

## Overview of the Medium-Term Business Plan, and Summary of 2015

The Kajima Group surpassed all of its targets for fiscal 2015, the first year of the Medium-Term Business Plan, while also getting a good start on restructuring. The Group's financial targets for fiscal 2017 are consolidated revenue of ¥1,750 billion and ordinary income of ¥65 billion. Kajima will accelerate the restructuring process going into fiscal 2016, the second year of this focus, while also looking ahead to the years beyond 2020.

The Kajima Group Medium-Term Business Plan, adopted in May 2015, has two functions. The first is to set a medium term course for business operations through 2020, and the second is to serve as a business plan that lays out specific targets to be met during the first half of the plan, 2015 to 2017.

As for the medium term course through fiscal 2020, we foresee a shrinking population and limited public spending, and new construction demand will be gradually replaced by demand for maintenance, repairs, and renovations. In preparation for this shift, Kajima has adopted the following three key objectives: (1) increase profit margin in Kajima Corporation's construction operations; (2) provide valuable leading-edge construction and engineering technologies and services; and (3) establish a group-wide business platform for growth.

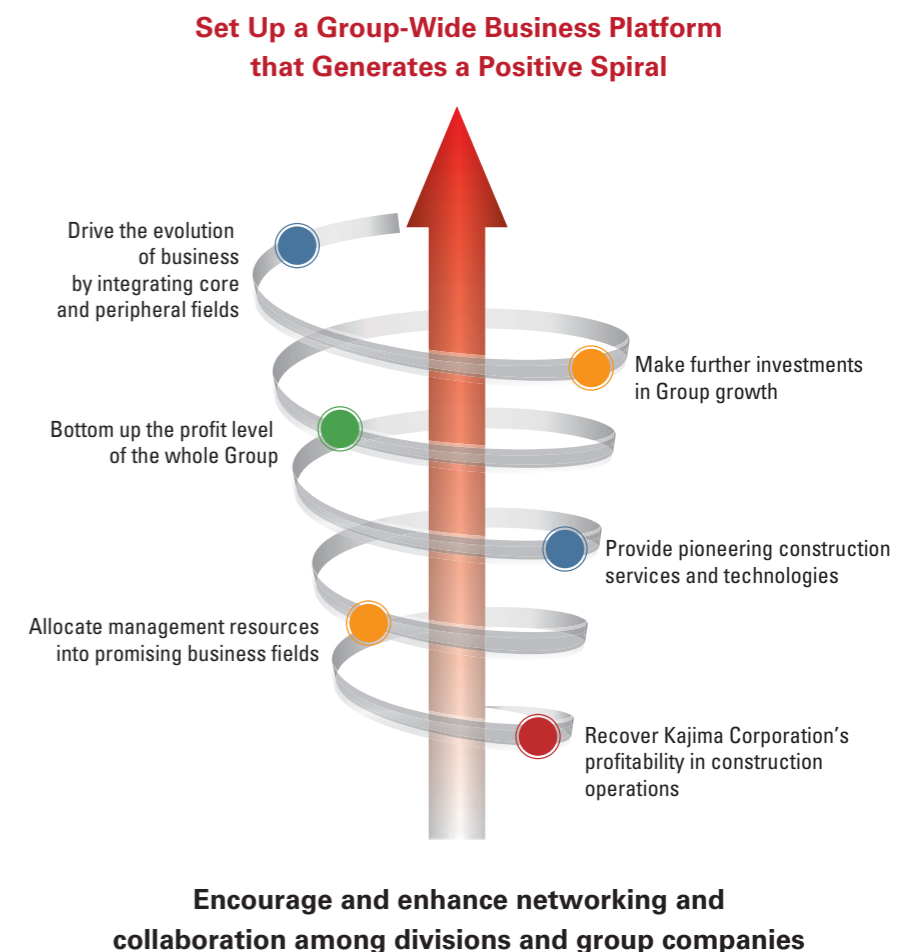
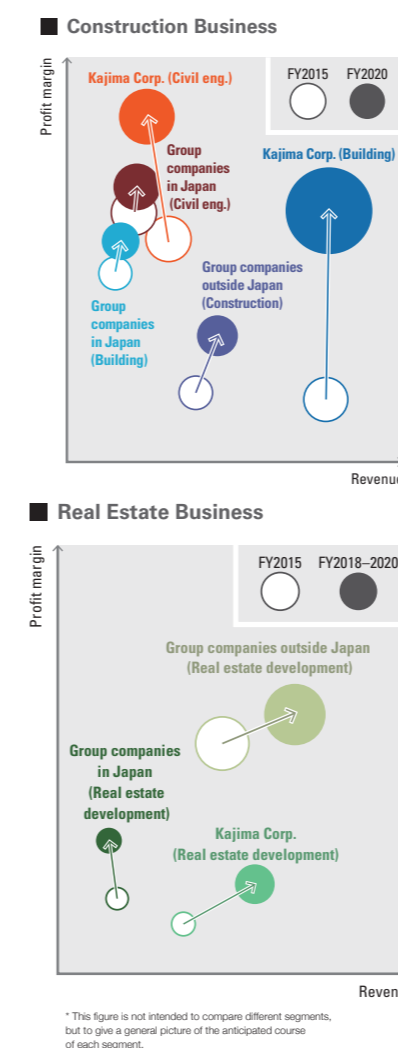
Kajima is executing three strategies from 2015 to 2017 to achieve these key objectives. The first is to revitalize and reinforce Kajima Corporation's construction operations. The second is to leverage the Kajima Group's competitive advantages to systematically reinforce and expand its business portfolio. The third is to refine Kajima Group's management platform that properly addresses the changing business environment. By fiscal 2017, these strategies are expected to yield consolidated revenue of ¥1,750 billion, consolidated ordinary income of ¥65 billion, and return on equity of at least 8.0%.

