OBAYASHI

June 9, 2023

OBAYASHI CORPORATION
Kenji Hasuwa
Representative Director,President and CEO
(Code No:1802,[Tokyo Prime, Fukuoka])

OBAYASHI CORPORATION's Opinion on the ISS Report

Institutional Shareholder Services Inc. (hereinafter, "ISS"), a proxy voting advisory firm, has issued a report recommending approval or disapproval of the proposals to be submitted to 119th Ordinary General Meeting of Shareholders of OBAYASHI CORPORATION (hereinafter referred to as the "Corporation"). Our opinion on this report is described below.

We respectfully request that shareholders exercise their voting rights based on an understanding of our views.

1. Overview of the Recommendation by ISS

(1) Recommendation to vote Against the election of Chairman of the Board Takeo Obayashi and President and CEO Kenji Hasuwa in Proposal 3 (Election of 11 Directors), a Corporation proposal.

- The ratio of shares we own in our customers' businesses (hereinafter, "cross-shareholdings") to consolidated net assets is 32.1% *as of the end of March 2023.
- Top management is responsible for the Corporation's capital misallocation.
- Based on the above, ISS is recommending shareholders oppose the election of Chairman of the Board Takeo Obayashi and President and CEO Kenji Hasuwa as Directors

*Corporation's note: 32.1% is the ratio as of March 31, 2022. The ratio as of March 31, 2023, is 27.8%.

(2) Recommendation to vote For Proposal 5 (Dividend of Surplus (Special Dividend)), a shareholder proposal. Based on the assessment of the Corporation's net cash position (cash and cash equivalents minus interest-bearing debt) and the amount of cross-shareholdings, the special dividend appears feasible. Moreover, in light of the low market valuation of the Corporation, ISS is recommending shareholders approve the shareholder proposal.

2. Our Opinion

(1) Proposal 3 (Election of 11 Directors)

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-sharehodings 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 corporation, business acquisition, dividends, and acquisition of treasury stock. Moreover, cross-shareholdings are basically held for a long time. This may hinder efficient capital management. Therefore, there are concerns that cross-shareholdings go against the interest of shareholders.
- Cross-shareholdings may lead to a continual vote in favor of corporation proposals when exercising voting rights. On the other hand, shareholder proposals will be opposed. As a result, governance functions may decline. There is a concern that this may go against the interest of shareholders.

Our opinions on these concerns are as follows.

a. 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 business significance of holding them has diminished as appropriate according to the results of that verification. Even over the five years (FY2016 - FY2020) before setting the cross-shareholding decrease target from FY2021, which will be explained later, we sold 35.6 billion yen worth of cross-shareholdings.

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.

Furthermore, based on requests from the stock market to reduce cross-shareholdings, we recognize that this is also an important management task from the perspective of strengthening our corporate governance. In the Medium-term Business Plan 2022 we announced in March last year, we established a target to sell a total of approximately 150 billion yen worth of cross-shareholdings with the aim of reducing the ratio of cross-shareholdings to consolidated net assets to 20% or less by the final fiscal year of the plan’s period (fiscal year ending March 31, 2027).

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. We are aiming to sell approximately 150 billion yen worth of cross-shareholdings by the end of March 2027.

Based on this policy, we have already sold 41.5 billion yen worth of cross-shareholdings in FY2021 and FY2022, which is 27.7% of our reduction target. Including the cross-shareholdings currently under agreement for sale (21 names with an estimated sale amount of 14.7 billion yen), we are 37.5% of the way toward our reduction target. We will strive to reach an agreement with our customers on sales at the earliest possible time and achieve our reduction target.

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 regard to the sales proceeds we have obtained. It is our policy to also effectively utilize those sales proceeds to invest in fields that will contribute to the sustainable growth that we need upon expanding our business portfolio.

b. Governance

We hold cross-shareholdings to maintain and strengthen business relationships with our customers. We do not require those customers to hold shares in the Corporation. In addition, we do not refuse any offer from our customers to sell our shares, regardless of whether they are mutual holdings or not. As a result, the ratio of our shares in circulation has increased from 83% at the end of March 2022 to 85% at the end of March 2023. This 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.

