

SANKI REPORT

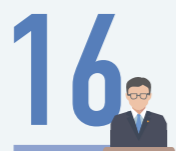


Contents



Introduction

- 04 Management Philosophy
- 06 History of Sanki Engineering
- 10 Business Overview by Segment
- 14 Financial and Non-Financial Highlights



Message from the President



Sanki Engineering's Future Vision and Value Creation

- 20 Our Value Creation Process
- 22 Management Resources of the Sanki Engineering Group
- 24 Sanki Engineering Group Materiality



Growth Strategies and Sustainability Management

- 26 Status of the Medium-Term Management Plan "Century 2025" Phase 3 (FY2022–2025)
- 29 Message from the Chief Financial Officer
- 30 **Feature 1**
Sanki Engineering Group's Initiatives for Achieving Carbon Neutrality by 2050
- 32 **Feature 2**
Sanki Engineering Group's DX Strategy
- 33 **Feature 3**
Our Technological Contribution to Sewage Treatment Facilities
- 34 Facilities Construction Business
- 37 Facility Systems Business
- 39 Plants & Machinery Systems Business



Foundation of Sustainability Management

- 43 Sustainability Management
- 44 Sanki Engineering Group Value Chain
- Environment**
- 46 Environment
- Social**
- 55 Quality Control
- 59 Occupational Health and Safety
- 61 Supply Chain
- 64 Human Rights
- 65 Human Resources
- 71 Local Communities
- Governance**
- 73 Corporate Governance
- 82 Dialogue between President Ishida and External Director Umeda
- 84 Compliance
- 87 Risk Management
- 90 Dialogue with Shareholders and Investors



Financial Report and Corporate Information

- 91 Share Information
- 92 Financial Report
- 100 Corporate Information, Business Locations, and Group Companies



Third-Party Opinion

Editorial Policy

Boosting Understanding of the Sanki Engineering Group

We have positioned the SANKI REPORT, the annual report of Sanki Engineering, as a key, integrated communication tool for reaching all our stakeholders. We hope it will boost understanding of the Sanki Engineering Group's business activities and future direction, and we welcome feedback for enhancing our operations and information disclosure.

Key content included in the 2023 report is listed below.

- Management resources that drive the Sanki Engineering Group's value creation are explained in "Sanki Engineering's Management Resources" (pages 22 and 23).
 - Views are exchanged on governance and the future direction of the Sanki Engineering Group in "Dialogue between President Ishida and External Director Umeda" (pages 82 and 83).
- Major information added to our disclosure includes the following.
- Indicators and targets for human resource strategy and human resource development (page 65)
 - Difference in wages between male and female workers (page 66)
 - Frequency of Advisory Committee on Nomination and Remuneration meetings (page 73)
 - Status of IR meetings (page 90)

Reference Guidelines

- "International IR Framework" of the IFRS Foundation
- Ministry of Economy, Trade and Industry's "Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation 2.0"
- GRI Sustainability Reporting Standards 2016, 2018, 2019, 2020, and 2021
- Ministry of the Environment's "Environmental Reporting Guidelines 2018"
- ISO 26000

Organizations Covered by the Report

The Sanki Engineering Group, which consists of Sanki Engineering Co., Ltd. and its eight subsidiaries.

- Non-financial information is based on non-consolidated figures for Sanki Engineering Co., Ltd. When the information concerns the Group, organizations covered by the data are specified in the text, list, or graph.

Reporting Period

April 2022–March 2023 (Some information from outside this period has also been included.)

Publication Date

September 2023 (previous issue: September 2022; scheduled release of next issue: September 2024)

Precaution on Performance Outlooks

In addition to past and present information concerning the Sanki Engineering Group, this report includes the targets, plans, outlooks, strategies, forecasts of future performance, and other information drawn from our long-term vision "Century 2025," Medium-Term Management Plan "Century 2025" Phase 3 (FY2022–2025), and other sources. Please be aware that these forecasts are the best estimates by Sanki Engineering management and based on information available at the time and that actual performance may differ significantly from these forecasts, owing to changes such as in economic conditions, market trends, and exchange rates.





Sanki Engineering Group Management Philosophy Sanki Standard

We create comfortable environments
through engineering and widely contribute
to social development.

- We will refine our skills and wisdom with the aim of increasing client satisfaction.
- We will place significance on communication and mutual respect.
- We will remain aware that we are a member of society and will act accordingly.



HISTORY

History of Sanki Engineering

Sanki Engineering has developed its business in step with the modernization of Japanese industry over the past nine decades. Under the Sanki Engineering Group Management Philosophy, “We create comfortable environments through engineering and widely contribute to social development,” the Company will continue to lead the way toward a new age, with the power of technology, and toward its 100th anniversary in 2025.

Origin of Our Corporate Name

Sanki Engineering has its origins in the Machinery Division of the former Mitsui & Co. and was named by taking one Chinese character each from “Mitsui” and “Machinery.”



From 1925 Laying the Base for Technological Competence by Meeting the Needs of the Era

- Begins businesses including heating, plumbing, and building materials
- Launches the electrical systems business
- Installs Japan's first centralized air conditioning system for an entire structure at Mitsui's main building



Mitsui main building



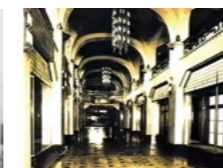
First President, Meiji Yasumoto

1930s Diversified and Expanded Businesses Lead to Greater Technological Competence

- Develops and installs a proprietary incinerator for facilities in the Sanshin Building
- Establishes Toyo Carrier Industries together with U.S.-based Carrier Engineering and launches the air conditioning business
- Completes work on the Tokyo Office of Nippon Life Insurance Company (currently Takashimaya Nihon-bashi department store)



Nippon Life Insurance Company Tokyo Office



Sanshin Building

1940s Sanki's Advanced Technology Bolsters a Construction Boom

- Starts manufacturing conveyors
- Concludes sales contracts for machinery used in mining-related chemistry with U.S.-based Dorrr Inc. and Oliver, Inc.
- Completes work on the main building of the Dai-ichi Life Insurance Company, Japan's first building with the special high-voltage power reception of 22 kV



Main building of Dai-ichi Life Insurance

1950s Proactive Approach to Technological Innovation

- Completes work on Japan's first all-fluorescent lighting system in the Taisho Marine and Fire Insurance Building
- Becomes involved in night-soil treatment plant disposal facilities in response to urban hygiene needs
- Delivers a roller conveyor to the Japanese Antarctic Research Expedition II



Night-soil treatment plant

1960s Manufacturer that Responds to the Needs of the Times

- Completes work on HVAC, plumbing, and electrical systems for Japan's first skyscraper, the Kasumigaseki Building
- Develops the standardized “6S sash” and gains the top market share among steel sash manufacturers
- Completes work on HVAC and plumbing for the Yoyogi National Stadium used in the Tokyo Olympic and Paralympic Games



Yoyogi National Stadium (at the time)



6S sash

1970s Wide Range of Technological Innovations

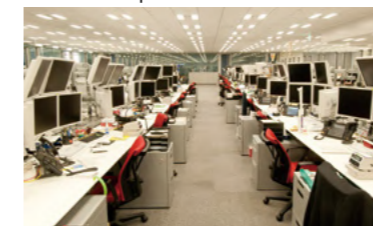
- Completes work on Japan's first large-scale clean room at NEC's Sagamihiro plant
- Develops the world's first completely unmanned automatic sorting system and airport baggage handling system
- Provides HVAC equipment for satellite communication ground stations in the Middle East and other regions and builds automotive testing equipment in Russia



Clean room

1980s Rising to the Challenge of New Businesses

- Launches the information and communications business
- Launches the facility systems business to deal with office integration and moving
- Established a Group company to handle operations and management as well as the repair and maintenance of Sanki facilities



Facility Systems Business

1990s Driving Progress in Environmental and Information Technologies

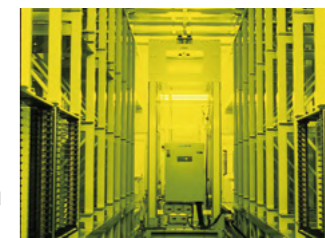
- Develops environment-related technology, including an ice thermal storage system, advanced sewage treatment systems, fuzzy combustion control technology, and gasification and melting furnaces
- Develops technologies related to clean rooms for pharmaceutical and semiconductor manufacturing plants



Advanced sewage treatment system

2000s Meeting the Needs of a Rapidly Advancing Information Society

- Advances network systems, including LAN, building monitoring, and automated control
- Establishes the Energy Solution Center to promote and develop the energy-saving business and provide sales support
- Develops and begins sale of clean conveyor facilities in response to growing demand for liquid crystal displays and organic EL panels



Clean conveyor

2010s Contributing to a Sustainable Society by Bolstering the LCE Business

- Promotes the LCE* Business, which is intended to sustain the life cycle of buildings and facilities, from planning, design, and construction work to maintenance, operation/management, renovation, and reconstruction
- Wins order for the DBO project, a bulk contract encompassing design, construction, management, and maintenance
- Completes the HVAC, central monitoring, and automated control systems for the Toranomon Hills Business Tower
- Completes HVAC, plumbing, and electrical systems (renewal) for Yoyogi National Stadium 1st Gymnasium used in the Tokyo 2020 Olympic and Paralympic Games

*Life-cycle engineering



Yoyogi National Stadium 1st Gymnasium

Established in

1925

1920

- April 22, 1925 Sanki Engineering is established
- Capital of 500,000 yen and 12 employees

1930

- 1931 Moves the head office to Hibiya
- 1935 Celebrates the tenth anniversary of its founding, with five branches, six field offices, three affiliates, and around 300 employees

1940

- 1945 End of World War II

1950

- 1950 The Japanese economy takes a favorable turn, and the expansion in demand for building construction and equipment results in a dramatic improvement in the Company's business performance, lists shares on the Tokyo Stock Exchange
- 1958 Capital exceeds 1 billion yen

1960

- 1963 Completes the Sagami plant (currently the Sanki Yamato Site), which tailors production equipment for conveyor mass production

1970

- 1971 Sets up the Environmental Administration Office
- 1973 Spins off the sash business

1980

- 1982 Builds the Technical Research Laboratory

1990

- 1991 Collapse of Japan's bubble economy
- 1995 Great Hanshin Earthquake
- 1997 Adoption of the Kyoto Protocol

2000

- 2000 Opens the Shonan Training Center
- 2005 Moves the head office to Nihonbashi
- 2008 Lehman Brothers bankruptcy

2010

- 2011 Moves the head office to Tsukiji
- 2015 90th Anniversary
- 2016 Launches the long-term vision “Century 2025”
- 2018 Begins operations at all facilities of the Sanki Techno Center
- 2019 Begins operations at the Yamato Product Center
- 2011 Great East Japan Earthquake
- 2015 Adoption of SDGs
- 2019 Lapan changes era name to “Reiwa”

History of Sanki Engineering

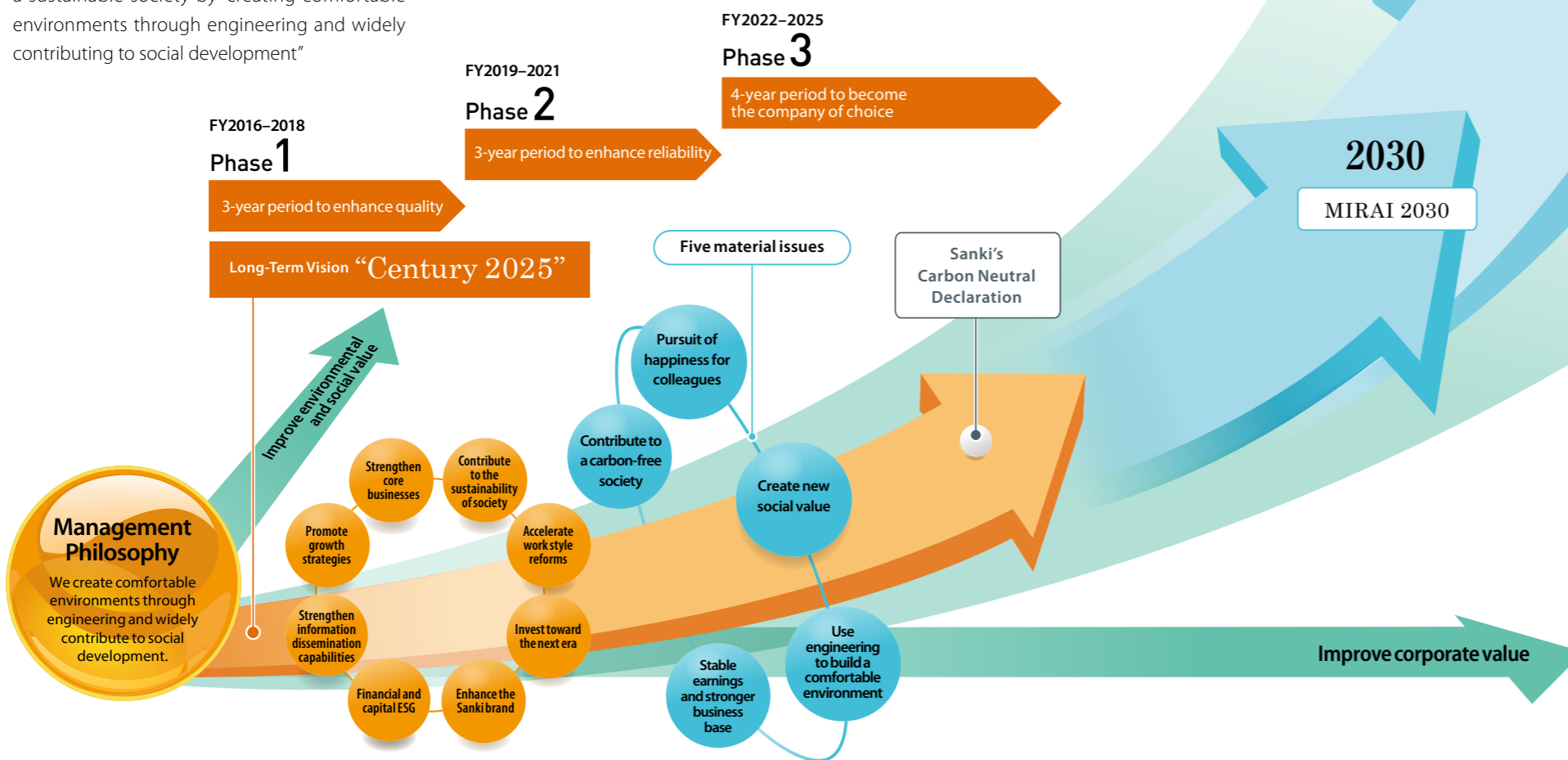
World Events

Promoting Sustainability Management toward Our Vision for 2050— Sanki, the Enduring Company of Choice

2022

Formulation of Sustainability Policies

Aiming to realize a strong business base and a sustainable society by “creating comfortable environments through engineering and widely contributing to social development”



Sanki, the “Enduring Company of Choice”

Striving to be a company that contributes to the realization of a sustainable world by using engineering to resolve social issues such as carbon neutrality and create a pleasant environment

2050

2030

MIRAI 2030

Sanki Engineering's Sustainability Management

Management Philosophy

P. 04

Five Material Issues

P. 24

Sanki's Carbon Neutral Declaration

P. 25

Medium-Term Management Plan

P. 26

History of Sanki Engineering

World Events

2020

2022

- Formulated the Sustainability Policies
- Sanki's Carbon Neutral Declaration

2020

Global COVID-19 pandemic

2021

Tokyo 2020 Olympic and Paralympic Games

2022

Russian invasion of Ukraine

2025
100th
anniversary

Business Overview by Segment

(Year ended March 2023)

Facilities Construction Business

Net Sales **155.7** billion yen*

Net Sales Composition Ratio

82%



HVAC and Plumbing for Building, Industrial HVAC, and Electrical Systems

Net Sales Composition Ratio **76%**

Our Facilities Construction Business is conducted in ways that are friendly to both people and the environment and through systems that are convenient, comfortable, and efficient, and also save energy. We are engaged in wide-ranging fields, including HVAC and plumbing systems for buildings, industrial HVAC systems, and electrical systems.

Main Sales Items

● HVAC and Plumbing for Buildings

- HVAC systems
- Industrial HVAC systems
- Clean rooms
- Environmental control systems
- Pharmaceutical and food manufacturing facilities
- Freezing and refrigeration
- District heating and cooling plants
- Nuclear power-related facilities
- Semiconductor manufacturing facilities
- Battery manufacturing facilities
- Plumbing system for water supply and drainage
- Food service equipment
- Disaster prevention systems

● Electrical Systems

- Electrical systems
- Telecommunication systems
- Electrical civil engineering

Facility Systems Business

Net Sales Composition Ratio **6%**

We serve the needs of offices and other workplaces by providing design and project management for construction and relocation as well as strategic and operational consulting services.

Main Sales Items

● Facility Systems

- Project management and designing of fit-out and relocation of offices and workplaces
- Consulting involving overall work style

● Smart Building Solutions

- Central monitoring and automated control systems
- ITC solutions
- Crisis management (BCP) solutions
- IP phone solutions
- Security-related solutions

Plants & Machinery Systems Business

Net Sales **32.8** billion yen*

Net Sales Composition Ratio

17%



Machinery Systems Business

Net Sales Composition Ratio **4%**

We provide material handling systems and conveyance systems that meet customer needs and challenges in supply chain management.

Main Sales Items

● Conveyance Systems

- Lightweight conveyors
- Distribution-related conveyors
- Sorting devices
- Automated warehouse

● Material Handling Systems

- FA systems
- Clean conveyance systems
- Material handling systems
- Airport baggage and cargo handling systems
- Medical handling systems
- Handling information control systems

Environmental Systems Business

Net Sales Composition Ratio **13%**

We develop unique facilities and systems for water and sewage treatment and waste treatment to enhance living environments while conserving energy and reducing CO₂ emissions.

Main Sales Items

● Water Treatment

- Water and sewage treatment facilities
- General and industrial waste disposal and recycling facilities
- Sludge recycling facilities
- Industrial wastewater and waste gas treatment facilities
- Plant facilities for the food and chemical industries

● Waste Treatment

- Waste incineration facilities
- Landfill wastewater treatment facilities
- Sludge incineration facilities

Group Companies

Facilities Construction Business

- Sanki Techno Support Co., Ltd.
- Sanki Construction Engineering (Shanghai) Co., Ltd.
- Thai Sanki Engineering & Construction Co., Ltd.
- Tomakomai Netsu Service Co., Ltd.
- CAD-KENDORO Co., Ltd.

HVAC and Plumbing for Buildings Business



Industrial HVAC Business



Electrical Systems Business



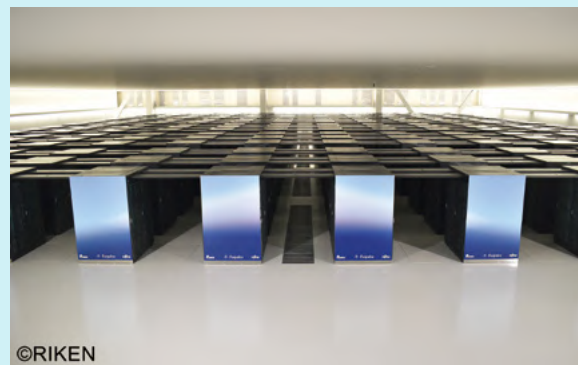
Smart Building Solutions Business



Facility Systems Business



Major Projects



©RIKEN
Supercomputer Fugaku



Toranomon Hills Business Tower



Nippon Life Yodoyabashi Building

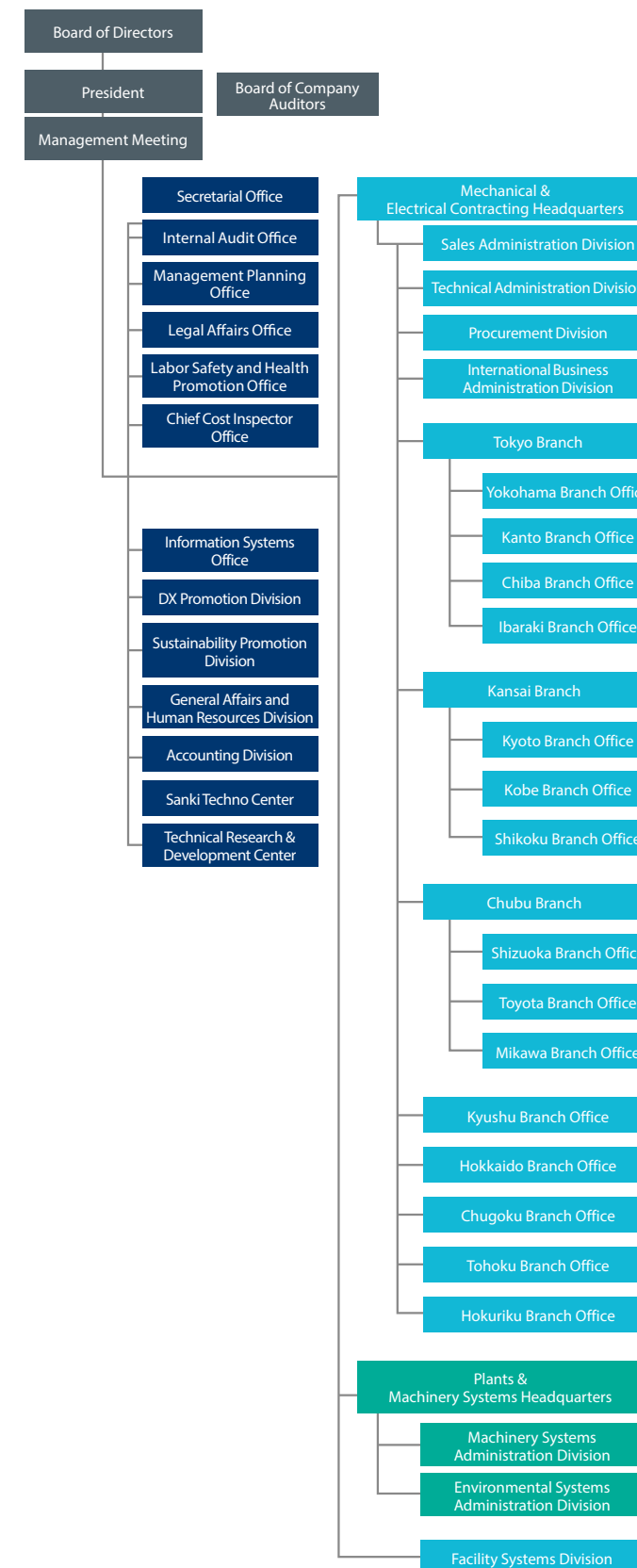


Kurita Innovation Hub, Kurita Water Industries Ltd.



Kanae Tochigi Factory No. 3 Factory Building

Organization (as of April 1, 2023)



Group Companies

Machinery Systems Business

- Sanki Sangyo Setsubi Co., Ltd.

Environmental Systems Business

- Sanki Kako Kensetsu Co., Ltd.
- Sanki Kankyo Service Co., Ltd.
- AQUACONSULT Anlagenbau GmbH
- AEROSTRIP Corporation
- Sendai Kankyo Hozen Co., Ltd.
- PFI Okubo Techno Resource Co., Ltd.

Machinery Systems Business



Environmental Systems Business



Major Projects



South Wing of Narita International Airport's Terminal 1



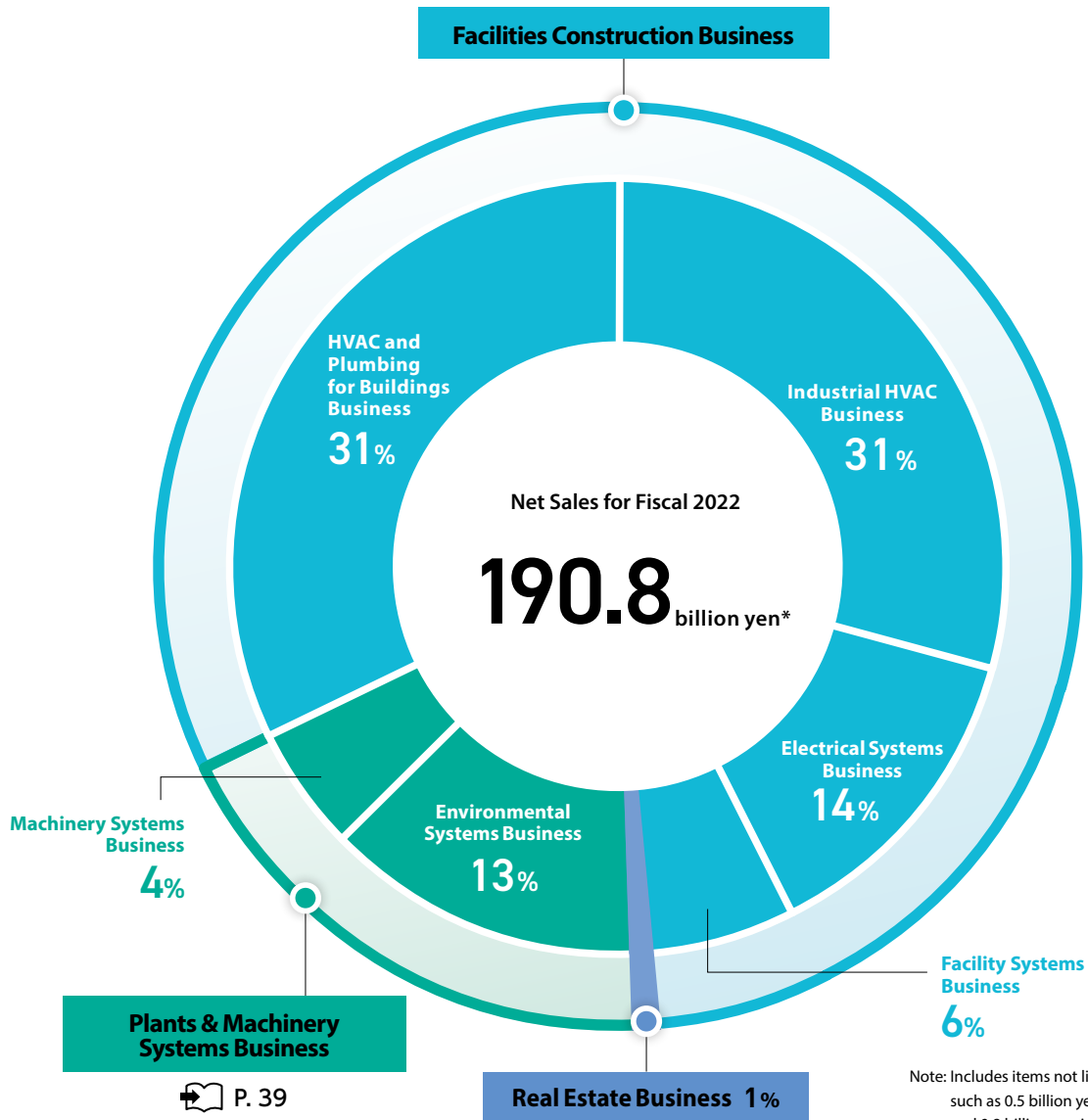
U.S. Forces Yokota Air Base Cargo Handling System



Minami-Gamo Purification Center



Clean Hill Tenzan



Real Estate Business

Net Sales

2.4 billion yen*

Net Sales Composition Ratio

1%

Our Real Estate Business includes operations in the areas of real estate leasing and building management. We are striving to expand into higher value-added real estate while taking advantage of our current technology.

