

Part 2

Medium-Term and Long-Term Growth Strategies

We are pursuing three growth strategies while strengthening the construction value chain on a global scale to achieve our Goals for 2030.

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Hiromasa Amano
President,
Representative Director

Message from the President

We will continue to provide new value by leveraging our human resources and technology in response to the changing times, and meet the trust and expectations of society and our customers.

The Kajima corporate philosophy advocates, “As a group of individuals working together as one, we pursue creative progress and development founded on both rational, scientific principles and a humanitarian outlook, through which we strive to continually advance our business operations and contribute to society.” Since its founding, Kajima has advocated for being a technology-driven company, emphasizing technological and human resource development, and continuing to provide advanced construction technologies that meet the needs of the changing times, thereby inheriting the trust of society and customers.

Kajima’s Strengths Derived from Trust and Confidence

In the 1880s, Kajima shifted its business focus from Western-style buildings to railroad construction contracting, and built up a solid track record in this field. Based on the trust earned, in 1917, Kajima received a special order from the Railway Bureau for the Tanna Tunnel. We put our corporate fortunes on the line to tackle this national project, which was said to be the most difficult construction project of the century. Over the course of

16 years, we overcame challenges that were extremely difficult for the technology of the time, such as dealing with massive water inflows and collapses, by devising and applying new construction methods and technologies. We completed the project, thereby contributing to Japan’s economic development.

This is one episode in which we responded to trust with our technology, and ever since then we have developed our business by taking on the challenge of solving social issues in each era through projects such as dams and skyscrapers.

Recently, demand has been increasing for highway renovations, renewable energy facilities, production facilities including semiconductor-related plants, and data centers. We believe that Kajima’s unchanging DNA of being comprehensively customer-oriented is to hone our technologies in priority fields that meet the changing needs and expectations both of society and our customers, and to strengthen the construction process together with our subcontractors.

Based on the trust and confidence that our construction business has earned from society and our customers, we have focused on real estate development, engineering, maintenance and management, and other construction-related fields, as well as global expansion. The Kajima Group’s strength lies not only in the services offered by individual businesses, but also in the synergistic effects of these businesses, which together enable



Hiromasa Amano
President, Representative Director

us to provide services throughout the entire construction value chain right around the world.

Steady Profit Growth in an Uncertain Business Environment

In FY2022, the environment surrounding our business faced some headwinds due to global inflation, rising interest rates mainly in Europe and the U.S., and rising prices for construction materials and equipment. Even under these circumstances, the Kajima Group posted record consolidated revenues and the second-highest consolidated net income in its history (¥111.7 billion; the record high was ¥126.7 billion in FY2017). Return on equity (ROE) was 11.2% and has remained above 10% since FY2015.

These are the results of thorough profitability management and reliable construction when receiving orders in the construction business in Japan, as well as the cumulative results of business expansion overseas, mainly in the United States. We believe that the business portfolio we have built over the years has steadily increased the Kajima Group's profitability and management stability.

With construction demand in Japan remaining strong for both civil engineering and building construction, Kajima has received orders for several large construction projects and expects firm construction demand to continue for the foreseeable future.

In the overseas business, the development of distribution warehouses and rental housing complexes, on which we are focusing our efforts in the U.S., steadily increased revenues, resulting in a record profit. The ratio of overseas sales and profits has risen to 30% of consolidated results and is positioned as one of the earnings pillars that we can expect to contribute to profits in the future.

▶ **Feature Story (KUSA), page 49**

Although FY2023 is the final year of the current three-year Medium-Term Business Plan, the medium- to long-term goal of "achieving stable consolidated net income of ¥100 billion or more by FY2026" is being achieved ahead of schedule through steady performance in the construction business in Japan, the results of investments in the real estate development business, and growth in overseas businesses.

Medium- to Long-Term Management Direction for Further Growth

Under the current Medium-Term Business Plan, we are further

strengthening our construction business in Japan and promoting measures and investments to expand our real estate development business in Japan and overseas business as core businesses.

While the plan is generally progressing well, we are paying particular attention to the following three points as we aim to continue growing in the medium to long term.

▶ **Progress of the Medium-Term Business Plan, page 31**

The first is to apply the lessons of the past to management.

There are several lessons to be learned in our history. For example, several large construction projects that were awarded in the midst of severe price competition resulted in downward pressure on the company's performance. We are determined not to repeat these mistakes, and have them serve as a warning for our management team.

Particularly in the current market environment, we believe it is necessary to focus on trends in material prices and the need to secure construction systems, and to move ahead cautiously with project initiatives.

The second is that when proceeding with a project, take the demands of the times and the sustainability of the construction industry into account as well.

In response to the reform of work styles and the regulations on overtime upper limits that will be applied to the construction industry from FY2024, we continue to pursue productivity improvement through reviewing essential operations, digitalization, robotization, etc., and are also engaged in order-taking activities to secure appropriate construction periods.

In addition, it is necessary to maintain and build a strong supply chain to ensure stable development of the construction industry. We consider that the construction industry must be made more attractive to join by continuing and steadily implementing measures that we are currently working on, such as reforming the multilayered subcontracting structure, improving wage levels, improving the compensation of skilled workers, such as closing sites for eight days out of every four-week period, and securing the next generation of workers.

▶ **Restructuring Multilayered Subcontracting, page 90**

▶ **Work-Style Reforms, pages 76 and 80**

We have a responsibility to meet our customers' demands for faster, cheaper, and better products to the extent possible, but in order to make our construction business a sustainable one, we will continue to adhere to our construction order policy that emphasizes profitability and reasonable construction periods, and will continue to thoroughly manage SEQDC (safety, environment, quality, delivery, and cost).

Message from the President

The third is to keep up with the changing times and leverage these changes as opportunities for growth.

We expect technology and society to transform at an ever-accelerating pace. In the coming decade, issues related to the global environment, such as climate change, energy, and coexistence with nature, and issues related to human society such as the declining birthrate and aging population, wellness and health, will increase in importance. Moreover, the market environment in Japan and abroad, as well as the values demanded by society and customers, will change significantly.

The Kajima Group recognizes that it has a mission to support safety and security in areas close to people's lives, and that it must meet society's expectations to create and provide a comfortable environment. We will continue to develop and refine our technologies to solve the issues facing society, with a commitment to quality, so that Kajima will be the company of choice for not only our customers but all of our stakeholders "because it's Kajima."

To turn solutions to social problems into growth opportunities, we need to not only increase the depth of each business but broaden the scope of each one as well; in other words, expand the value chain. While we view the stable and strong performance of recent years as an indication of the Kajima Group's strengths that have been cultivated over the years, we believe that achieving further growth will require slowly and steadily expanding the business domains involved in the construction value chain, which will include the creation of new businesses, while further enhancing the profitability of each business domain.

▶ Feature Story (Construction Value Chain), page 45

What I Value as President in Strengthening the Management Foundation

The Kajima Group's source of competitiveness is its people and technology, and the trust that comes from them.

As president, I believe that my most important role is to develop our people, hone our technology, and enhance credibility in order to strengthen the management foundation.

(1) Human Resources (Human Capital)

Kajima's business domain encompasses the entire construction value chain, but in order to organically link these businesses and maximize their value, the in-house experts responsible for each phase must master their respective paths. We encourage the development of diverse human resources who will be responsible for each business and R&D, make the most of such people, and provide a setting for friendly competition

among experts in each field. I look forward to the sharp ideas and innovations that can be created through collaboration among experts with strengths, rather than pursuing only total optimization from the start.

In addition to spiraling up technical and practical skills through actual projects, we also promote human resource development and growth opportunities through off-site spaces such as the newly opened Kajima Technical Center (Yokohama, Kanagawa Prefecture), a facility for practical experience and hands-on training for acquiring basic specialized skills, and the employee education and exchange centers KX-LAB and KX-SQUARE (both in Toshima-ku, Tokyo).

▶ Kajima Technical Center, page 77

After properly evaluating each role in the construction value chain, we must smooth out the connections and horizontally develop the best parts of the chain to enhance the capabilities of the organization, which will lead to the growth of each business. In addition, it is also important to pay attention to the entire supply chain, including the development and improvement of the compensation for skilled workers at partner companies that work together with us. As such, we have established the Kajima Partner College to train skilled workers and management candidates for our partner companies. The first batch of students graduated in FY2022 and are now working at their respective companies, applying what they have learned. I consider it my role to manage the company with an emphasis on human resources, not only the employees of the Kajima Group, but also people throughout our supply chain.

▶ Kajima Partner College, page 79

(2) Technology (Intellectual Capital)

Kajima advocates for being a technology-driven company and aims to further raise the level of technology.

Since I assumed the position of president, we have been focusing on improving productivity and operational efficiency, raising the level of technology, and accelerating proficiency through the promotion of technological development. This has included smart production and automated construction, and the systematic digitization of experiential knowledge and tacit knowledge possessed by individual personnel. The project is gradually taking shape and producing real results, and we feel a positive response to the spread of empathy within the company. Furthermore, as digital technology surges ahead, there is a growing need for smart buildings and smart cities, and we intend to be proactive in developing technologies related to these new fields and in utilizing AI.

▶ Kajima's DX, page 69

In construction business production activities, the



construction process, from the upstream planning stage to specialized work within temporary enclosures, there is no limit to what needs to be fundamentally reviewed and what can be improved if we stand by the “scientific principles” of our corporate philosophy.

Unlike manufacturers and other producers, we believe that in the development of technology for industries such as ours that produce added value through the construction process, it is important to take the initiative to devise ideas at actual manufacturing sites, and that awareness during daily production activities is the seedbed for growing the company’s business.

Kajima will accelerate this activity from FY2023 as site-driven innovation, encouraging and supporting proactive initiatives based on free thinking and ideas in the field. The aim is to build momentum for creative initiatives not only in the technical development division, but also throughout the company, including the frontlines, to enhance our technological capabilities and competitiveness in the future.

Furthermore, we launched the Intellectual Property Award System in FY2022. Its purpose is to raise employees’ awareness of the further deepening and development of our technology, to foster an internal culture that encourages constant invention of new ideas, and to stimulate creative activities that help to expand the company’s business.

▶ Intellectual Property Management, page 68

In Singapore, The GEAR was completed. This complex serves as both a business control center for the Southeast Asia region and a base for R&D. The facility offers great potential for the future in terms of its members’ ability to collaborate with the Singaporean government and for conducting activities that transcend the barriers between the public and

private sectors. The GEAR will serve as a base for promoting the development of advanced technologies and the creation of new businesses through open innovation activities and the utilization of its global network with Japan and Silicon Valley in the United States.

▶ The GEAR, page 67

In line with the current Medium-Term Business Plan, we have established a vision statement, “Willingness to take on new challenges leveraging the power of ideas and technology to make imagination and amazement a reality,” as the direction in which Kajima Group aims to go. These activities are symbolic of our practice.

