

Disclaimer:

This document is the English version of the Japanese document released on May 11, 2023. It was translated into English and presented solely for the convenience of users who are not familiar with Japanese. If there is any discrepancy between the Japanese document and the English document, the Japanese document will prevail. This document includes forward-looking statements based on the information available at the time the Japanese and English documents were released. Actual results may vary from the forward-looking statements contained herein due to various factors. Obayashi Corporation (non-consolidated) is called the "Company" in this document.

OBUYASHI CORPORATION
Summary of the Financial Results Briefing Conference
for FY2022
(Fiscal year from April 1, 2022 to March 31, 2023)

Online conference held at Thursday, May 11, 2023, 15:30 to 16:45

1. Results for FY2022 (the fiscal year ended March 31, 2023), FY2023 Financial Forecasts, Order Received Outlook for FY2023 and Medium-Term Business Plan 2022 Implementation Status

An explanation was provided, based on the Presentation on Financial Results FY2022 (Fiscal year from April 1, 2022 to March 31, 2023).

2. Main Questions and Answers

(1) Domestic Building Construction Business

Q: What is your evaluation of the profitability of building construction business at the time of receiving orders?

A: The order plan for the non-consolidated domestic building construction business for FY2022 (fiscal year ended March 31, 2023) was conservative at 1.01 trillion yen, considering the design and construction capacity to digest the amount of work carried over, as the Company had received orders close to 1.2 trillion yen for the past three consecutive years. The result was 1,093.1 billion yen, an increase of 83.1 billion yen, due to an increase in contract amounts with rising prices and the acquisition of additional construction projects in hand.

Profitability at the time of receiving orders has declined for some projects due to the impact of rising prices, but is recovering to the FY2020 level. Some of the projects for which we acquired priority negotiation rights through the tender before FY2021 were severely affected by rising prices, and their profitability was extremely difficult to achieve. The profitability of projects for which we received orders in FY2022 is improving as the Company's strategy for receiving orders, based on the reflection that the provision for loss on construction contracts was recorded, has become more prevalent. As in the past, profitability of small- and medium-scale projects and renewal work has been higher than that of large-scale projects, and has remained at the same level as in previous years.

In FY2023, in addition to the construction work to be carried over, there is already a considerable

volume of projects for which orders are highly probable. Therefore, from now on, the Company will make decisions on whether to handle or not from the standpoint of construction capacity, placing more emphasis on profitability. Furthermore, we will strive to improve profits on projects for which we have a high probability of receiving orders and to ensure profitability at the time of receiving orders. Although competition among major construction companies continues to be fierce for large-scale construction projects in urban areas, each company has accumulated a large volume of construction projects in hand, and we believe that we have avoided the severe situation that existed in the past. Regarding price hikes, we have reached the point where major developers are willing to discuss inflation, and we will continue to carefully explain the situation to them so that they will accept the inflation discussion as a condition for tenders.

Regarding the portfolio of orders, the Company will strive to make order decisions while considering the size, purpose, new construction and renewal work, etc. The percentage of orders for large-scale construction projects exceeding 20 billion yen was about 45% in FY2021 with about 22% in FY2022. Going forward, the Company hopes to keep the percentage of construction projects of 20 billion yen or more to about 30%.

Q: I have been told that the percentage of completed construction contracts for which a provision for loss on construction contracts was recorded in the domestic building construction business increased by several percentage points from FY2022 to FY2023. However, the profit on completed construction contracts in FY2023 is declining significantly. Are projects other than those for which you have recorded a provision for loss on construction contracts also affected by rising prices?

A: The profit is expected to decline as a result of the impact of rising prices, as well as higher labor costs and design unit prices.

Q: Regarding the outlook for the domestic building construction business in FY2023, the profit is expected to decline as sales of unprofitable projects reach their peak. Can we assume that this situation will start improving in or around FY2024?

A: The percentage of completed construction contracts for which a provision for loss on construction contracts was recorded is large not only for FY2023 but also for FY2024. In addition to the projects for which a provision for loss on construction contracts was recorded, there are also large projects with low profit in progress, most of which will be recognized as sales in FY2024, and thus will have a significant impact on the Company's performance through FY2024. The impact is expected to peak in FY2023, and to be slightly lower in FY2024, with the impact disappearing in FY2025.

