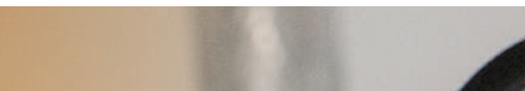
SANKI ENGINEERING CO., LTD.

SANKI REPORT 2020

Engineering for the Future

Engineering for the Future



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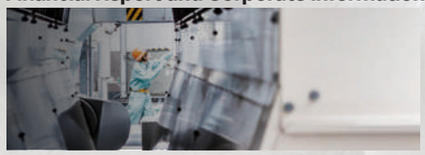

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Editorial Policy

▶ Boosting Understanding of the Sanki Engineering 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 2020 report.

- We created an overview page for the Group's business areas and the state of business by segment in a format that is easy to understand (pages 10 to 13).
- We designated fiscal 2021 targets for continuously monitoring progress in our initiatives under the ESG Policy of the Medium-Term Management Plan (page 30 and the top section of each chapter on ESG).
- Major information that was newly added to our disclosure includes:
  Average monthly overtime hours (consolidated and non-consolidated) (page 65)

▶ 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"
- GRI Sustainability Reporting Standards 2016, 2018, and 2019
- Ministry of the Environment's "Environmental Reporting Guidelines 2018"
- 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 2019–March 2020 (Some information from outside this period has also been included.)

▶ Publication Date

September 2020 (previous issue: September 2019; scheduled release of next issue: September 2021)

Precaution on Performance Outlooks, etc.

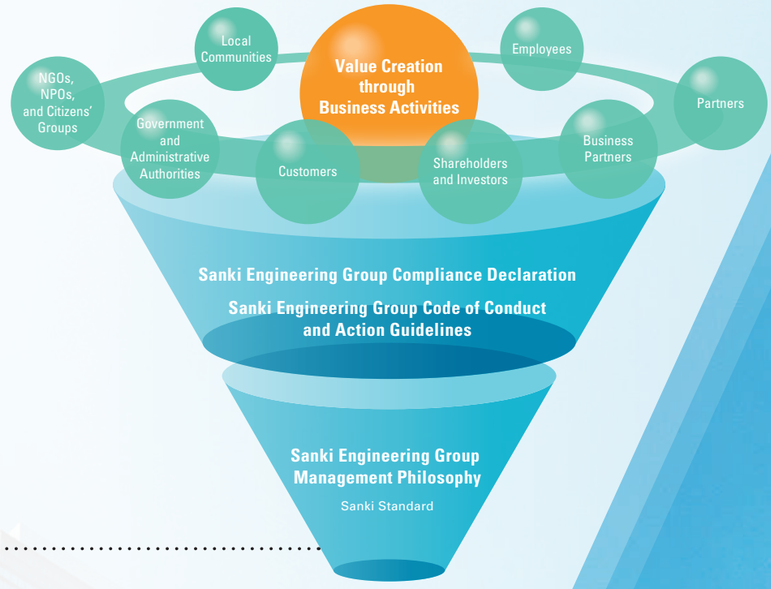
In addition to past and present information concerning the Sanki Engineering Group, this report includes the targets, plans, outlooks, strategies, forecasts of future performance and other information drawn from our long-term vision "Century 2025," Medium-term Management Plan "Century 2025" Phase 2 (FY2019–2021), 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.

Environment Social Governance 価値協創ガイダンス Guidance for Collaborative Value Creation

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 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.

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 28 through 30 for more information.

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

Increased reliability will encourage more stakeholders to choose our company.

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.

▲ 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.

Origin of Our Corporate Name

Sanki Engineering has its origins in the former Machinery Division of Mitsui & Co. and was named by taking one Chinese character from "Mitsui" and "Machinery."

Sanki Engineering's PR video (Japanese only)

"Sanki – From Past to Future"

1920s

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

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

1930s

Diversified and Expanded Businesses Lead to Greater Technological Competence

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

1940s

Sanki's Advanced Technology Bolsters a Construction Boom

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

1950s

A Proactive Approach to Technological Innovation

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

1960s

A Manufacturer that Responds to the Needs of the Times

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

1970s

Wide Range of Technological Innovations

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

1980s

Rising to the Challenge of New Businesses

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

1990s

Driving Progress in Environmental and Information Technologies

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

2000s

Meeting the Needs of a Rapidly Advancing Information Society

- Advances network systems, including LAN, building monitoring and automated control.
- Provides air conditioning, plumbing and an open BA system (automated control, BEMS) for the Roppongi Hills building and other construction work.
- Establishes the Energy 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, which is intended to sustain the life cycle of 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.
- Completes the HVAC, central monitoring and automated control systems for the Toranomon Hills Business Tower.

2025 Toward the 100th Anniversary

100th

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

1986 Japan's Equal Employment Opportunity Law

1991 Collapse of Japan's bubble economy

1995 Great Hanshin Earthquake

1997 Adoption of the Kyoto Protocol

2008 Lehman Brothers bankruptcy

2011 Great East Japan Earthquake strikes

2015 Adoption of the Sustainable Development Goals

2019 Start of the Reiwa era in Japan

April 22, 1925
Sanki Engineering is established.
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 Japanese economy takes a favorable turn, and the expansion in demand for building construction and equipment results in a dramatic improvement in the Company's business performance.
Lists shares on the Tokyo Stock Exchange.

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 2020)

Facilities Construction Business

Net sales

171.5 billion yen*

Net Sales Composition Ratio **83**%

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

● Electrical Systems

- Electrical systems
- Telecommunication systems
- Communication-related facilities
- Electrical civil engineering

● Plumbing and Drainage Systems

- Plumbing system for water supply and drainage
- Food service equipment
- Disaster prevention systems

Facility Systems Business

We serve the needs of offices and other workplaces by providing design and project management for construction and relocation as well as strategic and operational consulting services.

Main Sales Items

● 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

Plants & Machinery Systems Business

Net sales

34.4 billion yen*

Net Sales Composition Ratio **16**%

Machinery Systems Business

Net Sales Composition Ratio **5**%

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

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

Environmental Systems Business

Net Sales Composition Ratio **11**%

We develop unique facilities and systems for water and sewage treatment and waste treatment to enhance living environments while conserving energy and reducing CO_2 emissions.

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

Group Companies

Facilities Construction Business

- Sanki Techno Support Co., Ltd.
- Sanki Construction Engineering (Shanghai) Co., Ltd.
- THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.

Building HVAC and Plumbing Business

Industrial HVAC Business

Electrical Systems Business

Smart Building Solutions Business

Facility Systems Business

Major Projects

Abeno Harukas

Tokyo Midtown Hibiya

Fukuoka High Court, District Court, Family Court and Summary Court building

NISSAY Logistics Center YOKOHAMA-MACHIDA

Group Companies

Machinery Systems Business

- Sanki Sangyo Setsubi Co., Ltd.

Environmental Systems Business

- Sanki Kako Kensetsu Co., Ltd.
- Sanki Kankyo Service Co., Ltd.
- AQUACONSULT Anlagenbau GmbH
- AEROSTRIP Corporation
- Sendai Kankyo Hozen Co., Ltd.

Machinery Systems Business

Environmental Systems Business

Major Projects

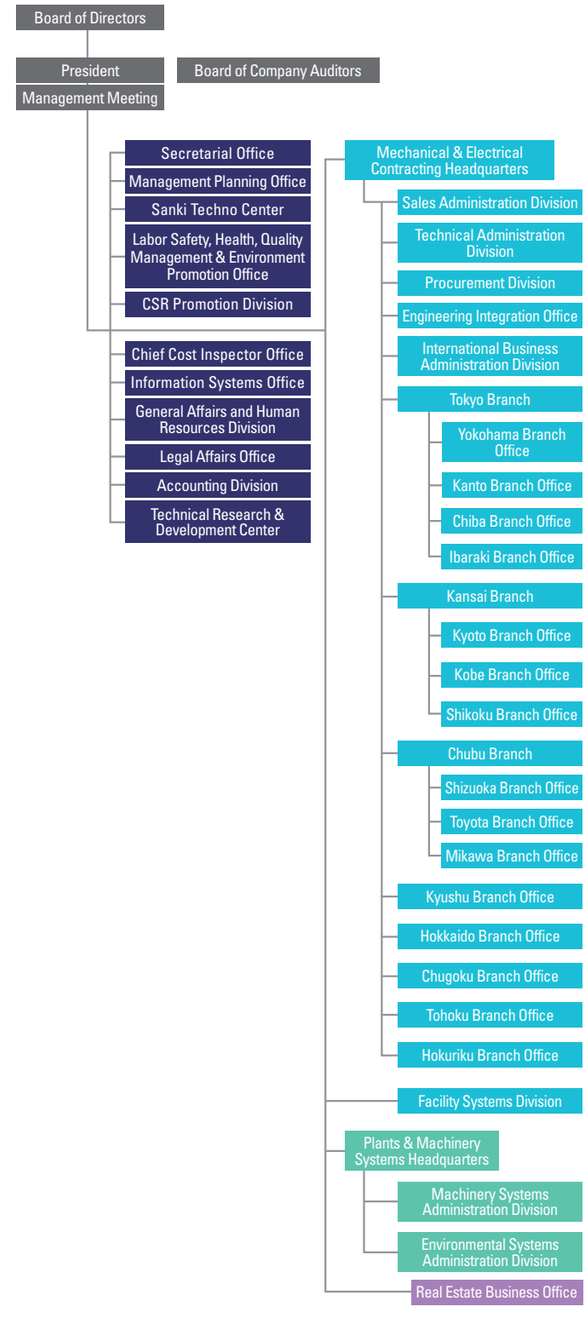
ASKUL Value Center Hidaka

U.S. Forces Yokota Air Base Cargo Handling System

Minami-Gamo Purification Center

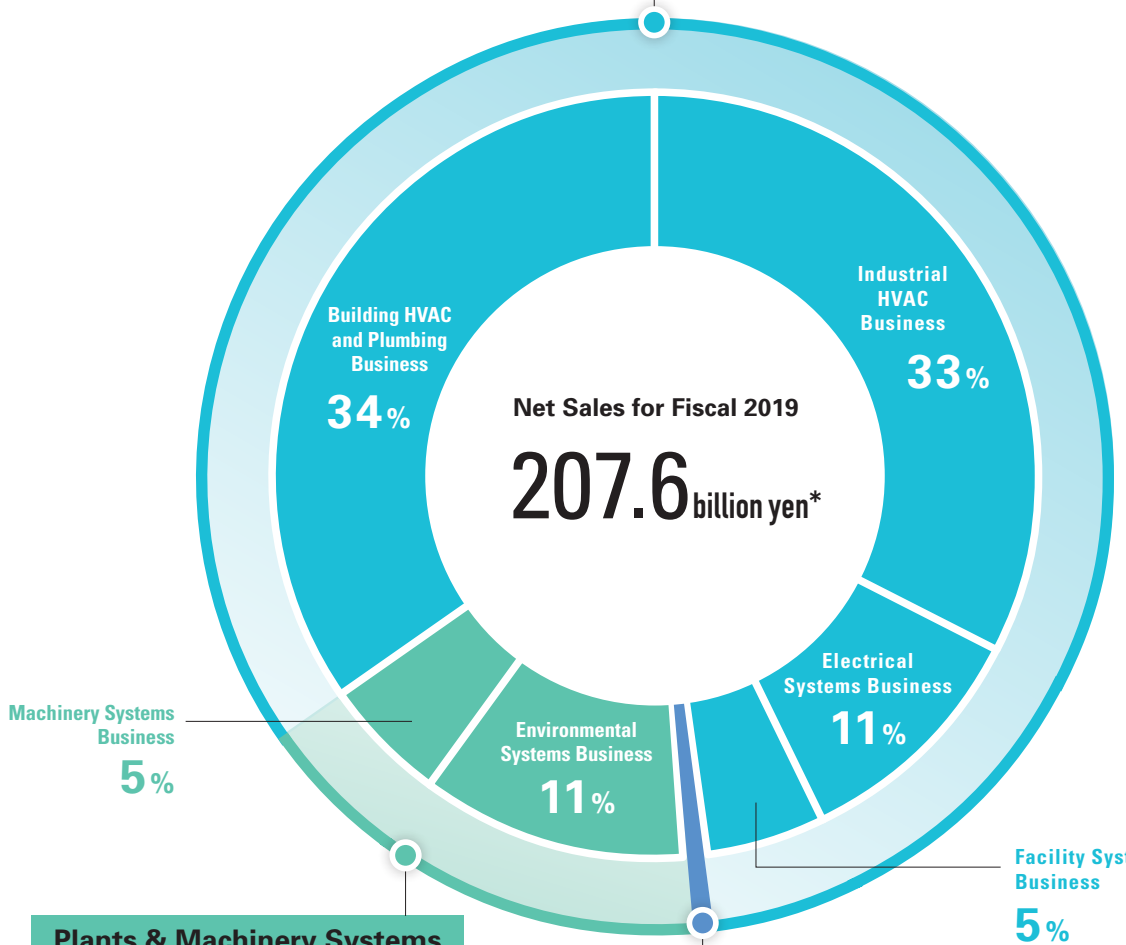
Clean Hill Tenzan

Organization (as of April 1, 2020)



〉Page 32

Facilities Construction Business



Plants & Machinery Systems Business

〉Page 36

〉Page 40

*Includes items not listed in the graph such as 0.9 billion yen in other net sales and 1.39 billion yen in elimination of inter-segment transactions.

Real Estate Business

Net sales

2.2 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.

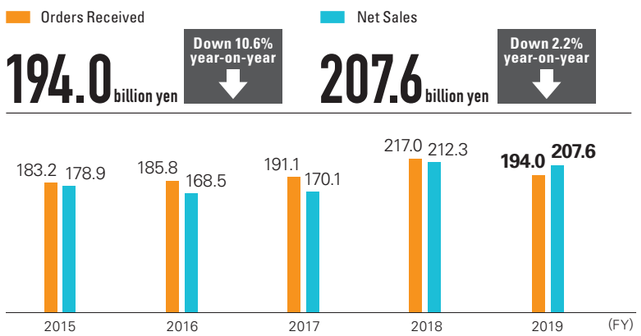
Main Sales Items

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

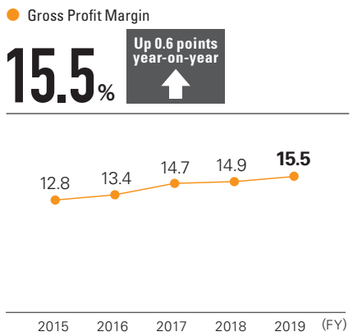
Financial and Non-Financial Highlights

Financial Data (Consolidated)

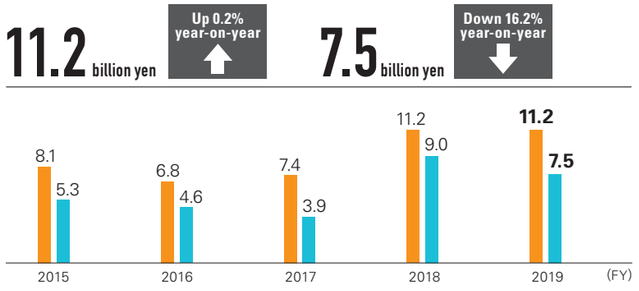
Orders Received and Net Sales



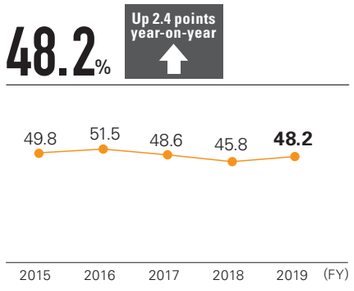
Gross Profit Margin



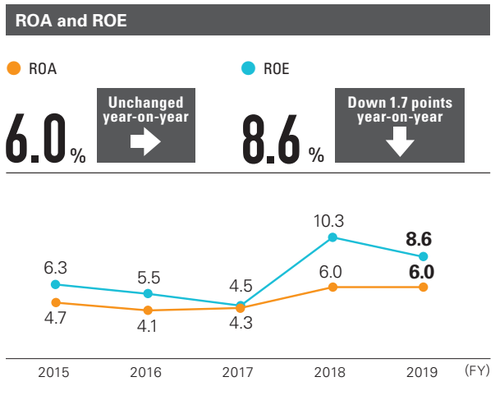
Ordinary Income and Profit Attributable to Owners of Parent



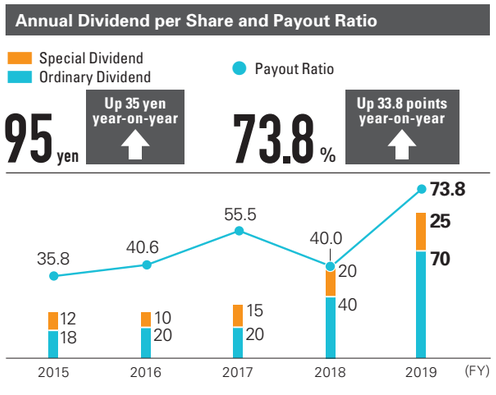
Equity Ratio



ROA and ROE



Annual Dividend per Share and Payout Ratio



Non-Financial Data

Number of Employees

Consolidated

2,501

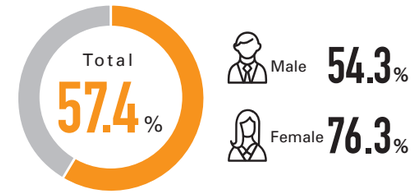
Female 14% 349

Male 86% 2,152

As of March 31, 2020

Ratio of Annual Paid Leave Taken

Consolidated



FY2019

Rate of Reinstatement after Childcare Leave

Consolidated

97.2% Up 3.4 points year-on-year

FY2019

Members of Subcontractor Groups

880 companies

As of March 31, 2020

Average Monthly Overtime Work per Person

Consolidated

34.3 hours

FY2019

Year-on-Year Comparison of Problems during Construction

△31.6%

FY2019

Contribution to CO_2 Reductions at Customers through Sanki Products and Technologies (for Ordered Projects)

Consolidated

27,624 t-CO_2 Up 33.4% year-on-year

FY2019

Recycling Ratio of Industrial Waste at Sites where Sanki Engineering is the Prime Contractor

Non-consolidated

97.2% Down 0.6 point year-on-year

FY2019

Industrial Accidents Frequency Rate[*1] and Severity Rate[*2]

Frequency rate 1.11

Severity rate 0.03

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

2019

Test and R&D Expenditures

1.43 billion yen Down 1.4% year-on-year

FY2019

ICT Investment

1.14 billion yen Up 7.5% year-on-year

FY2019

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

We will meet stakeholder expectations with even greater reliability toward becoming the company of choice.

Hirokazu Ishida
President

Reference

Long-Term Vision "Century 2025"

Pages 06–07

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

Reference

Medium-Term Management Plan "Century 2025" Phase 2 (fiscal 2019 to 2021)

Pages 28–30

Second step of the long-term vision "Century 2025"

Upon My Appointment as President

Upholding the Management Policy to Realize Our Long-Term Vision

I was appointed president in April 2020—the halfway point on our journey to the centenary of our founding under the long-term vision "Century 2025." The Sanki Engineering Group is striving to attain the goal of this vision, to become the company of choice for customers over the course of a decade. I received the baton from current Chairman Hasegawa in the midst of our efforts to strengthen our reliability by enhancing corporate value, and I have recognized the gravity of my mission and responsibility with a sense of determination.

Since joining the company 30 years ago, I have gained experience in design, construction management, sales and other jobs associated with construction facilities. For the past two years I was general manager of the Management Planning Office and engaged in formulating the Medium-Term Management Plan "Century 2025" Phase 2 (fiscal 2019 to 2021). I believe it is my job as president to ensure that the company achieves sound growth along with its employees by executing the measures and accomplishing the goals of Phase 2, and to lead the way toward becoming the company of choice by 2025.

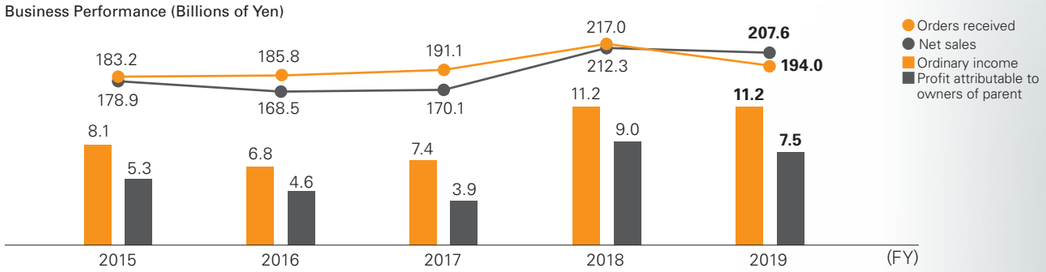
Business Environment and Results for Fiscal 2019

Attained All Numerical Targets for the First Year of Phase 2 due to a Favorable Business Environment

In fiscal 2019, the Japanese construction market enjoyed a steady flow of business centered on urban redevelopment projects and capital investment by manufacturers. The economy deteriorated rapidly toward the end of the fiscal year, following a decline in corporate profit caused by the global economic slowdown and an increase in the consumption tax rate as well as the impact of the COVID-19 pandemic. Nevertheless, the business environment remained on the whole favorable.

In this environment, the Sanki Engineering Group launched its Medium-Term Management Plan "Century 2025" Phase 2 (fiscal 2019 to 2021). Although we slightly underperformed in the previous fiscal year, in terms of orders received and net sales, we reported a growth in profits and maintained high levels of gross profit, operating

Business Performance (Billions of Yen)



income and ordinary income comparable to the previous fiscal year. Furthermore, we were able to attain all our financial performance targets for the first year of Phase 2 (net sales of 200 billion yen, gross profit of 30 billion yen, gross profit ratio of 15.0%, ordinary income of 9 billion yen and an ordinary income ratio of 4.5%). The growth in profits was the result of a steadfast effort in cost management and improvement in operational efficiency as well as the fruition of our ongoing pursuit of enhanced quality from the previous medium-term management plan.

The impact of the COVID-19 pandemic on our fiscal 2019 performance was not significant. Our performance is being supported by a substantial level of ongoing construction work, and at present we do not expect any dramatic decline. We will, however, continue to monitor the rapidly changing trends in society and be prepared to respond quickly.

Progress and Future Outlook for the Medium-Term Management Plan "Century 2025" Phase 2

Enhancing Quality Cultivated under Phase 1 to Strengthen Reliability

The Medium-Term Management Plan "Century 2025" Phase 2 (fiscal 2019 to 2021) covers the second step of the long-term vision "Century 2025." We will continue to enhance the quality of our technology and human resources cultivated in Phase 1, and we will raise our corporate value by striving to disclose financial and capital policies and ESG policies and reinforce information transmission in addition to our efforts to strengthen core business, promote growth strategies and enhance the Sanki brand.

In terms of strengthening our core business in the Facilities Construction Business, we will first strive to improve construction productivity and profits through an ongoing optimization of operational processes that precede order acceptance and construction work. We will follow that up with the promotion of the Smile Site Plan*1, dedicated to reforming onsite work styles. I believe we can make further progress by efficiently allocating human assets and advanced job management based on ICT and BIM*2. In the Facility Systems Business, we have set up a dedicated organization for promoting the promising business of consultancy and have begun developing new services. In the Machinery Systems Business, our new plant, the Yamato Product Center, began full operations in September 2019. In the future, we will address the important theme of positioning the plant at the core to promote the development of hybrid systems that combine robots with conveyance systems. Meanwhile, in the Environmental Systems Business, significant progress was made in model projects for our LCE*3 business, as we completed construction and began managing the operation of a waste treatment facility based on the DBO*4 method. In addition to these initiatives, we intend to bolster our core business by integrating the diverse technologies that represent the Sanki Engineering Group's competitive edge in total engineering and exploring new business opportunities in niche areas that lie between our businesses.

