Mr Ikuo Ohguri
Chairman
Haseko
2-32-1 Shiba
Minato-Ku, 105-8507
Tokyo
Japan

June 7, 2018,

Institutional Investor Recommendations for Adding Shareholder Value

Dear Mr Ohguri

We are presently the holder of 300,000 shares in your company, held by the custodians of the Morphic Global Opportunities Fund, the Morphic Ethical Equities Fund and the Trium Morphic ESG Long-Short Fund. We first started buying these shares in February 2017.

We recognise that these holdings do not add up to a large amount of your total shares on issue. They do however constitute a large weighting of each of our funds, so the performance of your company and your shares is very important to us and our clients.

We write to you in your position as chairman because we believe the matters we raise should be addressed by the board, as the body that should take ultimate responsibility for Haseko's corporate governance and decisions about capital management.

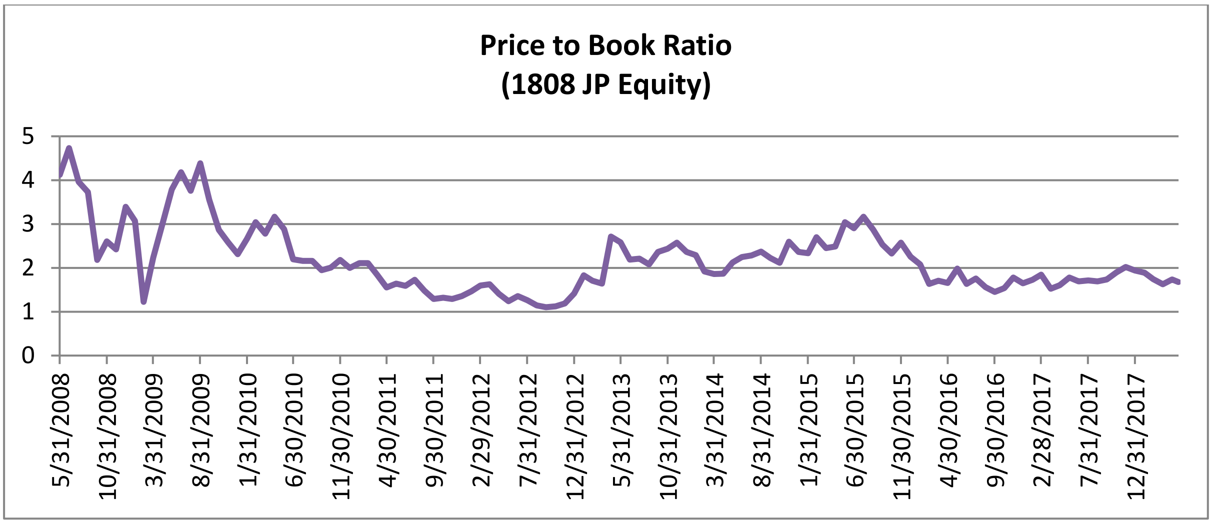
Background

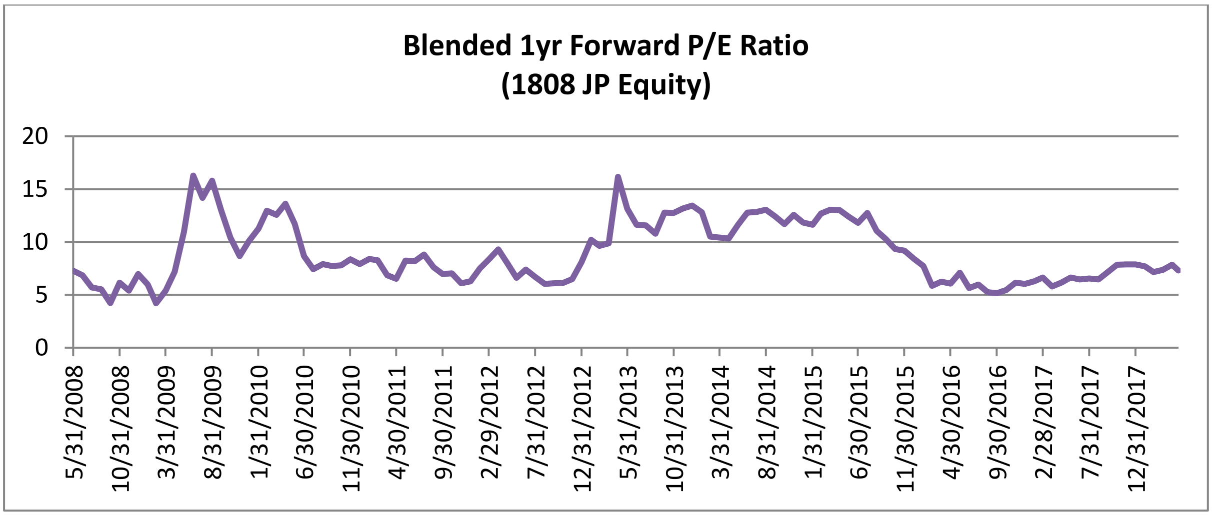
We commend you for the exemplary way you have managed the company's core construction business. Your excellent investor relations team, led by Toshihiro Inoue, has been careful to alert us to the possibility of the rate of growth slowing in the years ahead. However we believe that your reputation for quality will ensure you continue to gain market share even in this environment.

More recently we have also been very pleased to see your decision to sell your Anesis unit to Kansai Electric. We believe this has been a good outcome for two reasons: It allows you to realise a substantial gain on a very low earning asset, and further strengthen your balance sheet. It also will free up management to concentrate even more on your core Japanese construction business.

However despite these good operational and investment decisions, we believe your share price continues to do less well than it should.

Over the last three years, your shares have steadily de-rated in terms of price to book and price to earnings:





(SOURCE Bloomberg)

This has been despite your company consistently beating its own start of year financial guidance and analyst estimates.

We also note that your share price has had only mixed returns compared to the big four major contractors: Shimizu, Obayashi, Taisei and Kajima and now trades on much lower multiples. This is despite the fact that we believe you have a superior business, which operates with lower regulatory and execution risks.

Historical Share Price Returns

	1808 JP	1803 JP	1802 JP	1801 JP	1812 JP
10 Yr	6%	8%	8%	15%	9%
5 Yr	19%	23%	16%	28%	23%
1 Yr	17%	-2%	-7%	31%	9%
YTD	-5%	-6%	-16%	9%	-15%

Annualised, except year-to-date (YTD) (SOURCE Bloomberg, as of 23/05/2018)

We draw your attention to the fact that Taisei (1801), generally regarded as the best managed Japanese large general contractor from corporate governance and capital management perspectives, has consistently outperformed over all periods.

We believe that to understand the reasons for this frustrating share performance, we need to look at issues related to:

a) Your capital and balance sheet management
b) Concerns about your future strategy
c) Board composition

