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(Stock Exchange Code 1898)  
June 5, 2020

**To Shareholders with Voting Rights:**

Yoshikazu Taira  
Director, President  
**SEIKITOKYU KOGYO CO., LTD.**  
2-9-3 Shibakoen, Minato-ku, Tokyo, Japan

## Notice of the 71st Annual General Meeting of Shareholders

Dear Shareholders:

We would like to express our appreciation for your continued support and patronage.

Please be notified that SEIKITOKYU KOGYO CO., LTD. (the "Company") will hold the 71st Annual General Meeting of Shareholders for the purposes as described below.

**If you are unable to attend the meeting, you can exercise your voting rights in writing. Please review the attached Reference Documents for the General Meeting of Shareholders, indicate your vote for or against each of the proposals on the enclosed voting rights exercise form and return it to the Company by 6:00 p.m. (JST) on Monday, June 22, 2020.**

1. **Date and Time:** Tuesday, June 23, 2020 at 10:00 a.m. Japan time
2. **Venue:** ZUIUN, 5F, HOTEL MIELPARQUE TOKYO  
2-5-20, Shibakoen, Minato-ku, Tokyo, Japan
3. **Purpose of the Meeting**  
**Matters to be reported:**
  1. The Business Report, Consolidated Financial Statements, and Audit Reports for the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board for the 71st fiscal year (from April 1, 2019 to March 31, 2020)
  2. Non-consolidated Financial Statements for the 71st fiscal year (from April 1, 2019 to March 31, 2020)

**Proposals to be resolved:**

**Company Proposals (Proposals 1 to 3)**

- Proposal 1:** Appropriation of Surplus  
**Proposal 2:** Election of Nine (9) Directors  
**Proposal 3:** Election of One (1) Audit & Supervisory Board Member

**Shareholder Proposals (Proposals 4 and 5)**

- Proposal 4:** Amendment to the Articles of Incorporation Pertaining to Disclosure of Cost of Capital  
**Proposal 5:** Appropriation of Surplus

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**Proposals 4 and No. 5 have been proposed by two shareholders of the Company and the Board of Directors opposes both of the proposals.** The content of each proposal is as shown in the attached Reference Documents for the General Meeting of Shareholders.

- ◎ When attending the meeting, please submit the enclosed voting rights exercise form to the reception desk.
- ◎ Any updates to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Consolidated Financial Statements and Non-consolidated Financial Statements will be posted on the Company's website.
- ◎ The Business Report, which is included in the documents attached to this Notice, is part of the documents audited by the Audit & Supervisory Board Members, and the Consolidated Financial Statements and Non-consolidated Financial Statements are part of the documents audited by the Accounting Auditor and the Audit & Supervisory Board Members. "System to Ensure the Appropriateness of Operations and Overview of the Operational Status" in the Business Report, "Consolidated Statements of Changes in Shareholders' Equity" and "Notes to the Consolidated Financial Statements," which are part of the Consolidated Financial Statements, and "Non-consolidated Statements of Changes in Shareholders' Equity" and "Notes to the Non-consolidated Financial Statements," which are part of the Non-consolidated Financial Statements, have been posted on the Company's website in accordance with laws and regulations and Article 16 of the Articles of Incorporation of the Company. Please access the website to view these documents.
- ◎ The novel coronavirus infection has been spreading recently. If there are any significant changes to the holding or operation of the General Meeting of Shareholders due to future situations, the Company will make an announcement on its website.

The Company's website: <http://www.seikitokyu.co.jp/>

## Reference Documents for the General Meeting of Shareholders

### Proposals and references

#### Company Proposals (Proposals 1 to 3)

##### Proposal 1: Appropriation of Surplus

The Company proposes the appropriation of surplus as follows.

##### Matters concerning year-end dividends

The Company's basic policy is to provide stable returns to its shareholders continuously, in consideration of the results of operations for the current fiscal year, financial condition, future business environment and other factors, while working to strengthen the business foundation for sustainable growth and maintain and enhance its earning power. In addition, in the current Medium-term Management Plan (FY2018 - FY2020), the Company sets out its stance on its shareholder return policy, stating that it makes stable and continuous shareholder returns with a target total return ratio of 30%.

As a result of consideration based on the above policies, the year-end dividend for the current fiscal year shall be as follows.