With regard to promoting growth strategies, the above-mentioned Yamato Product Center became fully operational following the completion of the Sanki Techno Center and the R&D Center in 2018, thus completing the STeP Project*5, which had been launched in fiscal 2016 as the cornerstone of our strategies. These facilities will comprise the Sanki Techno Park, and we plan to utilize its functions during Phase 2 as a major technological center of the Sanki Engineering Group in order to strengthen our reliability.

Meanwhile, we will combine our efforts for enhancing the Sanki brand through initiatives aimed at reinforcing information transmission, a target added in Phase 2. Although we are a company built on the B-to-B model, in the future we must be more conscious of becoming a B-to-B-to-C company that ultimately serves individual consumers. In our world today, there is a growing interest in how companies address ESG. To ensure sustainable growth for the Sanki Engineering Group, it is important to operate a cycle in which we actively transmit information. This includes the disclosure of financial and capital policies and ESG policies and also achieving growth by responding to feedback from our stakeholders. Against this background, from fiscal 2020 we began monitoring the progress of individual measures under Phase 2 by analyzing and categorizing the actions required for achieving the goals of the medium-term management plan and have created a mechanism that ensures the steady operation of our PDCA cycle.

In addition, I would like to touch upon a key approach we adopted in Phase 2 to set the numerical target for net sales at 200 billion yen for the three-year period. Behind this decision lies the fact that we had become extremely busy after the launch of Phase 1. I am familiar with the experience myself, but being too busy can render you incapable of providing adequate construction management, which in turn can have a damaging effect on profits. For this reason, we fixed the net sales target for Phase 2 and have been pursuing strategies for raising profit margins within that scope. In fiscal 2019, revenues fell 2.2% year-on-year, but ordinary income exceeded the previous year, and in that sense, everything went as planned. In fiscal 2020, we will continue to work on each measure to achieve our goals for Phase 2.

Contributing to Society through Our Business

In Pursuit of Total Engineering for Addressing Social Issues

As Sanki Engineering develops its businesses to become the company of choice in 2025, it must demonstrate an even greater commitment to addressing social issues through management that pays due consideration to ESG and contributing to the achievement of the SDGs. Sanki Engineering has continued to grow as a company that serves society by creating comfortable environments, and it could enhance its corporate value by delving deeper into this direction. For example, in the current COVID-19 crisis, people have begun to pay closer attention to the importance of controlling air flow in medical sites, while the need to avoid human contact is expected to lead to a rise in demand for labor-saving products. Our fundamental role is to apply our technologies to effectively address such social needs.

Meanwhile, companies in the construction industry need to establish new work styles in anticipation of future labor shortages. Sanki Engineering has been developing working environments that cater to the needs of diverse workplaces through its work style reform. I believe we can ensure our sustainability only after addressing social issues that are inherent to our own operations.

Established in 1925, Sanki Engineering is a company with a long history. I found an interesting comment in a column in the "Sanki Monthly," the in-house newsletter published soon after the company's founding. "Stretch out 'Sanki' with your lips curved a little and you get 'Sankyu,' which, of course, is a word expressing gratitude (thank you)." The point being made here is to always be grateful in your work. I respect our predecessors for having that sensitivity in the earliest days of the company's founding and have been moved by how it has been passed down over the years to today's Sanki Engineering as part of its corporate DNA.

Today, the business we are developing with our total engineering competency allows us to realize our contribution to society. Sharing with all employees the sense of being grateful for what we do provides a valuable guide for achieving sustainable growth. We will continue to benefit society through our business and always embody a heartfelt thankfulness for our stakeholders to evolve into a company of choice that offers both quality and reliability.

*1 Smile Site Plan: A subcommittee dedicated to reforming work styles.

*2 Building Information Modeling (BIM): A concept that 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.

Reference
Yamato Product Center
Page 37

*3 Life Cycle Engineering (LCE): 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.

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

*5 STeP Project: 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.

Reference
Sanki Techno Center
Pages 24–25

Reference
R&D Center
Pages 26–27

Reference
ESG Policies
Page 30

Reference
Contribution to SDGs
Page 30

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

Stakeholder Expectations

➡Page 85

Business Activities

Broad Range of Business that Leverages Total Engineering

The Four Drivers

Driver 1 Provide optimal solutions based on LCE

Driver 2 Pass on and develop technical skills

Driver 3 Pass on our safety culture

Driver 4 Promote open innovation

Facilities Construction Business
- Building the HVAC and Plumbing Business
- Industrial HVAC Business
- Electrical Systems Business
- Facility Systems Business

Plants & Machinery Systems Business
- Machinery Systems Business
- Environmental Systems Business

Driving Force for Value Creation
- Flexible, sophisticated response to customers
- Competent engineers and researchers
- Wide-ranging technological expertise
- Subcontractor groups with 880 member companies
- Sound financial base

Human Resources × Technology

Sanki Techno Center

➡Page 24

Planning and Basic Design → Design → Procurement → Construction → Operation and Management → Maintenance and Inspection → Renovation and Renewal

Meeting the Needs through LCE*1 across the Entire Value Chain

Key Initiatives (Phase 2)

- Strengthen Core Businesses
- Promote Growth Strategies
- Enhance the Sanki Brand
- Disclose financial and capital policies, and ESG policies
- Reinforce Information Transmission

Value Created (Fiscal 2019)

- Large-scale construction work*2: **21** projects
- CO_2 reduction based on our proposals (for ordered projects): **27,624** t-CO_2, **181** cases
- Customer Satisfaction Survey upon Completion of Construction: High rating: around **90%**
- Annual dividends per share: **95** yen

Contribution to SDGs

- Gross profit margin: **15.5%** (FY2018: 14.9%)
- Average monthly overtime work per person: **34.3** hours
- Industrial accidents frequency rate*3: **1.11**
- Number of registered patents*4: **451** cases

Continuous enhancement of corporate value

Social issues
- Climate change
- Declining population
- Infrastructure maintenance and upgrades
- Work style reform

Phase 1	Phase 2 ➡Pages 28 to 30	Phase 3
Long-Term Vision	Century 2025 ➡Pages 06 and 07	
Management Philosophy	Sanki Standard ➡Page 06	

*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)

*4 As of March 31, 2020

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

Social Issues

Planning and Basic Design	Design	Procurement	Construction	Operation/ Management	Maintenance/ Inspection	Renovation and Renewal
● Labor shortage ● Work style reform ● Aging facilities and social infrastructure ● Disaster prevention, mitigation, and resilience	● Supply chain risks ● Fair procurement		● Safety first ● Quality assurance ● Labor shortage ● Human rights risks	● Labor shortage ● Improving productivity ● Safety first ● Ensuring information security ● Disaster prevention, mitigation and resilience		● Aging facilities and social infrastructure ● Renovation costs
● Spread of the novel coronavirus pandemic						
● Shift to a decarbonized society ● Limited resources			● Waste issue	● CO_2 emissions		● Waste generated during disassembly

Adding Sanki's Strength to Create Value

● ● Open Innovation Led by the Sanki Techno Center

Advanced Technology | **Diverse Human Resources** × **Group Companies** | **Subcontractors** | **Other Industries and Fields**

Planning and Basic Design	Design	Procurement	Construction	Operation/ Management	Maintenance/ Inspection	Renovation and Renewal
● One-stop solution ● Optimal proposals that accurately serve customers and society by meeting sophisticated and diversified needs ● Proposal and design for reducing costs ● Technological proposal and design for disaster prevention and mitigation ● Proposal and design for reducing environmental impact, such as energy saving and energy creation, and resource saving Relevance to SDGs	● Higher efficiency of transactions through online procurement ● Collaboration with business partners and support for stable management ● Procurement of energy-saving, highly efficient equipment Relevance to SDGs		● Introduction of new technology and an improvement in construction methods ● Automation and labor saving in construction work ● Enhanced quality through quality improvement activities ● Fast, constructive response to problems and claims Relevance to SDGs	● Automation, labor saving, productivity, and greater comfort and convenience ● Response to high-level information security requirements ● Prevention of nosocomial transmission and response to the need for contact-free means of human interaction ● Life-extension and long-life facilities as well as reduced running cost ● Efficient preventive maintenance based on fault prediction ● Reduced environmental impact through energy saving, reuse, and recycling Relevance to SDGs	● Enhanced comfort and convenience ● Labor saving construction ● Further reduction of environmental impact Relevance to SDGs
● ● Utilization of ICT and BIM*	Enhance and raise efficiency of design quality	Raise efficiency and the level of procurement and construction		Raise efficiency and level of operational tasks		

Minimizing Negative Impact

● Thorough adherence to COVID-19 response policies and reinforcement of the BCP system

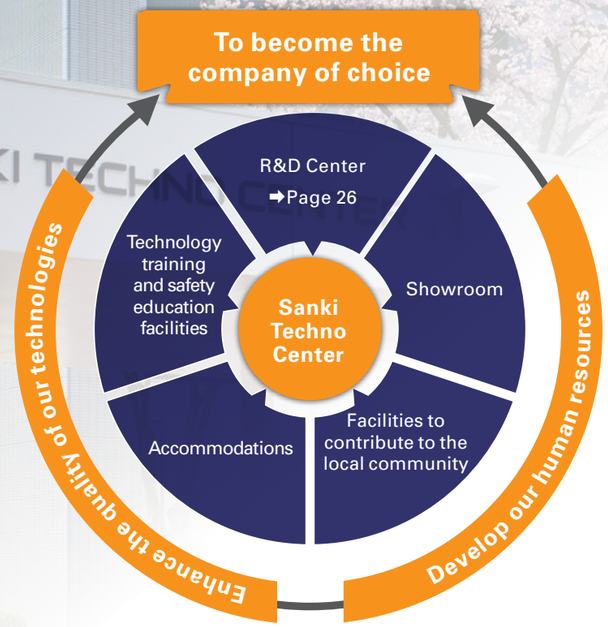
Planning and Basic Design	Design	Procurement	Construction	Operation/ Management	Maintenance/ Inspection	Renovation and Renewal
● Appropriate management of customer information, protection of personal information ● Centralized management using common Company-wide sales tools	● Fair and transparent transaction on an equal footing ● ● CSR procurement Relevance to SDGs		● Prevention of problems and complaints ● Health and safety activities, onsite hazard prediction ● Collaboration with subcontractors ● Response to human rights issues Relevance to SDGs	● Energy-saving initiatives ● Proper disposal and reduction of waste ● Compliance with environmental regulations Relevance to SDGs		

*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

The Sanki Techno Center is a research, training, and study facility for developing and imparting the advanced technical skills of the Sanki Engineering Group. It plays a key role in the Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021) as the cornerstone of our strategy for enhancing the quality of our human resources and technology. Since fiscal 2020, the technical divisions of the Facilities Construction Business as well as the Machinery Systems Administration Division and Environmental Systems Administration Division, not to mention Group companies Sanki Sangyo Setsubi Co., Ltd. and Sanki Kako Kensetsu Co., Ltd., have been aggregated at the site. We intend to continue enhancing its functions as a major technology base for the Sanki Engineering Group.



Value Generated by the Sanki Techno Center

01 Passing on and further developing technical skills

The center serves as a strategic base for passing on to the next generation the technical skills that represent the backbone of value created by Sanki Engineering and for further advancing our technology.

02 Fostering our safety culture

We will foster Sanki Engineering's long-standing safety culture by raising employee awareness of safety and cultivating their ability to identify risks.

03 Improving construction work productivity

We will improve the productivity of our construction work and increase profitability by demonstrating advanced technical skills.

04 Developing human resources across a broad range of fields

We will develop human resources across the Group by improving our technical skills as well as by providing finely tuned training that covers a broad range of topics, including engineering ethics and management competencies.

Training Area

Acquiring Empirical Knowledge Only Obtainable in the Construction Site

We provide practical training 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. 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 and using virtual reality to simulate working on scaffolding.

Technological skills training using real equipment

Staff at Group companies and subcontractors can also participate in the various training programs. Moreover, we seek to maximize the effect of training through diverse opportunities that include joint training with Sanki Engineering employees or with a group of contractors, programs for individual subcontractors and for staff at the same level of qualifications, and programs for each branch and branch office. We have also maintained our efforts to train lecturers to address the expected increase in the number of participants. In fiscal 2019, we held 91 internal and external training sessions, including those at Group companies, over an aggregate total of 342 days, that were attended by a total of 12,700 participants.

Techno Plaza Showroom

Introducing Our Social Responsibility and Potential Based on the SDG Concept

Techno Plaza Showroom

The Sanki Engineering Group's total engineering is on display at four booth exhibits under the themes of "Comfort," "Industry," "Energy Saving," and "The Environment" based on the concept of the SDGs, which are common global goals. In collaboration with the R&D Center, the Techno Plaza serves as a showroom for conveying our unique technologies and future potential to the general public. Furthermore, we organize customer tours to combine their needs with our technological concepts. In fiscal 2019, we held 206 of these for 1,883 visitors.

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 cafe and large tatami floor room, to encourage lively interaction between training participants and researchers. In addition to offering ample accommodations with 141 guestrooms that ensure comfort during long stays, the center houses a gym and other facilities. In fiscal 2019, 58 overnight seminars were held and the facility was used by 11,447 participants.

Guest room

Regional Contribution

Responding to Local Needs in the Event of a Disaster

Large room for sheltering people unable to return home in the wake 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. It also serves the local community in ways such as creating opportunities for local citizens and technical staff of the Yamato City government to participate in various seminars on safety management and other topics. The Sanki Environmental Garden adjacent to the center is also open to the public.

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 to open up new horizons for Sanki Engineering's research and development. As a total engineering company, we possess diverse component technologies related to air, water, heat, electricity, machinery, and information. We will fully deploy these technologies to promote R&D aligned with our pursuit of diverse businesses and toward providing solutions with high added value that help create a sustainable society.

Characteristics of the R&D Center

01 Accelerating R&D through Closer In-house Collaboration

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. In fiscal 2020, the technical divisions of the Facilities Construction Business as well as the Machinery Systems Administration Division and the Environmental Systems Administration Division were relocated to the Sanki Techno Center in order to facilitate meetings and exchanges of information as we strive to accelerate the pace of R&D.

02 Promoting Innovation through the Open Lab

We set up the Open Lab to encourage companies from a broad range of sectors, including our customers, universities, and research institutes as well as Sanki Engineering's business divisions to get together with an open mind and generate innovation that integrates their knowledge and technologies. Two of the ten ongoing projects have already been commercialized, while five more are in the trial stage for verification.

We offer ample facilities to facilitate open innovation, including large, multi-purpose testing rooms, collaboration areas for lively interaction and discussions, and mock-up areas where full-size prototypes can be created. In fiscal 2019, we steadfastly continued to enhance our research facilities by installing mockups and direct expansion HVAC testing equipment for regenerative medicine.

03 Using the Cloud to Accelerate the Pace of R&D

We have vastly accelerated the pace of our R&D by using the S-Cloud®, our proprietary virtual information system platform incorporating the latest AI and IoT technologies, which has enabled us to automate massive measurement data and raise efficiency. We are also using the platform to verify the AI-based prediction system built into high-spec virtual machines as well as a next-generation high-speed communication system based on 5G and Wi-Fi6. Looking ahead, we will continue to take on the challenges of new technologies.

Test and R&D Expenditures

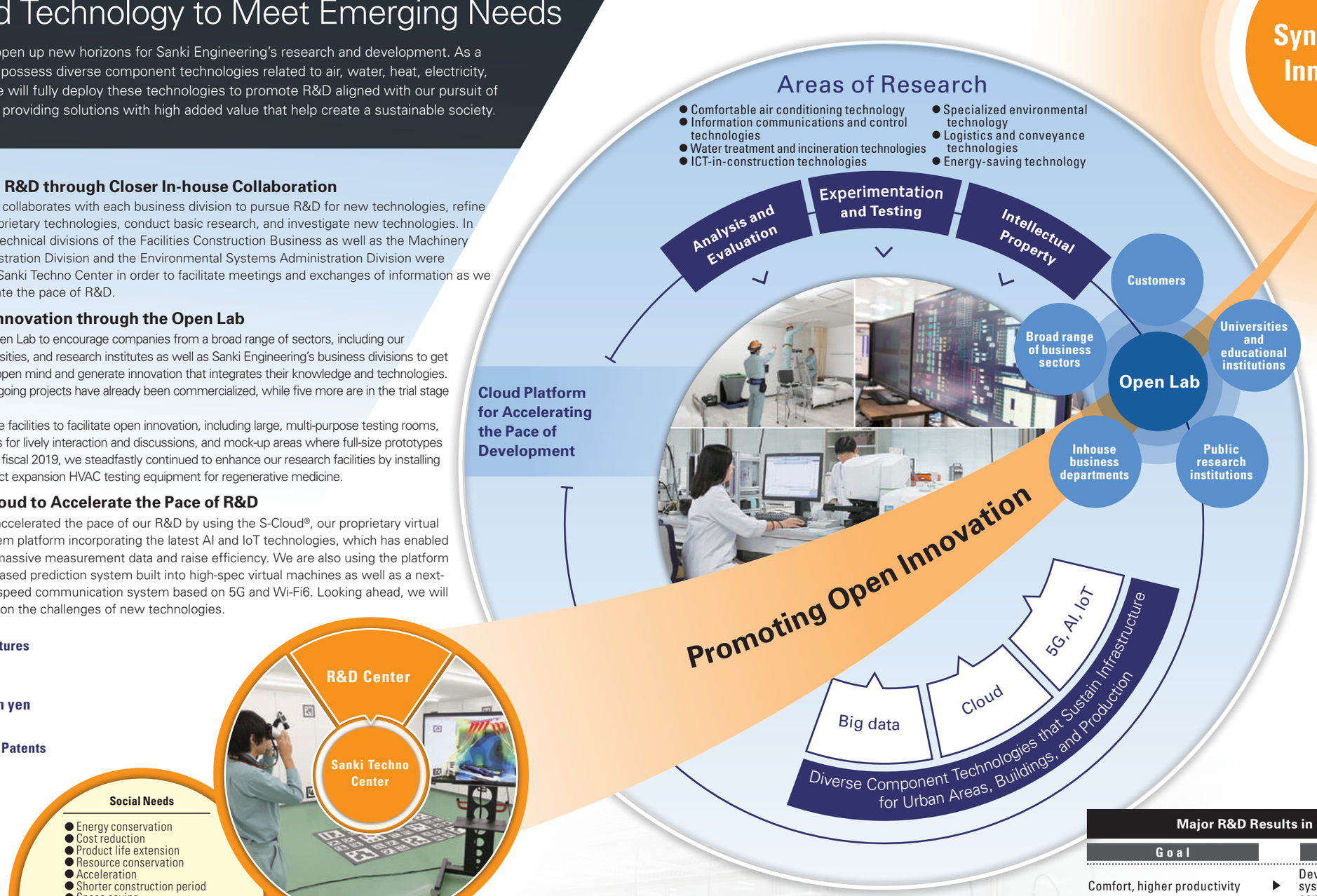
1.43 billion yen

(FY2019)

Number of Registered Patents

451 patents

(as of March 31, 2020)



Major R&D Results in Fiscal 2019

Goal		Resulting Product
Comfort, higher productivity	▶	Development of AI control system for perimeter air conditioning
Labor-saving construction work	▶	Automated robotic air flow meter
Space saving and labor saving	▶	Reverse Sorter compact sorting device
Energy creation, energy conservation	▶	Highly efficient biomass power generator

Status of Business Progress Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021)

Under the Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021), launched in fiscal 2019, we will pursue new initiatives for increasing reliability while also maintaining the initiatives of Phase 1 (FY2016–2018), a three-year period for enhancing the quality of our technologies and human resources. Also, 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

Phase 3 (FY2022–2025)
Company of Choice

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

Enhance Quality

Key Initiatives

- **Strengthen Core Businesses**: Improve component technologies and achieve stable growth
- **Promote Growth Strategies**: Pursue future growth in the areas of technology and business
- **Enhance the Sanki Brand**: Develop human resources that possess the Sanki spirit

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

Enhance Reliability

Further pursue quality

- 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

Key Initiative

- **Disclosure of Financial and Capital Policies, and ESG Policy**
- **Reinforce Information Transmission**

Details

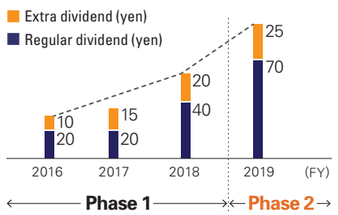
Financial and Capital Policies	ESG Policy	Reinforce Information Transmission
Page 88	Page 30	Page 87

Phase 2 Targets and Results

	FY2019 targets	FY2019 results	FY2020 targets	FY2021 results
Sales	200.0 billion yen	207.6 billion yen	200.0 billion yen	
Gross profit (margin)	30.0 billion yen (15.0%)	32.1 billion yen (15.5%)	31.0 billion yen (15.5%)	32.0 billion yen (16.0%)
Ordinary income (%)	9.0 billion yen (4.5%)	11.2 billion yen (5.4%)	9.5 billion yen (4.8%)	10.0 billion yen (5.0%)

	Phase 2 (FY2019–2021) Management Targets	FY2019 Results
Operating profit ratio	5.0% or higher (final fiscal year)	5.4%
Dividend	Annual dividend per share of 60 yen or higher	Annual dividend: 95 yen
Acquisition of treasury stock	About 5 million shares (in 3 years)	About 1.95 million shares
Total return ratio	70% or higher	111.4%
ROE	8.0% or higher (final fiscal year)	8.6%

Dividend per share



Results of Key Initiatives and Policies for Fiscal 2020

	FY2019 Results	FY2020 Policy
Strengthen Core Businesses	**Facilities Construction Business** • Improved pre-ordering and pre-construction operational processes • Implemented next-generation site management systems • Improved construction quality through efficient personnel allocation **Facility Systems Business** • Rolled out new services led by organizations set up to promote specialized consulting • Expanded business in the construction division **Plants & Machinery Systems Business** Machinery Systems Business: • Full-scale launch of the Yamato Product Center • Promoted development of next-generation technologies such as hybrid systems Environmental Systems Business: • Conducted activities to receive orders for DBO projects • Maintained and expanded energy saving and energy creating businesses	**Facilities Construction Business** • Bolster Company-wide construction and site-support systems • Secure construction quality, improve health and safety, and enhance productivity **Facility Systems Business** • Expand consulting services led by new specialized organizations **Plants & Machinery Systems Business** Machinery Systems Business: • Improve productivity and cut cost of conveyors • Expand the product lineup for hybrid systems Environmental Systems Business: • Increase orders for large-scale projects • Continue receiving orders for a woody biomass power generation system
Promote Growth Strategies	• Completed the STeP project	• Creation of next-generation technologies led by the R&D Center and Yamato Product Center • Steady development of overseas business and restructuring of the Food Service Equipment Business • Promote stock-based business for the future
Enhance the Sanki Brand	• Established the Smile Work Guidelines	• Enhance quality of technology and develop human resources by expanding various training programs • Promote work style reforms by stimulating in-house communication

Details
ESG Initiatives
Pages 41 to 88

ESG Policies (Create Sustainable Social Value)

To implement sustainable management, we will pursue initiatives based on our ESG policies toward creating a sustainable society and achieving sustainable corporate growth. In fiscal 2020, we designated targets for promoting ESG initiatives under Phase 2.

