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OBAYASHI CORPORATION

Main Questions and Answers at the Small Meetings in 2025

<For Securities Analysts>

Date: Tuesday, September 9, and Wednesday, September 10 (Two times in total)
 Respondent: Toshimi Sato, President and CEO
 Attendees: 8 securities analysts in total

<For Institutional Investors >

Date: Tuesday, September 9, and Wednesday, September 10 (Two times in total)
 Respondent: Toshimi Sato, President and CEO
 Attendees: 7 institutional investors in total

Summary of Main Questions and Answers: Excerpts from All Meetings

1. Management Strategy

Q. Could you review developments so far and describe the outlook going forward?

A. Under our previous president and CEO, Kenji Hasuwa, I was involved in the formulation of Medium-Term Business Plan 2017 (“the 2017 business plan”) and Medium-Term Business Plan 2022 (“the 2022 business plan”). When the 2017 business plan started, the markets were engaged in lively discussion regarding topics such as enhancement of shareholder return measures including share buybacks and adoption of total payout ratios. Against that backdrop, we set ourselves the goal of increasing equity during the 2017 business plan as a means of building a strong management foundation to prepare the way for the future, spurred by such developments as our posting of a loss from the Dubai Metro Project. Strong business performance subsequently drove our accumulation of around 1 trillion yen in equity. As a result, in the 2022 business plan we were able to announce a capital policy that included dividends based on a dividend on equity (DOE) ratio. Now, as we continue to manage the company with a focus on ROE and ROIC, the challenge will be to present our growth strategy to the markets. In doing so, we intend to keep market capitalization in mind as the guiding concept during discussions. However, only by first considering how much we aim to increase market capitalization—which currently stands at around 1.8 trillion yen—can we begin meaningful discussions at the income statement level, such as net sales and operating income. We still need to consider whether we could commit to a target for market capitalization, but supposing that we set the level at 4 trillion yen, this could not be achieved with the same business portfolio we have now. We therefore intend to evaluate each of our businesses in terms of their cost of capital and discuss how we can present our growth strategy to the markets. Our aim will be to announce the growth strategy for the Obayashi Group at the same time as the next medium-term business plan (“the next business plan”).

2. Domestic Construction Business

(1) Domestic building construction business

Q. Can you see signs of change in demand conditions?

A. If we aggregate the orders in our pipeline, we can see about three years ahead on an orders-received basis, but it is difficult to predict beyond that due to the uncertainty of the current business environment.

Q. Doesn't accepting super-large-scale projects with long construction periods that fill up construction capacity in advance lead to missed business opportunities? Also, if demand went down in future, wouldn't price-based competition return, leading Obayashi to accept losses in the pursuit of orders? Would it be possible for you commit to not taking orders that would result in losses?

A. We recognize that an over-reliance on accepting orders for large-scale projects risks hampering the development of a portfolio that is appropriately varied in terms of project size and building purpose. This would have a particularly serious adverse effect on human resource development, and we therefore need to add small- and medium-sized construction projects to our portfolio of orders received. Recently, under the leadership of the Tokyo Main Office, we incorporated this approach into our order acceptance strategy explicitly. Looking ahead, we cannot deny that price competition may intensify once more due to changes in the supply-demand balance; in this case we would allow strategic acceptance of low-profitability orders after considering our financial base and human resource development needs. However, as a matter of business management we would not permit the acceptance of orders for low-profitability mega-projects that are based on poorly evidenced scenarios for the improvement of profits over time.

Q. The last downturn in profitability at the time of receiving orders started around FY2018 and appears to have been partially fueled by rising construction material prices. Looking back, what do you see as the primary contributors to that downturn? Could a similar situation occur again five years later? Also, some large-scale projects such as the Osaka Integrated Resort are due to be completed around 2030, but can I assume there are no factors that could cause business performance to deteriorate in five years' time?

