

Engineering for the Future

SANKI REPORT

2019

CONTENTS

Learn about Sanki Engineering's growth strategies

Introduction

- Management Philosophy and Long-Term Vision **p. 06**
- History of Sanki Engineering **p. 08**
- Business Overview by Segment **p. 10**
- Financial and Non-Financial Highlights **p. 12**

Message from the President **p. 14**

Sanki Engineering's Value Creation

- Our Value Creation Process **p. 18**
- Addressing Social Issues throughout the Value Chain **p. 20**
- Sanki Techno Center **p. 22**
- R&D Center **p. 24**
- Medium-Term Management Plan "Century 2025" Phase 2 **p. 26**

Learn about Sanki Engineering's business activities

Business Report



Facilities Construction Business **p. 30**

Plants & Machinery Systems Business **p. 34**

Real Estate Business **p. 38**

and business foundation

ESG Initiatives



Environment **p. 40**

Social **p. 48**

Governance **p. 69**

Financial Report and Corporate Information



Financial Report **p. 86**

Corporate Information, Business Locations and Group Companies **p. 94**

Share Information **p. 96**

Third-Party Opinion **p. 97**

Editorial Policy

▶ Aiming to Produce a Tool that 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. Listed at right are new approaches we adopted in compiling the 2019 report.

- We created a section highlighting financial and non-financial results that provides an overview of the Sanki Engineering Group's business activities (pages 12 and 13).
- We sought to present the report as a coherent whole by providing an index in the margins of the "Message from the President" section (pages 14 to 17).
- We explained the Sanki Engineering Group's initiatives on value creation as a continuous flow, from the value creation process to the Medium-Term Management Plan (pages 18 to 28).
- We rearranged the section on CSR activities by adopting a format in which we report information under ESG headings, making it easier to grasp for diverse stakeholders, including ESG rating agencies (pages 40 to 84).

▶ Reference Guidelines

- "International <IR> Framework" of the International Integrated Reporting Council
- Ministry of 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 2018"
- 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 2018–March 2019 (Some information from outside this period has also been included.)

▶ Publication Date

September 2019 (previous issue: September 2018; scheduled release of next issue: September 2020)

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 2 (FY2019–2021) 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.



Sanki Engineering Group Philosophy

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.



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.

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 stakeholders to choose our company.

Phase 2 (FY2019–2021)

3-year period to enhance reliability

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

Medium-Term Management Plan “Century 2025” Phase 2

Please refer to pages 26 through 28 for more information.

The Company of Choice

We will strive over the next ten years to become the company of choice for stakeholders 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.

FY2016

FY2019

FY2022

FY2025

Sanki Engineering's 100th Anniversary

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 forge ahead in Japan's new Reiwa era with the power of technology toward its 100th anniversary in 2025.

2025 Toward the 100th Anniversary

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 Seiho.
- 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

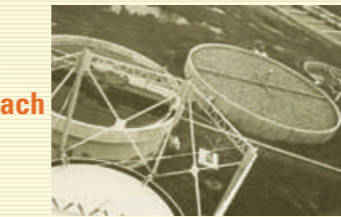
Sanki's Advanced Technology Bolsters a Construction Boom

- 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.
- Completes work on air conditioning and plumbing for the Yoyogi National Stadium.



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

Wide Range of Technological Innovations

- Completes work on Japan's first large-scale clean room at NEC's Sagami 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.



2000s

Meeting the Needs of a Rapidly Advancing Information Society

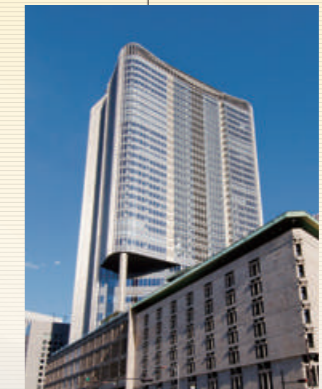
- Advances network systems, including LAN, building monitoring and automated control.
- Provides air conditioning, plumbing and an open BA system (automated control, BEMS) for the Roppongi Hills building and other construction work.
- Establishes the Energy Solution Center to promote and develop the 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.



2020s

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.



1923 Great Tokyo Earthquake

1945 End of World War II

1958 Opening of Tokyo Tower

1964 Tokyo Olympics

1970 Japan World Exposition, Osaka

1972 Reversion of Okinawa

April 22, 1925
Sanki Engineering is established as a spinoff from the Machinery Department of the former Mitsui Bussan, with capital of 500,000 yen and 12 employees.

1931
Moves the head office to Hibiya

1935
Celebrates the 10th anniversary of its founding, with five branches, six field offices, three affiliates and around 300 employees.

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.

1958
Capital exceeds 1 billion yen.

1963
Completes Sagami plant (currently the Sanki Yamato Site), which tailors production equipment for conveyor mass production.

1971
Sets up the Environmental Administration office.

1973
Spins off the sash business.

1982
Builds the Technical Research Laboratory.

2000
Opens the Shonan Training Center.

2005
Moves the head office to Nihonbashi.

2011
Moves the head office to Tsukiji.

2015
90th Anniversary.

2016
Launches the long-term vision "Century 2025."

2018
Begins operations at all facilities of the Sanki Techno Center.

2019
Begins operations at the Yamato Product Center.

Business Overview by Segment

(year ended March 2019)

Facilities Construction Business

Net sales
179.3 billion yen

Net Sales
Composition Ratio **84%**



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
 - Food service equipment
 - 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
1.9 billion yen

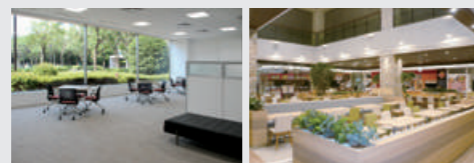
Net Sales
Composition Ratio **1%**



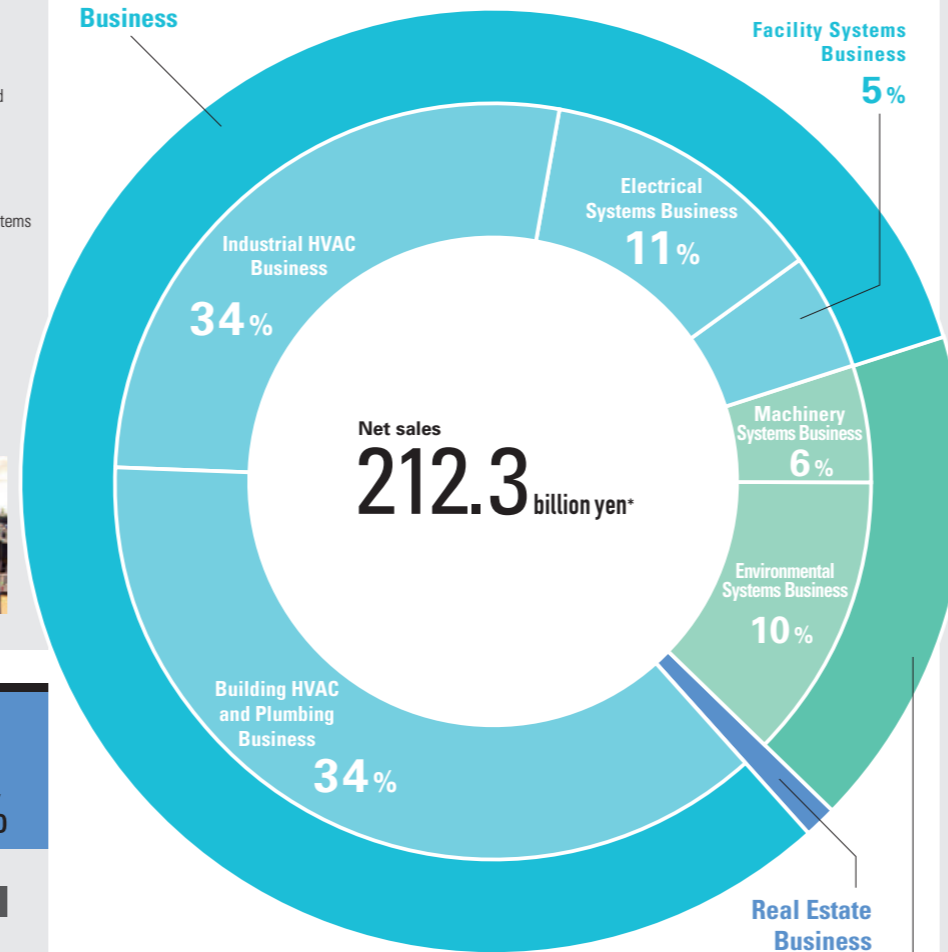
Our Real Estate Business includes operations in the areas of real estate leasing and building management. We are striving to expand into higher value-added real estate while taking advantage of our current technology.

Main Sales Items

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



Facilities Construction Business



Facility Systems Business

5%

Plants & Machinery Systems Business

16%

Plants & Machinery Systems Business

Net sales
32.2 billion yen

Net Sales
Composition Ratio **16%**

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 **6%**

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



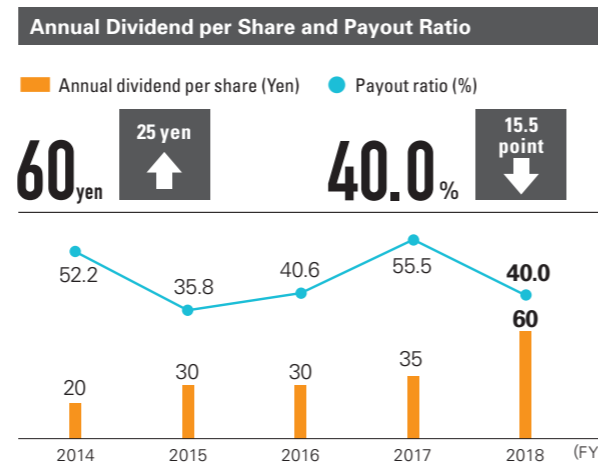
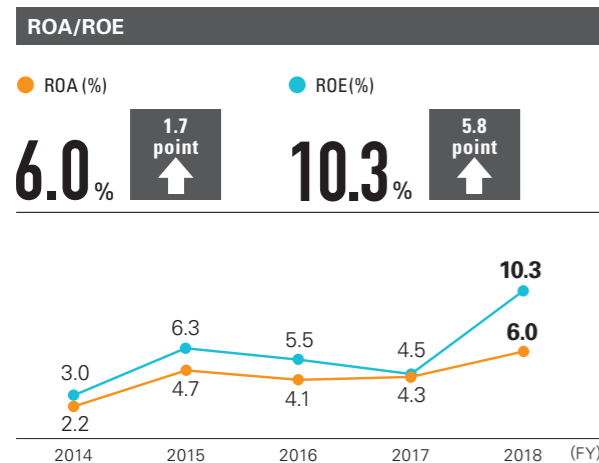
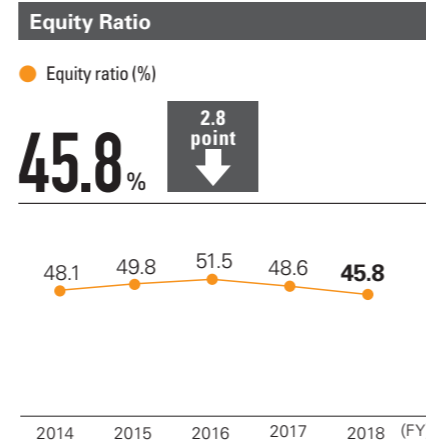
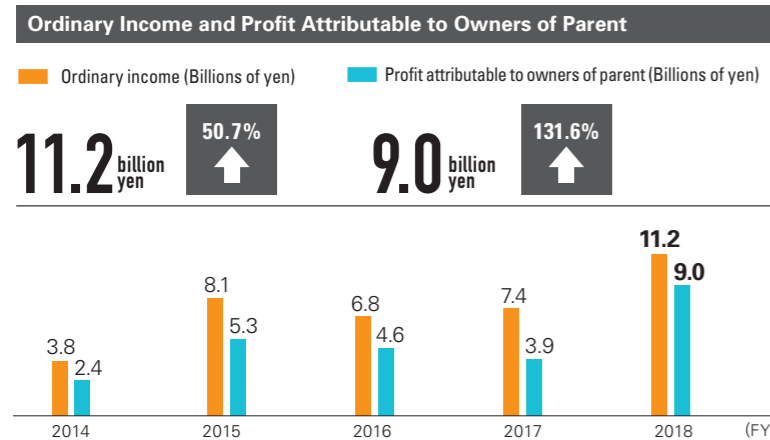
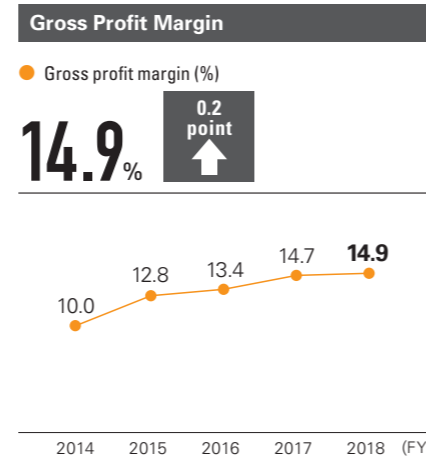
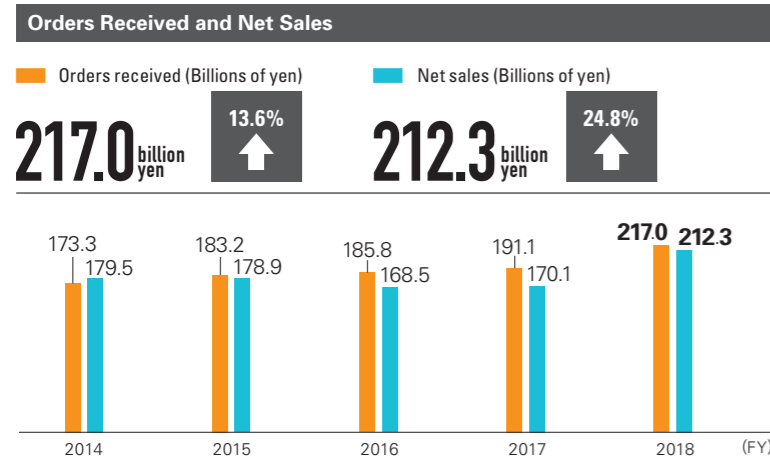
We develop unique facilities and systems for water and sewage treatment and waste treatment to enhance living environments while conserving energy and reducing CO₂ emissions.

Net Sales
Composition Ratio **10%**

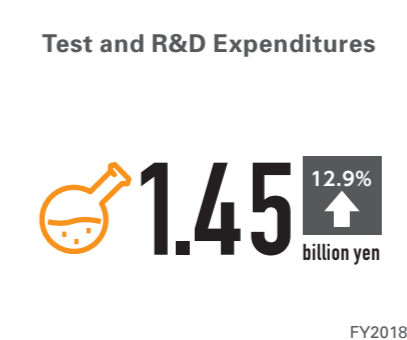
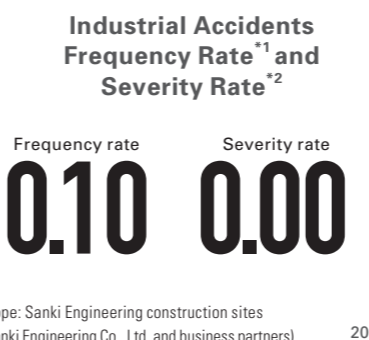
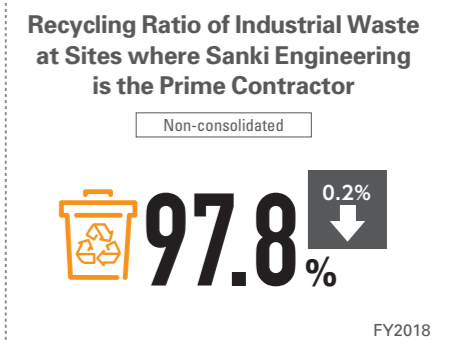
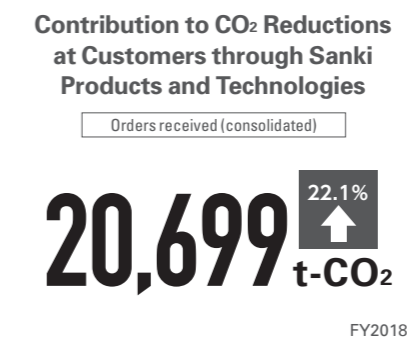
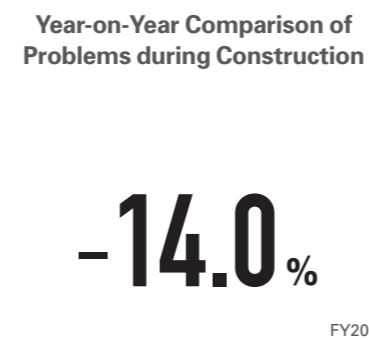
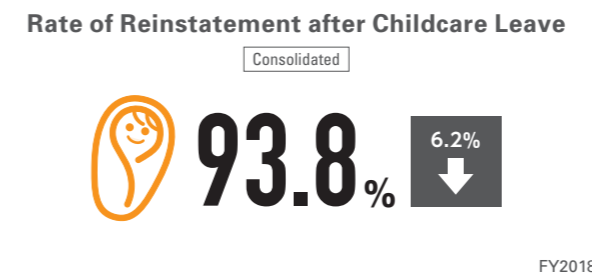
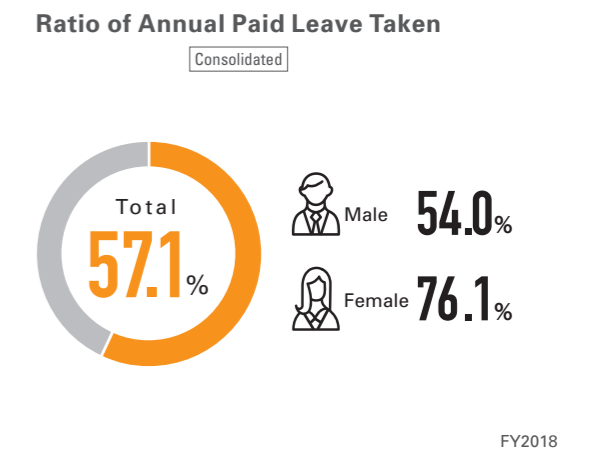
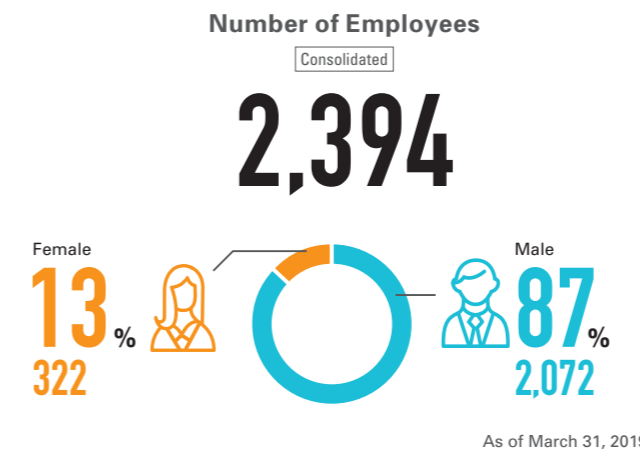
*Includes items not listed in the graph such as 0.7 billion yen in other net sales and 1.8 billion yen in elimination of inter-segment transactions.

Financial and Non-Financial Highlights

Financial Data (Consolidated)



Non-Financial Data



Scope: Sanki Engineering construction sites (Sanki Engineering Co., Ltd. and business partners) 2018

FY2018

FY2018

*1 Frequency rate: Accidents in the construction site per one million working hours; this figure indicates the frequency with which accidents occur.
*2 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.



Tsutomu Hasegawa
President

We will further reinforce our reliability towards our 100th anniversary to become the company of choice for even more stakeholders.

Business Environment and Results for Fiscal 2018

All-Round Growth in Profit due to a Favorable Business Environment

In fiscal 2018, the Japanese construction market was essentially supported by a steady flow of investment in construction projects due to a gradual economic recovery and improved corporate earnings. We received substantial orders under a favorable environment in which the private sector increased its capital spending to raise productivity while public investment remained constant. In addition to demand from redevelopment projects in the metropolitan area ahead of the Tokyo 2020 Olympic and Paralympic Games, Japan's entire infrastructure has entered a period of upgrades, 75 years after the end of World War II. For these reasons, we expect solid demand in the coming years.

Under these business conditions, the Sanki Engineering Group was able to demonstrate outstanding performance in wrapping up its Medium-Term Management Plan "Century 2025" Phase 1, which covered the period from fiscal 2016 to fiscal 2018. We enjoyed increases in orders received and net sales across all business areas while also seeing growth in profit-related categories, including operating income, ordinary income, and profit attributable to owners of parent. This allowed us to report high levels of earnings unseen since Japan's bubble economy period.

Major factors behind our strong performance include the successful culmination of our ongoing initiatives to enhance quality and the substantial increase in orders received and net sales for industrial HVAC systems used in factories, which were mostly large-scale projects, in our Facilities Construction Business. I believe that we are enjoying the fruits of years of steadfast efforts to forge relationships of trust with our customers.

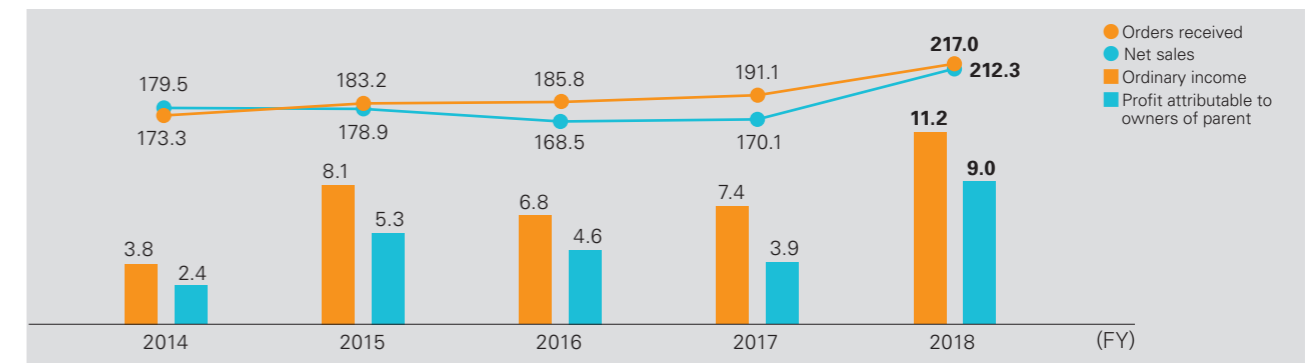
Reference

Medium-Term Management Plan "Century 2025" Phase 1 (FY2016-2018)

P. 26

The first three-year period of Century 2025, a long-term vision covering the ten-year period from fiscal 2016 to fiscal 2025, which in turn is divided into three periods.

Business Performance (Billions of Yen)



Review of Medium-Term Management Plan "Century 2025" Phase 1

Measures to Enhance Quality Bear Fruit in the Final Year

We have completed our Medium-Term Management Plan Phase 1, the first three-year period of the "Century 2025" long-term vision for becoming the company of choice by 2025, the 100th anniversary of our founding. Over the past three years, 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.

One of our accomplishments in strengthening core businesses was enhancing

Reference

Long-Term Vision "Century 2025"

P. 06-07



organizations and mechanisms that support workplaces in the Facilities Construction Business. We broadened the scope of support through such measures as shifting to an online

procurement system, establishing technical and design support centers, and launching the Smile Site Plan^{*1} for pursuing work style reform, and these efforts resulted in substantial contributions to increasing productivity and profits.

In the Machinery Systems Business, we advanced our response to labor saving and automation needs by expanding sales of hybrid facilities that combine robots with conveyors and material handling systems for logistics facilities. In the Environmental Systems Business, we received an order for a large-scale DBO^{*2} project involving waste incineration facilities, thereby securing a stock project^{*3} for the future that helps promote our LCE (life cycle engineering)^{*4} business.

