

Message from the President



Hirokazu Ishida
President

With our eyes firmly fixed on the future,
we will continue to take on the challenges
of remaining the Enduring company of choice.

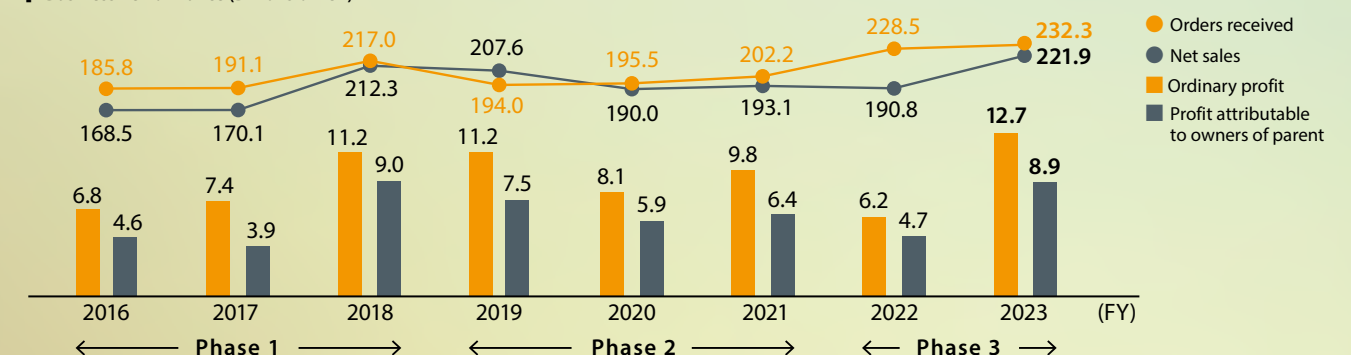
Operating Environment Surrounding Sanki and Business Results for Fiscal 2023

With the end of the more than three-year period of the COVID 19 pandemic and the full return of normal social and economic activities, we are seeing a growing appetite for capital investments from the private sector in the Japanese construction market, which constitutes a major focus for the Sanki Engineering Group. Large-scale redevelopment projects are underway in major cities across Japan, while the return of manufacturing industries from overseas has also become more pronounced, leading to a surge of investments in the growth industries of semiconductors, EV batteries, and data centers. Furthermore, we are also observing robust DX investments, which overlap with initiatives for decarbonization, as well as labor and energy savings, and we expect this trend to continue steadfastly into the future.

Under these circumstances, the Sanki Engineering Group performed well in fiscal 2023, maintaining high levels of net sales and profits due to the progress of abundant

carryover construction projects and improvement of profit margins focused on the mainstay Facilities Construction Business. As a result, we were able to exceed the targets for the final year (fiscal 2025) of the Medium-Term Management Plan “Century 2025” Phase 3, with net sales of 220 billion yen and ordinary profit of 12 billion yen. Labor costs have remained high due to shortages in labor, and the costs of construction materials and equipment have also remained high, due in part to the surge in international raw material prices and the higher cost of imports associated with the weak yen. Nevertheless, we were able to improve our overall profit margin by passing on these costs to customers with their understanding and by actively taking orders and improving profitability during construction work. We expect the business environment to remain favorable for the time being, with ample construction work to be carried over to the next fiscal year and beyond.

Business Performance (Billions of Yen)



Status of the Medium-Term Management Plan “Century 2025” Phase 3 in Fiscal 2023

In fiscal 2023, we completed the second year of the Sanki Engineering Group’s four-year Medium-Term Management Plan “Century 2025” Phase 3 (FY2022–2025), thus reaching the plan’s halfway point. Phase 3 marks the culmination of our efforts to become the company of choice, as stated in our long-term vision “Century 2025,” which covers a ten-year period. As mentioned earlier, while we were able to achieve most of our management targets ahead of schedule, we are engaged in ongoing efforts to further enhance the quality of each of the basic policies of Phases 1 and 2: strengthening core businesses; promoting growth strategies; enhancing the Sanki brand;

strengthening information dissemination capabilities; and disclosing financial and capital policies (PP. 26–29).

As a major topic particularly relevant to strengthening core businesses and promoting growth strategies, we have established the new Design & Engineering Division in our mainstay Facilities Construction Business to handle the growing scale of properties and specialized assets, such as facilities related to semiconductors and EVs. By establishing a system for efficiently providing an intra-organizational response from the design stage, I believe we will be able to boost our competitiveness in anticipation of the future evolution of the business environment.

In the Facility Systems Business, we established a new office in Shiodome, and reinforced our sales capabilities to expand the business. In the Machinery Systems Business, we focused on developing new technologies and products that meet customer needs, in the hope that the growing demand for labor and energy savings serves as a tailwind for future business expansion. In fiscal 2023, we constructed a clean room at the Yamato Product Center and began the development and manufacture of high value-added products. We are also actively pursuing R&D in collaboration with startup companies and other entities.

In the Environmental Systems Business, we reorganized

the operations of two Group companies to strengthen and promote the LCE business by creating a structure that enhances the expertise of both entities. We also anticipate an expansion in the water treatment business in Japan and overseas, and we are expanding production facilities in Japan and strengthening the functions of our Austria plant to increase the production capacity of AEROWING as a strategic product. While issues such as soaring labor costs and social circumstances remain, we are seeking to advance our overseas business even more boldly in the near future and intend to make the necessary preparations now, while we are able to continuously secure profits.

