



CHUDENKO CORPORATION

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 25, 2022

Event Summary

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[Participants]	
[Number of Speakers]	1 Takafumi Shigeto Representative Director and President

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Shigeto: Hello, everyone. My name is Shigeto, and I was appointed President of CHUDENKO in June of this year. Thank you very much for your participation in the financial results briefing for Q2 of FY2022.

Today, I would like to begin by discussing our business results for H1 of FY2022 and our forecast for FY2022, followed by the progress of our medium term management plan, and finally, the CHUDENKO Group 2030 Vision and the CHUDENKO Group Basic Sustainability Policy announced on October 28. Thank you.

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2022年度第2四半期業績（事業環境と当社グループの概況）

建設業界

- 公共設備投資は底堅く、民間設備投資も持ち直しの動き
- ウクライナ情勢の長期化や為替の変動などにより、エネルギー価格や原材料価格が高騰

当社グループの状況

- 中国地域の基盤強化や都市圏の事業拡大、業務改革の推進などに取り組む
- 「中電エグループ 2030ビジョン」を策定し、「中電エグループ サステナビリティ基本方針」を制定した。

I would now like to discuss our business results for H1 of FY2021.

First, let me give you an overview of the business environment and our group in FY2022. In the construction industry, public capital investment has been robust, and private capital investment showed signs of picking up, but energy and raw material prices soared due to the prolonged situation in Ukraine and foreign exchange rate fluctuations, all of which fed concerns over the Japanese economy.

Given the environment, the Group adhered to the medium term management plan 2024 and pursued various measures, including, solidifying the operational foundation in the Chugoku region, business expansion in urban areas, and promoting business reforms. For the CHUDENKO Group to continue to grow in the midst of rapidly changing social conditions and business environment, we have formulated the CHUDENKO Group 2030 Vision for the year 2030, and established the CHUDENKO Group Sustainability Basic Policy to solve social issues and contribute to the execution of a sustainable society.

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2022年度第2四半期業績（損益計算書:連結）

対前年度「増収・減益」

- 売上高は23億円増加（中電工個別▲2億円減、連結子会社+26億円増）
- 営業利益は15億円減少（中電工個別▲17億円減、連結子会社+2億円増）

連結業績	2021年度 第2四半期	2022年度 第2四半期	増減額	前年比
売上高	771億円	795	23	103%
売上原価	667億円	708	40	106%
売上総利益 (13.4%)	103億円	(10.9%) 86	▲17	83%
販管費	77億円	75	▲1	98%
営業利益 (3.4%)	26億円	(1.4%) 10	▲15	41%
経常利益 (4.3%)	33億円	(3.0%) 24	▲9	72%
親会社株主に帰属する 四半期純利益 (2.1%)	16億円	(1.6%) 13	▲3	79%

※()内は売上高利益率

As for results for Q2 of FY2022, net sales increased JPY2.3 billion compared to the previous fiscal year to JPY79.5 billion due to an increase in sales at consolidated subsidiaries, despite a decrease in sales at CHUDENKO on a non-consolidated basis.

Next, operating profit decreased by JPY1.5 billion to JPY1 billion, ordinary profit decreased by JPY0.9 billion to JPY2.4 billion, and net profit decreased by JPY0.3 billion to JPY1.3 billion, mainly due to an increase in the cost of sales, including material and subcontracting costs.

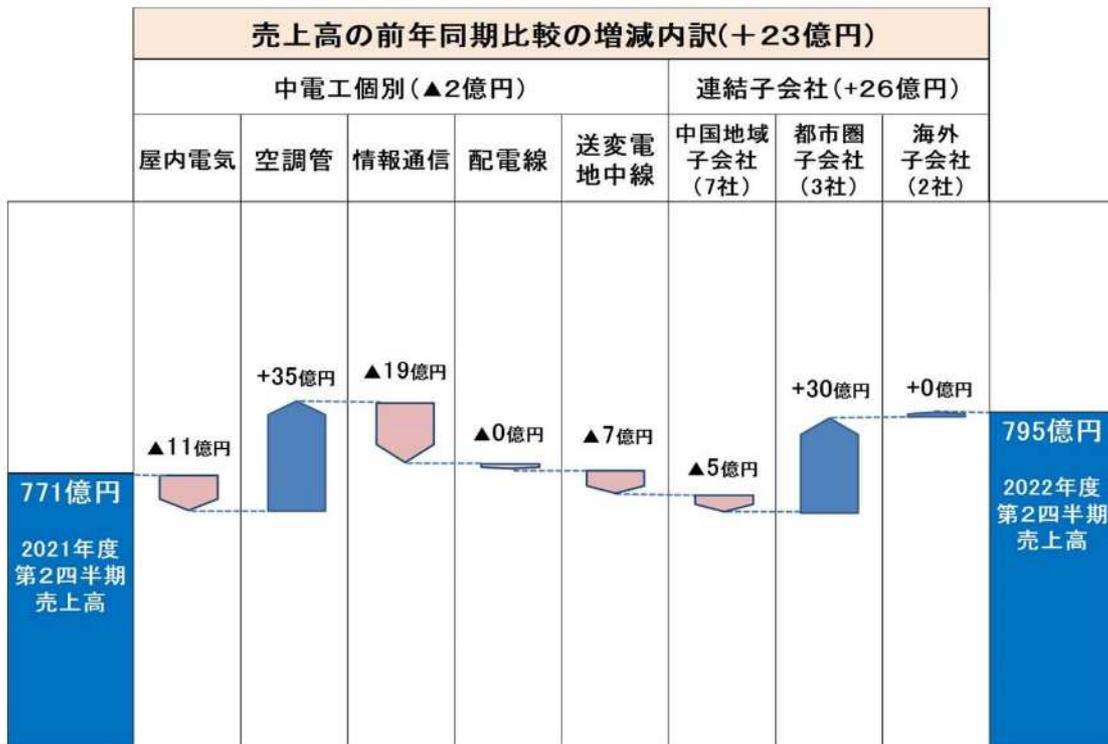
The Group has introduced new accounting protocols from the current fiscal year, and the figures for the previous fiscal year have been retroactively applied.

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2022年度第2四半期業績（売上高の増減要因:連結）



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Next, I would like to look at the net sales in comparison to the same period last year. On a non-consolidated basis, sales increased in air conditioning pipework, however, we saw a significant decrease in indoor electric, information and telecommunications, and power transmission and substation underground line work, resulting in a JPY200 million decrease from the same period last year in net sales.

Net sales for the consolidated subsidiaries increased by JPY2.6 billion compared to the previous fiscal year, mainly due to a JPY3 billion increase in the metropolitan area.