	Policies	FY2021 KGI (Indicators for Evaluating FY2021 Results)	KPI (Indicators for Evaluating Progress)
E Environment	• Develop products and technologies that contribute to realizing a decarbonized society • Reduce the environmental impact of business activities	● Number of orders received based on CO_2 reduction proposals under the SANKI YOU Eco Contribution Point system • 50% or more of total number of proposal ● Sanki Engineering's CO_2 emissions (result of business activities) (2020 and 2021) • Reduce by 1% year-on-year	● Number of CO_2 reduction proposals under the SANKI YOU Eco Contribution Point system • 300 or more per year ● Continuous reduction in Sanki Engineering's CO_2 emissions (result of business activities)
S Social	• Contribute to building sustainable infrastructure • Collaborate and engage with the local community • Create work environments that are safe and easy to work in • Promote diversity to enhance human resources	● Reduction rate for number of problems and complaints during construction • Reduce by 5% year-on-year through divisional collaboration ● Reduction rate for number of accidents ● Achieve the goals of the Smile Project* • Average monthly overtime work per person • Paid leave ratio per person	● Technical training and seminars for preventing problems, claims, and accidents • 25 times per year ● Designate targets for the Smile Project • Quantify work-life balance through monitoring
G Governance	• Reinforce the governance system	● Construct a better governance system in line with the changing times	● Annual inspection of the governance system • Implement measures in accordance with the scores

*The Smile Project was established in 2015 under the president's leadership to promote work style reform unique to Sanki.

Contributing to the SDGs

Four Sustainable Initiatives for the Future

1 Amenity
Creating comfortable environments through engineering

2 Industry
Applying our unique clean room technology and transport technology to support cutting-edge industries

3 Eco & Energy
Offering technological solutions to help achieve decarbonization, energy saving, and energy creation

4 Environment
Building facilities for water processing and waste disposal to help protect the environment and create a zero-waste society

Tenth Anniversary of the SANKI YOU Eco Contribution Point System

Addressing Social Issues through Businesses Based on Our ESG Policy

- Preventing global warming and helping realize a sustainable society through customer proposals
- Converting the reduction in CO_2 emissions based on energy saving proposals into points and donating the monetary equivalent to environmental organizations

Whenever a customer adopts our energy saving proposal, the reduction in CO_2 emissions is converted into Eco Contribution Points (100 yen per tonne), and we donate the equivalent monetary amount to subsidize environmental conservation activities. The system celebrated its tenth anniversary in 2020. We established the system amid calls for companies to address climate change, and we have continued to promote it over the years as a means for sharing our aspiration of stopping global warming with customers who adopt our proposals. Additionally, it gives our employees with a genuine sense that their work is directly linked to preventing global warming and protecting the environment. We intend to continue reducing CO_2 emissions through our products and technologies and contribute to preventing global warming and realizing a sustainable society.

Facilities Construction Business

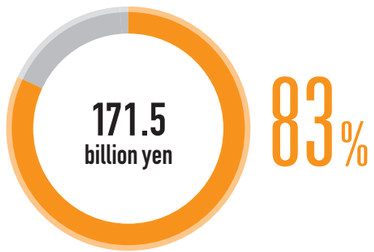
Creating Comfortable Environments to Sustain Future Society

The Facilities Construction Business has contributed to social development by harnessing Sanki Engineering's component technologies to create comfortable environments essential for buildings across broad business areas, encompassing HVAC, plumbing and drainage, electrical systems, smart building solutions, and facility systems.

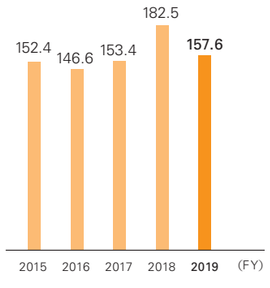
Under the policies of the Medium-Term Management Plan "Century 2025" Phase 2, we are currently seeking to strengthen and develop our component technologies by improving construction productivity and meeting energy saving needs. We hope to take this one step further to create technologies and solutions for the future that transcend organizational and corporate boundaries. We will actively pursue our businesses as a company that possesses the means to build clean environments now and into the future. Moreover, we will contribute to achieving the SDGs by providing solutions that address social issues such as energy conservation and work style reform.

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

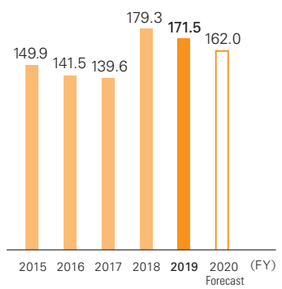
Net Sales and Net Sales Composition Ratio for Fiscal 2019



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
- Nationwide labor shortage resulting from a shrinking workforce
- Changes in everyday living and corporate activity, associated with the COVID-19 pandemic

Opportunities and Risks

- Shrinking capital investments due to the stagnation of the global economy
- Change in social life leading to growing demand for ICT facilities, and the need to enhance medical, pharmaceutical, and manufacturing facilities
- 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

Key Initiatives of the Medium-Term Management Plan

Key Initiative 1

Actively leverage customer information and closer collaboration among branches and branch offices

We will further promote Company-wide sharing of customer information and collaboration among branches and branch offices for sales activities that are one step ahead of customer needs.

Key Initiative 2

Improve construction quality and promote the development of younger employees

We will improve and unify construction quality by utilizing the Sanki Techno Center to nurture construction engineers while also raising the skills of each age group by reinforcing on-the-job training.

Key Initiative 3

Raise productivity by establishing a Company-wide construction system

We will establish a construction system that ensures Company-wide collaboration to resolve regional gaps in the available labor force during the busy season and improve productivity.

Major Results for Fiscal 2019

- Steadfastly implemented ongoing construction projects and sought to ensure profit, which resulted in stable orders and net sales centered on building HVAC, plumbing, and electrical facilities.
- Promoted the Smile Site Plan, designed to reduce the workload of construction managers and raise operational efficiency.
- Strengthened the pre-ordering and pre-construction operational processes and improved construction quality through efficient allocation of personnel.
- Applied a next-generation site management system, including work sharing, along with the widespread use of the New Octopus software for supporting site-documentation.
- Improved productivity and reduced the number of problems during construction by expanding training on technology, skills, and safety management at the Sanki Techno Center for employees and subcontractors.

Major Projects

- Yoyogi National Stadium 1st Gymnasium (HVAC, plumbing, and electrical systems for a renovation project)
- Toranomon Hills Business Tower (HVAC systems and smart building solutions for new construction work)
- Nihon Shokken Holdings Co., Ltd. Schönbrunn Palace Factory (HVAC systems for new construction work)
- Otemachi One Tower (HVAC systems/new construction work)

Yoyogi National Stadium 1st Gymnasium
(photo courtesy of the Japan Sport Council)

Nihon Shokken Holdings Co., Ltd. Schönbrunn Palace Factory

Status of Business Operations and Future Outlook toward Achieving Phase 2

Direction for Fiscal 2020 Based on Change in Business Environment

We will improve order-taking and productivity with an emphasis on balancing quantity and quality. To that end, we will bolster the Company-wide construction and site-support systems while promoting the Smile Site Plan to reduce the workloads of construction managers and further improve construction quality and occupational health and safety. In addition, we will nurture younger employees through a Company-wide system that includes on-the-job training to improve individual skills.

Strengthening Core Businesses that Contribute to Social Development

The Facilities Construction Business meets diverse customer needs and contributes to re-solving issues by constructing buildings and facilities that are comfortable and environmentally sound. Strengthening this business is directly connected to our Management Philosophy, under which "we create comfortable environments through engineering and widely contribute to social development." In addition, we will seek to strengthen our core businesses by encouraging collaboration with the Plants & Machinery Systems Business and with the R&D Center to harness our total engineering capabilities toward generating new value for society.

Leveraging Shared Customer Data to Promote Sales

In April 2020, we transferred the Mechanical and Electrical Administration Office, set up to develop closer collaboration and integrate functions among branches and branch offices, to the Sales Administration Division of the Mechanical & Electrical Contracting

Headquarters. Looking ahead, we will promote sales activities by facilitating the sharing of nationwide customer information to further tighten collaboration among branches and branch offices.

Further Improving Construction Quality

The Quality Control Center set up within the Technical Administration Division in April 2020 will spearhead initiatives for avoiding the risks associated with construction quality at the earliest stage and based on a shared understanding with the construction site. It will do this by widely sharing details about past incidents with branches and branch offices to strengthen measures for preventing problems and claims. As part of our work style reforms under the Smile Site Plan, we will seek to reflect the voice of engineers and others responsible for construction management to ensure construction quality and improve productivity.

We set up the BIM Promotion Center in April 2019 to meet customer needs related to design, construction work, maintenance, and management using the BIM which is expected to spread rapidly across the construction facility industry. The center will lead the initiative for developing site-support systems for further improving construction quality.

Establishing a Robust Construction System by Forging Closer Relationships with Subcontractors

We will renew our efforts to establish a system for ensuring safety at construction sites based on cooperation among the sites, subcontractors, and Sanki Engineering through the Sanki Health and Safety Cooperative Association. In addition, we will share information through the association to establish a construction system that will also contribute to ensuring quality and improving productivity.

Bolstering Site-Support Systems

With a widespread understanding of our system for site-support, instilled by units such as the Design and Engineering Support Center and Technical Support Center, we have seen an increase in situations in which we were able to provide seamless site-support from the start of construction to completion. In fiscal 2020, we will establish site-support systems at each branch and branch office and expand the areas of support and information sharing.

Focus

Unique Building Management and HVAC Technology that Contributes to Innovation

Toranomon Hills Business Tower

Value delivered by Sanki Engineering

- Reduced the environmental impact of an HVAC system
- Helped create a comfortable and highly productive office environment
- Introduced a global standard open system

In January 2020, the Toranomon Hills Business Tower housing offices, commercial facilities, and business facilities were completed in the Toranomon Hills area, which has been expanding and evolving into a new international capital and global business center. Sanki Engineering was responsible for the construction of the tower's HVAC system and introduced several new proprietary technologies in collaboration with the R&D Center.

The ARCH incubation center on the fourth floor specializes in new business development, leads companies, and is where innovators from various fields congregate. We installed the "selFort®" system, which enhances intellectual productivity by meeting diverse air conditioning needs, and adopted air conditioning control technology that mitigates the effects of sunlight near windows and the ambient temperature. For the central monitoring system, which serves as the central nervous system, we collaborated with the Facility Systems Business division and installed the SanBACS® building automation system. This highly versatile system is built to global standards and can be linked to the operator's own systems. Additionally, we incorporated our latest technologies in various other areas to help create a comfortable and highly productive office environment that is also environmentally sound.

Toranomon Hills Business Tower

Facilities Construction Business

Facility Systems Business

Market Conditions

- The need to improve productivity has grown ahead of the decline in Japan's population, leading to an expansion in related investments
- Technological progress and the spread of cloud services are increasing opportunities for revising the operation of ICT infrastructure
- Expectations are growing for solutions that boost productivity by making use of 5G, AI, and IoT
- The COVID-19 pandemic has sparked investment in improving office environments and redesigning business spaces

Opportunities and Risks

- Financial institutions are accelerating the pace of organizational restructuring and revisions in branch operations
- New work styles such as teleworking and working from home have led to diverse office use, giving rise to efforts for maintaining communication
- Expectations are growing for merchandise and consulting services that accurately meet new needs
- Reinforced efforts in co-creation and collaboration across the corporate framework and implementation of work style reforms

Key Initiatives of the Medium-Term Management Plan

Facility Systems

Key Initiative 1 — **Provide a new consultancy service**
We will reinforce sales for our consulting service toward expanding the market for the PM and CM* businesses.

Key Initiative 2 — **Bolster sales and production systems toward business expansion**
We will review our organization and strive to improve our response to customers and the competitiveness of our services.

Key Initiative 3 — **Strengthen existing business areas**
We will enlarge our customer base through alliances and other strategies.

*Project management and construction management

Smart Building Solutions

Key Initiative 1 — **Expand solution business**
We will boost sales activities with a focus on the appeal of our consulting capabilities in projects involving the installation or upgrading of central monitor systems.

Key Initiative 2 — **Strengthen existing business**
We provide system integration solutions from a neutral and fair standpoint for customer issues.

Key Initiative 3 — **Innovation in productivity**
We will promote joint work and work style reforms with an eye on the new social situation caused by COVID-19.

Major Results for Fiscal 2019

Facility Systems

- We enjoyed a brisk flow of orders for large-scale relocation projects and seized opportunities involving capital investment projects for facility reallocation by customers revising their management strategies, which resulted in robust growth in orders received, sales, and gross profit margins.
- Published Ee-NeWS* to distribute information on work style reform consulting.

Smart Building Solutions

- In the area of building management solutions (instrumentation), progress was made in numerous large-scale projects, resulting in favorable growth in orders received, sales, and gross profit margins.
- In the area of network solutions (ICT), our recent efforts for boosting problem-solving capabilities bore fruit in the form of record profits.

*Abbreviation of "everyone," "ee" (the sound for "good" in Japanese), "next," "work," and "style"

Status of Business Operations and Future Outlook toward Achieving Phase 2

Facility Systems

In fiscal 2020, we expect the full-scale launch of a large-scale relocation project we have been working on since the previous fiscal year. There have also been clear trends toward corporate reorganizations that transcend the boundaries of financial institutions, which raise expectations for favorable business.

Furthermore, we are developing new services under the leadership of the Consulting Promotion Department set up in 2020 to specifically promote the consulting business.

Smart Building Solutions

We will aggressively promote our competitive edge in highly versatile central monitoring and automated control systems to meet the labor-saving and cost-cutting needs of large buildings and other structures.

Amid expectations for steady ICT investments, we will seek to meet the expectations for higher productivity at a time we must also coexist with COVID-19. We will do this by actively pursuing sales activities that meet the growing demand for data centers and other ICT facilities.

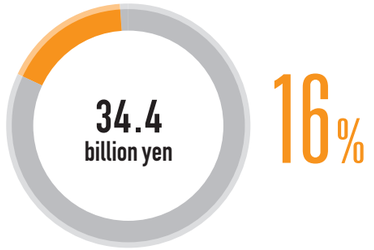
Plants & Machinery Systems Business

Always Heeding the Voice of Customers to Deliver Original Solutions that Contribute to Social Development

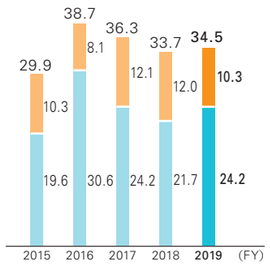
The Plants & Machinery Systems Business, which comprises the Machinery Systems Business and the Environmental Systems Business, contributes to social development by creating comfortable environments through engineering, which is the essence of our Management Philosophy. Since the completion of the Sanki Techno Center as a comprehensive training and research facility, we have sought to concentrate the facilities and personnel of these two businesses at this site to establish a major platform for our technology. Our next challenge is to vigorously exchange technologies and ideas across business divisions and companies to meet the specific, exacting needs of our customers. Always heeding their voices, we will contribute to resolving social issues by focusing on attaining the goals of the Medium-Term Management Plan "Century 2025" Phase 2, which includes developing next-generation technologies and providing original solutions to promote automation, save labor and energy, and efficiently generate energy.

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

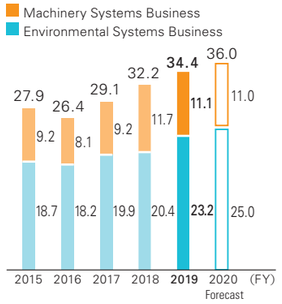
Net Sales and Net Sales Composition Ratio for Fiscal 2019



Orders Received (Billions of Yen)



Net Sales (Billions of Yen)



Machinery Systems Business

Market Conditions

- Growing need for automation and labor saving solutions arising from the decline in Japan's working population
- Advances in AI and IoT, and the proliferation of robots
- Expansion in capital investments for logistics facilities

Opportunities and Risks

- Recruitment of engineers to keep up with advances in AI and IoT, and promoting the introduction of robots
- Decline in price competitiveness in the market
- Need for unattended processes to prevent the spread of COVID-19

Key Initiatives of the Medium-Term Management Plan

Key Initiative 1
Developing New Markets for Material Handling Systems for the Logistics Market
Strengthen sales activities focused on new products targeting the logistics market.

Key Initiative 2
Expanding Sales of Hybrid Facilities
Focus on increasing sales and expanding marketing channels for hybrid facilities that combine conveyors and robots.

Key Initiative 3
Improving the Efficiency of Our Production System to Improve Productivity
Establish a production management system at the Yamato Product Center, our main production base for conveyors, to improve productivity and quality and promote next-generation technologies.

Environmental Systems Business

Market Conditions

- Social infrastructure investment in sewage works remains little changed, while investment in waste facilities gradually increases
- Expanding need for decarbonization (energy creation) technologies and technologies that utilize AI and IoT
- Japanese government policy for promoting PPP and PFI*

Opportunities and Risks

- Slowing social infrastructure investment due to the declining population and high coverage rate
- Price fluctuations and other unexpected events over the course of long-term operation and management
- Market expansion due to improved hygiene in developing countries

Key Initiatives of the Medium-Term Management Plan

Key Initiative 1
Seeking Further Expansion in Sales of Strategic Products
Refine and expand sales of core products that meet energy saving and energy creating needs

Key Initiative 2
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.

Key Initiative 3
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 2019

- While orders received for conveyance systems fell in line with changing market conditions, there was robust demand for automation due to the declining labor population, resulting in steady sales growth for hybrid facilities that combine robots with conveyors.
- The Yamato Product Center, our main production base for conveyors, began full-scale operations in September 2019. This marked the completed aggregation of our Machinery Systems Business at Sanki Techno Park, allowing us to integrate the management of sales, technology, and manufacturing functions.
- We bolstered the conveyor marketing system to pursue sales activities geared to local needs.

Yamato Product Center

Major Projects
- TOHAN Wako Center (relocation work for a shipping facility and the design and construction of a new building)
- Osaka Customs (design and construction of a customs inspection instrument for international mail)

Status of Business Operations and Future Outlook toward Achieving Phase 2

Establish a Production Management System for the Yamato Product Center

To maximize the production capacity of the Yamato Product Center as a new factory, we will optimize the production management system to improve the efficiency of conveyor production and reduce costs.

Furthermore, we will enhance functions for verifying the performance of conveyance systems, including hybrid facilities and new products for improved quality and stability. And we will use the Sanki Techno Center adjacent to the plant as a center for innovation to accelerate the pace of new product development by sharing information across business divisions in collaboration with the R&D Center.

Develop Packaged Deals and Broaden the Product Lineup for Hybrid Systems for Diverse Automation Needs

We will use the Yamato Product Center as the core facility to promote packaged deals for hybrid systems and broaden our product lineup in response to the diverse automation needs of the food industry and medical institutions.

Increase Sales of Logistics Equipment and Develop New Products in Response to Market Expansion

In response to the expanded logistics market brought about by the spread of e-commerce and accompanying rise in labor saving and automation needs, we will promote sales of logistics equipment such as customized conveyor and sorting devices. In April 2020, we set up the Information Control Department to provide production management systems. We will also develop robotic materials handling systems for the diversifying needs of the logistics site.

Promote Sales Geared to Local Needs and Establish New Sales Bases

We will seek to increase orders for standard conveyors by promoting sales geared to local needs while at the same time establishing new sales bases. Moreover, we will use our sales networks for standard conveyors to develop new customers for hybrid facilities.

Environmental Systems Business

Major Results for Fiscal 2019

- Orders received increased as we won orders for large-scale waste treatment facilities and water supply and drainage disposal plants. Sales growth was led by strategic products such as our decanter centrifuge and ultra-fine bubble air diffuser.
- We received a second order for a woody biomass gasification power generation system, which we have been aggressively promoting.
- We completed construction of the Tenzan area energy recovery waste treatment facilities, a DBO project including construction and management operations that we had received as a bulk order. Our Group company Sanki Kako Kensetsu Co., Ltd., responsible for operational management, repairs, and maintenance, began a 20-year period of operations.
- The continuous heat sterilizer for treating medical and pharmaceutical wastewater, for which we received the first order in fiscal 2018, commenced operation at two locations.

Tsushima Clean Center renovation project

Major Projects

- Tenzan area energy recovery waste treatment facilities construction work
- Tsushima Clean Center renovation work for key facilities
- Sendai Clean Center renovation work for key facilities
- Tokai City Purification Center construction work for a water treatment facility

Status of Business Operations and Future Outlook toward Achieving Phase 2

Increase Orders for Large Projects Including Strategic Products

We expect consistent demand for infrastructure upgrades primarily in major cities in response to changes in society and the environment, such as a declining population. We will strive to increase orders for large-scale projects by highlighting our strategic products, including the SANDEC G3 decanter centrifuge, AEROWING II ultra-fine bubble air diffuser, and turbo-charged fluidized bed combustion system. In addition, we will maintain our efforts to bolster private sector sales for products such as the continuous heat sterilizer used to treat medical and pharmaceutical wastewater.

Bolster the LCE Business with a Focus on Energy Conservation and Generation

We will actively engage in government initiatives funded by the private sector, such as the PPP/PFI and DBO projects. We will also ensure stable operations of the DBO project Tenzan area energy recovery waste treatment facilities through strong collaboration among Group companies.

In our new business of woody biomass gasification power generation systems, we will pursue new orders through Group-wide collaboration to provide total engineering and toward further expanding the LCE Business with a focus on creating energy.

Expand Business Areas by Leveraging Proprietary Technologies

We will deploy our diverse array of specialized technologies that extend beyond our business, such as at the R&D Center, to seize new opportunities in a timely manner. Moreover, we will contribute to improving hygiene in developing countries by leveraging Sanki Engineering's proprietary technologies, such as the DHS-based wastewater treatment unit, which helps lower costs and save energy associated with wastewater treatment.

Focus

Machinery Systems Business

TOHAN Wako Center, a Shipping Base for New Titles that Supports the Culture of Publishing

Constructing a Shipping Facility that Saves Energy and Labor

Value provided by Sanki Engineering

- Considerable improvement in operational efficiency from the arrival of books to shipment
- ICT system that ensures thorough management of processes and risks
- HVAC facility that creates a comfortable working environment

In May 2019, the TOHAN Wako Center commenced operations as the new shipping base for new titles at Tohan Corporation, which distributes publications. Sanki Engineering was responsible for relocating the shipping facility to the TOHAN Wako Center as well as the design and construction of a new building.

The new shipping facility spans 1,800 meters. All books that arrive from the publishers are sorted via two lines into those destined for large stores and those for small- to medium-sized shops, and they are moved into the inspection and shipping lines to be dispatched nationwide. We installed DAS* shipping equipment with digital displays in the sorting line for large bookstores and adopted weight inspection machines for inspecting and shipping. The shipping line is equipped with a system for sorting books by destination to save energy and labor. In addition, Sanki Engineering handled the design and new construction of the ICT, HVAC, and electrical systems, thus meeting comprehensive customer needs as a total engineering company.

Shipping conveyor for small- to medium-sized bookstores

*Digital Assort System

Focus

Environmental Systems Business

Clean Hill Tenzan, Energy Recovery-type Waste Treatment Facilities with Comprehensive Environmental Protection Features

First DBO Project for Construction and Management Involving New Construction Work

Value provided by Sanki Engineering

- Ensures efficient, long-term waste treatment
- Safe and secure facility that is resilient to disasters
- Contributes to developing the regional community and creating a zero-waste society by blending into the surrounding environment

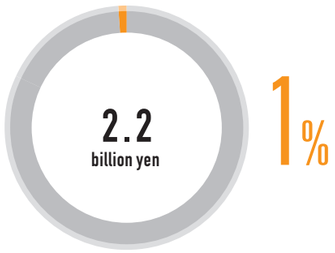
The Clean Hill Tenzan energy recovery-type waste treatment facilities were completed in March 2020, marking the start of a 20-year period of operational management by Group company Sanki Kako Kensetsu Co., Ltd. This was the first bulk order for construction and management operations received by the Sanki Engineering Group under the DBO method that involved new construction work.

