



Corporate Governance

Basic Philosophy

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 are also taking appropriate action to comply with revisions made to the Corporate Governance Code in June 2021, and while maintaining the standards set by the Tokyo Stock Exchange Prime Market and making improvements, we will continuously strive to achieve sustainable growth for the Group and strengthen its corporate value over the medium to long term.



Sanki Engineering Corporate Governance Guidelines (revised on June 27, 2022)
<https://www.sanki.co.jp/en/corporate/governance/guideline.html>

Corporate Governance System

● Institutional Design

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 supervisory functions, and the executive officers responsible for the execution of business affairs.

■ Status of Directors and Officers (as of June 23, 2023)

	Number of Persons
Chairperson of the Board of Directors	External director
Directors (women)	11 (1)
External directors (independent directors)	5 (5)
Executive officers (women)	35 (0)
Those also serving as directors	4
Auditors (women)	5 (0)
External auditors (independent auditors)	3 (3)

■ Frequency of Major Meetings (FY2022)

Meeting	Frequency	Average Attendance of External Officers
Board of Directors	13 ^{*1}	99.0%
Board of Auditors	8 ^{*2}	100%
Advisory Committee on Nomination and Remuneration	4 ^{*3}	100%
Management Meeting	30	96.7% ^{*4}

Corporate Governance Report (in Japanese)

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

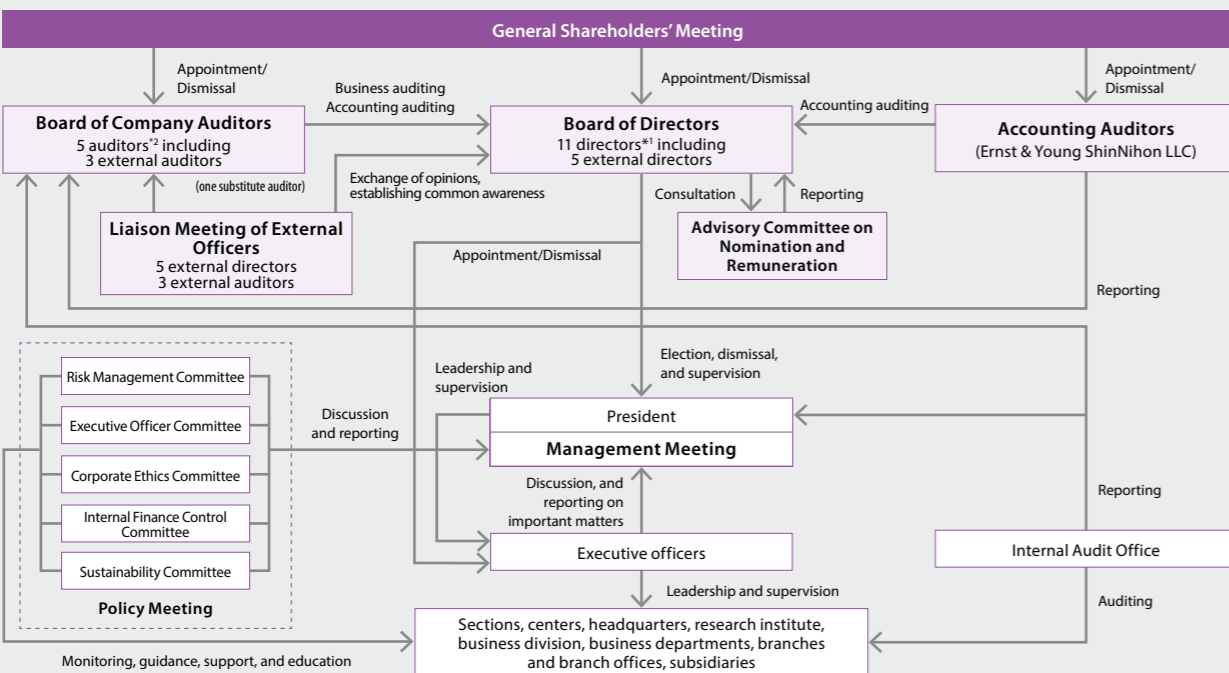
*1 Ms. Tamami Umeda was appointed external director, and Mr. Kunihiko Tachi was appointed auditor of Sanki Engineering in June 2022 and they have therefore attended 11 out of 11 meetings.

*2 Mr. Kunihiko Tachi was appointed auditor of Sanki Engineering in June 2022 and has therefore attended 6 out of 6 meetings.

*3 Ms. Tamami Umeda was appointed external director of Sanki Engineering in June 2022 and has therefore attended 2 out of 2 meetings.

*4 Attended only by the chair of the Board of Directors (full-time external).

Corporate Governance System (as of June 23, 2023)



*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 consists of directors and is currently chaired by an external director. It meets 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. In principle, it meets at least eight 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 Office, and Accounting Division. A supplementary external auditor has been appointed to fill any future external auditor vacancies.

Internal Audit Office

The 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, it exchanges opinions with the Accounting Division and makes proposals concerning improvements or the correction of a problem. The department also reports the results of its audits to the president and auditors.

Advisory Committee on Nomination and Remuneration

The committee is chaired by an external director and consists solely of external directors. It meets as needed to deliberate on the nomination of candidates for directors and the system of remuneration.

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.

Risk Management Committee

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

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 the chairperson, president, and 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

The committee consists of the chairperson, 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 deliberation and decision-making concerning important matters regarding internal controls for financial reporting.

Sustainability Committee

The committee, consisting of the president and representative director and the directors, decides on key issues and measures related to sustainable management.

Disclosure Based on Principles of the Corporate Governance Code

We disclose information in accordance with each principle of the Corporate Governance Code, as follows.