As a result, net sales were JPY79.5 billion in the current fiscal year, an increase of JPY2.3 billion compared to JPY77.1 billion in the previous fiscal year.

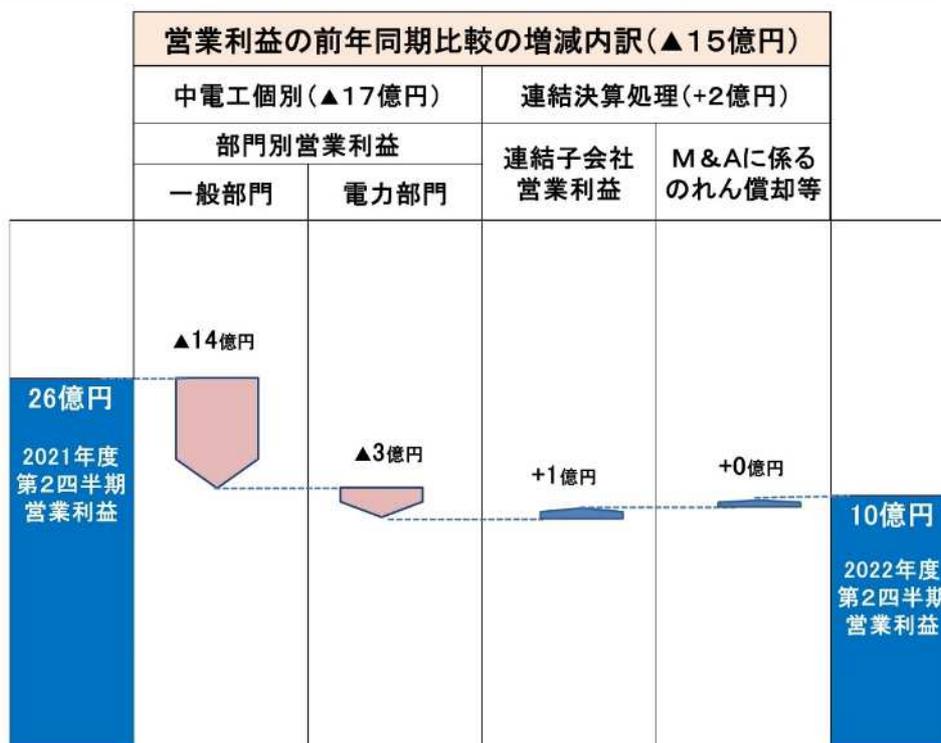
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2022年度第2四半期業績（営業利益の増減要因:連結）



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Next, I would like to look at the operating profit in comparison to the same period last year. On a non-consolidated basis, the operating profit was negative JPY1.7 billion. Out of which, a loss of JPY1.4 billion was for the general division, mainly due to an increase in the cost of sales, including material and subcontracting costs. A loss of JPY0.3 billion was for the power division, mainly due to a decrease in net sales. As for the consolidated financial processing, the increase in sales at consolidated subsidiaries and other factors resulted in an increase of JPY200 million.

As a result, operating profit was JPY1 billion, a decrease of JPY1.5 billion from JPY2.6 billion in the previous fiscal year.

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2022年度第2四半期業績（貸借対照表：連結）

	2022年3月末	2022年9月末	増 減	主な増減要因
流動資産	1,149億円	1,089	▲60	完成工事未収入金等 ▲175
固定資産	1,647億円	1,594	▲53	投資有価証券 ▲62
資産合計	2,797億円	2,684	▲113	
流動負債	488億円	394	▲93	工事未払金等 ▲100
固定負債	145億円	151	6	
負債合計	633億円	546	▲87	
純資産合計	2,163億円	2,137	▲25	利益剰余金 ▲15 その他有価証券評価差額金 ▲14
負債純資産合計	2,797億円	2,684	▲113	
自己資本比率	76.2%	78.4	2.2	

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Finally, the balance sheet.

Total assets decreased by JPY11.3 billion to JPY268.4 billion, mainly due to decreases in accounts receivable for completed construction contracts and consolidated securities.

Total net assets decreased by JPY2.5 billion to JPY213.7 billion, mainly due to a JPY1.5 billion decrease in retained earnings.

The equity ratio increased by 2.2% to 78.4% from 76.2% at the end of the previous fiscal year, despite a decrease in shareholders' equity, due largely to a decrease in total assets.

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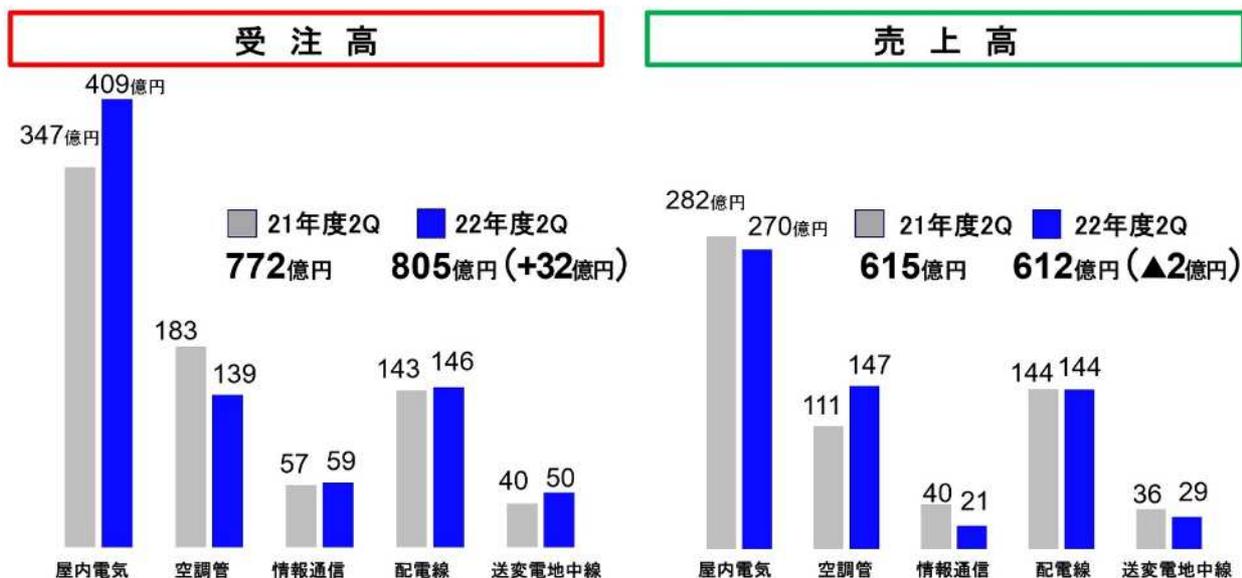
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2022年度第2四半期業績（部門別受注高・売上高:個別）

- 受注高は、805億円と対前年度32億円増（主に屋内電気が増加）
- 売上高は、612億円と対前年度▲2億円減（主に屋内電気と情報通信が減少）



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Next, I would like to look at CHUDENKO alone, non-consolidated orders and net sales by division.

