Overview of Financial Results

(1) Financial results for the fiscal year ended March 31, 2023

i. Overview of overall financial performance

In the fiscal year ended March 31, 2023, despite the easing of the various restrictions in many countries and regions that were intended to prevent the spread of COVID-19, and despite the increasing normalization of social and economic activities, the pace of global economic growth slowed and stagnated due to mounting geopolitical risks, including the situation in Ukraine, and rising inflation and interest rates, mainly in Europe and the United States. The Japanese economy continued to show ups and downs in reaction to COVID-19 trends, but the impact of COVID-19 on the economy is receding, and personal consumption, especially for services, is picking up, indicating a moderate recovery is underway.

In the domestic construction market, public investment remained steady, and corporate investment in both manufacturing and non-manufacturing industries steadily advanced, which led to a rise in construction demand. With regard to construction costs, material and equipment prices remained high overall, and labor costs showed an upward trend.

In this environment, 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, 2023 were as follows.

Consolidated construction contract awards increased 13.8% year on year to 2,196.9 billion yen (compared with 1,929.8 billion yen in the previous fiscal year) due to an increase in contract awards in the Company's building construction and the civil engineering businesses. Non-consolidated contract awards, including those for real estate development and other projects, increased 26.6% year on year to 1,535.7 billion yen (compared with 1,213.4 billion yen in the previous fiscal year).

Revenues increased 15.0% year on year to 2,391.5 billion yen (compared with 2,079.6 billion yen in the previous fiscal year) mainly due to higher revenues by the Company's construction business and its overseas subsidiaries and affiliates.

As for profit figures, operating income increased 0.1% year on year to 123.5 billion yen (compared with 123.3 billion yen in the previous fiscal year), as increased gross profit for the non-consolidated construction business, domestic subsidiaries and affiliates, and overseas subsidiaries and affiliates offset higher R&D and SG&A expenses. Ordinary income increased 3.0% to 156.7 billion yen (compared with 152.1 billion yen in the previous fiscal year) due to higher non-operating income, while net income attributable to owners of the parent climbed 7.6% to 111.7 billion yen (compared with 103.8 billion yen in the previous fiscal year) thanks to an improvement in extraordinary income. Also in the period under review, the Company sold cross-shareholdings (17 stocks, 10.0 billion yen), and recorded a gain on sales of investment securities as extraordinary income.

In the non-consolidated construction business during the fiscal year, mainly the building construction business was affected by rising prices of materials and equipment. 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 gross profit margin for the building construction business remained within the range expected at the beginning of the period. The gross profit margin in civil engineering improved and exceeded the forecast due to the conclusion of additional amended contracts, cost reductions, and other factors. In the real estate and other businesses, revenues and gross profit from the real estate leasing business increased compared with the previous fiscal year. In addition, the planned sale of domestic real estate development assets (noncurrent assets) and other assets resulted in a gain on sales of noncurrent assets (4.9 billion yen) that was recorded as an extraordinary gain and contributed to earnings.

In domestic subsidiaries and affiliates, both construction business and real estate development and other businesses outperformed previous fiscal year due to orders for large-scale construction projects, and steady progress in construction. In addition, the construction equipment and materials sales business and the building leasing business performed well.

Overseas subsidiaries and affiliates continued to face a difficult business environment due to the slowdown in economic growth in the U.S. and Europe and broad foreign exchange rate fluctuations. However, as a result of conducting the business with thorough risk management, solid performance was achieved in the U.S., mainly in the real estate business, and in Southeast Asia, performance recovery progressed as the impact of COVID-

19 decreased.

ii. Segment Performance

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

Civil Engineering

Civil engineering projects in the construction business operated by the Company

Revenues increased 11.0% year on year to 301.6 billion yen (compared with 271.8 billion yen in the previous fiscal year) due to steady progress in the construction of large-scale projects.

Operating income jumped 48.9% to 29.3 billion yen (compared with 19.6 billion in the previous fiscal year) due to higher gross profit margin in addition to increased revenues.

Building Construction

Building construction in the construction business operated by the Company

Revenues increased 18.0% year on year to 1,086.2 billion yen (compared with 920.6 billion yen in the previous fiscal year) due to steady progress in large-scale construction projects including those ordered in the period under review.

Operating income decreased 6.8% to 46.6 billion yen (compared with 50.1 billion yen in the previous fiscal year) due to a decline in the gross profit margin from the previous fiscal year, which was partly due to rising prices for materials and equipment, 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

Despite the strong real estate leasing business, revenues declined 14.2% year on year to 44.9 billion yen (compared with 52.4 billion yen in the previous fiscal year) and operating income decreased 36.3% to 7.1 billion yen (compared with 11.2 billion yen in the previous fiscal year) mainly due to fewer real estate sales projects in the period under review. In addition, the systematic sales of domestic real estate development assets (noncurrent assets) and other assets resulted in the recording of a gain on sales of noncurrent assets of 4.9 billion yen as extraordinary income.

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 11.5% year on year to 352.6 billion yen (compared with 316.1 billion yen in the previous fiscal year), while operating income increased 6.9% to 17.4 billion yen (compared with 16.2 billion yen in 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 increased 18.5% to 739.2 billion yen (compared with 623.9 billion yen in the previous fiscal year), with increases in all regions due to exchange rate fluctuations and other factors.

