SANKI ENGINEERING CO., LTD.

SANKI REPORT 2021

Engineering for the Future

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● 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 we welcome feedback for enhancing our operations and information disclosure. Listed below are new approaches we adopted in compiling the 2021 report.

- We created a six-part section featuring the Sanki Engineering Group's concrete initiatives for value creation (pages 26 to 32).
- We published a "Sustainability Management" page which summarizes the sustainability management promotion system at the Sanki Engineering Group with the message from the general manager of the CSR Promotion Division (pages 44 to 45).
- We published "Message from the Chairman of the Board of Directors" to provide an external director's perspective on the Sanki Engineering Group's efforts to reinforce its corporate governance (page 81). Major information that was added to our disclosure includes: Turnover due to personal reasons (non-consolidated, consolidated) (page 71).

● 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, 2019, and 2020
- Ministry of the Environment's "Environmental Reporting Guidelines 2018"
- ISO 26000

● Organizations Covered by the Report

The Sanki Engineering Group, which consists of Sanki Engineering Co., Ltd. and its 8 subsidiaries.

- 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 2020–March 2021 (Some information from outside this period has also been included.)

● Publication Date

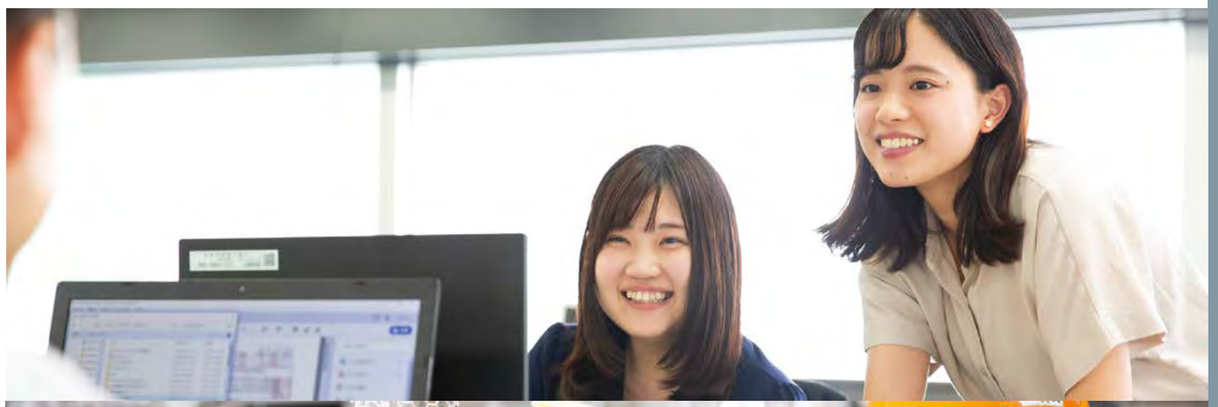
September 2021 (previous issue: September 2020; scheduled release of next issue: September 2022)

Precaution on Performance Outlooks

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) as well as other sources. Please be aware that these forecasts are the best estimates by Sanki Engineering management and based on information available at the time and that actual performance may differ significantly from these forecasts, owing to changes such as in economic conditions, market trends, and exchange rates.

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

Engineering for the Future



Sanki Engineering Group Philosophy

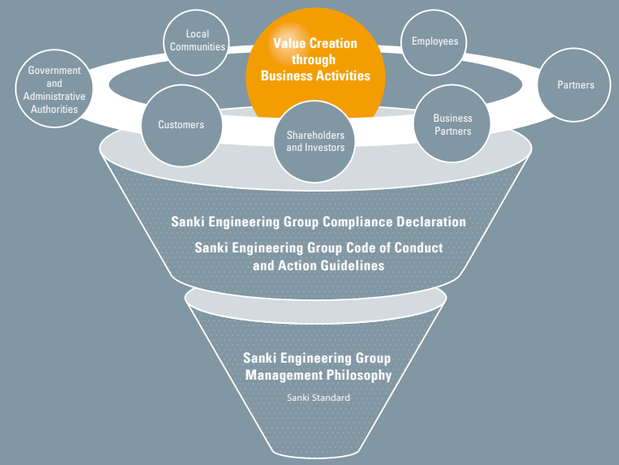
The Sanki Engineering Group Management Philosophy, the Sanki Standard, is a comprehensive statement of the Sanki Engineering Group's purpose in society and presents three values. The Sanki Engineering Group is pursuing sustained growth by ensuring all Group executive officers and employees uphold these 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 Sanki Engineering Group regards all people involved in the Group as stakeholders, including customers, shareholders, investors, suppliers, business partners, employees, local communities, and government and administrative agencies. Over the next ten years, we will strive to become the company of choice for all of them.

Phase 3
FY2022–2025

4-year period to become the company of choice

Increased reliability will encourage more stakeholders to choose our company

Phase 2
FY2019–2021

3-year period to enhance reliability

Superior quality generates stakeholder satisfaction, and stakeholder satisfaction and confidence lead to reliability.

Medium-Term Management Plan “Century 2025” Phase 2

READ MORE P.24

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.

Sanki Engineering’s 100th Anniversary

FY2016 FY2019 FY2022 FY2025

The Company of Choice

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 Co., Ltd.
- 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 HVAC, 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 HVAC and plumbing for the Yoyogi National Stadium

1970s

Wide Range of Technological Innovations

- Completes work on Japan's first largescale 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 HVAC, 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
- Completes HVAC, plumbing and electrical systems for Yoyogi National Stadium 1st Gymnasium

(Photo credit: Japan Sports Council)

2025 Toward the 100th Anniversary

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
2015 Adoption of the Sustainable Development Goals
2019 Start of the Reiwa era in Japan
Global COVID-19 pandemic 2020

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 tenth 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 the 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 2021)

Facilities Construction Business

Net Sales

155.5 billion yen*

Net Sales Composition Ratio **82%**

HVAC and Plumbing for Building, Industrial HVAC, and Electrical Systems

Net Sales Composition Ratio **76%**

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 HVAC and plumbing systems for buildings, industrial HVAC systems, and electrical systems.

Main Sales Items

HVAC and Plumbing for Buildings

- 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
- Semiconductor manufacturing facilities
- Battery manufacturing facilities
- Plumbing system for water supply and drainage
- Food service equipment
- Disaster prevention systems

Electrical Systems

- Electrical systems
- Telecommunication systems
- Electrical civil engineering

Facility Systems Business

Net Sales Composition Ratio **6%**

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

- Project management and designing of fit-out and relocation of offices and workplaces
- Consulting involving overall work style

Smart Building Solutions

- Central monitoring and automated control systems
- ITC solutions
- Crisis management (BCP) solutions
- IP phone solutions
- Security-related solutions

Group Companies

Facilities Construction Business

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

HVAC and Plumbing for Buildings Business

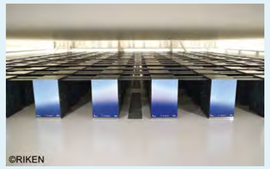
Industrial HVAC Business

Electrical Systems Business

Smart Building Solutions Business

Facility Systems Business

Major Projects



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Supercomputer Fugaku

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

Abeno Harukas

Tokyo Midtown Hibiya

Toyoda Gosei Memorial Gymnasium (ENTRIO)

Plants & Machinery Systems Business

Net Sales

32.5 billion yen*

Net Sales Composition Ratio **17%**

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 **12%**

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

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

Waste Treatment

- Waste incineration facilities
- Landfill wastewater treatment facilities
- Sludge incineration facilities

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
- PFI Okubo Techno Resource Co., Ltd.

Machinery Systems Business

Environmental Systems Business

Major Projects

Shimojishima Airport

Minami-Gamo Purification Center

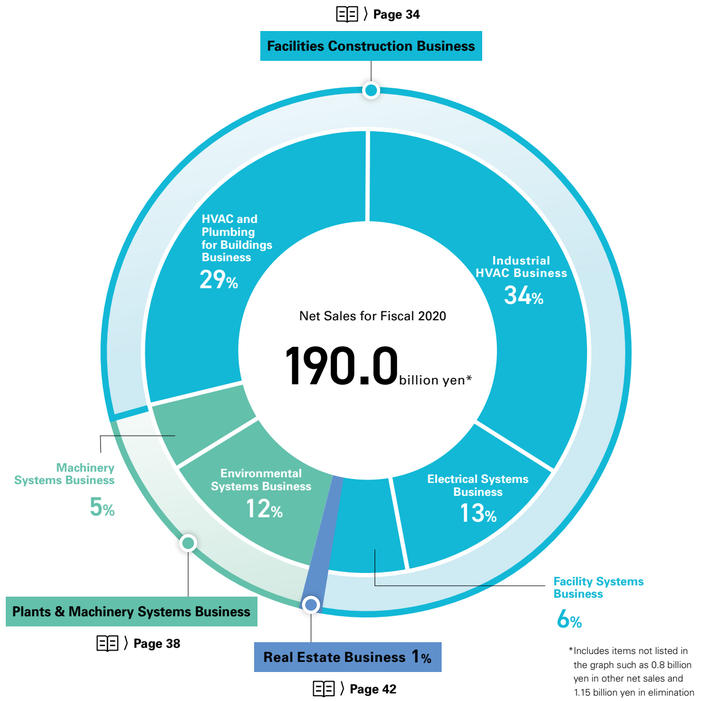
U.S. Forces Yokota Air Base Cargo Handling System

Clean Hill Tenzan

Organization (as of April 1, 2021)

- Board of Directors
- President
- Management Meeting
- Board of Company Auditors
- Secretarial Office
- Management Planning Office
- Sanki Techno Center
- Labor Safety, Health, Quality Management & Environment Promotion Office
- CSR Promotion Division
- Chief Cost Inspector Office
- Information Systems Office
- General Affairs and Human Resources Division
- Legal Affairs Office
- Accounting Division
- Technical Research & Development Center
- Mechanical & Electrical Contracting Headquarters
  - Sales Administration Division
  - Technical Administration Division
  - Procurement Division
  - Engineering Integration Office
  - International Business Administration Division
  - Tokyo Branch
    - Yokohama Branch Office
    - Kanto Branch Office
    - Chiba Branch Office
    - Ibaraki Branch Office
  - Kansai Branch
    - Kyoto Branch Office
    - Kobe Branch Office
    - Shikoku Branch Office
  - Chubu Branch
    - Shizuoka Branch Office
    - Toyota Branch Office
    - Mikawa Branch Office
  - Kyushu Branch Office
  - Hokkaido Branch Office
  - Chugoku Branch Office
  - Tohoku Branch Office
  - Hokuriku Branch Office
  - Facility Systems Division
- Plants & Machinery Systems Headquarters
  - Machinery Systems Administration Division
  - Environmental Systems Administration Division

Financial and Non-Financial Highlights



*Includes items not listed in the graph such as 0.8 billion yen in other net sales and 1.15 billion yen in elimination of inter-segment transactions.

Real Estate Business

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

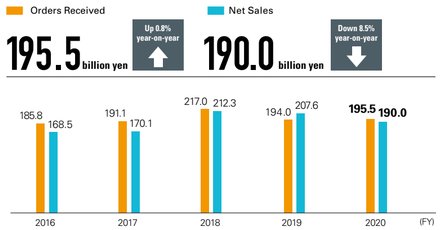
Net Sales

2.3 billion yen*

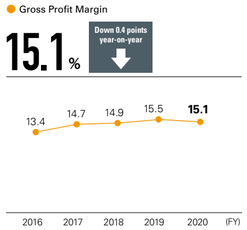
Net Sales Composition Ratio **1**%

Financial Data (Consolidated)

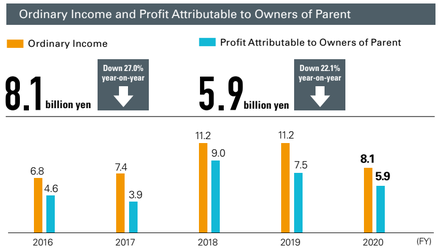
Orders Received and Net Sales



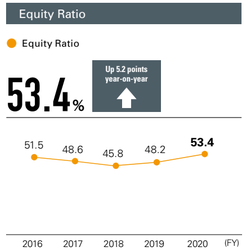
Gross Profit Margin



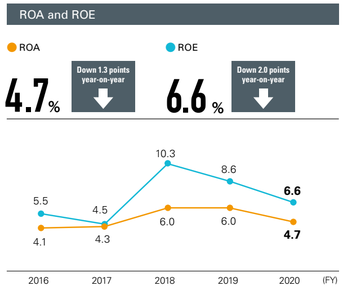
Ordinary Income and Profit Attributable to Owners of Parent



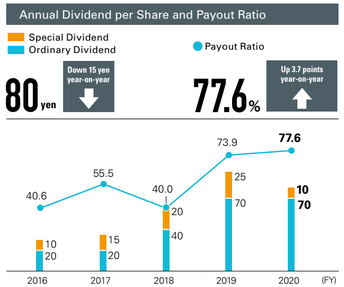
Equity Ratio



ROA and ROE



Annual Dividend per Share and Payout Ratio



Non-Financial Data

Number of Employees

Consolidated

2,548

Female **14**% **358**

Male **86**% **2,190**

As of March 31, 2021

Rate of Annual Paid Leave Taken

Consolidated

Total **55.3**%

Male **53.4**%

Female **67.1**%

FY2020

Rate of Reinstatement after Childcare Leave

Consolidated

100% Up 2.8 points year-on-year

FY2020

Members of Subcontractor Groups

960 companies

As of March 31, 2021

Average Monthly Overtime Work per Person

Consolidated

29.0 hours Down 5.3 hours year-on-year

FY2020

Year-on-Year Comparison of Problems and Complaints during Construction

20 fewer cases Down 30% year-on-year

FY2020

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

Consolidated

28,430 t-CO_2 Up 2.9% year-on-year

FY2020

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

Non-consolidated

96.6% Down 0.6 points year-on-year

FY2020

Number of Registered Patents

462 cases

As of March 31, 2021

Test and R&D Expenditures

Consolidated

1.47 billion yen Up 2.8% year-on-year

FY2020

ICT Investment

Non-consolidated

1.25 billion yen Up 9.6% year-on-year

FY2020

We will promote sustainability management to become a company of choice that offers both quality and reliability.

Hirokazu Ishida
President

Message from the President

Business Environment and Results for FY2020

Profitability Maintained at High Levels Despite Declines in Revenues and Income due to the COVID-19 Pandemic

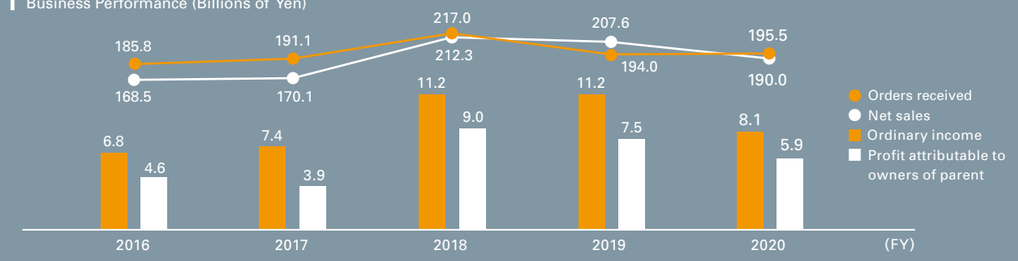
More than a year has passed since I was appointed president in April 2020. Soon after that, a national state of emergency was declared, and I set sail in my new role amid a flurry of activity, concurrently taking responsibility for leading the COVID-19 Task Force* that was promptly set up in response. Incidents of individual infections did not result in related clusters. I believe this was the result of policies and actions taken by the task force, including thorough safety management and the introduction of teleworking. In the course of steering the Company through unprecedented difficulties, I had my own concerns as I sought to strike a balance between preventing the spread of infections and ensuring business continuity. Thanks to the efforts of employees, we were able to maintain uninterrupted business operations throughout the year, and I feel a profound sense of gratitude.

In fiscal 2020, although the Japanese construction market experienced a slump in investments due to deteriorating corporate profit under the COVID-19 pandemic, the situation recovered in the latter half of the year. As for the business environment surrounding Sanki Engineering, the direct impact of the pandemic was limited compared to other industries, as our business was to some extent supported by ample ongoing construction work from the previous year. Even so, there was a significant decrease in small-scale maintenance work in our mainstay Facilities Construction Business during the first half, which affected our business performance. The impact was also felt in our Machinery Systems Business, which handles conveyance systems, in the wake of declining orders and sales.

Under these circumstances, we enjoyed brisk orders for construction facilities on the back of favorable demand related to semiconductors and 5G, and for environmental systems in large construction projects, which led to higher orders received compared to the previous fiscal year. This gave us the confidence—based on the experience we had gained during the pandemic—to continue our business beyond fiscal 2021. Although net sales decreased due in part to an off-season decline in sales from large-scale construction projects, we expect a recovery from fiscal 2021 onward. We were also able to maintain our gross profit ratio at the high level of 15.1%, which we believe is the fruition of our ongoing efforts to boost productivity.

*The COVID-19 Task Force was established in April 2020 and has been entrusted with designating the response and actions for preventing infections after considering the requests and guidance issued by central and local governments.

Business Performance (Billions of Yen)



Reference

Lon-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 24–25

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

*1 We have designated the Five Key Initiatives, which are strengthening core businesses, promoting growth strategies, enhancing the Sanki brand, reinforcing dissemination of information, and disclosing financial and capital policies and ESG policies.

*2 The Smile Project was established in 2015 under the president's leadership to promote work style reform unique to Sanki. Four Smile Plans have been launched as initiatives of the project that will be implemented by each business unit.

*3 Building Information Modeling is 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.

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

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

Reference

Feature 6: Disclosing Financial and Capital Policies and Reinforcing the Dissemination of Information

Page 32

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

Promoting Five Key Initiatives with an Eye on the Next Medium-Term Management Plan

Fiscal 2021 marks the final year of the Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021), which is the second stage of our "Century 2025" long-term vision. While we were shaken up by COVID-19 in fiscal 2020, we maintained our unwavering commitment to pursuing the Five Key Initiatives*1 upheld in the plan and have steadily shown results.

First, from the perspective of strengthening our core business, we focused on the pressing issue of work style reform in the context of Japan's revised Labor Standards Act, which will be applied to the construction industry in April 2024. In September 2020, we boosted our Group-wide effort on the Smile Project*2, which represents our unique work style reforms, by launching Smile Plans for the four groups of facility construction, plants and machinery systems, facilities and overseas operations, and management support in order to accelerate our drive to raise productivity through measures that specifically reflect the operational characteristics and challenges of each group. We also recognize the importance of DX promotion to utilize ICT and BIM*3 to raise operational efficiency in all our processes, and we established the DX Promotion Section in April 2021. Strengthening our core business will depend upon forging closer collaborations with subcontractors that are directly responsible for onsite construction work. For this reason, we have been offering assistance for stabilizing their business operations since March 2020 through measures such as reviewing payment terms. We believe it is important to secure an environment in which Sanki engineering can continue to evolve alongside its subcontractors.

With regard to promoting growth strategies, we focused on the themes of pursuing technological development led by the R&D Center and bolstering the LCE*4 business. Concrete achievements of fiscal 2020 included the development of an automated robotic air flow meter for facilities construction work. We intend to continue exploring various technologies for saving labor and raising efficiency at the construction site to improve productivity and profit ratios of our construction work. To bolster the LCE business, we will seek to maintain steady operations of a waste treatment facility that has come online under our management for the next 20 years using the DBO*5 method. We are taking on the challenge of winning the next large-scale order by demonstrating our total engineering competency through Group-wide collaboration.

Advertising the Sanki Brand by Actively Disseminating Information

The key to enhancing the Sanki brand is to achieve higher quality by providing technology training primarily at the Sanki Techno Center as well as by reinforcing the dissemination of information. In fiscal 2020, we produced new commercials and aggressively sought TV and web exposure. Sanki Engineering is founded on its B-to-B business, and these advertisements will not directly lead to new orders. Developing broad recognition of our company, however, is the key to acquiring competent human resources and a valuable means of increasing motivation among those working for the Sanki Engineering Group, including subcontractors.

With regard to the disclosure of financial and capital policies and ESG policies, we have sought to practice PDCA cycles by publishing a basic policy covering each type of information. Sanki Engineering saw a significant increase in the number of individual shareholders from around 3,000 to 14,000 from fiscal 2019 to fiscal 2020. We believe this is evidence that we have been recognized by the market as a stable company in times of uncertainty that actively provides returns to shareholders.

Providing Solutions to Social Issues through Sanki Engineering's Business

Promoting Sustainable Management by Responding Flexibly to the Changing Business Environment

Under its ESG policies, Sanki Engineering has consistently sought to promote sustainability activities that are synonymous with its management. Companies have recently been facing stronger demand for strategic and effective initiatives on sustainability and ESG for developing a sustainable society. In response, Sanki Engineering set up the Sustainability Promotion Department in April 2021 for systematically promoting activities across the entire Group. We will proceed with considerations for placing sustainability at the center of our business strategy in the next Medium-Term Management Plan Phase 3 (FY2022–2025), which will be the final stage of our vision of becoming the Company of choice by our 100th anniversary.

Among the many ESG issues that must be addressed by Sanki Engineering, initiatives for achieving a decarbonized society, underpinned by the Japanese government's declaration of attaining carbon neutrality by 2050, are particularly significant with direct relevance to our main business of total engineering based on our strengths in energy conservation and energy creation. We must more boldly express our intentions and accelerate concrete actions. Specifically, in addition to reducing CO_2 emissions from our business activities, we will pursue R&D and proposal-based sales for energy conservation and energy creation technologies to reduce CO_2 emissions from customers' business activities with a focus on the SANKI YOU Eco Contribution Point system.

As I have mentioned, advancing work style reforms from the social perspective and in anticipation of declining labor market while seeking to acquire competent human resources is vital for achieving corporate sustainability. I hope to hear the opinions and concerns of onsite employees including new staff through direct communication, such as during the President CCU*, and reflect those ideas in our initiatives insofar as possible.

In the area of governance, discussions and considerations are underway in accordance with the latest revision of our Corporate Governance Code. Furthermore, we have yet to address the information disclosure in accordance with the TCFD recommendations and are committed to constructing a robust system of governance that meets the expectations of diverse stakeholders by incorporating the views of our external directors.

Achieving Sustainable Growth as Society's Backseat Player

Sanki Engineering's strength lies in its total engineering competence, and we pursue diverse businesses that go beyond facilities construction such as HVAC, plumbing, and drainage systems; electrical systems; and ICT systems to also include machinery, environmental, and facility systems. Also, Sanki Engineering provides services that encompass the entire life cycle of a facility, from planning and design to construction, maintenance, and management. Through the facilities we provide as a total engineering company, we serve as a backseat player that contributes to broad areas of society, and our relationship with customers and society differ with each business. As companies are expected to make an even greater contribution to the achievement of the shared international goal of sustainability, our mission is to reconsider how each of our businesses can contribute to the world and to give shape to ideas. We hope to become the company of choice by 2025 and achieve sustainable growth in the years beyond by building on these efforts.

Reference

SANKI YOU Eco Contribution Point System

Pages 27, 48–49

*President CCU, during which employees exchange views with the president, is part of the Century Communication Up (CCU) discussion events held in accordance with the Century 2025 long-term vision.