The Medium-Term Business Plan got off to an excellent start in fiscal 2015. The Group far

### Kajima Group Medium-Term Business Plan (2015–2017)

Medium-Term Business Plan (2015–2017)						
		2015	2016	2017		
		Restructuring period				
Non-consolidated	1. Revitalize and reinforce the Kajima Corporation's construction operations				Higher profits	
Kajima Group	2. Leverage the Kajima Group's competitive advantages to systematically reinforce and expand its business portfolio					
	3. Refine the Kajima Group's management platform					
(¥ billion)						
(Fiscal Year)		2014	2015	2016	2017	2020
		Actual	Target	Actual	Target	Target
Ordinary income	Consolidated	21.3	43.0	113.3	90.0	65.0
	Non-consolidated	1.6	22.0	81.6	60.0	35.0
Revenues	Consolidated	1,693.6	1,750.0	1,742.7	1,900.0	1,750.0
	Non-consolidated	1,141.0	1,130.0	1,166.1	1,270.0	1,080.0
Interest-bearing debt	Consolidated	385.0	No more than 380	378.5	No more than 375	No more than 370
	Non-consolidated	305.9		295.3	No more than 265	
ROE		—	—	—	—	At least 8.0%

### Projected Group Performance (from fiscal 2015 to 2020)



surpassed the targets it had set. This was due in part to the many measures taken in pursuit of the first of the aforementioned three strategies—revitalizing and reinforcing Kajima Corporation's construction operations. Performance was also buoyed by a market rebound that exceeded expectations.

Going forward, however, increasingly uncertain economic conditions in and outside Japan, along with tight supplies of building materials and labor, may lead to higher costs in construction markets. Further, reduced demand could spark a renewed round of fierce competition over contracts. To address these risks, the Kajima Group will keep vigorously implementing the measures of the Medium-Term Business Plan to strengthen and expand its growth platform.

### Revenues and Operating Income, by Segment

		(¥ billion)			
(Fiscal Year)		2014	2015		2016
		Actual	Target	Actual	Target
Civil engineering	Revenues	276.4	310.0	307.9	315.0
	Operating income	(15.5)	14.6	28.8	16.9
Building construction	Revenues	780.8	790.0	824.0	890.0
	Operating income	(23.4)	8.5	57.4	34.1
Real estate development	Revenues	83.7	30.0	34.0	65.0
	Operating income	20.9	(0.1)	0.6	8.8
Domestic subsidiaries and affiliates	Revenues	366.4	350.9	364.6	347.0
	Operating income	19.1	12.5	20.6	14.6
Overseas subsidiaries and affiliates	Revenues	340.1	405.9	367.9	446.5
	Operating income	11.1	4.5	7.5	9.4
Adjustment	Revenues	(153.9)	(136.8)	(156.0)	(163.6)
	Operating income	0.4	(0.0)	(4.0)	0.8
Total	Revenues	1,693.6	1,750.0	1,742.7	1,900.0
	Operating income	12.6	40.0	111.0	85.0

\* Figures for civil engineering, building construction, and real estate development are all non-consolidated.

## Civil Engineering

In the fiscal year ended March 31, 2016, revenues in the civil engineering business rose 11.4% to ¥307.9 billion thanks to smooth progress on major projects. The business posted operating income of ¥28.8 billion due to the markedly improved gross margin.

Contract awards in and outside of Japan were high, reaching a total of ¥285.9 billion. As in the preceding year, over 60% of these contracts were awarded by central and local governments in Japan.

In fiscal 2015, the Group flexibly assigned personnel in response to an increase in the volume of construction projects and worked to raise productivity. Kajima also aggressively applied newly developed technologies at construction sites, enabling, for instance, a higher degree of automation at dam construction sites.

Kajima effectively tapped into the special strengths of group companies—such as the paving techniques of Kajima Road Co., Ltd. and the ground improvement techniques of Chemical Grouting Co., Ltd. This helped drive very strong performance by the Group's civil engineering companies.

