May 12, 2023

Company name : Kumagai Gumi Co., Ltd.
Representative : Yasunori Sakurano, President
(Code : 1861, Prime Market in the Tokyo Stock Exchange)

Notice Regarding the Receipt of a Shareholder Proposal and Opinion of Board of Directors of the Company

Kumagai Gumi Co., Ltd. (the "Company") has received a letter dated April 24, 2023 from the Company's shareholder, OASIS INVESTMENTS II MASTER FUND LTD. , relating to the shareholder proposal at the 86th Ordinary General Meeting of Shareholders of the Company to be held in June 29, 2023.
The Company hereby announces that the Board of Directors, at its meeting held today, have resolved to oppose the Shareholder proposal as follows.

※About Agenda Item 1～3, (1) Summary of the Agenda Item and (2) Reasons for the Proposal are described below as they appear in the original document.

1. Agenda Item 1: Share Buyback

(1) Summary of the Agenda Item

The Company shall repurchase 8,790,000 common shares (20% of issued and outstanding shares (excluding treasury stocks)) for a total acquisition price of JPY 23,720,000,000 in accordance with Article 156, Paragraph 1 of the Companies Act within one (1) year from the conclusion of this AGM. However, if the permitted total acquisition price under the Companies Act (the "Distributable Amount" provided under Article 461 of the Companies Act) is less than the aforementioned total acquisition price, then the total acquisition price shall be reduced to such permitted total acquisition price.

(2) Reasons for the Proposal

In 2017, Kumagai conducted a third-party allotment to Sumitomo Forestry, diluting shareholders by 25.54%, despite holding a large amount of cash. To rationalize this dilution, President Sakurano and his team promised shareholders, that the third-party allotment would generate JPY 50BLN of Operating Profit by FY2023 March and 7BLN of profit from 60BLN of investment over five years. However, the Company only achieved JPY15.6BLN of Operating Profit on FY2023 March and failed to meaningfully invest the capital it had raised and failed to rationalize the dilution. Since the third-party allotment the Company's share price has plunged by more than 25%.

The dilution of general shareholders by a third-party allotment without benefit is a violation of the Corporate Governance Code and has given unfair preferential treatment to a major shareholder. The dilutive equity finance is wholly unnecessary and a business alliance could have sufficed. The current bargain basement share price affords the Company the opportunity to implement a share buyback to help rectify the impact of the dilution, improve long-term corporate value and capital efficiency.

(3) Opinion of Board of Directors of Company on Shareholder's Proposal

The Board of Directors of the Company opposes this shareholder's proposal due to the following reason.

[Reason]

As the domestic construction market is projected to shrink in line with the medium-to-long term declining population, the Company believes that it needs to take steps to achieve sustainable growth, such as creating new markets, developing high-value-added technologies, and developing businesses overseas, and, with the aim of creating a new position with uniqueness extending beyond the realm of its existing business domains, the Company concluded an agreement on a business and capital alliance with Sumitomo Forestry Co., Ltd. in November 2017, and has facilitated collaboration with the said company. In connection with this alliance, the Company raised approximately JPY 34.7 billion by a capital increase through a third party allotment with the purpose of (i) enhancing its corporate value over the medium-to-long term by actively developing a model to create synergistic outcomes in the various business fields in which the Company operates, and pursuing the long-term development and enhancement of partnerships and continuous collaborations and (ii) meeting the funding requirements, such as the funds for redevelopment and the land acquisition costs. This alliance aims to create various synergistic outcomes by conducting collaborations that combine the strengths of each company in the proximate business areas, against the backdrop of a strong and long-term partnership supported by a capital alliance. The Company believes that this alliance contributes to enhancement of the corporate value of the Company and the interests of general shareholders, and does not give unfair preferential treatment to a specific major shareholder. Also, although it is not necessarily clear at what point the proposing shareholder is claiming that the alliance "is a violation of the Corporate Governance Code," the alliance is not a violation of the Corporate Governance Code in any event.

Thereafter, pursuant to the Medium-term Management Plan (FY2018-2020), which was formulated in accordance with the intent of this alliance in March 2018 (the "Previous Medium-term Plan"), the Company planned to make investments on the scale of JPY 60 billion over 3 years, mainly in domestic/overseas alliances and domestic real estate, etc., and apply the amount of approximately JPY 34.7 billion from the capital increase into a part thereof. However, while the Company made some progress in various technological developments and attained other achievements, due to delays in compiling the business plan related to the redevelopment business because of the impact of the spread of COVID-19 and time spent on environmental assessments, along with changes in the environment surrounding the renewable energy business, the actual amount of the investment during the period of the Previous Medium-term Plan was limited to approximately JPY 15 billion.

