

Social Challenges
Surrounding Japan's Infrastructure

Japan is at a crucial juncture, facing a formidable challenge in the form of multiple critical situations that are—with increasing urgency—threatening sustainability on both a national and local level. These situations include an unprecedented rate of population decline; an accelerated pace of the declining birthrate and the aging population; a heightening risk of large-scale disasters; rapidly aging infrastructure; climate change impacts; and damage to biodiversity.

Of particular note, many rural and regional areas are suffering from ongoing population decline and outflow, especially among young people, which is having an immeasurable impact on people's lives. Other problems are related to structural transformations that are occurring in regional communities, such as weakening and declining public services, the decay of local industries, depopulation of hilly and mountainous areas, and the hollowing-out of urban centers, in addition to the deterioration of land previously hailed for its beauty and rich natural environment. These issues in combination pose the risk of creating a vicious cycle of community erosion, and the problem is only getting worse.

Current Status of Japan's Infrastructure

Insufficient financial resources

Japan's infrastructure stock in 2019 Approx. ¥800 trillion	Construction investment ratio in gross domestic expenditures in 2021 -7.7% FY2021: 12.2% FY1980: 19.9%	Maintenance and repair work ratio in construction investments in 2021 +9.7% 2021: 30.7% 2001: 21.0%	Maintenance and renewal expenses incurred through breakdown maintenance until 2048 Approx. ¥12.3 trillion
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[Source] Digital Construction Hand Book by the Japan Federation of Construction Contractors; "Estimated Future Maintenance and Repair Costs of Social Capital under the Jurisdiction of the Ministry of Land, Infrastructure, Transport and Tourism" by Ministry of Land, Infrastructure, Transport and Tourism; "Social Capital Stock Estimation Data" by Cabinet Office

Aging infrastructure

Percentage of road bridges that are 50 years old or older by 2040 Approx. 75%	Percentage of port quay walls that are 50 years old or older by 2040 Approx. 66%	Percentage of tunnels that are 50 years old or older by 2040 Approx. 53%	Percentage of sewer pipes that are 50 years old or older by 2040 Approx. 35%
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[Source] White Paper on Land, Infrastructure, Transport and Tourism in Japan, 2022

What solutions are there
to the various social challenges faced by Japan?

CLICK!

Declining birthrate and aging
population and regional challenges

Total population decline from peak period in 2050 Approx. 23.39 million people Peak (2008): 128.08 million people 2050: 104.69 million people	Number of cities that are feared to disappear by FY2040 896 municipalities
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[Source] Related data of the National Land Formation Plan (nationwide plan) by Ministry of Land, Infrastructure, Transport and Tourism; "Future National Land Transport Strategies Geared to 'The Age of Disappearing Regions,'" a theme of the Study Session for Policy Issues held by Policy Research Institute for Land, Infrastructure, Transport and Tourism

Energy

Targets set by the Japanese government in FY2020 RE50-based renewable energy usage rate in FY2030 19.8%	Energy self-sufficiency among the 38 countries of the OECD member countries in FY2020 Worst 2nd (37th out of 38 countries) Self-sufficiency rate: 11.3%
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[Source] Japan's Energy 2022 Edition "10 Questions for Understanding the Current Energy Situation" by Agency for Natural Resources and Energy of Ministry of Economy, Trade and Industry

Abnormal weather

Average temperature rise in 2027 compared to pre-industrial revolution +1.5°C	Frequency of heavy rainfall per year in 2013–2022 compared to 1976–1985 (1 hour precipitation of 50 mm or more) Approx. 1.8 times
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[Source] "Global temperatures set to reach new records in next five years" by World Meteorological Organization; "Changes to Date in Extreme Meteorological Phenomena Such as Heavy Rainfall and Intense Heatwaves" by Japan Meteorological Agency

Safe towns and easy living

Municipalities that require measures for people who have trouble going shopping in 2022 883 municipalities	Vacant home rate in 2018 13.6% 8,489,000 vacant homes
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[Source] "Results of the National Municipal Questionnaire on 'Food Access Problems'" by Ministry of Agriculture, Forestry and Fisheries; 2018 Housing and Land Survey by Statistics Bureau of Japan

Shortage of workers

Reduced number of engineers from the peak period in 2022 1.59 million people Peak (FY1997): 4.64 million people	Percentage of construction workers aged 55 and over in 2022 Aging rate of workers 36%
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[Source] Digital Construction Hand Book by Japan Federation of Construction Contractors