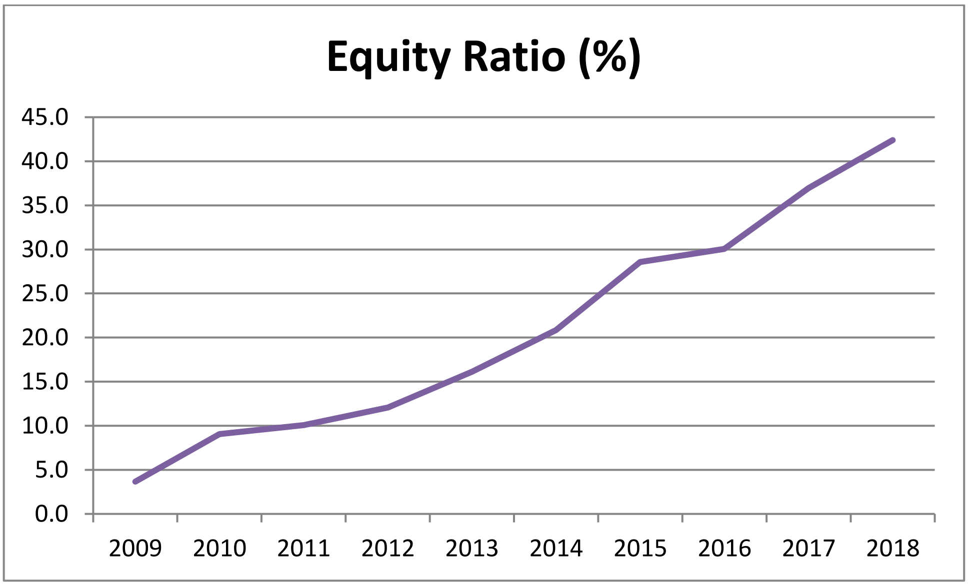
We would now like to expand on each of these subjects. We then conclude with some suggestions as to how you may be able to improve the prestige of your company, and the experience for all shareholders.