##### (1) Type of dividend property

Cash

##### (2) Allotment of dividend property to shareholders and its total amount

47 yen per share of common stock of the Company

Total amount of dividends: 1,893,839,996 yen

##### (3) Effective date of dividend from surplus

June 24, 2020

**Proposal 2:** Election of Nine (9) Directors

The terms of office of all eight (8) of the current Directors will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the Company intends to increase the number of Outside Directors by one (1) in order to strengthen its corporate governance, and therefore proposes the election of nine (9) Directors.

The candidates for Director are as follows.

No.	Name	Current positions and responsibilities at the Company	Attendance at the Board of Directors meetings in the current fiscal year
1	Toshiaki Sato [Reappointment] [Male]	Representative Director, Chairman	14/14 (100%)
2	Yoshikazu Taira [Reappointment] [Male]	Representative Director, President President, Executive Officer	14/14 (100%)
3	Tsukasa Furukawa [Reappointment] [Male]	Representative Director Senior Managing Executive Officer; General Manager, Business Promotion Division	14/14 (100%)
4	Kimio Hiramoto [Reappointment] [Male]	Director Managing Executive Officer; General Manager, Technology Division; General Manager, Technology Department	14/14 (100%)
5	Kazushi Ishida [Reappointment] [Male]	Director Managing Executive Officer, General Manager, Business Administration Division; General Manager, Corporate Planning Department	11/11 (100%)
6	Tsuneo Iizuka [Reappointment] [Male]	Director	11/14 (79%)
7	Shinya Fukuda [Reappointment] [Outside] [Independent] [Male]	Director	14/14 (100%)
8	Masato Tamura [Reappointment] [Outside] [Independent] [Male]	Director	14/14 (100%)
9	Rena Shimizu [New appointment] [Outside] [Independent] [Female]	-	-

No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent positions
1	<p style="text-align: center;">Toshiaki Sato (May 13, 1950)</p> <p style="text-align: center;">[Reappointment] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 16 years</p> <p>Attendance at the Board of Directors meetings: 14/14 (100%)</p> <p>Number of shares of the Company held: 41,310 shares</p>	<p>April 1974      Joined Tokyu Road KK</p> <p>April 1998      General Manager, Accounting Department, the Company</p> <p>June 2004      Director, the Company</p> <p>June 2009      Executive Officer, the Company</p> <p>April 2010      Managing Executive Officer, the Company</p> <p>April 2012      Director, President, the Company</p> <p>April 2012      President, Executive Officer, the Company</p> <p>April 2019      Director, Chairman, the Company (current)</p> <p>[Reasons for nomination as a candidate for Director]</p> <p>Since joining the Company, he had been engaged mainly in the administrative departments, after which he served as the Company's Representative Director, President for seven years, accumulating a wealth of experience in and broad insight into management as a whole. He is currently engaged in the management of the Company as Director, Chairman. The Company renominates him as Director as it believes that he can continue to take charge of management of the Company towards enhancing the corporate value, utilizing the above experience and knowledge.</p>
2	<p style="text-align: center;">Yoshikazu Taira (November 23, 1961)</p> <p style="text-align: center;">[Reappointment] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 3 years</p> <p>Attendance at the Board of Directors meetings: 14/14 (100%)</p> <p>Number of shares of the Company held: 26,210 shares</p>	<p>April 1984      Joined the Company</p> <p>April 2011      Executive Officer, the Company</p> <p>April 2011      General Manager, Kanto Branch and Tokyo Branch, Business Promotion Division, the Company</p> <p>April 2015      Managing Executive Officer, the Company</p> <p>April 2017      Deputy General Manager, Business Promotion Division; General Manager, Engineering Department, the Company</p> <p>June 2017      Director, the Company</p> <p>April 2019      Director, President, the Company (current)</p> <p>April 2019      President, Executive Officer, the Company (current)</p> <p>[Reasons for nomination as a candidate for Director]</p> <p>Since joining the Company, he had been engaged mainly in the construction departments, accumulating a wealth of experience in and broad insight into operational management of the construction departments. He then oversaw the business departments as a whole and is currently engaged in the management of the Company as Director, President. The Company renominates him as Director as it believes that he can continue to take charge of management of the Company towards enhancing the corporate value, utilizing the above experience and knowledge.</p>

