

Disclaimer:

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OBAYASHI CORPORATION
3rd Quarter: Summary of the Financial Results Briefing
for Fiscal Year Ending March 31, 2022 (Teleconference)
and Main Questions and Answers

Date/Time: Thursday, February 10, 2022, 1:30 to 2:15 p.m.

1. Financial Results for the Third Quarter and Full-Year Forecast for Fiscal Year Ending March 31, 2022

An explanation was provided, based on the 3rd Quarter Financial Results for Fiscal Year Ending March 31, 2022.

2. Main Questions and Answers

(1) Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2022

- Q.** The balance of the provision for loss on construction contracts decreased by more than 5 billion yen from the second quarter to the third quarter. What is the reason for that? Also, what impact did the projects for which a provision for loss on construction contracts was posted have on the gross profit margin on completed construction for the domestic building construction business in the third quarter?
- A.** The provision for loss on construction contracts was reversed and the balance declined. The reversal accompanied progress on construction of properties for which a provision for loss on construction contracts was posted in the second quarter. Normally, projects for which a provision for loss on construction contracts is posted have a 0% gross profit margin on completed construction because the loss accompanying progress on construction is offset by a gain on reversal of the provision for loss on construction contracts. This consequently suppressed the gross profit margin on completed construction for the domestic building construction business as a whole. However, the impact from this was not very large, and the gross profit margin on completed construction was 10% at the non-consolidated level in the third quarter.
- Q.** The gross profit margin on completed construction was 10% for the domestic building construction business in the third quarter at the non-consolidated level. I recognize that this was relatively strong, but was this due to special factors such as improved profit on specified construction projects?
- A.** It was not due to special factors.

- Q.** The volatility of the gross profit margin on completed construction in the domestic building construction business at the non-consolidated level was high at 8% in the first quarter, 2% in the second quarter, and 10% in the third quarter. Is my understanding correct that Obayashi has the ability to earn a profit margin of around 8% to 10%, excluding the provision for loss on construction contracts? Progress on projects for which a provision for loss on construction contracts was posted will suppress the profit margin in fiscal year ending March 31, 2023. Will the company be able to secure 8% to 9% profit in spite of that?
- A.** I will refrain from providing a quantitative response, but the high volatility was due to the impact from posting a provision for loss on construction contracts. In regard to the gross profit margin on completed construction in fiscal year ending March 31, 2023, the progress on construction projects in hand on which a provision for loss on construction contracts is posted is a factor that will reduce profitability, but the overall trend will not change when small to medium-sized projects are included. We will announce the financial forecasts for fiscal year ending March 31, 2023 once we have carefully re-examined them.

(2) Financial Forecasts for Fiscal Year Ending March 31, 2022

- Q.** In the domestic civil engineering business, progress on net sales of completed construction contracts and gross profit on completed construction at the end of the third quarter appears to be lagging behind the forecasts for the full year. Will the company be able to achieve the full-year forecasts?
- A.** The domestic civil engineering business has projects that will be completed in the fourth quarter and we anticipate an increase in the gross profit margin on completed construction toward fiscal year-end. We think the profit level will make the full-year forecasts achievable. While there is some potential for weakness, we left the full-year forecasts announced at the time of second quarter financial results unchanged in light of various condition, including those in segments other than the domestic civil engineering business.
- Q.** Financial forecasts were revised downward at the time of second quarter results because you assumed that new provisions for loss on construction contracts would also be posted in the second half. Is there a risk that the provision for loss on construction contracts will increase more than forecast at the end of the second quarter?
- A.** There is no risk of the losses increasing on projects for which a provision for loss on construction contracts will be posted in the fourth quarter.
- Q.** Is my understanding correct that the risk of a downswing in results due to unprofitable construction has been fully incorporated in the financial forecasts for fiscal year ending March 31, 2022?
- A.** Your understanding is correct.

(3) Order Environment for the Company

- Q.** Have conditions improved since the downward revision of the full-year financial forecasts in the second quarter by receiving concessions on construction periods, costs, and other conditions from customers?
- A.** There has been no change in conditions. While competition remains stiff on large projects, we are securing relatively good profitability on small to medium-sized projects.
- Q.** What is the status of profitability at the time of orders in the domestic building construction business?
- A.** There have not been any major changes. Competition among major general contractors on orders for large construction projects remains stiff.
- Q.** One major general contractor has commented that profitability at the time of orders has bottomed out. What is Obayashi's view?
- A.** I will refrain from commenting on the statements of other companies.

(4) Next Medium-Term Business Plan

- Q.** The offshore wind farm business and other aspects of the external environment have changed since the second quarter financial results were announced. Have there been any changes in the underlying assumptions and content of the next medium-term business plan? Has the target of 100 billion yen or more in consolidated operating income in fiscal year ending March 31, 2023 changed?
- A.** We will explain the content of the next medium-term business plan in March, but there has been no change in the target for consolidated operating income.
- Q.** Please explain the rise in material prices in the domestic building construction business. Are you able to pass higher prices on to customers? Will this have an impact on the target of 100 billion yen or more in consolidated operating income in fiscal year ending March 31, 2023?
- A.** Prices are mainly increasing on steel materials and steel frame, but this will have a limited impact on this fiscal year's financial results after the downward revision when the second quarter financial results were announced. We are working to minimize the impact on financial results in fiscal year ending March 31, 2023 and beyond by concluding material contracts quickly after concluding construction contracts, incorporating terms in construction contracts that make it possible to discuss increases in contract amounts when commodity prices increase, and taking other steps. There has been no change in the consolidated operating income target for fiscal year ending March 31, 2023 and thereafter.

(5) Initiatives in the Offshore Wind Farm Business

- Q.** The result of the open bid for offshore wind farm contractors in Akita Prefecture was tough for Obayashi. Are there any drastic revisions to the business strategy, such as withdrawing from the renewable energy business?
- A.** We will continue efforts according to our existing policy on the renewable energy business.
- Q.** Will the results of the open bid also impact not only initiatives as an operator but future initiatives as an EPC contractor as well?
- A.** The companies selected for the project are planning to use large wind turbines. The SEP vessel that Obayashi is building is not large compared to other companies in both the scale of the investment and the size of wind turbines that can be constructed. We therefore think that the increasing size of wind turbines will have an impact on Obayashi's initiatives in EPC contracting. The Civil Engineering Construction Division is currently in the process of revising the method of use of the SEP vessel and the strategy for acquiring orders for EPC contracting.

(6) Reduction in Cross-Shareholdings

- Q.** In the financial results, Obayashi states that 150 billion yen from the sale of cross-shareholdings will be used for investment in growth. Are you thinking of appropriating part of this as a return to shareholders?
- A.** We will explain this in greater detail when we announce the next medium-term business plan in March.
- Q.** It appears that the sale of cross-shareholdings has increased compared to the same period last fiscal year. Did any customers request the sale of cross-shareholdings, rather than Obayashi urging the sale?
- A.** Some of the cross-shareholdings were sold at the request of customers, not only because Obayashi urged the sale.

(7) Other Questions

- Q.** The forecast for the full year was revised downward. Please explain initiatives aimed at a rebound in profit, such as thorough management of profitability on construction.
- A.** We are implementing stricter preliminary screening at the time of orders, and are rigorously screening risk factors such as the potential for cost improvements and rising commodity prices. We are carefully monitoring the latest conditions, including commodity prices, in construction.