A. The main contributor to the downturn was the fact that, for certain mega-projects, we made low-profitability proposals to secure priority negotiation rights and were then unable to include estimate conditions that would have allowed us to address the unprecedented rise in construction costs during the pre-contract lead time. We do not expect to lapse into a similar situation again now because we have been implementing measures such as accepting orders strategically and taking action at the bidding stage to address the risk of increasing construction costs. With regard to what will happen five years from now, the current situation does not merit factoring any specific deterioration in business performance into our management. However, we will continue to keep a close watch on the Trump administration, developments in China, impacts on the global supply chain, and so on, also bearing in mind that the current Trump tariffs are affecting some companies' capital expenditures.

Q. What are the factors that caused the supply-demand balance to tighten post-pandemic?

A. This is my own personal opinion, but I think the supply-demand balance was affected by overheated construction demand due to the Japanese government's payment of subsidies for

specified critical products in line with its economic security policy, as well as by the application of regulations restricting overtime according to the revised Labor Standards Act of Japan.

Q. Please explain the future direction of the business. Will you develop it into a cash cow to secure stable revenue, or will you improve its capacity to generate profit? And what actions can be taken to achieve these aims? Do you see negotiation of inflation-adjustment clauses in contracts, changes to payment terms for large-scale projects, and so on as issues?

A. We retain our commitment to operating in the domestic construction market as our core business with a focus on the private-sector non-residential market, but we do not assume that the profit margin of the domestic building construction business will increase consistently. Efforts we can make at the individual company level include focusing on securing stable earnings by continuing to improve productivity, negotiate inflation-adjustment clauses, incorporate contractual provisions to address changes that occur during mega-project lead times, and negotiate payment terms with capital efficiency in mind.

Q. What KPIs have you set for making decisions regarding the acceptance of orders? Are such KPIs linked to the evaluation of personnel?

A. We have set profitability at the time of receiving orders as a KPI. The Marketing Division has set a minimum target for profitability, and if a prospective order falls significantly below that threshold, we check whether it makes sound business sense. However, we do not link profitability at the time of receiving orders to the evaluation of individual performance.

Q. Given that the impact of provision for loss on construction contracts will cease during the current fiscal year, will the gross profit margin on completed construction contracts in the next two fiscal years reach the previous peak of 12% to 13%?

A. There is no risk of a significant increase in unprofitable projects, including additional losses on projects with provisions for loss on construction contracts. We therefore consider the profit margin planned for this fiscal year to be our minimum target. Note, however, that the profit margin we announced does not factor in all improvements in profit that we need to achieve during the construction process, as these depend on progress in negotiations with clients and others. We are working to pursue new orders strategically by holding regular meetings involving the heads of the Building Construction Division, the Civil Engineering Construction Division, and the Marketing Division to review information on upcoming construction projects in the market and make decisions on whether to initiate bidding efforts accordingly. We are aiming to reach the previous peak profit margin, even assuming that we may accept mega-projects, which tend to be less profitable than other orders.

Q. It appears that the recent inflationary environment is compelling companies to operate differently in terms of, for example, having to raise unit prices in line with higher costs. What effects are these changes in the business environment having on the way general contractors operate?

A. Following developments such as the Ministry of Land, Infrastructure, Transport and Tourism's revision of the unit price of labor for public works and the amendment of the Construction Business Act, we regard the current situation, including the supply-demand environment, as an opportunity to work on improving the profitability of our operations. And we also see it as a good opportunity to shift to a structure that will enable us to enjoy appropriate returns commensurate with the value we provide, including the added value represented by our engineering service.

Q. Despite the current improvement in profit margins, they remain at low levels compared with other industries. Is there any potential to increase them further?

A. We really need to pass engineering costs on to clients, but we have not done enough to pass those costs on so far. From now on, we need to explore specific monetization methods for the service. It is not easy to increase added value while differentiating ourselves, but we cannot raise our profit levels unless we take on these challenges. It may take some time, but we want to enhance the value we provide by investing in technology development to differentiate ourselves so that clients actively want to spend money on Obayashi's technologies and construction supervision capability.

