Qualitative Information on the Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2023

(1) Qualitative Information on the Consolidated Financial Results

i. Overview of overall financial performance

During the third quarter (April 1, 2022 to December 31, 2022) of the fiscal year ending March 31, 2023, as inflation and interest rates continued to rise in many countries and regions, the pace of global economic growth slowed. The Japanese economy experienced a phase of sluggish growth in consumer spending due to the spread of COVID-19, but it has been on a moderate recovery track as the social and economic environment has progressed with the elimination of restrictions on movement. Although the rate of inflation in Europe and the U.S. has begun to decline, we will continue to monitor the situation in Ukraine as well as the impact of price, interest rate and exchange rate fluctuations on the economy.

In the domestic construction market, construction demand was on an upward trend as both manufacturing and non-manufacturing companies showed strong investment sentiment and public investment remained firm. With regard to construction costs, material and equipment prices remained high overall, and labor costs rose in some occupations.

In this environment, the Kajima Group’s financial results for the third quarter of the fiscal year ending March 31, 2023 were as follows.

Consolidated construction contract awards increased both in Japan and overseas, coming to 1,746.1 billion yen (compared with 1,297.0 billion yen in the same period of the previous fiscal year), a 34.6% year-on-year increase. Non-consolidated contract awards, including those for real estate development and other projects, jumped 38.2% year on year to 1,168.9 billion yen (compared with 845.7 billion yen in the same period of the previous fiscal year).

Revenues increased 18.2% year on year to 1,753.1 billion yen (compared with 1,482.5 billion yen in the same period of the previous fiscal year) mainly due to higher revenues by the Company’s building construction and its overseas subsidiaries and affiliates.

Profits at the Company and its domestic and overseas affiliates increased, with operating income up 5.2% year on year to 93.2 billion yen (compared with 88.6 billion yen in the same period of the previous fiscal year), ordinary income up 13.6% year on year to 121.2 billion yen (compared with 106.8 billion yen in the same period of the previous fiscal year), and net income attributable to owners of the parent up 0.8% year on year to 82.0 billion yen (compared with 81.4 billion yen in the same period of the previous fiscal year). Also in the period under review, the Company sold cross-shareholdings (15 stocks, 9.0 billion yen), and recorded a gain on sales of investment securities as extraordinary income.

In the construction business during the third quarter, material and equipment prices increased for a wide range of items. To address this, we took measures to counter rising costs, conduct early procurement, and improve productivity, and we also held discussions with clients about changes in contract prices and design changes. As a result of these efforts, the impact of the higher material and equipment prices fell within the range of the risk factors that we had factored in at the beginning of the fiscal year. Both the civil engineering and building construction businesses made steady progress toward the full-year forecast thanks to construction projects on hand, including contracts awarded in the fiscal year under review, and they remain on track. Although there were no major real estate sales projects in the real estate and other businesses, revenues in the real estate leasing business increased and remained steady.

In domestic subsidiaries and affiliates, an increase in orders in the construction business contributed to revenues and gross profit. In addition, the construction equipment and materials sales business and the building leasing business performed well, maintaining stable performance in both the construction business and the real estate development and other business. Overseas subsidiaries and affiliates continue to face a harsh business environment with the drawn-out situation in Ukraine along with rising inflation and interest rates, and large fluctuations in foreign exchange rates. However, with the distribution warehouse development business and the rental housing development business in the U.S. leading the way, performance exceeded those of the previous third quarter.

ii. Segment Performance

Segment results are as follows. (Segment results include internal sales or transfers between segments.)

<u>Civil Engineering</u>

Civil engineering projects in the construction business operated by the Company

Revenues increased 10.9% year on year to 218.4 billion yen (compared with 196.9 billion yen in the same period of the previous fiscal year) due to progress in on-hand construction projects, especially large-scale projects in the final stage of construction.

Operating income increased 15.0% to 16.0 billion yen (compared with 13.9 billion yen in the same period of the previous fiscal year) due to the significant impact of higher revenues, despite a slight decline in the gross profit margin.

Building Construction

Building construction in the construction business operated by the Company

Revenues increased 17.7% year on year to 767.5 billion yen (compared with 652.0 billion yen in the same period of the previous fiscal year) due to steady progress in large-scale construction projects including those ordered in the current fiscal year.