As for promoting our growth strategies, our foremost accomplishment was the grand opening of the Sanki Techno Center, a comprehensive research and development facility that serves as the centerpiece of the Sanki Yamato Site Redevelopment Project (STeP Project^{*5}). I also think that we made considerable progress in enhancing the Sanki Brand by developing human resources with the Sanki spirit through initiatives such as the Smile Project^{*6}, our unique effort for reducing long working hours, and the Century Communication Up (CCU) events that provide an opportunity for direct dialogue between management and employees.

I am very pleased that we were able to attain our financial performance targets for all indicators—net sales, gross profit, operating income, and ordinary income—in the final year of Phase 1. I think that we should redouble our efforts for reducing long working hours and avoiding overwork amid the growing work load. Once we have done so, we will focus our energy on exploring technologies and businesses that will generate future growth.

New Medium-Term Management Plan “Century 2025” Phase 2

Enhancing Reliability by Proactively Transmitting Information in Addition to Pursuing Phase 1 Initiatives

In May 2019, we announced our new Medium-Term Management Plan “Century 2025” Phase 2 (FY2019–2021), which signaled the end of Phase 1, the previous three-year period for enhancing our quality, and the start of a new phase in which we will seek to enhance our reliability in serving stakeholders. Our key initiatives for Phase 2, however, are the same as those for Phase 1: strengthen core businesses, promote growth strategies, and enhance the Sanki Brand. This reflects our basic stance of emphasizing a consistent continuation of Phase 1 initiatives over pursuing eye-catching initiatives in Phase 2.

The improvement in profit margins was a major accomplishment in strengthening our core businesses during Phase 1, representing a direct result of removing the negative factors. In other words, it was due to the active use of ICT and AI, measures for supporting construction sites and various other measures on work style reform, which helped raise construction quality. We will continue these initiatives in Phase 2.

In the area of promoting growth strategies, we completed construction of the Sanki Techno Center and R&D Center, which had been the largest investment of Phase 1, and the new Yamato Product Center plant completed in August 2019. In Phase 2, the main focus will be to make practical use of these centers as tools. As they commence full-scale operation, they must fulfill their roles as the strategic foundation for developing

our core businesses. During Phase 2, we will also seek to steadily develop overseas businesses, and we have our sights on forming alliances with local companies and M&A as we develop the foundation for our local operations.

From the perspective of enhancing the Sanki Brand, we will work toward the clear goal of enhancing reliability for our stakeholders. To that end, we will raise the quality of our human resources and technology while also seeking to reinforce our information transmission. As the first step, we disclosed our basic approach to financial and capital policies, including concrete targets for ROE and total return ratio. In Phase 1, we sought to enhance quality, which we can hone through our own efforts. Being recognized for reliability, however, requires a process of evaluation based on pre-disclosed plans. While bad results will also invite close scrutiny, I believe that reliability is built upon such dialogue.

As in Phase 1, our ESG Policies have also been incorporated into Phase 2 as our management strategy. We will be guided by these policies as we seek to provide benefits for society such as decarbonization, energy savings, and energy creation through our core businesses and promote work style reforms while building an even more robust system of governance. In this way, we will further enhance our corporate value and sustainability.

Sanki Engineering’s Value Creation

Realizing Comfortable Environments as Value Creation that Helps Achieve the SDGs

Most of Sanki Engineering’s business activities fall under the “B to B” category. However, business never ends with the “B to B” phase and ultimately leads to “B to B to C” in any sector of industry. Through our businesses we are involved in the infrastructure of every conceivable sector. In other words, we are capable of supporting the growth of any company that comes into direct contact with consumers.

Sanki Engineering has been guided by its Management Philosophy: “We create comfortable environments through engineering and widely contribute to social development.” This expresses our constant awareness of seeking social development through our business activities, which also leads to helping achieve the Sustainable Development Goals (SDGs). These days, society’s needs are increasingly focused on maintaining comfort with less energy, which is exactly what we do. Automation, labor saving, and the maintenance and upgrade of infrastructure are also areas in which we should contribute to solutions as a tough issue facing a society with a declining population. To continue playing an essential role far into the future, I believe that we must continue creating value which is unique to Sanki Engineering.

We will continue to hone the quality of our human resources and technology so we can offer a versatile response to social change and strive to achieve reliability by building on the satisfaction and safety of our stakeholders to attain the goal of our “Century 2025” long-term vision of becoming the company of choice.

*1 A subcommittee dedicated to reforming work styles.

*2 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.

*3 Stock project: Project that leads to net sales and profits over the long term.

*4 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.

*5 The Sanki Techno Park Project is intended to redevelop the land and buildings owned by Sanki Engineering at the Sanki Yamato Site in Yamato City, Kanagawa Prefecture.

*6 Smile Project: Established in 2015 under the president’s leadership to promote work style reform unique to Sanki.

Reference

Sanki Techno Center
P. 22–23

Reference

Century Communication Up (CCU)
P. 65

Reference

New Medium-Term Management Plan “Century 2025” Phase 2 (FY2019–2021)
P. 26–28

Reference

R&D Center
P. 24–25

Reference

Reinforce Information Transmission
P. 84

Reference

ESG Policies
P. 28

Reference

Process of Value Creation
P. 18–19

Our Value Creation Process

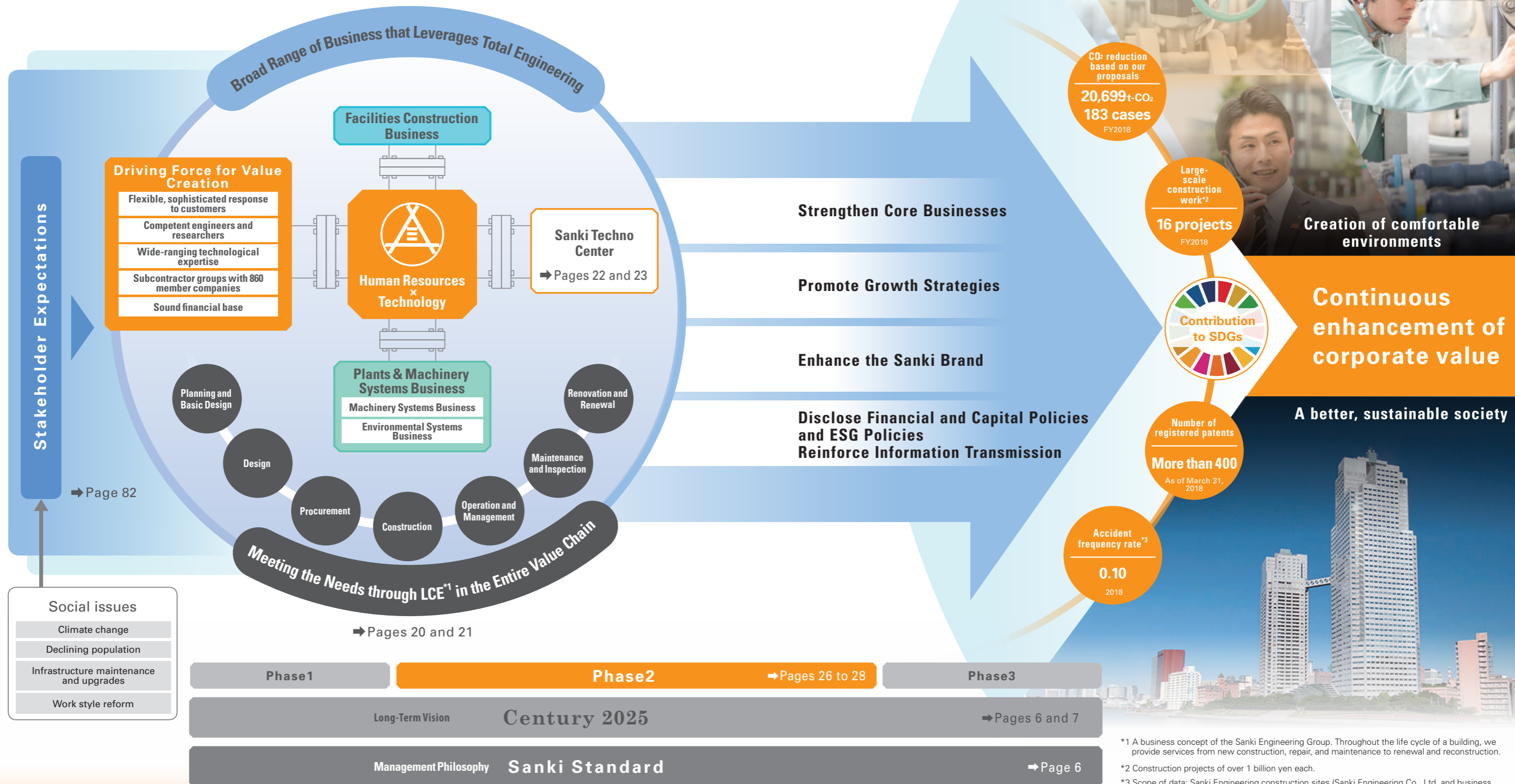
Guided by the "Sanki Standard" management philosophy, the Sanki Engineering Group strives to fulfill its mission of realizing all types of comfortable environments and contributing to the development of a sustainable society by creating value at each step of the business process and in every business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

Social Needs

Business Activities

Key Initiatives (Phase 2)

Value Created



*1 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.

*2 Construction projects of over 1 billion yen each.

*3 Scope of data: Sanki Engineering construction sites (Sanki Engineering Co., Ltd. and business partners)

Addressing Social Issues throughout the Value Chain

The Sanki Engineering Group addresses various social issues along its value chain by promoting LCE (life cycle engineering), in which we are responsible for the entire process from the planning of a facility, design, and construction to aftercare, maintenance, and management.

● Related to society ● Related to the environment



*The Building Information Modeling concept involves the construction of a database comprising a 3D model and attribute data of a building on a computer and the application of that information across the entire process, from design and execution to progress and management.

Sanki Techno Center

Comprehensive Training and Research Facility for Refining and Enhancing the Quality of Our Technology and Human Resources

In October 2018, the Sanki Techno Center opened at the Sanki Yamato Site in Yamato City, Kanagawa Prefecture, as a research, training, and study facility for developing and imparting the advanced technical skills of the Sanki Engineering Group. It plays a key role as the cornerstone of our growth strategy under the Medium-Term Management Plan "Century 2025" Phase 1 (FY2016–2018) and is essential for enhancing the quality of our human resources and technology under Phase 2 (FY2019–2021).



Training Area

Acquiring Empirical Knowledge Only Obtainable Onsite

The Sanki Techno Center is a strategic base for refining our technology and human resources, where practical training is offered in the Technology and Skills Training area and the Safety Experience area in addition to personnel training, courses for obtaining qualifications, and other classroom lectures.

In the Technology and Skills Training area, trainees gain practical technological and other skills typically only acquired onsite, by using mock-ups of actual construction sites and real equipment (photo at lower left). We also have a program for finding mistakes in the mock-up and comparing them to correct construction procedures as a more efficient way of acquiring knowledge.

In the Safety Experience area, participants gain

empirical knowledge by getting a physical sense of safety through experiencing everyday construction site risks, including the use of dummies for checking unsafe actions, being suspended from a height wearing a safety harness (photo at lower right), and using virtual reality to simulate working on scaffolding.

New employees who started working in April 2019 have received joint training, the durations of which varied from one to six months depending on the department they had been assigned to. We intend to make full use of the center to further improve the quality of human resources and technologies of the entire Group by providing more opportunities for employees of our subcontractors to take advantage of these facilities.



Technological skills training using real equipment



Being suspended wearing a full body harness during simulation training



Techno Plaza Showroom

Introducing Our Social Responsibility and Potential Based on the SDG Concept

The Techno Plaza introduces the Sanki Engineering Group's total engineering based on the concept of SDGs, which are common global goals. We do this using four booth exhibits under the themes of "Comfort," "Industry," "Energy Saving," and "The Environment" and convey how we fulfill our social responsibilities through unique technologies as well as our future potential from various perspectives.



Techno Plaza Showroom



Accommodation Facilities and Amenities

Providing Facilities that Encourage Thorough and Comfortable Training and Research

The center has a variety of areas for communication, including a café and large tatami floor room, to encourage lively interaction between training participants and researchers. In addition to offering ample accommodations with 141 guestrooms, the center houses a gym and other facilities to ensure comfort during long stays.



Guest room



Regional Contribution

Responding to Local Needs in the Event of a Disaster

As a facility that reaches out to the local community, the center is prepared to provide temporary shelter for those unable to return home in the wake of a disaster, under an agreement that Sanki Engineering concluded with Yamato City in 2013. The center also serves the local community in ways such as maintaining public access to its biotope, where people can relax and enjoy seasonal plants, the lawns, and aquatic flora, and children can find a safe playground.



Large room for sheltering people unable to return home in the wake of a disaster

Voice Building a Foundation for Our Growth Strategy

The center has been favorably received. Due in part to unexpectedly high demand from subcontractors and customers, two-thirds of the guestrooms have been continuously in use since the grand opening in April. Moreover, we have received over 4,000 visitors from the general public in the 100 days or so since the end of 2018. On the other hand, I believe that it is essential to nurture and increase local instructors who are fully acquainted with our construction sites, and we must also improve the training programs and expand the facilities.

When we celebrate our 100th anniversary in 2025, employees who joined in 2019 will be participating in the sixth-year training, which follows the third-year training. Our goal is to ensure that the first generation of employees trained at the Sanki Techno Center will be leading the Company on their own initiative by that time. We will begin by operating the facility for a full year to ascertain the issues that need to be addressed and then establish a solid foundation for the Group's future growth strategy.



Kazuo Izumi
Executive Officer
General Manager, Sanki Techno Center

R&D Center

R&D Base that Combines Our Accumulated Knowledge and Advanced Technology to Meet Emerging Needs

We set up the R&D Center within the Sanki Techno Center to give form to our new vision of R&D at Sanki Engineering. As a total engineering company, we possess diverse component technologies related to air, water, heat, electricity, machinery, and information, which sustain the infrastructure of cities, buildings, and production. The R&D Center will seek to raise the level of these component technologies while providing solutions with high added value and promoting R&D corresponding to the development of the diverse businesses that help create a sustainable society.



Social Issues and Needs

- Energy conservation
- Cost reduction
- Product life extension
- Resource conservation
- Acceleration
- Shorter construction period
- Space saving
- Comfort
- Safety
- Reliability
- Labor saving

Promising Advanced Technologies

Big data

Cloud

AI and IoT

R&D

Areas of Research

- Comfortable air conditioning technology
- Specialized environmental technology
- Information communications and control technologies
- Logistics and conveyance technologies
- Water treatment and incineration technologies
- Energy-saving technology

Analysis and Evaluation

Experimentation and Testing

Intellectual Property

More than 400 registered patents (as of March 31, 2019)

Cloud platforms that accelerate the pace of research

Synergy and Innovation

Major R&D results in FY2018

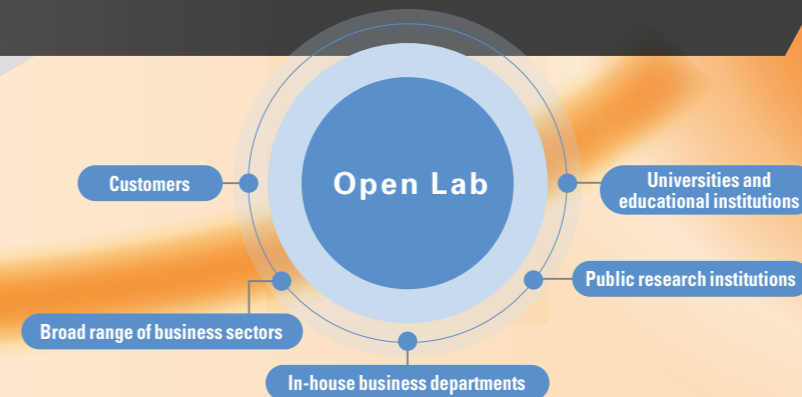
- DOUP™ energy-saving HVAC system for clean rooms
- selFort™ smart air conditioning system for offices
- Heat shock monitoring system
- Robotic food packing
- Energy-saving products and a system for sewage plants

Sanki Techno Center

Research Training Studies

R&D Center

Promoting Open Innovation



Characteristics of the R&D Center

01 Promoting R&D for a Promising Future in Collaboration with Business Divisions

The R&D Center collaborates with each business division to pursue R&D for new technologies, refine and upgrade proprietary technologies, conduct basic research, and investigate new technologies. The center is particularly focused on applying information communication technology, AI, IoT, and big data analysis to develop technologies with high added value. It also supervises intellectual properties to reinforce their protection and utilization by assigning a liaison to each business division.

02 Bolstering Innovation through the Open Lab

At the R&D Center, companies from a broad range of sectors, including our customers, universities, and research institutes as well as Sanki Engineering's business divisions, get together with an open mind and generate innovation through a flexible collaboration that integrates their knowledge and technologies. We offer ample facilities to facilitate open innovation, including large, multi-purpose testing rooms, free space for lively interaction, and discussions between those both in and outside the Company, along with mock-up areas where full-size prototypes can be created.

03 Platform for Vastly Accelerating the Pace of Development

In addition to the latest equipment for testing and analysis, the center provides the infrastructure and system environment required to raise the level of development. Furthermore, we have established a cloud platform that can be quickly set up whenever a new server or storage is required during development and verification processes. This vastly accelerates the pace of development by offering flexible server specifications and system configurations and allowing users to incorporate the latest AI and IoT technologies.

Voice Rapid, High-Quality R&D Made Possible by an Open Lab Approach

We are seeking to enhance our human resources and technology to deliver reliable solutions for the diverse needs of customers. As the key strategic base spearheading Sanki Engineering's research and development, the R&D Center emphasizes an "Open Laboratory" concept. Rapid, high-quality technological development is made possible by taking on individual themes through a joint effort with many other organizations. The R&D Center is now simultaneously pursuing more than 20 joint research projects in collaboration with universities, research institutions, companies from other industries, and several Sanki Engineering divisions. These include AI-based control systems, new material handling

systems targeting logistics operations, and energy-saving water treatment systems. Our goal is to nurture as many new seeds for the future as possible. The center is also independently working on basic research such as the exploration and verification of technological themes for future development. Our mission is to nurture the Sanki Engineering Group's seeds of technology that can help realize the goals represented by the United Nations' SDGs and the Japanese government's Society 5.0. We intend to forge ahead in our R&D efforts to create new value and serve society by demonstrating our unique total engineering capabilities and actively integrating AI, IoT, and other increasingly important cutting-edge ICT.



Kazuaki Iijima
Executive Officer, General Manager
of R&D Center

Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021)

Under the Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021), we will launch new initiatives for enhancing reliability while also maintaining the initiatives for Phase 1 (FY2016–2018), a three-year period for enhancing the quality of our technology and human resources.

We will seek to deepen understanding of the Group by disclosing our financial and capital policies and ESG policies and by reinforcing our transmission of information to enhance the reliability of the Sanki Engineering Group for diverse stakeholders toward our goal of becoming the company of choice in the next phase.

Long-term Vision "Century 2025"

Becoming the company of choice for our stakeholders

**Phase3 (FY2022–2025)
Company of Choice**



Phase 2 (FY2019–2021)
Enhance Reliability
Enhance reliability and become the company of choice for stakeholders

Key Initiative
• Disclose Financial and Capital Policies, and ESG Policies → P. 28
• Reinforce Information Transmission

Phase 1 (FY2016–2018)
Enhance Quality
Refining technical skills and human resources to enhance quality

Key Initiative Promote Growth Strategies
Pursue future growth in the areas of technology and business

Key Initiative Enhance the Sanki Brand
Develop human resources that possess the Sanki spirit

Key Initiative Strengthen Core Businesses
Improve component technologies and achieve stable growth

Social Environment and Issues

▶ **Climate change**

Introduce energy-saving and energy creation systems to achieve global decarbonization

▶ **Declining population**

Address energy saving and automation needs, secure engineers and technical staff, and improve productivity

▶ **Work style reform**

Address diverse work style needs, balance work with parenting and nursing, and reduce total work hours

▶ **Infrastructure maintenance and upgrades**

Implement maintenance of aging infrastructure

Phase1 Major Results

- Passing on technical skills** ▶ Established the Sanki Techno Center for imparting technical skills to the next generation and further advancing technological development
- Anticipating the age of maintaining building stock** ▶ Forged ahead in LCE toward establishing a solid business foundation by receiving orders for a new large-scale construction project and DBO projects for a waste disposal facility
- Developing next-generation technologies** ▶ Kept pace with progress in robotics, AI, and IoT
▶ Reconstructed the R&D Center to create an environment for developing new technologies

Phase1 Financial Performance

	FY2016 actual	FY2017 actual	FY2018 targets	FY2018 actual
Net sales	168.5 billion yen	170.1 billion yen	195.0 billion yen	212.3 billion yen
Gross profit (ratio)	22.5 billion yen (13.4%)	25.0 billion yen (14.7%)	24.0 billion yen (12.3%)	31.6 billion yen (14.9%)
Operating income (ratio)	6.0 billion yen (3.6%)	6.5 billion yen (3.9%)	7.5 billion yen (3.8%)	10.6 billion yen (5.0%)
Ordinary income (ratio)	6.8 billion yen (4.1%)	7.4 billion yen (4.4%)	8.0 billion yen (4.1%)	11.2 billion yen (5.3%)

Phase2 Major Initiatives

Improve construction productivity	Meet energy saving and labor reduction needs	Promote technological R&D
Continue to receive orders for stock projects	Create better work conditions	Improve internal communication

Utilize the Sanki Techno Center and R&D Center Improve productivity through the operation of the Yamato Product Center

Phase2 Financial Performance Targets

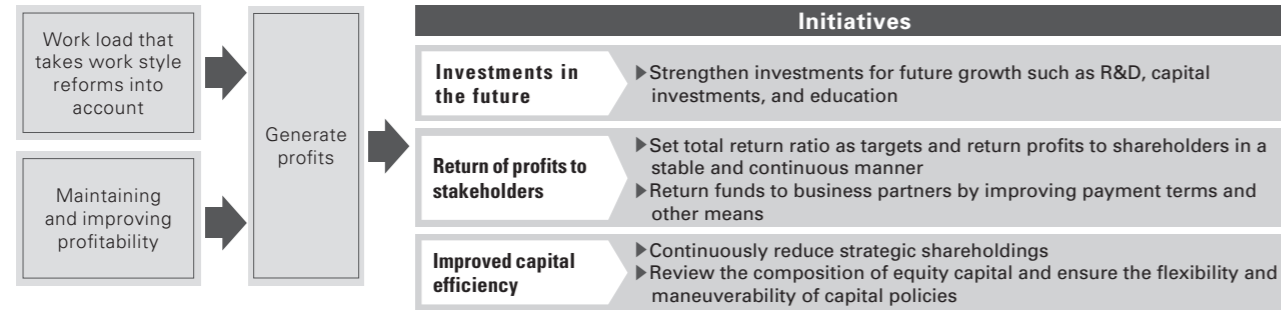
	FY2019 target	FY2020 target	FY2021 target
Net sales	200.0 billion yen		
Gross profit (ratio)	30.0 billion yen (15.0%)	31.0 billion yen (15.5%)	32.0 billion yen (16.0%)
Ordinary income (ratio)	9.0 billion yen (4.5%)	9.5 billion yen (4.8%)	10.0 billion yen (5.0%)

Ordinary income

Legend: ■ Results (billion yen), ● Plan (billion yen)

Target continuous growth from Phase 1

► Financial and Capital Policies (raising medium- and long-term value)



Phase 2 Management Targets	Ordinary profit margin	Dividends	Acquisition of treasury stock	Total return ratio	ROE
	5.0% or higher (final fiscal year)	Annual dividends per share of 60 yen or higher	About 5 million shares (in 3 years)	70% or higher	8.0% or higher (final fiscal year)

► ESG Policies (Create Sustainable Social Value)

To implement sustainable management, we will continue efforts from Phase 1 during Phase 2 and pursue initiatives based on our ESG policies toward creating a sustainable society and achieving sustainable corporate growth.

