



Groupwide Management Aimed at Long-Term Synergy Generation

Yoshiya Miyabe
President & CEO
Kanematsu Corporation

Akira Watanabe
President & CEO,
Kanematsu Electronics Ltd.

Koichi Koizumi
President,
Kanematsu Sustech Corporation

We are heightening enterprise value by further realizing synergies within the Group.

Kanematsu



Kanematsu Electronics



Kanematsu Sustech

With the aim of promoting Groupwide management to generate long-term synergies, we made takeover bids (TOB) for Kanematsu Electronics (KEL) and Kanematsu Sustech (KSU) executed from January to March 2023. These TOBs were aimed at creating new added value by strengthening digital transformation (DX) and green transformation (GX) as future growth drivers for the Kanematsu Group.

Kanematsu Electronics Ltd.

Kanematsu Denshi Service Ltd. (currently Kanematsu Electronics Ltd.) was established in 1968 as a subsidiary of Kanematsu-Gosho, Ltd. (currently Kanematsu Corporation).

Capital: ¥9,031 million
Net Sales: ¥85,430 million (as of March 31, 2023)
Number of Employees: 1,483 (consolidated, as of March 31, 2023)
Main Business:

KEL designs and implements information systems and provides operation and consulting services for businesses based on expertise in information technologies. KEL retails, leases, maintains, and develops IT system products and software, and also send loan engineers.

Kanematsu Sustech Corporation

Kanematsu Sustech Corporation was established in 1934 as Nihon Sangyo Gomu Co., Ltd., and entered into a capital alliance with Kanematsu-Gosho, Ltd. (currently Kanematsu Corporation) in 1989. The company name was changed to Kanematsu Sustech Corporation in 2016.

Capital: ¥3,326 million
Net Sales: ¥13,990 million (as of March 31, 2023)
Number of Employees: 286 (consolidated, as of March 31, 2023)
Main Business:

Construction and sale of ground improvement works, various ground inspections, sinkage repair, etc. Timber drying, wet preservative and anti-termite treatment (wood preservation treatment) and sale, sale of wood preservative treatment equipment and chemicals, etc. Sale of warranty services and installation works for security cameras, recorders, other security equipment, and related equipment.

Background and Goals of the TOBs

Miyabe: The Kanematsu Group is composed of about 130 Group companies with over 20,000 business partners. The business and industry knowledge, experience, and network gained from this broad business foundation constitute tremendous management resources. To grow in the future, we must raise the enterprise value of the entire Group by applying these strengths effectively and efficiently across the Group.

In our ongoing efforts to work with companies within the Group, KEL and KSU have been limited by their position as listed companies. We decided to proceed with these TOBs to bring these companies fully into the Kanematsu Group with the aim of taking advantage of their respective expertise in DX and GX, thereby achieving growth for each company and for the Group as a whole.

We aim to leverage digital technology to create beneficial relationships between Group companies and

synergies that transcend the barriers separating the Kanematsu Group's many individual businesses and divisions.

Challenges and Initiatives to Groupwide Management

Miyabe: We held repeated discussions on what we should do to work towards our overarching goal of having not just these two companies but all of our Group companies act as a united Kanematsu Group.

Watanabe: My company, KEL, works within the fast-paced IT industry, so we thoroughly considered its integration into the Kanematsu Group to determine whether it would be an optimal solution for future management, five or ten years from now. There were some concerns about the impact on the KEL brand, but we determined that there would be significant benefits from joining up,

such as access to the Kanematsu Group’s customer base of over 20,000 enterprises and accelerating decision making. Once we decided our response to the TOB, we carefully explained both the concerns and benefits of the move to our employees.

The Kanematsu Group has held meetings of Group company presidents for over 20 years, but there are also newer forums, such as the Digital Transformation Committee launched in 2021, in which the Group can have discussions in the course of regular operations. To demonstrate Groupwide synergies, I believe we need an environment where everyone can discuss a wide variety of topics on equal footing.

