated	34.7	35.6	41.8	50.5	53.7
	Non-consolidated	Male 31.6 Female 57.6	Male 32.6 Female 56.4	Male 38.8 Female 62.1	Male 47.6 Female 69.5	Male 49.9 Female 78.2

Figures in parentheses signify the number of men.

Major Programs Supporting Work-Life Balance (Non-consolidated) (as of April 2018)

Area	Program	Details
Work	Refresh leave	Five consecutive days of leave for each five-year period of employment using employee's reserved leave
	Consecutive leave for onsite managers responsible for construction sites	Three consecutive days of leave after staying at a construction site for more than six months or before moving to another site
	Half-day off	Paid leave for half a day at a time
	Anniversary leave	A planned paid leave on special dates for employees or their families, requested at the start of the fiscal year
	Sanki Smile Day	Employees are encouraged to take a full or half day of paid leave on payday and avoid overtime
Childcare and nursing care	Return to Work program	Employees who have left the Company for reasons such as childbirth, childcare, nursing care or a spouse's transfer can apply for reinstatement
	Childcare leave	Can be obtained for the requested amount of time up to when the child turns 1 year old
	Nursing leave	Can be obtained five times for up to 180 days per person
	Shortened work hours	The reduction of scheduled working hours or the delay of starting/finishing times for childcare or elderly care; for childcare, it is available until the child reaches the third grade of elementary school
	Reserved leave	The use of reserved days off as childcare, nursing or other kinds of leaves
	Support for childcare leave and reinstatement	An interview is held with the supervisor before and after applying for childcare leave

Smile Site Plan

Sanki Engineering launched the Company-wide "Smile Project," led by the president, in October 2015 to promote work style reform. We have been implementing initiatives across the Company to create a better working environment, such as by enhancing our paid leave system, revising internal programs including the Sanki Smile Day, and introducing the use of tablets at construction sites. In November 2017, we set up the Smile Site Plan under the project as a subcommittee targeting the workstyle of those at construction sites. We are completely reviewing operations and considering measures for expanding our systems to support the construction site as well as to reduce and digitize paperwork, with the aim of lessening the operational load of site managers and enhancing capabilities and quality at our construction sites. We will continue to review our internal systems and introduce new systems under our "Employee First" principle.

● Acquiring the Kurumin Mark and Recognition for Supporting Childcare by the City of Nagoya

In 2015 we were granted an update for the Kurumin mark, a certificate granted by the Tokyo Labor Bureau of the Ministry of Health, Labour and Welfare and based on the Act on Advancement of Measures to Support Raising Next-Generation Children, for meeting certain criteria as a company

supporting childcare. In 2014 the Chubu Branch became the first construction equipment company to be recognized by the City of Nagoya as a company supporting childcare, and certification was updated in 2017.



The Kurumin mark for support of raising next-generation children

City of Nagoya certification for companies supporting childcare

● Respect for Human Rights

We declare our respect for human rights in the Sanki Group Code of Conduct and Action Guidelines, which prohibits discrimination based on nationality, gender, age and disability, and we endeavor to instill respect for human rights across the Company through various means, including educational programs. We have set up Guidelines for preventing harassment, a system offering consultation on harassment and other workplace issues, and a counter staffed by qualified external counselors. In June 2017, we added a Women's Hotline that women can use to consult female advisors. We also seek to incorporate results of our compliance awareness survey when monitoring human rights issues.

Reference Compliance Awareness Survey P. 45

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

		FY2013	FY2014	FY2015		FY2016		FY2017			
				Male	Female	Male	Female	Male	Female		
Number of employees*	Consolidated	2,283	2,282	2,022 (637)	287 (5)	2,309 (642)	2,041 (653)	2,339 (658)	2,079 (664)	305 (5)	2,384 (669)
	Non-consolidated	1,908	1,908	1,677 (550)	249 (3)	1,926 (553)	1,678 (572)	255 (575)	1,933 (586)	271 (5)	1,969 (591)
Average age	Non-consolidated	42.7	42.6	43.7	36.1	42.7	43.8	36.5	42.8	43.8	36.3
Average years of service	Non-consolidated	18.2	18.2	18.8	12.9	18.1	19.0	13.3	18.2	18.8	13.2
Number of new recruits	Consolidated	–	–	111	20	131	81	20	101	105	21
	Non-consolidated	92	95	75	18	93	60	16	76	88	21
Number of employed post retirement-age employees	Consolidated	–	–	234	2	236	235	5	240	217	5
	Non-consolidated	189	203	188	2	190	183	4	187	164	3
Employment of people with disabilities	Number of people with disabilities	Non-consolidated	39	37	–	–	32	–	–	30	–
	Ratio of people with disabilities	Non-consolidated	2.13	2.11	–	–	1.80	–	–	1.69	–

*Figures in parentheses signify the number of managers.

Employees by Age (as of March 31, 2018)

	10s	20s	30s	40s	50s	60s	70s	Total
Consolidated	0 (0)	425 (96)	528 (92)	694 (90)	485 (36)	248 (5)	4 (0)	2,384 (319)
Non-consolidated	0 (0)	395 (93)	436 (75)	548 (73)	399 (27)	188 (3)	3 (0)	1,969 (271)

*Figures in parentheses signify the number of women.



Relationship with the Environment

Important Issues	FY2017				FY2018	
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies	
<ul style="list-style-type: none"> Protect the global environment by means of our exceptional technological capability Minimize the environmental impact caused by our business activities 	<ul style="list-style-type: none"> Providing products and services to help reduce CO₂ emissions of customers 	<ul style="list-style-type: none"> Increase orders for proposals to reduce CO₂ emissions compared to fiscal 2016 	<ul style="list-style-type: none"> Reduced 27,319 t-CO₂ in FY2016 Reduced 16,599 t-CO₂ in FY2017 	<ul style="list-style-type: none"> △ ○ 	<ul style="list-style-type: none"> Providing products and services to help reduce CO₂ emissions of customers 	
	<ul style="list-style-type: none"> Properly dispose of and reduce industrial waste 	<ul style="list-style-type: none"> Promote the proper disposal of materials containing asbestos 	<ul style="list-style-type: none"> Completed preparation of the Basic Flow Chart of Procedures for Handling Asbestos 		<ul style="list-style-type: none"> Improve the introduction rate of digital manifests 	

Environmental Management at Sanki Engineering

Promoting Environmental Management

At Sanki Engineering we believe that environmental problems represent an important management issue and therefore promote environmental management based on the Sanki Engineering Environmental Policy. We will continue to engage in environmental activities with a firm vision of the future under the ESG policy laid out in our medium-term management plan. At the same time we will make necessary revisions in response to regulatory trends in Japan and overseas.

Sanki Engineering Environmental Policy

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

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

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

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

Environmental Management System

We have obtained ISO 14001 certification for environmental management systems at all Group company sites in Japan, including Sanki Kakou Kensetsu Co., Ltd. and Sanki Kankyo Service Co., Ltd. Under our system for implementing environmental management, headed by the president, each division reports on the status of its activities, and decisions on action plans are made during management reviews and company-wide QMS and EMS secretariat meetings.

Annual policies are approved by the Management Meeting, comprising directors and other members.

In fiscal 2017, an external audit found no issues of noncompliance and there were no violations of environmental laws or regulations that warranted a fine.

Reference: Quality and Environmental Management System P. 50

Major Activities in Fiscal 2017

In fiscal 2017, we started to base our management on the 2015 version of the ISO standard. So that our initiatives related to the environmental management system do not become merely nominal, we pursue our activities by having each section set environmental goals aligned with their respective operations.

The 2015 version calls for "visualization" as a requirement listed under "Initiatives on Risks and Opportunities." To address this, we use the JOB Environmental Aspects Assessment List to identify environmental issues that are unique to each construction site, bylaws governing site location, regional agreements and more. There is an infinite variety to type, scope and regulatory requirements with respect to environmental risks, depending on the project type, such as medical institutions and commercial facilities, and the surrounding environment, community and nature of construction work. The assessment list consists of 10 aspects and around 60 items, and, prior to the start of construction, we seek effective and appropriate action by conducting an environmental risk assessment for each project.

Moreover, we completed formulating the Basic Flow Chart of Procedures for Handling Asbestos to promote the proper disposal of asbestos at construction sites amid an increase in renovation projects.

Developing Environmental Leaders

We encourage employees to acquire environment-related qualifications in response to regulatory changes. In particular, we plan to increase the number of managers of special controlled wastes.

Number of Employees with Environment-related Qualifications (as of April 1, 2018)

Qualification	Number of Employees	
	Consolidated	Non-consolidated
Certified environmental measurer	8	7
Supervisor of management of industrial waste subject to special control	174	155
Pollution prevention manager*	72	51

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

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

Number of Employees Qualified as Internal Auditors (Consolidated/as of March 31, 2018)*

Internal auditing (QMS)	1,153
Internal auditing (EMS)	1,225

* Number of employees (including employees at subsidiaries) with internal auditing qualifications relevant to the scope of the quality management system and environmental management system administered by the Quality Management Department and Global Environment Department of the Labor Safety, Health, Quality Management & Environment Promotion Office.

Environmental Education

We conducted e-learning on preserving biodiversity and protecting ecosystems for all Group companies, and every year we invite outside lecturers to speak on various environmental topics. In fiscal 2017, the ninth year of these talks, we held a two-way lecture that was attended by the

president and 275 employees. By taking part in experience-based learning and communicating with each other during quizzes on Sanki Engineering's relationship with the environment, the attendees deepened their understanding and at the same time enjoyed themselves. And so that all employees could have this opportunity, including those unable to attend, we made the lecture available on the company intranet.

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

Initiatives to Prevent Global Warming and Save Energy and Resources

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

As the Paris Agreement came into force, global moves to create a low-carbon society have accelerated, and there are growing expectations that companies will contribute to achieving the SDGs.

One mission of our environmental management is to enhance functionality and comfort through the technology of each of our businesses and develop and introduce technologies and products that conserve energy, reduce CO₂ emissions and lower lifecycle costs for customers and society as a whole. To that end, the Energy Solutions Center works to improve activities on an ongoing basis by collecting energy-related information and supporting technical development and proposals to customers.

Technological Developments that Have Contributed to Conservation of the Global Environment

DOUP™ Energy-Saving HVAC System for Clean Rooms Reducing the Facility's Power Supply Even in Midsummer, Offering a 40% Annual Reduction

We developed DOUP™ by drawing from our accumulated expertise in the design and construction of clean rooms. The technology provides separate air conditioning for the operation area, which requires high levels of cleanliness, and for the maintenance area, which is subjected to high temperatures generated by production equipment. Power supplied to the facility during the peak summer season can be reduced by lowering the temperature of already cold water. Also, when combined with other energy-saving methods, the annual power supply can be cut by up to 40% compared to conventional clean rooms.

DOUP™ will start to secure a high level of cleanliness for the operation area by supplying a concentrated flow of purified air, which is then supplied to the maintenance area to cool the production equipment. Separating the two areas is easily done by hanging a partition to the height of the production equipment. This allows the system to send a down-flow into the operation area and an up-flow into the maintenance area, allowing for the effective use of HVAC air after dust removal and cooling.

Effect of Power Supply Reduction

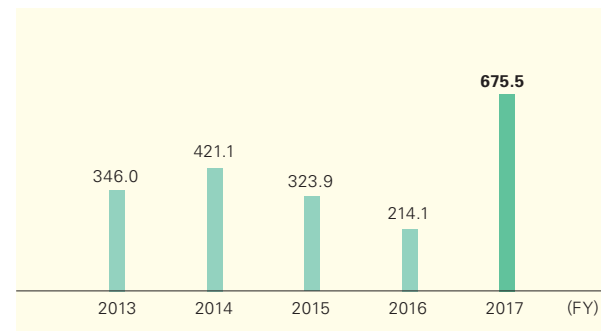
Maximum annual reduction

40% ↓

Proposals for CO₂ Reduction and Outcomes
(CO₂ Reduction Unit: t-CO₂/Year)

		FY2015		FY2016		FY2017	
		Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction
Proposals	Consolidated	418	36,147	345	56,205	353	47,905
	Non-consolidated	413	35,074	313	54,877	321	46,143
Orders received	Consolidated	205	20,680	183	27,624	166	16,949
	Non-consolidated	200	19,607	168	27,319	157	16,599

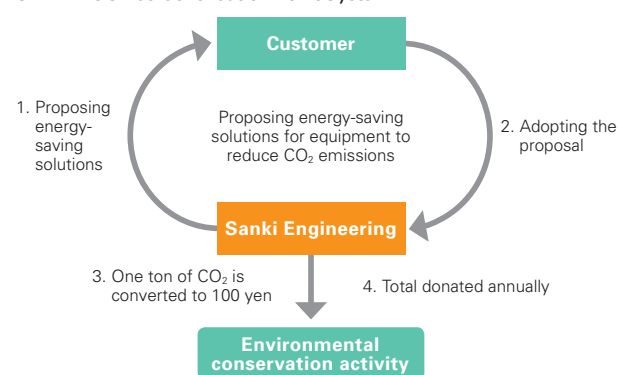
R&D Expenditures Related to Environmental Preservation
(Millions of Yen)



● SANKI YOU Eco Contribution Point System

We launched the SANKI YOU Eco Contribution Point System in October 2010. Under the system, when we propose an energy-saving solution that reduces CO₂ emissions to a customer, and that proposal is adopted, the amount of the achieved emissions reduction is converted to Eco Contribution Points, which are used to subsidize environmental conservation activities such as those explained below. In the second half of fiscal 2016 and first half of fiscal 2017, customers adopted 170 of our proposals, resulting in donations totaling 1,877,000 yen (equivalent to an 18,770 t-CO₂ reduction) in fiscal 2017, raising the overall total of donations since the start of the program in fiscal 2010 to 15,255,500 yen.