Orders received, shown on the left side, totaled JPY80.5 billion, an increase of JPY3.2 billion compared to the previous fiscal year. Orders for air-conditioning pipe works for logistics warehouses declined. That said, orders for indoor electric work surged, as the factory constructions ramped up.

Net sales, shown on the right side, were JPY61.2 billion, a decrease of JPY0.2 billion compared to the previous fiscal year. Sales for air-conditioning pipes for logistics warehouses increased. Sales for indoor electric work for hospitals and other facilities were weaker. High-speed networks and other information and telecommunications also declined.

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2022年度通期業績予想（損益計算書:連結）

「増収・営業利益減益」の見込み

- 売上高は53億円増加（中電工個別+9億円増、連結子会社+43億円増）
- 営業利益は、材料費や外注費などの売上原価増加により9億円減少

連結業績	2021年度実績		2022年度予想		増減額	前年比
売上高		1,906億円		1,960	53	103%
営業利益	(5.5%)	104億円	(4.8%)	95	▲9	91%
経常利益	(6.3%)	119億円	(6.0%)	117	▲2	98%
親会社株主に帰属する 当期純利益	(3.5%)	66億円	(3.6%)	70	3	105%

※（ ）内は売上高利益率

Next, I would like to discuss our earnings forecast for FY2022. Consolidated results for FY2022 are expected to show an increase in revenue and a decrease in operating profit.

Net sales are expected to increase by JPY0.9 billion for CHUDENKO on a non-consolidated basis and by JPY4.3 billion for consolidated subsidiaries, for a total of JPY196 billion, an increase of JPY5.3 billion compared to the previous fiscal year.

Operating profit will be JPY9.5 billion, down JPY0.9 billion YoY, mainly due to an increase in the cost of sales, including material and subcontracting costs. Ordinary profit decreased by JPY0.2 billion YoY to JPY11.7 billion due to lower operating profit. Despite the expected decrease in ordinary profit, net profit is expected to increase by JPY0.3 billion to JPY7 billion, due in part to the absence of the loss on valuation of stocks that was recorded as an extraordinary loss last year.

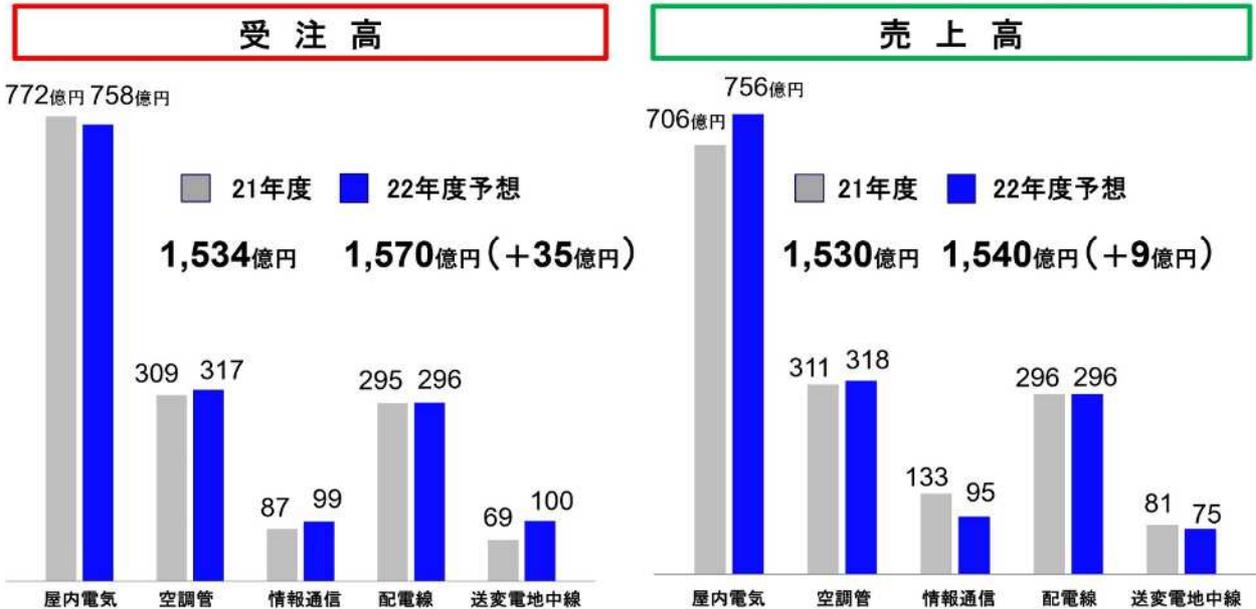
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2022年度通期業績予想（部門別受注高・売上高:個別）

- 受注高は、1,570億円の見込み（主に送変電地中線の増加）
- 売上高は、1,540億円の見込み（主に屋内電気の増加）



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Next are orders received and sales by individual sector.

Orders on the left side are expected to be JPY157 billion, an increase of JPY3.5 billion compared to the previous fiscal year, mainly due to an increase in orders for transmission and substation underground lines.

Net sales on the right side are expected to be JPY154 billion, an increase of JPY0.9 billion compared to the previous fiscal year, mainly due to an increase in indoor electricity sales, despite a decrease in information and telecommunications sales.

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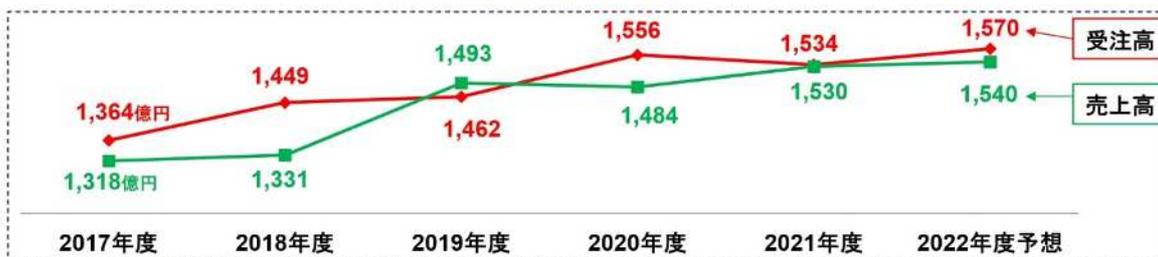
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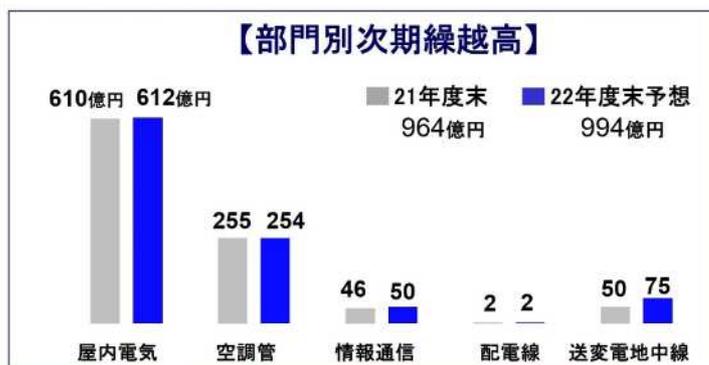
2022年度通期業績予想（受注高・売上高・繰越高:個別）