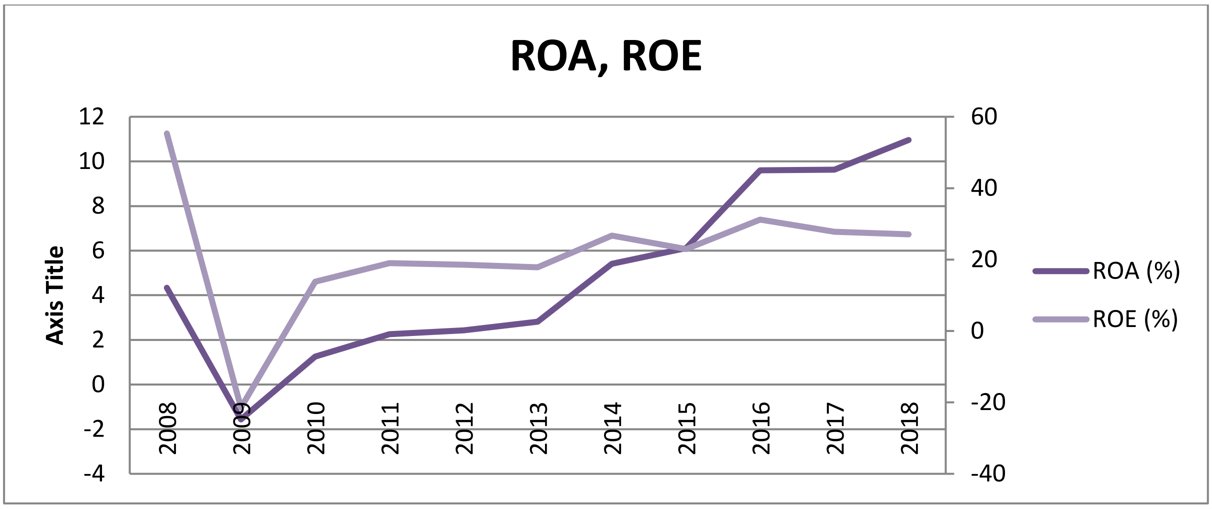
Capital and Balance Sheet Management

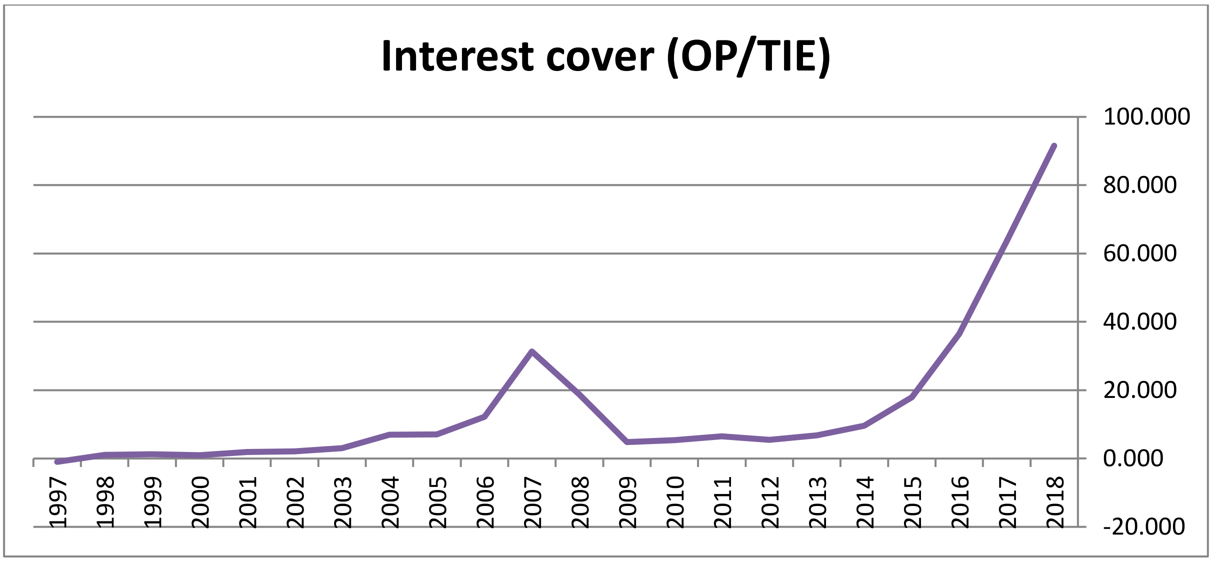
Over the last eight years your steady earnings growth has seen your return on assets (ROA) rise commendably, and this has helped lift your return on equity (ROE) as well. However in the last few years your ROE has stalled. The main reason for this is that your Equity Ratio (ER) has now reached record levels of more than 42%.

We chart below your company's ER as far back as we can identify data for this measure as well as your ROA and ROE.

