

OBAYASHI CORPORATION
2nd Quarter: Main Questions and Answers from the Financial Results Briefing
for Fiscal Year Ending March 31, 2020

Date/Time: Tuesday, November 12, 2019, 1:30 to 2:30 p.m.

Q: Has there been any change in your stance on shareholder return and use of capital?

A: There has been no change in our policy. We will continue to make stable dividends our highest priority and to use the current high level of revenues to build a strong financial base and cover future investments in growth. We will maintain the dividend payout ratio at 20% during periods of good performance and will increase dividends as earnings increase. During periods of declining performance, we will continue to declare stable dividends to the extent possible. If we achieve our equity goal of 900 billion yen in Medium-Term Business Plan 2017, we will consider a new policy of shareholder return, while discerning future investment targets.

Q: I think that project owners for construction will also have their responsibility for long working hours at construction sites called into question in the future. Has there been any change in the understanding and sentiments of project owners in regard to the adjustment of construction terms to accommodate the increase in construction site closures on weekends?

A: In building construction, we are aiming to close construction sites for five days out of every four-week period. We have made progress on changing the mindset and have achieved improvement in the number of days closed since last fiscal year. However, because this is difficult for us to accomplish on our own, we are proposing construction schedules to customers that are conditioned on closure for at least six days out of every four-week period, and the number of customers accepting these schedules is gradually increasing. There are still few projects in which construction schedules providing for closure eight days out of every four-week period have been accepted. I think the mindset of customers will gradually change in the future, but we are simultaneously working on improving productivity so that we will be able to progress to the point where we can perform the same amount of work as we do with a four-day closure, even when closed for eight days.

Q: What investments are you planning in real estate and elsewhere?

A: We will continue steady investment in the second half and beyond, in Minato Mirai 21 Central District, Block 53, and also in new business areas such as the offshore windfarm in Akita Prefecture and the Kamisu biomass power plant in Ibaraki Prefecture.

Q: What is the current status of the order environment and competition over orders, and what do you anticipate next fiscal year and beyond?

A: We expect to receive stable orders for redevelopment projects and private non-residential projects related to Osaka-Kansai EXPO and other projects, even after the Tokyo Olympics next year. Competition is stiff on some large-scale redevelopment projects in the Greater Tokyo Area, but we are aiming at securing balanced order portfolio that also includes small to medium-sized

projects in addition to large projects, so we don't think this will have a major impact on performance.

Q: What companies are you targeting for M&A in Medium-Term Business Plan 2017 plans for 50 billion yen in investments? Are you considering acquisitions in the same industry that would result in industry restructuring amid the shortage of construction workers?

A: We are not thinking about acquisitions in the same industry solely for the purpose of expanding in size. Based on past experience, it takes time to manifest synergies within the group due to differences in corporate culture, etc. We will not limit consideration to the construction industry and will also keep growth in new areas of business in mind. We will also consider and make decisions on an acquisition after fully evaluating the target, particularly the risk of an exodus of human resources, and other factors.

Q: What is the current potential for making the offshore wind power generation business in Akita Prefecture a reality?

A: We think the probability that we will succeed in this is quite high, but how the FIT bidding price will be determined is an important factor and we would like to achieve this with the cooperation and knowledgeable support from electric power companies.

Q: Do you expect growth in building and civil engineering construction demand and sales in the future, or do you expect demand and sales to remain at the current level?

A: We expect them to remain firm, but uncertainties exist, due in part to the cloud over the economic outlook for the manufacturing industry. There is also potential for growth in demand from the proliferation of 5G and other changes in society. Infrastructure renovation demand will also continue to increase steadily in civil engineering. The Japanese government's policies on disaster prevention and mitigation and making Japan a resilient country will also provide a tailwind. Obayashi's net sales will remain at the current level at minimum, and we are aiming to expand sales further.

Q: What are your forecasts for profit levels in building construction and civil engineering next fiscal year?

A: In building construction, we are preparing for the completion of many projects next fiscal year and expect profit to remain at the same high level. We also expect net sales and profit on par with this fiscal year in civil engineering, and also think we will be able to secure the same level of orders as this fiscal year because we have sufficient information on new projects.