



## **Obayashi Sustainability-Linked Finance Framework March 2022**

### **1. Introduction**

#### **(1) Summary of issuer**

Obayashi Corporation, inaugurated in Osaka on January 25, 1892, as civil engineering and construction contractor “Obayashi Store,” is a leading Japanese general contractor which greeted the 130th anniversary of its founding in 2021. It has 15,267 employees on the payroll (on a consolidated basis, excluding temporary workers, as of March 31, 2021). The Obayashi Group comprises Obayashi Corporation, 97 consolidated subsidiaries, and 25 affiliated companies (as of March 31, 2021), operating at home and abroad.

Main businesses include construction (domestic/overseas construction works and domestic/overseas civil engineering works) and real estate as well as projects associated with these businesses.

The Obayashi Group’s consolidated net sales totaled about 1,766.9 billion yen, operating income about 123.2 billion yen, and profit attributable to owners of the parent about 98.8 billion yen in the 2020 fiscal year ended in March 2021.

#### **(2) Initiatives for sustainability**

As “Obayashi Basic Principles,” Obayashi Corporation specifies its vision and mission in society in the “Obayashi Philosophy,” and guidelines for realizing them in the “Obayashi Code of Conduct.”

Under the thought that practicing the Basic Principles is corporate activities themselves, we will strive to resolve social issues based on requests from stakeholders and society while making clear the Obayashi Group’s social responsibilities.

##### **(i) Obayashi Philosophy**

Obayashi Corporation’s vision & mission in society

A leading sustainability company

1. Exercise honest craftsmanship with superior technologies and create new value in every space.
2. Care for the global environment and create solutions to social challenges as a good corporate citizen.
3. Value each person with a stake in our business.

By keeping these promises, Obayashi Corporation contributes to realizing a sustainable society.

**(ii) Obayashi Code of Conduct**

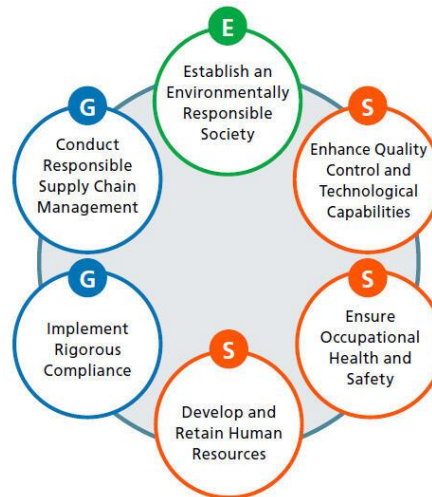
These guidelines help us realize the Obayashi Philosophy and continue being an enterprise trusted by all stakeholders.

1. Fulfill our social mission
  - (1) Provide high-quality buildings, infrastructure and services
  - (2) Foster an environmentally responsible society
  - (3) Value every one of our associates
  - (4) Build stronger mutual trust with suppliers
  - (5) Build good relationships with communities
2. Ensure strict adherence to corporate ethics
  - (1) Comply with laws and regulations, and take a sensible course of action
  - (2) Promote fair and free competition
  - (3) Maintain appropriate relationships with stakeholders
  - (4) Avoid all contact with antisocial forces
  - (5) Ensure appropriate information disclosure and transparency of management

**(iii) Obayashi Group’s ESG Materiality**

In promoting management giving priority to environment, society and governance (ESG), Obayashi Corporation has identified six material issues based on the Obayashi Basic Principles. Toward the achievement of our long-term vision dubbed “Obayashi Sustainability Vision 2050,” we will strive to realize medium- to long-term growth and a sustainable society by incorporating the materialities into business measures under the Medium-Term Business Plan and engaging in business activities linked to the U.N. Sustainable Development Goals (SDGs). We confirm the status of progress in action plans and key performance indicators (KPIs) tied to the materialities, engaging in activities to promote them in the PDCA cycle.