Principle Requiring Disclosure of Certain Matters (Tokyo Stock Exchange)

Principle	Principle	Guideline ^{*1}	Report ^{*2}
Principle 1-4	Policies on cross-shareholdings and concrete standards for exercising voting rights	Article 10	P. 22
Principle 1-7	Procedures for preventing conflicts of interest with regard to transactions between related parties	Article 9 Article 18	P. 22
Supplementary Principle 2-4.1	Current status and targets for ensuring diversity with regard to assignments and other treatment of core personnel	Article 14	P. 23
Principle 2-6	Details of efforts in terms of personnel and management to fulfill functions as the owner of corporate pension assets, and management of conflicts of interest	Article 16	P. 23
Principle 3-1	(i) The Company's aspirations (business principles), business strategies, and business plans	Article 32	PP. 24-25
	(ii) Basic views and guidelines on corporate governance	Article 2	PP. 1, 24-25
	(iii) Policies and procedures for determining the remuneration for executive managers and directors	Article 31	PP. 7-8, 9, 24-26
	(iv) Policies and procedures for selecting or dismissing executive managers, and nominating directors and candidates for auditors	Article 18 Article 20 Article 21 Article 22 Article 24 Article 25	PP. 9, 24-26
	(v) Reasons for selecting or dismissing individual executive managers, and reasons for nominating individual directors and auditors	Article 23	PP. 3-4, 6
Supplementary Principle 3-1.3	Initiatives on the sustainability of the Company	Article 13	PP. 27-28
Supplementary Principle 4-1.1	Overview of the scope of matters delegated to management	Article 18	PP. 9, 28-29
Principle 4-9	Independence standards for external officers	(Appendix) Independence standards for external officers	PP. 29-30
Supplementary Principle 4-10.1	Basic policy on the independent composition of committees for nomination and remuneration, their authority and roles, and other related matters	Article 24	PP. 4-5, 8, 30
Supplementary Principle 4-11.1	Basic policy on balancing the overall knowledge represented by the Board of Directors, diversity, and scope, and policies and procedures for combining and selecting the skills and other qualities of directors	Article 19	P. 31
Supplementary Principle 4-11-2	Current status of concurrent positions held at other listed companies by directors and auditors	Article 26	PP. 3-4, 6, 32
Supplementary Principle 4-11-3	Overview of analysis and evaluation results of the board's effectiveness	Article 29	PP. 32-33
Supplementary Principle 4-14-2	Training policy for directors and auditors	Article 30	PP. 32, 34
Principle 5-1	Policies on systems and initiatives for promoting constructive dialogue with shareholders	Article 32	PP. 10, 34

*1 Company's Corporate Governance Guidelines
 *2 Company's Corporate Governance Report (June 27, 2023)

Strengthening the Effectiveness of the Governance System

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

Major Initiatives in FY2022 (Addressing Issues Identified in FY2021)

Diversity of Board of Directors	• Appointed one female external director
Discussion for promoting the Medium-Term Management Plan Phase 3	• Pursued medium- to long-term human resource development, including promotion of women and utilization of senior human resources, as a key management strategy
Enhancement of training for directors and auditors	• Provided opportunities to participate in external seminars and visit construction sites and corporate bases, made further enhancements
Verification of risk management system	• Exchanged opinions during a meeting of the Board of Directors on selected topics for verification, in addition to issues identified by the effectiveness assessment • Discussed verification of the risk management system by the Board of Directors

Sanki Engineering Corporate Governance Guidelines

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



Corporate Governance Report (in Japanese)

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



● **Assessing the Effectiveness of the Board of Directors**

Once a year, the Board of Directors is given the opportunity to verify its process for deliberating proposals and identifying areas for improvement, to analyze and evaluate the effectiveness of the Board of Directors as a whole and to use the results for improvements. In principle, this is done through a questionnaire, while once every three years we conduct interviews with individual officers instead of a questionnaire. Interviews were conducted in fiscal 2022, and a third-party evaluation confirmed that the effectiveness of the Board of Directors was being ensured.

■ **Overview of Effectiveness Assessment for FY2022**

Content	<p>1. Individual officers were interviewed and evaluated by a third party</p> <ul style="list-style-type: none"> All directors and auditors were individually interviewed by a third party, and the results were analyzed and evaluated Evaluation items <ol style="list-style-type: none"> Composition, responsibilities, and management of the Board of Directors Effective use of effectiveness assessment Risk management Effectiveness of Advisory Committee on Nomination and Remuneration Results <p>Self-assessment scores increased in many items compared to the previous year. Third-party evaluation also showed that the effectiveness of the Board of Directors had steadily improved under the chair served by an external director.</p> <p>2. Discussion by the Board of Directors</p> <ul style="list-style-type: none"> Results of individual interviews and third-party evaluation were reported at the Board of Directors meeting Held discussions on identified issues and future initiatives
Future initiatives	<p>1. Revision of risk management system</p> <ul style="list-style-type: none"> Considered revising the deliberation method of the Risk Management Committee Effectiveness of management of particularly important risks was discussed at Board of Director meetings, with the participation of related sections <p>2. Discussions by the Board of Directors</p> <ul style="list-style-type: none"> Discussed medium- to long-term management strategies Topics to be discussed <ol style="list-style-type: none"> Issues related to digital reform and medium-term initiatives Discussion on securing, nurturing, and utilizing human resources Discussion on growth investment Management with due consideration of capital costs and share price Ideal R&D structure, and other themes

● **Training for Directors and Auditors**

We conduct periodic training as part of our efforts to enhance the knowledge of our officers. In fiscal 2022, we particularly focused on visits to construction sites and the Sanki Techno Center, a comprehensive training and research facility, to deepen the understanding of external officers of the Group's business activities.

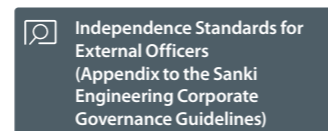
● **Appointment of Directors and Independence of External Officers**

We identified the skills we expect members of the Board of Directors to demonstrate in light of the management strategy, and the Board of Directors is composed of diverse members to ensure that all these skills are covered. At least one-third of the members are independent external directors.

