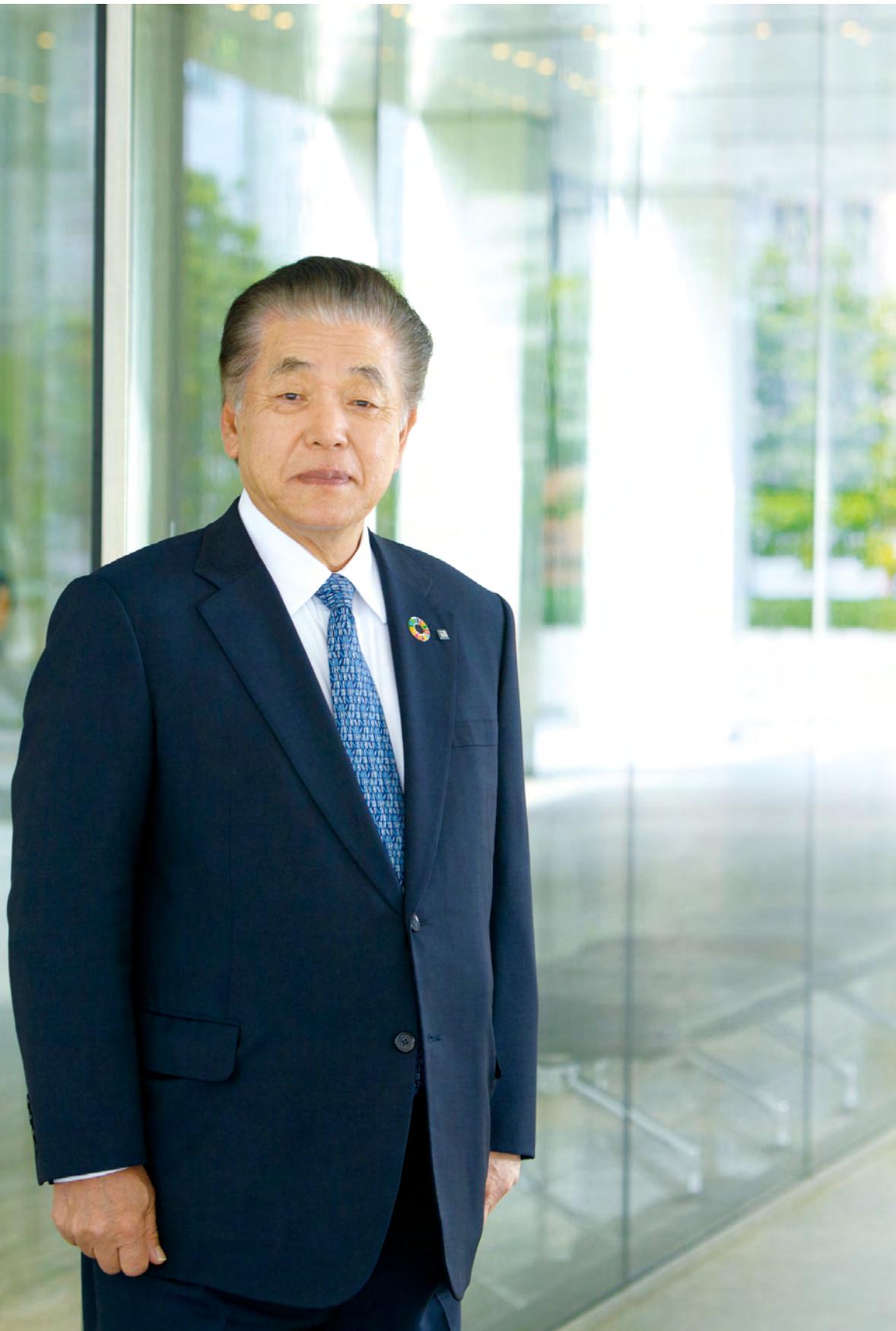


# Message from the President





# We will continue our evolution as a corporate group that generates sustainable growth and earns the trust of society.

**Yoshikazu Oshimi**

President; Representative Director

## Progress under the Medium-Term Business Plan (Fiscal 2018–2020)

### Progress during the First Fiscal Year of the Plan

In fiscal 2018, the first year of our current Medium-Term Business Plan, we focused on improving the competitiveness of the domestic construction business and strengthening the profitability of the entire Group. A positive operating environment complemented our results, and consolidated net income exceeded ¥100 billion for the third consecutive fiscal year. Construction contract awards in Japan exceeded ¥1 trillion for the first time in the 11 years since fiscal 2007, and included contract awards from several large-scale redevelopment projects. Consolidated contract awards exceeded ¥2 trillion.

Our investment in growth, particularly in real estate development, is proceeding steadily according to plan in Japan and overseas, and we are also enhancing initiatives to win outstanding new projects. We have already made several large investments since the beginning of fiscal 2019 and have also made decisions on other new investments. We therefore believe we are on track with our three-year investment plan aimed at building the foundation for future earnings.

Given our performance, we increased stockholder returns by increasing dividends and acquiring treasury stock, and worked to improve capital efficiency.

We are evolving our production processes through technology development. Examples include proactively

deploying the latest advances in ICT and robot technology, mechanizing and automating civil engineering work, and formulating the Kajima Smart Future Vision for construction work. Each of our priority initiatives has produced steady results, making the first year of the Medium-Term Business Plan a year of solid progress.

### Onward to Fiscal 2020

During fiscal 2019, the domestic construction business will move forward with large-scale projects slated for completion prior to the Tokyo Olympic and Paralympic Games. However, sales are likely to plateau in fiscal 2020 because full-scale construction of our next large-scale projects will begin in fiscal 2021 and after.

We will therefore focus on boosting domestic construction demand in fiscal 2019. In civil engineering, we see potential from stable public investment and renewable energy-related investment. In building construction, we anticipate investment in large-scale redevelopment and lodging facilities for international tourism, largely in the Tokyo metropolitan area, and investment in increased functional sophistication and labor saving in manufacturing industries. Sales, design and construction departments will therefore collaborate further energetically to win contract awards.

