1. Overview of Financial Results

(1) Financial results for the fiscal year ended March 31, 2022

i. Overview of overall financial performance

In the fiscal year ended March 31, 2022, the global economy was on track to recovery, especially in Europe and the United States, despite showing temporary slowdown due to the coming and going of waves of COVID-19. Meanwhile, geopolitical risks such as the situation in Ukraine heightened the sense of future uncertainty.

In the Japanese economy, although there were signs of pick up in exports and production as the government worked to balance infection control measures with support for socioeconomic activities, infectious diseases remained a risk factor for economic recovery.

In the domestic construction market, construction demand saw an upswing due to gradual improvement of corporate investment sentiment and relatively stable public sector investment, but competition for orders remained fierce. As for construction costs, the prices of steel and other materials as well as petroleum products continued to rise.

Under these conditions, the Kajima Group operated its business in Japan and overseas with a focus on the construction and real estate development businesses, under the Kajima Group Medium-Term Business Plan (FY2021-2023).

The Group’s financial results for the fiscal year ended March 31, 2022 were as follows.

Consolidated construction contract awards increased 12.2% year on year to 1,929.8 billion yen (compared with 1,720.1 billion yen in the previous fiscal year) due to an increase in contract awards in overseas subsidiaries and affiliates. Non-consolidated contract awards, including those for real estate development and other projects, declined 4.1% year on year to 1,213.4 billion yen (compared with 1,265.2 billion yen in the previous fiscal year) due to a decrease in contracts in the civil engineering.

Revenues increased 9.0% year on year to 2,079.6 billion yen (compared with 1,907.1 billion in the previous fiscal year) due to higher revenues in the Company’s building construction and overseas subsidiaries and affiliates.

As for profit figures, operating income was down 3.1% year on year to 123.3 billion yen (compared with 127.2 billion yen in the previous fiscal year). This was due to lower gross profit and higher SG&A expenses in non-consolidated figures, although the gross profit of the overseas subsidiaries and affiliates increased. Ordinary income increased 8.9% year on year to 152.1 billion yen (compared with 139.7 billion yen in the previous fiscal year), driven by factors such as an increase in nonoperating income related to the real estate development business. In extraordinary income and losses, while gain on sales of investment securities was recorded due to sales of cross-shareholdings (total proceeds of 14.8 billion yen for 16 listed stocks), loss on impairment of long-lived assets was recorded related to the Yankin Township mixed-use development project in Myanmar. As a result, net income attributable to owners of the parent increased by 5.4% to 103.8 billion yen (compared with 98.5 billion yen in the previous fiscal year).

Consolidated profits exceeded our forecast overall, mainly due to major growth in the real estate development business at overseas subsidiaries and affiliates.

In the Company's construction business (civil engineering and building construction), despite fewer large-scale projects reaching completion and the continuing harsh competitive conditions for contract awards and costs, the Company secured gross profit by taking steps to deal with rising costs, such as pursuing early procurement and raising productivity. In the real estate and other businesses, both the sales and leasing businesses performed steadily, achieving sales contracts of real estate according to plan.

As for the domestic subsidiaries and affiliates, although revenues declined from the previous fiscal year due to the application of new accounting standard as described below, there were no impact on profits and maintained stable performance. With the application of "Accounting Standards for Revenue Recognition" from the beginning of this fiscal year, certain companies changed a method of revenue recognition from recognizing in gross amount to recognizing in net amount regarding sale of construction materials and equipment that fall under agent transactions. Since agent transactions were mainly carried out within the Group, its transition brought no material impact on the consolidated revenues.

Turning to the overseas subsidiaries and affiliates, on the one hand performance improvements in North America and Europe compensated for the decline in performance in Southeast Asia suffering from COVID-19 and impairment loss, and on the other hand it significantly contributed to the consolidated results. We believe this is attributed to our continuing efforts to establish business foundations and implementation of strategic investments. In the real estate development business, which has contributed significantly, we positioned the distribution warehouse business as a growth field and has been promoting actively. Thanks to the booming market condition brought by the growth of e-commerce, 17 projects were sold in North America and 5 in Europe in this year and achieving significant results in business performance. Furthermore, with aiming for continuous contribution to business performance, the Group commenced development of 27 distribution warehouses in North America and 10 in Europe while assessing business profitability and risks.

ii. Overview by segment

Segment performance was as follows. (The performance of each segment includes internal sales or transfers between segments.)