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 Issues

Climate change	Aging infrastructure
Declining population, falling birthrates, and aging population	
Work style reform	Spread of COVID-19

Stakeholder Needs

Decarbonization	Automation, labor-saving, and higher productivity
Infrastructure maintenance and upgrades	Safe working environments
Disaster prevention, mitigation, and resilience	Adaptation to the "new normal" caused by COVID-19

Continuous Enhancement of Corporate Value

Creation of comfortable environments

A better, sustainable society

SUSTAINABLE DEVELOPMENT GOALS

Input

Capital Assets (FY2020)

Financial Capital

- Net assets: **91.6** billion yen

Manufactured Capital

- Domestic bases (branches and branch offices) in: **18** locations
- Comprehensive training and research facility (Sanki Techno Center)
- Yamato Product Center

Intellectual Capital

- Proven track record and advanced technical skills across a broad range of businesses
- Test and R&D expenditures of: **1.47** billion yen

Human Capital

- Number of employees: **2,548**
- Average educational training cost per capita: **61,000** yen/year

Social and Relationship Capital

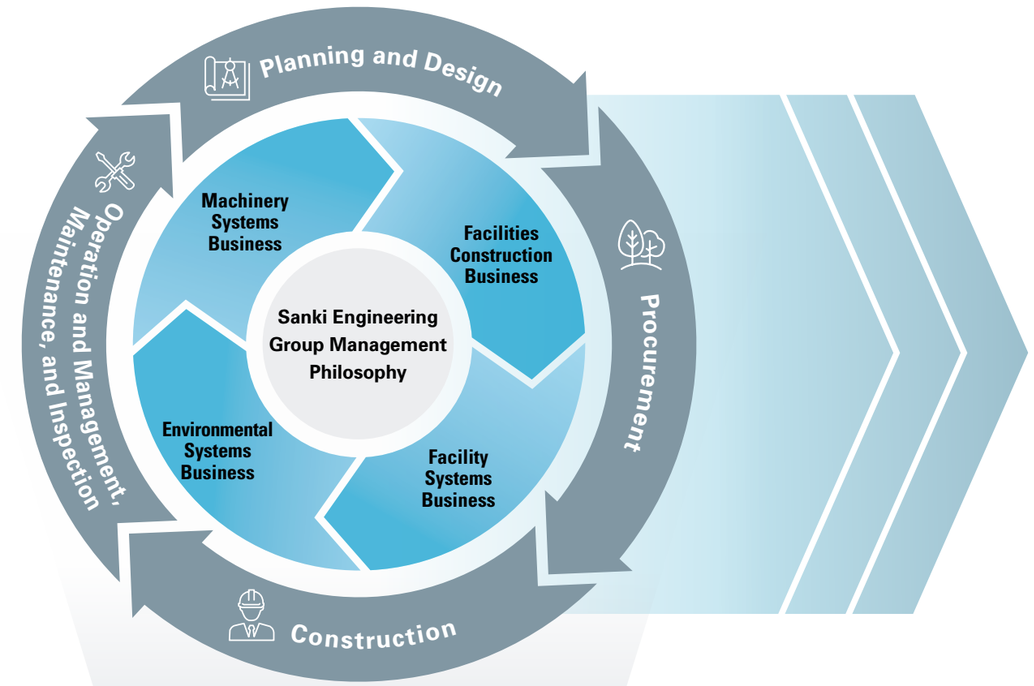
- Credit-worthiness fostered over the years and a solid customer base
- Members of subcontractor groups: **960** companies
- Collaboration with business partners

Natural Capital

Consideration for the environment

- Input of energy and water resources
- Energy consumption (crude oil equivalent): **2,279** kl *1

Business Activities



ESG Initiatives that Support Business Activities

- E Environment
- S Social
- G Governance

Medium-Term Management Plan Phase 2 Enhance Reliability

Phase 1 | Phase 3

Long-term Vision Century 2025

Output

Major Products and Services (FY2020)

Major Products and Services

- Orders received: **195.5** billion yen
- Net sales: **190.0** billion yen
- Large-scale construction projects: **17** projects *2

Major Projects

Center for Treatment and Care, Chiba University Hospital

Okubo Water Purification Plant

Environmental Impact

- CO_2 emissions: **6,046** t-CO_2
- Industrial waster: **18,029** t

Outcome

Value Created (FY2020)

Financial Capital

- ROE: **6.6** %
- Annual dividends per share: **80** yen
- Equity ratio: **53.4** %

Manufactured Capital

- Reduction rate for number of problems and complaints during construction: **30** % reduction from FY2019
- Industrial accidents frequency rate: **0.44** *3

Intellectual Capital

- Number of registered patents (as of March 31, 2021): **462** cases

Human Capital

- Project management technician (civil works, construction, electrical construction, pipe-laying works): **1,132** persons*4
- Average monthly overtime work per person: **29.0** hours
- Rate of paid leave taken per person: **55.3** %

Social Capital

- Closer cooperation with subcontractors through subcontractor groups
- Exchange views with business partners

Natural Capital

- CO_2 reduction based on our proposals (for ordered projects): **28,430** t-CO_2
- Reduced environmental impact through promotion of energy creation: **5,785** t-CO_2
- Volume of water treated using Sanki Engineering products: **220** million m^3
- Provision of facilities equipped with highly efficient energy saving facilities based on ZEB

*1 Total of head office, other offices, and construction sites *2 Construction projects of over 1 billion yen each
*3 Sanki Engineering construction sites (Sanki Engineering Co., Ltd. and business partners) *4 Non-consolidated

Sanki Engineering Value Chain

The Sanki Engineering Group is engaged in the life cycle engineering (LCE) business, where we handle the entire process from facility planning and design to procurement, construction, operational management, maintenance and management, and renovations and renewal. We seek to generate diverse benefits that meet stakeholder expectations by addressing opportunities and risks in the context of sustainability management across the value chain of our business activities.

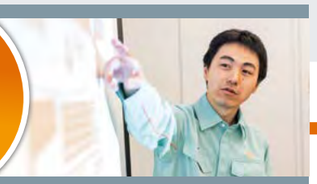
Relevant Stakeholders: Customers, Business partners, Partners, Employees, Local communities, Governments and administrative bodies

● Related to society ● Related to the environment

Social Issues

- Climate change
  - ● Shift to a decarbonized society ● Limited resources
  - ● Resource circulation ● Waste issues
- Declining population, falling birthrates, and aging population
  - ● Labor shortage ● Human rights risks
- Aging infrastructure
- Work style reform
- Spread of COVID-19
  - ● Fair procurement ● Supply chain risks ● Safety first ● Quality assurance ● Ensuring information security

Planning and Design



As a total engineering company with high-level expertise and reliable technical skills, we participate in the planning and design stages of wide-ranging projects involving building and industrial HVAC systems, water supply and drainage systems, electrical systems, material handling and conveyance systems, and water treatment and waste treatment facilities in order to provide proposals offering the ideal combination of comfort and reduced environmental impact. In addition, we proactively develop and introduce new technologies for meeting customer needs, including Open Lab initiatives that encourage active joint research inside and outside the Group.

Relevant Stakeholders

Relevant SDGs: 9, 11, 12, 13

⊕ Maximize Opportunities

- ● Proposal for disaster prevention and mitigation facilities
- ● Proposal and design for meeting the demand for HVAC and clean rooms that prevent infections
- ● Response to increased demand for data centers and open offices due to promotion of teleworking
- ● Promotion of the SANKIYOU Eco Contribution Point system
- ● Proposals and design for reducing environmental impact
- ● Proposal and design for energy creation facilities

⊖ Minimize Risks

- ● Appropriate management of customer information, protection of personal information

Procurement

We ensure the stable procurement of highly specialized materials, equipment, and services required in construction through a sound and secure supply chain based on long-standing relationships of trust. We have constructed a Procurement Web to strengthen our relationships with business partners by sharing information, seeking to raise operational efficiency, and shorten lead times for both Sanki Engineering and its partners while also reducing costs through lower purchasing costs and promoting digitization.

Relevant Stakeholders

Relevant SDGs: 8, 9, 12, 13

⊕ Maximize Opportunities

- ● Raise efficiency by constructing a purchasing system and exercising centralized management
- ● Foster stable relationships of trust with business partners
- ● Promotion of green procurement

⊖ Minimize Risks

- ● Fair, equal, and transparent business relationships
- ● Support for stabilizing the business of subcontractors
- ●● Initiatives for CSR procurement

Construction

We have developed a nationwide construction management system drawing upon the ample experience and advanced technical skills we have gained over the years and applied to implement safe, high-quality construction operations with the cooperation of 960 members of subcontractor groups. In addition to strengthening internal controls and systems for supporting site operations, we aggressively adopt new technologies and improve construction methods to advance automation and save labor in the construction process to meet diverse customer needs through customized construction options that effectively balance quality and cost.

Relevant Stakeholders

Relevant SDGs: 8, 9, 11, 12, 13

⊕ Maximize Opportunities

- ● Improved productivity based on systematic division of labor
- ● Foster stable relationships of trust with subcontractors
- ● Active proposals for improving work sites
- ● Development of education system that incorporates the Sanki Techno Center and on-the-job training

⊖ Minimize Risks

- ● Development and introduction of construction-related automation and labor-saving technologies
- ● Prevention of problems and complaints
- ● Promotion of health and safety activities
- ● Response to human rights issues
- ● Support for stabilizing the business of subcontractors
- ● Proper disposal and reduction of waste
- ● Compliance with environmental regulations

Operation/Management and Maintenance/Inspection

By taking over the operation, management, maintenance, and inspection of facilities designed and constructed by Sanki Engineering, such as office buildings, factories, schools, hospitals, waste treatment plants, and water treatment plants, we facilitate the stable operation of customer facilities and realize efficient preventive maintenance, extend the operational life of facilities, and reduce running costs. This also leads to promoting our LCE business by providing us with a source of stable, long-term profit and enabling us to offer renovation and renewal proposals at optimal times.

Relevant Stakeholders

Relevant SDGs: 6, 7, 8, 9, 11, 12, 13

⊕ Maximize Opportunities

- ● Prevention of nosocomial transmission and response to the need for contact-free means of human interaction
- ● Realize optimal operational management that saves energy
- ● Reduced environmental impact based on generating energy and the recycling and reuse of resources

⊖ Minimize Risks

- ● Prevention of problems and complaints
- ● Promotion of health and safety activities
- ● Response to human rights issues
- ● Compliance with environmental regulations

Renovation and Renewal

Key Initiatives across the Entire Value Chain

- ● **Execution of stringent measures for preventing COVID-19 infections, strengthening of BCP system**
- ●● **Promotion of DX including BIM to achieve higher efficiency and advances**
- ● **Work style reform based on the Smile Project**

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

The Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021), launched in fiscal 2019, entered its final year in April 2021. Building on the achievements of Phase 1, which was the three-year period of enhancing quality, we are now focusing our resources on further pursuing quality to strengthen reliability in Phase 2. We report on the current status of Sanki Engineering's initiatives 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

Medium-Term Management Plan

Phase 1 (FY2016–2018)	Phase 2 (FY2019–2021)	Phase 3 (FY2022–2025)
Enhance Quality	Enhance Reliability	Company of Choice

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

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 Initiatives

- **Disclosure of Financial and Capital Policies and the ESG Policy**
- **Reinforce the Dissemination of Information**

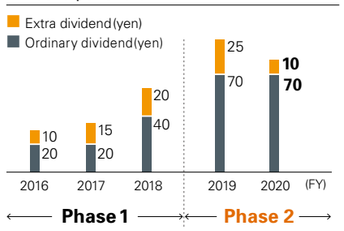
〉 Page 32
Feature 6:
Disclosing Financial and Capital Policies and Reinforcing Dissemination of Information

Phase 2 Performance Targets and Results

	FY2019 targets	FY2019 results	FY2020 targets	FY2020 results	FY2021 targets
Net sales	200.0 billion yen	207.6 billion yen	200.0 billion yen	190.0 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%)	28.7 billion yen (15.1%)	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%)	8.1 billion yen (4.3%)	10.0 billion yen (5.0%)

	Phase 2 (FY2019–2021) ManagementTargets	FY2020 results
Ordinary income ratio	5.0% or higher (final fiscal year)	4.3%
Dividend	Annual dividend per share of 60 yen or higher	Annual dividend: 80 yen
Acquisition of treasury stock	About 5 million shares (in 3 years)	1 million shares (cumulative total: 2,958,000 shares)
Total return ratio	70% or higher	97.3%
ROE	8.0% or higher (final fiscal year)	6.6%

Dividend per Share



Results of Key Initiatives and Policies for Fiscal 2021

	FY2020 Results	FY2021 Policy
Strengthen Core Businesses	● Facilities Construction Business · Reduced the number of accidents, problems, and complaints during construction by using the Sanki Techno Center · Introduced a new labor-saving technology at construction sites ● Facility Systems Business · Began providing consulting services · Continued to receive orders for a next-generation central monitoring system (Sler) ● Plants & Machinery Systems Business Machinery Systems Business: · Bolstered the production management system at the Yamato Product Center · Continued to receive orders for hybrid systems Environmental Systems Business: · Increased orders for large-scale projects · Developed a new system that contributes to saving energy	● Facilities Construction Business · Promote DX to improve productivity and construction quality · Raise the efficiency of construction management operations by using the BIM Promotion Center · Reduce problems and complaints after completion of construction ● Facility Systems Business · Establish a system for promoting consulting services ● Plants & Machinery Systems Business Machinery Systems Business: · Enhance the productivity of the Yamato Product Center · Expand products and services that meet labor-saving and automation needs Environmental Systems Business: · Further promote the LCE business · Expand new strategic products that meet energy-saving and energy creation needs
Promote Growth Strategies	· Developed next-generation technologies at the R&D Center and Yamato Product Center · Ongoing promotion of the stock-based business	· Promote business activities and R&D focused on SDGs and ESG · Promote activities to increase orders for DBO projects
Enhance the Sanki Brand	· Appeals to the wider public through advertisements and commercials · Invigorated internal communication	· Develop educational programs for fostering human resources with the Sanki spirit along with advanced expertise and empirical knowledge · Promote work style reform through internal dialogue

Status of Progress on ESG Initiatives

〉 Page 44 Sustainability Management

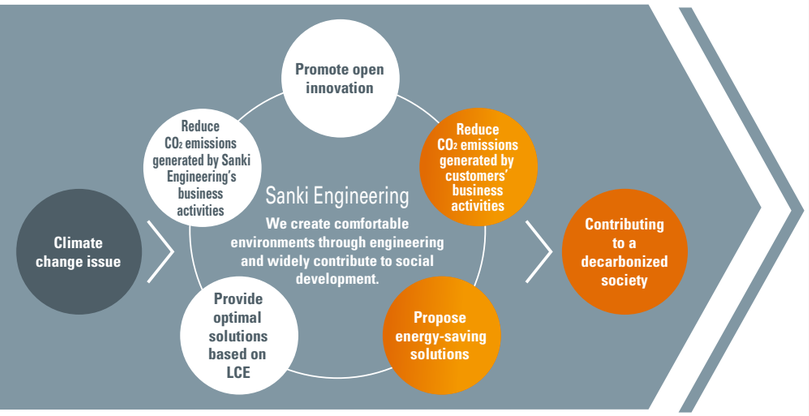
	Policy	FY2021 KGI (Indicators for Evaluating FY2021 Results)	KPI (Indicators for Evaluating Progress)	FY2020 Results
E Environment	· Develop products and technologies that contribute to realizing a decarbonized society · Reduce the environmental impact of business activities	● Number of orders received based on CO_2 reduction proposals under the SANKIYOU Eco Contribution Point system · 50% or more of total number of proposals ● 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 cases or more per year ● Continuous reduction in Sanki Engineering's CO_2 emissions (result of business activities)	● Promotion of CO_2 reduction proposals under the SANKI YOU Eco Contribution Point system · 379 cases ● Initiatives for reducing Sanki Engineering's CO_2 emissions · 6,046 t-CO_2
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 · Rate of paid leave taken per person	● Number of technical training sessions and seminars for preventing problems, claims, and accidents · 25 times per year ● Designate targets for the Smile Project · Quantify work-life balance through monitoring	● Number of technical training sessions and seminars for preventing problems, claims, and accidents · 22 times ● Continuous monitoring of the Smile Project · Average monthly overtime work per person: 29.0 hours · Rate of paid leave taken per person: 55.3%
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	● Consideration of measures for strengthening governance based on the revised Corporate Governance Code

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

Feature 1

Contributing through Our Business to a Decarbonized Society

Guided by our Management Philosophy, under which we seek to "create comfortable environments through engineering and widely contribute to social development," Sanki Engineering seeks to help bring about a decarbonized society through its business activities in wide-ranging fields, from facilities construction and machinery systems to environmental systems. We will utilize our original technologies for saving and creating energy to reduce CO_2 emissions generated by customers' business activities while also contributing to lowering the life cycle costs for society as a whole by expanding our LCE business.



CASE 1 NKC Nagai Green Power Wood Biomass Gasification Power Plant

Contributing to Achieving Carbon Neutrality by Promoting Wood Biomass Power Generation

The NKC Nagai Green Power wood biomass gasification power plant began operations in July 2017 in Yamagata Prefecture, Japan, as a climate change measure by effectively using the region's ample wood biomass resources. The use of wood as an energy source is considered carbon neutral because it does not affect the concentration of CO_2 in the atmosphere. Emissions of CO_2 can be limited by using timber from forest thinning instead of fossil fuel. Sanki Engineering was responsible for plant facilities such as the gasification facility and tar combustion system as well as HVAC, plumbing, and electrical systems.

At the plant, timber is dried naturally to reduce its moisture content to 45% and then turned into chips that are heated, gasified, and refined before they are sent to the gas engine to generate electricity. The gasification furnace achieved its rated output of 1,990 kW about a month after it was fired for the first time, and stable operation has been maintained to date. In fiscal 2020, power output reached 13,000 MWh, equivalent to a CO_2 reduction of 5,785 t-CO_2 (as of March 31, 2021).

Power generated

13,000 MWh/year

Reductions in CO_2 emissions

5,785 t-CO_2/year

The plant has been generating an economic impact valued at approximately 800 million yen, by revitalizing the neighboring forestry industry through the use of unused lumber centered on thinned wood, creating employment related to the facility, and generating profit from the sale of electricity to power companies.

CASE 2 ESCO Project at Mie University's Kamihama Campus

Contributing to Realizing a World-class Environmentally Advanced University

Sanki Engineering is participating in the ESCO Project* of Mie University, which intends to become a World-class Environmentally Advanced University and is contributing to achieving the goal set in the Third Medium-Term Goals of its medium-term plan to reduce energy use (intensity) for the entire university, including its affiliated hospital, by 6% from levels in fiscal 2015.

In the latest ESCO project, we sought to achieve the energy reduction target of 6.83% for Kamihama Campus as a whole in fiscal 2019 by installing an energy-saving facility at Mie University Hospital, a particularly energy-intensive building. We were able to clear this ESCO project target by reducing energy use by 7.4% (baseline comparison) in fiscal 2020 (effect of CO_2 reduction was 1,871 t-CO_2/year).

Furthermore, the EcoSearcher® real-time heat source optimization system was installed to ensure the optimal operation of the heat source system. This control system is intended to minimize overall energy consumed by the heat source system and consume the least real-time energy based on optimal control parameters determined by a computer. Energy savings in the heat source system, including the effect of EcoSearcher®, account for roughly 50% of total energy savings.

*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.

Reductions in CO_2 emissions

1,871 t-CO_2/year

Sanki Engineering's CO_2 Reduction Proposals Open the Way to the Next Step in Environmental Conservation Activities

SANKI YOU Eco Contribution Point System

Our search for an environmental conservation activity unique to Sanki Engineering led to the launch of the SANKI YOU Eco Contribution Point System ten years ago. When a customer adopts our proposal for energy savings, the amount of CO_2 emissions reduced by the solution is converted to Eco Contribution Points (100 yen per tonne), which are used to subsidize environmental conservation activities. Sanki Engineering's original initiative has yielded visible results, with the cumulative volume of reductions in customer CO_2 emissions reaching 231,462 tonnes, equivalent to more than 20,000,000 yen in donations, by the end of fiscal 2020. The pursuit of our business activities is synonymous with resolving social issues such as saving and creating energy—a corporate identity Sanki Engineering should hold in high esteem far into the future. We will continue promoting CO_2 reductions through this system as our contribution to achieving Japan's carbon neutrality in 2050.

SANKI YOU ECO2 POINT

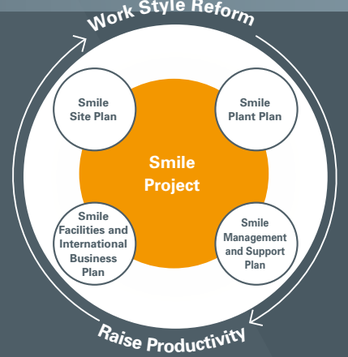
Cumulative total of the reduction in CO_2 emissions for ten years*

231,462 t-CO_2

*October 2010 to March 2021

Feature 2 Promoting the Smile Project

Since fiscal 2015, Sanki Engineering has been striving to create environments where all employees can work with joy by pursuing the Smile Project led by the president, a Company-wide work style reform project. In anticipation of the revised Labor Standards Act of Japan, scheduled to be applied from April 2024, we launched a dedicated Smile Plan for each of the four groups of Facilities Construction, Plants & Machinery Systems, Facility Systems and International Business, and Management and Support. By collaborating with these groups, Sanki Engineering is making a concerted effort to reduce the incidence of long working hours and create comfortable workplace environments.



Establishing a Division of Labor System to Boost Productivity at Construction Sites

Compared to steady work style reforms underway at our offices, long working hours of managers at construction sites have remained the norm, presenting an issue we must overcome. Sanki Engineering has established a system of operational support to mitigate the workload of these managers and achieve both higher productivity and enhanced quality. Five years have passed since the start of the Smile Project, and initiatives for supporting site operations have evolved from support to division of labor. We intend to level out the amount of work by further improving the quality of division of labor system to prepare for the upcoming 2024 application of the revised Labor Standards Act.

History of the Initiative

2015
Start of the Smile Project

2016
Establishment of the Design Support Center (currently the Design and Engineering Center)

2017
Start of the Smile Site Plan

2018
- Launch of the Octopus site documentation system
- Established the Technical Support Center (currently the Technical Center)

2020
- Established the Quality Control Center
- Established the Smile Plan system implemented by four groups encompassing all divisions

Promoting DX to Create Comfortable Working Environments

As part of the Smile Project, we aim to further promote DX in all areas, including construction sites and offices. In April 2021, we established the DX Promotion Section within the Information Systems Office, which is dedicated to executing and promoting DX throughout the Company. We will reinforce our efforts to raise the efficiency of construction management with digital tools as well as by installing and fully applying systems that facilitate the sharing of information with relevant staff both in and outside the Company. We will also collaborate with the R&D Center and each division to promote in-house development and onsite installation of AI and IoT technologies for saving power and raising work site productivity so as to realize sustainable work styles unique to Sanki Engineering.

To address the spread of COVID-19, we set up an in-house COVID-19 Task Force in April 2020, which is headed by the president and determines policy by placing priority on preventing infection among all stakeholders. In addition to stringently practicing basic measures against infection and actively implementing a telework and sliding work schedule system, we will seek to contribute to society by offering proprietary technologies. From July to August 2021, 1,500 applicants such as employees, their families, and those from subcontractor groups were vaccinated through our workplace vaccination program.

Main Measures for Preventing the Spread of COVID-19

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	● Promptly disclosed information in and outside the Company concerning the growing number of infected people ● Donated to student support funds ● Please see TOPICs 1, 2, and 3
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 (May 2020 to May 2021)
Employees	● Quickly established a telework environment ● Kept employees informed about preventing infection and managing health ● Secured adequate stock of basic materials for preventing infection

TOPIC 1

Delivering Proprietary Technologies for Preventive Measures against COVID-19

Sanki Engineering joined the Open COVID-19 Declaration, launched by interested companies, universities, and other organizations for the purpose of bringing an end to the COVID-19 pandemic. Accordingly, we have released nine patent rights to our proprietary technologies. These all have proven track records of installation at medical and research facilities and are considered effective against infection. Looking ahead, we will continue to work on preventing the spread of infection and contributing to end the pandemic by applying Sanki Engineering's HVAC and other proprietary technologies.

Released patents and outline

Feature 3 Preventing the Spread of COVID-19

TOPIC 2

Work Style Reform with COVID-19

Our Facility Systems Business Division provides total management from office development to work styles, and as the pandemic's spread gave rise to the need for work styles that avoid the 3Cs (closed spaces, crowded spaces, and close-contact settings), the division upheld the slogan of "Work Style Reform with COVID-19" to practice operating facilities without a physical human presence in its offices.

Many tasks must be addressed, including avoiding the 3Cs, responding to changes in communication patterns that accompany telework, managing schedules, and making the most of extra space inside Company buildings. We are steadily progressing, however, by discerning the essence of the issue to start with what's possible and repeating the cycle of verification and execution. In future, we plan to share the knowledge acquired through these initiatives in and outside the Company and build on them as clues for realizing optimal work styles for each customer.

TOPIC 3

Participation in Research and Development of a Sewage Monitoring System to Realize a Society that Can More Readily Adapt to Infectious Diseases

An industry-academia-government research and development project has been launched to create a real-time sewage monitoring system that analyzes epidemiological information found in urban sewage and estimates the number of infected individuals in a particular urban area. Sanki Engineering has joined the project, which was adopted as a sewage-related applied research project by Japan's Ministry of Land, Infrastructure, Transport and Tourism in fiscal 2021. We are responsible for analyzing various water quality data obtained from sewage. In doing so, we apply the know-how accumulated at water treatment sites over the years by the Environmental Systems Business Division and conduct applied research in collaboration with the R&D Center. We hope to establish a technology for monitoring infectious disease biomarkers in sewage, and systems that can control sewage treatment operations, as our contributions to realizing a society that can more readily adapt to infectious diseases.