Main Sales Items

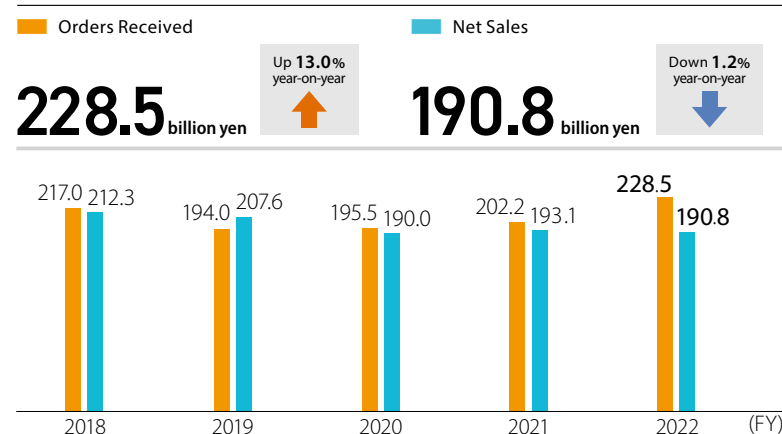
- **Real Estate Leasing**
 - Land leasing
 - Building leasing
- **Building Maintenance and Management**
 - Facility maintenance and upgrades



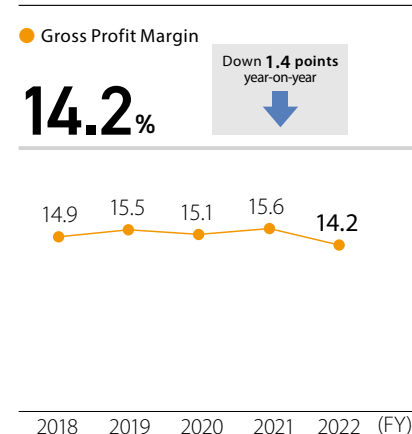
Financial and Non-Financial Highlights

Financial Data (Consolidated)

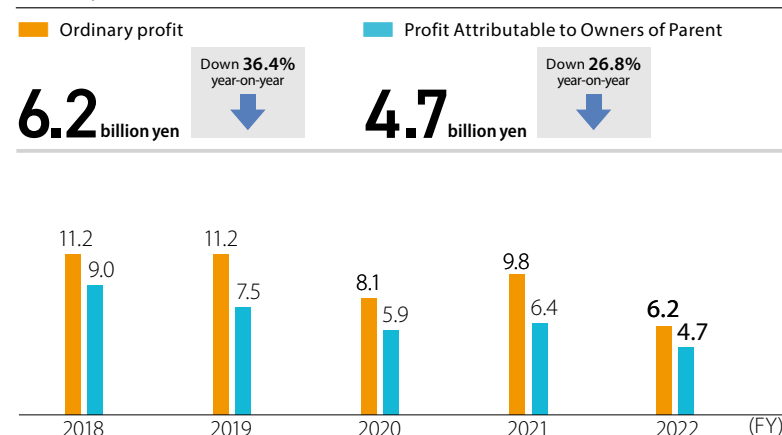
Orders Received and Net Sales



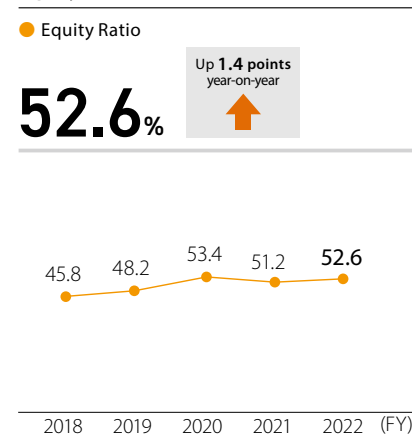
Gross Profit Margin



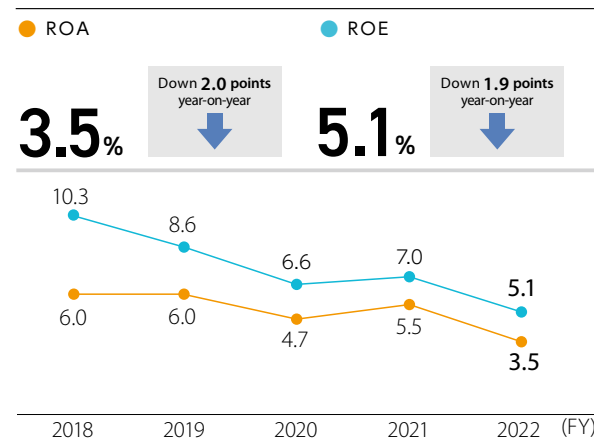
Ordinary Income and Profit Attributable to Owners of Parent



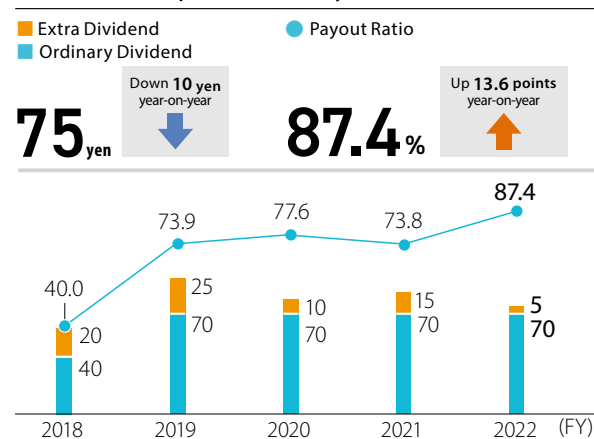
Equity Ratio



ROA/ROE

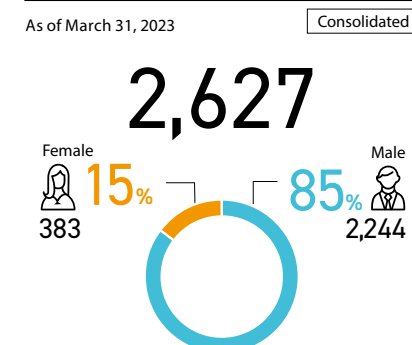


Annual Dividend per Share and Payout Ratio



Non-Financial Data

Number of Employees



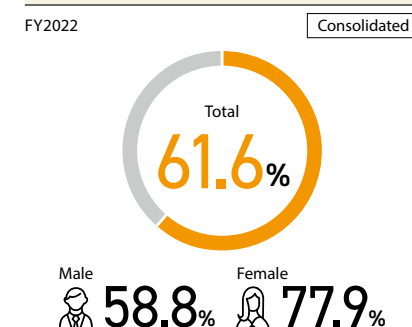
Average Age of Managers



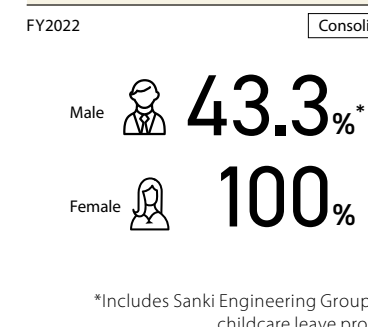
Average Monthly Overtime Work per Person



Rate of Annual Paid Leave Taken



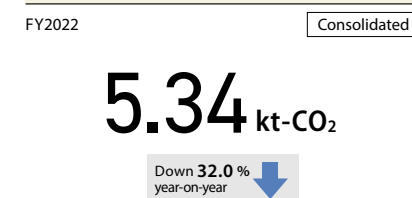
Rate of Childcare Leave Taken



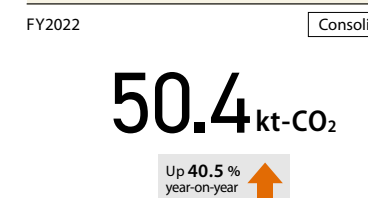
Year-on-Year Comparison of Problems and Complaints during Construction



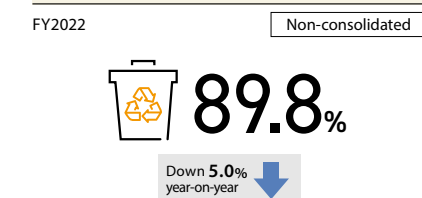
Volume of GHG Emissions (Scope 1 and 2)



Contribution to CO₂ Reductions at Customers through Sanki Products and Technologies (for Ordered Projects)



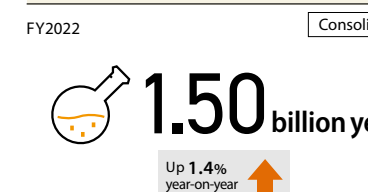
Recycling Ratio of Industrial Waste at Sites where Sanki Engineering is the Prime Contractor



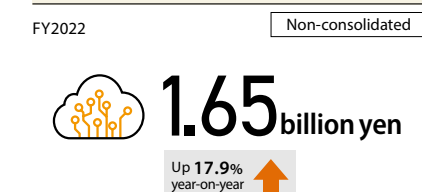
Number of Registered Patents

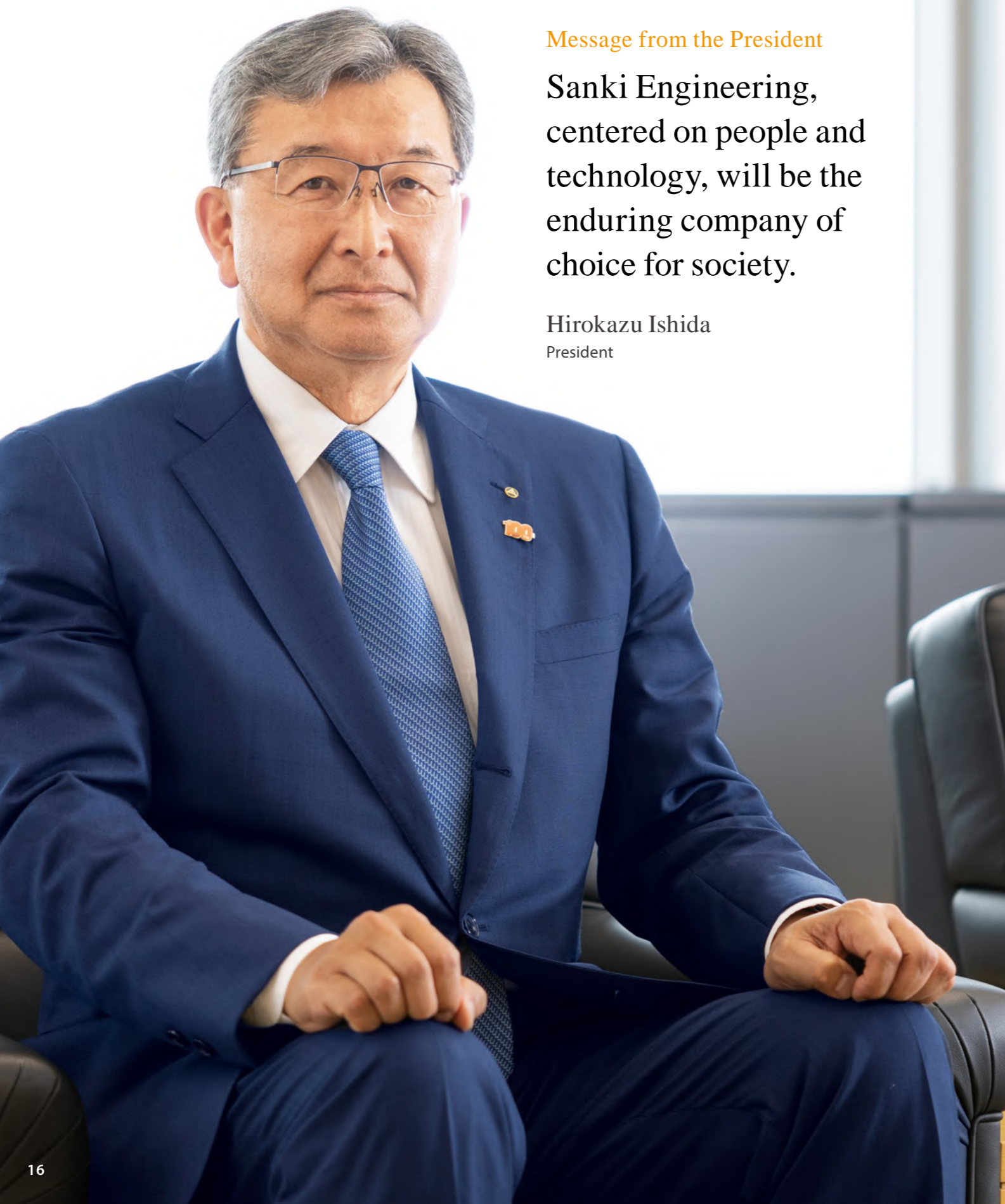


Test and R&D Expenditures



ICT Investment





Message from the President

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

Hirokazu Ishida
President

Operating Environment Surrounding Sanki and Business Results for Fiscal 2022

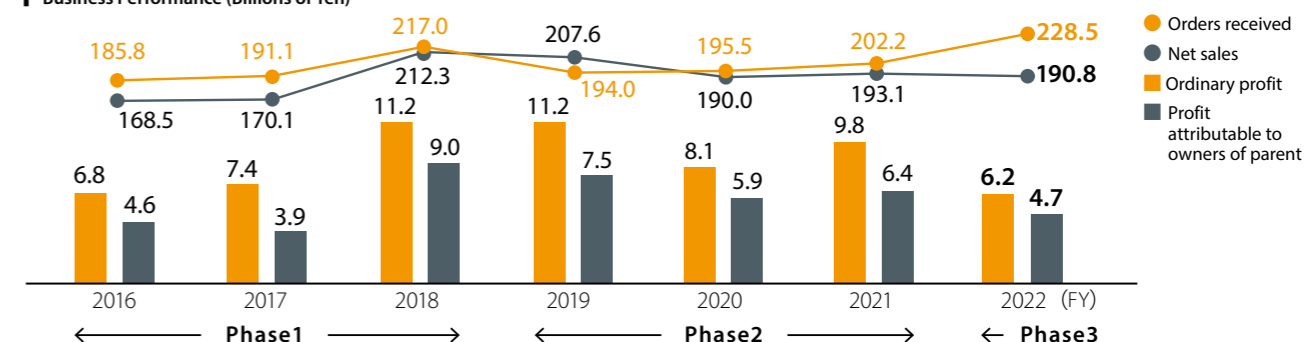
The COVID-19 pandemic, which has had a tremendous impact on the global economy over the past few years, is finally coming to an end, and a gradual recovery is underway in social and economic activities in Japan. Throughout the pandemic, a cloud of uncertainty hung over the domestic construction market,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

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

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

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

Business Performance (Billions of Yen)



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

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

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

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



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

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

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

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

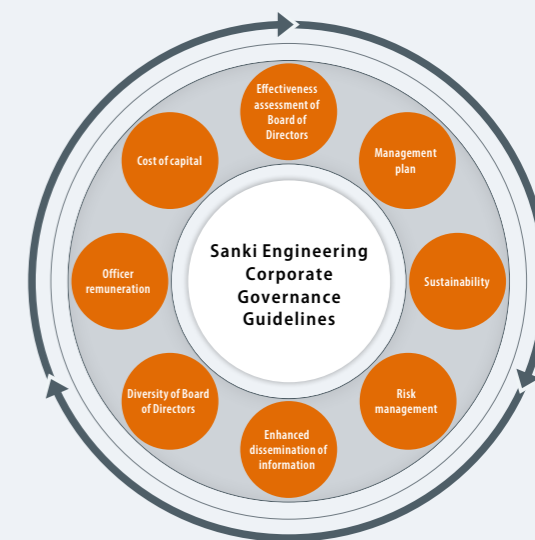
Our business portfolio strategy disclosed in Phase 3 designated facility systems and machinery systems as growth businesses. To expand our business scope, we are considering collaborating with startup companies in the Facility Systems business and acquiring companies that possess elemental technologies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

Achieving Sustainable Growth for the Sanki Engineering Group

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

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

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



Becoming the Enduring Company of Choice in 2050

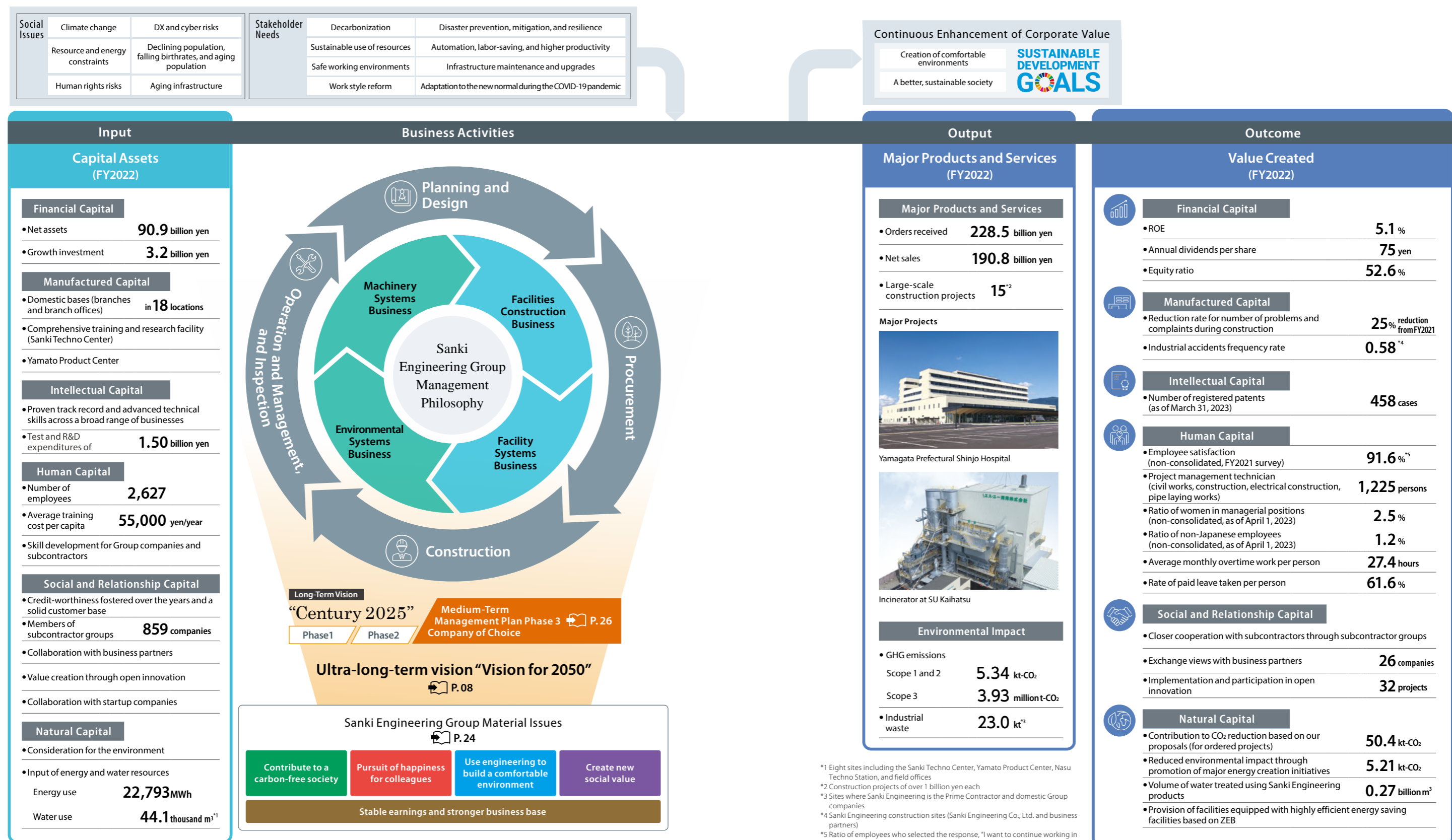
I became president in April 2020, when the COVID-19 pandemic was in full swing, and over the past three years I have experienced the challenges of communicating with each other. We are engaged in a wide range of businesses backed by a diverse array of elemental technologies, which tends to erect high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

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

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

Our Value Creation Process

Guided by the Sanki Standard management philosophy, the Sanki Engineering Group strives to fulfill its mission of realizing all types of comfortable environments and contributing to the development of a sustainable society by creating value at each step of the business process and in every business area.



^{*1} Eight sites including the Sanki Techno Center, Yamato Product Center, Nasu Techno Station, and field offices

^{*2} Construction projects of over 1 billion yen each

^{*3} Sites where Sanki Engineering is the Prime Contractor and domestic Group companies

^{*4} Sanki Engineering construction sites (Sanki Engineering Co., Ltd. and business partners)

^{*5} Ratio of employees who selected the response, "I want to continue working in the Sanki Engineering Group."

Management Resources of the Sanki Engineering Group

The capital accumulated by the Sanki Engineering Group over nearly a century supports our daily business operations and represents the wellspring for our next stage of growth. We will continue to enhance our management resources while improving the quality of our total engineering capabilities, the greatest value offered by the Sanki Engineering Group, to ensure our own sustainable growth.



Human Capital

The Sanki Engineering Group has been pioneering in each era through the power of technology and considers its people, who possess that technology, to be its greatest asset and the source of its business competitiveness and corporate value. By steadfastly investing in human capital, we strive to create working environments for a more effective development and use of our human resources.

- Secure and foster diverse and highly skilled human resources, who will lead our business in the future, as part of Phase 3 of the Medium-Term Management Plan, which focuses on enhancing the Company's quality and reliability toward becoming the company of choice.
- Provide career development and classroom training for qualification acquisition, as well as practical technical and safety training with actual equipment, at the Sanki Techno Center, our comprehensive training and research facility.
- Provide training and offer the use of research facilities for subcontractors who work with us to support on-site construction operations.
- Maintain efforts for creating working environments that enable each individual employee to work with vigor and pursue self-directed career development by fully demonstrating their capabilities, including accelerating work style reforms by developing systems for supporting site operations and DX, offering a rewarding personnel system, and establishing programs for balancing personal life and work.

Related Policies and Measures under the Medium-Term Management Plan Phase 3

- ▶ **Related Policies**
 - Smile Work Guideline
- ▶ **Measures under the Medium-Term Management Plan Phase 3**
 - Strengthen core businesses
 - Accelerate work style reforms
 - Invest toward the next era

Ratio of employees by job classification



Human resource investment (FY2022)

Approx. **23.1** billion yen

Project management technician (civil works, construction, electrical construction, pipe laying works)

1,225 persons

(Consolidated, as of April 1, 2023)



Manufactured Capital

The Sanki Engineering Group maintains locations in Japan and overseas that serve as base camps for promoting business and cultivating human resources.

- We have operations throughout Japan, and in Asia and Europe. Our 18 domestic branch and branch offices, as well as our five domestic and three overseas consolidated Group companies, also serve as base camps for human resource development to support on-the-job training at construction sites.
- We regard the Sanki Techno Center, which houses the R&D Center, as our "temple of learning" for passing down and developing technical skills.
- The Yamato Product Center, the main production base for conveyors, functions as a site for improving quality, productivity, and development capabilities.

Related Policies and Measures under the Medium-Term Management Plan Phase 3

- ▶ **Measures under the Medium-Term Management Plan Phase 3**
 - Strengthen core businesses
 - Promote growth strategies
 - Accelerate work style reforms
 - Invest toward the next era

Capital investment (FY2022)

450 million yen

ICT investment (FY2022)

1.65 billion yen



Social and Relationship Capital

We receive orders for various types of construction work based on the trust we have cultivated over the years with a diverse range of customers throughout Japan, including building owners, developers, manufacturers, and government agencies, and we carry out construction work in cooperation with our business partners, including construction companies and subcontractors.

- Maintain and strengthen the customer base cultivated over the years, including financial institutions, electronics manufacturers, and automobile manufacturers.
- To strengthen the construction system, establish a certification and commendation programs as well as regular meetings and training opportunities to maintain and strengthen relationships of trust with members of subcontractor groups throughout Japan that support on-site construction operations.
- Improve payment terms to safeguard a stable business environment for our business partners.
- Actively communicate with governments and other relevant stakeholders in each region in which we operate, and conduct a variety of social contribution activities that benefit regional development.

Related Policies and Measures under the Medium-Term Management Plan Phase 3

- ▶ **Related Policies**
 - Sanki Engineering Group Procurement Policy
- ▶ **Measures under the Medium-Term Management Plan Phase 3**
 - Enhance the Sanki brand
 - Contribute to the sustainability of society

Members of Subcontractor groups

859 companies



Intellectual Capital

By maximizing the use of elemental technologies involving air, water, heat, electricity, machinery, and information, we contribute to meeting customer needs as well as to the resolution of diverse issues faced by society.

- The R&D Center takes the lead in collaborating with business units to pursue new technologies, improve and enhance the functionality of proprietary technologies, conduct basic research, and investigate new technologies.
- Develop solutions that meet the most advanced needs based on the elemental technologies of total engineering encompassing design, construction, and maintenance in diverse fields, and combine them with the latest IoT and AI technologies while also utilizing open innovation.
- Properly manage and operate intellectual property generated through R&D after compiling a database, including patent summaries and gazettes. Regular internal information sharing and education and training on patents and the like actively promote the utilization and protection of intellectual property.

Related Policies and Measures under the Medium-Term Management Plan Phase 3

- ▶ **Measures under the Medium-Term Management Plan Phase 3**
 - Strengthen core businesses
 - Accelerate work style reforms
 - Invest toward the next era

R&D Expenditures (FY2022)

1.5 billion yen



Natural Capital

The Sanki Engineering Group contributes to the creation of a decarbonized society by installing energy-saving and energy-creating equipment in buildings, factories, stores, hospitals, and infrastructure facilities.

- Develop environmentally sound products and construction methods.
- Engage in environmental conservation activities by promoting the SANKI YOU Eco Contribution Point system.
- Quantitatively assess the environmental impact of electricity, and fuel and other energy and water resources used in the Group's business activities, as well as CO₂ emissions and waste, and take steps to improve them, as part of our role in conserving the global environment.
- Promote initiatives to reduce our own environmental impact, including the use of renewable energy.
- Dispatch personnel to the Antarctic Research Expedition for preserving biodiversity in the Antarctic region by maintaining and managing wastewater treatment and HVAC facilities.

Related Policies and Measures under the Medium-Term Management Plan Phase 3

- ▶ **Related Policies**
 - Sanki Engineering Group Environmental Policy
 - Sustainability Policy
 - Sanki's Carbon Neutral Declaration
- ▶ **Measures under the Medium-Term Management Plan Phase 3**
 - Contribute to the sustainability of society
 - Invest toward the next era

CO₂ emissions by Scope (Consolidated, FY2022)

Scope 1 and 2 **5.34** kt-CO₂
Scope 3 **3.93** million t-CO₂



For more information on financial capital, see: "Message from the Chief Financial Officer"

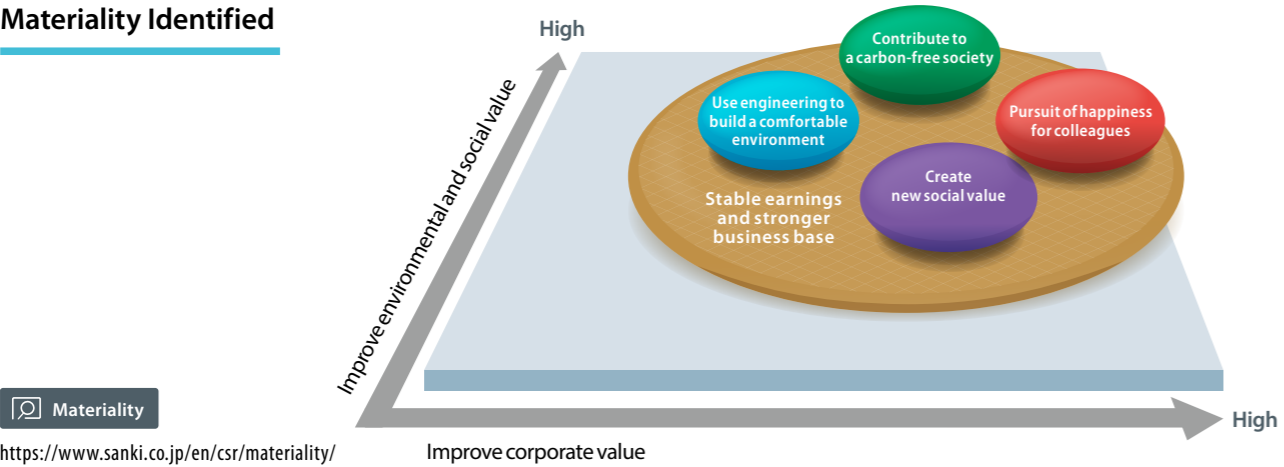
P. 29

Message from the Chief Financial Officer

Sanki Engineering Group Materiality

The Sanki Engineering Group identified its five key issues of materiality in February 2022, based on an assessment of issues selected from a broad perspective in terms of “improving environmental and social value” and “improving corporate value.” By strategically allocating management resources to measures corresponding to the five issues, we aim to realize a resilient management foundation and sustainable society.

Materiality Identified



Materiality Identification Process, Advancement, and Review

STEP 1 Identify issues	Evaluate business activities and their impact based on the following considerations, and identify 34 issues <ul style="list-style-type: none">● Value chain status, risks and opportunities, long-term vision, and strategy of the Group's business activities● International guidelines, external conditions encompassing economic, social, and environmental factors, and social demands
STEP 2 Prioritize and validate	<ul style="list-style-type: none">● Evaluate and prioritize the issues identified on the two axes of improving corporate value and improving environmental and social value and designate them as the five material issues● Examine whether issues important to the Group have been addressed and whether stakeholder expectations have been reflected, then finalize
STEP 3 Final review and approval	<ul style="list-style-type: none">● Confirmation and review by each department● Review and approval by the Sustainability Committee● Deliberation and decision by the Board of Directors

Guidelines and other references cited in STEP 1
(In-house) Long-term vision, business strategy, management plan, exchange of opinions with officers and departments, in-house surveys
(External) ISO 26000, SDGs, GRI standards, SASB standards, examination and evaluation of ESG (DJSI, etc.), integrated report survey, opinions and advice from outside experts and advisers, The Global Risk Report

Advancement	<ul style="list-style-type: none">● Incorporated materiality into the Medium-Term Management Plan and set KGI and KPI targets● Held a progress review by the Sustainability Committee and submitted a report to the Board of Directors
Review	<ul style="list-style-type: none">● Conducted a survey on materiality (key issues)<ul style="list-style-type: none">- Survey was conducted in April 2023 for all Group employees to disseminate understanding of materiality and gather feedback- Results were published internally and incorporated into sustainability measures● Conducted a review to confirm the necessity of upgrading our materiality<ul style="list-style-type: none">- Progress in activities, revisions* to the GRI Standards 2021, revisions to regulations such as Japan's Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc., and global sustainability trends

*Particularly those areas in which an organization has the most significant impact on people (including economic, environmental, and human rights)

Our Contributions to Sustainability

Materiality (Key Issues)	Initiatives	Relevant SDGs
Contribute to a carbon-free society	We will contribute to realizing carbon neutrality by applying the energy conservation and energy creation technologies we have cultivated to diverse fields in facilities construction, and plants and machinery systems. <ul style="list-style-type: none">● Promote decarbonization● Promote the renewable energy power generation business● Expand the decarbonization-related market	
Pursuit of happiness for colleagues	We will aim to achieve sustainable growth by creating an environment in which our human resources, our invaluable assets and fellow workers, can pursue happiness through their work. <ul style="list-style-type: none">● Improve human resource development and technology● Promote work style reforms● Respect human rights● Promote diversity	
Use engineering to build a comfortable environment	We will contribute to constructing a diverse array of comfortable environments that support society by developing comprehensive engineering capabilities that integrate our component technologies across the Group. <ul style="list-style-type: none">● Build strong social infrastructure● Diversify the water treatment business	
Create new social value	We will rise to the challenge of creating new social value by mobilizing all our technologies and knowledge in a continuous effort to take the initiative in meeting the changing needs of society. <ul style="list-style-type: none">● Promote activities that contribute to society● Expand the automation and labor-saving market● Expand consulting services	
Stable earnings and stronger business base	We will strive to build a resilient and flexible management base that generates stable earnings to remain a company that meets the needs of society and contributes to its sound development for years to come. <ul style="list-style-type: none">● Strengthen the governance system● Enforce thorough compliance● Promote occupational safety and health● Improve quality● Increase productivity● Promote DX● Secure stable long-term business● Provide returns to stakeholders	

Sanki's Carbon Neutral Declaration

The Sanki Engineering Group is making serious efforts to address the climate change crisis and aims to achieve carbon neutrality for the Group's own GHG emissions (Scope 1 and 2) by 2030 and for GHG emissions including the supply chain (Scope 1, 2, and 3) by 2050.

Initiatives for energy conservation and energy creation aimed at decarbonization are also directly linked to the Sanki Engineering Group's core business as a total engineering company. Accordingly, we have positioned “Contributing to a Decarbonized Society” as a top priority among the material issues identified. We have established interim and long-term targets to achieve carbon neutrality by 2050.

Status of the Medium-Term Management Plan

“Century 2025” Phase 3 (FY2022–2025)

Fiscal 2022 marked the start of the Medium-Term Management Plan “Century 2025” Phase 3 (FY2022–2025).

In this phase, we are working to achieve maturity and evolution for the Key Initiatives we have been implementing in Phases 1 and 2, while adding and promoting new measures for enhancing the Company’s quality and reliability.

Here we report on the status of Sanki Engineering’s initiatives as we strive ever harder to become the company of choice, the goal of our long-term vision.

Phase 3 Targets and First-Year Results

	Phase 3 Targets by FY2025		FY2022 Results	Difference
Net sales	220.0 billion yen		190.8 billion yen	–29.2 billion yen
Gross profit (ratio)	36.0 billion yen (16.5%)	→	27.0 billion yen (14.2%)	–9.0 billion yen (–2.3 pt)
Ordinary profit (margin)	12.0 billion yen (5.5%)		6.2 billion yen (3.3%)	–5.8 billion yen (–2.2 pt)
	Phase 3 Targets FY2022–FY2025		FY2022 Results	
Ordinary profit margin	5.0% or higher		3.3%	
Dividend policy	Dividend payout ratio of 50% or more Annual dividend per share of 70 yen or more	→	Dividend payout ratio of 87.4% Annual dividend per share of 75 yen	
Acquisition of treasury stock	About 5 million shares*		1.5 million shares (cumulative total of 1.5 million shares during the plan period)	
ROE	8.0% or higher		5.1%	
Growth investment	About 20.0 billion yen*		3.2 billion yen (cumulative total of 3.2 billion yen during the plan period)	

*Cumulative total during the plan period

Phase 1 Enhance Quality

Strengthen Core Businesses
Improve component technologies and achieve stable growth

Promote Growth Strategies
Pursue future growth in the areas of technology and business

Enhance the Sanki Brand
Develop human resources that possess the Sanki spirit

FY 2016–2018

Phase 2 Enhance Reliability

Further Pursue Quality

- Improve construction productivity
- Meet energy-saving and labor-reduction needs
- Promote technological research and development
- Continue to receive orders for stock projects
- Create better work conditions
- Improve internal communication

Disclose Financial and Capital Policies

Strengthen Information Dissemination Capabilities

FY 2019–2021

Phase 3 Company of Choice

Contribute to the Sustainability of Society

Accelerate Work Style Reforms

Invest toward the Next Era

FY 2022–2025

Maturity and Evolution of Measures to Enhance Quality and Reliability

Status of Key Initiatives

Measures Carried Over from Phase 1

Maturity and Evolution of Measures to Enhance Quality

In Phase 3, we will continue to work on the three measures as we have done in Phase 1 and 2 to further improve quality.

Measure 1 Strengthen Core Businesses

Facilities Construction Business

Received many orders for large-scale urban redevelopment projects and life cycle engineering* projects to build a legacy for the future in semiconductor- and automobile-related fields
*Sanki’s concept to target the entire life cycle of buildings

Facility Systems Business

Developing new services aimed at expanding capacity in collaboration with a startup company

Plants & Machinery Systems Business

Machinery Systems Business
Developed and launched new products targeting the logistics market.

Environmental Systems Business
The AEROWING aeration system for water treatment facilities is well received worldwide.