In light of the major changes in the investment environment assumed at the time of formulation of the Previous Medium-term Plan, in the "Medium-term Management Plan (FY2021-2023)" (the "Current Medium-term Plan") announced in May 2021, the Company formulated a new investment plan on the scale of JPY 40 billion to achieve long-term and sustainable growth of the Company under the four (4) basic policies of "Bolster Overall Construction Business," "Accelerate Construction-related Peripheral Businesses," "Develop New Business Domains," and "Strengthen the Management Foundation." Under this plan, the Company has made investments of approximately JPY 13 billion so far, resulting in the cumulative amount of investments since the capital increase through the third party allotment being approximately JPY 28 billion, and the Company is currently considering making further investments of approximately JPY 24 billion in the future, as a result of which the total amount of investments since formulation of the Previous Medium-term Plan, including the investments currently under consideration, is expected to be approximately JPY 37 billion (investment in domestic and overseas real estate development businesses: approximately JPY 21 billion; investment in the renewable energy business: approximately JPY 7 billion; investment in the reinforcement of management foundation; such as the renovation of core mainframe: approximately JPY 7 billion; and others: JPY 2 billion), and the cumulative amount of investments since the capital increase through the third party allotment is expected to be approximately JPY 52 billion. As to the progress of such investment, with respect to the redevelopment project of Shimomiyabi-cho area, Shinjuku-ku, Tokyo, in which the Company is participating, steady progress is being made, such as the establishment of the Redevelopment Preparatory Association in July 2022. Also, the technologies which were newly developed for the renewal construction work of the expressway, etc. in response to the major infrastructure upgrades are already contributing to the income of the Company. In addition, the foreign real estate development business and the renewable energy business, etc., are expected to contribute to the income of the Company gradually after the completion of the current investment plan, thereby contributing to the establishment of the medium-to-long-term stable income. Although some investment plans have not proceed as initially anticipated, due to factors such as asset purchases with competitors and a re-examination of risks caused by environmental changes, the Company believes that the execution of the investment plans is necessary for the long-term and sustainable growth of the Company, and should be carried out and continued after an appropriate restructuring of business arrangements even if the timing of certain projects is delayed. In addition, even after the completion of the Current Medium-term Plan, the Company believes that it is necessary to continue to invest in growth in order to increase the medium-to-long-term corporate value of the Company.

In addition, the Company recognizes the importance of capital efficiency, and, in November 2021, the Company decided a policy to acquire a total of JPY 10 billion worth of its own shares during the period of the Current Medium-term Plan in order to enhance its shareholder returns and improve its capital efficiency. Based on such policy, the Company acquired and cancelled its own shares in the amount of approximately JPY 4 billion each in FY 2021 and FY 2022, and the Company also decided to acquire its own shares in the amount of JPY 2 billion in FY 2023. In addition to these, if the proposal relating to dividends from surplus proposed by the Board of Directors of the Company at the Ordinary General Meeting of Shareholders of this year is approved, in conjunction with the relevant dividend, the total return ratio (consolidated) for FY 2022

is expected to be approximately 122%. With respect to the share buyback in the future, the Company will consider a further enhancement of the shareholder return in conjunction with the dividend, in principle, through decision by the Board of Directors of the Company pursuant to Article 7 of the Articles of Incorporation of the Company which prescribes matters regarding the share buyback, by taking into account various factors in a comprehensive manner, such as the latest performance, the outlook for the medium-to-long-term performance, the status of implementation of growth investment and the management environment, etc.
On the other hand, this shareholder's proposal proposes the implementation of a share buyback in the amount of approximately JPY 23.7 billion within a short period of one (1) year. Implementing a share buyback of such a large amount on a single occasion may result in a financial constraint on the above stated investments, which are intended to create opportunities for the long-term and sustainable growth. Furthermore, as the impact of changes in the global economy on the business environment of the Company is increasingly uncertain, such as the Russian-Ukrainian dispute and the soaring prices of materials and equipment related to such conflicts, as well as the failure of financial institutions in Europe and the United States, upon considering the business risk faced by the construction industry, in which the business performance is heavily affected by economic fluctuations, etc. and the extent of changes in cash generation is of a large quantity, the Company believes that securing short-term liquidity and equity capital is vital to ensuring its business continuity from a long-term perspective. Considering the implementation of the above stated investments and the working capital necessary for the Group, in light of an increasing burden of the temporary payment of construction costs during the construction, mainly due to the increasing size of recent construction projects, the implementation of the share buyback stipulated in this shareholder's proposal would seriously impair the stability of the financial foundation of the Group, and as a result, damage the interest of shareholders.

For the above reasons, the Board of Directors of the Company opposes this shareholder's proposal.

