

# Continuing to Be a Reformer in the Infrastructure Business and Taking On the Challenge of Building a Sustainable Society as an Integrated Infrastructure Service Company

The infrastructure<sup>\*1</sup> that underpins our daily lives and the foundations of society is facing issues that could jeopardize safety and comfort in many locales. Society can no longer function simply by continuing to build and maintain infrastructure as in the past, so the idea of infrastructure itself stands at a crossroads.

Recognizing such issues, MAEDA CORPORATION (MAEDA CORP.), MAEDA ROAD CONSTRUCTION Co., Ltd., and MAEDA SEISAKUSHO CO., LTD., in October 2021 established a joint holding company—INFRONEER Holdings Inc.—to support and take up the challenge of infrastructure services<sup>\*2</sup>. Approaches that go beyond preconceived notions will be needed to address the major issue of how to maintain and sustain the infrastructure on which our social foundations rest, and one approach to achieving this is “de-construction.”

To become the integrated infrastructure service company we aspire to be, we will change our own mindset and work styles and continue to grow as a company while constantly transforming ourselves.

**Kazunari Kibe**  
Director, Representative Executive Officer,  
President, and CEO  
INFRONEER Holdings Inc.

Joined MAEDA CORPORATION in 1986; served as a Managing Officer in 2014; served as a Director and General Manager of the Management Innovation Division from 2016; in October 2021, became the Director, Representative Executive Officer, President, and CEO of INFRONEER Holdings.





What We Aim for as an Integrated Infrastructure Service Company

Our goal as an integrated infrastructure service company is to provide comprehensive and efficient services to towns, cities, and society as a whole by expanding our business into various infrastructure sectors such as roads, airports, and water supply and sewage systems, and by engaging in multiple sectors through combined endeavors by our subsidiaries, alliance companies, and business partners. The infrastructure that supports society remains an integral part of people's lives over extended periods of time. For example, bridges and roads will continue to be used for 20 to 30 years after they are built, thus requiring periodic inspection and maintenance.

We no longer live in a high economic growth period where new infrastructure is being built up continuously, so we need to focus instead on maintaining the value of existing infrastructure.

We need to provide good services in the eyes of the public whilst making our business profitable over the long term to maintain our corporate operations.

Infrastructure is an asset belonging to the nation as a whole that supports society over the long term, and we believe it is a good match for pension funds and other entities that invest from a long-term perspective. To improve capital efficiency, it is necessary to undertake capital recycling, in which owned and operated infrastructure is transferred to a pension fund and other financial institutions that cannot take on construction risk to recover the invested capital so that ultimately we as a company can suitably enjoy profits while increasing the capital of society as a whole.

► For details on capital recycling, see page 23.

As an integrated infrastructure service company, we will pursue a growth strategy of both maximizing added value throughout infrastructure lifecycles and value chains and maintaining and expanding our own revenue base by integrating all aspects of the infrastructure lifecycle, encompassing planning, proposal, construction, operation, and maintenance. In addition to growing our own and our partner companies' core businesses, we will actively engage in M&A and alliances to expand our overall scope of business.

Achieving Integrated Infrastructure Services

To realize the integrated infrastructure services that the INFRONEER Group is aiming for, we must be firmly committed to transcending the construction industry's conventional wisdom and promote digital transformation (DX) to revolutionize the entire industry and even industries with which we have had no previous association. We must continue making a variety of efforts to raise citizens' awareness of infrastructure as an asset for society as a whole.

One of the new challenges we have taken up with our partners is the TEKKON co-creation initiative. In 2023, we invested a total of ¥2 billion in the Whole Earth Foundation (headquartered in Singapore), which developed the popular-participatory TEKKON data collection app. The establishment of a new company to provide infrastructure management services utilizing various infrastructure data collected by the Foundation is also part of our DX transformation vision for integrated infrastructure services.

► For details on our DX strategy, see page 43.  
For information on TEKKON, see page 38 or visit our website at: [https://www.infroneer.com/pdf/en/company/topblog/kibelog\\_en\\_vol9.pdf](https://www.infroneer.com/pdf/en/company/topblog/kibelog_en_vol9.pdf)

It is also imperative to keep pace with our dramatically changing digital society, as exemplified by the emergence of Chat-GPT, a generative AI that has been the focus of much attention lately. In Japan, where the birthrate is declining and the population is aging rapidly, DX is a prerequisite for companies to survive in terms of improving labor productivity and increasing added value. I believe the essence of DX lies in the "X (transformation)," necessitating rule changes using digital technology.