Measure 2 Promote Growth Strategy

- Delivered an AI waste crane system to CleanHill Tenzan
- Participated in the Ministry of the Environment FY2022 Decarbonized Resource Recycling Business Demonstration Project Utilizing Digital Technology
- Received orders for energy-saving aeration systems for a large-scale water treatment facility in Australia
- Selected for the Ministry of Land, Infrastructure, Transport and Tourism FY2022 Breakthrough by Dynamic Approach in Sewage High Technology Project FS*

*Feasibility study

Measure 3 Enhance the Sanki Brand

- Continued to support environmental conservation in Antarctica
- Launched the Earth MIRAI Project to explore new technologies
- Continued to support the Earthquake Recovery Project

Measures Carried Over from Phase 2

Maturity and Evolution of Measures to Enhance Reliability

We will focus on further raising awareness of Sanki Engineering measures under Phase 2 to broaden the understanding of our stakeholders.

Measure 1 Disclose Financial and Capital Policies

- Provided stable and sustainable returns for stakeholders

Measure 2 Strengthen Information Dissemination Capabilities

- Implemented bus-wrap advertising

Long-Term Vision “Century 2025”

Becoming even more the company of choice for stakeholders

New Measures from Phase 3

Enhance the Company’s Quality and Reliability

In Phase 3, which will mark the culmination of our long-term vision, we are implementing new measures for achieving sustainable future growth.

Measure 1 Contribute to the Sustainability of Society

- Strengthened the SANKI YOU Eco Contribution Point System
- Began supplying electricity sourced from renewable energy (solar power) for the Sanki Techno Center and Yamato Product Center
- Certified by CDP as an A List company
- Joined the Ministry of the Environment 30by30 Alliance for Biodiversity
- Established and disclosed the Sanki Engineering Group Human Rights Policy

Measure 2 Accelerate Work Style Reforms

- Introduced a new personnel system, extending the retirement age to 65, actively promoting young employees, and raising starting salaries
- Launched the new Career Return Program
- Renewed Company uniforms to create more comfortable working environments

Measure 3 Invest toward the Next Era

- Invested 3.2 billion yen out of the total four-year investment budget of 20.0 billion yen.
- Engaged in M&A to promote BIM
- Decided on the construction of a clean room inside the Yamato Product Center to develop clean room products
- Positioned human capital investment, ICT investment, and R&D investment as investment toward the future
- Made capital investments for decarbonization based on Sanki’s carbon-neutral declaration

*The ESG Policy in Phase 2 has evolved into the Sustainability Policy in Phase 3.

Materiality and KPIs for Phase 3 (FY2022–2025)

Materiality	KPIs for Phase 3 (FY2022–2025)	FY2022 Results
Contribute to a carbon-free society	<ul style="list-style-type: none">• Scope 1, 2 emissions: 40% reduction from FY2020 levels*• Scope 3 emissions: 10% reduction from FY2020 levels*• Reduce CO₂ emissions based on the SANKI YOU Eco Point system by an additional 30% compared to the three-year average from FY2018 to FY2020*	<ul style="list-style-type: none">• Scope 1, 2 emissions: 5.34kt-CO₂ (34% reduction from FY2020 levels)• Scope 3 emissions: 3.93Mt-CO₂ (36% reduction from FY2020 levels)• 97% increase compared to the three-year average from FY2018 to FY2020
Pursuit of happiness for colleagues	<ul style="list-style-type: none">• Rate of childcare leave taken: male 50%, female 100%• Raise the ratio of women in managerial positions to 3.0% by April 2026Promotion of younger employees<ul style="list-style-type: none">• Average age of managers (reduce by one year from average age levels as of April 2022 by April 2026): Manager 45.8, General Manager 50.2, Executive Manager 53.5• Monitoring based on employee satisfaction survey: maintain at least a 90% ratio of respondents who wish to continue working at the Sanki Engineering Group• Respond to Japan’s revised Labor Standards Act in 2024• Attendance at corporate ethics training including human rights issues: 100%*	<ul style="list-style-type: none">• Male 10.7% (44.6% by including Sanki Engineering’s own leave program), female 100%• 2.5% (as of April 2023)• Average age of managers (as of April 2023): Manager 46.4, General Manager 51.8, Executive manager 54.1• Survey not conducted (FY2021 response ratio: 91.6%)• Average additional work hours<ul style="list-style-type: none">Construction work: 42.2 hours per person (3.9% decrease from FY2021), other work: 17.4 hours per person (3.9% decrease from FY2021)• Average number of paid leaves taken<ul style="list-style-type: none">Construction work: 10.6 days per person (8.2% increase from FY2021), other work: 13.2 days per person (11.8% increase from FY2021)• Attendance at corporate ethics training: 99%
Use engineering to build a comfortable environment	<ul style="list-style-type: none">• Implementation (market launch) of open innovation based research outcome: 5 projects• Decide on a research field to be explored under the Earth MIRAI Project: 20 projects to be conducted in 4 years*	<ul style="list-style-type: none">• Joint research with universities and research institutions: 13 projects• Collaborative projects with private and venture enterprises: 19• Employee research applications: 122 projects (132 themes)
Create new social value	Contribute to society by supporting sports and the arts <ul style="list-style-type: none">• Sports: maintain 4 programs per year• Arts: maintain 2 programs per year• Support for cultural activities: maintain 1 program per year	<ul style="list-style-type: none">• Sports: 10 programs• Arts: 2 programs• Support for cultural activities: 1 program
Stable earnings and stronger business base	Facilities Construction Business <ul style="list-style-type: none">• Number of serious accidents: 0• Incidents involving suspension of production: 0• Implement root-cause analysis of problems and complaints within five years following the completion of construction work: 100%• Report on root-cause analysis: 4 times per year• Implement preventive measures to achieve zero accidents involving suspension of operations• Creation of safety education materials reflecting accident tendencies: at least 2 sets of materials each in the east and west regional blocks per year• Hold exchange between the east and west regional blocks: at least 2 times a year• Safety education conducted for staff of subcontractors and supporting staff: 100%• Develop digital and robotic technologies related to construction: 5 projects per year• Actual cases of application of developed technology: 5 projects per year• Large-scale projects based on business headquarters system: 5	<ul style="list-style-type: none">• Number of serious accidents: 0• Incidents involving suspension of production: 0• Problems and complaints within five years following the completion of construction work: 42, of which root-cause analysis implemented: 71% (12 continuations out of 30 incidents)• Report on results of root-cause analysis made to the Quality Risk Committee: 4 times per year• Accidents involving suspension of operations: 5• Creation of safety education materials: 2 sets of materials each for east and west regional blocks• Cross-patrols between east and west regional blocks: 2 occasions• Safety education conducted for staff of subcontractors and supporting staff: 100%• FY2022 development themes: 6 projects• Actual application of developed technology: 2 projects• Large-scale projects based on business headquarters system: 3
	Facility Systems Business <ul style="list-style-type: none">• Orders received for consulting/facility engineering: 400 million yen• Orders received for projects related to NeWSICT (Next Work Style with ICT): 500 million yen• Orders received for project management and construction work resulting from consulting and other sales approaches: 2.1 billion yen	<ul style="list-style-type: none">• Orders received for consulting/facility engineering: 140 million yen• Orders received for projects related to NeWSICT: 160 million yen• Orders received for project management and construction work resulting from consulting and other sales approaches: 1.08 billion yen
	Machinery Systems Business <ul style="list-style-type: none">• Net sales of robot systems: 5.0 billion yen (cumulative)	<ul style="list-style-type: none">• Proposals for facilities using robots: 14• Net sales of robot systems: 550 million yen
	Environmental Systems Business <ul style="list-style-type: none">• Orders received (cumulative): AEROWING: 3.6 billion yen, G3 decanter centrifuge: 2.0 billion yen, fluidized bed incinerator: 2 units• AQUACONSULT: net sales of 1.2 billion yen	<ul style="list-style-type: none">• Orders received (cumulative): AEROWING: 800 million yen, G3 decanter centrifuge: 1 unit, fluidized bed incinerator: 0 units• Net sales: 1.37 billion yen
	Other <ul style="list-style-type: none">Raise labor productivity based on DX, Smile Plan, and other initiatives• Annual work hours per person (hours per person per year): 1,951 (FY2025)• Investments for the next era (decarbonization technology, automation and labor-saving technologies, LCE business, DX): 20.0 billion yen*• Payout ratio: 50% or more*• Annual dividend per share: 70 yen or more*• Acquisition of treasury stock over the term of Phase 3: about 5,000,000 shares*• ROE: 8.0% or more*	<ul style="list-style-type: none">• Annual work hours per person: 2,015 per year (reduction of 19 hours, down 0.93% year on year)• Total: 3.2 billion yen• Payout ratio: 87.4%• Annual dividend per share: 75 yen• Acquired 1,500,000 shares• ROE: 5.1%

Note: KPIs with an asterisk are for the Sanki Engineering Group, while all others are non-consolidated.

Message from the Chief Financial Officer

Now that we are able to secure profits consistently, we will invest in growth toward the next era.

Yoshio Kawabe

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



Providing Stable and Continuous Returns to Shareholders

Phase 3 of the Medium-Term Management Plan “Century 2025” was launched in fiscal 2022, and we have returned profits to shareholders and invested in growth in line with our new management targets. Fully aware that the ongoing implementation of these measures will depend on posting stable profits, we will work to secure higher profit margins by collaborating with each business department with due consideration to risks such as the recent surge in raw material prices.

With regard to our capital policy, providing stable and continuous returns to stakeholders will remain a key mission in fiscal 2023. While shareholder returns will still be centered on dividends, we will also systematically acquire and cancel treasury stocks by keeping an eye on the status of profits and dividends. Additionally, we will constantly seek to improve payment terms for our business partners.

In Phase 3, we set our ROE at 8.0%. In addition to paying stable dividends and acquiring treasury stocks, we will review our cross-shareholdings to improve the efficiency of our cost of capital. Gross profit is the most important indicator for increasing our return on capital, and in Phase 3, investments in growth will be made to further increase profit. Although our Price Book-value Ratio is currently below 1x, these measures will be firmly implemented and information will be actively disseminated to raise public recognition of Sanki Engineering and improve our stock price.

Extending Current Investments into Future Growth Drivers

As our efforts to enhance the Company’s quality and reliability in Phases 1 and 2 have enabled us to consistently secure profits, I believe that now is the right time to actively invest for the next era. Specifically, we have set aside a total of 20 billion yen for growth investment during Phase 3. Of this amount, in fiscal 2022, we invested 3.2 billion yen in growth, including the M&A of a company with expertise in BIM. Looking ahead, we will introduce solar power generation at Sanki Engineering Group companies toward achieving carbon neutrality and promote

collaboration with startup companies in the Facility Systems Business, which we have positioned as a growth business.

As for cash flow, despite fluctuations due to property sales, we have secured adequate working capital. We also have sufficient equity capital and are in position to provide stable returns to shareholders. With due consideration for achieving the optimal capital structure, we will proceed to implement our 20 billion yen investment and apply leverage, depending on the nature of specific investments.

Simultaneously Improving Corporate, Social, and Environmental Value

Our most important management resource is our human resources. Investment in human resources is essential for extending our business beyond the technology and expertise we have gained so far and achieving further development.

From the perspective of sharpening our competitive edge, social investment is just as important as diligently working to achieve our performance targets for Phase 3. Given that Sanki Engineering’s business is directly linked to decarbonization and conservation of the global environment, we have declared that our mission is to improve corporate value while also improving environmental and social value at the same time. We will strive to achieve sustainable corporate growth so as not to betray the stakeholder trust we have built up over the years.

Investments for the Next Era

- ① ICT investment
- ② Human capital investment
- ③ R&D investment
- ④ M&A investment
- ⑤ Capital investment

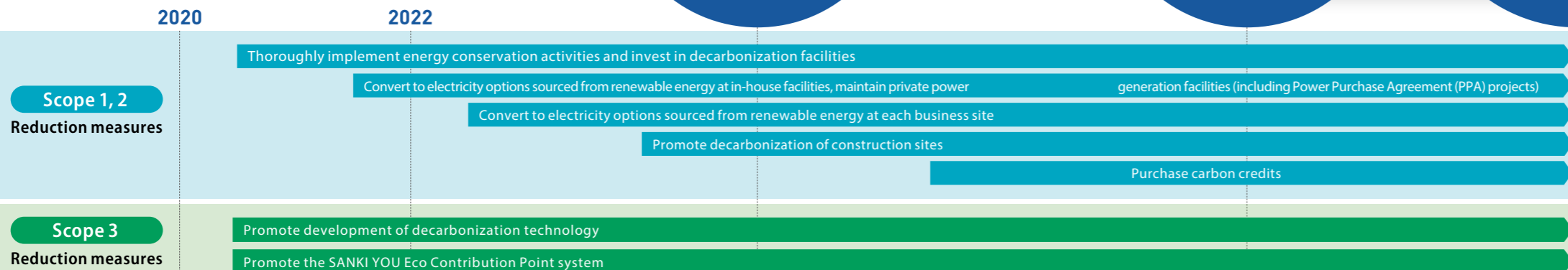
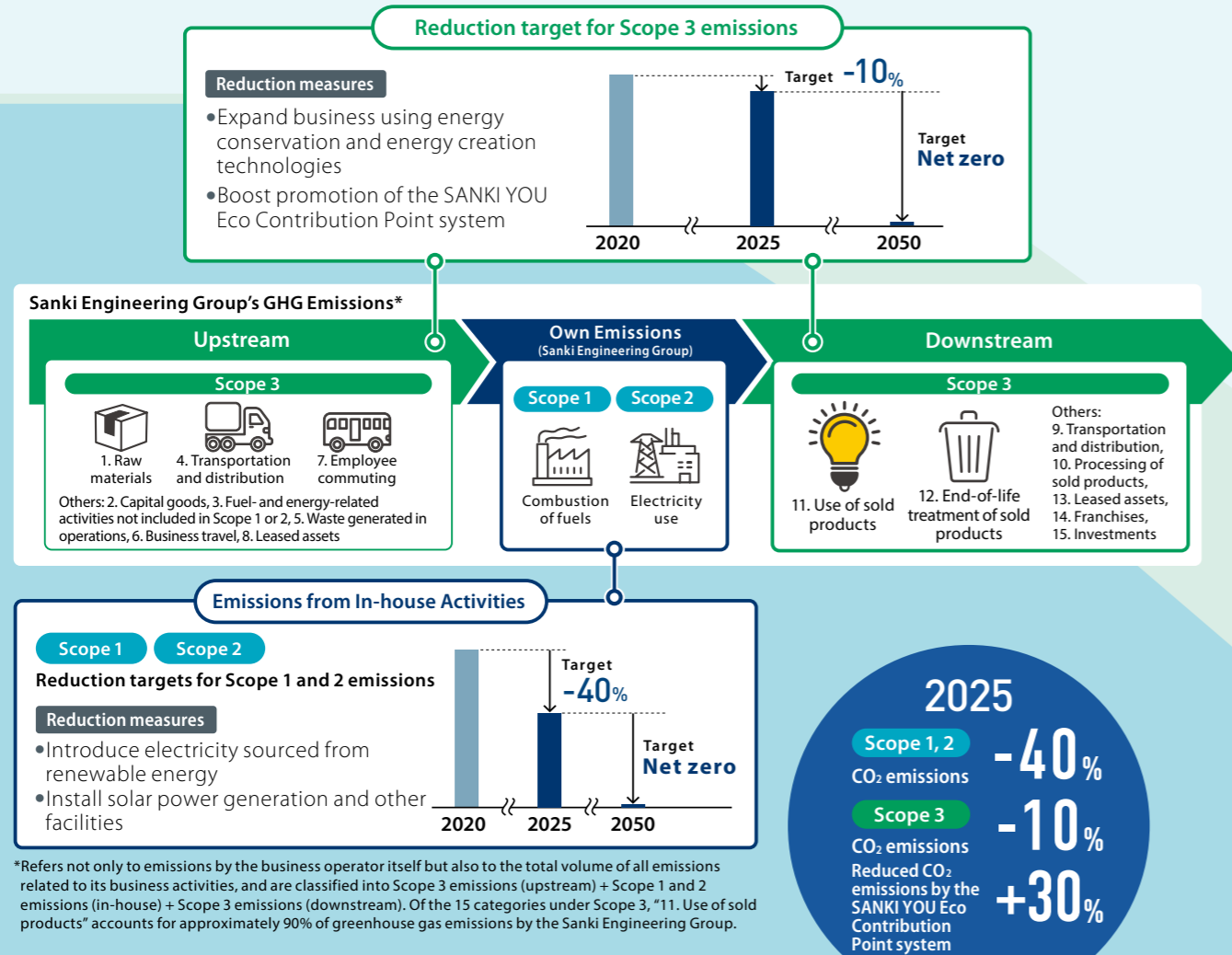
FY2022

Invest a total of 3.2 billion yen out of the 20.0 billion yen growth investment budget for the Phase 3 period

Feature 1 Sanki Engineering Group's Initiatives for Achieving Carbon Neutrality by 2050



The Sanki Engineering Group has positioned contributing to a carbon-free society as one of its materiality (key issues) and is committed to achieving carbon neutrality by 2050. Given that climate change is directly connected to our business as a total engineering company, we are working to reduce CO₂ emissions in all areas of our business operations, including our supply chain, while also promoting energy conservation and energy creation proposals to our customers. To further accelerate our efforts, we are bolstering our SANKI YOU Eco Contribution Point system, which converts the reductions in CO₂ emissions that customers have achieved based on our proposals into points as a means of supporting environmental conservation activities. These initiatives will expand the scope of carbon neutrality.



Scope 1, 2

Initiatives for Reducing In-house Energy Use by the Sanki Engineering Group

In fiscal 2021, we embarked on a full-scale effort to reduce our in-house energy use toward attaining our 2030 interim goal of achieving carbon neutrality in terms of the Sanki Engineering Group's GHG emissions.

In April 2022, we signed a power purchase agreement (PPA) for the Sanki Techno Center and Sanki Yamato Building, both assets owned by the Company, to switch to electricity sourced from net-100% renewable energy. We also completed the agreements for the conversion to 100% renewable energy-sourced electricity for our Kansai Branch in September of the same year, and for St. Luke's Tower, where our head office is located, in April 2023.

We are also steadily replacing heat source and other equipment at the Sanki Techno Center and Sanki Yamato Building with energy-saving models. Furthermore, we will accelerate our efforts to decarbonize our operations through such measures as the solar power generation PPA project, which will be implemented across the Yamato Site, including the above facilities, in February 2024.



Sanki Techno Center

FY2022 Reductions in CO₂ emissions (Scopes 1, 2)

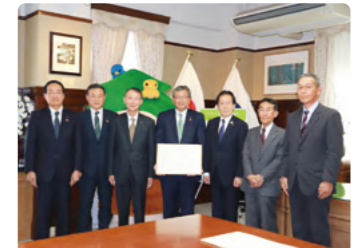
2.72 kt-CO₂
(down 34% from FY2020)

Scope 3

Bolstering the SANKI YOU Eco Contribution Point System

In fiscal 2022, we bolstered the SANKI YOU Eco Contribution Point system, which converts the reductions in CO₂ emissions that customers achieve by adopting our energy-saving proposals into points that are used to support environmental conservation activities. We plan to raise the point conversion rate from 100 yen per ton of CO₂ reductions to 200 yen per ton to expand support for environmental conservation activities.

We subsequently entered into partnerships in March 2023 with Wakayama Prefecture and Shirahama Town as well as Ritto City in Shiga Prefecture, as new recipients of support. The respective projects were named SANKI YOU Forest Nanki-Shirahama and SANKI YOU Forest Lake Biwa Konze, and we will work to establish forests for future generations by cultivating relationships with local communities through tree-planting and other activities with the participation of Sanki Engineering employees.



Signing ceremony at the Wakayama Prefectural Government office



Signing ceremony at the Shinrin Taiken Kouryu Center, Ritto City

SANKI YOU Eco Contribution Point System



Now in its 12th year, the Sanki Engineering Group's SANKI YOU Eco Contribution Point system contributes, along with our partners, to preventing global warming and realizing a sustainable society. We will continue to promote CO₂ reductions through the system toward our fiscal 2025 goal of reducing CO₂ emissions by at least 30% compared to the three-year average from fiscal 2018 to fiscal 2020.

Feature 2 Sanki Engineering Group's DX Strategy



Satoru Shimizu
Executive Officer, General
Manager of DX Promotion
Division

In April 2023, Sanki Engineering established the DX Promotion Division as a Group-wide headquarters organization to develop digital infrastructure and implement business reforms for a sustainable future. As an organization which connects all Group employees through a Co-Creation Cycle of knowledge, the division will promote initiatives for achieving further growth as well as reform work styles and improve productivity.

The DX Promotion Division's main mission is to plan and promote Group-wide digital technology strategy and provide solutions that apply digital technology to the business issues faced by each division.

As the first milestones for realizing our DX vision, we will be implementing three key initiatives by around

Key Initiative 1

Business Process Reform

- Visualize, implement status management, improve efficiency, and standardize business processes
- Simplify, consolidate, and reorganize, and standardize operations and documents
- Review the division of roles and division of duties in construction management operations
- Construct a new, integrated business system

Key Initiative 2

Establishment of a Digital Infrastructure

- Explore and promote the use of ICT tools for improving the quality of site operations
- Establish the necessary environment and assist in promoting the advanced use of BIM
- Create and promote the utilization of a database of construction cases

Key Initiative 3

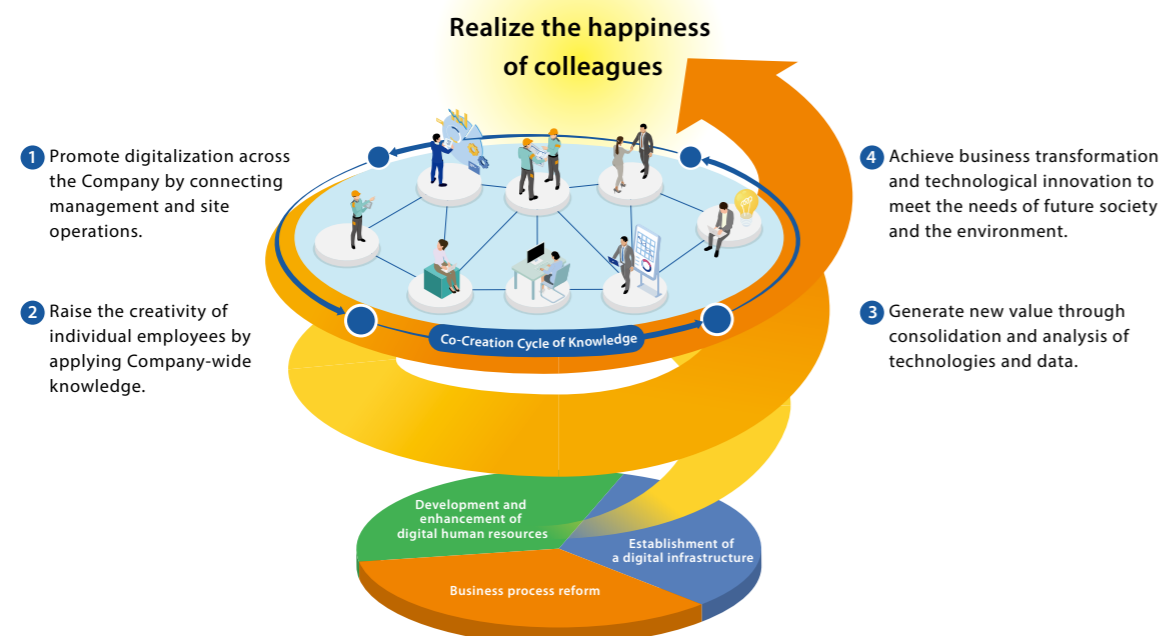
Development and Enhancement of Digital Human Resources

- Formulate a policy for developing digital human resources
- Development sign effective digital literacy education programs
- Visualize and strategically cultivate employee digital skills

2025: business process reform, establishment of a digital infrastructure, and development and enhancement of digital human resources.

To keep pace with the unpredictable, complex, and rapidly changing business environment, we will establish a digital infrastructure for connecting all Group employees in a Co-Creation Cycle of knowledge and evolve into a company capable of steadily yet urgently reforming its business and work styles.

We will become an organization that connects all Group employees through a Co-Creation Cycle of knowledge.

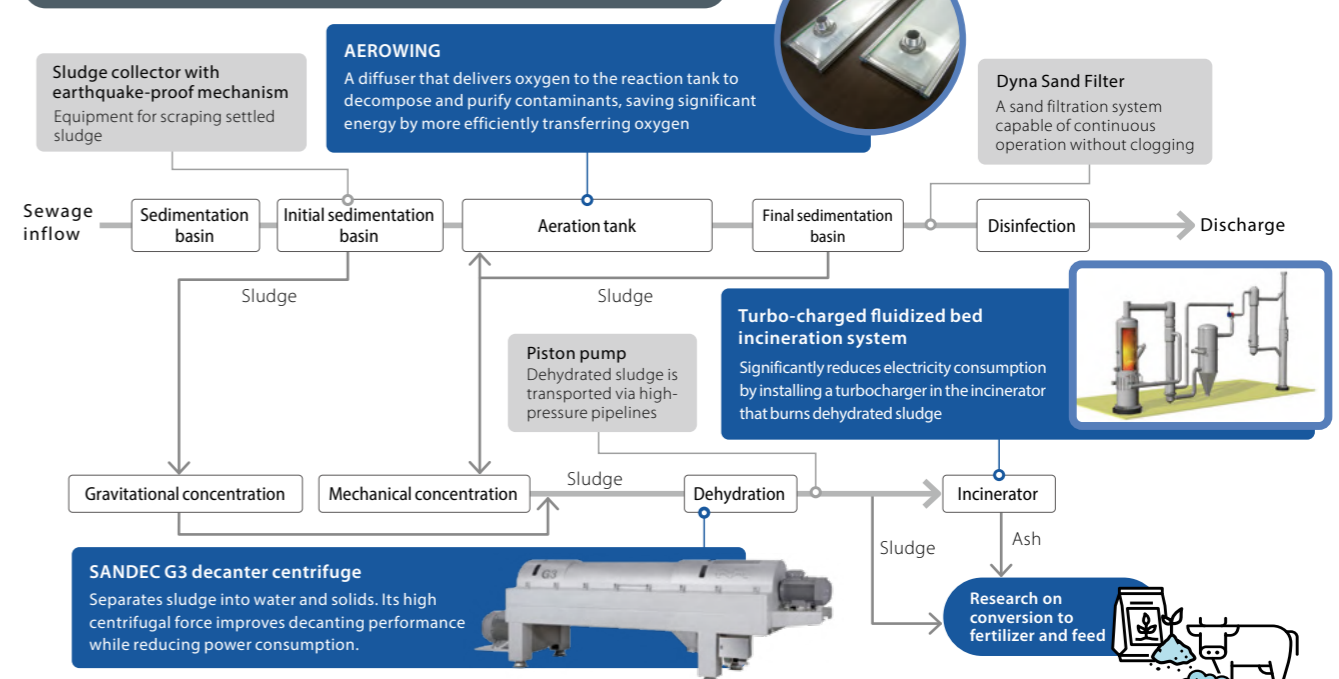


Feature 3 Our Technological Contribution to Sewage Treatment Facilities



Wastewater is an inevitable by-product of human society and industrial activity. The Sanki Engineering Group has helped enhance comfortable living environments by providing advanced water treatment systems that combine wastewater purification and reuse technologies. Sewage treatment facilities require enormous amounts of energy, and we recently observed strong demand for energy conservation toward creating a sustainable society. In addition, as Japan's population continues to fall, the declining volume of water flowing into sewage treatment plants has posed the major challenge of downsizing to reduce treatment costs and scale. Sanki Engineering is making a technological contribution to various stages of the sewage treatment process by fully leveraging the total engineering expertise we have cultivated over the years.

Sewage Treatment Mechanism and Sanki Engineering's Major Technologies



Case 1

Received an Order for Energy-Saving Diffusers for a Large Sewage Treatment Plant in Australia

In February 2023, AQUACONSULT, a Group company, received an order for 5,700 energy-saving air diffusers used in the aeration process* of sewage treatment at the Western Treatment Plant in Melbourne, Australia, and the plant is scheduled to start operations in the second half of 2024. It will treat 150,000 m³ of water per day, serving an equivalent of 750,000 people. The construction work involves upgrading the huge lagoon, which stores 485,000 m³ of water per day, by replacing it with reaction tanks equipped with energy-saving diffusers. Furthermore, the diffusers will be arranged at closer proximity to enable the removal of organic matter and nitrogen. The order was awarded based on the proven life cycle cost, stable performance, and energy efficiency of the 1,700 diffusers that have been in operation at the plant since 2019.



*Provides oxygen to microorganisms that process organic matter and nitrogen contained in the water

Case 2

Developed the Technology to Convert Sewage Sludge into Feed and Fertilizer

Sewage sludge is invariably generated in the process of treating sewage, and the conversion of sludge into feed and fertilizer has been attracting attention. In March 2023, a joint research project by Akita Prefecture, the Tokyo Metropolitan Government's Bureau of Sewerage, and Sanki Engineering on low-cost technology for converting sewage sludge incineration ash into fertilizer was adopted as a feasibility study for the Ministry of Land, Infrastructure, Transport and Tourism's Breakthrough by Dynamic Approach in Sewage High Technology (B-DASH) Project. The technology is expected to lower costs and save energy by using a simple method for converting the incinerated ash of sewage sludge into granular fertilizer. In addition, in April 2023 our research on the conversion of sewage sludge into feed and fertilizer using insects* was selected by the ministry for its FY2023 Applied Research on Sewage. This innovative technology is used for feeding sewage sludge to immature insects and converting the adult insects into feed and their feces into fertilizer.



Granular fertilizer made from incinerated ash

*Joint research by BioAlchemy Inc. and the Okinawa Institute of Science and Technology

/ We strive to realize a sustainable society through businesses that are kind to people and the environment.

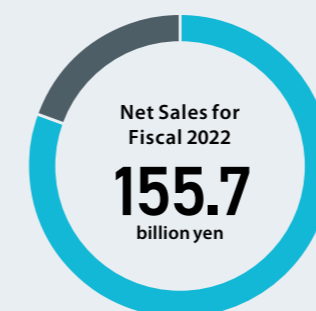
Eiji Mitsuishi

Director, Senior Executive Officer and General Manager of the Mechanical & Electrical Contracting Headquarters

In the Facilities Construction Business, we provide comfortable environments for buildings, factories, public facilities, and other structures through total engineering that combines diverse component technologies. We conduct business by always listening to society and continuously refining our technologies, firmly committed to conserving energy and resources, and achieving our goals for decarbonization. Meanwhile, in the pursuit of happiness for colleagues, which includes our subcontractors, we will first take on the pressing task of adapting to Japan's revised Labor Standards Act, rebuild a robust business foundation by implementing DX, and engage in other initiatives to change our work system toward the ultimate goal of realizing a sustainable society.

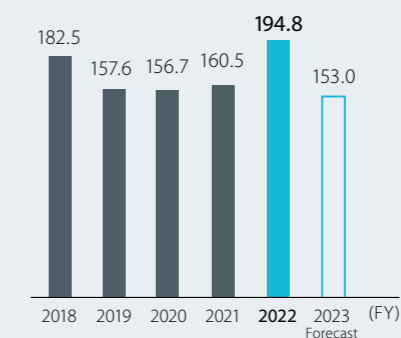


Net Sales Composition Ratio **82%**

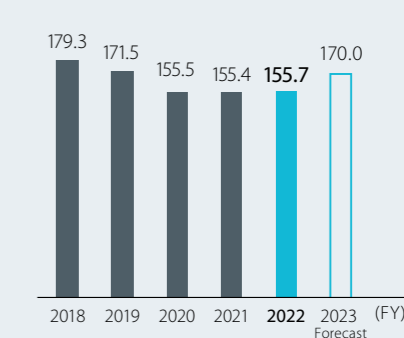


*Includes the results of the Facility Systems Business.