(3) Social Trust and Credibility

For a company, credit is the foundation of its business. In the event of an accident or trouble, the most important thing we must pay attention to is the relationship of trust with our customers and other stakeholders. While the impact on figures such as sales and profits are transitory, lost credibility cannot be easily regained and has a long-term and enormous impact on business management. While it is difficult to eliminate 100% of failures, it is important to be sincere and committed in our actions to recover from them.

The quality of the buildings and structures we build is evaluated over time by our customers and users. We believe that our work cannot be done without trust, because there are parts of buildings that cannot be seen from the outside, such as the internal structure and equipment, or that cannot be understood without actually using the building. We recognize that not only technological development, but also the constant evolution of the construction process, including digitalization, and the maintenance and improvement of quality standards,

Message from the President

will continue to be one of the most important factors in forming a relationship of trust with our customers.

Kajima has built up trust and credibility over a history spanning more than 180 years. As president, I am constantly communicating this idea that it is important for us to look ahead and strengthen our foothold, especially now that our business performance is favorable.

I also believe that we need society to recognize us as a good company. In our vision, we cite openness, diversity, and initiative as important values, expressing the importance of attracting a diverse range of people and co-creating value in collaboration with external parties for the company's sustainable growth. In order to create new value, we need business partners who have something we lack, and we need to be a good company to attract excellent people to work with us.

As president, I strive to be aware at all times of how the company is evaluated from the outside, and will always ensure that Kajima aspires to be a good company both internally and externally.

Sustainability

While the branch managers in Japan and the presidents of domestic and overseas group companies, who are closer to the frontlines, focus on responding to the challenges they face and on stable management, it is sustainability that I must take the lead in addressing. This means making not only our company and the construction industry sustainable, but society at large as well.

In addition to focusing on fields of business that solve social issues, the current Medium-Term Business Plan calls for establishing a strong management foundation and promoting ESG measures for growth. It places particular emphasis on addressing environmental issues, including carbon neutrality, in addition to the aforementioned initiatives for human resource development and reform of the multilayered subcontracting structure.

As a construction company, the first area where we can contribute to carbon neutrality is in the construction of renewable energy facilities. Japan's first commercial Offshore Wind Farms at Akita Port and Noshiro Port, for which we were in charge of construction, were successfully completed in March 2023. The valuable knowledge and technology gained in this project will be applied to future projects. In anticipation of market expansion, we are also strengthening our construction capabilities and cost competitiveness by building SEP vessel (self-elevating platform vessel) jointly with other companies,

aiming to contribute further to this field.

▶ Feature Story (Offshore Wind Power), page 41

With regard to reducing CO₂ emissions, we have set a new target to achieve carbon neutrality by FY2050 and obtained SBT certification, an international certification for greenhouse gas emission reduction targets. Based on a more accurate understanding of CO₂ emissions, we are actively promoting the reduction of CO₂ emissions during construction, development of energy-saving technologies and environmentally friendly materials, and efficient energy management. From FY2023, we have set branch-specific reduction targets for construction projects in Japan.

Of the total CO₂ emissions in the Kajima Group's supply chain, in-house emissions (Scopes 1 and 2) account for 2 to 3%, while the majority of other emissions are generated during upstream production of building materials (concrete, steel frames, rebar, etc.) and downstream building operations (Scope 3). For these reductions, collaboration with outside parties, such as material manufacturers, construction subcontractors, and customers who are building owners, is essential.

In the construction materials field, we are promoting technological development as the managing company of the consortium (CUCO) implementing the NEDO* Green Innovation Fund Project / Development of technology for manufacturing concrete and other products using CO₂. Recently, as its initial achievement, CUCO-SUICOM Formwork made of carbon-negative concrete, which emits virtually zero or less CO₂ emissions in the manufacturing process, was applied for the first time to a construction site. This formwork is made of concrete that has been improved from CO₂-SUICOM, a technology developed by Kajima and others that absorbs and fixes CO₂ in concrete, enabling further



reduction of CO₂ emissions. This project has attracted high levels of attention and anticipation, and we will advocate for further technological development with the aim of full-scale use in practice.

In addition to the development and application of various low-carbon materials and ZEB technologies, we are also strengthening our response to the field of GX, which helps to reduce CO₂ emissions throughout the supply chain, such as by using blockchain technology to visualize CO₂ emissions.

We will also seek to balance business opportunities with contributions to global environmental conservation through a multifaceted environmental approach that includes the conservation of biodiversity and the creation of blue carbon to restore and rehabilitate nature, as well as the utilization of Group-owned forests located throughout Japan.

▶ **Environment, page 82**

* New Energy and Industrial Technology Development Organization

Strengthening Corporate Governance

In 2015 we invited our first outside director to join the Board of Directors. Since then, we have received a great deal of valuable advice, sometimes painful to hear, harsh and kind, from an independent standpoint, based on the outside directors' wealth of experience and high-level insight, as well as supervision of our management.

Specifically, the outside directors have been instrumental in strengthening our corporate governance by leading the Nomination Advisory Committee and the Governance and Remuneration Advisory Committee (both chaired by outside directors), and have encouraged us to improve our management by promoting a culture of "bad news first" and "it is worse to hide accidents and scandals than to cause them" within the company. They have also provided advice on sustainability in the construction industry and on reform of the multilayered subcontracting structure.

We feel that having outside directors fulfill the roles society expects of them, and that we take them seriously, will help us to transform our Group from within, generate trust from outside, and ensure more sustainable growth. We consider the advice of outside directors with diverse backgrounds to be one of the most important elements of our corporate governance.

Closing Thoughts

Although the business environment remains uncertain due to various factors such as the situation in Ukraine and rising prices, in recent years we have been able to continuously secure profits exceeding our plans and expand returns to each stakeholder by increasing dividends, purchasing treasury stock, raising wages for employees, and improving compensation for skilled workers.

The Kajima Group is also making steady progress with the investment plans set forth in our Medium-Term Business Plan, including Japan and overseas real estate development business investments, R&D investments, and strategic investments, which we believe will strengthen our earning power and further enhance our management foundation in the future.

We will continue to secure profit levels that exceed the cost of capital, consider further expansion of stockholder returns and other measures while balancing them with investments for sustainable growth, and strive to improve our reputation in the stock market and other markets to meet their expectations.

While stock price and market capitalization are key indicators for evaluating a company, we believe that it is also important for the market to understand our future vision and growth potential in order to obtain an appropriate evaluation from it.

We will continue to listen to our stockholders and investors as well as to the stock market, and as president, I will strive to enhance the dissemination and disclosure of information.

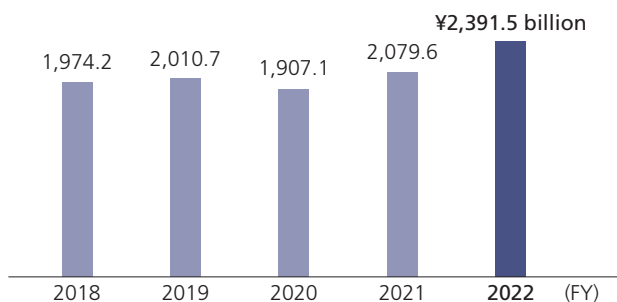
A new Medium-Term Business Plan will be launched in the next fiscal year. The current fiscal year serves as a preliminary stage of the plan, and we recognize that it is also the final year of the current Medium-Term Business Plan. We are counting on your continued understanding and support.

Financial Highlights

Revenues

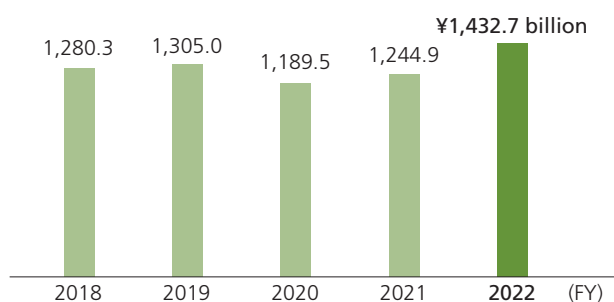
Consolidated

¥2,391.5 billion



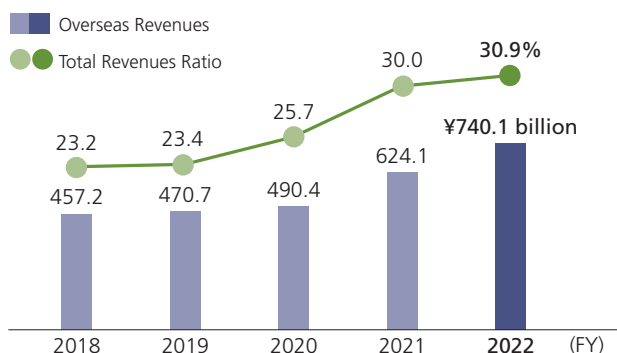
Non-consolidated

¥1,432.7 billion

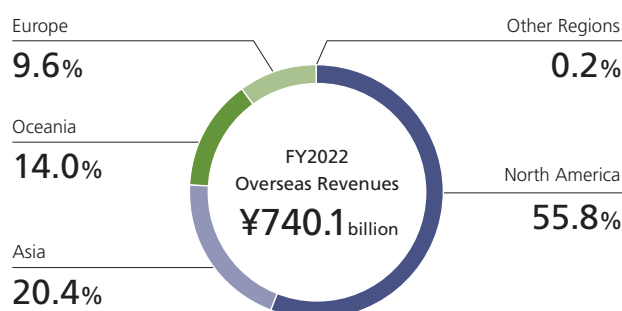


Revenues increased by 15.0% on a consolidated basis, hitting a record high, largely due to an increase in revenues from construction operations at overseas subsidiaries and affiliates, as well as steady progress of large-scale construction works by Kajima Corporation. On a non-consolidated basis, revenues increased by 15.1%, mainly arising from an increase in building construction business.

Overseas Revenues / Total Revenues Ratio



Revenues outside Japan, by Region

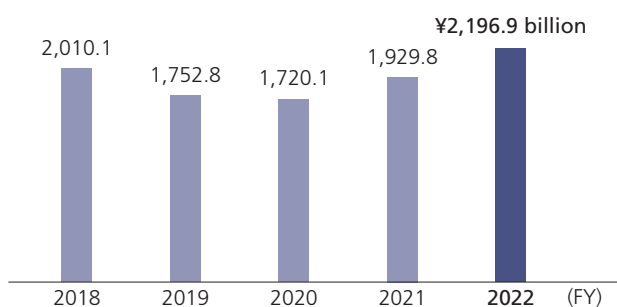


Revenues increased by 18.6% in all the business regions including Asia where the impact of the COVID-19 was overcome and economic activities are being rejuvenated. The total revenues ratio increased by 0.9 point.