➤ 受注高と売上高がともに前年度を上回り、繰越高は過去最高を予想

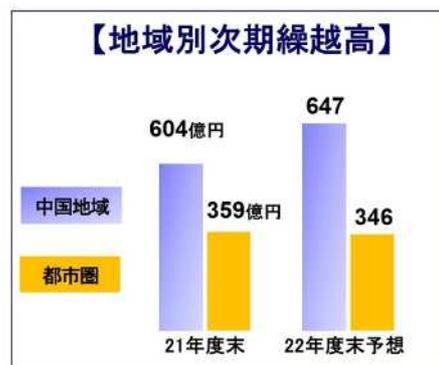
【受注高・売上高の推移】



【部門別次期繰越高】



【地域別次期繰越高】



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Next is the trend of individual orders and sales.

As shown in the line graph, orders received for the current fiscal year are expected to exceed those of the previous fiscal year and reach an elevated level of JPY157 billion, the highest level in the last five years. Net sales are also expected to exceed the previous year's level, and, like orders, are projected to be JPY154 billion, the highest in the last five years.

The carryover amount is expected to reach a record high of JPY99.4 billion, up JPY3 billion compared to the previous fiscal year. The carryover is expected to increase in the Chugoku region, but decrease in the metropolitan area.

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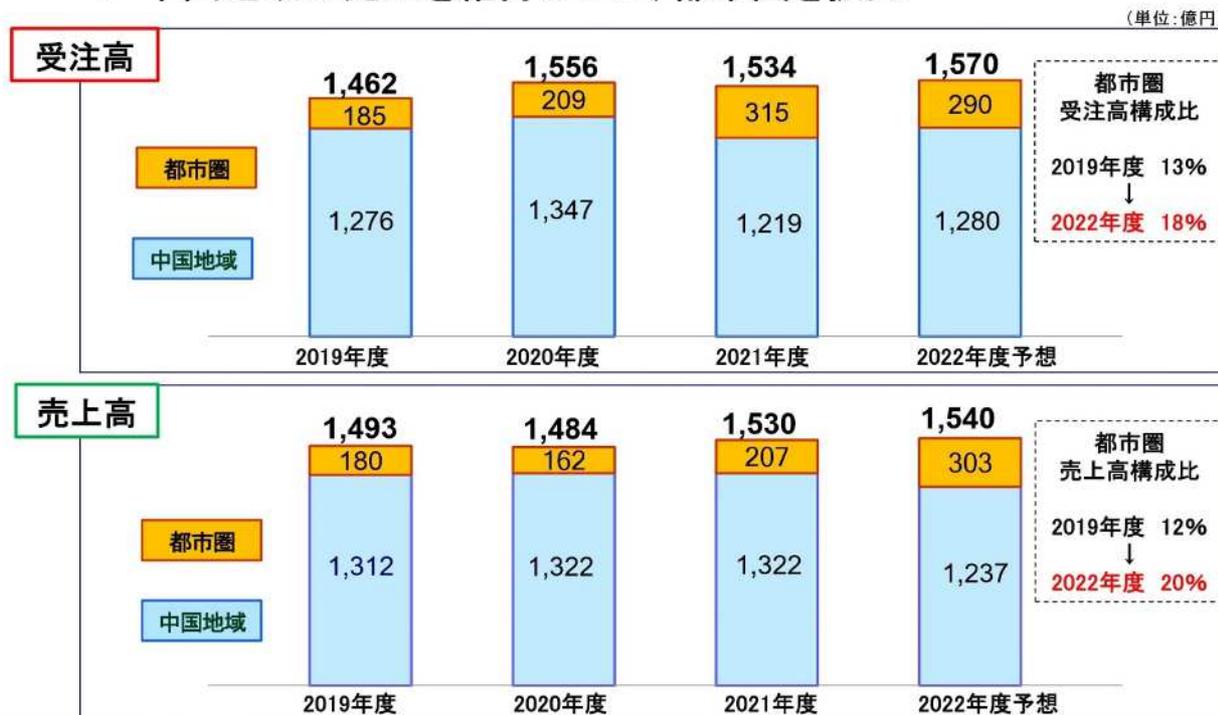
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2022年度通期業績予想（地域別受注高・売上高:個別）

➤ 中国地域の売上を維持しつつ、都市圏を拡大



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Next are orders and sales by individual region.

To be consistent with the growth strategy, we have been maintaining sales performance in the Chugoku region and expanding in urban areas. Orders and sales in the Chugoku region, shown in blue, will remain firmly between JPY120 billion and JPY130 billion. Sales in the metropolitan area have been steadily increasing and are expected to reach JPY30.3 billion in FY2022, up JPY9.5 billion compared to the previous fiscal year. In terms of the ratio of the total sales, the sales in the metropolitan area are expected to increase to 20% from 12% three years ago.

We will continue to maintain order volumes in the Chugoku region and expand in the metropolitan area.