	Policies	Initiatives
E Environment	<ul style="list-style-type: none"> Develop products and technologies that contribute to realizing a decarbonized society Reduce the environmental impact of business activities 	<ul style="list-style-type: none"> Contribute to decarbonization, energy saving, and energy creation Continue with "SANKI YOU Eco Contribution Points" Reduce environmental impact associated with business activities
S Social	<ul style="list-style-type: none"> Contribute to building sustainable infrastructure Promote diversity to enhance human resources Create work environments that are safe and easy to work in Collaborate and engage with the local community 	<ul style="list-style-type: none"> Build infrastructure and facilities in response to social and environmental change Secure diverse personnel and nurture human resources Promote work style reform (Smile Project) Promote activities based on health and safety activities plans Promote efforts to enhance communication Actively support cultural and sports activities Engage with local communities around the Sanki Techno Center and other sites
G Governance	<ul style="list-style-type: none"> Reinforce the governance system 	<ul style="list-style-type: none"> Continue efforts for better governance based on the Sanki Engineering Corporate Governance Guidelines

► Contributing to the SDGs

The Sanki Engineering Group's technologies are connected to the 17 SDGs through the services we provide to customers. Sanki Engineering will play its part to address the medium-term social issues laid out by the SDGs through its business activities.



Four Sustainable Initiatives for the Future

01 Amenity Creating comfortable environments through engineering	02 Industry Applying our unique clean room technology and transport technology to support cutting-edge industries
03 Eco & Energy Offering technological solutions to help achieve decarbonization, energy saving, and energy creation	04 Environment Building facilities for water processing and waste disposal to help protect the environment and create a zero-waste society



Learn about Sanki Engineering's business activities and business foundation

Business Report

Facilities Construction Business ...> Page 30

Plants & Machinery Systems Business ...> Page 34

Real Estate Business ...> Page 38

Photographing with collaboration of Kanagawa prefecture

Facilities Construction Business

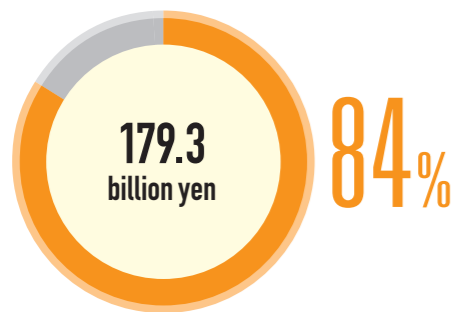
Increasing Productivity to Continue Meeting Social Needs

The Facilities Construction Business has been increasing its value by creating comfortable environments in response to diverse social needs through total engineering, which integrates the broad business areas encompassing HVAC, plumbing and drainage, and electrical and facility systems. As we look beyond the provision of comfortable environments, we are refining the quality of our technologies with a focus on saving energy and reducing greenhouse gas emissions as solutions for global environmental issues. Another urgent issue is higher productivity, given the rapidly aging population and declining birthrate in Japan, in order for the Facilities Construction Business to continue growing and offering benefits to society for many years to come. We hope to overcome these difficulties and offer greater reliability to our stakeholders so we can play our part in resolving ESG issues and achieving the SDGs.

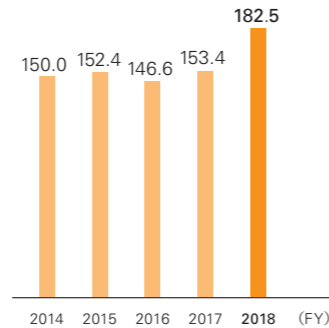


Eiji Mitsuishi Director, Senior Executive Officer and General Manager of the Mechanical & Electrical Contracting Headquarters

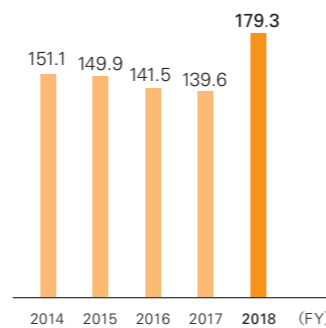
Net Sales and Net Sales Composition Ratio for Fiscal 2018



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

Opportunities and Risks

- Rising need for decarbonization
- Rising concern that the decrease in trained workers associated with demographic trends will result in a labor shortage and social demand for addressing such working conditions as long work hours
- Addressing disparities in economic conditions and demand among regions
- Growing demand for office management solutions based on innovations such as AI and IoT

Key Initiatives of the Medium-Term Management Plan

Key Initiative
01

Raising Productivity through Workstyle Reform

We will endeavor to boost productivity and secure our workforce by bolstering the support framework for construction sites under the Smile Site Plan, which is intended to reduce the workload of construction managers as part of our workstyle reform.

Key Initiative
02

Reinforcing Construction Capabilities and Enhancing Quality

We will standardize and enhance the quality of our construction technology by organizing a Group-wide construction system that includes subcontractors and by effectively using the Sanki Techno Center.

Key Initiative
03

Actively Using Digital Tools

We will raise construction quality and productivity by actively using digital tools, as represented by BIM*.

*The Building Information Modeling concept involves the construction of a database comprising a 3D model and attribute data of a building on a computer and the application of that information across the entire process, from design and execution to progress and management.

Major Results for Fiscal 2018

The Facilities Construction Business received a continuous flow of urban redevelopment projects and robust demand from capital investments led by manufacturers. In this business environment, we targeted strategic orders focused on large-scale projects while paying due consideration for the workload of construction managers and consistent construction quality. Also, we sought to steadily advance our ongoing construction projects and secure profits.

This resulted in an all-round increase in orders received year on year for building HVAC and plumbing, industrial HVAC, electrical systems, and facility systems as well as an increase in the balance carried forward. In particular, there was a considerable increase in orders received for large-scale projects in the industrial HVAC business, primarily led by HVAC systems for factories, which exceeded the orders received in our mainstay building HVAC and plumbing business. Net sales also rose significantly, fueled by a second consecutive year of increased orders received for industrial HVAC systems. Moreover, we were able to secure very high profit margins due to improved construction quality resulting from our focus over the past few years on the active deployment of ICT and reinforcement of construction site support.

Here are a few of specific results of our Smile Site Plan for reducing construction manager workload and raising operational efficiency.

- Expanded support by adding staff to the Design and Engineering Support Center led to a large-scale industrial HVAC order.

- Across all Group companies in October: advanced digitized, simplified documentation with an online approval process by introducing recently developed New Octopus software, and onsite documentation assistance.

In addition, we continued to develop and introduce solutions based on advanced ICT, which has recently emerged as an increasing need in the construction facilities industry. Specifically, we pursued 3D-CAD projects using 3D scanners.

In 2018, on the 30th anniversary of the Facility Systems Business and its track record in PM^{*1}, CM^{*2}, and smart building (instrumentation and ICT systems), the number of orders increased for ICT solutions such as security reinforcement and cloud services, with net sales exceeding ten billion yen for the first time.

*1 Property management is a series of tasks that aim to increase the asset value of individual real estate assets. For the Company, this particularly relates to proposals to increase asset value through facility management.

*2 Construction management is a series of tasks for which a company is contracted by the customer to manage entire construction work projects from a neutral standpoint, to ensure that construction progresses smoothly.

Major Projects

- Toyota Motor Corporation PI Tower Project
- Nihonbashi 2-Chome Type-1 Urban Area Redevelopment Project (District B), (Districts C & D)
- NGK Ceramic Device Co., Ltd., Tajimi Plant
- Toshiba Memory Corporation, Yokkaichi Plant Building 260, Stage 3, Stage 4
- Fukuoka High and District Court/Family Court/Summary Court Office



Nihonbashi 2-Chome Type-1 Urban Area Redevelopment Project (District B)



Fukuoka High and District Court/Family Court/Summary Court Office

Policies and Outlook for Fiscal 2019

● **Strengthen the Core Businesses to Create Sustainable Social Value**

The Facilities Construction Business delivers facilities that demonstrate high performance in maintaining comfortable environments and manufacturing environments. At the same time, it offers solutions for customers from the perspectives of energy conservation, maintenance and management, and BCP. Strengthening the Facilities Construction Business is directly linked with the Sanki Standard, which aspires to “create comfortable environments through engineering and broadly contribute to social development.”

● **Further Enhancing Construction Quality and Productivity**

The Mechanical and Electrical Administration Office set up in April 2019 will lead the initiative for developing closer collaboration among branches and branch offices and flexibly allocating personnel. We will also seek to secure construction quality and raise productivity by promoting workstyle reform through the Technical Support Center and Smile Site Plan in order to bolster support for construction sites and by effectively deploying diverse human resources as part of our initiative to promote diversity.

● **Promote the Practical Use of Digital Tools that Meet Customer Needs**

The BIM Promotion Center, set up in April 2019, will lead the initiative for introducing and reinforcing the BIM 3D modeling method being adopted by the construction facility industry. It will also promote its deployment across branches and branch offices. We will strive to implement BIM practically and in various phases of our business, including design, construction work, maintenance, and management, to enhance and further standardize construction quality, reduce the burden on construction managers, and reduce costs and risks according to customer needs.

● **Strengthen the International Business**

The International Business Division will take the initiative in supervising and managing the Group’s overseas companies, including the Plants & Machinery Systems Business, while also strengthening them. Our focus will also be on establishing the foundation for local bases to spread the Sanki brand overseas.

● **Food Service Equipment Systems Business**

We will restructure the Food Service Equipment Business, a longstanding operation of the Sanki Engineering Group, by making the maximum use of our accumulated planning and operational know-how as well as through collaboration with Group company Sanki Techno Support. Our focus will be on total engineering for food-related environments that efficiently responds to customer needs.

● **Bolster and Expand the Scope of the Facility Systems Business**

• **Facility Systems Business**

We are currently seeing prominent shifts in workstyle reform and the revision of optimal organization and facilities at financial institutions, which lead to the growing need for project management in office restructuring and relocation.

This is also a time of major change in terms of the needs of customers, as they explore more efficient workstyles using ICT. In addition to NewSICT^{*1}, Sanki Engineering will focus on developing new consulting services.

• **Smart Building**

Building management solutions: instrumentation

We will provide central monitoring and automated control systems that excel in operability, maintenance, and scalability. Presenting Sanki Engineering as a SI^{*2} with the expertise and problem-solving skills cultivated through its experience in facilities construction work, we will expand the scope of the Building Management Solutions Business.

• **Network Solutions: ICT**

In addition to building networks, we will seek to expand into security and develop solutions related to IoT, AI, and 5G as well as form alliances.

*1 Next Work Style with ICT is a type of consulting using ICT in workstyle reform.

*2 System integrator.

Net Sales Target for Fiscal 2019
(numerical forecast at start of fiscal 2019)

163 billion yen

Focus

High Quality Air Conditioning that Caters to the Diverse Needs of People in a Room

selfFort™ –Smart Air Conditioning System for Offices–

Value Provided by Sanki Engineering

- Air volume control per outlet helps achieve higher productivity
- Energy savings during installation and change in interior layout
- Higher energy savings compared to conventional units

Relevant SDGs



Large offices generally have a central air conditioning system through which cool or warm air is distributed at once from the air conditioned room to multiple outlets via air ducts. Room temperature is centrally controlled by each unit with multiple outlets, making difficult the adjustment of temperature for individual outlets. However, sensitivity to room temperature differs with each person depending on sex, age, and type of work, which has increased the need for individualized adjustments since comfort affects personal productivity.

Sanki Engineering has responded by developing the selfFort™ smart air conditioning system for offices. With the system, cool or warm air from the unit is directed to the space above the ceiling and goes through a compact, lightweight fan diffuser unit (FDU) installed in the ceiling, which sends the required volume of air into the room. Enabling users to adjust the air volume of each FDU using their computer, tablet, or smartphone, makes it possible to cater to diverse air conditioning needs in response to individual sensitivities or activities in a room. Since it requires no air supply duct, selfFort™

has a simple FDU wiring structure and uses power line communication capable of simultaneously transmitting electricity and air volume control signals. This saves energy during installation work without the need for major construction such as relocating ducts to suit a new room layout. Adding or moving outlets is easy, and since the FDU sends only the necessary volume of air, as much as a 7% reduction of power is expected, compared to the conventional VAV method, while turning off an unused FDU will save even more energy.

The selfFort™ system was released in December 2018 after verification tests using actual models at the Sanki Techno Center. Looking ahead, we will continue to promote the “wellness office” toward realizing an even more advanced, comfortable air conditioning system linked to IoT and AI technologies.

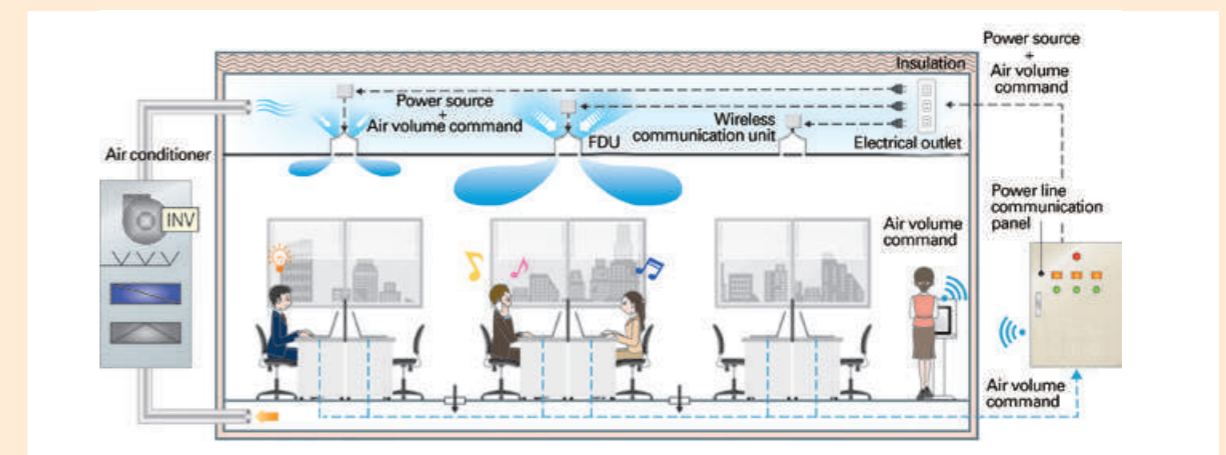
Purpose of Building

- Office building

Type of work

- Construction of HVAC facility

■ The selfFort™ ventilation process



Plants & Machinery Systems Business

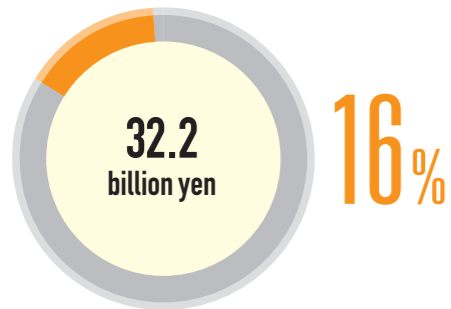
Looking to the Future with Our Customers and Meeting their Needs with Engineering

The Plants & Machinery Systems Business comprises the Machinery Systems Business, which provides conveyors and material handling systems, and the Environmental Systems Business, which provides water treatment and waste treatment facilities. We contribute broadly to social development by creating comfortable environments through engineering. Our products and facilities are infused with the proprietary technologies we have cultivated over many years and are delivered with unique features as we respond to every customer order with a fully customized solution. Our customers come to us with the need to save labor and promote automation as well as to save and effectively generate energy, all key social issues in terms of achieving the SDGs. Our mission is to monitor these social issues closely, listen carefully to what customers have to say, and lead the way to provide solutions.

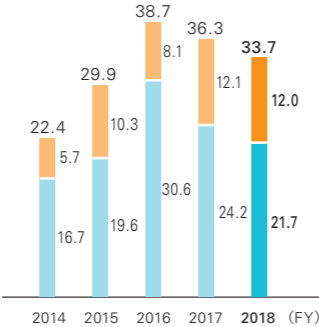


Takashi Motomatsu Director, Senior Executive Officer and General Manager, Plants & Machinery Systems Headquarters

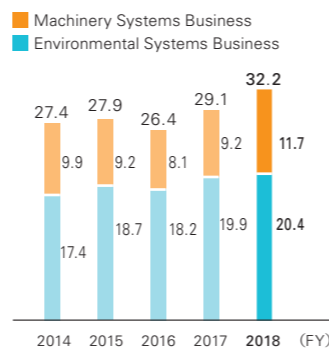
Net Sales and Net Sales Composition Ratio for Fiscal 2018



Orders Received (Billions of Yen)



Net Sales (Billions of Yen)



Machinery Systems Business

Market Conditions

- Growing need to save labor and promote automation arising from Japan's declining birthrate and aging population
- Advances in AI and IoT, and the proliferation of robots
- Reshoring of Japanese manufacturers and expanding the logistics market

Opportunities and Risks

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

Key Initiatives of the Medium-Term Management Plan

- 01 Developing New Markets for Material Handling Systems for the Logistics Market**
Strengthen sales activities focused on new products targeting the logistics market.
- 02 Expanding Sales of Hybrid Facilities**
Focus on increasing sales and expanding marketing channels for hybrid facilities that combine conveyors and robots.
- 03 Improving the Efficiency of Our Production System to Improve Productivity**
Establish a new production management system and improve productivity at the "Yamato Product Center," a new plant.

Environmental Systems Business

Market Conditions

- Social infrastructure investment in sewage works remains little changed, while investment in waste facilities expands
- Persistent needs for energy saving and energy creation in both the public and private sectors

Opportunities and Risks

- Japanese government policy for promoting PPP and PFI*, expansion in DBO orders for waste treatment facilities, diversification in methods for public-private collaboration following the revision of Japan's Water Supply Act
- Continued demand for energy saving and energy creation systems at water treatment and domestic waste plants

Key Initiatives of the Medium-Term Management Plan

- 01 Seeking Further Expansion in Sales of Strategic Products**
Refine and expand sales of core products that meet energy saving and energy creating needs.
- 02 Further Promoting the LCE Business**
Conduct a collaborative Group effort to expand the LCE business, such as upgrading, maintaining, and managing water treatment and waste treatment plants.
- 03 Developing New Business Areas**
Explore new business areas in which we can leverage our proprietary technologies in the Environmental Systems Business, such as biomass power generation plants and facilities for treating pharmaceutical and medical wastewater.

*Public Private Partnership, which provides public services through public-private sector collaboration, and Private Finance Initiative, a major PPP method.

Machinery Systems Business

Major Results for Fiscal 2018

Amid growing labor saving and automation needs caused by the shrinking work force, and expanding capital investment for logistics facilities, we sought to increase orders for our standard conveyors through sales activities geared to local needs. We also set up a Solutions Division to expand sales of hybrid facilities that combine conveyors and robots while actively promoting sales activities premised on customized orders. Moreover, we received our first order for the CB II cross belt sorter, our new high-speed conveyor and sorting device developed in fiscal 2017, making significant inroads in the airport and large-scale logistics facilities markets. As a result, we were able to increase both orders received and net sales on demand from companies in the food products market and the electric and electronic components market as well as logistics companies.

In November 2018, we began constructing the Yamato Product Center, our new plant which is part of restructuring the manufacturing functions of the Machinery Systems Business.



Shimojishima Airport

Major Product Development and Delivery

- CB II cross belt sorter (delivered in March 2019)
- Both-end knife-edge conveyor (developed in March 2019)

Major Projects

- Narita International Airport: works to expand the T1S#53 make-up conveyor and enhance BHS capacity
- Shimojishima Airport: BHS for the passenger terminal for international and domestic flights

Policies and Outlook for Fiscal 2019

● Promote and Expand Sales Geared to Local Needs

To win more orders for our standard conveyors, we will seek to promote and expand marketing targeting local needs while also developing new sales bases.

● Develop Packaged Deals for Hybrid Systems

In response to the diverse automation needs of the food products industry, we will promote packaged deals for hybrid systems and broaden our product lineup. To do so, we will increase the number of system integrators who assist in the design and construction of automation systems. At the same time, we will seek out subcontractors capable of handling the process from design to production.

● Maintain Stable Operations at the New Machinery Systems Plant

In August 2019, after construction of the Yamato Product Center wrapped up, we launched full-scale operations there to boost the efficiency of our production system. With this center as the main plant for conveyors, we will seek to ensure smooth operations and improve efficiency to develop automated production processes and other next-generation technologies.

Net Sales Target for Fiscal 2019
(numerical forecast at start of fiscal 2019)

12 billion yen

Environmental Systems Business

Major Results for Fiscal 2018

Demand in the area of public infrastructure such as wastewater and waste treatment facilities has shifted from new construction to upgrades, maintenance, and management.

In this context, we achieved steady growth in net sales by completing our backlog of large-scale construction work and increased orders for strategic products. We expanded our key LCE business by successfully winning orders for large-scale general waste treatment facilities, including DBO projects, for the third consecutive year.

As for the SANDEC G3 energy-saving decanter centrifuge, our strategic product, we received a steady flow of orders for projects including large-scale construction work. We now account for more than 30% of the wastewater treatment facility market in Japan. We have made headway in expanding new fields of business as well. In addition to steadily generating power based on woody biomass gasification, we won our first order for a continuous heat sterilizer for treating medical and pharmaceutical wastewater.



Rendering of the new combustible waste joint processing plant of the Ohchi-Gun General Services Cooperative

Major Orders Received

- Ochi General Administration Association: works to construct common garbage incinerator
- Upgrade work for a sludge decanter facility of the Fukuoka City West Wastewater Treatment Center

Policies and Outlook for Fiscal 2019

● Promote LCE Business in Collaboration with Group Companies

We will actively engage in government initiatives funded by the private sector, such as the PPP/PFI and DBO projects, primarily by working closely with Group companies to leverage their strengths in operation management, repair, and maintenance of wastewater and waste treatment facilities. We will also secure stock projects that are expected to generate stable long-term income, such as those based on long-term operation and management contracts that are projected to increase in the future. Furthermore, we will promote and expand our LCE business.

We achieved a full-scale entry into the market for woody biomass gasification power generation in fiscal 2017 and will pursue new orders through Group-wide collaboration as we explore the business fields of saving and creating energy.

● Increase Orders for Strategic Products

We will keep up our efforts to increase orders for strategic products such as SANDEC G3, an energy-saving decanter centrifuge for wastewater treatment facilities; AEROWING II, an ultra-fine bubble air diffuser; and the turbocharged fluidized bed combustion system. We will also bolster the development of products targeting the private sector, such as the continuous heat sterilizer used to treat medical and pharmaceutical wastewater, for which we won our first order in fiscal 2018.

Net Sales Target for Fiscal 2019
(numerical forecast at start of fiscal 2019)

23 billion yen

Focus

Machinery Systems Business

R&D for Solving Problems at Production Sites Rice Ball Packing Robots System

Value Provided by Sanki Engineering

- Helps address the labor shortage
- Saves manual labor and raises efficiency

Relevant SDGs



Most production lines for rice balls sold at convenience stores rely on manual labor to pack the finished products into food trays for transportation. Due to the labor shortage, however, securing workers for production sites has been difficult. This is a pressing issue for the entire industry, and Sanki Engineering has sought to offer a solution by developing an apparatus in which general-purpose robots replace humans in handling the simple task of packing products.

We showcased a prototype at FOOMA 2018, an international food machinery and technology exhibition. Robots can pick up eight rice balls at once and are capable of packing around 3,000 rice balls an hour. Users can expect labor savings as well as significant improvements in work efficiency. We are

currently upgrading the prototype in a joint venture with a major packing equipment manufacturer toward early commercialization.



Environmental Systems Business

Operation of a Pilot Plant in Thailand for a Verification Project Selected by the Japanese Government DHS-based Minimum Energy Wastewater Treatment Unit

Value Provided by Sanki Engineering

- Improves hygiene in developing countries
- Lower cost of wastewater treatment and saves energy

Relevant SDGs



The “DHS-based minimum energy wastewater treatment unit” is a joint project undertaken by Sanki Engineering, NJS Consultant Co., Ltd., Tohoku University, and Nakaoka Technology University. It was one of the technologies selected in fiscal 2018 under the Wonder of Wastewater Technology of Japan, spearheaded by Japan’s Ministry of Land, Infrastructure, Transport and Tourism. Under the project, we built a pilot plant in Khon Kaen, a regional city in Thailand, and have maintained steady operations there.

