

OBUYASHI CORPORATION

4th Quarter : Main Questions and Answers from the Financial Results Briefing for Fiscal Year Ended March 31, 2019

1. Date/Time: Tuesday, May 14, 2019, 2:30 to 3:30 p.m.
 2. Location: Head Office, Shinagawa Intercity Tower B, 3F Auditorium
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- Q. Other companies in the same industry have announced their intention to sell cross-shareholdings and use the proceeds to purchase treasury stock. What is your policy?
- A. We are focusing on using funds to invest in growth. We will also consider purchase of treasury stock once such investment is no longer necessary. Investment in growth will lead to results in the future and we will return profits earned to shareholders.
- Q. You achieved the profit goals for Medium-Term Business Plan 2017. What do you have your sights set on for the future? Will you use the profit accumulated to improve benefits to attract human resources and for other investments?
- A. The profit goals of Medium-Term Business Plan 2017 are not goals set for a single fiscal year; they are the level that the company should achieve on a consistent basis. We will continue to maintain and increase earnings results and actively invest in the areas outlined in the plan in the future as well. We will also direct profits to improving benefits for human resources.
- Q. The company's construction capacity is presumably near its limits. Will net sales remain flat during the term of the Medium-Term Business Plan, or is there room for further expansion?
- A. We are near capacity in terms of personnel to manage construction under existing construction methods, but we think that we will have room for expansion in the future, owing to the efforts we have already made in technological development, greater streamlining of construction management, improving the capabilities of business partners, and other initiatives.
- Q. What are your specific investment plans for the real estate and renewable energy businesses in fiscal 2019?
- A. In the real estate business, we intend to invest a total of ¥40 billion in leasing projects such as Minato Mirai 21 Central District, Block 53 and the Konan IGIN Building, as well as the property sales business of OBUYASHI-SHINSEIWA REAL ESTATE CORPORATION, and other projects. The NANA project in Thailand will get fully underway from fiscal 2020 onward, and we also intend to proceed with investment in that. In the renewable energy business, we will mainly invest in the Kamisu biomass power plant this fiscal year.
- Q. What is your timeline for initiatives in the offshore wind power generation business?
- A. This has begun to take shape with the establishment of the laws and regulations. We are preparing based on the assumption that we will participate in the wind power generation business in the harbors of the Port of Akita and the Port of Noshiro as a joint partner with a major general trading company and others. We expect these to become operational in two to

three years' time. We are also researching the commercial feasibility of an offshore wind power project in the general sea area off Akita, and expect to be able to provide a little clearer image of the business specifics in the latter half of this year.

- Q. What is the state of competition for large project orders in domestic building construction?
- A. The order environment is good, but symbolic large projects will also lead to building renovation work, so the competition remains stiff. There are many large projects in Tokyo and Osaka. The newly established Marketing Planning Department will collectively manage all marketing information for building construction and civil engineering nationwide. The department will obtain information and share it, and this will lead to receiving orders as we distill the intelligence from this. I think that the close relationship between building construction and civil engineering is a strength of our company.
- Q. What is the status of the Osaka EXPO and Integrated Resort? Do you have an advantage in terms of information since Obayashi Corporation is based in Kansai?
- A. We will work on projects involving the establishment of an integrated resort, EXPO 2025 OSAKA, KANSAI, JAPAN, and infrastructure for them in Yumeshima in Osaka, and have therefore established the Yumeshima Development Division, which reports directly to the president. The Osaka Main Office has already established the Osaka-Kansai EXPO 2025 & Integrated Resort Project Department, and is collecting information aimed at acquiring related construction projects. We do not necessarily have an advantage, and presume that other companies in the same industry are also working actively on this.
- Q. Has the insufficient supply of high strength bolts affected delivery? Please also tell us the status of other materials.
- A. While there is a trend toward having an insufficient number of high strength bolt and steel beam fabricators, we have prepared for systematic procurement at the order acceptance stage, so we are not experiencing any problems with delivery or profits.
- Q. Please tell us why you established the Asia-Pacific Regional Headquarters and North American Regional Headquarters, and the relationship of these to overseas Group companies.
- A. The Overseas Business Division has broadly overseen Asia and North America, which have different cultures, up to this point. We established these two branches to provide closer support to overseas Group companies, and to speed up decision-making and promote localization matched to the specific characteristics of the region. The regional headquarters are not in a superior position to the Group companies; the general branch managers will implement measures aimed at growth of the entire region they are charged with, including Group companies, and will take responsibility for profit and loss. The relationship is the same as the vertical and horizontal ties between our domestic branches and the various divisions.
- Q. Can we anticipate future growth in revenues for the Asia-Pacific Regional Headquarters and the North American Regional Headquarters? Please explain your overseas strategy in concrete

