

Disclaimer:

This document has been translated from the Japanese original for reference purpose only. If there is any discrepancy between the Japanese original and this English translation, the former 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
Summary of the Financial Results Briefing Conference
for FY2023
(April 1, 2023 to March 31, 2024)

Date: Tuesday, May 14, 2024, from 10:00 to 11:20
Respondents: Kenji Hasuwa, President and CEO
Atsushi Sasagawa, Executive Vice President
Toshimi Sato, Executive Vice President
Yoshihito Sasaki, Senior Managing Executive Officer
Yasuo Morita, Senior Managing Executive Officer
Yoshiaki Takata, General Manager of Accounting Department
Attendees: 88 securities analysts, institutional investors and others

1. Presentation on Financial Results for FY2023, Forecasts for FY2024 and Addendum to Medium-Term Business Plan 2022

An explanation was provided by the President and CEO, based on the Presentation on Financial Results FY2023 (April 1, 2023 to March 31, 2024) and on Addendum to Medium-Term Business Plan 2022.

2. Main Questions and Answers

(1) Domestic Building Construction Business

Q: You mentioned that the results for FY2023 recovered ahead of expectations. It could have been anticipated earlier around the 3Q results considering the impact of the accident at Yaesu, the impact of unprofitable projects, the replacement of unprofitable projects with those whose profitability at the time of receiving orders improved and other factors. What has changed in the three months since the 3Q results, such as construction projects in hand becoming profitable?

A: In the domestic building construction business, profits recovered faster than expected. The main reason for this is that there were more cases in which our claims were approved by our clients, especially in negotiations for higher price increases.

Q: What is your view on the profit margin for domestic building construction from FY2025 onward?

A: Sales of projects on provision for loss on construction contracts recorded in previous years will peak in FY2024, but this does not mean that they will be none in FY2025. However, we believe that we will be able to secure a profit margin higher than that of FY2024 from FY2025 onward, as we will be shifting to projects that are more profitable at the time of receiving orders.

Q: You mentioned that the profit margin for domestic building construction in FY2025 will further improve from FY2024. What is your profit margin forecast for FY2026, the final year of the Medium-Term Business Plan 2022? Also, the amount of orders received for renovation projects in FY2023 was 200.0 billion yen, up about 4% as a percentage of domestic building construction. Is it correct to expect that this is the result of strategic orders received for renovation projects, and that this trend will continue and contribute to the improvement of the profit margin in the future?

A: We believe that the profit level of domestic building construction will gradually increase from FY2024 to FY2026. Profitability at the time of receiving orders is also improving, and we do not see any factors that would push down the profits at present. However, we do not expect this trend of the market to continue indefinitely, so we need to carefully assess the situation.

Generally, renovation work is highly profitable, so the initial plan was to secure a stable volume of orders received and increase the renovation project ratio during the period of the Medium-Term Business Plan 2022. However, we have received a large number of large-scale orders for new construction projects and have not been able to handle renovation projects. The increase in share of renovation projects to total of domestic building construction in FY2023 is due to orders received of large-scale renovation projects.

(2) Domestic Civil Engineering Business

Q: What is the profit forecast for domestic civil engineering for FY2024? The initial forecast for FY2023 was conservative and the final result was an upward revision. If there are additional orders, design changes and others, is there possibility of the profit forecast for FY2024 being upward revision as well?

A: The growth in profits in FY2023 was the result of the success of our efforts to reduce costs in addition to the fact that we were able to obtain more design changes for large-scale construction projects than we had anticipated. In FY2024, there are plenty of construction projects in hand, but since construction projects that contributed to profits until the last fiscal year have been completed, there is no denying the downward trend in profits due to design changes. However, we have included some uncertainties in the plan. We will work to strengthen our earning power, aiming to exceed the FY2023 level.

(3) Real Estate Development Business and other businesses

Q: With the completion of YOKOHAMA SYMPHOSTAGE and the increase in the market value of real estate for lease to over 700.0 billion yen, what is the current occupancy rate of leasing properties and what is your strategy for the future?

A: In FY2024, depreciation and others of newly completed projects, which are still in the process of leasing activities, will occur in advance. The leasing business is relatively slowing down compared to previous years, and earnings from the leasing properties business are trending slightly lower. In addition, while revenues from real estate development business were brought forward due to inclusion in private funds and others, revenues from long-term business such as leasing, maintenance, and others will be scaled down in a single year. Thus, the leasing properties business appears to be slightly sluggish in FY2024.

Regarding occupancy rates, there will be no major fluctuations in our own properties but leasing business may be difficult for newly completed projects due to slight difference in trend on each

market and region. We will invest 300.0 billion yen in the future, as stated in the addendum to the Medium-Term Business Plan 2022. This includes a replacement of old properties with new ones and a business such as putting properties in private funds and returning them to the market after conversion of usage. We cannot give specific figures, but by the end of the Medium-Term Business Plan 2022, we will have a slightly larger asset scale than the current level.

Q: In the addendum to Medium-Term Business Plan 2022, overall investment plan is an increase of 150.0 billion yen, and the green energy business is increased to the amount to 60.0 billion yen while it is still making slow progress at 6.0 billion yen. Is this increase due to any specific plan?

A: We cannot disclose individual projects, but we are preparing an investment plan for the green energy business, including renewable energy and hydrogen related businesses in NZ and Oceania that we have a certain amount of concrete plan. As with the recent announcement of the investment in Eastland Generation, we hope to announce our investment plans as soon as they are finalized.

Q: You intend to increase profits from non-construction businesses to the same level as construction business in the addendum to Medium-Term Business Plan 2022. What is your medium-term approach to increasing profits from non-construction businesses other than real estate business?

