

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

## OBAYASHI CORPORATION's Opinion on the ISS Report

In regards to a report issued by Institutional Shareholder Services Inc. (hereinafter referred to as "ISS") recommending vote against the election of Chairman of the Board, Takeo Obayashi and President and CEO, Kenji Hasuwa as Directors in Proposal 2 "Election of Nine (9) Directors" to be submitted to the 120th Ordinary General Meeting of Shareholders, OBAYASHI CORPORATION (hereinafter referred to as the "Company") presents its opinion as shown below.

### 1. Overview of the Recommendation by ISS

- The ratio of shares that the company owns in its customers' businesses (hereinafter referred to as "cross-shareholdings") to consolidated net assets is 27.7%\* as of the end of March 2024.
- 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.

\*Note by the Company: 27.7% is the ratio as of the end of March 2023. The ratio as of the end of March 2024 is 33.8%, reflecting the rise in the stock market since April 2023.

### 2. Company's Opinion

ISS has established a standard to recommend opposing the election of directors in the top management of companies it deems to allocate significant portion (20% or more) of their net assets to cross-shareholdings. 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 share buybacks. Moreover, cross-shareholdings are basically held for a long time. This may hinder efficient capital management. Therefore, there is a concern that cross-shareholdings go against the interests of shareholders.
- Cross-shareholdings may have a concern on interests of shareholders since it gains continual vote in favor of the company's proposals while it gains vote against shareholder proposals when exercising voting rights, which will lead to a decline in governance function.

The Company's opinions on these concerns are as follows.

#### a. Capital Efficiency

The Company owns cross-shareholdings to maintain and strengthen business relationships with its customers. The Company reviews the significance of owning shares in each company by regularly reporting to the Board of Directors on valuation gains/losses, and collective consideration of indicators of profitability such as capital cost and return on business from maintaining and strengthening the business relationship with a company. The Company verifies the economic rationale for owning shares over the medium and long term, and sells shares as needed when the business significance of owning the shares has weakened. Even over the five years (FY2016 - FY2020) before setting the cross-shareholdings decrease target in the Medium-Term Business Plan 2022, which will be mentioned later, the Company sold 35.6 billion yen worth of cross-shareholdings.

Furthermore, in the Medium-Term Business Plan 2022 starting FY2022, the Company has adopted ROIC as one of the performance indicator targets and are committed to management that emphasizes capital efficiency. Based on requests from the stock market to reduce cross-shareholdings, the Company will further review the significance of its holdings and investment efficiency. The

Company has set a target to reduce such holdings to 20% or less of consolidated net assets by the end of March 2027 (the Company started the efforts to reduce them in FY2021, prior to the Medium-Term Business Plan 2022 period).

Based on this policy, the Company has already sold 74.6 billion yen worth of cross-shareholdings in three years from FY2021 to FY2023. Including 71.6 billion yen worth of the cross-shareholdings currently under agreement for sale, the amount of sale has reached 146.3 billion yen. However, due to the recent rise in the stock market, the amount of cross-shareholdings has increased. In response, the top management members, including the Chairman of the Board and the President and CEO, held another round of discussions in FY2023 and the Company raised the ratio of cross-shareholdings to be sold from the initial setting in order to achieve the target of reducing such holdings to 20% or less of consolidated net assets by the end of March 2027. The Company continues to make every effort to reach agreements with its customers on a sale at the earliest possible date and to achieve our reduction target.

As announced in notice concerning revision of capital policy issued on March 4, 2024, and addendum to Obayashi Group Medium-Term Business Plan 2022 issued on May 13, 2024, in order to further promote management that emphasizes capital efficiency, the Company is implementing a strategic capital policy that sets the necessary equity at around one trillion yen while setting an ROE performance indicator target of 10% or more by FY2026. Based on these, the Company is also reviewing its cash allocation during the period of the Medium-Term Business Plan 2022. These funds obtained from the sale of such holdings will be used for shareholder returns and investments to increase corporate value such as the investments in human resources, digital transformation (DX), and technology, the investments to expand production capacity, and growth investments in fields where the Company can establish a competitive advantage.

b. Governance

The Company holds cross-shareholdings to maintain and strengthen business relationships with its customers and it is not based on mutual holdings (the Company does not require those customers to hold its shares instead). In addition, the Company does not refuse any offer from its customers to sell their shares, regardless of whether they are mutual holdings or not. As of the end of March 2024, the ratio of the Company's shares in circulation is 85%. 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 the Company's cross-shareholdings are not aimed at acquiring votes for our proposals.