No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent positions	
3	<p>Tsukasa Furukawa (February 7, 1958)</p> <p>[Reappointment] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 8 years</p> <p>Attendance at the Board of Directors meetings: 14/14 (100%)</p> <p>Number of shares of the Company held: 28,327 shares</p>	<p>April 1980 April 2008 April 2011 April 2012</p> <p>June 2012 April 2014 April 2018 April 2019</p>	<p>Joined Tokyu Road KK</p> <p>General Manager, Finance Department, the Company</p> <p>Executive Officer, the Company</p> <p>General Manager, Business Administration Division; General Manager, Corporate Planning Department, the Company</p> <p>Director, the Company (current)</p> <p>Managing Executive Officer, the Company</p> <p>Senior Managing Executive Officer, the Company (current)</p> <p>General Manager, Business Promotion Division, the Company (current)</p>
		<p>[Reasons for nomination as a candidate for Director]</p> <p>Since joining the Company, he had been engaged mainly in the administrative departments, accumulating a wealth of experience in and broad insight into operational management of the Company as a whole. He currently oversees the business departments as a whole as Senior Managing Executive Officer. The Company renominates him as Director as it believes that he can continue to take charge of management of the Company towards enhancing the corporate value, utilizing the above experience and knowledge.</p>	
4	<p>Kimio Hiramoto (April 20, 1955)</p> <p>[Reappointment] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 8 years</p> <p>Attendance at the Board of Directors meetings: 14/14 (100%)</p> <p>Number of shares of the Company held: 27,695 shares</p>	<p>April 1978 October 2009 April 2012 April 2012</p> <p>June 2012 April 2014 April 2018</p>	<p>Joined the Company</p> <p>General Manager, Engineering Department, Business Promotion Division, the Company</p> <p>Executive Officer, the Company</p> <p>Deputy General Manager, Business Promotion Division, the Company</p> <p>Director, the Company (current)</p> <p>Managing Executive Officer, the Company (current)</p> <p>General Manager, Technology Division; General Manager, Technology Department (current)</p>
		<p>[Reasons for nomination as a candidate for Director]</p> <p>Since joining the Company, he had been engaged mainly in the construction departments, accumulating a wealth of experience in and broad insight into operational management of the construction departments. He currently oversees the technology departments as Managing Executive Officer. The Company renominates him as Director as it believes that he can continue to take charge of management of the Company towards enhancing the corporate value, utilizing the above experience and knowledge.</p>	
5	<p>Kazushi Ishida (August 10, 1961)</p> <p>[Reappointment] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 1 year</p> <p>Attendance at the Board of Directors meetings: 11/11 (100%)</p> <p>Number of shares of the Company held: 9,610 shares</p>	<p>April 1985 April 2013 April 2018 April 2019 April 2019</p> <p>June 2019</p>	<p>Joined the Company</p> <p>General Manager, Internal Control Department, the Company</p> <p>Executive Officer, the Company</p> <p>Managing Executive Officer, the Company (current)</p> <p>General Manager, Business Administration Division; General Manager, Corporate Planning Department (current)</p> <p>Director, the Company (current)</p>
		<p>[Reasons for nomination as a candidate for Director]</p> <p>Since joining the Company, he had been engaged mainly in the back office, compliance and internal control departments, accumulating a wealth of experience in and broad insight into management and administration of the Company. He currently oversees the administrative departments as Managing Executive Officer. The Company renominates him as Director as it believes that he can continue to take charge of management of the Company towards enhancing the corporate value, utilizing the above experience and knowledge.</p>	

