

Consolidated Financial Results for the First Nine Months of the Fiscal Year ending March 31, 2023 / FAQ

February 7, 2023

【Financial results for the First Nine Months of Fiscal Year ending March 31,2023 (FY2023)】																																																																																																																																																																																																																																																																		
Q 1	Please provide the details of the business results by segment for the first nine months, taking into consideration the business environment.																																																																																																																																																																																																																																																																	
A 1	<p>Operating profit rose ¥8.5 billion (40.5%) year on year, to ¥29.6 billion and profit attributable to owners of the parent increased ¥3.5 billion (29.2%), to ¥15.5 billion, reaching a record high in terms of the earnings performance of the first nine months of a fiscal year.</p> <p>The main factors contributing to the increase or decline in operating profit are as follows.</p> <ul style="list-style-type: none">● The ICT solutions business posted a higher operating profit mainly due to an increase in projects related to security and network and improvements to delivery delays.● In the mobile business, operating profit declined due to a decrease in fee income resulting from the revision of fee terms, in addition to lower sales volume.● In the semiconductor parts and manufacturing equipment business, operating profit increased due to growth in shipments of manufacturing equipment and consumables related to semiconductors and LCD panels supported by the back of robust demand.● In the feedstuff business, operating profit rose partly due to the improved profitability.● The steel tubing business saw a higher operating profit as energy investments expanded in the U.S. and the prices of steel tubes rose.● Operating profit in the energy business rose on the back of increases in heavy oil sales for power generation and fuel sales for ocean-going vessels.● In the motor vehicles and parts business, operating profit declined, as soaring transportation costs put a downward pressure on profits, while demand was in a recovery trend. <p>Operating profit (Segment margin) / Profit attributable to owners of the parent</p> <table><tr><th colspan="2" rowspan="2">(Unit : billion yen)</th><th colspan="3">Operating profit</th><th colspan="3">Profit attributable to owners of the parent</th><th colspan="2">(Ref.) FY2023 forecast</th><th colspan="2">(Ref.) 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	【FY2023 Forecast】
Q 2	The progress rate of profit attributable to owners of the parent against the revised forecast is 81.7%, which is above the standard progress rate. Why are you not revising the forecast?
A 2	<p>We achieved the results for the first nine months of the fiscal year in a special environment where the post-COVID-19 recovery in demand and the impact of the Russia-Ukraine situation provided a boost to all trading business areas in terms of both volume and prices. In addition, profits carried over from the previous period due to market conditions and foreign exchange fluctuations at the end of the previous period were recognized in the period under review. Looking ahead, however, we expect expenses and losses to incur during the rest of the fiscal year given the following factors: concerns about economic recession resulting from the rapid monetary tightening to control inflation; various costs associated with the tender offers for two consolidated subsidiaries we have announced earlier; and a double payment of rents for the new and old head office premises at the time of its relocation.</p> <p>Another concern is the loss of momentum in the meat products business, which performed well in the first half of the fiscal year, due to falls in the prices of key products.</p>
Q 3	The mobile business again posted a fall in its profit. What is your view on the business' future outlook?
A 3	<p>The inventory shortage of main models has almost been resolved, but the number of units sold is not increasing. In addition, fee income shrank mainly as telecommunications carriers began revising their fee terms and conditions from the previous period. These factors led to a smaller profit.</p> <p>We expect operating profit for the current period to be around the level of our full-year forecast, on the premise that our results in the fourth quarter of this fiscal year, which includes March that normally sees the largest growth in the number of units sold as students start new schools or people start to work or get transferred to different locations, are at the same level as the results of the same quarter of the previous year. In the medium and long term, the closure of mobile carrier stores will basically target loss-making stores. At present, we consider its impact on our profit will be insignificant. In urban areas, we expect footfall to continue falling partly due to the spread of online-only plans. We have begun adjusting the size of stores experiencing a large footfall reduction, such as relocating them or reviewing their staff numbers, as a priority issue.</p> <p>While we anticipate the industry environment to remain tough, after a certain degree of store restructuring, we will likely move to a stage where we can secure survivors' benefits in the retail area. Meanwhile, we are cultivating and developing corporate solutions business in the corporate business area in keeping with telecommunications carriers' expansion policy.</p>
Q 4	The steel tubing business in North America continued to show strong results as in the previous period. What is your view on the business' future outlook?
A 4	The steel tubing business made a progress that far exceeded the forecast we had made at the beginning of the period, partly helped by the U.S. policy shift toward increasing its energy supply capacity in response to the Russia-Ukraine situation. Given this situation, we have revised our forecasts upward again as we did in the second quarter of the fiscal year. Despite uncertainties such as concerns about economic recession in the U.S., we are currently receiving orders steadily. Combined with the anticipated boost to energy demand to be provided by the “restart” of the Chinese economy, we expect the steel tubing business to perform well in the next period.

