

[Value Creation Story]

Materiality and KPIs

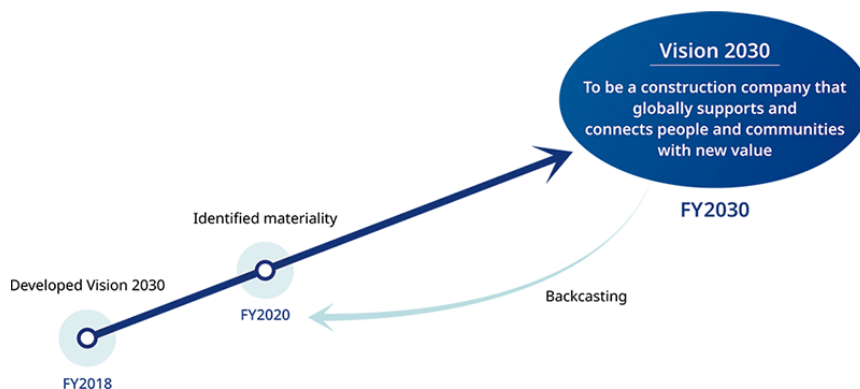


[Vision 2030 and Material Issues \(Materiality\)](#) ▾ [Materiality Identification Process](#) ▾

Vision 2030 and Material Issues (Materiality)

Society is changing rapidly due to serious social issues, such as the shrinking of domestic construction demand caused by the declining birthrate and aging population, a growing shortage of skilled construction workers, the rapid progress in digitalization, the increase of natural disasters caused by climate change, and the spread of COVID-19.

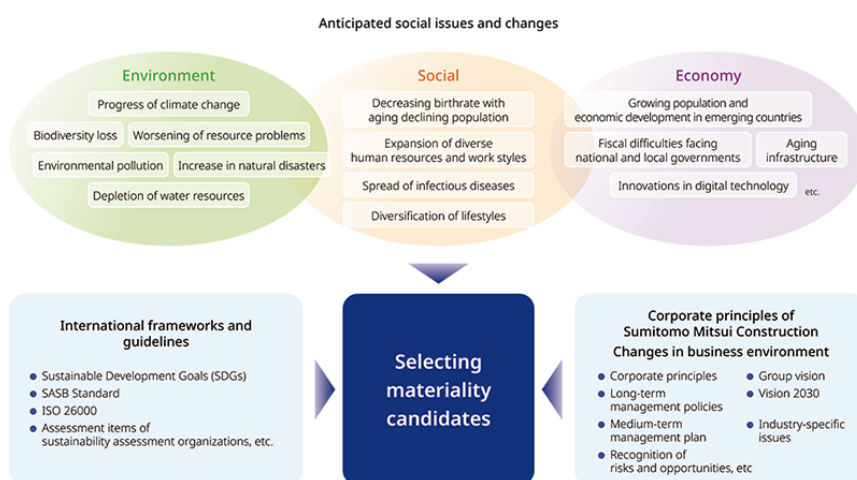
In response to these changes in the business environment, we have set our Vision 2030 in fiscal 2018 as “a construction company that globally supports and connects people and communities with a new value. The vision sets out our aim to achieve a sustainable society and the continuous growth of the SMCC Group by taking advantage of the Group’s strength and encouraging individual employees to take future-oriented actions. In addition, in fiscal 2020, we identified the material issues (materiality) that should be prioritized through backcasting from the future vision to realize our Vision 2030, based on social issues and requests from stakeholders. From now on, we will work to realize our Vision 2030 based on materiality. The materiality will be reviewed as necessary in light of changes in society and the business environment.



Materiality Identification Process

STEP 1: Sorting issues

We have sorted out keywords related to social issues and changes expected by 2030 based on internationally recognized codes of conduct, frameworks, and guidelines, such as the Sustainable Development Goals (SDGs), the Guidelines for Social Responsibility (ISO 26000), and the SASB Standard; the evaluation items of sustainability assessment organizations; issues faced by the construction industry; and the recognition of risks and opportunities. We then selected materiality candidates in view of our corporate principles and our Vision 2030.



STEP 2: Evaluating the degree of materiality

We evaluated the selected materiality candidates based on the two axes: “Degree of materiality for the company” and “Degree of materiality for stakeholders.” We evaluated the “degree of materiality for the company” by conducting a questionnaire survey targeting division managers and the “degree of materiality for stakeholders” based on the opinions of external experts on ESG.

