

Engineering for the Future

SANKI REPORT

2019




Engineering for the Future

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Editorial Policy

- **Aiming to Produce a Tool that Boosts Understanding of the Group**
- We have positioned the SANKI REPORT, the annual report of Sanki Engineering, as a key, integrated communication tool for reaching all our stakeholders. We hope it will boost understanding of the Sanki Engineering Group's business activities and future direction and welcome feedback for enhancing our operations and information disclosure. Listed at right are new approaches we adopted in compiling the 2019 report.
- We created a section highlighting financial and non-financial results that provides an overview of the Sanki Engineering Group's business activities (pages 12 and 13).
 - We sought to present the report as a coherent whole by providing an index in the margins of the "Message from the President" section (pages 14 to 17).
 - We explained the Sanki Engineering Group's initiatives on value creation as a continuous flow, from the value creation process to the Medium-Term Management Plan (pages 18 to 28).
 - We rearranged the section on CSR activities by adopting a format in which we report information under ESG headings, making it easier to grasp for diverse stakeholders, including ESG rating agencies (pages 40 to 84).
- **Reference Guidelines**
- "International <IR> Framework" of the International Integrated Reporting Council
 - Ministry of Economy, Trade and Industry's "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation"
 - Ministry of the Environment's "Environmental Reporting Guidelines 2018"
 - GRI Sustainability Reporting Standards 2016
 - ISO 26000
- **Organizations Covered by the Report**
- Financial information shows consolidated Group figures.
 - Non-financial information is based on non-consolidated figures for Sanki Engineering Co., Ltd. When the information concerns the Group, organizations covered by the data are specified in the text, list or graph.
- **Reporting Period**
- April 2018–March 2019 (Some information from outside this period has also been included.)
- **Publication Date**
- September 2019 (previous issue: September 2018; scheduled release of next issue: September 2020)

Precaution on Performance Outlooks, etc.

In addition to past and present information concerning the Sanki Engineering Group, this report includes the targets, plans, outlooks, strategies, forecasts of future performance and other information drawn from our long-term vision "Century 2025," Medium-term Management Plan "Century 2025" Phase 2 (FY2019–2021) and other sources. Please be aware that these forecasts are the best estimates by Sanki Engineering management and based on the information available at the time, and actual performance may differ significantly from these forecasts, owing to changes such as in economic conditions, market trends and exchange rates.



Sanki Engineering Group Philosophy

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

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



Sanki Engineering Group Management Philosophy

Sanki Standard

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

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

Phase 3 (FY2022–2025)

4-year period to become the company of choice

Increased reliability will encourage more stakeholders to choose our company.

Phase 2 (FY2019–2021)

3-year period to enhance reliability

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

Medium-Term Management Plan “Century 2025” Phase 2

Please refer to pages 26 through 28 for more information.

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.

The Company of Choice

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

Long-Term Vision “Century 2025”

The Company of Choice

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

FY2016

FY2019

FY2022

FY2025

Sanki Engineering’s 100th Anniversary

History of Sanki Engineering

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

2025 Toward the 100th Anniversary

1920s

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

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

1930s

Diversified and Expanded Businesses Lead to Greater Technological Competence

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

1940s

Sanki's Advanced Technology Bolsters a Construction Boom

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

1950s

A Proactive Approach to Technological Innovation

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



1960s

A Manufacturer that Responds to the Needs of the Times

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



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.



1986 Japan's Equal Employment Opportunity Law

1970s

Wide Range of Technological Innovations

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



2000s

Meeting the Needs of a Rapidly Advancing Information Society

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



1995 Great Hanshin Earthquake

1991 Collapse of Japan's bubble economy

1997 Adoption of the Kyoto Protocol

2008 Lehman Brothers bankruptcy

2010s

Contributing to a Sustainable Society by Bolstering the LCE Business

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



April 22, 1925

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

1931

Moves the head office to Hibiya

1935

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

1950

The outbreak of the Korean War leads to a war-driven economy, and the Japanese economy takes a favorable turn. Expansion of demand for building construction and equipment results in dramatic improvement in the Company's business performance.