Orders Received (Billions of Yen) **194.8**
billion yen



Net Sales (Billions of Yen) **155.7**
billion yen



Facilities Construction Business

Opportunities and Risks in the Business Environment

- Increased demand for environmentally sound facilities for realizing a decarbonized society
- Expanded investments in manufacturing facilities for semiconductors, batteries, and other products, and in data centers
- Expanded demand for building renewal arising from urban redevelopment
- Increase in materials and labor costs, and delayed delivery of materials and equipment
- Staff shortages, including at subcontractors, in the face of increasingly large-scale properties

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

Key Initiatives for Strengthening the Business Foundation

Key Initiative 1 Improve construction quality

Strengthen the Company-wide division of labor system for construction work and enhance construction quality by promoting occupational health and safety in unison with the Health and Safety Cooperative Association.

Key Initiative 2 Improve productivity

Reduce the workload of site managers and improve operational efficiency by promoting the Smile Site Plan and DX in construction management, pass down technical skills, and increase productivity through human resource development.

Key Initiative 3 Boost competitive strength

Boost competitive strength by using the Sales Force Automation systems and information sharing to clarify and more accurately respond to customer needs, implement thorough cost and delivery time management through the collection of procurement data for materials and equipment, and develop technologies in collaboration with the R&D Center.

KPIs for Medium-Term Management Plan "Century 2025" Phase 3

	FY2025 Targets	FY2022 Results	Evaluation
Number of serious accidents	0	0	◎
Incidents resulting in suspending production	0	0	◎

Major Results for Fiscal 2022

- Value of orders received increased due to large construction projects and secured ample carryover to the next fiscal year. Net sales remained flat year-on-year due to postponed plans and construction schedule delays. Profit decreased due to carried over sales, soaring prices of materials and equipment, and rising labor costs.
- While reinforcing the exchange of information on delivery dates and cost of materials and equipment, we also promptly placed orders related to projects received to minimize the risk of price fluctuations for materials and equipment.
- We focused on reducing problems and complaints within five years after the completion of construction. We also improved design accuracy by conducting design reviews and checking other companies' blueprints, and avoided passing on problems to the construction site by undertaking relevant activities during review meetings held at the start of construction. In addition, we conducted true cause analysis of problems to prevent recurrence.
- We strengthened Company-wide collaboration and an onsite support system as part of activities for promoting the Smile Site Plan*. Sales representatives developed risk reviews for relevant sections on construction conditions, personnel aspects, and construction schedules. We also boosted productivity by promoting the use of ICT at both construction sites and support departments, and operated the sales support system to share information.
- We actively offered proposals to customers on the use of energy-saving technologies as part of our effort to promote the SANKI YOU Eco Contribution Point system, which contributes to reducing customer CO₂ emissions, and 249 proposals were adopted by customers.

*The Sanki Engineering Group's own work style reform measures targeting construction sites.

Major Projects

- ▶ Nidec Corporation Mukomachi Project Building C (HVAC and plumbing systems/new construction work)
- ▶ Nippon Life Yodoyabashi Building (HVAC, plumbing, and electrical systems/new construction work)
- ▶ Toyota Technical Center Shimoyama (plumbing and electrical systems/new construction work)
- ▶ Otemachi Nomura Building (HVAC/renovation work)
- ▶ Yamagata Prefectural Shinjo Hospital (HVAC/new construction work)
- ▶ SUMCO TECHXIV Nagasaki Plant No. 6 Building (HVAC, plumbing, and electrical systems/extension work)



Nippon Life Yodoyabashi Building

Status of Business Operations and Future Outlook toward Achieving Phase 3

Accelerate Work Style Reforms by Promoting the Smile Site Plan

To prepare for the enactment of Japan's revised Labor Standards Act in April 2024, we will promote the Smile Site Plan to simultaneously improve onsite capabilities and quality and reduce the workload of construction managers through active use of ICT tools and digital transformation. Since we have a particularly large number of ongoing construction projects in fiscal 2023, we will maintain a close exchange of information to ensure effective collaboration between the headquarters organization, branches and branch offices, and construction sites, and will regularly check the status of each. Partnerships with subcontractors will be strengthened to cooperatively accelerate work style reforms, and we will grasp the respective working conditions and workload status of each site manager while appropriately adjusting onsite staffing as needed.

Handling Large-Scale Urban Redevelopment Projects and Growth Areas Such as Semiconductor Manufacturing Facilities

As the scale of urban redevelopment projects and manufacturing facilities for semiconductors, batteries, pharmaceuticals, and other products continues to grow, more projects will require a Company-wide response based on the collaborative efforts of sales, design, and engineering. For projects involving the entire Company, we share information within the associated business division, adjust personnel planning with due consideration for construction areas and periods, establish construction systems, and provide backup for construction work and procurement

to ensure an appropriate response for each property. In growth areas where we expect continued investment, we view our active participation in projects as an opportunity to incorporate cutting-edge technologies and expertise, which will lead to gaining more stock projects in the future.

Strengthening the Promotion of DX across Divisions

We are bolstering our digital infrastructure by taking into account ongoing operational improvements and new systems of work. We will further strengthen DX promotion across divisions, from raising the efficiency of sales activities and administrative operations in the field to increasing productivity by improving the efficiency of construction work. At our existing construction sites, we are converting design and construction drawings into 3D drawings using the BIM software Rebro and promoting the use of point-cloud 3D scanning. Furthermore, we will develop digital tools and robot-related technologies to secure construction quality and save labor in site management by creating a database of drawings produced to date for advanced BIM operations such as digital twinning.

Promoting Project Proposals that Contribute to Carbon Neutrality and Technological Development

In addition to presenting customers with renovation and operation proposals for energy conservation, we will also work on new areas such as hydrogen energy. At the same time, we will advance the development of new technologies that meet society's needs for energy conservation and energy creation, thereby strengthening our ability to make proposals.

Focus

Installing Optimal HVAC Facilities for the Respective Roles of Each Area

Renovation and Upgrading Work for the Yamagata Prefectural Shinjo Hospital

As a member of a consortium handling HVAC facilities work, Sanki Engineering was in charge of construction for a renovation and upgrading project at the Yamagata Prefectural Shinjo Hospital, the only designated core hospital in the Mogami region of Yamagata Prefecture. We installed various equipment for removing the heat load, adjusting room pressure, and securing cleanliness in accordance with the roles and characteristics of each area and room in the hospital. For dialysis rooms in particular, where patients stay for long periods of time, we introduced our proprietary MEDIFORT® air conditioning system that controls airflow to provide comfort to patients lying on beds by preventing drafty conditions. Furthermore, in operating rooms, intensive care units, and sterile rooms, we constructed a system that circulates fresh air

and room air through high-performance dust removal filters to maintain a high level of cleanliness. We will continue to play our part in constructing safe and secure medical facilities by integrating Sanki's diverse facilities technologies.



Yamagata Prefectural Shinjo Hospital



/ We present new styles and value for space in office environments during a period of transformation.

Kimio Kadowaki

Executive Officer, General Manager of the Facility Systems Division

The Facility Systems Business was launched in 1989 as an in-house venture, so this year marks its 34th year. We have steadfastly achieved growth by leveraging the strengths of our two business areas of facility systems and smart building solutions to present new styles and value for space in offices and other indoor facilities. Both business areas provide services that support working environments in terms of hardware and operations and can play their part in building the foundations of the future, including DX promotion. We intend to become the fourth pillar of Sanki Engineering's business by consistently being first on the scene of customer transformations in the coming years.



Facility Systems Business

Opportunities and Risks in the Business Environment

- Change in the post-COVID-19 office market
- Expanded need to introduce effective mechanisms and ICT tools for work style operations including teleworking
- Growing expectations for the total integration business of building ICT using advanced digital technology
- Increased opportunities for reconstructing and reviewing ICT infrastructure driven by DX

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

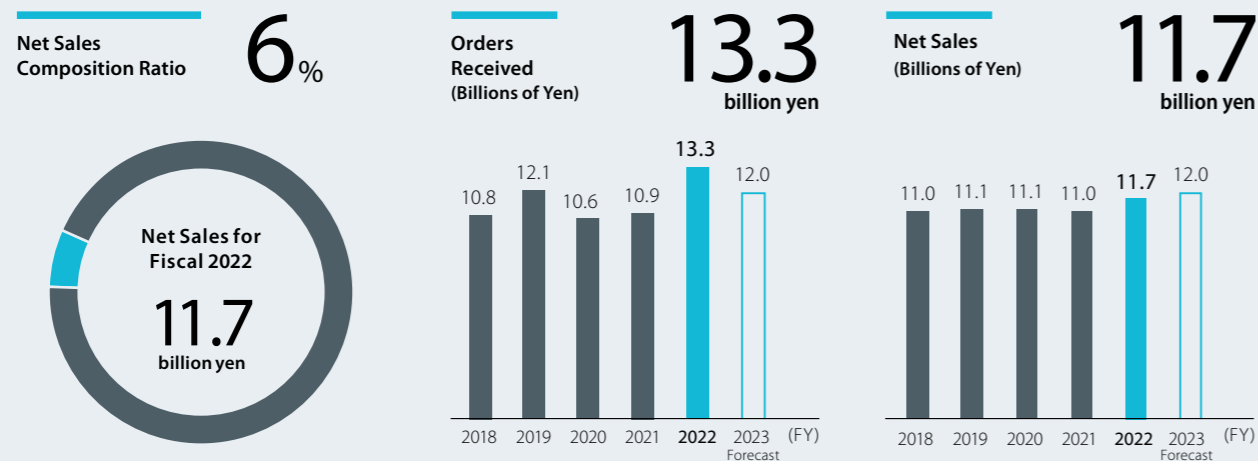
Facility Systems	Key Initiative 1	Expand consulting service offerings
	Key Initiative 2	Enhance sales and production structures for business expansion
	Key Initiative 3	Deepen existing business areas
Smart Building Solutions	Key Initiative 1	Strengthen the total integration business of building ICT
	Key Initiative 2	Expand onsite information and the communication infrastructure business
	Key Initiative 3	Nurture specialized engineers

KPIs for Medium-Term Management Plan "Century 2025" Phase 3

	FY2025 Targets	FY2022 Results	Evaluation
Expand consulting service offerings			
Orders received for consulting/facility engineering	400 million yen	140 million yen	○
Orders received for projects related to NeWSICT*	500 million yen	160 million yen	○
Orders received for project management and construction work resulting from consulting and other sales approaches	2.1 billion yen	1.08 billion yen	◎
Total	3.0 billion yen	1.38 billion yen	

*Next Work Style with ICT

Facility Systems Business



/ We consistently step up to address social challenges and provide a variety of solutions.

Kazuaki Iijima

Director, Managing Executive Officer and General Manager,
Plants & Machinery Systems Headquarters

The Plants & Machinery Systems Business supports social infrastructure in the two business domains of machinery systems and environmental systems. The Machinery Systems Business applies material handling technologies to meet automation and labor-saving needs and updates these technologies with new advances in AI, IoT, and robotics. The Environmental Systems Business contributes to reducing the environmental load and realizing carbon neutrality by developing energy conservation and energy creation technologies in the construction and operation of water treatment and waste treatment facilities. Sanki Engineering will continue to step up to address social challenges and provide our own unique solutions to consistently achieve sustainable growth.



Plants & Machinery Systems Business

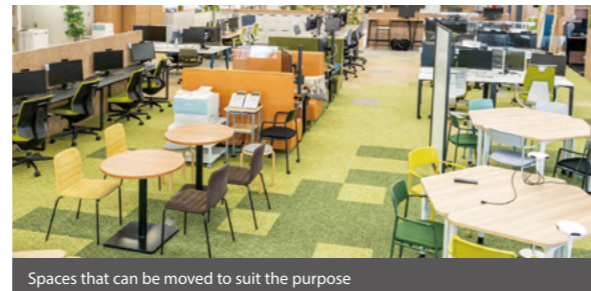
Major Results for Fiscal 2022

Facility Systems

- Enjoyed steady growth in the consulting business, such as by winning a large order for a non-financial project, resulting in a favorable flow of orders received.
- Expanded sales channels led to an increase in inquiries.

Smart Building Solutions

- In the area of network solutions (ICT), orders received, sales, and profit on sales increased significantly as we focused on projects with more pronounced investment activity than those in the previous fiscal year, such as data center and logistics facility projects.
- In the area of building management solutions (instrumentation), we focused on sales activities as a system integrator* (Sler).



Major Clients

- ▶ A chemical manufacturer (head office construction, work style consulting, and relocation project management)
- ▶ A securities company (office construction for a call center and relocation project management)
- ▶ An asset management company (head office construction and relocation project management)
- ▶ An Internet service company (construction of a data center and communication infrastructure)

*A company ("Sler" for short) that undertakes systems development.

Opportunities and Risks in the Business Environment

Machinery Systems Business

- Growing need for automation and labor-saving solutions arising from the decline in Japan's working population
- Increased investment in logistics facilities and manufacturing facilities for batteries and semiconductors
- Increase in materials and labor costs, and delayed delivery of materials and equipment

Environmental Systems Business

- Expansion in decarbonization needs
- Japanese government policy for promoting PPPs and PFIs*
- Expansion in energy conservation needs at overseas water treatment plants

*A public private partnership is a public-private sector collaboration to provide public services, while a private finance initiative is a representative PPP approach.

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

Machinery Systems Business

- Key Initiative 1** Increase orders for standard conveyors
- Key Initiative 2** Accelerate entry into the automation and labor-saving market and logistics market
- Key Initiative 3** Establish a network of maintenance and servicing businesses

Environmental Systems Business

- Key Initiative 1** Promote the energy conservation and energy creation businesses
- Key Initiative 2** Expand the LCE business
- Key Initiative 3** Expand business in overseas markets

KPIs for Medium-Term Management Plan "Century 2025" Phase 3

		Targets (Total for FY2022-2025)	FY2022 Results	Evaluation
Machinery Systems Business	Net sales of robot systems	5.0 billion yen	550 million yen	○
	Orders			
Environmental Systems Business	AEROWING	3.6 billion yen	800 million yen	◎
	G3 decanter centrifuge	20 units	1 unit	△
	Fluidized bed incinerator	2 units	0 units	△

Status of Business Operations and Future Outlook toward Achieving Phase 3

Develop Services that Originate from Consulting

We will aggressively promote sales and proposal activities originating with our consulting services to identify the need for large-scale office relocation, work style review, and review of spaces in the post-pandemic office. We will also develop solutions that leverage our strengths as a total engineering company and respond to market needs in light of trends such as smart offices.

Promote Total Integration Business of Building ICT

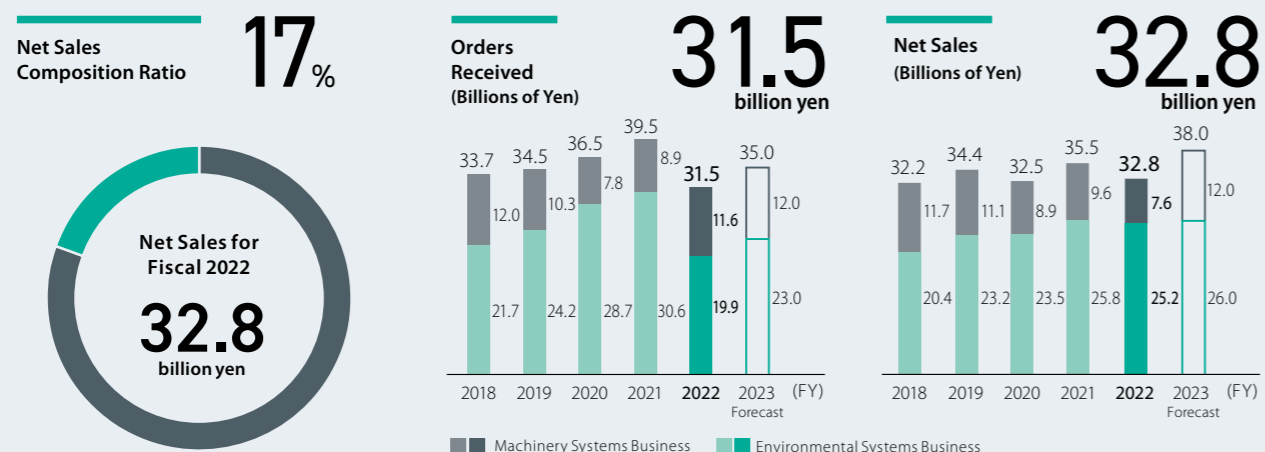
We intend to increase orders for building management solutions by proposing total integration that incorporates surveillance cameras, security systems, fire alarms, and other equipment when upgrading central monitoring, and

automated control systems. In terms of network solutions, we will strive to increase orders through aggressive sales activities in response to robust demand for capital investments in information infrastructure for data centers, distribution warehouses, and commercial facilities.

Develop New Services with Expanded Scope

To expand the scope of our business, we will explore possibilities for collaboration with startup companies. We will conduct an open innovation program for conceiving and implementing new value by linking the innovative ideas and technologies of startups with Sanki Engineering's component technologies to create new services and solutions.

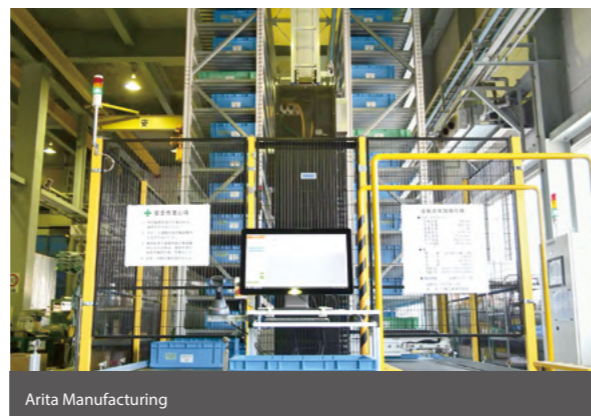
Plants & Machinery Systems Business



Machinery Systems Business

Major Results for Fiscal 2022

- While orders received increased due to large construction projects, profit declined as a result of a decrease in work carried over from the previous fiscal year and fewer construction projects for large conveyance facilities.
- Introduced a web-based product training system for sales personnel to increase orders for standard conveyors.
- Completed commercialization of the Reverse Sorter®, a vertical conveyor and sorting system for the logistics market, and Meris Bianca®, a robotic sorting system, and exhibited both products at the Logis-Tech Tokyo 2022 international exhibition.
- Sales remained steady for automation and labor-saving systems using robots. We also achieved progress in sales collaboration with robot manufacturers.



Major Projects

- Facility for Arita Manufacturing (delivered in March 2023)
- Facility for Narita Airport's Terminal 1 (delivered in June 2022)

Status of Business Operations and Future Outlook toward Achieving Phase 3

Expand Sales of Core Products

We will continue to conduct our ongoing business activities with a focus on expanding sales of our core products, such as standard conveyors, various conveyance systems for logistics facilities, factory automation, airports, and medical facilities. At the same time, we will expand our product line to meet growing automation needs in the food industry and medical facilities. In addition, we will strive to strengthen our product value by proposing equipment that will save energy and improve transportation efficiency as well as by providing added value such as facility predictive

maintenance systems.

Enter the Automobile, Semiconductor, and Overseas Markets

We plan to enter growth areas such as manufacturing facilities for EVs and semiconductors, where significant demand is expected, as well as overseas markets, by leveraging the technical skills and flexible response capabilities that we have cultivated over the years. As part of this effort, we established a clean room at the Yamato Product Center for developing and manufacturing

equipment that requires high cleanliness environments. Additionally, we will continue to analyze the market to form business alliances and partnerships with external entities for future business expansion.

Promote Business Reform

We will implement business reform for reinforcing the foundations for ensuring continuity and supporting

growth areas. We will collaboratively promote DX with the DX Promotion Division and the Technical Research & Development Center. These efforts include the effective use of 3D-CAD, introduction of emulators, creation of a database of design results, and research on applying the latest technologies such as AI, drones, and 5G to improve operational efficiency and increase productivity.

Environmental Systems Business

Major Results for Fiscal 2022

- Orders received decreased due to the absence of a large maintenance and management contract and an order for a waste treatment facility obtained in the previous fiscal year. Although net sales decreased, profit increased due to the improved profitability of construction work.
- Enjoyed strong global sales, as exemplified by major orders placed by large-scale sewage treatment plants in Denmark and Australia for AEROWING, an energy-saving ultrafine bubble air diffuser.
- Participated in the Ministry of the Environment's FY2022 Demonstration Project for the Effectiveness of Decarbonized Resource Recycling Businesses Utilizing Digital Technology.
- Sanki's technology for low-cost technology for converting sewage sludge incineration ash into fertilizer was adopted for a feasibility study for the FY2022 Breakthrough by Dynamic Approach in Sewage High Technology Project of the Ministry of Land, Infrastructure, Transport and Tourism.
- Introduced an AI waste crane system, which automates crane operations at waste incineration facilities, to Clean Hill Tenzan.



Major Projects

- Kasai Water Reclamation Center's northern system reactor facility
- Kanazawa Wastewater Treatment Plant's No. 6 system reaction tank and blower facilities
- Construction work for the new combustible waste joint processing facility at the Ochi Clean Center
- Construction work for the new incinerator at SU Kaihatsu

Status of Business Operations and Future Outlook toward Achieving Phase 3

Expand Sales of Products that Meet Energy Conservation Needs

Given the continued demand for renewing infrastructure facilities in response to changing social and environmental trends, such as a declining population, there is a growing need for energy conservation for achieving carbon neutrality. We will strive to expand sales of strategic products, such as the energy-saving AEROWING ultrafine bubble air diffuser, the highly efficient G3 decanter centrifuge, and the fluidized bed incinerator.

Promote LCE Business to Secure Stable Long-Term Business

Changing global circumstances have given rise to the need to consider risks and price fluctuations when handling projects. For example, the recent sharp rise in prices has created a challenge for securing the business feasibility of woody biomass gasification power generation, which we have been pursuing as an energy creation business. In addition, we will strive to ensure the stable operation of projects for which we already undertake maintenance and management operations, while striving to win orders

for DBO projects to expand our business and accumulate operational expertise for the future.

Develop Overseas Markets for Water Treatment Facilities

Our efforts to develop overseas markets for water treatment facilities are being led by AQUACONSULT Anlagenbau GmbH, a Group company based in Austria that has been enjoying robust sales in recent years, as we strive to expand

sales of strategic products mainly in Europe and the Middle East. Meanwhile, in Southeast Asia, where large-scale water treatment facilities are not widely available, we will continue to promote our proprietary technologies, such as a drainage treatment unit based on the DHS method, while exhibiting at local trade shows and developing local networks to increase business opportunities.

Focus

Machinery Systems Business

Contributing to improve efficiency and reduce labor in loading operations and save space at work sites

Delivery of Conveyor Line to an Apparel E-Commerce Company

In March 2023, we delivered a 320-meter long conveyor line to an e-commerce company handling women's apparel, which has increased its sales fivefold over the past five years. Previously, the entire process, from item picking to packing and shipping, had been managed by hand. The new conveyor line automates the supply of shipping boxes and the sorting of boxes from the packing area to each delivery company, thereby improving efficiency and saving labor in loading operations.

The new system also saves space by virtue of its two-tier configuration with the shipping box supply line on the upper level and the sorting line to delivery companies on the lower level.

We are also scheduled to deliver our newly developed Reverse sorter to the center in August 2023, with the expectation that it will further improve work efficiency and labor savings.



Conveyor line with a total length of 320 meters



Focus

Environmental Systems Business

Realized Automated Crane Operation for Efficient and Stable Operational Managements

Introduction of an AI Waste Crane System at Clean Hill Tenzan

To address the shortage of workers and reduce operational management costs at waste incineration facilities, we developed the AI Waste Crane System to automate crane operation at waste incineration facilities.

Crane operation of waste requires workers with a high level of experience to determine the type and level of waste in the bunker. The system ensures efficient and stable operation by optimizing crane operation with AI that visualizes the inside of the waste bunker to determine the type and height of waste. Compared to night-time manual crane operations, this significantly reduces the workload, reducing labor by approximately 60%.

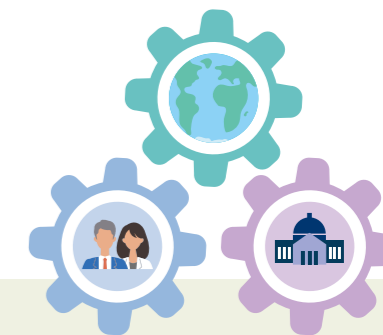
The system was installed and has been reliably operating at Clean Hill Tenzan, located in Taku City, Saga Prefecture, under the operational management of Group company Sanki Chemical Engineering & Construction in a DBO project.



Automated operation

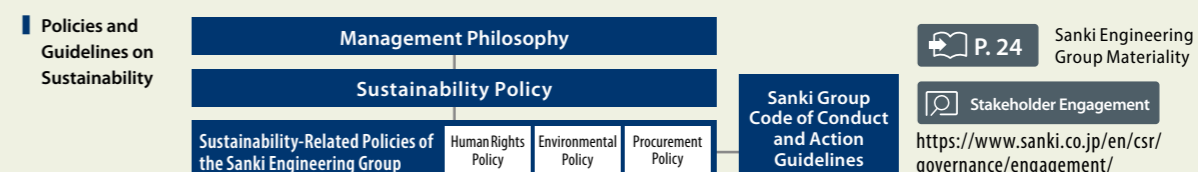


Sustainability Management



Basic Philosophy

In accordance with its management philosophy of “creating comfortable environments through engineering and widely contributing to social development,” the Sanki Engineering Group formulated its Sustainability Policy and laid out its “Vision for 2050—Sanki, The Enduring Company of Choice.” We are promoting sustainability management by addressing stakeholder demands and expectations and incorporating them in our corporate activities and by contributing technological solutions to social issues. We have also identified the five materiality issues of the Sanki Engineering Group and have set KGIs and KPIs under our Medium-Term Management Plan “Century2025” Phase 3 (FY2022–2025) to assess the progress of our initiatives. Through these efforts, we will contribute to the environment and society while at the same time securing profit to achieve sustainable development for many years to come



System for Promoting Sustainability

The Sustainability Committee deliberates and decides on key issues and measures related to sustainability. In addition, a Sustainability Promotion Council, consisting of personnel in charge of sustainability from each division, was established as a subordinate body of the Sustainability Committee to examine and disseminate measures, review the progress of each division's materiality-based activities, and monitor related trends and information. Agenda items that significantly impact business and management strategies are submitted and reported to the Management Meeting and the Board of Directors for decision and approval, depending on their relative importance. The Board of Directors supervises the progress of activities based on the KGIs and KPIs set in the Medium-Term Management Plan. This system enables us to address sustainability issues in all our business activities, including throughout the supply chain.



Risk Management

Issues identified from the risks and opportunities related to our value chain are evaluated and prioritized against the two axes of improving corporate value and improving environmental and social value, to determine our five materiality issues and incorporate them into our measures and target setting for the Medium-Term Management Plan. Over the course of this process, we ensure these considerations are appropriately reflected in our decision-making for sustainability management by collaborating with the Risk Management Committee, which oversees and manages risks for the entire Group.

Sustainability Committee

Decides on important issues and measures to realize sustainable management. Meets twice a year.

Composition

Chairperson:
President and Representative Director

Members:
Directors and persons nominated by the chairperson

Secretariat:
Sustainability Promotion Department

Main Agenda for FY2022

- Outlook for carbon neutrality and promotion of decarbonization measures
- Enhancement of the SANKI YOU Eco Contribution Point system

Sustainability Promotion Council

Implements measures to ensure awareness of sustainability-related policies and keeps track of progress. Meets twice a year.

Composition

Members:
Sustainability promoters from each division

Secretariat:
Sustainability Promotion Department

Sanki Engineering Group Value Chain

The Sanki Engineering Group is engaged in the life cycle engineering (LCE) business, in which we handle the entire process from facility planning and design to procurement, construction, operational management, maintenance and inspection, and renovations and renewal. We seek to generate diverse benefits that meet stakeholder expectations by addressing opportunities and risks in the context of sustainability management across the value chain of our business activities.




Environment



Basic Philosophy

In accordance with the Sanki Engineering Group Environmental Policy, we strive to conserve the global environment in all our business activities, including the supply chain, with the intention of realizing a decarbonized society, recycling-oriented society, and society in harmony with nature. Having identified our efforts in response to environmental issues as a key management concern, we are primarily working to contribute to a decarbonized society as our top-priority material issue as well as to use engineering to build a comfortable environment.

 Sanki Engineering Group Environmental Policy
<https://www.sanki.co.jp/en/csr/environment/management/>

Environmental Management System

● Basic Policy and Management System

Our integrated management system, consisting of an EMS (ISO 14001) and a QMS (ISO 9001), manages the impact in terms of risks and opportunities of our business activities on the environment, including the natural environment that surrounds the Group. Under our system for implementing environmental management, headed by the president, each division sets targets and formulates plans for the implementation of measures in accordance with its annual action plan. Progress is reviewed at the divisional and general meetings.

In addition, the Sustainability Committee, which is mainly composed of directors, discusses sustainability issues in general and deliberates and determines actions to address environmental issues, including climate change. Progress is monitored by the Board of Directors, and issues that may have a significant impact on our management and business strategies are discussed in the Management Meeting and Board of Directors meetings, depending on their relative importance, and incorporated into the Medium-Term Management Plan.

● Virtuous Cycle in Management System

In addition to providing training programs on EMS, we are working to improve the level of management by encouraging our employees to acquire qualifications required by environment-related laws and regulations.

After the waste incineration facilities we constructed in 2019 were cited for noncompliance, we followed our standard procedures to take action to prevent any recurrence, and we are continuing to strengthen our management system. In fiscal 2022, we conducted four environmental management training sessions (one for new employees and three for internal auditors), which also included Group companies.

We also ensure the effectiveness of our management system through internal audits and checks during ISO certification audits. In fiscal 2022, no nonconformities were found in the internal or external audits, and there were no violations of environmental laws and regulations or issues reported regarding noise, dust, or odor at construction sites, confirming that our management system is operating properly.

● Environmental Risk Assessment

We assess environmental risks at each construction site, including those overseas, before construction begins. We use our own JOB Environmental Aspects Assessment List, consisting of 10 aspects and approximately 70 items, for an accurate and efficient review of the wide variety of applicable environment-related risks and regulations, depending on the nature of work and the surrounding environment. In fiscal 2023, we made major revisions to the list, in particular to improve its sustainability elements and take into account local bylaws. Assessing environmental risks, including potential

Scope of ISO 14001 Certification

All our business activities and services, including those overseas, are considered in managing our environmental impact.

<https://www.sanki.co.jp/en/csr/environment/management/>

P. 55

Quality and Environmental Management System

Number of Employees with Environment-Related Qualifications (as of April 1, 2023)

- **Certified environmental measurer**
Non-consolidated: 7
Consolidated: 8
- **Supervisor of management of industrial waste subject to special control**
Non-consolidated: 183
Consolidated: 208
- **Pollution prevention manager (cumulative total)**
Non-consolidated: 61
Consolidated: 92
- **Qualified person for energy management**
Non-consolidated: 88
Consolidated: 91

Environmental Aspects Assessed under the JOB Environmental Aspects Assessment List (FY2023)

1. Reduced use of resources and energy for customers and users
2. Reduction and proper disposal of waste
3. Abnormal situations and outflow of contaminants
4. Consideration for areas surrounding construction sites
5. Consideration for unique environmental needs
6. Natural disasters
7. Legal compliance
8. Local bylaws governing job location
9. Temporary materials and equipment, and office and other supplies
10. Other aspects

ones, can allow us not only to reduce our environmental impact but also to avoid work schedule delays and additional costs by gaining the understanding of local communities and government authorities related to our work sites.

Addressing Climate Change toward a Decarbonized Society

● Information Disclosure Based on TCFD Recommendations

The Sanki Engineering Group has endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and therefore discloses climate-related information in accordance with the required framework. Of the five material issues identified for sustainability management, we place the highest priority on contributing to a decarbonized society, and we are addressing climate change by mitigating risks and capturing opportunities.

● Governance

The Sanki Engineering Group established the Sustainability Committee, chaired by the president and composed of members of the Board of Directors, to address climate change and sustainability issues in general. The committee discusses and makes decisions on key issues and actions for realizing sustainability management. All deliberations and decisions made by the committee are reported to the Management Meeting and the Board of Directors for review and approval. Issues that may have a significant impact on our business and management strategies are also presented to the Management Meeting and the Board of Directors for further discussion and approval, depending on their relative importance.