Diversity

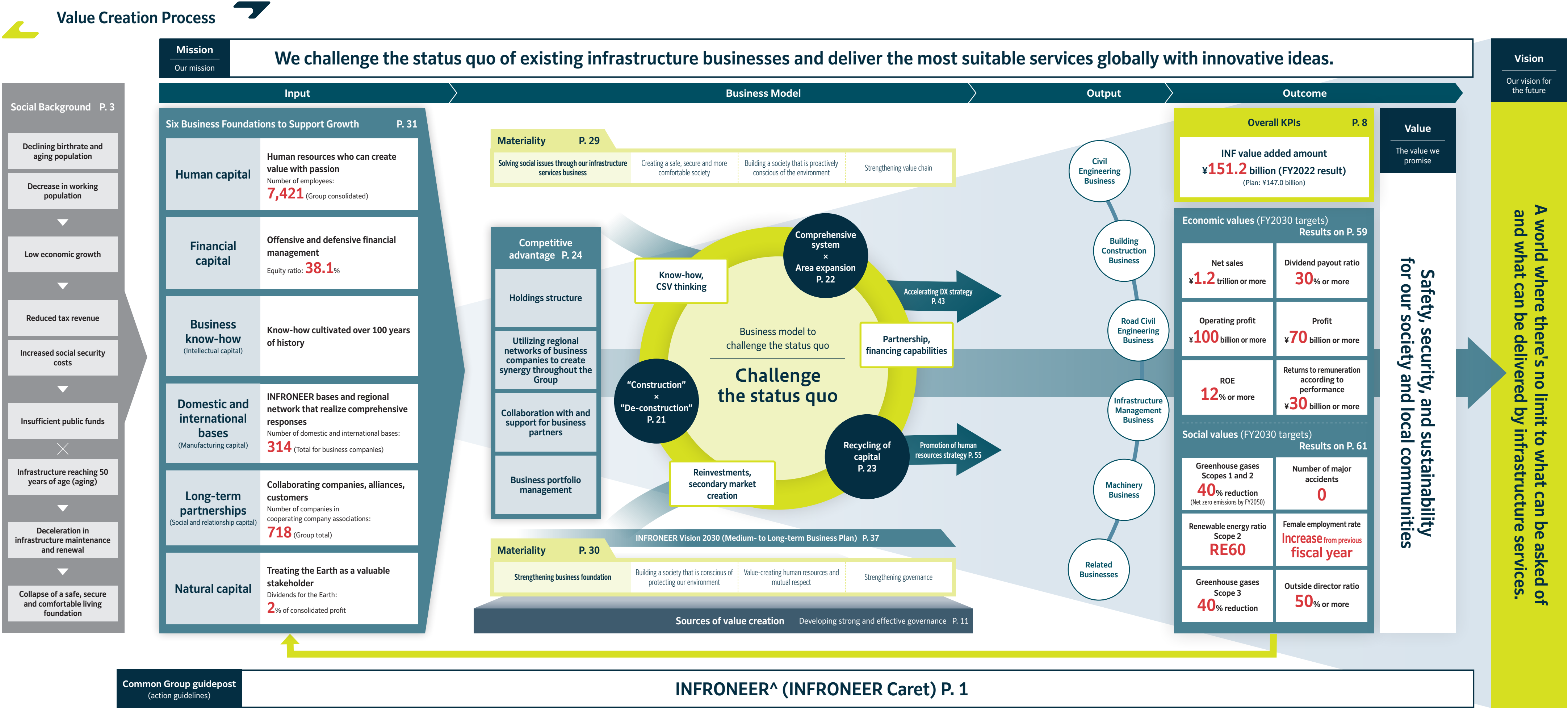
Ratio of female workers in construction compared to the entire industry in 2022 Approx. 1/3 Compared to 45.0% in the entire industry, construction is 17.7% (of that, skilled workers are 2.5%)	Ratio of females in managerial position in the construction industry in 2022 6.4%
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[Source] Digital Construction Hand Book by Japan Federation of Construction Contractors; Survey of corporate attitudes towards promotion of women (2022) by Teikoku Databank

CLICK!

For details of activities conducted
by INFRONEER Holdings, please turn the page.