The Advisory Committee on Nomination and Remuneration considers candidates for directors and submits the results to the Board of Directors for deliberation, while the nomination of candidates for auditors is deliberated by the Board of Directors after obtaining the prior consent of the Board of Company Auditors. 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.



Site inspection by external officers



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

■ **External Officers' Terms in Office and Reasons for Selection**

Position	Name	Independent Officer	Years Served	Reasons for Selection
External Director	Yukiteru Yamamoto	●	9 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 executive member of the Policy Board of the Japan Business Federation. He thus possesses abundant operational experience and broad knowledge regarding corporate management. The Company selected Mr. Yamamoto as an external director for his experience and insight developed through this background.
	Kazuhiko Kashikura	●	5 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. He thus possesses abundant experience and broad knowledge regarding corporate management. The Company selected Mr. Kashikura as an external director for his experience and insight developed through this background.
	Keiji Kono	●	2 years	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 years	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 possesses abundant experience and broad 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.
	Tamami Umeda	●	1 year	Ms. Tamami Umeda is a licensed physician and has held positions such as director-general counsellor, Ministry of Health, Labour and Welfare, and director-general, Environmental Health Department, Ministry of the Environment, and she thus has abundant experience and broad insight on domestic and international public health administration and hygiene and organizational management. The Company selected Ms. Umeda as an external director for her experience and insight developed through this background.
External Auditors	Shozo Fujita	●	5 years	Mr. Shozo Fujita has served as a public prosecutor and attorney-at-law, 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. He thus possesses abundant experience and broad insight. The Company selected Mr. Fujita as an external auditor for his experience and insight developed through his background to audit the Company.
	Yutaka Atomi	●	4 years	Mr. Yutaka Atomi has long been engaged in education and research at universities, serving in positions including president of Kyorin University. 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 his background to audit the Company.
	Toshiaki Egashira	●	4 years	Mr. Toshiaki Egashira has served in positions including representative director and president of Mitsui Sumitomo Insurance Company, Limited. He thus possesses abundant administrative experience and wide-ranging knowledge regarding corporate management. The Company selected Mr. Egashira as an external auditor for his experience and insight developed through his background to audit the Company.

■ **Skills, Careers, and Expertise¹⁾ of Members of the Board of Directors and Board of Auditors (16 Persons)**

Field	Number of Directors and Auditors (External Directors and External Auditors)	Field	Number of Directors and Auditors (External Directors and External Auditors)
Management experience ²⁾	8 (6)	Finance and capital markets	6 (4)
Engineering	6 (1)	Risk management	5 (2)
R&D	1 (0)	Governance	5 (2)
Overseas operations	3 (1)	Law	1 (1)

*1 Two to three fields of particular strength were selected.
 *2 Experience as head of an organization, such as chairperson or president of a company, chairperson of an organization, or president of a university.

● **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 restricted stock compensation. We abolished the stock compensation-type stock option system and introduced a restricted stock compensation system in fiscal 2022. Each fiscal year, we decide on 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.

Elements and Procedures for Remuneration for Directors and Auditors (as of June 23, 2023)

Category	Fixed Remuneration	Bonus	Restricted Stock Compensation	Procedure
Directors (excluding external directors)	○	○*1	○	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 Auditors² in FY2022

Category	Persons Receiving Payment	Total Payment (Millions of Yen)
Directors (external directors)	12 (5)	590 (89)
Auditors (external auditors)	6 (3)	101 (36)

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 full-time 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 Office, instruct that this office 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 Office 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 by 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 2022, accounting auditors expressed their opinion that our financial reports were presented in an appropriate manner in terms of all material aspects.

Composition of the Advisory Committee on Nomination and Remuneration

- **Committee (report):** all external directors
- **Individuals who provide explanations:**
 - President
 - Directors appointed by the president and committee members as necessary
- **Meetings held in FY2022:** 4

Composition of Officer Remuneration

- **Fixed remuneration:** paid according to rank and scope of responsibilities
- **Bonus:** portion linked to performance during the period
- **Restricted stock compensation:** granted according to rank as a long-term incentive

*1 Excluding non-operational executive officers.

*2 The number of officers covered includes one auditor who retired at the conclusion of the 98th Annual General Meeting of Shareholders on June 23, 2022.

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Whistleblowing System

Executives of the Sanki Engineering Group (as of June 23, 2023)

Directors



Tsutomu Hasegawa
Representative Director and Chairman

Joined the Company in 1975. He has many years of experience in the division management of the Facilities Construction Business and Sales Administration Division. He assumed the post of representative director and president in 2015 and has served as representative director and chairman since 2020.



Hirokazu Ishida
Representative Director and President

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 representative director and president in 2020 and has devoted his efforts to strengthen the management foundation and promote the "Century 2025" long-term vision.



Eiji Mitsuishi
Director

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 and has made a focused effort to promote work style reform and prevent industrial accidents at construction sites. He also leads the Labor Safety, Health, Quality Management & Environment Promotion Office.



Masayuki Kudo
Director

Joined the Company in 1985. He gained abundant experience as an engineer in the Facilities Construction Business, including many overseas assignments. He was appointed general manager of the Facility Systems Division in 2014 and general manager of the Sustainability Promotion Division in 2022, and has been devoting his efforts to promote sustainability.



Kazuaki Iijima
Director

Joined the Company in 1984. Engaged in research and development and in energy conservation-related businesses. Appointed general manager of the Technology Research Institute in 2016 and General Manager of the R&D Center in 2018. He has served as general manager of the Plants & Machinery Systems Headquarters since 2021, contributing to the development of the machinery systems business and environmental systems business.



Chief Financial Officer

Yoshio Kawabe
Director

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. Since 2020, he has concurrently served as chief financial officer and has focused his efforts on capital and financial policies.