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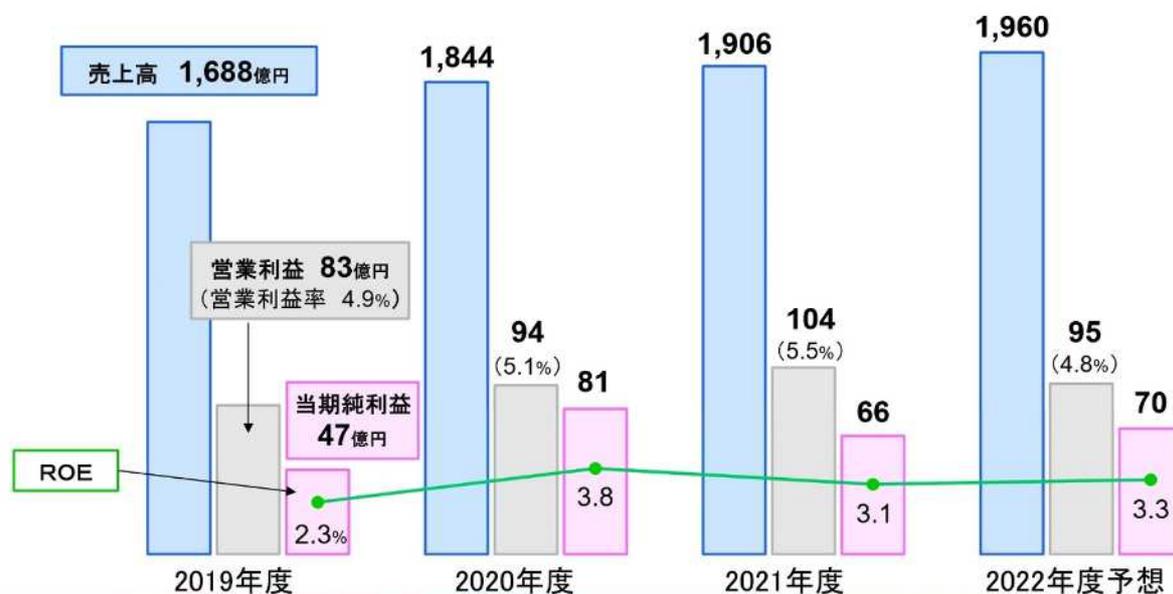
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2022年度通期業績予想（主な経営指標の推移:連結）

- 売上高は11期連続の増収の見込み
- 営業利益は減益、営業利益率も低下の見込み



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Next are the key performance indicators.

The blue bar graph represents net sales which have continued to increase since FY2012, and are expected to increase for the 11th consecutive fiscal year at JPY196 billion in the current fiscal year.

On the other hand, the gray bar represents operating profit, and it is expected to decrease by JPY0.9 billion YoY to JPY9.5 billion, mainly due to a sharp rise in raw material prices, although the Company has continued to increase its profit since FY2019. The operating margin is expected to be 4.8%, down 0.7% compared to the previous fiscal year.

Green line, ROE, is expected to be 3.3%, slightly higher than last year.

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中期経営計画2024（テーマ・サブテーマ）

テーマ

「変革と成長」

- 当社グループが引き続き成長を続けていくためには、これまで以上に環境変化に迅速に対応して変革を進めることが不可欠

サブテーマ

「営業・施工体制の強化と利益の拡大」

- 中国地域の基盤強化、都市圏の体制強化・事業拡大
- 厳しい環境にあっても利益を確保・拡大できる体制の強化・競争力強化

「DXと脱炭素化の推進」

- DXによる生産性向上を推進
- SDGsやカーボンニュートラルへの対応
 - ・自社の脱炭素化
 - ・お客様への脱炭素化支援事業の推進（自家消費型太陽光PPA事業など）

I will continue by discussing the medium term management plan 2024, based on the current status of our efforts.

The medium term management plan, which started in FY2021, is a four-year plan for further growth, targeting FY2024, the 80th anniversary of the Company.

The theme is “Change and Growth.” We have two sub-themes. The first is to fortify the sales and construction framework for increased profits. The second is to promote DX and decarbonization.

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中期経営計画2024（主要施策）

受注の拡大・施工体制の強化	<ul style="list-style-type: none"> ◆ 営業力の強化による受注拡大 ◆ 実績データの分析やBIM等を活用した設計力の強化・向上 ◆ 施工体制の強化・拡充 ◆ グループ企業との連携強化
⇒情報通信工事の事業拡大 ⇒空調管工事部門の体制強化	
利益の確保・拡大と競争力強化	<ul style="list-style-type: none"> ◆ 工事の平準化やフロントローディング等による施工の効率化 ◆ 全社およびグループ企業と連携したコスト低減 ◆ DXの推進による生産性向上
⇒大型工事での利益の確保・拡大のための検討会の強化 ⇒中型工事および追加工事の確保による利益率の向上	
人材育成の強化と働き方改革の推進	<ul style="list-style-type: none"> ◆ 施工管理の強化に向けた人材育成 ◆ グループ全体での技術・技能者の確保・育成 ◆ 働き方改革の継続および実践、働きがいのある職場の形成
⇒施工管理に従事する管理者によるOJT強化 ⇒総実労働時間の削減に向けた諸施策の実践および意識改革の推進	

We are working on five key measures to achieve our medium term management plan, with some additional measures to be implemented in FY2022.

Regarding the first key measure which is to increase order volume and fortify the construction framework, we are working on intensifying the sales force to acquire more orders, which led to expanding the information and telecommunications construction business as well as building stronger production teams that support the air conditioning and pipe works.

Regarding the second measure of securing and expanding profits while intensifying competitiveness, we are striving for cost control by conducting stricter review meetings prior to receiving orders in order to secure and expand profits, especially for large-scale construction projects. In addition, the Company is working to improve profit margins by securing medium-sized and additional construction projects.

For the third measure, to reinforce human resource development and promote work style reform, we continue to work within the Group to secure and develop human resources, while at the same time promoting work style reforms by implementing various measures and raising awareness to reduce total actual working hours.

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中期経営計画2024（主要施策）

品質の向上	<ul style="list-style-type: none"> ◆ 電力安定供給への確実な貢献 ◆ お客様満足度の向上
<p>⇒高品質な電力設備工事および迅速な災害復旧対応</p> <p>⇒工事全体にわたる品質向上の推進</p>	
成長投資（M&A・出資等）による事業拡大	<ul style="list-style-type: none"> ◆ 自社の脱炭素化 <ul style="list-style-type: none"> ・自社社屋への自家消費型太陽光発電設備の設置など ◆ 脱炭素化支援として環境関連ビジネスの推進 <ul style="list-style-type: none"> ・自家消費型太陽光PPA事業、ZEB化など ◆ 施工体制の強化等に向けたM&Aの推進 ◆ 技術研究開発の推進
<p>⇒自社社屋への自家消費型太陽光発電の設置は、現在36か所で着工しており、今年度中に全50か所に設置予定</p> <p>⇒自家消費型太陽光PPA事業は、38件の事業化が決定、ZEB化については6件を受注</p>	

For the fourth measure of quality improvement, to contribute to a stable supply of electric power, we are bolstering cooperation with the CHUGOKU ELECTRIC POWER NETWORK so that we can react quickly to emergencies. Not only committing to the workmanship of the installed equipment, but we also toughened the inspection procedures for each stage of the construction process as a part of enhanced quality assurance, as we strive to ensure customer satisfaction.

For the fifth measure of business expansion through growth investments, we are considering investments in M&A, renewable energy, and other areas. As part of our decarbonization efforts, we are in the process of installing photovoltaic power generation equipment in the corporate buildings and plan to install them at all 50 planned locations by the end of this fiscal year. In addition, we are promoting environment-related businesses such as on-site solar PPA projects and ZEB conversion to support decarbonization for our customers.