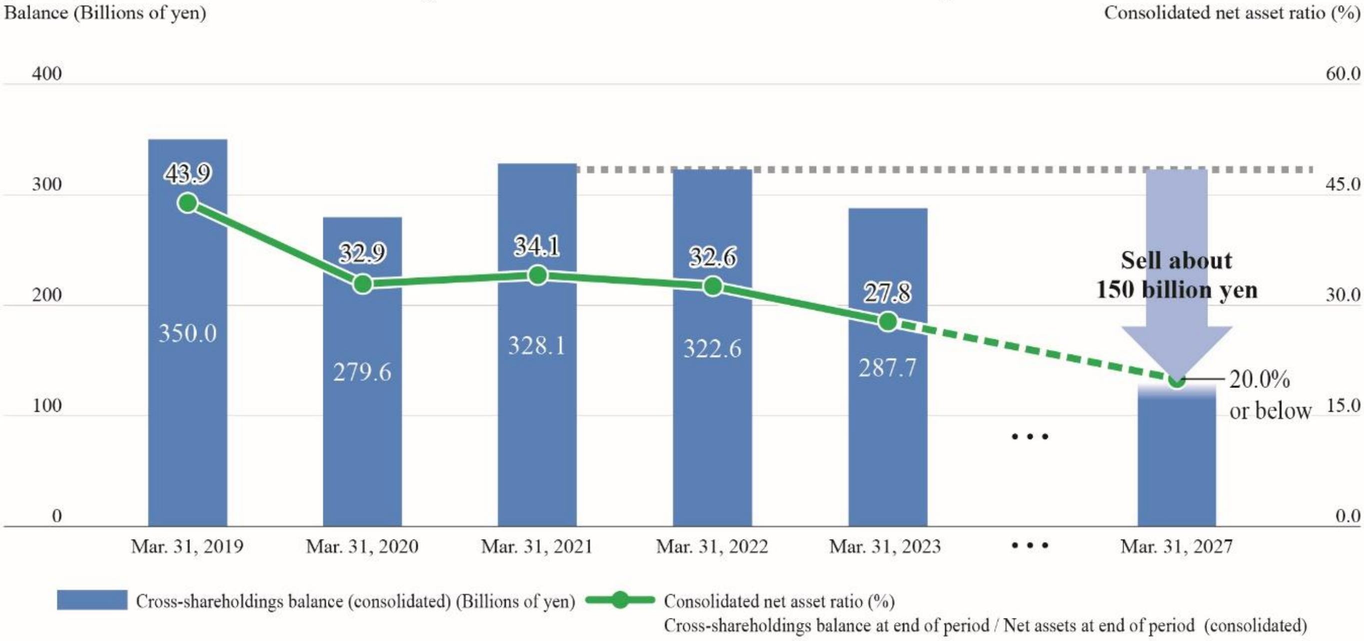
In addition, when exercising the voting rights of our cross-shareholdings, we do not automatically approve the proposals of the companies in whom we have those cross-shareholdings. Instead, we scrutinize the content of the proposals and then make a comprehensive judgement from the perspective of whether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

c. Summary

As we state in “b” above, we believe there are no corporate governance concerns about our cross-shareholdings. Nevertheless, we are currently working to achieve our sales target to further reduce our cross-shareholdings. Therefore, we respectfully request 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 on a consolidated basis]

(Millions of yen)

<table>
<tr><th></th><th>(FY2018)</th><th>(FY2019)</th><th>(FY2020)</th><th>(FY2021)</th><th colspan="2">(FY2022)</th></tr>
<tr><td>Amount sold</td><td>5,454</td><td>9,263</td><td>7,702</td><td>16,973</td><td colspan="2">24,612</td></tr>
<tr><td rowspan="2">Total amount sold since FY2021
(% of progress toward target of 150 billion yen)</td><td rowspan="2">—</td><td rowspan="2">—</td><td rowspan="2">—</td><td rowspan="2">16,973
(11.3%)</td><td>Total amount sold</td><td>41,585
(27.7%)</td></tr>
<tr><td>Above + Sales agreed-upon amount</td><td>56,312
(37.5%)</td></tr>
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(2) Proposal 5 (Dividend of Surplus (Special Dividend)) Shareholder Proposal

① Meanwhile, as stated in our timely disclosure on May 11 this year, Obayashi's Board of Director resolved to oppose this proposal and announced the reason for its opposition. The summary is as follows.

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, we set a "dividend on equity ratio (DOE) of around 3%" 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 we carefully consider 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 our competitive advantage and further increase corporate value
3) Stable returns to shareholders over the medium to long term

On the other hand, this shareholder proposal seeks an increase in dividends based on almost the same reasons and calculation methods used by the proposer for shareholder propolsals 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 this 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.

c. Summary

As stated in above "a" and "b," we oppose Proposal 5 (Dividend of Surplus (Special Dividend)) from the perspective of "obstructing the business plan to increase corporate value" and "unreasonableness of the method of dividend calculation." We respectfully request that you understand our opinions and make judgement in exercising your voting rights.

