

Message from the President

Sanki Engineering, centered on people and technology, will be the enduring company of choice for society.

Hirokazu Ishida
President

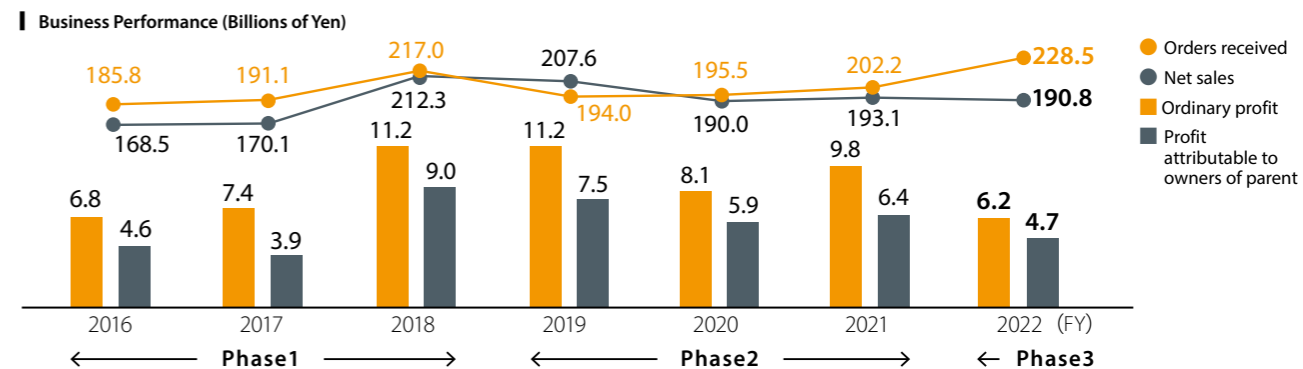
Operating Environment Surrounding Sanki and Business Results for Fiscal 2022

The COVID-19 pandemic, which has had a tremendous impact on the global economy over the past few years, is finally coming to an end, and a gradual recovery is underway in social and economic activities in Japan. Throughout the pandemic, a cloud of uncertainty hung over the domestic construction market, which constitutes a major focus for the Sanki Engineering Group. Demand itself, however, remained firm, led by large-scale urban redevelopment projects in major cities and capital investments in semiconductors, automobiles, and other manufacturing industries, fueling expectations of continually expanding investment in the years ahead.

On the other hand, delays in equipment delivery and the surging cost of materials and labor have remained a drag on our profits. Although we have been working hard to minimize impact through measures such as ordering materials and equipment well in advance, the situation has remained difficult to control. Moreover, given that Japan's revised Labor Standards Act for capping long working hours will be enforced in the construction industry from April 2024, and as construction work carried over from the

previous year continues to accumulate on the back of a favorable flow of orders, appropriately responding to these developments will be major challenges.

As the above-mentioned circumstances prevailed in fiscal 2022, the Sanki Engineering Group secured ample balance carried forward due to a robust flow of orders for large-scale projects in our mainstay Facilities Construction business. In our Machinery Systems business, there are signs of a recovery in orders received due to demand linked to automation and labor-saving needs. Although orders fell in our Environmental Systems business in the wake of receiving fewer orders for large-scale projects than in the previous year, there is ongoing demand for construction work arising from the Japanese government's national resilience policy. Net sales fell, due in part to delays in some construction work in the Facilities Construction business and a decrease in construction work carried over from the previous year in the Machinery Systems business. And while profit tends to improve with the completion of construction work, fewer works generating completed sales in fiscal 2022 hobbled any improvement in profit, causing gross profit to fall.



Status of the Medium-Term Management Plan "Century 2025" Phase 3

The Sanki Engineering Group is currently engaged in "Century 2025" Phase 3 (FY2022–2025), the final phase of the Medium-Term Management Plan for realizing the long-term vision "Century 2025" by its 100th anniversary. In Phase 1 (FY2016–2018), we designated strengthening core businesses, promoting growth strategies, and enhancing the Sanki brand as key initiatives under the concept of enhancing quality. In Phase 2 (FY2019–2021), we added disclosing financial and capital policies and reinforcing the dissemination of information as key initiatives for enhancing reliability.