Measures under Medium-Term Management Plan 1

Feature 4 Enhancing the Quality of Our Technology and Human Resources

To become the company of choice

Enhance Technologies and Human Resources

Safety Training | Technical Training | Management Training

Sanki Engineering is striving to become the company of choice by 2025 by consistently enhancing the quality of its technologies and human resources, the theme underlying its Medium-Term Management Plan Phase 1 (FY2016–2018). Our efforts are spearheaded by the Technical Administration Division, which is responsible for Sanki Engineering's strategies on technology, and the Sanki Techno Center, our comprehensive training division, and based on strategies for technological and human resource development that are directly linked to management. We will seek to raise the quality of our technologies and human resources through practical training programs and initiatives for improving construction work productivity.

Enhancing the Quality of Our Technologies

Passing on and Further Developing Technical Skills

Passing on technical skills that constitute the fundamental value of Sanki Engineering to the next generation is directly connected to business sustainability. We are nurturing reliable engineers by providing intensive levels of technological skills training at the Sanki Techno Center using simulated construction sites and actual machinery while also conducting on-the-job training at each branch, including branch offices. Online training was introduced in response to the COVID-19 pandemic, and we have sought to creatively deliver learning experiences similar to onsite training. We are also constantly improving our training facilities and fostering trainers.

Improving Construction Work Productivity

As part of our efforts to enhance the quality of our technologies, we undertake initiatives aimed at exponentially boosting the productivity of construction work through DX. Front-loading based on introducing and applying BIM is key to addressing the future labor shortage to increase construction site productivity, efficiency, and economic viability. Accordingly, we are accelerating our efforts, including internal training, in collaboration with the business divisions and BIM Promotion Center. We also acknowledge the importance of reducing the number of problems and complaints that directly impact construction work efficiency and are working to address this issue by sharing information and developing databases.

Developing Our Human Resources

Fostering Our Safety Culture

Guided by our philosophy of giving top priority to health and safety, Sanki Engineering fosters a safety culture throughout the entire Group, including subcontractors. In the Safety Experience Area of the Sanki Techno Center, employees can gain empirical knowledge about safety by using immersive experience facilities that simulate construction site risks and by participating in training that effectively incorporates virtual reality. A second Safety Experience Area, incorporating the feedback of seasoned engineers at subcontractors, is scheduled to be completed in fiscal 2021.

Developing Human Resources across a Broad Range of Fields

Apart from technical training, we also provide training across broad areas to enhance the quality of our human resources. For new employees, we provide training on essential social manners, basic business skills, and corporate and engineering ethics. We organize management training by rank, for younger employees, mid-career employees, and executives. In addition, we focus on delivering training for honing personal qualities such as communication skills and online training in the context of the pandemic.

Measures under Medium-Term Management Plan 2

Feature 5 Promoting Research and Development

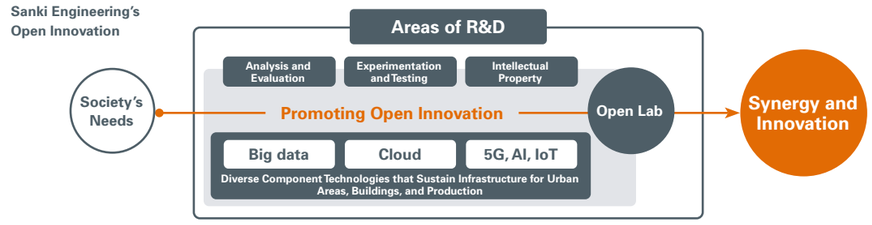
Junichi Hamasaka
Executive Officer,
General Manager of the Technical Research and Development Center

Pursuing R&D to Become the Company of Choice

The Technical Research and Development Center handles two aspects of R&D. One is aimed at addressing current challenges such as DX for the construction business, saving labor in construction work, and improving productivity and is intended to fulfill our responsibilities to our customers and society as a whole. The other aspect is R&D for maintaining our status as the company of choice into the future, which we will pursue with a clear awareness of developing technologies for saving and creating energy that can contribute to achieving Japan's carbon neutrality in 2050 and realizing a digital society.

Today, as society undergoes major changes, the center is placing even greater emphasis on R&D based on the Open Lab method. Gaining new knowledge by collaborating with companies, universities, and research institutes can accelerate the pace of development. I also believe that promoting cross-divisional R&D will allow us to better demonstrate our strengths and generate unprecedented new value.

What makes us the company of choice, and what are our missions beyond being chosen? With these questions always in mind, we will take on the challenges of R&D to fulfill our role in building a sustainable society.



Major R&D Results in FY2020

Goal	Resulting Product
Labor-saving construction work	Autonomous airflow measurement robots for facilities construction
Comfort, higher productivity	Oil mist solution for machining factories
Comfort, improved hygiene	Suppressed diffusion of biological material (odor, bacteria, etc.) by applying MEDIFORT®, a high-comfort HVAC system for hospital rooms, to multiple-bed environments

Test and R&D Expenditures
1.47 billion yen
(FY2020)

Number of Registered Patents
462
(as of March 31, 2021)

R&D Case Study

Simultaneously Improving the Quality of HVAC Construction and Reducing the Workload

Trial Operations Begin for the Autonomous Airflow Measurement Robot

HVAC systems constitute a major component of the Facilities Construction Business, and airflow measurements were manually conducted onsite when making operational adjustments. While this requires precision in terms of verifying facility performance, there has been a longstanding need to save power and labor, since a standard high-rise building has over 1,000 locations that must be measured.

In this context, the Technical Research and Development Center took the lead in developing an autonomous airflow measurement robot. Deployed at construction sites since November 2020, it is capable of autonomously moving from one measurement point to another by registering the route in advance based on construction drawings.

It can also significantly reduce the volume of data sorting by automatically repeating accurate measurements and recording data. The trials resulted in reducing the number of processes by 75%, thus verifying an improvement in the quality of HVAC construction work with regard to the airflow measurement process. We will introduce the robot at Sanki Engineering's construction sites while also further enhancing its performance, such as by broadening its applications through integration with image recognition technology and other measuring instruments and by sharing information with a BIM database.

https://www.sanki.co.jp/news/release/article381.html (Japanese only)

(Left) Airflow measurement by hand
(Right) Airflow measurement by autonomous robot

Measures under Medium-Term Management Plan 3

Feature 6 Disclosing Financial and Capital Policies and Reinforcing the Dissemination of Information

Under the three-year Medium-Term Management Plan "Century 2025" Phase 2, which began in fiscal 2019, Sanki Engineering designated its basic financial and capital policies and disclosed chronological information. We are also seeking broader recognition of the Company by reinforcing our dissemination of information to enhance corporate value over the medium to long term.

Disclosure of Financial and Capital Policies
- Future investments
- Return of profits to stakeholders
- Improved capital efficiency

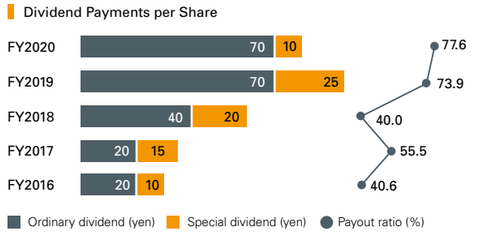
ROE 8.0% or higher

Enhancing corporate value over the medium to long term

Enhance the Sanki Brand

Reinforce the Dissemination of Information
- Enhance IR activities
- Expand PR activities

Disclosure of Financial and Capital Policies



	FY2016	FY2017	FY2018	FY2019	FY2020
Dividend per share (yen)	30	35	60	95	80
Ordinary dividend (yen)	20	20	40	70	70
Special dividend (yen)	10	15	20	25	10
Payout ratio (%)	40.6	55.5	40.0	73.9	77.6
Total return ratio (%)	40.6	148.9	52.9	111.4	97.3
Acquisition of treasury stock (thousand shares)	–	3,000	1,000	1,958	1,000
Retirement of treasury stock (thousand shares)	–	3,000	1,000	2,000	1,000
ROE (%)	5.5	4.5	10.3	8.6	6.6

Reinforcing the Dissemination of Information

To increase recognition of the Sanki brand both in and outside the Group, we reinforce the dissemination of information from the dual perspective of enhancing IR activities and expanding public relations efforts.

We produced advertisements, under the themes of Kaiteki wo Katachi ni (giving shape to comfort) and "Where to find Sanki Engineering," featuring unique characters that represent the image of each business division. The ads are distributed via diverse media, including TV commercials, YouTube videos, newspapers, and magazines.

Sanki Engineering video (Japanese only)

Sanki Engineering Business Activities

Business Report

Facilities Construction Business

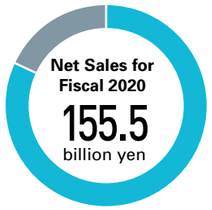
Contributing to Achieving Sustainability by Creating Comfortable Environments

Eiji Mitsuishi

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

The Facilities Construction Business provides a broad range of comfortable environments by harnessing Sanki Engineering's component technologies, and the growing pace of transitioning to a decarbonized society presents us with greater opportunities to contribute by demonstrating our strengths in energy conservation and energy creation. Furthermore, the COVID-19 pandemic has led to a renewed awareness of the vast possibilities inherent in our component technologies for providing safe and secure environments.

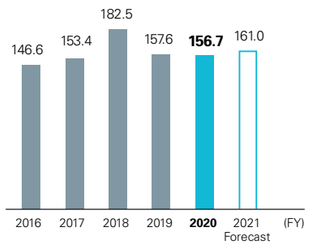
Meanwhile, many issues must be tackled for us to meet the requirements of Japan's revised Labor Standards Act, scheduled to be enacted in April 2024. By creating comfortable working environments for ourselves by addressing issues such as long working hours and the need for gender-inclusive workplaces, we will endeavor to realize continuous growth for the Company and contribute to achieving sustainability for society as a whole.



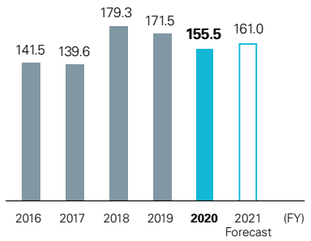
Net Sales Composition Ratio

82%

Orders Received (Billions of Yen)



Net Sales (Billions of Yen)



Opportunities and Risks in the Business Environment

- Ongoing demand for construction due to urban redevelopment projects and capital investment by Japanese manufacturers seeking to restore production back to Japan
- Increased demand for environmentally sound facilities for realizing a decarbonized society
- Active investments in the semiconductor and telecommunication sector due to stay-at-home demand and acceleration in DX
- Decline in demand for offices due to the expansion of teleworking and slow recovery in the tourism sector
- Delayed economic recovery and cut-backs in investments due to the continuation and resurgence of the COVID-19 pandemic

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 quickly identify customer needs through Company-wide information-sharing between the headquarters, branches, and branch offices and promote sales activities that effectively use customer information to win orders.

Key Initiative 2

Raise productivity by establishing a Company-wide construction system

We will establish a construction system that ensures Company-wide collaboration to improve productivity, and we will reinforce the construction system by linking it with work style reforms to secure profit.

Key Initiative 3

Promote the development of younger employees

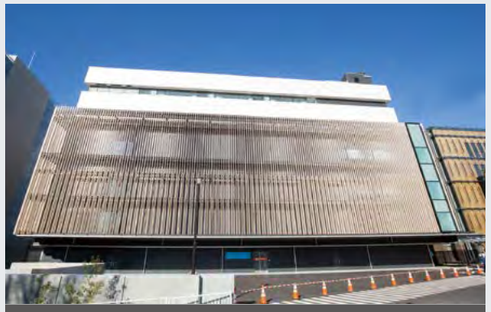
We will implement Web-based training as well as OJT Sheets as an educational tool to foster younger employees to strengthen sales capabilities along with construction techniques.

Major Results for Fiscal 2020

- While we saw declines in orders and net sales for small-scale construction work involving renovations and repairs due to spread of the COVID-19 pandemic, we received robust orders for large-scale projects involving building and industrial HVAC systems. Net sales fell due to the off-season slump in demand but maintained high levels of profit
- Promoted the Smile Site Plan work style reforms, designed to reduce the workload of construction managers and raise operational efficiency, ahead of the enactment of Japan's revised Labor Standards Act, scheduled to go into effect in April 2024
- Established the Quality Control Center within the Technical Administration Division and began construction quality audits by quality assurance administrators and technical experts
- Reduced problems and complaints as well as the number of accidents during construction by implementing measures such as the efficient allocation of human resources after reinforcing operational processes and through a division of labor in the stage preceding order acceptance and construction
- Developed and rolled out an autonomous airflow measurement robot that saves labor at construction sites

Major Projects

- Shiseido Osaka-ibaraki Factory/West Japan Distribution Center (HVAC and plumbing systems/new construction work)
- Chiba University (Hospital) Center for Treatment and Care Building (HVAC and plumbing systems/new construction work)
- Toyota Technical Center Shimoyama (HVAC, plumbing and electrical systems/new construction work)
- Courthouse of Tokyo High Court, Tokyo District Court, and Tokyo Summary Court (HVAC and plumbing systems/renovation)



Chiba University (Hospital) Center for Treatment and Care building

Courthouse of Tokyo High Court, Tokyo District Court, and Tokyo Summary Court

Status of Business Operations and Future Outlook toward Achieving Phase 2

Pursuing Business with Due Consideration for Sustainability

We will pursue business activities with due consideration for achieving sustainability for the Sanki Engineering Group as we seek to take the next step toward becoming the company of choice, which is the goal of our next Medium-Term Management Plan "Century 2025 Phase 3." In concrete terms, we will promote businesses related to energy conservation and energy creation that reduce environmental impact and make an even greater contribution to reducing CO_2 emissions generated by customer business activities. We will also designate specific targets to ensure sustainable development for Sanki Engineering while making continuous improvements to address the pressing issue of creating comfortable workplaces for the future.

Promoting Sales Activities Based on Company-Wide Information-Sharing and Boosting Competitive Strength

We will continue our efforts from fiscal 2019 to promote nationwide sharing of sales information based on collaboration between the headquarters, branches, and branch offices and engage in multilayered sales activities with branches and branch offices made possible by expanding the headquarters' functions as the contact point. We will also effectively use Company-wide information-sharing to calculate appropriate costs to boost competitive strength.

We recognize that enhancing construction quality is essential for raising our competitiveness. We will therefore continue to build on our significant achievements over the years in reducing problems and complaints during construction and focus on post-construction problems and complaints to identify fundamental causes and develop solutions.

Further Promoting the Smile Site Plan to Improve Productivity and Construction Quality

To address the pressing need to improve productivity, we will further promote the Smile Site Plan to reduce the construction manager workload, which requires a speedy response. While consistently seeking to reinforce the Company-wide division of labor system, we will simultaneously promote DX in onsite operations to boost productivity as well as improve construction quality. In addition, we will systematically address the complete operational process from before orders are received to after construction work has been completed to accelerate the pace of onsite work style reforms by resolving issues at an early stage in areas such as advance preparations for receiving orders, personnel allocation, operational flow, and risk avoidance.

BIM Promotion Center

The BIM Promotion Center established in April 2019 will spearhead our initiatives in meeting customer needs related to design, construction work, maintenance, and management using the BIM.

While we are currently focused on using BIM during the construction stage, we expect that introducing it at the design stage will have a direct benefit on improving construction quality and reducing the workload of construction managers. We will therefore reinforce the educational system for engineers starting in fiscal 2021.

Forging Closer Ties with Subcontractors

To achieve our goal of zero accidents, we will bolster the system for ensuring safety at construction sites based on cooperation among the sites, subcontractors, and Sanki Engineering. We will forge closer ties with the Sanki Health and Safety Cooperative Association comprising subcontractors by prioritizing member companies with a particularly high safety record in placing orders, as a means to effectively enhance both our business transactions and health and safety activities. Closely collaborating with subcontractors is also important from the perspective of BCP, and we are creating a system that will facilitate the dispatch of staff from subcontractors in the event of a contingency at customer facilities.

Focus

Contributing to the Construction of a Hub of Medicine that Aims to Be Best in the World

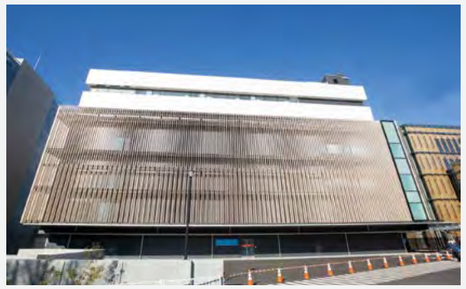
New Center for Treatment and Care Building at Chiba University Hospital

Value delivered by Sanki Engineering

- Energy saving based on individualized HVAC
- Indoor pressurization/depressurization functions that prevent contamination and infections inside the hospital
- Multiple heat source equipment for diversifying risks during times of disaster or power outages

Chiba University Hospital in Chiba City, Chiba Prefecture, opened a new Center for Treatment and Care building in January 2021 as part of its redevelopment plan to become a world-leading hub of medicine. Sanki Engineering was responsible for constructing the HVAC and plumbing systems.

The redevelopment plan involves several buildings, and the Center for Treatment and Care will accommodate particularly key sections of the plan, requiring independent construction work for each floor. With regard to the HVAC system, we saved energy by enabling individualized HVAC according to the purpose of each space. We paid due consideration to preventing contamination and infections within the hospital by creating independent indoor pressure environments for sections handling radiation, clinics where infections are identified, and operating rooms. We also adopted electricity and gas to power the heat source equipment to diversify risks during times of natural disaster or a power outage. In addition, we installed highly reliable plumbing and drainage facilities, which also contributed to creating a safe and high-quality regional healthcare hub.



New Center for Treatment and Care building

Facilities Construction Business

Facility Systems Business

Opportunities and Risks in the Business Environment

- Change in the office market due to the introduction of teleworking triggered by work style reform and spread of the COVID-19 pandemic
- Growing expectations for solutions and consulting services that address emerging needs
- Expectations for systems that improve productivity by using AI and IoT and a corresponding rise in demand for a robust communication infrastructure to support these systems
- Increased opportunities for reconstructing and reviewing ICT infrastructure due to DX-driven change in business models

Facility Systems

Key Initiatives of the Medium-Term Management Plan

- We will enhance our consulting service toward expanding the market for PM and CM* businesses
- We will develop our organization to expand our business and establish our system for serving customer needs
- We will strengthen our component technologies and enlarge our customer base through alliances and other strategies

*Project management and construction management

Major Results for Fiscal 2020

- Revisions in facility use strategies involving large-scale relocation gained momentum among customers. In addition to major customer projects, we also seized on investment opportunities provided by affiliated companies, which resulted in robust growth in orders received, sales, and profit on sales.
- We released the "Work Style Reform with COVID-19" as our proposal for ideal office environments during the pandemic

Status of Business Operations and Future Outlook toward Achieving Phase 2

- While we expect the trend of large-scale relocations to continue in our favor in fiscal 2021, we are entering a period of change in the value of offices following the spread of teleworking. The Consulting Promotion Division established in April 2021 will seek to ascertain the essential requirements of an ideal work style that reflects the customer's future vision and expand services by paying due consideration to the purpose and benefit of physical gatherings.

Smart Building Solutions

Key Initiatives of the Medium-Term Management Plan

- We will expand our solutions business through proactively consulting on installation and upgrades of central monitor systems and other facilities
- We will provide system integration solutions from a neutral and fair standpoint as a means for resolving customer issues
- We will pursue collaborations and work style reform while closely monitoring social circumstances during and after the COVID-19 pandemic

Major Results for Fiscal 2020

- In the area of building management solutions (instrumentation), we won orders for large-scale projects and achieved steady progress, resulting in favorable growth in orders received, sales, and profit on sales
- In the area of network solutions (ICT), we deepened our relationships with customers by responding to their emerging needs, and we are focusing our sales activities on areas showing a marked increase in investments, such as projects involving the construction of data centers and large-scale logistics hubs

Status of Business Operations and Future Outlook toward Achieving Phase 2

- By effectively applying the instrumentation technologies we have cultivated over the years, we will provide unique building management systems that excel in terms of openness and versatility and provide systems tailored to customer needs as a system integrator. Given that robust investments in the ICT area are expected to continue, we will advance businesses involving the construction of ICT-related infrastructure and networks to further expand our business areas.

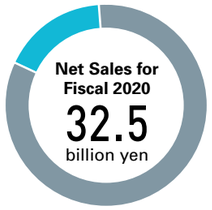
Plants & Machinery Systems Business

Delivering Solutions to Meet Growing Needs for Realizing a Sustainable Society

Kazuaki Iijima

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

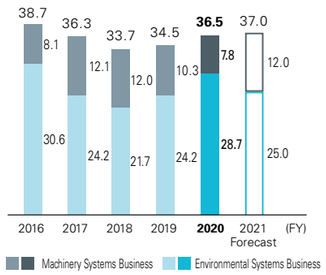
The Plants & Machinery Systems Business, which comprises the Machinery Systems Business and the Environmental Systems Business, supports social infrastructures that are indispensable to daily life. I believe that maintaining a sustainable business with a potential for further development is highly significant, certainly from the perspectives of helping achieve the SDGs and promoting ESG management. In the coming years, we expect continually growing needs for automation and labor-saving solutions due to the declining population as well as the needs for saving and creating energy toward achieving carbon neutrality. The development of technologies using AI and IoT will be absolutely required to meet these needs as well as the accumulation of expertise for maintaining the stable, long-term operation of infrastructure facilities. Meanwhile, Sanki Engineering is facing the urgency of achieving its own sustainability by promoting work style reform alongside the introduction of DX. Looking ahead, we will seek to broadly contribute to society by continuously delivering original solutions with the steadfast intention to create a sustainable future.



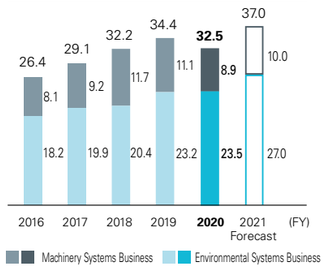
Net Sales Composition Ratio

17%

Orders Received (Billions of Yen)



Net Sales (Billions of Yen)



Opportunities and Risks in the Business Environment

Machinery Systems Business

- Growing need for automation and labor-saving solutions arising from the decline in Japan's working population, and need for unattended processes to prevent the spread of COVID-19
- Expansion in capital investments for logistics facilities targeting the EC market
- Decline in investments related to airports and manufacturing due to the spread of COVID-19

Environmental Systems Business

- Expansion in decarbonization needs arising from Japan's declaration to achieve carbon neutrality by 2050
- Japanese government policy for promoting PPP and PFI
- Intensified competition due to the adoption of fiscal austerity by local governments

Key Initiatives of the Medium-Term Management Plan

Machinery Systems Business

Key Initiative 1 Expand hybrid facilities that combine conveyors and robots and provide related services.

Key Initiative 2 Raise productivity at the Yamato Product Center.

Key Initiative 3 Create next-generation technologies through collaboration with the R&D Center.

Environmental Systems Business

Key Initiative 1 Further expand the LCE business, such as by upgrading, maintaining, and managing water treatment and waste treatment plants.

Key Initiative 2 Expand the energy creation business by drawing on Sanki Engineering's strengths in total engineering and effectively applying proprietary technologies.

Key Initiative 3 Enhance new strategic products that provide underlying support for the LCE business.

Machinery Systems Business

Major Results for Fiscal 2020

- Although manufacturing-related orders and net sales remained stagnant due to the impact of the COVID-19 pandemic, we saw a growing need for robotic solutions for labor-saving and automation. We enjoyed robust orders and net sales for hybrid facilities that combine conveyors with robots.
- We added enhancements at the Yamato Product Center, our main production base for conveyors, by bolstering its production management system, which handles the entire process from assembly of large-scale equipment to trial runs
- Collaborated with the R&D Center to develop a high-spec, space-saving Reverse Sorter to meet the growing demand for logistic solutions

Reverse Sorter that was introduced to the market

Major Projects

- Narita International Airport, extension of the T1S#53 make-up conveyor and enhancement in BHS capacity (construction work for conveyance system, upgrade)
- Specimen sorting system for a medital institution (construction work for a conveyance system, new construction)

Status of Business Operations and Future Outlook toward Achieving Phase 2

Raise Productivity at the Yamato Product Center

We will continue to bolster the production management system at the Yamato Product Center by optimizing inventory control and stringently managing across the product assembly process to boost productivity and reduce costs.

Yamato Product Center

Increase Sales of Hybrid Systems

We will increase sales of hybrid facilities by fostering closer collaboration with distributors of our standard conveyors to develop new customers and marketing channels. We will also continue promoting sales geared to local needs while at the same time establishing new sales bases.