* Some of the data was calculated by INFRONEER based on source data.



Value Added Considered by INFONEER

The INFONEER Group is working to maximize added value, which it defines in the INFONEER Vision 2030 (Medium- to Long-term Business Plan). In comparison with Discounted Cash Flow (DCF) and other valuation methods used to determine corporate value in the market, INFONEER's method views corporate value as comprising not only the market capitalization value but also the value distributed to our business base and all stakeholders. To become an integrated infrastructure service company, we believe it is essential to build a framework that encourages all our stakeholders, including society at large, the company, and our employees and shareholders, to move toward a common goal. Such a framework must also enable various corporate activities related to social contribution, financial performance, employee remuneration, shareholder return, and others to link together and make progress together, rather than leaving each to advance independently.

In line with this theory, we quantify and define certain portions of corporate value as "INF value added amount" and "INF value added productivity," which are positioned as overall KPIs and included in the list of management indicators.

Overall KPIs

Value added considered by INFONEER: INF value added amount

$$= \Sigma (\text{Total labor expenses} + \text{R\&D expenses} + \text{Operating profit} + \text{Depreciation expenses})$$

Initiatives to improve expectations for future value creation

Initiatives to improve value accumulation for the future

"INF value added productivity" = INF value added amount / Total number of employees

Initiatives to increase the speed and acceleration of value creation

Distribution of added value for sustained growth

Well-balanced distribution

Added value

Investments in human resources

Growth investments (DX, R&D, M&A, etc.)

Permanent investments (optimal utilization of assets, etc.)

Business partners (strengthening relationships with partner companies, etc.)

Shareholders and markets (shareholder return)

Reserves for the future (internal reserves)

Maximized added value cycle

In order to maximize the amount available for distribution, including for growth investment and shareholder return, it is essential to first maximize added value, the source of the distributed funds.

We work on the maximization of added value and portfolio optimization and enhancement, with an eye to improving ROIC, reducing capital costs, and expanding the market capitalization value.

Incorporating overall KPIs into executive remuneration systems

INFONEER aims to be proactive in terms of its remuneration systems, with executive remuneration designed in such a way that the variable portion exceeds the fixed portion. For variable remuneration, single-year profit attributable to owners of parent is set as the KPI for the annual incentive, and a non-payment provision is included to create a link with INF value-added productivity. For medium- to long-term incentives, the value-added amount is set as a KPI. By incorporating INF added value into executive remuneration systems as an overall KPI, we aim to incentivize efforts to improve corporate value from a medium- to long-term perspective. Going forward, we will consider a plan to adopt non-financial indicators as KPIs for bonus payments.

Representative executive officer and president

40%

60%

100%

Other directors (excluding outside directors) and executive officers

16~27%

50~55%

50~55%

100%

[Fixed remuneration]

Base remuneration

[Variable remuneration]