No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent positions
6	<p style="text-align: center;">Tsuneo Iizuka (August 5, 1948)</p> <p style="text-align: center;">[Reappointment] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 10 years</p> <p>Attendance at the Board of Directors meetings: 11/14 (79%)</p> <p>Number of shares of the Company held: 0 shares</p>	<p>April 1971      Joined TOKYU CONSTRUCTION CO., LTD.</p> <p>June 2004      Managing Executive Officer, TOKYU CONSTRUCTION CO., LTD.</p> <p>June 2006      Director, Managing Executive Officer, TOKYU CONSTRUCTION CO., LTD.</p> <p>June 2009      Director, Senior Managing Executive Officer, TOKYU CONSTRUCTION CO., LTD.</p> <p>April 2010      Director, President, TOKYU CONSTRUCTION CO., LTD.</p> <p>June 2010      Director, the Company (current)</p> <p>June 2018      Director, Chairman, TOKYU CONSTRUCTION CO., LTD. (current)</p> <p>(Significant concurrent positions) Representative Director, Chairman, TOKYU CONSTRUCTION CO., LTD.</p> <p>[Reasons for nomination as a candidate for Director] The Company renominates him as Director as he serves as Representative Director, Chairman of TOKYU CONSTRUCTION CO., LTD., and believes that he can provide valuable guidance and advice regarding management as a whole as well as continue to appropriately oversee the execution of duties of the Company based on a wealth of experience in and broad insight into the construction industry. While there are transitional relationships between TOKYU CONSTRUCTION CO., LTD. and the Company regarding construction contracts, etc., the Company has no special terms and conditions or other business constraints with the said company. Net sales from the said company accounted for 5% of the consolidated total net sales of the Company for the year ended March 31, 2020.</p>
7	<p style="text-align: center;">Shinya Fukuda (February 26, 1944)</p> <p style="text-align: center;">[Reappointment] [Outside] [Independent] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 4 years</p> <p>Attendance at the Board of Directors meetings: 14/14 (100%)</p> <p>Number of shares of the Company held: 0 shares</p>	<p>September 1966      Joined CPA Hiroshi Kawakita Office</p> <p>January 1971      Joined Tohmatsu Awoki &amp; Co. (currently Deloitte Touche Tohmatsu)</p> <p>March 1971      Registered as Certified Public Accountant</p> <p>May 1987      Representative Partner, Tohmatsu Awoki &amp; Co.</p> <p>July 1992      Executive Board Member, The Japanese Institute of Certified Public Accountants</p> <p>July 2007      Member, Securities and Exchange Surveillance Commission, Financial Services Agency</p> <p>December 2013      Established CPA Shinya Fukuda Office (current)</p> <p>June 2016      Director, the Company (current)</p> <p>(Significant concurrent positions) Certified Public Accountant Audit &amp; Supervisory Board Member (Outside Audit &amp; Supervisory Board Member), Kitoku Shinryo Co., Ltd.</p> <p>[Reasons for nomination as a candidate for Outside Director] The Company renominates him as Outside Director as it believes that he can provide valuable guidance and advice regarding management as a whole as well as continue to appropriately oversee the execution of duties of the Company from an independent standpoint based on a technical perspective and a high level of insight backed by his deep knowledge and a wealth of experience in corporate accounting as a certified public accountant. He had been involved in the accounting audit of the Company up to the year ended March 31, 2002 as a Representative Partner of Deloitte Touche Tohmatsu (currently Deloitte Touche Tohmatsu LLC), which had been the accounting auditor of the Company until June 2007, and therefore has insight into the Company's management.</p>

No.	Name (Date of birth)	Career summary, positions, responsibilities and significant concurrent positions
8	<p>Masato Tamura (August 3, 1946)</p> <p>[Reappointment] [Outside] [Independent] [Male]</p> <p>Term of office (as of the conclusion of this General Meeting of Shareholders): 4 years</p> <p>Attendance at the Board of Directors meetings: 14/14 (100%)</p> <p>Number of shares of the Company held: 0 shares</p>	<p>July 1971      Joined Ministry of Construction</p> <p>June 1991      Director, Land Division, Kanto Regional Development Bureau, Ministry of Construction</p> <p>July 1997      Deputy Director General, National Land Agency</p> <p>July 1998      Executive Board Member, Japan Parking Facilities Promotion Organization</p> <p>June 2002      Managing Director, West Japan Construction Surety Co., Ltd.</p> <p>April 2013      Chief Executive, National Housing Industry Association</p> <p>June 2016      Director, the Company (current)</p> <p>(Significant concurrent positions) Director (Outside Director), NISSHIN GROUP HOLDINGS Company, Limited</p> <p>[Reasons for nomination as a candidate for Outside Director] The Company renominates him as Outside Director as it believes that he can provide valuable guidance and advice regarding management as a whole as well as continue to appropriately oversee the execution of duties of the Company from an independent standpoint based on a wealth of experience in and broad insight backed by his experience engaging in a broad range of operations including social capital development in the administrative fields.</p>
9	<p>Rena Shimizu (July 3, 1973)</p> <p>[New appointment] [Outside] [Independent] [Female]</p> <p>Number of shares of the Company held: 0 shares</p>	<p>April 1996      Joined Recruit Cosmos Co., Ltd.</p> <p>January 2002    Joined Manpower Japan Co., Ltd.</p> <p>January 2008    Joined COACH A Co., Ltd.</p> <p>June 2010      Opened Rena Shimizu Office</p> <p>February 2012   Established CHANCE for ONE Co., Ltd.</p> <p>February 2012   Director, President, CHANCE for ONE Co., Ltd. (current)</p> <p>(Significant concurrent positions) Representative Director, President, CHANCE for ONE Co., Ltd.</p> <p>[Reasons for nomination as a candidate for Outside Director] The Company nominates her as Outside Director as it believes that she can provide valuable guidance and advice to enhance the corporate value of the Company, having a high level of insight on promoting diversity, including the active participation of women in the workplace. In addition, the Company believes she will appropriately oversee the execution of duties of the Company from an independent standpoint based on a wealth of experience and broad insight as Representative Director, President of CHANCE for ONE Co., Ltd.</p>