In March 2019, a seminar was held in Khon Kaen, assisted by Group company Thai Sanki Engineering and Construction Co., Ltd. A total of 90 participants from the Thai government, local governments from surrounding regions, and universities listened intently to learn about Japan’s latest technology. Our wastewater treatment unit is easy to operate, maintain, and manage

and is expected to lower costs and save energy. It is a promising technology for developing countries faced by many diseases associated with insufficient sewage treatment.

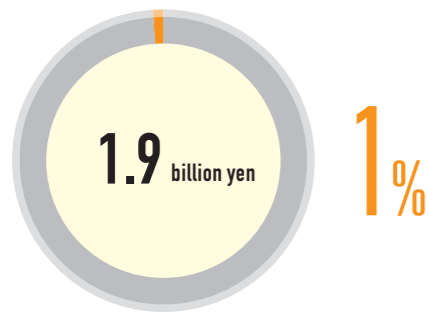


Seminar in Thailand

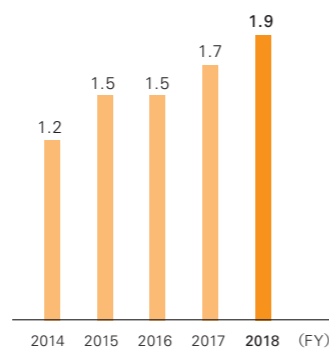
Real Estate Business

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 2018



Net Sales (Billions of Yen)



Basic Strategies for Fiscal 2019

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

Major Results for Fiscal 2018

In the office leasing market of the Japanese real estate sector, we continued to enjoy robust demand led by the Tokyo metropolitan area, while demand either recovered or was little changed in the other four major cities. In building facilities, there is a pronounced need to conserve energy and resources, extend the life of aging buildings, and ensure longer life for facilities, and solutions to these issues have emerged as key added value in the office leasing market.

Under these circumstances, we pursued the STeP Project for redeveloping the land and buildings we own at the Sanki Yamato Site.

- In May 2018, we began leasing land at the former Yamato Engineering Center to the Nippon Life Insurance Company.

- We actively sought new tenants to enhance the occupancy rates for the Sanki Yamato Building by renovating the elevators and adding dining space.
- In October 2018, the Sanki Techno Center was completed and began operating as the core facility of the Sanki Yamato Site.
- We sought to raise satisfaction for tenants at the Molive shopping mall in Moriyama City, Shiga Prefecture by recovering the flooring of the common corridor and renovating the elevators.

As a result of these initiatives, overall net sales for the Real Estate Business rose from the previous fiscal year. Major factors included an increase in rental income from the start of business at two new tenants in the Sanki Yamato Building.

Policies and Outlook for Fiscal 2019

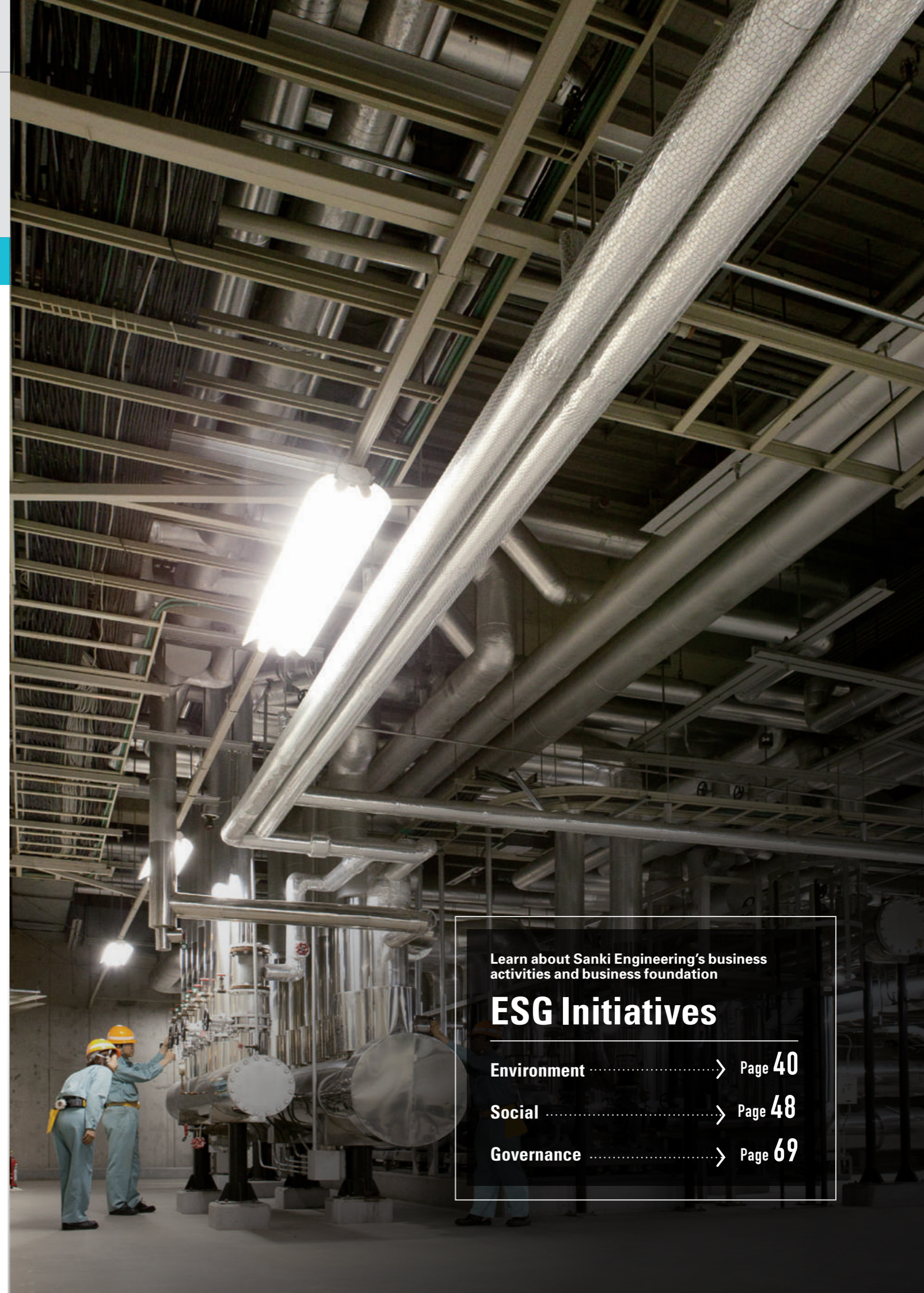
In fiscal 2019, we will maintain our efforts to increase sales and profit for the Real Estate Business by applying Sanki Engineering's technologies and know-how to the maintenance and management of portfolio assets.

At the Sanki Yamato Building, we will continue renovations on the elevator and also upgrade the power receiving equipment. We will also undertake facility renovations at the Molive shopping mall in Moriyama City, Shiga Prefecture to ensure a high level

of satisfaction among tenants and shoppers.

Net Sales Target for Fiscal 2019
(numerical forecast at start of fiscal 2019)

2 billion yen



Learn about Sanki Engineering's business activities and business foundation

ESG Initiatives

Environment> Page 40

Social> Page 48

Governance> Page 69

Environment

Our Contribution to the Global Environment



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.

● Environmental Management System

We have obtained ISO 14001 certification and operate 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 ISO Promotion Meetings and company-wide EMS and QMS secretariat meetings. Annual policies are approved by the Management Meeting, comprising directors and other members.

● Major Activities in Fiscal 2019

We pursue our activities by having each section set environmental goals aligned with their respective operations. Major policies for fiscal 2018 were: (1) Develop a better understanding of the ISO standard; (2) Thoroughly review relevant laws, regulations, and ordinances; and (3) Improve the introduction rate of digital manifests. In fiscal 2018, an external audit found no issues of noncompliance and there were no violations of environmental laws or regulations that warranted a fine nor any complaints related to issues such as noise, dust, and odor at construction sites.

● Assessment and Response to Environmental Risks and Opportunities

The 2015 version of the ISO standard 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 appropriate action by conducting an environmental risk assessment for each project.

● 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. With respect to our EMS, 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.

Reference

Quality and Environmental Management System
P. 49

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.

1. 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.
2. We will actively develop proposals on resource and energy conservation when designing facilities.
3. We will comply with laws and regulations related to the environment and with external requirements agreed to by the Sanki Engineering Group.

Important Issues

- Protect the global environment by means of our exceptional technological capability
- Minimize the environmental impact caused by our business activities

FY2018



Providing products and services to help reduce CO₂ emissions of customers

[Primary Goals]

Achieve a greater reduction in CO₂ emissions compared to fiscal 2017 through orders received for CO₂ reduction proposals

Volume reduced in FY2018 (consolidated):
Volume reduced in FY2017 (consolidated):
16,949 t-CO₂ → 20,699 t-CO₂

Assessment ○



Improve the introduction rate of digital manifests

Introduction rate of digital manifests: 90%

Increase in introduction rate of digital manifests
Results for FY2018 (non-consolidated):
Results for FY2017 (non-consolidated):
88.4% → 91.4%

Assessment ○

Major Action Policy for FY2019

Providing products and services to help reduce CO₂ emissions of customers

Improve the introduction rate of digital manifests

Environmental Aspects Assessed under the JOB Environmental Aspects Assessment List

1. Use of resources and energy
2. Reduction and proper disposal of waste
3. Abnormal situations and outflow of contaminants
4. Consideration for areas surrounding construction sites
5. Consideration for unique environmental needs
6. Natural disasters
7. Legal compliance
8. Other local bylaws
9. Temporary materials and equipment, and office and other supplies
10. Other aspects

■ Number of Employees with Environment-related Qualifications (as of April 1, 2019)

Certified environmental measurer	Consolidated	8
	Non-consolidated	7
Supervisor of management of industrial waste subject to special control	Consolidated	183
	Non-consolidated	168
Pollution prevention manager (cumulative total)	Consolidated	88
	Non-consolidated	73

Contributing through Our Products and Technologies

● Addressing Decarbonization

The drive to create a decarbonized society continues to gather pace. The target stated in Japan's Strategic Energy Plan of July 2018 is to reduce greenhouse gas emissions by 26% from levels in 2013 by becoming a thoroughly energy-efficient society by 2030. Meanwhile, guidelines for implementing the Paris Agreement were adopted at the COP24 meeting in December 2018.

The Sanki Engineering Group seeks to enhance functionality and comfort through the products and technologies offered by each of its businesses in order to help customers save energy, reduce CO₂ emissions, and cut lifecycle costs and toward the ultimate goal of shifting to a decarbonized society. Our pursuit of energy conservation and other means for reducing environmental impact encompasses the entire product lifecycle, from planning and design in facilities construction to operational maintenance after completion and also renovation. To achieve even higher energy efficiency, our Energy Solution Center leverages its accumulated technologies and know-how to support proposals that meet the diversifying needs of our customers.

● Registered ZEB Planner

Japan's Agency for Natural Resources and Energy, under the Ministry of Economy, Trade and Industry, is promoting the widespread introduction of ZEBs*. Sanki Engineering is a registered ZEB Planner, a new category created in fiscal 2017.

As a ZEB Planner, we will be the contact point for customers planning to adopt ZEB in construction projects, and by supporting ZEB planning we will be playing our part in developing a decarbonized society.



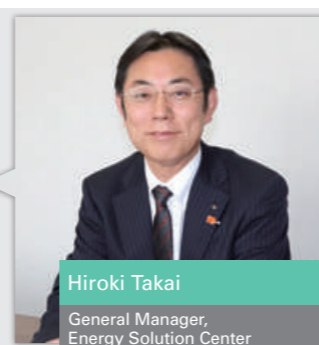
Trans-Heat Container for delivering thermal energy



Woody biomass gasification plant



*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.



Hiroki Takai
General Manager,
Energy Solution Center

VOICE

Helping to Optimize the Energy Mix

I believe that Sanki Engineering's Energy Solution Center has a major role to play in realizing an optimal energy mix by 2030, the goal upheld by the Japanese government in The Fifth Strategic Energy Plan. Specifically, we will focus our efforts on a biomass power generation project and energy saving proposals as an officially-recognized ZEB Planner while also collaborating with each business headquarter and the R&D Center on initiatives intended for the exchanging of information as well as joint work with companies in other industries. We hope to play our part in developing a decarbonized society by leveraging our strengths as a total engineering company capable of applying its technologies to broad areas of business.

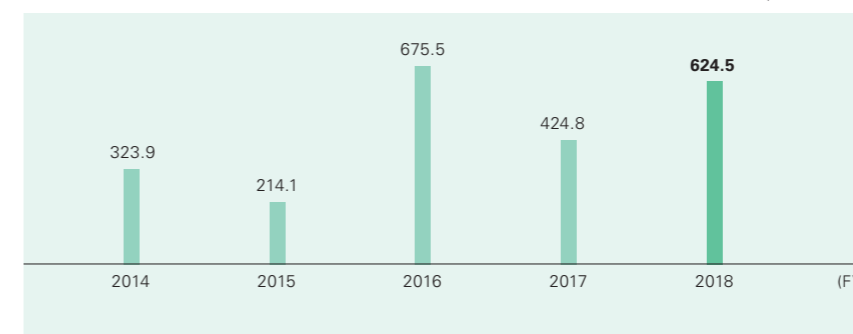
■ Proposals for CO₂ Reduction and Outcomes

(CO₂ Reduction Unit: t-CO₂/Year)

Proposal	FY2016		FY2017		FY2018	
	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction
Consolidated	345	56,205	353	47,905	411	50,072
Non-consolidated	313	54,877	321	46,143	370	45,531
Orders received						
Consolidated	183	27,624	166	16,949	183	20,699
Non-consolidated	168	27,319	157	16,599	163	16,608

■ 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. In fiscal 2018, customers adopted 183 of our proposals, resulting in donations of 2,069,900 yen (equivalent to a 20,699 t-CO₂ reduction), raising the overall total of donations since the start of the program in fiscal 2010 to 18,440,800 yen, with approximately 16,000 trees planted, equivalent to an area of 5 ha or as large as that of the Tokyo Dome.

Conserving the Global Environment with Sanki Technology

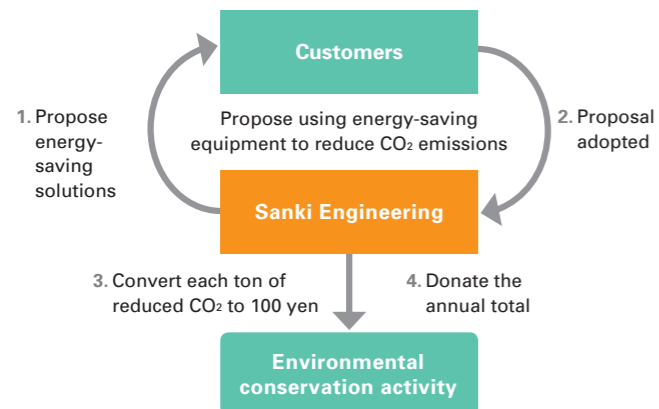
Our Award-Winning Project to Save Energy for an Entire Hot-spring District

In January 2019, Sanki Engineering and the Yunohama Hot Spring Source Facilities Co., Ltd. were jointly recognized for our energy-saving project for the hot-spring district in the Yunohama area of Tsuruoka City, Yamagata Prefecture, receiving the Agency of Natural Resources and Energy Director General Prize, which is part of the Energy Conservation Grand Prize sponsored by the Energy Conservation Center, Japan.

In the past, hotels and ryokans in the area depended on fossil fuel as a heat source for supplying hot water and heating baths. We sought to replace this with unused heat from the hot spring in a project involving the entire hot-spring district. As a result, we saved 536 kl (crude oil equivalent), or 22% of the energy consumed by the whole town, in fiscal 2018. Sanki Engineering was responsible for planning, designing, and building infrastructure such as a centralized hot water supply system for the project, which was made possible through the united efforts of those in the Yunohama area and has attracted a lot of interest as an initiative that could revitalize regional communities.



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 2018, we donated to two projects in which our employees participated.

■ Donation History for Tree-planting Projects

Recipient	Project	Donation
Silva Association	Tree planting for a forest surrounding Shonan Village (Yokosuka City, Kanagawa Prefecture)	1,000,000 yen in FY2018
NPO Mori wa Umi no Koibito	Tree planting for the Hikobae Forest on Mt. Yagoshi (Ichinoseki City, Iwate Prefecture)	1,025,100 yen in FY2018



Participating in a tree-planting project for the forest surrounding Shonan Village



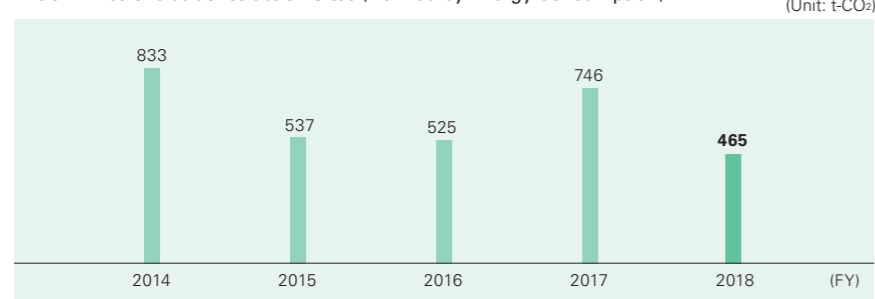
Participating in a tree-planting project organized by Mori wa Umi no Koibito

Initiatives for Saving Energy and Resources in Business Activities

● 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)



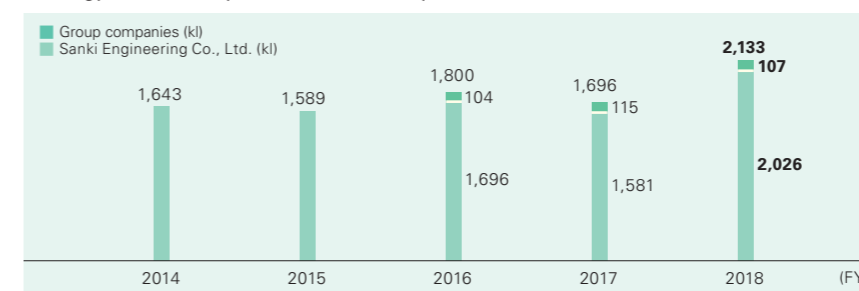
Note: The significant decrease is due to the completion of a large-scale construction project in fiscal 2017.

● Initiatives in the Office

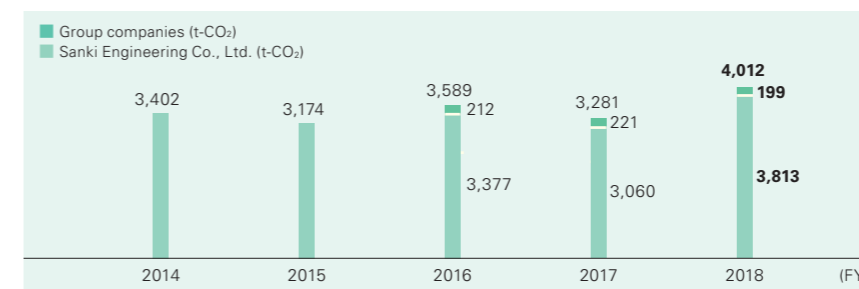
• Energy Conservation Activities

Sanki Engineering has been promoting energy-saving activities in its offices. In fiscal 2018, energy consumption was 2,026 kl, and CO₂ emissions generated by energy use was 3,813 t-CO₂ on a non-consolidated basis. Energy consumption rose significantly, by 28.1% from fiscal 2017, mainly due to the start of operations by the Sanki Techno Center and R&D Center in fiscal 2018. 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 97.8% in fiscal 2018. We will continue to promote proper disposal by monitoring and analyzing the discharge of industrial waste.

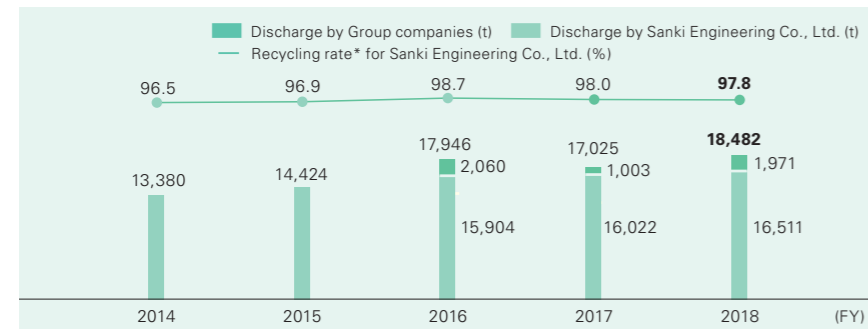
In fiscal 2018, the waste disposal cost for construction sites was 353,377,000 yen. Furthermore, we have been properly disposing waste CFC and halons, the cost of which was 41,756,000 yen in fiscal 2018.



Explanation for handling CFC during HVAC inspections

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. We also prepared a flow chart for the proper disposal of asbestos in order to address needs arising from an increase in renovation work.

■ Waste Discharged at Sites where Sanki Engineering is the Prime Contractor and at the Sanki Techno Center



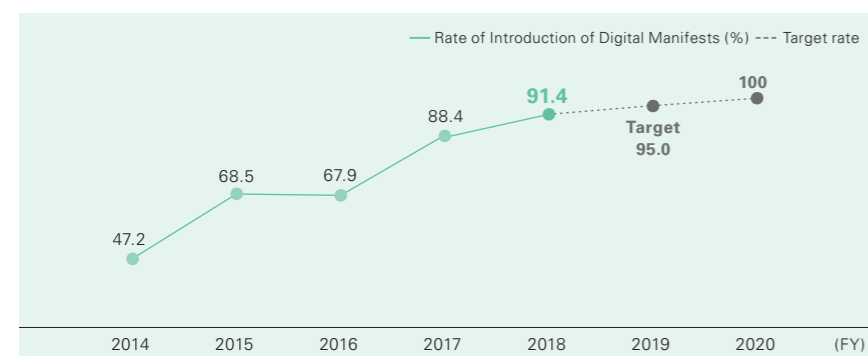
● Introduction of a Digital Manifest

With the aim of ensuring the proper disposal of industrial waste, we are pushing ahead with the introduction of a digital manifest. In fiscal 2018, we completed a system for introducing digital manifests, which is now available to all departments.

The rate of introduction of digital manifests to the total number of manifests issued was 91.4% against the target of 90.0% on a non-consolidated basis in fiscal 2018.

To comply with regulatory revisions obligating the use of digital manifests, we will raise our target to 100% on a non-consolidated basis by fiscal 2020. To achieve this goal, we will continue to reinforce our system for accurately monitoring the status of disposal and recommend that business partners who have yet to connect to the digital manifest system do so.

■ Rate of Introduction of Digital Manifests (Non-consolidated)



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

*Target rate: 90% or higher

Note: The numbers were retroactively revised to increase data accuracy.

Topics

Dispatching Engineers to the Japanese Antarctic Research Expedition
Construction of an HVAC and Plumbing Facility for the New, Basic Observation Building

Sanki Engineering's relationship with the Japanese research expedition to Antarctica began in 1957, when we delivered roller conveyors for the second expedition. Subsequently, when the Protocol on Environmental Protection to the Antarctic Treaty was adopted and the principle of environmental protection became part of the activities in Antarctica in 1991, we dispatched our engineers for the first time to the 33rd expedition and began preserving the environment around the Showa Base. The expedition is composed of roughly 60 members divided into either the summering or wintering parties. Waste and wastewater are generated by the Showa Base, as various observations are conducted and as members live there each day. Starting with a survey of actual conditions at the base, Sanki engineers have been surveying waste, taking measurements, and surveying wastewater volume and quality as well as delivering, launching, maintaining, and managing the wastewater processing facility. In November 2018, two employees seconded to the National Institute of Polar Research left for Antarctica with the 60th research expedition (one for both the summering and wintering parties). This raised the total number of employees who had participated in the expedition to 15.

