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OBYASHI CORPORATION
2nd Quarter: Summary of the Financial Results Briefing
for Fiscal Year Ending March 31, 2021 (Teleconference)
and Main Questions and Answers

- Date/Time: Tuesday, November 10, 2020, 2:00 to 3:10 p.m.

1. 2nd Quarter Financial Results for Fiscal Year Ending March 31, 2021

An explanation was provided, based on the 2nd Quarter Financial Results for Fiscal Year Ending March 31, 2021.

2. Full-year Forecasts and Promotion of ESG Management in Fiscal Year Ending March 31, 2021

An explanation was provided, based on the Presentation on Financial Results for the 2nd quarter of fiscal year ending March 31, 2021.

3. Main Questions and Answers

(1) Regarding the Order Environment for the Company

- Q.** Have there been any changes in the order environment since the announcement of the full-year forecasts three months ago? Also, you are forecasting over 1 trillion yen in orders received in the 2nd half. Aren't you concerned about postponements?
- A.** The postponement, suspension, and other delays in construction plans due to the COVID-19 pandemic had a negative impact on domestic building orders received up to around June. However, there has been no impact since then. Of the construction plans were postponed or halted, the overall impact was not large. We also anticipate receipt of orders for large projects in the 2nd half and these projects are currently in the stage of VE work on the design. We therefore see little potential for postponement of order placement into the next fiscal year and believe the full-year forecast for orders received is achievable.
- A.** Orders received in domestic civil engineering are remaining firm in the Company's main markets, particularly for the Maglev Shinkansen and subway construction for Expo 2025 in Osaka in railway construction, and expanding expressways to four lanes and major renovation work in road construction. Obayashi has also participated in activities to

support emergency infrastructure restoration by the Japanese government and local governments in the wake of large-scale natural disasters in recent years. The order environment has not changed since the full-year forecast was announced in August, and we will proceed with initiatives aimed at achieving the full-year forecast for orders received by fiscal year-end.

- Q.** You explained that while the volume of information on domestic building construction plans is at the same level as the past five years, competition could intensify over the medium to long term if the COVID-19 pandemic worsens and results in an economic recession. How do you view future price competition?
- A.** As always, companies are focusing on large construction projects in urban areas and competition for these projects is intense. However, we think that Obayashi needs to maintain a good balance of orders for small and medium-sized construction projects as well, not only from the perspective of our business, but from the perspective of securing labor through stable net sales. There was sufficient stock for companies up to last fiscal year, but now that the demand related to the Olympic Games has died down, competition for large projects is intensifying and the profitability at the time of order receipt has declined slightly for Obayashi.
- Q.** In regard to domestic building construction orders received, you explained that there was no impact from the postponement and suspension of construction plans due to the COVID-19 pandemic from June onward. Are there cases in which construction plans were resumed? Also, what is the trend by purpose of use?
- A.** We explained that there were limited instances in which construction plans were halted or there were delays in beginning the estimation. Nearly all of these were delays in beginning the estimation process. The timing for resuming construction plans will depend on each project, so we see a gradual resumption, rather than resumption of everything at once. Less than 5% of the construction projects we have information on were halted or suspended, so we do not think there will be a major impact on plans for orders received. In terms of purpose of use, many of the suspended or postponed construction plans were for accommodation facilities and other types of facilities, but similar cases have been seen for other uses, depending on the management policies of the clients placing the orders. The demand for renovation work on accommodation facilities, etc. is also decreasing. The demand for commercial facilities was declining before COVID-19 emerged, so there has not been much impact for Obayashi.
- Q.** How does the competitive environment for logistics facilities compared to the environment for other purposes?
- A.** Logistics facilities projects have been contributing to our sales and profit for about two years. While there is still room to devise ways to improve the profitability of large projects, there has been an increase in small and medium-sized projects recently. We are competing with medium-sized general contractors on small and medium-sized projects

and therefore need to incorporate technologies that differentiate Obayashi from competitors and work to reduce the cost. Obayashi has responded by using the O-RCS® construction method in logistics facilities and using various other structures to increase the size of logistics projects. It is difficult to improve the profitability of logistics facilities after beginning construction through means such as construction for tenants that could be performed for other types of facilities, so we are working to secure profitability at the order receipt stage.

- Q.** What does the profitability look like for large projects you anticipate receiving orders for in the 2nd half?
- A.** We are anticipating receipt of large project orders in major cities such as Tokyo, Osaka, and Fukuoka. However, the profitability at the time of order receipt depends on the project. There is no overall trend.

