



OBAYASHI CORPORATION
Opinion of the Board of Directors of the Corporation
Regarding the Shareholder Proposal

OBAYASHI CORPORATION (hereinafter referred to as the “Corporation”) has received a letter dated April 25 from Silchester International Investors LLP, acting on behalf of the Corporation’s shareholders, giving notice of a shareholder proposal (the “Shareholder Proposal”) on the agenda for the Corporation’s 119th Ordinary General Meeting of Shareholders to be held in June 2023. The Corporation hereby announces that its Board of Directors, at its meeting held today, has resolved to oppose the Shareholder’s Proposal as follows.

- 1 Proposing shareholder
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST
(Proxy) Silchester International Investors LLP

- 2 Details of the Shareholder Proposal
 - (1) Agenda item
Dividend of Surplus (Special Dividend)
 - (2) Outline of the proposal
As described in the attached “Details of the Shareholder Proposal.”
The attached “Details of the Shareholder Proposal” is the original text of the relevant sections of the Shareholder Proposal submitted by the proposing shareholder (“2 Reason for the Proposal” is the original text of “Outline of Reason for the Proposal” stated in the proposal document).

- 3 Opinion of the Board of Directors of the Corporation regarding the Shareholder Proposal
 - (1) Opinion of the Board of Directors of the Corporation
The Corporation’s Board of Directors opposes the Shareholder Proposal.
 - (2) Reasons for opposition
 - a. Obstructing the business plan to increase corporate value
In the “Obayashi Group Medium-Term Business Plan 2022,” a five-year plan starting in the fiscal year ended March 31, 2023, the Corporation set a “dividend on equity ratio (DOE) of around 3%”^{(*)1} as a target for the annual value of dividends in its shareholder return policy.
Our basic policy on shareholder returns is first to try to sustain stable dividend payouts over the long term. This dividend policy, which aims for a DOE of 3%, was formulated with consideration for the business plans for the next five years based on the “Obayashi Group Medium-Term Business Plan 2022” and the growth investment strategy to enhance corporate value, with the policy of returning profits to shareholders over the medium to long term by increasing equity through the accumulation of profits.
That is to say, it is a dividend policy that “the Corporation’s projected cash inflows during the five-year plan period” are to be used as the source of funds, and carefully considers the balance between three uses of cash:
 - 1) Equity needed to stabilize the Corporation in this period of uncertainty

- 2) Growth investment required to maintain the Corporation's competitive advantage and further increase corporate value (*2)
- 3) Stable returns to shareholders over the medium to long term

At the same time, this Shareholder Proposal seeks an increase in dividends based on almost the same reasons and calculation methods used by the proposer for shareholder proposals made to other companies, without regard for the companies' differing business plans and growth strategies. It also treats planned growth investments and human capital investment quotas as dividend resources, which we believe will obstruct the growth strategy set out in the Medium-Term Business Plan to enhance our corporate value.

b. Unreasonableness of the method of dividend calculation

Our DOE-based dividend calculation is based on the equity accumulated through "profit attributable to owners of parent" which includes all business and non-business income earned by the Corporation. In contrast, the dividend calculation method used in the Shareholder Proposal does not allocate "business income other than from the construction business" and "non-operating and extraordinary income other than dividend income from cross-shareholdings" to the dividend resource, which we believe to be an unreasonable method of calculation for shareholders.

Given the above reasons, the Board of Directors of the Corporation opposes the Shareholder Proposal.

(*1) Dividend policy based on a DOE of 3%.

- Specifically, the DOE is calculated by dividing the equity at the end of the previous fiscal year and the equity at the end of the current fiscal year by 2 to obtain an average, and then taking around 3% of that sum as a target for the total annual dividends.

$$\text{DOE 3\%} = [(\text{Equity as of the end of the previous fiscal year} + \text{Equity as of the end of the current fiscal year})/2] \times 3\%$$

→Target for total annual dividends (interim + year-end)

- Dividends based on DOE are based on the value of equity accumulated up to that point, regardless of profit for the period, and thus such dividends are maintained even when there is a decline in profit for a single year. Moreover, while the total value of dividends does not exceed the value of profit (i.e., the dividend payout ratio does not exceed 100%), a reasonable sum corresponding to profit is accumulated as equity, which has the effect of continuously increasing dividends in the following fiscal year and beyond. In the event of a significant increase in profit, however, the Corporation will also consider returning profit to shareholders through special dividends, etc.

(*2) Growth investment

<Major Investments>

Construction business: R&D investment for productivity improvements (ICT construction, etc.) to increase earnings and address the decrease in the number of construction industry workers, and for addressing the challenges of achieving a low-carbon society

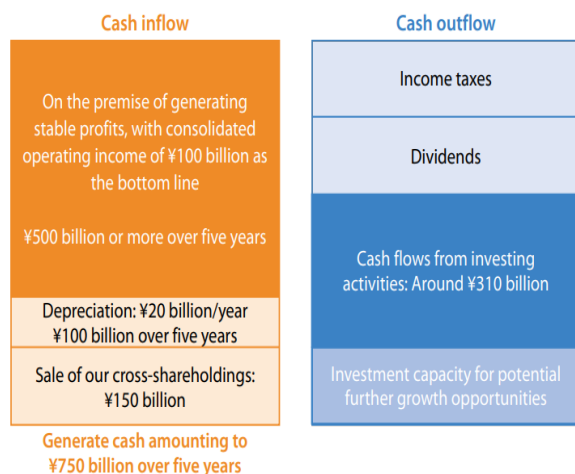
Peripheral areas: Growth investment in peripheral areas (real estate business, green energy business, etc.) that will demonstrate synergies with the core construction

business and contribute to the advancement of ESG and the SDGs while mitigating fluctuations in the performance of the construction business