KEL has established an organizational culture with relationships of equality. We encourage our employees to build such relationships both within the company and when communicating with customers. By doing so, we are better able to understand the true nature of our customers’ problems and derive the right solutions. To realize frank discussions from positions of equality within the Kanematsu Group, it will be necessary to build a communication environment that leverages DX, change the way our employees think, and reform the corporate culture.

Koizumi: I think joining the Kanematsu Group will provide many advantages for KSU. We are a unique company that uses proprietary technology in the ground improvement and timber businesses. I believe that, as part of the Kanematsu Group, we will be able to further expand our value as a manufacturer in such areas as R&D at our technology development centers and manufacturing at our factories. KSU and Kanematsu still need to get to know each other better, but we have made progress in building mutual understanding through several collaborative projects over the past two years. And, as a manufacturer, we will need to take advantage of the Kanematsu Group’s strengths to add value to our traditional business model and grow further. In concrete terms, there are many things

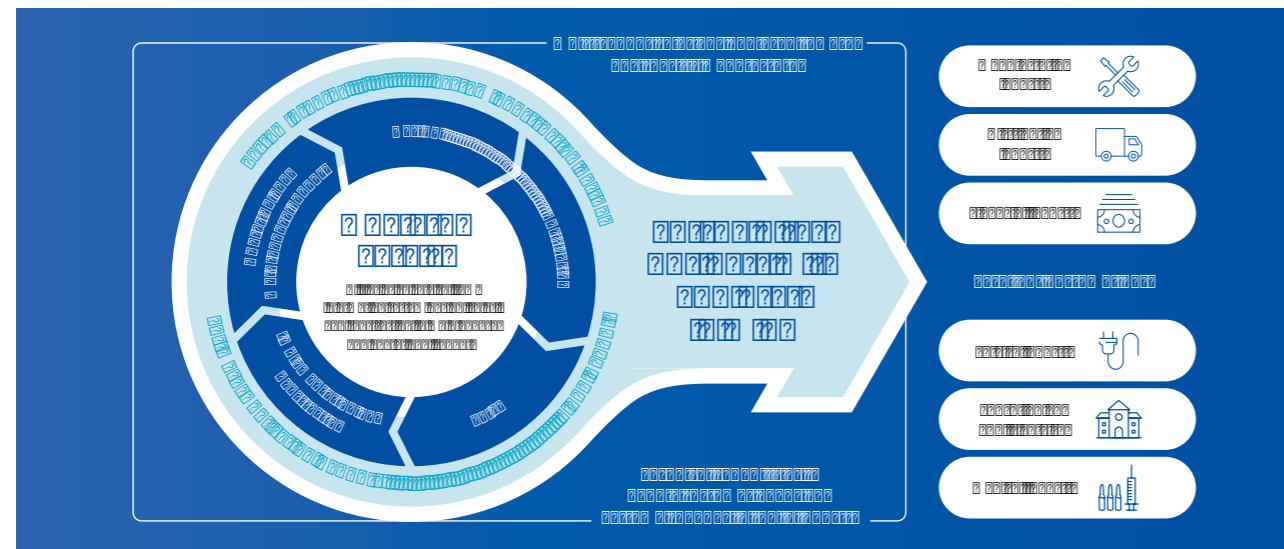
for us to do, such as utilizing Kanematsu’s global network to expand our international business, especially that in Asia, as well as advancing business investment and M&A along with human resource development and exchange.

Watanabe: For KEL to promote the DX of the Kanematsu Group, I think many measures will be required, such as personnel exchange through collaborative projects, employee reskilling, and sharing knowledge that can lead to proposals for customers. We have about 1,000 engineers at KEL. To demonstrate KEL’s value as part of the Kanematsu Group, our employees will leverage their practical experience and ability to make proposals in the ICT solutions and DX fields. We have started talks with Kanematsu to expand this beyond Japan.



