

Capital Policy in the Medium-term Management Plan

~Update based on dialogue with the capital markets~

January 31, 2025

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● Introduction

- The medium-term management plan "Sustainable Growth 2026: People, Passion, and the Future" has entered the second half of the six-year plan, and we are steadily making progress in our initiatives to achieve the growth vision.
- In this context, in the "Growth Investments in the Medium-term Management Plan and Initiatives to Enhance Corporate Value" released on January 31, 2024, we presented our "Approach to Capital Policy," which stipulates strengthening shareholder returns based on the "Approach to Value Co-creation with Multi-stakeholders" and "Growth Investments Centered on Human Resources."
- Based on our dialogue with the capital markets following the disclosure of our "Approach to Capital Policy," we will disclose an update on our policy of reducing cross-shareholdings and capital efficiency improvement as further initiatives to enhance corporate value.

● Capital Policy Update: Highlights

| Items | Initiatives toward FY2026 | |
|--|---|--|
| | Before the Update | After the Update |
| <div>Ongoing</div> <p>Growth Vision for FY2026</p> | <p>"Aiming for management with consolidated sales of on a scale 700 billion yen"</p> <p>As growth indicators: consolidated sales of around 700 billion yen, and consolidated operating income of around 50 billion yen</p> | |
| <div>Updated</div> <p>Reduction of cross-shareholdings</p> | <ul style="list-style-type: none"> Cross-shareholdings: Plan to reduce holdings from 117 stocks in FY2022 to 88 stocks during the period of the medium-term management plan (reduction amount: approximately 11 billion yen) | <ul style="list-style-type: none"> <u>Cross-shareholdings: Promote reduction to a target of approximately 10% of net assets during the medium-term management plan</u> |
| <div>Ongoing</div> <p>Return to shareholders</p> | <ul style="list-style-type: none"> Targeting a dividend payout ratio of 40% on a total basis* over the medium-term management plan period Targeting a total payout ratio of 50–60% on a total basis* over the medium-term management plan period <p>* Since announcing this initiative, FY2023–FY2026</p> | |
| <div>Updated</div> <p>Capital efficiency</p> | <ul style="list-style-type: none"> Secure ROE that exceeds the cost of shareholders' equity | <ul style="list-style-type: none"> <u>Secure ROE that exceeds the cost of shareholders' equity</u> <u>Target for the initiative to improve capital efficiency: ROE of 7% or more</u> |

● Capital Policy Update: Basic Concepts 1/3

Our financial policy: Maintain a stable financial base

- Our company has a mission to support social infrastructure, including electricity supply.
- We are required to conduct stable business operations, which not only necessitate securing working capital but also preparing for various unforeseen circumstances, such as economic downturns and long-term disaster recovery efforts, and maintaining the employment of our human resources, our greatest asset.
- Above all, for our company, the employees are its capital. In the future, the strengths of human resources and human capital will become the most critical factors for determining corporate value.
 - ✓ Developing excellent human resources differentiates us from other companies and fosters our competitive strength.
 - ✓ Our company's sustainable growth and development through continuing investment in its employees and co-creation of value with multi-stakeholders lead to long-term improvements in shareholder value.



- **In addition to stably operating the business, we will maintain a stable financial base that provides the financial strength necessary to invest in human resources, enabling us to respond flexibly to various changes in the management and business environments.**

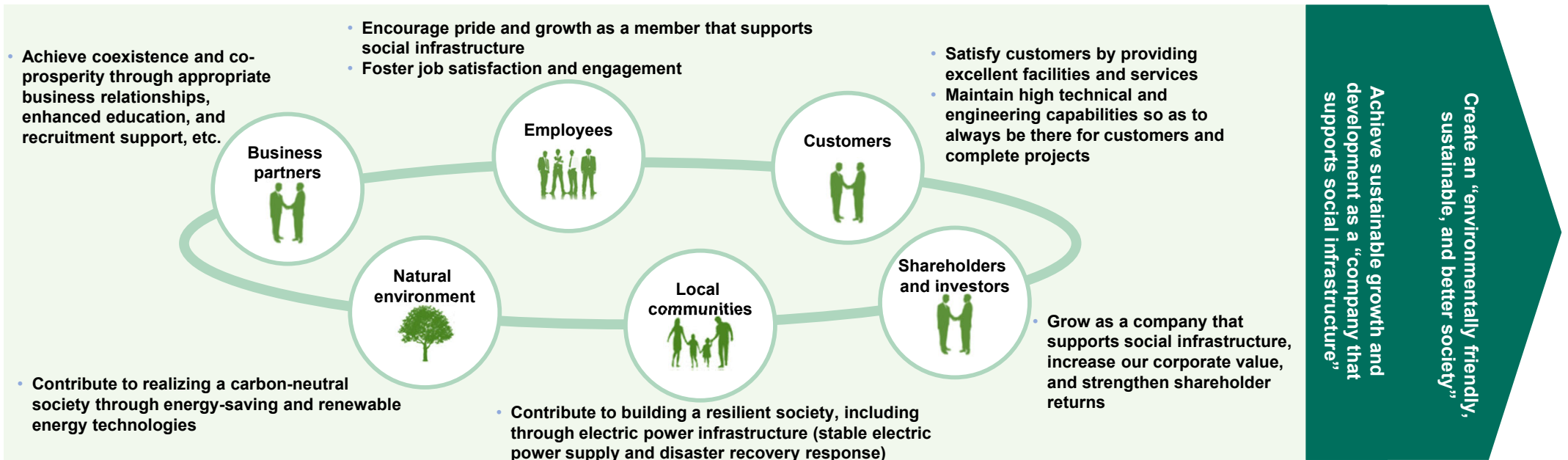
(Repost) Co-creating Value with Multi-stakeholders