(Notes)

1. The number of shares of the Company held by each of the Director candidates is as of March 31, 2020, and includes each candidate's shareholdings in Seikitokyu Officers' Shareholding Association.
2. Tsuneo Iizuka concurrently serves as Representative Director, Chairman of TOKYU CONSTRUCTION CO., LTD., and there are transitional relationships between TOKYU CONSTRUCTION CO., LTD. and the Company regarding construction contracts, etc. In addition, said company is engaged in a business that belongs to the same business category as the Company.  
There are no special interests between other Director candidates and the Company.
3. Shinya Fukuda, Masato Tamura and Rena Shimizu are Outside Director candidates.
4. While Shinya Fukuda and Masato Tamura were in office as Outside Director of the Company, the Company received a Cease and Desist Order and a Surcharge Payment Order based on the Antimonopoly Act from the Japan Fair Trade Commission pertaining to an act violating the Antimonopoly Act in connection with the determination of the selling price of asphalt mixes, as stated in "1. (4) Act in Violation of the Antimonopoly Act" in the Business Report. Shinya Fukuda and Masato Tamura were both newly elected as Outside Directors after the above violation had ceased to exist, and they have expressed as appropriate the importance of thorough compliance with laws and regulations at the meetings of the Board of Directors and other meetings on a regular basis, and also has confirmed from time to time initiatives aimed at eliminating the acts of violations and preventing recurrence of similar incidents.
5. The Company has entered into a liability limitation contract with Tsuneo Iizuka, Shinya Fukuda and Masato Tamura to limit the liability for damages provided in Article 423, Paragraph 1 of the Companies Act. The limit of liability under the above contract shall be the amount stipulated in laws and regulations. The Company plans to renew this contract when the reelection of each of the candidates is approved. If the election of Rena Shimizu is approved, the Company intends to enter into the same contract with her as above.

6. The Company has designated Shinya Fukuda and Masato Tamura as independent director/auditor based on the rules of Tokyo Stock Exchange, Inc. and notified the Exchange as such. If the election of Rena Shimizu is approved, the Company intends to notify the Exchange that she is also an independent director/auditor.

**Proposal 3:** Election of One (1) Audit & Supervisory Board Member

The term of office of Atsuyoshi Maeno will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the Company proposes the election of one (1) Audit & Supervisory Board Member. The consent of the Audit & Supervisory Board has been obtained in advance for this proposal. The candidate for Audit & Supervisory Board Members is as follows.

Name (Date of birth)	Career summary, positions and significant concurrent positions
<p>Yukio Ono (January 1, 1950)</p> <p>[New appointment] [Outside] [Independent] [Male]</p> <p>Number of shares of the Company held: 0 shares</p>	<p>March 1973      Joined Tohmatsu Awoki &amp; Co.  May 1992      Representative Partner, Deloitte Touche Tohmatsu  July 1995      Executive Board Member, The Japanese Institute of  Certified Public Accountants  November 2010      Chairperson of the Board, Deloitte Touche Tohmatsu  LLC  April 2014      Chair, Accounting Standards Board of Japan, Financial  Accounting Standards Foundation  April 2019      Opened CPA Yukio Ono Office (current)  (Significant concurrent positions)  Certified Public Accountant</p> <p>[Reasons for nomination as a candidate for Outside Audit &amp; Supervisory Board  Member]  The Company nominates him as Outside Audit &amp; Supervisory Board  Member as it believes that he can appropriately perform his duties as an  Outside Audit &amp; Supervisory Board Member based on a technical  perspective and a high level of insight backed by his advanced knowledge  and a wealth of experience in finance and accounting as a certified public  accountant.</p>