Miyabe: One of KEL’s strengths is its expertise in the ICT solutions and DX fields. If we can further expand KEL’s strengths and apply them throughout the Group, we will be able to increase the Group’s strengths and added value. This will require Groupwide reforms via a variety of measures, such as personnel exchanges to acquire and develop digital talent. Kanematsu Group employees have inherited the Company’s founding spirit of “for the Earth and for people” as part of their professional DNA. We will develop human resources who take this spirit to heart to provide even greater value to our customers.

KEL’s Business Model



Koizumi: Like President Watanabe, I also considered our employees’ feelings when I provided internal explanations on the TOB. KSU transitioned to the Standard Market of the Tokyo Stock Exchange in April 2022, and the TOB came right after we had encouraged our employees to shoot for the Prime Market, so I think that some of them were probably disappointed. However, since we were concerned about the extent to which we could grow on our own, I explained to our employees that working with Kanematsu would be just as valuable as being listed on the Prime Market.

The “Sustech” in KSU’s name refers to our corporate principle, “Support our society with technology,” which is similar to the principles that form Kanematsu’s so-called DNA. Going forward, we will aim to create synergies and achievements through collaborative GX projects, expand our business to solve global issues, and work on a bigger scale than ever before.

Taking on Global Business in DX and GX

Watanabe: In terms of collaboration, we are making progress on a number of projects. One of these is strengthening solutions in the security field. In 2019, Kanematsu Ventures Inc. (KGV), established by Kanematsu in Silicon Valley in 2018, joined Cyber Innovation Partners II, a fund created by the venture capital firm AllegisCyber Capital. KEL participated as a partner and started working as a team with three or four other companies. This kind of global operation is a strength of Kanematsu that is very helpful for KEL, given its in-house global professionals.

Koizumi: We are also collaborating in security. KSU has business in security cameras, and we have been supplying our products to customers of other Kanematsu Group



Akira Watanabe

- 1991 Joined Kanematsu Electronics Ltd.
- 2003 Manager, Solution Sales Dept. 2-Manufacturers, Solution Sales Div. 2, Kanematsu Electronics Ltd.
- 2008 General Manager, Solution Sales Div. 2, Kanematsu Electronics Ltd.
- 2011 Executive Officer, Kanematsu Electronics Ltd.
- 2013 Director, Kanematsu Electronics Ltd.
- 2017 Managing Director, Kanematsu Electronics Ltd.
- 2019 President & CEO, Kanematsu Electronics Ltd.



Koichi Koizumi

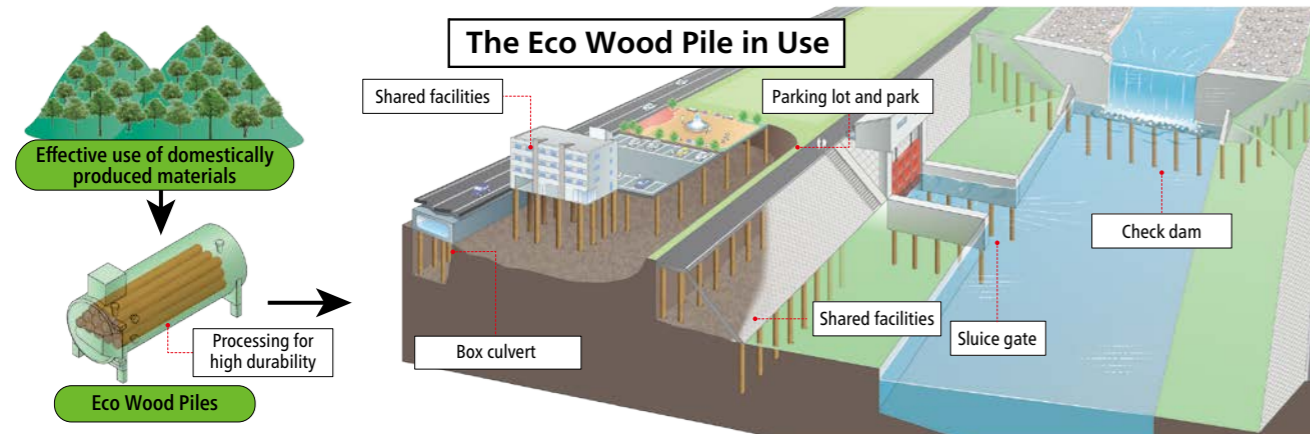
- 1984 Joined Kanematsu-Gosho, Ltd. (now Kanematsu Corporation)
- 2007 Manager of Chicago Head Office, Kanematsu USA Inc.
- 2013 General Manager of Motor Vehicles and Parts Department No. 1, Kanematsu Corporation
- 2014 Manager of Chicago Head Office, Kanematsu USA Inc.
- 2018 Executive Officer, Deputy Manager of Motor Vehicles & Aerospace Division, General Manager of Motor Vehicles and Parts Department No. 1, Kanematsu Corporation
- 2021 President, Kanematsu Sustech Corporation

