OBAYASHI

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OBAYASHI CORPORATION

Summary of the Financial Results Briefing Conference
for FY2025 2nd Quarter (First Half: April 1, 2025 to September 30, 2025)

Date:	Thursday, November 6, 2025, from 10:30 to 11:50
Respondents:	Toshimi Sato, President and CEO
	Atsushi Sasagawa, Executive Vice President
	Yoshihito Sasaki, Executive Vice President
	Yasuo Morita, Executive Vice President
	Yoshiaki Takata, General Manager of Accounting Department
Attendees:	113 securities analysts, institutional investors and others

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1. Presentation on Financial Results for FY2025 2nd Quarter (First Half), Forecasts for FY2025, Progress in Addendum to Medium-Term Business Plan 2022 and Capital Policy and Acquisition of GCON Inc.

An explanation was provided by the President and CEO, based on the Presentation on Financial Results for FY2025 2nd Quarter (First Half: April 1, 2025 to September 30, 2025).

2. Main Questions and Answers

(1) Domestic Building Construction Business

Q. What were the main factors behind the improvement in the gross profit margin on completed construction contracts in the domestic building construction business, which contributed to the upward revisions to the full-year forecasts? What caused the outlook to change over the three months, after you stated in the first quarter that performance was in line with your plan? Also, given that you expect the gross profit margin on completed construction contracts to remain around 13% in the second half of the fiscal year, is this based on expectations of design changes, or does it reflect an overall improvement in the profit level?

A. While the full-year forecast for net sales of completed construction contracts has been revised slightly downward by 5.0 billion yen, this reflects offsetting factors—both significant increases and decreases. Factors such as the reassessment of the timing for commencing revenue recognition and the reassessment of construction progress contributed to the decrease, while factors such as additional claim approvals for price hikes contributed to the increase. Meanwhile, in the current fiscal year, a particularly large number of projects are scheduled for completion. For projects where final settlements resulted in improved profitability, profits related to prior periods that had been recorded on a percentage-of-completion basis have been additionally recognized in the current fiscal year to reflect those final settlements, thereby boosting the profit margin. A certain level of profit improvement is also anticipated in the second half, as reflected in the full-year forecasts.

Q. Did the change orders that contributed to the upward revisions mainly arise from projects nearing completion, or from a broader range of projects scheduled for completion in or after the next fiscal year?

A. Most of the change orders arose from projects nearing completion.

Q. To what extent does the increase in the gross profit margin on completed construction contracts reflect one-time factors such as change orders? An article in the *Nihon Keizai Shimbun* on November 5, 2025, quoted you as saying that you expect to maintain a profit margin of 10% from the next fiscal year onward, but do you see potential to achieve an even higher level?

A. The profit improvement in the current fiscal year is mainly attributable to one-time factors. One of these factors is the additional claim approvals for price hikes. However, as an increasing number of contracts are now being concluded on the condition that we can negotiate price hikes as needed, improvements due to such factors are expected to moderate going forward. Additionally, although most projects with a provision for loss on construction contracts are scheduled for completion in the next fiscal year, some low-profitability projects will remain. Therefore, the gross profit margin on completed construction contracts is not expected to be at the same level as the 13% forecast for the current fiscal year.

Q. To what extent do low-profitability projects remain among your projects in hand, and when do you expect their impact to dissipate?

A. Providing a definitive figure is not easy, as this depends on how low-profitability projects are defined. However, as building construction periods have been lengthening, their impact is expected to remain for around two years.

Q. Could you update us on the current situation and outlook for profitability at the time of receiving new orders? In a previous briefing, you commented that further improvement would be difficult given clients' tight budgets, but could factors such as increased investment capacity driven by rising office rents provide some upside?

A. In addition to our balance of projects in process of approximately 1.9 trillion yen, we have a reasonably clear forecast for projects to be completed by around FY2029 due to strong demand conditions. At the same time, changes in the order environment are beginning to emerge, including project postponements and cancellations, as well as declines in the ratio of sole source orders and in the bid success rate. We therefore view the current level of profitability at the time of receiving new orders as being at its peak. Given the possibility of a reduction in the volume of new orders due to the significant deviation between construction costs and clients' budgets, and the need to maintain strong relationships with our key clients, we believe that continuously increasing profitability at the time of receiving new orders will be challenging going forward.

Q. Has there been any change in the shortage of manpower and M&E (mechanical and electrical) equipment among M&E subcontractors? While major M&E companies are also experiencing strong demand and solid business performance, could you comment on how the rising price of M&E work by M&E subcontractors is affecting your negotiations with clients?

A. According to data from the Japan Federation of Construction Contractors, construction costs have risen by more than 40% compared with 2021, and costs of materials and equipment used in M&E work have increased by over 80%. In addition to rising costs, delivery schedules have also become extremely tight, making it necessary to present construction periods and prices to clients after taking into account the busy conditions of M&E subcontractors. Furthermore, as M&E subcontractors are facing shortages of manpower and M&E equipment, M&E work has increasingly been contracted with clients on a cost-plus fee basis. As fees under such cost-plus contracts tend to be at relatively low levels, this has become a factor putting downward pressure on the gross profit margin on completed construction contracts.

(2) Domestic Civil Engineering Business

Q. Is there room to further expand construction capacity? Also, how are you working to improve productivity and efficiency?

A. Following the large-scale orders received in the previous fiscal year, we now have a substantial amount of projects in hand, and construction volume in both the current and the next fiscal year is expected to be approximately 10% higher than in ordinary years. Accordingly, we are implementing measures to strengthen our organizational structure, including the efficient allocation of employees, the development of suppliers and subcontractors and the establishment of partnerships with new suppliers and subcontractors.