Operating income decreased 1.4% to 36.0 billion yen (compared with 36.5 billion yen in the same period of the previous fiscal year) due to a decline in the gross profit margin from the same period of the previous fiscal year, which was partly due to rising prices for materials and equipment and an increase in SG&A expenses, despite the impact of higher revenues.

Real Estate Development and Other

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

Both revenues and operating income were up from those of the same period of the previous fiscal year, mainly due to an increase in the real estate leasing business. Revenues increased 5.6% year on year to 31.9 billion yen (compared with 30.2 billion yen in the same period of the previous fiscal year) and operating income increased 8.3% to 5.4 billion yen (compared with 5.0 billion yen in the same period of 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 and gross profit increased in both the construction business and real estate development and other businesses. Revenues rose 11.6% year on year to 254.2 billion yen (compared with 227.8 billion yen in the same period of the previous fiscal year), while operating income increased 1.3% to 11.2 billion yen (compared with 11.1 billion yen in the same period of the previous fiscal year).

Overseas Subsidiaries and Affiliates

Construction business, real estate development business and others overseas such as in North America, Europe, Asia, Oceania, and other areas operated by overseas subsidiaries and affiliates

Revenues jumped 28.9% to 579.0 billion yen (compared with 449.2 billion yen in the same period of the previous fiscal year), with increases in all regions due to exchange rate fluctuations and other factors.
Operating income increased to 11.3% to 24.2 billion yen (compared with 21.7 billion yen in the same period of the previous fiscal year), mainly due to higher gross profit in the real estate development and other businesses in North America.

(2) Qualitative Information on the Consolidated Financial Position

Total assets at the end of the third quarter increased 426.9 billion yen from the end of the previous fiscal year to 2,764.7 billion yen (2,337.7 billion yen at the end of the previous fiscal year). This was mainly due to a 216.1 billion yen increase in notes and accounts receivable - trade, a 155.9 billion yen increase in inventories (real estate for sale, construction projects in progress, development projects in progress, and other inventories), and a 32.3 billion yen increase in property and equipment.

Total liabilities increased 340.9 billion yen from the end of the previous fiscal year to 1,725.1 billion yen (1,384.1 billion yen at the end of the previous fiscal year). This was mainly due to an increase of 249.4 billion yen in the balance of interest-bearing debt*, an increase of 67.0 billion yen in notes and accounts payable - trade, and an increase of 31.2 billion yen in advances received on construction projects in progress. Interest-bearing debt was 609.4 billion yen (359.9 billion yen at the end of the previous fiscal year).

Total equity, including shareholders' equity of 852.0 billion yen, accumulated other comprehensive income of 178.1 billion yen, and noncontrolling interests of 9.4 billion yen, increased by 86.0 billion yen year on year to 1,039.5 billion yen (compared with 953.5 billion yen at the end of the previous fiscal year).

In addition, the owners' equity ratio dropped to 37.3%, down 3.2 points compared with 40.5% 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) Qualitative Information on the forecast of consolidated financial results

In consideration of business trends in the first three quarters of the fiscal year and the future operating environment, the Company has revised the full-year financial results forecast announced on November 10, 2022, when the financial results for the first half of the fiscal year ending March 31, 2023 were released.

The Company expects revenues and gross profit to increase due to steady progress in large-scale construction projects in the construction business, and an improvement in the gross profit margin over that anticipated in the previous forecast. On the other hand, both revenues and income for overseas subsidiaries and affiliates are expected to be lower than that of the previously announced forecast mainly due to a decline in foreign currency translation effects caused by a change in the exchange rate forecast from JPY144.81=USD1.00 when the previous forecast was announced to JPY132.70=USD1.00.

Reflecting these factors, despite an expected 1.2% decline in revenues from the previously announced forecast to 2,400.0 billion yen, the Company is now forecasting operating income to rise 7.1% to 121.0 billion yen, ordinary income to climb 6.4 % to 150.0 billion yen, and net income attributable to owners of the parent to increase 5.0% to 105.0 billion yen.

For details, see "Notice on Revisions to the Financial Results and Dividend Forecasts" released today and " Financial Highlights (Forecast of Operating Results)" on page 10 of Financial Statements (April 1, 2022 – December 31, 2022).