Q 5	Please tell me the impact of the weakening yen on business results.
A 5	<p>Our foreign currency-denominated transactions involve many import transactions, in particular, in the foods segment. Their foreign exchange risk is mostly hedged using forward foreign exchange contracts and sales are made in the Japanese yen. As the yen depreciates, both purchase prices and sales prices rise, which generally has a neutral impact on our profit and loss. Meanwhile, foreign currency-denominated income in overseas subsidiaries had a positive impact to the tune of a few hundreds million yen.</p> <p>As for the impact of the weaker yen on B/S, the depreciation of one yen against the US dollar will increase foreign exchange translation differences in shareholders' equity by approximately 100-200 million yen. This means that it will have a positive impact on our shareholders' equity.</p>
Q 6	What are the direct and indirect impacts of the Russia-Ukraine situation?
A 6	<p>We have reduced our transactions with Russia since we wrote off the claims exposed to Russia's country risk about twenty years ago. There are some projects in progress, which we expect to be covered by trade insurance. Our view therefore is that there is not much direct impact. As for Ukraine, we used to have a representative office there, but it is currently closed, so the impact of the Russia-Ukraine situation is also limited.</p> <p>However, if the end customers in Japan hold off purchasing due to high crude oil or grain prices, there could be an indirect impact of decreasing the trading volume of raw materials.</p>
	【Tender Offers】
Q 7	What is the significance and purpose of the recent simultaneous tender offers for two companies?
A 7	<p>The promotion of digital transformation (DX) and green transformation (GX) is identified as priority initiatives in our current medium-term vision, "<i>future 135</i>." We intend to continue positioning them as priority initiatives under the new medium-term vision which is scheduled to start in April 2024. To implement these initiatives, we plan to further enhance our capital relationships with Kanematsu Electronics Ltd., which has strengths in DX, and Kanematsu Sustech Corporation, which has strengths in GX, and to realize integrated Group management. We believe that making these companies our wholly owned subsidiaries will achieve the optimal allocation of management resources as the entire Group, further accelerate our existing initiatives, and facilitate a greater degree of collaboration.</p>
Q 8	If your tender offers are successful, what is their impact on your company's performance forecasts for this period and on your future performance?
A 8	<p>The tender offers will close by mid-March, so their impact on our consolidated financial results for the fiscal year ending March 31, 2023, will be insignificant.</p> <p>From the financial year ending March 31, 2024, we will be able to post 100 percent of profits of the two companies, which have so far been posted in non-controlling interests. In addition, we expect the two companies to further contribute to our financial results through the actualization of the anticipated synergy.</p> <p>As for their financial impact, we cannot avoid a certain degree of deterioration in financial indicators such as net DER because (1) we will take out a loan from a financial institution to finance the purchase of shares for the tender offers, and (2) being transactions that will make consolidated subsidiaries into wholly owned subsidiaries, the difference between the total purchase price of the tender offers and our non-controlling interests in the target</p>