Mitsumasa Koike returned safely after spending two months at the Showa Base from mid-December 2018 as a member of the summering party. Along with other work, Koike was responsible for constructing the HVAC and plumbing facility for the Basic Observation Building, which is scheduled to open in 2020 and will be used for observations by researchers from the Meteorological Agency as well as seismologists and biologists. During the expedition, we undertook construction work for the HVAC facility for the first time since we began dispatching staff in 1991. The work included installing a boiler for the heater, an air conditioner, a total heat exchanger, and a drainage tank. We also carried out adjustments and maintenance for the HVAC and hygiene facility of the summer camp used by expedition members.

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



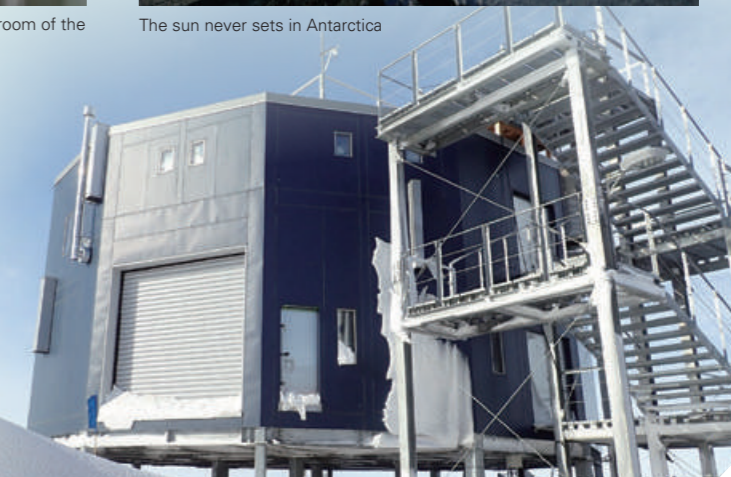
Construction work around the air conditioner in the machinery room of the Basic Observation Building



The sun never sets in Antarctica



Greeted by penguins near the base



Social

Ensuring Quality and Enhancing Technologies



Basic Principle

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 Facilities Construction Business. We will meet the increasingly sophisticated and diversified needs of customers and thereby continue to earn their trust and appreciation.

Important Issues

- More effectively respond to increasingly sophisticated and diversified customer needs
- Enhance the accuracy of quality management
- Improve construction quality and pass on technologies

FY2018



Reducing the number of problems and complaints during construction per year



Strengthening guidance for construction managers

[Primary Goals]

Reduce the number of problems and complaints by 12%

Conduct training on construction technology and management for all applicants

Actual number of problems and complaints

Reduced by **14%** year on year

Assessment

Total number of training participants

461

Assessment

Major Action Policy for FY2019

Reduce the number of problems and complaints during construction per year

Strengthen guidance for construction managers

ESG Initiatives

Environment

Social

Governance

Communication with Our Customers

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

Exhibition Participation in Fiscal 2018

Exhibitions	Exhibited Items
Sewage Works exhibition '18 Kitakyushu	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
3rd Smart Building Expo	selfFort™, S-Cloud®, SanBACS®
INTERPHEX OSAKA—5th International Pharmaceutical R&D and Manufacturing Expo Osaka	CPCube®, MREAL®, MEDIFORT®, low-temperature steam sterilizer, mist spray sterilizer, AGV
ENEX 2019—43rd Exhibition for Harmony between the Global Environment and Energy	Energy-related technologies and presentation of actual cases
Nikkei IR and Investment Fair 2018	Explanatory presentation at the Company booth
World Water Congress & Exhibition 2018	AEROSTRIP
Waterworks Exhibition in Fukuoka 2018 (52nd Waterworks Exhibition)	Report on PFI Okubo, UV sterilizer



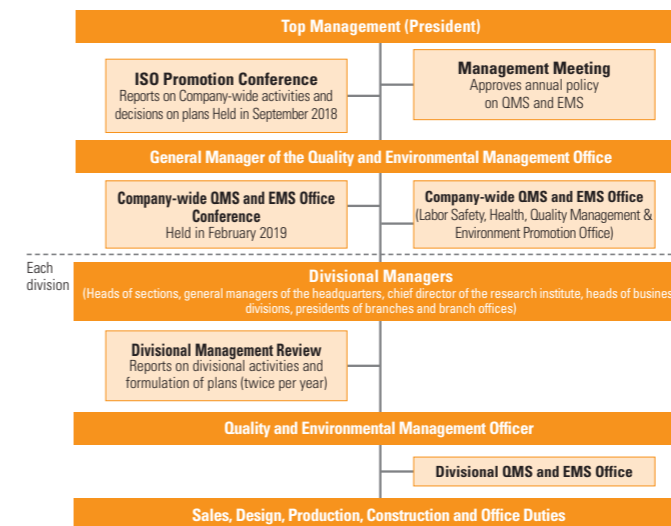
Sanki booth at ENEX 2019

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 2018, we held discussions on raising the efficiency of system operations and improving 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.

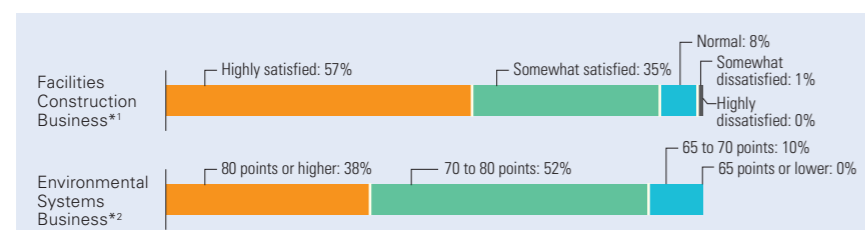


ISO 9001 Scope of Accreditation
<https://www.sanki.co.jp/en/csr/stakeholder/>

● Understanding Customer Satisfaction and Utilizing Feedback

In an effort to maintain quality, we conduct a customer satisfaction survey at the completion of construction work and reflect the feedback in our operations. In fiscal 2017, the survey was carried out based on revised assessment criteria, and we received highly positive feedback from over 90% of the 627 respondents. We revised the content yet again in fiscal 2018 to obtain more specific feedback and began applying the new format in fiscal 2019. Looking ahead, we will continue to incorporate customer opinions into our operations to enhance construction quality.

■ Customer Satisfaction Survey (FY2017)



● 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 they do occur, to handle them quickly and effectively.

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. We have been seeking to reduce the number of problems and complaints by 15% year on year. We attained our target in fiscal 2018 by carrying out priority management during the busy season to provide a focused response. In fiscal 2019, we will continue to pursue quantitative targets while strengthening our response.

*1 Compiled from customer satisfaction data based on the final handover report.
*2 Compiled from customer satisfaction data based on the construction work performance rating.



A new version of poster for raising awareness of preventing problems and claims is created each month and displayed at worksites.

Site-Documentation System (Octopus)

- A new version was deployed in October 2018
- Electronic approval of in-house documents
- Unification of document format
- Visualization of circular reporting route

Initiatives on Quality Based on Support for Construction Sites

● Providing Operational Support for Construction sites

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

● Supporting Site-Documentation

To reduce the burden of administrative work at the construction site, the Site-Documentation Support Center began providing centralized support in fiscal 2015. After raising efficiency and promoting the work-sharing approach, the center was dissolved in fiscal 2018. Its operations were handed over to each branch and branch office, and the Labor Safety, Health, Quality Management & Environment Promotion Office has continued to support site operations. We are also raising the efficiency of our operational processes by sorting, reducing, and digitizing documents used at construction sites.

● Supporting Design and Technical Operations

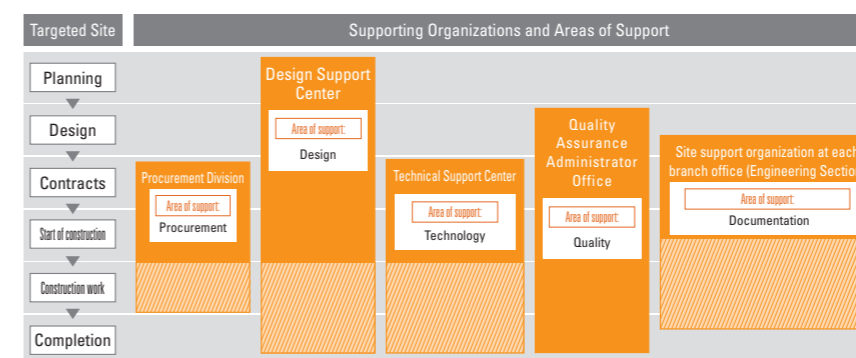
The Design Support Center provides five branch offices with design and technical assistance. In fiscal 2018, the scope of its support was expanded to include areas such as building HVAC and plumbing in addition to industrial HVAC. In fiscal 2019, the center will continue to pursue higher design quality by conducting on-the-job training to raise the design capability of members and by proposing new technologies and providing information.

The Technical Support Center, which serves the five branch offices, was set up in April 2018. We seek to reduce the burden on construction managers by allocating operations preceding construction work to each relevant department. In fiscal 2019, we will disseminate successful practices across departments and conduct hearings of on-site staff to prepare for the full-scale launch of supportive operations.

Under the Quality Assurance Administrator Office, highly skilled former office managers work as quality assurance administrators and technical experts, who visit construction sites to conduct construction audits and quality reviews as a means of improving quality and preventing problems and complaints while also mentoring junior employees. Moreover, we set goals each year to reduce problems and complaints as an ongoing initiative while also thoroughly disseminating information across the Company by issuing and sharing technical memos.

Such support has enabled us to keep the number of problems and complaints below target and to maintain quality, even though the number of construction projects is on the rise. We will bolster the system of support and continue to develop an environment that helps with the management of construction sites.

■ Site Support System for the Five Branch Offices



Quality check by quality assurance administrator

Note: After consultation with the branch office, each supporting organization provides assistance to the selected site.

Enhancing Our Technologies

● 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 1,470 applications in fiscal 2018 and presented 5 awards for improvements in construction methods and operational processes as well as 3 Contribution to Customers Awards.

● Fostering Human Resources to Sustain Our Technological Level

The Sanki Techno 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.



Training for new employees

ESG Initiatives

Environment

Social

Governance

We provide a three-stage program for construction managers based on the level of each individual's skills in design, construction engineering, construction management, and other areas. We will enhance our engineers' skills by improving hands-on practice and drills using actual machinery and facilities at the Sanki Techno Center.

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

Qualification	FY2018		FY2019	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Professional engineer	92	104	97	104
Project management technician (civil works/ construction/electrical construction/pipe-laying work)	1,112	1,272	1,134	1,272
Architect	42	46	42	46
Facilities construction architect	210	228	214	228
Electrical engineer	153	208	154	208
Chief electrical engineer	29	37	27	37
First class instrument engineer	284	305	295	305
Fire protection engineer	683	752	677	752
Qualified managing engineer	1,659	1,891	1,672	1,891

Major Skill Development Activities for Fiscal 2018

Initiatives	Training	Details of Training	Results
Initiatives at the Sanki Techno Center	Training for new employees	• Education for new businesspersons, basic skills	61 participants
	Correspondence course for attaining qualifications	• Exam preparation for employees who want to be managing engineers and for building, mechanical and electrical engineers	163 participants
	Training based on operational experience* Third year in construction work Sixth year in construction work	• 9 to 10 day training held at 3-year intervals • Standardized group-based training according to operational experience • Technical training using actual equipment and mock-ups	2 sessions 57 participants
Initiatives for passing on technology	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	20 technical experts 2,674 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 19 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: 6 Kansai branch: 20 Chubu branch: 11 Hokkaido branch office: 3 Hokuriku branch office: 4 Chugoku branch office: 3 Tohoku branch office: 2

Note: Cumulative figures are shown for all qualifications.

*Started the training for the ninth year in construction work in 2019.

Action Policies for Fiscal 2019

Reducing the number of problems and complaints during construction per year will be our ongoing action policy, with the aim of reducing such cases by 15% year on year. We will also seek to increase our support for construction sites in both administrative and technical aspects. We will make better use of the Octopus site-documentation system while setting up a new dedicated department for promoting greater use of BIM. Furthermore, we will pursue initiatives that enable us to maintain high productivity and guarantee quality.

Social

Securing 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 Initiatives for Safety
<https://www.sanki.co.jp/en/csr/safety/>

Important Issues

- 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

FY2018

Implementing Measures to Achieve Zero Accidents

Continue the campaign for preventing the three major categories of accidents

12% reduction from the average for the past three years

Assessment ○

Implement Accident Prevention Measures for Subcontractors

[Primary Goals]
Measures for preventing accidents involving inexperienced workers

• Visits to subcontractors
• Ratio of accidents involving inexperienced workers

263 companies
FY2017 46% → 44%

Assessment ○

Continuation of Health and Safety Training

Promote training and guidance on topics such as the use of ICT

• Health and safety training sessions for employees and subcontractors
• Transmission of a video message and other information

FY2017 167 → 178

Assessment ◎

Major Action Policy for FY2019

Implement measures to achieve zero accidents

Bolster site-support systems

Continue health and safety training

Health and Safety Environment of the Construction Industry

The selection of Osaka to host the 2025 World Expo has led to expectations the event could somewhat remediate the economic slowdown anticipated to follow the Tokyo Olympic Games. However, even as construction demand continues to rise, the labor shortage has worsened, increasing the urgency for securing engineers and skilled workers, raising operational efficiency, and addressing the risks of industrial accidents, long working hours, and mental health issues, associated with the labor shortage and decline in experienced workers. Regulations governing equipment for preventing falls, requiring preventive measures and special training on falls/tumbles were revised in February 2019. In addition, the Ministry of Land, Infrastructure and Transport launched the Construction Career Up System, for the purpose of securing and cultivating competent personnel, in April 2019.

Initiatives in Fiscal 2018

● Key Items Implemented in Fiscal 2018

In fiscal 2017, although we were able to achieve our reduction targets for accidents in the “falls/tumbles” and “caught/pinched” categories, as well as for traffic accidents, they are still occurring at a high rate. Many of the accidents have involved inexperienced workers and primary subcontractors who were not members of the Cooperative Association. Accordingly, in our slogan and key actions, we emphasize the need for construction sites, subcontractors, and Sanki Engineering to work together to improve measures for preventing accidents that frequently occur as well as our system for providing safety training to all staff, including those of subcontractors.



Right: Sticker conveying the “Three as One” message
Left: Poster with a QR code that links to a video message

Outline of Activities in Fiscal 2018

Policy of the Central Safety and Health Committee Chairperson

Slogan

“Happiness comes to a smiling workplace, so maintain our safety culture into the future—Let each of us help to disseminate the Smile Health and Safety Plan”

Key Actions

Safety

1. Deploy measures to achieve zero accidents
 - Continue our campaign for preventing falls/tumbles, caught/pinched accidents, and traffic accidents
2. Implement accident prevention measures for subcontractors
 - Measures for preventing accidents involving inexperienced workers and younger workers
 - Instill a thorough understanding of the importance and necessity of work reports
 - Bolster the leadership skills of foremen and safety managers
 - Develop the follow-up assistance systems provided by each branch, branch office, division, worksite, and subcontractor

3. Continue health and safety training

- Provide e-learning programs for all employees
- Provide health and safety training for Sanki Engineering’s construction managers
- Conduct practical drills during specialized training and other programs
- Reduce the burden of health and safety operations through the Smile Site Plan
- Effectively use ICT in educational and instructional settings
- Provide safety experience training at the Sanki Techno Center

Health

1. Promote the Smile Safety and Health Plan
 - Prevent health disorders and promote mental health

● 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 2018, 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 37 construction sites in the summer and before and after year-end.



Safety patrol by the president

● Health and Safety Training

For our own employees and for staff employed by subcontractors, Sanki Engineering provides training led by in-house instructors or at designated training institutes. Using the facilities at the Sanki Techno Center, we held special training sessions involving aerial platforms and full harness-type equipment with the aim of preventing falls. For newcomers to the construction site, we distribute health and safety handbooks and organize joint training sessions with the Sanki Health and Safety Cooperative Association.

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 13 Vietnamese technical interns at a subcontractor.

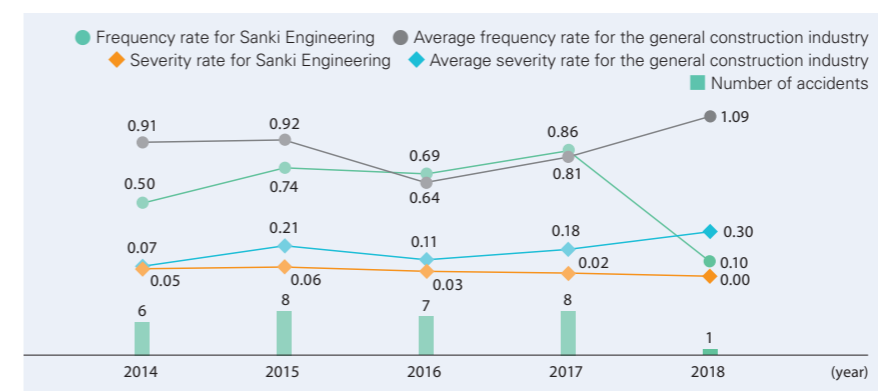
■ Number of Participants in Health and Safety Training (Fiscal 2018)*

Type	Number of Participants (from Subcontractors)
Special education and other courses	2,475 (1,771)
Health and safety training for foremen	372 (223)
In-house health and safety training	235 (—)
Other client-focused training	1,197 (1,159)
Total	4,279 (3,153)

● Accidents during 2018

In 2018, 9 accidents occurred (1 lost workday accident, 8 with no lost workdays), and we were able to reduce incidents from the previous year. According to our analysis, 50% of the accidents involved inexperienced workers, which reflects a persistent challenge for us. Even though efforts to prevent the three major categories of accidents have proven effective, results have remained unchanged. While the number of serious accidents has fallen, there was an increase in minor accidents. The results show that in addition to preventing the three major categories of accidents and bolstering preventive measures at subcontractors, providing safety education related to minor accidents is also key.

■ Number of Accidents, Frequency Rate¹, and Severity Rate²



Action Policies for Fiscal 2019

In view of the latest developments in society and industry, and the types of accidents that occurred in 2018, we are focusing on the following key action areas for safety in fiscal 2019: (1) Deploy measures to achieve zero accidents, (2) Bolster site-support systems, and (3) Continue health and safety training. We will utilize the Sanki Techno Center as we undertake these actions.



Safety card game created by young employees



Training with virtual reality technology

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

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

¹ 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.

² 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.

Social

Supply Chain Management



Basic Principle

The Sanki Engineering Group Code of Conduct and Action Guidelines stipulate 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 these principles, we endeavor to build trust with our business partners to jointly provide high-quality systems and services to customers.

Important Issues

- Thoroughly ensuring equal, fair and transparent transactions
- Quality improvement through cooperation with business partners

FY2018



Further enhancing procurement efficiency

Digitize operations (work style reforms)

Percentage of digitized operations

85% or more

Assessment ○



Exchanging opinions with business partners

Maintain the optimal procurement environment

Exchanged opinions with

45 companies

Assessment ○



Strengthening cooperation through subcontractor groups

Expand the scope of participation for the nationwide

liaison meeting

19 companies

Assessment ○

Major Action Policy for FY2019

Digitize Procurement Web (ordering) verification function on iPad
Enhance the entire Procurement Web system

Exchange opinions with business partners (twice a year)

Number of participating companies: 19

ESG Initiatives

Environment

Social

Governance

Building Fair, Equal and Transparent Business Relationships

● Overview of Procurement

The procurement cost of materials and equipment used by Sanki Engineering for construction work is approximately 39 billion yen, with domestic suppliers representing the source for nearly all procurement.

● 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. 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. In addition, the provisions of a basic sales contract include product safety, quality control, intellectual property, legal compliance, and the exclusion of anti-social forces.

● 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 we helped negotiate prices for all offices and manage procurement-related information for them as well through centralized purchasing and price surveys as well as announcements.

We are moving forward with work style reforms by improving operational efficiency through digitization. In fiscal 2017, divisions related to technology and procurement at all offices began digitizing their ordering process. Moreover, we began digitizing claim forms for completed work in November 2017. In fiscal 2018, the number of processed forms reached about 85%, and we also started using iPads for acceptance inspections to boost efficiency.

Upon digitizing the forms for ordering and completed work claims, we held an introduction briefing for our business partners and created an instruction manual. The transition resulted in improved convenience for those partners and a significant decrease in the number of inquiries received at each branch office and branch responsible for internal operations. After introducing digitized ordering, procurement division staff from the head office visit each office and exchange opinions on improvements. This meticulous follow-up has led to exceeding our target for the number of additional companies that supported digitization in fiscal 2018 by more than 3.5 times. Looking ahead, we will continue to work on making our procurement activities more efficient to contribute to our work style reforms.

● Exploratory Visits to Business Partners

In fiscal 2018, we began exchanging ideas with the Procurement Web users of our major business partners at each office during joint reviews. In regard to manufacturing-related procurement, our procurement department staff visited suppliers and exchanged ideas about management status, delivery date confirmation for products to be procured, BCP compliance, and similar concerns. We will continue these visits and conversations to maintain an optimal procurement environment.



Instruction manual on digitization for business partners



Briefing on invoice digitization



An exploratory visit to a business partner

● 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 addition, we encouraged procurement staff to obtain registered qualifications for certified procurement professionals (CPP), construction business accountants, and fundamental information technology engineers, among others, to enhance their skills and knowledge. Furthermore, to improve understanding of CSR procurement, we held a study session led by an external lecturer, with 13 participants.

■ Outline of Main Training Sessions (FY2018)

No. of Sessions	Theme	Content
46	General procurement	<ul style="list-style-type: none"> Basic knowledge about air conditioning, sanitation, and electricity Learning basic knowledge about procurement items
4	Basic knowledge of accounting	<ul style="list-style-type: none"> Basic knowledge about accounting How to read financial statements Compliance Measures for the 10% consumption tax revision
1	CSR procurement (by external lecturer)	<ul style="list-style-type: none"> Background of spreading CSR procurement Necessity of CSR procurement Approaches

● 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, 2019, we have received pledges from 3,772 companies.

● Operation of Internal Whistleblowing Hotlines

We operate the Corporate Ethics Hotline to prevent any improper transactions. Also, we are striving to conduct fair transactions with our business partners by providing them with information on how to use the hotline and asking them in letters for their cooperation in ensuring that business activities are sincere and fair.

Reference

Whistleblowing System

P. 75

Strengthening Cooperation with Business Partners

● Providing Assessment Feedback to Business Partners

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 visit and provide them with feedback on the results and exchange information on improvements as needed to enhance their safety management capabilities.

● Sanki Techno Center

The Sanki Techno Center is a comprehensive training and research facility that our subcontractors can also use. By sharing and developing high-quality training, we will improve technology, construction quality, and safety and also strengthen mutual cooperation.

● 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 implement joint labor-saving projects and hold 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. We had previously held the Liaison Meeting for Subcontractor Groups twice a year but dissolved it and held the Sanki Engineering Safety and Health Meeting for Subcontractor Groups in December 2018. Led by subcontractors facing high disaster risk, the meeting is expected to raise awareness about disaster prevention. It was attended by 25 employees from our Group and 19 from subcontractor groups, with our chairman and president also in attendance. In future, we will organize the system for full-scale operation and continue striving to build business partnerships.

● 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 2018, 14 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 improvements at construction sites.

● 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 2018, 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.

● Technical Guidance from Subcontractors

Our new employee training also provides technical guidance from subcontractors. Moreover, skill training from subcontractors for new employees is offered at the Sanki Techno Center. This collaborative approach to training helps us to maintain cooperative relationships with subcontractors.