Kajima also continues to develop technologies for and engage in construction work on various projects, including work on transportation infrastructure in the capital region amid preparations for the 2020 Tokyo Olympic and Paralympic Games, as well as the new Linear Chuo Shinkansen Line, which is scheduled for completion in 2027, and recovery and construction work in Fukushima. Projects of this sort generate contracts that give Kajima a chance to put all of its strengths on display.

Meanwhile, as concerns over a coming shortage of skilled labor grow, Kajima is working hard to improve productivity at construction sites. Efforts include using precast materials and leveraging information and communication technology.

Kajima is also pursuing projects such as property management and renovation that come in diverse forms of contracts including public-private partnerships (PPPs) and private finance initiatives (PFIs). Kajima is taking proactive steps to get involved in project-making (with a special focus on operating and renovation contracts) and is working to build on the competitive edge it already enjoys in the energy sector.



Musashi Waterway



Onagawa Redevelopment Project



Shin-Kuzakai Tunnel

## Building Construction

In the fiscal year ended March 31, 2016, total revenues in the building construction business rose by 5.5% to ¥824.0 billion. Major progress in gross margin resulted in operating income of ¥57.4 billion, a turn-around improvement of ¥80.8 billion over the previous year.

Strong construction investment boosted new contract awards in the business to a total of ¥902.0 billion, up ¥159.5 billion from the previous year.

Risk management efforts taken upon the award of contracts have yielded good results, and appropriate measures have been undertaken in a careful manner to ensure the proper construction work system.

In addition, the adoption of building information modelling, efforts to enhance the efficiency of construction site management, continued progress toward computerization, and the introduction of robotics are key focal points in Kajima's efforts to keep raising productivity.

Furthermore, there are fields where the entire Group can

work together to take advantage of its special strengths, for instance, engineering (especially for pharmaceutical facilities) and life cycle engineering.

Revenues this fiscal year are expected to exceed those from fiscal 2015, and further growth is expected over the medium term. At the same time, further labor shortages and rising prices for building materials are also forecasted, particularly in the capital region.

Accordingly, Kajima is working to cope with a tight labor market using flexible, balanced deployment of employees and workload allocation, while increasing the number of regular full-time workers employed by group companies. Kajima is also seeking to improve productivity and is taking steps to strengthen its system for monitoring price trends.

In addition to stepping up education for building construction engineers and further pursuing the advancement of female engineers, Kajima is also enhancing its efforts to secure workers by accelerating measures to enroll them in social insurance programs and improving benefits for skilled laborers.



Tsuchiura Kyodo General Hospital



Fruit and vegetable wholesale complex at the New Toyosu Market

## Real Estate Development

In the fiscal year ended March 31, 2016, total revenues in the real estate development business came to ¥34.0 billion, down 59.3% year on year because Kajima had sold a number of properties during the previous fiscal year. Meanwhile, operating income totaled ¥0.6 billion, down 96.7% from the previous fiscal year.

Sales have gone very well at large condominium projects currently underway in Tokyo's Harumi area and the Kachidoki district, with all units sold out prior to the completion of construction.

The Takeshiba District Urban Renewal Step-Up Project, designed to promote the prosperity of Tokyo's Takeshiba district in 2020 and beyond, will be a mix of commercial and residential properties with a total floor space of some 200,000 m<sup>2</sup>. The site is expected to attract a lot of international businesses. With elevated pedestrian walkways and the latest disaster preparedness features, the project will shape the Takeshiba district into a stylish, cutting-edge urban community.

Toranomon Towers Office, which was completed 10 years ago in August 2006, has been recognized once again as one of

the leading low-emission business properties in Tokyo under phase two of the Tokyo Cap-and-Trade program (application submitted in fiscal 2015). At this property and others in its rental property business, Kajima is enhancing asset value by investing in renovations and taking steps to address the increasingly diverse needs of leaseholders in areas such as safety, peace of mind, and environmental friendliness.

Kajima is also actively seeking to acquire real estate for development on the periphery of strategic areas in central Tokyo. Looking ahead to 2020 and beyond, Kajima aims to contribute creatively to community development by participating in projects in Japan's National Strategic Economic Growth Areas, as well as in projects related to the 2020 Tokyo Olympic and Paralympic Games, the environment, medical clusters, aging demographic in major cities, and the internationalization of education. Kajima is also investing to leverage its in-house engineering expertise, for instance, in a wind farm in Oga City, Akita Prefecture in fiscal 2015.

In the future, as well, Kajima intends to expand its medium- to long-term property management business as a means of building up its assets and ensuring strong earnings.