The order for Clean Hill Tenzan was placed by the Saga Prefecture Tenzan Area Environmental Cooperative as a project to build a common garbage incinerator for Taku City and Ogi City in Saga Prefecture. The project is intended to maintain proper treatment of general waste in a safe and secure manner and promote energy recovery toward the creation of a zero-waste society. We installed the most advanced facilities and systems centered on our proprietary water-cooled stoker system to achieve a processing capacity of 57 tonnes of waste per day, and we used the recovered heat energy to power the HVAC and other facility systems. Looking ahead, we will continue environmentally sound operations with a priority on safety and security.

Clean Hill Tenzan

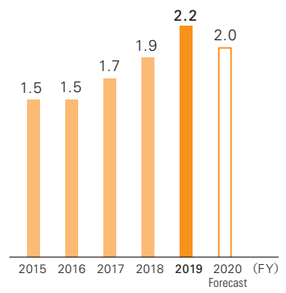
Real Estate Business

Net Sales and Net Sales Composition Ratio for Fiscal 2019



1%

Net Sales (Billions of Yen)



Basic Strategies for Fiscal 2020

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

Market Conditions

- Redevelopment continues in urban areas such as Tokyo and Osaka along with steady demand for offices.
- Increase in third-place offices and other coworking spaces

Opportunities and Risks

- Decline in rental fees and prolonged period of vacancies
- Growing need to conserve energy and resources, extend the life of aging buildings, and ensure longer life for facilities
- Need to improve office environments using advanced technologies such as AI and IoT

Major Results for Fiscal 2019

- Net sales rose from the previous fiscal year due to growth in rental income following the start of tenant operations centered on a portfolio asset in Yamato City, Kanagawa Prefecture (Sanki Yamato Site).
- The launch of full-scale operations of the Yamato Product Center in September 2019 marked the completion of the STeP (Sanki Techno Park) project for the Sanki Yamato Site, which we had been implementing since fiscal 2016.
- Completed renovating the elevator and upgrading the central monitoring system at the Sanki Yamato Building.
- Completed renovating the interior of the Molive shopping mall in Moriyama City, Shiga Prefecture
- Completed construction in October 2019 for the NISSAY Logistics Center YOKOHAMA-MACHIDA, the logistics facility of Nippon Life Insurance Company at the Sanki Yamato Site, which we have been renting out since May 2018. Sanki Engineering was responsible for constructing the HVAC, plumbing, and electrical systems.

Policy and Outlook for Fiscal 2020

In fiscal 2020, 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 seek to raise customer satisfaction by enhancing facilities in response to the increase in tenant employees. We will continue to upgrade the elevator, rooftop air conditioning unit, and electrical substation. Facility renovations at the Molive shopping mall, such as upgrading the escalator control systems, will also be continued to maintain tenant satisfaction and a pleasant shopping experience.

Learn about Sanki Engineering's business activities and business foundation

ESG Initiatives

42 Environment
50 Social
71 Governance

Photography: conveyor and sorting device "Cross Belt Sorter CB II"

Environment Our Contribution to the Global Environment

Sanki Engineering Environmental Policy

Established April 1, 2015
Revised April 1, 2020

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 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.

FY2021 Goals

Providing products and services to help reduce CO_2 emissions of customers

Target
CO_2 reduction proposals in SANKI YOU Eco Contribution Point System (consolidated)
More than 300 proposals

Reducing CO_2 in business activities

Target
CO_2 emissions (actual results at our offices) (non-consolidated)
1% lower than in previous fiscal year

Major Action Policy and Initiatives for FY2020

Strengthen proposal-making capabilities and increase proposals

Promote energy conservation in business activities

FY2019 Results

CO_2 reduction proposals in SANKI YOU Eco Contribution Point System (consolidated)

Orders received: **181**
Number of proposals: 405
(FY2018: 183 orders received)

Contribution to reduction: **27,624 t-CO_2**
(FY2018: 20,699 t-CO_2)

CO_2 emissions (actual results at our offices) (non-consolidated)

9,177 t-CO_2

Environmental Management at Sanki Engineering

Environmental Management System

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.

Reference
Quality and Environmental Management System
Page 51

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 2019 were: (1) Enhance Environmental Aspects Assessment and (2) Improve the introduction rate of digital manifests.

No issues were reported regarding noise, dust, or odor at construction sites.

In May 2019, Sanki Engineering Co., Ltd. and Group company Sanki Kako Kensetsu Co., Ltd. were found to have unlawfully altered the measured values for two out of 31 data items required for disclosure at an incineration facility constructed by Sanki Engineering. We addressed the issue by providing an explanation at a meeting with local residents organized by the relevant regulatory body, temporarily suspending the ISO 9001 certification of the Environmental Systems Administration Division at Sanki Engineering and the ISO 14001 certification of Sanki Kako Kensetsu from September to October 2019, voluntarily suspending the use of the ISO 9001 and 14001 certification by Sanki Engineering and Sanki Kako Kensetsu from April to September 2020, taking disciplinary action by cutting executive compensation, organizing ethics seminars for the relevant departments, and formulating internal auditing checklists. In March 2020, we implemented corrective work, verified the performance of the relevant facility, and received approval from a third-party institution and the owner of the facility. We are aware of the gravity of this incident and take full responsibility. We will bolster our compliance education and management system to prevent a recurrence.

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. In fiscal 2019, we revised the document format, such as categorization, to clarify the connection between employee tasks and environmental impacts.

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

Developing Environmental Leaders

We encourage employees to acquire environment-related qualifications in response to regulatory changes.

■ Number of Employees with Environment-related Qualifications (as of April 1, 2020)

Qualification	Non-consolidated	Consolidated
Certified environmental measurer	8	9
Supervisor of management of industrial waste subject to special control	177	194
Pollution prevention manager (cumulative total)	73	96

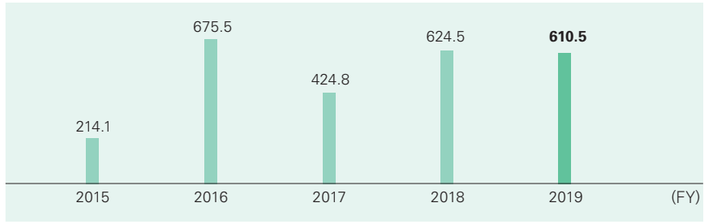
Contributing through Our Products and Technologies

Contribution to Decarbonization and the Creation of a Zero-Waste Society

The Sanki Engineering Group seeks to help customers save and generate energy to reduce CO_2 emissions and cut lifecycle costs through its business activities by enhancing functionality and comfort through the products and technologies offered by each of its businesses. In our LCE business, we seek to reduce environmental impact across the entire product lifecycle, from planning and design in facilities construction to operational maintenance after completion and also renovation. This assists in shifting to a decarbonized, zero-waste society as well as environmental preservation. Our Medium-Term Management Plan designates numerical targets for the number of CO_2 reduction proposals we present customers. We will also strive to expand the business field of saving and creating energy, such as biomass power generation plants, and pursue resource circulation through wastewater treatment facilities and waste treatment facilities.

■ R&D Expenditures Related to Environmental Preservation

(Millions of Yen)



Trans-Heat Container for delivering thermal energy

Woody biomass gasification plant

Registered ZEB Planner

Sanki Engineering is a registered ZEB Planner, which seeks to promote the widespread introduction of ZEBs[*1] introduced by Japan's Agency for Natural Resources and Energy, under the Ministry of Economy, Trade and Industry. As a ZEB Planner, we act as the contact point for customers planning to adopt ZEB in construction projects and play our part in developing a decarbonized society by supporting ZEB planning. In fiscal 2019, we worked on the construction of a ZEB Ready[*2] building equipped with highly efficient energy saving facilities. Construction was completed in July 2020.

SANKI YOU Eco Contribution Point System

The Sanki Engineering Group's SANKI YOU Eco Contribution Point System contributes, along with our partners, to preventing global warming and realizing a sustainable society. Under the system, when we propose an energy-saving solution that reduces CO_2 emissions to a customer and that proposal is adopted, the amount of the achieved emissions reduction is converted to Eco Contribution Points (100 yen per tonne), which are used to subsidize environmental conservation activities. In fiscal 2019, customers adopted 181 of our proposals, resulting in donations of 2,762,400 yen (equivalent to a 27,624 t-CO_2 reduction), raising the overall total of donations since the start of the program in fiscal 2010 to 21,203,200 yen, with approximately 17,000 trees planted, equivalent to an area of 5 hectares. The system celebrated its tenth anniversary in fiscal 2020.

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

*2 ZEB Ready applies to buildings that meet the requirement of reducing primary energy consumption by at least 50% from benchmark primary energy consumption without using renewable energy sources.

ZEB PLANNER
ZEB29P-00019-G

Reference

Tenth anniversary of the SANKI YOU Eco Contribution Point System
page 30

■ Proposals for CO_2 Reduction and Outcomes

(CO_2 Reduction Unit: t-CO_2/Year)

		FY2016		FY2017		FY2018		FY2019	
		Numbers	CO_2 reduction	Numbers	CO_2 reduction	Numbers	CO_2 reduction	Numbers	CO_2 reduction
Proposal									
	Consolidated	345	56,205	353	47,905	411	50,072	**405**	**45,685**
	Non-consolidated	313	54,877	321	46,143	370	45,531	**377**	**44,756**
Orders received									
	Consolidated	183	27,624	166	16,949	183	20,699	**181**	**27,624**
	Non-consolidated	168	27,319	157	16,599	163	16,608	**163**	**27,221**

■ 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 2019, we donated to three projects in which our employees participated.

■ Donation History for Tree-planting Projects (FY2019)

Recipient	Project	Donation
Silva Association	Tree planting for a forest surrounding Shonan Village (Yokosuka City, Kanagawa Prefecture)	860,000 yen
Shinwa Gakuen	Tree planting for a forest surrounding Shonan Village (Yokosuka City, Kanagawa Prefecture)	860,000 yen
NPO Mori wa Umi no Koibito	Tree planting for the Hikobae Forest on Mt. Yagoshi (Ichinoseki City, Iwate Prefecture)	819,700 yen

Employees planting trees

SANKI YOU ECO2 POINT

The logo of the SANKI YOU Eco Contribution Point System expresses our aspiration to contribute to social development and create harmony with the natural environment.

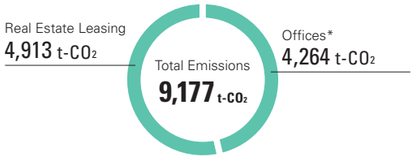
ECO2: We reduce CO_2 emissions through our Contribution to ecology

Initiatives for Saving Energy and Resources in Business Activities

Initiatives for all Corporate Activities

Sanki Engineering seeks to reduce its CO_2 emissions by compiling and managing emissions generated by its business activities. We set numerical targets for CO_2 emission reductions in the Medium-Term Management Plan.

■ CO_2 Emissions in All Business Activities (Derived by Energy Consumption) (FY2019, non-consolidated)



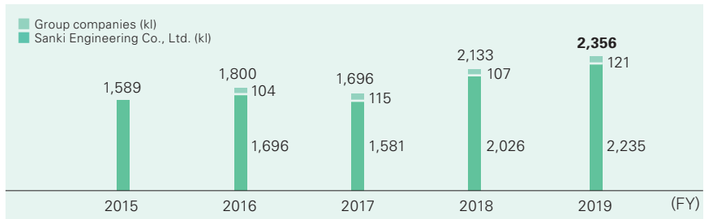
*Scope of data: head office, other offices, and construction sites

Initiatives for Energy Conservation

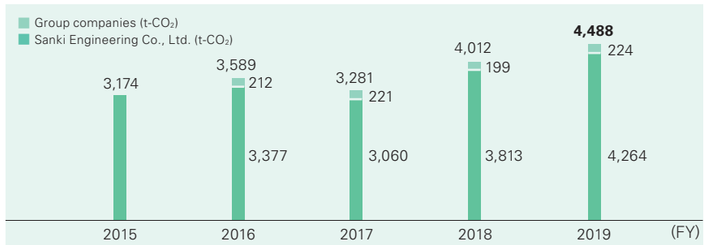
• Energy Conservation Activities

In fiscal 2019, energy consumption was 2,235 kl, and CO_2 emissions generated by energy use was 4,264 t-CO_2 on a non-consolidated basis. Energy consumption rose by 10% in fiscal 2018, as that year we began full-scale operations at the Sanki Techno Center and Yamato Product Center, which are essential for improving Sanki Engineering's technology and promoting human resource development. We strive to reduce energy use at these facilities by incorporating several energy-saving systems, including those that apply our proprietary technologies.

■ Energy Consumed by Offices (Crude Oil Equivalent)



■ CO_2 Emissions Generated by Energy Consumption at Offices



Energy Saving Systems Installed at Group Facilities

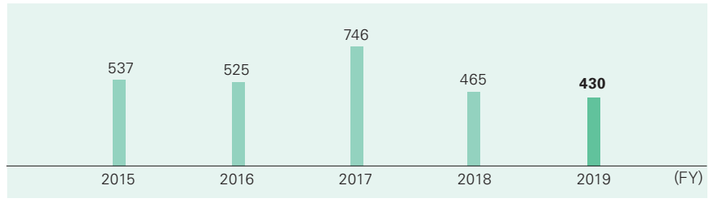
- **Sanki Techno Center**
  - EcoSearcher®, a real-time heat source optimization system (proprietary technology)
  - selFort®, a smart air conditioning system for offices (proprietary technology)
- **Yamato Product Center**
  - periloop, a thermal stratification air conditioning system (proprietary technology)
  - Solar photovoltaic panels

• Initiatives at Construction Sites

We strive to limit CO_2 emissions generated by our business activities by compiling and managing the emissions discharged at construction sites where Sanki Engineering is the prime contractor.

■ CO_2 Emissions at Construction Sites (Derived by Energy Consumption)

(Unit: t-CO_2)



• 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

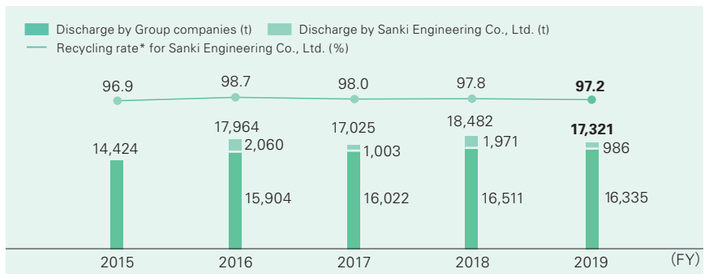
Current State of Industrial Waste

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%, and the rate was 97.2% in fiscal 2019. We will continue to promote proper disposal by monitoring and analyzing the discharge of industrial waste. In fiscal 2019, the waste disposal cost for construction sites was 496,554,000 yen. Furthermore, we have been properly disposing waste CFC and halons, the cost of which was 37,803,000 yen in fiscal 2019.

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



Explanation for handling CFC during HVAC inspections

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

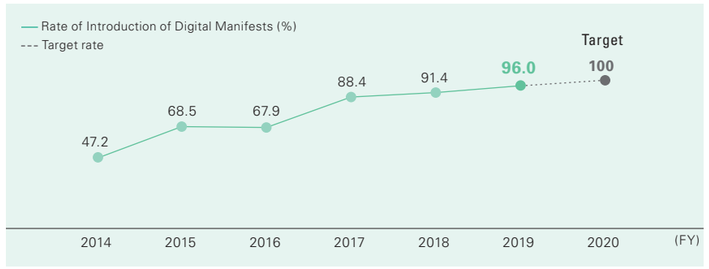
*Target rate: 90% or higher

Introduction of a Digital Manifest

With the aim of ensuring the proper disposal of industrial waste, 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 96.0% against the target of 95.0% on a non-consolidated basis in fiscal 2019. 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)

(Unit: %)



Topics

Conserving the Global Environment with Sanki Technology

Saving Energy with the EcoSearcher® Real-Time Heat Source Optimization Service

Sanki Engineering participates in the ESCO project* currently underway at the Kamihama Campus of Mie University. Our goal is to save energy by installing the EcoSearcher®, real-time heat source optimization service, in the campus energy center for optimal management of the heat source and conveyor system.

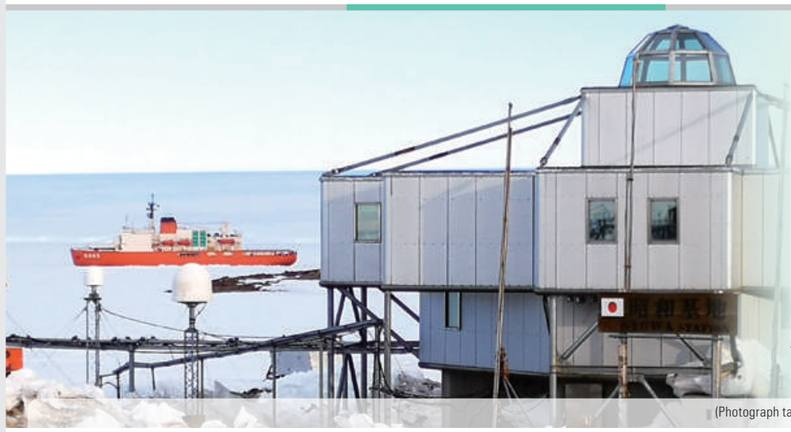
The use of EcoSearcher® is intended to minimize the overall energy consumed by the heat source system of an HVAC facility. Unlike conventional methods based on predetermined estimates, EcoSearcher® measures real-time data for each unit of equipment under control to improve the accuracy of calculations and expand control functions, thereby enabling optimal operations with a high level of accuracy and efficiency. Our technology reduces energy consumption by 3.8% and CO_2 emissions by 918 tonnes a year.

*In an Energy Service Company project, the costs of energy-saving renovations are offset by resulting reductions in the costs of light, heating, and water utilities.

VOICE

Dispatching Engineers to the Japanese Antarctic Research Expedition

Installing a New HVAC and Plumbing Facility in the Basic Observation Building and Providing Repairs and Maintenance



No. 5 Air-conditioning & Plumbing Field Engineering Department, Toyota branch office

Hiroaki Kurashima

(Photograph taken by Mr. Kurashima)

Sanki Engineering's relationship with the Japanese research expedition to Antarctica began in 1957, when we delivered roller conveyors for the second expedition. Since the Protocol on Environmental Protection to the Antarctic Treaty was adopted in 1991, we have been seconding engineers to the National Institute for Polar Research, who were then dispatched to the Showa Base as staff responsible for environmental conservation. The expedition is composed of roughly 60 members divided into either the summering or wintering parties. To date, Sanki Engineering has dispatched 15 members, including myself. Waste and wastewater are generated by the Showa Base 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, I set off for Antarctica as a member of the wintering party of Japan's 60th research expedition. I spent about 14 months at the Showa Base in Antarctica, beginning in mid-December 2018, where I worked on the construction of the HVAC and plumbing facility for the Basic Observation Building, which was completed in November 2019. I also provided repairs and maintenance for the HVAC, plumbing, and fuel facilities in the main building that serves as the living quarters. Repair and maintenance of infrastructure in Antarctica is a vital responsibility on which the lives of expedition members depend. Being able to apply my skills and experience to support the Antarctic research was an extremely valuable experience. Looking ahead, the Sanki Engineering Group will continue to support Antarctic research with total engineering and contribute to the conservation of the global environment.

Aurora over the skies of Antarctica (Photograph taken by Mr. Kurashima)

Repairing and maintaining infrastructure (Photograph taken by Mr. Hirota of 60th research expedition)

Getting to know the local penguins (Photograph taken by Mr. Kurashima)

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.

FY2021 Goals

Reduce the number of problems and complaints during construction

Target

Reduction rate for number of problems and complaints during construction (consolidated)
Reduce by 5% year-on-year through divisional collaboration

Introduce new labor-saving construction technology

Target

Number of sites introducing new labor-saving construction technologies

Major Action Policy and Initiatives for FY2020

- Conduct training and seminars toward preventing problems and complaints
- Encourage employee proposals for labor-saving ideas in the construction process

FY2019 Results

Reduction rate for number of problems and complaints during construction (consolidated)

Down 31.6 % from FY2018

(FY2018: down 14% from FY2017)

Number of sites introducing new labor-saving construction technologies

11 sites

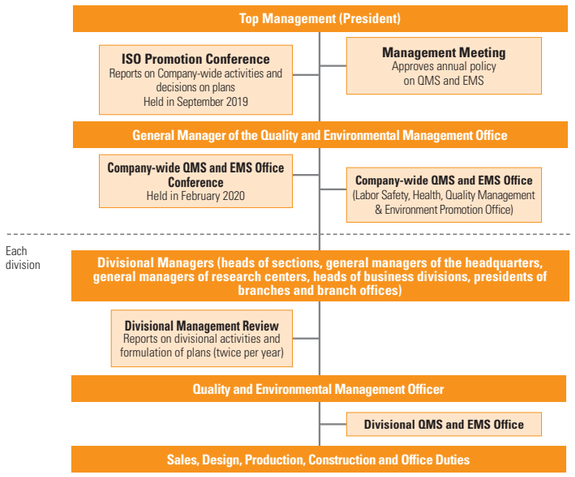
Initiatives to Ensure Quality

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 fiscal 2019, we held discussions focused on creating mechanisms and cultivating human assets to raise the quality of internal audits during the Company-wide QMS and EMS Office Conference. That same year, the quality management of a Sanki Engineering Group project was found to be out of compliance. An extraordinary audit held on September resulted in the temporary suspension of ISO 9001 certification at the relevant division and of ISO 14001 certification at the relevant Group company. The suspensions were lifted following another extraordinary audit on preventive measures in October. In response to the incident, Sanki Engineering has voluntarily suspended the use of its ISO 9001 and ISO 14001 certifications for six months starting with April 2020. We will take further action to ensure the stringent execution of our quality management system.

■ 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.

Understanding Customer Satisfaction and Utilizing Feedback

In our work to improve construction quality, we conduct a customer satisfaction survey at the completion of construction work and reflect the feedback in our operations. In fiscal 2018, we received highly positive feedback from about 90%* of the 861 respondents. The content was revised by some divisions, and we began applying the new format in fiscal 2019. Looking ahead, we will continue to incorporate customer opinions into our operations to enhance construction quality.

Group Companies with ISO Certification

- ISO 14001
  3 companies:
  Sanki Engineering Co., Ltd.
  Sanki Kako Kensetsu CO., Ltd.
  Sanki Kankyo Service Co., Ltd.
- ISO 9001
  2 companies:
  Sanki Engineering Co., Ltd.
  Sanki Kankyo Service Co., Ltd.

Our Response to ISO 9001 and 14001 Noncompliance

- Voluntary suspension of ISO 9001 and 14001 certifications
- Penalty for directors (reduced compensation)
- Conducted ethics seminars for relevant divisions

Reference

Major Activities in Fiscal 2019, Environment

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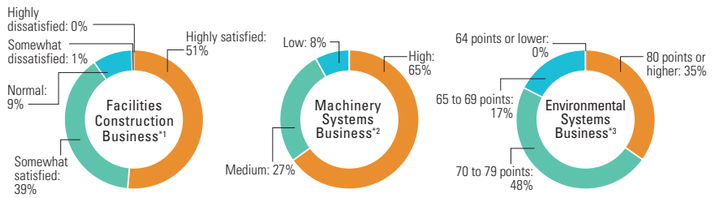
WEB

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

*Calculated by regarding the following options in responses deemed as "highly positive feedback:" "Somewhat satisfied" or above for the Facilities Construction Business, "High" or above for the Plants & Machinery Systems Business, and 70 points or above for the Environmental Systems Business

■ Customer Satisfaction Survey (FY2018)



*1 Compiled from customer satisfaction data based on the final handover report.
*2 Compiled from customer satisfaction survey for each process.
*3 Compiled from customer satisfaction data based on the construction work performance rating

Sharing Information and Preventing the Occurrence of Problems and Complaints

We accumulate and 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 setting qualitative targets and in fiscal 2019 reduced them by 31.6% year-on-year thanks to various measures related to providing onsite support. Looking ahead, we will focus on bolstering our support to raise customer satisfaction.