SANKI YOU Eco Contribution Point System



● Donations to Tree-planting Projects

Recipients of donations were selected from the framework of global environmental preservation activities mainly handled by private non-profit organizations. In fiscal 2017, we donated to two projects in which our employees participated.



Participating in a tree-planting project organized by Mori wa Umi no Koibito

Donation History for Tree-planting Projects

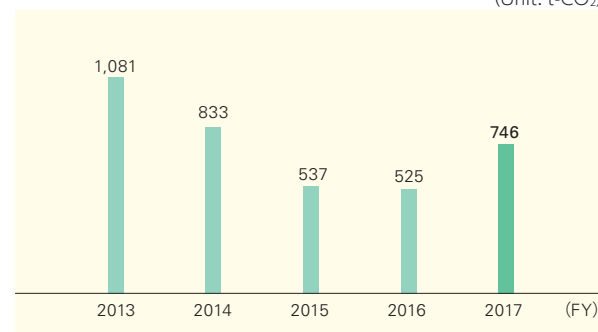
Recipient	Project	Donations
Silva Association	Tree planting for a forest surrounding Shonan Village (Yokosuka City, Kanagawa Prefecture)	500,000 yen in first half of FY2017
		279,500 yen in second half of FY2017
NPO Mori wa Umi no Koibito	Tree planting for the Hikobae Forest on Mt. Yagoshi (Ichinoseki City, Iwate Prefecture)	797,500 yen in first half of FY2017
		300,000 yen in second half of FY2017

● Initiatives at Construction Sites

We strive to limit CO₂ emissions generated by our business activities by compiling and managing the emissions discharged at sites where Sanki Engineering is the prime contractor.

CO₂ Emissions at Construction Sites (Derived by Energy Consumption)

(Unit: t-CO₂)



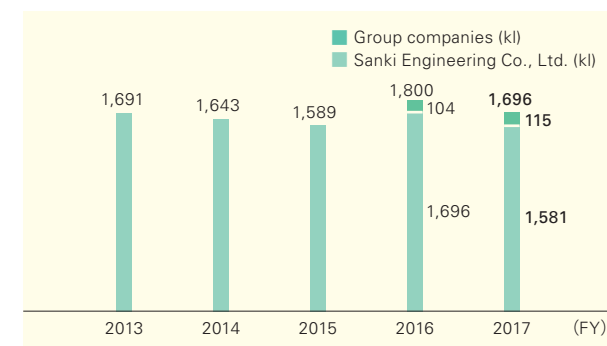
● Initiatives in the Office

• Energy Conservation Activities

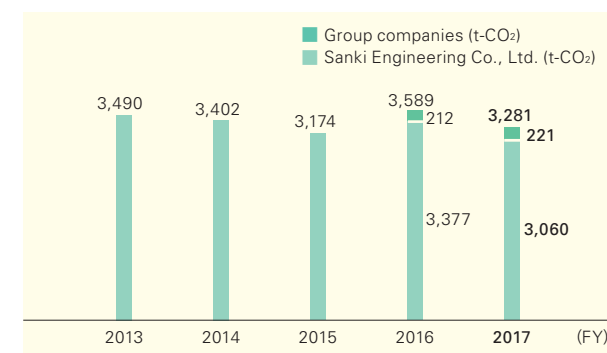
Sanki Engineering has been promoting energy-saving activities based on a Company-wide objective for its EMS activities to reduce energy consumption by 6% compared to fiscal 2012 over the five-year period from fiscal 2013 to fiscal 2017. In fiscal 2017, we achieved a reduction of 14.3% from the 2012 level in energy consumption Company-wide.

Energy consumption for fiscal 2017 was equivalent to 1,581 kl of crude oil and CO₂ emissions generated by energy use was 3,060 t-CO₂. Looking ahead, we will continue to reduce energy use across the Sanki Engineering Group.

Energy Consumed by Offices (Crude Oil Equivalent)



CO₂ Emissions Generated by Energy Consumption at Offices



• Campaign to Reduce Copy Paper

We have consistently engaged in activities to reduce copy paper use in our offices. To some extent, we have been effective in making a reduction, and the campaign is now well established at each office.

Throughout the Sanki Engineering Group, we will continue reducing paper use by utilizing IT devices to save resources.

Proper Disposal of Waste

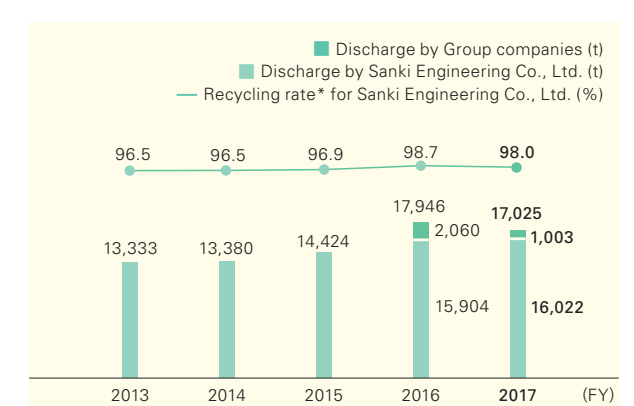
● Current State of Industrial Waste

With respect to industrial waste discharged at our construction sites, we seek to understand the current status by compiling data on waste discharged at sites where Sanki Engineering is the prime contractor.

We have maintained the recycling rate for industrial waste, excluding waste disposed at final landfill sites, at high levels above 90.0%, and the rate was 98.0% in fiscal 2017. We will continue to promote proper disposal by monitoring and analyzing the discharge of industrial waste. In fiscal 2017, the waste disposal cost for construction sites was 366,287,000 yen. Furthermore, we have been properly disposing waste CFC and halons, the cost of which was 40,695,000 yen in fiscal 2017.

In addition, following the revision of the Waste Management and Public Cleansing Act, we created and distributed posters to disseminate the revisions in storage and disposal procedures for waste containing mercury.

Waste Discharged at Sites where Sanki Engineering is the Prime Contractor and at the Yamato Site



*Target rate: 90% or higher



Poster: "How to handle mercury-laced industrial waste"



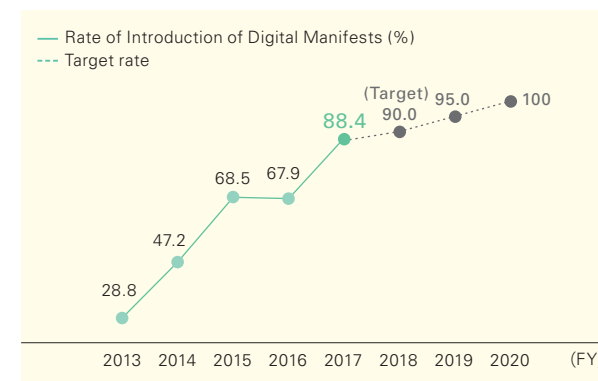
Relationship with Local Communities

● Introduction of a Digital Manifest

With the aim of ensuring the proper disposal of industrial waste, we are pushing ahead with the introduction of a digital manifest. The rate of introduction of digital manifests to the total number of manifests issued was 88.4% against the target of 85.0% on a non-consolidated basis in fiscal 2017.

To achieve our goal of raising the use of digital manifests to 100% on a non-consolidated basis by fiscal 2020, we are building a system that can accurately monitor the status of disposal. This involves encouraging departments that have yet to use digital manifests to start doing so while also recommending that business partners who have yet to connect to the digital manifest system do so.

Rate of Introduction of Digital Manifests



Scope of aggregation: Sites with ISO 14001 certification (organizations covered are listed on page 62)

Dispatching Engineers to the Japanese Antarctic Research Expedition

Helping to Protect the Environment over a Quarter Century

Sanki Engineering is connected to the Japanese research expedition to Antarctica in a number of ways. In 1957, when Japan began its expedition by opening the Showa Base, we delivered 30 roller conveyors for use in transporting materials.

Following the adoption of the Protocol on Environmental Protection to the Antarctic Treaty in 1991, we sent 12 engineers to the National Institute of Polar Research to serve as environmental protection staff for the Antarctic Research Expedition. As pioneers responsible for protecting the environment, we began by surveying the status of waste and wastewater. Also, we suggested appropriate disposal methods, presented design proposals for a wastewater treatment facility, and have been involved with the construction, operation and management of the facility. In 2015 we replaced a purifying facility, which had been in operation for nearly 15 years, with an advanced wastewater treatment facility incorporating a membrane separation process, and operations have since continued there. Through these efforts, Sanki Engineering has been contributing to the environmental protection activities of the Antarctic research operation for a quarter of a century.

In November 2018, the 60th Antarctic Research Expedition team will set off for the Showa Base. Sanki Engineering will dispatch two engineers to the National Institute of Polar Research as members of the expedition. Their main objective will be to construct the HVAC and hygiene facility for the Basic Observation Building, which will serve as the main building for

research and observation.

Looking ahead, we intend to offer wide-ranging support for the Antarctic research operation through engineering.



New wastewater treatment facility



Important Issues	Fiscal 2017				Fiscal 2018
	Major Action Policies	Primary Goals	Results	Assessment	Major Action Policies
<ul style="list-style-type: none"> Coordination with local communities Contribution to society as a corporate citizen 	Regional disaster prevention	Participate in regional disaster prevention activities	Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center	○	Regional disaster prevention
	Conservation of the local environment	Participate in local cleanup activities	Held Group-wide activities in over 30 locations	○	Conservation of the local environment
	Supporting the development of the next generation	Provide educational opportunities such as environmental seminars	Offered 6 social study tours for a total of 179 students	○	Supporting the development of the next generation

Our Approach to Local Communities

As stated in the Sanki Group Code of Conduct and Action Guidelines, "We seek to contribute to society in order to aid in the development of local communities as a good corporate citizen and member of society," and our activities reflect this principle. Looking ahead, we will continue to fulfill our corporate social responsibility while maintaining active communication with stakeholders in the communities where we operate.

Sanki Forest

In July 2017, we held a weeding event at the Sanki Forest in Kai City, Yamanashi Prefecture, where we had planted a thousand trees in October 2015, to commemorate the 90th anniversary of our founding. With the help of staff from the local forestry cooperative, 24 of our employees used sickles to clear underbrush as volunteers.



Participants of the tree planting event

Coordination with Local Communities

● Agreement for the Provision of Facilities in Times of Disaster and Other Activities

Under an agreement concluded with Yamato City in 2013, our business site in the city will be made available as a temporary shelter for those who are unable to return home in the wake of a disaster. As of June 2018, the former Yamato Engineering Center was demolished and relocated with a new name: Sanki Techno Center. However, the agreement remains in effect. Once the facility is fully constructed, it will be able to better serve regional disaster prevention.

Furthermore, Sanki Engineering has concluded an agreement with Yamato City on the emergency recovery of water supply and sewage facilities. Under the agreement, we will work to restore the functions of the city's water quality management centers promptly in the event that they are damaged by a disaster.

● "Uchimizu" Water Sprinkling Event

In support of the traditional "uchimizu" water sprinkling event sponsored by the Tokyo Metropolitan Government's Bureau of Environment, Sanki Engineering held its own "uchimizu" event in July 2017 on the second floor waterside park of the St. Luke's Garden building, where its head office is located.