Develop New Products and Promote Services

We will develop products and provide services that are compatible with next-generation technologies including those related to promoting DX. And we will do this by driving development in collaboration with the R&D Center to improve our product development capability and accelerate the pace of development. In particular, we will focus on developing products for logistics facilities that meet needs arising from advances in e-commerce and to enter the market for secondary batteries that is attracting interest in connection with the shift to EVs.

Environmental Systems Business

Major Results for Fiscal 2020

- Orders for large-scale properties grew significantly in response to increased needs related to the Japanese government's national resilience policy
- We won an order for the Kitatama Water Reclamation Center No.1 Sludge Incineration Systems Construction Project, the first large-scale project using our binary cycle power generation system based on a turbo-charged fluidized bed incinerator
- We won an order for upgrading the underwater wire rope-operated sludge collector at the Okubo Water Purification Plant to a remodeled system with a simplified structure
- We developed a system that uses AI to predict the moisture content of dewatered sludge; the system began full-scale operation at two drainage disposal plants in Japan
- In collaboration with Sanki Kako Kensetsu Co., Ltd., we maintained steady operations of the Clean Hill Tenzan energy recovery waste treatment facilities, a DBO project including construction and management operations we received as a bulk order
- Sanki Engineering is participating in the development of a real-time sewage monitoring system to realize a society that is better adapted to infectious diseases, which was selected as a sewage-related applied research project by Japan's Ministry of Land, Infrastructure, Transport and Tourism

Flocculation basin at the Okubo Water Purification Plant

Major Projects

- Okubo Water Purification Plant, upgrade work for the Seibu-system 1B flocculator
- Fukuoka City Western Regional Water Treatment Center, upgrade work for sludge dewatering equipment
- Nomikawa River Water Purification Plant utilizing highly oxygenated water, installation of water treatment equipment and other construction work
- Tamagawa Joryu Water Reclamation Center, reconstruction work for the reaction tanks

Status of Business Operations and Future Outlook toward Achieving Phase 2

Promote and Expand the LCE Business

The 20-year operation period for the DBO project Clean Hill Tenzan waste treatment facilities has begun, and we will seek to maintain steady long-term management in collaboration with Sanki Kako Kensetsu Co., Ltd. At the same time, we will collect data on waste quality and other factors toward achieving automated combustion control to accumulate know-how for expanding the LCE business in the future. We will also share our experience from operating the Okubo Water Purification Plant for 13 years and seek to construct a business structure encompassing maintenance and management operations for PFI and DBO projects by creating a system for managing business while simultaneously promoting DX to raise efficiency and productivity.

Expand the Business Scope of Energy Creation

In the wake of the Japanese government's declaration of achieving carbon neutrality by 2050, we expect to see broader application of decarbonization technologies in the areas of water treatment, waste treatment, and other fields that constitute the strengths of our Environmental Systems Business. We will seek to broaden our energy creation business by drawing on our track record in diverse energy creation businesses based on power generation methods such as woody biomass gasification, waste incineration, and the use of sludge digestion gas as fuel and by closely collaborating with the R&D Center, branches including branch offices, the Energy Solution Center, and Group companies.

Contribute to a Decarbonized Society by Enhancing Strategic Products

Energy saving strategic products such as the AEROWING II ultra-fine bubble air diffuser, SANDEC G3 decanter centrifuge, and turbo-charged fluidized bed combustion system offer solutions that meet the demand for upgrading infrastructure facilities required to keep pace with societal change. They also provide the long-term foundation for the LCE business. We will strive to win orders for large-scale projects with a focus on our strategic products while making continuous improvements to deliver high value-added technologies that contribute to realizing a decarbonized society.

Focus

Machinery Systems Business

Narita International Airport, Extending the Make-up Conveyor and Enhancing BHS Capacity in the South Wing of Terminal 1

Facilitating Transfers from Domestic to International Flights

Value delivered by Sanki Engineering

- Solution for handling peak loads due to the increase in the number of flights
- Enhanced capacity for processing baggage during the transfer from domestic flights to international flights
- Shortened lead times

In January 2021, we completed work for a 500-meter extension in the baggage handling line (approximately 6,000 meters) in the departure section of the South Wing of Narita International Airport's Terminal 1. This was the second large-scale project for expanding the airport's capacity since we extended the conveyance line by approximately 2,000 meters in 2014. The latest project was mainly aimed at improving baggage handling capacity during transfers from domestic to international flights and raising the level of satisfaction for airline customers. To that end, we sought to meet peak demand caused by an increased number of flights and shorten the time taken for conveying baggage by implementing renovation work such as adding a bypass line and changing the conveyance route.

Specifically, we are setting up adjacent entry points for baggage arriving on domestic flights and baggage departing on international flights for easier baggage handling. We also increased the number of positions where baggage tag readers are installed. As a result, we cut in half the time required to convey baggage from the entry point to the make-up conveyor.

Newly installed make-up conveyance system

Focus

Environmental Systems Business

Contributing to Saving Energy at Two Drainage Disposal Plants in Japan

New System that Uses AI to Predict the Moisture Content of Dewatered Sludge

Value delivered by Sanki Engineering

- Use of AI to predict moisture content of dewatered sludge
- Contribution to stable operation of sludge treatment facilities
- Energy saving across the entire sludge treatment facility

An accurate understanding of moisture content in dewatered sludge is essential for maintaining steady operation of sewage sludge incinerators and sludge-to-fuel convertors at drainage disposal plants. Sanki Engineering developed a system for predicting moisture content using AI.

The AI-enhanced software on the system predicts the moisture content of dewatered sludge by using the data on the operational status of an energy saving decanter centrifuge, including centrifuge performance, sludge density and conveyor torque of the dehydrator. The prediction is used for an optimal control of operating conditions in the sludge incineration and fuel conversion processes, allowing the stable operation of sewage sludge incinerators and sludge-to-fuel convertors while also realizing energy saving across the entire sludge treatment facility. Energy saving decanter centrifuges equipped with this system are already in operation at two drainage disposal plants in Japan. We intend to actively develop a market for these centrifuges capable of predicting moisture content.

A decanter centrifuge

Real Estate Business

Adding Higher Value to Real Estate by Applying Our Technologies and Expertise

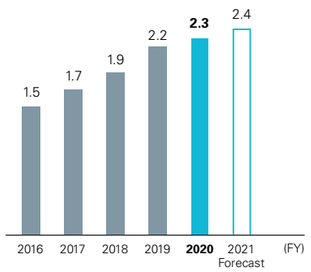
Net Sales for Fiscal 2020
2.3 billion yen

Net Sales Composition Ratio
1%

Opportunities and Risks in the Business Environment

- Need to improve office environments using advanced technologies such as AI and IoT
- Growing need to conserve energy and create comfortable environments
- Falling demand for offices due to changing work styles and spread of teleworking
- Decline in rental fees and prolonged period of vacancies caused by massive supply of office buildings

Net Sales (Billions of Yen)



Major Results for Fiscal 2020

- Net sales and profit rose due to growth in rental income following the start of tenant operations mainly at a portfolio asset in Yamato City, Kanagawa Prefecture (Sanki Yamato Site)
- Implemented facility renovations for portfolio assets
- Conducted work to enable local residents to use a park in the Sanki Yamato Site that will be jointly managed with Nippon Life Insurance Company, to which the land is leased

Policy and Outlook for Fiscal 2021

In fiscal 2021, we will seek sustainable development for the Real Estate Business by continuously applying Sanki Engineering's technologies and expertise to the maintenance and management of portfolio assets while further striving to achieve operational efficiency.

We will also begin to implement measures in fiscal 2021 for establishing the centralized management of Sanki Techno Park, including the Sanki Techno Center and Sanki Yamato Building, and effectively using the facilities.

Basic Strategies for Fiscal 2021

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

Sanki Engineering Business Activities

ESG Initiatives

Sustainability Management

In pursuing activities for achieving sustainability, the Sanki Engineering Group is guided by its management philosophy of creating comfortable environments through engineering and widely contributing to social development. Under the Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021), we disclosed our ESG policies and designated KGIs and KPIs to monitor the progress of our initiatives. Through these efforts, we seek to contribute to the creation of a sustainable society and achieve sustainable growth for the Group.

Creating a System of Sustainable Management to Remain Our Customers' Company of Choice for Many Years to Come

Masayuki Kudo

Director, Senior Executive Officer and General Manager of the CSR Promotion Division

The CSR Promotion Division restructured its organization in fiscal 2021 into a three-part system comprising the CSR Promotion Department, Sustainability Promotion Department, and Internal Audit Department. Sanki Engineering will begin an extensive discussion toward formulating Phase 3, which represents the final leg of our long-term vision "Century 2025." As the section spearheading CSR initiatives within the Company, we intend to fulfill our responsibility by presenting concrete goals to formulate management strategies with a firm eye beyond 2025 and toward achieving the SDGs by 2030 and realizing Japan's carbon neutrality target by 2050.

In our business, we will strive to reduce CO_2 emissions for the Sanki Engineering Group as a whole while also lowering the environmental impact of our customers' businesses by developing technologies for maximum energy conservation and energy creation and providing services, thereby contributing to the establishment of a sustainable society. Internal reform is also a major focus for realizing sustainable management. We must address the labor shortage and diversification in society by accelerating the development of our workplace environment through efforts such as applying DX to save labor in our operations and promoting work style reform and gender equality. We will advance our sustainability-related activities in a united effort with management to remain our customers' company of choice for many years to come.

Framework for the Sustainability Promotion System

Since fiscal 2019, we have sought to develop an internal framework for promoting ESG and SDGs by holding cross-departmental ESG CCU meetings once a month to share information and exchange views among working groups. In addition, we have continually conducted seminars on sustainability for all executive officers and employees. In April 2021, we set up the Sustainability Promotion Department, entrusted with planning and promoting ESG and SDGs, and a management-level preparatory taskforce has been meeting since July with the aim of establishing a committee that will consider sustainability-related measures for the entire Group. Looking ahead, we will further promote sustainability management with due consideration to our long-term sustainability policies, goals, and measures along with the Medium-Term Management Plan "Century 2025" Phase 3.

Reference
Corporate Ethics Committee
Page 76

Sanki Engineering's Stakeholders

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

Key Stakeholders of the Sanki Engineering Group

	Outline of Shareholders	Nature of the Relationship	Main Responsibilities of the Sanki Engineering Group	Major Methods of Engagement
Customers	Building owners, real estate developers, manufacturers, financial and insurance companies, department stores, hospitals, schools, research institutes, etc.	We are aware that our duty is to meet customer needs and do our utmost to resolve social issues by drawing on our diverse component technologies related to social infrastructure.	• 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. 14,861 (as of March 31, 2021)	Gaining the understanding and trust of shareholders and investors is essential for developing a sustainable business, and we place a strong emphasis on disclosing appropriate information and engaging in communication.	• Enhance corporate value • Provide a stable return of profits and appropriate allocation of management resources • Conduct timely and adequate disclosure of corporate information	• General shareholders meeting, shareholder newsletters • Results briefings, one-on-one IR interviews, and response to inquiries • IR website, Sanki Report • Shareholder surveys
Business Partners	Subcontractors, general contractors, material/machinery manufacturers, building maintenance companies, etc.	Our business partners support our businesses and are key allies in achieving mutual growth and development. We consider it our mission to conduct fair business transactions and foster relationships of trust.	• Build fair, equal, and transparent business relationships • Foster relationships of trust and collaboration • Ensure occupational safety and create good working environments • Respect human rights	• Dialogue through daily procurement activities • Collaboration and support through the Subcontractor Group • Corporate Ethics Hotline
Partners	Universities, research institutes, architecture offices, etc.	Acquiring excellent knowledge from external bodies such as universities and research institutes is indispensable for fully applying our component technologies, which results in contributing to the resolution of many social issues.	• Promote open innovation • Build equal and fair relationships	• Industry-academic collaboration • Dialogue at the Open Lab
Employees	Number of employees Consolidated: 2,548 Non-consolidated: 2,048 (as of March 31, 2021)	Our employees constitute the very foundation of our business activities. We acknowledge that 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, intranet • In-house surveys
Local Communities	Areas around construction sites and offices	Our business activities are directly connected to the local community. We intend to directly address issues faced by local communities and contribute to the development of these places through ongoing dialogue as a good corporate citizen.	• 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 the local community
Governments and Administrative Bodies	Central ministries and agencies, municipal governments, etc.	We believe that our partnerships with administrative bodies are essential for serving society's needs as we take on public works related to social infrastructure.	• Comply with laws, regulations, and administrative guidance • Pay taxes • Develop social infrastructure • Contribute to local disaster prevention	• Various notifications • Branch and branch office counters • Briefings and reports related to construction work • Dialogue through industry associations

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 SANKIYOU Eco Contribution Point System (consolidated)
More than 300 proposals

Reducing CO_2 in business activities

Target
CO_2 emissions (actual results of our business activities) (non-consolidated)
1% lower than in previous fiscal year

Major Action Policy and Initiatives for FY2021

Strengthen our proposal-making capabilities related to CO_2 reduction and increase proposals

Promote energy conservation in business activities

FY2020 Results

CO_2 reduction proposals in SANKIYOU Eco Contribution Point System (consolidated)

Orders received: **214**
Number of proposals: 379
(FY2019: 181 orders received)

Contribution to reduction: **28,430** t-CO_2
(FY2019: 27,624 t-CO_2)

Evaluation: ◎

CO_2 emissions (actual results of our business activities) (non-consolidated)

6,046 t-CO_2
(FY2019: 6,377 t-CO_2)*

Evaluation: ◎

*Figures for FY2019 have been retroactively corrected following a revision in the method of aggregation.

Level of progress made in FY2020 on goals set for FY2021
◎: Target achieved ○: On schedule to achieve the target △: Fell short of achieving the target

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 QMS and EMS secretariat meetings.

Major Activities in Fiscal 2020

We pursue our activities by having each section set environmental goals aligned with their respective operations. In fiscal 2020, we reinforced the functions for checking our EMS activities as a major policy, which included reviewing internal audits and construction audits. 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 certifications 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 have since maintained appropriate management for the operation of these facilities. The Sanki Engineering Group is aware of the gravity of this incident and has sought to prevent a recurrence by continuously bolstering its management system. This includes educating employees on compliance and environmental management and conducting internal audits.

Assessment and Response to Environmental Risks and Opportunities

We use the JOB Environmental Aspects Assessment List consisting of 10 aspects and around 60 items to identify environmental issues that are unique to each construction site, bylaws governing site location, regional agreements and more. Prior to the start of construction, we seek appropriate action by conducting an environmental risk assessment for each project to address differences in the 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. Given the spread of COVID-19, it was added as an assessment item in fiscal 2020.

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, 2021)

Qualification	Non-consolidated	Consolidated
Certified environmental measurer	8	9
Supervisor of management of industrial waste subject to special control	185	203
Pollution prevention manager (cumulative total)	75	104

Reference
Quality and Environmental Management System
Page 55

Response to Climate Change

The Risk Management Committee continuously monitors the impact of climate change on the Sanki Engineering Group in an effort to prevent and minimize any risks. Looking ahead, we will analyze and assess the magnitude of the impact of each risk and opportunity presented by climate change.

Contributing through Our Business Activities (Products and Services)

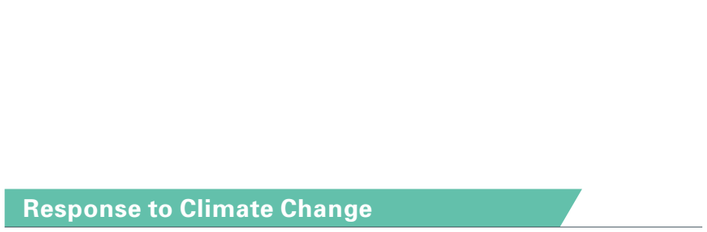
The Sanki Engineering Group seeks to help customers save and generate energy to reduce CO_2 emissions and cut lifecycle costs through its business activities by enhancing the functionality and comfort offered by the technologies and products of each of its businesses. In our LCE business, we seek to 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 continue to expand business contributions to save and create energy, such as biomass power generation plants, and pursue resource circulation through wastewater treatment facilities and waste treatment facilities.

Trans-Heat Container for delivering thermal energy

Woody biomass gasification plant

R&D Expenditures Related to Environmental Preservation

(Millions of Yen)



Registered ZEB Planner

Sanki Engineering is a registered ZEB Planner, which seeks to promote the widespread introduction of ZEBs* 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.

*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.

ZEB PLANNER
ZEB29P-00019-G

SANKI YOU Eco Contribution Point System

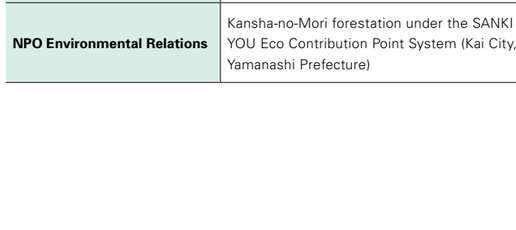
The Sanki Engineering Group's SANKI YOU Eco Contribution Point System contributes, along with our partners, to preventing global warming and realizing a sustainable society. Under the system, when we propose an energy-saving solution that reduces CO_2 emissions to a customer and that proposal is adopted, 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 2020, customers adopted 214 of our proposals, resulting in donations of 2,843,000 yen (equivalent to a 28,430 t-CO_2 reduction), raising the overall total of donations since the start of the program in fiscal 2010 to more than 20,000,000yen, with approximately 18,000 trees planted, equivalent to an area of 5 hectares. We will leverage this system that contributes to decarbonization and solving social issues to proactively offer energy-saving proposals and promote our global environmental preservation activities.

Proposals for CO_2 Reduction and Outcomes

(CO_2 Reduction Unit: t-CO_2)

		FY2017		FY2018		FY2019		FY2020	
		Numbers	CO_2 reduction	Numbers	CO_2 reduction	Numbers	CO_2 reduction	Numbers	CO_2 reduction
Proposal									
	Consolidated	353	47,905	411	50,072	405	45,685	**379**	**68,810**
	Non-consolidated	321	46,143	370	45,531	377	44,756	**352**	**68,243**
Orders received									
	Consolidated	166	16,949	183	20,699	181	27,624	**214**	**28,430**
	Non-consolidated	157	16,599	163	16,608	163	27,221	**200**	**28,296**

SANKI YOU Eco Contribution Point System



Activities Commemorating the Tenth Anniversary of the SANKI YOU Eco Contribution Point System

To express our gratitude to the many customers who have supported the SANKI YOU Eco Contribution Point System over the years, we carried out Kansha-no-Mori forestation activities to commemorate the system's tenth anniversary. In fiscal 2020, we made donations to four organizations to support environmental preservation activities for creating forests (tree-planting projects).

Donation History for Tree-Planting Projects (FY2020)

Recipient	Project	Donation
Silva Association	Planting trees in a forest surrounding Shonan Village (Yokosuka City, Kanagawa Prefecture)	952,600 yen
Shinwa Gakuen	Planting trees in a forest surrounding Shonan Village (Yokosuka City, Kanagawa Prefecture)	940,000 yen
NPO Mori wa Umi no Koibito	Planting trees in the Hikobae Forest on Mt. Yagoshi (Ichinoseki City, Iwate Prefecture)	670,000 yen
NPO Environmental Relations	Kansha-no-Mori forestation under the SANKI YOU Eco Contribution Point System (Kai City, Yamanashi Prefecture)	1,500,000 yen

SANKI YOU ECO2 POINT

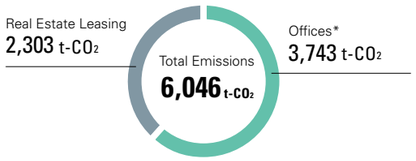
The logo of the SANKI YOU Eco Contribution Point System expresses our aspiration to contribute to social development and create harmony with the natural environment.

ECO2: We reduce CO_2 emissions through our Contribution to ecology

Initiatives in Our Business Activities

Sanki Engineering seeks to reduce its CO_2 emissions by compiling and managing emissions generated by its own business activities. We set numerical targets for CO_2 emission reductions in the Medium-Term Management Plan. We will also begin consideration toward disclosing Scope 3 data and formulating a medium- to long-term vision on CO_2 emissions.

CO_2 Emissions from Sanki Engineering's Business Activities in FY2020 (Derived by Energy Consumption)



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

Initiatives for Energy Conservation

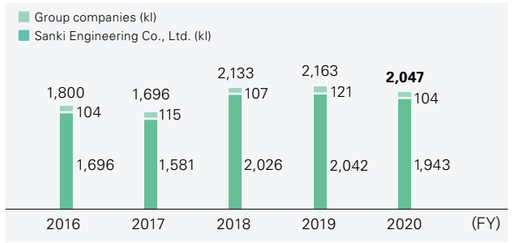
• Energy Conservation Activities

In fiscal 2020, energy consumption was 1,943 kl, and CO_2 emissions generated by energy use was 3,344 t-CO_2 at the head office and other offices. As a major initiative for fiscal 2020, we sought to effectively operate the facilities at the Sanki Techno Center while limiting power consumption by implementing telework to promote our energy saving activities. We also strive to reduce energy use at the Sanki Techno Center and Yamato Product Center by incorporating several energy-saving systems, including those that apply our proprietary technologies.

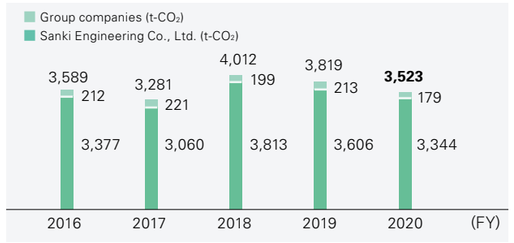
Energy Saving Systems Installed at Group Facilities

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

Energy Consumed by the Head Office and other Offices (Crude Oil Equivalent)*



CO_2 Emissions Generated by Energy Consumption at the Head Office and other Offices*

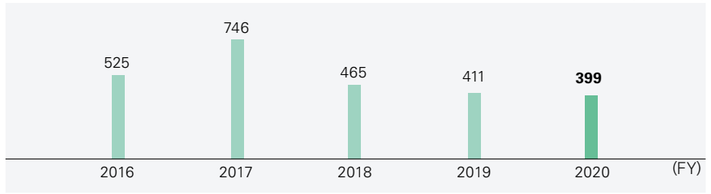


*Figures for FY2019 have been retroactively corrected following a revision in the method of aggregation.

• 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)*



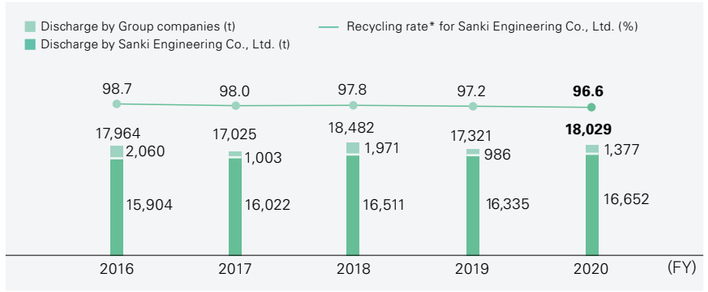
Proper Disposal of Waste

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 96.6% in fiscal 2020. We will continue to promote proper disposal by monitoring and analyzing the discharge of industrial waste. In fiscal 2020, the waste disposal cost for construction sites was 495,768,000 yen. Furthermore, we have been properly disposing waste CFC and halons, the cost of which was 46,606,000 yen in fiscal 2020. In addition, following the revision of the Waste Management and Public Cleansing Act, we created and distributed posters to disseminate the revisions in storage and disposal procedures for waste containing mercury. We also prepared a flow chart for the proper disposal of asbestos in order to address needs arising from an increase in renovation work.