Liaison Meeting for Subcontractor Groups



Sanki Super Meister awards ceremony

VOICE

Practice of Technical Guidance that Leads to Trust at Construction Sites

In response to a request from the Sanki Techno Center, I have been offering technical guidance training there since April 2019 as a skilled technician certified by the Sanki Super Meister. I mainly provide practical technical guidance with a focus on basic techniques that are indispensable at construction sites, such as screwed piping, pipe cutting, and lathes. I try to teach in a polite and easy-to-understand manner to raise safety awareness of the workers onsite. Employees of Sanki Engineering and its subcontractors in various industries teach each other as well, which encourages them and deepens trust at the sites. Looking ahead, I will strive to make more improvements and enhancements every day so that we, as a subcontractor, as well as our quality, will continue to be regarded highly.



Akihiro Igarashi

Sankyo Corporation



Seminar for trainees from a Thai subcontractor

Social

Improving the Value of Human Resources and Creating a Comfortable Working Environment



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.

● Respect for Human Rights

We declare our respect for human rights in the Sanki Engineering Group Code of Conduct and Action Guidelines, which prohibits discrimination based on nationality, gender, age, and disability. Moreover, 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. Also, we have a counter staffed by qualified external counselors. In June 2017, we added the Women's Hotline, through which callers can consult with female advisors. We also seek to incorporate results of our compliance awareness survey when monitoring human rights issues.

● 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. As of April 1, 2019, 22 people from China, Peru, South Korea, Thailand, Vietnam, and the U.K. are working with us, of which 5 are women and 17 are men. Under our medium-term management plan, we will continue to hire foreign nationals so that we steadily develop our overseas operations and promote diversity.

● Promoting Women's Careers

We believe that creating opportunities in which our female employees can further demonstrate their talents would lead to the sustainable growth of the Company and in turn boost our corporate value. We are therefore working to upgrade our personnel system and enhance various programs.

In addition, 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 Based on the Act for Promoting Women's Careers

1. Plan period: April 1, 2016 to March 31, 2021
2. Goals
 - Goal 1: Increase the average length of service for women by 20% or more from now.
 - Goal 2: Actively assign female career-track employees in the sales department and double the current ratio.
 - Goal 3: Raise the ratio of women in managerial positions to the construction industry average of 1%.

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 employee is an invaluable human resource. We are therefore creating a comfortable working environment that fosters the development of human resources based on our unique Sanki spirit, which enables them to work to their full potential.

Important Issues

- Promoting diversity
- Developing and appropriately allocating human resources
- Creating a comfortable working environment

FY2018



Implementing training programs for boosting overall levels as a culmination of the final year of the medium-term management plan

Implement training programs tailored to the characteristics of employees

Offered programs for overcoming individual weaknesses and developing strengths

Assessment ○

Expand programs for young people



Improve internal communication

[Primary Goals]
Hold opinion exchange sessions with the president

Held opinion exchange sessions with the president (15 times)

Approximately **100** employees participated

Assessment ○

Major Action Policy for FY2019

Improve internal communication

Implementing measures under the Smile Project

Increase the paid leave ratio

Paid leave ratio (non-consolidated)

FY2017 **53.7%** → **55.9%**

Assessment ◎

Implement measures under the Smile Project

Reference

Whistleblowing System

P. 75

Reference

Compliance Awareness Survey

P. 77



Employees working at THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.

Measures for Promoting Women's Careers

FY2014

Joined the Action Plan on Women's Active Participation in the Workplace advocated by the Keidanren (Japan Business Federation) and published our voluntary action plan on 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.

FY2019

Due to the abolishment of regional positions, the number of employees switching to career-track positions increased.

● Career Change System

Sanki Engineering introduced a system that allows employees to change their career type from regional positions to career-track positions and vice versa. In 2019, after reviewing career types, we abolished regional positions and omitted "transfer" from the career-track position's criteria. Then the system is applied for the change between career-track and operational positions. As of April 1, 2019, 59 employees have changed their career type to realize work styles tailored to the particular life stage of each employee. In addition, as a result of reviewing career types, those of 18 female employees were switched to career-track positions, leading to the promotion of active participation by female staff.

● Creating Workplaces for Persons with Disabilities

We continue to 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, opinion exchange sessions, and management training for employees who are hearing-impaired to promote workplace management so that all employees can thrive. Also, we held a seminar on business documents in February 2019.

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.

● 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 2018, we reemployed 232 retired employees on a consolidated basis, compared with 222 in fiscal 2017.

Developing and Evaluating Human Resources

● Personnel and Treatment 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.

In our personnel system, 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.

As for treatment, we revised the salary system in April 2018 with the aim of securing talented young human resources and improving the treatment of employees. We raised base pay and also provided executives with allowances.

Going forward, we will continue to strengthen employee education and working conditions at Group companies as well.

● Education and Training Systems

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 program designed to develop human resources adaptable to diverse environments. In technical training, we use the Sanki Techno Center to provide practical training as well as classroom lectures.

■ Training Systems

	Younger Employees	Mid-career Employees	Executives
Management Training	New recruit training Third-year training Fifth-year training Seventh-year training	Leadership position training Management training Section chief training	Department manager training
Safety Training	New recruit training Qualification training Career-positioned staff training		
Corporate Ethics Training	Corporate ethics training		
Technical 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	



Group work in a classroom learning program



New employee training

Promoting Work Style 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 both male and female employees can continue to work with a sense of security while attending to various life events. In fiscal 2018, we introduced a trial of a telecommuting and telework system and implemented eight cases to create a working environment that is beneficial for employees raising children or caring for the elderly. The system's full implementation will begin in fiscal 2019, after which it will be evaluated based on feedback from participants and their supervisors.

■ Number of Employees on Childcare Leave, Nursing Care Leave, or Paid Leave

		FY2014			FY2015			FY2016			FY2017			FY2018		
		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Childcare leave	Consolidated	-	-	-	2	8	10	1	15	16	2	18	20	7	11	18
	Non-consolidated	0	9	9	1	6	7	1	12	13	2	14	16	7	9	16
Reinstatement after childcare leave (%)	Consolidated			-			-			-	100.0	100.0	100.0	100.0	88.9	93.8
	Non-consolidated			-			-			-	100.0	100.0	100.0	100.0	88.9	93.8
Nursing care leave	Consolidated			-			-	0	0	0	0	0	0	1	0	1
	Non-consolidated			-			-	0	0	0	0	0	0	0	0	0
Paid leave ratio (%)	Consolidated			-			-			-			-	54.0	76.1	57.1
	Non-consolidated	32.6	56.4	35.6	38.8	62.1	41.8	47.6	69.5	50.5	49.9	78.2	53.7	53.0	74.2	55.9

Major Programs Supporting Work-Life Balance (Non-consolidated) (as of April 2019)

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 construction managers	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 (no upper limit).
	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	The Company's own Premium Friday, a scheme based on that launched by the Japanese government. Employees are encouraged to take a full or half day of paid leave on payday and avoid overtime.
	Reserved leave	The use of reserved days off for childcare, nursing, or volunteer activities.
	Telecommuting and telework system	A system for employees who have been working for more than one year and are unable to continue daily commuting due to childcare, nursing care, or personal health reasons.
Childcare and nursing care	Return to Work program	Employees who have left the Company for unavoidable 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 one year old.
	Nursing leave	Can be obtained five times for up to 180 days per person on nursing leave.
	Shortened work hours	Employees caring for children or other family members can apply for shortened or sliding work hours. In the case of childcare, the program applies to children up to the third grade of elementary school.
	Support for childcare leave and reinstatement	An interview is held with the supervisor before and after applying for childcare leave.

Promoting the Smile Project

Sanki Engineering launched the Company-wide Smile Project, led by the president, in fiscal 2015 to promote work style reform. We have been implementing initiatives across the Company to create a better working environment, such as by revising internal paid leave programs and introducing the use of tablets at construction sites. In fiscal 2017, we set up the Smile Site Plan, a committee dedicated to construction sites. We are working on efforts to lessen the operational load of construction managers and enhance capabilities and quality at our construction sites.

In fiscal 2018, we removed restrictions on the half-day off program, and as a result the average number of days taken in fiscal 2018 increased by 5.1% year on year. In addition, we reviewed our summer vacation program and allowed for the extension and split of the period, achieving a summer vacation acquisition rate of 100%.

As a result of these efforts, we were certified as 3 stars in the 2nd NIKKEI Smart Work Management Survey, which selects advanced companies that challenge the productivity revolution through work style reform. Looking ahead, we will continue to promote our work style reform under the 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.

Maintaining and Improving Employee Health

We introduced a 24-hour toll-free health consultation service to offer advice on health, medical, nursing, and childcare issues for employees and their families. The service was set up outside the Company, and the caller's privacy is strictly protected. We have also been working to prevent employees from developing mental health issues by conducting checkups for stress-related symptoms, even before they became legally mandated in 2014. In February



★★★ 2019

Certified as 3 stars in the 2nd NIKKEI Smart Work Management Survey

Average number of paid leave days taken in FY2018

increased by **5.1%** ↑ from the previous year

FY2018 paid summer vacation acquisition rate

100% ↑ achieved



The Kurumin mark for support of raising next-generation children



City of Nagoya certification for companies supporting childcare



Health promotion event

2019, we invited health management guidance specialists at our head office to hold health promotion events over a three-day period to raise awareness about health maintenance.

Mechanism for Gathering Employee Feedback

Since fiscal 2016, we have continuously held the Century Communication Up (CCU) discussion events in accordance with the Century 2025 long-term vision. In fiscal 2018, we held 15 CCU dialogues with the president, with roughly 100 employees engaging in discussions. We also held the 3rd Sanki Ladies' Roundtable to support the creation of a network through which female employees can consult with each other. We have applied their opinions and proposals to improve our operations and systems.

Sound Employer-Employee Relationships

The Human Resources Department and the employees union at Sanki Engineering meet monthly to discuss improvements in the workplace environment and the development and operation of Company systems. Also, we provide the employees union with opportunities to present their proposals or requests to management.



The 3rd Sanki Ladies' Roundtable with the president taking part in the discussion

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

		FY2014		FY2015			FY2016			FY2017			FY2018		
		Male	Female	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of employees	Consolidated	2,282	2,022 (637)	287 (5)	2,309 (642)	2,041 (653)	298 (5)	2,339 (658)	2,079 (664)	305 (5)	2,384 (669)	2,072 (602)	322 (5)	2,394 (607)	
	Non-consolidated	1,908	1,677 (550)	249 (3)	1,926 (553)	1,678 (572)	255 (3)	1,933 (575)	1,698 (586)	271 (5)	1,969 (591)	1,694 (528)	273 (3)	1,967 (531)	
Average age Average years of service	Consolidated	-	-	-	-	-	-	-	-	-	-	44.5	38.2	43.7	
	Non-consolidated	42.6	43.7	36.1	42.7	43.8	36.5	42.8	43.8	36.3	42.8	43.9	37.1	43.0	
Average years of service	Consolidated	-	-	-	-	-	-	-	-	-	-	17.3	13.0	16.7	
	Non-consolidated	18.2	18.8	12.9	18.1	19.0	13.3	18.2	18.8	13.2	18.0	19.0	13.9	18.3	
Number of new recruits	Consolidated	-	111	20	131	81	20	101	105	21	126	106	17	123	
	Non-consolidated	95	75	18	93	60	16	76	88	21	109	75	11	86	
Number of rehired post retirement-age employees	Consolidated	-	234	2	236	235	5	240	217	5	222	223	9	232	
	Non-consolidated	203	188	2	190	183	4	187	164	3	167	161	5	166	
Employment of people with disabilities	Number of people with disabilities	Consolidated	-	-	-	-	-	-	-	-	-	-	-	44	
	Non-consolidated	37	-	-	32	-	-	30	-	-	32	-	-	36	
Ratio of people with disabilities	Consolidated	-	-	-	-	-	-	-	-	-	-	-	-	1.89	
	Non-consolidated	2.11	-	-	1.80	-	-	1.69	-	-	1.78	-	-	1.93	

Figures in parentheses indicate the number of managers.

Employees by Age (as of March 31, 2019)

	10s	20s	30s	40s	50s	60s	70s	Total
Consolidated	3 (1)	414 (83)	528 (97)	677 (97)	519 (35)	249 (9)	4 (0)	2,394 (322)
Non-consolidated	3 (1)	382 (81)	443 (80)	527 (80)	425 (26)	183 (5)	4 (0)	1,967 (273)

Figures in parentheses indicate the number of managers.

VOICE

Labor-management reform that leads to customer trust

At the Employees' Union, we draw out the voices of our members in regard to maintenance and improvement of working conditions and welfare benefits. And we express positive opinions to management, communicating openly with them, toward realizing specific measures. One proposal, entitled "Promotion of taking paid leave," was made by us for the work style reform in fiscal 2016.

The new medium-term management plan has set the targets for sales to be constant and the profit margin to be improved. We viewed these as management's consideration, not only for sales but also for long working hours. A comfortable working environment helps to motivate employees and improve productivity, resulting in increased quality of human resources and work that in turn leads to customer trust. To establish a better working environment, we will continue to maintain healthy labor-management relations while proposing pragmatic measures for both our members and the Company.



Tomoyuki Kimura

Central Chairperson, Sanki Engineering Employees' Union

Social

Coexistence with Local Communities



ESG Initiatives

Environment

Social

Governance

Sanki Forest

To commemorate the 90th anniversary of our founding, we held a weeding event at the Sanki Forest in Kai City, Yamanashi Prefecture, in September 2018, where we had planted a thousand trees in October 2015. With the help of staff from the local forestry cooperative, 32 of our employees used sickles to clear underbrush as volunteers.



Weeding event participants

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 fiscal 2013, our business site in the city will be made available as a temporary shelter for those unable to return home in the wake of a disaster. The former Yamato Engineering Center was relocated and opened as the Sanki Techno Center in October 2018. Even after the relocation, the agreement still remains in effect. The center has broadened its function to serve regional disaster prevention by adding a new space for those who could be stranded and unable to return home in the event of a disaster.



Space in the Sanki Techno Center for people stranded after a disaster

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 they are damaged by a disaster.

● Immediate Dispatch Drill for Earthquakes

Under the Agreement on Emergency Cooperation in the Wake of Earthquake for Public Buildings in Yokohama City, signed by Yokohama City and the Kanagawa Air Conditioning Sanitation Industry Association, our Yokohama branch employees took part in an immediate dispatch drill for earthquakes that was organized by the Yokohama City Architecture Bureau in September 2018. The drill involved an initial response to a disaster, safety inspection, first aid, and communication at public facilities, which play central roles in disaster recovery.

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 2018, employees of the Okubo Office of Group company Sanki Kankyo Service Co., Ltd. participated in the Zero Trash Campaign in Saitama Prefecture, which involved cleaning the streets near the water treatment facility constructed by the company and other areas. The campaign contributed to maintaining the environment as well as addressing the problem of plastic waste flowing from rivers into the sea. In addition, employees at the Omura Office of Sanki Kako Kensetsu Co., Ltd. joined a coastal cleanup in Omura City, Nagasaki Prefecture. On a Group-wide basis, we carried out activities in more than 30 local communities.



Coastal cleanup by employees of Sanki Kako Kensetsu Co., Ltd.

Our Approach to Local Communities

As stated in the Sanki Engineering 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 participate in local activities and help develop communities while maintaining active communication with stakeholders in the areas where we operate.

Important Issues

- Coordination with local communities
- Contribution to society as a corporate citizen

FY2018



Regional disaster prevention

Participated in regional disaster prevention activities

Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center

Assessment



Conservation of the local environment

[Primary Goals]
Participate in environmental beautification activities

Held Group-wide activities

37 locations

Assessment



Supporting the development of the next generation

Provide educational opportunities such as environmental seminars

Offered 8 social study tours

169 students

Assessment

Major Action Policy for FY2019

Participate in regional disaster prevention activities

Participate in environmental beautification activities

Provide educational opportunities such as environmental seminars

Supporting the Development of the Next Generation

● Public Opening of the Sanki Environmental Garden

The Sanki Environmental Garden opened in 2005 and was a popular place for locals to relax until the former Yamato Engineering Center was relocated. The garden was moved to the Sanki Techno Center, where it remains open to the local community. Many children from neighboring day-care centers visit and enjoy using this facility for the next generation.

● 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 August 2018, Sea Clean Suttsu and the Suttsu Water Purification Center in Hokkaido received 17 students from Suttsu Elementary School, and in September 2018, Sea Clean Suttsu welcomed 6 children from Oshoro Elementary School. In September, the Yoichicho Office in Hokkaido received 62 students from Kurokawa Elementary School, in October the Ryotsu Office in Niigata Prefecture welcomed 15 from Kawasaki Elementary School, and in February 2019 the Imakane Office in Hokkaido received 6 from Tanekawa 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.



Children playing at Sanki Environmental Garden



Social Studies Tour at Tanekawa Elementary School



World Deaf Rugby 7



Yamato Sylphid women's soccer team

Support for Sports Promotion and Revitalization

We served as an official supporter of the Japanese national team for World Deaf Rugby 7, an international championship for deaf rugby sevens, held in Sydney, Australia in April 2018. Managed by Takayuki Ochiai, who works at our Kansai branch, the Japanese national team finished in fourth place.

In February 2018, we became an official sponsor of Yamato Sylphid, a women's soccer team in Yamato City, Kanagawa Prefecture, where the Sanki Techno Center is located. We will continue to contribute to society by supporting sports while at the same time creating a working environment that encourages employees to engage with the local community.

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 encourage our employees to give blood donations at the head office. Moreover, our branches and Group companies each take part in a variety of activities in which anyone can get involved, such as by donating used stamps and cards.

We also contribute to Mitsui Group social contribution activities through our support for the Mitsui Volunteer Network, which promotes the voluntary efforts of retired, former employees of Mitsui Group companies.

Governance

Corporate Governance

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. Following the revision of the code in June 2018, we revised the guidelines in December of that year. 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
<https://www.sanki.co.jp/en/corporate/governance/guideline.html>

Main Points Added to the Revised Guidelines

- Functioning as a corporate pension asset owner
- Proposal for dismissal of directors
- Composition of the Advisory Committee on Nomination and Remuneration and nomination of members
- Scope of stock options in officer remuneration

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.

■ Summary of the Corporate Governance System (as of June 27, 2019)

	Number of Persons
Chairman of the Board of Directors	Director and Chairman
Directors (women)	12 (0)
External Directors (independent directors)	3 (3)
Executive officers (women)	38 (0)
Those also serving as directors	7
Auditors (women)	5 (0)
External auditors (independent auditors)	3 (3)

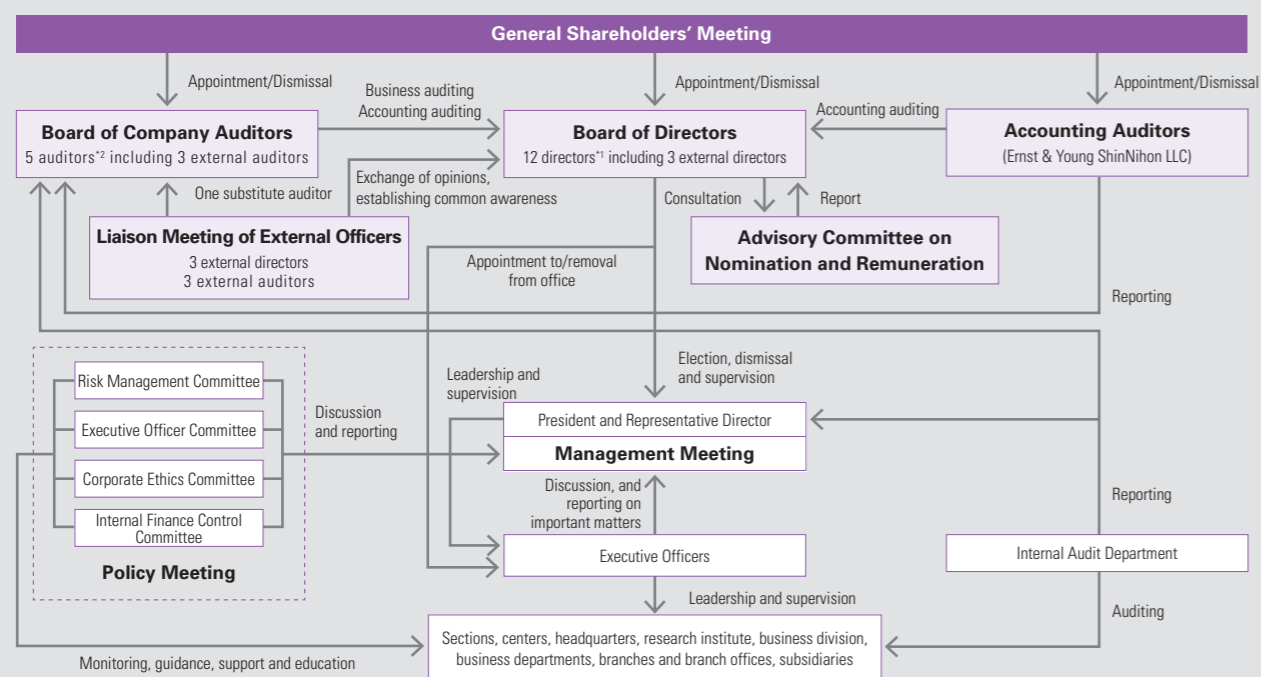
■ Frequency of Major Meetings (FY2018)

Meeting	Frequency	Average Attendance of External Officers
Board of Directors	13	94%
Board of Auditors	9	92%
Management Meeting	37	– (attended by only internal officers)

WEB

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

Framework of the Corporate Governance System (as of June 27, 2019)



*1 The Articles of Incorporation stipulate that the number of directors shall not exceed 16.
*2 One of the auditors possesses a considerable 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 decide 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 twice a month. As a decision-making body for fundamental and key matters related to the execution of business affairs, the meeting deliberates and makes decisions from the standpoint of overall management.

Policy Meeting

Risk Management Committee → See page 79.

Executive Officer Committee

Consisting of executive officers and presidents of the Group companies, the committee meets at least four times a year to communicate 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 meets twice a year to deliberate on plans for the implementation and observance of the Code of Conduct and Action Guidelines.

Internal Finance Control Committee

This committee consists of directors and 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. The chairperson and the majority of committee members are external directors. 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.

● Compliance with the Corporate Governance Code

The principles required to be disclosed in the Corporate Governance Code are summarized in the following locations.

Principle	Principle	Disclosed Location		
		Website*1	Guideline*2	Report*3
Principle 1.4	Basic policy on cross-shareholdings and voting rights	—	Article 10	●
Principle 1.7	Procedures for related party transactions	—	Article 9.3 Article 18.4	●
Principle 3.1 Full Disclosure	Business principles and business plans	●	—	—
	Basic views and guidelines on corporate governance	—	Article 2	●
	Policies and procedures for determining the remuneration of directors and auditors	—	Article 31	●
	Policies and procedures for nominating directors and auditors	—	Article 18 Article 20 Article 21 Article 22 Article 24 Article 25	●
	Reasons for nominating directors and auditors	—	Article 23	●
Supplementary Principle 4.1.1	Matters to be resolved by the Board of Directors and scope of matters delegated to management	—	Article 18	●
Principle 4.9	Independence standards for external officers	—	(Appendix) Independence standards for external officers	●
Supplementary Principle 4.11.2	Concurrent positions of external officers	—	Article 26	●
Supplementary Principle 4.11.3	Evaluating the effectiveness of the Board of Directors	—	Article 29	●
Supplementary Principle 4.14.2	Training policy for directors and auditors	—	Article 30	●
Principle 5.1	Policy on system development and efforts to promote constructive dialogue with shareholders	—	Article 32	●

*1 Company's website
*2 Company's Corporate Governance Guidelines
*3 Company's Corporate Governance Report



Sanki Engineering Corporate Governance Guidelines
<https://www.sanki.co.jp/en/corporate/governance/guideline.html>

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

● Strengthening the Effectiveness of the Governance System

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

Efforts Implemented in Fiscal 2018

Response to the Revised Corporate Governance Code

In response to the revision of the Corporate Governance Code in June 2018, the Sanki Engineering Corporate Governance Guidelines were also updated, and the reasons for not implementing each principle regarding four items were newly disclosed.