Construction Contract Awards

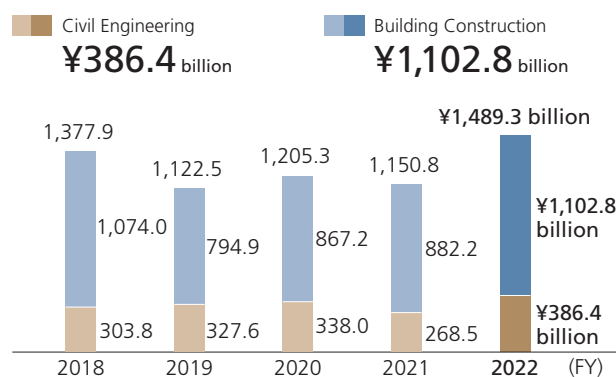
Consolidated

¥2,196.9 billion



Non-consolidated

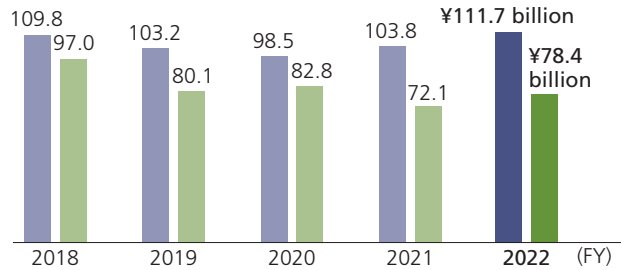
¥1,489.3 billion



The construction contract awards increased by 13.8% on a consolidated basis and 29.4% on a non-consolidated basis because Kajima Corporation received orders for multiple large-scale works in the civil engineering and building construction businesses.

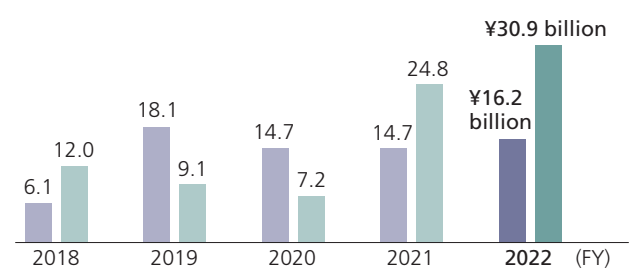
Net Income Attributable to Owners of the Parent / Net Income

Consolidated **¥111.7 billion**
 Non-consolidated **¥78.4 billion**



The net income rose by 7.6% on a consolidated basis mainly due to gains in profits in the construction businesses of Kajima Corporation and overseas subsidiaries and affiliates. Around ¥100 billion has been stably generated as net income. The net income increased by 8.6% on a non-consolidated basis mainly due to rise in revenues and the improvement of the profit margin of the civil engineering business.

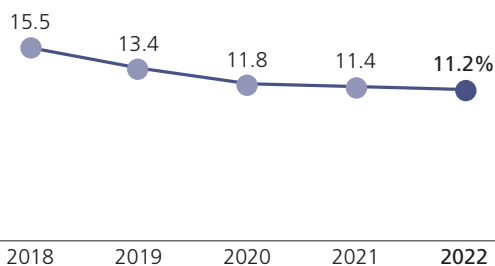
Domestic Subsidiaries and Affiliates **¥16.2 billion**
 Overseas Subsidiaries and Affiliates **¥30.9 billion**



The net income rose by 9.9% in Japan as the profits of both the construction business and the real estate development business increased. The net income increased by 24.7% overseas, hitting a record high, mainly due to the steady progress of the real estate development business in the U.S.

ROE

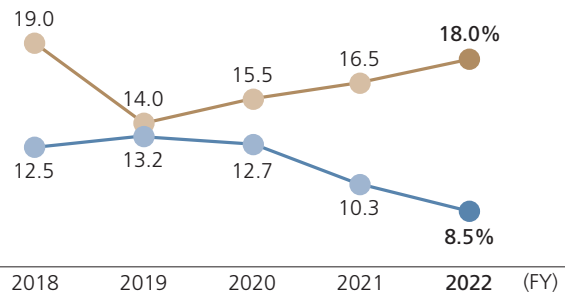
11.2%



Return on equity remained over 10% due to steady business performance.

Gross Profit Margin for Civil Engineering and Building Construction Businesses (Non-Consolidated)

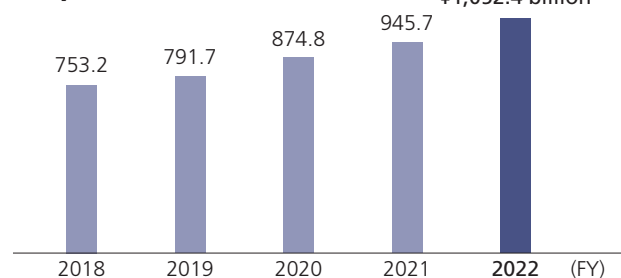
Civil Engineering **18.0%**
 Building Construction **8.5%**



Gross profit margin in Kajima's civil engineering business increased due to improvements in productivity, but decreased in the building construction business due to soaring material prices.

Owners' Equity

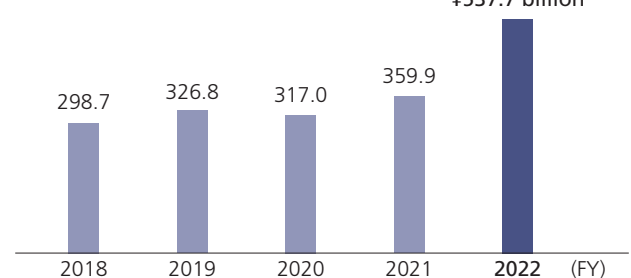
¥1,052.4 billion



Our financial soundness has increased with owners' equity exceeding ¥1 trillion. (Owners' equity ratio: 38.0%)

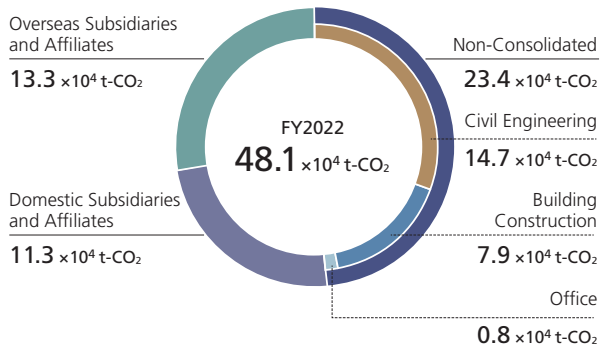
Interest-Bearing Debt

¥537.7 billion



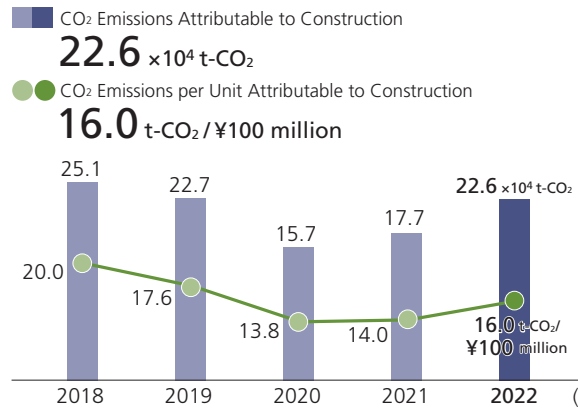
Interest-bearing debt increased by 49.4% due to the use of external funding for investments in real estate development projects, etc. and exchange conversion of foreign-currency debts. (Debt-to-equity ratio: 0.51 times)

Kajima Group CO₂ Emissions (Scopes 1 and 2)



Emissions (Scopes 1 and 2) for Kajima Corporation, domestic subsidiaries and affiliates, and overseas subsidiaries and affiliates.

CO₂ Emissions Attributable to Construction / Emissions per Unit*

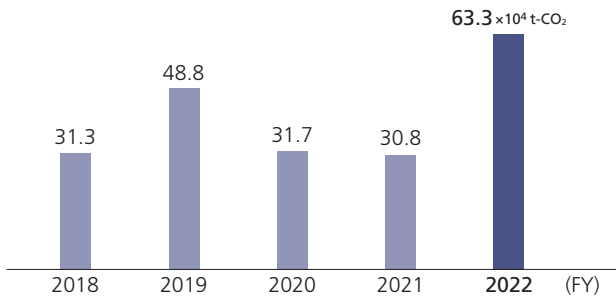


CO₂ emission equivalents have been calculated for all electric power and fuel used at Kajima construction sites in Japan. From FY2020, the calculation method is based on data collected from all sites.

Indirect Contributions to CO₂ Reduction*

63.3 x 10⁴ t-CO₂

■ Contribution to CO₂ emissions reduction attributable to energy-saving design of buildings*¹

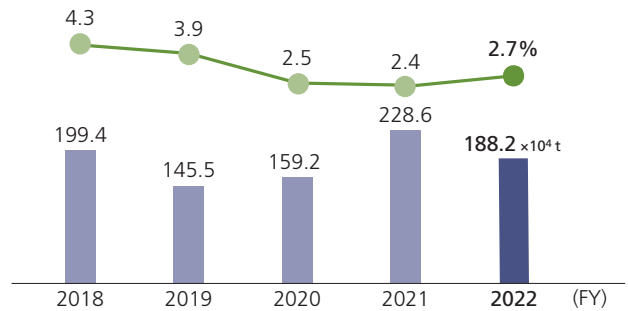


We measure indirect contributions to CO₂ reduction from designs that enable energy saving at the operation stage.

*1 The annual reduction contribution realized by the energy conservation measures of buildings designed by the Company and completed during the fiscal year, multiplied by building lifecycle (30 years)

Amount of Construction Waste Generated / Final Waste Disposal Rate (Including Sludge)*

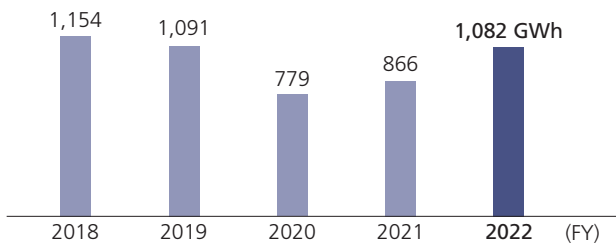
■ Amount of construction waste generated **188.2** x 10⁴ t
● Final waste disposal rate for construction waste **2.7** %



The amount of waste generated depends on the amount and type of construction conducted, but by taking steps to curb waste generation and to separate it by type for recycling, we are reducing the amount of final landfill waste disposal.