As for the self-consumption solar PPA business, 38 projects have been decided to be commercialized, including 30 stores operated by Hello's Corporation, headquartered in Fukuyama City, Hiroshima Prefecture.

As for ZEB, we obtained ZEB Leading Owner Registration and ZEB Planner for the construction of our new Okayama Regional Office building in April 2019, and received six orders in the current fiscal year.

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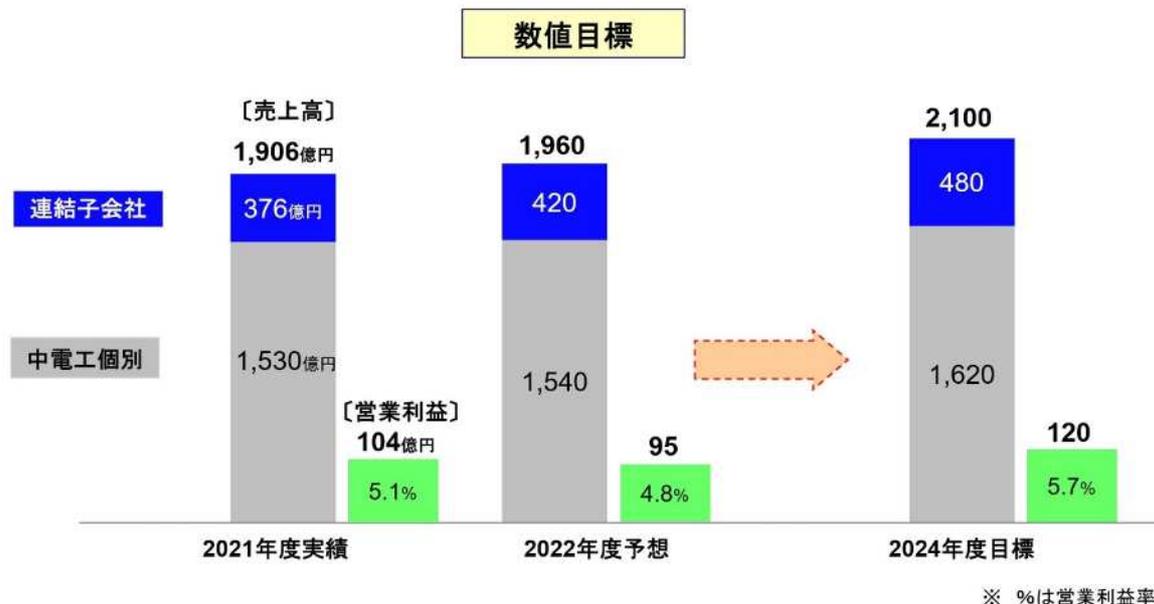
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中期経営計画2024（数値目標:連結）

- 「中期経営計画2024」をグループ一体で取り組み、目標達成を目指す
⇒2024年度目標 売上高2,100億円、営業利益120億円



Next are the numerical targets of the medium term management plan.

For the final year of the plan, FY2024, we target consolidated net sales of JPY210 billion, consolidated operating income of JPY12 billion, and consolidated operating margin of 5.7%. We expect sales for the current fiscal year to exceed those of the previous year, and we believe that we will make steady progress toward achieving our goal for FY2024.

Although operating profit is expected to be JPY900 million below the previous year's level in the current fiscal year due to the recent sharp rise in raw material prices and other factors, we will continue to make concerted efforts to achieve our goals by implementing the various measures in our medium term management plan 2024.

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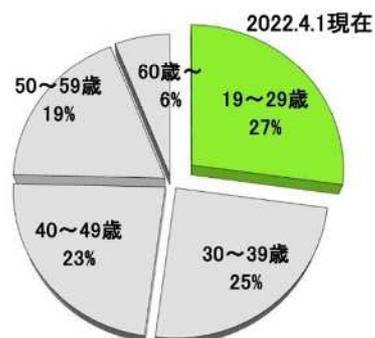
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中期経営計画2024（人材の確保・育成）

定期採用者数

2019年度	2020年度	2021年度	2022年度	2023年度予定
119名	138	135	116	138

年齢別構成(個別)



有資格者数

資格名	取得者数		
	18年10月	22年10月	増減
電気工事施工管理技士(1.2級)	1,037名	1,157	120
管工事施工管理技士(1.2級)	278名	295	17
技術士	54名	66	12

※施工管理技士(電気工事・管工事)の複数取得者 63名

30歳未満が3割弱

若年社員の成長

技術力・施工力UP

Next, I will discuss how we secure and develop human resources, which is our most important asset and essential to our medium term management plan.

Although recruiting has been challenging in recent years, the Company has continued to hire 120 to 130 employees and plans to hire 138 regular employees in FY2023.

As you can see from the pie chart, young people under the age of 30 account for less than 30% of the total, and we believe that fostering these young people will lead to the fortification of our construction capabilities. For this reason, we are striving to quickly train and empower the younger generation, and we are promoting the acquisition of electrical and plumbing qualifications that are particularly needed.

These efforts have resulted in an increase in the number of qualified personnel, which, along with improved technical and construction capabilities, has been a driving force behind the increase in sales.

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資本政策の具体策

持続的な成長のための投資

事業の拡大や人材の確保・育成等、持続的成長に向け、400億円規模の投資を実施する。

- コアおよびコア周辺事業等のM&A
- 人材育成・働き方改革
- 自社の脱炭素化
- 脱炭素化支援として環境関連ビジネスの推進
 - ・ 自家消費型太陽光PPA事業、ESCO等の省エネ提案
 - ・ 再エネへの投資
- 将来有望事業等への投資

当社コア事業とのシナジーや新たな事業領域の開拓

- 2022年10月 ジャフコSV7ファンドへの出資

Next, regarding specific measures for capital policy, we have established an investment framework of JPY40 billion to invest for sustainable growth. Specifically, we are expanding our business through mergers and acquisitions, investing in renewable energy, and engaging in PPA projects to decarbonize ourselves and support our customers' decarbonization efforts.

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中期経営計画2024（ジャフコSVファンドへの出資）

▶ 2022年10月 ジャフコSV7ファンドへの出資

ファンドの概要

会社名	ジャフコSV7投資事業有限責任組合	
投資先	成長が期待できる未上場企業 (脱炭素社会・デジタル化に取り組む企業、独自テクノロジーを持つ企業等)	
運営会社	会社名	ジャフコグループ会社
	所在地	東京都港区虎ノ門1-23-1虎ノ門ヒルズ森タワー24階
	代表者	取締役社長 三好啓介
	設立	1973年4月5日



アライアンスや資本業務提携、新規事業の開拓、当社とのシナジーが見込める脱炭素化やBIM・DX等の分野での提携・協業先の発掘、投資に関する知見、ノウハウ等の獲得につなげる。

In October this year, we decided to invest in the JAFCO SV7 Fund, which is managed by the JAFCO Group for the purpose of investing in unlisted companies.