(2) Regarding Financial Forecasts

- Q.** Judging from orders received in the 1st half, it appears that demand for manufacturing facilities for industries with relatively short construction terms has weakened due to the COVID-19 pandemic. However, considering the point that construction will have just begun on large projects ordered in the 2nd half of this fiscal year and they will not contribute that much to net sales for next fiscal year, it leads me to wonder if there is a risk of a decline in both sales and profit in fiscal year ending March 31, 2022 as there will be this fiscal year.
- A.** Our view is that net sales in the next fiscal year from large projects ordered in the 2nd half will amount to less than 10% of total domestic building construction net sales. We expect to post sales on large projects that are currently under construction that will account for 60% of total sales, so we do not foresee a large decrease in net sales next fiscal year. However, we are concerned about the impact from a decline in capital expenditures in the manufacturing industry for renovation projects and small projects that will be ordered and will contribute to sales next fiscal year. We therefore would like to secure stable net sales by receiving orders for the logistics facilities and data centers we have considerable information on.
- Q.** Fiscal year ending March 31, 2023 will be a peak period in progress on large construction projects in hand and I realize that net sales will increase. Is there a possibility that Obayashi will achieve record sales and profits in the next two to three years?
- A.** We are targeting stable orders received and sales, and profitability of a certain level or higher. We are therefore taking action under the basic policy of obtaining a great deal of information on construction plans to secure the stable orders in order to achieve those goals.

(3) Regarding the Overseas Business of the Obayashi Group

- Q.** You announced on your website that a settlement was reached in the arbitration involving Millennium Tower in San Francisco. Please give us the details of the settlement. Also, what is the current status of the litigation concerning the Transbay Transit Center in San Francisco?
- A.** As indicated on our website, the parties involved, including WEBCOR, LP and Obayashi, have reached a settlement. We cannot disclose the detailed settlement terms, but the impact of the settlement in this case on Obayashi's consolidated results will be minimal. I will refrain from commenting on the litigation concerning cracks in the steel beams of the Transbay Transit Center because we are currently involved in court proceedings with the other parties.
- Q.** In the overseas business, particularly in North America, have the operating status of current construction and the order environment improved compared to three months ago?
- A.** Although all construction has resumed in the U.S. and Asia, we are having trouble securing the foreign workers who are the main labor force in Singapore, due to the COVID-19 pandemic. Moreover, WEBCOR, LP, a local Group company in North America, is seeing an impact on net sales from suspension of construction. We think that the order environment for WEBCOR, LP will gradually rebound to the pre-COVID-19 level beginning in fiscal year ending March 31, 2022.
- Q.** The full-year forecast for the overseas construction business shows consolidated operating income of 1.5 billion yen. Based on the results in the 1st half, this projects further decline in the 2nd half. Is this a conservative forecast? Also, you explained that the order environment in North America will rebound in fiscal year ending March 31, 2022, so what do you think the consolidated operating income will be in the overseas construction business in fiscal year ending March 31, 2022?
- A.** We think that full-year performance will be generally as expected and think that there will not be any major deterioration in conditions beyond the current conditions. As we explained before, we expect a rebound in performance in North America from fiscal year ending March 31, 2022 onward, so consolidated operating income in fiscal year ended March 31, 2022 could near the level in fiscal year ended March 31, 2020.

(4) Other Questions

- Q.** A maximum cap on the FIT of 29 yen/kwh for offshore wind power was disclosed. Have there been any changes in initiatives as a provider? Also, are you thinking of selling shares that Obayashi owns in its customers' businesses, for example, to secure the funds for this investment?
- A.** We recognize that the reduction of the maximum supply price to 29 yen/kwh from 36 yen/kwh for the offshore wind power farm near Goto, Nagasaki Prefecture, on which

bidding has already commenced, will increase pressure to reduce project costs. However, as stated in the bidding specifications, the ability to implement the project, coordination with the region, and ripple impact of the project account for half of the evaluation. We therefore intend to vigorously pursue participation in the public bid, together with consortium members who intend to participate in a manner that will obtain a high evaluation overall, not just on the supply price. Moreover, in regard to the investment funds, these projects have a long lead time, so we would like to determine the funding according to the circumstances at the time.

- A.** We recognize that overseas investors have a stern view on the ownership of shares in customers' businesses so we will sell them as needed. We are not thinking of tying the sale of such shares to the means for financing investment in offshore wind power business.
- Q.** In regard to the SEP vessel currently under construction, you announced that the date of completion would be delayed to 2023 for the increase in crane capacity. Will you accept orders for construction of offshore wind power facilities before completing construction of the SEP vessel or will you wait until it has been completed to accept orders?
- A.** The ocean areas designated as promotional zones are increasing and numerous projects are emerging. However, we have not seen concrete schedules for any of them. Under those circumstances, we are proceeding with construction under the assumption that wind farm construction will begin in fiscal year ending March 31, 2024 or later, and are setting our sights on projects in which we serve as both provider and construction contractor.

- Q.** Medium-Term Business Plan 2017 established the goals of 900 billion yen in equity and an equity ratio of 40%. Obayashi now has attainment of those goals in sight, so is it conceivable that you will increase shareholder returns?
- A.** We are focusing on investment in offshore wind power and many other areas and strengthening the financial structure at present, and will continue this focus. We intend to consider our policy on shareholder returns when we formulate the draft of the next Medium-Term Business Plan.