In a concession<sup>\*3</sup> project, the public entity retains ownership of the facility while the private operator assumes the right to operate the facility. Data-driven operation and maintenance management are important in this regard as well. This approach should prove effective for all social and public infrastructures that INFRONEER is involved in operating, such as airports, water supply and sewage systems, exhibition halls, and arenas.

If we can achieve "X" in operating, maintaining, and managing infrastructure, the benefits will spread to existing businesses, leading to the expansion of our business domain and the creation of a new revenue base.

At the root of our various challenges is INFRONEER's unwavering commitment to resolving the issues faced by Japan's infrastructure. With the establishment of INFRONEER Holdings, we announced our strategy for putting this commitment into practice in our INFRONEER Vision 2030, a medium- to long-term business plan that has three strategic pillars: productivity reforms, establishing a new revenue base, and strengthening and improving our corporate culture. The INFRONEER Group will continue to do what has always been important to it and, as a means of attaining these, we are expanding the areas we have been working on, taking on the challenges of "de-construction," and creating added value for local communities.

► For details of our medium- to long-term business plan, see page 37 or visit our IR information website at: <https://www.infroneer.com/en/ir/>

To bolster our internal structures in support of these initiatives and to develop DX talents, we are also in the process of reforming our personnel system to ensure it will motivate employees to take on new challenges. In financial terms, we will continue investing in human capital to further increase added value. We place the utmost importance on enhancing our added value as a

company by investing in human resources as much as in R&D for future business growth.

► For details on our human resources strategy, see pages 43 and 55.

Thoughts and Resolve Underlying "Construction x De-construction"

We in the infrastructure business have always asked ourselves what genuine value we can provide to society, and one of the conclusions we have reached is the idea of "de-construction." MAEDA CORP. has made "de-construction" a pillar of its management strategy for the past 10 years.

"Construction" is a type of contract arrangement in which a contractor promises to complete a project and is paid by the commissioning entity for the outcome of the work. In the construction industry, this means that the client places an order for construction work, and the contractor receiving the order—the main contractor—brings together specialized construction companies to guarantee the completion of the construction work for the client.

The symbolic term "de-construction" as used by the INFRONEER Group does not mean that we do not engage in the "construction" business; instead, it indicates that we are not bound by, and are actively going beyond, the conventional business model of "construction."

"De-construction" also implies that the INFRONEER Group is willing to take on the business risk of projects.

For example, it means that the INFRONEER Group will not only be involved in construction contracting but also acquire the rights to operate social infrastructure, such as airports and water supply and sewage systems, and toll roads, and handle the entire infrastructure life cycle, including construction, operation, maintenance, and management.

The infrastructure business involves business risks and sometimes large investments but, by leveraging the engineering capabilities<sup>\*4</sup> and financial expertise we have cultivated, we can minimize risks and generate large returns.

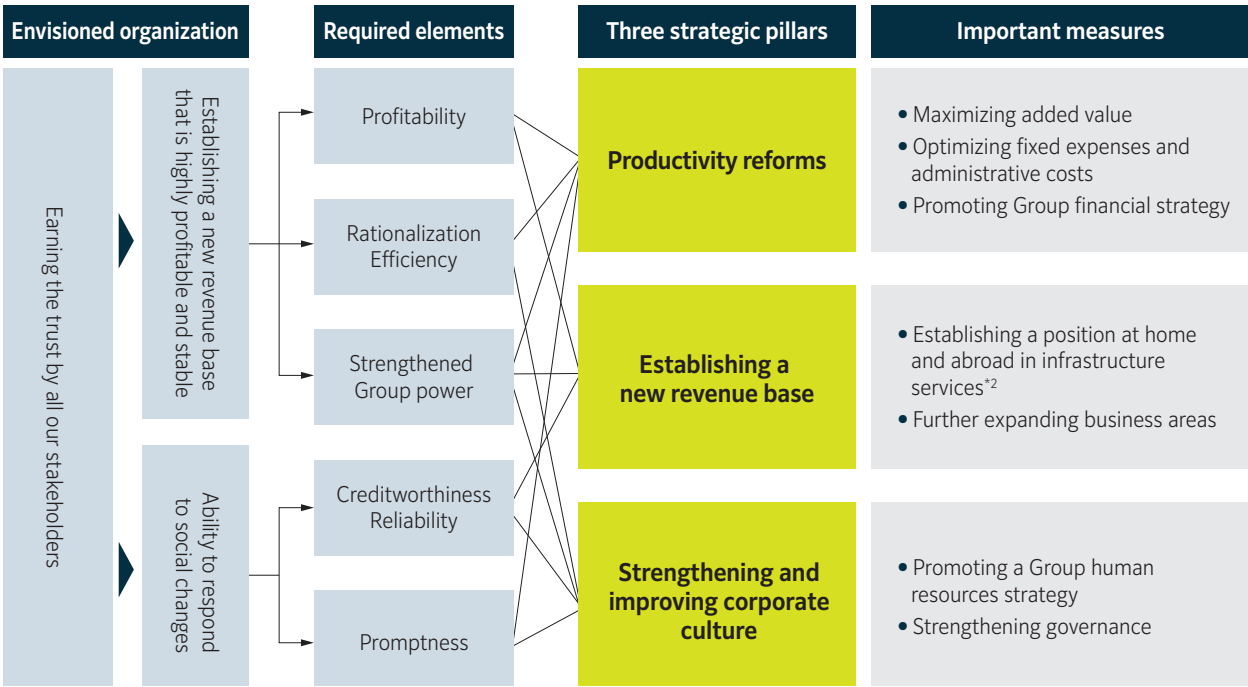
This is where I envision the future of the INFRONEER Group. It is not just about changing the way we do business itself. It entails changing the way we think and work as a company.