JAFCO, the operator of the fund, is a venture capital firm with an extensive investment track record. In addition to providing funding and management support to numerous companies, JAFCO also provides support for collaboration between invested companies and fund investors.

We believe that investment in the fund will lead to alliances, capital and business alliances, the development of new businesses, and the discovery of alliances and collaborators in areas such as decarbonization, BIM/DX, and other areas that are expected to have synergies with our company, and the acquisition of knowledge and expertise regarding investments.

We will continue to work on alliances and collaborations with companies that can be expected to generate synergies with our core business and develop new business areas.

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中期経営計画2024（株主還元）

株主還元

持続的・安定的な配当を行うことを重視し、DOE（連結株主資本配当率）2.7%を目処に配当を行う。

経営環境等を総合的に勘案したうえで、必要に応じて自己株式取得を実施する。

		2021年度実績	2022年度予想
配 当 金	年間1株当たり配当金	104円	104円
	D O E	2.75%	2.73%
	連結配当性向	86.0%	82.0%
	連結総還元性向	106.1%	82.0%
自己株式取得	株 数	60万株	—
	金 額	13億円	—

【参考】配当利回り 5.11%（2022年11月15日 終価 2,036円）

Next, dividends.

For shareholder returns, the Company places emphasis on providing sustainable and stable dividends and will continue to target DOE and a consolidated ratio of dividends to shareholders' equity of 2.7%. In addition, the Company will repurchase its own shares as necessary, taking into consideration the overall business environment and other factors.

Regarding dividends, for FY2022, we forecast a DOE of 2.73%, an annual dividend of JPY104 per share, and a payout ratio of 82%.

The Company did not repurchase any of its own shares in the current fiscal year, but repurchased 600,000 shares in the previous fiscal year, amounting to JPY1.3 billion.

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中期経営計画2024（配当金・配当性向）



24

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The following is a summary of dividends and dividend payout ratios.

The blue bar graph shows the dividend per share and the red line shows the dividend payout ratio.

The DOE was adopted in FY2014 and has continued to increase its rate from around 2% to 2.7% in FY2018. For the current fiscal year, we forecast a dividend of JPY104 per share, the same amount as the previous year, targeting a DOE of 2.7%. The interim dividend is half of that amount, JPY52.

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中電エグループ 2030ビジョン (テーマ・目指すグループ像・目標)

テーマ

「変革と成長」～持続的な成長に向けて～

目指すグループ像

持続的な成長を遂げるとともに、持続可能な社会の実現に貢献
働くすべての人が、誇りと喜びをもって、変革にチャレンジ
高い技術と品質で社会の多様なニーズに応えていく

2030年度目標

連結業績 売上高:2,500億円 営業利益:170億円(6.8%※) ROE:5.0%以上
カーボンニュートラルに向けたCO₂排出量の削減:46%以上(2013年度当社比)
多様な人材の活躍と多様な働き方を実現する環境づくり

(※は売上高営業利益率)

Next, I will discuss the CHUDENKO Group 2030 Vision announced on October 28th.

The vision we have formulated this time represents the ideal state of our group toward FY2030. The theme was redefined as "Change and Growth" because it is essential for the Group to react to change and continue to take on the challenge of innovation in order to continue to grow amidst an uncertain future.

The three main objectives to attain the Group's vision are as follows. Achieve sustainable growth and contribute to the execution of a sustainable society. All who work for us take on the challenge of change with pride and joy. Meet the diverse needs of society through high technology and quality.

For the FY2030 target, the first one is JPY250 billion in consolidated net sales, JPY17 billion in operating profit, and a new ROE target of 5% or more. Second, we will aim a carbon neutral. For this, we have reduced CO₂ emissions by 46% or more compared to FY2013. Third, we will work to create an environment that enables diverse human resources to play an active role and work in a variety of ways.

We will work together as a group to realize this vision and strive to enhance our corporate value so that we can earn even greater trust and appreciation from all our stakeholders.

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中電エグループ サステナビリティ基本方針

中電エグループは、地域の信頼を基盤に、確かな技術・品質と健全な事業運営を通じて、社会の様々な課題の解決に挑戦し、グループの持続的な成長を目指すとともに、持続可能な社会の実現に貢献します。

【豊かな環境づくり】

気候変動の緩和に向け、カーボンニュートラルに挑戦します。
環境保全と循環型社会の実現に取り組みます。

【活力ある企業づくり】

ダイバーシティを尊重するとともに、働きがいのある職場づくりを推進します。
すべての従業員が安全で健康に働ける職場環境を構築します。

【技術と品質の向上】

レジリエントな社会の実現と快適な暮らしを支える技術と品質を追求します。
社会課題の解決に向けた技術開発と研究開発を推進します。

【健全な事業運営】

法令や社会的な規範の遵守など、コンプライアンス経営を推進します。
透明性の高い事業運営により、すべてのステークホルダーに信頼される企業であり続けます。

Finally, I would like to discuss the CHUDENKO Group Sustainability Basic Policy, which was announced at the same time as the CHUDENKO Group 2030 Vision.

Based on the trust of the local community, the Group has always been committed to sustainability by taking on the challenge of solving various social issues through reliable technology and quality and sound business operations, aiming for the sustainable growth of the Group and contributing to the execution of a sustainable society.

We have established the CHUDENKO Group Sustainability Basic Policy as a guideline for specific initiatives. Going forward, we will further evolve and develop these initiatives to promote sustainability.

This is the end of my presentation. The following sections in the presentation materials are for your information only so please excuse me for skipping the review. Thank you for your attention.

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Question & Answer

Moderator [M]: Thank you very much for your patience. We are ready to take questions however, at this time, there are no questions from the participants, so I would like to take this opportunity to answer some of the questions we receive from our investors from time to time.

Now for the first question. The question is:

How do you view the current environment for orders?

Mr. President, please go ahead with your comment.

Shigeto [A]: In the construction industry, public capital investment is solid and private capital investment is picking up. Orders received by CHUDENKO on a non-consolidated basis through Q2 were JPY3 billion higher than the same period last year, and we expect orders for the full year to be higher than the previous year as well, which we believe is a solid trend.

On the other hand, in terms of profit, conditions remained challenging due to soaring material and subcontracting costs associated with rising prices, as well as a downward trend in the profit margin on orders received.

Moderator [Q]: Thank you very much. Next question.

What is the likelihood of achieving the annual forecast, given that sales in Q2 exceeded the previous year's level, but profits are down?