Q: If possible, please explain quantitatively how the cost of complying with overtime regulations and the increase in labor costs at construction sites are reflected in your FY2023 performance.

A: Although it is difficult to give a quantitative answer, at this point we expect labor costs for frame construction, especially for reinforcing bars, to increase, while those for formwork will remain flat, with the impact on overall construction business expected to remain the same as in the past. The Company expects busy construction work to continue in FY2023, especially in the

Tokyo metropolitan area, where there are many mega projects. The shortage of labor-related personnel is serious, and the Company believes that it will be necessary to continue to consider the balance between orders and productivity.

Q: The planned completed construction contracts for the domestic building construction business for FY2023 are the highest in the past several years, but are there any risk factors such as labor costs or overtime regulations?

A: The completed construction contracts for FY2023 will increase by slightly less than 20% compared to the full year. The theme for the current and next fiscal years is how to meet the scheduled construction period, and we need to increase productivity at construction sites through labor-saving measures centered on DX, securing external personnel such as dispatched workers and outsourcing, and increasing the capacity of supply chains such as subcontractors. Another major theme is compliance with the revised Labor Standards Act, and we intend to promote efforts in unison with our construction and sales division.

(2) Domestic Civil Engineering Business

Q: With regard to the domestic civil engineering business for FY2023, is the decline in profit due to not fully factoring in the additional construction work, or are there other factors such as decline in profitability of the project in hand? Is there a possibility of an upward profit in the domestic civil engineering business in FY2023 as in FY2022?

A: In FY2022, several civil engineering projects increased profit compared to initial estimates, but there is no prospect for such projects in FY2023 at this stage. Also included in the forecast are the cost of responding to on-site support as the Company moves forward with compliance with the revised Labor Standards Act, and depreciation expenses for the SEP vessels. Going forward, the Company seeks to increase profits by acquiring profitable projects, reducing costs, and acquiring design changes, with the current profit margin as the bottom line.

(3) Real Estate Development Business

Q: Could you explain the factors behind the increase in profit for the real estate development business for FY2022 and the expected decrease in profit for FY2023? Was the profit higher than planned?

A: In FY2022, profit increased from the plan due to the transfer of the equity interest in the real estate development project that was undertaken for the purpose of receiving construction orders; in FY2023, profit will decrease significantly because the effect of the above transfer will be removed, but the sales business is in line with the Medium-Term Business Plan 2022. In the real estate development business, the Company hopes to consistently generate operating income of about 15 billion yen.

Q: In FY2023, the real estate development business plans a decrease in profit. I would like you to explain your approach to selling real estate properties. The book value of real estate for lease is over 600 billion yen on a market value basis. Is it correct to think that if you participate in the

business, the book value will accumulate in the future?

A: In order to consistently generate operating income of 10-15 billion yen, which is the target for the real estate development business, it is necessary to operate assets with the 600-700 billion yen in rental income. We will sell old properties, considering market timing, and replace them with new rental properties. The capital gain from such sales is already incorporated in the Medium-Term Business Plan 2022.

The gain from the sale of the equity interest, which was transferred to the main business operator at the timing of FY2022, is temporary, as the Company participated in the business for the purpose of receiving construction orders. Although some of the properties are owned for the purpose of receiving orders for construction projects, the Company is also pursuing its business with a certain degree of asset scale as rental properties. In the case of older properties, the Company considers whether to renovate them by itself and market them as Grade A properties, or liquidate them by placing them in private REITs or private funds while they are occupied by tenants.

With regard to the sales in the FY2023 forecast, the above-mentioned sales have been factored into the plan and will be handled as planned. The Company will not sell rental properties only to improve its financial statements, and will not do so to advance future profits.

(4) Overseas Business

Q: WEBCOR, L.P.'s performance decline in FY2022, but the company plans to increase profits in FY2023. Please explain the probability of this happening.

A: The main reason for the decline in WEBCOR, L.P.'s performance in FY2022 was that real estate development business for a major developer, one of its key markets, were postponed or cancelled due to the interest rate situation in the United States. However, the company is expanding its markets for public works, hospitals, and schools, and has already secured several large orders. Therefore, the company expects to post higher sales and profits for FY2023.