Energy Consumption (Construction Sites and Offices)*

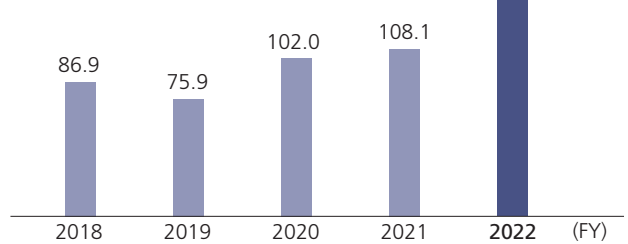
1,082 GWh



Figures are the sum of electricity, fossil fuel, heat/steam, and refrigeration usage converted into primary energy equivalents.

Water Consumption (Construction Sites and Offices)*

139.7 x 10⁴ m³

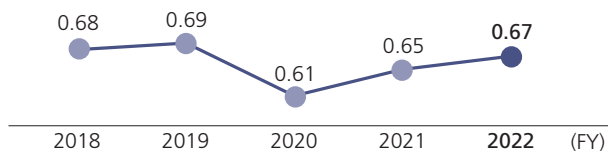


Significant year-on-year differences in water consumption result from changes including in the type, scale and method of construction. Consequently, we have not set reduction targets. However, each site works to reduce the amount of water it uses.

On-Site Safety*

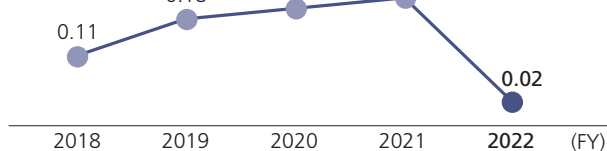
Accident Frequency Rate*¹ (Lost Work Time of Four or More Days)

0.67



Accident Severity Rate*²

0.02



In our construction operations in Japan during FY2022, there were 61 accidents involving four or more days of lost work time (no involving fatalities), resulting in an accident frequency rate of 0.67 and an accident severity rate of 0.02.

Under the slogan "Think safety! Make today accident free," we will continue to do our utmost to ensure a safety-first approach to work.

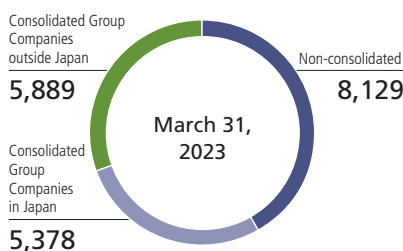
*1 Accident frequency rate: The number of fatalities and injuries at worksites per one million cumulative working hours

*2 Accident severity rate: The severity of illnesses and injuries represented by the number of workdays lost per one thousand cumulative working hours

Number of Employees

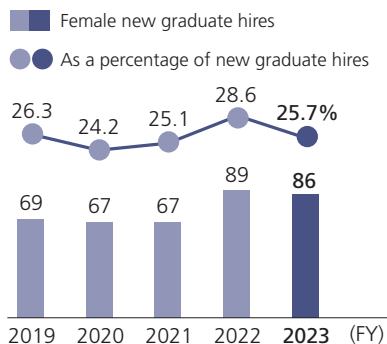
19,396

(21,580 including non-consolidated subsidiaries)



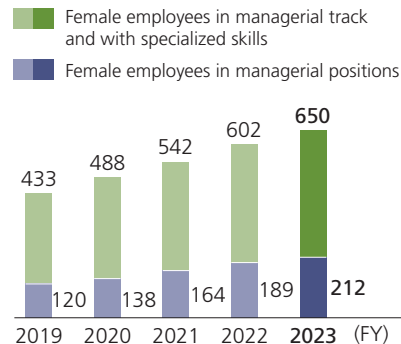
The number of employees at Kajima Corporation and consolidated Group companies in Japan increased. The number of employees is on the rise as a result of expansion of business domains.

Number of Female Employees among New Graduate Hires*



Of the 334 new graduate hires for FY2023, 25.7% are female new graduate hires.

Number of Female Employees in Managerial Positions*



In FY2021, we achieved of our goal of tripling the number of female employees in managerial positions over 10 years (from 54 in FY2014), three years ahead of schedule. We have continued to increase this number since then.

Human Resources Data*

		2018	2019	2020	2021	2022	
Employees	Number of employees* ¹	7,783	7,887	7,989	8,080	8,129	
	Number of re-employed personnel* ¹	930	961	1,029	1,081	1,132	
	Percentage of employees with disabilities* ²	2.3	2.1	2.5	2.4	2.3	
	Turnover rate (%)	0.5	0.7	0.7	0.8	1.1	
	Turnover rate of new graduate hires within three years (%)	3.2	1.8	4.6	3.3	4.6	
	Percentage of mid-career employees	18.3	23.6	22.4	25.8	19.8	
Childbirth/childcare/caregiving	Percentage of employees taking extended childcare leave* ³	Male	45.3	49.1	40.3	49.4	64.3
		Female	104.7	106.8	105.0	93.3	109.1
	Number of employees using flex-time or taking shortened work hours for childcare	Male	89	98	118	135	131
		Female	210	228	254	253	256
Other	Number of employees taking extended caregiving leave* ⁴	19	63	40	35	45	
	Number of employees using leave system for volunteering	15	24	4	15	18	
Percentage of paid leave taken		46.4	52.8	54.5	48.7	61.3	

*1 As of March 31

*2 As of June 1

*3 Employees during the fiscal year who took (statutory) childcare leave ÷ Employees with a child born during the fiscal year

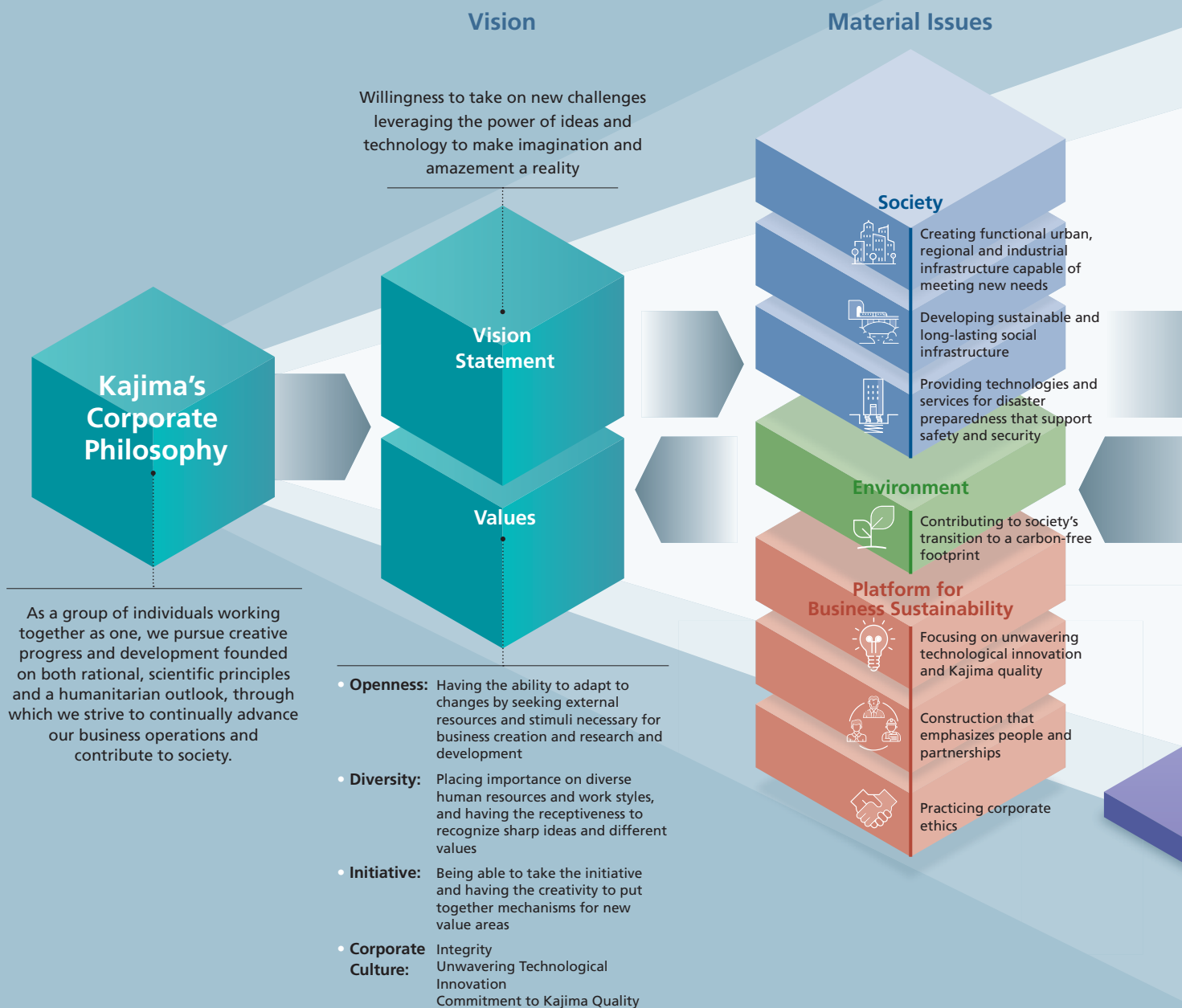
*4 Includes family support absence, short-term family support absence (unpaid absence and use of accumulated paid holidays), family support break, and family support leave.