As the "construction" business requires us to build to the specifications demanded by the client, there is not much room for exercising our own imagination. If we are going to pursue "de-construction" and take risks in our business, we need to switch to a "de-construction" mindset that lets us properly communicate our opinions to the client from the standpoint of a business partner, and work together to build robust infrastructure. I believe that we will consequently be able to realize the vision of the INFRONEER Group as an integrated infrastructure service company.

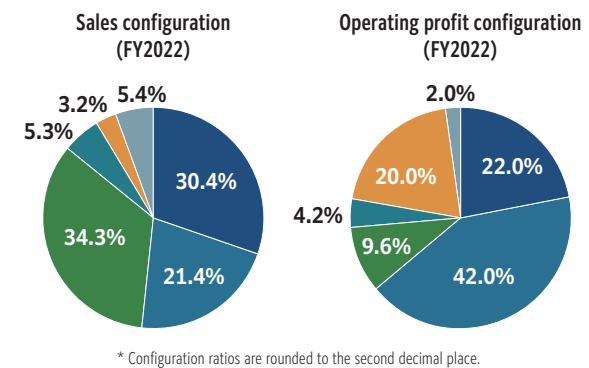
► For more details on our business model, see page 21.

Three Strategic Pillars and Important Measures

To achieve our envisioned organization, we have formulated key measures for each strategy with productivity reforms, establishing a new revenue base, and strengthening and improving our corporate culture as the three pillars of our strategy.



Comparison of "Construction" and "De-construction"



Net sales: ¥709.6 bil.	Operating profit: ¥40.5 bil.
Building construction: ¥215.5 bil.	Building construction: ¥8.9 bil.
Civil engineering: ¥152.0 bil.	Civil engineering: ¥17.0 bil.
Road civil engineering: ¥243.7 bil.	Road civil engineering: ¥3.9 bil.
Machinery: ¥37.3 bil.	Machinery: ¥1.7 bil.
Infrastructure management: ¥22.5 bil.	Infrastructure management: ¥8.1 bil.*
Related businesses: ¥38.6 bil.	Related businesses: ¥0.8 bil.

\* Operating profit ratio between "construction" and "de-construction"  
Target for FY2030: 50:50  
Result of FY2022: 80:20

Out-of-the-box Change of Mindset

Our business performance since the establishment of INFRONEER Holdings has been in line with or exceeded expectations. Even in the face of significant negative market changes, such as soaring crude oil prices and the weakening of the yen against other currencies, our business has generally proceeded as expected. For more than a decade now, our Group has been working out ways through our business activities to avoid getting caught up in price competition within the construction industry. We believe that our Group's concerted efforts to produce better infrastructure while generating adequate profits as a company are bearing fruit. While there is a clear divide between companies with favorable and unfavorable performance within the construction industry, our Group is one of the few companies that have been able to advance their business according to plan.

The INFRONEER Group is a group of three listed companies, and we were concerned when transitioning to a holding company structure that there would be adverse effects both vertically and horizontally on the ways we conduct business and work. In general, the more a company pursues its own interests and convenience, the more likely it is to be vertically divided, while "authoritarian" companies tend to be horizontally divided. However, there was no need to worry about this. Numerous employees have been working hard to eliminate these negative effects. Since the founding of INFRONEER Holdings, we have been bolstering our organizational structure to eliminate information inequalities throughout the Group and to enable each

employee to work with a sense of ownership and independence by, for example, live-streaming management meetings for all employees to see and making the minutes of Board of Directors meetings available. We have also held town meetings for executives and mid-level employees of our business companies. Rather than simply providing one-way explanations of the direction INFRONEER Holdings seeks to take and of specific achievements, these meetings are intended to encourage communication and stimulate growth throughout the Group by enabling two-way exchanges of opinions. We hope these efforts will help create further synergies.