In addition, when the Company exercises the voting rights of cross-shareholdings, the content of the proposals is well scrutinized and a comprehensive judgment is held from the perspective of whether that proposal will contribute to sustainable growth and an improvement in the medium- to long-term corporate value of each company. The Company has also disclosed this policy in Corporate Governance Report.

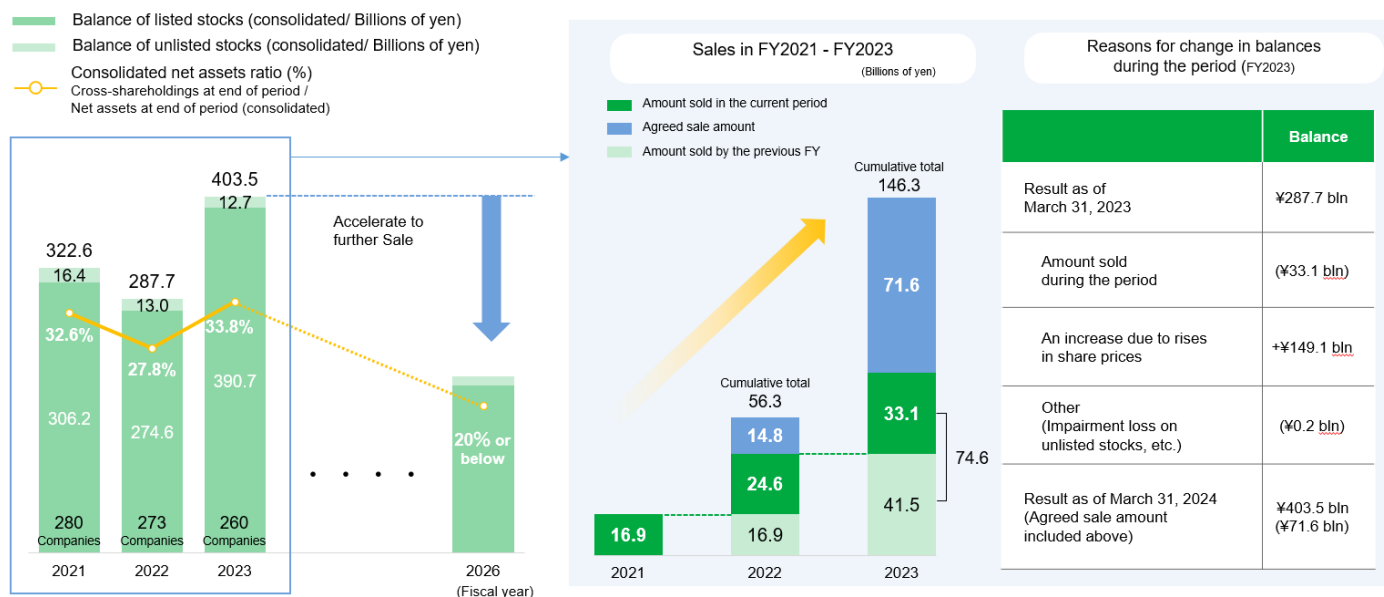
Based on the above, the Company believes that its cross-shareholdings do not cause any governance problems with respect to its management or concerns about the interests of shareholders.

As stated in 1.a. above, the Company is committed to management that emphasizes capital efficiency, and demonstrating this commitment to the stock market by incorporating its goal of achieving the cross-shareholdings reduction target into its business plan. At the same time, the Company needs to proceed with the sale of our cross-shareholdings gradually upon gaining the understanding of its policy to reduce those holdings by its customers not to undermine the business relationships and trust which requires a suitable period. Therefore, the Company has set five-year period same as Medium-Term Business Plan 2022 to sell its cross-shareholdings.

