

Questions-and-Answers at the 1Q Results Briefing for the Fiscal Year Ending
March 31, 2024

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Speaker: Kaznari Kibe, President and CEO

Executive Officer Yuji Hatakama

Q. Sales in the civil engineering business seems very good. Also, it seems to be up against the full-year plan. What are your thoughts on whether this will be sustained in the second quarter and beyond?

A. The **reason for this** is mainly due to the fact that we were able to obtain change orders. We have made good progress since the second quarter, and the outlook for the current fiscal year is good. We also believe that we can expect further upside.

Q. There seems to be a possibility that sales in the civil engineering business in the second quarter and beyond will be lower than in the first quarter because the acquisition of additional change orders will be brought forward to the first quarter. I would like to know the projection, or actual value, that would be assumed if there were no such advance.

A. Excluding overseas business, the **gross profit margin of our civil engineering business** has been in the range of 15% to 20% for the last 20 years, which we consider to be our capabilities. Since we currently have almost no contracts for overseas business, we believe that the likelihood of a downward swing in gross profit is low.

Q. What is the background behind the year-on-year decline in the gross profit margin of the construction business in the first quarter? Also, what are the prospects for improvement in the second quarter and beyond, and whether this is due to the acquisition of large projects or the progress of projects that have made progress in passing on prices?

A. We believe that the reason for the year-on-year decline in **gross profit margin in the construction business** is that **some** projects failed to pass on increase in material prices and other costs to construction prices. However, we plan to complete profitable large-scale construction projects in the current fiscal year. As a result, we expect an increase in net sales and gross profit margin. In addition, we will make steady progress in managing price increases and other factors.

Q. Regarding concessions, how many bids do you plan to attend this year? I would like to know the size of projects you have in mind.

A. There are one or two large projects that **we plan to bid on that** are related to water projects. In addition, there are about two arena projects that the government will be

soliciting this quarter. Future water related projects and arena projects are expected to be large. The arena project, especially if it turns out to be a greenfield project, will have a significant impact for our company, including construction profits. Concession projects, on the other hand, are unlikely to be solicited by the government for large-scale projects like the Aichi Toll Road Project.

Q. In relation to infrastructure operation projects, the government announced the Action Plan for PPP/PFI Promotion (revised in FY2023). What will change?

A. Although it has been less than two months since the announcement of the **Action Plan for PPP/PFI Promotion by the government**, we have heard that there have been a considerable number of inquiries from local governments to the Ministry of Health, Labor and Welfare, which has jurisdiction over waterworks-related projects, the Ministry of Land, Infrastructure and Transport, which has jurisdiction over sewerage-related projects, and the PFI Promotion Office in the Cabinet Office, which has jurisdiction over PFI/PPP. We have heard that there are a considerable number of inquiries from local governments. Although the local governments that are currently making such inquiries will not be soliciting projects until the next fiscal year or later, we are confident that the number of PFI/PPP projects will steadily increase.

Q. Regarding the infrastructure operation business, what kind of business development direction do you have in mind, including M&A, in the offshore civil engineering field?

A. Currently, domestic marine engineering companies are not active in participating in PPP/PFI projects. However, we believe that port-related PPP/PFI projects may be solicited in the future. We are currently considering which company to form a consortium with at that time. Important ports overseas are also operated mainly on a concession basis. China is focusing on these port-related concession projects to operate important overseas projects and ports.

For overseas PPP projects and marine engineering projects, we are considering looking for global partners, as we do not necessarily need to partner with Japanese companies.

Q. Regarding the infrastructure operation business, we expect profit growth in the current fiscal year to exceed that of the previous year. Please tell us what is your policy regarding selling those projects.

A. Our basic policy is to sell renewable energy development projects at some point. The timing of such sales is determined based on two factors: first, whether or not it is an efficient time for investment returns, and second, the state of the Group's overall earnings.

The Ozu Biomass Project is currently under construction, and our market soundings indicate that there is a demand to buy the project at this time, in stages, and after completion. We also found that some people are willing to buy the project at a higher

price if the track record is available as planned after the completion.

Since the profit from the sale of a project tends to be higher if the selling gets later, we will consider the timing of the sale of the project, taking into account the performance of the civil engineering, construction, and paving projects.

- Q. Regarding the road paving business, gross profit increased significantly in the first quarter, but are you still raising the price of construction? If so, is there a possibility of a slight deterioration in profitability considering production costs and other factors from the second quarter onward? Please tell us the current status of price increases in the road paving business.**
- A. Maeda Road** has been passing on cost increases to construction prices since last December. Our basic policy is to properly pass on cost increases to construction costs without worrying about the market share. We see ourselves as a market leader and a price leader. We will continue this policy in the future, and we will continue to pass on costs with strong determination in the current and next fiscal years.
- We have also been and will continue to pass on the price of our costs to the price of construction.
- Q. Has there been any loss of market share in the road paving business due to costs being passed on to the construction cost?**
- A.** Although it is sometimes difficult to obtain orders due to price competition, we do not believe that our market share itself has changed that much.

Q. Regarding Toshiba going private, INFRONEER has made a large investment of 20 billion yen. Please tell us more about the purpose of this investment and the prospects for the future. Also, what do you think the return on this investment will be?

A. Although our investment of 20 billion yen is not large considering that the total investment is 2 trillion yen, we will strengthen our cooperation mainly in the water business. We have high expectations for Toshiba's future management restructuring.

Q. Regarding Toshiba's going private, Mr. Kibesaid that "we have built a cooperative relationship in the field of water business." Please tell us specifically what kind of cooperative relationship there has been between INFRONEER and Toshiba.

A. We have a comprehensive cooperative relationship with Toshiba's infrastructure division in the field of water. Specifically, we jointly bid for a water supply and sewage project in Sendai. Toshiba has also invested in the Osaka Kosui project, which is currently under operation, and is also working together on its operation. Toshiba also has a stake in the Miura sewage project and is also involved in joint operations.

In the future, the INFRONEER Group as a whole will continue to collaborate with Toshiba in the water sector, basically bidding for projects together with Toshiba and jointly conducting operations.

Our basic policies and philosophies are in line with those of Toshiba, and we see Toshiba not only as a partner in building infrastructure facilities, but also as a partner in working together to generate revenue through the operation of infrastructure facilities.

Q. Regarding the treatment of employees, what is the reaction of employees to the introduction of the Stock Benefit Trust program? Also, what do you want to do about the level of employee salaries in the future? What are your thoughts on this as it relates to INFRONEER's earnings?

A. Since our Employee Stock Ownership Plan adds stock benefits to current employee compensation, we believe that not many employees are opposed to this program. In addition to linking stock benefits to performance, we have a comprehensive mix of measures, such as granting points when an employee or his/her spouse gives birth to a child. We also provide benefits to employees of consolidated subsidiaries and expect to provide benefits to about 8,000 employees in total.

Our objective in introducing this program is to encourage employees to take an interest in the management of the company, and in particular in the management of the Holdings Group as a whole. We believe that each action will make them aware of the interests not only of their own organization but also of other companies and the group as a whole, which will motivate them to improve the company's management and performance in the future.

We will provide detailed explanations to employees later on, but we hope that this system will motivate them to do their jobs better. Implementing such a system on this scale is

not common even among listed companies. I have also heard that we are the third listed company to offer stock benefits to all employees. We hope to properly inform our employees and motivate them to do their jobs.

Our goal is to increase employee salaries by 1.5 times by 2030, compared previous Maeda Corporation' s level. We are working together to increase profits by raising productivity, and we believe that we are steadily increasing annual salaries toward 2030.