Q. What is Obayashi's stance toward engaging in renewal and renovation projects or engineering business?

A: The renewal and renovation market is more stable than the new construction market and underpins our earnings. As one option, we are considering the possibility of having construction subsidiaries in both these markets, where productivity levels differ. The question with engineering business is where we can find business opportunities: in water, energy, food, or elsewhere. Nonetheless, we intend to pursue such opportunities both inside and outside Japan. Overseas, we will do so by assessing markets in sectors offering public-private partnership and concession opportunities.

(2) Domestic civil engineering business

Q. Is the business capable of achieving net sales of 400.0 billion yen and a profit margin of around 20%, in line with those of other companies?

A. Our construction capacity is currently in the low 300.0 billion yen range, and it would be difficult to increase that to 400.0 billion yen all at once. Meanwhile, we intend to stabilize the profit margin at the 15% to 20% level and secure future profits by increasing net sales. We recognize our challenges in this business as being to secure construction projects in East Japan, where the market is large, and to engage in defense-related projects.

(3) Securing Human Resources and Improving Productivity

Q. What is required to attract young people to the construction industry?

A: Communicating the appeal of craftsmanship is important, but it will also be crucial to improve safety systems, salaries, and working environments. We are offering internships to enable students to experience the appeal of the construction business and the Obayashi Group.

Q. Have you seen any positive benefits from raising starting salaries, such as human resources being easier to procure?

A. We believe there has been some positive benefit. For example, the construction industry now appears as one of the options when candidates consider different industries to work in. Raising the base salary beyond the inflation rate to achieve real wage growth is something that the industry as a whole needs to engage with. At our suppliers and subcontractors, we intend to support business succession alongside endeavoring to sustain and develop the next generation of workers and engineers.

Q. Isn't the shortage of skilled workers a positive factor in terms of increasing wages and enhancing the value of the construction industry? If non-Japanese workers are proactively admitted, a labor surplus will be created and wages will not increase. Achieving the right balance is admittedly difficult, but how do you view the labor shortage?

A. Despite the labor shortage throughout the industry as a whole, individual companies can still benefit from a seller's market in terms of the balance of supply and demand for construction. At the same time, however, how do we deal with the fact that, when it comes to the long-term development of social capital for Japan as a country, the shortage of skilled workers will cause significant degradation of our social infrastructure notwithstanding Japan's status as a developed nation? A reduction in construction capacity is a serious problem for a construction company in terms of its ability to fulfill its social mission. Although we consider the admittance of non-Japanese workers to be one solution, it presents issues in terms of social costs and the continued maintenance, enhancement, and passing on of the skills of expert Japanese workers.

Q. Is there potential for women to play active roles as engineers? This would seem rather difficult to achieve on actual construction sites, even if there were further advances in digital transformation.

A. We already have many female employees working on construction sites, including as project directors. We intend to continue increasing opportunities for female engineers to play active roles, including by significantly improving working environments in construction site offices and making provision for life events through our personnel systems.

Q. Your integrated report and other materials describe robotics construction and other efforts to improve productivity, so looking 10 or 20 years ahead, will you have the potential to bring about dramatic productivity improvements? Also, are you measuring improvement in productivity as a KPI?

A. It is extremely difficult to measure productivity. As the construction industry produces one-of-a-kind items and the cost structure differs from one project to another, there are various arguments as to whether the performance indicator should be sales revenue, profit, total floor area constructed, or some other measure. In terms of employing robotics to improve productivity, in civil engineering we are making practical use of technologies such as autonomous driving and remote control at dam construction sites, for example. However, in building construction the practical use of robotics faces various challenges including legislative issues, so it will be some time before dramatic productivity improvements can be achieved. On the other hand, from a different perspective beyond productivity improvement, we are pursuing initiatives such as employing remote construction for dangerous work, and we believe there is a market for deploying the associated know-how outside of construction. Meanwhile, when it comes to agentic AI and physical AI, the situation has changed greatly over the past six months. Before using these technologies to perform work on construction sites, we must do the same as other industries and start using them primarily to improve productivity in back-office administrative work.

3. Overseas Construction Business

Q. Building up asset-light operations is an easy-to-understand, feel-good story, but not many companies are successful when they enter markets overseas. What is the probability of Obayashi succeeding in its overseas operations?