The Sustainability Promotion Council, established as a subordinate body of the committee and composed of persons in charge of the related practical matters in each department, communicates the deliberations and decisions of the committee to the entire Group, discusses and supports specific activities to promote sustainability, and monitors progress.

● Risk Management

Our Risk Management Committee oversees and manages risks that impact the entire Group. It identifies and categorizes business-related risks, determines the subcommittees in charge and content of control plans, assesses the risks by quantifying their impact and frequency insofar as possible, formulates and implements priorities and response policies, and conducts periodic reviews.

With regard to climate-related risks, the Climate Change Risk Subcommittee conducts scenario analysis to extract and assess the impact of climate change risks. The decided measures are submitted to the Sustainability Committee, Management Meeting, and Board of Directors for further decision and approval, depending on the relative importance of the assessed risk, and are then implemented by all the departments of the Group. Measures included in the Medium-Term Management Plan are incorporated into the execution plans of each division to manage their progress.



Recognized as an "A List" company, the highest rating given by the CDP in the area of climate change. The CDP is an international non-profit organization that oversees the global disclosure system for companies in managing their environmental impact.

 Click here for details:

<https://www.sanki.co.jp/news/release/article468.html> (Japanese only)

P. 43

Sustainability Management Promotion System

P. 43

Sustainability Risk Management

PP. 87–88

Risk Management Promotion System

● Strategies

Scenario analysis is conducted to gain an understanding of the medium and long-term impact of climate change on business. Risks and opportunities identified through the analysis are incorporated into Phase 3 of the Century 2025 medium-term management plan and addressed as part of the plan.

● Scenario Analysis and Financial Impact Assessment

We analyzed 1.5°C and 4.0°C scenarios in terms of relations to policies and market trends, and we also analyzed physical changes engendered by events such as disasters. For each scenario, causes of Group-wide risks and opportunities have been identified and their degree of impact on business

verified and assessed in the three stages of high, medium, and low.

Adopted Scenarios	Reference Scenarios
1.5°C scenario Net zero is reached by 2050 by taking stringent measures against climate change, and the temperature increase in 2100 is limited to 1.5°C or below from the level of the Industrial Revolution	● IEA: Net Zero Emissions by 2050 (NZE) ● IPCC: Shared Socioeconomic Pathways (SSP1-1.9)
4°C scenario Stringent measures against climate change are not taken, and the temperature increase in 2100 is around 4°C from the level of the Industrial Revolution	● IEA: Stated Policies Scenario (STEPS) ● IPCC: Shared Socio-economic Pathways (SSP5-8.5)

■ Risks and Opportunities

Risks	Transition Risks			
	Category	Policies and Regulations	Technology	Review
	Possible event	Increase in carbon taxes and prices for renewable energy certificates (RECs) and stricter CO ₂ emission regulations	Advances in energy conservation and renewable energy technologies	Increased demand for climate action and information disclosure
	Impact on business	Increase in carbon tax burden and costs of purchasing RECs	Increase in construction costs due to rising costs of materials and equipment, and other expenses	- Technological obsolescence - Delayed technological support due to lack of technical capabilities and engineers
	Timeline	Medium- to long-term	Medium- to long-term	Medium- to long-term
	Impact	1.5°C scenario: Moderate 4°C scenario: Minor	1.5°C scenario: Major 4°C scenario: Moderate	1.5°C scenario: Major 4°C scenario: Minor
	Response	Promote decarbonization measures and capital investment	Strengthen procurement capabilities through centralized purchasing, DX, etc.	- Promote development of energy conservation and renewable energy technologies - Promote open innovation - Secure human resources and enhance engineer training
	Physical Risks			
	Category	Acute	Chronic	
	Possible event	More frequent and severe natural disasters	Rising temperatures	
Opportunities	Impact on business	- Delays in procurement of materials and equipment - Suspensions or delays in construction - Stagnation of business operations due to infrastructure failures	- Increased risk of heat stroke and other occupational hazards - More severe labor shortages due to deteriorating working conditions at construction sites	Increased construction costs due to decreased productivity and increased costs for countermeasures
	Timeline	Short-term/medium- to long-term	Medium- to long-term	Medium- to long-term
	Impact	1.5°C scenario: Moderate 4°C scenario: Major	1.5°C scenario: Moderate 4°C scenario: Major	1.5°C scenario: Minor 4°C scenario: Major
	Response	- Operate BCMS for maintaining effective BCPs - Strengthen cooperation with partner companies	- Promote occupational health and safety in cooperation with partner companies - Develop technologies to prevent occupational hazards and robot replacements	Improve productivity through DX promotion
	Markets			
	Category	Markets		Resilience
	Possible event	Expansion of energy conservation and renewable energy markets	Growing need for greater cooling capacity	Expansion of climate services market
	Impact on business	- Increased demand for ZEB and other energy conservation projects - Increased demand for energy creation projects	Increased demand for renovation work to boost cooling capacity	- Increased demand for renovation projects to cope with disasters - Increased demand for construction projects and services to cope with disasters
	Timeline	Short-term/medium- to long-term	Medium- to long-term	Medium- to long-term
	Impact	1.5°C scenario: Major 4°C scenario: Moderate	1.5°C scenario: Minor 4°C scenario: Moderate	1.5°C scenario: Minor 4°C scenario: Moderate
	Response	- Promote development of energy conservation and renewable energy technologies - Promote open innovation - Strengthen the SANKI YOU Eco Contribution Point system	- Strengthen system to quickly respond to customer needs - Strengthen the maintenance system	- Promote LCE Business - Strengthen the total integration business of building ICT - Expand consulting services - Operate BCMS to maintain an effective BCP

● Indicators and Targets

In February 2022, we established the Sanki Carbon Neutral Declaration as a long-term goal, and we have incorporated our carbon transition plan into the medium-term management plan. We will address climate change by focusing on reducing greenhouse gases based on the following indicators.

■ Greenhouse Gas Reduction Targets

Scope	Base Year	FY2025 (medium-term management plan)	FY2030	FY2050
Scope 1, 2	FY2020	40% reduction	Carbon neutrality	Carbon neutrality
Scope 3	FY2020	10% reduction	-	Carbon neutrality
Reductions through the SANKI YOU Eco Contribution Point system	FY2018–FY2020 (average)	30% increase	-	-

■ Greenhouse Gas Emissions

Category		Emissions (t-CO ₂)			Changes (%)	
		Base Year FY2020	Results*		Compared to the base year	YoY
Scope 1, 2		8,061	7,849	5,341	-34%	-32%
Scope 1	Direct emissions from businesses owned or controlled by the Company	1,658	1,722	1,743	+5%	+1%
Scope 2	Indirect emissions caused by use of purchased electricity or heat	6,403	6,127	3,598	-44%	-41%
Scope 3		6,161,990	5,005,392	3,931,712	-36%	-21%
Category 1	Products and services purchased	344,460	345,217	355,854		
Category 2	Capital goods	7,419	5,518	7,763		
Category 3	Fuel and energy activities not included in Scope 1 and 2	1,006	1,336	1,358		
Category 4	Upstream transportation and distribution	819	1,123	846		
Category 5	Waste generated in operations	1,481	1,744	1,856		
Category 6	Business travel	332	401	402		
Category 7	Employee commuting	658	965	963		
Category 11	Use of sold products	5,800,139	4,643,385	3,558,271		
Category 12	End-of-life treatment of sold products	1,483	1,381	1,548		
Category 13	Downstream leased assets	4,193	4,322	2,851		
Total		6,170,051	5,013,241	3,937,053	-36%	-21%

*Scope: Sanki Engineering Group

PP. 30–31 Feature 1

*Scope: Sanki Engineering Group
We have obtained third-party assurance for the results.

Note: Categories 8, 9, 14, and 15 are not applicable.

Independent Third-Party Assurance Report

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

● Initiatives for Emissions Reduction (Scope 1 and 2)

To reduce emissions at our plants, offices, and construction sites, we have been thoroughly implementing energy conservation activities by effectively operating facilities at each location. At the Sanki Techno Center and Yamato Product Center, we have installed several energy-saving systems to reduce energy, including those that apply our proprietary technologies. The Sanki Techno Center switched to electricity derived from renewable power sources to meet its electricity needs in April 2022, resulting in a reduction of 2,651 t-CO₂ compared to the previous level. Our Kansai Branch Office also switched to carbon neutral electricity following its relocation. We consequently reduced our total amount of Scope 1 and 2 emissions in fiscal 2022 by 34% compared to the fiscal 2020 level. Looking ahead, we will consider installing solar photovoltaic panels and converting Company vehicles to EVs.

■ Energy Consumption

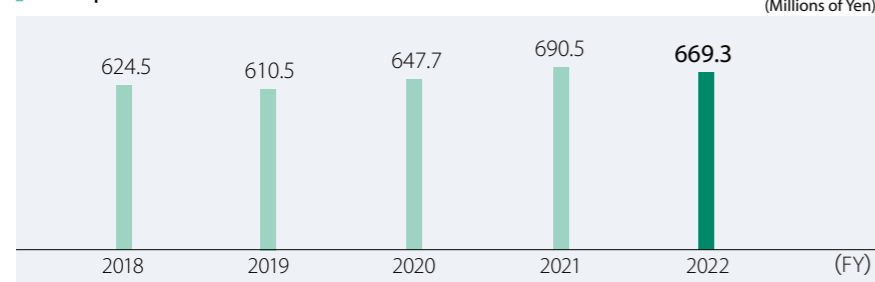
	FY2022 (MWh)
Energy consumption*	22,793

● Contribution to Reductions through Our Business Activities (Scope 3)

The Sanki Engineering Group's Scope 3 emissions for fiscal 2022 are predominantly Category 11, at 91%. We therefore seek to help customers save and generate energy to reduce CO₂ emissions and cut lifecycle costs through our business activities by enhancing the functionality and comfort offered by the technologies and products of each of our businesses. Through these efforts, we achieved a 36% reduction in Scope 3 emissions in fiscal 2022 compared to the fiscal 2020 level.

In our LCE Business, we seek to reduce environmental impact across the entire product lifecycle, from planning and design in facilities construction to operational maintenance after completion and also renovation. This assists in shifting to a decarbonized, zero-waste society as well as environmental preservation. We will continue to expand business contributions to save and create energy, such as biomass power generation plants, and pursue resource circulation through wastewater treatment facilities and waste treatment facilities. We will also continue to focus on research and development related to environmental preservation to continue reducing emissions from our business activities.

■ R&D Expenditures Related to Environmental Preservation



● Registered ZEB Planner

Sanki Engineering is a registered ZEB Planner, which seeks to promote the widespread introduction of ZEBs* introduced by Japan's Agency for Natural Resources and Energy, under the Ministry of Economy, Trade and Industry. As a ZEB Planner, we act as the contact point for customers planning to adopt ZEB in construction projects and play our part in developing a decarbonized society by supporting ZEB planning.

Energy-Saving Systems Installed at Sanki Engineering Facilities

- **Sanki Techno Center**
 - EcoSearcher® real-time heat source optimization system (proprietary technology)
 - selFort® smart HVAC system for offices (proprietary technology)
- **Yamato Product Center**
 - Periloop thermal stratification HVAC system (proprietary technology)
 - Solar photovoltaic panels

*Scope: Sanki Engineering Group
We have obtained third-party assurance.

Independent Third-Party Assurance Report

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



Trans-Heat Container for delivering thermal energy



Woody biomass gasification plant



*Net-Zero Energy Buildings maintain comfortable environments while reducing annual energy consumption to as close to zero as possible by enhancing energy-saving performance using solar power generation and other measures.

● SANKI YOU Eco Contribution Point System

The Sanki Engineering Group's SANKI YOU Eco Contribution Point system contributes, along with our partners, to preventing global warming and realizing a sustainable society. Under the system, when we propose an energy-saving solution that reduces CO₂ emissions to a customer and that proposal is adopted, the amount of the achieved emissions reduction is converted to Eco Contribution Points, used to support environmental conservation activities.

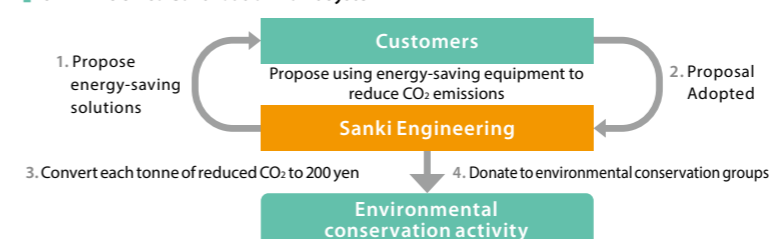
Under the Medium-Term Management Plan "Century 2025" Phase 3, we aim to bolster this system as a measure for reducing Scope 3 emissions. In addition, we have accelerated our efforts to achieve the Sanki Carbon-Neutral Declaration, issued in February 2022, by raising the price per ton of CO₂ reduction from 100 yen to 200 yen starting in fiscal 2022. In fiscal 2022, we received 322 orders (on a consolidated basis) and reduced CO₂ emissions by 50,382 tons, up 97% from the average of the three-year period from fiscal 2018 to 2020, thereby achieving the KPI in the Century 2025 Phase 3 of the medium-term management plan. The cumulative volume of CO₂ emissions reduced since the first year (fiscal 2010) on a consolidated basis reached 317,692 tons, with over 21,000 trees planted.

We will continue to develop proposals for reducing CO₂ emissions and offer an even greater contribution to environmental conservation activities.

■ Proposals for CO₂ Reduction and Outcomes

Proposals for CO ₂ Reduction and Outcomes										(CO ₂ reduction unit: t-CO ₂)	
	FY2018		FY2019		FY2020		FY2021		FY2022		
	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	Numbers	CO ₂ reduction	
Proposals											
Consolidated	411	50,072	405	45,685	379	68,810	431	134,399	488	131,820	
Non-consolidated	370	45,531	377	44,756	352	68,243	367	112,550	452	105,116	
Orders received											
Consolidated	183	20,699	181	27,624	214	28,430	263	35,848	322	50,382	
Non-consolidated	163	16,608	163	27,221	200	28,296	218	14,355	294	24,533	

■ SANKI YOU Eco Contribution Point System



Contributing to a Zero-Waste Society

● Current State of Industrial Waste

With respect to industrial waste discharged at our construction sites, we seek to understand the current status by compiling data on waste discharged at sites where Sanki Engineering is the prime contractor. Due to the impact of large construction projects that involved demolition, our industrial waste emissions increased in fiscal 2022.

We have maintained the recycling and reduction rate for industrial waste, excluding waste disposed at final landfill sites, at 89.8% (non-consolidated) and 90.0% (consolidated) in fiscal 2022. We will continue to promote proper disposal by monitoring and analyzing the discharge of industrial waste. In fiscal 2022, the waste disposal cost for construction sites was 525,051,000 yen (non-consolidated)



The logo of the SANKI YOU Eco Contribution Point system expresses our aspiration to contribute to social development and create harmony with the natural environment.
ECO2: We reduce CO₂ emissions through our contribution to ecology.

PP. 26-28

Medium-Term Management Plan "Century 2025" Phase 3



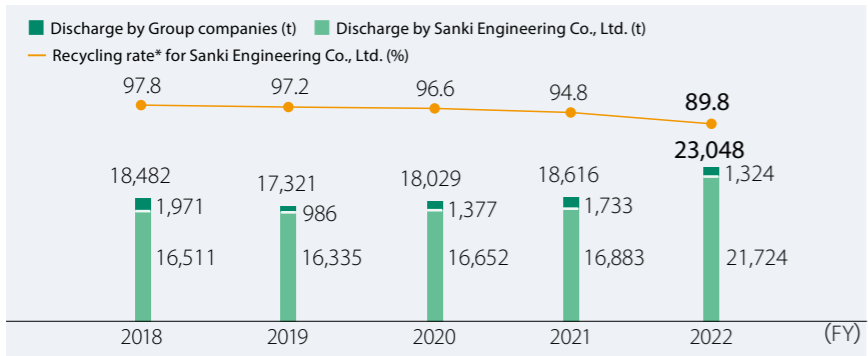
Explanation for handling CFC during HVAC inspections

and 554,862,000 yen (consolidated). Furthermore, we have been properly disposing waste CFC and halons, the cost of which was 30,391,000 yen (non-consolidated) and 39,897,000 yen (consolidated) in fiscal 2022.

With the aim of ensuring the proper disposal of industrial waste, we have made digital manifests available to all departments for waste management. The rate of introduction of digital manifests was 99.2% on a non-consolidated basis and 98.9% on a consolidated basis in fiscal 2022.

We work to reduce emissions of waste plastics and promote the recycling of plastics in accordance with the Plastic Resource Circulation Act.

Changes in the Amount of Industrial Waste Discharged



Proper Disposal of Hazardous Substances

We properly dispose of hazardous substances in accordance with the laws and regulations while informing our employees about proper methods of managing these substances. We have created and distributed posters to inform them of the revisions in storage and disposal procedures for mercury-laced waste in accordance with the revision of the Waste Management and Public Cleansing Act*. Regarding asbestos, we prepare a flow chart for the proper disposal of asbestos at construction sites for renovation work. Also, in accordance with the Air Pollution Control Law, we will properly report the presence or absence of asbestos-containing building materials at construction sites during demolition and renovation work.

Limiting Water Use

At each site where facilities are owned by the Sanki Engineering Group, we regularly monitor water use and continuously consider ways to improve the efficient use of our water resources to reduce usage. Most of the water used is for offices and training accommodations, and the resumption of training camps increased water use in fiscal 2022.

Water Use (m³)		
	FY2021	FY2022
Water use	37,065	44,088
Tap water	10,540	13,884
Well water	26,525	30,204

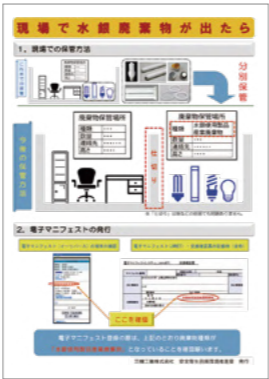
Realizing a Society in Harmony with Nature

Our Response to Biodiversity

In April 2022, we established the Sanki Engineering Group Action Guidelines on Biodiversity, which is part of the Sanki Engineering Group Environmental Policy. Under the guidelines, we will further strengthen our activities for planting and nurturing trees and promoting environment-related facilities.

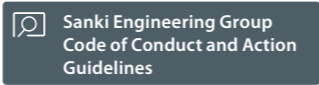
*Scope: Industrial waste discharged at sites where Sanki Engineering is the prime contractor and at domestic Group companies
Recycling rate: Sanki Engineering Co., Ltd.

*Waste Management and Public Cleansing Law



Poster: "How to handle mercury-laced industrial waste"

Scope: Eight sites including the Sanki Techno Center, Yamato Product Center, Nasu Techno Station, and field offices.



<https://www.sanki.co.jp/en/csr/policy/conduct-code.html>

Signing a Reforestation Agreement

Since fiscal 2010, we have supported reforestation through the SANKI YOU Eco Contribution Point system. After raising the point conversion rate for this program, we signed agreements in March 2023 to expand our support for environmental conservation activities, including a Forest Conservation and Management Agreement for the Corporate Forest Project with Shirahama Town in Wakayama Prefecture as well as Lake Biwa Afforestation Partnership Agreements with the Konze Forestry Association and the Ritto Tourism Association, witnessed by officials of Shiga Prefecture and Ritto City, respectively. We will continue to engage in reforestation and other community-based activities through tree-planting events that involve the participation of Group employees as well as other community outreach activities.

Tree-Planting and Nurturing Activities

In addition to the tree-planting and nurturing activities under the SANKI YOU Eco Contribution Point system, we created the Sanki Forest in Kai City, Yamanashi Prefecture, in 2015 to commemorate the 90th anniversary of our founding, and a Kansha-no-Mori in 2020 to commemorate the 10th anniversary of the SANKI YOU Eco Contribution Point system. We donate to reforestation projects that take full advantage of the diversity of local vegetation and tree-planting activities that lead to enriching the bounties of the sea, and also engage in environmental conservation activities that include employee participation.

Furthermore, we facilitated donations to three projects by four organizations in fiscal 2022 to support environmental conservation activities for forest management under the SANKI YOU Eco Contribution Point system.

Donation History for Tree-Planting Projects

Project	Recipient	Location
Corporate Supporter System	More trees	Shibuya Ward, Tokyo
Shiga Prefecture/Lake Biwa Afforestation Partnership Agreement: SANKI YOU Forest Biwako Konze	Konze Forestry Association Ritto Tourism Association	Ritto City, Shiga Prefecture
Wakayama Prefecture/Forest Conservation and Management Agreement: SANKI YOU Forest Nanki-Shirahama	Ohechi Forest Association	Shirahama Town, Wakayama Prefecture
Planting trees in the Hikobae Forest on Mt. Yagoshi	NPO Mori wa Umi no Koibito	Ichinoseki City, Iwate Prefecture
Planting trees in a forest surrounding Shonan Village	Silva Association, Shinwa Gakuen	Yokosuka City, Kanagawa Prefecture
Kansha-no-Mori forestation to commemorate the 10th anniversary of the SANKI YOU Eco Contribution Point system	NPO Environmental Relations	Kai City, Yamanashi Prefecture
Creation of the Sanki Forest to commemorate the 90th anniversary of our founding	NPO Environmental Relations	Kai City, Yamanashi Prefecture
Creation of the Kijimadaira Beech Forest	NPO The Life style Research Institute of Forests	Kijimadaira Village, Nagano Prefecture
Creation of the Present Tree Forest	NPO Environmental Relations	Takayama City, Gifu Prefecture, Miyako City, Iwate Prefecture, Sammu City, Chiba Prefecture

Use of Sewage Sludge

Taking advantage of our knowledge and experience with sewage sludge, which has been attracting significant attention as a recyclable resource, we are working to use it as a fertilizer. Most of the incinerated sewage sludge currently disposed of in landfills contains a large amount of phosphorus, a main component in fertilizer. In addition to developing low-cost, energy-saving technology for extracting phosphorus, we are also engaged in research and development for the use of insects to treat sludge and its conversion into feed and fertilizer.



Keidanren Initiative for Biodiversity Conservation



Ministry of the Environment's 30by30 Alliance For Biodiversity





Passing the baton to the 64th expedition team

Working at the site
(courtesy of the National Institute of Polar Research)

Fire drill
(courtesy of the National Institute of Polar Research)

Clear skies after blizzard



Major project to explore the future of the global environment

Contributing to the Antarctic Research Expedition with People and Technology

As a member of the 63rd expedition team, I stayed at the Showa Station in Antarctica for about a year from December 2021 to January 2023. I was in charge of environmental preservation and engaged in such tasks as maintenance and management of facilities treating domestic sewage and the disposal and management of trash and other waste. When my supervisor told me about the expedition, I thought it would be a once-in-a-lifetime opportunity, so I decided to join the team.

Life in the harsh natural environment of Antarctica is quite simple and driven by the fundamental challenge to survive. My job at the base is to maintain and manage various facilities or, in a way, to help protect the

lives of my colleagues, and I felt a strong sense of responsibility and mission. During my stay, I was able to apply the skills I had cultivated in my previous work, which made me appreciate its valuable. We had regular online meetings with the Sanki Engineering Group and the National Institute of Polar Research, and whenever there was an emergency or equipment problem, former expedition team members from the Group were there to support us, which was very helpful and reassuring.

Currently, two employees from Sanki Engineering have been dispatched as the 64th expedition team, with one of them handling my former duties. When I passed the baton to these two new members at the team change ceremony at Showa Station, I was relieved to have

● Sanki Engineering's Involvement in the Antarctic Research Expedition

The Antarctic Research Expedition is Japan's national project for understanding the environmental changes in the Antarctic region as well as the Earth overall. Sanki Engineering's connection to Antarctica goes back to 1957, when we delivered 30 roller conveyors for the second expedition to carry materials to the newly opened Showa Base. Since 1991, when the Protocol on Environmental Protection to the Antarctic Treaty was added in 1991 to the Antarctic Treaty System, we have been dispatching our engineers to Antarctica by seconding them to the National Institute of Polar Research. As of fiscal 2022, we have dispatched 17 engineers to Antarctica.

successfully completed an important assignment. Participating as a member of the team made me once again realize the importance of the Antarctic Research Expedition. I would like to share the significance and importance of this project as well as my own experiences with younger colleagues, and I hope this will lead to further advancing my career.



Masami Kaneshige

Proposal Office, Solution Group
Sanki Chemical Engineering & Construction Co., Ltd.



Quality Control

Basic Principle

We will raise customer satisfaction and deliver new value for society by fully demonstrating the Sanki Engineering Group's comprehensive capabilities and proposal-making capabilities to provide products that meet customer needs in each business area and for high-quality systems.

Initiatives for Ensuring Quality

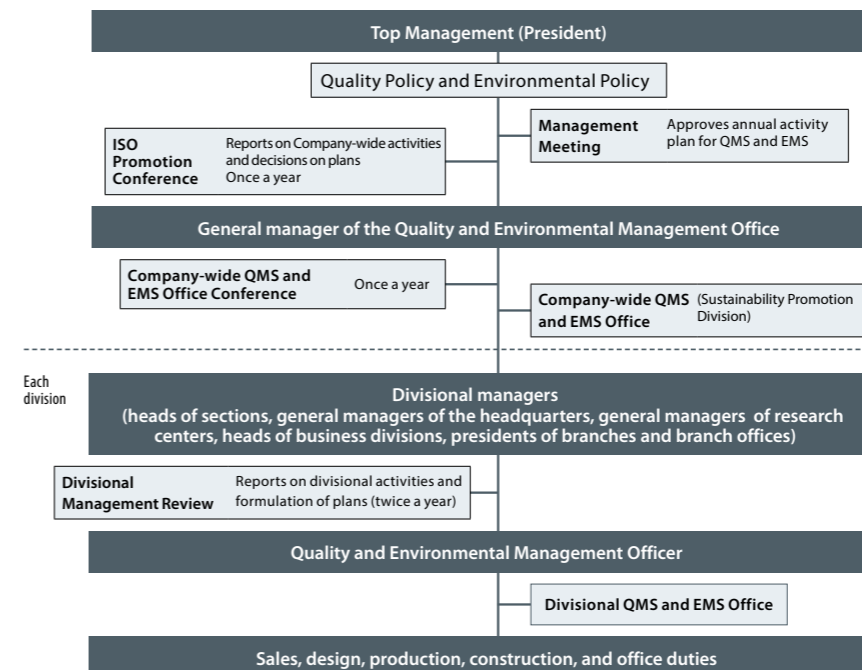
● Management System

We have integrated and implemented QMS (ISO 9001) and EMS (ISO 14001) at each division in the Facilities Construction Business, Plants & Machinery Systems Business, and Environmental Systems Business.

Risk management is conducted in advance of the actual work for construction and production to maintain and enhance quality. We also recognize that responding to problems and complaints promptly and appropriately is a fundamental aspect of quality management, and we take actions to consistently raise the standards of our management system.

In fiscal 2019, the quality management of the division in charge of a Sanki Engineering Group project was found to be out of compliance. Activities put in place to prevent recurrence are now practiced as standard procedure to maintain and improve our quality management system.

■ Quality and Environmental Management System



● Major Management System Strengthened in Fiscal 2022

The Facilities Construction Business worked on reducing the workload of site operations as well as on improving design and construction quality in accordance with the revision of operational flow carried out in fiscal 2021. These efforts helped improve design reviews, clarified quality targets, and led to fewer problems and complaints. Furthermore, we strengthened the quality management system by reviewing and

Group Companies with ISO Certification

- **ISO 9001**
2 companies:
Sanki Engineering Co., Ltd.
Sanki Kankyo Service Co., Ltd.
- **ISO 14001**
3 companies:
Sanki Engineering Co., Ltd.
Sanki Chemical Engineering & Construction Co., Ltd.
Kankyo Service Co., Ltd.

Scope of ISO 9001 Certification

<https://www.sanki.co.jp/en/csr/social/quality/>

Our Response to ISO 9001 and ISO 14001 Noncompliance (FY2019)

- Voluntary suspension of ISO 9001 and ISO 14001 certifications
- Penalty for directors (reduced compensation)
- Conducted ethics seminars for relevant divisions

P. 46

Environmental Management System

standardizing the format for function test results provided to customers.

The Plants & Machinery Systems Business advanced its initiative to create a database of construction undertaken by the Company to boost the effectiveness of its quality control. As for the Environmental Systems Business, it continued to improve the checking system for each process, including stricter design reviews.

● Sharing Information and Preventing the Occurrence of Problems and Complaints

We accumulate and share our quality-related experiences across the Company by means of technical documents in order to prevent the occurrence of problems and complaints or, in the event they do occur, to handle them quickly and effectively. We strive to prevent recurrences by distributing information about problems and complaints to construction engineers through a flash bulletin, a weekly bulletin (a weekly meeting of the Problems and Complaints Review Committee, which is also attended by Group companies in and outside Japan), and a monthly bulletin, which not only reports the occurrence of issues but also discusses their causes, corrective measures, and preventive measures. In fiscal 2022, we revised the format for the flash bulletin and strengthened our engagements to identify the root cause of issues to implement the necessary measures.

In addition to efforts to share information, quality risk assessments are conducted by the Quality Risk Subcommittee set up under the Risk Management Committee. We also endeavor to prevent problems and complaints by identifying risks that may affect quality and quickly taking action.

We set a target to achieve zero problems and complaints attributable to us in the ongoing construction, and in fiscal 2022 we reduced them by 25% (down 18 cases) year-on-year thanks to various measures for providing onsite support. In fiscal 2023, we plan to reinforce the analysis and feedback procedure of our Quality Control Center to reduce initial errors.

● Understanding Customer Satisfaction and Reflecting Feedback

In our work to improve construction quality, we conduct a customer satisfaction survey at the completion of construction work and reflect the feedback in our operations. In fiscal 2022, we received highly positive feedback from about 92%* of the 653 respondents. Looking ahead, we will continue to incorporate customer opinions into our operations to enhance construction quality.

Initiatives for Ensuring Quality at Construction Sites

● Operational Support to Improve Productivity and Maintain High Quality

Sanki Engineering implements the Smile Site Plan, intended to create a rewarding workplace that encourages staff to focus on their tasks by reducing workloads at construction sites and creating effective working environments, to satisfy both customers and the Company while maintaining high quality.

Under the Smile Site Plan, we are leveling operations by establishing and effectively implementing an operational support system for the processes of sales, design, procurement, construction management, and quality management to improve productivity while maintaining high quality. In an effort to simultaneously improve productivity and maintain high quality, we particularly emphasize design verification and pre-construction reviews before starting construction work, to raise productivity and avoid quality risks and to prevent rework, problems, and complaints. In addition, we are promoting digitalization, including the adoption of BIM, to further boost productivity.



A poster for raising awareness of preventing problems and complaints is created each month and displayed at worksites.

*Calculated by regarding the following responses as "highly positive feedback." Facilities Construction Business: score of 4 ("Somewhat satisfied") or higher out of 5; Plants & Machinery Systems Business: score of 3 ("High") out of 3; Environmental Systems Business: score of 70 points or higher out of 100.

● Initiatives for Improving Quality by Promoting DX

The BIM Promotion Center leads BIM efforts within the Company and subcontractors and in improving the usage rate of BIM-linked software as well as the participation rate in BIM education. In fiscal 2022, we conducted in-house education to encourage the use of BIM. We also implemented the M&A of a company that has proven expertise in BIM.

In April 2023, we established the DX Promotion Division. We will advance the application, research, and development of digital tools for planning, construction, and acceptance inspections to save labor in construction work while improving construction quality by alleviating the burden of management operations. By bolstering the application of DX to operations across the Company, including construction sites, we will establish more comfortable workplace environments.

● Initiatives for Design and Technical Operations

We are working on improving quality throughout the construction process from planning and design to completion. In design, we identify and resolve issues at an early stage to ensure quality by enhancing design reviews and improving the design accuracy.