## 6 ESG Materialities



### ESG challenges (materialities)

1. Establish environmentally responsible society
  - Promote environmentally friendly business
  - Promote renewable energy business
  - Promote decarbonization
  - Contribute to realizing recycling-oriented society
2. Enhance quality control and technological capabilities
  - Pursue reliable quality
  - Use technological capabilities to further enhance productivity
  - Maintain good construction management system
3. Ensure occupational health & safety
  - Rigorously apply Occupational Health & Safety Management System
4. Develop & retain human resources
  - Promote work style reform
  - Promote diversity
5. Implement rigorous compliance
  - Promote Corporate Ethics Program
  - Practice rigorous information security management
6. Conduct responsible supply chain management
  - Promote CSR procurement
  - Train & support skilled workers

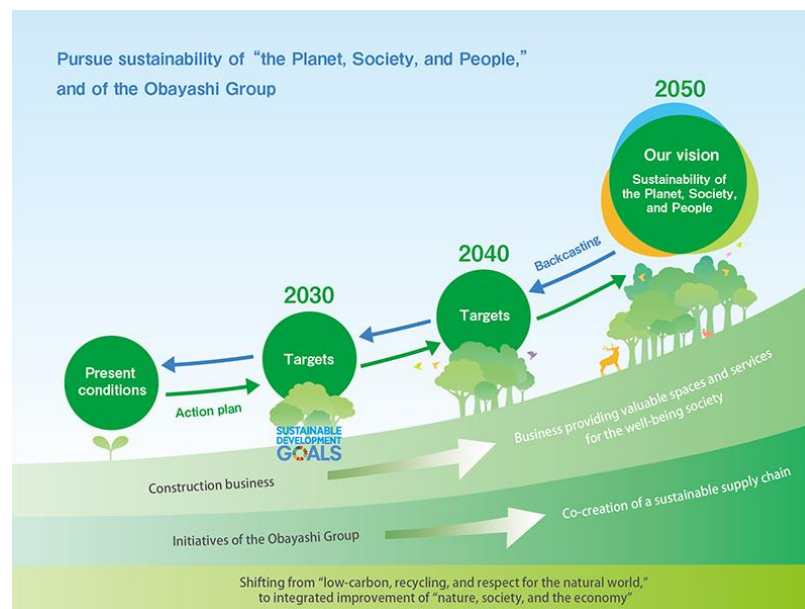
### (iv) Obayashi Group's vision

We established our first medium- to long-term environmental vision, “Obayashi Green Vision 2050,” in 2011 and have since worked to create an environmentally friendly society, including by promoting the renewable energy business. In June 2019, we updated the vision to “Obayashi Sustainability Vision 2050” to develop it further. The

update is intended to reflect changes in various social trends and the business environment surrounding the Obayashi Group. Moreover, the new vision simultaneously pursues sustainability of the planet, society and people, and of the Obayashi Group, incorporating our efforts in ESG management and initiatives that will contribute to achieving the Sustainable Development Goals (SDGs).

In updating the vision, we adopted the “backcasting” technique, setting as a goal the realization of a sustainable society in the future. It defines our Vision for 2050, and sets targets that our Group should pursue between 2040 and 2050 and the direction that our Group will take in developing our business. Toward achieving the targets, we will establish a concrete action plan and KPIs, expanding and deepening our business to provide valuable spaces and services that will make all people happy. The Obayashi Group will not go it alone but, through co-creation with our suppliers in our supply chain, seek to achieve integrated improvement of “nature, society, and the economy.”

## Summary of Obayashi Sustainability Vision 2050 & targets for 2040~2050



### (3) Significance of formulating Sustainability-Linked Finance Framework

The Obayashi Group unveiled on March 11, 2022, the new Medium-Term Business Plan 2022 calling for “strengthening the business foundation and company-wide transformation.” Targeted management indicators regarding the environment and society are as follows.