2. Agenda Item 2: Dividends

(1) Summary of the Agenda Item

If the Company's Board of Directors propose dividends at the AGM, this proposal shall be proposed independently and additionally.

The surplus shall be distributed as follows.

(A) Dividend type

Cash

(B) Dividend amount per share

The amount obtained by deducting from JPY 188 per share the amount of dividends per share proposed by the Board of Directors and approved at the AGM (or the amount of JPY 188 if the Board of Directors does not submit a proposal concerning dividends at the AGM)

(C) Dividends and the total amount of dividends

Amount of dividends per share referred to in (B) above per share of common stock of the Company (the total dividend amount is the amount calculated by multiplying the amount of dividends per share by the total number of issued shares in the Company as of March 31, 2023 (excluding treasury stock)]

(D) The date that the distribution of dividends becomes effective

The date of the AGM

(2) Reasons for the Proposal

The Company trades at just 3.8x of EV/EBITDA which is very low compared to other listed general construction companies. The Company has failed to manage the funds it has raised effectively, including the funds raised by the third-party allotment of shares, the Company's surplus cash, and operating cash flow. The Company's actual amount invested is only about JPY 15 billion (excluding maintenance/preservation of facilities) in contrast to its investment target of JPY 60 billion disclosed after the announcement of third-party allotment. Accordingly, the Company has accumulated surplus cash reserves of more than JPY33.5BLN. However, we believe that no investment plan has been found in Japan or overseas that can be immediately implemented to use the Company's surplus cash to generate sufficient return. Accordingly, Oasis believes that the Company should return profits to shareholders with a target dividend payout ratio of 75% to increase shareholder value and share price, instead of keeping its shareholders equity locked up.

(3) Opinion of Board of Directors of Company on Shareholder's Proposal

The Board of Directors of the Company opposes this shareholder's proposal due to the following reason.

[Reason]

The basic policy of the Company with regards to the distribution of profits is to return profits to our shareholders appropriately and steadily while enhancing retained earnings to strengthen the management foundation and expansion of business profit, by comprehensively taking into consideration the operating results for the latest business term, the outlook for the medium-to-long term performance as well as the management environment, etc. Also, under the Medium-term Management Plan (FY2021-2023) (the "Current Medium-term Plan"), one of the Company's financial targets is a dividend payout ratio (consolidated) of 30%, and, in FY 2021, the Company paid the dividends from surplus which resulted in the dividend payout ratio (consolidated) of 35.1%. In addition, with respect to the year-end dividends for FY 2022, although the Company did not reach the performance targets set at the beginning of the fiscal year, pursuant to the basic policy of steady return of profits to our shareholders, as originally planned, the Company will proposes, as a company's proposal, to pay the dividends from surplus of JPY 130 per share in respect of the common stock of the Company. If the proposal is approved, the dividend payout ratio for FY 2022 is expected to be approximately 72%, and the Company believes that it is striving for the appropriate shareholder returns under the above stated basic policy and the Current Medium-term Plan.

On the other hand, as stated above, the Company believes that securing short-term liquidity and equity capital is vital to ensuring its business continuity from a long-term perspective. In addition, the Company believes that it needs to continue to invest in growth for the purpose of long-term and sustainable growth, and the Company is going to implement it. However, the dividends from surplus of JPY 188 per share, as requested in this shareholder's proposal, will reach an excessive level beyond the amount of the Company's profit of FY 2022 (dividend payout ratio (consolidated) of approximately 105%), which is not in line with the basic policy of returning profits to our shareholders appropriately and steadily while achieving long-term and sustainable growth. Therefore, the Company believes that such measures are not in the common interest of our shareholders.

For the above reasons, the Board of Directors of the Company opposes this shareholder's proposal.

3. Agenda Item 3: Revisions to the Articles of Incorporation (Establishment of a Strategic Review Committee)

(1) Summary of the Agenda Item

The following new clause will be added to Chapter 4 "Directors and the Board of Directors" of the current Articles of Incorporation and each clause from clause 26 onwards shall be correspondingly moved down by one. The clauses related to this agenda item shall be modified to reflect the formalistic changes required (including but not limited to renumbering of the articles) to account for the other agenda items in the AGM (including agenda items related to Company proposals) that are approved.

Article 26 - the Board of Directors shall establish a strategic review committee **("Strategic Review Committee")** under the Board of Directors to support decision-making by the Board of Directors.

2. The Strategic Review Committee shall be composed of the Company's outside directors.

3. The Strategic Review Committee may receive advice from independent external advisors appointed by the Strategic Review Committee.

4. The Strategic Review Committee shall conduct the following activities in the interests of the Company and independently from the Board of Directors.