Drawing from wisdom dating back to the Edo period, "uchimizu" offers an environmentally friendly way to cool down without consuming energy. Our event used recycled water supplied by the Shibaura Water Reclamation Center of the Tokyo Bureau of Sewerage. We will continue to contribute to the creation of comfortable living environments in collaboration with local communities.



"Uchimizu" event

Cleanup and Environmental Beautification Activities

Each branch, branch office and Group company participates in cleanup activities in areas around their offices or construction sites as well as environmental beautification activities organized by local governments. In fiscal 2017, Group company Sanki Kako Kensetsu Co., Ltd. participated in the Japan-Korea Beach Cleanup Campaign 2018 in Tsushima, Nagasaki Prefecture collecting marine debris that presents a serious problem in terms of the city's scenery and from the standpoint of the local fishery industry and marine pollution. Meanwhile, employees of Sanki Kankyo Service Co., Ltd. clean the streets near the water treatment facility constructed by the company as well as other places. On a Group-wide basis, we carried out activities in more than 30 local communities.

Supporting the Development of the Next Generation

● Yamato Engineering Center, Kanagawa Prefecture

The Yamato Engineering Center participates in local cleanup activities organized by Yamato City and supports events such as a parent-child summer environmental school as an active corporate member of a local environmental group (Yamato-no Kankyo-o Yokusuru-kai).

In August 2017, we held the environmental seminar "Looking at the Earth Today from Antarctica" at a civic study center in response to a request from Yamato City, Kanagawa Prefecture. We explained to citizens the ways in which we are protecting the Antarctic environment by treating wastewater and other waste at the Showa Base, introducing the experience of employees dispatched to the base and episodes from their daily life in Antarctica.

● Sanki Kankyo Service Welcomes Social Studies Tours by Local Schools

Our Group company Sanki Kankyo Service Co., Ltd. hosts field trips for elementary schoolchildren at its offices and water purification plant. In September 2017, the Sea Clean Suttsu and Suttsu Water Purification Center in Hokkaido received 15 students from Suttsu Elementary School, and in January 2018, Sea Clean Suttsu welcomed 6 children from Oshoro Elementary School. And in November, the Oshamanbe Office in Hokkaido received 34 students from Oshamanbe Elementary School and the Ryotsu Office in Niigata Prefecture welcomed 32 students from Kamo Elementary School. The students learned about the role

and workings of the sewerage system. We also organize facility tours for people living in the neighborhood.

Donating Blood

Our head office began encouraging employees to donate blood in 2013. Since blood for transfusions cannot be artificially produced or stored for an extended period, we will cooperate on an ongoing basis with the corporate blood donation program. In fiscal 2017, 64 employees at the head office donated blood in November.

Donations and Contributions

We extend donations to universities and research institutes and sponsor cultural activities by the Japan Philharmonic Orchestra, the Japan Chamber Music Foundation and other institutions. We also support the training of guide dogs by continuously collecting donations for this cause. And each of our branches and Group companies take part in a variety of activities in which anyone can get involved, such as by donating used stamps and cards. Also, we contribute to Mitsui Group activities through our support for the Mitsui Volunteer Network, which promotes the voluntary efforts of retired, former employees of Mitsui Group companies.



Presenting a donation to the Japan Guide Dog Association



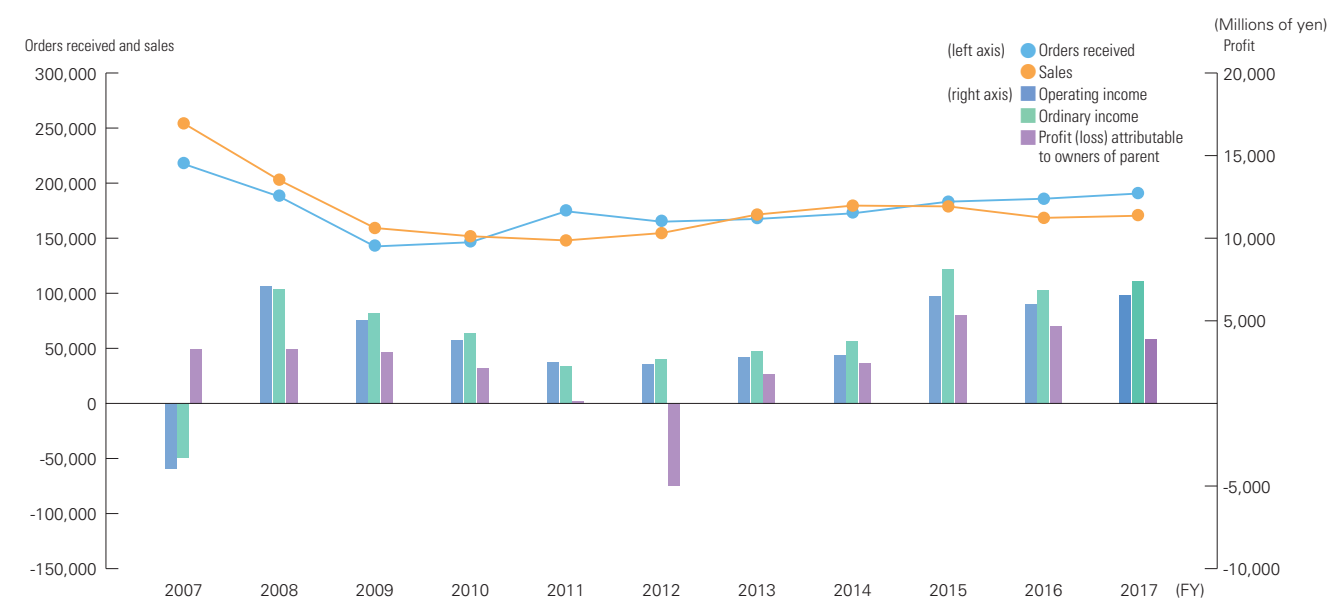
Financial Report

11-year Consolidated Financial Summary

(Millions of yen)

Fiscal year	Year ended March 31, 2008	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018
Fiscal year											
Orders received	218,256	188,653	143,348	147,129	175,291	165,800	168,295	173,398	183,270	185,880	191,113
Balance carried forward	108,253	93,566	77,641	72,976	100,272	111,414	108,219	102,019	106,388	123,756	144,712
Net sales	254,460	203,340	159,273	151,794	147,994	154,658	171,496	179,598	178,901	168,512	170,157
Selling, general and administrative expenses	13,962	14,978	15,419	15,763	15,712	15,199	15,604	15,015	16,419	16,526	18,466
Operating income or loss	(3,958)	7,125	5,027	3,843	2,525	2,391	2,818	2,951	6,509	6,012	6,593
Ordinary income or loss	(3,307)	6,900	5,456	4,239	2,268	2,680	3,146	3,809	8,135	6,880	7,434
Profit (loss) attributable to owners of parent*	3,134	3,283	3,141	2,124	176	(4,992)	1,763	2,461	5,327	4,698	3,906
Cash flows from operating activities	(4,097)	19,177	1,294	11,554	(2,697)	9,729	(9,403)	(139)	5,220	10,845	6,306
Cash flows from investing activities	11,511	1,726	(1,664)	2,610	(1,046)	(9,481)	(3,506)	3,440	5,520	(1,644)	△2,510
Cash flows from financing activities	(3,812)	(4,377)	(2,936)	(1,883)	(280)	(1,028)	(4,152)	(2,901)	(1,826)	(2,458)	1,814
Cash and cash equivalents at end of fiscal year	19,617	36,142	32,825	45,135	41,097	40,367	23,510	23,667	32,501	39,187	44,866
As of end of fiscal year under review											
Total assets	215,680	176,664	163,307	158,501	163,120	166,477	170,181	176,382	169,423	166,612	178,591
Net assets	80,276	78,780	80,498	79,833	79,662	76,932	74,917	84,869	84,557	85,961	86,191
Number of employees	2,225	2,239	2,272	2,316	2,289	2,246	2,283	2,282	2,309	2,339	2,384
Per share information											
Earnings per share (yen)	42.42	44.45	42.86	29.67	2.46	(71.04)	26.46	38.30	83.84	73.91	63.02
Book-value per share (yen)	1,086.02	1,065.77	1,119.40	1,115.41	1,113.70	1,106.32	1,142.74	1,334.65	1,328.60	1,350.08	1,419.77
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00	15.00	15.00	20.00	30.00	30.00	35.00
Other information											
Equity ratio (%)	37.2	44.6	49.3	50.3	48.8	46.2	44.0	48.1	49.8	51.5	48.2
Return on assets (%)	(1.4)	3.5	3.2	2.6	1.4	1.6	1.9	2.2	4.7	4.1	4.3
Return on equity (%)	3.7	4.1	3.9	2.7	0.2	(6.4)	2.3	3.0	6.3	5.5	4.5

*The revised Accounting Standard for Business Combination and other standards have been applied from the year ended March 2016. Accordingly, "Profit (loss) attributable to owners of parent" as listed in the consolidated fiscal year under review, is equivalent to "Net income" listed for the consolidated fiscal years between the year ended March 2008 and the year ended March 2015.



Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Current assets:		
Cash and deposits	¥ 34,187	¥ 43,866
Notes and accounts receivable on completed construction contracts and other (Note 4)	58,168	64,458
Electronically recorded monetary claims (Note 4)	8,570	5,878
Securities	6,999	4,199
Inventories:		
Costs on uncompleted construction contracts	1,692	1,852
Raw materials and supplies	453	569
Deferred tax assets	1,615	1,858
Other	3,231	2,076
Allowance for doubtful accounts	(13)	(0)
Total current assets	114,906	124,759
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	39,364	36,864
Accumulated depreciation	(35,363)	(32,163)
Buildings and structures, net	4,001	4,701
Machinery, equipment, vehicles, and tools, furniture and fixtures	3,187	2,104
Accumulated depreciation	(2,789)	(1,701)
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	397	402
Land	3,958	3,709
Lease assets	676	698
Accumulated depreciation	(205)	(267)
Lease assets, net	470	431
Construction in progress	21	1,418
Total property, plant and equipment	8,849	10,662
Intangible assets	542	813
Investments and other assets:		
Investment securities (Note 1 and 2)	32,497	31,927
Long-term loans receivable	145	124
Asset for retirement benefits	4,493	4,759
Lease and guarantee deposits	1,256	1,386
Insurance funds	486	567
Deferred tax assets	237	250
Other (Note 2)	4,151	5,452
Allowance for doubtful accounts	(955)	(2,112)
Total investments and other assets	42,314	42,355
Total noncurrent assets	51,705	53,831
Total assets	¥ 166,612	¥ 178,591

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other (Note 4)	¥ 48,277	¥ 49,854
Short-term loans payable	5,654	6,894
Lease obligations	158	133
Income taxes payable	887	3,691
Advances received on uncompleted construction contracts	5,728	3,439
Provision for bonuses	2,285	2,654
Provision for directors' bonuses	143	160
Provision for warranty costs	422	513
Provision for loss on construction contracts	970	1,058
Deferred tax liabilities	22	47
Other	4,223	5,386
Total current liabilities	68,776	73,834
Noncurrent liabilities:		
Long-term loans payable	–	6,610
Lease obligations	452	369
Liability for retirement benefits	2,274	2,884
Provision for directors' retirement benefits	79	61
Deferred tax liabilities	4,187	3,717
Other	4,881	4,922
Total noncurrent liabilities	11,875	18,565
Total liabilities	80,651	92,399
Net assets:		
Shareholders' equity:		
Capital stock	8,105	8,105
Capital surplus	4,181	4,182
Retained earnings	68,314	67,844
Treasury stock	(2,251)	(3,736)
Total shareholders' equity	78,348	76,395
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	10,928	11,687
Foreign currency translation adjustment	(125)	(12)
Retirement benefits asset and liability adjustments	(3,337)	(2,058)
Total accumulated other comprehensive income	7,465	9,616
Subscription right to shares	126	179
Non-controlling interests	19	–
Total net assets	85,961	86,191
Total liabilities and net assets	¥ 166,612	¥ 178,591