(Notes)

1. There is no special interest between the Audit & Supervisory Board Member candidate and the Company.
2. Yukio Ono is an Outside Audit & Supervisory Board Member candidate.
3. If the election of Yukio Ono is approved, the Company intends to enter into a liability limitation contract with him to limit the liability for damages provided in Article 423, Paragraph 1 of the Companies Act. The limit of liability under the above contract shall be the amount stipulated in laws and regulations.
4. If the election of Yukio Ono is approved, the Company intends to designate him as an independent director/auditor based on the rules of Tokyo Stock Exchange, Inc. and notify the Exchange as such.

## Shareholder Proposals (Proposals 4 and 5)

Proposals 4 and 5 are based on proposals from two shareholders (hereinafter referred to as “Proposing Shareholders”).

### **Proposal 4:** Amendment to the Articles of Incorporation Pertaining to Disclosure of Cost of Capital

#### 1. Details of proposal

The following chapter and article shall be added to the current Articles of Incorporation.

Chapter 7 Cost of Capital

Article 42 In the report on corporate governance (hereinafter referred to as “the CG report”) submitted by the Company to the financial instruments exchange, the Company shall within one month of the date of submission of the CG report disclose the ascertained weighted average cost of capital together with the basis for its calculation.

#### 2. Reason for proposal

The Company’s share price has fallen below the liquidation value. This is due to uncertainty over business performance and a possible decline in future return on equity (hereinafter referred to as “ROE”) due to the Company’s capital policy, under which the Company continues to maintain a low payout ratio, and to further increase equity. The low share price is also attributable to the fact that investors are aware of the risks associated with holding shares in the Company as a result of it repeatedly receiving Cease and Desist Orders and Surcharge Payment Orders from the Japan Fair Trade Commission in relation to violation of the Antimonopoly Act, and that this kind of awareness has resulted in the level of return (cost of capital) required by investors rising to a level that exceeds ROE.

As stated in Japan’s “Corporate Governance Code” (hereinafter referred to as the “Code”) attached in the Securities Listing Regulations and Related Rules of the Tokyo Stock Exchange, “when establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company’s cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human resources, and specific measures that will be taken in order to achieve their plans and targets.” As such, management should seek to accurately ascertain its company’s cost of capital (Code: “Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans). This means that the Company’s management is also required to formulate and verify business plans and capital policies, etc., after accurately ascertaining the weighted average cost of capital (WACC) based on the Company’s cost of capital. The disclosure of the weighted average cost of capital also allows for a dialogue between the Company’s management and investors, including shareholders, based on common metrics. The Company believes that disclosing the cost of capital in this way can improve the low valuation of its common shares in the stock market.

However, regarding last year’s shareholder proposal relating to the disclosure of the cost of capital, the Board of Directors of the Company said that while “the Company ... believes it is important ... to provide economic value in a stable manner that exceeds the cost of capital over the medium to long term,” it “recognizes that it is more important for management to be aware of the cost of capital and to reflect the concept in management than to disclose the numerical value of the cost of capital itself.” The Board opposed the proposal, arguing that “the disclosure of the cost of capital should not be uniformly stipulated in the Articles of Incorporation, but instead be decided after careful consideration by the Board of Directors.” Since then, the Company has not taken any action regarding the disclosure of the cost of capital. We are having a very hard time understanding why the Company does not disclose numerical values, which are management targets that the Company considers important to management. If the Company is aware that the numerical values are important as management targets, it should disclose them.

(Company Note) The above is a description of the details of the proposal and the reason for the proposal in the shareholder proposal submitted by a Proposing Shareholder.

## **Opinion of the Board of Directors**

### **The Board of Directors of the Company opposes this proposal.**

As the Company's corporate philosophy is "creating infrastructure for living that contributes to the creation of a prosperous community," the Company aims to improve corporate value over the medium to long term by realizing healthy sustainability and continuous growth. In terms of return on capital as well, the Company does not pursue high figures in the short term, but instead believes it is important to strike a good balance between ongoing investment and financial soundness and to provide economic value in a stable manner that exceeds the cost of capital over the medium to long term.