1958

Capital exceeds 1 billion yen.

1963

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

1971

Sets up the Environmental Administration office.

1973

Spins off the sash business.

1982

Builds the Technical Research Laboratory.

2000

Opens the Shonan Training Center.

2005

Moves the head office to Nihonbashi.

2011

Moves the head office to Tsukiji.

2015

90th Anniversary.

2016

Launches the long-term vision "Century 2025."

2018

Begins operations at all facilities of the Sanki Techno Center.

2019

Begins operations at the Yamato Product Center.

Business Overview by Segment

(year ended March 2019)

Facilities Construction Business

Net sales
179.3 billion yen

Net Sales Composition Ratio
84%

Main Sales Items

HVAC Systems

- HVAC systems
- Industrial HVAC systems
- Clean rooms
- Environmental control systems
- Pharmaceutical and food manufacturing facilities
- Freezing and refrigeration
- District heating and cooling plants
- Nuclear power-related facilities

Electrical Systems

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

Plumbing and Drainage Systems

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

Facility Systems

- Design for fit-out and relocation of offices and workplaces
- Consulting for project management

Smart Building Solutions

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



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



Real Estate Business

Net sales
1.9 billion yen

Net Sales Composition Ratio
1%

Main Sales Items

Real Estate Leasing

- Land leasing
- Building leasing

Building Maintenance and Management

- Facility maintenance and upgrades



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.



Facilities Construction Business

Facility Systems Business

Electrical Systems Business

Machinery Systems Business

Environmental Systems Business

Building HVAC and Plumbing Business

Real Estate Business

Plants & Machinery Systems Business

Net sales
212.3 billion yen*

Plants & Machinery Systems Business

Net sales
32.2 billion yen

Net Sales Composition Ratio
16%

Main Sales Items

Conveyance Systems

- Lightweight conveyors
- Distribution-related conveyors
- Sorting devices
- Automated warehouse

Material Handling Systems

- FA systems
- Clean conveyance systems
- Material handling systems
- Airport baggage and cargo handling systems
- Medical handling systems
- Handling information control systems