Overview of the Medium-Term and Long-Term Growth Strategies

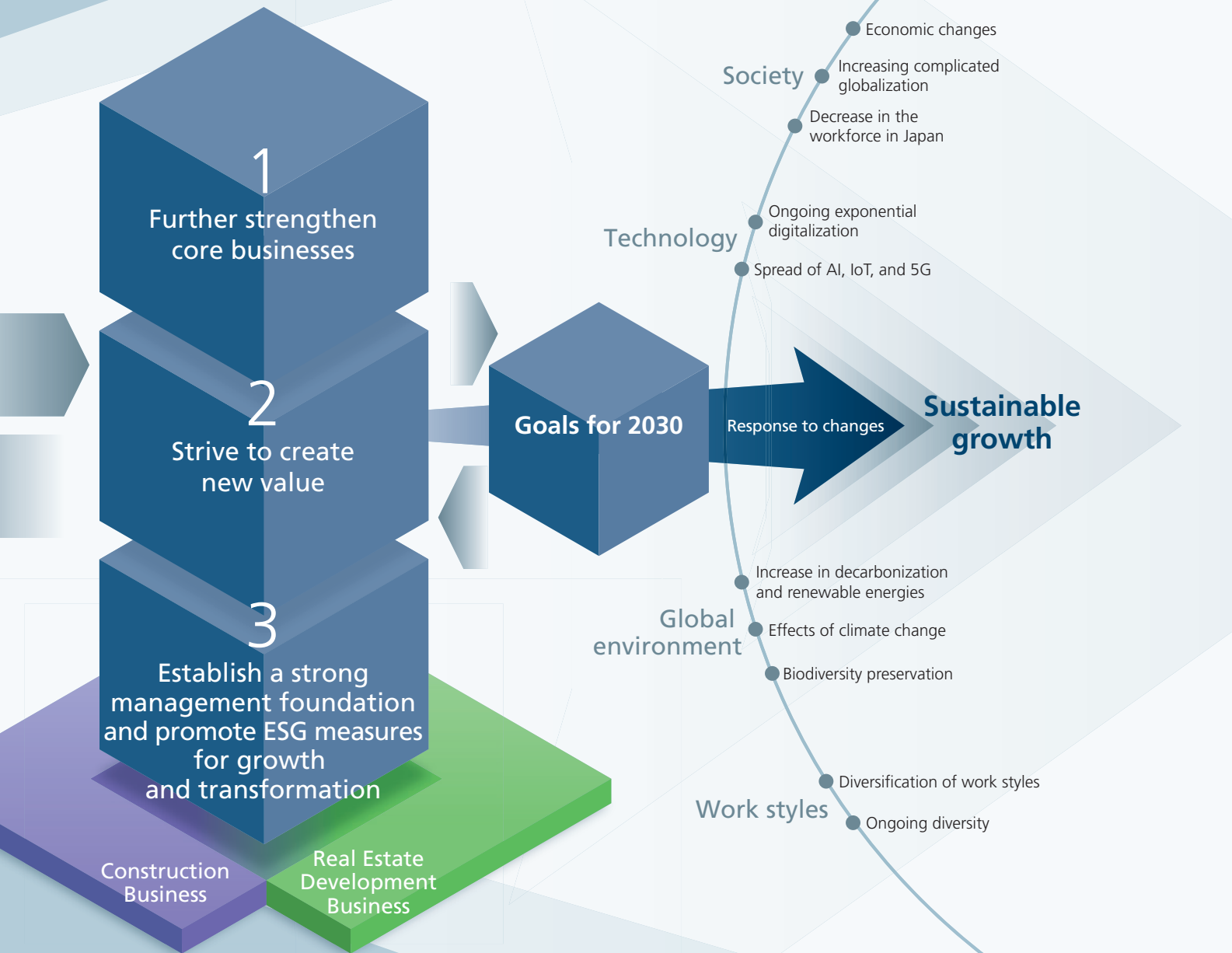
Promoting the Kajima Group Medium-Term Business Plan (FY2021–2023) based on the Goals for 2030 and Material Issues

The Kajima Group has defined vision as the long-term direction based on our corporate philosophy and material issues to grow with society in a sustainable way.

We have formulated important measures to realize them and through backcasting from the Goals for 2030 in the Kajima Group Medium-Term Business Plan (FY2021–2023), and are promoting initiatives to grow sustainably even in a rapidly changing social and economic environment.



**Kajima Group
Medium-Term Business Plan
(FY2021–2023)**

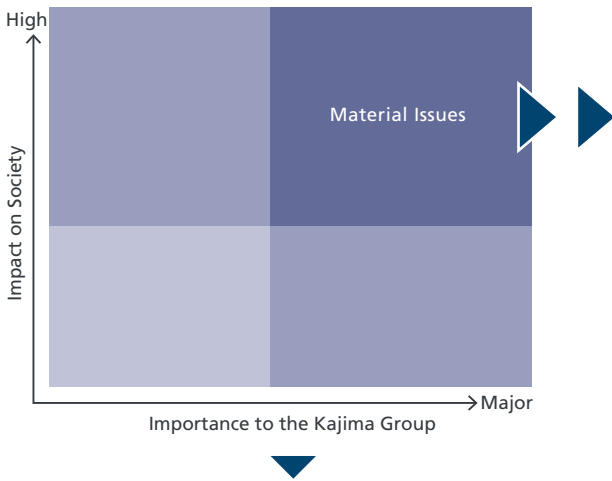


Material Issues and Main Initiatives

In July 2019, we looked at the relationship between the Kajima Group’s business activities, the measures in the Kajima Group Medium-Term Business Plan (FY2018–2020) and social issues, starting with the SDGs. We then grouped the results into seven categories to identify our material issues for both solving social issues and achieving sustainable growth for the Kajima Group. In March 2021, in conjunction with the formulation of the Kajima Group Vision and the Medium-Term Business Plan (FY2021–2023), we revised these material issues to take into consideration significant changes in the social environment, including the COVID-19 pandemic and accelerating shift toward carbon neutrality.

Determination of Material Issues

Issue Mapping



Based on the chart above, we identified issues that are important to the Kajima Group and have a major impact on society. We have condensed, reorganized, and labeled these as seven material issues: four to which the Kajima Group can contribute through its businesses and three that form the basis for business sustainability.

- 1**
 - Revitalization of local communities
 - Responding to changing work styles
 - Increasing sophistication of urban functions

- 2**
 - Maintaining and renewing social infrastructure

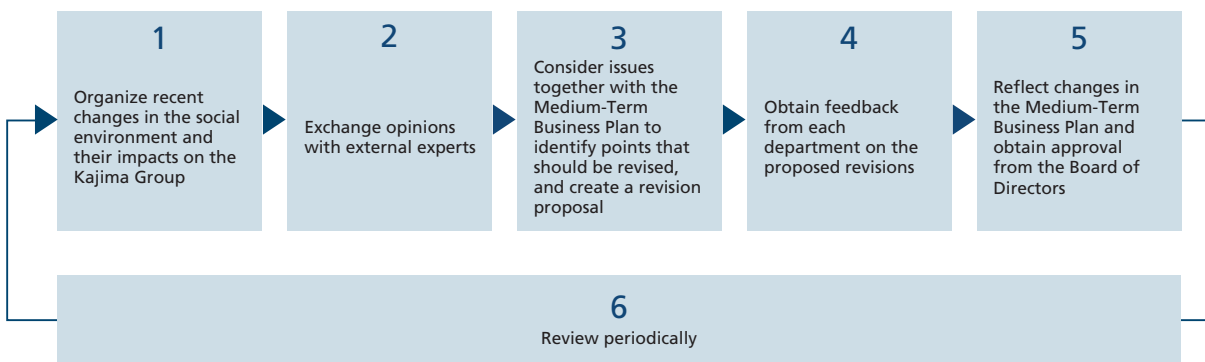
- 3**
 - Improving disaster preparedness and resilience
 - Increasing sophistication of disaster preparedness measures
 - Supporting disaster recovery

- 4**
 - Responding to climate change
 - Promoting efficient use and ensuring a stable supply of energy
 - Preserving biodiversity
 - Promoting resource recycling






























- 5**
 - Assuring and improving quality
- 6**
 - Increasing labor productivity
 - Improving employment conditions for skilled workers
 - Nurturing human resources
 - Strengthening partnerships
 - Ensuring occupational safety
 - Championing diversity

- 7**
 - Conducting fair business practices
 - Ensuring compliance
 - Respecting human rights

Process for Revising Material Issues



Our Material Issues and Related SDGs

		Direction of Initiatives for Material Issues	Specific Initiatives		Related SDGs
			Contribution through Customers' Businesses	Contribution through Our Businesses	
Society	1	 <p>Creating functional urban, regional, and industrial infrastructure capable of meeting new needs</p> <p>Kajima proposes sophisticated value in the fields of building construction, infrastructure construction, urban development and industrial infrastructure to meet diversifying needs resulting from changes in values and behavioral patterns. Combining experience and new technologies, Kajima creates functionality that facilitates life, work, and wellness.</p>	<ul style="list-style-type: none"> • Creating comfortable and attractive spaces • Improving productivity and product quality through engineering technologies • Improving workplace productivity and wellness 	<ul style="list-style-type: none"> • Conducting large-scale, mixed-use redevelopment projects 	  
	2	 <p>Developing sustainable and long-lasting social infrastructure</p> <p>Kajima promotes technological development for repair, maintenance, renovation and extending the lifespan of buildings and infrastructure, and develops outstanding social infrastructure that can be used safely long into the future.</p>	<ul style="list-style-type: none"> • Technologies for extending building lifespan • Technologies for maintaining and renewing infrastructure • Increasing sophistication of facility and building management 	<ul style="list-style-type: none"> • Acquiring quality assets in the real estate development business • Participating in infrastructure operation and public-private partnerships 	  
	3	 <p>Providing technologies and services for disaster preparedness that support safety and security</p> <p>Kajima provides disaster-resilient building and infrastructure construction, technology development, and services for rapid recovery and reconstruction in the event of a disaster. In light of the impact of climate change, we will increase the sophistication of disaster prevention technologies with a commitment to a safe society where people can live with peace of mind.</p>	<ul style="list-style-type: none"> • Increasing sophistication of seismic damping and isolation technologies • Responding to climate change with resilient buildings and structures • Proposing BCP solutions 	<ul style="list-style-type: none"> • Structuring supply chains that take BCP into account • Strengthening disaster response capabilities 	 
Environment	4	 <p>Contributing to society's transition to a carbon-free footprint</p> <p>Kajima contributes to society's transition to a carbon-free footprint by reducing CO₂ emissions during construction and by developing energy-efficient technologies and eco-friendly materials, as well as by building, developing and operating power generation facilities that use renewable energy, developing green buildings, and managing energy efficiently. We are also committed to recycling resources and harmoniously co-existing with nature based on Kajima Environmental Vision: Triple Zero 2050.</p>	<ul style="list-style-type: none"> • Delivering zero-emission and other energy-efficient buildings • Structuring optimal energy systems • Constructing power generation facilities that use renewable energy • Promoting green infrastructure 	<ul style="list-style-type: none"> • Reducing CO₂ emissions during construction • Developing green buildings • Renewable energy projects • Developing and using eco-friendly materials 	    
		Direction of Initiatives for Material Issues	Platform for Business Sustainability		Related SDGs
Platform for Business Sustainability	5	 <p>Focusing on unwavering technological innovation and Kajima quality</p> <p>Kajima strives to build sustainable next-generation construction systems and create new value by developing technologies and carrying out digital transformation to improve productivity and safety. In addition, in order to deliver buildings and infrastructure to customers with confidence, we continuously improve the quality of inspection and assurance systems with a commitment to ensuring building, infrastructure and environment quality, safety and security.</p>	<ul style="list-style-type: none"> • Promoting technology development and digital transformation to improve productivity and safety and to create new value • Ensuring safe, high-quality buildings through rigorous quality assurance systems 	<ul style="list-style-type: none"> • Mechanizing, automating and employing ICT in construction 	 
	6	 <p>Construction that emphasizes people and partnerships</p> <p>Kajima promotes work-style reform at construction sites, secures construction personnel, hires and nurtures human resources, and creates an attractive working environment in which every employee can excel. We create value in cooperation with our business partners and promote innovation through collaboration with external parties.</p>	<ul style="list-style-type: none"> • Ensuring occupational health and safety • Promoting work-style reform and securing construction personnel • Reforming the multilayer subcontracting structure • Training and developing people with an emphasis on diversity • Using open innovation 	<ul style="list-style-type: none"> • Kajima Smart Future Vision 	     
	7	 <p>Practicing corporate ethics</p> <p>Kajima promotes fair and honest corporate activities by practicing thorough compliance and risk management. Each employee and director of the Group acts ethically and earns the trust of customers and society through initiatives in all parts of the supply chain.</p>	<ul style="list-style-type: none"> • Ensuring rigorous compliance • Enhancing risk management systems and process management • Conducting fair supply chain management • Respecting human rights 		

Progress of the Kajima Group Medium-Term Business Plan (FY2021–2023)

In FY2021, we launched the Kajima Group Medium-Term Business Plan (FY2021–2023). It sets out important measures and financial targets for the Group, with due consideration for the medium- to long-term Goals for 2030, as based on the Kajima Group Vision and material issues. Despite the intensely competitive environment projected, the plan's theme is supporting the Group's future development by investing to drive medium- to long-term growth while maintaining and improving business performance.