Annual incentives

Medium- to long-term incentives

Shares with restricted transfers

5

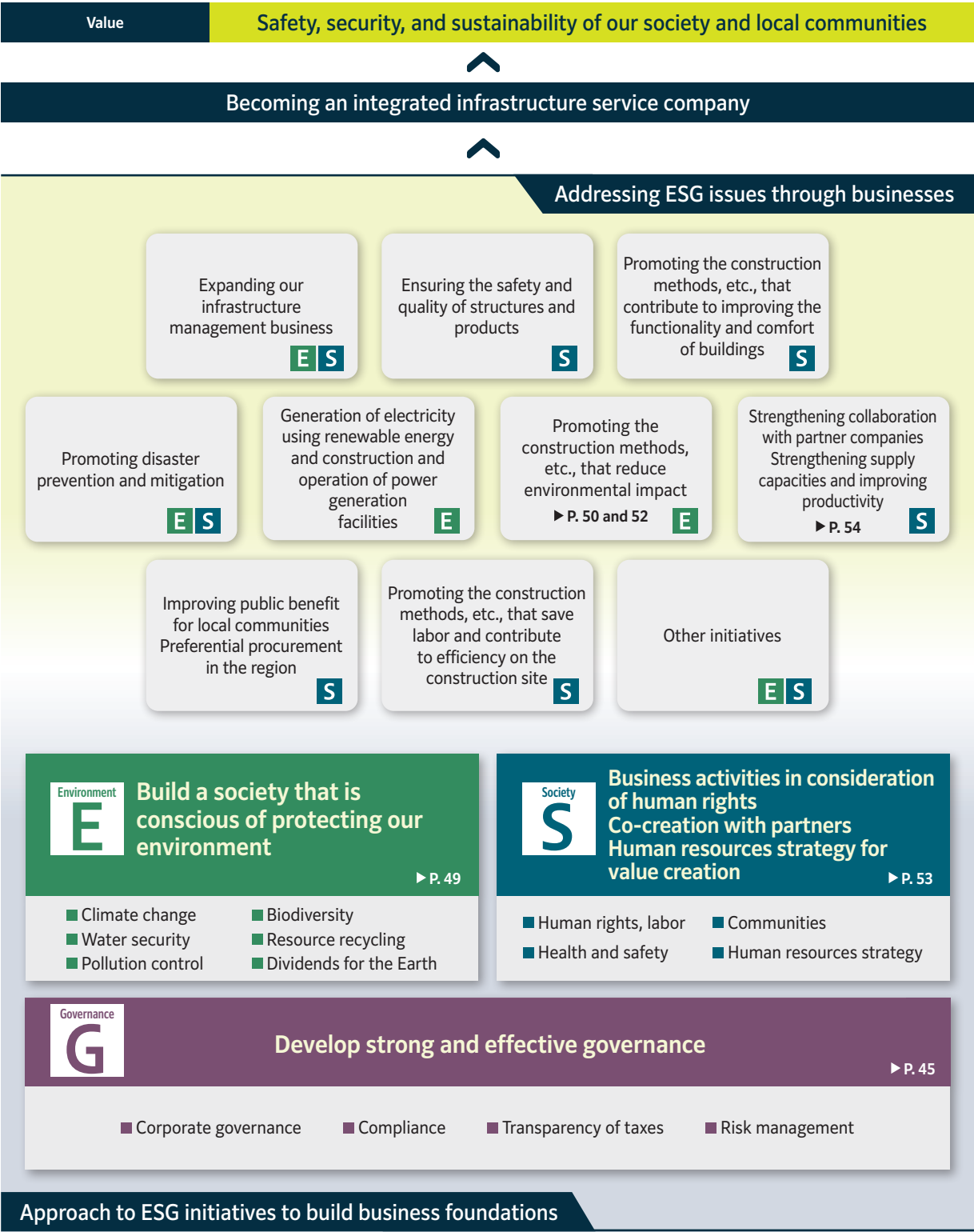
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Promoting ESG Strategies for Creating Sustainable Value

INFRONEER pursues ESG strategies to build an essential foundation for becoming an integrated infrastructure service company. We are committed to achieving safety, security, and sustainability in our society and local communities, which constitutes the value we promise, in pursuit of this aim. This means that our business activities are designed to be conducive to achieving sustainability and creating sustainable value.



Sustainability Policies

INFRONEER envisions becoming an integrated infrastructure service company that will contribute to society by working to solve social issues surrounding infrastructure services, grow its businesses, improve its corporate value, provide quality infrastructure services, and improve its social value.

Society is facing a number of issues. Among them, those related to the environment (E) and society (S) are often linked together and should indeed be addressed in unison. Recognizing this, our Group will address issues in these two areas comprehensively within the scope of its business activities. To ensure that such activities are carried out effectively and meet the envisioned purpose of becoming an integrated infrastructure service company, we are establishing strong governance (G) based on high standards and an appropriate risk management framework. In other words, we believe our aim of becoming an integrated infrastructure service company through business activities (meaning addressing ESG issues) will lead to achieving sustainability.

Sustainability Committee

INFRONEER's Sustainability Committee has the objective of steering the company's sustainable development in response to risks and opportunities as well as social issues that may affect our corporate value over the medium to long term. Conclusions reached by the Committee are then reflected in the Group's management plans. The Committee is chaired by INFRONEER Holding's Representative Executive Officer and President, with other seats filled by executive officers of the company and officers in charge of CSR and the environment at each business company. The Committee meets semi-annually in principle and met twice in FY2022. Its activities are subject to the supervision of the Board of Directors, which receives an activity report from the Committee on a regular basis.



