

## Interview with the President

## Using Our Passion for Making Things to Tackle Transformation



Kenji Hasuwa

Representative Director  
President and CEO

### Q Looking back, how would you characterize FY2022 for the Obayashi Group?

I think you can see some bright signs emerging if you look back on how the social situation facing the Group has changed over the year. The COVID-19 threat that we had been living with since 2020 was finally brought under control. As a result, inbound tourism-related demand started trending upward in spring 2023 and the movement of people and goods is becoming more active. However, in addition to the disruption to global supply chains and the sharp rise in prices during the COVID-19 pandemic, we also had to deal with emergent geopolitical risks such as Russia's ongoing invasion of Ukraine and the rising tensions between the United States and China over Taiwan. Consequently, the price of construction materials rose even further as the sharp rise in energy costs gathered momentum. I feel that the business environment for the Obayashi Group in FY2022 was greatly impacted by this dramatic rise in construction costs.

Recent years have brought a surge in large-scale redevelopment projects in major urban areas, and we are fortunate to be involved in such projects. Usually, a substantial period of time is required to plan and prepare for large-scale construction, but there is a considerable interval between the time an order is received and the actual start of construction. In recent times, the unexpected rise in construction prices during that interval has resulted in a significant increase in costs. We have continued to diligently negotiate with clients to try to increase construction contract prices, but we have not been able to pass on enough of the increased costs, so we are having to deal with some construction projects that will struggle to generate a profit.

To respond to the dramatic rise in construction prices, we must continue consulting with clients and work to cut costs. However, I think we also have to create a stronger voice for the construction industry as a whole. We have used objective data on the fluctuations in construction prices to communicate not only with clients but also with business associations through the Japan Federation of Construction Contractors, holding discussions to convince them of the rationality and the need to pass on price increases. I am determined to continue working tenaciously to resolve this issue.

Meanwhile, we have made some progress on Obayashi Group Medium-Term Business Plan 2022, our medium-term plan [▶ P. 35](#), which started in FY2022, but we have yet to generate concrete results on certain measures. We positioned FY2022 as the year for spreading awareness of the medium-term plan internally. We conducted briefings for executives at each main office, branch office, and Group companies in Japan, and held live

meetings on the medium-term plan with mid-career and young employees. In my own words, I carefully explained our goals for the medium-term plan, and the relationship with the Obayashi Philosophy and vision. I think awareness of the plan's goals has now gradually permeated the Group and people are starting to feel personally involved and responsible for each individual effort to improve corporate value. I feel that aspect of enhancing employee engagement has been a success. In short, while difficult business conditions persisted, FY2022 proved to be a successful year for building platforms to enable the whole Group to work together to solve the urgent management issues of improving profitability and productivity.

### Q Can you explain the financial progress of Medium-Term Business Plan 2022?

We reported consolidated net sales of ¥1,983.8 billion (up 3.2% year on year) in FY2022, so we did achieve the roughly ¥2 trillion level that the medium-term plan stipulates as commensurate with stable business continuity and our production capacity. Earnings per share (EPS) was ¥108.34 (up 98.6%), so we achieved our target of ¥100 or higher. However, we reported consolidated operating income of ¥93.8 billion, which, while up 128.5% from the previous year, came in below the ¥100 billion acceptable minimum, so, unfortunately, this fell somewhat short of stakeholder expectations. This result was mainly due to a deterioration in earnings in the domestic construction business in the wake of soaring construction prices and other factors. I am determined to prioritize the recovery and stable performance of the construction business. To that end, we will continue to tackle transformation from a solid management platform by progressing the fundamental strategies of the medium-term plan: strengthen and expand the foundation of the construction business; innovate technologies and businesses; and expand the business portfolio for sustainable growth.

### Q How are efforts to achieve carbon neutrality progressing?

Japan's first commercial offshore wind farm project in the ports of Akita and Noshiro in Akita Prefecture started full commercial operations in January 2023. I participated in the ceremony to celebrate construction completion and thought the 20 large wind turbines towering above the port of Noshiro looked spectacular.

Our renewable energy business began with the launch of our solar power generation business at the Kumiya Distribution Center, which opened in 2012, when I headed the division promoting renewable energy

## Interview with the President

generation. Over the ensuing decade, we have been involved in 28 solar power plants, two woody biomass power plants, and two onshore wind farms. It is extremely moving to see the addition of new offshore wind farms to our business portfolio.

We are also focusing on hydrogen as a promising future energy source. To ensure we will be able to utilize the technologies and management capabilities cultivated in the construction industry for a future hydrogen-fueled society, we are currently promoting hydrogen production- and supply-related demonstration projects with a view toward commercialization in Japan and overseas. We will continue to help create a carbon-neutral society and improve corporate value by actively developing energy-creation businesses. This will involve not only incorporating the power purchase agreement (PPA)\* business and other services into solutions provided to customers, but also actively engaging in renewable energy generation. [▶ P. 23](#)