Addressing the “2024 Problem” and Promoting DX

What is referred to as the “2024 problem” and promoting DX are important aspects of the new key initiatives set forth in Phase 3—accelerating work-style reform and investing toward the “Next Era.” Since April 2024, a cap on overtime has been applied to the Japanese construction industry, where long working hours have been considered a problem throughout the industry. The Sanki Engineering Group recognized early on that eliminating long working hours had to be addressed in light of the declining workforce in the construction industry. In 2015, we launched the Smile Project for implementing Company-wide work-style reform, and we have sought to establish the relevant systems and working environment while raising employee awareness. We have also promoted the Smile Site Plan to specifically target construction sites and a Smile Plan for each business segment. By implementing measures such as work content analysis and work sharing, we have been preparing to address the construction industry’s “2024 problem” as a milestone into the future.

Application of the regulatory cap has just begun, and while we will continue to closely monitor and flexibly respond to the situation, we recognize that the immediate

issue is to secure personnel and level the volume of work as the scale of construction projects becomes noticeably larger. In addition, when considering our own sustainability in this era of a declining population, I believe that improving productivity and raising operational efficiency are unavoidable issues and that promoting DX constitutes an essential investment in the “Next Era” to address them.

In April 2023, the Sanki Engineering Group established the DX Promotion Division (now the DX Promotion Office) to promote initiatives for reforming work styles and improving productivity, as well as achieve further growth, by striving to become an organization that connects all Group employees through a Co-Creation Cycle of knowledge. In January 2024, Sanki Engineering was certified as a DX Certified Business Operator by Japan’s Ministry of Economy, Trade and Industry, and we are pursuing such actions as constructing new digital infrastructure, applying generative AI to internal operations, and strengthening data collaboration. Speed is of the essence in all these measures, and we hope to accelerate our DX by first gaining expertise by actually applying the technology.

Promoting Sustainability Management and Enhancing Corporate Value

The Sanki Engineering Group has been promoting sustainability management under its Sustainability Policy, which was established in February 2022 based on its management philosophy. As a company that creates comfortable environments and offers them to society at large, our contribution to sustainability overlaps with our business activities in many ways, and I believe this also has a great deal to do with enhancing our corporate value as well.

In particular, we are currently focusing on the SANKI YOU Eco Contribution Point System as an initiative that symbolizes the stance taken by the Sanki Engineering Group (pp. 46–47). The system provides a mechanism for customers to earn points by adopting our CO₂ reduction proposals and to donate these points to environmental conservation activities. We believe it is highly significant that the promotion of our business

is directly linked to expanding the circle of carbon neutrality throughout society.

Meanwhile, the Sanki Engineering Group is aware of its own need to continuously tackle climate change as a priority issue. Under Sanki’s Carbon Neutral Declaration, linked to our materiality of contributing to a carbon-free society, we are making steady progress toward achieving net zero Scope 1 and 2 emissions for the Group in 2030 (p. 52). With regard to environmental issues, there are now a variety of regulations and requirements, and we have been implementing initiatives, including maintaining the Ministry of the Environment’s 30 by 30 Alliance for Biodiversity, meeting TCFD requirements, applying for SBT certification, and remaining on the CDP’s Climate Change A List. I feel we should continue to heighten our awareness of these throughout the Group, since such requirements are expected to become more sophisticated in the future and we must always be ready to respond.

Before we vigorously accelerate our activities, we must first ensure that our employees are fully aware of the significance of promoting sustainability. In addition to passing on the technologies at the foundation of our business, we must also raise our in-house literacy of environmental issues as well as DX, which will underpin our future business activities. To that end, we will continue to invest in appropriate human capital. I hope this will instill the Sanki spirit and brand in every employee and be passed on to the next generation.

We have been dispatching personnel to the Antarctic Research Expedition since 1991 to support environmental conservation. We primarily handle maintenance and management of on-site wastewater and waste treatment



facilities as well as the HVAC and plumbing system, which significantly enhances the development of our human resources as well. We would like to continue to participate in the expedition as an opportunity to bring back new knowledge, experience, and inspiration.

In terms of governance, we endeavored to improve the effectiveness of our corporate governance to further reinforce credibility by establishing the new Corporate Division in April 2024, which integrates and manages the Secretarial Office, Management Planning Office, Legal Affairs Office, DX Promotion Office, Sustainability Promotion Office, and Chief Cost Inspector Office. In the past, each organization with corporate functions in the Sanki Engineering Group had independently formulated and executed their respective measures. Henceforth, we plan to have the Corporate Division manage coordination among organizations, thereby deepening inter-organizational collaboration and facilitating prompt action.

To Our Stakeholders

For the Sanki Engineering Group to be the company of choice for our stakeholders now and in the future, it is important for us to continue providing solutions through our business for social issues such as carbon neutrality. We are also aware that we must keep abreast of social trends that emphasize return on capital in corporate financial strategy, through efforts such as advancing our response to management with due consideration of capital costs and share price, as required by the Tokyo Stock Exchange (pp. 30–31).

The component technologies we have cultivated over the years will no doubt remain a great asset for years to come. However, I also realize we will need to take on further challenges beyond the conventional framework and

change the way we think. To that end, I believe we should actively invest in diverse areas, including the search for new technologies (p. 28), collaboration with other companies, open innovation, and M&A.

The Sanki Engineering Group will celebrate its 100th anniversary in April 2025. While this is an important milestone, it is by no means the goal. We will boldly look beyond that milestone to our ideal vision for 2050, of becoming “Sanki, the Enduring Company of Choice,” and we will advance with vigor and achieve growth into the next era by reinforcing our management base to maximize our strengths.