Directors

Independent External Director



Chair of the Board of Directors
Yukiteru Yamamoto
 External Director

Served in positions including representative director and president of Mitsui Life Insurance Company Limited and executive member of the Policy Board of the Japan Business Federation. He was appointed external director of the Company in June 2014 and has also chaired the Board of Directors since 2020.



Chair of the Advisory Committee on Nomination and Remuneration
Kazuhiko Kashikura
 External Director

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



Keiji Kono
 External Director

Held managerial positions in major departments of the Bank of Japan. He also served as an executive officer at Chugai Pharmaceutical Co., Ltd., heading the IT Supervisory Division and promoting social contribution activities. He was appointed external director of the Company in 2021.



Akihiko Matsuda
 External Director

Served as an executive officer and advisor of Tokyo Gas Co., Ltd. and managed several of its group companies as a top executive. He was appointed external director of the Company in 2021.



Tamami Umeda
 External Director

Served in positions such as director-general counsellor for medical policy and mental health care, Ministry of Health, Labour and Welfare, and director-general of the Environmental Health Department, Ministry of the Environment, and accepted the post of visiting researcher at the National Center for Global Health and Medicine in 2021. She was appointed external director of the Company in 2022.

Auditor



Chair of the Board of Company Auditors
Kazuo Saito
 Full-time Auditor

Joined the Company in 1974. He engaged in the technical field of the Facilities Construction Business. He gained experience in department management and served as the manager of technical administration departments in the Facilities Construction Business. After serving as general manager of technical administration starting in 2014, he was appointed full-time auditor in 2020.



Kunihiko Tachi
 Full-time Auditor

Joined the Company in 1983. Spent many years in the accounting and financial divisions. Served as general manager of the Internal Audit Department, CSR Promotion Division since 2013, focusing on legal compliance and other areas. He was appointed full-time auditor in 2022.

Independent External Director



Shozo Fujita
 External Auditor

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 serving as audit and supervisory committee member of other companies. He was appointed external auditor of the Company in 2018.



Yutaka Atomi
 External Auditor

Long involved in education and research at a university, he served as dean of the faculty of medicine at Kyorin University and later president, and is currently its honorary president. He was appointed external auditor of the Company in 2019.



Toshiaki Egashira
 External Auditor

Has served in positions including president and chief executive officer of Mitsui Sumitomo Insurance Company, Limited, and is currently its special advisor. He was appointed external auditor of the Company in 2019.

Members of Each Meeting (FY2023) and Attendance (FY2022)

Category	Name	Board of Directors		Advisory Committee on Nomination and Remuneration		Board of Auditors	
		Chairperson	Attendance/ No. of meetings	Chairperson	Attendance/ No. of meetings	Chairperson	Attendance/ No. of meetings
Directors	Tsutomu Hasegawa		13/13		-		-
	Hirokazu Ishida		13/13		-		-
	Eiji Mitsuishi		13/13		-		-
	Masayuki Kudo		13/13		-		-
	Kazuaki Iijima		13/13		-		-
	Yoshio Kawabe		12/13		-		-
	Yukiteru Yamamoto	👤	●	13/13	4/4		-
	Kazuhiko Kashikura	👤		13/13	4/4	●	-
	Keiji Kono	👤		13/13	4/4		-
	Akihiko Matsuda	👤		13/13	4/4		-
Tamami Umeda	👤		11/11	2/2		-	
Auditors	Kazuo Saito		13/13		-	●	8/8
	Kunihiko Tachi		11/11		-		6/6
	Shozo Fujita	👤		13/13	-		8/8
	Yutaka Atomi	👤		12/13	-		8/8
	Toshiaki Egashira	👤		13/13	-		8/8



Hirokazu Ishida
President



Tamami Umeda
External Director

Dialogue between President Ishida
and External Director Umeda

A Governance Structure that Supports Sustainability Management

President Ishida and External Director Umeda exchanged views on governance and the future direction of the Sanki Engineering Group in pursuit of sustainable growth through sustainability management.

Governance Structure that Invigorates Diversity and Dialogue

How do you view Sanki Engineering as an external director?

Umeda • In the year since becoming an external director, I have realized that in many of the buildings I've been in, there are facilities installed by Sanki Engineering, so I can now see my connection with the Company had been closer than I'd thought. As I learned more about Sanki Engineering's business, I increasingly felt that it deserves greater public recognition. For example, its contribution to achieving a decarbonized society through its SANKI YOU Eco Contribution Point system* is a unique and wonderful initiative.

*See page 51.

Ishida • Our business is linked to carbon neutrality in a number of ways, and our operations lead to sustainability from different perspectives. However, as a B to B business, we may not have been sufficiently communicating this to the general public.

Umeda • I was also given the opportunity to tour

drainage disposal and other facilities, and I gained a strong sense of the Company's efforts to add greater value to critical social infrastructure, such as actively introducing energy-saving facilities and effectively using sludge. When I toured the Sanki Techno Center, efforts to creatively change behavior were clearly evident throughout the training facility in addition to its focus on conveying safety-related skills and knowledge. The enthusiasm people seemed to have for their work gave me a powerful impression of a diligent company.

Ishida • We provide our external directors with opportunities to visit our facilities and construction sites to meet with employees face to face. I think you can gain insight into our corporate culture by directly interacting with employees in the field.

How do you evaluate the effectiveness of the Board of Directors and the governance structure?

Ishida • We have appointed Mr. Yamamoto, who is an independent director, as Chairman of the Board of Directors to strengthen its supervision functions. He also

attends the Management Meeting and various policy meetings and is responsible for setting appropriate board meeting agendas and proceedings from a high level perspective with a sound executive understanding of the situation. Our external directors speak out from their respective backgrounds, and I feel the Board of Directors' effectiveness has been significantly enhanced by the members engaging in dialogue stimulated by their own opinions, which at times are promptly reflected in management decisions. We have seen increasingly vigorous discussion on potentially high risk issues, such as sustainability.