See notes to consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net sales:		
Net sales of completed construction contracts	¥ 166,817	¥ 168,266
Net sales of real estate business and other	1,694	1,890
Total net sales	168,512	170,157
Cost of sales:		
Cost of sales of completed construction contracts (Notes 1 and 2)	144,632	143,863
Cost of sales on real estate business and other	1,340	1,233
Total cost of sales	145,973	145,097
Gross profit:		
Gross profit on completed construction contracts	22,184	24,403
Gross profit on real estate business and other	353	656
Total gross profit	22,538	25,060
Selling, general and administrative expenses:		
Employees' salaries and allowances	6,303	6,578
Provision for bonuses	930	1,194
Provision for directors' bonuses	144	162
Retirement benefit expenses	943	1,118
Depreciation	369	421
Other (Note 1)	7,834	8,990
Total selling, general and administrative expenses	16,526	18,466
Operating income	6,012	6,593
Non-operating income:		
Interest income	20	30
Dividends income	684	683
Insurance income	247	251
Other	290	248
Total non-operating income	1,243	1,214
Non-operating expenses:		
Interest expense	84	76
Commission for purchase of treasury stock	-	48
Other	290	248
Total non-operating expenses	375	373
Ordinary income	6,880	7,434
Extraordinary income:		
Gain on sales of investment securities	650	2,219
Total extraordinary income	650	2,219
Extraordinary loss:		
Impairment loss (Note 3)	17	194
Loss on sales of noncurrent assets	-	54
Loss on retirement of noncurrent assets	419	1,333
Environmental expenses	-	203
Office transfer expenses	44	171
Settlement package	43	-
Loss on valuation of investments in capital of subsidiaries and affiliates	-	62
Provision of allowance for doubtful accounts	-	1,179
Total extraordinary losses	525	3,199
Profit (loss) before income taxes	7,004	6,454
Income taxes:		
Income taxes-current	1,833	4,190
Income taxes-deferred	482	(1,621)
Total income taxes	2,315	2,568
Profit (loss)	¥ 4,688	¥ 3,885
Profit (loss) attributable to:		
Owners of parent	¥ 4,698	¥ 3,906
Non-controlling interests	¥ (9)	¥ (20)
Other comprehensive income (Note 4):		
Unrealized gains on available-for-sale securities	¥ (2,084)	¥ 759
Foreign currency translation adjustment	(71)	113
Remeasurements of defined benefit plans	798	1,278
Total other comprehensive income	(1,357)	2,151
Comprehensive income	¥ 3,330	¥ 6,037
Comprehensive income attributable to:		
Owners of parent	¥ 3,341	¥ 6,057
Non-controlling interests	¥ (10)	¥ (19)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

[For the year ended March 31, 2017]

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity		
Balance at the beginning of current period	¥ 8,105	¥ 4,181	¥ 65,586	¥ (2,258)	¥ 75,614		
Changes in items during the period							
Dividends from surplus			(1,970)		(1,970)		
Profit (loss) attributable to owners of parent			4,698		4,698		
Purchase of treasury stock							
Disposal of treasury stock		(0)		6	6		
Transfer of loss on disposal of treasury stock		0	(0)				
Retirement of treasury stock							
Net changes in items other than shareholders' equity			2,727	6	2,734		
Total changes in items during the period	-	-	2,727	6	2,734		
Balance at the end of current period	¥ 8,105	¥ 4,181	¥ 68,314	¥ (2,251)	¥ 78,348		
	Accumulated other comprehensive income						
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥ 13,012	¥ (53)	¥ (4,135)	¥ 8,822	¥ 90	¥ 30	¥ 84,557
Changes in items during the period							
Dividends from surplus							(1,970)
Profit (loss) attributable to owners of parent							4,698
Purchase of treasury stock							-
Disposal of treasury stock							6
Transfer of loss on disposal of treasury stock							-
Retirement of treasury stock							-
Net changes in items other than shareholders' equity	(2,084)	(71)	798	(1,356)	36	(10)	(1,330)
Total changes in items during the period	(2,084)	(71)	798	(1,356)	36	(10)	1,403
Balance at the end of current period	¥ 10,928	¥ (125)	¥ (3,337)	¥ 7,465	¥ 126	¥ 19	¥ 85,961

[For the year ended March 31, 2018]

(Millions of yen)

	Shareholders' equity						Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity		
Balance at the beginning of current period	¥ 8,105	¥ 4,181	¥ 68,314	¥ (2,251)	¥ 78,348		
Changes in items during the period							
Dividends from surplus			(2,195)		(2,195)		
Profit (loss) attributable to owners of parent			3,906		3,906		
Purchase of treasury stock				(3,679)	(3,679)		
Disposal of treasury stock					13		14
Transfer of loss on disposal of treasury stock							-
Retirement of treasury stock							-
Net changes in items other than shareholders' equity			(469)	(2,180)	2,180		(1,953)
Total changes in items during the period	-	-	1	(469)	(1,485)		(1,953)
Balance at the end of current period	¥ 8,105	¥ 4,182	¥ 67,844	¥ (3,736)	¥ 76,395		
	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	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥ 10,928	¥ (125)	¥ (3,337)	¥ 7,465	¥ 126	¥ 19	¥ 85,961
Changes in items during the period							
Dividends from surplus							(2,195)
Profit (loss) attributable to owners of parent							3,906
Purchase of treasury stock							(3,679)
Disposal of treasury stock							14
Transfer of loss on disposal of treasury stock							-
Retirement of treasury stock							-
Net changes in items other than shareholders' equity	759	112	1,278	2,150	52	(19)	2,183
Total changes in items during the period	759	112	1,278	2,150	52	(19)	229
Balance at the end of current period	¥ 11,687	¥ (12)	¥ (2,058)	¥ 9,616	¥ 179	¥ -	¥ 86,191

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ 7,004	¥ 6,454
Depreciation and amortization	718	818
Impairment loss	17	194
Loss on retirement of noncurrent assets	419	1,333
Office transfer expenses	44	171
Environmental expenses	-	203
(Decrease) Increase in allowance for doubtful accounts	(128)	1,145
Increase in liability for retirement benefits	1,606	2,191
Decrease in provision for directors' retirement benefits	-	(17)
(Decrease) increase in provision for loss on construction contracts	(215)	87
Decrease in provision for loss on compensations	(30)	-
Interest and dividends income	(705)	(714)
Interest expense	84	76
Loss on sales of property, plant and equipment	2	54
Gain on sales of investment securities	(649)	(2,219)
Decrease (increase) in notes and accounts receivable on completed construction contracts and other	8,808	(3,546)
Decrease (increase) in costs on uncompleted construction contracts	575	(159)
(Decrease) increase in notes and accounts payable on construction contracts and other	(3,180)	1,092
Increase (decrease) in advances received on uncompleted construction contracts	2,588	(2,289)
(Decrease) increase in other current liabilities	(783)	206
Other	(2,705)	2,139
Subtotal	13,472	7,222
Interest and dividends received	707	713
Interest paid	(83)	(76)
Income taxes paid	(3,205)	(1,482)
Income taxes refunded	0	130
Payments for office transfer expenses	(44)	(124)
Payments for environmental expenses	-	(76)
Net cash provided by operating activities	10,845	6,306
Cash flows from investing activities:		
Payments into time deposits	(29)	(1,500)
Proceeds from withdrawal of time deposits	333	300
Purchase of securities	(5,000)	(13,500)
Proceeds from redemption of securities	4,000	12,300
Purchase of property, plant and equipment	(452)	(2,290)
Proceeds from sales of property, plant and equipment	9	7
Payments for retirement of property, plant and equipment	(163)	(971)
Purchase of investment securities	(1,328)	(324)
Proceeds from sales of investment securities	1,008	4,151
Proceeds from redemption of investment securities	200	-
Execution of loan	(61)	(0)
Collection of loans receivable	27	80
Proceeds from maturity of insurance funds	57	46
Other	(245)	(810)
Net cash used in investing activities	(1,644)	(2,510)
Cash flows from financing activities:		
Net increase in short-term loans payable	2	169
Proceeds from long-term loans payable	-	8,000
Repayments of long-term loans payable	(340)	(320)
Purchase of treasury stock	-	(3,679)
Proceeds from exercise of stock options	0	0
Repayments of lease obligations	(150)	(160)
Cash dividends paid	(1,970)	(2,195)
Net cash (used in) provided by financing activities	(2,458)	1,814
Effect of exchange rate changes on cash and cash equivalents	(57)	68
Net increase in cash and cash equivalents	6,686	5,679
Cash and cash equivalents at beginning of period	32,501	39,187
Cash and cash equivalents at end of period (Note 1)	¥ 39,187	¥ 44,866

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Basis of Preparation of Consolidated Financial Statements

1. Basis of Preparation

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

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

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

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

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 7

Names of consolidated subsidiaries:

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

(2) Number of unconsolidated subsidiaries: 4

Names of unconsolidated subsidiaries:

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

(3) Reasons for exclusion of unconsolidated subsidiaries from consolidation

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

3. Application of the equity method

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

Unconsolidated subsidiaries: -

Affiliates: -

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

Unconsolidated subsidiaries: 4

Affiliates: 1

Names of unconsolidated subsidiaries and affiliates:

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

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

The four unconsolidated subsidiaries and one affiliate referred to above were excluded from being accounted for by the equity method because the Company's equity in their net income and retained earnings were not material to the consolidated financial statements.

4. Fiscal year end of the consolidated subsidiaries

Names and the fiscal year end of the consolidated subsidiaries whose fiscal year end is different from that of the consolidated financial statements:

Name	Fiscal year end
AQUACONSULT Anlagenbau GmbH	December 31
THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.	December 31

Financial statements of the above subsidiaries were consolidated on the basis of its own fiscal year end. However, the necessary adjustments were made to reflect any significant transactions from the fiscal year end of the subsidiary to that of the consolidated financial statements.

5. Accounting policies

(1) Valuation policies for significant assets

Securities

Held-to-maturity securities:

Held-to-maturity securities are stated at cost and amortized by the straight-line method.

Available-for-sale securities:

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

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

Derivatives

Derivatives are stated at fair value.

Inventories

Costs on uncompleted construction contracts:

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

Raw materials and supplies:

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

(2) Depreciation of significant assets

Property, plant and equipment (excluding lease assets)

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

Intangible assets (excluding lease assets)

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

Lease assets

Finance lease assets which transfer ownership title to the lessee

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

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

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

(3) Significant provisions and allowances

Allowance for doubtful accounts

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

Provision for bonuses

Provision for bonuses is stated at an estimate of the amounts to be paid by the Company and its consolidated subsidiaries for services rendered by the balance sheet date.

Provision for directors' bonuses

Provision for directors' bonuses is stated at an estimate of the amounts to be paid by the Company and its consolidated subsidiaries for services rendered by the balance sheet date.

Provision for warranty costs

Provision for warranty costs is provided at an estimated amount based on historical experience and certain other factors.

Provision for loss on construction contracts

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

Provision for directors' retirement benefits

Provision for directors' retirement benefits is stated at 100% of the amount which would be required to be paid if all directors and corporate auditors resigned their positions at the balance sheet date. At the meetings of board of directors of the Company and its domestic consolidated subsidiaries held in March 2012, it was resolved that their retirement benefit plans for directors and corporate auditors be terminated on March 31, 2012. Subsequently, at the ordinary general meeting of shareholders of each company held in June 2012, it was resolved that retirement benefits shall be paid to directors and corporate auditors, who were incumbent as of the close of the said shareholders' meeting, for their individual service periods to March 31, 2012. It was also resolved that retirement benefits shall be paid at the time of their individual retirement and that the amount to be paid and the payment method for directors would be determined at the meeting of the board of directors and for corporate auditors by mutual agreement among the corporate auditors. As a result, the estimated amount of retirement benefits to be paid to directors and corporate auditors of those companies is included in accrued directors' retirement benefits on the consolidated balance sheet as of March 31, 2018.

(4) Accounting for retirement benefits

Method of attributing expected benefits to periods of service

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

Method of amortization for actuarial gain or loss

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, 2018, net sales of completed construction contracts of ¥94,180 million was recognized by the percentage-of-completion method.

(6) Foreign currency translation

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

Receivables and payables denominated in foreign currencies hedged by the forward exchange contracts which qualify for the assigning method of hedge accounting are translated into yen at their respective forward exchange contract rates. The assets and liabilities and the revenue and expense accounts of the foreign subsidiaries are translated into yen at the exchange rates prevailing at the fiscal year-end date of those respective

companies. The resulting translation adjustments are included in foreign currency translation adjustment and minority interests in net assets.

(7) Hedge accounting

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

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

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

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

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

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

(9) Other

Consumption taxes:

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

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

Accounting Standards Issued But Not Yet Effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

Changes in Presentation of Consolidated Financial Statements

Consolidated Statement of Income and Comprehensive Income

"Reversal of allowance for doubtful accounts", which was separately presented in the prior fiscal year, has been included in "Non-operating income-Other" in the current fiscal year due to its decreased financial materiality.

