

Main Contents of Q&A from the FY2023 3rd Quarter Financial Presentation

Date: February 9, 2024 Friday 13:30-14:10

Presenters : President and CEO Kazunari Kibe/ Executive Officer Yuji Hatakama

- Q. Despite your company's past success in recovering from cost increases in the Building Construction segment, this time you have made a downward revision from the initial full year plan. Is this because the profit is expected to be postponed until the next fiscal year, or is it due to a significant increase in material prices?
- A. The main reason for the downward revision is our inability to place low-cost orders with our partner companies. Among these, the rise in labor costs is the primary factor that has prevented us from placing such orders. We have been negotiating with the owners about passing on costs, but the situation is challenging because the increase in labor costs is not reflected in the inflation index. For the projects we plan to take orders for in the next fiscal year, we are currently negotiating with the owners with new price offers that reflect the price increase. As such, we believe that the issue of profit decline due to cost increases will be minimized from the next fiscal year onwards. The Construction Deflator (“the Deflator”) is used for price change negotiations based on the “indexation clause”, but the rapid increase in costs, especially labor costs, is not reflected in the Deflator for the 2Q of this fiscal year, making negotiations with owners difficult. We will continue to negotiate to recover the difference between the Deflator and the actual costs in the 4Q.
- Q. I would like to know how confident you are in achieving the operating profit target of 59 billion yen as we approach the final year of the medium-term management plan in the next fiscal year. Do you anticipate selling projects developed by Japan Wind Development Co., Ltd. ("JWD") and the biomass power generation project in the next fiscal year? Additionally, how do you foresee the performance of the Infrastructure Management segment?
- A. We are gearing up to sell the Ozu Biomass Power Plant, which we had decided not to sell this fiscal year, as construction will be completed this summer. We are also closely scrutinizing the details of the projects developed by JWD and we are preparing to achieve the operating profit target of 59 billion yen for the next fiscal year, factoring in the sale of these projects.
- Q. Regarding the Civil Engineering business segment, while there is a possibility of obtaining design change orders in the 4Q, it appears you are not anticipating a significant performance improvement. I would like to know your expectations for obtaining design change orders in the 4Q. Also, the profit margin for this fiscal is quite high, but should we assume that it will be challenging to maintain the same level of profit margin in the next fiscal year?
- A. There is still potential for obtaining design change orders in the 4Q, but please understand that there are not expected to significantly improve performance, as our full-year forecast already takes into account the 4Q as of the 3Q. In next fiscal year, it may be challenging to secure large design change orders as consistently as this fiscal year, but we anticipate maintaining the usual profit margin.
- Q. The operating profit forecast for the Road Pavement segment for this fiscal year is 7.6 billion yen, and it appears that profits are recovering due to the progress of cost pass-on. However, I don't believe the level of 7.6 billion yen is particularly high compared to the past levels for Maeda Road. I would like to know whether profits will recover further from this level, or if they have already reached a certain level.
- A. We are currently in the process of passing on cost, so we anticipate a further improvement in profits. Maeda Road had previously achieved an operating profit of nearly 10 billion yen, and we believe that there is a good

possibility that profits will return to the 10 billion yen level, depending on the stability of material costs and the status of orders.

Q. Is it correct to say that the issuance of bond-type shares, like bonds, does not carry the risk of dilution of voting rights? While it appears that the goal of shareholder returns has been met, could you please provide more details on your plans or strategies for shareholder returns moving forward?

A. We have not made a decision to issue bond-type shares, but please understand that we have expanded our fundraising options this time. Subordinated bonds, subordinated loans, and bond-type shares do not dilute voting rights upon issuance, so we are considering using one of them as a fundraising method. We do not plan to conduct a public stock offering that would dilute voting rights. We have not yet decided on a plan for future shareholder returns, but we are considering the possibility of distributing dividends higher than last year, taking into account factors such as the potential increase in profit in the second half of the year. Our policy is to return to shareholders if we can consistently increase profits.

Q. Regarding the concession business, it appears that bids for water supply/sewerage facilities and arenas are progressing steadily. Are there any other projects that you anticipate bidding on?

