Main Contents of Q&A from the IR Day FY2025

Date: January 26, 2026 (Monday) 15:00 - 17:00
Speakers: President and CEO Kazunari Kibe
Executive Officers: Takao Nakanishi, Yuji Hatakama, Masashi Shimojo
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Q. I found your explanation on data-driven management very interesting. I understand that initiatives such as the order simulation tool and the design change management sheet have already produced significant results. Will these be introduced at Sumitomo Mitsui Construction as well? If so, please explain the future, including the expected timing of introduction.

A. In the PMI process, we have established and are operating steering committees for both the civil engineering segment and the building construction segment. The order simulation initiative is being advanced within the building construction business, and we intend to proactively introduce any effective tools to Sumitomo Mitsui Construction as well. We are particularly focused on sales reform.
Regarding the civil engineering business, there is a tool called "Subnote" that is used to unify cost management. Subnote is a system that consolidates the cost control methods that each Construction Site has traditionally developed independently based on their own know-how, integrating and systemizing the best practices. At MAEDA CORP., Subnote has already been introduced at newly launched Construction Sites, and Sumitomo Mitsui Construction will also select applicable sites and promote its use. For the civil engineering business, we aim to improve profit by using the design change management sheet and Subnote as a set.
In addition, approaches for securing cost escalation differ between the two companies. We believe that effectiveness can be achieved by applying the manual created and used at MAEDA CORP. to Sumitomo Mitsui Construction and unifying the methodology.

Q. I recall that Sumitomo Mitsui Construction's operating profit at its peak was around 20 billion yen. How long will it take to return to this level? Over the next two to three years, I believe the contribution to earnings will depend significantly on profit growth at Sumitomo Mitsui Construction. Please explain by business segment—civil engineering and building construction.

A. Currently, due in part to the impact of large loss-making projects in the building construction business, net sales of completed construction contracts have declined to around 60% of the peak level. The civil engineering business, including overseas operations, is performing at roughly the same level as before. We recognize that restoring net sales of completed construction contracts to peak levels is essential. In the final fiscal year of our INFRONEER Medium-term Vision, we expect net sales of completed construction contracts of approximately 470 billion yen and business profit of around 20 billion yen. To exceed this level, we recognize the need to further increase net sales of completed construction contracts.

Q. To restore net sales of completed construction contracts, do you see the priority in the sales function or in the construction/production function? What needs to be addressed first?

A. We believe the priority lies in the sales function. For the last two years or so, there have been circumstances that made it difficult to pursue the initiatives we wanted to undertake. After integration, INFRONEER and

Sumitomo Mitsui Construction are jointly advancing initiatives. Since FY26 net sales of completed construction contracts are expected to be under pressure, we intend to strategically form JVs with MAEDA CORP. to raise the overall level. We expect this effect to continue in FY27 as well.
Another key point concerns the ratio of large-scale projects. Not only the Toranomon project but also other large-scale projects had generated losses, and because of tightening internal reviews, the number of large-scale projects pursued was intentionally reduced. This created a conservative mindset among employees, but we recognize that integration has significantly changed this situation. By increasing the ratio of large-scale projects going forward, productivity will improve and profitability will become easier to achieve.
For FY27, Sumitomo Mitsui Construction's target business profit has been revised from the initial 20 billion yen to a must-achieve level of approximately 23 billion yen, reflecting integration effects.

Q. You explained Sumitomo Mitsui Construction's strengths. Within its future collaboration with MAEDA CORP., in what areas do you expect improvement?

A. In short, we believe the key point is profit margin. Through discussions after integration, differences in accounting standards have resulted in differences in items included in cost; however, even after adjusting for these, both the civil engineering and building construction segments currently have gross profit margins that are 1–1.5% lower than MAEDA CORP. Furthermore, business profit margins are 2–3% lower. We aim to raise these to MAEDA CORP.'s levels. To achieve this, it is essential to expand business scale, receive orders for efficient projects, and achieve results with limited personnel. MAEDA CORP. has a relatively high ratio of temporary personnel, so we plan to learn from their personnel structure and other practices. Increasing business profit must be our highest priority.

Q. With MAEDA CORP.'s initiatives being introduced to Sumitomo Mitsui Construction, do you expect the company will eventually catch up to MAEDA CORP.'s profit margin levels? Specifically, is it reasonable to expect that in three to five years, gross profit margins will reach around 18% in the civil engineering business and 13–14% in the building construction business?

A. At the FY27 level, we do not yet foresee recovering to the same level for either business profit or gross profit. While the gap in the civil engineering business is smaller than that of the building construction business, we recognize the need for further discussion and analysis.
We will continue analyzing MAEDA CORP.'s profit-enhancing initiatives and proactively introduce effective methods at Sumitomo Mitsui Construction. We will also learn from MAEDA CORP.'s areas of strength and work to elevate profit margins toward their levels.

Q. Even after adopting data-driven management, MAEDA CORP.'s civil engineering business already has high profit margins. Is there potential to exceed 20%? Additionally, does the building construction business have similar potential?