Kachidoki 5-Chome Redevelopment Project (Kachidoki The Tower)



Harumi 2-Chome Condominium Project (The Parkhouse Harumi Towers Tiaro Residence)



Artist's concept of the commercial property at the Takeshiba District Urban Renewal Step-Up Project (tentative name)

## Domestic subsidiaries and affiliates

Group companies in Japan (87 companies in fiscal 2015, including 40 subsidiaries and 47 affiliates) cover the entire gamut of the construction business, from upstream to downstream. Working in tandem with Kajima Corporation, these companies have been seeking to expand and diversify the Group's businesses.

By encouraging and enhancing networking and collaboration within the Group, the Kajima Group Medium-Term Business Plan sets up a business platform that generates a positive spiral, thus raising the level of group-wide bottom-line profits in pursuit of future growth. In order to achieve these objectives, steps are being taken to ensure that information from the Company's civil engineering, building construction, and real estate development businesses is shared throughout the Group. In particular, measures taken to strengthen construction operations through hiring and increased productivity, and moves by the Company to improve facility management and operations, are beginning to yield concrete results.

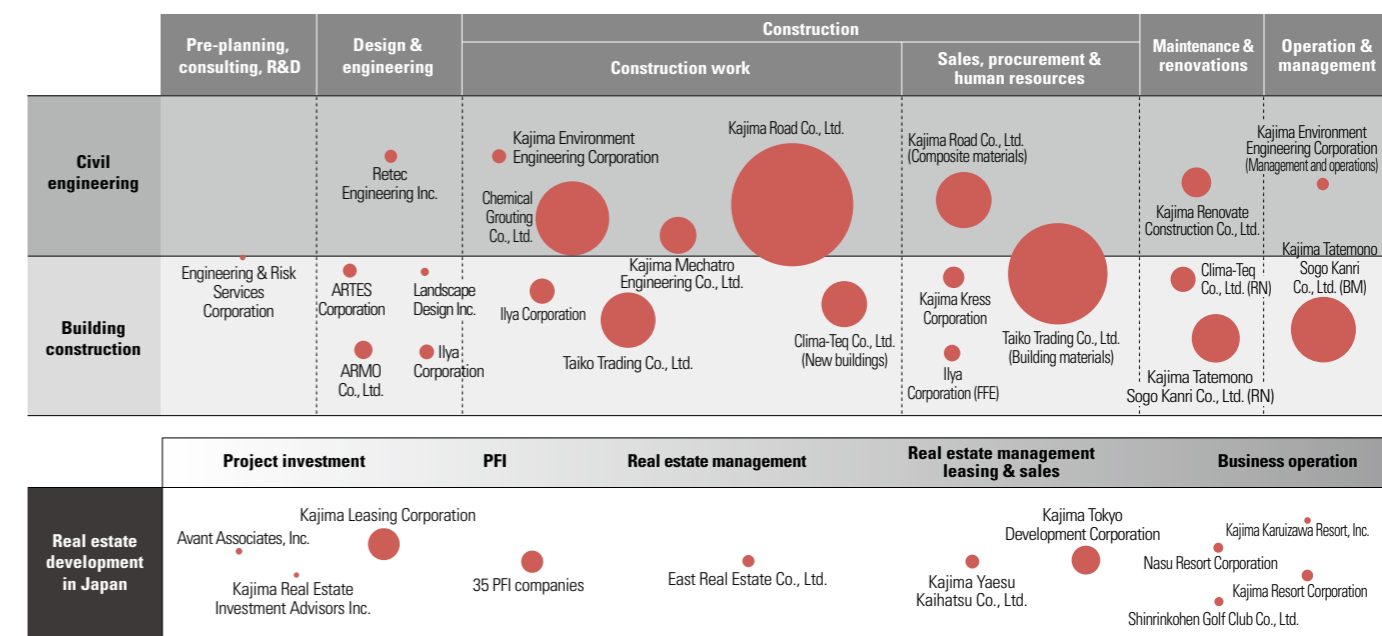
On a consolidated basis, group companies in Japan in fiscal 2015 posted revenues of ¥364.6 billion (about the same as the previous year) and operating income of ¥20.6 billion (up 7.9% year on year).

With the overall target for ordinary income at group companies both in and outside Japan for fiscal 2017 set at ¥30 billion, the fiscal 2015 results in Japan represent a very good start on the Medium-Term Business Plan.

By refining techniques and know-how in such fields as design, real estate development, construction, procurement, maintenance management, and various types of services, Kajima intends to enhance group-wide collaboration so as to provide customers with the best possible solutions.

### Performance of Major Group Companies in Japan

	FY2015 (¥billion)		Number of employees (as of March 31, 2016)
	Revenues	Ordinary Income	
Taiko Trading Co., Ltd.	107.70	2.06	282
Kajima Road Co., Ltd.	122.32	9.04	1,024
Kajima Tatemono Sogo Kanri Co., Ltd.	50.86	3.24	1,509
Chemical Grouting Co., Ltd.	31.50	3.38	286
Kajima Leasing Corporation	6.95	1.14	50
Ilya Corporation	7.62	0.10	175
Kajima Mechatro Engineering Co., Ltd.	10.97	0.07	182
Clima-Teq Co., Ltd.	21.33	0.62	375



Notes  
 1. Applies only to lines of business related to construction and real estate development.  
 2. The size of each red dot represents the relative amount of revenues of each company in FY2014.  
 3. This chart reflects only the figures for the group's main companies. Indirectly owned subsidiaries are excluded.