#### Non-financial Qualitative Indicators

#### Environment

##### (i) Reduction of greenhouse gas emissions

CO<sub>2</sub> emissions reduction (Scope 1, 2)  
 Achievement target: FY2031.3 (vs. FY2020.3) **46.2%** decrease  
 ● Commit to SBT, aiming to achieve carbon neutrality by 2050

##### (ii) Actions toward achieving carbon neutrality

- Acquire technologies that contribute to achieving carbon neutrality in society and promote value-added proposals
- Promote green energy including hydrogen (Various solution and business opportunity: Supporting customer businesses, EPC business, and energy service provider)

##### (iii) Promotion of environmental investment

- Promote investments that contribute to reducing greenhouse gas emissions and achieving carbon neutrality in society

#### Social

##### (i) Ensuring safety and quality

- Eradicate fatal accidents, serious accidents, and serious quality defects

##### (ii) Well-being initiatives

- Make proposals and participate in developing comfortable, secure and disaster-resistant infrastructure, smart cities and buildings
- Develop and create safe and secure working environments through collaborations across the supply chain
- Increase the work engagement and well-being of employees

##### (iii) Promotion of diversity

- Establish an environment in which talents with various background can play an active role
- Promote health and productivity management

The latest round of sustainability-linked bond financing is intended to promote corporate activities toward realizing a sustainable society through fundraising associated with initiatives taken as a practice

of the Obayashi Basic Principles. The Obayashi Group has practiced ESG financing proactively so far. The latest offering represents an initiative contributing to realizing “Obayashi Sustainability Vision 2050” following the Obayashi Green Bond issued in October 2018 and the Obayashi Sustainability Bond in June 2019. In particular, we believe that the bond issue represents our strong commitment through fund procurement to “decarbonization,” one of the three targets listed,

In issuing sustainability-linked bonds/sustainability-linked loans in the future, Obayashi will have in place a framework which will satisfy the Sustainability-Linked Bond Principles (SLBP) 2020 defined by the International Capital Market Association (ICMA) and five core components (selection of KPIs, calibration of SPTs, bond/loan characteristics, reporting, and verification) in the Sustainability-Linked Loan Principles (SLLP) 2021 laid out by the Loan Market Association (LMA).

**2. Sustainability-Linked Finance Framework**

With a view to issuing sustainability-linked bonds/sustainability-linked loans, Obayashi has in place a framework in line with the Sustainability-Linked Bond Principles (SLBP) 2020 defined by the International Capital Market Association (ICMA) and with the following five core components in the Sustainability-Linked Loan Principles (SLLP) 2021 laid out by the Loan Market Association (LMA)

- 1. Selection of key performance indicators (KPIs)
- 2. Calibration of sustainability performance targets (SPTs)
- 3. Bond/loan characteristics
- 4. Reporting
- 5. Verification

**(1) Selection of KPIs**

In our sustainability-linked finance, we use the following two KPIs.

- KPI 1: Obayashi Group’s\*1 CO2\*2 reduction rates under Scope 1&2 scenarios
- KPI 2: Obayashi Group’s\*1 CO2\*2 reduction rates under Scope 3 scenario

In the belief that realization of a carbon-free society will lead to its own sustainability, the Obayashi Group is undertaking the renewable energy business while striving to reduce CO2 gas emitted from business activities and improve the energy efficiency of buildings we provide. We regard the above two KPIs as appropriate indicators to measure progress in our efforts to achieve decarbonization, an important pillar of the Group’s sustainability initiative.

\*1 Including Obayashi Corporation’s consolidated subsidiaries at home and abroad

\*2 Almost all of greenhouse gas (GHG) emissions generated through the Obayashi Group’s business activities are oxygen dioxide (CO2).

## KPI 1: Obayashi Group's Scope 1&2 CO2 reduction rates



### <Definition>

The total amount of greenhouse gas (GHG) emissions generated directly from business activities of the Obayashi Group's consolidated subsidiaries at home and abroad (Scope 1) and those generated indirectly through the use of energy (electricity, heat, etc.) in business activities (Scope 2) is converted into the equivalent of CO2 emissions based on the method specified under the GHG Protocol, then the rate of reduction from the standard year of fiscal 2019 calculated.

