

Main Questions and Answers at the Obayashi Group ESG Briefing in FY2024

Date: Monday, February 17, 2025, from 13:00 to 14:10
Respondents: Kenji Hasuwa, President and CEO
Toshimi Sato, Executive Vice President
Takayuki Tomioka, Executive Officer
Attendees: 44 securities analysts, institutional investors and others

Q. What are current sales and earnings in the hydrogen business, a component of your carbon neutral initiatives explained on slide 20. Also, what is the expected time frame for future business expansion?

A. We are taking a medium-term approach to the hydrogen business, so sales and earnings have not yet been reported. Of the 60 billion yen investment budget for the green energy business in Medium-Term Business Plan 2022, we plan to invest about 15% of the 10 billion yen allocated for projects in Japan, and nearly the entire 50 billion yen or so allocated for overseas projects in renewable energy that will support our future hydrogen business.

Q: Regarding the offshore wind power business explained on slide 20, what is your strategy for the future in light of the results of the first round of government auctions of development rights for offshore wind projects and the specifications of the self-elevating platform (SEP) vessel you own, which cannot handle the construction of large wind turbines.

A. The Obayashi Group is currently engaged in offshore wind power generation projects at the Port of Akita and the Port of Noshiro, but we have reconsidered our approach to the offshore wind power business following the first round of development rights auctions due to very low-price bids from competing power producers. At this stage, we do not have any specific new projects in the pipeline. However, we anticipate a shift in offshore wind power toward floating wind turbines, and we are continuing our technology development with consideration of future opportunities to participate in power generation projects. Having been constructed before the advent of larger wind turbines, our SEP vessel is no longer compatible with current wind turbine sizes. As maintenance and upkeep of wind turbines become more of an issue going forward, we hope to utilize it as a charter vessel.

Q: President Hasuwa, you have been managing Obayashi with consideration of its share price, and the Company's market capitalization temporarily overtook that of other major general contractors. PBR has also improved significantly. Moreover, the Securities Analysts Association of Japan recognized Obayashi for its remarkable improvement in disclosure. I believe these achievements are the results of your focus on non-financial initiatives. With this in mind, I would like to ask what ESG aspects you have focused on as president, and what issues you would like to hand over to the new president.

A: When I was the general manager of the Technology Business Development Division, I believed that the electric power and energy paradigm would change dramatically after the Great East Japan Earthquake, so we ventured into the renewable energy business. Looking back on the time I have spent as president, I feel that efforts to realize carbon neutrality have been supported by the government and other institutions amid rapid changes in the social

environment, including those brought on by the COVID-19 pandemic.

In these circumstances, we have continued our renewable energy business initiatives fully aware that it is a business that takes time to develop. Also, as per the Addendum to Medium-term Business Plan 2022, we have been strengthening our business foundation and implementing practical transformations so that we can generate performance across our business portfolio that is equal to or greater than that of our core domestic construction business, and to realize the sustainable society envisioned in Obayashi Sustainability Vision 2050.

Specifically, our initiatives include business portfolio reviews, human resource development and other personnel system reforms, and the promotion of wooden structures and interiors.

I would like the next president to first make steady progress on the strategies set out in the Addendum to Medium-Term Business Plan 2022, and also to work to grow the Group in a way that enables it to respond flexibly to changes in the external environment, which present both risks and opportunities.

Q: Obayashi's initiatives for achieving carbon neutrality include using diesel alternatives such as biodiesel for construction machinery, as presented on slide 17, but how far has the transition to alternative fuels progressed? Also, what is the status of development among electric construction machinery manufacturers?

A: The reality is that the number of suppliers of diesel alternatives is limited, and most construction machinery is leased, so it is difficult to procure construction machinery that can run on alternative fuels as planned. We intend to advance procurement as much as possible.

Q. What is the background behind your decision to have a majority of independent directors, as explained on slide 27, and what Board of Directors changes have actually occurred as a result of this decision?

A: We reviewed the ratio of independent directors from the perspective of governance. At the same time, we established the Directors' Roundtable Meeting, where frank discussions are taking place, and it is functioning well. We have also received a lot of feedback and advice from independent directors based on their experience, and we feel that this has led to significant positive outcomes.

Q: As technological development for environmentally responsible construction methods progresses, are you seeing positive changes where customers are more willing to accept higher costs compared with conventional construction methods? Or, given that many construction companies are now adopting environmentally responsible construction methods, has it become more difficult to differentiate from competitors?

A: Wooden structures and interiors are typical examples of environmentally responsible construction, and partly due to the positive impact of the Port Plus® all-timber building that we constructed, we feel that we are able to make proposals that are aligned with the client's carbon neutrality goals, including cost. For example, to meet customer needs, rather than purely wooden structures we propose hybrid buildings that combine wood with other materials. Our proposals also go beyond carbon neutrality by incorporating elements of well-being. Our track record in this area is growing year by year, and we are receiving many inquiries.

Q: Regarding diversity, on slide 24 you have presented various targets regarding female

employees, including a target for the ratio of women in managerial positions. What kind of positive outcome do you expect from increasing the proportions of women and foreign national employees in an organization that is currently dominated by Japanese male engineers? Also, if you expect a positive outcome, is this approach intended for application uniformly across the entire company, or are there specific roles where it would be better to focus on increasing these ratios? Please share any plans that Obayashi might have in this regard.

A: The ratio of women in technical positions will not increase overnight, but we have high hopes for the active participation of women, so we want to provide opportunities for them to excel. However, in the construction industry, where technical positions are central, meaningful change will be difficult to achieve unless the number of women with science and engineering degrees from universities increases.

I believe that it is essential to eliminate unconscious bias against women across society, advocate for the importance of women's active participation, and bring about changes so that providing opportunities for women to excel becomes the norm.

Q: Given that the degree to which customers accept proposals related to carbon neutrality is key, and that proposals for wooden structures and interiors appear to be well-received, perhaps Obayashi should consider using “the number of customers accepting environmentally responsible proposals” as a KPI.

Obayashi has incorporated ESG into its management goals and is promoting renewable energy businesses and developing relevant technologies, but as an investor, I would like to know how Obayashi is addressing customer-related factors that are beyond the control of construction companies. Any information you could disclose would help me understand the Company better.

A: The proportion of design and construction project proposals related to carbon neutrality is now nearly 100%. We are tracking the number of proposals accepted by customers as an internal KPI, and the Sustainability Committee is also discussing its disclosure.

At present, we do not have enough data to sufficiently quantify the KPI for external disclosure, but we intend to disclose it once we have compiled a sufficient volume of data.

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