

OBAYASHI CORPORATION
1st Quarter: Main Questions and Answers from the Financial Results Briefing
for Fiscal Year Ending March 31, 2020 (Teleconference)

Date/Time: Wednesday, August 7, 2019, 2:00 to 3:00 p.m.

- Q. The gross profit margin on completed building construction contracts is still low compared to the forecast for the full year. Do you expect improvements through design changes, cost reduction, or other efforts? What are your views on this in light of the concerns over the rise in labor costs and material costs?
- A. There has been no change in conditions since last year and we expect to improve profit margins. We haven't seen much major movement in labor and material costs.
- Q. Was the decline in orders received for civil engineering the result of suspension of marketing due to improper bidding related to the linear Chuo Shinkansen?
- A. The suspension in marketing had no impact on orders received. The order to suspend marketing covered private civil engineering projects in Japan and had no impact on construction ordered by government agencies. The fact that there were also few government projects during the 1Q but will be many in the 2Q and beyond is characteristic of this fiscal year.
- Q. Is the fact that there are fewer design changes and less revenue from contract additions in the non-consolidated domestic civil engineering business than in a typical year a problem with timing, or are there reasons why these were difficult to secure?
- A. Few projects were completed during the 1Q, and there were not many projects that were in the add-on phase. This will have no effect on the full year and we expect performance in line with the forecast.
- Q. Is the stance of other companies in the domestic civil engineering business changing somewhat?
- A. Losing bids on civil engineering projects is a natural part of the process. We lost bids in the 1Q when the number of projects up for bidding happened to be low, and some projects we had planned on were delayed until the 2Q or later. There was not certain action in the stances of other companies on orders.
- Q. In terms of the breakdown of orders received by building purpose, there were fewer plants while orders for educational, research, and cultural facilities, and medical and welfare facilities were at relatively high levels. Has there been any change in the trend over the past three months or the status on the owner side of those placing orders?
- A. Looking at the current quantity of information on construction plans and main project orders received for the 2Q and beyond, there are a sufficient volume of orders both in manufacturing and non-manufacturing industries, and no change in the trend.
- Q. What is your competitive status on office buildings and other large non-residential projects versus

other companies? Is there a considerable volume of orders for redevelopment projects and other projects you have a high probability of acquiring?

- A. We are also expecting office building and commercial projects in the future and there is a wealth of information. There hasn't been any change in the competitive environment either. The competition on acquiring orders for large landmark projects is persistently tough. We continue to see a relatively good order environment for other types of projects.
- Q. The breakdown of orders received by region shows that Kansai accounted for a relatively low percentage of orders in Japan and orders grew in Asia and elsewhere overseas. Can you explain the reasons for this?
- A. There was a relatively higher number of projects for which orders were posted during the 1Q in Kanto than in Kansai, but we anticipate continued project orders in Kansai as well. Overseas, we received around 4 to 9 billion yen in orders in Taiwan and Australia. The posting of orders depends on the timing, so there hasn't been any major change in conditions by area.
- Q. It is the view of many at other companies in the same industry that labor and material costs have not risen that much. What are your views?
- A. Prices continue to remain stable. The number of RC construction project is not rising, so labor costs for framework are not rising. Labor costs for interior work have also hardly moved, at present. In terms of material costs, it was said at one point that steel prices would rise, but material prices, including the price of concrete, are not moving at present.
- Q. How is order profitability compared to last year?
- A. There is hardly any change. The order environment remains good, as it was last year.
- Q. Judging from the difference between consolidated and non-consolidated performance, subsidiaries saw a decline in gross profit on construction contracts and an increase in gross profit on the real estate business. What are the reasons for each of these?
- A. The reason for the lower performance of subsidiaries in the construction business was due to comparison with the highly profitable construction performed by Obayashi Road Corporation in the 1Q of last fiscal year. In the real estate business, Obayashi-Shinseiwa Real Estate Corporation benefitted from delivery of highly profitable housing projects.
- Q. Is there any new information on the Millennium Tower and Transbay issues in San Francisco since last time?
- A. There hasn't been any notable movement on Millennium Tower. In regard to Transbay, the cracks that were discovered in the steel beams have been repaired and parts of it are gradually being opened for business. We have heard that all of Transbay will be open for business in August. A third-party committee is investigating what caused the cracks and who is responsible, but has not yet disclosed the results. We don't have any other salient information to communicate.
- Q. Please name the main projects and countries for which you received the orders for civil

engineering projects overseas. The degree of progress looks a little low compared to the full-year plan. Is it possible to make up for this during the 2Q and the remainder of the fiscal year?

A. We received orders in Taiwan and elsewhere during the 1Q. From the 2Q onward, many of the main orders will be in Asia, and we are targeting orders in line with the full-year forecast.

Q. Profit on overseas building construction improved substantially during the 1Q year on year. What is the reason for that and your forecast for this fiscal year?

A. The improvement was due to highly profitable orders in hand in Thailand and Vietnam. There was not major change in Webcor, LP. Our forecast for the full-year projects performance on par with last fiscal year, both in terms of profit and profit margin.

Q. If there is no major change in labor costs and the price of steel declines, could this have a positive effect on profit margins next fiscal year?

A. We don't think it will have a significant impact and don't have any particular expectations or concerns at present.

Q. There were media reports that the Japan Fair Trade Commission issued direct warnings to the presidents of four major general contractors concerning violations of the Antimonopoly Act by road paving subsidiaries. This was in regard to past incidents, but will there be any impact on business in the future?

A. The warning on past incidents won't have any impact. Obayashi Road Corporation has been ordered to pay a penalty and received a warning concerning that. As the parent company, we will continue to work to make sure that group companies implement rigorous compliance.

Q. Other companies in the same industry are moving to increase shareholder returns. What are your views on this at present?

A. We regard maintaining stable dividends over the long term as our top priority. The dividend payout ratio will fluctuate every year depending on the level of profit. Our policy on shareholder returns of targeting a consolidated dividend payout ratio in the 20 to 30% range has not changed.