A. Although our North American construction business posted large losses in the past, we switched from hands-on business expansion to an acquisition-based strategy, and now all our building construction and civil engineering subsidiaries are making the most of the Obayashi Group's management resources including technologies and bond capacity to accelerate their growth. Recently, there have been instances of market overlap arising between subsidiaries' businesses and Obayashi Corporation's directly operated North American business. This could be taken as evidence that the Obayashi Group's North American strategy of pursuing optimization for individual companies has been so successful that it is now interfering with optimization for the Group as a whole. Given this situation, we instructed our North American Regional Headquarters to hold discussions with the subsidiaries' CEOs and draw up a grand design for our North American operations as a whole. Each subsidiary's CEO is an extremely talented individual who heads up a general contracting firm with annual revenue at around the 100.0 billion yen-level. We have now reached the stage at which Obayashi can draw on such resources offered by its subsidiaries, rather than the other way around. We therefore intend to continue proactively expanding our operations in the North American construction market, which is worth more than 200 trillion yen.

Q. Although the building construction business has stayed consistently in the black, civil engineering is sometimes in the red. Does this mean that the civil engineering business' management is not at the same level as that of building construction? Also, in Singapore there was another company that posted losses, so what is the situation regarding management of risk by the senior management team?

A. The losses in our overseas civil engineering projects have now more-or-less been eliminated. The civil engineering business is subject to uncertainties, as unforeseen situations can occur with regard to soil quality or other conditions, and once a problem arises, it can have a wide-ranging impact. Issues such as these meant that we sometimes posted large losses in the past. Recently, however, the risk of major losses has been limited, and risk management is of the same standard as in building construction. In the subsidiaries we acquired in North America, as well as in Thai Obayashi and Obayashi Singapore—headed by staff hired locally in Southeast Asia—an autonomous management structure operates under the control of the parent company. Although we do not micromanage our subsidiaries, we inform them at the time of acquisition that our decision-making on the acceptance of orders is rigorous. Separately from the parent company's decision-making criteria for the whole organization, our North American and Asia-Pacific regional headquarters also set their own respective criteria and conduct screening before accepting construction orders that also addresses contract risk.

Q. If expansion of operations in the U.S. market is envisaged, I would like you to further improve your disclosure regarding matters that could become topics of discussion, such as gross profit, the types of business involved, and details of the pipeline.

A. The U.S. construction market is the world's largest, with investments in construction worth more than 200 trillion yen. Moreover, we regard it as a fair market for general contractors as it does not have excessively one-sided contractual provisions. If I had to point out a problem with the U.S. market, it would be that the differing laws, business practices, and so on in each state present some challenges. Nevertheless, with some forecasts suggesting that the market could expand to the 300 trillion yen-level in the future, we believe that the U.S. will remain the core market for our overseas construction business. With regard to disclosure, we will continue exploring how to communicate information to the markets appropriately and flexibly adopt new disclosure methods

as needed, treating overseas construction as an important segment within the Obayashi Group's business portfolio.

4. Real Estate Development Business

Q. What are the factors contributing to the low levels of yield and capital efficiency in real estate development?

A. The capital efficiency of the Obayashi Group's real estate development business is not actually particularly low. However, one factor is that real estate development is inherently a stock-based business, which typically delivers lower capital efficiency compared to the flow-based nature of construction. Another factor is that we have been evaluating its contribution on a profit-and-loss basis. We acknowledge that investors have pointed out the contradiction of including real estate development as part of our business portfolio when we have an ROE target of 10%. In our investor relations events overseas too, along with comments regarding the 250.0 billion yen in unrealized gains, many investors gave us harsh feedback stating that the Obayashi Group's real estate development business is not an attractive investment target. The 2022 business plan set the target value of real estate assets at 700.0 billion yen, and we have instructed our real estate development division to rethink the business so that it will not further undermine the capital efficiency of the Group as a whole. One option, for example, would be to pursue a sale and reinvestment business focused primarily on logistics facilities. We realize that we need to think about the future direction of the real estate development business in preparation for the next business plan.