We have generally performed well in FY2022, the second year of the Medium-Term Business Plan, and we will steadily continue to promote measures and investments aimed at medium- to long-term profit growth.

Three Pillars/Goals for 2030

<p>1</p> <p>Further strengthen core businesses</p>		<ul style="list-style-type: none"> • Promote sustainable growth by utilizing intangible and tangible assets as well as digital and conventional technologies, while building a strong value chain • Build efficient production systems by applying factory processes to construction sites and visualizing the entire supply chain
<p>2</p> <p>Strive to create new value</p>		<ul style="list-style-type: none"> • Acquire new revenue sources in the promising fields to solve social challenges • Establish an open innovation promotion system, and create various new businesses
<p>3</p> <p>Establish a strong management foundation and promote ESG measures for growth and transformation</p>		<ul style="list-style-type: none"> • Achieve Target 2030 as a step toward fulfilling the Kajima Environmental Vision: Triple Zero 2050 • Achieve safe, secure and comfortable worksites that all construction engineers will find attractive • Build free and open organizations with diverse human resources • Pursue research and development based on the world's most advanced knowledge to direct the business

Financial Targets

	FY2021 results	FY2022 results	FY2023		FY2024-2026 target	FY2030 target
			Target	Forecast		
Revenues	¥2,079.6 billion	¥2,391.5 billion	Approx. ¥2,250 billion	¥2,480 billion	—	—
Net income attributable to owners of the parent	¥103.8 billion	¥111.7 billion	¥95 billion or more	¥105 billion	Reliably ¥100 billion or more	¥130–150 billion or more
Return on equity	11.4%	11.2%	—	—	Above 10% level	

Investment Plan Progress

The Kajima Group has positioned investment for the future as a priority item in the Medium-Term Business Plan, and plans to invest a total of ¥800 billion over three years and recoup ¥360 billion through the sale of properties in the real estate development business. The plan is making steady progress, with investment and payback in FY2022 exceeding those in FY2021.

In particular, our investment in overseas real estate development projects is progressing at a faster pace than the rate of time elapsed relative to our three-year investment plan, partly because the yen has weakened more than when the plan

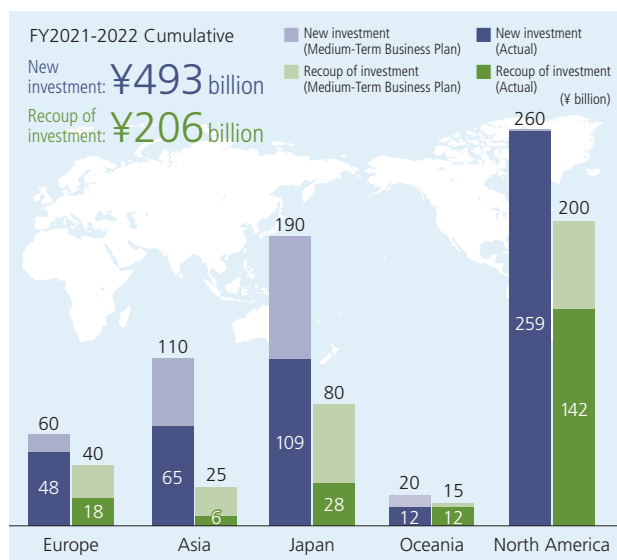
was formulated. We have recorded a high level of gains on sales as a result of our investments, and we intend to continue our aggressive stance in this area.

Other capital investments exceeded the plan, but were due to investments for the expansion of human resource development facilities and technology development and open innovation centers. [▶ Page 67](#) [▶ Page 77](#)

We will continue to promote investment in prime projects and investment that contributes to the strengthening of the management foundation in FY2023.

(¥ billion)	FY2021 results	FY2022 results	Medium-Term Business Plan (FY2021–2023)
Domestic/overseas real estate development businesses (Recoup of investment)	191 (105)	302 (101)	640 (360)
Domestic real estate development business (Recoup of investment)	51 (11)	58 (17)	190 (80)
Overseas real estate development business (Recoup of investment)	140 (94)	244 (84)	450 (280)
R&D and digital investment	18	18	55
Strategic investment	21	22	60
Other	20	31	45
Total	250	373	800
Net investment	145	272	440

Domestic/Overseas Real Estate Development Businesses



Strategic Investment

To enhance this business area, we founded a wholly-owned subsidiary, Eaton Real Estate Co. Ltd., and purchased Namikikan Ginza and CURA GINZA to provide high-end real estate and expand our lineup.

Property of Eaton Real Estate Co., Ltd.



Namikikan Ginza
(commercial facilities)



CURA GINZA
(offices and commercial facilities)

Financial Measures and Shareholder Returns

Reduction of Cross-Shareholdings

	FY2021 Results	FY2022 Results	Planned for FY2023
Number of stocks sold (including partial sales)	17 stocks	17 stocks	Approx. 20 stocks
Amount of sales	¥14.8 billion	¥10.0 billion	Cumulative total for 3 years Over ¥30 billion

Shareholder Returns

	FY2021 Results	FY2022 Results	Forecast for FY2023
Cash dividends per share	¥58	¥70	¥70
Net income per share	¥208.00	¥227.98	¥216.01
Dividend payout ratio	27.9%	30.7%	32.4%
Acquisition of treasury share	¥20 billion	¥10 billion	¥10 billion

Kajima Group Medium-Term Business Plan (FY2021–2023), and Material Issues and KPIs

Medium-Term Business Plan (FY2021–2023)	Key Measures for 2023	FY2022 Specific Results
<p style="text-align: center;">1</p> <p style="text-align: center;">Further strengthen core businesses</p>	<p style="text-align: center;">Strengthen proposal, design-build, and engineering capabilities with a focus on growth areas</p>	<ul style="list-style-type: none"> Completed Offshore Wind Farms at Akita Port and Noshiro Port. Competitiveness in the renewable energy domain was strengthened. ▶ Page 41 Obtained patent for Smart Deck Renewal (SDR) System, a technology for replacing road bridge slabs. ▶ Page 44 Received multiple orders for large-scale production facility construction projects in priority fields, including design and construction of semiconductor plants and pharmaceutical and biotechnology-related plants. Completed seismic damping work at YEBISU GARDEN PLACE TOWER. ▶ Page 72
	<p style="text-align: center;">Further promote the development of next-generation construction manufacturing systems</p>	<ul style="list-style-type: none"> Set a new domestic record for the monthly amount of casting at dam construction during the embankment construction at Naruse Dam by using the automated construction system A⁴CSEL. ▶ Page 71 Implemented face recognition entry/exit, smartphones for workers, and BIM as standard at all construction sites and promoted the development of robots and remote control tools that support smart construction.
	<p style="text-align: center;">Maximize customer value by expanding the business domain</p>	<ul style="list-style-type: none"> Established sales and construction systems for renewal demand including aging, BCP, and energy-saving measures. Conducted verification tests for the technology to assess critical locations on slopes with images, monitoring technology, and road facilities monitoring using optical fiber on the Atami Beach Line. Applied Field Browser to patrol activities. Sold HAKATA CONNECTA to Kajima Private REIT. Expanded the scale of REIT assets. ▶ Page 48
	<p style="text-align: center;">Increase profits by proactive investment in the real estate development business</p>	<ul style="list-style-type: none"> Completed profitable properties including KUDAN-KAIKAN TERRACE, YOKOHAMA CONNECT SQUARE, and HILTON OKINAWA MIYAKO ISLAND RESORT. ▶ Page 5 Invested in the U.S. distribution warehouse development business (13 projects initiated) and sold property with advantageous terms (10 properties sold). Acquired 55 Market Street (Singapore); opened Wink Hotel Hai Phong (Vietnam).
	<p style="text-align: center;">Build and enhance global platforms</p>	<ul style="list-style-type: none"> Expanded the rental housing complex business in the U.S. (13 projects initiated). Launched a distribution warehouse development project in Vietnam (Core5 Vietnam). Acquired equity interest in Polish renewable energy installation company.
<p style="text-align: center;">2</p> <p style="text-align: center;">Strive to create new value</p>	<p style="text-align: center;">Proactively promote businesses in solving social challenges</p>	<ul style="list-style-type: none"> Promoted renewable energy power generation facilities development projects in Poland (10 solar and 2 onshore wind projects). Applied an embedded formwork using carbon-negative concrete developed by CUCO* to actual construction.
	<p style="text-align: center;">Explore and create new businesses by promoting open innovation</p>	<ul style="list-style-type: none"> Established Eaton Real Estate Co., Ltd., a subsidiary specializing in the domestic high-end real estate development business. Construction RX Consortium membership grows to more than 160 companies.
	<p style="text-align: center;">Enhance functions for envisioning future society</p>	<ul style="list-style-type: none"> Established a joint venture company to promote and develop A⁴CSEL. Completed The GEAR (Singapore), an open innovation center. ▶ Page 67
<p style="text-align: center;">3</p> <p style="text-align: center;">Establish a strong management foundation and promote ESG measures for growth and transformation</p>	<p style="text-align: center;">Accelerate Triple Zero 2050 activities</p>	<ul style="list-style-type: none"> Set new CO₂ reduction targets for 2050 carbon neutrality; obtained SBT certification (July 2023). Established a technology to cultivate a large amount of large seaweed that contributes to the creation of blue carbon (carbon absorbed and stored by marine ecosystems).
	<p style="text-align: center;">Secure next-generation workforce while maintaining and strengthening the supply chain</p>	<ul style="list-style-type: none"> The first class of students graduated from Kajima Partner College. ▶ Page 79 Continued efforts to reform the multilayered subcontracting structure. ▶ Page 90
	<p style="text-align: center;">Develop people and systems to promote growth and transformation</p>	<ul style="list-style-type: none"> Opened the Kajima Technical Center, a facility for practical experience and hands-on training, in Tsurumi-ku, Yokohama. ▶ Page 77 Collaborated with One Team Inc. to promote operation DX, including robot introduction, adoption of RPA, and paperless office. ▶ Page 62 Continued to raise wages for employees. Consider introducing a stock incentive plan for employees. Promoted activities by the Work-Style Reforms Promotion Committee. ▶ Page 80
	<p style="text-align: center;">Strategically promote research and development and DX</p>	<ul style="list-style-type: none"> Launched the operation of a portal site for digital human resources development. Promoted DX education by level. Started prize-giving for intellectual property as awards from the President. ▶ Page 68

* Consortium established by 55 corporates, universities and research institutions as part of the Green Innovation Fund Project where NEDO (New Energy and Industrial Technology Development Organization) supports from research and development, demonstration to social implementation for 10 years to achieve carbon neutrality by 2050. The consortium is developing concrete for carbon utilization with the goal of 2030.