To reflect this concept in management, the Company has striven to ascertain the cost of capital as reference in mainly important investment decisions and the formulation of its Medium-term Management Plan. ROE in the final year of the current "Medium-term Management Plan (FY2018 - FY2020)" has been disclosed and targeted at 11.7% (after amendment on May 9, 2019), which exceeds the Company's projected cost of capital obtained with the help of an external organization when formulating the plan.

While the shareholder proposal seeks, in the CG report, to establish a new chapter and article in the Articles of Incorporation regarding the Company disclosing the ascertained weighted average cost of capital together with the basis for its calculation within one month of the date of submission of the report, the Company believes that the contents of this proposal should not necessarily be stipulated in the Articles of Incorporation and, furthermore, that the disclosure of the cost of capital should be decided after careful consideration by the Board of Directors, including the pros and cons, timing and method of disclosure, while also taking into account the content of dialogue with investors and other factors.

Therefore, the Company judges that it is not appropriate to add such article in the Articles of Incorporation.

(Note) The Company has posted on its website regarding its approach to "management taking into consideration costs of capital" (in Japanese). Please refer to the website as well.

**Proposal 5:** Appropriation of Surplus

1. Details of proposal

(1) Type of dividend property

Cash

(2) Allotment of dividend property to shareholders and its total amount

The amount of dividend per share of common stock calculated by deducting the amount of dividend per share of common stock (hereinafter referred to as the “Company-proposed Dividend Amount”) based on the proposal regarding appropriation of surplus proposed by the Board of Directors of the Company, which was approved at the 71st Annual General Meeting of Shareholders (hereinafter referred to as the “Company Proposal Regarding Profit Appropriation”), from 143 yen, shall be distributed together with the Company-proposed Dividend Amount.

If the amount of earnings per share of the 71st term rounded down to the decimal point (hereinafter referred to as “Actual EPS”) differs from 143 yen, the 143 yen in the preceding paragraph shall be deemed Actual EPS.

The total amount of dividends shall be the above-mentioned dividend per common share multiplied by the number of shares subject to dividends as of the record date of the voting rights for the 71st Annual General Meeting of Shareholders of the Company.

(3) Effective date of dividend from surplus

The day after the 71st Annual General Meeting of Shareholders of the Company

This proposal is independent of and compatible with the Company Proposal Regarding Profit Appropriation, if such proposal is proposed at the 71st Annual General Meeting of Shareholders.

2. Reason for proposal

The 143 yen stated in “2. Details of Proposal, 2. Appropriation of Surplus” is the amount of the Company’s latest earnings per share forecast as of April 16, 2020. This proposal proposes to pay out all of the profit regardless of the Company’s proposed dividends per share by the Company, that is, a proposal for a payout ratio of 100%.

As of March 31, 2019, the Company’s equity ratio was 44.5%. As of March 31, 2016, the Company’s equity ratio rose to 36.9%, rising above the 32.3% as of March 31, 1992 for the first time in 24 years, and to an even higher level as of March 31, 2019. Furthermore, in the Medium-term Management Plan announced in May 2018, the Company set a numerical target of increasing equity by more than 40% over the three years from the end of March 2017. As it is, ROE will continue to decline in the future as equity further accumulates due to the low payout ratio.

If the Company increases equity further, ROE will only decrease. Returning surplus funds to shareholders will raise shareholder value and, consequently, lead to an increase in the share price, so dividends from surplus should be greatly increased.

As of December 31, 2019, the Company had cash and deposits of about 17.4 billion yen and interest-bearing debt of no more than 0.8 billion yen. The amount obtained by deducting interest-bearing debt from cash and deposits (hereinafter referred to as “net cash”) was about 16.6 billion yen, and considering that net cash at the end of March 2016 was approximately 6.0 billion yen, net cash increased significantly. Accordingly, even if the proposed appropriation of surplus is implemented, the total amount of dividends would be within the scope of profit, and therefore the Company’s levels of net cash and equity would not change significantly, and the Company’s financial condition would remain healthy.

For a detailed explanation of the above proposal, please refer to <https://proposal-for-seikitokyu-from-sc-2020.com/english> or the specially prepared site links in the upper right corner of the Strategic Capital, Inc. website <https://stracap.jp/english/>.

(Company Note) The above is the description of the details of the proposal and the reason for the proposal in the shareholder proposal submitted by the other Proposing Shareholder. “2. Details of Proposal, 2. Appropriation of Surplus” refers to “Proposal 5: Appropriation of Surplus, 1. Details of proposal.”