Q. The 2% yield based on book value is below the typical level; what are the factors behind this? Wouldn't this normally be insufficient to justify decisions to invest?

A. Our decisions were significantly influenced by the fact that we evaluated real estate investments in conjunction with orders received for construction projects and their associated profits. We need to shift our decision-making criteria to whether or not an investment actually contributes to the capital efficiency and profitability of the Group as a whole.

5. Green Energy Business

Q. What is your policy with regard to renewable energy? Do you expect investment to proceed according to plan?

A. In terms of our initiatives as a renewable energy operator in Japan, in addition to the projects already in operation, our new projects will be exclusively in the geothermal energy sector. The business environment in other renewable energy sectors including offshore wind power has now changed substantially, so we need to take the changes into account and reconsider our strategy going forward. If, as a result, we did not undertake investments according to our plan, we would provide an explanation including the reasons why. Renewable energy is a subsidized business, and the costs are passed on in electricity bills; therefore, we believe the sector will not expand unless it gains public understanding. The government's energy policy refers to the development of floating offshore wind power, but that involves even greater costs, so we question how the government plans to approach it.

Q. You say that you are conducting R&D on floating offshore wind power; do you plan to focus on this area going forward? Would floating offshore wind power offer the prospect of profits?

- A. We intend to build up the necessary capacity to respond to construction tenders as they arise. As to the prospect of profits as a business, it probably depends on factors such as the government's provision of subsidies and the institutional framework including feed-in premiums. Also, whether or not Obayashi engages in floating offshore wind power as a business operator will depend on the specific project, so I cannot comment on that at the moment.

6. M&A, Etc.

- Q. Will Taisei Corporation's acquisition of Toyo Construction influence your strategy within Japan, including the chances of Obayashi acquiring a company with expertise in the marine civil engineering sector?

- A. We anticipate that a certain amount of demand in the marine civil engineering sector will arise in relation to defense-related construction orders, but Taisei Corporation's acquisition does not affect the Obayashi Group's M&A strategy. While some companies pursue business scale expansion through mergers between major contractors, we regard social issues such as water, energy, and food as our next business opportunities. We believe that opportunities can also be found in pursuing diversification of our operating segments, including by acquiring businesses from upstream to downstream in each business sector.

- Q. In the process of vertically integrating supply chains, which areas might you target? Although some other contractors are keen to acquire mechanical and electrical (M&E) companies, there do not appear to have been any actual acquisitions. If Obayashi were to target a major M&E company for acquisition, it could hinder their receipt of M&E construction orders from Obayashi's competitors. On the other hand, given the development of urban data centers, couldn't expansion in this area be an option?

- A. We recently acquired Fuji Bousai Corporation, bringing it under the Oak Setsubi Corporation umbrella, so expanding construction capacity at the Group company level is an option. Downstream, we are considering other options such as equipping Obayashi Facilities Corporation, which is responsible for building management, with building construction capabilities in areas that Obayashi Corporation does not handle. However, given the current balance of supply and demand in the construction market, there are no companies to target at the moment. We are hoping for opportunities to match with companies that face a lack of successors or other problems regarding business succession, including among M&E subcontractors.

- Q. Please explain your thinking with regard to M&A overseas.

- A. A major reason why MWH grew after we acquired it was the removal of various constraints imposed by the fund that had owned it previously. Going forward, we will pursue growth focused on the three companies of WEBCOR, KRAEMER, and MWH, shifting the business portfolio at WEBCOR toward public facilities such as hospitals and schools. Even if we make no new acquisitions, we expect to be able to leverage the Obayashi Group's credit lines to improve performance. From the perspectives of expanding construction capacity and launching operations in new states, there is potential for undertaking acquisitions through Group companies, but at the moment we are not assuming any large-scale acquisitions in North America. Besides, Kenaidan Group's performance is now recovering, and we consider expansion of the Obayashi Group's operations focused on that company to be another option that is not reliant on M&A. Candidate countries for future acquisitions include Australia. However, the issue is that we have not

transitioned to IFRS, so if we undertook a major acquisition, amortization of goodwill would put pressure on profitability for the entire Obayashi Group.