Sustainability Committee meeting

The Committee's primary agenda is as follows:

- (1) Formulation and revision of sustainability- and ESG-related policies and goals
- (2) Selection of climate change scenarios and formulation of a transition plan in line with the TCFD guidance (equipment/development investment)
- (3) Stakeholder engagement as a complementary step to the measures (1) and (2) above

Signing the UN Global Compact

In April 2022, the company signed the United Nations Global Compact (UNGC) and was registered as a corporate participant in the international initiative. In conjunction with this, we joined the Global Compact Network Japan, a group of Japanese UNGC participants.

Going forward, we will expand our sustainability activities to the entire INFRONEER Group and adopt a global perspective to respond to the requirements and expectations of various international stakeholders. At the same time, we will remain committed to socially responsible management and building a sustainable society.

Collaboration with an external organization

Expectations for Industry-Government-Academia Collaboration Aimed at Achieving a Sustainable Society

Kyushu University's Urban Institute, an active promoter of joint research projects with various corporations, engages in tripartite sustainability research activities involving industry, government, and academia and is working on developments and implementations for real-life purposes in society.

aiESG, Inc., a startup originating from Kyushu University, performs retrospective ESG evaluation analyses of product and service supply chains in a joint research project with Harvard University, with INFRONEER's infrastructure business included among the subjects. The major targets of analysis are the efficiency of infrastructure management; health and safety promotion; and economic value to local communities. We look forward to watching INFRONEER advance its ESG initiatives across the entire value chain, aiming for the sustainable development of regional communities.



Shunsuke Managi
Distinguished Professor and
Director of the Urban Institute,
Kyushu University
Lead author for the United
Nation's Inclusive Wealth Report
Representative director of
aiESG, Inc.

Developing Strong and Effective Governance

INFRONEER, which aims to become an integrated infrastructure service company, considers it essential to build a strong governance system that emphasizes the monitoring function to supervise the execution of duties. The company thus adopts the form of a company with a nominating committee, the majority of which consists of outside directors. The aim is to raise the quality of governance by incorporating external viewpoints in addition to those of internal directors in making investment decisions and management assessment. Also, the Board of Directors is selected to achieve a good overall balance of knowledge, experience, and abilities required to fulfill their roles and responsibilities effectively. It is structured in a way that balances an appropriate size with diversity in terms of gender, internationalism, career history, age, and other background factors.

► For details on governance, see page 45.

Messages from Outside Directors

The chairperson for each of the Nominating Committee, Compensation Committee, and Audit Committee as well as for the Board of Directors is elected from among outside directors. The following are comments made by the current five outside directors on activities promoted in FY2022 with the objective of becoming Japan's first integrated infrastructure service company and improving corporate value. They also share their views on their roles in invigorating board meeting discussions and describe key points for the discussion of future agenda items.

Roles and Expertise Items Expected of Outside Directors

Company management / M&A	Business strategy / Industry insights	Financial / Accounting	Sales / Marketing
Internal control / Risk management	Human resource training / Development / Labor management		Engineering / R&D / Quality / Safety
Global / Overseas business management	IT / DX	ESG / Sustainability	

Ensure Transparency of Governance and Contribute to Improved Effectiveness of the Board

Keiichiro Hashimoto

Chairperson of the Board of Directors / Chairperson of the Audit Committee / Nominating Committee Member

Company management	Business strategy	Financial / Accounting	Internal control	Overseas	IT / DX	ESG
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I had worked for a financial institution for about 30 years and engaged in the management of several corporations in Japan and other countries when I was invited to serve on the board of INFRONEER Holdings at its establishment. I was then appointed to chair the Board of Directors and Audit Committee meetings. One of the most important functions of the Board of Directors of the company with a nominating committee is to perform rigorous monitoring. To this end, I believe, it is essential to upgrade internal control systems and effectively monitor the execution of duties by directors and executive officers.

For strengthening internal control systems, in order to do more than simply apply existing rules to enable audits to be performed in a way better suited to the company's situation, we have revised the scope of business companies subject to the J-SOX audit, which provides a basis for judgment criteria. Regarding the effective monitoring of the status of executive officers in executing their duties, we have set up rules to allow all minutes of Board of Executive Officers meetings to be

shared among the board members. This will facilitate transparency of governance and information sharing among the directors. It will also provide opportunities to seek out new business plans with a good rationale for future development, while putting the brakes on risky plans as necessary. Identifying and supporting good plans is one of the important responsibilities of outside directors.