We also chart your Interest Cover (IC), expressed as Operating Profit (OP) to Total Interest Expense (TIE).







(SOURCE Bloomberg)

Based on our estimates shown in the table below which incorporate your guidance for 2018/19, and analyst estimates for the following two years, we expect your ER to rise to 46.4%, 50.2%, and 52.9% over the course of the next three years. As a result we expect your ROE to continue falling, and your IC to remain at elevated levels.

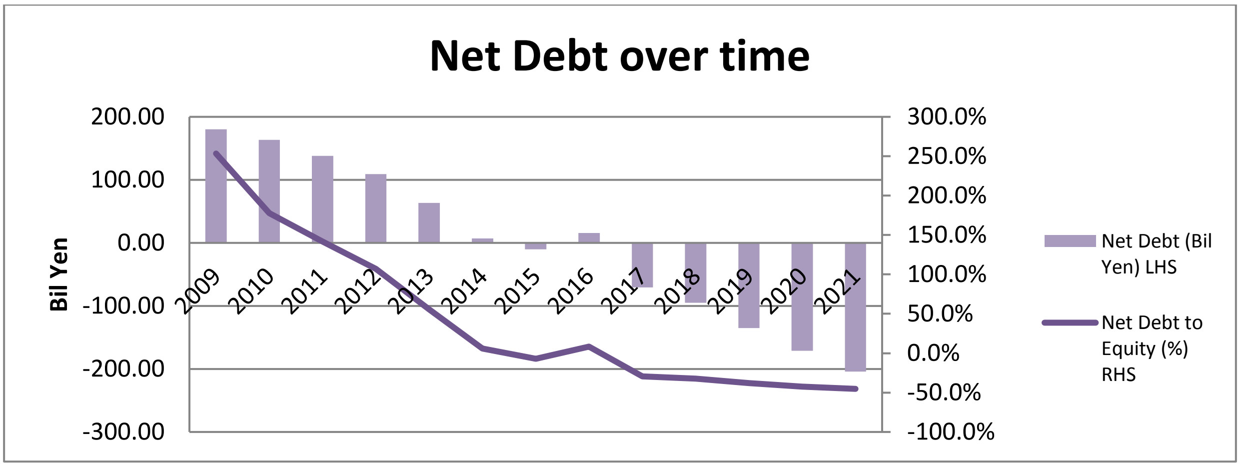
Year	ER	ROE	IC
2019	46.4%	21.1%	94.4x
2020	50.2%	15.8%	90.4x
2021	52.9%	14.2%	90.3x