<u>Civil Engineering</u>

Civil engineering in the construction business operated by the Company

Revenues decreased 18.8% year on year to 271.8 billion yen (334.7 billion yen in the previous fiscal year) due to fewer large-scale projects which had made significant progress.

Operating income decreased 34.1% year on year to 19.6 billion yen (29.8 billion yen in the previous fiscal year), mainly due to the decrease in revenue, despite an improvement in gross profit margin.

<u>Building Construction</u>

Building construction in the construction business operated by the Company Revenues increased 17.7% year on year to 920.6 billion yen (compared with 782.2 billion yen in the previous fiscal year) due to steady progress in the construction of large-scale projects already underway.

Operating income decreased 13.4% year on year to 50.1 billion yen (compared with 57.8 billion yen in the previous fiscal year), mainly because the gross profit margin was lower year on year due to fewer large-scale projects completed.

Real Estate and Other Businesses

Real estate development business, architectural, structural and other design business and engineering business operated by the Company

In the previous fiscal year, the Company delivered large-scale projects in the real estate sales business, so both revenues and operating income were high. As a result, revenues declined 27.7% year on year to 52.4 billion yen (compared with 72.5 billion yen in the previous fiscal year) and operating income was down 35.3% year on year to 11.2 billion yen (compared with 17.4 billion yen in the previous fiscal year).

Domestic Subsidiaries and Affiliates

Sales of construction materials, special construction and engineering services, comprehensive leasing business, building rental business and others mainly in Japan operated by domestic subsidiaries and affiliates Revenues decreased 16.4% year on year to 316.1 billion yen (compared with 378.0 billion in the previous fiscal year), mainly due to a decrease in revenues from agent transactions in construction material and equipment sales following the application of the Accounting Standards for Revenue Recognition.

Operating income decreased 4.8% year on year to 16.2 billion yen (compared with 17.1 billion yen in the previous fiscal year) mainly due to lower gross profit in the construction business.

Overseas Subsidiaries and Affiliates

Construction business, real estate development business and others overseas such as in North America, Europe, Asia, and Oceania and other areas operated by overseas subsidiaries and affiliates Revenues increased 27.6% year on year to 623.9 billion yen (compared with 489.1 billion yen in the previous fiscal year) mainly due to an increase in both the construction and real estate development businesses in North America and Europe.

Operating income increased 285.5% year on year to 26.4 billion yen (compared with 6.8 billion yen in the previous fiscal year), as the operating loss in Southeast Asia, where the effects of COVID-19 persisted, was offset by substantial improvement in the gross profit of the real estate development business in North America.

(2) Overview of financial position at the end of fiscal year ended March 31, 2022

Total assets at the end of the fiscal year increased 172.9 billion yen year on year to 2,337.7 billion yen (compared with 2,164.8 billion yen at the end of the previous fiscal year). The increase was accounted for by a 124.4 billion yen increase in notes and accounts receivable – trade and a 17.4 billion yen increase in inventories (real estate for sale, construction projects in progress, development projects in progress, and others), partially offset by a 34.3 billion yen decrease in cash and deposits.

Total liabilities increased 104.1 billion yen year on year to 1,384.1 billion yen (compared with 1,280.0 billion yen at the end of the previous fiscal year). This was due to an increase in notes and accounts payable – trade of 56.3 billion yen and an increase in interest-bearing debt* of 42.8 billion yen. Interest-bearing debt was 359.9 billion yen (compared with 317.0 billion yen at the end of the previous fiscal year).

Total equity, including shareholders' equity of 809.1 billion yen, accumulated other comprehensive income of 136.5 billion yen, and noncontrolling interests of 7.8 billion yen, increased by 68.7 billion yen year on year to 953.5 billion yen (compared with 884.8 billion yen at the end of the previous fiscal year).

In addition, the owners' equity ratio improved to 40.5%, up 0.1 points compared with 40.4% at the end of the previous fiscal year.

* Total amount of short-term loans payable, commercial paper, bonds payable (including current portion of bonds payable) and long-term loans payable.