To reflect this change in presentation, the consolidated statement of income and comprehensive income has been reclassified, and as a result, "Reversal of allowance for doubtful accounts" of ¥113 million and "Non-operating income-Other" of ¥177 million that were separately presented under "Non-operating income" in the prior fiscal year have been reclassified into "Non-operating income-Other" of ¥290 million in the consolidated statement of income and comprehensive income for the prior fiscal year provided herein.

"Repair expenses for construction contracts", which was separately presented in the prior fiscal year, has been included in "Non-operating expenses-Other" in the current fiscal year due to its decreased financial materiality.

To reflect this change in presentation, the consolidated statement of income and comprehensive income has been reclassified, and as a result, "Repair expenses for construction contracts" of ¥67 million and "Non-operating expenses-Other" of ¥222 million that were separately presented under "Non-operating expenses" in the prior fiscal year have been reclassified into "Non-operating expenses-Other" of ¥290 million in the consolidated statement of income and comprehensive income for the prior fiscal year provided herein.

Consolidated Statement of Cash Flows

"Payments for retirement of property, plant and equipment", which was included in "Cash flows from investing activities-Other" in the prior fiscal year, has been separately presented in the current fiscal year due to its increased financial materiality.

To reflect this change in presentation, the consolidated statement of cash flows has been reclassified, and as a result, "Cash flows from investing activities -Other" of ¥408 million in the prior fiscal year has been divided into "Payments for retirement of property, plant and equipment" of ¥163 million and "Cash flows from investing activities-Other" of ¥245 million in the consolidated statement of cash flows for the prior fiscal year provided herein.

Notes to Consolidated Balance Sheet

(Note 1)

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

	(Millions of yen)	
	FY2016	FY2017
Stock	¥ 422	¥ 422
Other equity securities	117	346

(Note 2)

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

	(Millions of yen)	
	FY2016	FY2017
Investment securities	¥ 5	¥ 95

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

	(Millions of yen)	
	FY2016	FY2017
Investments and other assets (time deposits)	¥ 29	¥ 29

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

	(Millions of yen)	
	FY2016	FY2017
Investments and other assets (time deposits)	¥ 10	¥ 10

(Note 3)

The following guarantees have been provided for losses regarding capital investments in the consolidated subsidiaries:

	(Millions of yen)	
	FY2016	FY2017
Guarantee to capital investors of THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.	¥ 30	¥ 31

(Note 4)

Settlement of notes with a maturity date of the fiscal year-end is recorded as of the actual clearing date. The following balances of notes with a maturity date of the fiscal year-end were included in the consolidated balance sheet as of March 31, 2018 because financial institutions were closed on that date.

	(Millions of yen)	
		FY2017
Notes receivable		¥ 39
Electronically recorded monetary claims		122
Notes payable		135

Notes to Consolidated Statement of Income and Comprehensive Income

(Note 1)

Research and development expenses included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2017 and 2018 are as follows:

(Millions of yen)	
FY2016	FY2017
¥ 1,084	¥ 1,289

(Note 2)

Provision for loss on construction contracts included in cost of sales for the years ended March 31, 2017 and 2018 are as follows:

(Millions of yen)	
FY2016	FY2017
¥ (215)	¥ 87

(Note 3)

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

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

The Company groups its business-use fixed assets based on the three business segments (facilities construction, machinery systems and environmental systems) to perform assessments of impairment losses. For idle assets and assets used for the real estate business, the Company determines whether or not indications of impairment exist on an individual asset basis. Fixed assets of its consolidated subsidiaries are grouped as one unit for each company.

The net book value of the idle assets which were hardly expected to be used in the future was reduced to the estimated recoverable amount. The estimated recoverable amount was based on their net realizable value, which was deemed to be zero for the idle assets that were hard to be sold. The reduction was recognized as the impairment loss in the extraordinary losses.

Impairment losses were recognized for the following assets for the year ended March 31, 2018:

(Millions of yen)			
Location	Use	Asset class	Amount
Yokosuka-shi, Kanagawa	Idle assets	Land, Structures	¥ 188
Kingdom of Thailand (Consolidated subsidiary)	Business-use assets	Tools, furniture and fixture	5

The Company groups its business-use fixed assets principally based on the three business segments (facilities construction, machinery systems and environmental systems) to perform assessments of impairment losses. For idle assets and assets used for the real estate business, the Company determines whether or not indications of impairment exist on an individual asset basis. Fixed assets of its consolidated subsidiaries are grouped as one unit for each company.

The net book value of the idle assets which were hardly expected to be used in the future was reduced to the estimated recoverable amount. The reductions of ¥188 million for land and ¥0 million for structures were recognized as the impairment loss in the extraordinary losses.

The net book value of the business-use assets was reduced to the estimated recoverable amount because the recoverable amount of the assets was lowered significantly due to a decline in profitability of the consolidated subsidiary. The reduction of ¥5 million for tools, furniture and fixture was recognized as the impairment loss in the extraordinary losses.

The estimated recoverable amount of the assets was based on their respective net realizable value, which was estimated based on the real estate appraisal value and others. The net realizable value was deemed to be zero for the assets that were hard to be sold.

(Note 4)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2018:

(Millions of yen)		
	FY2016	FY2017
Unrealized gains on available-for-sale securities:		
Amount arising during the year	¥ (2,419)	¥ 3,298
Reclassification adjustments for gains and losses included in net income	(638)	(2,190)
Amount before tax effect	(3,057)	1,107
Tax effect	973	(348)
Unrealized gains on available-for-sale securities	(2,084)	759
Foreign currency translation adjustment:		
Amount arising during the year	(71)	113
Remeasurements of defined benefit plans:		
Amount arising during the year	(239)	177
Reclassification adjustments for gains and losses included in net income	1,396	1,670
Amount before tax effect	1,156	1,848
Tax effect	(357)	(569)
Remeasurements of defined benefit plans	798	1,278
Total other comprehensive income	¥ (1,357)	¥ 2,151

Notes to Consolidated Statement of Changes in Net Assets

[For the year ended March 31, 2017]

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

(Shares)				
Type of shares	As of April 1, 2016	Increase	Decrease	As of March 31, 2017
Common stock	66,661,156	-	-	66,661,156

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

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

(Note) Decrease of 9,000 shares was due to disposal of treasury shares upon exercise of share subscription rights under the stock option plans.

3. Details of subscription rights to shares were as follows:

(Millions of yen)		
	Type of subscription rights to shares	Balance as of March 31, 2017
The Company (Parent company)	Stock options	126
Total		126

4. Dividends

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

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 29, 2016 Ordinary general meeting of shareholders	Common stock	1,334	21.00	March 31, 2016	June 30, 2016
November 11, 2016 Meeting of board of directors	Common stock	635	10.00	September 30, 2016	December 9, 2016

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

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

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 27, 2017 Ordinary general meeting of shareholders	Common stock	1,271	Retained earnings	20.00	March 31, 2017	June 28, 2017

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

[For the year ended March 31, 2018]

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

(Shares)

Type of shares	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	66,661,156	-	3,000,000	63,661,156

(Note) Decrease of 3,000,000 shares was due to retirement of treasury shares by resolution at the meeting of the board of directors.

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

(Shares)

Type of shares	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	3,098,491	3,000,076	3,019,000	3,079,567

(Note) Increase of 3,000,076 shares was due to purchase of treasury shares of 3,000,000 by resolution at the meeting of the board of directors and repurchase of fractional shares of 76.

Decrease of 3,019,000 shares was due to retirement of treasury shares of 3,000,000 by resolution at the meeting of the board of directors and disposal of treasury shares of 19,000 upon exercise of share subscription rights under the stock option plans.

3. Details of subscription rights to shares were as follows:

(Millions of yen)

	Type of subscription rights to shares	Balance as of March 31, 2018
The Company (Parent company)	Stock options	179
Total		179

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 27, 2017 Ordinary general meeting of shareholders	Common stock	1,271	20.00	March 31, 2017	June 28, 2017
November 10, 2017 Meeting of board of directors	Common stock	924	15.00	September 30, 2017	December 8, 2017

(Note) Dividends of ¥20.00 per share as a resolution at the June 27, 2017 Ordinary general meeting of shareholders included an extra dividend of ¥10.00.

Dividends of ¥15.00 per share as a resolution at the November 10, 2017 meeting of board of directors included an extra dividend of ¥5.00.

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

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 27, 2018 Ordinary general meeting of shareholders	Common stock	1,211	Retained earnings	20.00	March 31, 2018	June 28, 2018

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

Notes to Consolidated Statement of Cash Flows

(Note 1)

Reconciliation of cash and deposits to cash and cash equivalents:

(Millions of yen)

	FY2016	FY2017
Cash and deposits	¥ 34,187	¥ 43,866
Short-term investments (securities) with a maturity within three months after the acquisition date	4,999	999
Cash and cash equivalents	¥ 39,187	¥ 44,866

Financial Instruments

1. Overview

1) Policy for financial instruments

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

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

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

Trade receivables - notes and accounts receivable on completed construction contracts and other, and electronically recorded monetary claims - are exposed to credit risk in relation to customers. To manage credit risk arising from trade receivables, each related division of the Group monitors due dates and outstanding balances by individual customer. Further, it periodically monitors credit worthiness of the main customers.

Securities and investment securities are composed mainly of held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relations. These investment securities are exposed to market fluctuation risk. The Group periodically reviews the fair values of such investment securities and the financial position of the issuers.

Most of the trade payables - notes and accounts payable on construction contracts and other - have payment due dates within one year.

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

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

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

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

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

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

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

2. Estimated fair value of financial instruments

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

	FY2016			FY2017		
	Carrying value*	Estimated fair value*	Unrealized gain (loss)	Carrying value*	Estimated fair value*	Unrealized gain (loss)
Assets:						
1) Cash and deposits	¥ 34,187	¥ 34,187	¥ -	¥ 43,866	¥ 43,866	¥ -
2) Notes and accounts receivable on completed construction contracts and other	58,168	58,168	-	64,458	64,458	-
3) Electronically recorded monetary claims	8,570	8,570	-	5,878	5,878	-
4) Securities and investment securities:						
Held-to-maturity debt securities	7,101	7,105	3	4,301	4,303	2
Available-for-sale securities	29,790	29,790	-	29,003	29,003	-
Total assets	137,818	137,822	3	147,508	147,510	2
Liabilities:						
Notes and accounts payable on construction contracts and other	(48,277)	(48,277)	-	(49,854)	(49,854)	-
Total liabilities	(48,277)	(48,277)	-	(49,854)	(49,854)	-
Derivative transactions	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -

* The liabilities are indicated by parentheses.

(Note 1)

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

Assets:

1) Cash and deposits

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

2) Notes and accounts receivable on completed construction contracts and other, and 3) Electronically recorded monetary claims

The fair value of these receivables and claims is based on the present value of the receivables categorized by age, discounted by a discount rate that reflects the remaining term and the credit risk. It was determined that, as of March 31, 2018, the fair value of these receivables and claims was almost equal to their carrying value.

4) Securities and investment securities

The fair value of stocks is based on quoted market prices. The fair value of debt securities is based on either quoted prices or prices provided by the financial institutions making markets in those securities. For information on securities classified by holding purpose, please refer to "Securities" of "Notes to Consolidated Financial Statements."

Liabilities:

Notes and accounts payable on construction contracts and other

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

Derivatives:

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

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

Type	Carrying value	
	FY2016	FY2017
Unlisted stocks	¥ 2,605	¥ 2,822

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in "Assets: 4) Securities and investment securities" of the above table.

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

	FY2016				FY2017			
	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	¥ 34,179	¥ -	¥ -	¥ -	¥ 43,857	¥ -	¥ -	¥ -
Notes and accounts receivable on completed construction contracts and other	58,168	-	-	-	64,458	-	-	-
Electronically recorded monetary claims	8,570	-	-	-	5,878	-	-	-
Securities and investment securities:								
Held-to-maturity securities (corporate bonds)	6,999	101	-	-	4,199	101	-	-
Available-for-sale securities with maturity date (corporate bonds)	-	-	-	116	-	-	-	-
Total	¥ 107,918	¥ 101	¥ -	¥ 116	¥ 118,394	¥ 101	¥ -	¥ -

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

	FY2016						FY2017					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	¥ 5,334	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 5,504	¥ -	¥ -	¥ -	¥ -	¥ -
Long-term loans payable	320	-	-	-	-	-	1,390	1,390	1,370	1,050	2,800	-
Lease obligations	158	124	263	46	16	2	133	289	53	21	3	0
Total	¥ 5,813	¥ 124	¥ 263	¥ 46	¥ 16	¥ 2	¥ 7,028	¥ 1,679	¥ 1,423	¥ 1,071	¥ 2,803	¥ 0

Securities

1) Trading securities

Not applicable, because the Company and its consolidated subsidiaries had no trading securities both at March 31, 2017 and 2018.