(Source Company Guidance; analyst estimates; Morphic calculations)

The sources of the decline in your ROE are, in our view, two-fold:

1. The way cash has been allowed to build up on your balance sheet, even while debt has been falling.
2. The fact that an unacceptably large proportion of Haseko's assets and equity is tied up in low or negative returning subsidiaries.

The chart below shows the movement in the company's net debt, and net debt to equity in recent years, and our projections of where it is heading based on management guidance, and analyst estimates for earnings and dividends.



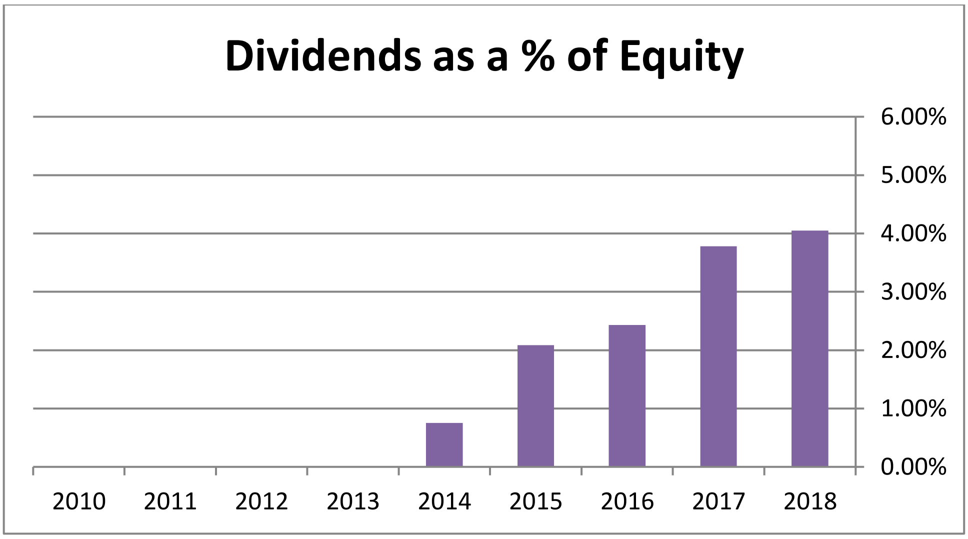
(Source Company Guidance; analyst estimates; Morphic calculations)

A major reason for this is the company's reluctance to buy back shares and its very low dividend pay-out ratio.

We note that Haseko's guided pay-out ratio for 2018/19 of less than 20% is far below the average rate paid by companies included in the TOPIX index of 30%. It is also well below the 30% pay-out ratio guided by Taisei.

Dividend pay outs at Haseko are also very low as a percentage of its equity base.

The chart below tracks the total amount paid out each year by Haseko in dividends as a percentage of the company's year-end Shareholders' Funds.



(SOURCE Bloomberg)

We believe there is no need for Haseko to operate with an equity level above 35% or interest cover above 10x[1], and that steps you could take to manage your balance sheet closer to these levels would appreciably add value for investors, while still leaving the company very well prepared for either:

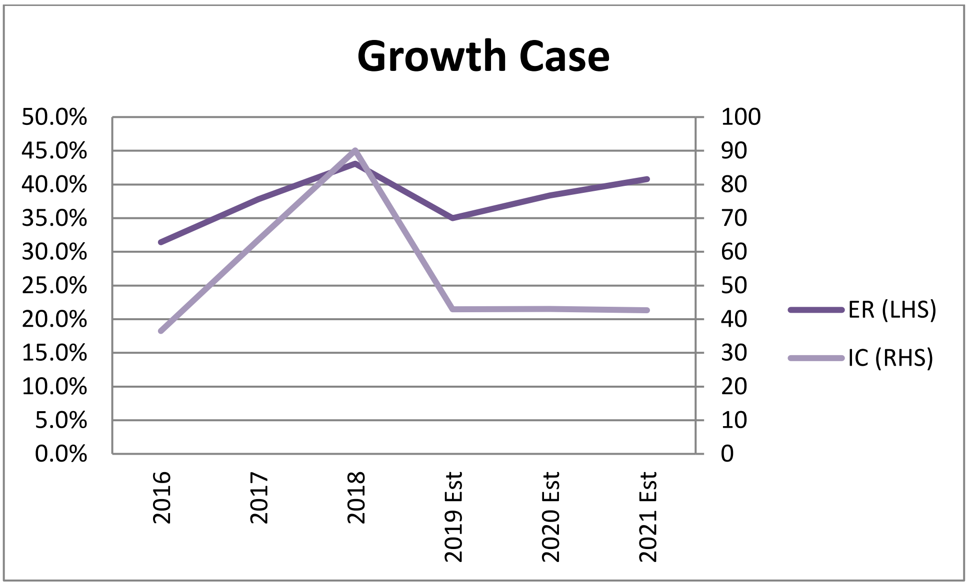
I) organic growth (the growth scenario),
II) cyclical drop off in profits (the cyclical downturn scenario)

We test the growth scenario by assuming you grow your revenues by 10% each year for the next three years. To make this case more conservative we also assume your operating margins fall by 1%.

Against this background we assume you have already reduced your equity ratio to 35% by distributing Y130 billion in cash to shareholders through a share buyback of 78 million shares at an average price of Y1700 per share.

Even on this assumption we calculate your equity ratio will drift back up to an unacceptably high 40% by March 2021, unless you raise your dividend or do further buybacks. Your ROE, having recovered to 34% in March 2019, will then fall back to 21%.

We assume your average interest rate also rises from a little under 1% in 2017/18 to 2% for each of these years. In this case your interest cover (Operating Profit to Interest Expense) would remain at 42x.



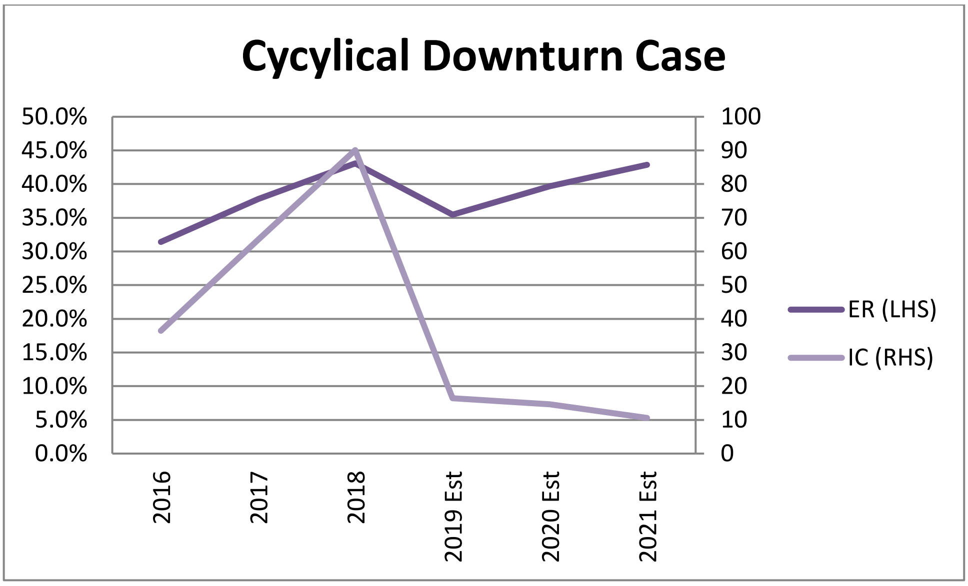
(Source Company Guidance; analyst estimates; Morphic calculations)

We test the cyclical downturn scenario by assuming that you achieve only Y60 billion OP for the current 2018/19 financial year due to a 10% drop off in revenues and 5% point reduction in gross margins; followed by two more years of 10% drops in revenue. We assume your average interest rate also rises from under 1% in 2017/18 to 3% for each of these years.