In technological management, we facilitate onsite operations after the start of construction work by holding commencement discussions to decide on construction methods, procedures, and policies that result in higher quality and productivity. Moreover, we avoid falsifications and deficiencies in quality across all processes by having line staff and the Quality Control Center conduct stringent checks and follow-ups. We will continue to improve quality and hand down technical expertise by having highly skilled quality assurance administrators and technical experts conduct audits during and after construction, implement quality confirmation and corrections, and mentor junior employees.

As a result of the revision of our quality manual and standards and reviewing of operational processes undertaken in fiscal 2021, the number of design reviews doubled in fiscal 2022. We also strengthened risk assessments at the upstream stage. These efforts have led to fewer problems, complaints, and corrections after construction and have helped prevent profitability from deteriorating.

Initiatives on Design and Technical Operations at Construction Sites

Upon Receiving Orders	At Start of Construction	During Construction
Design Review The Design Division's Design Center and Quality Control Center lead the design reviews to confirm whether the required level of quality is met, by scrutinizing construction operations from the aspects of quality and cost. Also, design drawings will be more accurate.	Commencement Discussions Divisions related to technology, onsite managers, and divisions related to branches and branch offices determine the construction method (procedures) and quality targets. The Quality Control Center checks aspects concerning quality, construction work, costs, processes, and safety; identifies items requiring changes in specifications and plans; instructs on concrete measures; and considers design changes.	Construction Audits Confirmation of construction work, including design changes, is led by divisions related to technology, onsite managers, divisions related to branches including branch offices, and the Quality Control Center.
Quality Risk Assessment The Quality Risk Subcommittee of the Risk Management Committee assesses quality risk. Divisions related to technology and the Quality Control Center set the quality targets and identify and address quality risks.		Completion Audits Check whether quality targets for the design are being achieved and offer instructions for corrections as needed.

Enhancing Our Technologies

● Technical Awards for Improving Construction Methods and Operational Processes

We have been presenting awards for excellent ideas that improve operational processes, such as raising efficiency, in addition to ideas that improve construction work. In fiscal 2022, we received 2,087 applications.

Digital Tools Developed by the Sanki Engineering Group

- **Automated robotic air flow meter**
Automatically measures the air flow from air conditioner vents. Expected to reduce manhours by 75% compared to the conventional process.



Air-flow measurement by an automated robot



Quality check by a quality assurance administrator

● Fostering Human Resources to Sustain Our Technological Competence

The Sanki Techno Center provides training to help employees acquire basic skills, brush up on their skills, and attain qualifications. New employee training was conducted in person by implementing tighter infection prevention measures in the accommodation area, lecture area, and experience area. We also conduct training for construction managers every three years, with content corresponding to number of years of experience. We develop the skills of our engineers through hands-on practice and drills using actual machinery and facilities at the Sanki Techno Center.

■ Number of Personnel with Quality-Related Qualifications (as of April 1 of each fiscal year)

Qualification	FY2022		FY2023	
	Non-consolidated	Consolidated	Non-consolidated	Consolidated
Professional engineers	92	102	80	93
Construction managing engineers (civil works, construction, electrical construction, pipe-laying works)	1,125	1,277	1,061	1,225
Architect	37	42	38	42
Facilities construction architect	201	210	179	190
Electrical engineers	162	236	150	230
Chief electrical engineers	26	34	24	36
First class instrument engineers	297	306	284	294
Fire protection engineers	699	783	662	722
Qualified managing engineers	1,635	1,921	1,529	1,806

Note: Cumulative figures are shown for all qualifications.

■ Major Skill Development Activities for Fiscal 2022

Initiatives	Training	Description of Training	Results
Initiatives at the Sanki Techno Center	Training for new employees	• Seminar for new employees, basic skills training	64 participants
	Correspondence course for attaining qualifications	• Preparation for qualification exams for construction managing engineers and fire protection engineers	125 participants
	Training based on operational experience Third (fourth) year in construction work Sixth (seventh) year in construction work Ninth (tenth) year in construction work	• 3- to 5-day training sessions that are held 2 to 5 times per year at 3-year intervals • Standardized group-based training according to operational experience • Technical training using actual equipment and mock-ups • Drills for preventing problems and complaints required in construction management	Held 8 times
			114 participants
Initiatives for passing on technology	On-the-job training by technical experts	• Practical on-the-job training offered by technical experts selected from all branches who participate in onsite commencement discussions and construction audits	25 technical experts made 1,343 site visits (cumulative total)
Initiatives for Group companies and subcontractors	Conference on electrical construction quality	• Test of practical skills for electrical technicians from subcontractors of all branches, written exam based on past cases. Participants receive the Sanki Engineering-certified Class A Electrical Engineer qualification	17 participating technicians from 18 subcontractors
	Explanation of problems and complaints	• Case studies at liaison meetings held at branches and branch offices	Number of sessions Tokyo branch: 12, Kansai branch: 25, Chubu branch: 11, Kyushu branch office: 43, Hokkaido branch office: 5, Chugoku branch office: 10, Tohoku branch office: 12, Hokuriku branch office: 3

● Collaborating in the Industry through Open Technology

Construction instructions for the Aluminger** aluminum refrigerant piping method developed by Sanki Engineering have been made available to the Aluminum Plumbing Equipment Association. By promoting the adoption of our method, which reduces labor by 25% compared to conventional methods, we are contributing to standardizing environmentally sound technology across the entire industry.



Training for new employees



21st conference on electrical construction quality

*A new construction method whereby lightweight aluminum pipes, instead of copper pipes, are connected with specialized tools to save labor.

Occupational Health and Safety



Basic Principle

Our construction site operation relies on the organic connection of the many people working there. Occupational health and safety are the foundation for the Sanki Engineering Group and are of the highest priority. Under the Sanki Engineering Group Basic Health and Safety Principles, we partner with subcontractors in a range of health and safety activities.

Basic Health and Safety Principles
<https://www.sanki.co.jp/en/csr/social/safety/>

Initiatives for Ensuring Occupational Health and Safety

● Management System

We conduct risk assessment and analysis that correspond to the specific circumstances of accidents that occurred in the previous fiscal year, as well as to social and industrial trends, in order to formulate annual guidelines for safety and health activities. By formulating a Company-wide health and safety activities plan based on these guidelines, we seek to visualize our PDCA cycles, including the analysis of risk factors and implementation of remedial and preventive actions.

● Key Items Implemented in Fiscal 2022

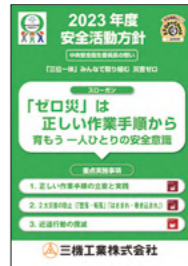
As part of our efforts to create comfortable working environments, we updated our uniform in June 2022. The new uniform was tailored with consideration for the various needs of all employees working at construction sites, such as fabric type and pocket location, which we identified through a questionnaire.

To reduce the number of accidents, we conducted all-division safety patrols at 22 construction sites and increased training opportunities for safety managers and workers. In fiscal 2022, however, the number of accidents increased by two from the previous year. Many of them were caused by inadequate operational procedures (insufficient risk assessment) or human error.

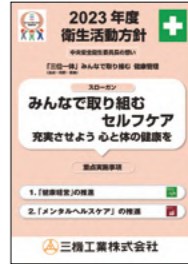
In view of the accidents in fiscal 2022 and the required responses to the Revised Labor Standards Law scheduled for enforcement in 2024, we will work in fiscal 2023 on implementing appropriate risk assessments based on job reports and work procedures and provide education related to the revised law.



New uniforms



Workplace safety poster



Workplace health poster

Outline of Activities in Fiscal 2022: Policies on Health and Safety Activities

Safety

Slogan: Making safety a reality. Each one of us is in charge—let's keep up the Stop & Check practice!

Key Actions

1. Promote physical, real, and onsite hazard prediction activities

 - Periodic accident prevention campaign
 - Focused patrols that address accident tendencies
2. Visualize the Three as One activity

 - Create a system where construction sites, subcontractors, and Sanki Engineering cooperate to prevent accidents; promote relevant activities
 - Revise criteria for health and safety awards
 - Develop the Sanki Occupational Health and Safety Management System
3. Further enhance knowledge, awareness, and understanding

 - Increase training opportunities for safety managers and workers
 - Brush up original educational programs for employees at construction sites
 - Systemize online health and safety training
 - Add content to the health and safety video

Health

Slogan: Create comfortable workplaces together for healthier minds and bodies

Key Actions

1. Implement measures on health and productivity management

 - Reduce long working hours, encourage employees to take days off
 - Take action against lifestyle-related diseases, strengthen activities to support more exercise
2. Implement mental health measures

 - Create a system for providing mental health care

Safety Conventions and Safety Patrols

Every fiscal year, each branch, branch office, and division of Sanki Engineering holds safety conventions at 11 domestic sites and 2 overseas sites in June, the preparatory month for National Safety Week. Subcontractors from around the world participate in the convention. Executive officers from Japan, including our president, attended the convention, which took place at one of our sites in Thailand*. Employees and subcontractors who demonstrated outstanding efforts and achievements in safety management received awards. We also conduct special joint safety patrols, during which the president and directors tour 26 construction sites in the summer and before and after year-end.

Health and Safety Training

For Group employees and for staff employed by subcontractors, Sanki Engineering provides training led by in-house instructors or at designated training institutes. When accepting new foreign national technical intern trainees from their employers, we use standardized criteria for ensuring safety at all sites and carry out interviews by our employees to comply with these criteria. We also organize joint training sessions with the Sanki Health and Safety Cooperative Association.

In fiscal 2022, as in the previous year, we focused on conducting special training sessions using full harness-type equipment with the aim of preventing falls, in view of regulatory revisions. Sessions involving skill practice were conducted face to face by thoroughly implementing COVID-19 prevention measures. The mode and methods of training are determined by considering the risk of serious accidents and the importance of the topic. Online training is conducted to mitigate the burden of trainers by connecting multiple sites.

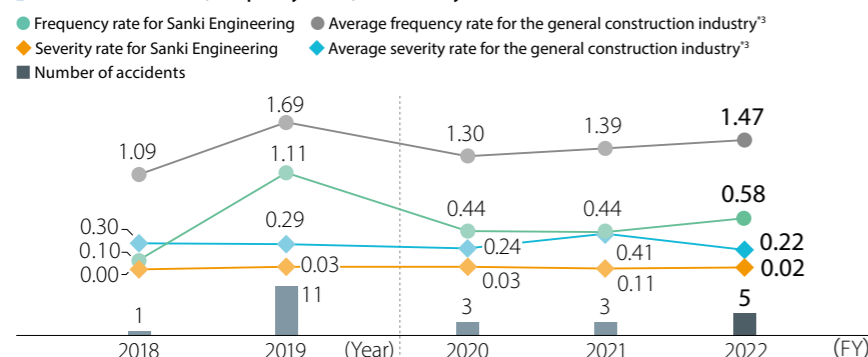
Number of Participants in Health and Safety Training (Fiscal 2022)*

Type	Number of Participants (from Subcontractors)
Special education and other courses	2,227 (1,809)
Health and safety training for foremen	114 (91)
In-house health and safety training	412 (0)
Position-based training for young and mid-career employees	111 (8)
Other client-focused training	536 (536)
Total	3,400 (2,444)

Accidents in Fiscal 2022

In fiscal 2022, there were five accidents, an increase of two from fiscal 2021. A detailed analysis of the circumstances of these accidents revealed they were mostly the result of shortcomings in operational procedures, so a continuous effort will be required to promote thorough compliance with the rules and raise the level of our activities by sharing information.

Number of Accidents, Frequency Rate¹, and Severity Rate²

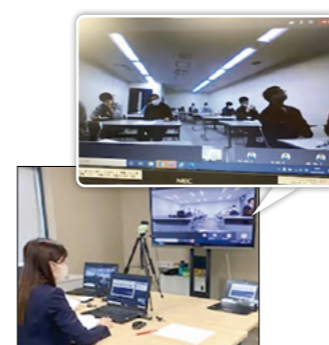


Safety patrol by the president

*Thai Sanki Engineering & Construction Co., Ltd.



Instructional video on preventing falls to be viewed before using full harness-type equipment



Online health and safety training

*Limited to training by in-house instructors, not including training at designated educational institutions

Scope: Sanki Engineering construction sites (Sanki Engineering Co., Ltd. and business partners)

Number of accidents: interrupted work for one day or longer

Period: The data compilation period was changed from the calendar year to the fiscal year starting with fiscal 2020 results.

*1 Frequency rate: Calculated as the number of deaths and injuries caused by accidents in the construction site per one million working hours, this figure indicates the frequency with which accidents occur.

*2 Severity rate: Calculated as the number of lost workdays caused by accidents in the construction site per one thousand working hours, this figure indicates the severity of the accidents.

*3 Source: Survey on Industrial Accidents, Ministry of Health, Labor and Welfare.

Supply Chain



Basic Philosophy

The Sanki Engineering Group Code of Conduct and Action Guidelines stipulate that we promote free market competition and engage in fair, equitable, and transparent transactions with all business partners. Moreover, under the Procurement Policy, Human Rights Policy, Multi-Stakeholder Policy, and Environmental Policy, we endeavor to build trust with our business partners to jointly provide high-quality systems and services to customers.

Sanki Engineering Group Procurement Policy
<https://www.sanki.co.jp/en/csr/social/scm/>

Multi-Stakeholder Policy
<https://www.sanki.co.jp/en/csr/governance/multistakeholder/>

Sanki Engineering Group Human Rights Policy
<https://www.sanki.co.jp/en/csr/social/human-rights/>

Sanki Engineering Group Environmental Policy
<https://www.sanki.co.jp/en/csr/environment/management/>

Building Fair, Equal, and Transparent Business Relationships

Overview of Our Procurement Structure for Materials and Equipment and Our Procurement Management System

The procurement cost of materials and equipment used by Sanki Engineering for construction work is approximately 46.0 billion yen, with domestic suppliers representing the source for nearly all procurement.

The role of the procurement department includes contributing to profit by reducing costs and supporting orders, building and managing procurement databases, and collecting and disclosing information on material and equipment price trends and delivery dates. As the prices of materials and equipment surged and delivery delays continued due to global factors, including the COVID-19 pandemic and semiconductor shortage, the department raised the level of coordination with construction sites, thereby facilitating advance order placement and prompt in-house sharing of delivery information, among other efforts that have helped prevent or mitigate procurement risks.

Thoroughly Ensuring Fair and Equitable Transactions

We engage in fair, equitable, and transparent transactions with all business partners in accordance with the Sanki Engineering Group Procurement Policy. Moreover, in the Multi-Stakeholder Policy, the representative director and president declares his commitment to the Partnership Building Declaration. In the fiscal 2022 trade environment shaped by marked increases in labor, raw material, and energy costs, we strengthened risk management by appropriately reflecting costs to suppliers and preventing violations of the Antimonopoly Act concerning the "abuse of dominant bargaining position." Furthermore, our basic contract includes provisions on product safety, quality control, intellectual property, legal compliance, and the exclusion of anti-social forces.

Operation of Internal Whistleblowing Hotlines

In order to prevent improper transactions, we operate a Corporate Ethics Hotline that is available for anyone to use. Information is provided on the Company website.

Promoting Green Procurement

As part of our environmental management, Sanki Engineering procures goods that comply with Japan's Act on Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (Green Purchasing Act) and confirms the aggregate result.

Procurement Policies (excerpt)

1. Fair Market Competition and Trading
2. Protection of the Global Environment
3. Contribution to Society through Business Activity
4. Respect for Human Rights
5. Information Security Risk Management
6. Development of Partnerships

Major Components of the Partnership Building Declaration

- Co-existence and co-prosperity across the entire supply chain and collaborations beyond scale and affiliation
 - Strengthening of relationship via the Health and Safety Cooperative Association
 - Opening of the training facility for public use and support for human resource development
- Compliance with the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises
 - Appropriate determination of price, and negotiations
 - Considerations for payment terms
 - Not demanding the free transfer of intellectual property rights
 - Preventing any negative impact associated with work-style reform or other factors

P. 84 Whistleblowing System

Major Regulation-Compliant Goods Procured by Sanki Engineering

- Lighting equipment
- Transformers and condensers
- HVAC equipment

Raising the Efficiency of Procurement Operations

As part of our work style reform initiatives, the Procurement Division is focusing on raising the efficiency of procurement operations in the procurement and technical departments at each site of the Facility Construction Business by encouraging the adoption of a centralized ordering method based on exchanging data with major business partners and with a one-stop work-sharing* system that handles everything from price negotiations to ordering operations. In fiscal 2022, the Procurement Division widened the range of its centralized order placement and applied the one-stop work-sharing system to more business bases, thereby further easing workloads and improving productivity at construction sites.

Moreover, we digitized some operations by introducing online systems for placing orders to suppliers and allowing them to issue progress billings. Group companies began using these functions in fiscal 2022. As we had previously moved our own billing system for suppliers to the cloud for greater convenience, this meant that by fiscal 2022, 95% of all orders made by Sanki Engineering Co., Ltd. were processed electronically.

We continue to promote digital transformation for more efficient procurement.

Training for Procurement Staff

We provide monthly learning and presentation opportunities for procurement staff to promote appropriate procurement activities and enhance their purchasing, negotiating, and management skills. We also strive to develop their competence and knowledge through support as needed for the obtaining of registered qualifications for certified procurement professionals, construction business accountants, and fundamental information technology engineers, apart from education on fair trading and respect for human rights among other compliance and sustainability issues.

Strengthening Cooperation with Business Partners

Exchange of Views with Business Partners

We visit our major business partners and hold meetings to exchange opinions. We select the partners we visit each year according to their relative importance to our business and the monetary value of transactions. In fiscal 2022, we visited 26 equipment and materials manufacturers and specialized construction companies to exchange opinions. The discussions covered a wide range of topics, including sustainability initiatives, price and delivery date information, and their requests to Sanki Engineering, which will be incorporated into future procurement activities.

Providing Assessment Feedback to Business Partners

To raise quality and improve operations across the supply chain, we annually survey the status of our business partners and, as part of this initiative, assess their safety management. We pay visits to provide them with feedback on the assessment results and exchange information on improvements as needed to enhance their safety management capabilities.

Joint Improvement Activities with Subcontractor Groups

Sanki Engineering has established subcontractor groups at each branch, branch office, and division as part of our effort to bolster our construction system. In addition to monthly liaison meetings, we implement joint labor-saving projects and hold seminars to enhance technical skills and thoroughly enforce quality management and supervision of safety and health at construction sites. Moreover, we review the status of safety and health management and offer guidance by dispatching employees to



Procurement WEB

*A system in which a procurement department handles everything from price negotiations to ordering operations.

Main Themes of Online Study Sessions, Frequency, and Cumulative Participation (Fiscal 2022)

• **Basics of procurement, accounting, and sustainability issues including the environment and human rights**
Frequency: 21 sessions
Participation: 357 (100%*)

• **Critical thinking and self-development, communication skills improvement, and business skills**
Frequency: 40 sessions
Participation: 274 (100%*)

Total
Frequency: 61 sessions
Participation: 631 (100%*)

*Attendance rate among target employees

Main Topics in the Opinion Exchange Meeting (FY2022)

- CSR procurement
- Sustainability initiatives
- Trends in prices and project delivery schedules
- Requests to distributors
- Transactions with Sanki Engineering, etc.



Health and Safety Training

provide safety and health education as well as courses on obtaining qualifications and by conducting joint patrols.

In July 2022, the Sanki Health and Safety Cooperative Association held block meetings, with the association divided into eastern (seven cooperatives) and western (four cooperatives) blocks. It also held a national conference in January 2023. These were attended by a total of 26 employees from the Group and 31 from subcontractor groups. Sanki Engineering directors, including our chairman and president, also attended the meetings and stressed the importance of maintaining and improving safety awareness throughout the Group, including business partners. Led by subcontractors directly involved in construction, the meeting is expected to raise awareness about disaster prevention.

Awards Programs

We established the Sanki Super Meister System to certify and commend foremen of Group subcontractors whose superior construction techniques have significantly contributed to elevating the quality of our construction work and also the Sanki Best Partner Program to commend subcontractors who have significantly contributed through their superior levels of management and construction skills, and for having consecutive years of zero accidents. We provide subsidies designed to encourage further quality improvements to subcontractors to which the certified foremen belong, from the standpoint of promoting consistent contributions to quality improvements at construction sites.

Initiatives for Maintaining and Upgrading the Technical Skills of Subcontractors

To support subcontractors in the development of their technical skills, we subsidize the acquisition of qualifications, and we have been publicizing the system during Central Safety and Health Committee meetings to encourage its use. We have promoted the creation of a mechanism for enhancing technical skills based on collaboration between Sanki Engineering and subcontractors, in which the Sanki Techno Center is also used to train new hires and mid-career employees of subcontractors. Furthermore, as part of our technical training program, new hires at Sanki Engineering receive guidance from employees of subcontractors.

Providing Support to Stabilize the Management of Subcontractors

We revised the terms of payment to subcontractors with capital of under 40 million yen in fiscal 2019 and switched to making all payments in cash. Additionally, we have shortened the payment site for electronically documented payables for suppliers, including subcontractors with capital of at least 40 million yen from 120 days to 60 days starting in fiscal 2022. This is one of the financial and capital policies in the Medium-Term Management Plan "Century 2025" Phase 3.

Number of Sanki Super Meister Award Recipients

- FY2021: 9
- FY2022: 8

Number of Sanki Best Partner Award Recipients

- FY2021: 168
- FY2022: 164



Awards ceremony



Technical skills training by a subcontractor

VOICE

General Level of Safety Management Skills Raised

Sanki Engineering has been continuously and proactively supporting the activities of the Sanki Health and Safety Cooperative Association across Japan. We feel that the visualization of Three as One, a key safety practice that we place particular importance on at construction sites, has been realized through close cooperation between onsite workers, subcontractors, and Sanki Engineering. In response to construction site requests, Sanki Engineering has been organizing a workshop on first response to accidents, helping workers raise their safety management skills across the board.

Mitsuhisa Takayama

Chairman, Hokkaido Sanki Health and Safety Cooperative Association President, Pipetech, Inc.





Human Rights



Basic Philosophy

In April 2022, the Sanki Engineering Group established the Sanki Engineering Group Human Rights Policy. Under the policy, we will respect the human rights of all people in all our business activities, including throughout the supply chain, eliminate discrimination and acts that undermine individual dignity, and conduct human rights due diligence (identifying, preventing, and addressing impacts on human rights).

 Sanki Engineering Group Human Rights Policy
<https://www.sanki.co.jp/en/csr/social/human-rights/>

 Sanki Engineering Group Code of Conduct and Action Guidelines
<https://www.sanki.co.jp/en/csr/policy/conduct-code.html>

Human Rights Promotion System

The Risk Management Committee (Compliance Risk Subcommittee) identifies and monitors human rights risks among the managed risks while at the same time strengthening the promotion system.

Whistleblower Hotline and Consultation Service for Human Rights Issues

A whistleblower hotline and consultation service for human rights issues are made available for use by all employees of the Group as well as those at its subcontractors and supply chain members, with the information posted on the Company's website. Reporters will not be placed at a disadvantage for consulting or reporting issues, and any personally identifiable information will be protected.

Human Rights Training

We provide training and other opportunities to ensure that all employees have a good understanding of human rights. Employees who participated in the training held in fiscal 2022 learned about human rights initiatives and gained a deeper respect for the international human rights standards. The Sustainability Handbook, containing our policies and important explanations, is distributed to all Group employees, helping to raise awareness of human rights.

Addressing Human Rights Issues in the Workplace

In addition to formulating guidelines for preventing harassment, we conduct a workplace survey on compliance, including questions about harassment and human rights risks. We identify issues from survey findings and reports from employees and continuously provide employee training to prevent and eradicate harassment.


Addressing Human Rights Issues in the Supply Chain

In accordance with the Sanki Engineering Group Human Rights Policy and the Sanki Engineering Procurement Policy, we conduct due diligence on human rights issues relevant to the Group's business activities at every level of the supply chain.

 P. 84 Whistleblowing System

Representative Topics in the Sustainability Handbook

- Direct and indirect impacts on the supply chain
- Major human rights issues and illustrative cases
- UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises on Responsible Business Conduct

 P. 85 Compliance Training and the Handbook for Cementing Respect for Compliance

 P. 86 Compliance Workplace Survey

Human Resources



Basic Philosophy

Recognizing that human capital is the most important management resource for a company's existence and stable growth, we believe that securing and developing human resources is critical and spare no expense to invest in our personnel as the Company's future. With the "pursuit of happiness for colleagues" identified as one of our material issues and under the management philosophy of "placing significance on communication and mutual respect," we endeavor to create workplace programs and environments in which all employees grow with the Company, respect individuality, and are able to succeed and thrive.

 Smile Work Guideline (Workplace Environment and Human Resource Development)
<https://www.sanki.co.jp/en/csr/social/smile-project/>

 Multi-Stakeholder Policy
<https://www.sanki.co.jp/en/csr/governance/multistakeholder/>

 Sanki Engineering Group Human Rights Policy
<https://www.sanki.co.jp/en/csr/social/human-rights/>

Sanki Engineering's Human Resource Strategy and Management System

Human Capital Strategy

In the context of Phase 3 actions with new indicators and targets based on the Human Resource Development Policy and Company Environment Improvement Policy, we are accelerating work style reforms and securing, nurturing, and allocating diverse human resources in line with our business strategy. Moreover, as stipulated in Multi-Stakeholder Policy, we are committed to human capital investment and sustainably giving back to them.

Developing Human Resources

We believe that the Company's growth is driven by the various employee viewpoints and values that reflect the rich variety of their experiences, qualifications, and attributes. We therefore promote diversity in our workplace, properly evaluate the skills of each individual employee, and provide suitable education and training. We also strive to ensure the diversity of core personnel as well as equal opportunities for promotion to managerial positions.

Improving Company Environment

We endeavor to create a working environment and a corporate culture in which all employees grow with the Company, respect individuality and are able to succeed and thrive. We support employee work-life balance and manage business with due consideration for employee well-being. We also seek to raise employee engagement by emphasizing communication with them.

Structure and New Personnel System

As one of the key measures for becoming the "Company of Choice" under the Medium-Term Management Plan "Century 2025" Phase 3, we launched a new personnel system to improve employee comfort and satisfaction in April 2022.

The launch involved defining and streamlining the organization. We significantly cut back the number of line managers and clarified their responsibilities so they could better concentrate on their managerial tasks, and then we revised our compensation system to reward employees for high performance in their own fields of specialization, which in turn enabled us to place the right people in the right jobs. We plan to conduct interviews in all branches and branch offices in fiscal 2023 to verify the effects of the revision, and we increased wages in fiscal 2022 by 4.6% (compared to fiscal 2021) to improve employee working conditions.

Measure for Phase 3: Accelerate Work Style Reforms

- Continuation of the Smile Project, led by top management
- Reform of the personnel system centered on the active appointment of young people and extension of the retirement age
- Utilize DX to balance improvements in quality and productivity with reduced working hours
- Secure and nurture human resources with due consideration for diversity

Indicators and Targets for Human Resource Development Scope: Non-consolidated

Active promotion of younger employees

Indicator	Target (April 2026) Actual values as of April 2023 in Parentheses
Average age of those in managerial positions	Managers: 45.8 years old (46.4 years old) General managers: 50.2 years old (51.8 years old) Executive managers: 53.5 years old (54.1 years old)

Acceleration of diversity

Indicator	Target (April 2026) Actual results for April 2023*1 in Parentheses
Ratio of women in managerial positions	16.4% (15.5%)
Ratio of non-Japanese employees	3.0% (2.5%)
Ratio of female employees	1.7% (1.2%)

Indicators and Targets for Company Environment Improvement Scope: Non-consolidated

Indicator	Targets (FY2025) Results for FY2022 in Parentheses
Employee satisfaction survey	Maintaining the ratio of respondents who want to keep working for the Group at 90% or more*2
Rate of childcare leave taken	Male: 50% (10.7%*) Female: 100% (100%)

*1 Aggregated on a different date from that for the Employee Data on page 70.

*2 Not conducted in FY2022. The FY2021 response rate was 91.6%.

*3 44.6% of the Company's own leave programs.

Ensuring Diversity in Human Resources and Promoting Careers

● Respecting Diversity in Employment and Recruiting High-Level Human Resources

We seek to bring on board human resources that differ in gender and nationality as well as in talent and personality. Staff from the sales, design, technology, and other divisions join the Human Resources Department to ensure fairness based on multiple perspectives. Hiring criteria for fiscal 2022 were based on findings from interviews with the president, officers in charge, and the managers of direct departments to continuously and proactively hire people from a wide variety of backgrounds.

As of the end of March 2023, there were 184 mid-career hires in managerial positions (on a consolidated basis). In fiscal 2022, we introduced an exclusive hire contract system for R&D and other jobs requiring high-level expertise to secure correspondingly high-level human resources.

● Securing Human Resources through the Return to Career Program

To increase the diversity our working environment and more flexibly accommodate career development, we changed part of our Return to Job program and renamed it as Return to Career. The revised program, launched in October 2022, allows voluntarily retired employees to return to work and significantly relaxes other restrictions.

● Promoting Women's Careers

We formulated an action plan based on the Act of Promotion of Women's Participation and Advancement in the Workplace to create an environment in which our female employees can continuously develop their careers and have since implemented related measures. Our wages and promotion opportunities to managerial positions are solely based on employee competence or performance as fairly evaluated free from gender-based discrimination.

Gender Wage Gap (FY2022)¹

		Non-consolidated	Consolidated
Gender wage gap	All workers	60.8	61.0
	Regular workers ²	59.8	60.7
	Part-time/fixed-term workers	51.8	50.9

● Career Change System

In 2019, we established new career types, namely the career-track position and operational position, and introduced a system that allows employees to switch between these career paths. Job relocation is excluded from the requirements for the career-track position, and the system is designed to enable a wider range of employees to thrive. In fiscal 2022, four employees changed their career type for a work style that better suits their particular stage in life.

● Creating Workplaces for Persons with Disabilities

We continue to hire persons with disabilities and are working to create an environment in which they can work comfortably over long periods. As of June 2022, the employment ratios of persons with disabilities were 2.24% and 1.51% on a non-consolidated and consolidated basis, respectively. As of June 2023, the employment ratio of persons with disabilities was 2.28% on a non-consolidated basis. In recruiting, we expanded our channels and at the same time matched applicants with each department and provided care upon acceptance.

● Extension of Retirement Age and Post-Retirement Reemployment System

We have extended the retirement age to 65 as of April 2022. In conjunction with the introduction of an optional retirement age system, employees will receive full

Number of Non-Japanese Employees (as of March 31, 2023) (Consolidated)

The U.K., Thailand, Vietnam, Peru, Russia, South Korea, China, Austria, and Malaysia

128 people from 9 countries (male: 101, female: 27)



Employees of Thai Sanki Engineering

Website on the Promotion of Women's Active Engagement in Professional Life and Support for their Work-Life Balance (Ministry of Health, Labour and Welfare of Japan)

<https://positive-ryouritsu.mhlw.go.jp/> (Japanese only)

Action Plan Based on the Act of Promotion of Women's Participation and Advancement in the Workplace

Plan period: April 1, 2021 to March 31, 2026
Scope: Non-consolidated

Goals	Results in FY2022 ³
1. Increase the average length of service for women by 10% or more from April 2021	14.3 years (5.9% increase)
2. Raise the ratio of women in managerial positions ⁴ to the construction industry average of 3%	2.5 % (1.6 percentage point increase)

*1 Calculated in accordance with a provision stipulated in the Act on the Promotion of Women's Active Engagement in Professional Life.

*2 Includes operational positions.

*3 As of April 1, 2023. In the parentheses are changes from April 1, 2021.

*4 Aggregated on a different date from that of the number of managers referred to on page 70.

