

FY2020 3rd Quarter Analyst and Investor Briefing (Tele-Conference)

Summary of Q&A Session

February 12, 2021

Q Have domestic building construction contracts progressed as planned?

A Although contract awards received in the first quarter were low due to the government's declaration of a state of emergency, they have steadily recovered since the second quarter, returning to the same level as in recent years. We are striving to achieve our full-year target not only by getting awarded the secured and high-probability projects but by winning competitive projects in the fourth quarter.

Q What impact has COVID-19 had on conditions for overseas orders?

A In North America, Australia and Europe, construction demand for manufacturing and industrial warehouses is robust, and the overall decline is minimal. In Southeast Asia, on the other hand, construction demand has fallen off due to COVID-19.

Q What trends by building use are you seeing in domestic construction market?

A Construction demand remains steady for digital-related facilities such as industrial warehouses, data centers, and semiconductor factories, as well as pharmaceutical and medical facilities, but inbound-related construction demand is shrinking.

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Q How competitive is the domestic construction market in terms of profitability of new contracts?

A The environment has gradually become competitive, especially in private-sector building construction, due to increasing uncertainty over future construction investment caused by COVID-19. We see profitability of new contracts overall remain at the same level as the previous fiscal year, although on a slightly downward trend for building construction.

Q The rate of progress toward the full-year forecast for net income is over 95%. Why haven't you revised up the forecast? Is there any specific cause for concern?

A COVID-19 had less of an impact through the third quarter than expected, and we have achieved a high rate of progress on our full-year forecast. However, as there continues to be a high degree of uncertainty in the business environment with the reemergence of the pandemic around the world, we have not revised up our forecast. We have no specific cause for concern, but it is unlikely to see profits in the fourth quarter at the level of previous years in domestic construction business considering that many projects are still in the early stages of construction.

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Q Why was the provision for loss on construction projects in progress higher than at the end of the second quarter?

A The provision for loss on construction projects in progress increased slightly as a result of our review of profits and losses on certain projects. This is due to specific factors and not to a decline in profit levels for the construction business overall.

Q What is the outlook for the next fiscal year and beyond?

A We will refrain at this point from making any comments on the particulars of our earnings forecast for the next fiscal year and beyond. We do expect revenues in domestic construction business to increase as large-scale backlog projects move into full swing. It is difficult to give a specific level of profit margin as it will vary depending on how competitive the environment is and the timing of profit improving especially for large-scale projects. As for real estate development business in Japan and overseas, we expect to enter a full-scale investment recovery cycle in FY2022/2023 and beyond.

Q What is the forecast for completion period of large-scale backlog projects in domestic building construction?

A The number of construction projects scheduled for completion in the next fiscal year is lower than the current fiscal year, but we expect this number to increase in FY2022/2023.

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Q

What is the status of investment in real estate development under the current Medium-Term Business Plan and the forecast from the next fiscal year?

A

Although there was a slight decrease in overseas investment due to the impact of COVID-19, we expect investment to go as planned owing to increase in Japan. Under our next Medium-Term Business Plan, we estimate investment in real estate development at the same level as our current plan or even higher.

Q

What is the policy with regards to businesses other than construction business?

A

The real estate development business in Japan and overseas has become a pillar of our earnings, and our policy is focused on further increasing the profitability of this business in the future. We are also looking at the environment- and renewable energy-related sectors to find opportunities for new investment by leveraging our construction expertise.

Q

What is the status of efforts to reduce cross-shareholdings?

A

As shown in the gain on sales of investment securities recorded in the third quarter, we have sold investment securities based on negotiations with issuers in accordance with our verification result of the significance of holdings. Our policy is to strategically hold the shares so long as they contribute to improving our corporate value, but to reduce cross-shareholdings over the medium to long term.