Ahead of starting the voluntary application of IFRS from the FY2023 year-end reporting, we will create an opportunity for directors and Audit Committee members to increase their understanding of the standards. The Board of Directors has a multiplicity of urgent tasks to tackle, including enhancing cybersecurity measures for ensuring information confidentiality and preventing data breaches. I will strive to fulfill the commitment of improved governance and increased effectiveness of the Board of Directors while supporting the implementation of growth strategies for becoming an integrated infrastructure service company and improving corporate value.

Facilitate Added Value Creation through Promoting Innovation and Human Resources Exchange

Seiichiro Yonekura

Nominating Committee Member / Compensation Committee Member / Audit Committee Member

Business strategy	Human resources / Labor management	Overseas	ESG
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I empathize with President Kibe's strong commitment to becoming a global "integrated infrastructure service company" and to changing business domains by promoting the "de-construction" business. This is why I accepted the offer to assume the position of outside director.

I think the primary reason for my appointment is my career as a researcher in the field of corporate innovation. My basic theory about innovation is that it should not be an end unto itself but rather a means of generating added value. In the case of INFRONEER, business innovations should be pursued by promoting concessions, alliances, M&As, and other partnerships for the purpose of carrying out plans for establishing a solid position in the highly competitive global infrastructure business.

In Japan, the national population will continue to shrink. To grow sustainably despite this, the company needs to consider advancing to Africa and other regions with strong growth

potential while also moving into maintenance and management. As an option for investing in human capital, the company should examine the possibility of creating systems to take on students from overseas and give them construction and civil engineering techniques and know-how developed in Japan, with an eye to forming future partnerships for global business expansion through networks with such students after they return to their home countries.

I also offered advice when formulating INFRONEER Car-et, a set of common values and action guidelines intended to instill a sense of unity across the entire workforce of the Group with an eye to future growth. I will commit to helping the company build capabilities to offer high added value to stakeholders through promoting innovation and human resources exchange.

Bring an Outside Perspective to Support the Building of a Solid Management Foundation

Koichi Moriya

Chairperson of the Nominating Committee / Compensation Committee Member / Audit Committee Member

Company management	Sales	Internal control	Human resources / Labor management	Overseas	IT / DX	ESG
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I come from the manufacturing sector and have no experience in the construction business, but I have been engaged for many years in global business management in Asia. In Japan, I experienced hardships due to the challenging management environment. My principal role at INFRONEER is to get an overview of the business environment to identify essential issues and offer advice based on my expertise.

In order to enter the global arena as an integrated infrastructure services provider, the company must first become a leader in the domestic market. I will strive to provide appropriate advice on the management resources—human and otherwise—the company will need to become a market leader, with the aim of contributing to the continued improvement of corporate value. Regarding overseas expansion, it is crucial to offer well-considered opinions about plans to enter highly competitive overseas markets. I recognize this as my first and foremost role as an outside director.

My thinking in regard to the essential nature of business

management goes as follows: manage business in a down-to-earth manner by ensuring compliance, maintaining transparency, communicating with stakeholders, and assuming accountability while making management decisions in a timely manner to achieve sustained growth. This holds true for all industries and business categories.

With the objective of creating a new business model as Japan's first integrated infrastructure service company and establishing these types of businesses as its growth engine, the company has adopted the structure of a company with a nominating committee, marking a first in the construction industry, and has ambitiously built strong governance systems. I will make every possible effort to essentially advance these robust systems and ensure they will not be reduced to a mere formality.

Promote Diversity as a Source of Future Competitiveness

Rie Murayama

Nominating Committee Member / Compensation Committee Member

Business strategy Financial / Accounting Sales Overseas



I have worked for foreign securities firms and built a career as an analyst in the field of construction and residential real estate. I have also drawn on this experience to serve as an outside director of a number of companies. I received an invitation to become an outside director of the company from President Kibe when MAEDA CORP. was making a takeover bid for MAEDA ROAD CONSTRUCTION CO., Ltd. I was deeply impressed by the company's ambitious approach to "de-construction" and therefore decided to accept the offer.

For the company to achieve its aim of becoming Japan's first integrated infrastructure service company, one of the most urgent issues to address is diversity. In the past year, I worked on launching a diversity network across business companies, and participated in formulating the Diversity, Equity & Inclusion Policy, a tool to foster a culture of embracing diversity throughout the Group. Lack of diversity may result

in slower personnel recruitment activities and undermine the company's international competitiveness. I will continue to advocate for the importance of diversity as a component of efforts to support the implementation of growth strategies.