companies, including KEL. We plan to work together in the future with Kanematsu’s drone businesses to expand into such fields as diagnosing the degradation of medium- to high-rise wooden buildings. Until now, workers have had to conduct large-scale investigations from dangerous aerial work platforms, but by utilizing drones, we are able to reduce the risk of occupational accidents along with the cost and time required. Going forward, we will continue to test this technology with the aim of commercialization. In addition, KSU is using its extremely extensive collection of ground inspection data to develop e-soil, an all-in-one system to handle every stage from sales proposals to design and construction management. Going beyond use within our company, we aim to make this system into a platform for the entire industry.

Miyabe: Through these TOBs, we are now able to see a path forward for the united Group to take on global challenges in both the DX and GX fields.

In the short term, we are examining how to improve operational efficiency through collaboration with KEL as well as how to expand KSU’s environmental businesses into other parts of the value chain. In the long term, these two companies will have a huge impact on the Kanematsu Group’s DX and GX. A decade from now, DX and GX will be a standard part of how things are done, and there may even be no need to put these concepts into words. In their place, food transformation—or FX—could become the next important movement, such that Kanematsu’s Foods, Meat & Grain Division would become a new source of added value for KEL and KSU. Therefore, it will be important to look at the entire Group as a whole and execute management aimed at effectively utilizing each company’s strengths over the long term.

Kanematsu Sustech Corporation's Eco Wood Pile Construction Method



Watanabe: Recently, we have been receiving an increasing number of consulting-related inquiries from customers who want us to provide solutions or connect their companywide infrastructure through DX. To meet this demand, we need to quickly secure, cultivate, and invest in digital talent. Planning is also under way for a project to develop digital talent both within the Group and for Japanese society as a whole. By creating educational content and developing digital human resources in stages (through training lasting three months, six months, and one year), we will contribute to the DX of society as a whole.

Koizumi: One of KSU's visions is to "create underground forests through GX." In 2022, we provided Eco Wood Pile, which uses timber preservation treatment technology, for more than five thousand buildings. By replacing cement or steel ground improvement materials with timber, this technology reduces CO₂ emissions by 10 tons per building. We therefore calculate that, across the 43,000 buildings where we have used Eco Wood Pile since introducing it 10 years ago, we have avoided emissions totaling 430,000 t-CO₂. Going forward, we plan to increase the use of these materials to 10,000 to 15,000 buildings per

year, thereby expanding our "underground forests."

With the improvement of our proprietary Eco Wood Pile technology, we have started expanding its use beyond single-family homes to include large buildings. In recent years, we have increasingly been using this technology for civil engineering applications related to disaster prevention, such as reinforcing the embankments of erosion control dams and reservoirs.

Miyabe: Kanematsu has been trading in these fields for many years, and our strengths in these areas make us a unique trading company. We believe it is important to balance trading and business investment and by, adding together our GX and DX-related strengths, we will advance in a way that allows us to respond flexibly to changes in the external environment. The Kanematsu Group, in line with its philosophy of "for the Earth and for people," has a tremendous amount of non-financial capital. We will continue to carry this capital forward, and I will take the lead in management that leverages synergies across the entire Group and contributes to the improvement of enterprise value, thereby contributing to society as a whole.



