June 2, 2025

OBAYASHI CORPORATION
Toshimi Sato,
Representative Director, President and CEO
(Securities code: 1802; Tokyo Stock Exchange Prime Market)

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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, Toshimi Sato as Directors in Proposal 2 "Election of Nine (9) Directors" to be submitted to the 121st 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 33.7%* as of the end of March 2025.
- Based on the above, ISS is recommending shareholders oppose the election of Chairman of the Board, Takeo Obayashi and President and CEO, Toshimi Sato as Directors.

*Note by the Company: The ratio of cross-shareholdings to consolidated net assets is 33.8% as of the end of March 2024 and 22.6% as of the end of March 2025.

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.

- The capital invested for cross-shareholdings cannot be allocated for capital investment in the main business, business acquisitions, dividends, or 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. During the five years (FY2016–FY2020) prior to setting the cross-shareholdings reduction target in its Medium-Term Business Plan 2022, as stated below, the Company sold 35.6 billion yen worth of its cross-shareholdings.

Furthermore, in the Medium-Term Business Plan 2022 launched in FY2022 and the Addendum to Medium-Term

Business Plan 2022 announced on May 2024, the Company set the necessary equity level at one trillion yen and is pursuing a strategic capital policy. It has also adopted ROIC and ROE targets as performance indicators and is pursuing management that emphasizes capital efficiency. In addition,, based on requests from the stock market to reduce cross-shareholdings, the Company will further review the significance of its holdings and investment efficiency. It has set a mandatory target of reducing such holdings to 20% or less of consolidated net assets by the end of March 2027 (reduction of cross-shareholdings began in FY2021, prior to the launch of the Medium-Term Business Plan 2022).

Based on this policy, the Company has already sold 160.8 billion yen worth of cross-shareholdings over the four years from FY2021 to FY2024. The total amount comes to 243.8 billion yen when combined the expected amount, 82.9 billion yen, agreed to be sold by the end of FY2026. The ratio of cross-shareholdings to consolidated net assets including these agreed sale amount will be 15.8% and the Company will proceed with further sale of cross-shareholdings to achieve its target reducing such shares to 20% or less of consolidated net assets.

Moreover, the funds obtained from the sale of cross-shareholdings are fully incorporated in the Company's cash allocation plan for the period covered by the Medium-Term Business Plan 2022. They will be used for strategic shareholder returns and for investments to enhance the Company's corporate value, including investments in human resources, digital transformation (DX), and technology, investments to expand production capacity, and growth investments in fields where it 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 84%. 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.

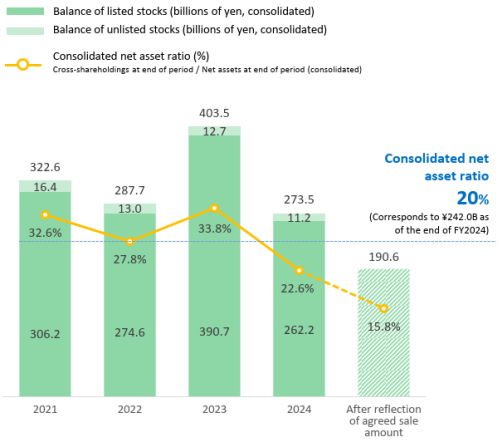
Based on the above, the Company believes that its cross-shareholdings do not cause any governance problems with respect to its management or concerns about the interests of shareholders.

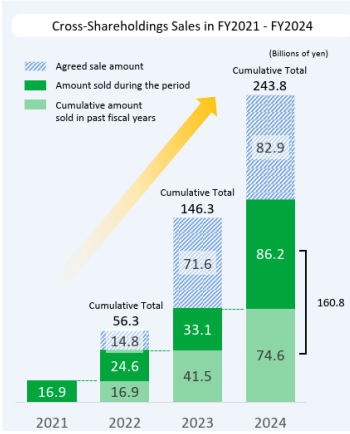
As stated in 2. a. above, the Company is committed to management that emphasizes capital efficiency, and demonstrating this commitment to the stock market by incorporating the target of reducing cross-shareholdings and the use of proceeds from the sale of cross-shareholdings into its business plan. At 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 as the 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>





Reasons for the Change in Balance During the Period (FY2024)

Balances and Changes	Amount
Balance as of March 31, 2024	¥403.5 B
Amount sold during the period	(¥86.2 B)
Decrease due to the decline in stock market prices	(¥42.4 B)
Other (impairment loss on unlisted stocks, etc.)	(¥1.3 B)
Balance as of March 31, 2025	¥273.5 B Of which agreed sale amount: ¥82.9 B

<Cash allocation during the period of the Medium-Term Business Plan 2022 (As of May 13, 2024)

Cash Inflows

- 5-year forecast of consolidated operating income during the Medium-Term Business Plan 2022: Around ¥480.0B
  Note: Reflects budget allocated for the base salary increase in line with the transition to an inflation economy
- Depreciation: ¥120.0B over 5 years
- Sale of cross-shareholdings to less than 20% of consolidated net assets: ¥260.0B based on the current stock market prices
- Use of leverage in the real estate development business: ¥200.0B

Cash Outflows

- Income taxes
- Shareholder returns
  - Annual dividend at a DOE of around 5%
  - Flexible shareholder returns in line with levels of equity and profits
- Improved payment terms for subcontractors and suppliers
- Cash used in investing activities: Around ¥420.0B

■ Breakdown of Cash Used in Investing Activities

Item	Investment Plan
Human resource-related investment	¥30.0 B
DX-related investment	¥90.0 B
Technology-related investment	¥100.0 B
Construction machinery and business facilities	¥75.0 B
Real estate development business	¥300.0 B
Green energy business	¥60.0 B
M&A and capital tie-ups, VC, etc.	¥95.0 B
Investment Plan	¥750.0 B
Deduction of amount not included in cash flows from investing activities	(¥190.0 B)
Amount recovered from the sale of assets in the real estate development business	(¥140.0 B)
Amount to Be Included as Cash Used in Investing Activities	¥420.0 B

[Attachments]

- Notice of Convocation of the 121st Ordinary General Meeting of Shareholders
- Obayashi Group Medium-Term Business Plan 2022
- Presentation on Financial Results for FY2024 (April 1, 2024 to March 31, 2025)

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