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

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 operations and design, technology and quality. We will also implement various measures under the Smile Site Plan to reduce the workload of construction managers, raise operational efficiency and enhance quality.

Support for Site Operations

The support sections of each branch and branch office, as well as the Technical Administration Division, Procurement Division and Information Systems Office, have taken action to reduce the administrative burden at a construction site. We are also raising the efficiency of our operational processes by sorting, reducing, and digitizing documents used at construction sites.

In fiscal 2019, we reviewed and improved the Web registration process at major sites to strengthen the management system.

Site Documentation System (Octopus)

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

Supporting Design and Technical Operations

The Design Support Center provides design and technical assistance. In fiscal 2019, we expanded the scope of support, which led to an increase in the number of cases in which continuous support was provided from design to completion. In fiscal 2020, the center will continue to pursue higher design quality by broadening the scope of support and providing information.

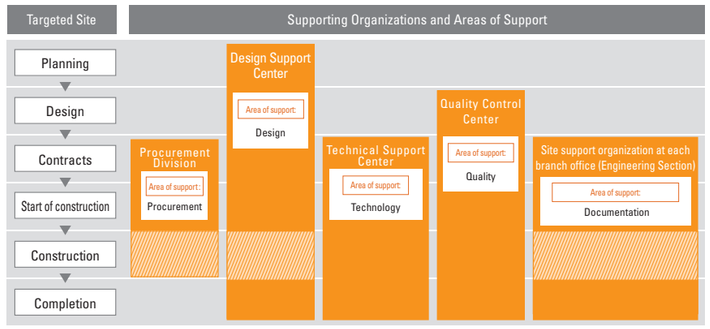
The Technical Support Center seeks to reduce the burden on construction managers by allocating operations preceding construction work to each relevant department. In fiscal 2019, we sought to bolster support for site launches at the five branch offices and technical support during the busy season.

In fiscal 2020, we established the Quality Control Center to clarify the responsibility of our quality management and strengthen the activities of quality assurance administrators and technical experts, who are highly skilled former office managers. They 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 reduce the number of problems and complaints by 31.6% from the previous fiscal year, 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.

Quality check by quality assurance administrator

■ Site Support System



Use of Digital Tools to Enhance Quality Control

We hope to raise the level of construction quality by using digital tools such as ICT and BIM, which we apply to automate processes used in design, construction and acceptance inspections. Furthermore, in April 2019, we established the BIM Promotion Center to launch our initiative for medium- to long-term use of BIM.

Digital tools developed by the Sanki Engineering Group

- Automatic wind power measurement system with AGV
- Heat shock monitoring system

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 1,893 applications in fiscal 2019.

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.

The company conducts training for construction managers every three years, and the content is based on how many years of experience the manager has in their role. As for the skills of our engineers, we develop them through hands-on practice and drills using actual machinery and facilities at the Sanki Techno Center.

Training for new employees

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

Qualification	FY2019		FY2020	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Professional engineer	97	104	**98**	**106**
Project management technician (civil works/construction/electrical construction/pipe-laying work)	1,134	1,272	**1,142**	**1,327**
Architect	42	46	**40**	**45**
Facilities construction architect	214	228	**215**	**227**
Electrical engineer	154	208	**158**	**228**
Chief electrical engineer	27	37	**27**	**37**
First class instrument engineer	295	305	**298**	**309**
Fire protection engineer	677	752	**685**	**762**
Qualified managing engineer	1,672	1,891	**1,666**	**1,924**

Note: Cumulative figures are shown for all qualifications.

■ Major Skill Development Activities for Fiscal 2019

Initiatives	Training	Details of Training	Results
Initiatives at the Sanki Techno Center	Training for new employees		65 participants
	Correspondence course for attaining qualifications	• Exam preparation for employees who want to be construction managing engineers and fire protection engineers	118 participants
	Training based on operational experience* Third year in construction work Sixth year in construction work Ninth year in construction work	• 2 to 3 sessions of 3 to 5 days of training held at 3-year intervals • Standardized group-based training according to operational experience • Technical training using actual equipment and mock-ups • Training in essential skills to prevent problems and complaints related to construction management	7 sessions 172 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	21 technical experts 3,004 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	15 subcontractors 17 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: 9 Kyushu branch office: 3 Hokkaido branch office: 2 Chugoku branch office: 3 Tohoku branch office: 2 Hokuriku branch office: 4

*Started the training for the ninth year in construction work in FY2019

18th conference on electrical construction quality for all branches

Collaborating in the Industry through Open Technology

To the Aluminium Plumbing Equipment Association (APEA) we provided construction instructions for the Aluminger®* aluminum refrigerant piping method we developed. By promoting the adoption of our method, which reduces labor by 25% compared to conventional methods, we are contributing to standardizing environmentally sound technology across the entire industry.

Moreover, we support the cause of the "IP Open Access Declaration against COVID-19," launched at the initiative of companies and universities to prevent the spread of the novel coronavirus, and participate in this initiative. We are also promoting the use of our HVAC systems and other proprietary technologies as our contribution to ending the pandemic.

*A new construction method whereby lightweight aluminum pipes are used instead of copper pipes, and they are connected with specialized tools to save labor.

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/

FY2021 Goals

Reduce the number of accidents	Implement the Accident Prevention Measures for Subcontractors	Continuation of the Health and Safety Training
Target Reduce by 20% year-on-year through cooperation among divisions (Sanki Engineering Co., Ltd. and business partners)	Target Visits to subcontractors Ratio of accidents Involving inexperienced workers	Target Promote health and safety training sessions for employees and subcontractors

Major Action Policy and Initiatives for FY2020

Preventive measures and training for reducing accidents	Measures for preventing accidents involving inexperienced workers	Continuation of the Health and Safety Training

FY2019 Results

Number of accidents: (Sanki Engineering Co., Ltd. and business partners)	Ratio of accidents involving inexperienced workers:	Promote training and guidance on topics such as the use of ICT
11 (FY2018: 1 accident)	41% (FY2018: 44%)	Health and Safety Training for employees and subcontractors 227 sessions (FY2018: 178 sessions)

Health and Safety Environment of the Construction Industry

The construction industry has been relatively unscathed by the COVID-19 pandemic, although strict adherence to measures for preventing infections at construction sites has become a major issue. Meanwhile, the worsening labor shortage is 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 a decline in experienced workers. From here on, an influx of workers from other industries is expected due to higher unemployment caused by the economic downturn and the protracted period of self-imposed business suspensions. It is therefore important to reinforce health and safety management addressing new workers, including those who are elderly.

Initiatives in Fiscal 2019

Key Items Implemented in Fiscal 2019

In 2018, there were occurrences of "cuts/abrasion" accidents, in addition to accidents in the "falls/tumbles" and "caught/pinched" categories and traffic accidents, which have been occurring with greater frequency every year. Many of them have involved inexperienced workers and primary subcontractors who were not members of the Cooperative Association. We therefore implemented preventive measures for each category of accident and total improvement of our safety education system by streaming an instructional video on accident prevention by category and sharing best safety practices across subcontractors and construction sites.

Video on preventive measures for each accident category

Outline of Activities in Fiscal 2019　Policy of the Central Safety and Health Committee Chairperson

Slogan　"Pursue safe operations to raise reliability. Together, let's create a new era – Always check first! Safety and health is our top priority."

Key Actions

Safety

1. Deploy measures to achieve zero accidents
- Educate inexperienced workers about safety rules
- Foster safety awareness among new employees during introductory training and education
- Produce safety and health handbook and educational video for newcomers
- Share best practices for safety and health across subcontractors, construction sites and site supervisors
- Develop a video on accident prevention by category
- Develop initiatives by involving the Sanki Health and Safety Cooperative Association
- Improve operational manual for risk assessment

2. Bolster site-support system
- Support input and operational procedures for creating work safety documents
- Discuss policy on communicating disaster updates and news on safety and health

3. Continue health and safety training
- Systematically enroll foremen and safety managers in training for bolstering leadership skills
- Promote special training sessions using full harness-type equipment
- Promote safety and health education using the Sanki Techno Center

Health

1. Initiatives for preventing health disorders
2. Initiatives for 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 at nine domestic sites and two overseas sites. In fiscal 2019, as in other years, the president and Central Safety and Health Committee chairperson attended the convention for all offices to share his stance and thoughts on safety. We also conduct special joint safety patrols, during which the president and directors tour 39 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. In view of the regulatory revisions, we particularly focused on conducting special training sessions using 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.

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. Consequently, in fiscal 2019 we held 17 briefings on the system for subcontractors. In addition, we produced operational manuals for our employees and subcontractors and held eight briefings on operational instructions for using the system.

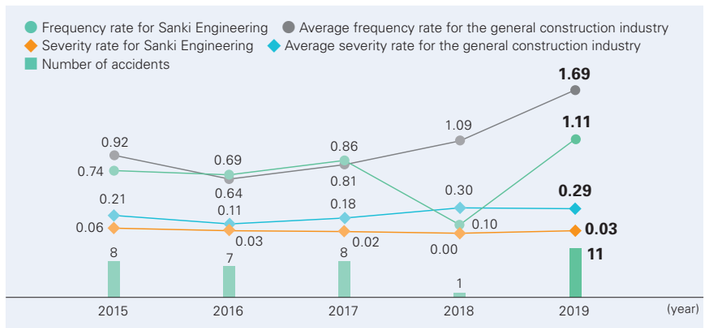
■ Number of Participants in Health and Safety Training (Fiscal 2019)*

Type	Number of Participants (from Subcontractors)
Special education and other courses	2,874 (2,031)
Health and safety training for foremen	296 (200)
In-house health and safety training	247 (–)
Other client-focused training	1,363 (1,282)
Total	4,780 (3,513)

Accidents in 2019

In 2019, 19 accidents occurred (11 lost workday accidents, 8 with no lost workdays), increasing in number as well as severity. According to our analysis, these were due to inadequate work plans and procedures on the part of managers as well as to workers paying less attention to hazards as they became familiar with the tasks and lack of experience. We must respond by promoting thorough compliance with the rules and raise the level of our activities by sharing information.

■ Number of Accidents, Frequency Rate*1, and Severity Rate*2



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

Number of accidents: interrupted work for one day or longer

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.

Action Policies for Fiscal 2020

In view of the latest developments in society and industry, relevance to the SDGs and the types of accidents that occurred in 2019, we are focusing on the following key action areas for safety in fiscal 2020: (1) Prevent accidents associated with repetitious tasks, (2) Enhance partnerships, and (3) Provide education for raising reliability. We will utilize the Sanki Techno Center as we undertake these actions.

Reference material for hazard prediction based on case studies

Training with virtual reality technology

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

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. We also uphold the Sanki Engineering Environmental Policy to promote environmentally sound procurement activities, including green procurement, as part our environmental management. Under these principles, we endeavor to build trust with our business partners to jointly provide high-quality systems and services to customers.

FY2021 Goals

Further enhancing procurement efficiency	Exchanging opinions with business partners	Strengthening cooperation through subcontractor groups
Target: Digitize operations	Target: Exchange opinions with business partners (twice a year)	Target: Expand the scope of participation for the nationwide liaison meeting

Major Action Policy and Initiatives for FY2020

Enhance the entire Procurement Web system	Continue exchanging opinions with business partners	Expand the scope of participation for the Sanki Health and Safety Cooperative Association

FY2019 Results

Percentage of digitized operations (non-consolidated)	Number of companies we exchanged opinions with (non-consolidated)	Number of participants in the Sanki Health and Safety Cooperative Association
88%	26	38 in July, 23 in December
(FY2018: 85%)	(FY2018: 45 companies)	(FY2018: 19 participants)

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 33.5 billion yen, with domestic suppliers representing the source for nearly all procurement. Delivery delays that occurred at the onset of the novel coronavirus pandemic have now been resolved, and the impact on procurement has been negligible (as of August 2020).

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.

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, 2020, we have received pledges from 3,823 companies.

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 the sharing of our findings through price surveys in-house. We began digitizing the ordering process in fiscal 2017 and claim forms for completed work in fiscal 2018 at divisions related to technology and procurement at all offices. Upon digitizing the forms for ordering and completed work claims, we held an introduction briefing for our business partners and created an instruction manual. We continued to expand digitization by following up with our business partners in fiscal 2019. As a result, the number of digitally processed forms now accounts for about 88% of all orders. We also began using iPads for acceptance inspections in February 2020. Looking ahead, we intend to continue raising efficiency, establishing procurement policies, and approaching our business partners.

Exploratory Visits to Business Partners

We exchange views with Procurement Web users at our major business partners. In fiscal 2019, our procurement department staff visited 26 specialty contractors and suppliers and exchanged views on topics that included management conditions, confirmation of delivery dates, BCPs, response to the lack of engineers, and work style reforms. Going forward, we will continue to develop 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.

■ Outline of Main Training Sessions (FY2019)

Theme	Content	Results
General procurement	• Basic knowledge about specialty construction • Evaluation checklist for specialty construction	13 sessions 68 participants
Basic knowledge of accounting	• Basic knowledge about accounting • Compliance • How to read financial statements	4 sessions 60 participants

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
Page 78

Strengthening Cooperation with Business Partners

Promoting Green Procurement

As part of our environmental management, Sanki Engineering procures goods that comply with Japan's Act on Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Green Purchasing Act), and confirms the aggregate results.

Major Regulation-Compliant Goods Procured by Sanki Engineering

- Lighting equipment
- Transformers and condensers
- Air conditioning equipment

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 assessment results and exchange information on improvements as needed to enhance their safety management capabilities.

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. In fiscal 2018, we began holding the Sanki Health and Safety Cooperative Association twice a year. Led by subcontractors directly involved in construction, the meeting is expected to raise awareness about disaster prevention. The July meeting was attended by 20 employees from our Group and 46 from subcontractor groups, and the December meeting was attended by 24 employees from our Group and 23 from subcontractor groups. Sanki Engineering directors, including our chairman and president, also attended the meetings and stressed the importance of maintaining and improving safety awareness throughout the Group, including business partners.

Seminar for trainees from a Thai subcontractor

Liaison Meeting for Subcontractor Groups

Awards Programs

We established the Sanki Super Meister System, to certify and commend foremen of Group subcontractors whose superior construction techniques have significantly contributed to elevating the quality of our construction work, and the Sanki Best Partner Program, to commend subcontractors who have significantly contributed through their superior levels of management and construction skills, and for having consecutive years of zero accidents. We also provide subsidies designed to encourage further quality improvements to subcontractors to which the foremen belong, from the standpoint of promoting consistent contributions to quality improvements at construction sites.

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

Number of Sanki Super Meister Award Recipients

- FY2018 14
- FY2019 18

Number of Sanki Best Partner Award Recipients

- FY2018 129
- FY2019 145

Support System for the Acquisition of Qualifications

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

Receiving 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.

Providing Support to Stabilize the Management of Subcontractors

As of March 2020, we are making all our payments in cash to subcontractors with capital of less than 40 million yen by modifying the payment terms. In addition, in view of the impact of COVID-19, we signed a line of credit agreement in May 2020 with a financial institution that enables flexible and stable borrowing and repayment of funds toward improving the cash flow of subcontractors that constitute important stakeholders. Also, we support the stable management of subcontractors to pursue sustainable growth together.

VOICE

Participation in Practical Training to Acquire Useful Onsite Knowledge

In January 2020, I participated in a two-day training program for mid-career employees and specialists at subcontractors with around three years of experience at the excellent facilities of the Sanki Techno Center, along with a group of 16 colleagues, including ten duct workers, four insulation workers and two other staff.

The training sessions expanded the scope of my knowledge of onsite construction work through practical courses on duct and insulation work, drawing facility construction drawings, and training in the Safety Experience area. I was also impressed by the worksite episodes shared by the Sanki Meisters and gained valuable advice on site management. In fact, there are three Sanki Meisters at our company. I hope to be counted among them one day and work in a friendly rivalry at Sanki Engineering's construction sites.

Mr. Junya Takezawa
Shinei Duct Kogyo K.K.

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

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. In January 2020, we established the Smile Work Guidelines, which outline the basic policies for our workplace environment and human resource development.

FY2021 Goals

Improve internal communication	Improve work-life balance through the Smile Project
Target: Strengthen the system for gathering employee feedback	Target: Monitor and take action according to the situation Average monthly overtime work per person Paid leave ratio per person

Major Action Policy and Initiatives for FY2020

Consider measures to strengthen the system for gathering employee feedback	Continue monitoring and consider additional measures

FY2019 Results

- Sanki Ladies' Roundtable **38** participants
- Planning CCU held **10** times with total of **100** participants
- ESG CCU held **9** times with total of **81** participants

Average monthly overtime work per person(consolidated): **34.3** hours

Paid leave ratio per person (consolidated): **57.4**% (FY2018: 57.1%)

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. We also endeavor to instill respect for human rights across the Company through various means, including educational programs. We have set up guidelines for preventing harassment, a system offering consultation on harassment, and other workplace issues. And we have a counter staffed by qualified external counselors and the Women's Hotline, through which callers can consult with female advisors. Additionally, we seek to incorporate results of our compliance awareness survey when monitoring human rights issues.

Reference
Whistleblowing System
Page 78

Reference
Compliance Awareness Survey
Page 80

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, 2020, 24 people (6 women and 18 men) are working with us from 7 countries: China, Peru, South Korea, Thailand, Vietnam, the U.K., and Russia. 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. In addition, we have formulated an action plan 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—and are pursuing various measures to promote women's careers. Through these efforts we are steadily achieving results.

■ Action Plan Based on the Act for Promoting Women's Careers

Plan period: April 1, 2016 to March 31, 2021

	Goals	Progress (as of April 1, 2020, non-consolidated)
1	Increase the average length of service for women by 20% or more from now.	13.4 years (up 8.9%)
2	Double the current ratio of female career-track employees in the sales department.	9.9% (1.5 times)
3	Raise the ratio of women in managerial positions* to the construction industry average of 1%.	0.6%

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.

*Calculated by using the number excluding the section chief, and therefore differing from the "number of managers" referred to on page 67.

Career Change System

In 2019, we established new career types, namely career-track position and operational

position, and introduced a system that allows employees to change their career type to either. Job relocation is excluded from the requirements for the career-track position, and the system is designed to enable a wider range of employees to thrive. As of April 1, 2020, there are 62 instances of employees changing their career type for a work style that better suits their particular stage in life.

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. As of June 2020, the employment ratios of persons with disabilities are 1.97% and 1.94% on a non-consolidated and consolidated basis, respectively.

In recruiting activities, we expanded our recruitment routes while at the same time matched applicants with each department, leading to positive results. Also, in order to retain human resources, 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. 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 2019, we reemployed 240 retired employees on a consolidated basis, compared with 232 in fiscal 2018.

Developing and Evaluating Human Resources

Personnel and Treatment Systems for Workplaces Where People Can Grow

Our personnel system ensures equal opportunity as well as fair evaluation and treatment for all employees while also supporting employee initiatives for self-directed 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. In fiscal 2019, we introduced individual interviews by personnel managers for employees in their third and fifth years of service. And once a year all employees fill in a Career Development Sheet and receive feedback through an interview with their supervisors. To collect their opinions, we have another system that allows employees to bypass their superiors and speak directly with the Human Resources Department through, for example, an interview with this division, depending on the content of the sheet. These measures are offered separately from the evaluation system. As for treatment, we raised base pay and also provided executives with allowances in April 2018 with the aim of securing talented young human resources and improving the treatment of employees.

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. In fiscal 2019, we conducted a nine-month technical training program for new recruits in the Facility Construction Business to bolster their design skills and on-the-job training.

FY2019 Average Educational Training Cost per Capita (Consolidated)

90,000 yen/year

Group work in a classroom learning program

In technical training, we actively use the Sanki Techno Center to provide practical training using real equipment as well as classroom lectures.

In fiscal 2020, we conducted all new recruit training sessions online for two to three months to prevent the spread of COVID-19.

■ Training Systems

		Younger Employees	Mid-career Employees	Executives
Management Training		New recruit training Second-year training Fifth-year training Seventh-year training	Leadership position training Management candidate training Section chief training	Department manager training
Safety Training		New recruit training Qualification training Safety experiential training		
Corporate Ethics Training		Corporate ethics training Mid-career staff training		
Technical Training	Facilities Construction Equipment Division	Qualification training Technical experiential training New recruit training Third-year construction work training Sixth-year construction work training Ninth-year construction work training		
	Plant & Machinery Systems Divisions	Qualification training New recruit training Inspector education Training on our products and systems		
Quality & Environment System training		ISO 9001/ISO 14001 New recruit training Mid-career staff training	Education to develop internal auditors	

In President CCU online, all new recruits were divided into small groups that each exchanged opinions with the president.

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 2019, we introduced a full-scale telecommuting and telework system to create a working environment that is beneficial for employees raising children or caring for the elderly. During the state of emergency declared due to the spread of COVID-19, we responded to the government's request by expanding the use of telecommuting and implementing new recruit training online.

FY2019 Average Monthly Overtime Work per Person (Consolidated)

34.3 hours

■ Number of Employees on Leave, and Work Hours

		FY2015			FY2016			FY2017			FY2018			FY2019		
		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	**9**	**27**	**36**
	Non-consolidated	1	6	7	1	12	13	2	14	16	7	9	16	**7**	**24**	**31**
Reinstatement after childcare leave (%)	Consolidated			—			—	100.0	100.0	100.0	100.0	88.9	93.8	**100**	**96.3**	**97.2**
	Non-consolidated			—			—	100.0	100.0	100.0	100.0	88.9	93.8	**100**	**100**	**100**
Nursing care leave	Consolidated			—	0	0	0	0	0	0	1	0	1	**1**	**1**	**2**
	Non-consolidated			—	0	0	0	0	0	0	0	0	0	**0**	**0**	**0**
Paid leave ratio (%)	Consolidated			—			—			—	54.0	76.1	57.1	**54.3**	**76.3**	**57.4**
	Non-consolidated	38.8	62.1	41.8	47.6	69.5	50.5	49.9	78.2	53.7	53.0	74.2	55.9	**51.9**	**74.4**	**55.1**
Average monthly overtime work (hours per person)	Consolidated	—	—	—	—	—	—	—	—	—	—	—	—	**37.4**	**14.7**	**34.3**
	Non-consolidated	31.9	16.5	29.8	30.6	13.8	28.3	31.2	13.3	28.6	35.0	14.7	32.0	**34.5**	**13.6**	**31.3**

■ Major Programs Supporting Work-Life Balance (Non-consolidated) (as of April 2020)

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/hourly off	Paid leave for half a day or by the hour.
	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 monthly 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.
	Sliding work hours	Employees can slide the start and end times forward or back for business or non-business reasons insofar as this does not interfere with their work.
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 period 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.
	Special childcare/nursing leave	Can be obtained multiple times and up to 20 days in total for childcare and nursing care.

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 the certification was updated in 2017.

The Kurumin mark for support of raising next-generation children

City of Nagoya certification for companies supporting childcare

Promoting Flexible Work Styles

We are promoting flexible work styles by reviewing our work and leave programs. As a result, the average rate of paid leave taken in fiscal 2019 increased by 0.3 points year on year.