Significance and Purpose of Making KEL and KSU Wholly Owned Subsidiaries

Priority initiatives and strategies of each company

<ul style="list-style-type: none"> Strengthen competitiveness of service business Acquire knowledge of industries and business types to establish our position as a strategic partner for customers Strengthen the management base through investment in human capital and digitalization 	<p>Priority Initiative 1: DX Conduct DX across the supply chain and reduce the burden on business partners, Group companies, and other areas of the supply chain</p> <p>Priority Initiative 2: GX Promote GX, build a stable and sustainable supply chain, and contribute to decarbonization</p>	<ul style="list-style-type: none"> Position sustainability as a priority initiative Realize an environmentally friendly society through business activities
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Measures and expected synergies after the TOBs

<ul style="list-style-type: none"> Allocate medium- to long-term management resources to the growing IT field and expand businesses targeting demand for security measures, operational efficiency, and potential demand for supply chain DX 	<p>Optimally allocate management resources</p>	<ul style="list-style-type: none"> Invest in R&D that contributes to expanding business areas and developing new technologies and construction methods Medium- to long-term investment and business reforms to strengthen the non-residential sector
<ul style="list-style-type: none"> Use M&A to strengthen and expand application areas that complement our strong infrastructure construction business and secure IT human resources 	<p>Utilizing M&A</p>	<ul style="list-style-type: none"> Strengthen and expand the customer base and R&D through M&A
<ul style="list-style-type: none"> Promote business collaboration through personnel exchange and information sharing within the Group and restructure business using digital technology Formulate a new medium-term business plan focused on digital transformation 	<p>Corporate initiatives</p>	<ul style="list-style-type: none"> Promote Groupwide GX and strengthen sustainability initiatives through the promotion of DX

Improve the Group's enterprise value by promoting DX, GX, and Groupwide management

- 1) DX: Utilize data and digital technology to create new business models and transform existing businesses
- 2) GX: Transform the entire socioeconomic system to realize carbon neutrality (reduce greenhouse gas emissions, including CO₂, and subtract avoided emissions to reach net zero total emissions)
- 3) Applications: Refers to tools, such as internet browsers and email, in contrast to infrastructure, which refers to hardware, such as servers

Deepening Group Governance



Kaoru Tanigawa
Chairman
(Presiding Officer of the Board of Directors)



Kazuhiro Tanaka
Outside Director
(Chair of the Nominating Committee)

I believe that making Kanematsu Sustech Corporation and Kanematsu Electronics Ltd. into wholly owned subsidiaries has significantly enhanced governance, thereby improving the value of the entire Group.

Previously, both companies strove to enhance their governance as listed companies, but as listed subsidiaries, some aspects of their governance were insufficient in terms of independence, such as the appointment and proportion of independent outside directors. Such issues were difficult for them to resolve on their own. Since making these companies into wholly owned subsidiaries, the Group has further evolved by maximizing the various business synergies their integration enables, as well as unifying Groupwide governance and internal controls.

I believe that this will further increase the Group's credibility from the perspectives of all stakeholders, including investors and business partners, and encourage them to invest and do business with us. I hope you will look forward to the continued growth of the Kanematsu Group.

Undoubtedly, we need strong governance systems, for both individual companies and the Group. However, corporate culture is even more important than systems, and the foundation of a company's culture is its management philosophy.

Developing and nurturing corporate culture by disseminating the management philosophy is necessary for good Group governance. This is because each Group company, while fully demonstrating its own individuality, plays a major role in realizing discipline and synergy at the Group level.

Kanematsu Group employees share the philosophy of "for the Earth and for people," which is based on our founding purpose. The Kanematsu Group's philosophy and culture consist of reliability and integrity as built up by our predecessors. Our employees continue to take pride in these today. To strengthen Groupwide management, we will have to reaffirm and redefine these principles and work to ensure that they truly permeate the entire Group through strong leadership from both the Board of Directors and the management team.