

Message from the Chief Financial Officer

We will boost net sales through proactive growth investments and further enhance profitability and capital efficiency.

Yoshio Kawabe

Director, Managing Executive Officer, General Manager of the Accounting Division, and Chief Financial Officer



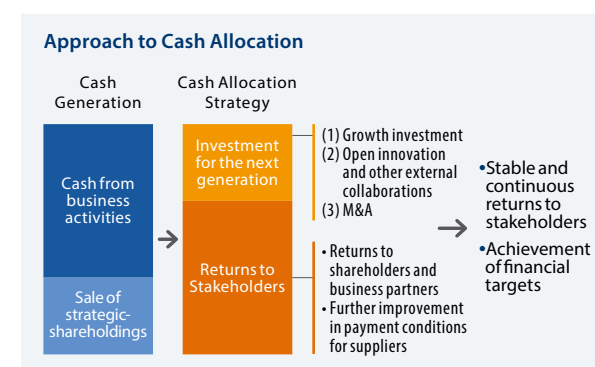
Business Results for Fiscal 2023

In fiscal 2023, the second year of our Medium-Term Management Plan “Century 2025” Phase 3, we made steady progress toward our financial targets, largely meeting them while closing the year with increased sales and profits. Notably, we achieved a ROE of 9.2%, surpassing the 8% target set for the final year of Phase 3. I believe this is the result of our steadfast efforts to reform work styles amid a seemingly endless rise in onsite staff workloads, as well as our ongoing efforts to improve profitability both when receiving orders and during construction. Looking ahead, we will continue to make solid progress in acquiring treasury stock, for which we have set a cumulative target for the Phase 3 period.

The Sanki Engineering Group has upheld as a key materiality goal the making of growth investments totaling 20 billion yen during Phase 3, with 5.9 billion yen invested over the first two years through fiscal 2023. Most of these investments are intended to strengthen our management foundations, including ICT investments to promote DX, human resources, and R&D. However, we recognize the importance of further accelerating investments in the foundations for growth, such as M&A and alliances with startup companies. While long-term growth investments may not yield immediate results, we are confident that continuing these investments will maximize the compounding effect, leading to greater profits and increased shareholder value. In particular, investments in human resources—the most vital management resource of the Group—will drive sustainable corporate growth, and we will work to create a virtuous cycle that returns the benefits of these investments to our shareholders and other stakeholders.

Meanwhile, having achieved most of our financial targets, I believe now is the time to set new strategies and quantitative targets for ongoing improvements. We will continue to carefully consider our targets for realizing

an optimal capital structure that integrates our business, management, and financial strategies, while also reducing the cost of capital.



Capital Policy for Supporting Rapid Business Growth

We acknowledge the significance of the changes taking place in the social environment surrounding the Sanki Engineering Group in recent years. Primarily, the development and utilization of information technology has led to changes in the social structure, leading to active investments in manufacturing facilities for semiconductors and EV batteries. While we have been involved in semiconductor manufacturing facilities for many years, these structural changes have resulted in the projects now accounting for a large portion of the orders we receive. From the perspective of the finance division, considering the shift in the content of orders and overall increase in workload, I believe we have progressed from seeking stable business growth to once again expanding our business.

I am well aware of the importance of my own role in controlling and allocating cash flow during this critical time. Additionally, we will need to procure funds to support

the rapid business growth associated with this renewed expansion. We will promote a cycle of strategic growth investments to achieve robust sales growth, which in turn will improve profitability and capital efficiency and generate resources for further growth. While I anticipate we will be selling strategic-shareholdings and utilizing leverage, my focus will be on intrinsic profitability rather than increasing ROE through excessive leverage.

When we announced our earnings results in May 2024, we also introduced new initiatives on the cost of shareholder equity and strategic-shareholdings as part of our efforts to realize management with due consideration of capital costs and share price, as required by the Tokyo Stock Exchange. Although the cost of shareholder equity is influenced by factors such as market interest rates, total interest-bearing debt, and market capitalization, we estimate our medium- to long-term cost of shareholder equity to be around 6–7%. To maintain awareness of the cost of shareholder equity, we calculate the return on invested capital (ROIC) for each business and refer to it as an indicator for continuously improving profitability. For instance, we discuss ROIC and how it compares to the cost of shareholder equity during Board of Directors’ meetings.

In relation to capital efficiency, we have also announced our policy of reducing strategic-shareholdings to less than 20% of net assets. Although we have not specified a time frame, we will proceed with this policy quickly and appropriately while carefully allocating funds to growth investments and other areas. Furthermore, the Tokyo Stock Exchange’s requirement for companies with a P/B ratio below 1 has drawn attention. Sanki Engineering’s P/B ratio for fiscal 2023 was approximately 1.1, partly due to the booming stock market. To ensure this is not a temporary phenomenon, we will work to improve our investment and capital efficiency by maintaining open and constructive dialogue with our investors to meet their expectations.

Financial Risk Management

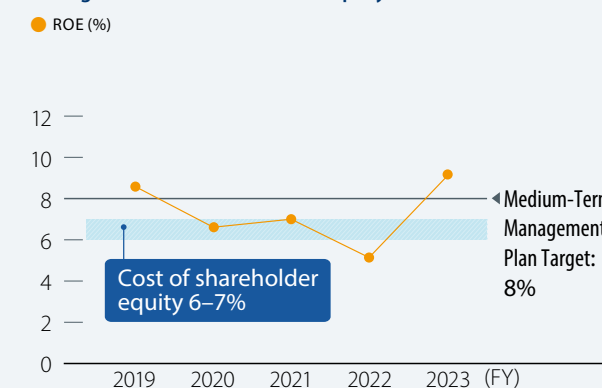
Since the Sanki Engineering Group operates in an industry dependent on orders received, uncertainties in the economic outlook pose a significant risk to our performance. We must therefore anticipate and prepare for such risks in advance. As a specific risk management measure, we reviewed the Risk Management Committee’s monitoring sheet for fiscal 2023, adding financial indicators such as working capital status, confirmation of changes in the balance, and monitoring allowances for construction losses to closely monitor any fluctuations. Furthermore, we are reducing financial risks and strengthening governance by leveraging our core enterprise system to enhance the internal sharing of financial information, including future forecasts, that will be used in individual sales activities.

In addition, to raise the level of employee financial literacy, we are cultivating human resources who can play a practical role in the financial field, particularly in the accounting and finance departments.

Dialogue with Stakeholders

Engaging in continuous dialogue with our shareholders, investors, and other stakeholders is crucial for the sustainable growth of our Group. From past stakeholder dialogues, we have recognized the need to enhance our disclosure of non-financial information. Therefore, we intend to proactively share this information to energize our discussions. We will also offer more detailed information on market trends, progress toward achieving our targets, and other relevant matters. Our management team will review stakeholder feedback and incorporate it into future management and corporate activities.

Change in Cost of Shareholder Equity and ROE



Change in Strategic-Shareholdings