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

Net Sales Composition Ratio
6%

Environmental Systems Business

Net sales
21.3 billion yen

Net Sales Composition Ratio
10%

Main Sales Items

Waste Treatment

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

Water Treatment

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



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

Net Sales Composition Ratio
10%

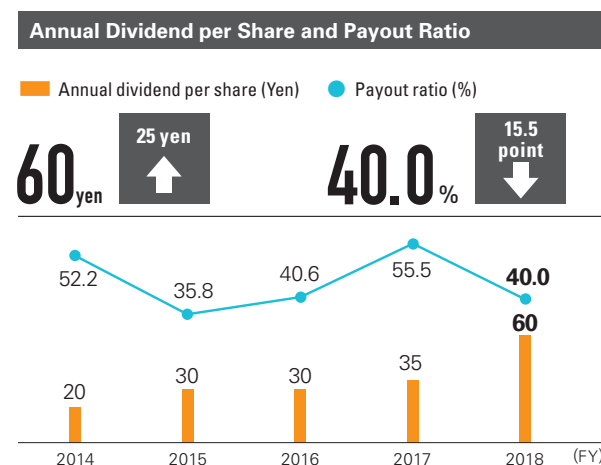
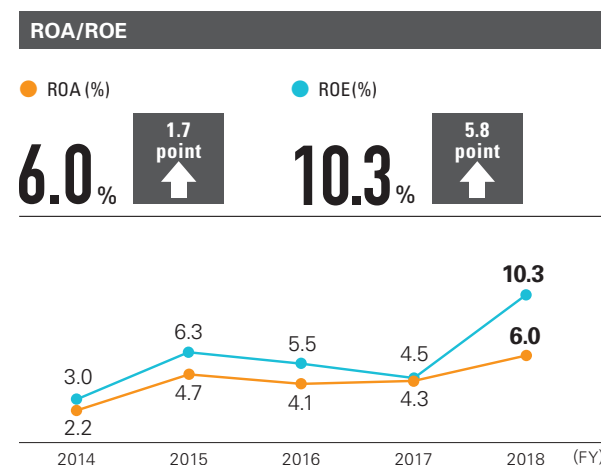
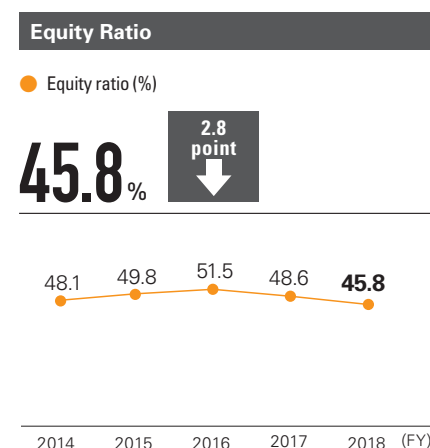
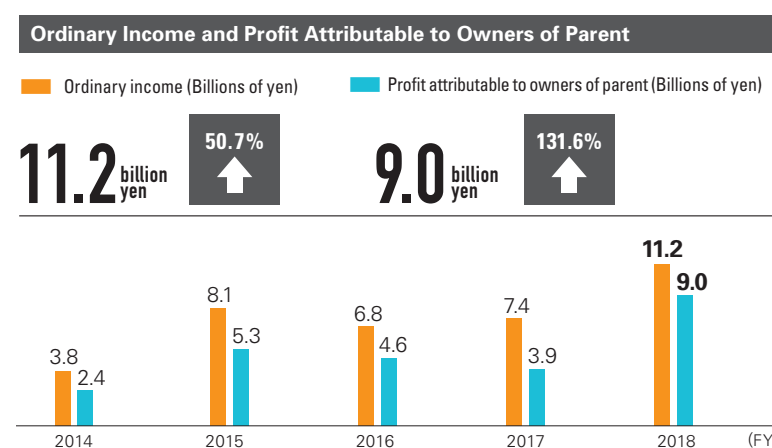
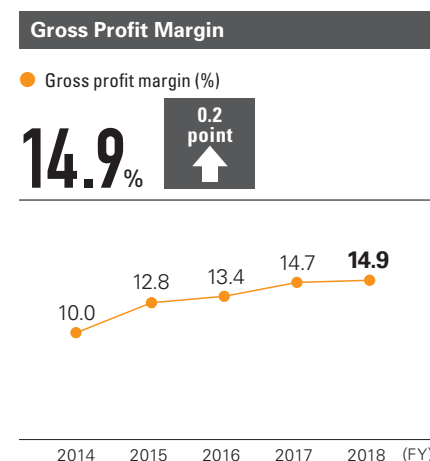
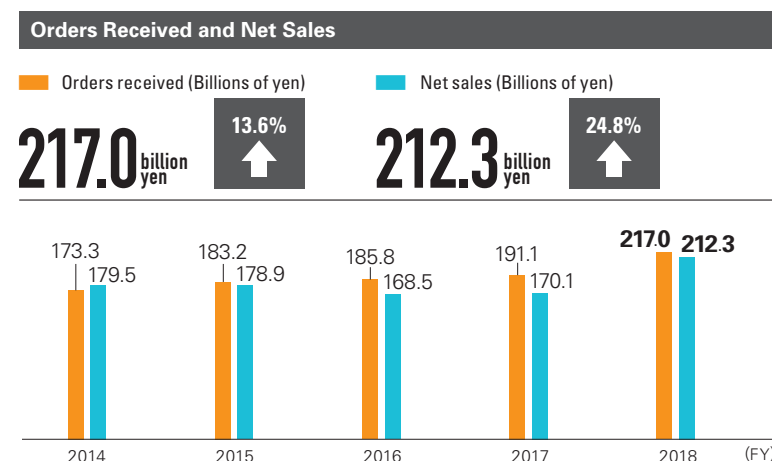
*Includes items not listed in the graph such as 0.7 billion yen in other net sales and 1.8 billion yen in elimination of inter-segment transactions.