Measures Introduced in FY2020

- Shorter work hours
- Partial increase of paid days

FY2019 Average rate of paid leave taken (consolidated)

57.4%

Main Measures Implemented

- Allocation of iPads to field personnel
- Cooperation on work schedules at computer log-in time
- Establishment of Smile Work Guidelines

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. In fiscal 2017, we set up the Smile Site Plan, a committee dedicated to construction sites. In addition, we are working on efforts to lessen the operational load of construction managers and enhance capabilities and quality at our construction sites.

As a result of these efforts, we were certified as 3.5 of 5 stars in the 3rd 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.

NIKKEI Smart Work ★★★½ 2020

Certified as 3.5 stars in the NIKKEI Smart Work Management Survey

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 caller 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.

Gathering Employee Feedback

Since fiscal 2016, we have continually held Century Communication Up (CCU) discussion events in accordance with the Century 2025 long-term vision. In fiscal 2019, we held the 4th Sanki Ladies' Roundtable to support the creation of a network through which female employees can consult with each other. We also held "CCU with Planning Departments" and "CCU on ESG" events; in the latter each department shared their information on sustainability. The opinions and proposals gathered have been applied toward making improvements in our operations and systems.

The 4th Sanki Ladies' Roundtable, with the president taking part in the discussion

Sound Employer-Employee Relationships

The Human Resources Department and 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.

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

			FY2015			FY2016			FY2017			FY2018			FY2019		
			Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of employees		Consolidated	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)	**2,152 (646)**	**349 (7)**	**2,501 (653)**
		Non-consolidated	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)	**1,705 (526)**	**287 (3)**	**1,992 (529)**
Average age		Consolidated	–	–	–	–	–	–	–	–	–	44.5	38.2	43.7	**44.7**	**38.3**	**43.8**
		Non-consolidated	43.7	36.1	42.7	43.8	36.5	42.8	43.8	36.3	42.8	43.9	37.1	43.0	**44.1**	**37.6**	**43.2**
Average years of service		Consolidated	–	–	–	–	–	–	–	–	–	17.3	13.0	16.7	**17.3**	**12.9**	**16.7**
		Non-consolidated	18.8	12.9	18.1	19.0	13.3	18.2	18.8	13.2	18.0	19.0	13.9	18.3	**19.3**	**14.1**	**18.5**
Number of new recruits		Consolidated	111	20	131	81	20	101	105	21	126	106	17	123	**102**	**28**	**130**
		Non-consolidated	75	18	93	60	16	76	88	21	109	75	11	86	**74**	**23**	**97**
Number of rehired employees after retirement		Consolidated	234	2	236	235	5	240	217	5	222	223	9	232	**229**	**11**	**240**
		Non-consolidated	188	2	190	183	4	187	164	3	167	161	5	166	**169**	**8**	**177**
Employment of people with disabilities*	Number of people with disabilities	Consolidated	–	–	–	–	–	–	–	–	–	–	–	44	–	–	**46**
		Non-consolidated	–	–	32	–	–	30	–	–	32	–	–	36	–	–	**37**
	Non-consolidated ratio of people with disabilities (%)	Consolidated	–	–	–	–	–	–	–	–	–	–	–	1.89	–	–	**1.94**
		Non-consolidated	–	–	1.80	–	–	1.69	–	–	1.78	–	–	1.93	–	–	**1.97**

*As of June 1 of each fiscal year

Figures in parentheses indicate the number of managers.

■ Employees by Age (as of March 31, 2020)

	10s	20s	30s	40s	50s	60s	70s	Total
Consolidated	0	435 (92)	561 (103)	660 (105)	559 (37)	272 (11)	14 (1)	2,501 (349)
Non-consolidated	0	392 (87)	456 (83)	480 (80)	462 (29)	193 (7)	9 (1)	1,992 (287)

Figures in parentheses indicate the number of female employees.

VOICE

Acquiring Design and Construction Management Skills to Eventually Contribute to Overseas Business

In April 2015, I joined the Company because I was interested in Japanese construction technology, which in my home country of Thailand I was unable to learn much about. Construction sites involve a lot of people, such as prime contractors and cooperating companies as well as my colleagues. And I had to remember many technical terms, so there were times I had difficulty communicating with people in different positions. Considerately, my supervisors and other senior staff supported me in a range of both work- and life-related issues, and I worked day in and day out to meet their expectations. I am currently involved in construction site operations and in charge of constructing infrastructure while also acquiring the skills required in such areas as safety, quality, and process control. Looking ahead, I hope to apply my design and construction management skills gained in Japan to contribute to the Company's overseas business and to Thai Sanki Engineering & Construction Co., Ltd.

Kasemchai Chaiprasobphol
Air-conditioning & Plumbing Field Engineering Department, Toyota branch office

Social Coexistence with Local Communities

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.

FY2021 Goals

Contribute to regional disaster prevention	Support cultural activities for the next generation	Contribute to conservation of the local environment
Target: Total number of regional disaster prevention activities	Target: Support cultural activities	Target: Participate in environmental beautification activities

Major Action Policy and Initiatives for FY2020

Participate in regional disaster prevention activities	Plan and implement support for cultural activities	Participate in environmental beautification activities

FY2019 Results

Carried out activities under the large-scale disaster agreement between Yamato City and the Yamato Engineering Center	Held a Great East Japan Earthquake reconstruction concert called "Kizuna"	Conducted activities at 41 sites (FY2018: 37sites)

Afforestation Activities at the Sanki Forest

In October 2019, we held a weeding event at the Sanki Forest in Kai City, Yamanashi Prefecture, where we had planted a thousand trees in October 2015 to commemorate the 90th anniversary of our founding. Since then, we have continued our conservation activities. With the help of staff from the local forestry cooperative, 37 of our employees used sickles to clear underbrush as volunteers.

Weeding event participant

Coordination with Local Communities

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

In fiscal 2013, Sanki Engineering, which maintains a business site in Yamato City, Kanagawa Prefecture, concluded an agreement with the city to provide its facilities as a temporary shelter for those unable to return home in the wake of a disaster. We currently offer the Sanki Techno Center, which opened in October 2018, as a temporary shelter. The center functions to serve regional disaster prevention such as by stockpiling supplies, including emergency food and Japanese-style futon bedding.

Furthermore, the Company 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.

A space in the Sanki Techno Center for sheltering people unable to return home in the wake of a disaster

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 2019, employees of Group company Sanki Kako Kensetsu Co., Ltd. conducted a cleaning campaign along roads near the waste treatment facility, which the company operates and manages. In addition, employees of Sanki Kankyo Service Co., Ltd. cleaned the streets near water treatment and other facilities. On a Group-wide basis, we carried out activities in more than 41 local communities.

Earthquake Reconstruction Project

In May of the year following the Great East Japan Earthquake in 2011, Sanki Engineering launched the Earthquake Reconstruction Project, a Company-wide action team within the Tohoku Branch. Since then, it has developed proposals for putting its comprehensive engineering capabilities toward the early reconstruction of local social infrastructure. Initially focused on current business, the project has involved the management and support departments while also engaging new businesses and in social contribution activities.

In fiscal 2019, we held the Kizuna concert at Suntory Hall in Tokyo. We also conducted the Kitasanriku Tour to preserve the memory of the earthquake disaster, and we held "Ganbaransho, Fukushima," a reconstruction support event that offered dishes featuring ingredients from the prefecture at the Sanki Techno Center's cafeteria. Going forward, we will continue to provide reliable recovery support as a corporate citizen.

Held a Great East Japan Earthquake reconstruction concert "Kizuna"

Supporting the Development of the Next Generation

Opening the Sanki Environmental Garden to the Local Public

The Sanki Environmental Garden, which is attached to the Sanki Techno Center, is open to the local community at all times, and many children visit from neighboring daycare centers. In June 2019, we held Fireflies Dance Night, an event for viewing fireflies that had been grown using our DHS water purification technology. Around 570 local residents visited the garden, and children expressed their curiosity about fireflies, which they were seeing for the first time. In fall 2019, we planted persimmon and chestnut trees. We expect that the Sanki Environmental Garden will continue to be used as a place in the community to relax and to nurture the next generation over the long term.

Children playing at Sanki Environmental Garden

Sanki Kankyo Service Welcomes Social Studies Tours by Local Schools

Our Group company Sanki Kankyo Service Co., Ltd. actively invites elementary school children for field trips at its offices and water purification plant.

In May 2019, 43 students from Imakane and Tanekawa Elementary Schools participated in tours at the Imakane office in Hokkaido. In September, the Suttsu office in the same prefecture received 16 students from Suttsu Elementary School and 6 from Oshoro Elementary School. In addition, the Ryotsu office in Niigata Prefecture welcomed 18 students from Yoshii Elementary School in September, 34 from Kamo Elementary School in November, and 18 from Kawasaki Elementary School in December. The students learned about the role and workings of the sewerage system. We also organize facility tours for people living in the neighborhood.

Social Studies Tour at Imakane Elementary School

Support for Sports Promotion and Revitalization

Since February 2018, we have been an official sponsor of Yamato Sylphid, a women's soccer team in Yamato City, Kanagawa Prefecture, where the Sanki Techno Center is located. In September 2019, we sponsored a game at Yamato Nadeshiko Stadium as part of our contribution to the community, and many of our employees were there to cheer for the team. In addition, as a gold sponsor of the non-profit organization, Japan Deaf Rugby Football Union (Deaf Rugby), we help disseminate information to raise awareness of the sport. Going forward, we will continue to contribute to society by supporting sports while at the same time creating a working environment that encourages employees to actively engage with the local community.

Japan's Deaf Rugby national team

Yamato Sylphid women's soccer team on Sanki Match Day

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, branch offices, 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.

G Corporate Governance
overnance

Corporate Governance Guidelines

We established the Sanki Engineering Corporate Governance Guidelines to clarify the Sanki Engineering Group's basic philosophy and policy on corporate governance. Once a year, we review the status of our compliance with the Corporate Governance Code and revise it as needed. 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

Points for Strengthening the System in FY2020 Based on Corporate Governance Guidelines

- An external director (independent officer) is appointed chair of the Board of Directors.
- The Advisory Committee on Nomination and Remuneration consists solely of external directors.
- The chair of the Board of Directors attends Management Meetings.

Corporate Governance System

Corporate Governance System

We adopted a Company with Board of Company Auditors system with dedicated, full-time auditors as our form of corporate governance. Under this structure, the auditors and the Board of Auditors exercise oversight over the execution of duties by directors, the accounting auditors auditing the financial statements and other documents as well as the Board of Directors responsible for making decisions on material issues. In addition, to increase management efficiency and simultaneously speed up the decision-making process, we employ an executive officer system in which we divide management functions between the Board of Directors, responsible for decision-making and supervision functions, and executive officers, responsible for the execution of business affairs.

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

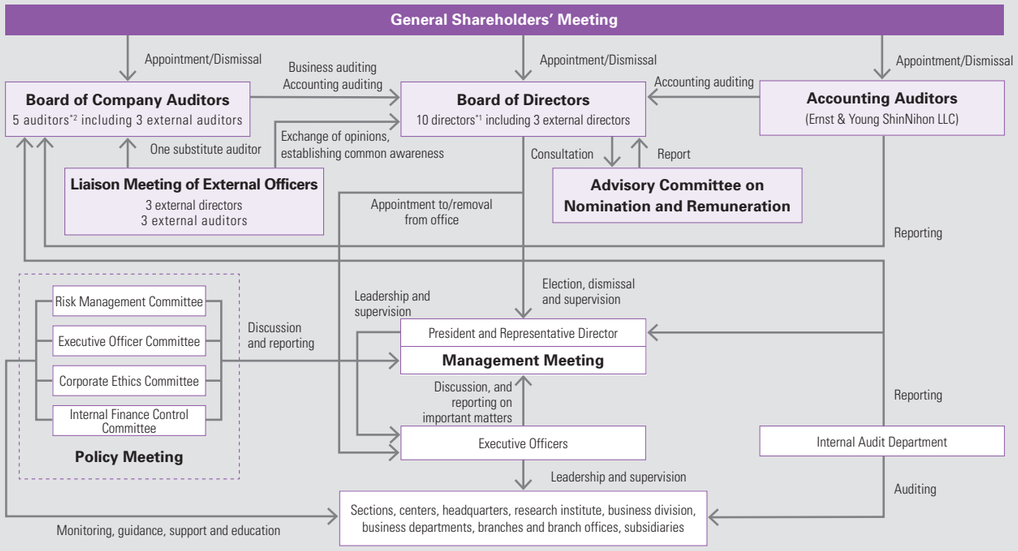
■ Summary of the Corporate Governance System (as of June 25, 2020)

	Number of Persons
Chairman of the Board of Directors	External Directors
Directors (women)	10 (0)
External directors (independent directors)	3 (3)
Executive officers (women)	37 (0)
Those also serving as directors	5
Auditors (women)	5 (0)
External auditors (independent auditors)	3 (3)

■ Frequency of Major Meetings (FY2019)

Meeting	Frequency	Average Attendance of External Officers
Board of Directors	12	94%
Board of Auditors	8	100%
Management Meeting	29	– (attended by only internal officers)

■ Framework of the Corporate Governance System (as of June 25, 2020)



*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, elected by and from among the directors, 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 82.

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 chairman, president and executive officers. It 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, which meets as needed, consists solely of external directors and deliberates on matters including the nomination of candidates for directors and the system for and level of remuneration.

● Auditing System

Board of Company Auditors
The board consists of auditors, by and 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 sections.

Principle		Guideline*1	Disclosed Location	
			Website*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 Corporate Governance Guidelines
*2 Company's website
*3 Company's Corporate Governance Report

● Strengthening the Effectiveness of the Governance System

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

Efforts in Fiscal 2020

Strengthening of the Transparency and Supervisory Function of the Board of Directors
An external director (independent officer) was appointed as the chair of the Board of Directors to enhance the transparency and oversight function of the Board of Directors.

Revision of the Composition of the Advisory Committee on Nomination and Remuneration
To enhance the transparency and neutrality of the Advisory Committee on Nomination and Remuneration, we revised the composition to include only external directors, from one group consisting of the president and external directors (the chairperson and majority of committee members are external directors).

WEB

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

Efforts to Date

Response to the Revised Corporate Governance Code
The Sanki Engineering Corporate Governance Guidelines were 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 the diversity of the Board of Directors and the balance between execution and supervision will be necessary to establish a more sophisticated governance system and work to improve corporate value over the medium to long term.

Review of 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.

Liaison Meeting of External Officers
A liaison meeting, comprising 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. In fiscal 2019, instead of using the conventional questionnaire, we conducted individual interviews by external third parties and shared their analytical results at a Board of Directors meeting.

■ Overview of FY2019 Effectiveness Assessment

Theme	Main Opinion
Improvement related to past issues	• Improved material for the Board of Directors and stipulated when and how the information should be provided to them • A preliminary explanation was understood well • Strengthened our provision of information regarding discussions in management meetings (ongoing)
Atmosphere of Board of Directors	• Directors provided varied opinions stemming from experience and knowledge • Their skills and backgrounds were sufficiently diverse
Looking to the future	• Matters for further discussion: medium-term management plan, company direction/ medium- to long-term strategy, management issues, our role in the industry, how the Board of Directors should operate • Enhanced monitoring functions
Corporate governance in general	• Internally developed the skills of female director candidates for gender diversity in the Board of Directors • Improved our officer training

Appointment of Directors and Independence of External Officers

Our officers possess a wealth of work experience and knowledge as well as deep insight and ethical understanding.

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.

■ External Officers' Terms in Office and Reasons for Selection

Position	Name	Independent Officer	Years Served	Reasons for Selection
External Directors*	Yukiteru Yamamoto	●	6 years	Mr. Yukiteru Yamamoto has served in positions including representative director and president of Mitsui Life Insurance Company Limited (currently Taiju Life Insurance Company Limited) and was active as an executive member of the Policy Board of the Japan Business Federation from August 2013 to March 2017, and he thus possesses abundant operational experience and wide-ranging knowledge regarding corporate management. The Company selected Mr. Yamamoto as an external director for his experience and insight developed through this background.
	Makoto Nukaga	●	4 years	Mr. Makoto Nukaga worked at the Bank of Japan for many years and served in managerial positions in key departments in addition to serving as director and president of Chibagin Research Institute Corporation and president of the Organization for Workers' Retirement Allowance Mutual Aid, etc., and he thus possesses abundant operational experience and wide-ranging knowledge. The Company selected Mr. Nukaga as an external director for his experience and insight developed through this background.
	Kazuhiko Kashikura	●	2 years	Mr. Kazuhiko Kashikura has served as an executive officer of Sumitomo Mitsui Banking Corporation and has managed several of its group companies as a top executive, and he thus has abundant experience and broad insight in corporate management. The Company selected Mr. Kashikura as an external director for his experience and insight developed through this background.
External Auditors*	Shozo Fujita	●	2 years	Mr. Shozo Fujita has expertise as a public prosecutor and attorney-at-law as well as abundant experience and wide-ranging insights through experience including that acquired as representative director and president of the Resolution and Collection Corporation and as a director who serves as an audit and supervisory board member at other companies. The Company selected Mr. Fujita as an external auditor for his experience and insight developed through his background to audit the Company.
	Yutaka Atomi	●	1 year	Mr. Yutaka Atomi has long been engaged in education and research at universities, serving in positions including president of Kyorin University, and he thus possesses deep insight and abundant experience regarding university management. The Company selected Mr. Atomi as an external auditor for his experience and insight developed through this background to audit the Company from an objective and fair standpoint.
	Toshiaki Egashira	●	1 year	Mr. Toshiaki Egashira has served in positions including representative director and president of Mitsui Sumitomo Insurance Company, Limited, and he thus possesses abundant operational experience and wide-ranging knowledge regarding corporate management. The Company selected Mr. Egashira as an external auditor for his experience and insight developed through this background to audit the Company from an objective and fair standpoint.

WEB

Independence Standards for External Officers (Attachment for the Sanki Engineering Corporate Governance Guidelines)
https://www.sanki.co.jp/en/corporate/governance/guideline.html

*All external directors and external auditors are independent.

Officer Remuneration

Sanki Engineering has established the Advisory Committee on Nomination and Remuneration under the Board of Directors, to nominate candidates for directors and to deliberate on matters including the system and level of remuneration. In order to strengthen the transparency and neutrality of the Committee, we revised the composition in fiscal 2020, from a structure consisting of the president and representative director and external directors to one of external directors only.

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.

Composition of the Advisory Committee on Nomination and Remuneration

- Persons who explain in the committee:
  - President and representative director
  - Directors appointed by the president and representative director and committee members as necessary
- Committee (report): External directors (all)

■ Elements and Procedures for Remuneration for Directors and Auditors (as of June 25, 2020)

Category	Fixed Remuneration	Bonus	Stock Options	Procedure
Directors (excluding external directors)	○	○	○ Excluding non-executive officers	Determined by the Board of Directors following deliberation by the Advisory Committee on Nomination and Remuneration
External directors	○	○	–	
Auditors (excluding external auditors)	○	○	–	Determined through consultation among auditors
External auditors	○	○	–	

■ Remuneration for Directors and Auditors in Fiscal 2019

Category	Persons Receiving Payment	Total Payment (Thousands of Yen)
Directors (external directors)	12 (3)	634,753 (39,600)
Auditors (external auditors)	7 (5)	116,900 (39,600)

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

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. The Management Meeting is held to ensure the effective execution of duties in accordance with the rules for discussion and reporting. Moreover, for the free exchange of opinions, 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 serves as the auditor of Group companies and seeks to ascertain the status of internal controls across the Group by regularly exchanging opinions with the internal audit department and Group company presidents, receiving reports from the accounting auditors, and exchanging opinions.

• Ensuring the Reliability of Financial Reporting

The Internal Finance Control Committee meets four times a year to conduct our financial reporting in accordance with the internal control framework stipulated 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 2019, accounting auditors expressed their opinion that our financial reports were presented in an appropriate manner in terms of all material aspects.

Reference
Whistleblowing System
Page 78

Executives of the Sanki Engineering Group (as of June 25, 2020)

Directors

Representative Director and Chairman
Tsutomu Hasegawa

Joined the Company in 1975. He has many years of experience in the division management of the Facilities Construction Business and Sales Administration Division. Since assuming the post of representative director and president in 2015, he has been in his current position since 2020.

Representative Director and President
Hirokazu Ishida

Joined the Company in 1983. He engaged in the Facilities Construction Business for many years. In 2018 he served in the key post of general manager of the Management Planning Office. He was appointed to his current position in 2020.

Director
Eiji Mitsuishi

Joined the Company in 1972. He has many years of experience in operation and division management of the Facilities Construction Business. Since 2017 he has served as general manager of the Mechanical & Electrical Contracting Headquarters. He also leads the Labor Safety, Health, Quality Management & Environment Promotion Office.

Director
Takashi Motomatsu

Joined the Company in 1976. He has many years of experience in the operation and division management of the Environmental Systems Business. Since 2014 he has been General Manager of the Plants & Machinery Systems Headquarters.

Director
Masayuki Kudo

Joined the Company in 1985. He has served as an officer responsible for the Information Systems Office, the International Business Office, the Facility Systems Division, and the Real Estate Business Office.

Director
Hirotoshi Fukui

Joined the Company in 1982. He amassed a wide range of operational experience as an engineer in the Facilities Construction Business. Thereafter, he served as a manager responsible for the technology development departments. After serving as a full-time Audit & Supervisory Board member starting in 2016, he has been in his current position since 2020.

Director
Yoshio Kawabe

Joined the Company in 1984. He engaged in accounting and finance-related operations and the promotion of internal control. He has also served as a manager responsible for the administration departments including general affairs and human resources. He currently serves as general manager of the Accounting Division.

Chair of the Board of Directors
External Director
Yukiteru Yamamoto

Served in positions including representative director and president of Mitsui Life Insurance Company Limited and was also active as an executive member of the Policy Board of the Japan Business Federation. Since June 2014 he has been an external director of the Company.

External Director
Makoto Nukaga

Worked at The Bank of Japan for many years and served in managerial positions in key departments in addition to director and president of Chibagin Research Institute Corporation. He has been an external director of the Company since June 2016.

External Director
Kazuhiko Kashikura

Served as an executive officer of Sumitomo Mitsui Banking Corporation and top executives at the same group companies. Since 2018, he has been an external director of the Company.

Auditors

Full-time Auditor
Etsuji Hitomi

Joined the Company in 1970. He served in the accounting and finance departments for many years. In 2007, he became general manager of Internal Audit Office and, in 2013, director of Sanki Kankyo Service Co., Ltd. He has been in his current position since 2018.

Full-time Auditor
Kazuo Saito

Joined the Company in 1974. He engaged in the technical field of the Facilities Construction Business. He has had experience in department management and served as the manager of technical administration departments in the Facilities Construction Business. He has been in his current position since April 2020.

External Auditor
Shozo Fujita

Became a prosecutor in 1976 and registered as a lawyer in 2011. He served in positions including representative director and president of The Resolution and Collection Corporation and as a director who is an audit and supervisory committee member of another company. He has been in his current position since 2018.

External Auditor
Yutaka Atomi

Long involved in education and research at a university, he has served as president of Kyorin University since 2010 and is currently its honorary president. In 2019 he became an external auditor of the Company.

External Auditor
Toshiaki Egashira

Has served in positions including president and chief executive officer of Mitsui Sumitomo Insurance Company, Limited. He has been in his current position since 2019. He concurrently serves as a special advisor to Mitsui Sumitomo Insurance Company, Limited.

G Thorough Compliance
overnance

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.

