

Qualitative Information on Consolidated Financial Results

(1) Qualitative information on consolidated business results

i. Overview of overall financial performance

In the first three quarters of the current fiscal year (April 1, 2021 to December 31, 2021), the global economy showed signs of a general recovery, despite the continued effects of COVID-19. However, infectious disease remains a risk factor, while the spread of infection in certain countries and regions, such as Southeast Asia, limits social and economic activities, so companies must be cautious about the re-spreading and prolonging of infection.

In Japan, as well, after the government lifted the emergency declaration at the end of September 2021, new cases of infection temporarily subsided and there were widespread signs of economic recovery, but as infection has re-spread since the beginning of 2022, there is concern that this will inhibit personal consumption, particularly in service consumption.

In the domestic construction market, since private capital investment is on a recovery trend and public sector investment remains firm. As a result, although construction demand is strong, the competitive environment remains intense. Furthermore, construction costs continue to rise, especially material prices.

In this environment, the Group's consolidated financial results for the first three quarters are as follows.

Construction contract awards rose 14.1% year on year to 1,297.0 billion yen (1,136.9 billion yen in the same period of the previous fiscal year), as awards grew both in Japan and overseas. Non-consolidated contract awards, including those for Real Estate and Other Businesses, increased 8.4% year on year to 845.7 billion yen (780.3 billion yen in the same period of the previous fiscal year).

Revenues increased 6.7% year on year to 1,482.5 billion yen (1,388.9 billion yen in the same period of the previous fiscal year) due to higher revenues for the Company's Building Construction business and Overseas Subsidiaries and Affiliates.

On the profit front, operating income decreased 11.7% year on year to 88.6 billion yen (100.4 billion yen in the same period of the previous fiscal year) and ordinary income declined 4.2% year on year to 106.8 billion yen (111.4 billion yen in the same period of the previous fiscal year) due mainly to lower gross profit in the Construction business (Civil Engineering and Building Construction) of the Company, despite the profits in the Overseas Subsidiaries and Affiliates increased. Meanwhile, net income attributable to owners of the parent increased 6.4% year on year to 81.4 billion yen (76.4 billion yen in the same period of the previous fiscal year) as extraordinary income improved significantly due to a higher gain on the sales of investment securities, mainly cross-shareholdings (listed stocks) (15 stocks, 9.9 billion yen).

In the first three quarters of the current fiscal year, the Company's Construction business saw fewer large-scale projects which came to completion compared to the average year. Also, material prices rose, so fierce competition for orders continued, especially for private building construction projects, but the Company worked to maintain and improve gross profit margins by taking measures against rising construction costs such as early ordering of needed materials and speeding up efforts to raise productivity. As for the Real Estate and Other Businesses, despite fewer real estate sales projects compared to the same period of the previous fiscal year, progress is largely in line with business forecasts, especially for the leasing business. The Company is also working steadily on creating new, quality projects that will help improve financial results for the future under the Medium-Term Business Plan.

As for Domestic Subsidiaries and Affiliates, even though performance at construction subsidiaries and affiliates fell below that of the same period of the previous fiscal year, the performance of subsidiaries and affiliates responsible for building management and leasing businesses improved. And the performance of golf course and hotel management companies affected by COVID-19 also showed a recovery. As a result, overall, stable performance was maintained. Regarding the application of "Accounting Standards for Revenue Recognition" from the current fiscal year, certain subsidiaries and affiliates have changed to a method that recognizes revenue in net amount for the sale of construction materials and equipment that fall under agent transactions. As a result, revenues decreased compared to the same period of the previous fiscal year. However, since this has no impact on profit or loss and such transactions are mainly within the Group, it had no material impact on consolidated financial results.

Regarding Overseas Subsidiaries and Affiliates, although business performance in Southeast Asia was declined by the effects of COVID-19, other regions such as North America and Europe compensated for the decline. Therefore, business performance improved significantly compared to the same period of the previous fiscal year. We believe

this improvement is the result of our continuous efforts to build a business foundation and making strategic investments. In terms of business domains, the contribution of the real estate and other businesses is remarkable. Especially in the distribution warehouse development business, positioning as a growth field and actively developing in North America and Europe, the market continues to boom due to the advancement of e-commerce and other factors. While recording profits from the sales of 12 projects in North America and 2 projects in Europe, the Group has begun new developments (18 projects in North America and 5 projects in Europe) in collaboration with the construction business and seeks to contribute to business performance on a continuous basis.

ii. Overview by segment

Segment performance is as follows. (Segment performance is shown including internal revenues or transfers between segments.)

Civil Engineering

Civil engineering in the construction business operated by the Company

Revenues decreased 22.1% year on year to 196.9 billion yen (252.9 billion yen in the same period of the previous fiscal year) due to fewer large-scale projects that have progressed significantly compared to the first three quarters of the previous fiscal year.

Operating income decreased 46.3% year on year to 13.9 billion yen (26.0 billion yen in the same period of the previous fiscal year) due to a slight decrease in gross profit margin and lower revenues.

Building Construction

Building construction in the construction business operated by the Company

Revenues increased 14.3% year on year to 652.0 billion yen (570.4 billion yen in the same period of the previous fiscal year) due to steady progress in the construction of large-scale projects on hand.

Operating income decreased 24.9% year on year to 36.5 billion yen (48.6 billion yen in the same period of the previous fiscal year), due to a lower gross profit margin compared to the same period of the previous fiscal year, which was high due to increased profits for multiple large-scale completed projects.