Umeda • I have served in various administrative posts in healthcare, environmental, and other fields and have also been involved in international organizations and national diplomacy related to international healthcare. I therefore try to offer advice based not only on my field of expertise but also on knowledge accumulated through first-hand experience in such areas as effective collaboration between industry, government, and academia. Although I'm an outsider to the construction industry, I feel quite comfortable speaking up at the board meetings, and when I ask simple questions, the executives provide detailed explanations. What's more, I'm often inspired by the comments made by other external directors, who bring a wealth of management experience, and I feel that our discussions are very meaningful.

Ishida • An evaluation of the effectiveness of the Board of Directors for fiscal 2022 was conducted through an interview by a third party with expertise in corporate governance. Over the past two years, the evaluation had been conducted using a questionnaire, but since the responses tended to converge on similar ideas, we decided to use interviews this time to surface more detailed information. Looking ahead, we will continue to explore different methods to enhance the evaluations.

Umeda • The interviewer's awareness of the issues was reflected in questions following up on matters that had come up in past questionnaires, and it was clear that PDCA improvement cycles were being implemented. As for myself, the interviews provided a good opportunity to reaffirm my responsibilities and role as an external director.

What would you emphasize as being effective for utilizing Sanki Engineering's management capital?

Ishida • Sanki Engineering has grown on the strength of its technological capabilities, and I place the highest priority on utilizing the human capital that supports

this growth. In terms of investing in that, our policy is to spare no effort to ensure appropriate profits and improve the working environment so that our employees can work with a strong sense of purpose and motivation. Today, with the increasing diversity of life planning, we must continuously think about how we can make employees happy.

Umeda • I have the strong impression that Sanki Engineering employees are working diligently as the unsung heroes of society, but they may not be keenly aware that their daily work is directly connected to resolving social issues and contributing to sustainability. I think you could further raise their awareness and encourage each of them to demonstrate their capabilities by entering sustainability-related awards and other contests for the sake of gaining external recognition, and by communicating both internally and externally the value of government verification projects for resolving social issues in which the Company participates.

Opening New Pathways into the Future with the Power of People and Technology

Finally, what are your expectations for the Sanki Engineering Group in the years ahead?

Umeda • Continuing to achieve sustainable growth in an era of such rapid and dramatic social change will require being a company that accurately grasps the needs of society while responding with innovative ideas and technologies. Sanki Engineering's most appealing aspects are its honest corporate culture and down-to-earth management, and I expect it will improve these strengths by fully realizing the potential of the technology it has cultivated to develop business, enhance value creation, and open up new pathways into the future.

Ishida • As global issues continue to evolve, I believe the time has come to reevaluate our response as a total engineering company. While there is no doubt about the value of the unique technologies we have cultivated over nearly a hundred years and the relationships of trust we have forged with our stakeholders, the times require us to address social issues with a willingness to participate in open innovation and other forms of external collaboration. To that end, I want to pay even closer attention to the opinions and suggestions of our board members, who come from diverse backgrounds.

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. The committee reviews, monitors, and provides guidance with respect to compliance guidelines and action plans for the entire Group, and the Board of Directors regularly verifies the effectiveness of its activities.

● Compliance Audit

The Internal Audit Office seeks to strengthen compliance by providing guidance on audits. In fiscal 2022, internal audits were carried out at 20 worksites, including 16 in Japan and 4 subsidiaries in Japan and overseas. In addition, we conducted hearings with onsite staff by visiting Company sites and via web conferencing to foster compliance awareness.

● Whistleblowing System

We set up the Corporate Ethics Hotline for reporting on compliance-related issues, the Fair Trade Hotline for reporting on violations of the Anti-Monopoly Act, the Women's Hotline for accepting consultations from women, and the Consulting Office for Harassment and Other Concerns. All hotlines are open to all employees, and information is posted on the corporate website.

With regard to each hotline, 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 reported information is presented to corporate ethics officers, and important information is reported to the Board of Directors. At the Corporate Ethics Hotline, the reporter's name is handled in secrecy by corporate ethics officers 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.

In fiscal 2022, there were 11 reported incidents (10 internally and 1 externally), and all incidents were handled appropriately.

Number of Reports and Consultations in Fiscal 2022

	Number of Reports
Corporate Ethics Hotline	10
Fair Trade Hotline	0
Women's Hotline	0
Consulting Office for Harassment and Other Concerns	1
Consultations	10

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Corporate Governance System

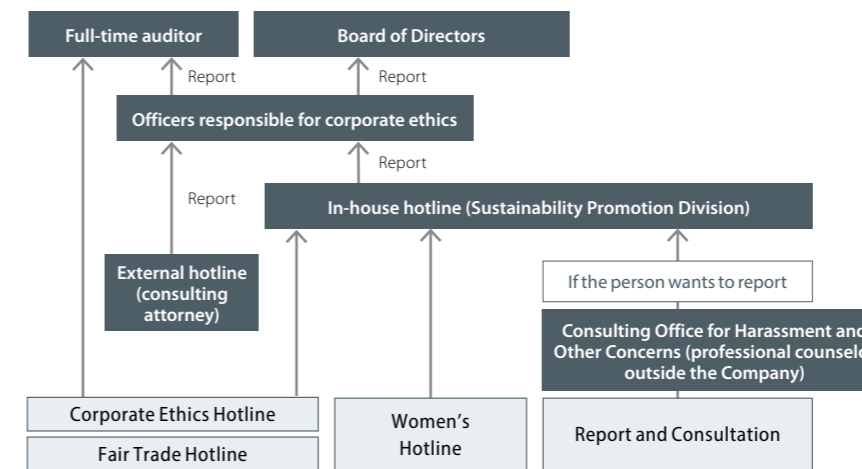


E-mail hotline@eng.sanki.co.jp

Reporting and Consulting Channels

<https://www.sanki.co.jp/en/csr/governance/hotline/>

Whistleblowing System



Compliance Promotion Activities

● 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 antisocial forces, are submitted at the beginning of each fiscal year.