## Looking Ahead at Changes in the Business Environment

### Further Strengthening Core Businesses and Increasing Group Profitability

The world is changing dramatically, with increasing globalization, rapid progress in ICT, and changes in social values as represented by the sharing economy.

Domestic construction demand is expected to remain strong for the time being because of the many projects planned for fiscal 2021 and after, but is expected to decrease in the long term due to population decline from the low birthrate and aging population. However, the new construction of today will increase the need for maintenance, repair and renewal in the future. Responding to the quantitative and qualitative changes in domestic construction investment with the goal of sustainable growth requires us to begin by strengthening our core domestic construction business. In the previous Medium-Term Business Plan (Fiscal 2015–2017), we focused on structural improvements targeting a financial base capable of generating stable profit. Subsequently, during the current Medium-Term Business Plan (Fiscal 2018–2020) we have been implementing initiatives such as directly employing workers in professions that are in tight supply and conducting M&A, in order to complement and strengthen production functions and develop technologies.

At the same time, we will focus on investments in the growth of businesses other than domestic construction. To meet the demands of the changing times, we are targeting sustainable growth through the provision of high-value-added services and solutions throughout the entire building lifecycle. We will achieve this through collaboration between the construction and real estate development businesses, and domestic/overseas subsidiaries and affiliates, with the backing of building information modeling (BIM) and construction information modeling (CIM) technologies. We are seeing concrete results from enhanced Group collaboration, exemplified by the contract Kajima Tatemono Sogo Kanri Co., Ltd. received to comprehensively manage local government facilities in a public-private partnership, which is a new business field for the Group.

We are targeting stable consolidated net income of ¥100 billion or more over the medium and long term, with half coming from businesses other than domestic construction. Nevertheless, it is imperative that the Kajima Group take on the challenge of increasing earnings over the coming 10 to 20 years. We will provide specific numerical targets when we announce our next medium-term business plan, but in the meantime we will steadily strengthen each of our businesses.