Throughout both phases, we consistently focused on refining technical skills and human resources to raise the levels of quality and reliability. In Phase 3, we will endeavor to become the company of choice for our stakeholders by promoting the new initiatives of contributing to the sustainability of society, accelerating work style reforms, and investing toward the next era, in addition to measures we have been working on to date.

The way we address these three new measures will hold the key to success in Phase 3. First, with regard to contributing to the sustainability of society, we will focus



on concrete efforts for realizing carbon neutrality by 2050 based on Sanki's Carbon Neutral Declaration. Over the years, we have been cultivating energy conservation and decarbonization technologies through total engineering as the source of our strength. Initiatives that effectively apply these technologies to broad areas including construction and plant facilities are directly linked to promoting carbon neutrality and therefore fully aligned with resolving social issues through our main line of business. As part of these initiatives, in fiscal 2022 we raised the conversion rate for the SANKI YOU Eco Contribution Point system, promoted Company-wide, in which we convert points, based on energy-saving solutions offered to customers, into donations to environmental conservation. We will actively promote this system along with the development of new technologies that save energy for customers. We have also embarked on new capital investments for decarbonizing our own corporate activities, including solar power purchase agreement (PPA) projects. Furthermore, in a notable development over the past few years, the AEROWING energy-saving air diffuser, our strategic water treatment product, has been gaining recognition overseas, as evidenced by its adoption for use in large-scale sewage treatment plants in Denmark and Australia. We will further expand sales of AEROWING as a core product for overseas business development to spearhead our efforts toward achieving carbon neutrality.

Accelerating work style reforms is an urgent issue for applying the revised Labor Standards Act mentioned earlier. Sanki Engineering has been taking action to eliminate long working hours through the Smile Project, and the infrastructure for reforming work styles is now in place, including the launch of a new operating system and introduction of new tools at construction sites. We

also established a DX Promotion Division in April 2023 and are creating a digital infrastructure that ensures that all Group employees are "connected" so we can steadily and rapidly execute reforms in our operations and work styles. However, we are aware of the need to analyze our operations once again and implement thorough measures to achieve our targets. We are seeking to enhance the quality of our work within given time constraints, and in that sense, employee mindsets must also change. Additionally, as we develop total engineering as the source of Sanki's strength, the determination of which business operations should remain analog and which parts digitalized will be vital. Although we have been steadfastly striving to improve work efficiency and secure human resources, we can only do so much on our own. The entire construction industry is struggling to eliminate long working hours, and we will address the challenge by broadly cooperating across the board, from the facilities sector to customers and construction companies.

Finally, we will launch a full-scale effort to invest toward the next era starting in fiscal 2023. This includes growth investments to identify and nurture areas that will drive future business as well as investments in human resources, R&D and ICT, as the foundation for business sustainability, and we plan to invest around 20.0 billion yen during the Medium-Term Management Plan. Meanwhile, in the Facilities Construction business, there is a growing momentum toward using BIM, which is slated to revolutionize the construction industry. In response, in July 2022 we acquired a company that specializes in creating design and construction drawings, inputting attribute information, and assisting in creating drafts using 3D scanners. We fully intend to grow together as a strategic partner in promoting BIM.