Number of People Submitting Compliance Confirmation Sheets (Fiscal 2023)

	Sanki Engineering (Target Employees)	Group Companies (Target Employees)
Compliance confirmation sheets concerning performance of duties ^{*1}	38 (38)	→37 (37)
Compliance confirmation sheets ^{*2}	2,027 (2,063)	498 (509)

● Response to Antisocial Forces

We clearly state that severing relationships with antisocial forces is a condition for doing business with our partners and ask them to submit a Letter of Intent Regarding the Elimination of Antisocial Forces. As of March 31, 2023, we have received the letter from a cumulative total of 3,906 companies.

● Training and Handbook for Ensuring Thorough Compliance

Sanki Engineering conducts training for all executives and employees on a regular basis in order to ensure thorough dissemination of and compliance with the Code of Conduct and Action Guidelines. Separate special training is provided for mid-career hires when they join the Company and for new sales representatives when they start their position.

We also distribute the Sanki Engineering Group Sustainability Handbook, a pocket-sized reference on policies related to compliance and sustainability, including specific explanations for practical situations and information on hotlines for reporting and consultation.



Poster promoting the whistleblowing system

*1 Directors and executive officers submit compliance confirmation sheets related to the execution of operations.
 *2 Individuals who did not submit compliance confirmation sheets were unable to do so due to reasons such as maternity leave and medical treatment.



Sustainability Handbook

Compliance-Related Training (FY2022)

Theme	Target	Frequency and Participation (Attendance Rate)
Compliance topics including the Code of Conduct and Action Guidelines, Anti-Monopoly Act, human rights, and preventing bribery	All Group executive officers and employees	10 sessions 2,632 employees (99%)*
	Mid-career hires	5 employees (100%)
Compliance with the Anti-Monopoly Act	Newly assigned sales staff	38 employees (100%)
Human Rights Policy, Environmental Policy	All Group executive officers and employees	2,628 employees (99%)*

Survey on Status of Compliance in the Workplace

We conduct a survey every fiscal year on the status of compliance in the workplace, targeting all executive officers and employees. It incorporates questions on compliance and human rights risks, including about issues related to harassment in the workplace, by customers and business partners. Survey results are disclosed to all Group executives and employees.

Initiatives for Preventing Bribery

We are working to prevent corrupt practices under the Sanki Engineering Group Action Guidelines, which prohibits bribing public officials and providing benefits such as excessive business entertainment. In addition to establishing a program specifically related to bribery as part of our corporate ethics training, we provide e-learning for all employees. Points to consider when making practical business decisions and points to keep in mind outside Japan are also explained in the Sanki Engineering Group Sustainability Handbook.

Reinforcing Compliance with the Anti-Monopoly Act

Ongoing Measures for Recurrence Prevention

The following are key measures on reinforcing compliance that we undertook to date. In October 2022, we revised the Anti-Monopoly Act Compliance Manual. Applying the results of the survey on compliance in the workplace, we will continue our Group-wide effort to prevent violations of the Anti-Monopoly Act in fiscal 2023.

Policies and Manuals

- Formulated the Sanki Engineering Group Compliance Declaration and Sanki Engineering Group Conduct Standards
- Issued and revised the Compliance Handbook
- Issued the Sustainability 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

*Individuals who did not participate in training were unable to do so due to reasons such as maternity leave and medical treatment.

FY2023 Survey on Compliance in the Workplace

Survey period: May and June 2023
Participants: all Group executive officers and employees

Do you think that compliance-conscious behavior has permeated our Group?

- Yes. 37%
- Somewhat. 58%
- I'm leaning toward "no" here. 4%
- No. 1%

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

- I think that personal relationships in the workplace are relatively good. 69%
- It seems easy to take various kinds of leave. 60%
- Your supervisor is willing to listen to your opinions and suggestions. 47%

What do you think is important for creating a workplace that is less prone to compliance violations? (Multiple answers are allowed.)

- Improving personal morals and awareness 75%
- Improving communication in the workplace 51%
- Eliminating work overload and understaffing 48%

Risk Management



Basic Philosophy

The Sanki Engineering Group's Enterprise Risk Management system consists of two pillars. Daily risk management is undertaken by the Risk Management Committee based on the Risk Management Rules, while the Business Continuity Management System safeguards the effectiveness of business continuity planning in the event of contingencies, including crisis management.

Risk Management Promotion System

Management Based on the Risk Management Rules

The Risk Management Committee meets quarterly, and risks are managed through the Risk Management Division and the subcommittees responsible for various risks.