2) Held-to-maturity debt securities

(Millions of yen)

Type	FY2016			FY2017		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Securities whose fair value exceeded their carrying value						
Government bonds	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
Corporate bonds	101	105	3	101	103	2
Other	-	-	-	300	300	0
Subtotal	101	105	3	401	403	2
Securities whose carrying value exceeded their fair value						
Government bonds	-	-	-	-	-	-
Corporate bonds	4,999	4,999	(0)	999	999	(0)
Other	2,000	1,999	(0)	2,900	2,899	(0)
Subtotal	6,999	6,999	(0)	3,899	3,899	(0)
Total	¥ 7,101	¥ 7,105	¥ 3	¥ 4,301	¥ 4,303	¥ 2

3) Available-for-sale securities

(Millions of yen)

Type	FY2016			FY2017		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeded their acquisition cost						
Stocks	¥ 29,480	¥ 13,958	¥ 15,521	¥ 28,750	¥ 12,117	¥ 16,632
Bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	29,480	13,958	15,521	28,750	12,117	16,632
Securities whose acquisition cost exceeded their carrying value						
Stocks	193	216	(22)	253	280	(27)
Bonds	116	118	(1)	-	-	-
Other	-	-	-	-	-	-
Subtotal	310	334	(24)	253	280	(27)
Total	¥ 29,790	¥ 14,292	¥ 15,497	¥ 29,003	¥ 12,398	¥ 16,604

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

(Millions of yen)

Type	FY2016			FY2017		
	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
Stocks	¥ 892	¥ 638	¥ -	¥ 3,999	¥ 2,191	¥ -
Bonds	100	-	0	116	-	0
Other	16	11	0	38	28	-
Total	¥ 1,009	¥ 650	¥ 0	¥ 4,155	¥ 2,219	¥ 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 ¥1 million (available-for-sale securities for which it is deemed extremely difficult to determine the fair value of ¥1 million) was recorded for the year ended March 31, 2017, and an impairment loss on investment securities of ¥0 million (available-for-sale securities for which it is deemed extremely difficult to determine the fair value of ¥0 million) was recorded for the year ended March 31, 2018. For securities with market value, if the fair value of each security has declined by more than 30% from the acquisition cost, the Company and its consolidated subsidiaries recognize an impairment loss after considering the potential recoverability. For securities for which it is deemed extremely difficult to determine the fair value, if the net assets per share of each security based on the issuer's most recent financial statements available has declined by more than 50% from the acquisition cost, the Company and its consolidated subsidiaries recognize an impairment loss after considering the potential recoverability.

Derivatives

1) Derivative transactions, to which hedge accounting is not applied

1. Currency-related transactions

Not applicable both for the years ended March 31, 2017 and 2018

2. Interest-related transactions

Not applicable both for the years ended March 31, 2017 and 2018

2) Derivative transactions, to which hedge accounting is applied

1. Currency-related transactions

Not applicable both for the years ended March 31, 2017 and 2018

2. Interest-related transactions

Not applicable both for the years ended March 31, 2017 and 2018

Retirement Benefits

1) Summary of retirement benefit plans for employees

The Company has funded defined benefit plans as well as a defined contribution plan. Its consolidated subsidiaries including foreign subsidiaries have unfunded defined benefit plans. Under the defined-benefit corporate pension plan, which is a funded plan, covered employees are entitled to lump-sum or annuity payments based on their basic rates of pay and length of service. For the defined-benefit corporate pension plan, a retirement benefit trust has been established. Under the lump-sum payment plans, covered employees are entitled to lump-sum payments based on their basic rates of pay and length of service. The lump-sum payment plans are principally unfunded plans. However, the Company's lump-sum payment plan has funded status as a result of establishment of a retirement benefit trust. The Company and its consolidated subsidiaries may pay additional retirement benefits under certain circumstances. For the lump-sum payment plans of the consolidated subsidiaries, liabilities and expenses for retirement benefits are calculated using the simplified method.

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

1. The changes in the retirement benefit obligation for the years ended March 31, 2017 and 2018 are as follows:

	(Millions of yen)	
	FY2016	FY2017
Balance at the beginning of the year	¥ 22,153	¥ 22,393
Service cost	1,177	1,247
Interest cost	78	78
Actuarial loss (gain)	50	(21)
Retirement benefit paid	(1,066)	(824)
Other	(0)	0
Balance at the end of the year	¥ 22,393	¥ 22,874

(Note) Retirement benefit expenses of the consolidated subsidiaries applying a simplified method have been included in the service cost.

2. The changes in the plan assets for the years ended March 31, 2017 and 2018 are as follows:

	(Millions of yen)	
	FY2016	FY2017
Balance at the beginning of the year	¥ 24,821	¥ 24,611
Expected return on plan assets	566	567
Actuarial (loss) gain	(189)	156
Retirement benefits paid	(587)	(586)
Balance at the end of the year	¥ 24,611	¥ 24,748

3. The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2017 and 2018 for the Company's and its consolidated subsidiaries' defined benefit plans:

	(Millions of yen)	
	FY2016	FY2017
Retirement benefit obligation under the funded plans	¥ 21,886	¥ 22,280
Plan assets at fair value	(24,611)	(24,748)
	(2,724)	(2,468)
Retirement benefit obligation under the unfunded plans	506	593
Net asset for retirement benefits	(2,218)	(1,874)
Liability for retirement benefits in the balance sheet	2,274	2,884
Asset for retirement benefits in the balance sheet	(4,493)	(4,759)
Net asset for retirement benefits	¥ (2,218)	¥ (1,874)

4. The components of retirement benefit expenses for the years ended March 31, 2017 and 2018 are as follows:

	(Millions of yen)	
	FY2016	FY2017
Service cost	¥ 1,177	¥ 1,247
Interest cost	78	78
Expected return on plan assets	(566)	(567)
Amortization of actuarial loss	1,396	1,670
Other	5	20
Retirement benefit expenses	¥ 2,090	¥ 2,449

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

5. The components of retirement benefits asset and liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2018 are as follows:

	(Millions of yen)	
	FY2016	FY2017
Actuarial gain	¥ 1,156	¥ 1,848
Total	¥ 1,156	¥ 1,848

6. The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2018 are as follows:

	(Millions of yen)	
	FY2016	FY2017
Unrecognized actuarial loss	¥ 4,815	¥ 2,967
Total	¥ 4,815	¥ 2,967

7. The fair value of plan assets, by major category, as a percentage of total plan assets at March 31, 2017 and 2018 are as follows:

	FY2016	FY2017
Bonds	39%	37%
Stocks	26	25
Short-term funds	9	9
Life insurance general accounts	23	24
Other	3	5
Total	100%	100%

(Note) The plan assets included the retirement benefit trust for the corporate pension plans, which comprised 8% and 5% of the total at March 31, 2017 and 2018, respectively, as well as the retirement benefit trust for the lump-sum payment plans, which comprised 27% of the total both at March 31, 2017 and 2018.

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

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

	FY2016	FY2017
Discount rate (defined-benefit corporate pension plan)	0.408%	0.408%
Discount rate (lump-sum payment plans)	0.279%	0.279%
Expected long-term rate of return on plan assets	2.0~2.5%	2.0~2.5%

3) Defined contribution plans

The amount contributed to the defined contribution plan by the Company for the years ended March 31, 2017 and 2018 was ¥114 million and ¥125 million, respectively.

Stock Options

1) Stock option expenses were included in "Selling, general and administrative expenses" for the years ended March 31, 2017 and 2018 were ¥42 million and ¥67 million, respectively.

2) 1. Description of the stock option plans:

Stock option plans	2013 Stock option (Share subscription rights)	2014 Stock option (Share subscription rights)	2015 Stock option (Share subscription rights)	2016 Stock option (Share subscription rights)	2017 Stock option (Share subscription rights)
Resolution date	June 26, 2013	June 26, 2014	June 25, 2015	June 29, 2016	June 27, 2017
Title and number of individuals covered by the plan:					
Directors (except external directors)	8	6	6	6	6
Corporate officers (except persons concurrently serving as a director)	20	20	25	25	28
Type and number of shares to be issued upon exercise of the share subscription rights	Common stock 44,000 shares	Common stock 42,000 shares	Common stock 52,000 shares	Common stock 52,000 shares	Common stock 57,000 shares
Grant date	July 11, 2013	July 11, 2014	July 10, 2015	July 14, 2016	July 12, 2017
Conditions for being vested	None	None	None	None	None
Required service period	None	None	None	None	None
Exercise period	July 12, 2013 to July 11, 2043	July 12, 2014 to July 11, 2044	July 11, 2015 to July 10, 2045	July 15, 2016 to July 14, 2046	July 13, 2017 to July 12, 2047
Number of share subscription rights (Note 1)	260 (240)	290 (270)	430 (410)	460 (430)	570 (540)
Type and number of shares to be issued upon exercise of the share subscription rights (Note 1)	Common stock 26,000 shares (24,000 shares)	Common stock 29,000 shares (27,000 shares)	Common stock 43,000 shares (41,000 shares)	Common stock 46,000 shares (43,000 shares)	Common stock 57,000 shares (54,000 shares)
Amount to be paid in upon exercise of the share subscription rights (Note 1)	Amount of the exercise price of ¥1 multiplied by the number of shares to be issued upon exercise of the share subscription rights				
Issuance price and amount to be incorporated into capital stock per share (Note 1):					
Issuance price	¥ 580	¥ 696	¥ 897	¥ 823	¥ 1,187
Amount to be incorporated into capital stock	¥ 290	¥ 348	¥ 449	¥ 412	¥ 594
Condition for exercise of the share subscription rights (Note 1)	Refer to (Note 2)				
Transfer of the share subscription rights	Approval of the board of directors of the Company is required for acquisition of the share subscription rights by transfer.				
Grant of the share subscription rights resulting from reorganization	Refer to (Note 3)				

(Note1) Presented is the information as of March 31, 2018. In the case where there have been any changes in the information from March 31, 2018 through May 31, 2018, the information as of May 31, 2018 is indicated by parentheses. Otherwise there have been no changes in the information from March 31, 2018.

(Note2) 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.

(Note3) Upon any reorganization of the Company (collectively referred to as "Reorganization") consisting of a merger (limited to cases where the Company becomes extinct thereby), absorption-type company split or incorporation-type company split (in each event, limited to cases where the Company is the surviving entity resulting from the company split), or exchange or transfer of shares (in each event, limited to cases where the Company becomes a wholly-owned subsidiary), parties holding share subscription rights in existence immediately preceding the date of such Reorganization (hereinafter referred to as "Outstanding Share Subscription Rights")* shall, in each applicable case, be issued share subscription rights for shares of the resulting company as prescribed in subparagraphs (a)-(e) of Article 236(1)viii of the Companies Act of Japan (hereinafter referred to as the "Company Resulting From Reorganization"), based upon the conditions equivalent to the issuing terms of these share subscription rights; provided, however, that terms and conditions stipulating that the Company Resulting From Reorganization shall issue share subscription rights conforming to the issuing terms of the share subscription rights are included in any absorption merger agreement, new merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or transfer of shares plan.

* "The date of Reorganization" for each Reorganization is defined as follows: for absorption-type merger the date when it becomes effective, for consolidation-type merger the date when the consolidating company is newly incorporated, for absorption-type company split the date when it becomes effective, for incorporation-type company split the date a new stock company is incorporated, for exchange of share the date when it becomes effective, and for transfer of share the date the parent company is newly incorporated.

2. The following table summarizes stock option activity under the stock option plans referred to above during the year ended March 31, 2018:

Stock option activity	2013 Stock option (Share subscription rights)	2014 Stock option (Share subscription rights)	2015 Stock option (Share subscription rights)	2016 Stock option (Share subscription rights)	2017 Stock option (Share subscription rights)
Share subscription rights which are not yet vested (Number of shares):					
Outstanding at March 31, 2017	-	-	-	-	-
Granted	-	-	-	-	57,000 shares
Forfeited	-	-	-	-	-
Vested	-	-	-	-	57,000 shares
Outstanding at March 31, 2018	-	-	-	-	-
Share subscription rights which have already been vested (Number of shares):					
Outstanding at March 31, 2017	29,000 shares	33,000 shares	49,000 shares	52,000 shares	-
Vested	-	-	-	-	57,000 shares
Exercised	3,000 shares	4,000 shares	6,000 shares	6,000 shares	-
Forfeited	-	-	-	-	-
Outstanding at March 31, 2018	26,000 shares	29,000 shares	43,000 shares	46,000 shares	57,000 shares
Exercise price (Yen)	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted average exercise price (Yen)	¥ 956	¥ 952	¥ 948	¥ 948	-
Fair value per stock at the grant date (Yen)	¥ 579	¥ 695	¥ 896	¥ 822	¥ 1,186

3) Fair value at the grant date for stock options which were issued during the year ended March 31, 2018 was estimated using the Black-Scholes option pricing model with the following assumptions.