	<p>companies will be recognized as a fall in capital surplus. However, we expect improvements through the future growth in revenue and so on.</p> <p>Please note that, with respect to our external ratings, both JCR and R&I have released statements that the tender offers would be unlikely to impact our current ratings (A-), although the execution of the tender offers will temporarily exert a financial pressure.</p>
	【Investment】
Q 9	Please tell me about your investment progress in the first nine months.
A 9	<p>Multiple projects are underway. The investment projects we executed by the end of the first nine months of the fiscal year ending March 31, 2023 (as of December 31, 2022) are as follows. The total amount of investments in the nine months of the fiscal year was approximately 15.2 billion yen.</p> <ul style="list-style-type: none"> ● Acquisition of a mobile phone sales agency operation company by Kanematsu Communications Ltd. ● Capital and business alliance between Kanematsu Electronics Ltd. and a network security business. ● Investment in a Japanese-style barbeque yakiniku chain company operating in China ● Investment in a company operating the wholesale business for food/processed meat products and retail business through c-commerce. ● Investment in system integrator company of photo printing systems. ● Investment in the Waseda Innovation Fund. ● Investment in a manufacturing equipment system integrator ● Additional investment in Global Security Experts Inc. by Kanematsu Electronics Ltd. ● Acquisition of Nihon Access, Co., Ltd. by Kanematsu Electronics Ltd.
Q10	What will be your approach to investments after the tender offers?
A10	<p>We plan to execute growth investments for our sustainable growth after making the listed subsidiaries wholly owned subsidiaries.</p> <p>Our basic approach is to control our investments within our cash flows from operating activities. We will control our financial balance with the target net DER of approximately 1x as our financial discipline.</p>
	【Shareholder returns】
Q11	Do you set any upper or lower limit for the annual dividend?
A11	<p>We set our target payout ratio at 30-35% and do not set any specific target figures for our annual dividends. We intend to continue increasing our annual dividend through the growth of profit attributable to owners of the parent under the basic policy of providing continuous and stable dividends.</p> <p>We maintained the same amount of dividend in the fiscal years ended March 31, 2020, and March 31, 2021, despite the downward trend in profits caused by COVID-19.</p>
	【Realization of a decarbonized society】
Q12	Please provide details on Kanematsu's efforts and approach for realizing a decarbonized society.
A12	In June 2021, we expressed our support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We recognize that environmental issues are our corporate responsibility. In June 2022, we launched the Green Transformation (GX) Committee under the officer in charge of promoting GX to engage in

environmental business and other initiatives such as renewable energy, emission rights trading, and forest preservation, to move toward decarbonization. The Kanematsu Group does not engage in businesses with a high environmental impact, such as the resources business or coal-fired power generation, and CO₂ emissions from our business activities are at an extremely low level relative to the scale of our businesses. Please refer to this link for the calculation results of the Group's CO₂ emissions disclosed on the official web page. [Disclosure based on Recommendations of the TCFD | Sustainability | KANEMATSU CORPORATION \(kanematsu.co.jp\)](https://www.kanematsu.co.jp/en/sustainability/tcfdr.html)

We will aim to achieve carbon neutrality as soon as possible, by 2025. We will reduce CO₂ emissions by switching to renewables; for any remaining emissions that cannot be reduced, we will offset them with the credits generated from our business including converting our contribution to GHS emissions reduction into credits, to achieve carbon neutrality.

Furthermore, by accumulating and increasing the contributed emission volume in the future, we aim to become carbon negative at -150,000 t-CO₂ by 2030 and -1,000,000 t-CO₂ by 2050, thereby contributing to GHG emissions reduction in Japan and on a global scale.