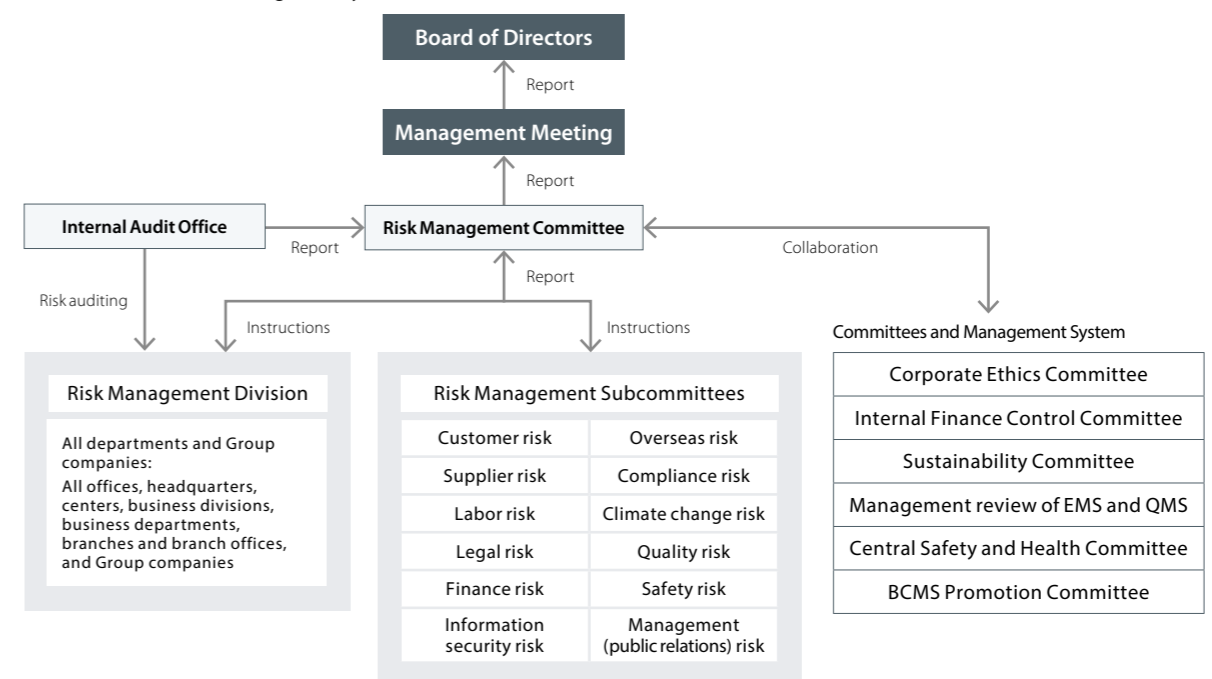
The Risk Management Committee is attended by the risk management executive, members of the Management Meeting, chairpersons of each risk management subcommittee, and the general manager of the Internal Audit Office, with the full-time auditor also participating as an observer. The president currently serves as the risk management executive.

The Risk Management Division consists of representatives from each department and Group company and is responsible for discerning changes in the environment on a daily basis to identify emerging risk factors and managing signs of risk manifestation. The Risk Management Subcommittees monitor risks from a broader perspective and provide cross-sectional supervision for risks raised by departments, and they also consider and implement countermeasures. At each meeting, the Risk Management Committee monitors and evaluates risks based on review sheets covering various risks and reports from each risk management division and Risk Management Subcommittee, and deliberates on how to control key risks identified in the process.

Risk Management Committee

- Chairperson: Risk management executive (president)
- Members: Management meeting constituent members and persons nominated by the chairperson
- Roles:
 1. Monitor important risks and formulate a control plan
 2. Monitor risks reported by subcommittees and divisions
- Convenes: Once a quarter in principle and additionally as required

Framework of the Risk Management System (as of June 23, 2023)



Roles of the Board of Directors and Internal Audit Office

The Risk Management Committee reports on the results of its deliberations to the Board of Directors, which ensures effective risk governance by verifying the adequacy of the risk management system and the effectiveness of controls over material risks.

The status of risk management at each department is ascertained and verified by the Internal Audit Office during regular internal audits.

Risk Management Activities

Major Issues Discussed by the Risk Management Committee

Major issues discussed in fiscal 2022 are summarized below.

- Recognize large-scale communication failures as a new risk and guide the development of countermeasures in coordination with the Business Continuity Management System (BCMS)
- Reinforce the monitoring of rising materials and equipment costs and delays in delivery
- Reinforce the monitoring of work conditions in response to Japan's revised Labor Standards Act
- Guide the development of risk control measures related to specific construction projects and monitor progress
- Coordinate with special discussions on risk governance conducted by the Board of Directors
- Continue monitoring risks associated with COVID-19

FY2022 Operational Policy for Risk Management

Policy	Outline
Coordination with BCMS	Flexibly manage the PDCA cycle of the Business Continuity Management System (BCMS), which will be operational in fiscal 2022.
Expanded Risk Management Committee	Hold an expanded meeting of the Risk Management Committee by effectively utilizing the Executive Officer Committee to establish risk management and BCMS across the Group.

Business Continuity Management System (BCMS)

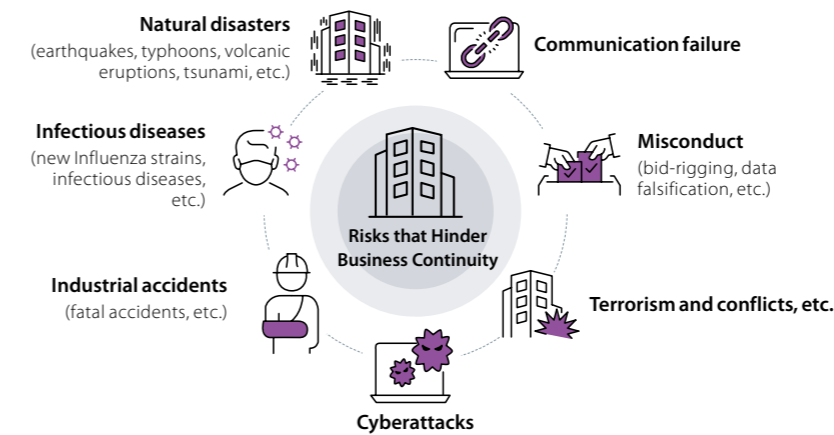
To prepare against risks that could hinder business continuity, we have formulated and put into place a business continuity plan (BCP) to ensure the safety of all related persons, including employees, through the integrated efforts of all executives and employees. In fiscal 2021, we began preparing to establish a BCMS as a mechanism for the effective maintenance and management of the BCP, and began operating the system in fiscal 2022.

Under the BCMS, we laid out an annual plan to periodically review the BCP through PDCA activities (business impact analysis, education, training, internal audits, management review, review, and improvement) and by coordinating with risk management undertaken by the Risk Management Committee. During the review process, we conduct a business impact analysis, from the perspectives of risk assessment and impact evaluation, to investigate and analyze the degree to which each target operation will be impacted in the event a risk materializes and to take concrete measures to strengthen corporate resilience.