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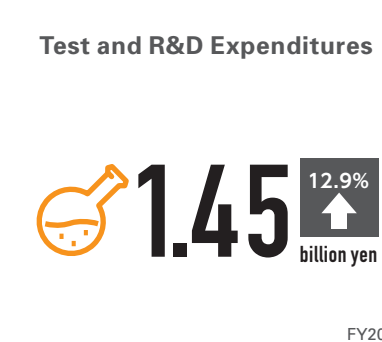
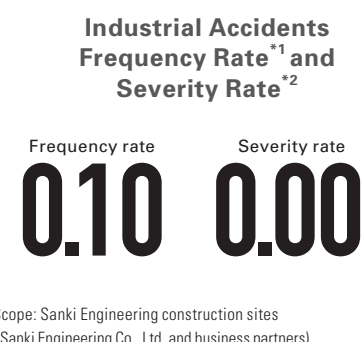
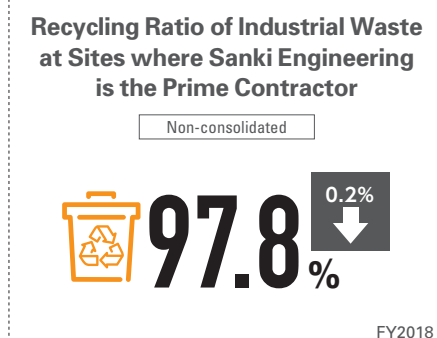
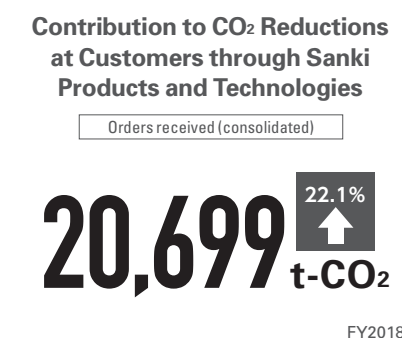
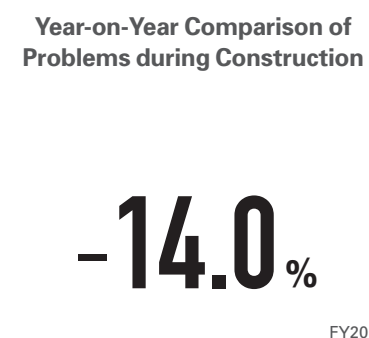
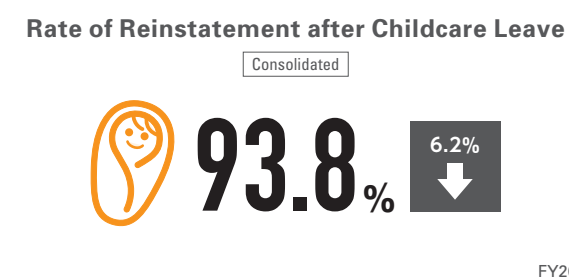
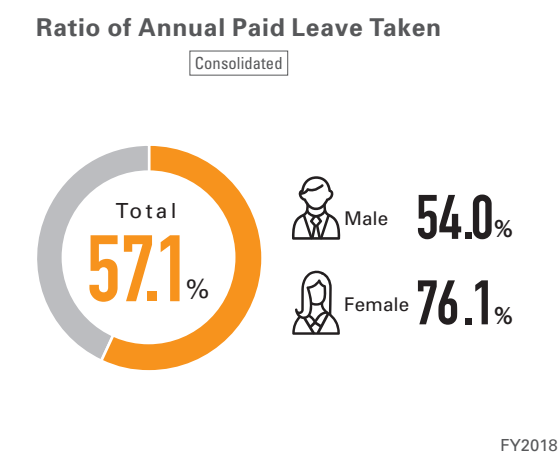
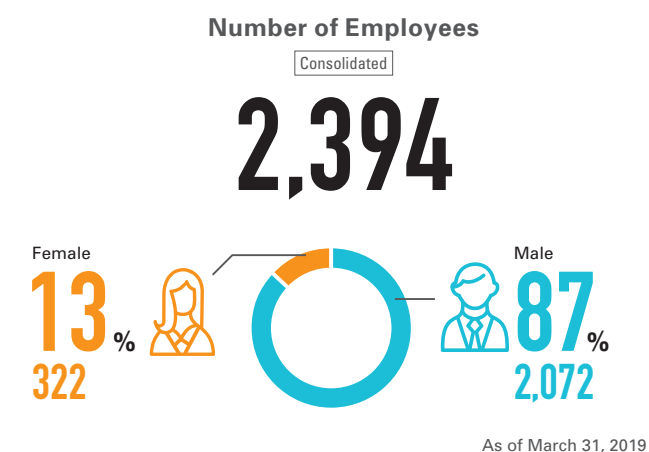
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Financial and Non-Financial Highlights