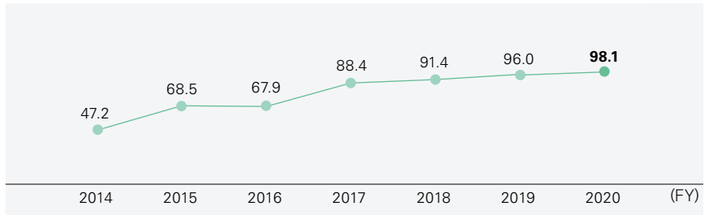
Waste Discharged at Sites where Sanki Engineering is the Prime Contractor and at the Sanki Techno Center



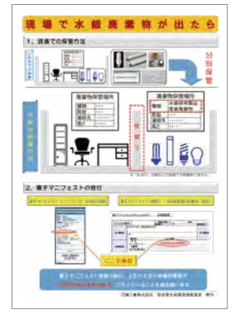
Introduction of a Digital Manifest

With the aim of ensuring the proper disposal of industrial waste, 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 98.1% against the target of 100.0% on a non-consolidated basis in fiscal 2020. To comply with regulatory revisions obligating the use of digital manifests, 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)

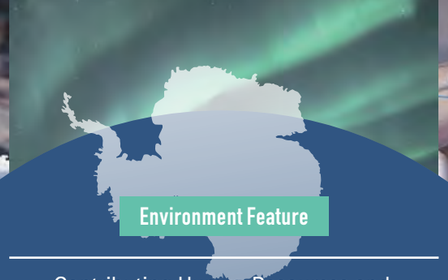


Explanation for handling CFC during HVAC inspections



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

*Target rate: 90% or higher




Environment Feature

Contributing Human Resources and Technologies to a Research Project Focused on the Future of the Global Environment

Supporting Japan's Antarctic Research with Sanki Technology

Sanki Engineering has dispatched 16 employees to Japan's Antarctic research project, starting with the 33rd Antarctic Research Expedition in 1991 to the 62nd expedition in 2020. Understanding the Antarctic helps to decipher the future of the Earth and humankind, which is essential for creating a sustainable future. The technological capabilities fostered through our business is being put toward supporting the research project under the extreme environment of Antarctica.

Environmental Conservation Operations of the Showa Base

Sanki Engineering's connection to Antarctica goes back to 1957, when we delivered 30 roller conveyors for the second expedition to carry materials to the newly opened Showa Base. Time went by, and amid growing public awareness of environmental issues, the Protocol on Environmental Protection to the Antarctic Treaty was added in 1991 to the Antarctic Treaty System, which stipulates that Antarctica shall be used exclusively for peaceful purposes. This generated momentum for fostering experts in environmental technology at the Japanese Antarctic base. In this context, Sanki Engineering dispatched staff for the first time to the 33rd expedition by seconding an engineer to the National Institute for Polar Research.

The expedition comprises experts from a broad range of areas, and Sanki Engineering's engineers are mainly responsible for environmental conservation. It was normal then for most waste to be either burned outside the base or left nearby. There was a clear need to establish a process for sorting and disposing of the waste generated by daily life and research activities. And today, maintenance and management of the water treatment and HVAC facilities have become vital work that cannot be performed by anyone else.

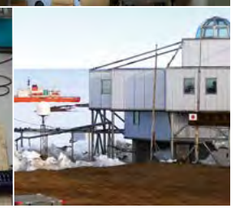
Japanese Antarctic Research Expedition (JARE)

JARE is a national project for understanding the environmental changes in the Antarctic region and Earth system. The first expedition was launched in 1956 and led by the JARE headquarters under the Minister of Education, Culture, Sports, Science, and Technology. The National Institute for Polar Research bears responsibility as the core organization for planning and implementing observation plans, organizing the expedition team and managing base facilities. The expedition is divided into a summering party that conducts research from December to February and a wintering party that stays throughout the year. Members of the expedition must be experts in their respective areas, since observations are conducted while living at the Showa Base by a limited number of people.

Photo credit: National Institute of Polar Research







Contributing to Upgrading the Wastewater Processing Facility and Constructing the Basic Observation Building

Once the four-year Showa Base Cleanup Project for bringing back accumulated waste to Japan was launched in 2005, Sanki Engineering staff occasionally performed tasks in areas outside their expertise, such as operating heavy machinery. Meanwhile, the biggest challenge in the 2010s was upgrading the antiquated wastewater treatment facility. It took five years from delivering the necessary materials to the full-scale roll out, and this important mission was accomplished by a series of staff dispatched by Sanki Engineering, who passed on their passion to the next members.

Sanki Engineering selects its Antarctic expedition members by seeking applications from employees. At first, the opportunity to work in Antarctica was only open to employees of the Environmental Systems Business who were water treatment and waste treatment engineers. However, a project for constructing the new Basic Observation Building at the Showa Base emerged in the late 2010s, which required constructing an HVAC and plumbing facility, thus creating an opening for employees of the Facility Construction Business.


History of Activities by Expedition Members Dispatched by Sanki Engineering

1957 (2nd): Delivered roller conveyors for the second expedition.
1991 (33rd): First Sanki Engineering employee participated in the wintering party of the 33rd expedition.
2011 (53rd): Began construction of a new wastewater treatment facility.
2014 (56th): Rollout of the new wastewater treatment facility.
2018 (60th): Began construction of the Basic Observation Building.
2019 (61st): Completed construction of the Basic Observation Building.
2020 (62nd): Maintaining and managing major buildings of the Showa Base.

It took three years to construct the Basic Observation Building, which was completed in November 2019.

As of October 2021, two of our employees are seconded to the National Institute for Polar Research. One is currently stationed at the Showa Base as a member of the wintering party of the 62nd expedition, and another is scheduled to depart with the 63rd expedition team in November. While their role is to undertake construction operations to support members conducting the actual observations, their work is indispensable for maintaining the research expedition itself. Sanki Engineering will continue to contribute its human resources and technologies to this research project that has its sights on the future of the global environment.

Memories

Akihito Umezawa — 33rd Wintering Party

In retrospect, it was possible for me to become the first employee to tackle the waste issue of the Showa Base as a representative of the Company, despite being only a fourth-year employee at that time because I was fearless. Through a chance connection from my university days, I was able to participate in the Antarctic research expedition.

In fact, the peculiarity of the Antarctic environment was beyond my imagination, and it seemed to defy simple solutions. Even so, having participated as an engineer while trying to fulfill my assigned role, I was able to learn the process of decision-making, execution, and verification in relation to the essence of engineering. I feel that Sanki Engineering's continued involvement in the Antarctic research expedition has become part of its corporate culture and a key asset.

Yusuke Muramoto — 61st Wintering Party

I was able to take part in the Antarctic research expedition as a Sanki Engineering employee thanks to the constant challenges met by Mr. Umezawa and others that came before me. As a member of the 61st wintering party involved in activities at the Showa Base, I mainly worked outdoors during the summer that the sun does not set. During the winter, work mainly consisted of indoor facility management, and I kept busy by dealing with malfunctions and other issues. I will never forget setting foot on Antarctica and experiencing a world covered in ice. The Antarctic expedition is responsible for many missions, so the limited number of team members must handle tasks outside their respective areas of expertise. In the midst of this environment, I realized that I had to constantly challenge myself, even if I did not know how I could make it, by taking action and figuring out solutions along the way.

Social

Quality Control

Basic Principle

We will raise customer satisfaction and deliver new value for society by fully demonstrating the Sanki Engineering Group's comprehensive capabilities and proposal-making capabilities to provide products and high-quality systems that meet customer needs in each business area.

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
Two sites per year

Major Action Policy and Initiatives for FY2021

Conduct training and seminars toward preventing problems and complaints

Encourage employee proposals for labor-saving ideas in the construction process

FY2020 Results

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

Down 30 % from FY2019
(FY2019: down 31.6% from FY2018)

Evaluation: ◎

Number of sites introducing new labor-saving construction technologies

6 sites
(FY2019: 11 sites)

Evaluation: ◎

Level of progress made in FY2020 on goals set for FY2021
◎: Target achieved ○: On schedule to achieve the target △: Fell short of achieving the target

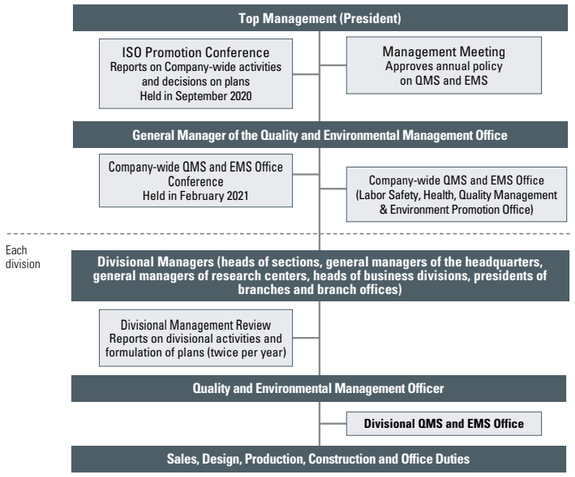
Initiatives to Ensure Quality

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 2020, we held discussions on revising the quality management procedures for the Facilities Construction Business toward improving construction quality during the Company-wide QMS and EMS Office Conference. In fiscal 2019, the quality management of a Sanki Engineering Group project was found to be out of compliance. This resulted in the temporary suspension of ISO 9001 certification at the relevant division and of ISO 14001 certification at the relevant Group company. In response to the incident, Sanki Engineering voluntarily suspended the use of its ISO 9001 and ISO 14001 certifications for six months from April 2020. We have taken further action to ensure the stringent execution of our quality management system. In fiscal 2020, we also implemented initiatives accompanying the expansion and relocation of divisions covered by the ISO certification.

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 Reflecting 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 2019, we received highly positive feedback from about 90%* of the 795 respondents. Looking ahead, we will continue to incorporate customer opinions into our operations to enhance construction quality.

Group Companies with ISO Certification

- ISO9001
  2 companies:
  Sanki Engineering Co., Ltd.
  Sanki Kankyo Service Co., Ltd.
- ISO14001
  3 companies:
  Sanki Engineering Co., Ltd.
  Sanki Kako Kensetsu Co., Ltd.
  Sanki Kankyo Service Co., Ltd.

Our Response to ISO 9001 and ISO 14001 Noncompliance (FY2019)

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

Reference

Major Activities in Fiscal 2020 (Environment Section)
Page 47

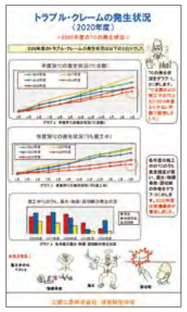
ISO 9001 Scope of Accreditation
https://www.sanki.co.jp/en/csr/social/quality/

*Calculated by regarding the following options in responses deemed as "highly positive feedback."
Facilities Construction Business: score of 4 ("Somewhat satisfied") or higher out of 5; Plants & Machinery Systems Business: score of 3 out of 3 ("High"); Environmental Systems Business: score of 70 points or higher out of 100

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, weekly bulletin (a weekly meeting of the Problems and Complaints Evaluation Committee, which is also attended by Group companies), and monthly bulletin, which not only reports the occurrence of issues but also discusses their causes, corrective measures, and preventive measures. In addition to efforts to share information, quality risk assessments are conducted by the Quality Risk Subcommittee set up under the Risk Management Committee. We are striving to prevent problems and complaints by identifying risks that may affect quality and quickly taking action.

We have been seeking to reduce the number of problems and complaints by setting qualitative targets and in fiscal 2020 reduced them by 30% (down 20 cases) year-on-year thanks to various measures related to providing onsite support. Looking ahead, we will bolster our measures to raise customer satisfaction.



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

Initiatives to Ensure Quality at Construction Sites

Improving Productivity and Maintaining High Quality

Sanki Engineering implements the Smile Site Plan, which creates a rewarding workplace to maintain high quality while satisfying both customers and the Company by reducing workloads at construction sites and creating effective working environments where staff can focus on their jobs.

Under the Smile Site Plan, we are leveling operations by establishing an operational support system for the processes of sales, design, procurement, construction management and quality management to improve productivity while maintaining high quality. We are simultaneously improving productivity and maintaining high quality with a particular focus on preventing rework, problems and complaints by verifying design and having pre-construction reviews before the work is started to avoid quality risks.

Reference
Feature 2
Promoting the Smile Project
Page 28

Initiatives for Design and Technical Operations

We are working on improving quality throughout the construction process from planning and design to completion. In design, we identify and resolve issues at an early stage by enhancing design reviews of design drawings, regardless of whether they are Sanki Engineering's drawings or those of other companies.

In technological management, we are facilitating onsite operations after the start of construction work by holding commencement discussions to decide on construction methods, procedures and policies that result in higher quality.

Moreover, we avoid falsifications and deficiencies in quality across all processes by having line staff and the Quality Control Center conduct stringent checks and follow-ups. We will continue to improve quality and hand down technical expertise by having highly skilled quality assurance administrators and technical experts conduct audits during and after construction, implement quality checks and corrections, and mentor junior employees.

Quality check by a quality assurance administrator

Initiatives on Design and Technical Operations at Construction Sites

Upon receiving orders	At the start of construction	During construction
Design Review Reviews led by the Design Division's Design Center and Quality Control Center Design to scrutinize construction operations from the aspects of cost and quality. Increase accuracy of design drawings.	**Commencement discussions** Conducted by divisions related to technology, onsite managers, divisions related to branches and branch offices, and the Quality Control Center. Check aspects concerning quality, construction work, costs, processes and safety and identify items requiring changes in specifications, and plan and instruct concrete measures, as well as consider design changes. Decide on a construction method (procedures).	**Construction audits** Confirmation of construction work, including design changes, is led by divisions related to technology, onsite managers, divisions related to branches including branch offices, and the Quality Control Center.
Quality Risk Assessment Conducted by the Quality Risk Subcommittee of the Risk Management Committee. Divisions related to technology and the Quality Control Center set the targets, identify and address quality risks.		**Completion audits** Check whether quality targets are being achieved, as well as instructions for corrections as needed.

Initiatives for Improving Quality by Promoting DX

We hope to raise the level of construction quality by promoting DX, such as ICT and BIM.

We established the BIM Promotion Center in April 2019 to launch our initiative for medium- to long-term use of BIM from the perspectives of making design drawings more precise and setting optimal construction periods. From here on, we will implement in-house education for promoting the use of BIM. In R&D, we will develop digital tools for design, construction and acceptance inspections in our drive to improve construction quality and promote work style reform by saving the labor required in construction work and alleviating the burden of management operations.

We also set up the DX Promotion Section in April 2021 to apply DX to operations across the Company, including construction sites, while also creating a comfortable workplace environment.

Digital Tools Developed by the Sanki Engineering Group

- **Automated robotic air flow meter**
  Automatic measurement of air flow from air conditioner vents.
  Expected to reduce man-hours by 75% compared to the conventionally used process.

Air-flow measurement by an automated robot

Enhancing Our Technologies

Technical Awards for Improving Construction Methods and Operational Processes

We began presenting awards in fiscal 2017 for excellent ideas that improve operational processes, such as raising efficiency, in addition to ideas that improve construction work. In fiscal 2020, we received 2,040 applications.

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. Due to the spread of COVID-19, in fiscal 2020 we conducted new employee training online for 2.5 months, including basic skills training and safety training.

We also conduct training for construction managers every three years, and the content is based on number of years of experience (not implemented in fiscal 2020 due to COVID-19). 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	FY2020		FY2021	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Professional engineers	98	106	**93**	**103**
Construction managing engineers (civil works/ construction/electrical construction/pipe-laying works)	1,142	1,327	**1,132**	**1,324**
Architect	40	45	**39**	**45**
Facilities construction architect	215	227	**205**	**215**
Electrical engineers	158	228	**160**	**229**
Chief electrical engineers	27	37	**27**	**38**
First class instrument engineers	298	309	**302**	**312**
Fire protection engineers	685	762	**688**	**767**
Qualified managing engineers	1,666	1,924	**1,655**	**1,939**

Note: Cumulative figures are shown for all qualifications.

Major Skill Development Activities for Fiscal 2020

Initiatives	Training	Details of Training	Results
Initiatives at the Sanki Techno Center	Training for new employees	• Seminar for new employees , basic skills training	60 participants
	Correspondence course for attaining qualifications	• Exam preparation for employees who want to be construction managing engineers and fire protection engineers	78 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	19 technical experts 1,044 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	16 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: 25 Chubu branch: 11 Kyushu branch office: 22 Hokkaido branch office: 2 Chugoku branch office: 3 Hokuriku branch office: 15

19th conference on electrical construction quality

Collaborating in the Industry through Open Technology

To the Aluminum 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 to play our role in ending the pandemic. We are contributing nine proprietary technologies deemed useful for preventing infections, such as our clean room units, which have been installed in medical and research facilities.

*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

Occupational Health and Safety

Occupational 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 Companywide 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.

Basic Health and Safety Principles
https://www.sanki.co.jp/en/csr/social/safety/

FY2021 Goals

Reduce the number of accidents

Target

Reduce by 20% year-on-year through cooperation among divisions (Sanki Engineering Co., Ltd. and business partners)

Implement the Accident Prevention Measures for Subcontractors

Target

Visits to subcontractors
Ratio of accidents involving inexperienced workers

Continuation of the Health and Safety Training

Target

Promote health and safety training sessions for employees and subcontractors

Major Action Policy and Initiatives for FY2021

Preventive measures and training for reducing accidents

Measures for preventing accidents involving inexperienced workers

Continuation of the Health and Safety Training

FY2020 Results

Number of accidents: (Sanki Engineering Co., Ltd. and business partners)

3 cases
(FY2019: 11 cases)

Evaluation: ◎

Ratio of accidents: involving inexperienced workers:

37 %
(FY2019: 41%)

Evaluation: ○

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

Health and Safety Training for employees and subcontractors **201** sessions
(FY2019: 227 sessions)

Evaluation: △

Level of progress made in FY2020 on goals set for FY2021
◎: Achieved ○: On schedule to achieve the target △: Behind schedule to meet the target

Health and Safety Environment of the Construction Industry

Given the continuing concerns about the COVID-19 pandemic situation, which could become worse, the construction industry is facing the need to carry over efforts from 2020 to reinforce strict adherence to measures for preventing infections at construction sites. The industry must also respond to persistent issues such as securing engineers and skilled workers, raising operational efficiency and productivity, reducing the risks of industrial accidents caused by the labor shortage and a decline in experienced workers, as well as addressing work style reforms including long working hours and mental health. 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 2020

Key Items Implemented in Fiscal 2020

In fiscal 2020, there were fewer accidents than in previous years. As in the previous fiscal year, however, there were occurrences of falls or tumbles and traffic accidents, which have been occurring with greater frequency every year. We are seeing an increase in accidents during commuting or work breaks as well, and while experienced workers in their 40s accounted for about 35% of all accidents, there was a decline in the proportion of workers with five years of experience or less. To reduce accidents, we sought to educate employees in fiscal 2020 by publishing a new compilation of accident case studies and disseminating an instructional video on safety and a health handbook.

Accident Case Studies 2020

Outline of Activities in Fiscal 2020: Policy of the Central Safety and Health Committee Chairperson

Slogan

Let's convey our safety culture. Each one of us is responsible for detecting hazards—Ensuring health and safety is the first step in building trust

Key Actions

Safety **1. Prevent accidents associated with repetitious tasks**
- Continuous implementation of SC30 measures
- Disseminate information tools for managers and workers
- Establish rules on the use of scaffolding materials and educate employees
- Implement systematic patrols
- Organize Joint Nationwide Disaster Liaison Meetings (provisional name)

2. Enhance partnerships
- Bolster collaboration with subcontractors
- Exchanging disaster information among Group companies
- Bolster site-support system

3. Provide education for raising reliability
- Education targeting younger (up to five-year) employees and mid-career (ten-year) employees based on training for foremen and safety managers for bolstering leadership skills.
- Provide health and safety education for employees of subcontractors

Health **1. Initiatives for health management** **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 11 domestic sites and 2 overseas sites. In fiscal 2020, the convention was held online due to the spread of COVID-19 and attended by the president and the Central Safety and Health Committee Chairperson. We also conduct special joint safety patrols, during which the president and directors tour 23 construction sites in the summer and before and after year-end.

Safety patrol by the president

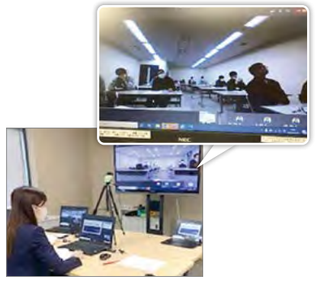
Health and Safety Training

For our own Group employees and for staff employed by subcontractors, Sanki Engineering provides training led by in-house instructors or at designated training institutes. Specifically, 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. In fiscal 2020, we introduced health and safety training according to the skills of individual employees on a trial basis and developed a foundation from which to expand the position-based program across Japan. As in the previous year, we focused on conducting special training sessions using full harness-type equipment with the aim of preventing falls, in view of regulatory revisions. Due to the spread of COVID-19, we shifted most of these training sessions online to effectively implement health and safety education.

Number of Participants in Health and Safety Training (Fiscal 2020)*

Type	Number of Participants (from Subcontractors)
Special education and other courses	1,486 (1,005)
Health and safety training for foremen	134 (112)
In-house health and safety training	187 (—)
Other client-focused training	811 (739)
Total	2,618 (1,856)

Instructional video on preventing falls to be viewed before using full harness-type equipment



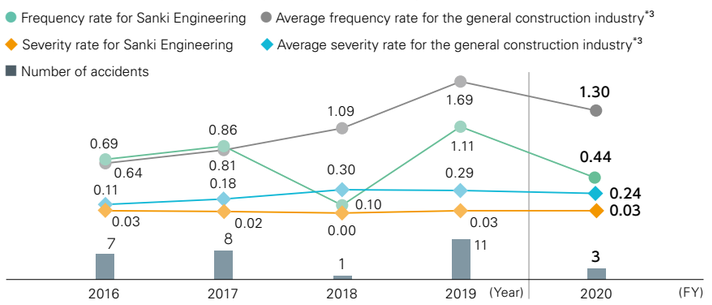
Online health and safety training

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

Accidents in Fiscal 2020

In 2020, 11 accidents occurred (3 lost workday accidents, 8 with no lost workdays), decreasing in number as well as severity compared with 2019. According to our analysis, this was the result of practices taking root among employees such as pointing and calling as well as safety checks before starting work. Meanwhile, most of the accidents involved shortcomings in work procedures, which will require a continuous effort to promote 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

Period: The data compilation period was changed from the calendar year to the fiscal year starting with fiscal 2020 results.

*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.

*3 Source: Survey on Industrial Accidents, Ministry of Health, Labor and Welfare

Action Policies for Fiscal 2021

In view of the latest developments in society and industry, contribution to the SDGs and ESG, and the types of accidents that occurred in 2020, we are focusing on the following key action areas for safety in fiscal 2021: (1) Prevent accidents associated with repetitious tasks, (2) Develop sustainable partnerships, and (3) Provide education for raising reliability based on the new methodology.

Social

Supply Chain

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 while at the same time fulfilling our social responsibility by following the Sanki Engineering Group Procurement Policies. We also uphold the Sanki Engineering Environmental Policy to promote environmentally sound procurement activities, including green procurement, as part of 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
Enhance the entire Procurement Web system	Continue exchanging opinions with business partners	Continuation of the Sanki Health and Safety Cooperative Association during the COVID-19 pandemic

Major Action Policy and Initiatives for FY2021

FY2020 Results

Percentage of digitized operations (non-consolidated)	Suspended due to the COVID-19 pandemic	Number of participants in the Sanki Health and Safety Cooperative Association
91% (FY2019: 88%)	(Number of companies we exchanged opinions with in FY2019: 26 companies)	11 in July, 30 in December (FY2019: 38 in July; 23 in December)
Evaluation: ◎	Evaluation: △	Evaluation: △

Level of progress made in FY2020 on goals set for FY2021
◎: Target achieved ○: On schedule to achieve the target △: Fell short of achieving the target

Building Fair, Equal and Transparent Business Relationships

Basic Philosophy

We established the Sanki Engineering Group Code of Conduct and Action Guidelines to engage in fair, equal and transparent transactions with all business partners. In April 2021, we formulated the Sanki Engineering Group Procurement Policy and have been seeking the compliance of all business partners.

Overview of Procurement

The procurement cost of materials and equipment used by Sanki Engineering for construction work is approximately 31.6 billion yen, with domestic suppliers representing the source for nearly all procurement. The impact of the COVID-19 pandemic on delivery has been negligible (as of August 2021).

Thoroughly Ensuring Fair and Transparent Transactions

To build and maintain fair, equal and transparent relationships with our business partners, we develop and distribute an order procedure manual that prohibits the abuse of a superior bargaining position and strive to ensure thorough compliance by providing employee education each year. Upon starting business with a new company, such as a construction subcontractor, materials manufacturer, agent, or expense-related business partner, we assign a business partner code based on objective standards covering various areas, including the registration status of quality and environmental management systems, financial conditions, procurement track records, delivery, pricing, and response to problems and complaints. In addition, the provisions of a basic sales contract include product safety, quality control, intellectual property, legal compliance, and the exclusion of anti-social forces.

