

Obayashi's Views on the ISS Report

Obayashi Corporation would like to state our views as below in relation to the recommendation by Institutional Shareholder Services Inc. (hereinafter "ISS") to oppose the election of Chairman Takeo Obayashi and President Kenji Hasuwa in Proposal 3 (Election of 12 Directors) at our 118th Ordinary General Meeting of Shareholders.

1. Overview of the Recommendation by ISS to Oppose the Election of Chairman Takeo Obayashi and President Kenji Hasuwa

- The ratio of shares we own in our customers' businesses (hereinafter "cross-shareholdings") to consolidated net assets is 32.6% as of the end of March 2022.
- Based on the above situation, ISS is recommending shareholders oppose the election of Chairman Takeo Obayashi and President Kenji Hasuwa as Directors..

2. Obayashi's Policy on Cross-shareholdings

ISS has established a standard to recommend opposing the election of directors in the top management team of companies it deems to have excessive cross-shareholdings (when the ratio of cross-shareholdings to net assets is 20% or more). This is due to the following concerns about cross-shareholdings in corporate governance.

- It is not possible to allocate capital invested in cross-shareholdings to capital investment in the main business of the company, business acquisition, dividends and acquisition of treasury stock. Moreover, cross-shareholdings are basically held for a long time. This may hinder efficient management. Therefore, there are concerns that cross-shareholdings go against the interests of shareholders.
- Cross-shareholdings may lead to a continual vote in favor of company proposals when exercising voting rights. Meanwhile, governance functions may decline because shareholder proposals will be opposed. There is a concern that this may go against the interests of shareholders.

Our opinions on these concerns are as follows.

(1) Capital Efficiency

We hold cross-shareholdings to maintain and strengthen business relationships with our customers. Nevertheless, the Board of Directors periodically verifies the significance of those holdings.

We use WACC to calculate the capital cost. When verifying the significance of our cross-shareholdings, we have a requirement to confirm whether the business returns (dividends from those shares and profits from the construction work ordered by the companies in whom we have cross-shareholdings etc.) meet the quantitative standards we have established based on the capital cost. We decide to sell stocks when the significance of holding them has diminished as appropriate according to the results of that verification. We have sold approximately 48 billion yen

in stocks over the last five years. We have allocated the sale proceeds to investment in business that contributes to the growth of our company.

Therefore, our cross-shareholdings are limited to those with sufficient economic rationality. Accordingly, we believe there is not a factor which will cause a decline in capital efficiency.

(2) Governance Problems

We hold cross-shareholdings to maintain and strengthen business relationships with our customers. We do not require those customers to hold shares in our company. The ratio of our shares in circulation is approximately 80% as of the end of March this year. That ratio is significantly above the standard of 35% to be listed on the Prime Market of the Tokyo Stock Exchange. Accordingly, it is clear that our cross-shareholdings are not aimed at acquiring votes for our proposals.

In addition, when exercising the voting rights of our cross-shareholdings, we do not automatically approve the proposals of the companies in whom we have those cross-shareholdings. Instead, we scrutinize the content of the proposals and then make a comprehensive judgment from the perspective of whether that proposal will contribute to the sustainable growth and an improvement in the medium- to long-term corporate value of both our company and that company. We have also disclosed this policy in our Corporate Governance Report.

Based on the above, we believe that our cross-shareholdings do not cause any governance problems with respect to our management or concerns about impairing the interests of shareholders.

We have been working to reduce our cross-shareholdings while gaining the understanding of our customers based on the verification and sale procedures we have outlined above. However, based on requests from the stock market to reduce cross-shareholdings, we recognize that this is also an important management challenge from the perspective of strengthening our corporate governance.

Therefore, we established a target to sell a total of about 150.0 billion yen worth of cross-shareholdings in the Medium-term Business Plan 2022 we announced in March of this year. The aim of this is to reduce our ratio of cross-shareholdings to consolidated net assets to 20% or less by the final fiscal year of the plan (fiscal year ending March 31, 2027). We have also disclosed that policy on page 24 of the Notice of Convocation of our 118th Ordinary General Meeting of Shareholders.

We need to proceed with the sale of our cross-shareholdings gradually upon gaining the understanding of our customers toward our policy to reduce those holdings so that we do not damage the business relationships and trust we have with them. Accordingly, we require a suitable period to sell those cross-shareholdings. That is why we have set a five-year period to sell our cross-shareholdings in our Medium-term Business Plan. Our policy is to aim to sell about 150.0 billion yen worth of cross-shareholdings by the end of March 2027.