Trees in man-made forests planted in Japan after the Second World War are now fully grown and ready for harvesting. In that regard, we are now working to fully realize the great potential of wood in our projects. In 2022, we completed our next-generation training facility, Port Plus®, a fully wooden and fire-resistant high-rise structure in Yokohama City. I feel proud that Port Plus® has enabled us to demonstrate to the world our high level of technical expertise in large-scale mid- to high-rise wooden buildings. Having said that, most of the wooden buildings constructed in Japan are houses, so use of wood on a much larger scale presents various challenges for industries involved in the recycling of forest resources, the production of wooden materials, and the processing and distribution of wood. Currently, we are promoting and actively developing the Circular Timber Construction® recycling-oriented business model, which optimizes the use of forest resources. We have taken various steps to firmly establish this business model. We are promoting wooden structures and interiors such as Port Plus®. We are also using timber from forest thinning in Japan as fuel in biomass power plants and we brought the timber manufacturer and distributor Cypress Sunadaya Co., Ltd. under the Group umbrella. These efforts are all designed to strengthen the supply chain, which is a key medium- to long-term issue for the construction of wooden structures and interiors. Our ultimate aim is to help achieve carbon neutrality by promoting the circular use of forest resources, a goal to which we remain committed. [▶ P. 54](#)

\* A type of electric power sales contract formed between an electricity consumer and a PPA operator (power generation company). PPA operators install renewable energy power generation equipment, such as solar panels, on land and facilities owned by the electricity consumer in order to supply electricity. The power generating equipment is owned by a third party (the PPA operator or a separate investor), so the electricity consumer can use the renewable electricity without incurring initial costs.

### Q What progress are you making on initiatives relating to the other key social issue of improving well-being?

I think Port Plus® serves as a wonderful exhibition space for presenting our philosophy and technology, not only on carbon neutrality, but also regarding the pursuit of well-being. Our stakeholders have focused on the fact that Port Plus® is the tallest all-timber building in Japan (44 meters, 11 floors). However, we also incorporated wellness and diversity factors into the architectural plans. Indeed, the inclusion of various well-being elements has earned the building WELL Platinum certification, the highest Green Building Japan award. I want stakeholders to view the facility from a broader perspective that also encompasses comfort and diversity because this will help them understand our efforts to create and provide new value.

Employee well-being is of course dependent on successfully addressing one of our six material issues, namely ensuring occupational health and safety. However, as the officer in charge of health and safety management, I view the fact that we did not achieve our KPI of zero fatal accidents in FY2022 very seriously. In February 2023, we issued our Safety Management Emergency Declaration and directed everyone to prioritize safety management. To make FY2023 the year in which we achieve zero fatal accidents, I am visiting construction sites across Japan, where I repeatedly and painstakingly instruct and oversee employees and workers to instill safety as the most important value, one that must be constantly emphasized.

I also believe that ensuring that Obayashi is a rewarding place for employees to work is of the utmost importance. Addressing the revised Labor Standards Act is an urgent issue for the construction industry. The Group is also currently working tirelessly to reform work styles, but I believe that true job satisfaction can only be attained when employees share their company's vision and take on individual responsibilities and missions within an inclusive environment of facing challenges together. Job satisfaction also comes from exploring the enjoyment and interesting elements in our work and gaining a sense of accomplishment from a job well done. We aspire to become, and remain, a rewarding company for our employees. To that end, I want us to improve productivity through work style reforms and digital transformation (DX) of the construction industry and to promote health management in order to secure greater well-being for our employees and their families. [▶ P. 60](#)

### Q What are your thoughts on the ideal future and the material issues to be addressed in order to achieve it?

The Obayashi Group aspires to become a leading sustainability company. I myself identify with the Obayashi Philosophy, which was established well before the terms ESG and SDGs became widely recognized in society at large. The long-term Obayashi Sustainability Vision 2050, established in 2019, calls for pursuit of the sustainability of the planet, society, and people, as well as the sustainability of the Obayashi Group itself, by 2050. Indeed, sustainability-related initiatives, such as reducing CO<sub>2</sub> emissions to zero and creating a society in which all people can live happily, cannot be realized in the short term. The year 2019 was also when the Obayashi Group identified six material issues to serve as a compass for any initiatives designed to help realize our sustainability vision. We included the strategies and measures required to resolve challenges and successfully address the six material issues in our medium-term plan.

The speed of social transformation is accelerating in this uncertain era of rapidly changing values, and the advancement of technology in light of these changes has also been remarkable. We are facing increasingly diverse demands from society as we expand our business domains, and our social mission is becoming more important. If we want to respond flexibly to the changes we are witnessing and achieve sustainable growth, we need to work more seriously than ever on our material issues, which serve as a compass for sustainability management, and to flexibly review those material issues if necessary. [▶ P. 27](#)

### Q Finally, what would you like to say to stakeholders?

Our Company was founded in Osaka in 1892 as a civil engineering and building construction contractor. The one thing that has remained constant since then is our employees' passion for making things. What has changed is the way in which those things are built, be it the technology, the construction method, the materials, or the processes. Our continued growth has been driven by the efforts of our predecessors, who possessed that same passion for making things and worked diligently to develop our society. Our employees' passion for making things remains as strong today as it ever was, having been passed down through the generations as part of the corporate DNA carried by each individual. I, for one, am proud to be part of a Group that can boast this kind of DNA.

The Group has always tackled the challenges and rough waves of the era and overcome difficulties with technology and knowledge fueled by that passion for making things. Inspired by our brand vision, "MAKE BEYOND: Transcending the Art and Science of Making of Things," we will continue to be inspired by a strong desire for transformation as we aim to achieve sustainable growth and fulfill our social mission. I want to make sure this desire continues to fuel our passion for making things and creates a virtuous cycle that generates opportunities for new challenges.

Our people have been the driving force behind the Group's success from the very beginning. I am confident that we can achieve significant progress if each employee improves their capabilities, gives full play to those capabilities, and aligns their efforts toward the same goal. Armed with a passion for making things, the entire Obayashi Group is committed to working together to transform itself and seeks to bring about a sustainable society.

I hope we can continue to enjoy the loyal understanding and support of all our stakeholders.