Execution of Action Plans

Reducing costs and improving our profit ratio are important initiatives in our new medium-term management plan, and to this end we helped negotiate prices for the entire Company and manage Company-wide procurement information through centralized purchasing and the sharing of our findings through in-house price surveys. In digitizing the ordering process and claim forms for completed work, we added an in-house function for using iPads for acceptance inspections on the Procurement Web. We held introduction briefings for our business partners and created an instruction manual. We continued to expand digitization by following up with our business partners in fiscal 2020. As a result, the number of digitally processed forms now accounts for about 91% of all orders. In addition, we sought to further boost operational efficiency by incorporating cloud-based ordering, as we had done for processing claim forms for completed work, at the requests of our business partners.

Exchange of Views with Business Partners

We exchange views with Procurement Web users at our major business partners. In fiscal 2020, we sought to prevent the spread of COVID-19 by suspending visits by our procurement department staff to specialty contractors, suppliers and agents to exchange views. In fiscal 2021, we will develop an optimal procurement environment by using web conferencing to exchange views.

Procurement Policies (excerpt)

1. Fair Market Competition and Trading
2. Protection of the Global Environment
3. Contribution to Society Through Business Activity
4. Respect for Human Rights
5. Information Security Risk Management
6. Construct a partnerships

Sanki Engineering Group Procurement Policies

Procurement website

Exchange of views with business partners in fiscal 2019

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 (FY2020)

Theme	Content	Results
General procurement	• Effective use of database • Evaluation checklist for specialty construction • OJT for calculating the procurement target	176 sessions 1,268 participants
Other basic knowledge	• Basic knowledge about accounting • Compliance • How to read financial statements	3 sessions 48 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
P. 84

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
- HVAC 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.

The Sanki Health and Safety Cooperative Association meets twice a year. In fiscal 2020, we held the meetings online due to the spread of COVID-19, and a total of three meetings were conducted to encourage an active exchange of views. Led by subcontractors directly involved in construction, the meeting is expected to raise awareness about disaster prevention. In fiscal 2020, the meetings were attended by a total of 55 employees from our Group and 52 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.

Online national meeting of Sanki Health and Safety Cooperative Association

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.

Number of Sanki Super Meister Award Recipients

- FY2019: 18
- FY2020: 17

Number of Sanki Best Partner Award Recipients

- FY2019: 145
- FY2020: 172

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.

Technical Guidance in Collaboration with Subcontractors

Our new employee training includes technical guidance offered by subcontractors, while the Sanki Techno Center is used to train the new hires and mid-career employees of subcontractors. This collaborative approach to training helps us to maintain cooperative relationships with subcontractors. (Since fiscal 2020, training has not been conducted due to the COVID-19 pandemic).

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 supporting the cash flow of subcontractors that constitute important stakeholders. Also, we support the stable management of subcontractors to pursue sustainable growth together.

VOICE

Practicing Safety First, Even During the Pandemic

As the COVID-19 pandemic places considerable limitations on in-person communication, Sanki Engineering has maintained the stance that enhancing partnerships is a key for safety. We have therefore conducted both safety training and the biannual Sanki Health and Safety Cooperative Association's meetings online. I believe these efforts have encouraged an active exchange of information and two-way communication, resulting in concrete improvements to our partnerships and bolstering the level of our safety management.

Thanks to the efforts, the Cooperative Association was able to proceed with operations with a sense of security.

Mr. Hisanori Nose President, Fukutani Seisakusho, LLC. Chairman, Kyushu Sanki Health and Safety Cooperative Association

Social

Human Resources

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 working environment and human resource development.

Smile Work Guideline
https://www.sanki.co.jp/en/csr/social/smile-project/

FY2021 Goals

Improve internal communication

Target

Strengthen the system for gathering employee feedback

Balance work and life through the Smile Project

Target

Monitor and take action according to the situation
Average monthly overtime work per person
Rate of paid leave taken 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

FY2020 Results

Opinion exchange session with the president (President CCU)

13 times with a total of 80 participants

Evaluation: ◯

Rate of paid leave taken per person (consolidated)

55.3%

(FY2019: 57.4%)

Evaluation: △

Average monthly overtime work per person (consolidated)

29.0 hours

(FY2019: 34.3 hours)

Evaluation: ◯

Level of progress made in FY2020 on goals set for FY2021
◎: Target achieved ◯: On schedule to achieve the target △: Fell short of achieving the target

Promoting Diversity

We believe 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 84

Reference
Compliance Awareness Survey
Page 86

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, 2021, 27 employees (6 women and 21 men) from China, Peru, South Korea, Thailand, Vietnam, the U.K., and Russia are working with us. 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. With the results of fiscal 2020, we have set new action plan targets that start in fiscal 2021.

Action Plan Based on the Act for Promoting Women's Careers
Plan period: April 1, 2016 to March 31, 2021

	Goals	Results (as of April 1, 2021, non-consolidated)
1	**Increase the average length of service for women by 20% or more from now.**	13.5 years (9.0% increased)
2	**Double the current ratio of female career-track employees in the sales department.**	7.1% (1.05 times increased)
3	**Raise the ratio of women in managerial positions* to the construction industry average of 1%.**	0.9%

Action Plan Based on the Act for Promoting Women's Careers
Plan period: April 1, 2021 to March 31, 2026

- Increase the average length of service for women by 10% from April, 2021.
- Raise the ratio of women in management positions to 3% (average of construction industry).

*Calculated by using the number excluding the section chief, and therefore differing from the "number of managers" referred to on page 71

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, 2021, there are 66 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 1.99% and 1.77% on a non-consolidated and consolidated basis, respectively. As of June 2021, the employment ratio of persons with disabilities was 2.10% on a non-consolidated basis.

In recruiting, we expanded our channels and at the same time matched applicants with each department and provided care upon acceptance. Also, in order to retain human resources, we hold problem-solving seminars, opinion exchange sessions, and management training to promote understanding among managers, for employees who are hearing-impaired. In addition, we are promoting the improvement of our working environment so that all employees can play an active role by, for example, installing lamps in all offices that bear evacuation instructions for hearing-impaired employees in the event of a disaster and by providing closed captioned presentations at safety education and financial results briefings.

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 2020, we reemployed 224 retired employees on a consolidated basis.

As of June 2021
Employment rate of persons with disabilities (non-consolidated)

2.10%

Developing and Evaluating Human Resources

Personnel System 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.

We introduced an early career system for young employees to provide them with experiences in different jobs early on in their career development. We also 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 department, depending on the content of the sheet. These measures are offered separately from the evaluation system.

In addition, we strategically appoint diverse human resources as core employees. As of March 31, 2020, 145 mid-career hires on a consolidated basis were in management positions.

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.

We take advantage of the Sanki Technology Center to conduct various training programs.

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

In fiscal 2021, we also conducted online training sessions for new employee using methods consistent with online training, such as increasing the use of groups to work with each other than in the previous fiscal year to encourage communication among new employees.

Online New employee Training

Average education and training costs per employee in FY2020 (consolidated)

61,000 yen/year

*The cost was decreased as a result of the shift to online training and events not held in response to the COVID-19 pandemic. (90,000 yen in FY2019)

Training Systems

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

Creating a Working Environment that Reflects Employee Feedback

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 2020, in consideration of preventing the spread of COVID-19, we held the third President's CCU, a dialogue between the president and employees, online. Over 13 sessions, about 80 employees participated, and their opinions and proposals have been applied toward making improvements in our operations and systems.

In fiscal 2020, we also conducted a survey questionnaire on the working environment among our employees. For the item on employee awareness, 70% of the employees felt that the Group's business is useful to society*. We will consider introducing measures based on the results of the survey questionnaire.

Sound Employer-Employee Relationships

The Human Resources Department and employees union at Sanki Engineering meet monthly to discuss improvements in the working 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 and have been implementing measures based on the dialogues.

President's CCU using VR

*The percentage of employees who chose the "Sanki Engineering Group is contributing to society" option to the question "Please choose the option(s) below with which you agree. (Multiple answers allowed.)"

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.

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 addition, we are promoting improvement of the environment that enables flexible work styles by reviewing our work and leave programs. 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 employee training online.

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

In 2015 Sanki Engineering was 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.

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 worked on efforts to lessen the operational load of construction managers and enhance capabilities and quality at our construction sites. In fiscal 2020, we launched the Smile Plan, consisting of four subcommittees, to establish a system that enables all departments to work together as one. As a result of these efforts, we were certified as 3 of 5 stars in the 4th 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.

FY2020 rate of paid leave taken (consolidated)

55.3%

Average monthly overtime work per person (consolidated)

29.0 hours

The Kurumin mark for support of raising next-generation children

City of Nagoya certification for companies supporting childcare

Certified as 3 stars in the NIKKEI Smart Work Management Survey

Reference

Feature 2
Promoting the Smile Project
Page 28

VOICE Aiming to Be a Company Where All Employees Smile

Since the launch of the Smile Project, we have focused on raising employee awareness and improving our leave programs. As a result, we have increased employee awareness of "taking leave" and promoted the improvement of the leave programs. In fiscal 2021, under our new slogan "Let's do our best to live a prosperous life," meaning that we are striving to be a company where each employee can do their best in their position and smile, we are promoting work style reform to solve the problem of long working hours, mainly for employees working at specific sites.

Yuichiro Higuchi Manager of Personnel Section, Human Resources Department, General Affairs and Human Resources Division

Major Programs Supporting Work-Life Balance (Non-consolidated) (as of April 2021)

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	Aims to improve operational efficiency and business continuity during childcare and nursing care or in the event of emergencies such as natural disasters and pandemics.
	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.

Number of Employees on Leave and Work Hours

		FY2016			FY2017			FY2018			FY2019			FY2020		
		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Childcare leave	Consolidated	1	15	16	2	18	20	7	11	18	9	27	36	7	**33**	**40**
	Non-consolidated	1	12	13	2	14	16	7	9	16	7	24	31	7	**27**	**34**
Reinstatement after childcare leave (%)	Consolidated			—	100.0	100.0	100.0	100.0	88.9	93.8	100	96.3	97.2	**100.0**	**100.0**	**100.0**
	Non-consolidated			—	100.0	100.0	100.0	100.0	88.9	93.8	100	100	100	**100.0**	**100.0**	**100.0**
Nursing care leave	Consolidated	0	0	0	0	0	0	1	0	1	1	1	2	**0**	**0**	**0**
	Non-consolidated	0	0	0	0	0	0	0	0	0	0	0	0	**0**	**0**	**0**
Rate of paid leave taken (%)	Consolidated			—			—	54.0	76.1	57.1	54.3	76.3	57.4	**53.4**	**67.1**	**55.3**
	Non-consolidated	47.6	69.5	50.5	49.9	78.2	53.7	53.0	74.2	55.9	51.9	74.4	55.1	**52.5**	**65.8**	**54.5**
Average monthly overtime work (hours per person)	Consolidated	—	—	—	—	—	—	—	—	—	37.4	14.7	34.3	**31.7**	**12.3**	**29.0**
	Non-consolidated	30.6	13.8	28.3	31.2	13.3	28.6	35.0	14.7	32.0	34.5	13.6	31.3	**33.0**	**13.3**	**29.9**

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

		FY2016			FY2017			FY2018			FY2019			FY2020		
		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Number of employees	Consolidated	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)	**2,190 (643)**	**358 (8)**	**2,548 (651)**
	Non-consolidated	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)	**1,740 (527)**	**308 (4)**	**2,048 (531)**
Average age	Consolidated	—	—	—	—	—	—	44.5	38.2	43.7	44.7	38.3	43.8	**44.7**	**38.8**	**43.8**
	Non-consolidated	43.8	36.5	42.8	43.8	36.3	42.8	43.9	37.1	43.0	44.1	37.6	43.2	**44.2**	**38.0**	**43.2**
Average years of service	Consolidated	—	—	—	—	—	—	17.3	13.0	16.7	17.3	12.9	16.7	**17.5**	**13.2**	**16.9**
	Non-consolidated	19.0	13.3	18.2	18.8	13.2	18.0	19.0	13.9	18.3	19.3	14.1	18.5	**19.4**	**14.0**	**18.6**
Number of new recruits	Consolidated	81	20	101	105	21	126	106	17	123	102	28	130	**99**	**31**	**130**
	Non-consolidated	60	16	76	88	21	109	75	11	86	74	23	97	**75**	**27**	**102**
Number of rehired employees after retirement	Consolidated	235	5	240	217	5	222	223	9	232	229	11	240	**212**	**12**	**224**
	Non-consolidated	183	4	187	164	3	167	161	5	166	169	8	177	**173**	**9**	**182**
Ratio of people with disabilities*1 (%)	Consolidated	—	—	—	—	—	—	—	—	1.89	—	—	1.94	—	—	**1.77**
	Non-consolidated	—	—	1.69	—	—	1.78	—	—	1.93	—	—	1.97	—	—	**1.99**
Turnover rate due to personal reasons*2 (%)	Consolidated	—	—	—	—	—	—	—	—	—	—	—	—	**1.7**	**2.2**	**1.8**
	Non-consolidated	—	—	—	—	—	—	—	—	—	—	—	—	**1.5**	**1.6**	**1.5**

*1 As of June 1 of each fiscal year
*2 Ratio of retired employees to the total number of employees in each fiscal year

Figures in parentheses indicate the number of managers.

Employees by Age (as of March 31, 2021)

	10s			20s			30s			40s			50s			60s			70s			Total
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	
Consolidated	0	1	1	368	97	465	466	106	572	519	98	617	560	41	601	250	14	264	27	1	28	**2,548**
Non-consolidated	0	1	1	324	93	417	383	90	473	381	79	460	451	35	486	180	9	189	21	1	22	**2,048**

Social

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 FY2021		
Participate in regional disaster prevention activities	Plan and implement support for cultural activities	Participate in environmental beautification activities
FY2020 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 2021 with Japanese Tsugaru Shamisen"	Conducted activities at 33 sites (FY2019: 41 sites)
		Evaluation: △

Level of progress made in FY2020 on goals set for FY2021
◎: Target achieved ○: On schedule to achieve the target △: Fell short of achieving the target

Afforestation and Arboriculture Activities at the Sanki Forest and Kansha-no-Mori

We have been planting and nurturing trees at the Sanki Forest in Kai City, Yamanashi Prefecture, since 2015, when we planted a thousand trees there to commemorate the 90th anniversary of our founding. In October 2020, we created and planted trees at a new location, called the "Kansha-no-Mori" adjacent to the Sanki Forest to commemorate the tenth anniversary of our "SANKI YOU Eco Contribution Points" system.

Commemorative tree planting at the Sanki Forest

Coordination with Local Communities

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

In fiscal 2013, we concluded an agreement with Yamato City, Kanagawa Prefecture, to provide the Sanki Techno Center as a temporary shelter for those unable to return home in the wake of a disaster. The center functions to serve regional disaster prevention such as by stockpiling supplies, including emergency food and Japanese-style futon bedding. In fiscal 2020, we signed a new agreement that allows the center to be used as an operation base for emergency firefighting teams gathered from across Japan in the event of an earthquake or other large-scale disaster. And we 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. In addition, in response to a request from the Yamato City Government, we have been providing safety training for its staff since fiscal 2019.

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 2020, employees of Group company Sanki Kako Kensetsu conducted a cleaning campaign along roads near the waste treatment facility, which the company operates and manages. In addition, employees of Sanki Kankyo Service cleaned the streets near water treatment and other facilities. On a Group-wide basis, we carried out activities in more than 33 local communities.

Earthquake Reconstruction Project

In May 2012, the year following the Great East Japan Earthquake, 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 infrastructure. Today, we have expanded from our initial business activities to embodying new ventures and engaging in social contribution activities.

In fiscal 2020, during the COVID-19 pandemic, we held a concert called "Kizuna 2021 with Japanese Tsugaru Shamisen" and posted a video of the event on our official YouTube channel with prayers for recovery from the Great East Japan Earthquake. In addition, we visited the Hamadori area of Fukushima Prefecture to preserve the memory of the earthquake disaster and support reconstruction. We also provided boxed lunches containing ingredients from the Tohoku region at the cafeteria of the Sanki Techno Center as part of our in-house "Supporting Tohoku Reconstruction! Gift from Tohoku" project in coordination with "Let's Eat to Provide Support!"—an initiative by

Great East Japan Earthquake reconstruction concert "Kizuna 2021 with Japanese Tsugaru Shamisen"

the Food Industry Affairs Bureau of the Ministry of Agriculture, Forestry and Fisheries. Going forward, we will continue to provide recovery support as a corporate citizen.

Supporting the Development of the Next Generation

Opening the Sanki Environmental Garden to the Local Public

The Sanki Environmental Garden, adjacent to the Sanki Techno Center, is open round the clock to the local community, providing a place for many children from neighboring daycare centers to play. In January 2021, almost two years after it opened, the number of visitors reached 20,000. 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 actively invites elementary school children for field trips at its offices and water purification plant.

In June 2020, the Suttsu office in Hokkaido received 17 students from Suttsu Elementary School. In September, the Imakane office in the same prefecture welcomed 38 students from Imakane and Tanekawa Elementary Schools. In addition, the Suttsu office in Hokkaido welcomed nine students from Oshoro Elementary School in October, and the students learned about the role and workings of the sewerage system. We also organize facility tours for local residents.

Support for Sports Promotion and Revitalization

Since 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 the final game of the 2020 Plenus Nadeshiko League Division 2 in November, we held the Sanki Match Day at Yamato Nadeshiko Stadium as part of our contribution to the local community. The team won a splendid victory and was promoted to Division 1.

We also sponsor the non-profit organization Japan Deaf Rugby Football Union (Deaf Rugby), Japan Handball Association, and East Hokkaido Cranes, an ice hockey team in Kushiro City, Hokkaido Prefecture. Going forward, we will continue to contribute to society by supporting sports while at the same time promoting the creation of a working environment that encourages employees to proactively engage with local communities.

Yamato Sylphid women's soccer team on Sanki Match Day in 2019

East Hokkaido Cranes

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 nature conservation activities in developing countries in the Asia-Pacific region and other areas as well as 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.

Governance

Corporate Governance

Corporate Governance Guidelines

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

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

Corporate Governance System

Corporate Governance System

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

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

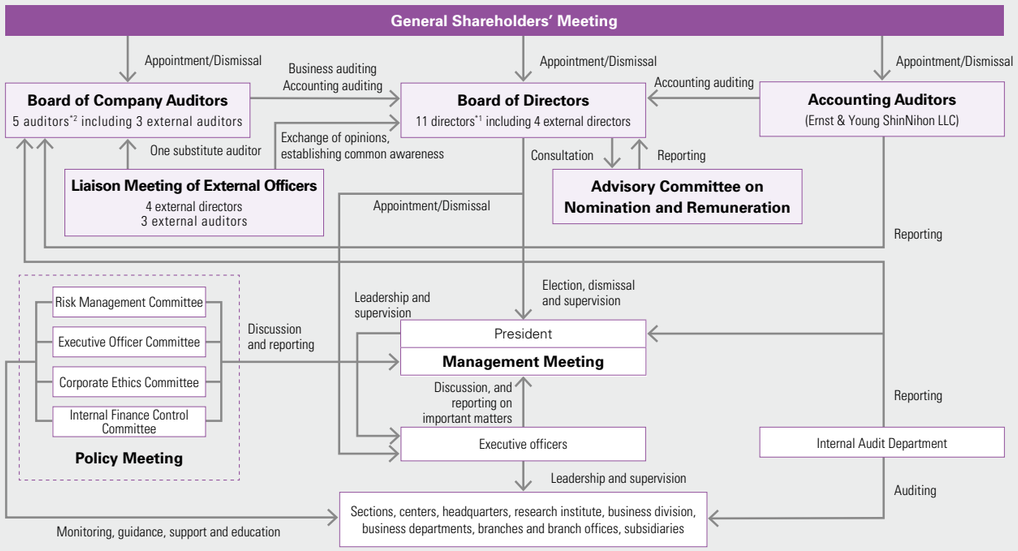
Summary of the Corporate Governance System (as of June 23, 2021)

	Number of Persons
Chairman of the Board of Directors	External Directors
Directors (women)	11 (0)
External directors (independent directors)	4 (4)
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 (FY2020)

Meeting	Frequency	Average Attendance of External Officers
Board of Directors	12	98.5%
Board of Auditors	8	100%
Management Meeting	31	– (attended by only internal officers)

Corporate Governance System (as of June 23, 2021)



*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.

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.

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, Internal Audit Department, and 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 execution departments 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.

Advisory Committee on Nomination and Remuneration
This committee, which meets as needed, consists solely of external directors and deliberates on the nomination and remuneration of candidates for directors.

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.

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 committee 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 implementation plans for the pervasion 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, assuming a central role in Group-wide control, including review and decision-making concerning important matters regarding internal controls for financial reporting.

Risk Management Committee
The committee consists of members of the Management Meeting and chairpersons of various subcommittees appointed by the executive officer in charge of risk management. It meets four times a year and oversees risk management for the entire Group. Currently, the executive officer in charge of risk management is the president.

Compliance with the Corporate Governance Code

The principles required to be disclosed in the Corporate Governance Code*1 are as follows.

Principle		Guideline*2	Disclosed Location	
			Website*3	Report*4
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 2-6	Roles of corporate pension funds as asset owners	Article 16	—	●
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	—	●

Strengthening the Effectiveness of the Governance System

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

Efforts in Fiscal 2021

Response to the Revised Corporate Governance Code

In response to the 2021 revision of the Corporate Governance Code, we increased the number of external directors from three to four to raise the ratio of external directors to the total number of directors to over one-third. Preparation for launching the Sustainability Committee, consisting of directors, is also underway.

*1 Version 2018
*2 Company's Corporate Governance Guidelines
*3 Company's website
*4 Company's Corporate Governance Report

Sanki Engineering Corporate Governance Guidelines

Corporate Governance Report (in Japanese)

Efforts to Date

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.

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.

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 effectiveness of overall governance and disclosing a summary of the results. In fiscal 2020, we conducted a non-anonymous self-assessment questionnaire to evaluate the effectiveness of the Board of Directors for all directors and auditors and exchanged opinions on the evaluation. The Board of Directors discussed issues identified from analyzing the results of these questionnaires and the exchange of opinions as well as improvements to be made and the future direction.

Overview of FY2020 Effectiveness Assessment

Issues identified	The issues extracted from the results of the self-assessment questionnaire and opinion exchange meetings are as follows. (1) Proactively express opinions from a Company-wide perspective on agenda items outside the area of responsibility (2) Enhance the provision of information on the progress of discussions and opinions at management meetings (3) Devise ways to secure time for discussion such as by omitting explanations for some agenda items (4) Determine how the Advisory Committee on Nomination and Remuneration should provide information including the status of deliberations to the Board of Directors (5) Ensure that external directors have opportunities such as construction site visits (6) Make materials easy to understand
Future initiatives	Measures and future direction to improve the issues identified are as follows. (1) Find ways to create time for discussions (2) Provide information on discussions at the management meetings (3) Promote information sharing with the Advisory Committee on Nomination and Remuneration (4) Provide more internal information to external directors (including site visits) (5) Devise ways to prepare materials (6) Enhance discussions on management plans (7) Enhance discussions on sustainability

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*1	Yukiteru Yamamoto	●	7 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.
	Kazuhiko Kashikura	●	3 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.
	Keiji Kono	●	—*2	Mr. Keiji Kono, as a financial specialist, has held managerial positions in major departments of the Bank of Japan. He has also served as an executive officer at Chugai Pharmaceutical Co., Ltd., where he managed the IT management department as the head of the division and promoted social contribution activities overseas. He thus possesses a wide range of knowledge and experience in those fields. The Company selected Mr. Kono as an external director for his experience and insight developed through this background.
	Akihiko Matsuda	●	—*2	Mr. Akihiko Matsuda has served as an executive officer of Tokyo Gas Co., Ltd. and has managed several of its group companies as a top executive. He thus has a wealth of experience and a wide range of insight across all aspects of energy-related businesses. The Company selected Mr. Matsuda as an external director for his experience and insight developed through this background.
External Auditors*1	Shozo Fujita	●	3 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	●	2 years	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	●	2 years	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.

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 remuneration. To strengthen the transparency and neutrality of the committee, we revised the composition in fiscal 2020, from a structure consisting of the president and external directors to one consisting 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 elements, in order to raise the level of motivation for maximizing corporate value in tandem with the long-term interests of shareholders.

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

*1 All external directors and external auditors are independent.
*2 Appointed as an external director of the Company in June 2021.