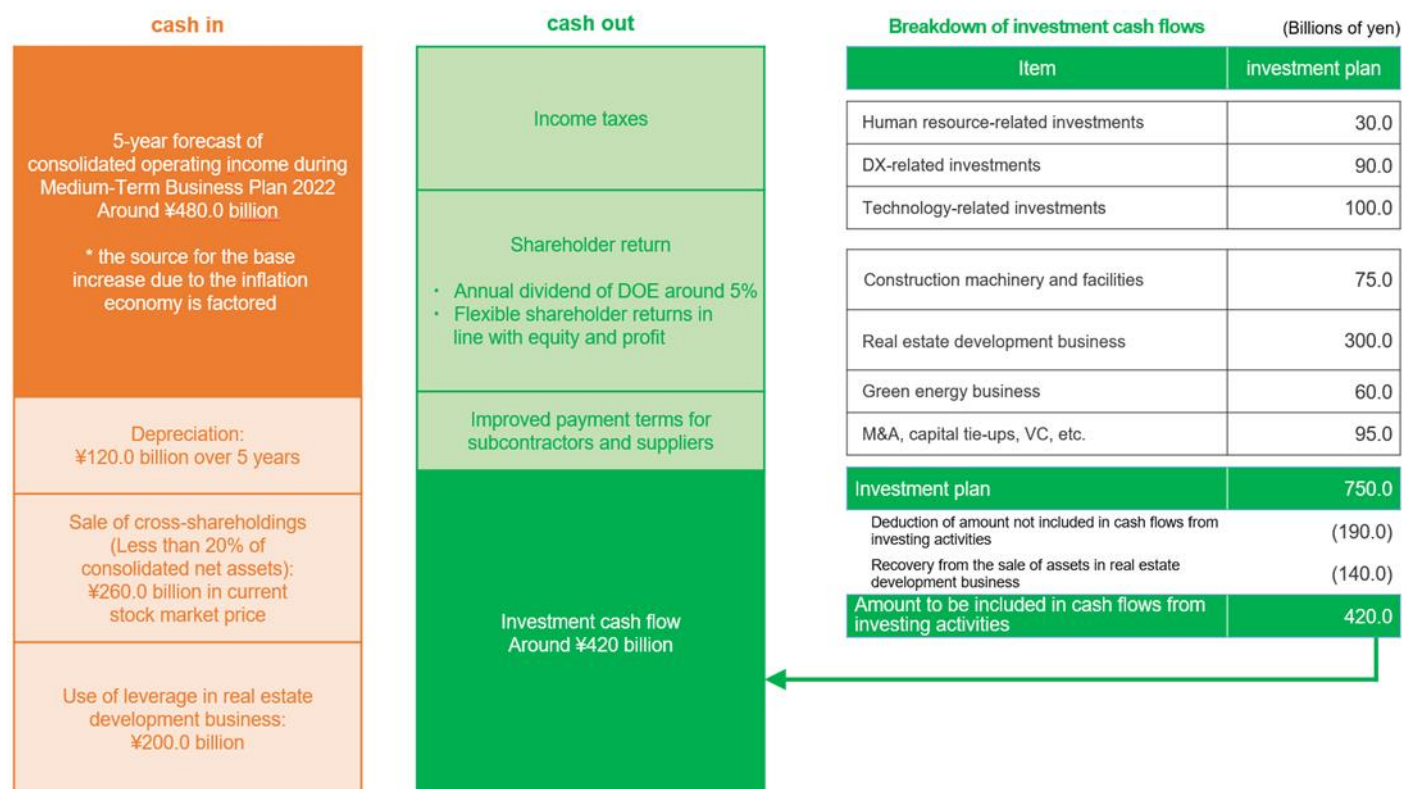
Obayashi Corporation respectfully request you to understand these policies and situations including its commitment to improve capital efficiency, and to approve for the election of the Directors.

[Reference]

<Reduction of the Cross-Shareholdings>



<Cash allocation during the period of the Medium-Term Business Plan 2022 (Addendum announced on May 13, 2024)>



[Attachments]

- [Notice of Convocation of the 120th Ordinary General Meeting of Shareholders](#)
- [Notice Concerning Revision of Capital Policy](#)
- [Notice Concerning Addendum to Obayashi Group Medium-Term Business Plan 2022](#)

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