(5) Capital Policy

Q: Regarding the Tokyo Stock Exchange's request (TSE's request) for an improvement in price book-value ratio (PBR) below 1x, competitors are moving to strengthen shareholder returns. Please tell us if there has been any change in internal discussions regarding shareholder returns.

A: We are aware that the Company's PBR is below 1.0x. We are also aware that some companies are implementing share buybacks in response to TSE's request for improvement. We also received a notice from Tokyo Stock Exchange (TSE) on March 31, and have already been discussing the issue at Board of Directors' meetings. We will discuss our overall capital policy, including share buybacks and dividend increases, on the premise of achieving a PBR of 1.0x, considering changes in the business environment and the outlook for our group's performance. We will review our capital policy, including shareholder returns, in a logical manner to determine how we should formulate our capital policy with an eye toward expansion and growth.

Q: You mentioned that you are reviewing your overall capital policy, but what improvements or changes do you think are necessary at present? We believe that either improving return on equity (ROE) at an early stage to show stability or expanding shareholder returns as soon as possible will result in maintaining the business from a long-term perspective also for Obayashi Corporation, because when the period of PBR below 1x gets long, the pressure or demand for shareholder returns will increase more.

A: In considering short-term and medium- to long-term shareholder return measures, we have been reluctant to adopt a share buyback, because we believe that such a buyback would raise book-value per share (BPS) and earning per share (EPS) in the short term, thereby raising the share price and returning the benefits to shareholders. On the contrary, the Company has adopted a dividend on equity ratio (DOE) based approach as its policy to return dividends to shareholders based on the enhancement of its own funds through the accumulation of profits, while focusing on the medium- to long-term perspective and expanding its sources of earnings through investment for growth.

However, the market is realistically demanding improvements for companies with PBR below 1x, and we are discussing how to improve corporate value over the medium- to long- term by increasing current net income and net assets through profit growth, while also considering the quantitative effects of share buybacks.

(6) Others

Q: Regarding the forecast for FY2023, extraordinary gains are low. Can I anticipate the sale of cross-shareholdings to settle down once?

A: Regarding the reduction of cross-shareholdings, there is no change in the policy of selling 150 billion yen as early as possible in the period of the Medium-Term Business Plan 2022. We have categorized our holdings into those that can be sold, those that require further negotiations, and those that are difficult to sell, and we are planning to achieve the required level for FY2023 at this point. The question is how to increase the figures up from this required achievement level; we will continue to negotiate to increase the volume of sales more, as there are other parties involved.

Q: What is your analysis of the impact of the return on invested capital (ROIC) indicator, which you have introduced as a KPI, on the management of order-taking activities and construction profitability in the construction business?

A: ROIC is an excellent indicator for evaluating individual investment projects, and the construction industry is often considered an asset-light business if it can collect payment in principle. However, in the Japanese construction industry, payment terms and conditions are very one-sided, and depending on the payment terms, liabilities and needed capital can increase. Therefore, with the introduction of ROIC, the concept that liabilities and needed capital will be inflated under these payment terms and conditions has become more thoroughly understood in order strategies. Mega-projects can cost hundreds of billions of yen in capital,

but by introducing ROIC, the concept that the costs in projects are "capital costs" rather than "procurement costs" is fully understood within the sales and construction departments as well as in the construction sites. We believe that this is having a certain effect.

Q: The actual results for FY2022 ultimately exceeded the downward revision made in November 2022. We would like to know how the announced values for each business are formulated to determine the accuracy of the forecast for operating income of 74 billion yen for FY2023.

A: There is no change in the method of formulating the forecast from the previous disclosure for the initial announcement for FY2022, the downward revision in November 2022, and the forecast for FY2023. As of the end of the first half of FY2022, we had considered that the figures would not reach the target and lowered the forecast for FY2022, but since there was additional acquisition of the contract amount, which exceeded the estimates, for domestic civil engineering business at the end of the fiscal year, the income for the domestic building construction business ultimately recovered. The forecast for FY2023, as well, was formulated by merely adding up figures based on the construction projects in hand and the order forecast, and then by adding a target concept to these figures, and there is no difference between the internal target values and the concept. However, the domestic civil engineering business' plan is a bottom-line plan; we will have to work to increase its business.