Composition of the Advisory Committee on Nomination and Remuneration
- Individuals who provide explanations:
  - President
  - Directors appointed by the president and committee members as necessary
- Committee (report): all external directors

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

Elements and Procedures for Remuneration for Directors and Auditors (as of June 23, 2021)

Category	Fixed Remuneration	Bonus	Stock Options	Procedure
Directors (excluding external directors)	○	○	○ Excluding non-operational 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 2020

Category	Persons Receiving Payment	Total Payment (Millions of Yen)
Directors (external directors)	14 (3)	557 (61)
Auditors (external auditors)	6 (3)	109 (36)

*The number of officers covered includes four directors as well as an auditor who retired at the conclusion of the 96th Annual General Meeting of Shareholders on June 25, 2020.

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 while also supervising to ensure the proper 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 information.

• 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 operation 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 accounting 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 2020, 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 84

Message from the Chair of the Board of Directors

Yukiteru Yamamoto
External Director

I am aware that as external directors, we are expected to support management from an independent viewpoint to meet the expectations of all stakeholders, including shareholders, and to sustainably raise our corporate value. Corporate common wisdom may differ somewhat from the public's common sense. Although many longstanding managers have diligently and sincerely adopted the Sanki Standard, at some points circumstances may nevertheless arise that reveal that some may be unknowingly relying too much on corporate wisdom and attitudes. That is why I steadfastly focus on my responsibility to maintain an objective viewpoint and proactively express my opinions from the perspectives of shareholders and the public.

During the seven years since I took office as an external director in 2014, the Company has reformed the Board of Directors in a variety of ways. For instance, it has strengthened its governance system in compliance with Japan's Corporate Governance Code, which has been in effect since fiscal 2015. It has also increased the number of its external officers and held liaison meetings of external officers while implementing measures to enhance the board's effectiveness. As pointed out in the recent evaluation of board effectiveness, some issues remain to be addressed, such as the lack of comments from internal directors on areas outside of their responsibilities, the relatively few opportunities for external officers to visit sites, and insufficient information on the progress of deliberations at management meetings. Even so, I feel that we are making steady progress.

As an external director, I was appointed chair of the Board of Directors on June 25, 2020, and I understand this appointment to be part of the reforms we have been advancing for some time. Since the board is in a position to supervise the execution of operations by management, the appointment of an independent external director as chair of the board must be of great significance. Even so, it makes no sense if the board does not function effectively and proactively. As the chair, I intend to encourage as many members as possible to express their opinions and to strive to enhance deliberations and make meetings more effective. I am also working with the secretariat to improve the ways meetings are run, such as by explaining items more concisely and creating more opportunities to present agenda items in advance.

In the current fiscal year, we will start discussions on the formulation of Phase 3 of our Medium-term Management Plan, the last four years of our long-term vision "Century 2025." This is an important plan that will determine the next 100 years of the Group. I believe that the Board of Directors has a vital role to play in discussing the overall vision for our medium- to long-term direction and growth strategies. Thanks in part to the impact of the quarterly liaison meetings of external directors, we have been able to effectively share issues and establish a relationship of trust with management. We will all work in concert to contribute to the sustainable development of Sanki Engineering.

Executives of the Sanki Engineering Group (as of June 23, 2021)

External

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.

Apr. 1975	Joined Sanki Engineering Co. Ltd.
Apr. 2020	Appointed as representative director and chairman of the Company (current positions)

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.

Apr. 1983	Joined Sanki Engineering Co., Ltd.
Apr. 2020	Appointed as representative director and president of the Company (current positions)

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.

Apr. 1972	Joined Sanki Engineering Co., Ltd.
Jun. 2017	Appointed as director, senior executive officer and general manager of the Mechanical & Electrical Contracting Headquarters of the Company (current positions)

Director
Masayuki Kudo

Joined the Company in 1985. After gaining experience as an engineer in the Facilities Construction Business, including many overseas assignments, he served as general manager of the Facility Systems Division. He has been in his current position since 2021.

Apr. 1985	Joined Sanki Engineering Co., Ltd.
Apr. 2021	Appointed as director, senior executive officer, general manager of CSR Promotion Division (current positions)

Director
Kazuaki Iijima

Joined the Company in 1984. Engaged in research and development and an energy conservation-related business, and he served as head of the R&D Center in 2018. He has been in his current position since 2021.

Apr. 1984	Joined Sanki Engineering Co., Ltd.
Jun. 2021	Appointed as director, managing executive officer, and general manager of Plants & Machinery Systems Business Division (current positions)

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.

Apr. 1982	Joined Sanki Engineering Co., Ltd.
Jun. 2020	Appointed as director, senior executive officer, general manager of General Affairs and Human Resources Division (current positions)

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.

Apr. 1984	Joined Sanki Engineering Co., Ltd.
Jun. 2020	Appointed as director, executive officer, general manager of the Accounting Division, and chief financial officer of the Company (current positions)

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.

Apr. 1977	Joined Mitsui Mutual Life Insurance Company
Jun. 2020	Appointed as director and chair of the Board of Directors of Sanki Engineering Co., Ltd.

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.

Apr. 1977	Joined The Mitsui Bank, Ltd.
Jun. 2018	Appointed as external director of Sanki Engineering Co. Ltd.

External Director
Keiji Kono

Held managerial positions in major departments of the Bank of Japan. From 2010, he served as an executive officer at Chugai Pharmaceutical Co., Ltd., and he has been in his current position since 2021.

Apr. 1980	Joined the Bank of Japan
Jun. 2021	Appointed as external director of Sanki Engineering Co. Ltd.

External Director
Akihiko Matsuda

Served as an executive officer of Tokyo Gas Co., Ltd. and managed several of its group companies as a top executive. He has been in his current position since 2021.

Apr. 1985	Joined Tokyo Gas Co. Ltd.
Jun. 2021	Appointed as external director of the Company (current position)

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.

Apr. 1970	Joined Sanki Engineering Co., Ltd.
Jun. 2018	Appointed as full-time auditor of the Company (current position)

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.

Apr. 1974	Joined Sanki Engineering Co., Ltd.
Jun. 2020	Appointed as full-time auditor of the Company (current position)

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.

Apr. 1976	Became a prosecutor
Jun. 2018	Appointed as external auditor of Sanki Engineering Co., Ltd. (current position)
Feb. 2019	Opened Shozo Fujita Law Firm (current position)

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.

Apr. 1970	Began working at Surgical Department I, Faculty of Medicine, The University of Tokyo
Jun. 2019	Appointed as external auditor of the Company (current position)

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.

Apr. 1972	Joined Taisho Marine & Fire Insurance Co., Ltd.
Jun. 2019	Appointed as external auditor of the Company
Apr. 2020	Appointed as special advisor to Mitsui Sumitomo Insurance Company (current position)

Governance

Compliance

Basic Philosophy

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

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

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
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Compliance Promotion Activities

● Whistleblowing System

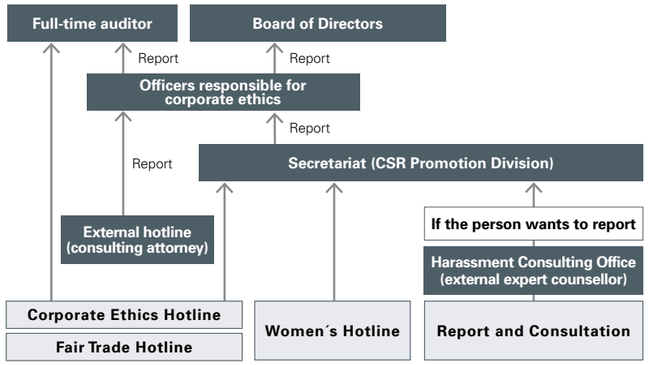
We set up the Corporate Ethics Hotline for reporting on compliance-related issues and the Fair Trade Hotline for reporting on violations of the Anti-Monopoly Act as well as the Women's Hotline, which accepts consultations from women, and the Harassment Consulting Office. The internal hotlines go to the full-time auditor and CSR Promotion Division, while the external hotlines go 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 2020, there were 10 reported incidents (9 internally and 1 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 the Sanki Engineering Group Compliance Handbook to raise awareness of the system throughout the entire Group. The hotline is also available to business partners, and the Company provides contact information.

Number of Reports in Fiscal 2020

- Corporate Ethics Hotline: 9
- Fair Trade Hotline: 0
- Women's Hotline: 0
- Harassment Consulting Office: 1

Whistleblowing System



● Compliance Confirmation Sheets from All Executives and Employees

In order for all Group executives and employees to refresh their awareness 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 People Submitting Compliance Confirmation Sheets (Fiscal 2021)

	Sanki Engineering (Target Employees)	Group companies (Target Employees)
Compliance confirmation sheets concerning performance of duties*1	40 (40)	38 (38)
Compliance confirmation sheets*2	2,120 (2,146)	439 (476)

*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.

● Response to Antisocial Forces

We clearly state to our business partners that we will sever any relationships with antisocial forces as a condition of doing business, and we will ask them to submit a "Letter of Intent Regarding the Elimination of Antisocial Forces." As of March 31, 2021, we have received the letter from a cumulative total of 3,845 companies.

● 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 special separate training when mid-career hires join the Company and new sales representatives are appointed.

Results of Corporate Ethics Training (Fiscal 2020)

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	10 sessions 2,598 employees (99%)*
	Mid-career hires	13 employees (100%)
Compliance with the Anti-Monopoly Act	Newly assigned sales staff	21 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.

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

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

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

Yes.	40%
Somewhat.	54%
I'm leaning toward "no" here.	5%

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.	73%
It seems easy to take various kinds of leaves.	60%
Your supervisor is willing to listen to opinions and suggestions.	54%

Q What do you think is important for creating a workplace where compliance violations are less likely to occur? (Multiple answers are allowed.)

Improving personal morale and awareness	79%
Improving communication in the workplace	50%
Improving the organizational climate	26%

*1 These were the top three answers.

Harassment Prevention Efforts

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. We also hold study sessions on remote harassment, which has become a concern due to the introduction of telework.

Compliance Audit

The Internal Audit Department seeks to strengthen compliance by providing guidance on audits. In fiscal 2020, internal audits were carried out at 19 worksites including 17 domestic worksites and 2 domestic subsidiaries. In addition, to foster compliance awareness at our construction sites, we visited sites and conducted hearings with site managers via web conferencing.

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 provide e-learning to all employees.

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 2020. 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 2021.

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 the 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 division 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 special training on the Anti-Monopoly Act for newly assigned sales staff and mid-career hires
- Conducted e-learning on the Anti-Monopoly Act for all employees

Respecting Human Rights

As globalization advances, 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 and the Sanki Engineering Group Procurement Policies. We also request that our business partners do the same through documents and by other means.

Sanki Engineering Group Code of Conduct and Action Guidelines

Sanki Engineering Group Procurement Policies

Governance

Risk Management

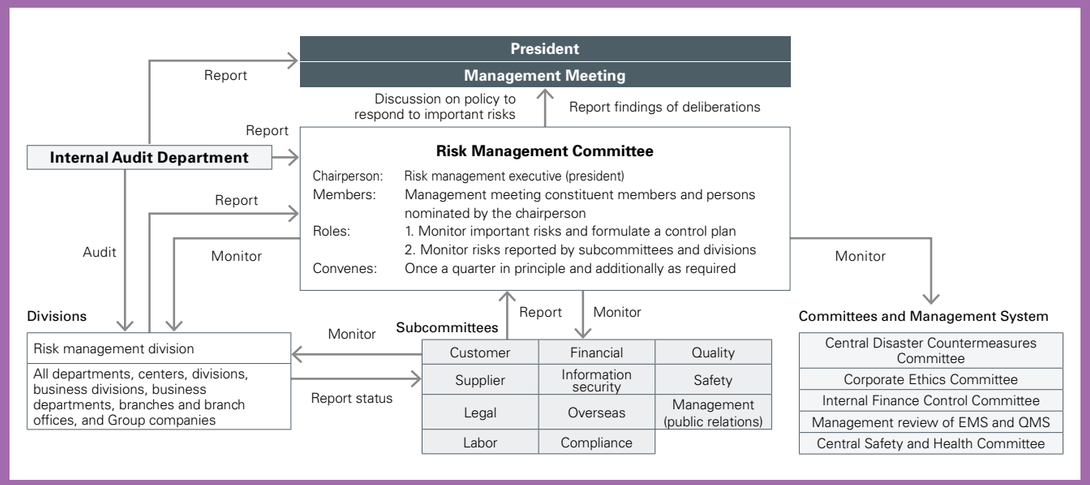
Basic Philosophy

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 October 2020, we reorganized the subcommittee to create an 11-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, 2021)



Risk Management Activities

Risk Management Response

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 2020, the committee convened four times to review some of the monitoring indicators and the structure of the subcommittees. In addition, the committee discussed and responded to various issues such as risks linked to climate change, confirmation of safety in times of disaster, risks associated with the Olympics and Paralympics, COVID-19 risks, and reporting procedures when a serious risk occurs.

Major Risk Countermeasures in Fiscal 2020

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.
Labor	• Formulated COVID-19 prevention measures • Implemented measures to correct overwork.
Information security	• Installed security software • Created telework security guidelines
Overseas	• Took action to prevent the spread of COVID-19 overseas. • Reviewed procurement and storage methods for stockpiling disaster preparedness supplies at each base
Compliance	• Identified department-specific risks through questionnaires and took preventive measures.

Risk Management Associated with COVID-19

In response to the COVID-19 pandemic, we established the COVID-19 Task Force in April 2020 and have been implementing countermeasures as the situation evolves. Also, the Risk Management Committee conducts regular monitoring.

Risks and Opportunities Posed by COVID-19 to Business Activities

Risks	• Shrinking capital investments due to economic stagnation • Decreasing demand for office buildings in central urban areas due to the penetration of teleworking • Deterioration in profit and loss due to construction delays and other factors
Opportunities	• Growing demand for ICT facilities and medical and pharmaceutical facilities • Increasing needs for investment in improving the office environment and reviewing workspaces due to changes in work styles • Need for unmanned operations to prevent the spread of COVID-19

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 improved our system under normal conditions and clarified the codes of action and division of roles for times of disaster in order to ensure that restoration activities can be implemented more promptly in the event of a disaster. To date, we have

Major Business Risks

- **Business operation risks**
  - Common to all construction businesses
    - 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
  - Machinery Systems Business
    - Declining capital investment
    - Deteriorating competitiveness
  - Environmental Systems Business
    - Changes in market conditions
    - Long-term business risks
  - Real Estate Business
    - Rent fluctuations
- **Financial and other risks**
  - Customer credit risk
  - Stock market fluctuations
  - Risks related to litigation, etc.
  - Seasonal fluctuations in business performance
  - Legal violations
  - Natural disasters
  - Climate change
  - Infectious disease epidemic
  - Leakage of confidential or personal information
  - System failure

Annual Securities Report for the 97th Business Term (from April 1, 2020 to March 31, 2021) in the "Business and Other Risks" Section (pages 11–13) (in Japanese)
https://www.sanki.co.jp/ir/library/doc/securities_R2-4q.pdf

Reference
Feature 3
Response to COVID-19
Page 29

Initial response handbook for employees in the event of a disaster

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 in the event of 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.

As major BCP initiatives in fiscal 2020, we implemented (1) emergency communication training and hazard map confirmation for times of large-scale disaster, participated in by all Group officers and employees, and (2) improvement of disaster preparedness supplies.

Although we had formulated the Group's BCP mainly for natural disasters, we are now working to establish a Business Continuity Management System (BCMS) as a mechanism for effectively maintaining and managing the BCP in order to ensure the effectiveness of risk response and subsequent recovery in our overall business.

BCP drill

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 addition, our auditors concurrently serve as auditors of Group companies, and we are working to improve our Group management system, including at overseas sites.

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, etc.

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 2020, 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.

Information Security Rules and Standards

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

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 • Installation of security software capable of detecting malware intrusion at an early stage
Measures for social media	• Instill an understanding among Group employees using guidelines • Improving the level of security regarding social media

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.

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

FY2021 Goals

Hold more IR meetings

Target
15 more than in FY2018

Provide consistent, steady returns to shareholders

Target
Total return ratio: 70% or more

Major Action Policy and Initiatives for FY2021

Hold IR meetings for new shareholders

Provide return to shareholders based on the Medium-Term Management Plan

FY2020 Results

IR meetings	Annual dividend	Acquisition of treasury stock	Total return ratio
40 sessions	80 yen	Approx. 1 million shares	97.3 %
(FY2019: 56 sessions)	(FY2019: 95 yen)	(FY2019: 1.95 million)	(FY2019: 111.4%)
Evaluation : △	Evaluation : ○	Evaluation : △	Evaluation : ◎

Level of progress made in FY2020 on goals set for FY2021
◎: Achieved ○: On schedule to achieve the target △: Behind schedule to meet the target

E Environment　S Social　G Governance

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.

Reinforcing the Dissemination of Information

We are working to enhance our IR activities to reinforce our dissemination of information, a key initiative laid out in the Medium-Term Management Plan "Century 2025" Phase 2. We are also seeking 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. Furthermore, we facilitate the effective exercise of voting rights by shareholders and investors by offering greater convenience 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

With regard to the general meeting of shareholders, we requested that shareholders refrain from attending the actual meeting and posted on our website a video explaining the exercise of voting rights in advance, the business report, and issues to be addressed, prior to the meeting. As a result, we were able to keep the number of physical attendants to a minimum on the day of the meeting, during which all possible measures were taken to prevent infection. A video recording of the general meeting of shareholders is available on our website.

We engage our investors by holding results briefings for analysts and institutional investors twice a year. In fiscal 2020, a total of 60 individuals participated. Forty IR meetings were also held, which we convene as needed throughout the year. We are actively increasing opportunities to conduct questionnaire surveys of shareholders to better understand their needs. We also address the needs of overseas investors through 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 2020 online, as in the previous fiscal year.

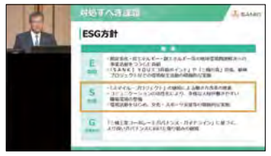
• Obtained an AA Rating in the ESG/SDGs Assessment Loan Scheme

Sanki Engineering obtained an AA rating, the second highest on a seven-point scale, for the second consecutive year, 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.

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

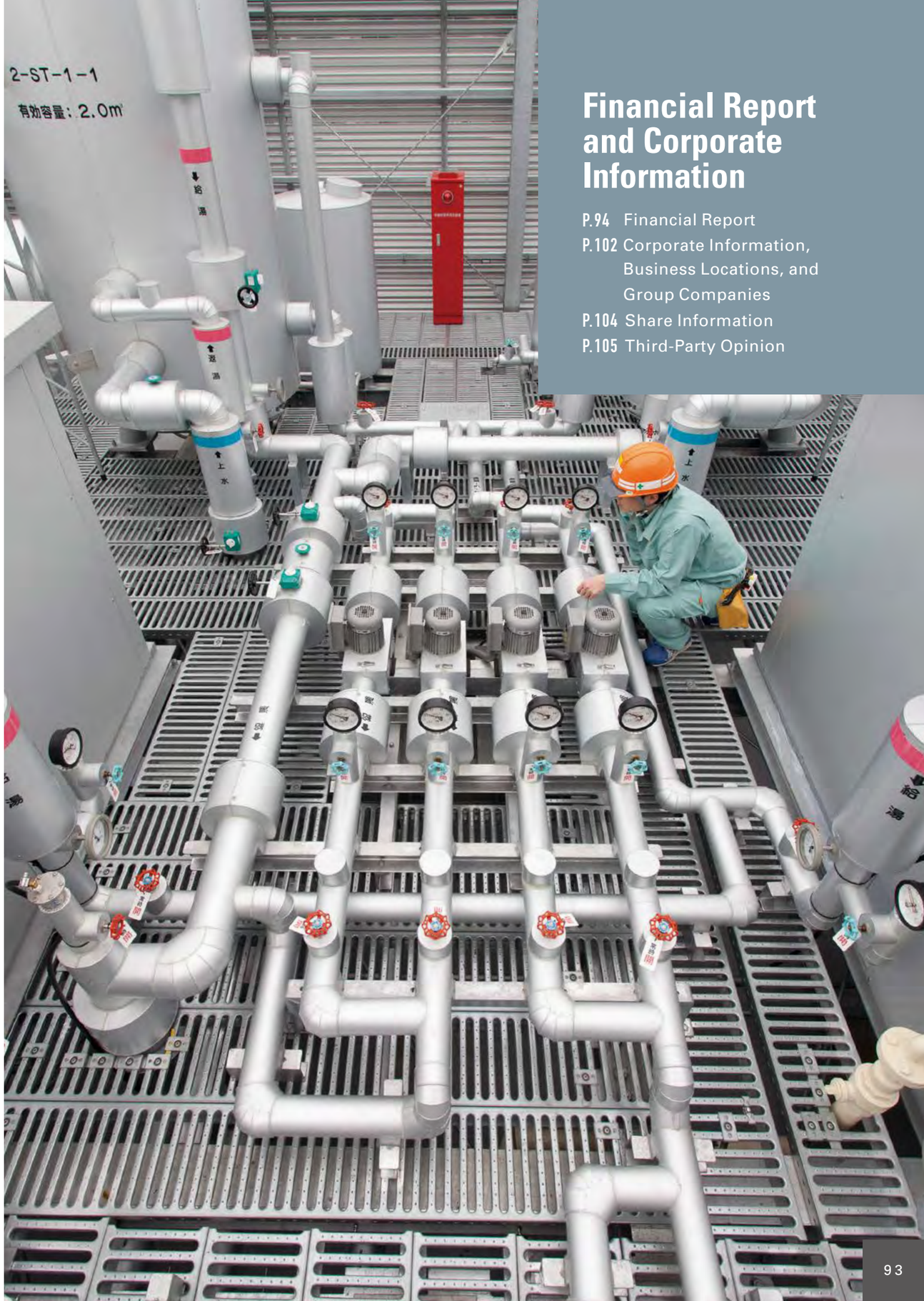
Medium-Term Management Plan "Century 2025" Phase 2 (FY2019–2021)
https://www.sanki.co.jp/en/ir/library/doc/century_2025_phase2_2019.pdf

Investor Relations Website



Video about the General Meeting of Shareholders

Sumitomo Mitsui Banking Corporation ESG/ SDGs Assessment Loan



Financial Report and Corporate Information

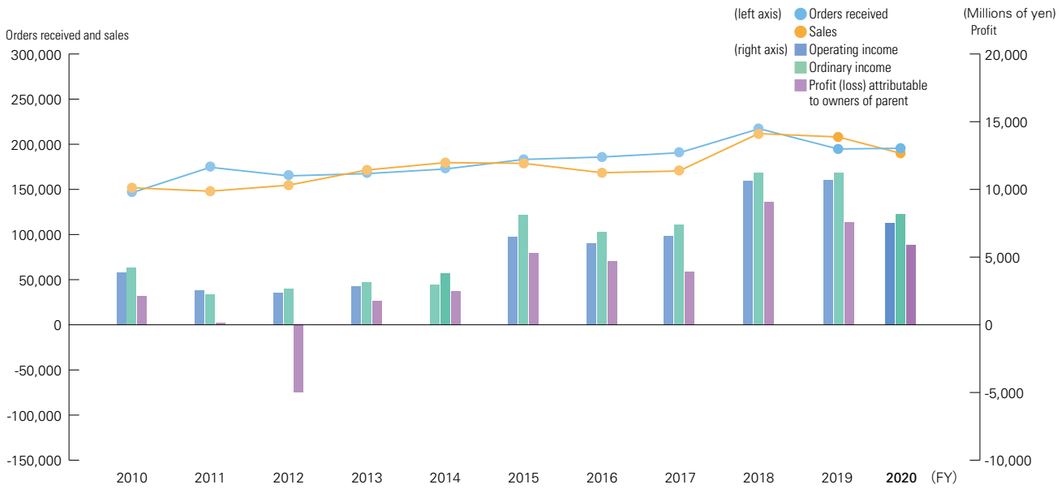
Financial Report

11-year Consolidated Financial Summary

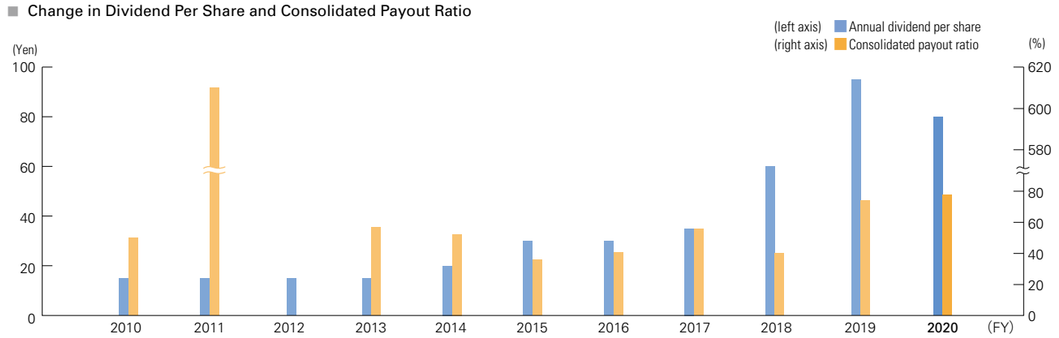
(Millions of yen)