Q. While the full-year forecast for the gross profit margin on completed construction contracts has been maintained, given the solid performance in the first half, do you see any potential for further improvement in the current and the next fiscal year? The profit margin appears to have risen compared with two years ago, but is this mainly due to changes in the business environment or to the impact of projects in hand?

A. Design changes for projects in hand were a factor that boosted the profit margin in the second quarter, but these were within the expected range, so the full-year forecast has been left unchanged. While there are still projects scheduled for completion later this fiscal year, making some uncertainty unavoidable, we do not expect the profit margin to exceed expectations to the same extent as the previous fiscal year. As for the next fiscal year and beyond, infrastructure investment remains firm, but investment by the Ministry of Land, Infrastructure, Transport and Tourism is expected to stay flat, and competition is likely to remain intense. Under these conditions, it is difficult at this point to comment on the possibility of further improvement in the gross profit margin on completed construction contracts.

(3) Overseas Construction Business

Q. Could you comment on the likelihood of profit growth in the overseas civil engineering business? Also, could you share your outlook for growth in the next fiscal year and beyond?

A. In North America, infrastructure investment is growing by around 7% annually, and our operations there, mainly through subsidiaries, continue to perform solidly. In addition, CMGC contracts—which include pre-construction services—have been increasing for large-scale projects. By actively pursuing such opportunities and linking them to new orders, we aim to expand net sales and profit through low-risk projects.

(4) Outlook for FY2026

Q. Do you expect operating income growth in the next fiscal year?

A. Operating income depends on the progress with projects in hand, and at this point we are not in a position to determine whether it will exceed the current fiscal year’s level. However, we aim to maintain operating income around the 150.0 billion yen level. Over the medium to long term, we aim to boost overall operating income, including contributions from businesses other than the domestic construction business.

(5) Efficiency Indicators and Capital Policy

Q. Your equity currently exceeds the 1 trillion yen level by about 20%. What level do you consider to be within the appropriate range?

A. Regarding the equity level, while we have stated that we do not consider 1 trillion yen an absolute line, we would view a level exceeding that by 20% or 30% as being above the appropriate range. At present, we are conducting share buybacks on a scale of 100.0 billion yen to manage equity. However, if the current profit level becomes the new norm, we will consider raising the DOE target, while not ruling out the possibility of additional share buybacks. Please note that the current level of equity does not reflect an intentional buildup, and the recent acquisition of GCON Inc. has no impact on our bond capacity. In the event that we pursue large-scale M&A in the future, we may increase equity depending on negotiations with bond surety companies. If equity continues to increase over the medium to long term, based on the current business portfolio, we intend to provide additional shareholder returns flexibly in line with our capital policy.

Q. I would like to confirm your approach to cash allocation (page 37 of the Presentation on Financial Results for FY2025 2nd Quarter). Given that cash inflows are expected to increase by over 100.0

billion yen, what specific cash outflows are you anticipating, such as M&A or allocations to bond capacity in the U.S.?

A. Investment cash outflows are proceeding in line with the investment plan of 750.0 billion yen outlined in the Addendum to the Medium-Term Business Plan 2022. However, as M&A does not necessarily progress as planned, we believe it is important to maintain a certain level of cash, including working capital, to ensure flexibility. Regarding shareholder returns, we will continue to provide dividends based on the DOE target. As for bond capacity in the North American business, it is determined based on equity and is therefore not affected by our cash position. In addition, we are currently discussing cash management within the Obayashi Group. As the ratio of consolidated results to non-consolidated results rises, we are reviewing how best to manage the cash accumulated across the Group as a whole.

Q. Could you provide an update on the reduction of cross-shareholdings? Also, once you have achieved your target of reducing them to 20% or less of consolidated net assets, do you plan to stop selling them?

A. Regarding the sale of cross-shareholdings, for which we have set a target of reducing the balance to 20% or less of consolidated net assets, we believe this target is achievable, including the amount already agreed for sale, even after taking into account certain increases in stock prices. We have been selling cross-shareholdings that lack economic rationality since before ISS introduced its proxy voting guidelines, and our policy in this regard will remain unchanged even after achieving the 20% target. If ISS lowers its threshold in the proxy voting guidelines to 10%, we will consider taking appropriate action.

Q. With gains on the sale of cross-shareholdings expected to decrease going forward, could you outline the path toward growth in profit attributable to owners of parent and improvement in ROE? The Tokyo Stock Exchange and the Corporate Governance Code emphasize the importance of sustainable corporate growth. Is it correct to understand that Obayashi will continue aiming for sustainable growth in profit attributable to owners of parent and for sustainable improvement in ROE through measures such as M&A and improving asset turnover in the real estate business?

A. In the next medium-term business plan, we intend to present a profit growth scenario that does not incorporate gains on the sale of cross-shareholdings. To achieve profit growth over the medium to long term, we need to evolve beyond our current business portfolio. It will therefore be essential to formulate and execute growth strategies across our businesses, including our core domestic construction business. Through the next medium-term business plan, we aim to present a convincing roadmap and disclose the projected business portfolio toward achieving our goals.

(6) Shareholder Returns

Q. Given that profits are exceeding expectations, are there any plans to increase dividends or provide special dividends?

A. We are not considering a special dividend. As for ordinary dividends, since the outlook for equity at the end of the fiscal year has not yet been finalized, we have not changed the current dividends per share at this point. Dividends will be paid in accordance with our dividend policy, which targets a DOE of around 5%.