# The Driving Force for Sustainable Growth

## Resolving the Coming Shortage of Workers

The phenomenon of workforce aging is more pronounced in the construction industry, and the coming shortage of workers is an urgent issue. However, conditions such as long working hours, few days off and low wages pose obstacles to hiring new employees.

It is imperative that we lead the industry in resolving this situation. Having achieved significant improvements in productivity, we aim to close construction sites for a total of eight days out of every four weeks with the understanding of relevant stakeholders, and with the support of partner companies, improve employment conditions and nurture multi-skilled workers. This represents tremendous reform for the construction industry, but we must be unflagging in its execution.

We want to make the construction industry more attractive to work in. We are therefore reviewing our ideals for construction sites, and promoting the Kajima Group's work-style reform initiatives to enhance the working environment and raise wage levels for skilled workers. At the same time, we are dramatically improving productivity through the use of ICT and other means.

Specifically, we aim to relieve skilled workers from heavy labor by using the latest technologies such as ICT, artificial intelligence (AI) and robots. In addition, the use of these technologies is an exciting development that will boost the appeal of construction as a profession, which in particular will make employment with subcontractors more attractive to young workers. We need to create facilities for fostering multi-skilled workers who can independently handle multiple tasks and processes, and to expand the opportunities for skilled workers to excel. The Construction Career Up System is now fully operational, and through its proactive use we will resolve issues relating to the implementation of work-style reform, improvement of employment conditions for skilled workers, and productivity enhancement.

## Establishing Next-Generation Construction Systems

Japan's falling population will make it more difficult to hire the same number of workers as we do now. While maintaining our hiring initiatives, we will take steps to address the labor

shortage with technology in order to establish sustainable production sites supported by both people and technology and to strengthen competitiveness.

In building construction, we are assiduously porting construction to the digital world, including the use of BIM to increase construction front-end loading\* and eliminate blueprint defects and problems prior to the start of construction. This will help us win contract awards that are profitable in an intensely competitive environment because it will enable us to make feasible proposals that draw on forecasts through to completion. After receiving a contract award, we will harness digital completion data to generate additional profit through further refinements.

In civil engineering, we will continue to automate construction. This is a key initiative because civil engineering requires much repetitive work, so automated construction will make us more competitive.

However, we cannot automate and robotize all construction and civil engineering work. Construction is a build-to-order industry in which the experience of highly skilled workers is critical to meticulously addressing the requirements of individual projects, so there must be balance and harmony between human endeavor and machine labor. Construction will always involve work that only people can do, no matter how far technology may advance, and our hiring initiatives will be critical in this regard.

We must introduce cutting-edge technology to accelerate technological development. We might be left behind by rapid progress in technology development if we try to do everything ourselves, so we are bolstering open innovation that applies external knowledge. For example, we invest in funds that support startups and have employees stationed in Silicon Valley, while the Kajima Technical Research Institute Singapore conducts extensive collaborative research with overseas universities and other organizations.

We are now creating a system for centrally collecting and aggregating all kinds of on-site construction information. A key theme for the future is how we will use the vast amount of data we collect. The construction industry has much room for evolution in the field of data use, and the possibilities are limitless. Kajima intends to become an industry leader in this field as well.

\* Conducting verification and simulation at the design stage to reduce workload during construction

### Diversifying Revenue Sources and Upgrading Our Business Platform

In the domestic real estate development business we will deliver unique value through our planning and technology capabilities. This entails building on our extensive expertise by addressing new needs and collaborating with overseas departments. The projects we are currently involved in will begin contributing to results largely from fiscal 2021 onward, so while we will actively participate in business opportunities associated with smart cities and other trends, they are primarily positioned as a key factor in achieving our next quantum leap.

Our overseas operations will promote business frameworks rooted in the regions they serve, and also focus on creating and developing new platforms such as urban development in Asia, the distribution warehouse development business in North America and Europe, and the student housing business. Overseas operations related to infrastructure will proceed with long-term initiatives that include investing in operations, targeting the development of businesses that continue to generate profit after the completion of construction work.