Operating income decreased 14.1% year on year to 22.7 billion yen (compared with 26.4 billion yen in the previous fiscal year) due to lower operating income than the high level of the previous year in North America and Europe, despite solid performance in both the construction and real estate development and other businesses.

(2) Overview of financial position at the end of fiscal year ended March 31, 2023

Total assets at the end of the fiscal year increased 431.9 billion yen year on year to 2,769.7 billion yen (compared with 2,337.7 billion yen at the end of the previous fiscal year). The increase was accounted for by a 173.0 billion yen increase in notes and accounts receivable – trade and a 158.3 billion yen increase in inventories (real estate for sale, construction projects in progress, development projects in progress, and others) ,and a 50.9 billion yen increase in property and equipment.

Total liabilities increased 324.3 billion yen year on year to 1,708.5 billion yen (compared with 1,384.1 billion yen at the end of the previous fiscal year). This was due to an increase in notes and accounts payable – trade of 101.9 billion yen and an increase in interest-bearing debt* of 177.8 billion yen as well as a 25.7 billion yen increase in advances received on construction projects in progress. Interest-bearing debt was 537.7 billion yen (compared with 359.9 billion yen at the end of the previous fiscal year).

Total equity, including shareholders' equity of 881.4 billion yen, accumulated other comprehensive income of 171.0 billion yen, and noncontrolling interests of 8.7 billion yen, increased by 107.5 billion yen year on year to 1,061.1 billion yen (compared with 953.5 billion yen at the end of the previous fiscal year).

In addition, the owners' equity ratio dropped to 38.0%, down 2.5 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) Overview of cash flows for the fiscal year ended March 31, 2023

Cash flows from operating activities in the fiscal year resulted in a net cash outflow of 29.1 billion yen (compared with a net cash inflow of 30.2 billion yen in the previous fiscal year). This was mainly due to an increase in receivables of 154.6 billion yen, an increase in inventories (real estate for sale, construction projects in progress, development projects in progress, and others) of 140.6 billion yen, and an outflow of 54.3 billion yen in income taxes – paid, etc. These outflows were partially offset by income before income taxes of 167.2 billion yen with adjustments including depreciation and amortization of 24.7 billion yen, an increase in payables of 87.9 billion yen, and an increase of 23.0 billion yen in advances received on construction projects in progress and real estate business.

Cash flows from investing activities resulted in a net cash outflow of 81.7 billion yen (compared with 51.1 billion yen in the previous fiscal year). This was mainly due to purchases of property and equipment of 60.7 billion yen, disbursements for loans of 27.6 billion yen, purchases of investment securities of 22.2 billion yen, and purchases of intangible noncurrent assets of 16.2 billion yen. These outflows were partially offset by inflows including proceeds from sales of investment securities of 26.0 billion yen and proceeds from sales of property and equipment of 11.8 billion yen.

Cash flows from financing activities resulted in a net cash inflow of 111.8 billion yen (compared with 20.9 billion in a net cash outflow in the previous fiscal year). This was mainly due to outflows of cash dividends paid of 29.5 billion yen and acquisition of own shares of 10.0 billion yen, offset by proceeds from short-term loans payable, long-term loans payable, commercial paper, and bonds payable of 157.4 billion yen.

As a result, the balance of cash and cash equivalents at the end of the fiscal year increased by 14.5 billion yen year on year to 282.2 billion yen (267.7 billion yen at the end of the previous fiscal year).

(4) Future outlook

The global economic pace of growth has slowed, and uncertainty about the future remains high due to continued inflation, mainly in Europe and the U.S., and geopolitical risks. At the same time, the company anticipates further growth of investments to address sustainability issues such as achieving a carbon-free world, as well as economic revitalization through the creation of a social environment free of restrictions on people's activities and movement. Therefore, in the years ahead, it is important that we accurately assess changes in economic trends and social demands and needs to promote our business.

In the construction market, strong domestic construction demand is expected to continue for some time to come, and medium- to long-term construction investment related to digitalization and next-generation technologies is increasing both in Japan and overseas. To provide high-quality construction and real estate-related services while coping with rising material and labor costs, there are simultaneous needs to improve employment conditions for construction workers, reform work styles, and promote higher productivity in order to ensure sustainability in the construction industry.

In the fiscal year ending March 31, 2024, the domestic construction business is expected to make steady progress on abundant on-hand construction projects in both the civil engineering and building construction businesses. Profitability is also expected to improve, mainly for projects scheduled for completion, due to efforts to improve productivity and reduce costs, although the impact of rising construction costs will continue to require attention. The gross profit margin of the Company's construction business is forecast to be 16.1% for civil engineering and 9.7% for building construction. The gross profit margin of building construction in particular is expected to improve and exceed that of the current fiscal year. In the domestic real estate development business, revenues and profits are forecast to increase due to the sale of multiple properties. We expect that overseas business will continue to make a performance recovery in Southeast Asia. In the U.S. and Europe, the uncertain business environment is expected to continue, but we plan to steadily secure earnings while rigorously managing risks and taking needed measures.

Reflecting this outlook, results for the fiscal year ending March 31, 2024 are forecast to show on a consolidated basis higher revenues and operating income, and a high net income attributable to owners of the parent exceeding 100 billion yen for the third consecutive year.

(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