Real Estate and Other Businesses

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

In the first three quarters of the previous fiscal year, both revenues and operating income were high due to the delivery of large-scale properties in the real estate sales business. Against the backdrop, revenues in the current fiscal year's first three quarters declined 29.7% year on year to 30.2 billion yen (43.0 billion yen in the same period of the previous fiscal year) and operating income fell 47.8% year on year to 5.0 billion yen (9.6 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 declined 16.5% year on year to 227.8 billion yen (272.8 billion yen in the same period of the previous fiscal year) due to a decrease in revenues from agent transactions in the sale of construction materials and equipment of certain subsidiaries and affiliates due to the application of "Accounting Standards for Revenue Recognition".

Operating income decreased 13.1% year on year to 11.1 billion yen (12.8 billion yen in the same period of 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, Oceania and other areas operated by overseas subsidiaries and affiliates

Despite a decrease in revenues in Southeast Asia, revenues increased 24.8% year on year to 449.2 billion yen (359.8 billion yen in the same period of the previous fiscal year) thanks to an increase in other regions, mainly North America and Europe.

Operating income jumped 357.7% year on year to 21.7 billion yen (4.7 billion yen in the same period of the previous fiscal year) due to a substantial increase in gross profit from the real estate development business in North America.

(2) Qualitative information on consolidated financial position

Total assets at the end of the third quarter increased 94.2 billion yen from 2,164.8 billion at the end of the previous fiscal year to 2,259.0 billion yen. This was due to a surge in notes and accounts receivable - trade of 102.5 billion yen and an increase in property and equipment of 28.5 billion yen, while cash and deposits declined by 56.4 billion yen.

Total liabilities increased 49.3 billion yen from 1,280 billion yen at the end of the previous fiscal year to 1,329.3 billion yen. This was due to an increase in interest-bearing debt* of 42.0 billion yen. Interest-bearing debt was 359.0 billion yen (317.0 billion yen at the end of the previous fiscal year).

Total equity, including shareholders' equity of 797.0 billion yen, accumulated other comprehensive income of 120.6 billion yen, and noncontrolling interests of 12.0 billion yen increased by 44.9 billion yen from 884.8 billion yen at the end of the previous fiscal year to 929.7 billion yen.

In addition, the owners' equity ratio improved 0.2 points from 40.4% at the end of the previous fiscal year to 40.6%.

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

The main impact on the consolidated balance sheet at the beginning of the period following the application of "Accounting Standard for Revenue Recognition" from the beginning of the first quarter is described under Changes in accounting policies" on page 5 of Financial Statements (April 1, 2021 – December 31, 2021).

(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 its full-year financial results forecast announced at the time it also announced its financial results for the first half of the fiscal year ending March 2022 (November 9, 2021).

As a result of carefully examining gross profit, the Company expects a slight increase in the Civil Engineering business and a slight decrease in the Building Construction business compared to the previously announced forecast, but the total remains the same. The figure of Domestic Subsidiaries and Affiliates is expected to exceed the previously announced forecast as a whole, although there are increases or decreases for each company.

For Overseas Subsidiaries and Affiliates, the impact of COVID-19 has been prolonged in Southeast Asia, so the Company anticipates a decline in construction business performance. Regarding development projects, only maintenance measures have been taken at construction site of the Myanmar Yankin Township mixed-used development project since the advent of political change in the country due to the tightening of various regulations such as restrictions to movement aimed at curbing COVID-19. From the standpoint of ensuring the safety of Group employees and other skilled workers and of maintaining the quality of work, it was concluded that the conditions are yet to be met for the full-scale construction to be resumed, thereby casting uncertainty on the timing of the project completion. Therefore, as described under "Subsequent Events" on page 5 of Financial Statements (April 1, 2021 – December 31, 2021), the Company expects to record an impairment loss as an extraordinary loss in the current fiscal year in its consolidated statement of income.

Meanwhile, in North America and Europe, both the construction and the real estate businesses are maintaining solid performance, and the Company expects further performance improvement and the revenues and profits of Overseas Subsidiaries and Affiliates to exceed the previously announced forecast to compensate for declining performance including the impairment loss in Southeast Asia.

In addition to the forecast described above, it is predicted that extraordinary income will increase due to further sales of cross-shareholdings (listed stocks) while personnel and R&D expenses in selling, general and administrative expenses will increase. As a result, revenues are expected to increase 1.5% compared to the previously announced forecast to 2,080.0 billion yen. Also, operating income is expected to rise 7.3% to 117.5 billion yen, ordinary income to jump 20.0% to 144.0 billion yen, and net income attributable to owners of the parent to climb 10.5% to 95.0 billion yen.

(Unit: Millions of yen)

	Revenues	Operating Income	Ordinary Income	Net Income Attributable to Owners of the Parent
Previously announced forecast (A) (Nov. 9, 2021)	2,050,000	109,500	120,000	86,000
Revised forecast (B)	2,080,000	117,500	144,000	95,000
Change (B-A)	30,000	8,000	24,000	9,000
Percentage change (%)	1.5%	7.3%	20.0%	10.5%

For details, see “Financial Highlights (Forecasts of Operating Results)” on page 10 of Financial Statements (April 1, 2021 – December 31, 2021).

Disclaimer: This document is a partial English translation of the Japanese Financial Statements which are filed with Stock Exchanges in Japan on February 10, 2022. The Company provides this translation for your reference and convenience only without any warranty as to its accuracy. In case of any discrepancy between the translation and the Japanese original, the latter shall prevail.