Q. In North America as well, is it your intention to expand not only in your legacy construction sector, but also in the water and energy sectors? Also, when undertaking M&As, will you raise the level of bond capacity for subsidiaries acquired?

A. We believe that, with our current structure, it is possible to expand to a net sales level of close to 1.0 trillion yen for Thailand, Singapore, Indonesia, and North America combined. In that case, it would be necessary to raise the value of bond capacity in line with expansion of operations at the subsidiaries already acquired. With regard to future M&As, we think that to a certain extent we need to delineate our vision before taking action in the same way that Bechtel Corporation, for instance, acquired a rolling stock maintenance and management company to offer one-stop service with the target of forming public-private partnerships in the railroad industry.

Q. There is a risk that expansion of operations could result in a conglomerate discount and rising costs, so what strategy do you think should be adopted to align different businesses?

A. We do not think of M&As as being for the purpose of creating synergies in the first place. As in MWH's case, a company that comes under the Obayashi Group umbrella may benefit from the removal of constraints with regard to management and credit, enabling it to achieve dramatic growth. Assuming that this pattern is replicated, we believe that any conglomerate discount can be minimized. We regard the key prerequisite for our M&A strategy as being our ability to reliably grow an acquired company by investing the Obayashi Group's management resources in it.

Q. Earlier you mentioned acquiring upstream businesses, but at the company level, are you thinking of either operating or investing in vehicles such as venture capital or private equity funds?

A. Yes, we are. Within the current renewable energy market in Japan, for example, it would be very difficult for Obayashi to leverage its accumulated knowledge and know-how in the role of a business operator. On the other hand, we have gained a certain amount of knowledge in New Zealand's geothermal energy and hydropower sectors, as well as in the Japanese geothermal energy sector, among others. Our Green Energy Division is therefore currently investigating options including, for example, finding a partner and obtaining operating fees and investment income from something like an alternative fund focused on renewable energy.

7. Capital Policy

(1) Equity level

Q. With regard to the necessary equity level, in the financial results briefing for FY2024, you explained that you considered a level of 1 trillion yen appropriate at that time, but that you would reconsider the appropriate level going forward. How are deliberations on this matter progressing at the moment? What will the level be in the next business plan?

A. When we started the 2022 business plan, we prepared hypothetical balance sheets for the domestic construction business, the overseas construction business, the real estate development business, the green energy business, and the PPP business. We then estimated capital costs and calculated the necessary equity levels, confirming that their aggregate came to around 1 trillion yen. Thus, we verified that if we maintained our business size and business portfolio as they were

at that time, the 1 trillion yen-level would be adequate. However, when we refer to the 1 trillion yen-level, we do not mean that we will rigidly maintain equity at that level, but that we aim to avoid accumulating equity beyond levels that investors would reasonably support. It was in line with this stance that we announced 100.0 billion yen in share buybacks. Looking ahead, sales revenue growth in the North American construction business will result in inadequate bond capacity. Accordingly, we are currently confirming the total value of guarantees that will be required at peak levels, but based on the project orders we expect to receive, it is likely to be around 1.5 to 2.0 trillion yen. We will negotiate with the bond surety companies and, if judged to be necessary, we will increase equity. If we do so, we will explain to shareholders our plans for expanding operations at Group companies, and the expected levels of returns and capital efficiency.

- Q. Given the need for bonds when receiving orders in the U.S. construction business, the requirement for equity before profits are generated could be viewed negatively, so does it actually make sense to expand operations in the U.S.? What do you think the effect will be on the ROE of Obayashi as a whole?
- A. In North America, payment is made on the basis of work completed each month, so in principle neither medium- to long-term funding nor capital are necessary. In terms of the ROE level, our 10% target can be achieved easily even if we increase equity to some extent to secure bond capacity, and we believe this could also contribute to enhanced corporate value.