## Opinion of the Board of Directors

### **The Board of Directors of the Company opposes this proposal.**

As the Company's corporate philosophy is "creating infrastructure for living that contributes to the creation of a prosperous community," the Company believes that improving corporate value over the medium to long term by realizing healthy sustainability and continuous growth will contribute to the interests of shareholders and other stakeholders.

In the road construction industry, although solid construction demand is expected over the next few years, there are many sources of concern over the medium to long term, including uncertainty about construction investment in the future, supply and demand and pricing trends for materials and equipment, and changes in the social structure due to the declining birthrate and aging population. The Company recognizes that in order to secure stable and continuous profits over the medium to long term it is essential to be adequately prepared for such changes in the environment and to respond to them promptly, flexibly and appropriately. In light of this, the Company has established and announced its way of thinking regarding investment plans, capital policy and shareholder returns in the Medium-term Management Plan (FY2018 - FY2020) as follows.

#### **« Policies for the time being »**

- **In order to achieve sustainable growth in the future, continuous and strategic capital investment and technological development are essential. For the time being, the Company is in a qualitative transition stage for its operating assets aimed at reducing environmental impact and improving productivity, and will continue systematic capital investment of approximately 2 to 3 billion yen annually.**
- **At the same time, considering the uncertain business environment from 2020 onwards, the Company recognizes that enhancing capital is also an important issue.**
- **Therefore, for the time being, the Company will strive to create competitive operating assets and maintain and improve financial soundness while maintaining stable shareholder returns with a target total return ratio of around 30% with the balance with capital efficiency in mind.**
- **In light of the implementation status of the currently scheduled capital investment plan and the level of capital, the Company will continuously consider enhancing shareholder returns.**

The Company's main businesses are the construction business, mainly road pavement work, and the production and sale of paving materials. However, in order for the Company to continue its business over the medium to long term and secure stable profits, it is essential to have planned and continuous investment in manufacturing equipment, construction machinery, technology development and human resource development, including asphalt mix mills.

While in the consolidated balance sheet as of March 31, 2020, the amount obtained by deducting interest-bearing debt from cash and deposits was 13,396 million yen, the Company believes that it should maintain about two months-worth of sales of healthy liquidity on hand while prioritizing business investment.

In the past, there was a period in which business performance was severely sluggish due to the rapid contraction of the construction market and other factors. Even in the future, there are concerns about such changes in the business environment, and it is necessary to anticipate various risks such as natural disasters. In particular, as a company that plays a part in the development of social infrastructure, the Company is expected to mount prompt responses to recovery activities in the event of a natural disaster, and therefore considers ensuring financial soundness that takes these risks into account to be an extremely important issue from the perspective of the Company's *raison d'être* and social credibility as well.

As such, the Company is aware that continuous investment and ensuring financial soundness are indispensable for it to secure healthy sustainability and continuous growth and thereby increase corporate value over the medium to long term. Accordingly, the Company's basic policy in its capital policy is to strive to maintain necessary shareholders' equity while taking into account the balance between capital efficiency and shareholder returns.

In addition, with regard to the distribution of profits, the Company has a basic policy of implementing stable and continuous shareholder returns while comprehensively taking into account the business results

for the current fiscal year, financial condition, future business environment, etc., while strengthening the management base for sustainable growth and maintaining and improving profitability. As mentioned above, the Company defined and announced its way of thinking on shareholder returns in the Medium-term Management Plan (FY2018 - FY2020) as “stable and continuous shareholder returns with a target total return ratio of approximately 30%.”

Based on these policies, the Company’s proposal “Proposal 1: Appropriation of Surplus” stated that the year-end dividend for the year ended March 31, 2020 shall be 47 yen per share, with the payout ratio being 30.8% and the consolidated total return ratio 30.5%.

On the other hand, the shareholder proposal proposing the payment of the full amount of profit as dividends for the year ended March 31, 2020 is a short-term perspective that does not take into account future changes in the business environment and the need for ongoing business investment. As a result, the Company believes there is a risk of damaging shareholder interests.

Therefore, from the viewpoint of realizing healthy sustainability and continuous growth and thereby increase corporate value over the medium to long term, the Company judges that it is not appropriate to dispose of surplus as in the shareholder proposal.