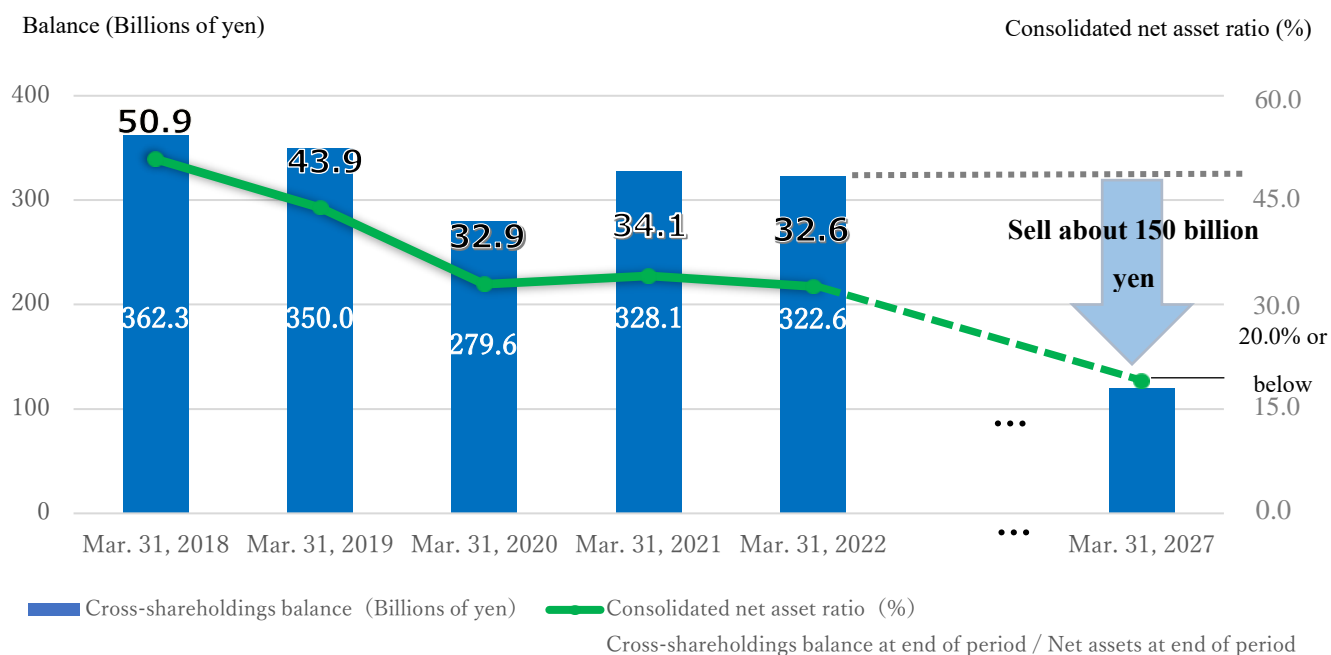
We have already started a dialogue with our customers and sold approximately 16.9 billion yen worth of cross-shareholdings. Moreover, we have reached an agreement to sell 20 stocks at the present time. The estimated amount of the sales from that will be 30.8 billion yen and that will give us a progress rate of approximately 30% toward achieving our cross-shareholding reduction target. Nevertheless, we are striving to reach an agreement with our customers to sell the shares we hold in them so that we can achieve our cross-shareholding reduction target as soon as possible.

In addition to investment to acquire stable investment returns, we are also considering medium- to long-term growth potential to lead to an improvement in our corporate value in regards to the sale proceeds we have obtained. It is our policy to also effectively utilize those sale proceeds to invest in fields that will contribute to the sustainable growth that we need upon expanding our business portfolio. (Refer to the Medium-Term Business Plan 2022 attachment.)

3. Summary

As we state in 2 above, we believe there are no corporate governance concerns about our cross-shareholdings in corporate governance. Nevertheless, we are currently working to achieve our sales target to further reduce our cross-shareholdings. Therefore, we ask that you consider this policy and approve of our proposal for the election of Directors.

[Changes in the cross-shareholdings balance and consolidated net asset ratio]



[Changes in the sale of cross-shareholdings]

(Yen in millions)

	(FY2018.3)	(FY2019.3)	(FY2020.3)	(FY2021.3)	(FY2022.3)
Amount sold	8,710	5,454	9,263	7,702	16,973

【Attachments】

- [Notice of Convocation of the 118th Ordinary General Meeting of Shareholders](#)
- [Medium-Term Business Plan 2022 "Strengthening Business Foundation and Accelerating Company-wide Transformation"](#)