terms. Also, what are the main countries in Asia that your strategy will focus on?

A. In regard to each of the overseas Group companies, we want them to rebuild their portfolio and change the revenue and profit structure, rather than just concentrating on construction. We want other Group companies to move forward with localization, just as Thai Obayashi Corporation Limited has. We will maintain an overall focus on the various countries in Asia; however, Thai Obayashi Corporation Limited has many employees from Myanmar and we think our company also has an advantage in developing business in Myanmar.

Q. What are your specific numerical goals for increasing productivity? Please also describe specific initiatives.

A. Construction productivity per capita is currently rising at an annual rate of 3%-5%. An analysis of the elements causing the growth suggests that it could grow at the rate of 10%-20% in the future. Rather than chasing a numerical goal, we will analyze the actual results and provide feedback as we add to results each year.

Specific initiatives to increase productivity include reducing the amount of documentation at construction sites and fostering an even higher level of awareness about shortening the production process at construction sites, including among skilled workers. We will gradually introduce AI, IoT, automation, and other innovations that are still in the experimental stage, based on that awareness. I think that solving problems one by one will likely result in steady improvement in productivity that can be measured quantitatively.

Q. You expect to exceed the investment plan for the real estate leasing business in Medium-Term Business Plan 2017 in fiscal 2019. What is your plan for the future? What level of profit do you foresee for the real estate business three years from now?

A. The numerical goal in the Medium-Term Business Plan is a guideline. If we encounter good projects in the future, we will actively invest in them without limiting ourselves to the investment plan. Investing in the real estate leasing business will not cause immediate growth in profits. There will be a gradual increase and there is little likelihood that profits will decline. Based on our forecast of ¥13 billion in operating income for the real estate business in fiscal 2019, ongoing investment over the next few years will result in gradual growth and we will aim for the ¥15 billion level next. The property sales business experiences short-term ups and downs, but we will keep an eye on the timing and take advantage of investment opportunities.

Q. The company's policy on the dividend payout ratio is to keep it in the 20%-30% range, but it is currently on the lower end at 20.3%. The company's financial health is steadily improving, so is there a possibility that you will raise it to 25%-30% in the future?

A. If dividends are maintained at the same level while profit rises, the dividend payout ratio will decline. We made a firm pledge to shareholders to maintain a minimum payout ratio of 20%, so growth in profits means that we will increase dividends. At the same time, we will use the funds we have from profits earned to actively promote growth by investing in technological development aimed at increasing productivity, the real estate business, the renewable energy business, and other areas.

We intend to maintain stable dividends at the current level in the future even if the economy deteriorates and business performance declines. This is why we have set the current dividend and dividend payout ratio level.

Q. Profit margins are currently at a record-high level. Do you expect the margins to increase in the future due to increases in productivity?

A. Increasing productivity is not just about increasing profits. We are also simultaneously pursuing work style reforms with such goals as closing each construction site eight days out of every four-week period while expanding both sales and orders amid the current shortage in human resources.

As productivity increases in the construction sector, this should produce surplus workers for the same scale of business. We can take that surplus and re-invest those human resources in new business areas. We will do this in a manner that will enable allocation of the human resources needed if our portfolio expands from the current four pillars of business to five or six pillars in the future.