	2017 Stock option (Share subscription rights)
Expected volatility (Note 1)	29.816%
Expected holding period (Note 2)	3.0 years
Expected dividend (Note 3)	¥ 20 per share
Risk-free rate (Note 4)	(0.068%)

(Note 1) The volatility of the share price is estimated based on the market prices of the Company's stock from July 13, 2014 to July 12, 2017.

(Note 2) The expected holding period is estimated based on the weighted average period of the grant date to the date when the share subscription rights become exercisable, that is the date of each Holder's retirement from the position of a director and/or corporate officer, assuming that each Holder exercises his rights as soon as the rights become exercisable.

(Note 3) The expected dividend is based on the dividends paid (excluding an extra dividend of ¥10.00) for the year ended March 31, 2017.

(Note 4) Risk-free interest rate is the yield on government bonds for the period that corresponds to the remaining life of the option.

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

Tax-effect Accounting

1) The significant components of deferred tax assets and liabilities at March 31, 2017 and 2018 were as follows:

	(Millions of yen)	
	FY2016	FY2017
1. Deferred tax assets		
Allowance for doubtful accounts	¥ 196	¥ 546
Provision for bonuses	721	829
Accrued business taxes	103	242
Impairment loss	1,817	1,640
Provision for warranty costs	130	155
Provision for loss on construction contracts	300	324
Liability for retirement benefits	2,051	1,905
Provision for directors' retirement benefits	28	22
Loss on devaluation of investment securities	240	255
Loss on devaluation of utility rights	128	128
Other	805	841
Subtotal	6,522	6,892
Valuation allowance for deferred tax assets	(2,180)	(2,459)
Total deferred tax assets	4,341	4,432
2. Deferred tax liabilities		
Deferred capital gains for tax purposes	(673)	(610)
Gain on valuation of investment securities	(1,263)	(324)
Unrealized gains on available-for-sale securities	(4,568)	(4,916)
Other	(193)	(236)
Total deferred tax liabilities	(6,698)	(6,088)
Net deferred tax liabilities	¥ (2,356)	¥ (1,656)

2) The reconciliation of the significant difference between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income and comprehensive income for the year ended March 31, 2017 and 2018 is presented as follows:

	FY2016	FY2017
Statutory tax rate	30.9%	30.9%
Items permanently not deductible for tax purposes	2.1	2.5
Items permanently not taxable	(0.6)	(0.7)
Inhabitants' per capita taxes	1.4	1.8
Valuation allowance	(2.5)	4.2
Research and development tax credit	(1.0)	(1.1)
Donation not deductible for tax purposes	0.8	0.0
Difference of statutory tax rate between the Company and its consolidated subsidiaries	1.0	1.5
Other	1.0	0.7
Effective tax rate	33.1%	39.8%

Investment and Rental Properties

The Company owns office buildings and commercial facilities and housing for rent in Kanagawa Prefecture and other areas. Profit from renting those real estate properties was ¥276 million and ¥541 million for the years ended March 31, 2017 and 2018, respectively. Rental revenues were recorded as net sales of real estate business and other, and rental expenses as cost of sales on real estate business and other. Carrying value on the consolidated balance sheet and corresponding fair value of those rental real estate properties for the years ended March 31, 2017 and 2018 were as follows:

	(Millions of yen)	
	FY2016	FY2017
Carrying value		
At beginning of the year	¥ 3,962	¥ 3,866
Net change during the year	(95)	31
At end of the year	3,866	3,898
Fair value at end of the year	¥ 20,070	¥ 20,520

Notes:

- The carrying value represents the acquisition cost less accumulated depreciation and impairment loss.
- Increase in the carrying value included in the net change during the year was mainly due to acquisition of rental real estate properties of ¥339 million, and decrease in the carrying value mainly due to depreciation of ¥247 million, and transfer of properties of ¥177 million resulting from change of their usage, for the year ended March 31, 2017. Increase in the carrying value included in the net change during the year was mainly due to acquisition of rental real estate properties of ¥314 million, and decrease in the carrying value mainly due to depreciation of ¥280 million for the year ended March 31, 2018.
- The fair value is estimated for major rental properties based on the appraisal value obtained from outside real estate appraisers with reasonable adjustments for timing and for the other rental properties based on the assessed value for fixed-asset taxes.

Segment Information

(Segment Information)

1. Outline of reportable segments

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

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

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

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

Accounting policies of the segments are substantially the same as those described in "Basis of Preparation of Consolidated Financial Statements." Segment performance is evaluated based on ordinary income or loss. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties. Segment assets and liabilities are not disclosed because they are not reviewed to make decisions on resource allocation or to assess performance.

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

[For the year ended March 31, 2017]

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

(Note 1)

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

(Note 2)

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

(Note 3)

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

[For the year ended March 31, 2018]

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Facilities construction	Machinery systems	Environmental systems	Real estate	Total				
	(Millions of yen)								
Sales:									
Sales to third parties	¥ 139,204	¥ 9,253	¥ 19,797	¥ 1,753	¥ 170,009	¥ 148	¥ 170,157	¥ -	¥ 170,157
Inter-segment sales and transfers	484	1	112	2	599	430	1,030	(1,030)	-
Total sales	¥ 139,688	¥ 9,254	¥ 19,909	¥ 1,755	¥ 170,608	¥ 578	¥ 171,187	¥ (1,030)	¥ 170,157
Segment profit (loss)	¥ 6,010	¥ (40)	¥ 575	¥ 476	¥ 7,021	¥ 49	¥ 7,071	¥ 362	¥ 7,434
Other items:									
Depreciation	¥ 389	¥ 39	¥ 111	¥ 292	¥ 832	¥ 0	¥ 832	¥ (14)	¥ 818
Interest income	10	0	11	-	21	0	21	9	30
Interest expenses	44	0	3	-	48	-	48	28	76
Extraordinary income	389	0	0	-	391	-	391	1,828	2,219
Gain on sales of investment securities	389	0	0	-	391	-	391	1,828	2,219
Extraordinary loss	334	16	22	-	374	-	374	2,825	3,199
Loss on sales of noncurrent assets	54	-	-	-	54	-	54	-	54
Loss on retirement of noncurrent assets	70	5	7	-	83	-	83	1,250	1,333
Office transfer expenses	142	11	15	-	168	-	168	2	171
Loss on valuation of investments in capital of subsidiaries and affiliates	62	-	-	-	62	-	62	-	62

(Note 1)

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

(Note 2)

Adjustments for segment profit or loss of ¥362 million for the year ended March 31, 2018 included corporate general loss of ¥256 million which was not allocable to the reportable segments, reversal of interest expenses of ¥255 million which had been allocated to each of the reportable segments for administrative purpose, and adjustments of ¥363 million for having recognized office transfer expenses and others attributable to each of the reportable segments as the extraordinary income. The corporate general profit and loss consisted mainly of general and administrative expenses, interest income (expense), and dividends income.

(Note 3)

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

(Other Information)

[For the years ended March 31, 2017 and 2018]

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, 2017]

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

[For the year ended March 31, 2018]

	Facilities construction	Machinery systems	Environmental systems	Real estate	Other	Total	Adjustments (Note)	Consolidated
Impairment loss	¥5	¥-	¥-	¥-	¥-	¥5	¥188	¥194

(Note) Adjustments of ¥188 million were impairment loss for idle assets.

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

[For the years ended March 31, 2017 and 2018]

Not applicable

(Information about gain on negative goodwill by reportable segment)

[For the years ended March 31, 2017 and 2018]

Not applicable

Per Share Data

	FY2016	FY2017
Net assets per share	¥ 1,350.08	¥ 1,419.77
Profit (loss) attributable to owners of parent per share:		
Basic	¥ 73.91	¥ 63.02
Diluted	¥ 73.74	¥ 62.83

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

	FY2016	FY2017
Basic:		
Profit (loss) attributable to owners of parent	¥ 4,698	¥ 3,906
Amount not available to shareholders of common stock	-	-
Profit (loss) attributable to owners of parent available to shareholders of common stock	¥ 4,698	¥ 3,906
Average number of shares of common stock outstanding	63,561 thousand shares	61,981 thousand shares
Diluted:		
Adjustments to profit (loss) attributable to owners of parent	-	-
Increase in shares of common stock (Of which, exercise of stock subscription rights)	148 thousand shares (148 thousand shares)	184 thousand shares (184 thousand shares)
Outline of dilutive potential which was not included in calculation of diluted profit (loss) attributable to owners of parent per share due to non-dilutive effect	-	-

Subsequent Events

Not applicable



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Independent Auditor's Report

The Board of Directors
Sanki Engineering Co., Ltd.

We have audited the accompanying consolidated financial statements of Sanki Engineering Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, 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, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Ernst & Young Shimizu LLC

June 27, 2018
Fukuoka, Japan

A member firm of Ernst & Young Global Limited

Corporate Information, Business Locations and Group Companies

The Sanki Engineering Group aims to build a comfortable environment for people and the Earth by leveraging “total engineering competency” in a wide range of regions and business domains. Together with our customers, we will strive as a group to contribute to the realization of a sustainable society. (as of April 1, 2018)

Corporate Information

Company name
Sanki Engineering Co., Ltd.

Date of establishment
April 22, 1925

Stated capital
8,105.18 million yen

Representative
Tsutomu Hasegawa, President

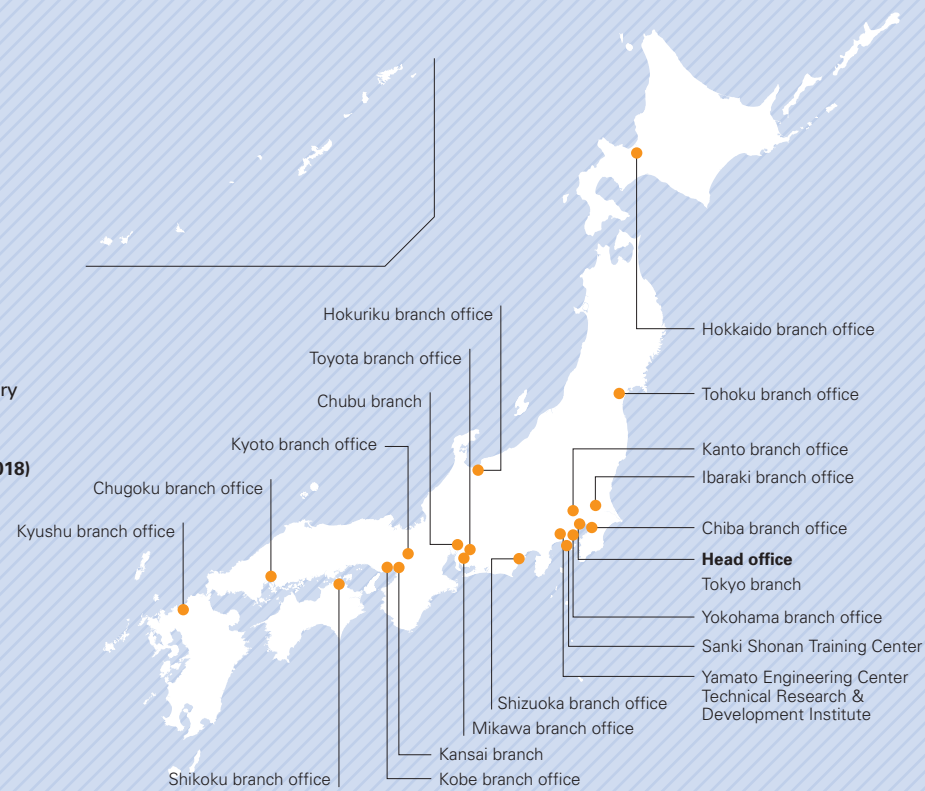
Principal lines of business
Facilities construction, plant and machinery systems, real estate

Number of employees (as of March 31, 2018)
Consolidated: 2,384
Non-consolidated: 1,969