### <Results & targets>

		Fiscal year							
		2019 (Standard year)	2020	2025	2026	2027	2028	2029	2030
		Results	Results	Target	Target	Target	Target	Target	Target
Scope1&2	Total CO2 emissions (tons)	378,000	330,000	282,709	266,827	250,945	235,064	219,182	203,300
	Amount of CO2 emissions cut (tons) from fiscal 2019	-	48,000	95,300	111,200	127,100	142,900	158,800	174,700
	Rate of CO2 emissions cut (tons) from fiscal 2019	-	12.7%	25.2%	29.4%	33.6%	37.8%	42.0%	46.2%

\* Science-Based Targets (SBTs) to be certified by the SBT initiative (hereinafter "SBTi") represent targets to be achieved by fiscal 2030, and the figures for fiscal 2020-2029 were linearly interpolated between the standard year of fiscal 2019 and the target year of fiscal 2030.

## KPI 2: Obayashi Group's Scope 3 CO2 reduction rates



### <Definition>

The total amount of greenhouse gas emissions generated indirectly from activities conducted by business partners of the Obayashi Group's consolidated subsidiaries at home and abroad, and from the use of products, etc. (Scope 3\*) is converted into the equivalent of CO2 emissions based on the method specified under the GHG Protocol, then the rate of reduction from the standard year of fiscal 2019 calculated.

\* Our targets are set for the following two categories that account for two-thirds of whole Scope 3 emissions: Category 1 (emissions at the time of material production) and Category 11 (emissions from the use of buildings delivered).

### <Results & targets>

		Fiscal year							
		2019 (Standard year)	2020	2025	2026	2027	2028	2029	2030
		Results	Results	Target	Target	Target	Target	Target	Target
Scope3	Total CO2 emissions (tons)	4,588,000	4,048,000	3,899,800	3,785,100	3,670,400	3,555,700	3,441,000	3,326,300
	Amount of CO2 emissions cut (tons) from fiscal 2019	-	540,000	688,200	802,900	917,600	1,032,300	1,147,000	1,261,700
	Rate of CO2 emissions cut (tons) from fiscal 2019	-	11.80%	15.0%	17.5%	20.0%	22.5%	25.0%	27.5%

\* SBTs to be certified by the SBTi represent targets to be achieved by fiscal 2030, and the figures for fiscal

2020-2029 were linearly interpolated between the standard year of fiscal 2019 and the target year of fiscal 2030.

## **(2) Calibration of sustainability performance targets (SPTs)**

In our sustainability-linked finance, we use the following two sustainability performance targets (SPTs).

- SPT 1: An annual target compatible with the KPI 1 goal of a 46.2% cut (from the standard year of fiscal 2019) in Scope 1&2 CO2 emissions for fiscal 2030
- SPT 2: An annual target compatible with the KPI 2 goal of a 27.5% cut (from the standard year of fiscal 2019) in Scope 3 CO2 emissions for fiscal 2030

For the SPT data, figures in <Results and Targets> of the chart under “(1) Selection of KPIs” are used. The figures for fiscal 2020-2029 are calculated, according to the length of sustainability-linked finance, by linearly interpolating them between the standard year of fiscal 2019 and the target year of fiscal 2030.

When the KPI 1 and KPI 2 goals are revised or updated due to the Obayashi Group’s major business portfolio changes, the SPTs will be revised or updated as well.

The KPI 1 and KPI 2 goals both satisfy the standards required under the Paris Agreement. We have applied for their SBTi certification as science-based targets.

We will show the following matters in statutory disclosure documents at each time of financing and disclose them later: the definitions of KPIs and SPTs, the period within which SPTs are to be reported, the SPT judgment date, and the SPT data to be applied

## **(3) Bond/loan characteristics**

Bond/loan characteristics change according to the status of achievement of SPTs. We will show their details in statutory disclosure documents (\*) formulated at each time of financing. Such details include an interest rate increase (step-up)/decrease (step-down) and the execution of donations to those public-interest incorporated associations/foundations, international organizations, and municipality-accredited nonprofit organizations which aim to engage in environmental conservation activities, and local governments, or similar organizations.