Excerpt from the "Growth Investments in the Medium-term Management Plan and Initiatives to Enhance Corporate Value" disclosed on January 31, 2024

Kinden



Create value for stakeholders by investing in growth centered on human resources. (Social value ↗ + Environmental value ↗ + Economic value ↗) = Increased corporate and brand value → Sustainable growth and development as a “company that supports social infrastructure”




Ongoing

● Capital Policy Update: Basic Concepts 2/3

Aiming for management with consolidated sales of on a scale 700 billion yen as a long-term growth vision for fiscal 2026

- The thoughts behind the medium-term management plan are as follows:
 - ✓ Even in the face of various changes in the construction industry and market environment, our company must continue to make steady progress toward sustainable growth and development. We must meet the needs of our customers and society as well as fulfill our responsibilities as a company that supports social infrastructure.
 - ✓ To that end, we will proactively develop and expand our foundation centered on human resources, working toward growth with a future vision that aims for even greater heights.
 - ✓ This will lead to greater trust from customers and society and make us an appealing company that attracts people, technology, and attention from society.

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- **Now that we are in the second half of our medium-term management plan, we are steadily moving forward with business infrastructure development, which will contribute to management with consolidated sales of on a scale 700 billion yen, including growth investment centered on human resources. We are on track to realize our growth vision.**

● Capital Policy Update: Basic Concepts 3/3

Appropriate cash allocation while maintaining our stable financial base

- Cash inflows come from operating cash flow and the sale of cross-shareholdings.
- Cash outflows come from growth investments centered on human resources, shareholder returns, and the change to the payment terms for materials.
 - ✓ The payment terms for materials were changed in December 2024 (abolishing notes payable and switching to full cash payments).

Our company aims to build better, stronger partnerships with its business partners in the supply chain.



These measures reduce assets, capital, and liquidity on hand, thereby improving capital efficiency.

(+) Operating cash flow during the medium-term plan period



(-) Growth investment centered on human resources

(+) Sale of cross-shareholdings

(-) Shareholder returns (dividends and flexible share buybacks)

(-) Change to the payment terms for materials

Streamlining the balance sheet through appropriate cash allocation

Updated

● Capital Policy Update: Initiatives 1/3

1. Reduction of Cross-shareholdings

Cross-shareholdings: Reduce to a target of approximately 10% of net assets during the medium-term management plan period

- Although we are moving to reduce our cross-shareholdings, we hold shares in business partners that we judge to be investment grade and necessary for expanding business and strengthening relationships with such partners.
- We examine the appropriateness of holding each cross-held stock, considering factors such as stock prices, our trading performance with the relevant business partners, the risk and return of holding the shares, and our long-term trading relationship with such partners.

- ✓ We disclosed a plan to reduce cross-shareholdings on January 31, 2024.
 - We plan to reduce the number of cross-held stocks to 88 in FY2026. Estimated reduction amount: Approximately 11 billion yen (trial calculation based on stock prices at the time)

* Results for FY2023 (as of March 31, 2024): 102 stocks, representing 17.8% of net assets (15 stocks were sold in FY2022)

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- **Accelerate the reduction in the amount of cross-shareholdings, aiming to reduce such holdings to approximately 10% of net assets during the medium-term plan period.**

Ongoing

● Capital Policy Update: Initiatives 2/3

2. Shareholder Returns

Targeting a dividend payout ratio of 40% and a total payout ratio of 50–60% on a total basis* over the medium-term management plan period

* Since announcing this initiative, FY2023–FY2026

- Our company continues to consider the distribution of profits to shareholders as a management priority and has a basic policy to continuously pay a stable dividend according to its business performance and financial situation.
- In the disclosure dated January 31, 2024, our company announced that shareholder returns would be strengthened, including a phased increase in the level of dividends and flexible share buybacks, and set the KPIs shown above.



We aim to provide value to our shareholders through total returns that combine income gains and capital gains.

Updated

● Capital Policy Update: Initiatives 3/3

3. Capital Efficiency

**Continue to secure an ROE that exceeds the cost of shareholders' equity;
target for the initiative to improve capital efficiency: ROE of 7% or more**

Strengthening profit-generating capabilities (Returns)

Investment in business infrastructure

New offices in the Tokyo metropolitan area: 80 billion yen scale

Investment in education infrastructure

New education-related facilities: 40 billion yen scale

Investment in growth areas

Investment in business/M&A, etc.: 20 billion scale

Increasing capital efficiency (Equity)

Reduction of cross-shareholdings

Streamlining of the balance sheet

Strengthening of shareholder returns

Phased increase in dividend levels
Flexible share buybacks

**Continue to secure an ROE that exceeds the cost of shareholders' equity;
target for the initiative to improve capital efficiency: ROE of 7% or more**

- While adhering to our financial policy of maintaining a **stable economic foundation**, we will **strengthen our profit-generating capabilities** through growth investment centered on human resources and **improve the efficiency of our equity capital** by strengthening shareholder returns and reducing cross-shareholdings, thereby **improving capital efficiency from a medium- to long-term perspective** and **ensuring an ROE that exceeds the cost of shareholders' equity**.
- In this context, an **ROE of 7% or more** is an **indicator of our initiatives to improve capital efficiency**, which comprehensively take into consideration the sustainable, long-term growth of our business; the necessary internal investment in our business foundation and human capital; the securing of liquidity on hand; and the level of shareholder returns.

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