Reference
Framework of the Corporate Governance System
Page 72

Compliance Promotion Activities

● Whistleblowing System

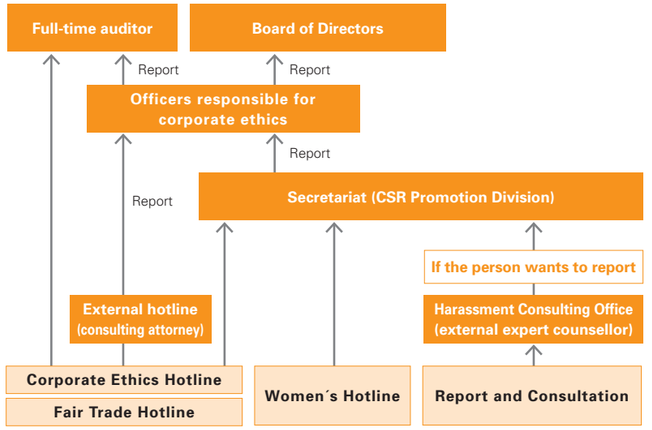
We set up the Corporate Ethics Hotline for reporting on compliance-related issues and a Fair Trade Hotline for reporting on violations of the Anti-Monopoly Act as well as the Women's Hotline, which accepts consultations within and outside the Company. The internal hotline goes to the full-time auditor 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 2019, there were 13 reported incidents (10 internally and 3 externally), and all incidents were 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.

Reference
Women´s Hotline
Page 63

■ 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.

■ Number of Persons Submitting Compliance Confirmation Sheets (Fiscal 2020)

	Sanki Engineering (Target Employees)		Group companies (Target Employees)	
Compliance confirmation sheets concerning performance of duties*1	43	(43)	37	(37)
Compliance confirmation sheets*2	1,978	(1,997)	448	(450)

*1 Compliance confirmation sheets concerning performance of duties are submitted by directors and executive officers.
*2 Individuals who have not submitted compliance confirmation sheets are on maternity leave, receiving medical treatment, etc.

● Corporate Ethics Training

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

■ Results of Corporate Ethics Training (Fiscal 2019)

Theme	Target	Frequency and Participation (Attendance Rate)
Code of Conduct and Action Guidelines, and compliance with the Anti-Monopoly Act	All Group executive officers and employees	40 sessions 2,437 employees (98.5%)*
	Mid-career hires	15 employees (100%)
Compliance with the Anti-Monopoly Act	Newly assigned sales staff	16 employees (100%)

*Follow-up training was conducted at later dates for those who had not attended.

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 eradicate any harassment by consistently carrying out preventive education through corporate ethics training and division training.

Excerpted Results of a Questionnaire Regarding Compliance Awareness for 2020*1

Survey period: May 2020 Participants: all Group executive officers and employees

Q Do you think that compliance behavior (social responsibility-conscious people) has permeated our company?

Yes.	42%
Somewhat.	53%
I'm leaning toward "no" here.	4%

Q Did you know that it is a violation of the Anti-Monopoly Act for businesses to consult with each other in advance of public or private works to determine prospective contractors and order amounts?

Yes, I know.	96%
No, I did not know.	2%*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.	75%
It seems easy to take various kinds of leaves.	63%
Your supervisor is willing to listen to opinions and suggestions.	58%

*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.

Compliance Audit

The Internal Audit Department conducts compliance audits and seeks to strengthen compliance by providing guidance on legal compliance and through monitoring. In fiscal 2019, internal audits were carried out at 22 worksites including 16 domestic worksites and those of 4 domestic subsidiaries and 2 overseas Group companies. In addition, to raise awareness at our construction sites, we conduct onsite hearings with site managers to gain a better understanding of the situation.

Anti-Bribery Efforts

We are working to prevent corruption under the Sanki Engineering Group Action Guidelines, which prohibits the provision of profits such as bribery and excessive entertainment to public employees. In addition to a bribery program as part of our corporate ethics training, we conducted training for the International Business Division and three overseas subsidiaries in fiscal 2019.

Strengthening Compliance with the Anti-Monopoly Act

Ongoing Promotion of Recurrence Prevention Measures

The following are key stepped-up measures we undertook between fiscal 2013 and fiscal 2019. Applying the results of the compliance awareness survey, we will continue our Group-wide effort to prevent violations of the Anti- Monopoly Act in fiscal 2020.

Policies and Manuals

- Formulated the Sanki Engineering Group Compliance Declaration and Sanki Engineering Group Conduct Standards.
- Issued and revised 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 ran/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 system of advance application 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 awareness among employees.

Training and Education

- Submitted compliance commitment letters.
- Raised 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 and mid-career hires.

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.

WEB

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

Governance Risk Management

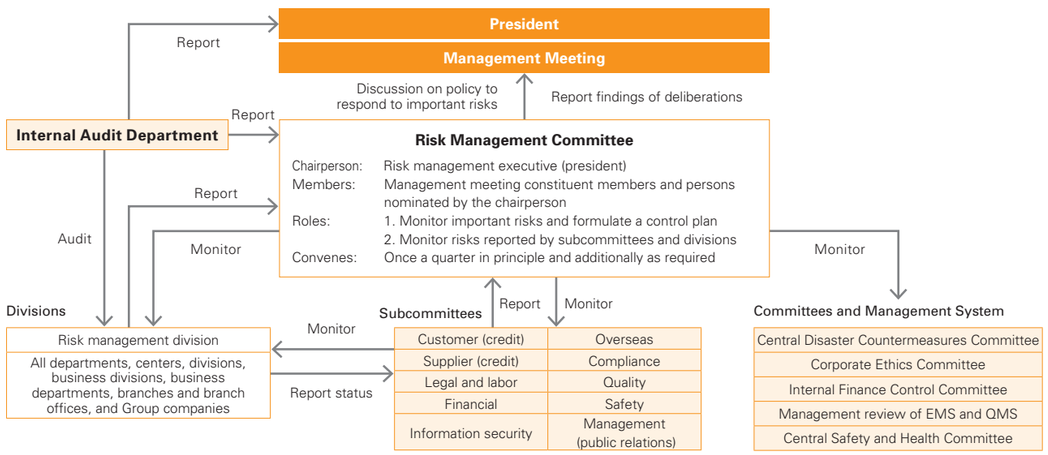
Basic Philosophy

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. The committee monitors important risks throughout the Group, formulates a control plan, and monitors risks reported by 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 July 2019, we reorganized the subcommittee and launched others, including the Quality Subcommittee, to create a 10-subcommittee system. 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 June 25, 2020)



Risk Management Activities

Each fiscal year, the Risk Management Committee identifies risks that affect business activities and stipulates priority risk items for the next 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 2019, 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 discussed and responded to various issues such as risks linked to climate change, confirmation of safety in times of disaster, and risks associated with the Olympics and Paralympics.

■ Major Risk Countermeasures in Fiscal 2019

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. • Developed a supplier information database for use in times of natural disaster.
Operational	• Set up the COVID-19 Task Force and took action for prevention. • Implemented measures to correct overwork.
Information security	• Revised social media guidelines.
Overseas	• Took action to prevent the spread of COVID-19 overseas.
Compliance	• Identified department-specific risks through questionnaires and took preventive measures.

Major Business Risks

- **Risks requiring an emergency response**
  Challenges to business continuity and health problems associated with the spread of the novel coronavirus
- **Business operation risks**
  - **Common to all construction business**
    - Securing human resources
    - Increase in materials and labor costs
    - Overseas business risks
    - Accidents and disasters during construction
    - Unprofitable construction
  - **Facilities Construction Business**
    - Declining capital investment
  - **Plants & Machinery Systems Business**
    - Deteriorating competitiveness
  - **Environmental Systems Business**
    - Changes in market conditions
    - Long-term business risks
- **Financial and other risks**
  - Customer credit risk
  - Stock market fluctuations
  - Risk due to legal regulations, etc.
  - Seasonal fluctuations in business performance
  - Legal violations
  - Natural disasters (earthquakes, typhoons, climate change)
  - Leakage of confidential and personal information
  - System failure

Responding to Disaster Risks with a BCP

The Sanki Engineering Group's business continuity plan (BCP) aims to ensure the safety of all related persons, including employees, through 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, modified the way we operate our safety confirmation system, and expanded the use of the disaster information sharing tool throughout the Group.

In fiscal 2019, we: 1. Handed out the initial response handbook during a large-scale disaster, 2. Provided emergency communication training for all Group officers and employees, 3. Considered using the Sanki Techno Center as a backup office in the event of a large-scale disaster, and 4. Established the COVID-19 Task Force and implemented related measures.

WEB

Annual Securities Report for the 96th Business Term (from April 1, 2019 to March 31, 2020)
Business and Other Risks Section (pages 11–13) (in Japanese)
https://www.sanki.co.jp/ir/library/doc/securities_R1-4q.pdf

Initial response handbook for employees in the event of a disaster

BCP drill

Measures to Prevent the Spread of the Novel Coronavirus

In the wake of the spread of the novel coronavirus, we launched the COVID-19 Countermeasures Project in January 2020 and gradually stepped up our response. Afterward we set up the COVID-19 Task Force in April 2020 and implemented appropriate measures as the situation developed.

■ Main Measures for Preventing the Spread of the Novel Coronavirus (as of the end of July 2020)

System	• Set up the COVID-19 Task Force • Considered and implemented measures in line with our policy based on the guidelines of the Ministry of Land, Infrastructure, Transport and Tourism and Keidanren (Japan Business Federation)
Customers/ Society	• Consulted with customers to implement thorough safety control measures, and suspended or resumed work as necessary • Participated in the Open COVID-19 Declaration* • Posted financial results briefing materials on the website instead of gathering in person at a venue • Held online employment briefing sessions and recruitment interviews
Business partners	• Reviewed the concentration and diversification of purchasing that we have long been working on • Concluded commitment line contracts to help stabilize the business of subcontractors (change from bill payment to cash payment) and to secure funds
Employees	• Implemented teleworking, sliding work hours, and teleconferences • Kept employees informed about preventing infection and managing health, and distributed hand sanitizers and masks • Provided remote training for new employees

*A declaration stating that for a certain period of time, patents, utility models, designs, and copyrights will not be asserted against any activities solely intended to stop the spread of COVID-19.

WEB

Website for this declaration
https://www.gckyoto.com/covid-2

Open COVID-19 Declaration

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

Risk Management Manual for Overseas Operations

- Response rules and procedures for the head office and overseas bases for use during crises overseas
- Risk to body and life, the violation of laws, responding to the mass media, dealing with litigation, and so on

Manual to Ensure Safety in Foreign Countries

- A practical guide on risk avoidance and emergency response for employees working overseas
- 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

Initiatives to Ensure Information Security

We have established the Information Security Risk Subcommittee within the Risk Management Committee to control information security measures Company-wide and manage risks. In fiscal 2019, we held two subcommittee meetings. In addition, we use checklists in a thorough assessment of the status of information security measures during onsite inspections by supervisors at each branch and branch office.

■ Key Information Security Measures

Type	Action
Dissemination of rules	• E-learning course for all Group executive officers and employees • 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

Information Security Rules and Standards

- Information Security Management Rules
- Information System Usage Standards
- Information Security Risk Management Standards
- Information Security Risk Countermeasure Standards

G CSR Management Governance

Promoting CSR Activities

Promoting CSR Activities

We promote CSR activities through a Group-wide effort based on our Code of Conduct and Action Guidelines, and deliberation and review of important matters concerning CSR are conducted by the Corporate Ethics Committee. In fiscal 2019, we set up an ESG CCU to share information and exchange opinions on ESG and SDGs once a month. Under the 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.

Divisions Participating in the ESG CCU

Management Planning Office, CSR Promotion Division, General Affairs and Human Resources Division, Legal Affairs Office, Accounting Division, R&D Center, Mechanical & Electrical Contracting Headquarters, Machinery Systems Administration Division, Environmental Systems Administration Division
(15 participants)

Reference
Corporate Ethics Committee
Page 72

■ 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.	• 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	• Dialogue through sales activities and meetings • Websites and showrooms • Exhibition at trade shows and exchange of views
Shareholders and Investors	Number of shareholders: approx. 4,216 (as of March 31, 2020)	Sanki Engineering has approx. 60 million shares outstanding. Financial institutions account for about 42% of ownership, foreign corporations for about 28%, and individuals and others for about 17%.	• Enhance corporate value, a stable return of profits and appropriate allocation of management resources • Conduct timely and adequate disclosure of corporate information	• General shareholders meeting, results briefings, one-on-one IR interviews, and response to inquiries • IR website, and SANKI REPORT
Business Partners	Subcontractors, general contractors, material/ machinery manufacturers, building maintenance companies, etc.	Business partners offer crucial support to Group operations through the Subcontractor Group system, based on relationships of trust fostered over many years.	• Build fair, equal, and transparent business relationships • Ensure occupational safety and create good working environments • Respect human rights	• Dialogue through daily procurement activities • Collaboration through the Subcontractor Group • Corporate Ethics Hotline
Partners	Universities, research institutions, architecture offices, etc.	Collaboration with these partners constitutes a key element of the Group's technological capacity.	• Pursue open innovation • Build equal and fair relationships	• Industry-university collaboration • Dialogue at the Open Lab
Employees	Number of employees Consolidated: 2,501 Non-consolidated: 1,992 (as of March 31, 2020)	The Group derives its competence from the individual abilities of its diverse human resources characterized by the Sanki Spirit.	• 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	• Interviews with supervisors and training • Various reporting and consulting channels • Labor-Management Council • Website
Local Communities	Areas around construction sites and offices	We develop our business activities in various areas both in Japan and overseas.	• Develop social infrastructure • Pay due consideration to local communities and the environment • Disclose information	• Branch and branch office counters • Briefings related to construction work • Dialogue on contributions to society
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.	• Comply with laws, regulations, and administrative guidance, and pay taxes • Develop social infrastructure • Contribute to local disaster prevention	• Branch and branch office counters • Briefings and reports related to construction work • Dialogue through industry associations

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

FY2021 Goals

Hold more IR meetings	Providing consistent, steady returns to shareholders
Target 15 more than in FY2018	Target Total return ratio: 70% or more

Major Action Policy and Initiatives for FY2020

Hold IR meetings for new shareholders	Provide return to shareholders based on the Medium-Term Management Plan

FY2019 Results

IR meetings	Annual dividend	Acquisition of treasury stock	Total return ratio
56 sessions	95 yen	1.95 million shares	111.4%
(FY2018: 50 sessions)	(FY2018: 60 yen)	(FY2018: 1 million shares)	(FY2018: 52.9%)

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. 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.

Reinforce Information Transmission

We are working to improve our IR activities as part of our basic policy of reinforcing information transmission laid out in the Medium-Term Management Plan "Century 2025" Phase 2. We will seek to increase recognition of the Sanki brand and instill a deeper understanding of the company by disclosing our ESG policy in addition to our financial and capital policies and by creating more opportunities for dialogue with shareholders and investors to reinforce our information transmission. Furthermore, 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 2019, 55 individuals participated. 56 IR meetings were also held, which we convene as needed throughout the year. We are actively increasing opportunities for dialogue with individual investors by continually exhibiting at IR events for individual investors and conducting surveys to better understand their needs. We also address the needs of overseas investors by maintaining an English language version of our corporate website. In an effort to prevent the spread of COVID-19, we conducted our briefing on consolidated results for fiscal 2019 by distributing reference materials on our website instead of convening an in-person meeting.

With regard to the general meeting of shareholders, we provided early notices on the exercise of voting rights and requested that shareholders refrain from attending the actual meeting. On the actual day of the meeting, we implemented measures for preventing infection, such as by providing hand disinfectant, installing partitions to stop respiratory droplets, and reducing the number of seats while also limiting the number of participating directors and staff and shortening the meeting's duration.

Exhibiting at the Nikkei IR Fair 2019 for Individual Investors

In August 2019, we exhibited for the third time at the Nikkei IR Fair 2019 for individual investors. We were able to explain our businesses, financial performance, and ESG initiatives by directly communicating with over 1,200 shareholders and Individual investors.

Obtained an AA Rating in the ESG/SDGs Assessment Loan Scheme

Sanki Engineering obtained an AA rating, the second highest on a seven-point scale, for an ESG/SDGs Assessment Syndicated Loan scheme in which the Sumitomo Mitsui Banking Corporation extends loans based on an independent corporate evaluation conducted by the Japan Research Institute. We will continue to actively disclose information to increase our recognition further as a company that excels in its initiatives and disclosure related to ESG and to realizing the SDGs.

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

WEB Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021)
https://www.sanki.co.jp/en/ir/library/doc/century_2025_phase2_2019.pdf

Investor Relations Website

Sanki booth at the IR fair

ESG/SDGs Assessment Loan
Sumitomo Mitsui Banking Corporation ESG/SDGs Assessment Loan

Basic Policy on Financial and Capital Management

Sanki Engineering is working to strengthen its corporate value over the medium to long term in accordance with financial and capital policies established under the Medium-Term Management Plan "Century 2025" Phase 2.

■ Financial and Capital Policies

	Initiatives
Investments in the future	• Strengthen investments for future growth such as R&D, capital investments, and education
Return of profits to stakeholders	• Set the total return ratio as targets and return profits to shareholders in a stable and continuous manner • Return funds to business partners by improving payment terms and other means
Improved capital efficiency	• Continuously reduce strategic shareholdings • Review the composition of equity capital and ensure the flexibility and maneuverability of capital policies

Reference
Overview of the Medium-Term Management Plan
Page 28

Reference
Supply Chain Management
Page 58

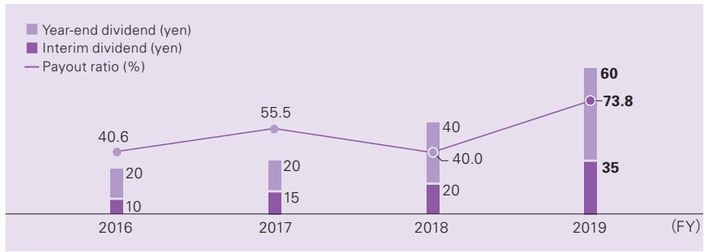
Returning Profits to Shareholders

For fiscal 2019, we paid a full-year dividend of 95 yen, up 35 yen from the previous year. In addition, we strived to enhance shareholder returns and improve capital efficiency by retiring 2,000 shares of treasury stock in August 2019 and acquiring another 1,958 shares of Company stock, worth approximately 2.89 billion yen.

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

■ Dividend Payments per Share



	FY2016	FY2017	FY2018	FY2019
Annual dividend (yen)	30	35	60	**95**
Interim dividend (yen)	10	15	20	**35**
Year-end dividend (yen)	20	20	40	**60**
Payout ratio (consolidated) (%)	40.6	55.5	40.0	**73.8**
Total return ratio (%)	40.6	148.9	52.9	**111.4**
Acquisition of treasury stock (thousand shares)	–	3,000	1,000	**1,958**
Retirement of treasury stock (thousand shares)	–	3,000	1,000	**2,000**

(Notes)
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.
Of the year-end dividend for FY2019, 25 yen was an extra dividend.

Financial Report and Corporate Information

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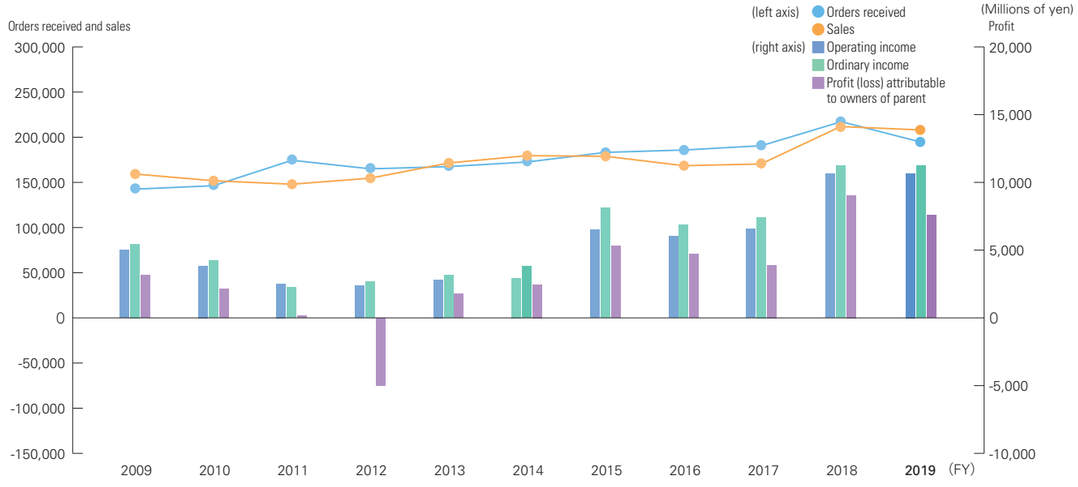
Financial Report

11-year Consolidated Financial Summary

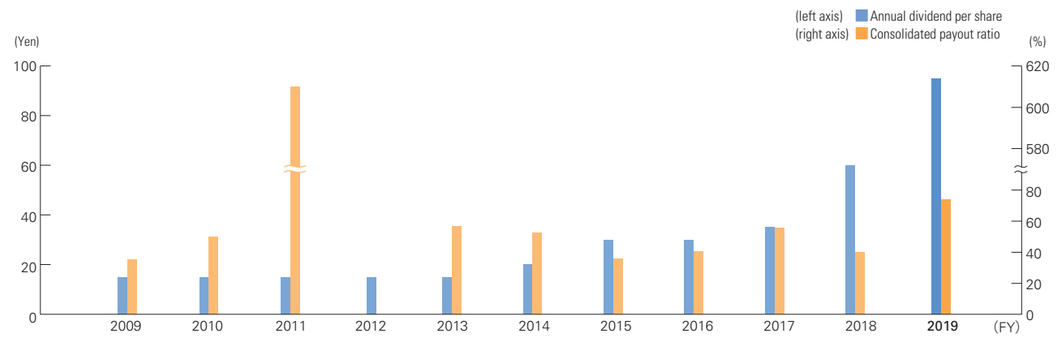
(Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	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	Year ended March 31, 2020
Fiscal year											
Orders received	143,348	147,129	175,291	165,800	168,295	173,398	183,270	185,880	191,113	217,096	**194,018**
Balance carried forward	77,641	72,976	100,272	111,414	108,219	102,019	106,388	123,756	144,712	149,495	**136,163**
Net sales	159,273	151,794	147,994	154,658	171,496	179,598	178,901	168,512	170,157	212,314	**207,684**
Selling, general and administrative expenses	15,419	15,763	15,712	15,199	15,604	15,015	16,419	16,526	18,466	21,046	**21,436**
Operating income or loss	5,027	3,843	2,525	2,391	2,818	2,951	6,509	6,012	6,593	10,637	**10,674**
Ordinary income or loss	5,456	4,239	2,268	2,680	3,146	3,809	8,135	6,880	7,434	11,204	**11,224**
Profit (loss) attributable to owners of parent*	3,141	2,124	176	△ 4,992	1,763	2,461	5,327	4,698	3,906	9,046	**7,576**
Cash flows from operating activities	1,294	11,554	△ 2,697	9,729	△ 9,403	△ 139	5,220	10,845	6,306	6,786	**11,940**
Cash flows from investing activities	△ 1,664	2,610	△ 1,046	△ 9,481	△ 3,506	3,440	5,520	△1,644	△2,510	△3,775	**△303**
Cash flows from financing activities	△ 2,936	△ 1,883	△ 280	△ 1,028	△ 4,152	△2,901	△ 1,826	△2,458	1,814	△5,215	**△8,955**
Cash and cash equivalents at end of fiscal year	32,825	45,135	41,097	40,367	23,510	23,667	32,501	39,187	44,866	42,612	**45,946**
As of end of fiscal year under review											
Total assets	163,307	158,501	163,120	166,477	170,181	176,382	169,423	166,612	177,014	195,321	**180,805**
Net assets	80,498	79,833	79,662	76,932	74,917	84,869	84,557	85,961	86,191	89,772	**87,364**
Number of employees	2,272	2,316	2,289	2,246	2,283	2,282	2,309	2,339	2,384	2,394	**2,501**
Per share information											
Earnings per share (yen)	42.86	29.67	2.46	△ 71.04	26.46	38.30	83.84	73.91	63.02	150.02	**128.51**
Book-value per share (yen)	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	**1,510.59**
Cash dividends (yen)	15.00	15.00	15.00	15.00	15.00	20.00	30.00	30.00	35.00	60.00	**95.00**
Other information											
Equity ratio (%)	49.3	50.3	48.8	46.2	44.0	48.1	49.8	51.5	48.6	45.8	**48.2**
Return on assets (%)	3.2	2.6	1.4	1.6	1.9	2.2	4.7	4.1	4.3	6.0	**6.0**
Return on equity (%)	3.9	2.7	0.2	△ 6.4	2.3	3.0	6.3	5.5	4.5	10.3	**8.6**

*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 2009 and fiscal 2014.