## Overseas subsidiaries and affiliates

In fiscal 2015, the first year of the Medium-Term Business Plan, Kajima Australia Pty Ltd was established to engage in both construction and real estate development, while Kajima Overseas Asia Pte Ltd (KOA) set up a new Myanmar Branch to enter the construction business there. In addition, Kajima established Core5 Industrial Partners LLC in the United States to develop and operate logistics hubs.

Fiscal 2015 was another good year for group companies outside Japan in construction and real estate development, as they posted a total of ¥491.3 billion in contract awards, ¥367.9 billion in revenues, ¥15.5 billion in ordinary income, and ¥13.7 billion in net income. Contract awards for large projects in the United States were brisk, and Kajima Australia's contribution helped drive total construction contract awards up about 70% year on year. As for profits, the large number of ongoing projects boosted construction performance, while the real estate

development business also performed very well. Another reason net income was higher year on year was a profit derived from the sale of a value-added property in London. Overall, real estate development has been buoyed by well-timed acquisition and profitable sale of properties.

In fiscal 2016, Kajima will continue to grow existing construction and real estate development operations around the world while expanding the reach of its real estate development operations. Engaging in new hotel construction in Hong Kong and additional real estate development projects in Vietnam, and taking part in PPP and other new approaches and fields will help to achieve the targets set out in the Medium-Term Business Plan.

As a good corporate citizen, Kajima aims to put down deep roots in local communities around the world and fulfill all of its social responsibilities.



Headquarters building of television broadcaster Mediacorp Pte Ltd. in Singapore



Zhongtai Changhong Mingribo, a luxury apartment and office complex with two residential properties and one commercial facility, in central Taipei, Taiwan



Fairmont Jakarta Hotel (shown at left), completed in fiscal 2015, gave the Senayan Square complex in Indonesia its first hotel.

### Performance of Major Group Companies Outside Japan

FY2015 (¥ billion)		Construction contract awards	Revenues	Ordinary Income	Net income
Major group companies	Kajima U.S.A. Inc.	279.9	206.1	5.69	3.66
	Kajima Overseas Asia Pte Ltd	97.3	99.2	8.37	5.28
	Kajima Europe Ltd.	16.4	18.6	1.09	4.47
	Kajima Australia Pty Ltd	84.2	26.6	(0.57)	(0.36)
	Chung-Lu Construction Co., Ltd.	13.3	17.3	0.95	0.72
Total		491.3	367.9	15.5	13.7

#### Kajima Overseas Asia Pte Ltd.

Contract awards for large projects in Singapore contributed to the construction business, but revenues and income both declined. This shortfall was offset, however, by good performance in the real estate development business, yielding net income above the target.

#### Kajima Europe Ltd.

In addition to a good year for construction operations, Kajima Europe also did very well with PFI projects in real estate development, and sold off property in London. As a result, net income exceeded the target.

#### Chung-Lu Construction Co., Ltd.

Contract awards and revenues fell short of targets, but the profitability of projects on hand improved, driving income over the annual target.

\* For more information on Kajima U.S.A. Inc. and Kajima Australia Pty Ltd, see pages 50-51 and 20-21, respectively.

Artist's concept of the Opal Tower high-rise apartment building in Australia after completion.



Amazon fulfillment center in the Czech Republic, one of the largest logistics hubs in the nation.



801 South Street, a high-rise condominium in Honolulu, Hawaii, USA. (Photo courtesy of Ed Gross/The Image Group, LLC)

## Leveraging Craftsmanship to Build for the Future

Executive Officer, General Manager, Tohoku Branch

# Hiroshi Shoji

### Aiming for True Reconstruction in Tohoku

The Japanese government has signaled that the Tohoku region has entered the “Reconstruction and Revitalization Period,” now that five years have passed since the Great East Japan Earthquake. Since the quake, Kajima has mobilized its full resources to assist the region, starting with emergency recovery in the immediate aftermath. In addition to delivering on its own projects, at the request of clients, Kajima extended its support even for buildings constructed by other construction companies. Kajima has also undertaken major waste cleanup and decontamination operations in Ishinomaki City (Miyagi Prefecture) and the town of Tomioka (Fukushima Prefecture), helping to pave the way for reconstruction. In Ishinomaki, Kajima drew on experience gained from the Great Hanshin-Awaji Earthquake to help clean up the massive amount of debris left behind by the earthquake and tsunami, applying creative solutions to rapidly finish the project. Kajima won high marks for these efforts and was bestowed with special awards by the Japanese government and the Japan Society of Civil Engineers. In Tomioka, Kajima tackled its first-ever decontamination project, on some days coordinating over 2,200 workers and completing the work in March 2016.