Change in Articles of Incorporation

The maximum number of directors was changed from 12 to 16, given that establishing a more sophisticated governance system requires the Board of Directors to include members with diverse knowledge, experience, and capabilities and to work on improving corporate value over the medium to long term by balancing execution and supervision.

Reviewing Discussion Standards for Board of Directors' Meetings and Management Meetings

The discussion standards for the Board of Directors' meetings and management meetings were reviewed to improve the effectiveness of the governance system.

Efforts Implemented to Date

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 external directors and auditors, is held once every quarter to openly exchange views, thereby sharing necessary information and developing a common awareness of such information.

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 information. 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 2018 Efforts to Assess the Effectiveness of the Board of Directors

Self-assessment questions were thoroughly reviewed based on third-party advice. The completeness of evaluation items was enhanced by composing them in four areas: roles and responsibilities of the Board of Directors, composition of the Board of Directors, roles and qualities of directors, and management of the Board of Directors.

● Appointment of Directors and Independence of External Officers

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 officers to raise the objectivity of their oversight of management.

● 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 majority of committee members, as well as the chairperson, are external directors.

The remuneration for directors comprises, within the limits adopted by our general shareholders' meeting, of fixed remuneration, bonus, and stock options. Each fiscal year, we decide amounts, with due consideration for balancing each of the following elements, in order to raise the level of motivation for maximizing corporate value in tandem with the long-term interests of shareholders.

WEB

Independence Standards for External Officers (Appendix for the Sanki Engineering Corporate Governance Guidelines)

<https://www.sanki.co.jp/en/corporate/governance/guideline.html>

Composition of Officer Remuneration

- 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 (as of June 27, 2019)

Category	Fixed Remuneration	Bonus	Stock Options	Procedure
Full-time director	○	○	○ Executive officers only	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 auditors
External auditor	○	○	—	

■ Remuneration for Directors and Auditors in Fiscal 2018

Category	Persons Receiving Payment	Total Payment*
Directors (external directors)	13 (4)	603,810 (32,400)
Auditors (external auditors)	6 (3)	104,700 (29,700)

*Unit: thousands of yen

● Internal Controls

• Basic Policy and Systems for Internal Controls

Under its Basic Policy on Internal Control System, 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 contact points for reporting violations of the Anti-Monopoly Act, and a system for reporting to the fulltime auditor as efforts to stringently enforce compliance.

The Board of Directors makes decisions on matters stipulated in laws, regulations, and the Articles of Incorporation as well as on matters 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. Moreover, to strengthen management oversight, the Liaison Meeting of External Officers, consisting of external officers, is convened to exchange necessary information and share awareness of such information.

To ensure effective auditing, the auditors attend important meetings, offer their opinions as necessary, receive reports from accounting auditors and the Internal Audit Department, instruct 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 internal audit department and Group company presidents and auditors, receiving reports from the accounting auditors, and exchanging opinions.

In fiscal 2018, we changed our audit system so the full-time auditor of the Company could concurrently serve as an auditor of a Group company in order to strengthen the Group's risk management system.

• 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 based on the Financial Instruments Exchange Act of Japan. Moreover, we promote 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 Group company.

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 2018, accounting auditors expressed their opinion that our financial reports were presented in an appropriate manner in terms of all material aspects.

Executives of the Sanki Engineering Group (as of June 27, 2019)



Director and Chairman
Takuichi Kajjura



Representative Director and President
Tsutomu Hasegawa



Representative Director
Nobuo Kumura



Representative Director
Hidemi Fujii



Director
Eiji Mitsuishi



Director
Takashi Motomatsu



Director
Hirokazu Ishida



Director
Masayuki Kudo



Director
Masato Komura



External Director
Yukiteru Yamamoto



External Director
Makoto Nukaga



External Director
Kazuhiko Kashikura



Full-time Auditor
Hirotooshi Fukui



Full-time Auditor
Etsuji Hitomi



External Auditor
Shozo Fujita



External Auditor
Yutaka Atomi



External Auditor
Toshiaki Egashira

Director	Chairman	Chair of the Board of Directors	Takuichi Kajjura
Representative Director	President		Tsutomu Hasegawa
	Vice President and Executive Officer	Chief Financial Officer	Nobuo Kumura
	Vice President and Executive Officer		Hidemi Fujii
Director	Senior Executive Officer	General Manager, Mechanical & Electrical Contracting Headquarters	Eiji Mitsuishi
	Senior Executive Officer	General Manager, Plants & Machinery Systems Headquarters	Takashi Motomatsu
	Senior Executive Officer	General Manager, Management Planning Office	Hirokazu Ishida
	Managing Executive Officer		Masayuki Kudo
External Director			Masato Komura
			Yukiteru Yamamoto (Independent Officer)
			Makoto Nukaga (Independent Officer)
Full-time Auditor			Kazuhiko Kashikura (Independent Officer)
			Hirotooshi Fukui
			Etsuji Hitomi
External Auditor			Shozo Fujita (Independent Officer)
			Yutaka Atomi (Independent Officer)
			Toshiaki Egashira (Independent Officer)

Governance

Thorough 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.

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.

Compliance Promotion Activities

● Whistleblowing System

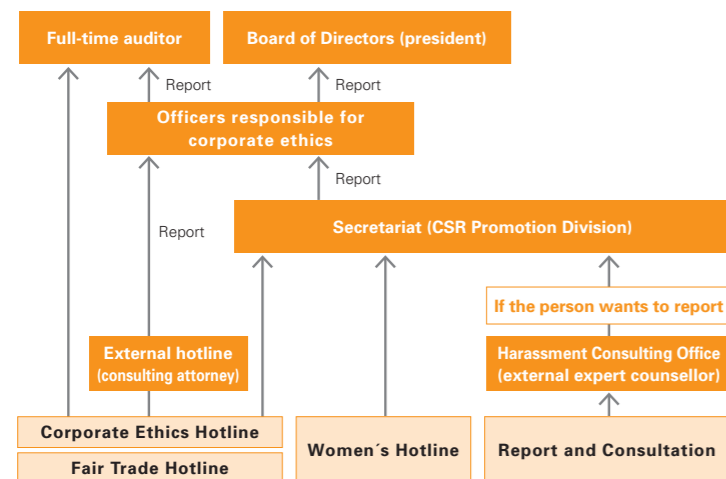
We set up the Corporate Ethics Hotline for reporting on compliance-related issues and a Fair Trade Hotline for reporting on violations of the Anti-Monopoly Act, both within and outside the Company. The internal hotline goes to the full-time auditor and CSR Promotion Division, while the external hotline goes to our consulting attorney's office. We act swiftly to resolve the issues that are reported, with due 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. In fiscal 2018, there were 21 reported incidents (20 internally and 1 externally), and all incidents have been handled appropriately.

The names of individuals who report to the Corporate Ethics Hotline 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 to raise awareness of the system throughout the entire Group. The hotline is also available to

business partners, and the Company provides contact information.

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 2018. Since fiscal 2018, a summary of reports has been disclosed within the Group.

■ Whistleblowing System



● Compliance Confirmation Sheets from All Executives and Employees

In order to refresh the awareness of all Group executives and employees of the responsibilities 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 anti-social forces, are submitted at the beginning of each fiscal year. In fiscal 2018, there were no serious compliance violations.

■ Number of Persons Submitting Compliance Confirmation Sheets (Fiscal 2019)

	Sanki Engineering (target employees)	Subsidiaries (target employees)
Compliance confirmation sheets concerning performance of duties*1	40 (40)	37 (37)
Compliance confirmation sheets*2	2,027 (2,044)	412 (417)

● 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 2018)

Theme	Target	Frequency and participation (attendance rate)
Sanki Engineering Group Code of Conduct and Action Guidelines, and compliance with the Anti-Monopoly Act	All Group executive officers and employees	37 sessions 2,414 employees (98%)

■ Results of Training for Newly Assigned Sales Staffs (Fiscal 2018)

Theme	Target	Participation (attendance rate)
Compliance with the Anti-Monopoly Act	Newly assigned sales staff	18 (100%)

*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.

*Those who not completed the training were followed up

● Compliance Awareness Survey

We conduct an annual awareness survey on issues such as compliance and CSR targeting all executive officers and employees. The survey questions include those related to harassment in the workplace, customers, and business partners. Survey results are disclosed to all Group executive officers and employees 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.

Excerpted Results of a Questionnaire Regarding Compliance Awareness for 2019*1

Survey period: May to June 2019 Participants: all Group executive officers and employees

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

I fully understand.	43%
I generally understand.	44%
I do not fully understand.	13%

Q Do you know that exchanging information and making adjustments with industry peers regarding the selection of prospective contractors and bid prices are violations of the Antimonopoly Act?

Yes	97%
No	3%*2

Q Please answer all of the following that apply to your current working environment. (Multiple answers are allowed.)

I think that personal relationships in the workplace are relatively good.	71%
It seems easy to consult with senior staff	55%
It seems easy to take various kinds of vacations	52%

*1 These were the top three answers.

*2 We seek to develop a deeper understanding of the Anti-Monopoly Act by introducing examples of violations during Corporate Ethics Training held each year.

Strengthening Anti-Monopoly Act Compliance

Measures in an Ongoing Effort to Prevent Recurrence

The following are key measures we undertook between fiscal 2013 and fiscal 2018. In fiscal 2018, we revised the Anti-Monopoly Act Compliance Manual. Using the results of the compliance awareness survey, we will continue our Group-wide effort to prevent violations of the Anti-Monopoly Act in fiscal 2019.

Policies and Manuals

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

Structural Reinforcements

- Resolved to establish 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).
- Established the Fair Trade Hotline for reporting on violations of the Anti-Monopoly Act and sought widespread understanding among employees.

Training and Education

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

Respecting Human Rights

Along with globalization, social demands for response to corporate human rights issues are not only being made on employees but also on the entire value chain of business.

The Sanki Engineering Group endeavors to understand international standards such as the Universal Declaration of Human Rights and the Guiding Principles on Business and Human Rights. In addition, it is working to comply with specific items regarding human rights as stipulated in the Sanki Engineering Group Code of Conduct and Action Guidelines.

Governance

Risk Management



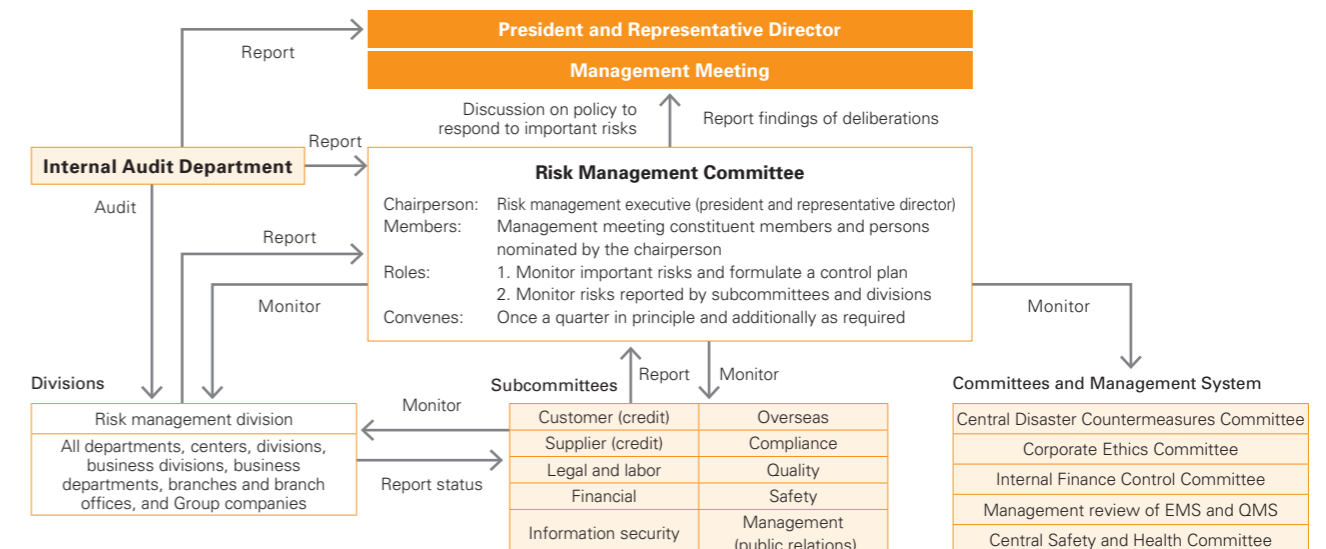
Basic Philosophy

The Sanki Engineering Group has established a Group-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.

Risk Management Promotion System

We set up the Risk Management Committee, chaired by a risk management officer, to centrally manage Group-wide risks and implement an organized response. In principle, the committee convenes once every quarter to monitor important risks throughout the Group, formulate a control plan, and monitor risks reported from subcommittees and divisions. To enhance the effectiveness of our risk assessment and control, we have set up the Risk Management Subcommittee to address specific risks under the Risk Management Committee. In fiscal 2019, we reorganized the subcommittee and launched others, including the Quality Subcommittee. Moreover, the Internal Audit Department conducts regular audits to check the status of risk management at each division and verify the appropriateness of risk management.

Framework of the Risk Management System (as of July 10, 2019)



Risk Management Activities

Each fiscal year, the Risk Management Committee identifies risks that affect business activities and stipulates priority risk items for the fiscal year. The committee receives reports from the risk management subcommittees to monitor risks and consider necessary countermeasures, provides instructions, and confirms the status of progress.

In fiscal 2018, the committee convened four times to review some of the monitoring indicators and prepare for more quantitative risk management, and also to review the system to ensure that risk management operations are aligned with current conditions. In addition, the committee provided information to the branch managers and executives at five branches that are not members of the Risk Management Committee about the risk management system and the latest topics and exchanged ideas with them. Through these efforts, the committee deepened understanding of the importance of risk management and management methods at each branch.

Major Countermeasures in Fiscal 2018

Risks	Countermeasures
Customer credit	· Analyzed the portfolio based on performance at the end of March and September
Supplier credit	· Activated an alarm using bankruptcy predictions every month · Monitored the security of electronic orders
Operational	· Considered a revised BCP proposal · Developed and introduced new tools for concerns such as disaster information sharing
Information security	· Changed the password policy · Enhanced support for detecting suspicious activities on the corporate LAN
Overseas	· Formulated a specific action plan to respond to accidents
Compliance	· Formulated and implemented measures to prevent power harassment in each department

Responding to Disaster Risks through the BCP

The Sanki Engineering Group's business continuity plan (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 built 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 after a major disaster, and modified the way we operate our safety confirmation system.

In fiscal 2018, we expanded the use of the recently introduced disaster information sharing tool to all Group employees. In April 2019, we created and distributed a handbook explaining our initial response in the event of a large-scale disaster to promote employee understanding of how to respond at times of disaster.

Risks Affecting Business

- Customer credit risk
- Sudden fluctuations in material and equipment prices and labor costs
- Stock market fluctuations
- Increase in retirement benefit expenses and debt
- Country risk
- Accidents and disasters in facility construction, etc.
- Unprofitable construction
- Risk in the real estate business
- Risk related to lawsuits, etc.
- Risk due to legal regulations, etc.
- Risk related to disasters, etc.

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

In fiscal 2018, we worked to improve our Group management system, including overseas sites, by reviewing the audit systems of Group companies to enable our auditors to concurrently serve as auditors of Group companies.

Initiatives to Ensure Information Security

The Group handles information provided by customers in accordance with our Information Security Risk Management Rules. We have established 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 risks related to information security in an integrated manner. As part of our efforts 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 strengthened responses to suspicious activities on the corporate LAN, continuously send alerts on information security, reviewed the password policy, and carried out regular audits. In fiscal 2018, we held two subcommittee meetings.

Key Information Security Measures

Type	Action
Dissemination of rules	· All Group executive officers and employees take an e-learning course · Corporate ethics training, submission of compliance confirmation sheets (once a year) · Continuously sending alerts on information security · Status review of information security countermeasures during onsite inspections (8 sites)
Information device management	· Encryption of information terminals · Regular inventory reviews (conducted once)
Prevention of unauthorized use	· ID and password management, and security measures for entering and exiting rooms · Confirmation using asset management tools · Preventing non-Company-owned PCs brought into the office from being connected to the in-house network
Measures against external threats	· Antivirus measures and automatic updating of security patches (once a month) · Web filtering and countermeasures against unsolicited emails · Monitoring of illegal outbound data streams
Measures for social media	· Instill an understanding among Group employees using guidelines · Improving the level of security regarding social media



Initial response handbook for employees in the event of a disaster



BCP drill

Governance

CSR Management



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 in our business activities.

Reference
Corporate Ethics Committee
P. 70

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 centers, research institutes, data centers, hospitals, schools, etc.	We construct buildings and 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
Shareholders and Investors	Number of shareholders: approx. 3,381 (as of March 31, 2019)	Sanki Engineering has approx. 63 million shares outstanding. Financial institutions account for about 43% of ownership, foreign corporations for about 30%, and individuals and others for about 16% (as of March 31, 2019).	<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
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 occupational safety and create good working environments Respect human rights
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
Employees	Number of employees Consolidated: 2,394 Non-consolidated: 1,967 (as of March 31, 2019)	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 occupational safety and create good working environments Respect human rights
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
Governments and Administrative Bodies	Central and local governments Water supply and drainage disposal plants, and 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

Governance

Dialogue with Shareholders and Investors



Basic Philosophy

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/corporate/governance/guideline.html>

Important Issues • Timely and appropriate information disclosure • Shareholder return

FY2018



Promoting dialogue with shareholders



Providing consistent, steady returns to shareholders

[Primary Goals]

Revitalize the general shareholders' meeting

Expand opportunities for IR meetings with domestic and overseas investors

Pay stable dividends in principle and provide special dividends depending on business performance

Shareholder attendance

Increased **19%** year-on-year

Assessment ◎

Aggregate total of companies with which individual meetings were held:

50

Assessment △

Paid an annual dividend of **60** yen per share (including a special dividend of 20 yen per share)

Assessment ◎

Retired and acquired **1** million shares of Company stock, respectively

Assessment ◎

Major Action Policy for FY2019

Enhance materials and content intended for shareholders

Increase opportunities for dialogue with shareholders

Disclose a clear shareholder return policy (targets)

Information Disclosure Based on Disclosure Policy

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.

Promoting Timely, Appropriate, and Proactive Information Disclosure

We proactively disclose information beyond legal mandates when we deem such information to be useful to shareholders and investors, in order to ensure management transparency. We will promote further penetration of the Sanki brand and understanding of the Company among shareholders and investors by disclosing our ESG policy as well as basic policies on our financial and capital management. 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.

Communication with Shareholders and Investors

We engage our investors by holding results briefings for analysts and institutional investors twice a year. In fiscal 2018, approximately 71 people participated. We also held 50 individual IR meetings, convened as needed throughout the year. This year again 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.

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



Results briefing



IR exhibition activity

Shareholder Return Targets (Fiscal 2019 to 2021)

- Dividend: Annual dividend of 60 yen or more per share
- Treasury stock to be acquired: approximately 5 million shares
- Total return ratio: 70% or more

WEB

New Medium-Term Management Plan "Century 2025" Phase 2 (Fiscal 2019 to 2021)
https://www.sanki.co.jp/en/ir/library/doc/century_2025_phase2_2019.pdf

(Notes)
 Of the year-end dividend for FY2015, 12 yen was an extra dividend.
 Of the year-end dividend for FY2016, 10 yen was an extra dividend.
 Of the interim dividend for FY2017, 5 yen was an extra dividend.
 Of the year-end dividend for FY2017, 10 yen was an extra dividend.
 Of the year-end dividend for FY2018, 20 yen was an extra dividend.

Returning Profits to Shareholders

Our Basic Policy Concerning Returns to Shareholders and Track Record

In accordance with our basic policy on providing shareholder returns, 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 boosting corporate value.

For fiscal 2018, we paid a full-year dividend of 60 yen, up 25 yen from the previous year.

In addition, we strived to enhance shareholder returns and improve capital efficiency by retiring 1 million shares of treasury stock in November 2018 and acquiring another 1 million shares of Company stock, worth approximately 1.2 billion yen, by January 2019.

In the new Medium-Term Management Plan "Century 2025" Phase 2, we will state our shareholder return policy from fiscal 2019 to 2021 and endeavor to return more profits to our shareholders.

Dividend Payments

	FY2015	FY2016	FY2017	FY2018
Annual dividend (yen)	30	30	35	60
Interim dividend (yen)	9	10	15	20
Year-end dividend (yen)	21	20	20	40
Consolidated payout ratio (%)	35.8	40.6	55.5	40.0

Financial Report and Corporate Information

Financial Report> Page 86

Corporate Information, Business Locations and Group Companies> Page 94

Share Information> Page 96

Third-Party Opinion> Page 97

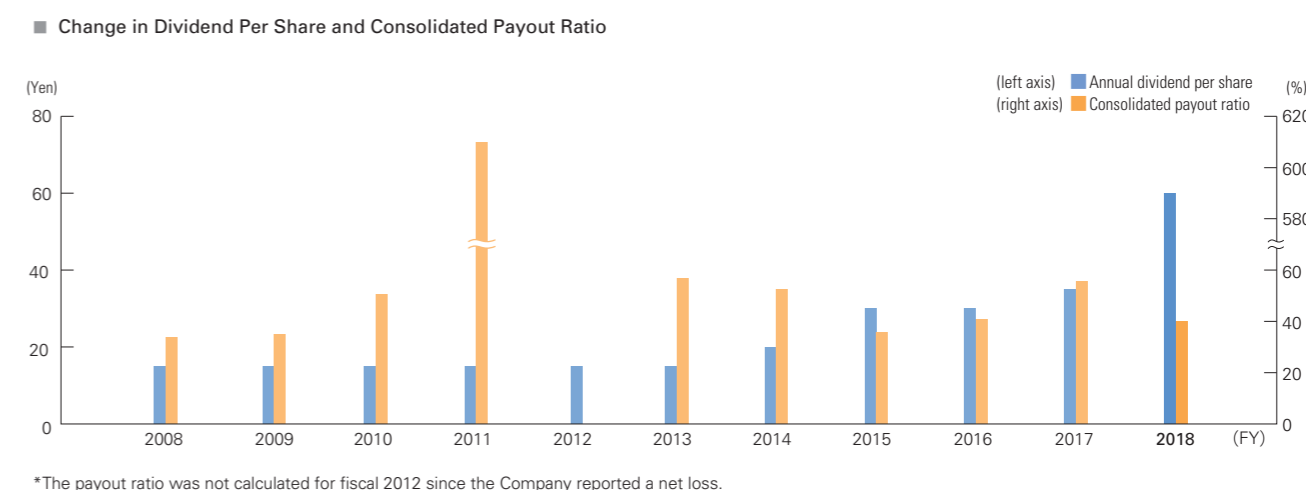
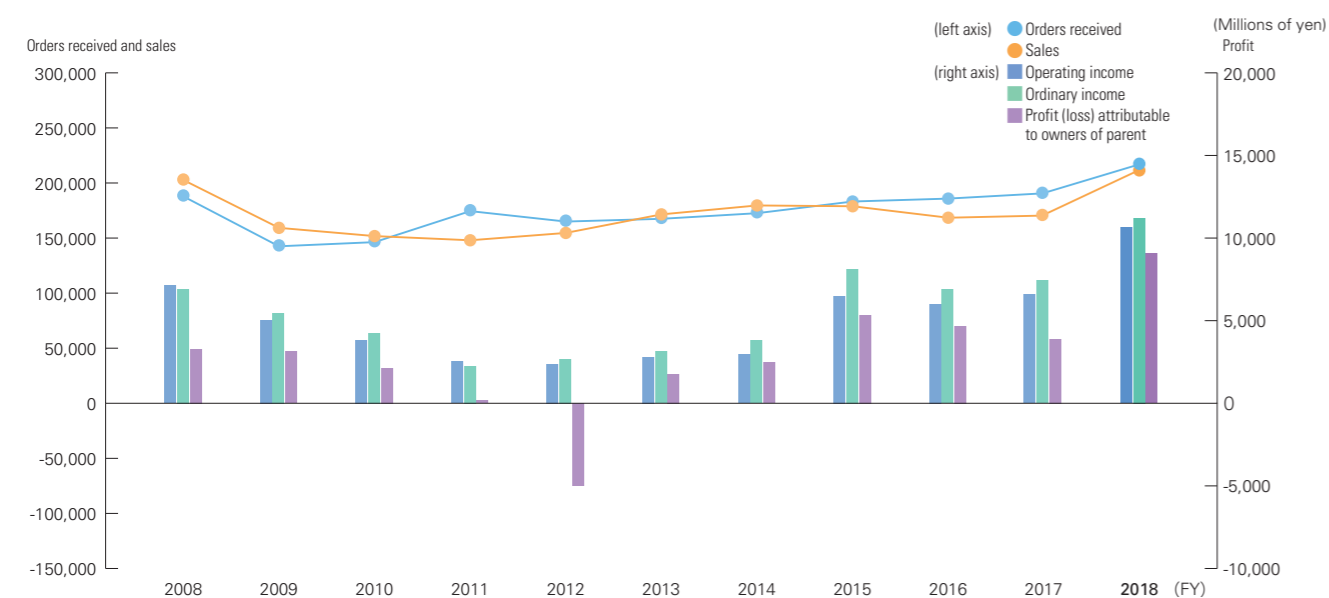
Financial Report

