

**Main Questions and Answers from the Second Quarter Financial Results Briefing
for the Financial year Ending March 2024**

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Q. The profit margin of the civil engineering segment is very high. I would like to know the background behind this. I would also like to know the outlook for the next financial year.

A. The profit margin is higher as a result of revisions to our results, including those for prior years, due to difficult design changes and more efficient construction for the large-scale projects to be completed this quarter. Those large-scale projects were very risky, and we had initially expected the risk to be high, but since we are on track to eliminate the risk, we recorded a profit amount in the second quarter.

Although the profit margin for this financial year was significantly higher than in previous years, we believe that this is a one-time event and that the outlook for the next financial year will remain at the level of the previous financial year and the two previous financial years.

Q. I would like to know your policy on the sale of Ozu Biomass in the next financial year and beyond. I would also like to know the current status of the pipeline for the development of renewable energy projects.

A. We are currently considering a sales policy in consultation with potential sellers, with both a lump-sum sale and a partial sale in mind. If a lump-sum sale is made, only the amount of profit in a single year will be very large, so we are considering this aspect as well.

As for the pipeline for the development of renewable energy projects, we are also considering offshore wind power, but due to the current depreciation of the yen and soaring material prices, profitability cannot be expected, and it will be difficult for the time being. Therefore, we would like to focus on biomass and onshore wind power. Large-scale projects are still ahead of us, but in the next financial year, we are in a situation where small- and medium-scale onshore wind power is in the pipeline for renewable energy projects.

Q. Regarding the full-year plan for the current financial year for the building construction segment, please tell us the background behind the upward revision of net sales but downward revision of gross profit. Also, you plan to increase construction completions in the next financial year, but what level of gross profit do you expect?

- A. The most significant reason for the upward revision of net sales and downward revision of gross profit for the current financial year is that we were unable to pass on higher prices and obtain additional construction work. In addition, it was difficult to place orders at lower prices. We believe that we will be able to achieve gross profit of 25 billion yen for the current financial year by thoroughly managing all construction sites and ensuring that no work is left undone.

Since the "Ozu Biomass Power Plant," a large project that is expected to be highly profitable, will be recorded on a completed basis, we expect both sales and gross profit to increase in the next financial year as well, and we believe that the gross profit margin for the full year will be around 10% as sales and gross profit will be recorded together.

- Q. This will be the last year of the medium-term plan for the next financial year, and I would like to know the level of certainty you have in achieving the goal of 59 billion in operating income.**

- A. Although we will consider the sale of Ozu Biomass and other options in light of the situation in each segment, we currently expect to achieve an operating income of 59 billion yen.

- Q. Regarding the infrastructure management segment, I would like to know again the difference between concession projects, PFI projects, and comprehensive private contracting, as well as the scale and profitability of each project. I would also like to know the outlook for the next three to five years.**

- A. Contractual risks differ greatly among concession projects, PFI projects, and comprehensive private contracting.

Concession projects have the highest risk and the greatest scope of responsibility. The risk is greater because it involves work as an ordering party that was previously performed by the government, but it also allows for greater management freedom and makes it easier to implement reforms that can generate a large return.

In PFI projects, the private sector handles the financing, but basically continues to place orders based on the government's specifications, so there is a little more risk than in comprehensive private-sector outsourcing, but not much risk and not much profit. From the perspective of the client, it is currently used in Japan as a tool to temporarily replace money with the private sector.

Comprehensive private contracting is a type of outsourcing in which work is outsourced to the private sector due to a shortage of manpower on the part of the government. Since the private sector is entrusted with the work of the government, there is no risk to the private sector, but there is almost no freedom to reform operations, so profitability is not expected to be high.

As for the future outlook, I personally believe that PFI projects in their current form will decline. I believe that Comprehensive private contracting will increase in the future as a preliminary step to transition to concession projects. Comprehensive private contracting will form a pipeline with the administration, and at the same time, it will lead to a change in the administration's awareness, which will eventually evolve into a concession project. Therefore, we are currently working to increase the number of orders for comprehensive private contracting .

Since concession projects are relatively large projects, we cannot expect to receive 10 to 20 more per year, but we think it would be ideal if we could receive 3 to 5 more per year. Comprehensive private contracting may increase by 10 projects per year.

- Q. Regarding shareholder returns, the target dividend payout ratio in the medium-term management plan is 30% or more, and it is still significantly higher at 43%. Although the medium-term management plan does not indicate a target for the total payout ratio, it is currently at a high level of 76%.**
- A. We would like you to understand that the target level of the mid-term management plan is just one guideline and is a minimum number. Actively returning profits to shareholders will lead to an increase in market capitalization and corporate value, and it can also lead to an advantage over the competition. We also believe that employee motivation is important, and the "J-ESOP system" that we will introduce in the next financial year, under which all Group employees will receive shares of our company's stock, will have a synergistic effect on motivating our employees. In this way, from various perspectives, we intend to actively maintain a high level of shareholder returns.
- Q. Regarding the Ozu Biomass Power Plant, there was a wildfire in Ozu City, and I would like to know the impact of the fire. I would also like to know about the impact of procuring pellets from overseas.**
- A. There is absolutely no impact on the site. As for pellets, as the plant is currently under construction and we have not yet imported any pellets, there is no impact.
- Q. In the building construction segment, orders have been increasing steadily for the past five years, but I would like to know if there will be any impact on the capacity to increase the amount of work completed in the next financial year and beyond as the reform of work styles progresses. In addition, please tell us if it is correct to say that you are currently responding adequately to the reforms in the way you work.**
- A. We have large-scale projects in the next financial year and beyond. For example, we have a project in Nishi-Shinjuku that will be worth more than 150-billion-yen next year, and we believe that the performance of the building construction segment will continue to grow steadily.

In terms of construction capacity, we are aggressively forming JVs with other companies in the same industry, and our fairness in terms of JV ratios and profit sharing has been well received. We intend to continue to increase our construction capabilities by forming alliances with other companies.

We have already implemented work style reforms for projects scheduled to be constructed in the next financial year and the year after next.

Q. Just the other day there were reports of M&A by general contractors. With the shortage of workers and engineers becoming even more serious, if you were approached with a proposal to join the Infroneer Group, would there be a possibility of reorganizing your company to transition from a semi-major to a major general contractor in the future?

A. Firstly, as a general contractor, we are not considering increasing our sales or elevating our stage. In addition, with significant changes in the market, we are seeing an increase in design-build projects in our building construction segment and civil engineering segment, and we expect the proportion of such projects to continue growing. In such a case, I think it is necessary to make our technical and laboratory capabilities more advanced than the number of on-site personnel and the structure of our subcontractors. In other words, rather than reorganizing to increase sales, we would like to consider reorganizing to increase our capabilities as an integrated infrastructure service company, which is our philosophy.