Financial Data (Consolidated)



Non-Financial Data



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

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

*2 Severity rate: Calculated as the number of lost workdays caused by accidents in the construction site per one thousand working hours; this figure indicates the severity of the accidents.



Tsutomu
Hasegawa
President

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

Business Environment and Results for Fiscal 2018

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

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

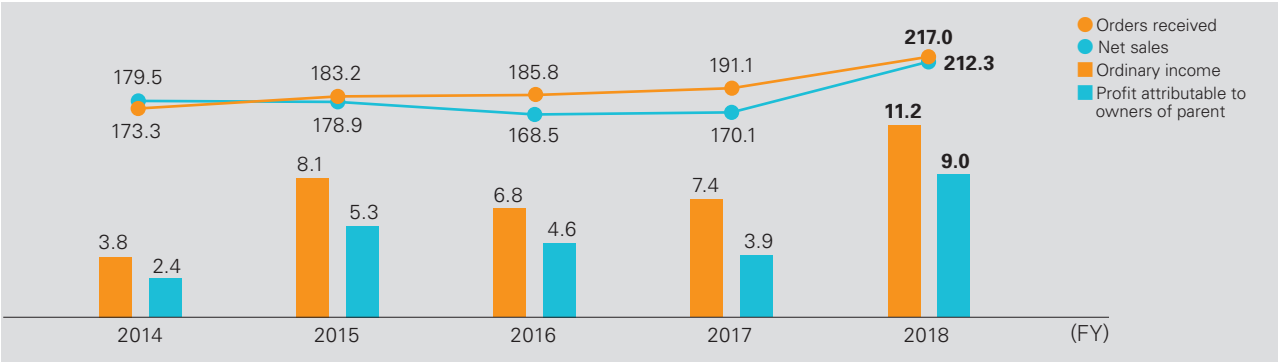
Under these business conditions, the Sanki Engineering Group was able to demonstrate outstanding performance in wrapping up its Medium-Term Management Plan “Century 2025” Phase 1, which covered the period from fiscal 2016 to fiscal 2018. We enjoyed increases in orders received and net sales across all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

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

Reference
Medium-Term Management Plan “Century 2025” Phase 1 (FY2016–2018)
P. 26

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

Business Performance (Billions of Yen)



Review of Medium-Term Management Plan “Century 2025” Phase 1

Measures to Enhance Quality Bear Fruit in the Final Year

We have completed our Medium-Term Management Plan Phase 1, the first three-year period of the “Century 2025” long-term vision for becoming the company of choice by 2025, the 100th anniversary of our founding. Over the past three years, we sought to enhance the quality of our technology and human resources toward establishing a foundation responsive to change by implementing three key initiatives: (1) Strengthen core businesses, (2) Promote growth strategies, and (3) Enhance the Sanki Brand.

One of our accomplishments in strengthening core businesses was enhancing

Reference
Long-Term Vision “Century 2025”
P. 06–07



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

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

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

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

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

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

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

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

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

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

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

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

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

Sanki Engineering’s Value Creation

Realizing Comfortable Environments as Value Creation that Helps Achieve the SDGs

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

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

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

*1 A subcommittee dedicated to reforming work styles.

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

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

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

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

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

Reference
Sanki Techno Center
P. 22–23

Reference
Century Communication Up (CCU)
P. 65

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

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R&D Center
P. 24–25

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Process of Value Creation
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