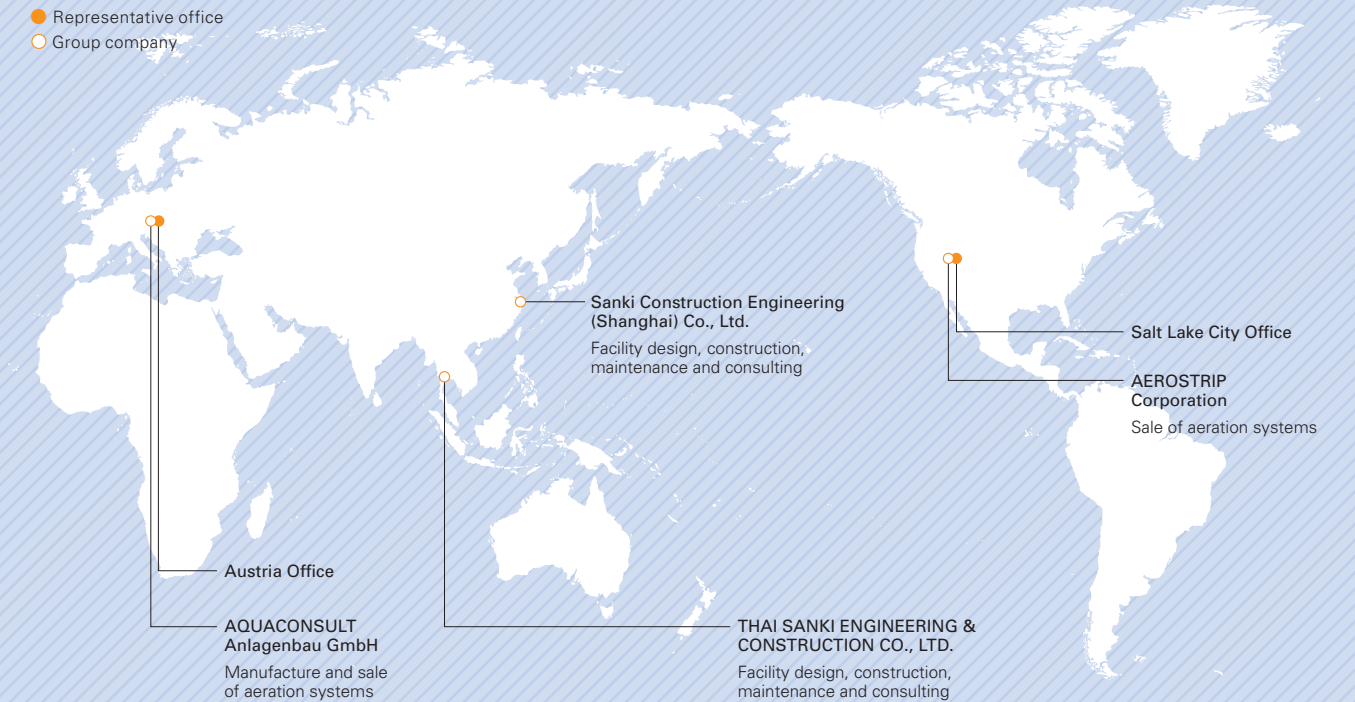
Offices
Branches: 3
Branch offices: 15
Laboratory: 1

Head office
8-1 Akashi-cho, Chuo-ku, Tokyo

Domestic Business Locations



Representative Offices and Group Companies Overseas



Consolidated Subsidiaries

Sanki Techno Support Co., Ltd.

Established: April 1, 1980
Capital: 100 million yen
Business areas:

- Design, construction, operation/management, repair and maintenance of HVAC, plumbing and electricity work
- Energy saving diagnosis and consulting
- Building IP phone systems, call center systems and networks

Sanki Sangyo Setsubi Co., Ltd.

Established: May 1, 1980
Capital: 20 million yen
Business areas:

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

Sanki Kako Kensetsu Co., Ltd.

Established: September 1, 1980
Capital: 80 million yen
Business areas:

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

Sanki Kankyo Service Co., Ltd.

Established: June 29, 1990
Capital: 50 million yen
Business areas:

- Design, construction, management and work contracting of environmental protection facilities, including water supply and sewage facilities and waste treatment facilities, etc.
- Operation, maintenance and management, and sale of chemical products for these facilities

Sanki Partners Co., Ltd.

Established: August 1, 1980
Capital: 10 million yen
Business areas:

- Insurance agency, leasing and temporary staffing (The company's name was changed from Shin-yu Service Co., Ltd. in April 2017.)

AQUACONSULT Anlagenbau GmbH

Acquired a controlling interest in September 2006
Capital: 18 thousand euro
Business areas:

Manufacture and sale of aeration systems

THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.

Established: May 6, 2008
Capital: 16 million baht
Business areas:

Facility design, construction, maintenance and consulting

Non-consolidated Subsidiaries

Tomakomai Netsu Service Co., Ltd.

Established: July 20, 1971
Capital: 165 million yen
Business areas:

- Heat supply to multi-unit housing, and operation and maintenance of cleaning center facilities

Sanki Construction Engineering (Shanghai) Co., Ltd.

Established: July 20, 2005
Capital: 3.80 million U.S. dollars
Business areas:

Facility design, construction, maintenance and consulting

AEROSTRIP Corporation

Acquired a controlling interest in September 2006
Capital: 100 U.S. dollars
Business areas:

Sale of aeration systems

Sendai Kankyo Hozen Co., Ltd.

Established: November 7, 2016
Capital: 100 million yen
Business areas:

- Management of operation and maintenance for the renovation work for key facilities of the Sendai Clean Center

Affiliate Not Accounted for by the Equity Method

PFI Okubo Techno Resource Co., Ltd.

Established: December 3, 2004
Capital: 10 million yen
Business areas:

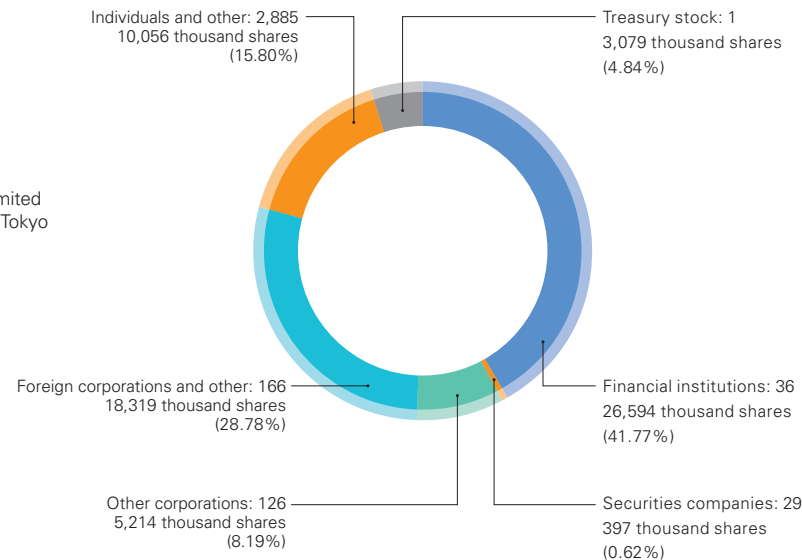
- Updating, maintenance, management and operation of wastewater treatment facilities and emergency generators at the Okubo Water Purification Plant, Saitama Prefecture
- Period of business: 3 years and 4 months for design and construction; 20 years for operation, maintenance and management

Share Information

Share Information (as of March 31, 2018)

Fiscal year	April 1 to March 31 of the following year
Annual general meeting of shareholders	Late June each year
Trading unit	100 shares
Number of authorized shares	192,945,000
Number of issued shares	63,661,156
Number of shareholders	3,243
Transfer agent and special account management institution	Sumitomo Mitsui Trust Bank, Limited 1- 4-1, Marunouchi, Chiyoda-ku, Tokyo
Stock exchange listing	Tokyo Stock Exchange
Securities code	1961

Ownership Statistics



Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand Shares)	Shareholding Ratio (%)
Meiji Yasuda Life Insurance Company	5,700	9.41
Mitsui Life Insurance Company, Limited	4,864	8.03
Nippon Life Insurance Company	3,607	5.95
Sanki Kyoeikai	2,642	4.36
Japan Trustee Services Bank, Ltd. (Trust account)	2,248	3.71
The Master Trust Bank of Japan, Ltd. (Trust account)	2,131	3.52
State Street Bank and Trust Company 510311	1,554	2.57
State Street Bank and Trust Company 510312	1,541	2.55
JP Morgan Chase Bank 380684	1,513	2.50
DFA International Small Cap Value Portfolio	1,338	2.21

Notes

- Although the Company holds 3,079 thousand shares of treasury stock, it is excluded from the list of major shareholders. Calculation of shareholding ratio excludes treasury stock.
- The list covers beneficial shareholders whose shareholdings as of the end of the fiscal year under review had been confirmed by the Company.

Third-Party Opinion



Yoshinao Kozuma
Professor Emeritus,
Sophia University

1. Application of the Collaborative Value Guidance

Starting in fiscal 2017, Sanki Engineering in compiling the SANKI REPORT refers to the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation, formulated by Japan's Ministry of Economy, Trade and Industry. The results of this are visible in several sections, and an excellent example is the promotion of initiatives aimed at strengthening governance, an issue that I have pointed out since last year. In fiscal 2017, improvements were made in organizational structure, implementation and information disclosure to compensate for the inherent shortcoming of a Company with Board of Company Auditors, which is fraught with challenges related to its governance functions. As for organizational structure, an external auditor was added to the four current members, so external auditors now hold the majority in the Board of Company Auditors. In implementation, the Management Meeting and Board of Directors' meeting are no longer held on the same day, thus bolstering the supervisory functions of the latter. And in information disclosure, the Company has reported on specific results and reform

measures with respect to its assessment of the effectiveness of the Board of Directors. Although such assessments are not an unusual practice these days, it is still rare for companies to disclose specific results, which makes Sanki Engineering a pioneer among Japanese companies.

2. Business Model Conversion

The mindset of the management team toward converting its business model seems to be even clearer compared to that related to what is suitable for building a sustainable society. Until now, the Company's strengths were expressed by a business model concept of total engineering. This has been advanced to include a focus on the entire life cycle of facilities, a target of the Company's business, in order to understand, with a total perspective of an LCE Business, the associated social issues, opportunities and risks at each stage: planning, design, procurement, construction, operational management, maintenance and inspection, renovation and reconstruction. In a sustainable society that must overcome its dependence on finite resources and energy, managing the life cycle of the target business will provide a powerful profit driver for sustainable growth.

3. Role of the Sanki Techno Center

As the Company moves forward with Phase 1 of the Century 2025 long-term vision, full-scale operation is set to begin at the Sanki Techno Center, which will serve as the base for realizing that vision. The center also serves as a symbol for achieving the Group's long-term vision, as it is essential for refining and enhancing

the advanced technical skills and human resources that allow for the Group's sustainability. What is especially notable about the center, however, is that it can be used for temporary accommodations by those unable to return home in the event of a disaster. This arrangement is part of a 2013 agreement concluded between the Sanki Yamato site, where the center is located, and Yamato City. Therefore, the Sanki Techno Center shows great promise both for the Company's future growth and as a contribution to society.

4. Challenges Ahead

It is remarkably difficult to eliminate occupational accidents from construction sites. This is also true at Sanki Engineering, where despite there being fewer serious incidents, minor accidents continue to occur, and the effectiveness of countermeasures is a cause of concern. Every year, the Company designates slogans and key inspection issues while also providing its staff with safety and health education. Nevertheless, reports on worksite safety and health often conclude by simply emphasizing the importance of preventing and eliminating accidents, with little mention of the effectiveness of the measures actually being implemented. Out of respect for those working at the construction sites, I feel that a more detailed explanation is needed.

Also, while respecting human rights in the supply chain is cited as an important responsibility of the Group, the report does not provide any information on related measures, which is another major challenge to be addressed.

Response to Third-Party Opinion

I really appreciate all of your valuable insights and multiple perspectives for the SANKI REPORT 2018.

This is the seventh fiscal year since we started publishing an integrated report, and we appreciate your evaluation of our use of the Ministry of Economy, Trade and Industry's Collaborative Value Guidance primarily in reinforcing our system of governance. We are also grateful to you for mentioning Sanki Engineering's business model, including value chain management, and the role of the Sanki Techno Center, our comprehensive training and research facility. For all of our stakeholders, we will continue striving to provide a report that is both useful and appealing.

We will consider, as challenges going forward, the effectiveness of our measures for safety and health and initiatives on respecting human rights in the supply chain, which were pointed out this year, and endeavor to make improvements while also providing detailed explanations.

By utilizing the SANKI REPORT to further advance our business activities, we will seek to continuously contribute to social development by creating comfortable environments and operations.

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