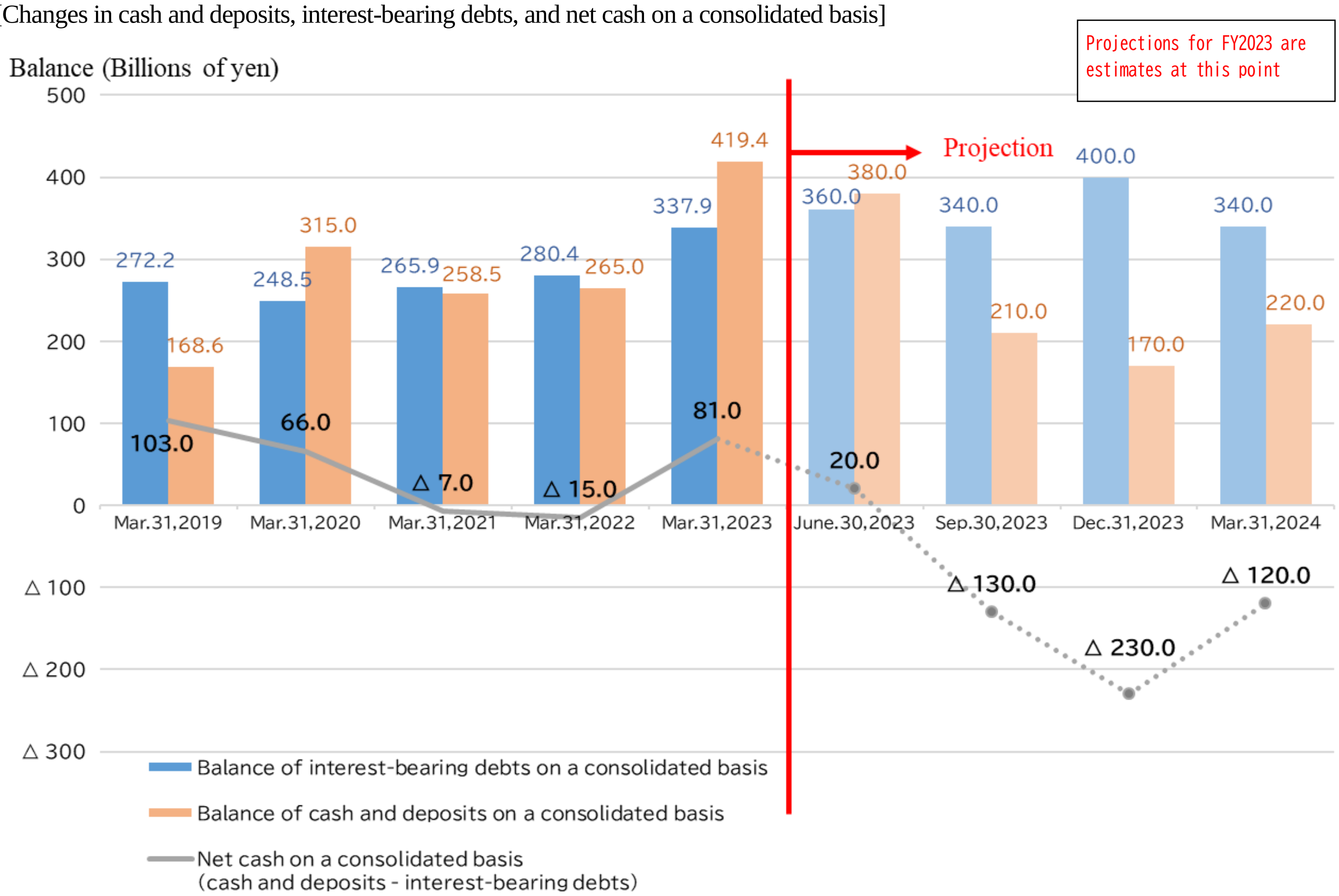
② Consolidated Cash and Deposits Balance at the End of FY2022 and Consolidated Net Cash Projections for FY2023

The consolidated cash and deposits balance at the end of FY2022 was 419.4 billion yen, up 154.3 billion yen from the end of the previous fiscal year, due to the receipt of several large-scale construction projects toward the end of the fiscal year, as well as the procurement of long-term funds in advance in the economic environment before interest rates rose, in anticipation of increased advance payments for large projects in the following fiscal year. As a result, consolidated interest-bearing debt increased 57.4 billion yen from the end of the previous fiscal year to 337.9 billion yen and consolidated net cash at the end of FY2022 was positive 81.4 billion yen.

However, in FY2023, as mentioned above, we expect a large amount of prior payments for construction, and the progress of large-scale construction projects for which a large provision for construction losses was recorded in previous years will affect cash flow balance. As a result, shown in the graph below, consolidated net cash at the end of the fiscal year is expected to be negative by approximately 120 billion yen, as the balance of consolidated interest-bearing debt will remain almost at the same level while the balance of consolidated cash and deposits will decrease significantly.

Thus, the positive consolidated net cash position at the end of FY2022 is temporary.

[Changes in cash and deposits, interest-bearing debts, and net cash on a consolidated basis]



Note: The above projections are based on information currently available to the Corporation and certain assumptions deemed reasonable and are subject to change due to various factors.

[Attachments]

- Notice of Convocation of the 119th Ordinary General Meeting of Shareholders
- Timely disclosure on May 11, 2023 “Opinion of the Board of Directors of the Corporation Regarding the Shareholder Proposal”