(2) Shareholder returns

- Q. Did you decide to implement the current share buybacks as a way to use the cash obtained from reducing cross-shareholdings?
- A. We undertook internal analysis to establish how long the effect of buying back shares influences the share price, and having understood the results, we bought back shares as part of a flexible equity control strategy. At the same time, we explored the possibility of raising our DOE level but ended up concluding that we could not make a decision based on the profit forecasts available at that time. If we are going to examine shareholder returns in preparation for the next business plan, however, I think it would be appropriate to reconsider the DOE level, given that we have adopted that metric. Of course, discussion regarding the use of cash should come first, and our investment plan needs to reflect changes in circumstances since it was first drawn up. Opportunities to enter new renewable energy markets have dried up, and in the real estate development business, given its market valuations, we believe that continuing to accumulate assets to support the construction business, as we did previously, lacks strategic consistency. So, we will also consider these issues in the next business plan.
- Q. Given the potential for cash inflow to increase, what are your thoughts regarding the balance between growth investment and shareholder returns?
- A. Construction is an industry that is fundamentally susceptible to the effects of economic cycles, but the level of our operating income has clearly changed. Looking ahead, if the current balance of supply and demand continues for another four to five years, we will be able to think about shareholder returns. We will do so after taking into account other considerations such as investment in technology development and investment in personnel including employee salaries and training. In terms of how we will adjust shareholder returns, it will be a case of making a business judgment at the time, but, supposing that operating income of around 100.0 billion yen

had become the norm, I expect we would raise the DOE level. In the next business plan, we intend to set out our updated capital policy after discussing it again.

(3) Cross-shareholdings

Q. What is the thinking regarding your future approach to keeping cross-shareholdings that have a clear rationale, and selling those that do not?

A. We have set qualitative and quantitative criteria for holding cross-shareholdings and have for some time been reducing stocks that do not meet our own criteria, regardless of the ISS proxy voting guidelines and other external guidance. On the one hand, if investors follow the ISS proxy voting guideline of voting for the election of directors only when cross-shareholdings equate to less than 20% of consolidated net assets, votes opposing proposals for the election of directors would be cast automatically at the Ordinary General Meeting of Shareholders. If the threshold was lowered in future, therefore, we would need to reduce our cross-shareholdings accordingly. On the other hand, assuming that there was no such threshold, the fact is that for certain shares, there is a rationale for continuing to hold them in cases where it makes financial sense in terms of benefits such as dividend income and capital gains. Additionally, we are allocating a budget of around 3.0 billion yen annually to invest in start-ups, but these investments are unfortunately included within the scope of cross-shareholdings, which we also see as a problem.

Q. Are there still companies whose shares should be kept because the shareholding offers business advantages?

A. Orders received as sole source contracts have declined for governance reasons, while cross-shareholding itself is in the process of being eliminated. This being the case, I think that provision of construction orders in exchange for holding shares will essentially disappear. Conversely, some clients offer us sole-source contracts even after we have sold all their shares because we have a relationship of trust with them.

8. Growth Strategy

Q. Assuming that the company's equity base will also grow as its business scale expands, it seems that improving capital efficiency going forward will come down to either increasing profitability or improving capital turnover in each business. What ideas do you have currently for increasing capital efficiency in each individual segment?

A. Unless we create high-profitability businesses with completely different earnings structures, we think it will be difficult to improve capital efficiency in a way that is clearly perceptible. We are allocating a budget of 3.0 billion yen annually to invest in start-ups. Moreover, in water-related business we acquired MWH, but we also have plenty of other work in the water sector. If we moved upstream toward engineering, there may be greater potential for opportunities to increase profitability, so we need to find those types of markets and sectors. Accordingly, our Strategic Business Development Department is not simply providing support and due diligence for M&A deals; it is also reframing our M&A approach by first identifying markets with growth potential and then considering how best to enter them.

Q. What do you think of the current performance of the company's stock price, given that it is below that of other major general contractors?

A. We believe that we need a strategy for growth that stakeholders can reasonably expect to succeed, as well as growth in the numerator of the ROE equation. In addition to setting performance indicator targets and a level of corporate value to aim for, we recognize that a detailed vision needs to be delineated, which is a Group-wide challenge. We will examine these issues in preparation for the next business plan.