A. In the concession business, we bid on water supply/sewerage facilities projects and arena projects that qualify for subsidies. The "Level 3.5" in Water PPP policy indicates that the project will transition to a concession business in the future. "Level 4.0" are those that are initiated as concession businesses from the start. These projects receive substantial subsidies from the central government, so many local governments are considering issuing Water PPP projects. water supply/sewerage facilities projects of local governments that have been planning for several years have now reached the stage where the implementation policy is issued and the call for proposals will be announced shortly. Similarly, for arena businesses, many local governments are considering introducing them due to the potential to receive subsidies from the central government. In local governments that have been planning for several years, I think some projects will be issued next fiscal year. In addition, I heard that the recent Noto Peninsula earthquake caused significant damage to the water and sewage systems. I think the water charge income in the Noto Peninsula region was about 500 million to 1 billion yen, but it is said that it will cost several tens of billions of yen to restore the water and sewage systems. Therefore, even if subsidies are granted, it has become clear again that it is very difficult to maintain the facilities with the water charge income alone. In response to this, it is expected that local governments nationwide will further consider privatizing water supply businesses. We are also receiving significantly more inquiries from local governments. After preparing for the next fiscal year, we expect that more water supply/sewerage facilities projects than expected will be issued as concession businesses from the year after next. In addition to water supply/sewerage facilities projects and arena businesses, preparations for several projects are underway, but I think that large projects will not be issued until the year after next.

Q. Now that the share transfer contract for JWD shares has been closed, could you provide specific materials demonstrating how to increase the profits of the Infrastructure Management segment, including the profits from JWD, when disclosing the full-year financial results or the expected performance for the next fiscal year? If the gain on project sales increases revenue, it will turn into a rotational business model similar to a real estate company, which won't enhance your company's valuation. There are many instances where performance is strong, but the stock price does not increase. I believe it is necessary to demonstrate that INFRONEER is generating profits sustainably, rather than relying on one-off profits from project sales, to improve valuation. Could you present this policy when the full-year financial results are disclosed?

- A. We plan to clearly explain how we aim to increase the profits of the Infrastructure Management segment from the next fiscal year at the time of disclosing the full-year financial results. We appreciate your patience until then.
- Q. Many companies worldwide are facing challenges in the renewable energy business. There are projects that are interrupted or discontinued because the return on investment does not meet expectations. However, for instance, in the United States, there seems to be a policy to promote businesses in favor of renewable energy developers. In such a situation, I would like to understand how you view the business in light of a tightening investment environment in the renewable energy sector. Also, this week, there were reports that TEPCO will start requesting output control of electricity from this spring in its service area. In Japan, electricity demand is decreasing, and we are at a stage where a considerable number of coal-fired power plants need to be shut down due to a mismatch in supply and demand. If that is the case, I believe the return will decrease compared to the initial estimate. Do you have any measures to claim compensation from insurance companies when the return is insufficient? I would like to know how you plan to deal with the output control of electricity.
- A. In the renewable energy business, the environmental value is significantly increasing. Particularly, the number of companies joining the "RE100" initiative is on the rise, and we believe that the price of electricity produced from renewable energy will significantly increase. This is a global trend. On the other hand, while the energy business market in Japan may be shrinking due to the declining birthrate and aging population, the recent surge in digitalization has led to a tremendous increase in energy usage. Many experts predict that electricity consumption will increase more than the decline in population. We are not overly concerned about the temporary output control. Instead, we believe that the supply of renewable energy will increase through the supply of battery systems. According to newspaper reports, the United States and the United Kingdom are providing incentives for wind power generation projects. We are advocating for changes in the mechanism for selling electricity generated by offshore wind power in Japan as well. We hope that the fact that the United States and the United Kingdom have implemented such policies first will lead to higher rates for electricity generated by renewable energy in Japan as well.
- Q. I would like to revisit the positioning of Toyo Construction within your company. I had thought that the large sum invested to acquire JWD would make it difficult for INFRONEER to make other investments. However, coincidentally, YFO also withdrew the TOB for Toyo Construction at that time. Given this situation, I believe the judgment on investment in Toyo Construction is neutral for the time being, but I would like to know your current views on marine civil engineering.
- A. We can only officially reiterate what we have stated before, but there is no change in the fact that Toyo Construction is an equity method affiliate in which we hold a 20% stake. We had Toyo Construction construct the pier that receives the pellet transport vessels used at Ozu Biomass Power Plant, which we decided not to sell. We are also considering collaborating on several offshore wind power projects that we are currently planning. The relationship between Toyo Construction and us remains the same as the one we have cultivated over the past 20 years, barring any major changes. Unless there is a significant shift, we plan to continue fostering synergy in the same manner as we currently are.