Material issues

Society

- 1 Creating functional urban, regional and industrial infrastructure capable of meeting new needs
- 2 Developing sustainable and long-lasting social infrastructure
- 3 Providing technologies and services for disaster preparedness that support safety and security

Environment

- 4 Contributing to society's transition to a carbon-free footprint

Platform for Business Sustainability

- 5 Focusing on unwavering technological innovation and Kajima quality
- 6 Construction that emphasizes people and partnerships
- 7 Practicing corporate ethics

Material Issues and KPIs of the Medium-Term Business Plan		Progress of KPI	
		FY2022 results	FY2023 target
1	Civil Engineering: Renewable energy domain sales	¥31.4 billion per year	¥30 billion per year
	Civil Engineering: Infrastructure upgrade domain sales	¥15.5 billion per year	¥20 billion per year
	Number of projects that use optical fiber monitoring for disaster prevention	Two-year total: 10 projects	Three-year total: 10 projects
5	Building Construction: Smart construction under development Percentage of technologies actually applied to 5 sites or more	50%	60%
2	Building Construction: Renovation sales	¥196.9 billion per year	¥200 billion per year
	Building Construction: Number of buildings installed with Kajima Smart BM	21 buildings per year	20 buildings per year
1	Investment by domestic and overseas real estate development businesses	¥302 billion per year Two-year total: ¥493 billion	Three-year total: ¥640 billion
	Investment by overseas real estate development business	¥244 billion per year Two-year total: ¥384 billion	Three-year total: ¥450 billion
3	Number of buildings that employ BCP solutions	78 buildings per year	60 buildings or more per year
6	Strategic investment	¥22 billion per year Two-year total: ¥43 billion	Three-year total: ¥60 billion
4	Reduction of CO ₂ emissions per unit of sales (Scope 1 and 2) vs. FY2021	1% reduction vs. FY2021	42% reduction in FY2030 vs. FY2021
6	Implementation of construction systems that limit the scope of contracts to secondary subcontractors, in principle	74.3%	100%
6	New E Award recipients (incentive system for outstanding skilled workers)	768 people per year	800 people per year
7	Kajima Group Conduct Guidelines for Business Partners survey coverage (major business partners)	60.4%	100%
7	Serious legal violations	0	0
6	Number of female employees in managerial positions	189	FY2024: 162 (three-fold increase from 54 in FY2014)
5	Investment in R&D and digitalization	¥18 billion per year Two-year total: ¥36 billion	Three-year total: ¥55 billion

Message from the General Manager of the Treasury Division



We will strive for effective cash allocation and asset efficiency that balance investment in growth and stockholder returns.

Ken Uchida

Director, Senior Executive Officer,
General Manager, Treasury Division

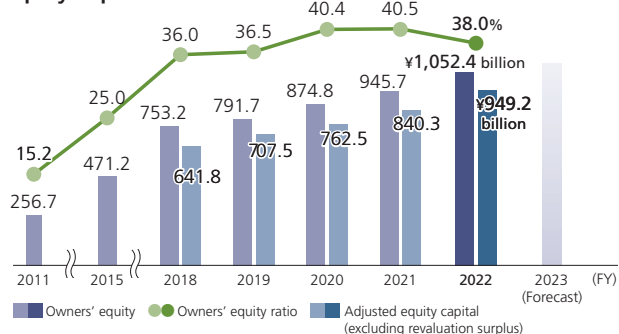
Review of the Previous Fiscal Year and Response to Current Economic Conditions

In FY2022, the second year of Medium-Term Business Plan (FY2021-2023) (“the current Medium-Term Business Plan”), we saw progress in the construction and renewal of public infrastructure, a recovery trend in capital investment in the manufacturing industry, and the realization of projects for private sector buildings such as offices and research facilities, as well as urban redevelopment projects, as the economy began to recover from the economic downturn caused by the COVID-19 pandemic. Under such conditions, the construction business was generally busy while managing the challenges of rising material prices and the shortage of skilled workers, and we focused on promoting projects for the real estate development business. In addition, in the Kajima Group which has a relatively high ratio of overseas operations, we managed our business operations while responding to changes in economic conditions, such as the rapid depreciation of the yen up to the middle of the fiscal year and the sharp rise in overseas interest rates. Fortunately, the exchange rate settled down in

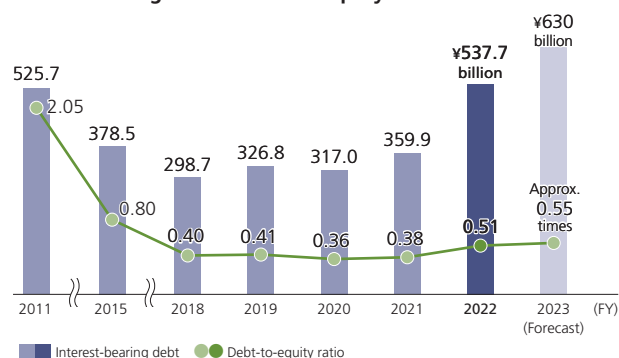
the second half of the fiscal year and has remained relatively stable since then, although some volatility remains. Therefore, in the final year of the current Medium-Term Business Plan, there has been no need to make major revisions to the business forecasts set at the beginning of the fiscal year. Accordingly, business operations for the current fiscal year are also proceeding based on the basic policies set out in the current Medium-Term Business Plan and the extension of measures implemented up to the previous fiscal year.

Looking back from the final year of six-year period of Medium-Term Business Plan (FY2018-2020) (“the previous Medium-Term Business Plan”) and the current Medium-Term Business Plan, which evolved from the previous one, we have consistently strived to improve the profitability of the construction business, despite being affected by various external factors both in Japan and overseas. In the real estate development business, we have accelerated the capital cycle of short-term merchant development projects and continued to steadily develop long-term hold projects in accordance with our strategy.

Owners' Equity / Owners' Equity Ratio / Adjusted Equity Capital



Interest-Bearing Debt / Debt-to-Equity Ratio



Construction Business

The construction business is characterized by the use of human resources such as skilled workers and site supervisors, and resources such as construction materials and equipment, on actual land to build a unique construction product. In order to build high-quality buildings, whether they are infrastructure that provide safety and security, spaces that make people's lives more comfortable, or buildings and equipment that control global warming, it is essential to continuously reinforce research and technological development, including the creation of intellectual property, to build with the optimal technologies and construction methods. Our R&D expenditures have risen to around ¥20 billion annually, and this represents more than 1% of non-consolidated revenue. On the other hand, in terms of measures to secure workers, we have actively allocated funds to support the recruitment of skilled workers at partner companies, incentive programs for foremen with excellent skills, the training courses for young executives and foremen from partner companies (Kajima Partner College), and IT investments and operational efficiency improvements to reduce on-site operation hours in response to the overtime work limit regulations that will take effect in FY2024. We recognize the need to continually allocate funds to these measures. In addition to various initiatives at the Kajima Group, we are also promoting the activities of developing general purpose technologies and standardizing them to increase convenience through the Construction RX Consortium, in which general contractors, partner companies, and venture companies participate. With a view to the future of the construction system, we believe that this is another initiative to add rational reforms to the conventional prime contractor-subcontractor relationship framework, which is oriented toward increasing exclusivity to the prime contractor.

We believe that those who proactively invest and put their efforts to the structural reform of the construction industry can take the lead of this movement. In addition, given the institutional and commercial asymmetry between the receipt of construction payments from customers and payments to subcontractors, with the former lagging behind the latter, there is a large demand for funds to further improve payment terms to subcontractors. We recognize that the investment of such funds is also an important policy in

terms of financial management.

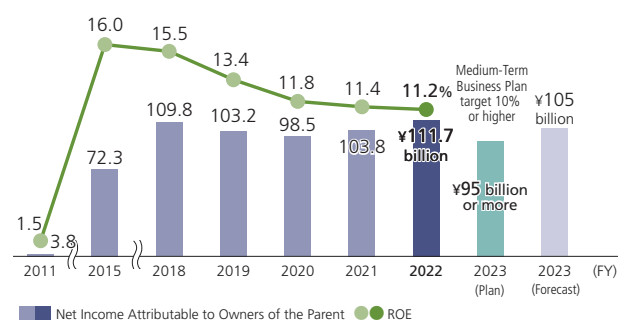
The non-consolidated construction business, the biggest profit driver of the Kajima Group, has a profit structure and profit level that can be shown as a following model. With the revenue of ¥1.5 trillion, we need to secure gross profit of ¥150 billion to ¥180 billion (gross profit margin of 10% to 12%), covering selling, general and administrative expenses of 5% to 6% including R&D expenses and measures to secure construction workers, and achieve an operating income of 5% to 7% or higher. We believe that it will become increasingly necessary to secure stable gross profits from construction projects, given the projected gradual increase in costs required to continue effective research and technological development, to reform the structure of the conventional prime contractor-subcontractor relationship, and to secure workers by encouraging new workers to join the construction industry.

