Main Contents of Q&A from the FY2024 Financial Presentation

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Speakers: President and CEO Kazunari Kibe / Executive Officers: Takao Nakanishi, Yuji Hatakama, Yasuo Kato, Toshiaki Tomiyasu, Masashi Shimojo

Q. Regarding the building construction segment, amidst uncertainties such as rising construction costs and tariff policies under the Trump administration, could you explain the current order environment and the profitability trends of orders received?

A. Regarding the order environment, large-scale projects, including redevelopment, are expected to continue for at least the next five years, which may lead to increased revenue. As for rising construction costs, we plan to address these challenges in collaboration with developers, brainstorming solutions together. In particular, we aim to work jointly with electric and equipment companies from the upstream processes, including VE/CD. We hope to establish a win-win relationship with developers by taking on challenges at the limit without halting large-scale projects. By successfully completing ongoing projects, we believe we can positively influence other initiatives as well. Through continuous effort and ingenuity, we are confident we can overcome these challenges. The order environment is not unfavorable, and with many large-scale design-build projects, we maintain a positive outlook.

Q. Regarding the expansion of orders from private clients in the civil engineering segment, the typical image includes railways and power-related projects. However, I recall from a previous response that it is not limited to those areas. Could you specify what kind of private clients you are referring to?

A. Regarding private clients, historical key clients such as power companies and railways continue to play a central role. However, for further market expansion, we believe it is essential to focus on traditional clients while also exploring new areas. For example, we have received orders from manufacturers that own their own power plants, involving maintenance projects for these facilities. Such projects are numerous across Japan and, like power company plants, are reaching their renewal periods.

Additionally, driven by the trend toward carbon neutrality, there is increasing demand for civil engineering-related work as existing thermal power plants are dismantled and replaced with LNG power plants or hydrogen/ammonia co-firing power plants.

Furthermore, regarding nuclear power plants, the government has indicated its policy to maintain around 20% of total energy output under the Energy Basic Plan, leading to expected growth in demand for related works, including renewals.

We aim to actively explore these sectors and expand our business in these areas.

Q. In the road civil engineering segment, the operating profit margin for the fiscal year ending March 2026 (FY25) is projected to reach 14.6%, surpassing the level of the fiscal year ending March 2025 (FY24). Could you explain the factors behind this increase? Additionally, discuss the potential for further operating profit margin increases?

A. The improvement in the operating profit margin can be attributed to the thorough enforcement of "discipline at the time of order-taking," where Maeda Road clearly establishes "profit margin of orders received" based on the contract value. Although many of our projects are relatively small in scale, we have consistently implemented initiatives to improve profit margins on these projects, which has led to this result. We also see the possibility of further upside in operating profit margins moving forward.

Q. Could you provide a breakdown of the increase in SG&A expenses for the fiscal year ending March 2026 (FY25)? Additionally, with a year-on-year increase of approximately 11% on a company-wide basis, do you expect this upward trend to continue in the fiscal year ending March 2027 (FY26) and beyond? I would like to know about the outlook for SG&A expenses.

A. The primary factor behind the increase in SG&A is the rise in personnel expenses due to higher salaries and bonuses. Within our group, we have a commitment to providing high compensation aligned with profit growth, and we expect this to serve as a key driver for future growth.

Moving forward, while personnel expenses are expected to increase in line with profit growth, we do not anticipate significant increases in other areas.

Q. In the Civil Engineering segment, the plan for the fiscal year ending March 2026 (FY25) indicates a YoY increase in sales. Could you explain the background behind this?
Additionally, regarding profits, is there a possibility of improving to a level comparable to last year by appropriately reflecting additional work and design changes?

A. Regarding the background of the sales increase, there was a period two years ago when we restrained orders, which resulted in an increase in backlogs and a higher allocation of personnel, impacting FY24. Moreover, as the order value in the previous period (FY24) slightly exceeded the target of 165 billion yen, projects on hand increased, and this period (FY25)'s sales are expected to rise as those projects are executed.
Regarding the profit margin, in the civil engineering segment, negotiations with clients and design changes are often finalized collectively at the time of project completion, causing profit margins to fluctuate depending on the proportion of completed construction.
In FY23, projects that reached final completion accounted for approximately 40% of the total sales in the Civil Engineering segment, whereas in FY24, this figure was 28%. The usual (typical) ratio of final completion projects is slightly below 20%, with a profit margin of around 18% in such cases. Therefore, we recognize that the current figures are at a comparable level to those in the past.
We will continue initiatives to improve profit margins and aim to maintain a level comparable to the previous

Q. Regarding the overall plan for the fiscal year ending March 2026 (FY25), could you explain which segments are conservatively estimated or whether the plan as a whole is based on realistic assumptions?

A. In the construction industry, the gap between guidance and final figures is a significant challenge, but we have been working on creating precise guidance since the Maeda Construction era. Although we made one revision previous period (FY24), we have strived to promptly communicate the revised plan to stakeholders. We aim to minimize discrepancies with the final results by reflecting the most accurate figures possible in our plan.

However, please understand that uncertainties related to bidding exist, as public works projects account for a large proportion of our operations. While we carefully forecast order probabilities and design changes based on past performance, we are compelled to take a conservative approach to estimates for public works projects.

Q. Regarding the plan for the fiscal year ending March 2026 (FY25), how are the electricity sales revenues from the Ozu Biomass incorporated?

A. 8.65 billion yen in net sales and 34 million yen in operating profit are included in this period (FY25)'s plan.

Q. Concerning the above response, it was previously stated that contributions of several hundred million yen were expected. Could you explain why the operating profit has decreased to 34 million yen?

A. The increase in construction costs due to factors such as inflation led to higher-than-expected depreciation expenses, resulting in a lower contribution to operating profit relative to net sales. Additionally, the rise in O&M costs due to inflation and increased fire insurance premiums following a series of fire incidents in projects operated by other companies have contributed to the decrease in operating profit compared to initial expectations.

Q. Regarding the battery storage business, one of the growth strategies in the INFRONEER Medium-term Vision, could you provide an update on its current development status and progress?

A. Development is progressing steadily, with several dozen projects underway, mainly focusing on high-voltage cases. While the operation start date for high-voltage cases is earlier than that for ultra-high-voltage cases, the revenue contribution is not expected for this period. Full-scale revenue contributions are anticipated from the next fiscal year onward (FY26).