At the same time, we are proactively investing in real estate

development, which involves risks including price fluctuations linked to market conditions. We will consider profitability, growth potential and risk diversification when we invest, while keeping capital efficiency and sound finances firmly in mind in optimizing our asset portfolio with a medium-to-long-term perspective.

The Kajima Group's business fields, including those of domestic affiliates, are expanding, and we recognize that new challenges and risks will arise. We need to strengthen Group governance to respond appropriately and enhance Group profitability. We will therefore continuously enhance compliance and risk management systems. Furthermore, we will hire and train diverse people capable of supporting construction sites, who can respond flexibly to changes in the environment and drive a wide range of businesses, who have highly specialized R&D capabilities, and who can apply advanced IT. We will maintain a solid Group business platform from the perspective of human resources and finance, which includes companies we acquire.

Kajima's Board of Directors engages in energetic discussion with outside directors who are insightful and experienced. Our long-term direction will be a particularly important topic of discussion.

### Action on Social Issues

Our Medium-Term Business Plan has a bold focus on ESG measures and policies aligned with addressing social issues through our businesses, based on the United Nations' SDGs and other factors. Such social issues are rarely resolved in the short term, and most of them will require our sustained, long-term efforts. We need to incorporate a broad outlook and a long-term perspective into our corporate governance to help resolve social issues through our core businesses.

The SDGs include goals that link deeply to our construction and real estate development businesses, such as the construction of disaster-resilient infrastructure and sustainable cities and communities. There is therefore a high degree of affinity between the SDGs and Kajima's businesses, and the goals themselves are consistent with our corporate philosophy of striving to continually advance our business operations and contribute to society. Kajima has helped to resolve social issues in the fields of social infrastructure development and building construction since its establishment. However, we need to be fully aware of the ways in which we can address social and environmental issues such as those outlined in the SDGs as we further expand our businesses around the world. Guided by this mindset, the Management Committee

identified seven material issues at a meeting in July 2019. (See page 16 for details.)

Kajima's directors and employees must revisit the significance of providing value to society and generating economic value, as well as the type of behavior that the construction industry perceives as its natural mission, and link this to the sustainable growth of the Group. We will accelerate initiatives in our business units that focus on the seven material issues, take on the challenge of new business fields, and resolve social issues through our businesses.

The global response to climate change has become increasingly important in recent years, and one of our material issues is actively contributing to society's transition to a low carbon footprint. Kajima formulated its "Triple Zero 2050" environmental vision as a long-term policy through 2050, and set specific targets for reducing carbon dioxide (CO<sub>2</sub>) emissions both through its own business activities and by supporting the business activities of customers. We are currently introducing a system for monitoring CO<sub>2</sub> emissions at construction sites in Japan, and by fiscal 2020 we will be able to determine emissions at all sites. We will implement specific reduction measures based on this quantitative data.

## Our Commitment to Stakeholders

Our performance has been solid over the past several years. Yet our management team, and indeed each and every employee, must have a sense of urgency to sustain our performance with the goal of further growth. Kajima has grown in tandem with the expansion and development of the Japanese economy, but we have experienced good and bad times over our 180-year history. To overcome short-term turbulence, we will require a long-term perspective. Already, I am considering the detailed direction for the next Medium-Term Business Plan that will carry the Group toward its goals and vision for the future.

The time is rapidly approaching when our conventional business model centered on construction contracting may reach the limits of its ability to meet customer expectations.

From a longer perspective, the impact of rapid technological innovation may suddenly overturn the assumptions or conventions on which our businesses rely. In order to generate sustainable growth in our evolving business environment, the Group must integrate its people, technologies and expertise with new technologies and knowledge from around the world, modernize construction sites, and create unprecedented value.

The Kajima Group now has revenues of ¥2 trillion and 20,000 employees. We will steadily move forward with the aim of evolving into a corporate group that is capable of sustainable growth and that society needs, while bringing together outstanding people and deploying their talents and diversity. We look forward to your continued understanding and support.