Real Estate Development Business

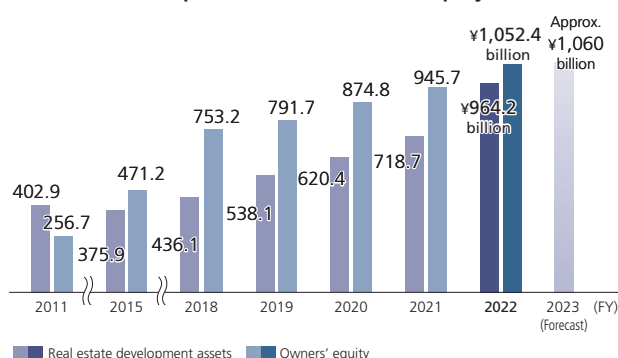
For the real estate development business, profitability varies greatly depending on the asset type. The main driver of the real estate development business in the current Medium-Term Business Plan is the distribution warehouses pursuing short-term merchant development business model in overseas operations. If we assume the total overseas real estate development business to be a model, with assets of ¥500 billion to ¥550 billion and revenue of ¥120 billion to ¥170 billion, or an average of ¥150 billion, from which we deduct 60% to 70% of development costs, selling, general and administrative expenses, interest expenses, and taxes, and add equity in earnings of partnership/unconsolidated subsidiaries and affiliates and gain on sales of marketable and investment securities related to the real estate development business, net income of at least ¥25 billion would result in a ratio of 15% to 20% of net revenues.

If asset efficiency is taken as a big picture measure, ROIC is more than 5% for an asset size of ¥500 billion to ¥550 billion, which is higher than our WACC (Weighted Average Cost of Capital: 4.0% to 5.5%). The target for the asset balance is to achieve high asset efficiency by maintaining turnover by selling assets in line with the increase in assets due to new business launches. In recent years, there have been changes in the business environment, such as rising construction costs, a higher financial burden due to the rise in interest rates, and

Net Income Attributable to Owners of the Parent / ROE



Real Estate Development Assets / Owners' Equity



Message from the General Manager of the Treasury Division

fluctuations in the investors' appetite, and we are striving to ensure performance by promptly detecting these changes and responding to them in a flexible and agile manner.

The domestic real estate development business is at the same level as the overseas real estate development business in terms of scale, but its ratio of long-term hold operation is higher than that of the overseas business. Therefore, while striving to maintain and improve yields in individual leasing operations, etc., we are implementing improvement measures and asset replacement for properties with declining yields as appropriate. We are aiming to maximize returns on large projects currently at pre-construction stage by paying close attention to project preparation and absorbing changes in circumstances occurred from the project's initial approval. We need to obtain favorable borrowing terms from lenders and leverage against increasing project costs, and we will strive to make effective use of interest-bearing debt and properly manage balances, both at the individual project level and at the segment level as a whole.

Cash Allocation

The diagram below shows the outlook for cash inflows and outflows, including construction and real estate development business, for the three years of the current Medium-Term Business Plan, as well as the medium- to long-term targets.

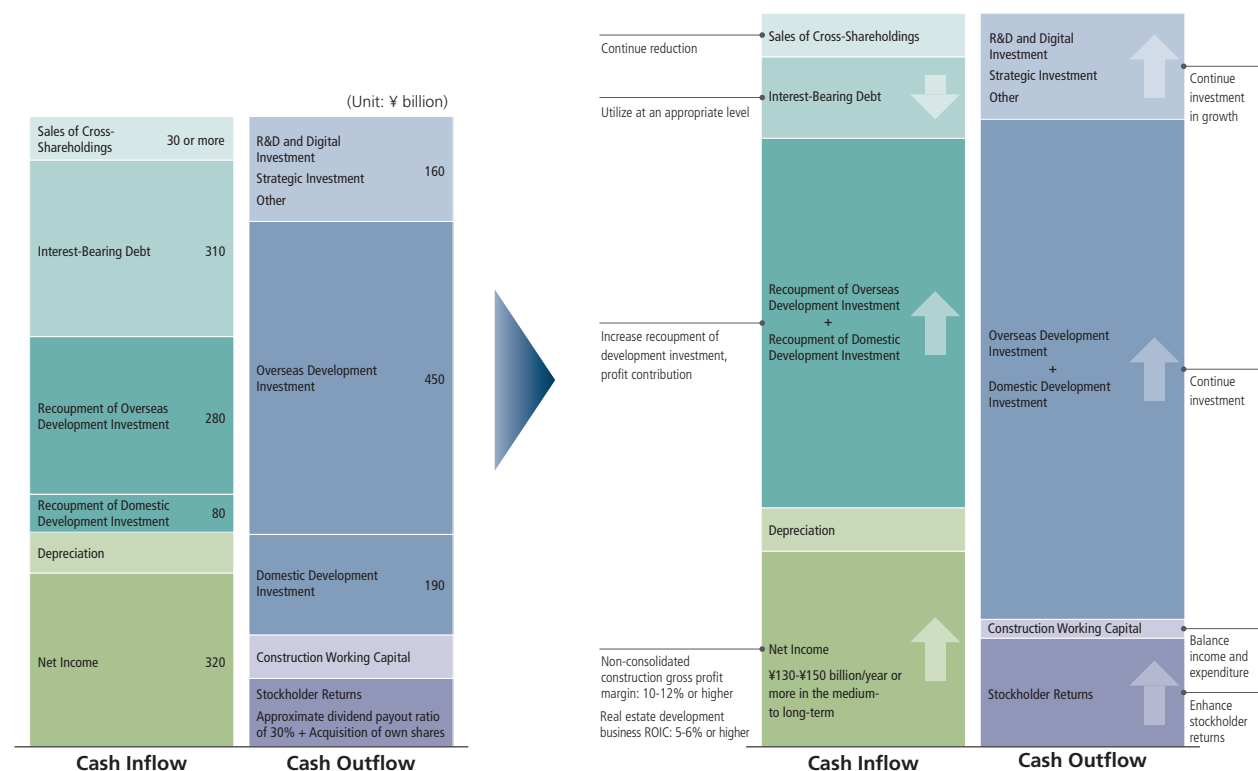
The strong demand for funds (cash outflow) for growth investments in R&D and digital investments, strategic investments, and capital investments, as well as development

investments in Japan and overseas, is mainly covered by the funds from the recoupment of domestic and overseas real estate development projects and other funds, such as the active use of interest-bearing debt, funds from sales of cross-shareholdings, and the remaining funds of net income after allocating to stockholders (cash inflow). The next medium-term business plan will be formulated after due consideration. However, if we assume the future growth model as an extension of the current Medium-Term Business Plan by further strengthening the profit drivers, we will continue to focus on R&D and digital investments, investments in domestic and overseas real estate development projects, and stockholder returns as the main cash outflow. For the cash inflow, we are aiming to increase the recoupment of the domestic and overseas real estate development investments as a result of the previous and current Medium-Term Business Plan, while also aiming to converge interest-bearing debt to an appropriate level. However, in the case of new projects that go beyond framework of the currently envisioned real estate development business model, the flexible use of interest-bearing debt will again be an option.

With regard to net income, we expect that productivity improvements and cost reductions in the construction business as well as R&D and digital investments will lead to higher profits, and that the increased recoupment of real estate development investment will contribute to higher profits. The increase in net income will be the source of the higher returns to stockholders.

Cash Allocation

Medium-Term Business Plan (FY2021-2023) Outlook



Holding of Listed Stocks Including Cross-Shareholdings

In response to the target in the current Medium-Term Business Plan of selling cross-shareholdings totaling ¥30 billion or more during the three years through FY2023, ¥24.9 billion has been sold over the past two years. We are continuing to sell cross-shareholdings in the final year of the Plan to achieve the target.

Against the backdrop of the revision of the Corporate Governance Code, more detailed disclosure in Securities Reports, and growing demand from the market to reduce cross-shareholdings, we have been able to make steady progress on selling cross-shareholdings year by year with the understanding of our customers (i.e., issuing companies). The Board of Directors deliberates on the appropriateness of holding stocks based on the basic policy to hold stocks only if they contribute to increase corporate value, and to sell them when that rationale weakens. We have been using various indicators such as order volume, future construction plans, construction profitability and dividend yield to determine the significance of holding these cross-shareholdings, but we have also independently defined an “overall yield” that takes into account gross construction profit, dividend yield, and the market value of stock holdings to compare with capital costs. The “overall yield” on our total cross-shareholdings is well above our cost of equity (6.5% to 8.0%). However, we have not used this as a reason for refraining from reductions, even if individual stocks have high ratings in the yearly selection of candidate stocks for sale. We have been reducing stocks “without exception” for the past two years as a result of returning to the necessity of reducing the cross-shareholdings.

On the other hand, venture investments in R&D and digital investments and strategic investments, as well as investments to acquire technologies and enhance the supply chain, are also increasing. Although the individual investment amounts are not large, cases do occur in which the number of unlisted stocks increases. We would like to carefully provide supplementary examples to distinguish between stocks held as cross-shareholdings to be reduced and unlisted stocks to be increased as a consequence of growth investment.

The reduction of cross-shareholdings in the next medium-term business plan needs to be an extension of the goals of the current Medium-Term Business Plan. With a view

to the final year of the next medium-term business plan, we consider setting a target value for the ratio of cross-shareholdings to net assets is also an option.

Addressing Issues Related to Market Valuation and Stockholder Returns

For some time, the Board of Directors has analyzed and evaluated the profitability and cost of capital of our business. In light of the Tokyo Stock Exchange’s request “Action to Implement Management that is Conscious of Cost of Capital and Stock Price,” we are also deepening our discussions on market valuation.

In recent years, we have continuously achieved ROE of 10% or higher, securing a return on capital that exceeds the cost of capital. However, in order to earn a further reputation in the stock market, we recognize that we must appropriately communicate the growth potential of our Group to the market to enhance its market value.

In response, we will continue and strengthen the measures and investments based on our Medium-Term Business Plan, and in addition to clarifying growth strategies in each of our businesses, we will enhance information disclosure regarding our response to environmental issues and human capital and actively hold careful dialogues with investors and other stakeholders to improve our market valuation.

We are also considering further enhancement of stockholder returns, taking into consideration of maintaining a balance with investment in growth. We have been returning profits to stockholders based on our stockholder return policy revised at the start of the current Medium-Term Business Plan, which stipulates, “we will 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.” In light of expectations from the stock market, we increased dividends significantly in the previous fiscal year and secured a dividend payout ratio of 30%. We believe that this approach must be passed on to the stockholder return policy in the next medium-term business plan.

While responding to various demands and challenges facing companies today, we are aiming to improve profitability as a result of investment in growth, to increase ROE and earnings per share (EPS), and to further enhance corporate value.

Reduction of Cross-Shareholdings

FY	Stocks held	Listed	Unlisted	Carrying amount	Stocks sold	Proceeds from sale
2015	385	181	204	¥224.4 billion	13	¥1.3 billion
2020	320	144	176	¥266.5 billion	20	¥9.4 billion
2021	316	135	181	¥258.7 billion	17	¥14.8 billion
2022	306	125	181	¥251.0 billion	17	¥10.0 billion
2023 (Planned)	-	-	-	-	Approx. 20	(FY2021–2023) ¥30 billion or more

*Number of stocks sold and proceeds from sale include partial sales.