\* These documents are assumed to be amended shelf registration statements and their supplements in the case of bonds, and loan agreements (including ancillary contracts) in the case of lending.

### **(i) Interest rate step-up/step-down**

In case of missing/meeting an SPT, the interest rate set for the relevant SPT at the time of financing goes up/down at an annual rate between the time of interest payment after the SPT judgment date and redemption/repayment.

### **(ii) Donations**

In case of failure to achieve SPTs, Obayashi will donate, after the SPT judgment date, an amount equivalent to a percentage of the value of procurement set at the time of financing to those public-interest incorporated associations/foundations, international



organizations, and municipality-accredited nonprofit organizations which aim to engage in environmental conservation activities, local governments, or other similar entities, with the donation to be completed by the redemption/repayment date. In case of failure to achieve SPT 1, the company will donate 7-10ths of an amount equivalent to a percentage of the value of procurement set at the time of financing and, in case of failure to achieve SPT 2, the company will donate 3-10ths of that amount. The period of SPT judgment in case of donation shall be set, after ensuring a sufficient period between the judgment date and redemption/repayment, as until the end of the closest fiscal year to the redemption/repayment date. The recipient(s) of donation will be decided by the end of SPT judgment after institutional authorization required. In case of failure to achieve SPT 1, we expect to select an organization aiming at environmental conservation activities contributing to the promotion of decarbonization in particular.

When we fail to finish calculating and disclosing KPI 1 and KPI 2 data not later than the date of judgment, we will pay interest at a rate on the subsequent date of interest payment when the rate has increased/decreased, or donate an amount set beforehand.

Information on the bond/loan characteristics specified and disclosed at the time of financing include the following.

- ✓ Figures of SPTs
- ✓ The period within which SPTs are to be reported, judgment date, judgment grounds
- ✓ Bond/loan characteristics: Margin of interest rate increase/decrease (per annum) or donation amount (percentage of procurement value and annual amount); in case of donation, the name of its recipient, reasoning for its selection, donation amount, scheduled donation date, etc.
- ✓ Response in case of failure in SPT judgment, other matters

#### **(4) Reporting**

Obayashi Corporation will disclose, during the period of redeeming/repaying sustainability-linked financing, the status of progress in the achievement of KPIs vis-a-vis SPTs on its website every year as a track record of its environmental and social activities.

<Matters to be reported>

- ✓ KPI data as of each fiscal year-end (March 31)
- ✓ Actual results of KPIs compared with the standard year of fiscal 2019
- ✓ Information that may affect the achievement of SPTs (establishment and updates of sustainability strategy, formulation of plans for initiatives and the status of execution, etc.)
- ✓ Disclosure of a report on third-party verification of the status of achievement of KPIs
- ✓ Where a donation is made based on the characteristics of sustainability-linked finance, the name of the eligible recipient, reasoning for its selection, donation amount, and scheduled donation date

## **(5) Verification**

We will receive the following three stages of verification from outside.

(i) Regarding the framework, Obayashi will obtain from an independent third party second-party opinions confirming that it is in compliance with the Sustainability-Linked Bond Principles (SLBP) defined by the ICMA and with the Sustainability-Linked Loan Principles (SLLP) laid out by the LMA. We will disclose the opinions obtained on our website before implementing sustainability-linked finance based on the framework.

When the finance framework is updated, we will acquire a new second-party opinion. As for the financing practice executed already on the basis of the framework, details of the relevant framework are to be applied until the redemption/repayment of that financing.

(ii) Obayashi Corporation will obtain a guarantee report on KPI data from an independent third party and disclose it on its website. Regarding the status of achievement of SPTs among KPIs, we will receive a review report from an independent third party and have that party judge the achievement of the relevant SPTs. We will disclose the report and results of the judgment on the Obayashi Corporation website.

(END)