1 We note that your credit rating with R&I has been at least BBB+ Stable since March 2013, when you attained an interest cover of only 6.8x and an equity ratio of only 24%, suggesting you are very adequately capitalised even at these levels.

We once again assume you have distributed Y130 billion in cash to shareholders through a share buyback of 78 million shares, at an average price of Y1700 per share.

In this case your equity ratio would initially reduce to around 35%, but your interest cover (Operating Profit to Interest Expense) would still be above 10x, higher than it was until March 2015.



(Source Company Guidance; analyst estimates; Morphic calculations)

We believe this illustrates that your balance sheet is now not just unquestionably strong; it is too strong. What we mean by this is that the market attributes no value to the cash you hold on your balance sheet, and accords you very little credit for the reduction in gross debt you have achieved over the last decade.

At the same time the market is impatient at your low dividend pay-out ratio and discouraged by your falling ROE trend.

As we will discuss below, we also think the level of cash on the company's balance sheet makes the market nervous that this cash will be applied to a potentially value destructive acquisition or expansion of one of your current non-core activities.

Concerns about your future strategy

In our interactions with other shareholders in your company, people who have considered investing in your company, or analysts from stock brokers, we regularly hear concerns that you will diversify from your business into an inferior one.

This concern emanates partly from Haseko's own history, commentary from your own IR team, and partly from the known, if regrettable tendency of Japanese company boards to prioritise revenue growth over most other ways to add shareholder value.

We can tell you that there is no investor appetite for you to expand in any of your non-core businesses, especially property management, retirement/nursing homes, or property development in Hawaii.

The current and historical returns from these businesses have been very unsatisfactory, and we cannot detect any evidence that these businesses will hold any better prospects in the future, even if you double their size.

We also note that based on responses we have already had from Inoue-san to questions we had about the differences between your guidance for OP, RP and NP, you are still expecting to have to recognise further impairment on your past investments in aged care facilities.

And of course in 2017/18 you were forced to raise a Y2 billion provision on legacy issues related to your Hawaiian property development assets.

As I am sure you aware, the latest draft of proposed changes to the Japanese Corporate Governance Code will require companies to develop business strategies that consider the cost of capital. In a recent note[2] to its institutional clients, SMBC Nikko observes:

> *"When measuring relative performance by stock group according to the [Return in Invested Capital] ROIC-[Weighted average Cost of Capital] WACC spread, we found that in recent years the performance gap has diverged sharply between stocks with wide spreads and those without."*

From our own perspective we take some comfort from the board's very rational and value adding decision to sell Anesis, rather than attempt to grow it. However we cannot completely dismiss our own concerns about your approach to your residual non-core businesses, and we believe a large amount of the discount in your share price to our fair value estimates above Y2,000 is explained by the markets high anxiety over this.

We would also note that based on Bloomberg's estimate of your WACC, which is 8.4%, Haseko should not consider any diversification or acquisition unless its ROIC is at least two percentage points higher than this, or 10% because of the risks inherent in taking on any new and unknown undertaking.

By contrast, we would encourage you to look at share buy backs as a form of M & A, but a superior one in that you have no due diligence or post purchase integration risks, and you are not required to pay a premium for control.

With specific reference to the Hawaiian assets, we believe divestiture would be welcomed by the market. It would preclude further losses on what has been, as far as we can see a continuous drain on the company's resources and distraction left for you by management from more than two decades ago. We note that your guidance for the year ahead for this division indicates yet another period of losses.