I'd like to see the company become the first choice of stakeholders. To this end, it is essential to prepare a powerful equity story to facilitate stakeholder communication and convey the company's comprehensive capabilities, its primary competitive advantage. I will endeavor to support management by contributing my perspective as a former analyst and exercise my capabilities developed over many years spent engaging in capital markets to facilitate the transformation of the company.

Make Use of Analytical Expertise to Contribute to Increasing Market Capitalization

Atsushi Takagi

Chairperson of the Compensation Committee / Nominating Committee Member / Audit Committee Member

Business strategy Financial / Accounting Internal control Overseas



I worked as an analyst at several securities firms, observing the construction industry for over 20 years from the early 1990s. Back then, it was considered that MAEDA CORP. suffered from a low market valuation (PBR and PER) and its shares had low liquidity (share price x volume traded). This issue is likely to be effectively addressed by the transition to a holding company system. The shift will help the company improve its corporate value in the way that President Kibe expects, namely, by bringing it a higher valuation, resulting in an increased market capitalization.

Having moved to the holding company system, the company is more able to promote the Group's overall business strategies from a medium- to long-term perspective. Under the new corporate system, the three business companies are capitalizing on their long-established strengths to develop the concession business, a growth segment, and increasing equity spread by promoting the "de-construction" business. It is important to break away from the conventional attitude of many Japanese business managers, who pay scant attention

to share price performance—saying it is a matter for market participants rather than a matter for business operators—and focus only on business operations. Businesses should instead consider taking a proactive approach to stock price data, studying it for the purpose of increasing their performance. I believe such attitudes will give employees, customers, and suppliers alike more confidence in the company.

The company's slogan of "challenge the status quo" represents its commitment to challenge the existing infrastructure business model. I will fulfill my role in supporting the company to advance toward becoming Japan's first integrated infrastructure service company by offering rigorous evaluations and recommendations regarding not only business management but also governance, remuneration, and nomination of successors. To do this, I will draw on my experience related to the construction industry without being a slave to convention, and will obtain insights from capital markets as a representative of minority shareholders.

Directors



Director/Executive Officer
Masaaki Shioiri

Director (Outside)
Koichi Moriya

Chairperson of the Nominating Committee

Director (Outside)
Seiichiro Yonekura

Director (Outside)
Keiichiro Hashimoto

Chairperson of the Board of Directors and
Chairperson of the Audit Committee

Director (Outside)
Atsushi Takagi

Chairperson of the Compensation
committee

Director
Yasuhiko Imaizumi

Representative Executive Officer,
President and CEO
Kazunari Kibe

Chairman of the Company
Soji Maeda

Director (Outside)
Rie Murayama

► For director profiles, visit our website at: <https://www.infroneer.com/en/company/outline.html>

Skill Matrix

Name Position in the company	Expected roles and expertise items									
	Company management M&A	Business strategy Industry insights	Financial Accounting	Sales Marketing	Internal control Risk management	Human resource training Development Labor management	Engineering R&D Quality / Safety	Global Overseas business management	IT DX	ESG Sustainability
Soji Maeda Chairman of the Company Compensation Committee Member	●	●		●				●	●	
Kazunari Kibe Director Representative Executive Officer, President and CEO Nominating Committee Member Compensation Committee Member	●	●		●		●	●		●	●
Yasuhiko Imaizumi Director Nominating Committee Member Compensation Committee Member	●	●		●			●	●		
Masaaki Shioiri Director Executive Officer Nominating Committee Member	●	●		●			●			
Keiichiro Hashimoto Outside Director Chairperson of the Board of Directors Chairperson of the Audit Committee Nominating Committee Member	●	●	●		●			●	●	●
Seiichiro Yonekura Outside Director Nominating Committee Member Compensation Committee Member Audit Committee Member		●				●		●		●
Koichi Moriya Outside Director Chairperson of the Nominating Committee Compensation Committee Member Audit Committee Member	●			●	●	●		●	●	●
Rie Murayama Outside Director Nominating Committee Member Compensation Committee Member		●	●	●				●		
Atsushi Takagi Outside Director Chairperson of the Compensation committee Nominating Committee Member Audit Committee Member		●	●		●			●		

Note: The above list does not represent the complete expertise of each officer.