Employment rate of persons with disabilities (non-consolidated) as of June 1, 2023

2.28%

Improvement of Workplace Environment

- Problem-solving seminars and opinion exchange sessions for employees who are hearing impaired
- Management training to promote understanding among managers
- Installing lamps in all offices that bear evacuation instructions for hearing-impaired employees in the event of a disaster
- Providing closed captioned presentations during Web-based training and financial results briefings

retirement benefits from age 60 to 65, even if they retire at their own request. In addition to improving the treatment of those about to retire, we are doing the same for those who are rehired under the reemployment system. Employees may also choose to be reemployed between the ages of 60 and 65. In fiscal 2022, we reemployed 172 retired employees on a consolidated basis.

Developing and Evaluating Human Resources

● Personnel System for Workplaces Where People Can Grow

Our personnel system ensures equal opportunity as well as fair evaluation and treatment for all employees while supporting employee initiatives for self-directed career development. Individual interviews and a mentor system are introduced for younger employees.

Once a year, all employees fill in a Career Development Sheet and receive feedback through an interview with their supervisors. To collect their opinions, we have another system that allows employees to bypass their superiors and speak directly with the Human Resources Department depending on the content of the sheet. Moreover, we have several employee award programs, including the president's commendation for boosting our technological capabilities and raising employee motivation, such as the Best Employee Award, Yano Technology Prize, and Award for Construction Method/Operation Improvement, as well as other programs including long service awards (25 and 50 years).

● Education and Training Systems

We maintain training systems associated with each career path, such as management training, technical training, and training by field of expertise, in order to strengthen specialized, technical, and management skills. We take advantage of the Sanki Technology Center to conduct various training programs.

Training Systems

	Younger Employees	Mid-Career Employees	Executives
Management Training	New employee training Second-year training Fourth-year training Seventh-year training	Leadership position training Management candidate training Section chief training	Department manager training
Safety Training	New employee training Qualification training Safety experiential training		
Corporate Ethics Training	Corporate ethics training Mid-career staff training		
Technical Training	Qualification training Technical experiential training		
	New employee training Third-year construction work training Sixth-year construction work training Ninth-year construction work training		
Plants & Machinery Systems	Qualification training New employee training Inspector education Training on our products and systems		
Quality & Environment System Training	ISO 9001/ISO 14001 New employee training Mid-career staff training		Education to develop internal auditors

Personnel Systems Designed for Younger Employees

- Individual interviews by personnel managers in the third and fifth year of service
- Mentor system

Smile Work Guideline (Human Resource Development Guideline)

<https://www.sanki.co.jp/en/csr/social/smile-project/>



Awarding long years of service (25th year)

Average education and training costs per employee in FY2022 (consolidated)

55,000 yen/year

Employee Engagement

Questionnaire on the Working Environment and Individual Interviews

We gather opinions from employees about their workplace through a periodic questionnaire along with another questionnaire conducted by employees union, and we refer to their comments while creating a better working environment.

In fiscal 2022, prior to the launch of the revised personnel system, the Human Resources Department conducted individual face-to-face interviews with general managers and managers, seeking their opinions about the personnel system. We continue to maintain direct dialogue with employees to deepen mutual understanding and use their feedback to design personnel systems and training programs.

Century Communication Up Discussion Events

Since fiscal 2016, we have been holding Century Communication Up (CCU) discussion events in accordance with the Century 2025 long-term vision. Opinions and proposals obtained through the CCU have been applied to improving our operations and systems. In April 2022, we organized a new employee CCU to provide an opportunity for face-to-face dialogue between new employees and executive officers.

Sound Employer-Employee Relationships

We consider labor-management dialogues as a key channel to invest in human resources and continuously improve employee treatment. The Human Resources Department and employees union at Sanki Engineering meet monthly to discuss improvements in the working environment and operation of Company systems. Also, we provide the employees union with opportunities to present their proposals or requests to management and have been implementing measures based on the dialogues. For instance, we held labor-management exchanges in order to discuss and determine the fiscal 2022 wage increases.

Promoting Work Style Reform

Promoting the Smile Project

Sanki Engineering launched the Company-wide Smile Project, led by the president, in fiscal 2015 to promote work style reform. We have been implementing initiatives across the Company to create a better working environment. In fiscal 2017, we set up the Smile Site Plan, a committee dedicated to construction sites. In addition, we worked on efforts to lessen the operational load of construction managers and enhance capabilities and quality at our construction sites. In fiscal 2020, we launched the Smile Plan, consisting of four subcommittees, to establish a system that enables all departments to work together as one. Moreover, under the Medium-Term Management Plan "Century 2025" Phase 3, a KPI is set up to eliminate overtime work exceeding the limit stipulated in the revised Labor Standards Act. As a result of these efforts, we were rated 3 on a scale of 5 stars in the 6th NIKKEI Smart Work Management Survey, which selects advanced companies that challenge the productivity revolution through work style reform.

Measures on Health and Productivity Management

Understanding that reducing long hours of work is a primary consideration for managing employee health and productivity, we engage in activities for maintaining and improving employee well-being in tandem with other work style reforms. Apart from measures for reducing workloads and raising productivity, we carry out health improvement activities, conduct periodic stress checkups and identify the sources of

Results of a Questionnaire Survey on the Working Environment

Survey period: 2021
Participants: all Group employees

Do you think that the Sanki Engineering Group's business is contributing to society?

Yes 98.6%



New employee CCU with executive officers



Certified as 3 stars in the NIKKEI Smart Work Management Survey

Major Initiatives of the Smile Project

- Clarify work responsibilities by reviewing the personnel system
- Follow up with employees who work long hours based on stress check results
- Raise efficiency by introducing a cloud-based accounting system



Initiatives for Ensuring Quality at Construction Sites



Health & Productivity Management Organization 2023

stress through third-party assessment, provide employees with industrial physician advice for improving their life-style habits, and implement health-related campaigns using a pedometer app as well as other projects. Moreover, a 24-hour toll-free health consultation service is in place to offer advice on health, medical, nursing, and childcare issues for employees and their families. The service was set up outside the Company, and caller privacy is strictly protected.

We have been certified as a Health & Productivity Organization 2023 (Large Enterprise Category) in recognition of those efforts, by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

Promoting Work-Life Balance

We have been augmenting our programs in response to employee requests for broad support of a healthy balance of work and personal life so both male and female employees can continue to work with a sense of security while attending to various life events. In addition, we are promoting improvement of the environment that enables flexible work styles by reviewing our work and leave programs.

In fiscal 2022, we reviewed our Return to Job program and also conducted an online seminar and individual consultation on nursing care for employees across Japan. Furthermore, we introduced a new rule to expand the options of our postpartum paternity leave in response to revisions to the Act on Childcare Leave and Caregiver Leave, thereby allowing employees on paternity leave to work for a certain period of time even during the leave at their request.

Acquiring the Kurumin Mark and Recognition for Supporting Childcare by the City of Nagoya

In 2015, Sanki Engineering was granted an update for the Kurumin mark, a certificate granted by the Tokyo Labor Bureau of the Ministry of Health, Labour and Welfare and based on the Act on Advancement of Measures to Support Raising Next-Generation Children, for meeting certain criteria as a company supporting childcare. In 2014, the Chubu Branch became the first construction equipment company to be recognized by the City of Nagoya as a company supporting childcare, and the certification was updated in 2017.



Stretching class at Sanki Techno Center

FY2022 rate of paid leave taken (consolidated)

61.6%

Average monthly overtime work per person (consolidated)

27.4 hours



The Kurumin mark for support of raising next-generation children

City of Nagoya certification for companies supporting childcare

Major Programs Supporting Work-Life Balance (Non-consolidated) (as of April 2023)

Area	Program	Details
Work	Refresh leave	Five consecutive days of leave for each five-year period of employment using employee's reserved leave.
	Consecutive leave for construction managers	Three consecutive days of leave after staying at a construction site for more than six months or before moving to another site.
	Half day/hourly off	Paid leave for half a day or by the hour.
	Anniversary leave	A planned paid leave on special dates for employees or their families, requested at the start of the fiscal year.
	Sanki Smile Day	The Company's own Premium Friday, a scheme based on that launched by the Japanese government. Employees are encouraged to take a full or half day of paid leave on monthly payday and avoid overtime.
	Reserved leave	The use of reserved days off for childcare, nursing, or volunteer activities.
	Telecommuting and telework system	Aims to improve operational efficiency and business continuity during childcare and nursing care or in the event of emergencies such as natural disasters and pandemics.
	Sliding work hours	Employees can slide the start and end times forward or back for business or non-business reasons insofar as this does not interfere with their work.
Childcare and nursing care	Return to Career program	Employees who have left the Company for unavoidable reasons can apply for reinstatement.
	Childcare leave	Can be obtained for the requested period of time up to when the child turns one year old.
	Nursing leave	Can be obtained five times for up to 180 days per person on nursing leave.
	Shortened work hours	Employees caring for children or other family members can apply for shortened or sliding work hours. In the case of childcare, the program applies to children up to the third grade of elementary school.
	Support for childcare leave and reinstatement	An interview is held with the supervisor before and after applying for childcare leave.
	Special childcare/nursing leave	Can be obtained multiple times and up to 20 days in total for childcare and nursing care.
	Postpartum paternity leave	Those on paternity leave can work during the leave only if they have requested to do so and with Company permission.

Number of Employees on Leave and Work Hours

		FY2018			FY2019			FY2020			FY2021			FY2022		
		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Childcare leave ^{*1}	Consolidated	7	11	18	9	27	36	7	33	40	10	32	42	7 (26)	13	20 (39)
	Non-consolidated	7	9	16	7	24	31	7	27	34	9	30	39	6 (25)	12	18 (37)
Rate of childcare leave taken ^{*1} (%)	Consolidated	—	—	—	—	—	—	—	—	—	—	—	—	43.3	100.0	53.4
	Non-consolidated	—	—	—	—	—	—	—	—	—	—	—	—	44.6	100.0	54.4
Reinstatement after childcare leave (%)	Consolidated	100.0	88.9	93.8	100	96.3	97.2	100.0	100.0	100.0	100	93.8	95.2	100.0	100.0	100.0
	Non-consolidated	100.0	88.9	93.8	100	100	100	100.0	100.0	100.0	100	100	100	100.0	100.0	100.0
Nursing leave (people)	Consolidated	1	0	1	1	1	2	0	0	0	0	0	0	1	0	1
	Non-consolidated	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
Rate of paid leave taken (%)	Consolidated	54.0	76.1	57.1	54.3	76.3	57.4	53.4	67.1	55.3	53.2	69.7	55.6	58.8	77.9	61.6
	Non-consolidated	53.0	74.2	55.9	51.9	74.4	55.1	52.5	65.8	54.5	52.4	69.5	55.0	58.2	77.9	61.4
Average monthly overtime work ^{*2} (hours per person)	Consolidated	—	—	—	37.4	14.7	34.3	31.7	12.3	29.0	31.7	11.8	29.6	30.0	12.4	27.4
	Non-consolidated	35.0	14.7	32.0	34.5	13.6	31.3	33.0	13.3	29.9	33.0	12.8	29.7	31.6	13.7	28.8

Employee Data (as of March 31 of Each Fiscal Year)

		FY2018			FY2019			FY2020			FY2021			FY2022		
		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Employees																
Number of employees	Consolidated	2,072	322	2,394	2,152	349	2,501	2,190	358	2,548	2,226	381	2,607	2,244	383	2,627
	Non-consolidated	1,694	273	1,967	1,705	287	1,992	1,740	308	2,048	1,770	326	2,096	1,753	320	2,073
Number of non-Japanese employees	Consolidated	—	—	—	—	—	—	91	22	113	84	25	109	101	27	128
	Non-consolidated	—	—	—	—	—	—	17	6	23	19	5	24	20	5	25
Number of managers ^{*3}	Consolidated	630	7	637	676	9	685	683	11	694	672	13	685	687	18	705
	Non-consolidated	556	5	561	556	5	561	567	7	574	567	9	576	580	14	594
Average age ^{*2}	Consolidated	44.5	38.2	43.7	44.7	38.3	43.8	44.7	38.8	43.8	44.7	39.0	43.9	43.8	39.2	43.1
	Non-consolidated	43.9	37.1	43.0	44.1	37.6	43.2	44.2	38.0	43.2	44.2	38.2	43.2	43.0	38.3	42.3
Average years of service ^{*2}	Consolidated	17.3	13.0	16.7	17.3	12.9	16.7	17.5	13.2	16.9	17.6	13.3	17.0	16.7	13.6	16.2
	Non-consolidated	19.0	13.9	18.3	19.3	14.1	18.5	19.4	14.0	18.6	19.5	14.2	18.6	18.5	14.7	17.9
Employment																
Number of new recruits	Consolidated	—	—	—	70	15	85	73	18	91	79	20	99	82	6	88
	Non-consolidated	71	9	80	67	15	82	70	18	88	76	19	95	78	5	83
Number of mid-career hires	Consolidated	—	—	—	32	13	45	26	13	39	25	12	37	30	3	33
	Non-consolidated	4	2	6	7	8	15	5	9	14	5	3	8	5	0	5
Number of rehired employees after retirement	Consolidated	223	9	232	229	11	240	212	12	224	216	10	226	165	7	172
	Non-consolidated	161	5	166	169	8	177	173	9	182	176	10	186	124	6	130
Rate of persons with disabilities ^{*4} (%)	Consolidated	—	—	1.89	—	—	1.94	—	—	1.77	—	—	1.82	—	—	1.51
	Non-consolidated	—	—	1.93	—	—	1.97	—	—	1.99	—	—	2.10	—	—	2.24
Turnover rate due to personal reasons ^{*5} (%)	Consolidated	—	—	—	—	—	—	1.7	2.2	1.8	2.4	3.5	2.6	2.0	3.1	2.2
	Non-consolidated	—	—	—	—	—	—	1.5	1.6	1.5	1.7	2.3	1.8	1.7	2.7	1.9

*1 The numbers in parentheses for childcare leave, the male rate of childcare leave taken, and the total for childcare leave taken in fiscal 2022 are calculated by including the Company's own leave programs.

*2 The figure for FY2021 was retrospectively revised.

*3 The figures for the years from FY2018 to FY2021 were retrospectively revised due to a change in the aggregation method under the revised personnel system.

*4 As of June 1 of each fiscal year.

*5 Ratio of retired employees to all employees in each fiscal year.

Employees by Age (as of March 31, 2023)

		10s			20s			30s			40s			50s			60s			70s			Total
		Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	
Consolidated		8	0	8	404	97	501	468	111	579	492	94	586	631	65	696	232	16	248	9	0	9	2,627
Non-consolidated		8	0	8	354	87	441	384	100	484	344	72	416	490	51	541	171	10	181	2	0	2	2,073

Local Communities



Basic Philosophy

As stated in the Sanki Engineering Group Code of Conduct and Action Guidelines, "We seek to contribute to society in order to aid in the development of local communities as a good corporate citizen and member of society," and our activities reflect this principle. We will maintain active communication and continue to help with the development of the local communities where we operate.

Initiatives for Co-Existing with Local Communities

● Agreement for the Provision of Facilities in Times of Disaster

Sanki Engineering has concluded an agreement with Yamato City in Kanagawa Prefecture to provide a temporary shelter for those unable to return home in the wake of a disaster. Under the agreement, Sanki Techno Center will, in the event of an earthquake or other calamity, serve as a base of operations for local disaster prevention and emergency firefighting teams, and the Company will work to restore facilities for water supply and sewage in Yamato City.

In fiscal 2022, we constructed a water well to ensure the supply of potable water for neighborhood residents in the event of a disaster until water supply and sewerage systems are restored. The well is registered as Yamato City's disaster preparedness well.



Disaster-preparedness well

● Cleanup and Environmental Beautification Activities

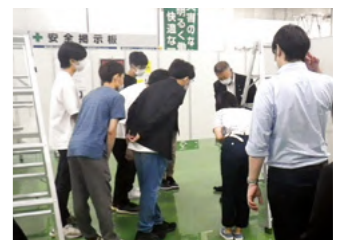
Each branch, branch office, and Group company participates in cleanup activities in areas around their offices or construction sites as well as environmental beautification activities organized by municipal governments. On a Group-wide basis, we carried out activities in 42 local communities in fiscal 2022. The Group's presidents also actively participate in events and encourage greater turnouts for local cleanups.



Ocean cleanup in Hokkaido

● Welcoming Study Tours to the Safety Experience Area and Other Training Facilities

The Sanki Techno Center welcomes study tours from government agencies, schools, and businesses to its Safety Experience area and other training facilities at the Techno Plaza. The Safety Experience area, which opened in fiscal 2019, gives visitors a first-hand visual experience of hazardous construction works. In fiscal 2022, 652 people visited the facility for a cumulative total of 4,336.

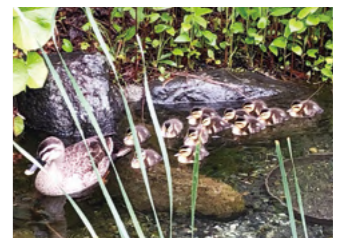


Receiving study visitors at the Sanki Techno Center

Supporting the Development of the Next Generation

● Opening the Sanki Environmental Garden to the Local Public

The Sanki Environmental Garden, adjacent to the Sanki Techno Center, is open round the clock to members of the local community, providing a place to play for many children from neighboring daycare centers. In March 2023, the total number of visitors reached approximately 50,000. We expect that the Sanki Environmental Garden will continue to be used by the community as a place to relax, and to nurture the next generation over the long term.



Spot-billed ducks at the Sanki Environmental Garden

● Sanki Kankyo Service Welcomes Social Studies Tours by Local Schools

Our Group company Sanki Kankyo Service actively invites elementary school children for field trips at its offices. In fiscal 2022, 70 children from four elementary

schools in Hokkaido visited the offices and learned about the role and workings of the sewerage system. The company also helped some junior-high schools provide work experience for students in their social studies class.

- Sponsoring the Chikyu Kyoshitsu Environmental Education Project**
In 2022, we participated as a special sponsor in Chikyu Kyoshitsu, an environmental education project hosted by The Asahi Shimbun Company for elementary and junior-high school children. In addition to serving as a teacher in the One-Day School on the Environment for some 80 elementary school children and 200 online participants across Japan, we visited elementary schools in Okinawa and Kumamoto prefectures. Under the title “Thinking about Comfortable Living and Energy Efficiency,” the visiting lessons were provided for 109 students to raise awareness about global environmental conservation through examples of the everyday comforts associated with air, water, and electricity.

Other Services to Society

- Support for Sports Promotion and Revitalization**
We are an official sponsor of Yamato Sylphid, a women’s soccer team in Yamato City. We also sponsor the non-profit organization Japan Deaf Rugby Football Union (Deaf Rugby), Japan Handball Association, and East Hokkaido Cranes, an ice hockey team in Kushiro City, Hokkaido Prefecture. By supporting these sports, we continue to contribute to the revitalization of local communities.
- Donations and Contributions**
We extend donations to universities and research institutes and sponsor cultural activities, including those by the Japan Symphony Foundation and the Kokoro no Gekijo (theater of the heart) project by the Shiki Theater Company. In addition, we support nature conservation activities in developing countries in the Asia-Pacific and other regions, collect donations for training guide dogs, and encourage our employees to donate blood on an ongoing basis. We also help with Mitsui Group social contribution activities through our support for the Mitsui Volunteer Network, which promotes the voluntary efforts of former employees of Mitsui Group companies.

- Earthquake Reconstruction Project**
We launched the Earthquake Reconstruction Project in May 2012, a year after the Great East Japan Earthquake, as a Company-wide action team for contributing to the early recovery of the affected areas. Since then, we have conducted various activities each year to support the reconstruction effort, prevent memories of the disaster from fading, dispel harmful rumors, and share information on disaster prevention and mitigation.

Activities in Fiscal 2022

- Provided a lunch menu featuring ingredients sourced from the Tohoku region at the Sanki Techno Center cafeteria
- Purchased products from a gift catalog supporting the affected areas, in collaboration with the employees union
- Co-sponsored a Tsugaru Shamisen competition
- Paid our seventh visit to affected areas
- Launched a permanent exhibit on reconstruction following the earthquake



Chikyu Kyoshitsu



Yamato Sylphid on Sanki Match Day



Japan Deaf Rugby Team at the World Championship 2023




Visiting an earthquake-stricken area



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.

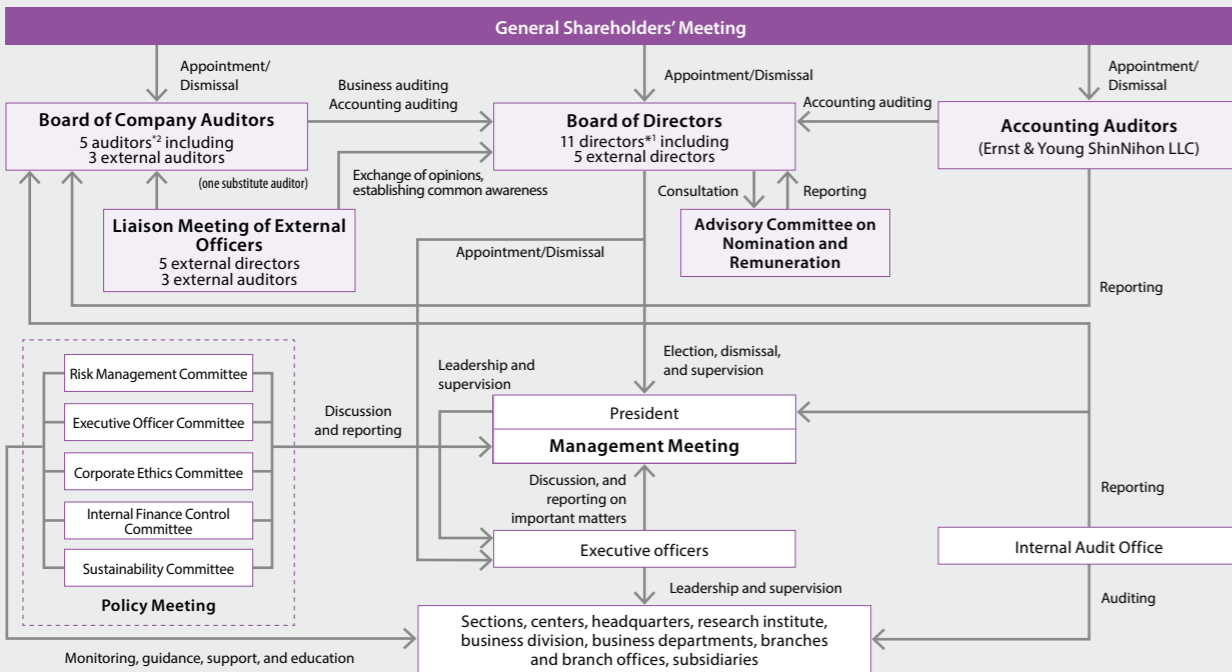
Status of Directors and Officers (as of June 23, 2023)	
	Number of Persons
Chairperson of the Board of Directors	External director
Directors (women)	11 (1)
External directors (independent directors)	5 (5)
Executive officers (women)	35 (0)
Those also serving as directors	4
Auditors (women)	5 (0)
External 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. Kunihiro Tachi was appointed auditor of Sanki Engineering in June 2022 and they have therefore attended 11 out of 11 meetings.
*2 Mr. Kunihiro 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		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

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

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

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.

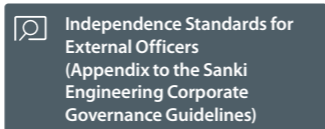
Appointment of Directors and Independence of External Officers

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 Expertise^{*1} 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)

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.

^{*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.

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.



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.



Kunihiro 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
	Kunihiro 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

P. 74

Corporate Governance System

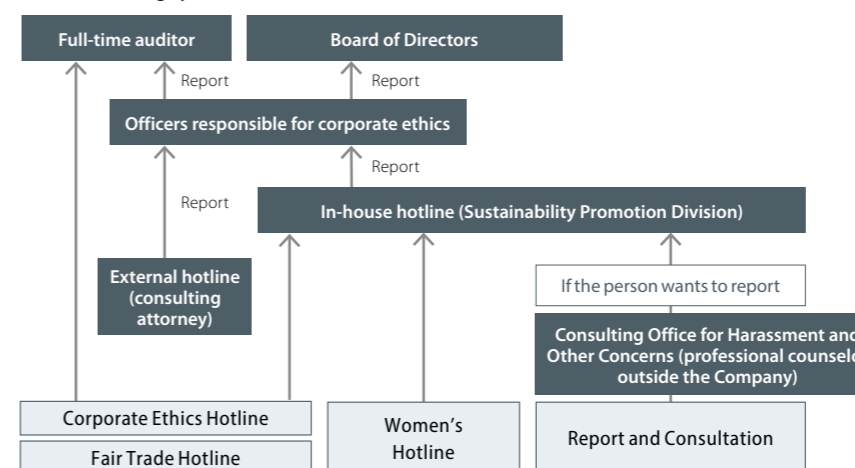


E-mail hotline@eng.sanki.co.jp

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



Sustainability Handbook

*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.

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.

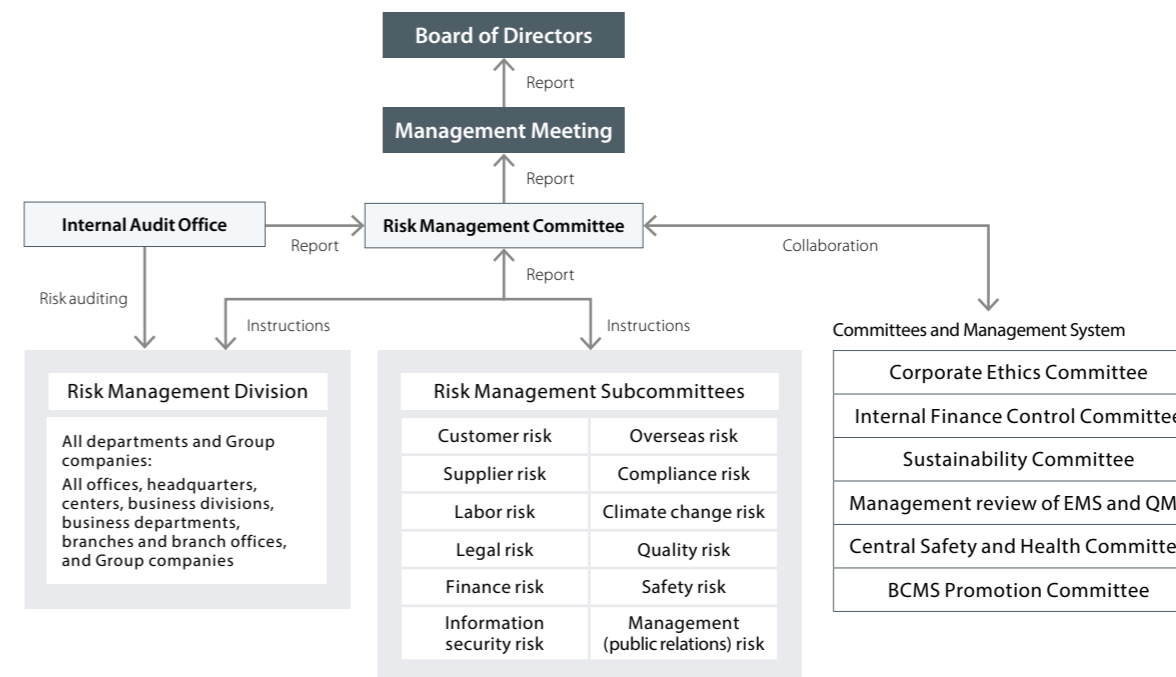
The Risk Management Committee is attended by the risk management executive, members of the Management Meeting, chairpersons of each risk management subcommittee, and the general manager of the Internal Audit Office, with the full-time auditor also participating as an observer. The president currently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

Major Business Risks

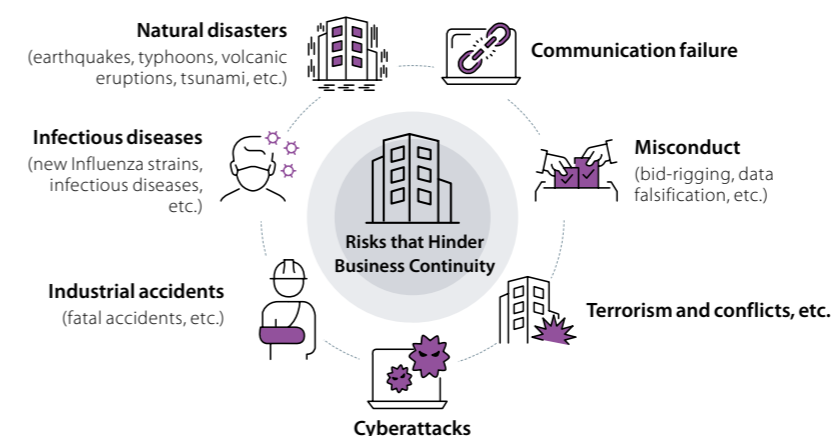
- **Business Operation Risks**
 - Common to all construction businesses
 - Securing human resources
 - Increase in materials and labor costs and delays in delivery of materials and equipment
 - Overseas business risks
 - Accidents and disasters during construction
 - Unprofitable construction
 - Facilities 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

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.



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

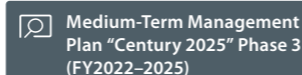
In the 4th Nikkei SDGs Management Survey, Sanki Engineering was rated 3.5 on a scale of 5 stars. The survey comprehensively evaluates a company's contribution to realizing the SDGs in the four categories of SDG strategy and economic value, social value, environmental value, and governance.



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



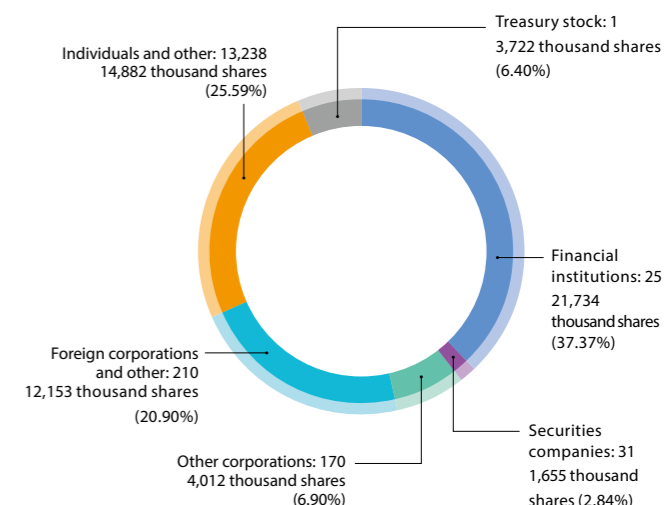
Nikkei SDGs Management Survey

Share Information

Share Information (as of March 31, 2023)

Fiscal year	April 1 to March 31 of the following year
Annual general meeting of shareholders	Late June each year
Trading unit	100 shares
Number of authorized shares	192,945,000
Number of issued shares	58,161,156
Number of shareholders	13,675
Transfer agent and special account management institution	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Stock exchange listing	Tokyo Stock Exchange
Securities code	1961

Ownership Statistics



Major Shareholders

Name of Shareholder	Number of Shares Held (Thousand Shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	6,193	11.38
Meiji Yasuda Life Insurance Company	5,440	9.99
Taiju Life Insurance Company Limited	3,123	5.74
Sanki Kyoueikai	3,096	5.69
Nippon Life Insurance Company	2,324	4.27
Custody Bank of Japan, Ltd. (Trust Account)	2,193	4.03
Sanki Engineering Employee Shareholding Association	1,493	2.74
State Street Bank and Trust Company 505001	950	1.75
MSIP Client Securities	866	1.59
JPMorgan Chase & Co. 380684	838	1.54

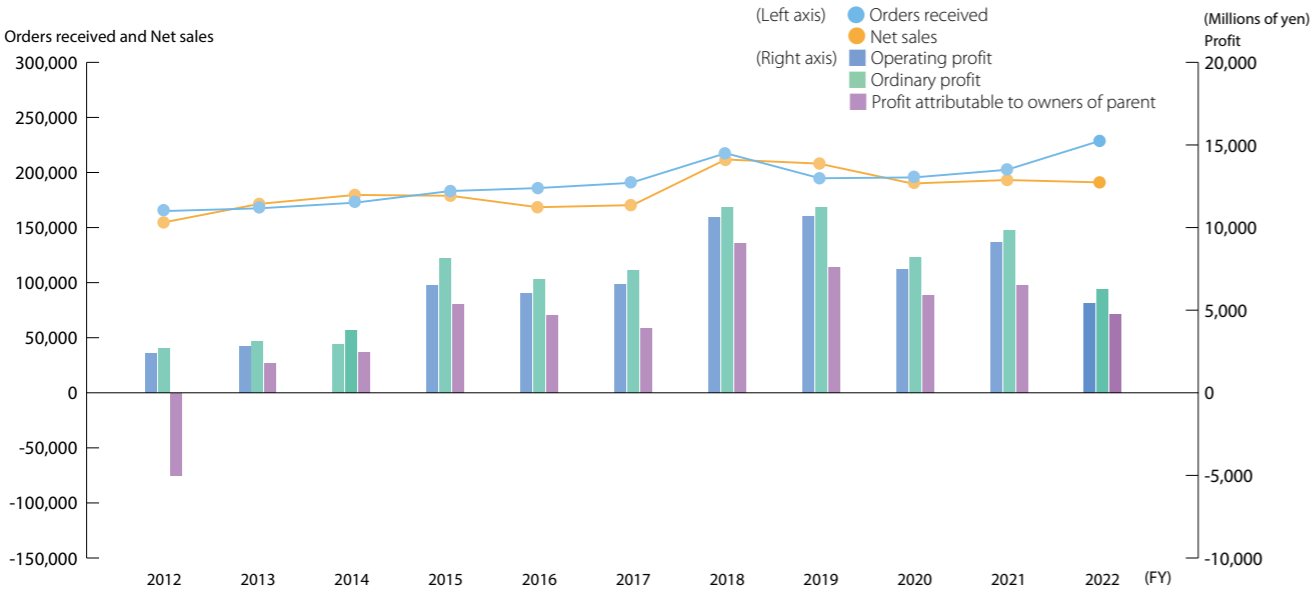
Notes: Although the Company holds 3,722 thousand shares of treasury stock, it is excluded from the list of major shareholders. Calculation of shareholding ratio excludes treasury stock.