(3) Overview of cash flows for the fiscal year ended March 31, 2022

Cash flows from operating activities in the fiscal year resulted in a net cash inflow of 30.2 billion yen (compared with 153.0 billion yen in the previous fiscal year). The cash inflow resulted mainly from income before income taxes of 150.3 billion yen after adjustments including depreciation and amortization of 22.6 billion yen, and income of 61.5 billion yen from an increase in payables, which exceeded the main outflows of an increase in receivables of 68.7 billion yen, an increase in inventories (real estate for sale, construction projects in progress, development projects in progress, and others) of 62.8 billion yen, and an outflow of 54.0 billion yen in income taxes – paid, etc.

Cash flows from investing activities resulted in a net cash outflow of 51.1 billion yen (compared with 65.4 billion yen in the previous fiscal year). This was mainly due to payment for the purchases of property and equipment of 49.4 billion yen, for disbursements for loans of 22.0 billion yen, and payment for the purchase of investment securities of 12.7 billion yen, partially offset by inflows of proceeds from collection of loans of 22.5 billion yen and proceeds from sales and redemption of investment securities of 21.5 billion yen.

Cash flows from financing activities resulted in a net cash outflow of 20.9 billion yen (compared with 39.1 billion in the previous fiscal year). This was mainly due to cash outflows from cash dividends paid of 28.1 billion yen and payment for purchases of treasury stock of 20.0 billion yen, offset by net cash inflows from bond financing and repayment balance of short-term loans payable, long-term loans payable, and commercial paper of 30.4 billion yen.

As a result, the balance of cash and cash equivalents at the end of the fiscal year decreased by 33.2 billion yen year on year to 267.7 billion yen (300.9 billion yen at the end of the previous fiscal year).

(4) Future outlook

In the global economy, although it is difficult to predict when the effects of COVID-19 will resolve, we expect to see economic revitalization as various restrictions caused by COVID-19 preventative measures are eased and expansion of investments to solve sustainability issues such as society's transition to a carbon-free footprint. However, amid growing geopolitical risks such as the situation in Ukraine, we recognize that we must carefully watch the impact of rising resource prices and fluctuations in financial markets on the global economy.

In the construction market, trends of continuous recovery for construction investment in Japan and overseas are expected, and notably, demands related to digitalization and renewable energy tend to increase. Meanwhile, there are concerns that the price of materials and equipment will rise further, and procurement measures are needed. Moreover, in Japan, from the aspect of securing a next-generation workforce, it has become further necessary to improve employment condition for construction personnel including partner companies, and to promote work-style reform and productivity improvement.

In the fiscal year ending March 31, 2023, we will make every endeavor to develop businesses with thorough implementation of risk management while carefully assessing the state of the pandemic and the situation in Ukraine. In terms of financial outlook, although we expect revenues to increase in Japan and overseas, we anticipate risk factors such as rising material and equipment prices to impact profits since future economic trends are uncertain. Regarding the overseas business, we expect that the sale of warehouses in the distribution warehouse development business, especially in North America, will continue to contribute to performance, and that performance in Southeast Asia will gradually recover, but still taking time, as the impact of COVID-19 diminishes.

Taking these domestic and overseas situations into account, the forecast for the fiscal year ending March 31, 2023 is for revenues to increase 9.2% year on year to 2,270.0 billion yen (compared with 2,079.6 billion yen in the fiscal year ended March 31, 2022), operating income to decrease 12.5% to 108.0 billion yen (123.3 billion yen in the fiscal year ended March 31, 2022), ordinary income to decline 19.8% to 122.0 billion yen (152.1 billion yen in the fiscal year ended March 31, 2022), and net income attributable to owners of the parent to decrease 18.2% to 85.0 billion yen (103.8 billion yen in the fiscal year ended March 31, 2022).

(5) Basic policy on profit distribution
The Company's basic policy is to strive for a dividend payout ratio of 30%, as well as to flexibly contribute to stockholder returns by acquiring own shares and other means with consideration of business performance, financial condition, and business environment. The Company will utilize internal reserves for investments that achieve sustainable growth and increase corporate value while maintaining financial soundness.

For information on the Group's management policies, etc., please refer to the following URL.
Corporate website: https://www.kajima.co.jp/english/ir/admin/index.html