Human capital:

Investment in development and engagement (including base salary increases in response to the recent rise in consumer prices) of human capital, which is the source of the Group's competitiveness and an important management foundation

Cash Allocation During the Period of Medium-Term Business Plan 2022



Breakdown of Cash Flows from Investing Activities

Item	Investment plan
Human resource-related investment	¥25 billion
Digital-related investment	¥70 billion
Technology-related investment	¥80 billion
Construction machinery and business facilities	¥50 billion
Real Estate Development Business	¥300 billion
Green Energy Business	¥50 billion
M&A etc.	¥25 billion
Investment plan	¥600 billion
Deduction of the amount to be excluded from cash flows from investing activities	(¥150 billion)
Recovery through the sales of assets invested in the Real Estate Development Business	(¥140 billion)
Amount to be included in cash flows from investing activities	¥310 billion

(Note) The above cash allocation plan is as of March 2022, when the Medium-Term Business Plan 2022 was formulated, however current cash inflow projections have decreased since that time due to subsequent changes in the business environment (e.g., soaring construction material prices).

■ Journal accounts for the ¥600.0 billion investment plan from an ESG perspective

(Billions of yen)

	Investment plan	Journal entry from an ESG perspective				Business investments other than those listed on the left
		E: Environment-related	S: Human capital	S: Productivity	S: New businesses	
Intangible assets	Human resource-related investment		25.0			
	Digital-related investment			70.0		
	Technology-related investment	20.0		50.0	10.0	
Tangible assets	Construction machinery and business facilities		5.0	45.0		
	Real Estate Development Business	100.0				200.0
	Green Energy Business	50.0				
	M&A, etc.				25.0	
Total	600.0	170.0	30.0	165.0	35.0	200.0

Disclaimer

This document announced in the Japanese language at the Tokyo Stock Exchange on May 11, 2023 was translated into English and presented solely for the convenience of non-Japanese speaking users. If there is any discrepancy between the Japanese announcement and this English translation, the former will prevail.

Attached document

Details of the Shareholder Proposal

I. Matters Concerning the Purpose of the AGM

Agenda : Dividend of surplus (special dividend)

II. Summary of the Proposal

1. Summary of the Proposal

(1) Agenda : Dividend of Surplus (special dividend)

A special dividend shall be made as follows:

A. Type of dividend:

Cash

B. Allocation and the total amount of dividends:

An amount equal to JP¥ [12] per share shall be paid in addition to the amount (if any) of the dividend payment from surplus per share of common stock which is approved at the 119th Annual General Meeting of Shareholders based on the proposal on the dividend of surplus made by the Company. The total amount of special dividends to be paid pursuant to Agenda shall be calculated by multiplying the amount of the special dividend per share of common stock by the number of shares eligible to receive dividend payments as of 31st March 2023.

C. Effective date of dividend payment from surplus

The day after the date of the 119th Annual General Meeting of Shareholders

D. Payment date of dividend

19th July 2023

2. Reason for the Proposal

The Company's dividend policy should be to distribute to shareholders amount equal to 100% of the amount of the Company's net income that is not directly related to its core business activities (specifically, dividend income that the Company receives on the Company's equity holdings) plus an amount equal to 50% of the net income from its core operating businesses. If the Company adopts such policy, the Company is able to retain 50% of the available earnings generated by the Company's core operating businesses. The Company has sufficient financial flexibility to self-fund the expansion of its business, whilst maintaining a sound and conservative balance sheet.

The payment of this special dividend to be proposed at the upcoming General Meeting of Shareholders does not adversely impact the Company, its future business prospects and/or the solvency of the Company. Further, the payment of such a special dividend does not jeopardise the Company's ability to support its core domestic contracting activities, continue to expand across strategic business adjacencies and capture selective growth opportunities.

3. About Silchester

Silchester is a UK based asset management firm. Silchester invests client moneys in publicly traded non-US equity securities using a bottom up, value based, investment approach. Silchester is a 'long-only' investment manager. Silchester does not short securities, utilize derivatives or invest in convertible instruments. Silchester seeks to invest in companies that are trading cheaply relative to their assets, earnings or dividend yield. Silchester has been

invested in Japanese equity securities since 1995. As of 31st March 2023, Silchester has more than JP¥1.8 trillion of its client assets invested in equity securities issued by publicly traded Japanese companies.

Silchester is the appointed investment manager for several large commingled funds. One of these commingled funds is the Silchester International Investors International Value Equity Trust. The Northern Trust Company acts as the custodian for this commingled fund. The Northern Trust Company holds the shares for this commingled fund in a nominee account called Northern Trust Company AVFC Re: Silchester International Investors International Value Equity Trust. The Northern Trust Company has provided Silchester with a power of attorney granting Silchester the authority, as investment manager, to introduce the special dividend proposal. The Northern Trust Company is not otherwise involved with this Proposal.

Silchester is not an 'activist' investor. Silchester is a fiduciary for its clients and takes its corporate governance obligations seriously. Silchester will engage with portfolio companies where appropriate. Silchester first invested in the Company's shares in July 2021. Silchester has regularly discussed the Company's operating performance and capital allocation with the Company's Board of Directors and senior management.