Furthermore, to realize a system for rapid business recovery and maintenance, we formulated risk-specific response guidelines based on the BCP Common Version, which describes our basic response policy. The guidelines address the seven risks of natural disasters, infectious diseases, industrial accidents, cyberattacks, terrorism, misconduct, and communication failure. Since fiscal 2023, the scope of the BCMS has

been expanded to include domestic Group companies. In addition, to prepare for contingencies, we continue to provide BCMS training for directors and employees, conduct periodic drills, and add to our emergency supplies. In particular, we began conducting new drills for industrial accidents, cyberattacks, and misconduct, in addition to drills for natural disasters, to strengthen our response capabilities.

Seven Major Risks that Hinder Business Continuity



Strengthening Risk Management in Overseas Operations

An Overseas Risk Subcommittee was set up within the Risk Management Committee to analyze risks and consider countermeasures. To ensure the safety of employees working outside Japan, 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. Compliance training sessions for local staff at overseas sites have been conducted since fiscal 2021 to firmly establish governance across the Group. 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.

Initiatives on Information Security

We have established the Information Security Risk Subcommittee within the Risk Management Committee to control information security measures across the Group and manage risks. We are taking action to respond quickly to cyber attacks by deploying information security software and installing software that constantly monitors the intrusion of malware and other malicious software. In July 2023, we revised our information security measure guidelines regarding precautions for the use of generative AI services. We are also promoting the use of cloud services to address risks to construction site data storage involving many companies. In addition, we provide ongoing training through e-learning on information security for all Company employees and employees of subcontractors.

Major Business Risks

- **Business Operation Risks**
 - Common to all construction businesses
 - Securing human resources
 - Increase in materials and labor costs and delays in delivery of materials and equipment
 - Overseas business risks
 - Accidents and disasters during construction
 - Unprofitable construction
 - Facilities Construction Business
 - Overabundance of planned projects and response to global challenges
 - Increase in property size
 - Machinery Systems Business
 - Decrease in capital investment
 - Decline in competitiveness
 - Environmental Systems Business
 - Changes in market conditions
 - Long-term business risks
 - Real Estate Business
 - Rent fluctuations
 - Decline in occupancy rate
- **Financial and Other Risks**
 - Customer credit risk
 - Stock market fluctuations
 - Interest rate fluctuations
 - Risks related to litigation, etc.
 - Seasonal fluctuations in business performance
 - Legal violations
 - War, terrorism, and natural disasters
 - Climate change
 - Infectious disease epidemic
 - Data security breach
 - System failure

Annual Securities Report for the 99th Business Term (from April 1, 2022 to March 31, 2023) (in Japanese)

https://www.sanki.co.jp/ir/library/doc/securities_R4-4q.pdf



Comprehensive Disaster Response Headquarters set up during a drill

Risk Management Manual for Overseas Operations

- Response rules and procedures to be followed by the head office and overseas bases in the event of a crisis overseas
- Risks to physical well-being and life, violation of laws and regulations, response to mass media, 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, prevention of damage from crime and other risks, compliance with anti-corruption and other laws, personnel/labor management of locally employed staff, religion, and other related matters

Information Security Rules and Standards

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

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>



Appropriate Information Disclosure and Constructive Dialogue

As stated in our Disclosure Policy, Sanki Engineering is committed to the timely and appropriate disclosure of corporate information. We proactively disclose information beyond legal mandates when we deem it to be useful to shareholders and investors and in order to ensure management transparency.

● Status of Dialogue with Shareholders and Investors

In addition to livestreaming the general meeting of shareholders, we are striving to provide greater convenience for shareholders and enhance information disclosure by accepting questions via the corporate website ahead of the general meeting of shareholders and providing videos of the president's business reports on the Company's website. We engage our investors by holding results briefings for analysts and institutional investors, as well as individual IR meetings throughout the year (45 times in fiscal 2022). We also periodically conduct shareholder surveys, and the needs and opinions identified through such dialogue with shareholders and investors are regularly presented to the Board of Directors and the Management Meeting.

Major Dialogue with Shareholders and Investors

In addition to questions and comments about business performance and the business environment, the following themes were discussed in the dialogue.

- Status of the Medium-Term Management Plan "Century 2025" Phase 3
- Impact of the sharp rise in material, equipment, and labor costs on business performance
- Response to and impact of overtime caps applied in 2024

External Recognition

● Received Top Rating in the ESG/SDGs Assessment Loan Scheme

Sanki Engineering received the highest rating of AAA 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 were recognized for achieving high marks in the areas of response to climate change, integrity in customer relationships, and sustainability management.

● Nikkei SDGs Management Survey Rating of 3.5 Stars

In the 4th Nikkei SDGs Management Survey, Sanki Engineering was rated 3.5 on a scale of 5 stars. The survey comprehensively evaluates a company's contribution to realizing the SDGs in the four categories of SDG strategy and economic value, social value, environmental value, and governance.

Disclosure Policy

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

IR Meetings in FY2022

• Personnel responsible

- Director and chief financial officer
- General manager of the Management Planning Office
- General manager of Corporate Communications Department
- Staff in charge of IR

• Target shareholders and investors

- Financial institutions
13 meetings (7 companies)
- Investment management companies
21 meetings (14 companies)
- Securities companies
11 meetings (5 companies)

Medium-Term Management Plan "Century 2025" Phase 3 (FY2022-2025)

https://www.sanki.co.jp/en/ir/policy/doc/Medium-Term_Management_Plan_Century_2025Phase3.pdf



Sumitomo Mitsui Banking Corporation ESG/SDGs Assessment Loan

NIKKEI
SDGs

経営調査 2022 ★★★★★

Nikkei SDGs Management Survey