Financial Report

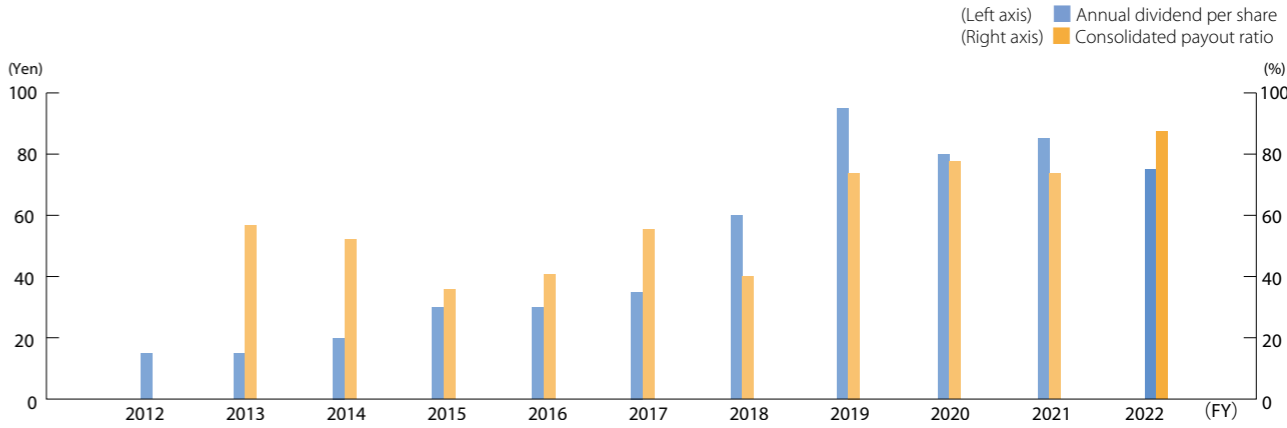
11-Year Consolidated Financial Summary

	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023
Fiscal year											
Orders received	165,800	168,295	173,398	183,270	185,880	191,113	217,096	194,018	195,580	202,250	228,554
Balance carried forward	111,414	108,219	102,019	106,388	123,756	144,712	149,495	136,163	141,676	150,737	188,426
Net sales	154,658	171,496	179,598	178,901	168,512	170,157	212,314	207,684	190,067	193,189	190,865
Selling, general and administrative expenses	15,199	15,604	15,015	16,419	16,526	18,466	21,046	21,436	21,255	21,110	21,603
Operating profit	2,391	2,818	2,951	6,509	6,012	6,593	10,637	10,674	7,498	9,112	5,409
Ordinary profit	2,680	3,146	3,809	8,135	6,880	7,434	11,204	11,224	8,196	9,817	6,247
Profit (loss) attributable to owners of parent*	(4,992)	1,763	2,461	5,327	4,698	3,906	9,046	7,576	5,901	6,489	4,750
Cash flows from operating activities	9,729	(9,403)	(139)	5,220	10,845	6,306	6,786	11,940	(483)	18,529	(10,584)
Cash flows from investing activities	(9,481)	(3,506)	3,440	5,520	(1,644)	(2,510)	(3,775)	(303)	(1,423)	(3,384)	(969)
Cash flows from financing activities	(1,028)	(4,152)	(2,901)	(1,826)	(2,458)	1,814	(5,215)	(8,955)	(6,974)	(7,518)	(8,327)
Cash and cash equivalents at end of period	40,367	23,510	23,667	32,501	39,187	44,866	42,612	45,946	37,087	44,779	24,949
As of end of fiscal year under review											
Total assets	166,477	170,181	176,382	169,423	166,612	177,014	195,321	180,805	171,313	183,609	172,305
Net assets	76,932	74,917	84,869	84,557	85,961	86,191	89,772	87,364	91,699	94,278	90,913
Number of employees	2,246	2,283	2,282	2,309	2,339	2,384	2,394	2,501	2,548	2,607	2,627
Per share information											
Earnings per share (yen)	(71.04)	26.46	38.30	83.84	73.91	63.02	150.02	128.51	103.12	115.13	85.80
Book-value per share (yen)	1,106.32	1,142.74	1,334.65	1,328.60	1,350.08	1,419.77	1,502.53	1,510.59	1,611.76	1,685.20	1,666.36
Cash dividends (yen)	15.00	15.00	20.00	30.00	30.00	35.00	60.00	95.00	80.00	85.00	75.00
Other information											
Equity ratio (%)	46.2	44.0	48.1	49.8	51.5	48.6	45.8	48.2	53.4	51.2	52.6
Return on assets (%)	1.6	1.9	2.2	4.7	4.1	4.3	6.0	6.0	4.7	5.5	3.5
Return on equity (%)	(6.4)	2.3	3.0	6.3	5.5	4.5	10.3	8.6	6.6	7.0	5.1

*The revised Accounting Standard for Business Combination and other standards have been applied since fiscal 2015. Accordingly, "Profit attributable to owners of parent," as listed in fiscal 2015 and after, is equivalent to "Net income" listed for the consolidated fiscal years between fiscal 2012 and fiscal 2014.



Change in Dividend Per Share and Consolidated Payout Ratio*



*The payout ratio was not calculated for fiscal 2012 since the Company reported a net loss.

Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets:		
Cash and deposits	¥42,779	¥24,949
Notes receivable-trade	595	407
Electronically recorded monetary claims-operating	7,124	4,603
Accounts receivable from completed construction contracts and other	39,412	48,286
Contract assets	19,629	23,843
Securities	5,999	4,000
Costs on construction contracts in progress	2,921	2,801
Raw materials and supplies	756	711
Other	6,541	5,908
Allowance for doubtful accounts	(17)	-
Total current assets	125,742	115,512
Non-current assets:		
Property, plant, and equipment:		
Buildings and structures	43,830	43,955
Accumulated depreciation	(34,123)	(34,672)
Buildings and structures, net	9,707	9,283
Machinery, vehicles, tools, furniture and fixtures	2,028	2,111
Accumulated depreciation	(1,630)	(1,687)
Machinery, vehicles, tools, furniture and fixtures, net	398	424
Land	3,085	3,035
Lease assets	542	538
Accumulated depreciation	(230)	(266)
Leased assets, net	311	271
Construction in progress	1	22
Total property, plant, and equipment	13,504	13,037
Intangible assets:		
Other	1,255	2,302
Total intangible assets	1,255	2,302
Investments and other assets:		
Investment securities	30,447	28,010
Long-term loans receivable	73	64
Retirement benefit asset	6,303	7,190
Leasehold and guarantee deposits	1,466	1,636
Insurance funds	1,252	1,011
Deferred tax assets	821	849
Other	3,160	3,026
Allowance for doubtful accounts	(419)	(337)
Total investments and other assets	43,106	41,453
Total non-current assets	57,866	56,793
Total assets	¥183,609	¥172,305

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities:		
Electronically recorded obligations-operating	¥2,588	¥1,667
Accounts payable for construction contracts	37,932	35,074
Short-term borrowings	8,885	6,674
Lease obligations	94	97
Income taxes payable	2,659	839
Contract liabilities	14,754	15,027
Provision for bonuses	4,143	4,101
Provision for directors' bonuses	234	224
Provision for warranties for completed construction	1,289	1,405
Provision for loss on construction contracts	9	32
Other	6,617	4,505
Total current liabilities	79,210	69,649
Non-current liabilities:		
Long-term borrowings	320	1,400
Lease obligations	325	300
Retirement benefit liability	2,581	3,861
Provision for loss on business of subsidiaries and associates	440	440
Deferred tax liabilities	670	64
Other	5,784	5,675
Total non-current liabilities	10,121	11,742
Total liabilities	89,331	81,392
Net assets:		
Shareholders' equity:		
Share capital	8,105	8,105
Capital surplus	4,181	4,189
Retained earnings	75,097	73,051
Treasury shares	(5,243)	(5,335)
Total shareholders' equity	82,140	80,011
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	12,116	10,583
Deferred gains or losses on hedges	(5)	-
Foreign currency translation adjustment	(19)	101
Remeasurements of defined benefit plans	(265)	17
Total accumulated other comprehensive income	11,827	10,702
Share acquisition rights	310	199
Total net assets	94,278	90,913
Total liabilities and net assets	¥183,609	¥172,305

Consolidated Statement of Income and Comprehensive Income

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Net sales:		
Net sales of completed construction contracts	¥190,646	¥188,258
Net sales in real estate business and other	2,542	2,607
Total net sales	193,189	190,865
Cost of sales:		
Cost of sales of completed construction contracts	161,430	162,217
Cost of sales in real estate business and other	1,535	1,635
Total cost of sales	162,965	163,853
Gross profit:		
Gross profit on completed construction contracts	29,216	26,040
Gross profit on real estate business and other	1,007	971
Total gross profit	30,223	27,012
Selling, general, and administrative expenses:		
Employees' salaries and allowances	7,750	7,915
Provision for bonuses	1,771	1,744
Provision for bonuses for directors (and other officers)	234	217
Retirement benefit expenses	495	467
Provision of allowance for doubtful accounts	3	—
Depreciation	969	879
Other	9,886	10,377
Total selling, general, and administrative expenses	21,110	21,603
Operating profit	9,112	5,409
Non-operating income:		
Interest income	15	17
Dividend income	560	628
Waste disposal income	175	194
Other	296	365
Total non-operating income	1,047	1,205
Non-operating expenses:		
Interest expense	112	98
Office relocation expenses	6	65
Other	223	203
Total non-operating expenses	342	367
Ordinary profit	9,817	6,247
Extraordinary income:		
Gain on sale of non-current assets	—	22
Gain on sale of investment securities	50	1,027
Total extraordinary income	50	1,049
Extraordinary losses:		
Impairment losses	22	—
Loss on retirement of non-current assets	114	189
Loss on valuation of investment securities	77	31
Provision for loss on business of subsidiaries and associates	140	—
Settlement payments	—	139
Total extraordinary losses	354	360
Profit before income taxes	9,514	6,935
Income taxes—current	3,512	2,282
Income taxes—deferred	(487)	(96)
Total income taxes	3,024	2,185
Profit	¥6,489	¥4,750
(Breakdown)		
Profit attributable to owners of parent	6,489	4,750
Profit attributable to non-controlling interests	—	—
Other comprehensive income:		
Valuation difference on available-for-sale securities	1,263	(1,532)
Deferred gains or losses on hedges	(7)	5
Foreign currency translation adjustment	97	120
Remeasurements of defined benefit plans	643	282
Total other comprehensive income	1,995	(1,124)
Comprehensive income	¥8,485	¥3,626
(Breakdown)		
Comprehensive income attributable owners of parent	¥8,485	¥3,626
Comprehensive income attributable non-controlling interests	¥—	¥—

Consolidated Statement of Changes in Equity

Fiscal year ended March 31, 2022						(Millions of yen)	
	Shareholders' equity					Total shareholders' equity	
	Share capital	Capital surplus	Retained earnings	Treasury shares			
Balance at beginning of period	¥8,105	¥4,181	¥73,158	¥ (3,859)	¥81,585		
Changes during period							
Dividends of surplus			(4,537)		(4,537)		
Profit attributable to owners of parent			6,489		6,489		
Purchase of treasury shares				(1,438)	(1,438)		
Disposal of treasury shares		(13)		55	41		
Transfer of loss on disposal of treasury shares		13	(13)		—		
Net changes in items other than shareholders' equity							
Total changes during period	—	—	1,938	(1,383)	555		
Balance at end of period	¥8,105	¥4,181	¥75,097	¥ (5,243)	¥82,140		

	Accumulated other comprehensive income					Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	¥10,853	2	¥ (116)	¥ (908)	¥9,831	¥282	¥91,699
Changes during period							
Dividends of surplus							(4,537)
Profit attributable to owners of parent							6,489
Purchase of treasury shares							(1,438)
Disposal of treasury shares							41
Transfer of loss on disposal of treasury shares							—
Net changes in items other than shareholders' equity	1,263	(7)	97	643	1,995	27	2,023
Total changes during period	1,263	(7)	97	643	1,995	27	2,578
Balance at end of period	¥12,116	(5)	¥ (19)	¥ (265)	¥11,827	¥310	¥94,278

For the year ended March 31, 2023							
	Shareholders' equity					(Millions of yen)	
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	¥8,105	¥4,181	¥75,097	¥ (5,243)	¥82,140		
Changes during period							
Dividends of surplus			(4,743)		(4,743)		
Profit attributable to owners of parent			4,750		4,750		
Purchase of treasury shares				(2,347)	(2,347)		
Disposal of treasury shares		(28)		239	211		
Transfer of loss on disposal of treasury shares		36	(36)		—		
Cancellation of treasury shares			(2,016)	2,016	—		
Net changes in items other than shareholders' equity							
Total changes during period	—	8	(2,045)	(91)	(2,128)		
Balance at end of period	¥8,105	¥4,189	¥73,051	¥ (5,335)	¥80,011		

	Accumulated other comprehensive income					Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	¥12,116	¥ (5)	¥ (19)	¥ (265)	¥11,827	¥310	¥94,278
Changes during period							
Dividends of surplus							(4,743)
Profit attributable to owners of parent							4,750
Purchase of treasury shares							(2,347)
Disposal of treasury shares							211
Transfer of loss on disposal of treasury shares							—
Cancellation of treasury shares							—
Net changes in items other than shareholders' equity	(1,532)	5	120	282	(1,124)	(111)	(1,235)
Total changes during period	(1,532)	5	120	282	(1,124)	(111)	(3,364)
Balance at end of period	¥10,583	¥—	¥101	¥17	¥10,702	¥199	¥90,913

Consolidated Statement of Cash Flows

	(Millions of yen)	
	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from operating activities:		
Profit before income taxes	¥9,514	¥6,935
Depreciation	1,587	1,511
Impairment loss	22	—
Loss on retirement of non-current assets	114	189
Office relocation expenses	6	65
Increase (decrease) in provision for loss on business of subsidiaries and associates	140	—
Increase (decrease) in allowance for doubtful accounts	3	(26)
Increase (decrease) in provision for bonuses	351	(42)
Increase (decrease) in retirement benefit liability	726	799
Increase (decrease) in provision for loss on construction contracts	9	23
Interest and dividend income	(575)	(645)
Interest expense	112	98
Loss (gain) on sale of property, plant, and equipment	(0)	(22)
Loss (gain) on sale of investment securities	(50)	(1,027)
Loss on valuation of investment securities	77	31
Decrease (increase) in trade receivables and contract assets	5,389	(10,328)
Decrease (increase) in costs on construction contracts in progress	(573)	125
Increase (decrease) in trade payables	(1,218)	(3,793)
Increase (decrease) in contract liabilities	6,154	263
Increase (decrease) in other current liabilities	2,080	(2,160)
Settlement payments	—	139
Other	(4,324)	1,142
Subtotal	19,548	(6,720)
Interest and dividends received	575	645
Interest paid	(112)	(98)
Commitment fee payment	(10)	—
Income taxes paid	(1,839)	(4,213)
Income taxes refund	374	7
Office relocation expenses paid	(6)	(65)
Settlement paid	—	(139)
Cash flows from operating activities	18,529	(10,584)
Cash flows from investing activities:		
Purchase of securities	(19,000)	(21,000)
Proceeds from redemption of securities	17,000	21,000
Purchase of property, plant, and equipment	(1,010)	(1,007)
Proceeds from sale of property, plant, and equipment	0	76
Payments for retirement of property, plant, and equipment	(117)	(178)
Purchase of investment securities	(21)	(273)
Proceeds from sale of investment securities	182	1,503
Proceeds from collection of loans receivable	12	12
Purchase of intangible assets	(529)	(1,185)
Subsidies received	20	20
Proceeds from maturity of insurance funds	304	555
Other	(225)	(491)
Cash flows from investing activities	(3,384)	(969)

	(Millions of yen)	
	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	0	258
Proceeds from long-term borrowings	—	1,750
Repayments of long-term borrowings	(1,390)	(3,140)
Purchase of treasury shares	(1,438)	(2,347)
Proceeds from exercise of share options	0	0
Repayments of lease obligations	(152)	(105)
Dividends paid	(4,537)	(4,743)
Cash flows from financing activities	(7,518)	(8,327)
Effect of exchange rate changes on cash and cash equivalents	64	51
Net increase (decrease) in cash and cash equivalents	7,692	(19,829)
Cash and cash equivalents at beginning of period	37,087	44,779
Cash and cash equivalents at end of period	¥44,779	¥24,949

Corporate Information, Business Locations, and Group Companies

(as of April 1, 2023)

The Sanki Engineering Group aims to build a comfortable environment for people and the Earth by leveraging “total engineering competency” in a wide range of regions and business domains. Together with our customers, we will strive as a group to contribute to the realization of a sustainable society.

Corporate Information

Company name
Sanki Engineering Co., Ltd.

Date of establishment
April 22, 1925

Share capital
8,105.18 million yen

Representative
Hirokazu Ishida, President

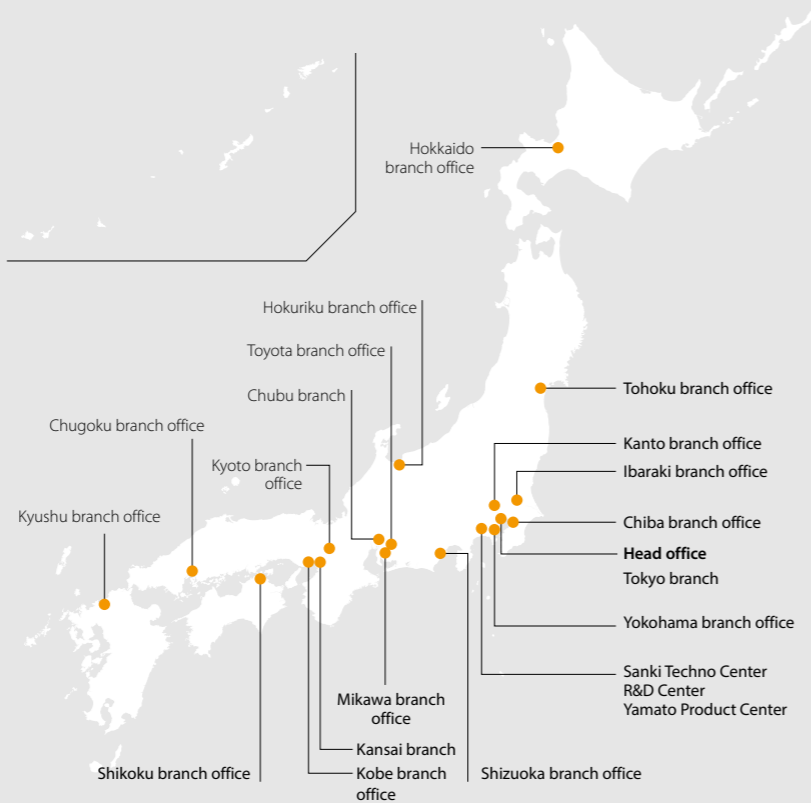
Principal lines of business
Facilities construction, plant and machinery systems, real estate

Number of employees (as of March 31, 2023)
Consolidated: 2,627
Non-consolidated: 2,073

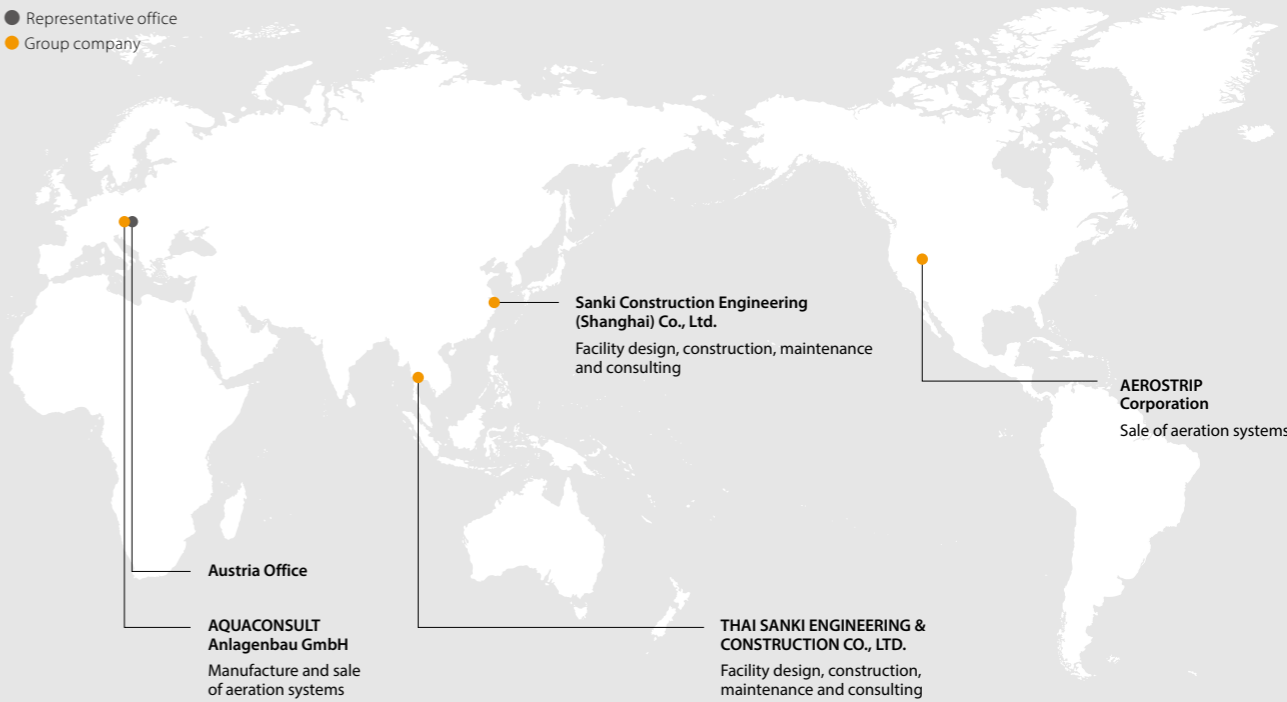
Offices
Branches: 3
Branch offices: 15
Training center : 1
Laboratory : 1
Factory: 1

Head office
8-1 Akashi-cho, Chuo-ku, Tokyo

Domestic Business Locations



Representative Offices and Group Companies Overseas



Consolidated Subsidiaries

Sanki Techno Support Co., Ltd.

Established: April 1, 1980
Capital: 100 million yen
Business areas:
• Design, construction, operation/management, repair and maintenance of HVAC, plumbing and electricity work
• Energy saving diagnosis and consulting
• Building IP phone systems, call center systems and networks

Sanki Sangyo Setsubi Co., Ltd.

Established: May 1, 1980
Capital: 20 million yen
Business areas:
• Safety management, installation, instrumentation work, renovation, periodic maintenance, and upkeep of general equipment (production, transportation, etc.) as necessary
• Development and maintenance of computer software for transportation management

Sanki Chemical Engineering & Construction Co., Ltd.

Established: September 1, 1980
Capital: 80 million yen
Business areas:
• Design, construction, operation/management, maintenance, upgrading and improving of waste treatment facilities
• Manufacture, sale and installation of solid-liquid separators
• Design, construction and maintenance/management of water/wastewater treatment facilities

Sanki Kankyo Service Co., Ltd.

Established: June 29, 1990
Capital: 50 million yen
Business areas:
• Design, construction, management and work contracting of environmental protection facilities, including water supply and sewage facilities and waste treatment facilities, etc.
• Operation, maintenance and management, and sale of chemical products for these facilities

Sanki Partners Co., Ltd.

Established: August 1, 1980
Capital: 10 million yen
Business areas:
• Insurance agency, leasing and temporary staffing

Sanki Construction Engineering (Shanghai) Co., Ltd.

Established: July 20, 2005
Capital: 3.80 million U.S. dollars
Business areas:
• Facility design, construction, maintenance and consulting

AQUACONSULT Anlagenbau GmbH

Acquired a controlling interest in September 2006
Capital: 18 thousand euro
Business areas:
• Manufacture and sale of aeration systems

THAI SANKI ENGINEERING & CONSTRUCTION CO., LTD.

Established: May 6, 2008
Capital: 16 million baht
Business areas:
• Facility design, construction, maintenance and consulting

Non-consolidated Subsidiaries

Tomakomai Netsu Service Co., Ltd.

Established: July 20, 1971
Capital: 165 million yen
Business areas:
• Heat supply to multi-unit housing, and operation and maintenance of cleaning center facilities

AEROSTRIP Corporation

Acquired a controlling interest in September 2006
Capital: 100 U.S. dollars
Business areas:
• Sale of aeration systems

Sendai Kankyo Hozen Co., Ltd.

Established: November 7, 2016
Capital: 100 million yen
Business areas:
• Management of operation and maintenance for the renovation work for key facilities of the Sendai Clean Center

CAD-KENDORO Co., Ltd.

Stock acquired in July 2022
Capital: 3 million yen
Business areas:
• Production of design drawings and construction drawings related to pipe-laying works
• Sales of CAD software and support services
• Site survey and 3D drawing by 3D scanner

Affiliate Not Accounted for by the Equity Method

PFI Okubo Techno Resource Co., Ltd.

Established: December 3, 2004
Capital: 10 million yen
Business areas:
• Updating, maintenance, management and operation of wastewater treatment facilities and emergency generators at the Okubo Water Purification Plant, Saitama Prefecture
Period of business:
• 3 years and 4 months for design and construction; 20 years for operation, maintenance and management

Third-Party Opinion



Yoshinao Kozuma
Professor Emeritus, Sophia University

1. The Path to Achieving Carbon Neutrality by 2050

Achieving carbon neutrality by 2050 has become a common goal for our industrial society, and in February 2022 the Sanki Engineering Group expressed its commitment to that objective by announcing its Carbon-Neutral Declaration and launching a full-scale initiative for realizing a decarbonized society by 2050.

In reviewing the actual results more than a year after this declaration, Sanki Engineering has achieved a 34% reduction in its Scope 1 and 2 emissions from levels in fiscal 2020, ahead of the target year of 2030, and is now on course to fully meet its interim target of a 40% reduction by fiscal 2025. The Group has also achieved a 36% reduction in Scope 3 emissions, exceeding its interim target of a 10% reduction by fiscal 2025 toward the final deadline of fiscal 2050. Scope 3 emissions account for as much as 99.9% of the Sanki Engineering 'Group's total emissions, and it is no exaggeration to say that the path to CN depends on its strategy for reducing Scope 3 emissions. Moreover, since 91% of these emissions fall under Category 11, reducing use-phase emissions of facilities and plants constructed by the Group is essential for transitioning to a decarbonized society. Through the SANKI YOU Eco Contribution Points program, the Group links its contributions to customer CO₂ reductions with financial support for afforestation projects. The Carbon-Neutral Declaration for 2050 reminds us of how helpful this program has been for the Group's carbon risk management.

Sanki Engineering's achievements for this fiscal year also included being recognized as an A-list company by the CDP and updating its TCFD scenario analysis to a 1.5°C scenario. Both of these are major achievements that deserve recognition.

Meanwhile, investors are increasingly demanding that companies announcing their declarations for achieving carbon neutrality by 2050 concretely explain the process of attaining the goal with a transition plan, so Sanki Engineering should formulate and publicly disclose its own plan as soon as possible.

2. Response to Human Rights Risk

Along with the formulation of its human rights policy in April 2022, Sanki Engineering also expressed its plans to implement human rights due diligence. This year, the Group clearly stated that its entire supply chain will be subject to due diligence and that the corporate ethics hotline and other contact points will also receive reports of violations from the supply chain.

Considering the growing number of orders received outside Japan, Sanki Engineering's management stance of pursuing high standards in fulfilling its duty of care across the supply chain is highly commendable. I expect the Group to concretely implement human rights due diligence to further strengthen its response to risks associated with business activities in the years to come. It will also need to provide information on the contact points for reporting from the supply chain on its English language website.

3. Enhanced Quality of Information Disclosure

This fiscal year, the Group has continued to disclose important new information. For example, it has explained its management resources in greater detail in the diagram of its value creation process, providing a more solid picture of the management resources that constitute the Sanki Engineering Group's business model. In addition, while governance information tends to be limited to an explanation of facts, this year's report includes a dialogue between the president and an external director, which vividly conveys the state of the governance system from the latter's perspective. These are all beneficial efforts in terms of enhancing the quality of information disclosure.

4. Future Considerations

As for information on the gender wage gap, which became a statutory disclosure requirement under the revised Act of Promotion of Women's Participation and Advancement in the Workplace, the gap disclosed by the Group seems somewhat large compared to the average in Japan, according to the OECD. This might require disclosing additional information, including the Group's measures for closing the gap. With regard to the pending issue of improving the employment rate of persons with disabilities, it is desirable to strengthen measures not only on a non-consolidated basis but also and especially on a consolidated basis, given that the statutory employment rate will be raised in stages starting in 2024.

Response to Third-Party Opinion

We are deeply grateful for your valuable insights on the SANKI REPORT 2023.

This was the 12th year since we began publishing an integrated report, and we appreciate your evaluation of issues, such as our policies and initiatives for achieving carbon neutrality and the enhanced quality of our information disclosure. Going forward, we will endeavor to disclose concrete information, including our transition plan for achieving the 2050 carbon neutrality goal, while steadily promoting the sustainability management of the Sanki Engineering Group.

We will work to make improvements in the areas you pointed out, including closing the wage gap between men and women and raising the employment rate of disabled persons. We are resolved to make the best use of the SANKI REPORT to further advance our business activities and help realize a sustainable society.

Takeshi Terazaki Executive Officer and General Manager, Management Planning Office



St. Luke's Tower, 8-1 Akashi-cho,
Chuo-ku, Tokyo 104-8506 Japan

Corporate Communications Department,
Management Planning Office
Phone: +81-3-6367-7041 Fax: +81-3-3541-6676
<https://www.sanki.co.jp>