Mr. President, please go ahead with your comment.

Shigeto [A]: Thank you. On a non-consolidated basis, CHUDENKO saw an increase in construction work carried over at the end of Q2 compared with the same period of the previous year. As these carry-over construction projects will lead to sales in H2, we expect consolidated net sales for H2 to increase by about JPY3 billion compared to the previous fiscal year, and gross profit is also expected to increase.

With regard to the sharp rise in material prices, we will continue to reduce procurement costs by thoroughly making early arrangements and placing bulk orders, and we will react to price hikes by fixing costs and limiting risks by contracting early, especially for cables.

As a countermeasure to further cost increases, we make sure to incorporate the increased material and labor costs into the quotation at the time of order receipt, so that the contract can be awarded. For construction projects with long construction periods, we will incorporate risk hedging items, such as a sliding scale clause at the time of contracting, to deal with any increase in procurement prices, and we will discuss this issue thoroughly in the contract.

Thorough implementation of these initiatives will help us achieve our sales and profit targets.

Moderator [Q]: Thank you very much. Now for the next question.

I understand that competition is tough in the metropolitan area. Can you describe the recent business climate?

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Mr. President, please go ahead with your comment.

Shigeto [A]: In urban areas, demands for redevelopment and other projects are strong. Although competition for orders is intense, we are securing a certain level of profit. The profit margins in Chugoku region are several percent higher than those in metropolitan areas.

As we have expanded into Tokyo, Osaka, and Nagoya areas, we built up our track record and have developed strong relationships with our clients. We intend to further expand our business while taking advantage of this relationship. We also believe that expanding our business in metropolitan areas will improve our national brand strength and help us attract talented people.

Moderator [Q]: Thank you very much. Now for the next question.

What is your company's progress in diversity?

Mr. President, please go ahead with your comment.

Shigeto [A]: We are proceeding with the promotion of women's careers by setting numerical targets and details of initiatives based on the Act on Promotion of Women's Participation and Advancement in the Workplace. With regard to the employment of people with disabilities, our agricultural subsidiary was certified as a special subsidiary in January of this year, and we have achieved the legally mandated employment ratio through concerted efforts of organizations of CHUDENKO Group.

Furthermore, the Group has newly established the CHUDENKO Group Basic Policy on Sustainability to further evolve and develop our sustainability and diversity initiatives in the coming years.

We are committed to fostering an organizational culture in which all employees understand the importance of diversity and inclusion and grow in cooperation with each other. By embracing and leveraging the diversity of ideas and values as one of the strengths of our organization, we will work to create a highly engaged and vibrant work environment.

Moderator [Q]: Thank you very much. Now for the next question.

What is the progress on the workforce reform?

Mr. President, please go ahead with your comment.

Shigeto [A]: In April 2021, the Company formulated the Medium Term Action Plan 2024 for Workplace Reform, setting targets for each fiscal year and working toward bringing forward the overtime cap by one year.

The combined effects of awareness raising, work sharing, elimination of excess, and progress in DX are manifesting the benefits of our efforts in reducing the overtime cap. We will continue to request cooperation from clients to ensure appropriate construction periods, strengthen the management system through the operational organization, improve the follow-up system for field agents through a group system, and improve the efficiency of business processes by enhancing back-office operations and DX.

In addition to these efforts, we believe it is necessary to shift to a new approach that produces results in a limited amount of time. We aim to introduce a new measure through which individual employees take initiative to achieve efficient work styles that lead to improved work-life balance and professional fulfillment.

Moderator [Q]: Thank you very much. Now for the next question.

Any update on the DX initiative?

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Mr. President, please go ahead with your comment.

Shigeto [A]: We consider DX to be an extremely important initiative in terms of enhancing competitiveness by improving efficiency and productivity. The Vice President was appointed as the project leader. We are working on other measures to solidify the support framework.

Let me share some of the things we implemented. We restructured and updated the backbone systems based on the technical verification of various software and terminal systems. We reorganized the business internet environment, allowing us to conduct remote meetings and to electronically approve and process expenses, reimbursement, and other forms of financial transactions.

In the future, we will proceed with 30 specific tasks, including the introduction of CAD software for administrative support. New tasks will be added as necessary to address new issues as they emerge. At the same time, based on internal studies conducted by the DX Promotion Task, we will implement system improvements, organizational reviews, and other measures as appropriate to maximize effectiveness.

Moderator [Q]: Thank you very much. Now for the next question.

What is the performance of the financial investment of JPY40 billion?

Mr. President, please go ahead with your comment.

Shigeto [A]: In FY2021, during the period of the current medium term management plan, which set an investment of JPY40 billion, we invested in SAMADEN SDN BHD, an organization engaged in solar power installation and other businesses in Malaysia. Currently, we are studying renewable energy-related projects with our consolidated subsidiary, CHUDENKO Malaysia.

In the current fiscal year, we decided to invest in JAFCO SV7 Fund, which we expect to help us find new investment partners, acquire investment-related knowledge and know-how, and generate new profits.

We will continue to seek potential investments without being limited to the JPY40 billion cap, focusing on a connection to renewable energy, prospective projects that will lead to business expansion, HVAC pipework M&A, or a firm we wish to consolidate into our group for building a better stronger operational structure.

Moderator [Q]: Thank you very much. Moving on to the next question.

Are the numerical targets in your vision feasible?

Mr. President, please go ahead with your comment.

Shigeto [A]: As I discussed earlier, the numerical targets for the final year of the medium term management plan 2024 are consolidated net sales of JPY210 billion and consolidated operating profit of JPY12 billion. In the vision announced this time, we have set ambitious goals, as we need to raise sales by another JPY40 billion and operating profit by JPY5 billion. We intend to achieve this goal by continuing to react to change and take on the challenge of transformation.

In order to achieve the goals of our vision, we will steadily implement the various measures of the medium term management plan, and by improving operating profit and investing in growth, the group as a whole will first achieve the goals for the final year of the medium term management plan.

Moderator [Q]: Thank you very much. The next question is this.

What are the thoughts behind the revised ROE?

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Mr. President, please go ahead with your comment.

Shigeto [A]: We set this target because net profit is low relative to shareholders' equity, ROE is below the cost of shareholders' equity, and we need to promote management that is more conscious of improving capital efficiency than ever before.

Although this is a high goal at present, we will first work to achieve the goals of the medium term management plan, which will lead to the growth of the Group and the achievement of our targets.

Moderator [M]: Thank you very much. And that is the last piece of inquiries we receive from our investors. At this time, I would like to conclude the CHUDENKO CORPORATION's financial briefing for Q2 of FY2022. Thank you very much for joining us.

Shigeto [M]: Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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