

Summary of President's Speech and Main Questions and Answers Financial Results Briefing for FY2024

1. Summary of President's Speech

I will now give a summary of the Medium-Term Business Plan, as well as the business environment and other factors at the end of the first year of the plan.

Overview of Financial Results

- Group net sales and profits at all levels improved significantly in FY2024 compared to the previous fiscal year.
- Net sales increased due to the steady execution of a strong backlog of orders in Civil Engineering and Building Construction. Operating income rose sharply, recovering from the previous fiscal year in which Taisei Corporation's Building Construction segment recorded a large provision for loss on construction contracts.
- Increase in net income is attributable to the one-time amortization of negative goodwill recognized in relation to M&A, and the faster-than-expected progress of the reduction of cross-shareholdings.
- Partly due to the contribution throughout the year of companies that became newly consolidated subsidiaries in FY2023, the Taisei Group as a whole delivered results that exceeded the first-year targets of the Medium-Term Business Plan. I feel that this is an excellent start.
- Regarding the financial results for FY2025, we expect both net sales and profits to decrease compared to the strong results in FY2024.
- We expect that gross profit will decrease only slightly and will be maintained at about the same level as in FY2024, despite the impact of the decrease in net sales, as profitability in Building Construction is expected to improve. However, we expect operating profit to decrease as SG&A is expected to increase.

Progress of Group Building Construction Business

- We have made steady progress on the priority measures identified as being key to delivering results during the period of the Medium-Term Business Plan from FY2024 to FY2026.
- Regarding the rebuilding of the Group Domestic Building Construction Business, we faced two main challenges: expanding the system for the performance of works for construction projects, and appropriately reflecting the rising cost of construction materials in contract prices.
- As for the system for the performance of works, we have significantly increased and are still continuously increasing the number of new graduates and mid-career hires that we are recruiting.

- As for appropriately passing the soaring prices of construction materials on to our contract prices, our negotiations with owners, including top-level negotiations, continue. As a result, the profitability at the time of order in Building Construction has recovered significantly, and the profit margin of Domestic Building Construction of Taisei Corporation is steadily improving.
- In FY2024, we secured orders for many large projects, such as data centers, semiconductor-related projects, pharmaceutical plants, and redevelopment projects, by investing management resources in advantageous fields.

Initiatives for Group Overseas Business and Human Capital Expansion

- Aiming to ensure that the stable profit in Overseas Business continues, we are focusing on various measures during the period through FY2030, which is designated as the foundation development period.
- In April 2024, our international branches were reorganized as the International Operations Headquarters, and we have started integrated construction and development sales activities, among other initiatives.
- We are making steady progress in developing a structure for the future, such as establishing a local subsidiary in India, where medium- to long-term growth can be expected, and delegating authority to overseas subsidiaries.
- Regarding the enhancement of human capital, we have significantly revised our human resources system in FY2024 in view of the increasing competition for securing human capital and changes in employees' needs. These changes will be gradually implemented in FY2025 onward, and we will work to ensure they are well understood and take root throughout the organization.

Progress of Investment Plan and M&A

- Regarding the progress status of our investment plan, against the 3-year investment plan of 350.0 billion yen in total, the actual investment result in FY2024 was 66.8 billion yen, and the progress rate was 19%.
- The above level seems low because it reflects the effect of the recovery ahead of schedule of investment in the Real Estate Development Business. If we exclude this effect, the progress rate of investments is 33%, which is steady progress in line with the plan.
- Regarding M&A, we entered into a capital and business alliance with Heiwa Real Estate Co., Ltd. in June 2024.
- As for PS Construction and Satohide, which joined Taisei Group in FY2023, the post-merger integration process (PMI) is currently ongoing in order to produce synergy with them, and it is already delivering certain results. We will continue to actively pursue M&A activities going forward, independently from our investment plan.

Financial Policy and Shareholder Returns

- We will introduce a “dividend payout ratio subject to lower limit” of 30% from the next fiscal year as a new dividend policy for the purpose of expressing our strong commitment to realizing the targets of the Medium-Term Business Plan and to be in compliance with the dividend policy.
- This will guarantee 150 yen as the lower limit, which is calculated by multiplying the beginning-of-the-year net income forecast of 80.0 billion yen by the dividend payout ratio of 30%, and we will revise the dividend forecast upward based on the dividend payout ratio of 30% if the financial results exceed the forecast.
- We will implement share repurchases flexibly based on our financial policy in the same manner as before.
- For the purpose of enhancing value per share, we are prioritizing the reduction of the total number of issued shares over the increase of dividends, and have continued to implement share repurchases and cancel our treasury shares over the last 10 years.

Recognizing that our dividend payout ratio and dividend yield are inferior to those of other companies, we are planning to introduce a shareholder return policy focusing on dividends, such as raising the dividend payout ratio, once we see a clear path toward reducing our total number of issued shares to around 140 million shares.