11-year Consolidated Financial Summary

(Millions of yen)

	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	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	Year ended March 31, 2019	
Fiscal year												
Orders received	188,653	143,348	147,129	175,291	165,800	168,295	173,398	183,270	185,880	191,113	217,096	
Balance carried forward	93,566	77,641	72,976	100,272	111,414	108,219	102,019	106,388	123,756	144,712	149,495	
Net sales	203,340	159,273	151,794	147,994	154,658	171,496	179,598	178,901	168,512	170,157	212,314	
Selling, general and administrative expenses	14,978	15,419	15,763	15,712	15,199	15,604	15,015	16,419	16,526	18,466	21,046	
Operating income or loss	7,125	5,027	3,843	2,525	2,391	2,818	2,951	6,509	6,012	6,593	10,637	
Ordinary income or loss	6,900	5,456	4,239	2,268	2,680	3,146	3,809	8,135	6,880	7,434	11,204	
Profit (loss) attributable to owners of parent*	3,283	3,141	2,124	176	△ 4,992	1,763	2,461	5,327	4,698	3,906	9,046	
Cash flows from operating activities	19,177	1,294	11,554	△ 2,697	9,729	△ 9,403	△ 139	5,220	10,845	6,306	6,786	
Cash flows from investing activities	1,726	△ 1,664	2,610	△ 1,046	△ 9,481	△ 3,506	3,440	5,520	△ 1,644	△ 2,510	△ 3,775	
Cash flows from financing activities	△ 4,377	△ 2,936	△ 1,883	△ 280	△ 1,028	△ 4,152	△ 2,901	△ 1,826	△ 2,458	1,814	△ 5,215	
Cash and cash equivalents at end of fiscal year	36,142	32,825	45,135	41,097	40,367	23,510	23,667	32,501	39,187	44,866	42,612	
As of end of fiscal year under review												
Total assets	176,664	163,307	158,501	163,120	166,477	170,181	176,382	169,423	166,612	177,014	195,321	
Net assets	78,780	80,498	79,833	79,662	76,932	74,917	84,869	84,557	85,961	86,191	89,772	
Number of employees	2,239	2,272	2,316	2,289	2,246	2,283	2,282	2,309	2,339	2,384	2,394	
Per share information												
Earnings per share (yen)	44.45	42.86	29.67	2.46	△ 71.04	26.46	38.30	83.84	73.91	63.02	150.02	
Book-value per share (yen)	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	1,502.53	
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00	15.00	20.00	30.00	30.00	35.00	60.00	
Other information												
Equity ratio (%)	44.6	49.3	50.3	48.8	46.2	44.0	48.1	49.8	51.5	48.6	45.8	
Return on assets (%)	3.5	3.2	2.6	1.4	1.6	1.9	2.2	4.7	4.1	4.3	6.0	
Return on equity (%)	4.1	3.9	2.7	0.2	△ 6.4	2.3	3.0	6.3	5.5	4.5	10.3	

*The revised Accounting Standard for Business Combination and other standards have been applied since fiscal 2015. Accordingly, "Profit (loss) attributable to owners of parent," as listed in fiscal 2015 and after, is equivalent to "Net income" listed for the consolidated fiscal years between fiscal 2008 and fiscal 2014.



*The payout ratio was not calculated for fiscal 2012 since the Company reported a net loss.

Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets:		
Cash and deposits	¥ 43,866	¥ 42,612
Notes and accounts receivable on completed construction contracts and other	64,458	85,243
Electronically recorded monetary claims	5,878	6,562
Securities	4,199	2,000
Inventories:		
Costs on uncompleted construction contracts	1,852	2,049
Raw materials and supplies	569	558
Other	2,076	2,316
Allowance for doubtful accounts	(0)	(0)
Total current assets	122,901	141,342
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	36,864	42,214
Accumulated depreciation	(32,163)	(32,840)
Buildings and structures, net	4,701	9,373
Machinery, equipment, vehicles, and tools, furniture and fixtures	2,104	1,967
Accumulated depreciation	(1,701)	(1,601)
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	402	365
Land	3,709	3,450
Lease assets	698	712
Accumulated depreciation	(267)	(319)
Lease assets, net	431	392
Construction in progress	1,418	747
Total property, plant and equipment	10,662	14,329
Intangible assets	813	688
Investments and other assets:		
Investment securities	31,927	27,879
Long-term loans receivable	124	111
Asset for retirement benefits	4,759	4,411
Lease and guarantee deposits	1,386	1,479
Insurance funds	567	336
Deferred tax assets	531	1,264
Other	5,452	5,559
Allowance for doubtful accounts	(2,112)	(2,082)
Total investments and other assets	42,636	38,961
Total noncurrent assets	54,112	53,979
Total assets	¥ 177,014	¥ 195,321

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other	¥ 49,854	¥ 68,286
Short-term loans payable	6,894	6,874
Lease obligations	133	392
Income taxes payable	3,691	2,510
Advances received on uncompleted construction contracts	3,439	3,395
Provision for bonuses	2,654	4,180
Provision for directors' bonuses	160	242
Provision for warranty costs	513	360
Provision for loss on construction contracts	1,058	480
Other	5,386	4,594
Total current liabilities	73,787	91,317
Noncurrent liabilities:		
Long-term loans payable	6,610	5,220
Lease obligations	369	280
Liability for retirement benefits	2,884	3,120
Provision for directors' retirement benefits	61	52
Provision for compensation for damages	-	190
Deferred tax liabilities	2,187	40
Other	4,922	5,328
Total noncurrent liabilities	17,035	14,232
Total liabilities	90,822	105,549
Net assets:		
Shareholders' equity:		
Capital stock	8,105	8,105
Capital surplus	4,182	4,181
Retained earnings	67,844	73,250
Treasury stock	(3,736)	(3,700)
Total shareholders' equity	76,395	81,836
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	11,687	9,450
Foreign currency translation adjustment	(12)	(94)
Retirement benefits asset and liability adjustments	(2,058)	(1,652)
Total accumulated other comprehensive income	9,616	7,704
Subscription right to shares	179	231
Total net assets	86,191	89,772
Total liabilities and net assets	¥ 177,014	¥ 195,321

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net sales:		
Net sales of completed construction contracts	¥ 168,266	¥ 210,245
Net sales of real estate business and other	1,890	2,069
Total net sales	170,157	212,314
Cost of sales:		
Cost of sales of completed construction contracts	143,863	179,255
Cost of sales on real estate business and other	1,233	1,375
Total cost of sales	145,097	180,630
Gross profit:		
Gross profit on completed construction contracts	24,403	30,990
Gross profit on real estate business and other	656	694
Total gross profit	25,060	31,684
Selling, general and administrative expenses:		
Employees' salaries and allowances	6,578	7,058
Provision for bonuses	1,194	1,785
Provision for directors' bonuses	162	242
Retirement benefit expenses	1,118	775
Depreciation	421	888
Other	8,990	10,297
Total selling, general and administrative expenses	18,466	21,046
Operating income	6,593	10,637
Non-operating income:		
Interest income	30	20
Dividends income	683	596
Waste disposal income	91	171
Other	408	202
Total non-operating income	1,214	991
Non-operating expenses:		
Interest expense	76	142
Loss on insurance cancellation	13	57
Other	283	224
Total non-operating expenses	373	424
Ordinary income	7,434	11,204
Extraordinary income:		
Gain on sales of investment securities	2,219	1,516
Penalty income	-	601
Total extraordinary income	¥ 2,219	¥ 2,118
Extraordinary loss:		
Impairment loss	¥ 194	¥ 808
Loss on sales of noncurrent assets	54	62
Loss on retirement of noncurrent assets	1,333	165
Environmental expenses	203	178
Office transfer expenses	171	15
Loss on valuation of investments in capital of subsidiaries and affiliates	62	197
Loss on support to subsidiaries and affiliates	-	379
Provision of allowance for doubtful accounts	1,179	-
Provision for compensation for damages	-	190
Total extraordinary losses	3,199	1,996
Profit (loss) before income taxes	6,454	11,326
Income taxes:		
Income taxes-current	4,190	4,385
Income taxes-deferred	(1,621)	(2,105)
Total income taxes	2,568	2,279
Profit (loss)	¥ 3,885	¥ 9,046
Profit (loss) attributable to:		
Owners of parent	¥ 3,906	¥ 9,046
Non-controlling interests	¥ (20)	¥ -
Other comprehensive income:		
Unrealized gains on available-for-sale securities	¥ 759	¥ (2,237)
Foreign currency translation adjustment	113	(81)
Remeasurements of defined benefit plans	1,278	406
Total other comprehensive income	2,151	(1,912)
Comprehensive income	¥ 6,037	¥ 7,134
Comprehensive income attributable to:		
Owners of parent	¥ 6,057	¥ 7,134
Non-controlling interests	¥ (19)	¥ -

Consolidated Statement of Changes in Net Assets

[For the year ended March 31, 2018]

(Millions of yen)

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
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		1		13		14
Retirement of treasury stock			(2,180)	2,180		-
Net changes in items other than shareholders' equity			(469)	(1,485)		(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						Total net assets
	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	
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
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

[For the year ended March 31, 2019]

(Millions of yen)

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Balance at the beginning of current period	¥ 8,105	¥ 4,182	¥ 67,844	¥ (3,736)		¥ 76,395
Changes in items during the period						
Dividends from surplus			(2,423)			(2,423)
Profit (loss) attributable to owners of parent			9,046			9,046
Purchase of treasury stock				(1,191)		(1,191)
Disposal of treasury stock				14		10
Transfer of loss on disposal of treasury stock			3			-
Retirement of treasury stock			(1,213)	1,213		-
Net changes in items other than shareholders' equity			5,406	36		5,441
Total changes in items during the period	-	(1)	5,406	36		5,441
Balance at the end of current period	¥ 8,105	¥ 4,181	¥ 73,250	¥ (3,700)		¥ 81,836

	Accumulated other comprehensive income						Total net assets
	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	
Balance at the beginning of current period	¥ 11,687	¥ (12)	¥ (2,058)	¥ 9,616	¥ 179	¥ -	¥ 86,191
Changes in items during the period							
Dividends from surplus							(2,423)
Profit (loss) attributable to owners of parent							9,046
Purchase of treasury stock							(1,191)
Disposal of treasury stock							10
Transfer of loss on disposal of treasury stock							-
Retirement of treasury stock							-
Net changes in items other than shareholders' equity	(2,237)	(81)	406	(1,912)	52		(1,860)
Total changes in items during the period	(2,237)	(81)	406	(1,912)	52		3,581
Balance at the end of current period	¥ 9,450	¥ (94)	¥ (1,652)	¥ 7,704	¥ 231	¥ -	¥ 89,772

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities:		
Profit (loss) before income taxes	¥ 6,454	¥ 11,326
Depreciation and amortization	818	1,340
Impairment loss	194	808
Loss on retirement of noncurrent assets	1,333	165
Office transfer expenses	171	15
Environmental expenses	203	178
Loss on valuation of investments in capital of subsidiaries and affiliates	62	197
Loss on support to subsidiaries and affiliates	-	379
Increase in provision for compensation for damages	-	190
Increase (decrease) in allowance for doubtful accounts	1,145	(21)
Increase in provision for bonuses	369	1,525
Increase in liability for retirement benefits	2,191	1,171
Decrease in provision for directors' retirement benefits	(17)	(9)
Increase (decrease) in provision for loss on construction contracts	87	(578)
Interest and dividends income	(714)	(617)
Interest expense	76	142
Loss on sales of property, plant and equipment	54	62
Gain on sales of investment securities	(2,219)	(1,516)
Penalty income	-	(601)
Increase in notes and accounts receivable on completed construction contracts and other	(3,546)	(21,467)
Increase in costs on uncompleted construction contracts	(159)	(197)
Increase in notes and accounts payable on construction contracts and other	1,092	18,912
Decrease in advances received on uncompleted construction contracts	(2,289)	(42)
Increase in other current liabilities	206	124
Other	1,708	20
Subtotal	7,222	11,507
Interest and dividends received	713	615
Interest paid	(76)	(143)
Income taxes paid	(1,482)	(5,542)
Income taxes refunded	130	-
Penalties received	-	601
Payments for office transfer expenses	(124)	(62)
Payments for environmental expenses	(76)	(190)
Net cash provided by operating activities	¥ 6,306	¥ 6,786
Cash flows from investing activities:		
Payments into time deposits	¥ (1,500)	¥ -
Proceeds from withdrawal of time deposits	300	-
Purchase of securities	(13,500)	(19,000)
Proceeds from redemption of securities	12,300	20,200
Purchase of property, plant and equipment	(2,290)	(6,447)
Proceeds from sales of property, plant and equipment	7	51
Payments for retirement of property, plant and equipment	(971)	(599)
Purchase of investment securities	(324)	(30)
Proceeds from sales of investment securities	4,151	2,198
Execution of loan	(0)	(376)
Collection of loans receivable	80	15
Proceeds from maturity of insurance funds	46	296
Other	(810)	(84)
Net cash used in investing activities	(2,510)	(3,775)
Cash flows from financing activities:		
Net increase in short-term loans payable	169	(19)
Proceeds from long-term loans payable	8,000	-
Repayments of long-term loans payable	(320)	(1,390)
Purchase of treasury stock	(3,679)	(1,191)
Proceeds from exercise of stock options	0	0
Repayments of lease obligations	(160)	(191)
Cash dividends paid	(2,195)	(2,423)
Net cash (used in) provided by financing activities	1,814	(5,215)
Effect of exchange rate changes on cash and cash equivalents	68	(48)
Net increase in cash and cash equivalents	5,679	(2,254)
Cash and cash equivalents at beginning of period	39,187	44,866
Cash and cash equivalents at end of period	¥ 44,866	¥ 42,612

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, 2019)

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

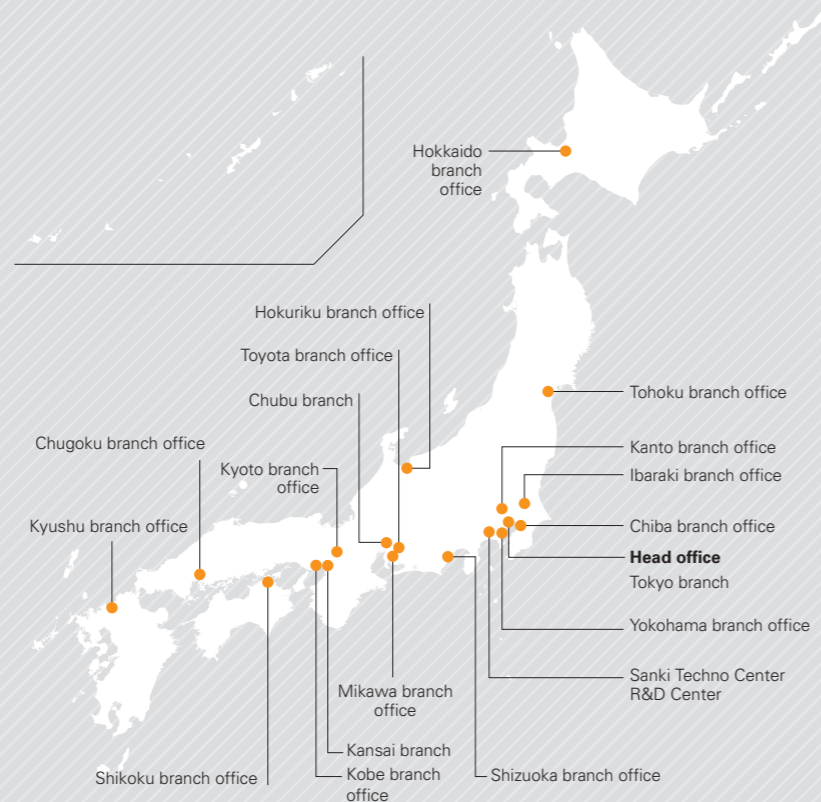
Principal lines of business
Facilities construction, plant and machinery systems, real estate

Number of employees (as of March 31, 2019)
Consolidated: 2,394
Non-consolidated: 1,967

Offices
Branches: 3
Branch offices: 15
Training Center : 1
Laboratory

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

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

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

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

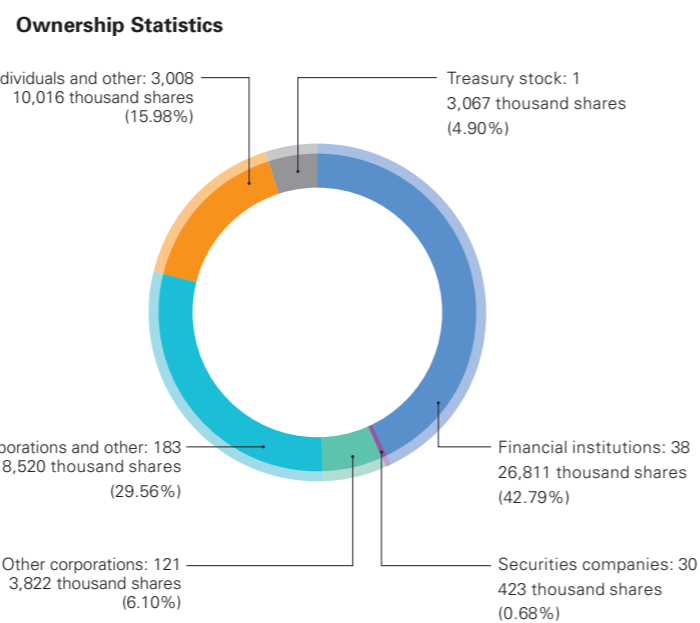
Affiliate Not Accounted for by the Equity Method

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, 2019)

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	62,661,156
Number of shareholders	3,381
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

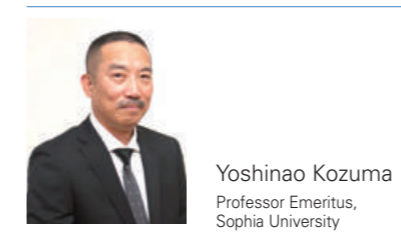


Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand Shares)	Shareholding Ratio (%)
Meiji Yasuda Life Insurance Company	5,700	9.56
Mitsui Life Insurance Company, Limited	4,864	8.16
Nippon Life Insurance Company	3,607	6.05
The Master Trust Bank of Japan, Ltd. (Trust account)	3,018	5.06
Sanki Kyoeikai	2,631	4.41
Japan Trustee Services Bank, Ltd. (Trust account)	2,351	3.95
DFA International Small Cap Value Portfolio	1,313	2.20
Sanki Engineering Employee Shareholding Association	1,155	1.94
JP Morgan Chase Bank 380684	1,014	1.70
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,006	1.69

*1 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.
 *2 The list covers beneficial shareholders whose shareholdings as of the end of the fiscal year under review had been confirmed by the Company.
 *3 Mitsui Life Insurance Company, Limited changed its name to Taiju Life Insurance Company, Limited as of April 1, 2019.

Third-Party Opinion



1. Enhanced ESG Performance Based on Operational Improvements

Sanki Engineering has been addressing global warming in its downstream value chain by providing products and technologies that help reduce CO₂ emissions and linking them to the Eco Contribution Point System. It has also established its public standing as a company that contributes to the realization of a low-carbon society such as through the Agency of Natural Resources and Energy Director General Prize of the annual Energy Conservation Grand Prize in January 2019 for an energy-saving project for an entire hot-spring district in the Yunohama area of Tsuruoka City, Yamagata Prefecture. I highly commend this achievement as a clear case of successful ESG management. These efforts will bear fruit by winning customer trust, which in turn will become a factor that sustains long-term corporate growth. In its latest report, the Company has also disclosed the results of the customer satisfaction survey, which began in fiscal 2017. The results show a high level of customer satisfaction in construction quality, backed by a significant drop in the number of problems and claims, which seems to indicate a steady strengthening of trust. Meanwhile, the digital manifest system was introduced throughout the

Company in fiscal 2018, and increased use is being made of the JOB Environmental Aspects Assessment List in assessing the environmental risks of a project prior to construction. I expect these efforts will enhance ESG performance.

2. Expansion in Industrial Health and Safety Initiatives

While the construction industry is a sector with a higher rate of accidents due to its business model, the Company saw a sharp decline in the number and frequency rate of accidents in fiscal 2018, and ESG performance also improved in this area. Based on an analysis of accidents that occurred in fiscal 2017, the Policy of the Central Safety and Health Committee Chairperson for fiscal 2018 emphasized boosting collaborative measures by construction sites, subcontractors, and Sanki Engineering as a key action, and a special effort was made to expand preventive measures targeting subcontractors. For example, as in previous years, the Company spent twice as much time than legally mandated to provide a safety seminar for Vietnamese technical interns at a subcontractor, responding to the growing number of foreign workers in the construction industry. It also convened a meeting of the Sanki Health and Safety Cooperative Association in December 2018 to raise awareness of health and safety among subcontractors. I praise these endeavors along with the policy of making the Sanki Techno Center available to employees of subcontractors and view these efforts as a demonstration of Sanki Engineering's unwavering commitment.

3. Advances in Work-Life Balance Data

Another major notable achievement of this fiscal year was the disclosure of consolidated data on the ratio of reinstatement after childcare leave. Consolidated data was also provided for the paid leave ratio. In terms of initiatives, the Company eliminated the limits on the frequency of applying for half-day leave as a result of promoting workstyle reform. However, increasing the number of days off does not actually reduce the work load itself, so I expect the Company to consider additional measures to actually prevent overwork and boost productivity.

4. Challenges Ahead

The Company provided consolidated data for the employment ratio of persons with disabilities. It has been unable, however, to meet the statutory requirement for four consecutive years, which calls for improvement. Meanwhile, in contrast to its substantial downstream initiatives, the results of the Company's global warming initiatives in its upstream value chain remain unclear and require some work, such as adding intensity data to allow for comparisons, and this applies to other environmental data as well. Furthermore, industrial waste discharged by the Company has been rising over the years, necessitating a response. 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

We are sincerely grateful for the valuable insights and multiple perspectives you have provided on the SANKI REPORT 2019. This is the eighth fiscal year since we started publishing an integrated report, and we appreciate your evaluation of our enhanced ESG performance based on operational improvements and expansion in industrial health and safety initiatives as well as the improvement in our work-life balance data. We will continue to strengthen our ESG management while striving to provide a report that is both useful and appealing for all of our stakeholders. We will consider, as challenges going forward, the employment ratio for persons with disabilities and our disclosure of and response to environmental data, including the results of our global warming initiatives in our upstream value 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.

Hirokazu Ishida
 Director, Senior Executive Officer and General Manager, Management Planning Office



SANKI ENGINEERING CO., LTD.

St. Luke's Tower, 8-1 Akashi-cho,
Chuo-ku, Tokyo 104-8506 Japan

Corporate Communications Department,
Management Planning Office
Phone: +81-3-6367-7041 Fax: +81-3-3541-6676
<https://www.sanki.co.jp>

