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OBYASHI CORPORATION
3rd Quarter: Summary of the Financial Results Briefing
for Fiscal Year Ending March 31, 2023 (Teleconference)
and Main Questions and Answers

Date/Time: Monday, February 6, 2023, 14:00 to 14:45

1. Financial Results for Third Quarter and Full-Year Forecast for FY 2023.3

An explanation was provided, based on the "3rd Quarter Financial Results (April 1, 2022 to December 31, 2022)."

2. Main Questions and Answers

(1) Order-receiving Environment of Domestic Building Construction Business

Q: What is the current situation and outlook for profitability at the time of receiving orders?

A: There is no significant change in profitability at the time of receiving orders in the past three months. Large-scale construction projects continue to face intense competition among major construction companies, but medium-scale projects are in a relatively favorable environment for receiving orders, and profitability at the time of receiving orders is on a recovery trend compared to the previous fiscal year. On the other hand, we have yet to record all of the large-scale project orders that acquired priority negotiation rights before the previous fiscal year, so depending on how the negotiation pans out with the clients, the profitability at the time of receiving orders may be affected.

Q: Orders received increased in the third quarter of the fiscal year, and is there a possibility of an upward revision to the full-year plan? Orders related to factories are increasing, and is demand still sustainable?

A: We have been carefully examining each project before deciding on whether we accept the project orders while taking into account the construction capacity. The current progress rate is about 76%, which is a level good enough to reach the planned level. In terms of demand, the manufacturing sector sees a robust demand related to machinery and DX, mainly due to the trend of reshoring of production. Nevertheless, economic uncertainty is a risk factor, as evidenced by rising prices for raw materials due to interest rates and the situation in Ukraine.

Q: I would like to ask about the initiatives for the next fiscal year and beyond amid robust redevelopment demand.

A: There are many redevelopment plans, mainly in the Tokyo metropolitan area, so we will work

on them after carefully examining profitability and capacity. Demand is also high in the non-manufacturing sector.

Q: Does the Company continue to see an improvement in profitability for all projects, including those in negotiations on material costs after acquiring priority negotiation rights? In addition, how many projects that are under negotiation and for which orders have not been recorded are there?

A: While there has been an improvement in the current situation, there have been ongoing negotiations on material costs for projects that had acquired priority negotiation rights in the past, and it is difficult to comment on what will happen in the future after comprehensively considering such situations. As there are still projects that are under negotiation and for which orders have not been recorded, we would like to refrain from making any comments quantitatively.

(2) Performance of Domestic Building Construction Business

Q: The gross profit margin on completed construction contracts in the third quarter of the fiscal year was at the same level with that in the second quarter of the fiscal year. What were the factors that contributed to boosting the profit margin?

A: There is no specific contributor. The construction progress is what we have expected, and we see this level will continue.

Q: Is there a possibility that the gross profit margin on completed construction contracts will exceed that in the fourth quarter of the fiscal year?

A: Progress is expected to be stable. However, this does not mean that the profitability for the fourth quarter of the fiscal year will increase because we are recording the revenue accounted for under the percentage of completion method.

Q: The gross profit margin on completed construction contracts are expected to decline in the fourth quarter of the fiscal year compared to the third quarter of the fiscal year, but is there any prospect for any improvement in FY2024.3?

A: In FY2024.3, progress will be made as projects for which we recorded the provision for loss on construction contracts that were received in the previous fiscal year will progress. This will be a factor contributing to the decline in the profit margin. That being said, we do not think there will be a major change as the decline is aligned with our expectations.

Q: Are there any possibilities of incurring further losses due to rising material costs, such as projects for which the company has obtained priority negotiation rights?

A: Regarding material costs, steel beam costs remain high, and labor and ready-mixed concrete costs are expected to rise in the future. On the other hand, as the Company is passing on the increased cost to clients, we forecast there will be no significant fluctuations in the profit margins of the projects that have obtained priority negotiation rights.

Q: What are the Company's views on the impact of regulations restricting overtime work on receiving orders and profit margins for the next fiscal year and onward, particularly in the domestic building construction business?