Toward FY2026

- In the wake of various issues such as inflation and work style reforms, the current construction industry is at a turning point where industry practices are undergoing significant changes. To achieve stable and sustainable growth in such times, we are aware that it is crucial not only to enhance profitability but also to actively engage in growth investments.
- In particular, our “human capital” is an important asset of ours. Starting with human resources system reforms that will begin earnestly from FY2025, we will accelerate our investments in human capital.
- We will also further advance industry transformation through means such as growth through M&A, as we consider it a medium to long-term critical issue.
- We are making steady progress toward achieving the net profit target of 80.0 billion yen in the final year of the Medium-Term Business Plan.
- We will promote measures leading to the growth and increased corporate value of the Taisei Corporation Group as a whole with a flexible attitude while continuing to adapt to the ever-changing external environment.

2. Main Questions and Answers

- Q. Does it seem that the FY2025 forecast is conservative?
- A. We have made an achievable plan, and there may be an upward boost in some cases.
- Q. Is there a risk of recording losses due to orders received for large construction projects under negotiation?
- A. While there are large construction projects under negotiation, it is assumed that they will definitely be profitable upon completion. Apart from large-scale projects planned before the inflation crisis, orders for Domestic Building Construction are currently received with a target of the gross margin on completed construction contracts of 10%, and we expect profits to emerge gradually.
- Q. Although you told us that there was no risk of loss in a backlog one year ago, a provision for loss on construction contracts was recorded in this fourth quarter. Will there be a similar risk in the future?
- A. The provision recorded this time was processed to the extent it could be reasonably estimated at this point in time in accordance with accounting rules. All items to be recorded as provisions in backlogs have already been processed. However, we cannot deny the possibility that a provision for loss on construction contracts may be recorded if an inflation adjustment clause is still under discussion for accounting purposes, whether the project in question is an existing or new one.
- Q. The reasons for which SG&A is planned to increase by 15.0 billion yen would include the impact of human resources system reform. Will SG&A also increase in FY2026 onward at a pace exceeding 10.0 billion yen?
- A. Investments in human capital in the three-year investment plan have been set to be 35.0 billion yen, and accordingly, SG&A will not increase by 10.0 to 15.0 billion yen each year. However, there is a possibility that personnel expenses will increase temporarily, depending on the increasing competition for securing human capital.
- Q. If the target for reducing the total number of issued shares is set to be 140 million shares, it would be necessary to repurchase a further 150 billion yen's worth of the company's own shares. Could you tell us about the time frame for achieving this goal?
- A. We consider that it would be difficult to achieve this goal in the remaining two years of the current plan. We would like to achieve it in the next plan period and adopt a new dividend policy.
- Q. Am I right in thinking that you will reduce the total number of issued shares further by 2,000 shares as soon as possible, while monitoring your cash position from time to time?
- A. That's right. Regarding the current share repurchase of 150.0 billion yen, it is assumed that cash will be generated through the sale of cross-shareholdings over three years. In the future, we would like to implement share repurchases in a timely and flexible manner,

taking into comprehensive consideration factors such as the business environment, the status of growth investments, and cash allocation.

- Q. It seems that the gross margin on completed construction contracts in Taisei Corporation's Building Construction is improving steadily. At what pace do you expect the margin to improve in FY2026 onward, and when do you expect it to reach 10% or more? To what extent is there potential for improvement?
- A. One of our current top-priority issues is the improvement of profitability in Domestic Building Construction. Although an improvement of just under 3% is expected in FY2025, we would like to make more improvements. To do so, it is important to pass on construction costs in contract prices further. We believe that it is quite possible to improve the profit margin up to about 12% in FY2029 as the next plan period, but firstly, we would like to raise it to the 10% range in FY2026.
- Q. It seems that some projects have been discontinued or postponed due to soaring construction costs. How do clients react in response to such cost increases and the improving performance of general contractors? Could you tell us whether there is room for customers to accept factors such as rising office rents and apartment prices?
- A. We receive orders and enter into contracts on the assumption that labor costs will rise steadily and material prices will remain high in the future. We have also experienced certain plans being postponed or suspended due to the increase in costs. In particular, it is becoming difficult to build new offices as office rents are not increasing. On the other hand, we have not suspended the construction of apartment buildings, as the prices of condominiums are rising in proportion to the rise in construction costs.
- Q. I have the impression that you are actively working on M&A and industry restructuring in Japan. Through the three previous cases, are you receiving more information and more opportunities than before, or are you struggling with a post-merger integration process (PMI)? Could you tell us your current thoughts on this matter?
- A. We would like to continue M&A going forward. While these three cases were the first M&A deals we conducted on our own initiative, PMI progressed smoothly in all cases, giving us confidence. We feel that more information is coming in than before.
- Q. Projects for which a provision for loss on construction contracts has already been recorded will progress even during the next plan period. Am I right to assume that profitability will improve overall?
- A. Most of the projects for which the provision has been recorded have long construction periods, and accordingly, the impact would remain in the next plan period. On the other hand, profitability is improving in other projects, and in some projects, even a double-digit gross profit ratio is being achieved. As projects are replaced, the overall situation will improve. We will receive orders for projects on the assumption that profits are

secured, and accordingly, we expect that the amount of provisions will gradually decrease.

- Q. Regarding your establishment of a local subsidiary in India, are you mainly targeting real estate investment projects by Japanese companies or expanding business in India, including local and foreign-owned companies?
- A. Ongoing projects are being handled by major Japanese developers. We are planning to expand our business, focusing on domestic projects in India.