Q. Going forward, ROE for the Group as a whole looks likely to reach 10% or more, but given that estimated balance sheets and costs of capital for each business have already been calculated, would it be possible to disclose the next business plan's financial targets separately for each business? Also, is there a possibility that the ROE target could be raised?

A. We need to revise our current segments for disclosure, as necessary, then break down the overall ROE target by explaining the capital costs and assumed levels of return for each business. When discussing ROE, there is a tendency to focus on the denominator, which can change rapidly, but in that case, business scale ends up being excluded from the discussion. On the other hand, going back to the income statement and focusing on the top line is not the answer either. Once we have included the cost of capital as the guiding concept for targets in each business, if we do not set a target (at least internally) for the future corporate value of the Obayashi Group as a whole, we cannot start a discussion about how to increase the numerator based on concrete proposals. In terms of what we should really be aiming for, if we are to consider strategies to double market capitalization, for example, discussions based solely on current stock price or PER may fall short of capturing the strategic ambition. In addition, if we launch a specific business, the question of whether entering that market would really contribute to raising the Obayashi Group's PER would come up as a part of our market valuation. Meanwhile, with regard to disclosing information for each individual business, we face the issue of how to continue providing reliability and continuity given that the separation of balance sheets is based on assumptions, but we intend to examine how we can achieve such disclosure as soon as possible. If we talk about our business portfolio, but have nothing to say about individual business segments, investors will not trust us when we disclose our management strategy.

9. Others

Q. What have you been focusing on most since taking up office as president and CEO?

A. We have conducted interviews to obtain feedback from main offices and branches, each division, and Group companies; as well as conversations with project directors at each construction site office; and discussions with young and mid-level employees. Opportunities to hear young people's opinions on how the company is run are valuable and have proved to be very instructive. We are also working on revising Obayashi Sustainability Vision 2050 (OSV2050). However, the business environment is not currently straightforward enough to allow us to devise a medium-term plan and management strategy simply by backcasting from a loosely defined long-term vision. We intend, therefore, to identify anticipated risks and opportunities, then examine how we can use our management resources to deal with them.

Q. What is Obayashi's competitive advantage in comparison to other major general contractors?

A. Currently, the areas where our company is strong are strengths for all four companies, and none of them has yet clearly differentiated itself. That said, the fact is that in the last few years the companies' business trajectories have increasingly diverged. At some point, their balance sheets

will differ significantly, and that will make each company's individual strengths and differentiation strategies clearer.

- Q. Do you see the Group of the future as being structured like INFRONEER Holdings or like a European conglomerate? Until now, engineers have advanced through the company after serving as project directors on construction sites. Won't the skills required of them differ in future, causing human resources strategy and talent recruitment methods to change as well?
- A. If the Obayashi Group's growth strategy indicates that the most logical corporate structure is a pure holding company, it is possible that we might shift to that structure. If we aspire to become a conglomerate, shifting to a pure holding company structure would be essential. Retaining our structure as an operating holding company would make it very difficult to protect Obayashi Corporation if a major acquisition were to fail, for example. If we want to preserve Obayashi Corporation as a resilient entity capable of repeatedly rebuilding and adapting, one option could be to turn it into a pure holding company. The domestic construction business represents indigenous Japanese industry, and in terms of personnel, I still believe that the CEO of Obayashi Corporation, which operates that business, should be an engineer. However, naturally, different skills would be required for the role of CEO of the holding company. We recently appointed a locally hired staff member who had served as managing director of an overseas subsidiary as head of the Asia-Pacific Regional Headquarters and one of managing executive officers for Obayashi Corporation. This was the first time we had given responsibility for a business line within Obayashi Corporation to a locally hired staff member, but we feel that the benefits are significant. At our North American Regional Headquarters too, there is potential for recruiting the head from a Group company at some point. We are currently planning to assign the CFO of a subsidiary acquired through M&A to the North American Regional Headquarters and we expect that, both in Asia and in North America, the Obayashi Group's operations will become increasingly localized and autonomous going forward.