A: Currently, in addition to the green energy business, we are now in the process of launching new businesses such as Oprizon. Although we cannot expand all at once, we would like to secure new business areas in line with our philosophy as the Group while contributing to solving social issues such as carbon neutrality and well-being. We also hope to expand our business globally, as we did with the M&A of MWH. At present, we are trying to create a small business and grow it into a large one, and we will work on including technology development, so that this type of business can meet the demands of society in the future.

(4) Reduction of Cross-Shareholdings

Q: What is the probability of achieving the goal of reducing cross-shareholdings to 20% or less of consolidated net assets? Will it be possible to maintain the pace of sales of cross-shareholdings and generate a certain level of profit from them in the future, under the impact of a ¥150.0 billion rise in stock prices on cross-shareholdings in FY2023? Also, what is the reaction of the companies in which you hold shares?

A: Negotiations on the sale of cross-shareholdings are not going as smoothly as we expect because we are dealing with business partner's circumstances, but we have already begun negotiations with most of the business partners setting a target date for sale after allocating a reduction for all shares held. As for large-lot shares, selling all of them at once would have an impact on the share price, so we are mutually negotiating the terms and conditions. As for the certainty of the reduction level, we can only say that it will happen, not that it is a possibility since it is a goal that must be achieved. The trend toward the elimination of cross-shareholdings is well understood in the market, and our policy is also well understood by our business partners including railway companies and developers.

Q: I believe that cross-shareholdings previously had an advantage in order to receive orders. How will the reduction of cross-shareholdings affect order receiving activities?

A: Most clients do not make holding shares a condition for placing an order at present. Therefore, since the market trend is to eliminate cross-shareholdings, the reduction of cross-shareholdings will have minor impact on order receiving activities.

(5) Equity and Shareholder Returns

Q: I would like to confirm your view on the level of necessary equity. How strictly do you intend to manage the target of "1 trillion-yen level," or is a plus or minus 10% acceptable? What is the rationale for setting the necessary equity at one trillion yen?

A: In conducting management with capital efficiency, we accumulated the cost of capital in the balance sheet for each business to the sum of approximately one trillion yen, which we considered to be the level of necessary equity for the current business portfolio of the Group. The company is still working on how to disclose the necessary equity for each business.

In addition, as we expand our business globally, we have received a guarantee line for the performance of construction work through Surety in the U.S. This line is backed by the Group's net assets of one trillion yen, and the Group has finally reached the 1 trillion-yen level. Only a few companies in the same industry have a global performance guarantee facility, and we are the only Japanese company that has obtained the guarantee. The presence or absence of this performance coverage will make a big difference in the future, receiving orders related to expansion of foreign capital and U.S.-affiliated companies into non-U.S. markets, and the U.S. military related construction projects. The 1 trillion-yen level of equity is also the management foundation that we have been aiming for since the Medium-Term Business Plan 2017. Taking these factors into consideration, we have set the necessary equity at the 1 trillion-yen level.

We believe that one trillion yen is an appropriate level for our current business portfolio, but in the future, when we increase the number of group companies through M&A as we did with the recent acquisition of MWH, or when we embark on new business areas, we will increase our equity as necessary. Otherwise, if the equity exceeds the 1 trillion-yen level, we will execute flexible shareholder returns, considering the profit and cash status.

Q: You mentioned that the company will implement flexible shareholder returns if the equity exceeds one trillion yen, but since it has already exceeded one trillion yen, it seems that the company already has sufficient capacity to conduct flexible shareholder returns. Will the returns be made during the FY2024 or at the end of the fiscal year when the equity level is foreseen to some degree?

A: There is currently about 200.0 billion yen of unrealized gains on cross-shareholdings in equity, but it may fall below one trillion yen if there are large fluctuations in stock prices. Since flexible shareholder returns are determined based on the cash and profit situation and other factors, rather than having some trigger during the term and execute capital policy, we would like to take action after considering a certain level of business performance, including cash flow.

Q: The forecast for consolidated equity for FY2024 is 1,147.0 billion yen, a YoY decrease, but if the stock price fluctuations in cross-shareholdings are not taken into account, I think it will not decrease unless 100% of profit attributable to owners of parent are returned? Is my understanding correct that the valuation difference on available-for-sale securities will remain

unchanged on a net basis, since it will appear on the statements income when the securities are sold?

A: The forecast for consolidated equity for FY2024 is composed of the beginning-of-year equity, profit attributable to owners of parent, dividend payments (year-end dividend of 54 yen + interim dividend of 40 yen), and the expected decrease in valuation difference resulting from the sale of cross-shareholdings at the current stage (deduction from net income recorded).

(6) Others

Q: Regarding a provision for loss on construction contracts, we expect the balance of 33.0 billion yen at the end of FY2023 to decline in the future, but what is the assumed amount for FY2026, the final year of the Medium-Term Business Plan 2022? Against operating income of 79.3 billion yen in FY2023, we consider that about 20.0 billion yen will add to that if the impact of a provision for loss on construction contracts is reduced. Is the 100.0 billion yen operating income- target of the Medium-Term Business Plan 2022 highly feasible?

A: We believe that a provision for loss on construction contracts will return to the normal balance level in the final year of the Medium-Term Business Plan 2022, as the impact of the projects currently recorded will be almost eliminated. At this point, we cannot indicate how much it will be, but if we look at past periods when we have secured a certain level of profitability, we believe that a provision for loss on construction contracts will fall to the 5.0- 10.0 billion yen level in the final year of the Medium-Term Business Plan 2022.

Although it will depend on profit and loss of orders received in the future, we are currently making good progress on projects recorded the provision for loss on construction contracts, and if we continue to adhere to our current strategy at the time of order receiving, we should be able to reach the 100.0 billion yen level of operating income.