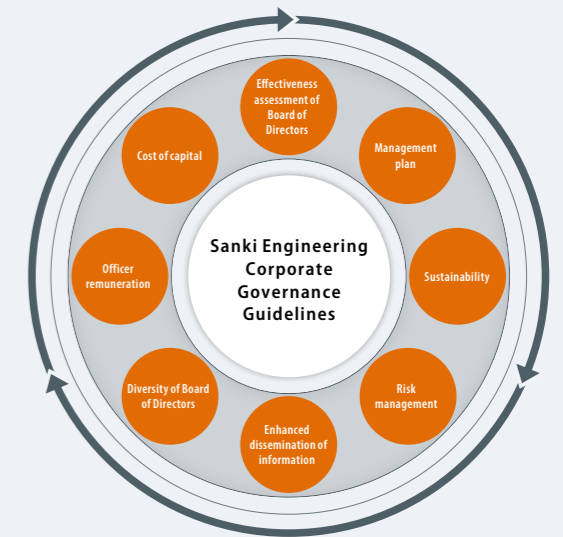
Our business portfolio strategy disclosed in Phase 3 designated facility systems and machinery systems as growth businesses. To expand our business scope, we are considering collaborating with startup companies in the Facility Systems business and acquiring companies that possess elemental technologies to approach the market for the Machinery Systems business. In the second half of fiscal 2022, we launched the Earth MIRAI Project to solicit applications from employees to explore new technologies, and we received more than 100 applications. We will continue to scrutinize these applications in order to carefully select and nurture promising proposals as investment projects that will open the way to Sanki's future.

Achieving Sustainable Growth for the Sanki Engineering Group

As a total engineering company, the Sanki Engineering Group is committed to realizing its Management Philosophy, "We create comfortable environments through engineering and widely contribute to social development." It also remains committed to advancing sustainability management by incorporating sustainability into management strategy decisions to simultaneously realize our own sustainable growth while addressing social issues. Today, there is a growing emphasis on corporate disclosure of information related to sustainability, and we believe that such disclosure also reduces internal and external information gaps. In our initiatives and disclosures, we will pay due consideration to public expectations and stakeholder needs in order to further advance our sustainability management.

We have been striving to effectively implement the Sanki Corporate Governance Guidelines throughout our operations with the conviction that constantly improving the quality of corporate governance is essential for sustainability management. The diagram of Sanki Engineering's efforts shows how we will address social issues, enhance corporate value over the medium and long term, and strengthen management capabilities by addressing key themes in the prevailing

business environment, based on the Sanki Engineering Corporate Governance Guidelines, which are subject to ongoing and periodic reviews. At Sanki Engineering, the effectiveness assessments of the Board of Directors have been highly successful, and each assessment has discussed new aspects of implementation, leading to enhanced conversations on sustainability and revitalized deliberations on the management plan.



Becoming the Enduring Company of Choice in 2050

I became president in April 2020, when the COVID-19 pandemic was in full swing, and over the past three years I have experienced the challenges of communicating with each other. We are engaged in a wide range of businesses backed by a diverse array of elemental technologies, which tends to erect high barriers between divisions and give rise to the danger of sectionalism. I believe that my role as top manager is to maintain the connections among decisions and bring everyone together as colleagues in the same Group moving forward in the same direction. In fiscal 2022, for the first time since assuming office, I was able to hold CCU* discussion events as president, and toured business bases across the country to exchange opinions with many executives and employees. I realized anew the importance of listening directly to the voices of employees and conveying the Company's direction in my own words. At the same time, I was able to sense the immense potential of our Group.

With the milestone of our 100th anniversary in 2025, we will fulfill our mission as a total engineering company by devoting our management resources to actions that address the materiality of the Sanki Engineering Group. While all of the items identified as our materiality are vital, I believe that technology represents our competitive edge and that our people are the prerequisite for the survival of our business. To ensure that our total engineering contributes to society and leads us into the future, we must reaffirm our commitment to being a technology-centered company, devote ourselves to pursuing happiness for colleagues, including our subcontractors, and overcome the fast-approaching challenge of the revised Labor Standards Act. By moving beyond this challenge, we will achieve sustainable growth and the trust of our stakeholders to realize our ultra-long-term vision of becoming "Sanki, The Enduring Company of Choice" by 2050.

*President's CCU (Century Communication Up): Discussion events named after the long-term vision "Century 2025," in which the president and employees engage in a direct exchanges of views.