■ Change in Dividend Per Share and Consolidated Payout Ratio



*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, 2019	As of March 31, 2020
Assets		
Current assets:		
Cash and deposits	¥ 42,612	¥44,946
Notes and accounts receivable on completed construction contracts and other	85,243	71,739
Electronically recorded monetary claims	6,562	5,063
Securities	2,000	2,999
Inventories:		
Costs on uncompleted construction contracts	2,049	2,589
Raw materials and supplies	558	542
Other	2,316	2,901
Allowance for doubtful accounts	(0)	(17)
Total current assets	141,342	130,765
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	42,214	42,837
Accumulated depreciation	(32,840)	(32,841)
Buildings and structures, net	9,373	9,996
Machinery, equipment, vehicles, and tools, furniture and fixtures	1,967	2,007
Accumulated depreciation	(1,601)	(1,528)
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	365	478
Land	3,450	3,107
Lease assets	712	634
Accumulated depreciation	(319)	(349)
Lease assets, net	392	284
Construction in progress	747	89
Total property, plant and equipment	14,329	13,957
Intangible assets	688	679
Investments and other assets:		
Investment securities	27,879	24,017
Long-term loans receivable	111	101
Asset for retirement benefits	4,411	3,407
Lease and guarantee deposits	1,479	1,462
Insurance funds	336	626
Deferred tax assets	1,264	2,372
Other	5,559	5,379
Allowance for doubtful accounts	(2,082)	(1,963)
Total investments and other assets	38,961	35,403
Total noncurrent assets	53,979	50,040
Total assets	¥195,321	¥180,805

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes and accounts payable on construction contracts and other	¥68,286	¥52,489
Short-term loans payable	6,874	6,869
Lease obligations	392	189
Income taxes payable	2,510	1,505
Advances received on uncompleted construction contracts	3,395	7,493
Provision for bonuses	4,180	4,088
Provision for directors' bonuses	242	242
Provision for warranty costs	360	411
Provision for loss on construction contracts	480	50
Other	4,594	6,363
Total current liabilities	91,317	79,705
Noncurrent liabilities:		
Long-term loans payable	5,220	3,850
Lease obligations	280	292
Liability for retirement benefits	3,120	3,465
Provision for directors' retirement benefits	52	39
Provision for loss on business of subsidiaries and associates	–	300
Provision for compensation for damages	190	190
Deferred tax liabilities	40	30
Other	5,328	5,568
Total noncurrent liabilities	14,232	13,735
Total liabilities	105,549	93,440
Net assets:		
Shareholders' equity:		
Capital stock	8,105	8,105
Capital surplus	4,181	4,181
Retained earnings	73,250	74,155
Treasury stock	(3,700)	(4,187)
Total shareholders' equity	81,836	82,254
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	9,450	7,274
Foreign currency translation adjustment	(94)	(179)
Retirement benefits asset and liability adjustments	(1,652)	(2,286)
Total accumulated other comprehensive income	7,704	4,807
Subscription right to shares	231	302
Total net assets	89,772	87,364
Total liabilities and net assets	¥ 195,321	¥180,805

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Net sales:		
Net sales of completed construction contracts	¥ 210,245	¥205,247
Net sales of real estate business and other	2,069	2,437
Total net sales	212,314	207,684
Cost of sales:		
Cost of sales of completed construction contracts	179,255	174,023
Cost of sales on real estate business and other	1,375	1,550
Total cost of sales	180,630	175,574
Gross profit:		
Gross profit on completed construction contracts	30,990	31,224
Gross profit on real estate business and other	694	886
Total gross profit	31,684	32,110
Selling, general and administrative expenses:		
Employees' salaries and allowances	7,058	7,580
Provision for bonuses	1,785	1,732
Provision for directors' bonuses	242	242
Retirement benefit expenses	775	494
Depreciation	888	1,060
Other	10,297	10,324
Total selling, general and administrative expenses	21,046	21,436
Operating income	10,637	10,674
Nonoperating income:		
Interest income	20	19
Dividends income	596	598
Other	374	419
Total nonoperating income	991	1,038
Nonoperating expenses:		
Interest expense	142	126
Repair expenses for construction contracts	33	148
Other	248	211
Total nonoperating expenses	424	487
Ordinary income	11,204	11,224
Extraordinary income:		
Gain on sales of noncurrent assets	–	274
Gain on sales of investment securities	1,516	477
Subsidy income	–	100
Penalty income	601	–
Total extraordinary income	¥2,118	¥851
Extraordinary loss:		
Impairment loss	¥808	¥55
Loss on sales of noncurrent assets	62	–
Loss on retirement of noncurrent assets	165	68
Loss on tax purpose reduction entry of noncurrent assets	–	100
Loss on sales of investment securities	–	38
Loss on valuation of investment securities	–	60
Environmental expenses	178	69
Office transfer expenses	15	96
Loss on valuation of shares of subsidiaries and associates	–	174
Loss on valuation of investments in capital of subsidiaries and affiliates	197	–
Provision for loss on business of subsidiaries and associates	–	300
Loss on support to subsidiaries and affiliates	379	–
Provision of allowance for doubtful accounts	190	–
Total extraordinary losses	1,996	962
Profit (loss) before income taxes	11,326	11,114
Income taxes:		
Income taxes-current	4,385	3,490
Income taxes-deferred	(2,105)	46
Total income taxes	2,279	3,537
Profit (loss)	¥ 9,046	¥7,576
Profit (loss) attributable to:		
Owners of parent	¥ 9,046	¥7,576
Non-controlling interests	¥ –	¥–
Other comprehensive income:		
Unrealized gains on available-for-sale securities	¥ (2,237)	¥ (2,176)
Foreign currency translation adjustment	(81)	(79)
Remeasurements of defined benefit plans	406	(634)
Total other comprehensive income	(1,912)	(2,890)
Comprehensive income	¥ 7,134	¥4,686
Comprehensive income attributable to:		
Owners of parent	¥ 7,134	¥4,686
Non-controlling interests	¥ –	¥–

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	¥ 8,105	¥4,182	¥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		(4)		14	10
Transfer of loss on disposal of treasury stock		3	(3)		–
Retirement of treasury stock			(1,213)	1,213	–
Net changes in items other than shareholders' equity					
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				Subscription rights to shares	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		
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

For the year ended March 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	¥ 8,105	¥4,181	¥73,250	¥ (3,700)	¥81,836
Changes in items during the period					
Dividends from surplus			(4,469)		(4,469)
Profit (loss) attributable to owners of parent			7,576		7,576
Purchase of treasury stock				(2,899)	(2,899)
Retirement of treasury stock			(2,412)	2,412	–
Change in scope of consolidation			210		210
Net changes in items other than shareholders' equity					
Total changes in items during the period	–	–	905	(487)	418
Balance at the end of current period	¥ 8,105	¥4,181	¥74,155	¥ (4,187)	¥82,254

	Accumulated other comprehensive income				Subscription rights to shares	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		
Balance at the beginning of current period	¥9,450	¥ (94)	¥ (1,652)	¥7,704	¥231	¥89,772
Changes in items during the period						
Dividends from surplus						(4,469)
Profit (loss) attributable to owners of parent						7,576
Purchase of treasury stock						(2,899)
Retirement of treasury stock						–
Change in scope of consolidation		(6)		(6)		204
Net changes in items other than shareholders' equity	(2,176)	(79)	(634)	(2,890)	71	(2,819)
Total changes in items during the period	(2,176)	(85)	(634)	(2,896)	71	(2,407)
Balance at the end of current period	¥7,274	¥ (179)	¥ (2,286)	¥4,807	¥302	¥87,364

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from operating activities:		
Profit (loss) before income taxes	¥11,326	**¥11,114**
Depreciation and amortization	1,340	**1,643**
Impairment loss	808	**55**
Loss on retirement of noncurrent assets	165	**68**
Loss on tax purpose reduction entry of noncurrent assets	–	**100**
Office transfer expenses	15	**96**
Environmental expenses	178	**69**
Loss on valuation of investments in capital of subsidiaries and affiliates	197	**–**
Loss on valuation of shares of subsidiaries and associates	–	**174**
Increase (decrease) in provision for loss on business of subsidiaries and associates	–	**300**
Loss on support to subsidiaries and affiliates	379	**–**
Increase in provision for compensation for damages	190	**–**
Increase (decrease) in allowance for doubtful accounts	(21)	**(28)**
Increase in provision for bonuses	1,525	**(91)**
Increase in liability for retirement benefits	1,171	**395**
Decrease in provision for directors' retirement benefits	(9)	**(13)**
Increase (decrease) in provision for loss on construction contracts	(578)	**(429)**
Interest and dividends income	(617)	**(618)**
Interest expense	142	**126**
Profit (loss) on sales of property, plant and equipment	62	**(274)**
Gain on sales of investment securities	(1,516)	**(439)**
Loss (gain) on valuation of investment securities	–	**60**
Penalty income	(601)	**–**
Subsidy income	–	**(100)**
Increase in notes and accounts receivable on completed construction contracts and other	(21,467)	**15,321**
Increase in costs on uncompleted construction contracts	(197)	**(429)**
Increase in notes and accounts payable on construction contracts and other	18,912	**(16,009)**
Decrease (increase) in advances received on uncompleted construction contracts	(42)	**4,025**
Increase in other current liabilities	124	**1,480**
Other	20	**(398)**
Subtotal	11,507	**16,198**
Interest and dividends received	615	**619**
Interest paid	(143)	**(126)**
Income taxes paid	(5,542)	**(4,516)**
Penalties received	601	**–**
Payments for office transfer expenses	(62)	**(48)**
Payments for environmental expenses	(190)	**(184)**
Net cash provided by operating activities	¥6,786	**¥11,940**
Cash flows from investing activities:		
Purchase of securities	(19,000)	**(16,000)**
Proceeds from redemption of securities	20,200	**16,100**
Purchase of property, plant and equipment	(6,447)	**(1,839)**
Proceeds from sales of property, plant and equipment	51	**812**
Payments for retirement of property, plant and equipment	(599)	**(58)**
Purchase of investment securities	(30)	**(284)**
Proceeds from sales of investment securities	2,198	**1,041**
Execution of loan	(376)	**(10)**
Collection of loans receivable	15	**20**
Subsidies received	–	**20**
Proceeds from maturity of insurance funds	296	**30**
Other	(84)	**(136)**
Net cash used in investing activities	(3,775)	**(303)**

(Millions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020
Cash flows from financing activities:		
Net decrease (increase) in short-term loans payable	(19)	**14**
Repayments of long-term loans payable	(1,390)	**(1,390)**
Purchase of treasury stock	(1,191)	**(2,899)**
Proceeds from exercise of stock options	0	**–**
Repayments of lease obligations	(191)	**(211)**
Cash dividends paid	(2,423)	**(4,469)**
Net cash (used in) provided by financing activities	(5,215)	**(8,955)**
Effect of exchange rate changes on cash and cash equivalents	(48)	**(45)**
Net decrease (increase) in cash and cash equivalents	(2,254)	**2,636**
Cash and cash equivalents at beginning of period	44,866	**42,612**
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	**698**
Cash and cash equivalents at end of period	¥42,612	**¥45,946**

Corporate Information, Business Locations and Group Companies (as of April 1, 2020)

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.

Corporate Information

Company name
Sanki Engineering Co., Ltd.

Date of establishment
April 22, 1925

Stated capital
8,105.18 million yen

Representative
Hirokazu Ishida, President

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

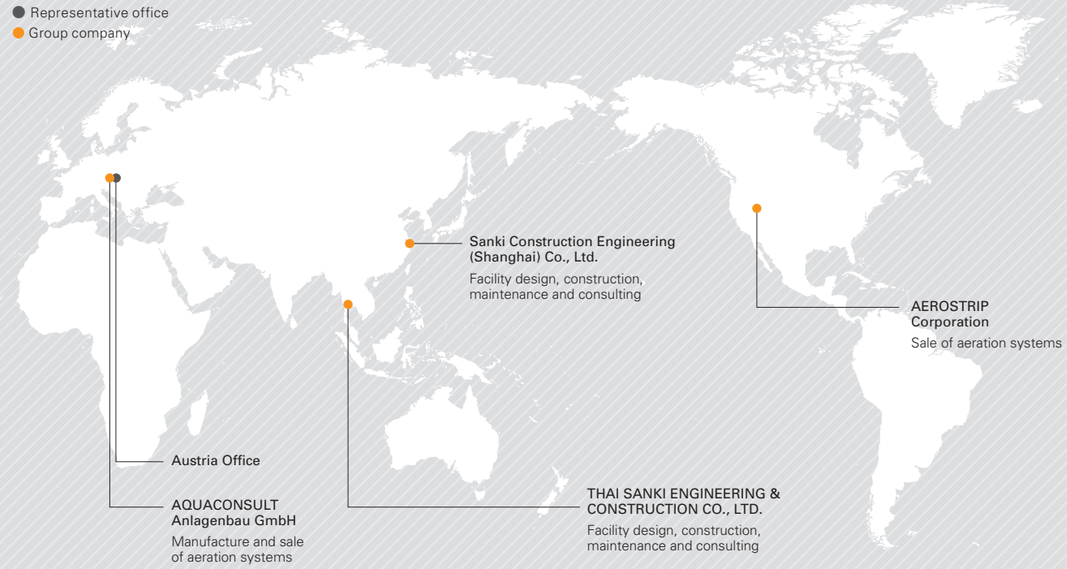
Number of employees (as of March 31, 2020)
Consolidated: 2,501
Non-consolidated: 1,992

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

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

Domestic Business Locations

Representative Offices and Group Companies Overseas



Consolidated Subsidiaries

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

Sanki Sangyo Setsubi Co., Ltd.
Established: May 1, 1980
Capital: 20 million yen
Business areas:
- Installation, relocation, removal and altering of general equipment (production, transportation, etc.)
- Electrical wiring, instrumentation work and computer software changes

Sanki Kako Kensetsu Co., Ltd.
Established: September 1, 1980
Capital: 80 million yen
Business areas:
- Design, construction, operation/management, maintenance, upgrading and improving of waste treatment facilities
- Manufacture, sale and installation of solid-liquid separators
- Design, construction and maintenance/management of water/wastewater treatment facilities

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

Sanki Partners Co., Ltd.
Established: August 1, 1980
Capital: 10 million yen
Business areas:
- Insurance agency, leasing and temporary staffing

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

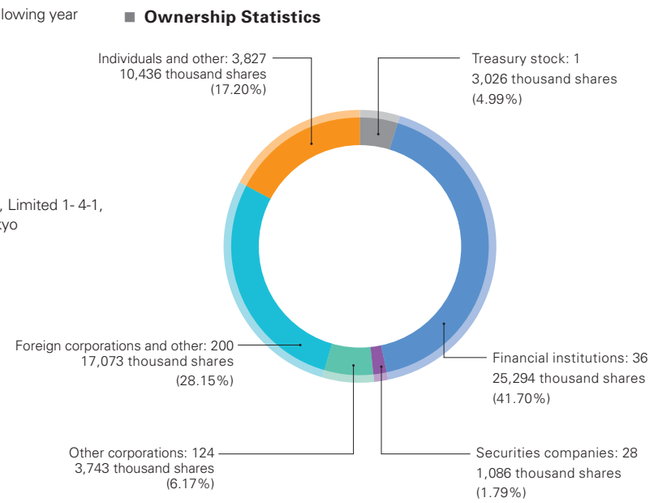
Period of business:
- 3 years and 4 months for design and construction; 20 years for operation, maintenance and management

Share Information

Share Information (as of March 31, 2020)

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	60,661,156
Number of shareholders	4,216
Transfer agent and special account management institution	Sumitomo Mitsui Trust Bank, Limited 1- 4-1, Marunouchi, Chiyoda-ku, Tokyo
Stock exchange listing	Tokyo Stock Exchange
Securities code	1961

Ownership Statistics



Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand Shares)	Shareholding Ratio (%)
Meiji Yasuda Life Insurance Company	5,700	9.89
Taiju Life Insurance Company Limited	3,724	6.46
The Master Trust Bank of Japan, Ltd. (Trust account)	3,365	5.84
Nippon Life Insurance Company	3,038	5.27
Sanki Kyoueikai	2,796	4.85
Japan Trustee Services Bank, Ltd. (Trust account)	2,442	4.24
State Street Bank and Trust Company 505001	1,367	2.37
Sanki Engineering Employee Shareholding Association	1,228	2.13
Japan Trustee Services Bank, Ltd. (Trust account 9)	975	1.69
DFA International Small Cap Value Portfolio	965	1.67

Notes:
- Although the Company holds 3,026 thousand shares of treasury stock, it is excluded from the list of major shareholders. Calculation of shareholding ratio excludes treasury stock.
- The list covers beneficial shareholders whose shareholdings as of the end of the fiscal year under review had been confirmed by the Company.

Third-Party Opinion

Yoshinao Kozuma
Professor Emeritus,
Sophia University

1. Advances in ESG-minded Management

ESG-minded corporate management is essential for creating a sustainable society. The Sanki Engineering Group has been promoting this approach by upholding its ESG policy as a key initiative since the launch of its "Century 2025" long-term vision. Under the Medium-Term Management Plan Phase 2, which began in fiscal 2019, concrete targets were set for each ESG policy, further reinforcing the progress of related initiatives. This is an explicit commitment to implementing the plan under ESG-minded management and a major step in practicing the integrated thinking that clearly demonstrates the Sanki Engineering Group's approach to management for realizing a sustainable society.

While there is room for further considering the validity of each target, various improvements are apparent in the result of its ESG policy. For example, supply chain management efforts have focused on stabilizing relatively smaller suppliers by offering payments in cash, which helps establish a sustainable supply chain.
In the area of governance, an independent external director has been appointed chairperson of the board, thereby separating the functions of supervision and business execution, while the Advisory Committee on Nomination and Remuneration is now entirely composed of external directors.
As in previous fiscal years, many other commendable actions have been reported, such as the establishment of an ESG CCU.

2. Multifaceted Developments in Work Style Reform

Work style reform is another area in which companies can demonstrate significant progress under their ESG policy, and Sanki Engineering Group has done so. This year, the Group began quantitatively reporting on the status of its action plan under the Act for Promoting Women's Careers while disclosing average educational training cost per capita, in human resource development, and overtime work hours, both on a consolidated basis. The Group is consistently striving to improve disclosure every year.

In terms of improvements in internal systems, a sliding work hour program was introduced to provide flexible working hours options that enable employees to shift either their starting or finishing times. They are also allowed to take paid leave in hourly units, making it easier for working parents to apply. These work style reforms have been highly regarded, as evidenced by the Third Nikkei Smart Work survey, in which Sanki Engineering received 3.5 stars.

3. Tenth Anniversary of the SANKI YOU Eco Contribution Point System

The SANKI YOU Eco Contribution Point System, which marked its tenth anniversary in 2020, is another distinctive social contribution along with the dispatch of engineers to the Japanese Antarctic Research Expedition. A number of orders received for CO_2 reduction proposals under this system has been adopted as both KGI and KPI targets for the Group's ESG policy as key benchmarks for ESG-minded management. Aggregate total donations since launch in fiscal 2010 have exceeded 20 million yen, and about 17,000 trees, or 5 hectares, have been planted, earning strong external recognition. I hope the Group will continue this effort for many years to come.

4. Breach of Standard Values at a Waste Incineration Facility

With regard to the breach of standard values that occurred at a waste incineration facility of Sanki Engineering and its Group company, the latest SANKI REPORT promptly reported the facts and corrective measures and adopted a resolute response that included reducing directors' salary and voluntarily suspending its ISO certification. Such issues can considerably damage public trust in a company and require a steadfast effort to stringently prevent recurrence.

5. Challenges Ahead

Meeting the statutory requirement for the employment ratio of persons with disabilities remains a major challenge. The Value Chain Map of business processes is still incomplete and also needs improvement. Moreover, understanding the Group's Scope 3 emissions poses another key challenge to taking action against climate change across the value chain.

Response to Third-Party Opinion

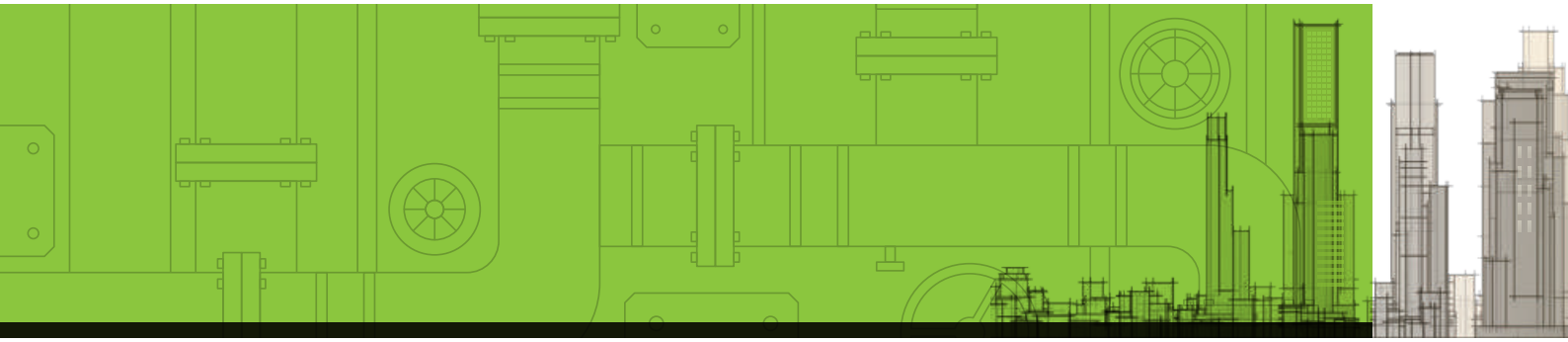
We are sincerely grateful for the valuable insights you have provided on the SANKI REPORT 2020.

This is the ninth fiscal year for publishing an integrated report, and we appreciate your evaluation of our advances in ESG management and multifaceted developments in work style reforms. We will continue to strengthen these efforts and implement concrete actions.

Taking our cue from the breach in required values at our waste incineration facility, we will reinforce our compliance education and quality control systems. With regard to attaining the statutory employment ratio of persons with disabilities and understanding our Scope 3 emissions, which you have pointed out over several years, we recognize these pressing issues and will strive harder to improve the situation and disclose even more information.

We are resolved to make the best use of the SANKI REPORT to further advance our business activities and help realize a sustainable society.

Takeshi Terazaki
Executive Officer and General Manager, Management Planning Office



SANKI ENGINEERING CO., LTD.

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