A. Current efforts in the civil engineering business focus on raising the average profit margin. While the 18% profit margin is well regarded, there are still underperforming projects. By raising the lower-performing projects, we believe it is possible to increase the overall profit margin by another 1–2%. This reform has only just begun, and we expect results to emerge going forward.
For the building construction business, we believe increasing the ratio of large-scale renovation projects is important. We aim for around 15% of total projects. Additionally, we will focus on temporary/scaffolding work. For example, arena projects contain significant temporary work just for stage equipment, and by securing such projects, we expect results to materialize.

Q. I believe stable profit generation at Sumitomo Mitsui Construction depends on avoiding unprofitable projects in the building construction business. While the company is strong in condominium construction, I understand there are challenging projects as well. Since such cases are influenced by the relationship with the developer, losses can become substantial. As the holding company, how will you prevent such losses? Can risk be detected early through mechanisms within your data-driven management initiatives? Alternatively, will reducing order scale help avoid difficult projects? Please explain you're thinking.

A. Profitability issues are not inherent to the condominium business. What matters is how early and thoroughly the company becoming involved, how precisely plans are developed at the design stage, and how the contract is structured. Even before applying data-driven management, if proper management is conducted in the pre-order phase, sufficient profit can be secured. With strong partnerships with developers and other parties, we believe condominium projects can continue to generate solid profit.

Q. In Sumitomo Mitsui Construction, I believe the factory category is the second-largest business after housing. I also believe steady orders from Mitsui and Sumitomo group companies can be expected. Please comment on this.

A. We expect both the Mitsui and Sumitomo groups to continue placing orders to a certain extent, based on long-standing trust and performance. While demand varies by manufacturing sector, many factories built during the high-growth era are aging, leading to increasing reconstruction needs. We therefore expect a stable volume of factory-related projects for the time being.
At the same time, by maintaining awareness of opportunities—including overseas expansion of Japanese companies—we believe that sufficient factory project volume can continue to be secured.

Q. You explained the order simulation and approaches to securing design changes, but amid soaring construction costs, client-side order suppression is increasing. Without raising productivity and advancing cost reductions, buildings may shift toward a renovation-based model like in Europe.
Your company has extensive experience in precast concrete for condominium projects. Is it possible to pursue standardization and process innovation—moving from one-off site production to standardized models, as seen in Singapore?

A. We understand that Sumitomo Mitsui Construction and MAEDA CORP. together hold just under 40% share in high-rise condominium construction. Our goal is to raise this share to over 50%. The key to achieving this is that both companies operate their own precast concrete factories. Only a few general contractors have such facilities, and among them, Sumitomo Mitsui Construction owns the largest factory. MAEDA CORP. also operates Fujimi Koken as a subsidiary.
By refining unique technologies at both companies and taking on new methods—such as modularization as practiced in Singapore, reducing costs, shortening construction periods, and improving quality—we aim to increase our market share. If construction periods can be shortened, this directly reduces costs. Raising our share from around 40% to over 50% allows us to drive projects while ensuring client benefits and reducing client costs. We believe these initiatives will allow us to secure higher profits and market share.
We believe this approach is feasible specifically in high-rise condominium construction within the building construction business and that leveraging technologies unique to our companies is vital.

Q. Regarding the precast concrete factories, does Sumitomo Mitsui Construction have room to increase utilization rates? Also, is MAEDA CORP. currently using precast concrete manufactured at Sumitomo Mitsui Construction's factories for high-rise condominium projects? Please also address cost-reduction potential.

A. As for utilization at Sumitomo Mitsui Construction's precast concrete factories, the main building-construction factories located in Tochigi and Ibaraki have increasing inquiries from other companies and have limited excess capacity. Meanwhile, utilization at the Noto River Factory and at DPS Bridge Works Co., Ltd. which handles bridge-related civil engineering, remains relatively low, so we believe there is room for a moderate increase.

Q. Regarding cost reductions after integration, is there potential for further cost savings through joint procurement in the building construction and civil engineering businesses? Also, for SG&A, is the main effect expected to come from branch integration? You indicated SG&A reductions could reach up to 3 billion yen—what is required to achieve this, and what might prevent achieving the target?

A. Within the PMI process, we are discussing how to leverage scale advantages in procurement. Previously, each Business company procured materials independently, and unless procurement sources are realigned and consolidated, scale advantages cannot be realized. Discussions are ongoing with this in mind.
Regarding SG&A, most of the 3 billion-yen target derives from cost reductions through consolidation of offices and other sites. Additional reductions are expected from delisting Sumitomo Mitsui Construction. Furthermore, we will deploy at Sumitomo Mitsui Construction the business reform initiatives advanced at MAEDA CORP., shifting personnel to the front lines as much as possible, thereby reallocating expenses from SG&A to cost of sales. This will expand order-taking and construction capacity. Growth in the top line will absorb the cost-shift while achieving both higher gross profit and lower SG&A.
Of the total 10 billion-yen integration effect, we view the approximate ratio as 7:3 (profit improvement: SG&A reduction), though this may be adjusted depending on progress.

Q. Are scale-merit cost reductions already incorporated into the INFRONEER Medium-term Vision targets? Or, depending on PMI progress, is there potential for upside relative to the current plan?

A. They are not incorporated into the current INFRONEER Medium-term Vision. We recognize them as potential additional benefits dependent on future PMI progress.