There would be instant benefits if you divested from your low ROE segments, such as Haseko Real Estate Development Holdings (March 2018 ROE of 0.8%, guidance March 2019 ROE 0.3%), Seikatsu Kagaku (March 2018 ROE of -3.4%, guidance March 2019 ROE 3.4%), and Haseko America (March 2018 ROE of -8.5%, guidance March 2019 ROE -2.5%). We estimate that if these segments were sold at the equity value shown in your May 2018 'Summary of Financial Statements' presentation, this would release Y61.7 billion, which could be used to reduce your long term debt and further boost your capacity for share buybacks and increased dividends.

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2 SMBC Nikko "Opening Bell" May 18th, 2018.

Board composition

In our view Haseko could benefit from shifting to a more modern board composition pattern.

We note that the present board[3] is entirely male, completely dominated by past and present executives of the company, somewhat old, and lacks members who have a demonstrable knowledge of modern capital markets or capital management.

We quote again from SMBC Nikko's recent commentary[4] on proposed changes to the Japanese Corporate Governance Code

> *"Another critical point is appointing more female directors as firms with more female directors tend to have high ROE."*

SMBC Nikko's comments are based on academic studies in most developed economies which show that companies with more diverse boards achieve better returns for lower risk, and are more highly valued by the market.

Board diversity goes beyond gender however, it also extends to a better mix of executive and non-executive directors, and having a greater preponderance of the latter who are also independent, meaning in this case, not being ex-employees of Haseko. Furthermore, while we think it is important to have executive and non-executive directors with construction experience on its board, we also think it needs independent, non-executive directors with knowledge of modern capital management.

What can be done to deal with these issues?

We believe that Haseko can improve its corporate image, and its returns to shareholders steadily by taking the following steps:

1) publicly commit to a strategy that will focus on growing earnings per share and maintaining or improving ROE rather than revenue growth
2) state publicly that you will not invest in any new business or make any acquisition that won't be immediately accretive to your tangible book value per share and your earnings per share, or have a ROIC less than two percentage points above your WACC
3) Review all your non-core businesses and divest any that can't achieve a ROIC at least as high as your WACC
4) Amend your board composition such that it demonstrates:
    a. A majority of independent, non-executive directors
    b. Includes at least three women
    c. Includes non-executive directors who have experience of:
        i. Global management consulting
        ii. Investment banking
5) Commit to managing your ER to a minimum of 25% and a maximum of 35%

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3 We do note the proposed addition of Ms Mami Nagasaki to the board at your upcoming AGM, and will be voting for her election

4 SMBC Nikko "Opening Bell" May 18th, 2018.

6) Announce a share buy-back for at least Y38 billion and up to twenty million shares, and buy shares up to a maximum price of Y1,900 a share
7) Refresh your share buy-back target at least quarterly as long as your ER remains above 30%
8) Immediately increase your dividend pay-out ratio to 30% of earnings

We believe that these changes will leave Haseko even better positioned to face up to the challenges and opportunities of the future. To quote again from SMBC Nikko:

> *"We examined whether any changes to those approaches had a direct impact on share price performance. Names that changed their approach to governance delivered solid performance."*[5]

If as we expect, these changes lead to a permanent rerating of Haseko's shares, both in an absolute sense, and relative to other companies in its field, it will also mean that it will be better equipped to make non-dilutive acquisitions through share-swaps as well as cash, and have a board overseeing this that will give the market confidence that these decisions have been taken from a sound basis.

We look forward to hearing your response to these observations and requests. We would appreciate an early indication of your timeline for this feedback, and would hope for a detailed response before June 30th.

Please do not hesitate to contact us if you have any questions. We would be delighted to meet you in Tokyo to discuss these matters and also share with you the modelling we have done in support of the capital management issues we recommend.

Yours sincerely

Jack Lowenstein

Managing Director

5 SMBC Nikko "Opening Bell" May 18th, 2018.