In FY2022, I visited 13 offices across Japan twice to hold town meetings, engaging with approximately 7,000 employees over a period of 26 days.

► For details of dialogues with stakeholders, see page 25.

To create synergy, we are also reforming our internal systems and our approach to allocating human resources. To foster employees' sense of identification and unity with the Group as well as to motivate employees to improve our stock price and our Group's performance, we hold workshops to disseminate INFRONEER's VMV (Vision, Mission, Value) philosophy and its Group-wide roadmap (action agenda) and working to foster a corporate culture and improve engagement.

We have also introduced a stock benefit trust (J-ESOP) as an incentive plan that provides shares to all Group employees as well as contract employees and others who meet certain requirements. Approximately 8,000 persons are expected to be eligible for participation in this plan.

In addition to providing performance-linked shares besides current compensation, the program also grants points for childbirth and other benefits. The purpose of this is to give employees a sense of participation in the management of the company, particularly in the management of the INFRONEER Holdings Group as a whole. We will be providing detailed explanations to employees in the future, and we hope this program will provide additional motivation for our employees to improve our performance.

Additionally, we try to mix employees from the three business companies as much as possible across divisions and companies to emphasize diversity when launching new projects. The percentage of female employees in the construction industry is still low. At

INFRONEER Holdings on a non-consolidated basis, however, we are boosting the percentage to approximately 30%. Also, we have been promoting younger employees. Going forward, we seek to promote such initiatives throughout the Group to change our corporate culture and conventional thinking.

Our challenge is to create a business model that is uncharted in the Japanese construction industry. It is important to change our mindset in a way that transcends preconceived notions and goes beyond conventional ways of doing things while striking a balance between freedom and discipline. I believe this is the first step toward increasing our corporate value.

► For details of VMV, see page 1. For stock benefit trust (J-ESOP), see page 38.

INFRONEER's Concept of Corporate Value

Generally speaking, corporate value (approximated by market capitalization) is the present value of the cash flow that a company will generate in the future discounted by the cost of capital. It is my belief that the satisfaction of all stakeholders will lead to medium- to long-term improvements in corporate value (as measured by market capitalization). I think that sustainability management improves stakeholder satisfaction and contributes to higher corporate value. With the increasing emphasis on ESG (environment, social, and governance) factors, it is imperative to focus on the global environment, human resources, and human rights in our business activities. As such, we will further accelerate our investment in these sustainable initiatives.

In terms of our governance structure, we have adopted a "Company with Nominating Committee" system. This is because a sophisticated governance system that emphasizes the monitoring function of supervising business execution is indispensable for the INFRONEER Group, which is looking to enter a new domain as an integrated infrastructure service company. We believe that enhancing the effectiveness of this governance system is the key factor to increase corporate value in the future.

Overseas strategies also play an important part in increasing corporate value. The adoption of International Financial Reporting Standards (IFRS) from FY2023 is intended to ensure that accounting standards do not become a hindrance in the pursuit of a business model that can be used globally in the future. IFRS-based financial statements will enable us to compare ourselves with other companies in the same industry around the world. We can also expect smooth post-merger integration when merging and acquiring companies from overseas. We believe the adoption of IFRS will be highly beneficial in realizing our vision of "A world where there's no limit to what can be asked from and what can be delivered by infrastructure services"<sup>5</sup>.

To Our Investors

Our results for FY2022 (the fiscal year ended March 31, 2023), the first full-year financial results since the establishment of INFRONEER Holdings, show that both sales and profits increased year on year and that net income reached a record high (compared with MAEDA CORP's consolidated profit). On the whole, all segments performed well, and we expect further increases in sales and profits in FY2023.

The integrated report plays a major role in carefully explaining our management indicators, the introduction of IFRS into our financial strategy, and the concept of return on invested capital (ROIC) so that our stakeholders can better understand the steps we are taking to enhance our corporate value.

I have been exchanging views with numerous investors both in Japan and overseas through investor relations (IR) endeavors since the latter half of the 1990s. I learned at our most recent IR meeting overseas that there was great interest in our integrated report, giving me an opportunity to reaffirm the importance of disclosing information through the integrated report and other means.

Going ahead, we intend to further augment our venues for information disclosure and engagement, seek the opinions of investors and external stakeholders as well as Group employees, and find the best ways of realizing and manifesting these opinions.

We are committed to engaging more than ever with investors and enhancing our corporate value to help reinforce their optimism about the future of the INFRONEER Group. We look forward to your continued support and encouragement.



For \*1 to \*5, refer to the glossary on page 64.