(i) Considering the opinions of shareholders regarding the overall business strategy of the Company (including but not limited to reevaluating the strategic relationship with Sumitomo Forestry, determining investment strategies and investment decision-making processes and acquiring new customers and improving customer returns), financial strategy (including but not limited to capital deployment policies and strategies related to shareholder composition) and corporate governance (collectively **"Company Strategies"**)

(ii) Formulation of Company Strategies, as well as evaluation of the Board of Directors' proposals concerning the Company Strategies, based on relevant collected information

(iii) Recommendations to the Board of Directors regarding the Company Strategies based on the results of the Strategy Review Committee's review

(iv) Explanations to shareholders and other stakeholders regarding the Board of Directors' resolutions that the Strategic Review Committee has recommended

5. Other matters concerning the Strategic Review Committee shall be governed by the Articles of Incorporation and the Rules of the Strategic Review Committee established by the Strategic Review Committee itself.

(2) Reasons for the Proposal

The Company's current management team has implemented extremely inappropriate governance and financial strategies and has failed to achieve the management target announced along with the third-party allotment. The Company's financial metrics, including its PBR, ROE, ROA and Operating Margin deteriorated following the capital alliance.

The Company's current strategic plans are entirely inadequate to promote the medium- to long-term growth of the Company's corporate value and require drastic and urgent review on the management plan. The Company invested into a U.S. Real Estate investment fund, operated by Sumitomo Forestry's subsidiary, without comparing it with other funds. The Company's main investment strategies are fraught with risk and are all of low return.

In light of the above, Oasis proposes the establishment of a Strategic Review Committee. The Strategic Review Committee will propose new strategies and review the appropriateness and transparency of the Board of Directors' decision making from an independent standpoint with the objective of strengthening corporate governance, supporting the investment decision-making process of the Board of Directors, and evaluating capital policy, including shareholder composition.

(3) Opinion of Board of Directors of Company on Shareholder’s Proposal

The Board of Directors of the Company opposes this shareholder’s proposal due to the following reason.

[Reason]

With respect to the Board of Directors of the Company, the Company has appointed four (4) independent Outside Directors with experience in participating in corporate management, thereby achieving at least one-third of the independent Outside Directors ratio, and the Company receives advice on management from their objective standpoints. The Company formulated the Medium-term Management Plan (FY2021-2023) (the "Current Medium-term Plan") upon thorough discussion with the then current Outside Directors of the Company. In addition, with respect to important decisions, the Company holds a forum for discussion where only the Outside Directors discuss the matters based on the explanations from persons in charge, and, taking into consideration such discussion, the Company proposes the relevant matters to the Board of Directors.

Furthermore, the Board of Directors conducts the decision making by incorporating the views and knowledge of outside experts whenever necessary. For example, with respect to the investments in U.S. real estate funds, which is mentioned in the shareholder's proposal, the policy was determined based on the results of verification of the standard level of the return on real estate investment in the relevant U.S. areas by third-party outside experts, and was implemented based upon appropriate decision making in terms of our governance.

At the same time, the Company is enhancing its IR・SR activities to deepen dialog with shareholders and investors, and the Board of Directors conducts initiatives such as receiving appropriate reports on the comments, etc. collected through these activities.

Accordingly, the Company believes that it has already established a system to conduct appropriate decision making in respect of the overall business strategy of the Company while reflecting the perspectives of third parties, such as the Outside Directors, the outside experts, as well as shareholders and investors, into such decision making. The Company takes seriously the reality that the achievement of the financial targets set forth in the Current Medium-term Plan is difficult, and, in order to respond to changes in the external environment, such as the Russian-Ukrainian dispute and the soaring prices of materials and equipment related to such conflicts, and to achieve sustainable enhancement of corporate value, the Company believes that deepening reviews and discussions based on the above-mentioned corporate governance system is of the utmost importance.

In the first place, the Articles of Incorporation are meant to stipulate the fundamental principles of organization and management of company. The "Company Strategies" stated in this shareholder's proposal include specific matters that should belong to the management judgment by the Board of Directors, and, as such, the Board of Directors, which is most equipped with the necessary knowledge, capabilities, and information required for management judgment, should also decide what internal systems and processes should be utilized to consider and make judgment on such matters, with taking into account the circumstances from time to time. Accordingly, the Company believes that the amendment of the Articles of Incorporation to establish the “Strategic Review Committee,” as requested by this shareholder’s proposal, is, by its nature, inappropriate and goes beyond the general scope of the Articles of Incorporation, and such amendment of the Articles of Incorporation may even lead to rigidity in management judgment and process thereof, and undermine the mobility and flexibility of management judgment.

For the above reasons, the Board of Directors of the Company opposes this shareholder’s proposal.