Kajima is playing a major role in reconstruction efforts in the Tohoku region, by leveraging its core construction operations. These projects include redevelopment in the Taro district of Miyako City (Iwate Prefecture) and in the town of Onagawa (Miyagi Prefecture), coastal reconstruction in Rikuzentakata City (Iwate Prefecture), and construction of the Shin-Kuzakai Tunnel and Ishinomaki



Hiroshi Shoji (foreground), General Manager of Tohoku Branch, observes construction at the Reconstruction Support Roads project.



The Ishinomaki Fish Market officially opened in September 2015.

Fish Market. Kajima has deployed many employees and construction partners from across Japan to the Tohoku region, helping to drive reconstruction efforts. In addition to assisting the affected communities, the reconstruction efforts have also enabled employees to grow through teamwork and by finding creative solutions to issues. Kajima has studied and implemented the new Construction Management (CM) method for redeveloping towns, using it in the construction of the Ishinomaki Fish Market that was catastrophically damaged by the tsunami. Kajima rebuilt the fish market in a very short amount of time, winning the top CM award from the Construction Management Association of Japan in fiscal 2014 for the project. The project has proven very significant, not only to the community, but also as a blueprint for effective reconstruction.

Our Tohoku Branch has had to scale up its business significantly to handle the reconstruction efforts in the region. In fiscal 2015, the branch recorded total revenues of ¥171.2 billion, comprising ¥81.2 billion in civil engineering revenue, ¥87.4 billion in building construction revenue, and ¥2.6 billion in real estate development revenue. From fiscal 2016, the reconstruction efforts will shift from Iwate and Miyagi Prefectures to Fukushima Prefecture. The Tohoku Branch will continue pursuing as many projects as possible and strengthening its construction work system—both processes and manpower—so that we can be even more helpful to reconstruction in the Tohoku region while also generating suitable profits by implementing creative solutions.

### Kajima's Future Course

In Japan there has been a renewed appreciation of the value the construction industry brings, due to reconstruction from the Great East Japan Earthquake, disaster preparedness and mitigation efforts, and national resilience projects. However,

about 1.28 million skilled construction workers are projected to leave the workforce nationwide within the next 10 years. To address this, the Japan Federation of Construction Contractors is working to improve conditions for skilled workers and securing rest days, with the aim of attracting 900,000 new workers. Meanwhile, the Japanese government is advancing the i-Construction initiative to secure productivity improvements sufficient to offset a decline of about 350,000 workers.

At Kajima, we are applying various strategies such as ensuring that workers are enrolled in social insurance programs and striving to hire more women. To improve productivity, Kajima is leveraging information and communication technology, and also applying techniques and methods such as prefabrication, Building Information Modeling, and Construction Information Modeling. The Tohoku Branch is also advancing these measures as critical strategies in the current fiscal year.

Kajima adopted the corporate slogan “Building with the heart and soul of a craftsman” when Yoshikazu Oshimi was appointed president last year. We continue to tell our branch employees that Kajima has the trust of the local communities because of our predecessors and their years of dedication to craftsmanship, which we are determined to perpetuate as key business principle for the Tohoku Branch.

Kajima must build on its strengths and focus on winning business further upstream through the Construction Management and Early Contractor Involvement approaches. This is the key to expanding our business so that we can leverage our comprehensive strengths beyond basic contracting. At the Tohoku Branch, we will continue to tackle new challenges, guided by our understanding of the unique features of the Tohoku region.

## Aiming to Provide World-Class Foundation and Soil Engineering Services

President, Chemical Grouting Co., Ltd.

### Yuichi Tachiwada

Chemical Grouting Co., Ltd., was established in 1963. As a technology-driven company, our mission is to provide optimal solutions through foundation and soil engineering services. Our services encompass technology development, design, proposals, construction, and follow-up.

#### Pursuing Three Strategies to Enhance Social Contribution

When I was appointed president in 2013, I spoke with all of our officers and employees about three key approaches: improving productivity, developing human resources, and transferring skills.

The aim of improving productivity is to enhance our financial position, by maximizing performance of our select workforce and eliminating unnecessary work. This commitment has become clearly ingrained and has delivered strong business results.

Developing human resources and transferring skills must be done together. Our human resources development is rooted in on-the-job training. We must transfer both knowledge and our technology-driven mindset to staff. By skills, we mean abilities in sales, development, design, and administrative work, not only construction engineering. We are working to perpetuate these skills to ensure that we keep building on the strengths we have gained in the last half century.

To perpetuate this mindset, for more than two decades I and other senior managers have been leading training sessions. We use these opportunities to convey our experience and share the positive corporate culture we have at Chemical Grouting.