[The Group's initiatives to achieve a decarbonized society]

- Kanematsu KGK Corp., our subsidiary, installed the largest solar power generation system in Vietnam, An Giang Province, in the south of the Country, using a joint crediting mechanism (JCM) designed to promote the use of energy-saving and renewal energy technologies in developing countries. In addition to this project, the Group is executing JCM projects in Indonesia, Saudi Arabia, Thailand, and Vietnam.
- Kanematsu began supporting the promotion of cacao farming in Gorontalo Province, Indonesia from 2011 as an international initiative to promote sustainable forest management in developing countries (REDD+). Through this project, we contribute to the preservation of tropical forests.
- Kanematsu and its subsidiary, Datatec Co., Ltd., have agreed to run joint proof of concept (PoC) experiments with PT Pertamina, a state-owned oil company in Indonesia, to promote decarbonization and to improve logistics efficiency by improving the fuel efficiency of freight trucks. We have already begun providing support to and running PoC experiments.
- Kanematsu Petroleum Corp., our subsidiary, has joined the Japan Climate Leaders' Partnership (JCLP), a group of companies aiming to achieve a sustainable, decarbonized society.
- Aiming to promote decarbonization of the entire supply chain together with suppliers, we have formed a group-wide GX Accelerator team to collectively propose a variety of solutions that contribute to GHG reduction. We are promoting this initiative in collaboration with Asuene Inc. and The Norinchukin Bank.
- We answered the CDP Climate Change 2022 Questionnaire as per the requirement for all companies listed on the Prime Market of the Tokyo Stock Exchange, and scored B as management level, which is the third level across eight levels. (CDP is a non-government organization managed by a charity organization in the U.K. It runs a global information disclosure system for investors, companies, states, regions, and cities to manage their environmental impacts and measures companies' climate change actions and so on.)

	【Promotion of DX】
Q13	<i>Future135</i> includes “Pursue DX on a groupwide basis” as a priority initiative. What progress have you made?
A13	<p>The Group established the DX Project Office in July 2021 with the Executive Officers of Kanematsu and Kanematsu Electronics Ltd. as its members. The Project Office is currently working on initiatives such as the examination of DX of each business and the organization of the Group IT environment. It is also working with core Group companies, sharing the initiatives of each company. More specifically, the Project Office is, through individual subcommittees, examining and promoting initiatives such as the use of common IDs throughout the consolidated Group to raise the efficiency of systems management and operation, the development of infrastructure for using the data collected through the promotion of DX, and the sharing of the Group’s IT assets to reduce costs and make equal the security level within the Group.</p> <p>[Examples of promotion of DX]</p> <ul style="list-style-type: none"> ● Began rolling out HI-MAWARI, an internal approval system, in the Group and analyzing the accumulated data. ● Introduction of Concur, expense report software to automate settlement of business expenses. ● Launch of “Business Co-Creation Center,” a platform for business co-creation; commencement of sales of “AIPENET,” an AI-based image inspection service, and “KG ZAICO,” a warehouse management SaaS; launch of “FewTap,” a mobile order system for raising order acceptance work efficiency; commencement of sales of “KG matoca,” a digital tool to provide services more efficiently to customers waiting to receive services; and commencement of sales of “KG Ubiregi,” a tablet-based POS system. ● Proposal and introduction of DX promotion solutions, such as a container platform and subscription-type wireless service for companies, at Kanematsu Electronics Ltd. ● Development of new businesses at Kanematsu Sustech Corporation using big data on soil accumulated in e-soil, a total soil support system developed by Kanematsu Sustech Corporation, and outside sales of the said system. ● Development of industry-specific DX solutions at Kanematsu Communications Ltd. for the manufacturing, construction, retail, healthcare, and aged care industries, in addition to back-office DX solutions. ● DX training for employees of Group companies tailored to their organizations and roles. ● Participation in “Beef CREATOR,” a digital media focusing on the beef industry. ● Launch of “Oatmeal BUSINESS,” a business media for expanding the oatmeal market in which Kanematsu has the largest import share.