	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	Year ended March 31, 2021
Fiscal year											
Orders received	147,129	175,291	165,800	168,295	173,398	183,270	185,880	191,113	217,096	194,018	**195,580**
Balance carried forward	72,976	100,272	111,414	108,219	102,019	106,388	123,756	144,712	149,495	136,163	**141,676**
Net sales	151,794	147,994	154,658	171,496	179,598	178,901	168,512	170,157	212,314	207,684	**190,067**
Selling, general and administrative expenses	15,763	15,712	15,199	15,604	15,015	16,419	16,526	18,466	21,046	21,436	**21,255**
Operating income or loss	3,843	2,525	2,391	2,818	2,951	6,509	6,012	6,593	10,637	10,674	**7,498**
Ordinary income or loss	4,239	2,268	2,680	3,146	3,809	8,135	6,880	7,434	11,204	11,224	**8,196**
Profit (loss) attributable to owners of parent*	2,124	176	(4,992)	1,763	2,461	5,327	4,698	3,906	9,046	7,576	**5,901**
Cash flows from operating activities	11,554	(2,697)	9,729	(9,403)	(139)	5,220	10,845	6,306	6,786	11,940	**(483)**
Cash flows from investing activities	2,610	(1,046)	(9,481)	(3,506)	3,440	5,520	(1,644)	(2,510)	(3,775)	(303)	**(1,423)**
Cash flows from financing activities	(1,883)	(280)	(1,028)	(4,152)	(2,901)	(1,826)	(2,458)	1,814	(5,215)	(8,955)	**(6,974)**
Cash and cash equivalents at end of fiscal year	45,135	41,097	40,367	23,510	23,667	32,501	39,187	44,866	42,612	45,946	**37,087**
As of end of fiscal year under review											
Total assets	158,501	163,120	166,477	170,181	176,382	169,423	166,612	177,014	195,321	180,805	**171,313**
Net assets	79,833	79,662	76,932	74,917	84,869	84,557	85,961	86,191	89,772	87,364	**91,699**
Number of employees	2,316	2,289	2,246	2,283	2,282	2,309	2,339	2,384	2,394	2,501	**2,548**
Per share information											
Earnings per share (yen)	29.67	2.46	(71.04)	26.46	38.30	83.84	73.91	63.02	150.02	128.51	**103.12**
Book-value per share (yen)	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	**1,611.76**
Cash dividends (yen)	15.00	15.00	15.00	15.00	20.00	30.00	30.00	35.00	60.00	95.00	**80.00**
Other information											
Equity ratio (%)	50.3	48.8	46.2	44.0	48.1	49.8	51.5	48.6	45.8	48.2	**53.4**
Return on assets (%)	2.6	1.4	1.6	1.9	2.2	4.7	4.1	4.3	6.0	6.0	**4.7**
Return on equity (%)	2.7	0.2	△ 6.4	2.3	3.0	6.3	5.5	4.5	10.3	8.6	**6.6**

*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 2010 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, 2020	As of March 31, 2021
Assets		
Current assets:		
Cash and deposits	¥44,946	¥36,087
Notes and accounts receivable on completed construction contracts and other	71,739	65,598
Electronically recorded monetary claims	5,063	6,487
Securities	2,999	2,999
Inventories:		
Costs on uncompleted construction contracts	2,589	2,343
Raw materials and supplies	542	493
Other	2,901	2,057
Allowance for doubtful accounts	(17)	(12)
Total current assets	130,765	116,054
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	42,837	43,594
Accumulated depreciation	(32,841)	(33,445)
Buildings and structures, net	9,996	10,148
Machinery, equipment, vehicles, and tools, furniture and fixtures	2,007	2,025
Accumulated depreciation	(1,528)	(1,621)
Machinery, equipment, vehicles, and tools, furniture and fixtures, net	478	404
Land	3,107	3,107
Lease assets	634	539
Accumulated depreciation	(349)	(250)
Lease assets, net	284	289
Construction in progress	89	22
Total property, plant and equipment	13,957	13,972
Intangible assets	679	937
Investments and other assets:		
Investment securities	24,017	28,816
Long-term loans receivable	101	85
Asset for retirement benefits	3,407	5,233
Lease and guarantee deposits	1,462	1,456
Insurance funds	626	873
Deferred tax assets	2,372	786
Other	5,379	3,516
Allowance for doubtful accounts	(1,963)	(419)
Total investments and other assets	35,403	40,348
Total noncurrent assets	50,040	55,258
Total assets	¥180,805	¥171,313

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Notes payable—trade	¥3,100	¥–
Electronically recorded obligations—operating	1,626	873
Accounts payable for construction contracts	47,761	40,836
Short-term loans payable	6,869	7,135
Lease obligations	189	133
Income taxes payable	1,505	840
Advances received on uncompleted construction contracts	7,493	8,580
Provision for bonuses	4,088	3,792
Provision for directors' bonuses	242	230
Provision for warranty costs	411	788
Provision for loss on construction contracts	50	–
Other	6,363	4,671
Total current liabilities	79,705	67,882
Noncurrent liabilities:		
Long-term loans payable	3,850	3,460
Lease obligations	292	274
Liability for retirement benefits	3,465	1,710
Provision for directors' retirement benefits	39	–
Provision for loss on business of subsidiaries and associates	300	300
Provision for compensation for damages	190	–
Deferred tax liabilities	30	285
Other	5,568	5,701
Total noncurrent liabilities	13,735	11,731
Total liabilities	93,440	79,614
Net assets:		
Shareholders' equity:		
Capital stock	8,105	8,105
Capital surplus	4,181	4,181
Retained earnings	74,155	73,158
Treasury stock	(4,187)	(3,859)
Total shareholders' equity	82,254	81,585
Accumulated other comprehensive income:		
Unrealized gains on available-for-sale securities	7,274	10,853
Deferred gains or losses on hedges	–	2
Foreign currency translation adjustment	(179)	(116)
Retirement benefits asset and liability adjustments	(2,286)	(908)
Total accumulated other comprehensive income	4,807	9,831
Subscription right to shares	302	302
Total net assets	87,364	91,699
Total liabilities and net assets	¥180,805	¥171,313

Consolidated Statement of Income and Comprehensive Income

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Net sales:		
Net sales of completed construction contracts	¥205,247	**¥187,559**
Net sales of real estate business and other	2,437	**2,507**
Total net sales	207,684	**190,067**
Cost of sales:		
Cost of sales of completed construction contracts	174,023	**159,793**
Cost of sales on real estate business and other	1,550	**1,519**
Total cost of sales	175,574	**161,313**
Gross profit:		
Gross profit on completed construction contracts	31,224	**27,765**
Gross profit on real estate business and other	886	**988**
Total gross profit	32,110	**28,754**
Selling, general and administrative expenses:		
Employees' salaries and allowances	7,580	**7,591**
Provision for bonuses	1,732	**1,613**
Provision for directors' bonuses	242	**230**
Retirement benefit expenses	494	**684**
Depreciation	1,060	**1,079**
Other	10,324	**10,055**
Total selling, general and administrative expenses	21,436	**21,255**
Operating income	10,674	**7,498**
Non-operating income:		
Interest income	19	**19**
Dividends income	598	**521**
Insurance claim income	126	**247**
Waste disposal income	85	**109**
Other	207	**170**
Total non-operating income	1,038	**1,068**
Non-operating expenses:		
Interest expense	126	**113**
Commitment fees	–	**33**
Repair expenses for construction contracts	148	**63**
Other	211	**160**
Total non-operating expenses	487	**370**
Ordinary income	11,224	**8,196**
Extraordinary income:		
Gain on sales of noncurrent assets	274	**–**
Gain on sales of investment securities	477	**–**
Subsidy income	100	**–**
Total extraordinary income	¥851	**¥–**
Extraordinary loss:		
Impairment loss	55	**1**
Loss on retirement of noncurrent assets	68	**79**
Loss on tax purpose reduction entry of non-current assets	100	**–**
Loss on sales of investment securities	38	**–**
Loss on valuation of investment securities	60	**19**
Environmental expenses	69	**–**
Office transfer expenses	96	**68**
Loss on valuation of shares of subsidiaries and associates	174	**–**
Provision for loss on business of subsidiaries and associates	300	**–**
Compensation for damage	–	**231**
Total extraordinary losses	962	**399**
Profit (loss) before income taxes	11,114	**7,797**
Income taxes:		
Income taxes-current	3,490	**2,232**
Income taxes-deferred	46	**(336)**
Total income taxes	3,537	**1,895**
Profit (loss)	¥7,576	**¥5,901**
Profit (loss) attributable to:		
Owners of parent	¥7,576	**¥5,901**
Non-controlling interests	¥ –	**¥–**
Other comprehensive income:		
Unrealized gains on available-for-sale securities	¥ (2,176)	**¥3,579**
Deferred gains or losses on hedges	–	**2**
Foreign currency translation adjustment	(79)	**63**
Remeasurements of defined benefit plans	(634)	**1,378**
Total other comprehensive income	(2,890)	**5,023**
Comprehensive income	¥4,686	**¥10,924**
Comprehensive income attributable to:		
Owners of parent	¥4,686	**¥10,924**
Non-controlling interests	¥ –	**¥–**

Consolidated Statement of Changes in Net Assets

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	¥73,750	¥ (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)
Cancellation of treasury shares			(2,412)	2,412	–
Change in the 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 the current period	¥8,105	¥4,181	¥74,155	¥ (4,187)	¥82,254

	Accumulated other comprehensive income						
	Unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Total assets
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)
Cancellation of treasury shares							–
Change in the 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 during the period	(2,176)	–	(85)	(634)	(2,896)	71	(2,407)
Balance at the end of the current period	¥7,274	–	¥ (179)	¥ (2,286)	¥4,807	¥302	¥87,364

For the year ended March 31, 2021

(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**	**¥74,155**	**¥ (4,187)**	**¥82,254**
Changes in items during the period					
Dividends from surplus			**(5,474)**		**(5,474)**
Profit (loss) attributable to owners of parent			**5,901**		**5,901**
Purchase of treasury stock				**(1,171)**	**(1,171)**
Disposal of treasury shares		**(40)**		**116**	**75**
Transfer of loss on disposal of treasury shares		**40**	**(40)**		**–**
Cancellation of treasury share			**(1,383)**	**1,383**	**–**
Net changes in items other than shareholders' equity					
Total changes during the period	**–**	**–**	**(996)**	**328**	**(668)**
Balance at the end of the current period	**¥8,105**	**¥4,181**	**¥73,158**	**¥ (3,859)**	**¥81,585**

	Accumulated other comprehensive income						
	Unrealized gains on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Retirement benefits asset and liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
Balance at the beginning of current period	**¥7,274**	**–**	**¥ (179)**	**¥ (2,286)**	**¥4,807**	**¥302**	**¥87,364**
Changes in items during the period							
Dividends from surplus							**(5,474)**
Profit (loss) attributable to owners of parent							**5,901**
Purchase of treasury stock							**(1,171)**
Disposal of treasury shares							**75**
Transfer of loss on disposal of treasury shares							**–**
Cancellation of treasury shares							**–**
Net changes in items other than shareholders' equity	**3,579**	**2**	**63**	**1,378**	**5,023**	**(19)**	**5,003**
Total changes in items during the period	**3,579**	**2**	**63**	**1,378**	**5,023**	**(19)**	**4,334**
Balance at the end of the current period	**¥10,853**	**2**	**¥ (116)**	**¥ (908)**	**¥9,831**	**¥282**	**¥91,699**

Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Cash flows from operating activities:		
Profit (loss) before income taxes	¥11,114	**¥7,797**
Depreciation and amortization	1,643	**1,700**
Impairment loss	55	**1**
Loss on retirement of noncurrent assets	68	**79**
Loss on tax purpose reduction entry of non-current assets	100	**–**
Environmental expenses Office transfer expenses	69	**–**
Office transfer expenses	96	**68**
Loss on valuation of shares of subsidiaries and associates	174	**–**
Increase (decrease) in provision for loss on business of subsidiaries and associates	300	**–**
Compensation for damage	–	**231**
Increase (decrease) in allowance for doubtful accounts	(28)	**(1,525)**
Increase in provision for bonuses	(91)	**(296)**
Increase in liability for retirement benefits	395	**(1,594)**
Decrease in provision for directors' retirement benefits	(13)	**(39)**
Increase (decrease) in provision for loss on construction contracts	(429)	**(50)**
Interest and dividends income	(618)	**(540)**
Interest expense	126	**113**
Commitment fees	–	**33**
Profit (loss) on sales of property, plant and equipment	(274)	**0**
Loss (gain) on valuation of investment securities	60	**19**
Subsidy income	(100)	**–**
Increase in notes and accounts receivable on completed construction contracts and other	15,321	**4,770**
Increase in costs on uncompleted construction contracts	(429)	**246**
Increase in notes and accounts payable on construction contracts and other	(16,009)	**(10,777)**
Decrease (increase) in advances received on uncompleted construction contracts	4,025	**1,088**
Increase in other current liabilities	1,480	**(1,706)**
Other	(837)	**3,118**
Subtotal	16,198	**2,737**
Interest and dividends received	619	**540**
Interest paid	(126)	**(114)**
Commitment fees	–	**(29)**
Income taxes paid	(4,516)	**(3,079)**
Payments for environmental expenses	(184)	**–**
Payments for office transfer expenses	(48)	**(115)**
Compensation for damage paid	–	**(421)**
Net cash provided by operating activities	¥11,940	**¥ (483)**
Cash flows from investing activities:		
Purchase of securities	(16,000)	**(17,000)**
Proceeds from redemption of securities	16,100	**17,000**
Purchase of property, plant and equipment	(1,839)	**(1,494)**
Proceeds from sales of property, plant and equipment	812	**0**
Payments for retirement of property, plant and equipment	(58)	**(93)**
Purchase of investment securities	(284)	**(23)**
Proceeds from sales of investment securities	1,041	**358**
Execution of loan	(10)	**–**
Collection of loans receivable	20	**15**
Subsidies received	20	**20**
Proceeds from maturity of insurance funds	30	**74**
Other	(136)	**(281)**
Net cash used in investing activities	(303)	**(1,423)**

(Millions of yen)

	Year ended March 31, 2020	Year ended March 31, 2021
Cash flows from financing activities:		
Net decrease (increase) in short-term loans payable	14	**245**
Proceeds from long-term borrowings	–	**1,000**
Repayments of long-term loans payable	(1,390)	**(1,370)**
Purchase of treasury stock	(2,899)	**(1,171)**
Proceeds from exercise of stock options	–	**0**
Repayments of lease obligations	(211)	**(203)**
Cash dividends paid	(4,469)	**(5,474)**
Net cash (used in) provided by financing activities	(8,955)	**(6,974)**
Effect of exchange rate changes on cash and cash equivalents	(45)	**21**
Net decrease (increase) in cash and cash equivalents	2,636	**(8,859)**
Cash and cash equivalents at the beginning of the period	42,612	**45,946**
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	698	**–**
Cash and cash equivalents at the end of the period	¥45,946	**¥37,087**

Corporate Information, Business Locations and Group Companies (as of April 1, 2021)

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

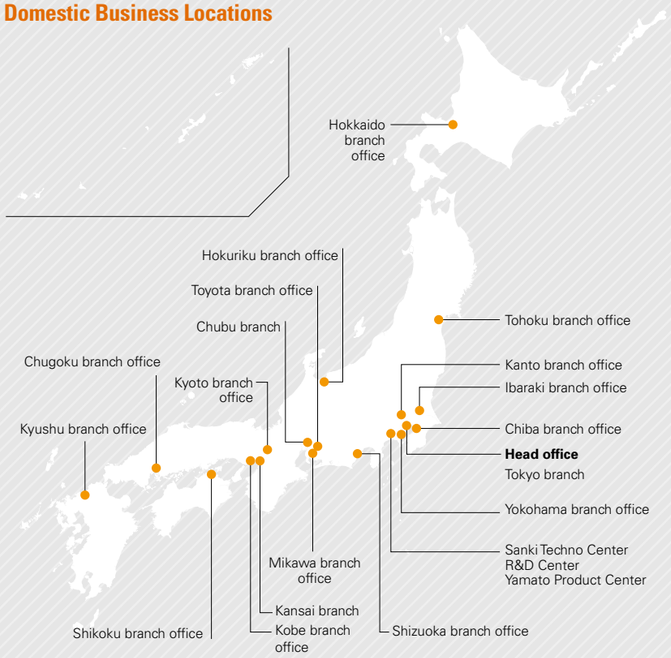
Principal lines of business
Facilities construction, plant and machinery systems, real estate

Number of employees (as of March 31, 2021)
Consolidated: 2,548
Non-consolidated: 2,048

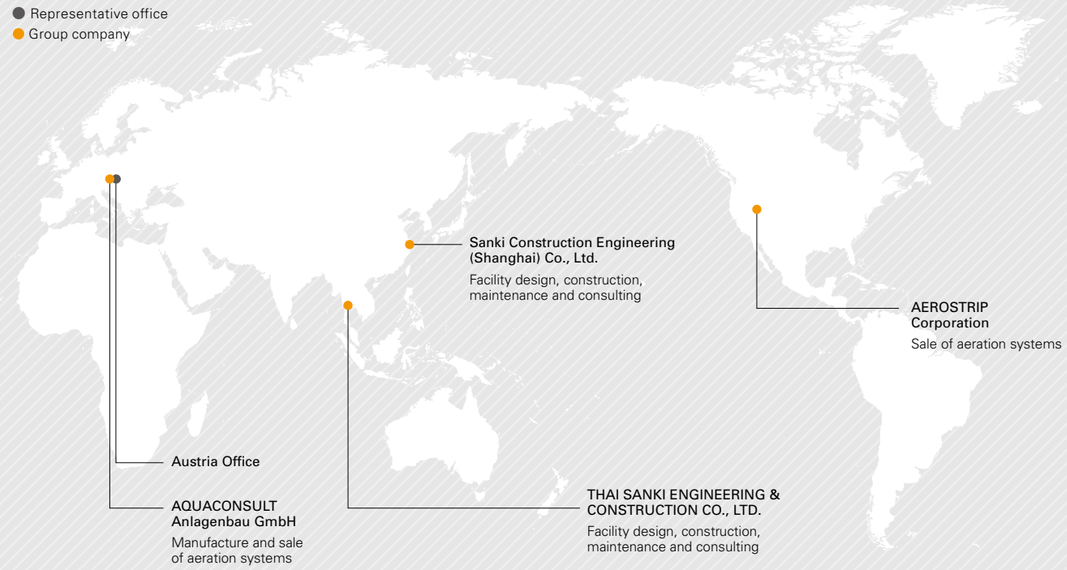
Offices
Branches: 3
Branch offices: 15
Training Center Laboratory : 1
Factory: 1

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:
- Safety management, installation, instrumentation work, renovation, periodic maintenance, and upkeep of general equipment (production, transportation, etc.) as necessary
- Development and maintenance of computer software for transportation management

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

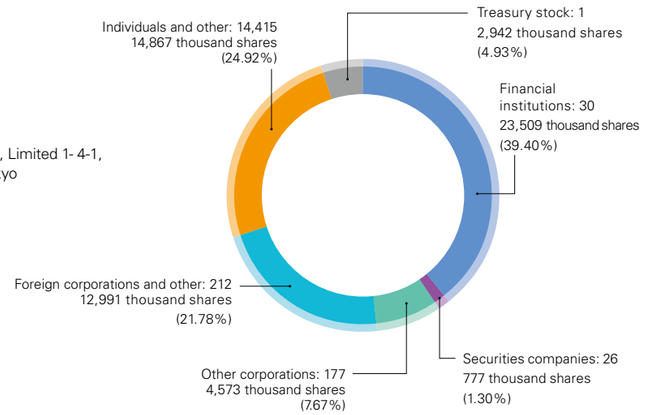
Period of business:
- 3 years and 4 months for design and construction; 20 years for operation, maintenance and management

Share Information

Share Information (as of March 31, 2021)

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	59,661,156
Number of shareholders	14,861
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	5,630	9.93
The Master Trust Bank of Japan, Ltd. (Trust account)	4,596	8.10
Taiju Life Insurance Company Limited	3,134	5.53
Sanki Kyoueikai	2,803	4.94
Nippon Life Insurance Company	2,324	4.10
Custody Bank of Japan, Ltd. (Trust Account)	2,112	3.72
Sanki Engineering Employee Shareholding Association	1,353	2.39
State Street Bank and Trust Company 505001	922	1.63
MSIP Client Securities	867	1.53
The Oita Bank, Ltd.	800	1.41

Notes:
Although the Company holds 2,942 thousand shares of treasury stock, it is excluded from the list of major shareholders. Calculation of shareholding ratio excludes treasury stock.

Third-Party Opinion

Yoshinao Kozuma
Professor Emeritus,
Sophia University

1. Advances in Governance Reform

The Sanki Engineering Group has been making strides with governance reform in response to revisions to Japan's Corporate Governance Code (hereafter "Code") in June 2021. The addition of an external director is one example. The appointment of the new member raised the total number to four external directors and thereby satisfied the "one-third or more" requirement under the revised Code. More importantly, the Group is pursuing even more effective reforms. When assessing the soundness of corporate governance, the separation of supervision and operational execution, as well as the independence of the supervising body, are key indicators. In the latest reforms, Sanki Engineering not only increased the number of external directors but also appointed one as chairperson of the Board of Directors, thus creating an organizational divide between supervision and operational execution. This significantly strengthened its governance structure as a Company with Board of Auditors and led to a substantial advance in sustainability management—a major achievement in fiscal 2020.

2. Establishment of the Framework for Promoting Sustainability

The revised Code requires listed companies to respond appropriately to sustainability issues and encourages the Board of Directors to formulate basic policies governing corporate initiatives on sustainability. Sanki Engineering is currently preparing to set up a Sustainability Committee that will develop related initiatives for the entire Group. The CSR Promotion Division, which will be responsible for implementation, has already made the transition to a three-entity system consisting of the CSR Promotion Department, Sustainability Promotion Department, and Internal Audit Department, representing steady progress toward the establishment of a framework for promoting sustainability. Improvements have also been made in terms of disclosure, with the addition of a sustainability management section in the Sanki Report this fiscal year, including a statement of commitment by the General Manager of the CSR Promotion Division.

3. Efforts to Become a Worker-Friendly Company

From the social perspective, the Group has demonstrated results in work style reform. According to the data, average monthly overtime work hours have continued to decline since fiscal 2018, while the same downward trend was observed in data from across the Group disclosed since fiscal 2019. Given that the actual status of overtime hours has become less visible due to remote work during the COVID-19 pandemic, this is an area where the Group needs to keep bolstering its initiatives. Furthermore, applications for childcare leave by male employees have remained steady, testifying to a supportive workplace environment. The Group also began disclosing its voluntary turnover rate, which is another commendable aspect of fiscal 2020.

4. Clarification of the Value Creation Process

In regard to disclosure, there was a major improvement in the diagram for the value creation process, which is essential for an integrated report. The latest diagram makes the changes in the Group's varied management resources easier to understand and clearly describes the relationship of mutual dependence with stakeholders. Moreover, the distinction between "output" and "outcome" has been sufficiently expressed, as strongly recommended under the revised IR Framework of the International Integrated Reporting Council. As a result, it is even easier to understand the story of Sanki Engineering's medium- to long-term value creation and its efforts in sustainability management.

5. Future Considerations

The value chain map is described in terms of business units and needs improvement. In sustainability reporting, the purpose of creating a value chain map is to facilitate the identification of risks associated with the Group's activities and business relations on the upstream and downstream portions of its global value chain. This is a particularly important tool for appropriately assessing the less visible ESG risks that arise upstream in the supply chain, including procurement activities and business associates. On a related note, the inclusion of human rights education in the training curriculum for procurement staff also merits further consideration.

Response to Third-Party Opinion

We are sincerely grateful for the valuable insights you have provided on the SANKI REPORT 2021.

This was a milestone report that marked the tenth year since we began publishing an integrated report, and we appreciate your evaluation of our governance reform and establishment of a framework for promoting sustainability. We will further bolster our sustainability management and continue to steadily expand our concrete initiatives.

We will make improvements in disclosing detailed information to enhance our sustainability reporting, including the relationship between upstream and downstream activities, by presenting the value chain map, grasping our Scope 3 emissions, and other means.

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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