#### Leveraging Original Technologies

Approximately 30% of our contract awards come from outside the Kajima Group, and our goal is to increase this eventually to 50%. As part of the Kajima Group, our technology has been used often by Kajima Corporation. We will build on this track record to convince companies outside the Group to use our services, thereby gaining broader social recognition.

We understand that our original technologies are the key to differentiating our firm from the competition; they are the source of our ability to create value and avoid competing only on cost.

We are pursuing three core themes in technology development today. The first is jet grouting technology, which we continue to develop. With Kajima Corporation, we developed column



Yuichi Tachiwada (left), President, Chemical Grouting, inspects a construction site.

jet grouting followed by superjet grouting. We are proud that these technologies are now commonly used both in and outside Japan for infrastructure development. We currently offer Jetcrete as a customized solution to address the diverse needs of customers.

Our second theme is Icelock soil freezing technology, which is being used for the ice wall around the Fukushima Daiichi Nuclear Power Plant. The technology originated in Europe, and only Chemical Grouting and one other company in Japan possess it. We will continue to further develop the technology and expect that the applications for it will grow, including in development projects deep underground.

The third core theme in our technology development is the environment. Our cement-free Icelock technology demonstrates this with its lower environmental impact, as does our jet grouting, which uses materials recycled from waste.

#### Capturing Global Technology Trends and Refining Our Technologies

We continue to develop our business in Brazil by leveraging our strengths as a Japanese company with a long track record in solving ground and water challenges. We emphasize both our technology and our expertise in applying it.

Every year, we conduct a technical exchange with Keller Holding, the world's largest ground improvement contractor. Exchanges with global companies like Keller provide an opportunity for employees to enhance their knowledge and awareness of cutting-edge technology and markets. We have also launched a program under which our employees receive training at a Keller Group company in the United States.

We are proud to be part of the Kajima Group. Moving forward, we will continue to develop our business by leveraging the original technologies that only we can deliver.

## Leveraging Building Management to Expand Services

President, Kajima Tatemono Sogo Kanri Co., Ltd.

### Masao Taku

Kajima Tatemono Sogo Kanri Co., Ltd., provides building management services to maintain optimum long-term performance. In the building lifecycle, we provide downstream services after buildings are constructed, from facility management to renovations. We are also using these services as a platform to expand into other markets and new fields, including peripheral services and consulting for property owners looking to apply new technologies for building repairs.

#### Driven by Customer Needs to Expand into Other Services

After starting out in 1985, we expanded our service portfolio from building management to janitorial and security services, as well as the scope of our customers, from office buildings, to commercial, cultural, and multipurpose facilities. Later, we added consulting services for management planning, starting from the development planning stage, as well as building asset management services. Today, we provide comprehensive management services that extend throughout the building lifecycle.

Kajima Tatemono has expanded the reach of its business by providing solutions for customer needs, such as to improve energy efficiency and outsource non-core operations. Managing approximately 2,200 properties, we recorded all-time high revenues of ¥50.8 billion and ordinary income of ¥3.2 billion in fiscal 2015, due to an increase in renovation construction at properties under our management. We will continue to develop our business in an effort to generate stable profits.

#### Tackling New Business Domains

In 2011, Kajima Tatemono and other construction companies collaborated on a pioneering project by the Ministry of Land, Infrastructure, Transport and Tourism to establish a renovation management scheme. The scheme involves an open-book contract for consulting services for condominium owners' associations on major repair projects. We have consulted on approximately 20 projects in the Kansai region and are expanding into the Kanto region. The goodwill generated through the consulting services has led to a number of contracts to provide building management services, and we have strong expectations for this business.

In July 2014, we opened a storefront where consumers can grow their own vegetables using rental hydroponic beds, as a way to make use of vacant leasing space. The store has generated a great deal of interest among local workers and



Masao Taku (right), President, Kajima Tatemono, is briefed by a building manager at the emergency operations center.

residents, and is giving a boost to the community. The store has been featured by a number of media outlets, and we have received inquiries from companies and organizations who are interested in using their building space in similar ways, indicating growth potential.

#### Building Management to Make the Most of Building Stock

After construction, buildings deteriorate over time. In addition to providing regular inspection and essential repair services, Kajima Tatemono offers consulting services to mitigate building deterioration and other services that add further value to buildings. I believe that building management services are more important than ever.

Building management is a labor-intensive operation where people represent priceless assets. That's why we are expanding employee education and training while pursuing personnel exchanges. Great people with good training help us to make the most of building stock.

From the very beginning, Kajima Tatemono has outlined a commitment to making a positive social impact by maintaining safe and secure building environments throughout the lifecycle, in the conviction that buildings are social assets. We draw great strength from being a part of the Kajima Group, and we will endeavor to contribute to the Group by reliably generating a profit.

## Securing Stable Growth by Balancing Construction and Real Estate Development Businesses

President & CEO, Kajima U.S.A. Inc.