A: The Company is working to comply with the revised Labor Standards Act one year ahead of its enforcement. The Company aims to maintain net sales of 1 trillion yen by improving productivity while reducing overtime hours through implementing initiatives such as closing construction sites eight days out of every four-week period. It is difficult to answer the question of how much quantitative impact we will see on our results for the next fiscal year.

(3) Performance of Civil Engineering Business

Q: On the gross profit margin on completed construction contracts, constructions for the highly profitable contracts were roughly completed before the earnings results of the second quarter of the fiscal year, and profitability was forecast to decline in the second half of the fiscal year without the prospect of expected changes and additions, but it has turned out that the profit margin was generally flat from the first half to the third quarter of the fiscal year. Was there an unexpected event? In addition, can you sustainably keep this level of profitability?

A: Factors behind this were that the Company was able to make a certain degree of design changes and acquire additional orders in the third quarter of the fiscal year. The full year forecast has not been revised, but it may be higher as we have not estimated uncertain design changes and cost reduction in the forecast for the fourth quarter of the fiscal year.

Q: When will the Self-Elevated Platform (SEP) vessel be completed in the next fiscal year, and when and how will the operational status, depreciation, etc., be reflected in earnings results? In addition, what are the net sales and profit ratios of the civil engineering business for the next fiscal year?

A: As the SEP vessel is currently under operation for the actual utilization, they are not expected to contribute to earnings immediately next fiscal year. Revenue by utilization of the SEP vessel is expected to be treated as civil engineering business on a non-consolidated basis for accounting purposes. The sales of the domestic civil engineering business also remain largely unchanged, as there is an upper limit to capacity. We expect upward and downward revisions depending on the progress of large-scale projects that are currently suspended or stagnant.

(4) Performance of Domestic and Overseas Subsidiaries

Q: The subsidiary earnings in the third quarter of the fiscal year were up due to the weaker yen, but is it likely to shrink at the end of December, considering the fact that the yen appreciated from that point?

A: As overseas subsidiaries have a three-month delay in their earnings reporting date, their sales and profits for the third quarter of the fiscal year, which were affected by the yen's depreciation at the end of September, will shrink on the full-year basis. In addition, while WEBCOR, L.P. in North America is impacted by foreign exchange rates, the situation continues to be severe due to the poor local economic environment and the lack of progress in construction projects in hand. Obayashi Road Corporation, a domestic subsidiary, is experiencing a decline in profits due to rising raw material costs, making it difficult to improve profitability by the end of the fiscal year. As a whole, while non-consolidated basis civil engineering business is in the upward direction, overseas building constructions business may be heading toward a downward trajectory.

(5) Performance of Real Estate Development Business

Q: I would like to ask about the future plan of real estate sales.

A: For the real estate business, sales and profit will decline next fiscal year due to the impact of sales of large-scale properties recorded for this fiscal year, but it is expected to post sales and profit at a certain level because we will continue to replace its portfolios.

Q: What is the outcome in terms of sales in response to the sale of large-scale real estate in this fiscal year that we would see in the next fiscal year? Are there any projects that can compensate for the difference in sales between the next fiscal year and the current fiscal year?

A: The profit in the real estate business consists of stable profit from leasing, and sales and profit from portfolio replacement. Please wait for our answer to your question as we are formulating the plan for the next fiscal year.

(6) Others

Q: I would like to know the Company's stance on the offshore wind. You were planning to participate in Round 1 as a business operator, but what is your plan for Round 2?

A: We would like to refrain from giving specific answers regarding Round 2. As stated in the Medium-Term Business Plan, we will take on the challenges of expanding earnings in the offshore wind business from every possible angle. However, if we participate in Round 2 in a way the same as we did Round 1, we will not achieve profitability, and therefore, we will consider various measures, including the use of the SEP vessel.

Q: What is the outlook for general and administrative expenses for the next fiscal year?

A: Personnel expenses are likely to rise as some measures, including base pay increases, are considered in response to requests from the government and the Keidanren (Japan Business Federation). Expenses are expected to decrease due to the absence of specific expenses incurred only for this fiscal year, such as the 130th-anniversary project expenses. However, we are continuously making DX-related and R&D investments for the future.