

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.

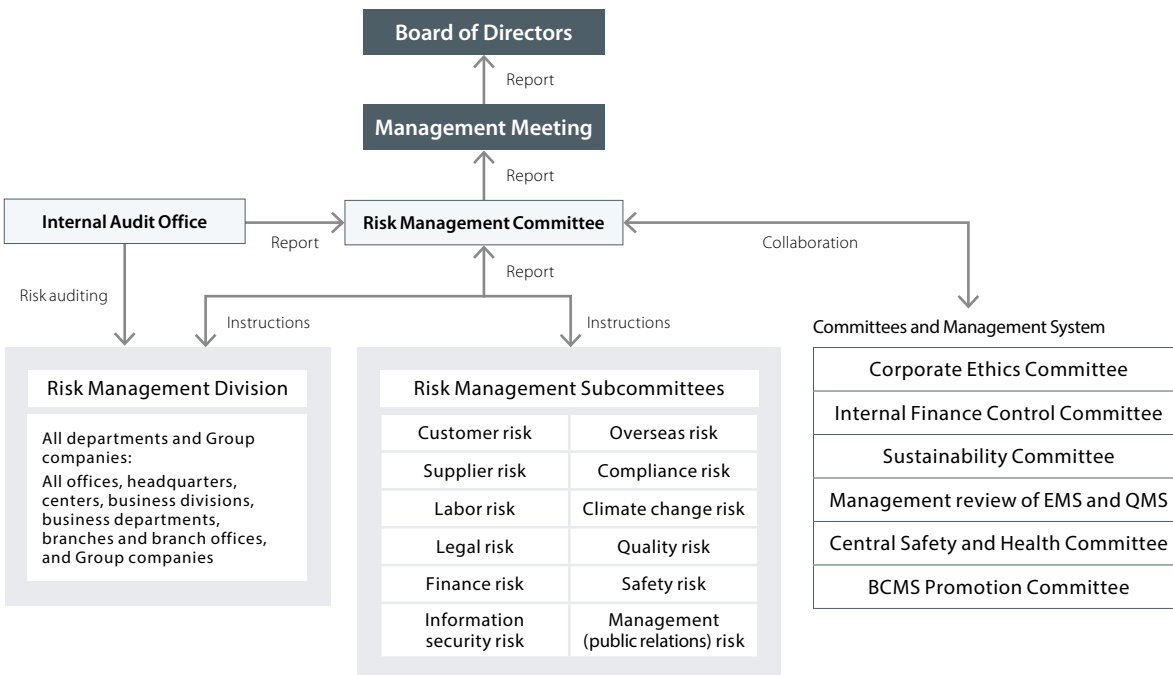
The Risk Management Committee is attended by the risk management executive, members of the Management Meeting, chairpersons of each risk management subcommittee, and the general manager of the Internal Audit Office, with the full-time auditor also participating as an observer. The president currently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

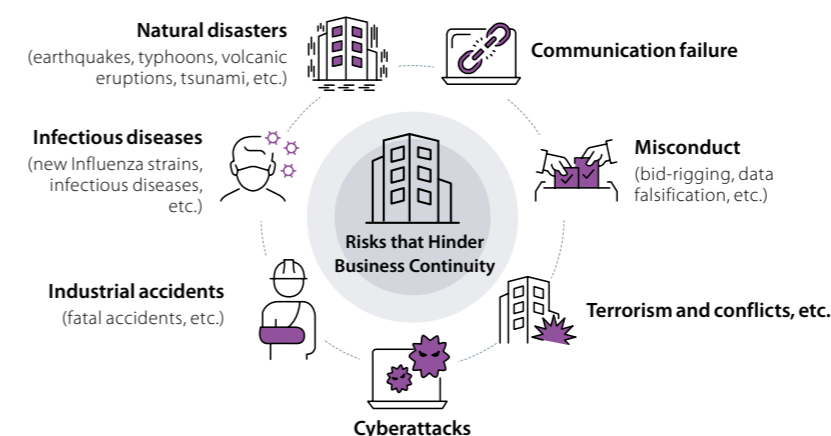
To prepare against risks that could hinder business continuity, we have formulated and put into place a business continuity plan (BCP) to ensure the safety of all related persons, including employees, through the integrated efforts of all executives and employees. In fiscal 2021, we began preparing to 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
- Real Estate Business**
 - Decline in competitiveness
 - 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