### Noriaki Ohashi

Kajima made its first serious foray into the U.S. market in 1964, and reached a 50-year milestone in 2014. Kajima U.S.A. Inc. (KUSA) and its group companies today operate under a holding company structure with a diverse business platform spanning construction and real estate development. As we move forward, we are amassing valuable experience and expertise at both the holding company and group company level.

#### 2015 Actual and Beyond

In fiscal 2015, the KUSA group recorded ¥279.9 billion in construction contract awards, generating revenues of ¥206.1 billion and ordinary income of ¥5.69 billion. All three figures were the group's best results since the US financial crisis.

We are projecting even higher revenues from construction operations in fiscal 2016, due to several large projects we have been awarded in Hawaii. At the same time, uncertainty over the outlook of the US economy has begun to make clients cautious about investment, so we expect the volume of construction contract awards to decline in coming years.

The KUSA group continues to invest in real estate development. While this investment used to be directed mostly toward single-family detached housing, the previous collapse of US housing prices and the bitter experience of the financial crisis have increased the demand for rental housing. To capitalize on this demand, we introduced the SkyHouse series of high-rise apartment developments, which have been generating strong revenues. In 2015, we established a new subsidiary to focus on operation of distribution warehouses. We are also pursuing strategic and selective investment by continuing to target healthcare investments such as senior care facilities, as this sector is more resistant to economic swings.

In construction operations, the ratio of ordinary income to revenues is around 1.5%. We are leveraging economies of scale to make it easier to generate steady profits. As a result, construction operations are generating ample, stable revenues to anchor the group's profitability. In our real estate development operations, we have been working on new projects over the last few years. Now that a seller's market is beginning to emerge, we expect to generate significant profit, and we will work to continue the healthy cycle of investing and recouping. Additionally, by enhancing the collaboration between construction and real estate development operations to create synergies between the two segments, we strive to generate balanced profits and to maximize the overall profitability of the KUSA group.

#### Strengths of the KUSA Group

Each of the companies in the KUSA group has a strong presence in its region or field of expertise. We communicate with the management teams of each company, including those that were added through acquisition, building on our mutual understanding with the parent company, Kajima. The presidents regularly meet, and KUSA conducts meetings with group companies to address and



Noriaki Ohashi (2nd from left), President, Kajima U.S.A. Inc., in a meeting with presidents of KUSA group companies.

share management issues and explore solutions.

The KUSA group has acquired several companies through acquisitions, including Hawaiian Dredging Construction Company, Inc., in 2002. This company has been actively investing in construction machinery and temporary construction materials, and is working to improve productivity by directly hiring skilled construction workers. The company's strength lies in having both building construction and civil engineering operations, and it is steadily broadening its business by leveraging specialized expertise acquired through joint ventures with other companies.

The Austin Company, acquired in 2005, specializes in the construction of industrial facilities. Leveraging Kajima's sales capabilities, the company has expanded into Mexico as Japanese-affiliated companies have moved to establish operations. The company has also added human resources with expertise in hospital design and construction, leading to the establishment of a new department that is designed to focus on healthcare-related projects.

Batson-Cook Company, acquired in 2008, provides construction services throughout the southeastern states. The company struggled due to poor market conditions following the acquisition, but the outlook has improved over the last few years, spurred by the success of the SkyHouse series. During the recession following the financial crisis, the company came to realize that financial ability and credibility are critical in executing real estate development projects. KUSA addressed these issues by using Kajima's credit and created a structure to feed jobs from its own real estate operations. The company also uses lean construction techniques to successfully reduce lead times from construction to market, and it now needs only three days per floor to complete the concrete framework.

KUSA grants a good deal of independence to its group companies when they are producing results, and works closely

with them when they face issues so that they can realize their ultimate objectives. We are also working to enhance governance by ensuring that critical management issues and business topics are thoroughly discussed and examined by the Board members of each company. We will continue to maintain this management approach.

#### Striving for Stable Growth

People change jobs with relative ease in the United States, and it is not uncommon for companies to lure future president candidates away from other companies. Conversely, there is always the risk that other companies might hire one's own talented personnel, so we try to foster a sense of loyalty to the KUSA group and ensure that employees are fully rewarded for their performance.

As in Japan, there is an alarming trend in the United States in which fewer people are choosing to major in architecture and building engineering in college or to pursue the construction industry after high school. Since high school teachers are more inclined to encourage their students to go to college, we are striving to raise awareness among high school students about the construction industry by hiring student interns to expose them to careers in engineering and construction either after high school or college.

Human resources development is also an urgent issue for Kajima. Looking beyond our local construction operations, we believe it is critical to identify and strategically develop human resources who can contribute to Kajima's global business and to provide them with the right opportunities.

I believe that Kajima should be a globally competitive company. In order to achieve that goal, we must establish a solid business platform and deliver stable growth in the United States, the world's largest market. We will work to position our firm and secure the human resources needed to be a proud part of a corporate group that continues to make history.