Major comments from the experts

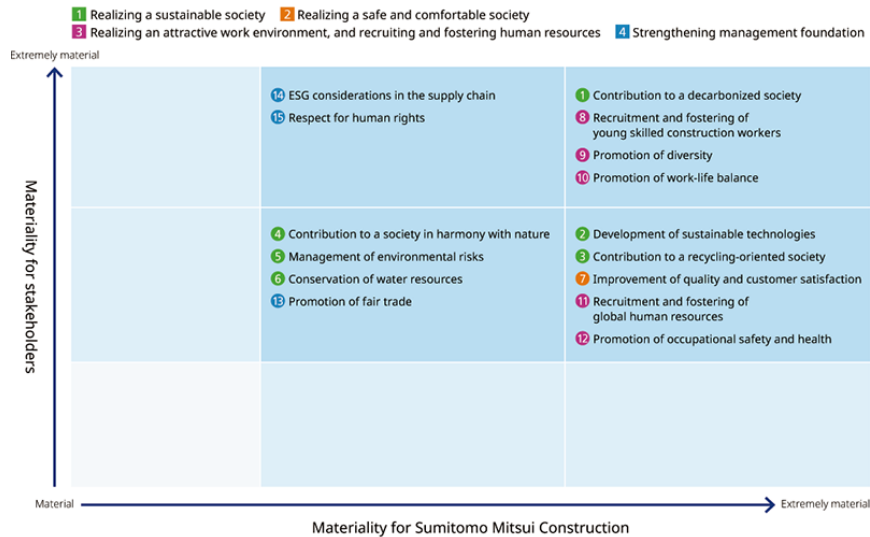
<p>Masao Seki, Professor (non-tenured), School of Business Administration, Meiji University</p>	<ul style="list-style-type: none"> • To achieve our Vision 2030: To be a construction company that globally supports and connects “People” and “Communities” with a new value, the SMCC Group is expected to work on the present issues, the matters becoming even more important in the future, and global issues. • Decarbonization is a critical issue. The SMCC Group is expected to consider the various social impacts of the transaction to a decarbonized society as it moves forward with its efforts. • We are living in an era where companies are firmly held responsible for human rights. The key point is how to minimize human rights risks through the PDCA cycle. The SMCC Group is expected to take its time to make effective efforts instead of simply taking an easy-to-make approach.
<p>Hiromi Sakazume, Professor, Department of Lifelong Learning and Career Studies, HOSEI University</p>	<ul style="list-style-type: none"> • The construction industry and various other industries are facing the problems of young human resource development and their early departure from the workforce. Young people these days desire to see their growth to see where they are in their growth stages. The SMCC Group is expected to develop young human resources, including career development, diversity, and work-life balance. • It is desirable to set KIPs for materiality and promote initiatives. While the paid leave utilization rate, overtime ratio, and childcare leave utilization rate are common KPIs, it is also desirable to be able to comprehensively evaluate initiatives for diversity and work-life balance through the setting of KPIs.
<p>Miyako Enokibori, Senior Manager, CDP Japan</p> <p>Kyoko Narita, Senior Manager, CDP Japan</p>	<ul style="list-style-type: none"> • As for decarbonization, the next five to ten years are said to be crucial. The first step toward decarbonization is to accurately grasp the emissions from the company and the entire value chain. It is then expected that targets will be set based on Science Based Targets (SBT). • In supply chain management, it is important to understand Scope 3 emissions, to understand the impact of water on watershed areas and water sources, including not only use but also drainage and pollution, and to consider sustainable construction (sustainable material procurement as upstream and provision of energy-saving buildings as downstream). Although it is difficult to cover all at once, it is desirable to deepen understanding and consider how to respond gradually. • Sumitomo Mitsui Construction cites the strengthening of its overseas business. When it comes to overseas business, geopolitical risks and sovereign risks have traditionally been emphasized. In recent years, however, local human rights issues and approaches to local communities have been considered very important from the perspective of sustainability. Therefore, it is desired to be aware of such perspectives.

(Note) In no particular order; affiliations and positions of experts are as of the time of the opinion exchange

STEP 3: Identifying materiality

We have identified the materiality we have evaluated and summarized through the resolution of the Board of Directors. On the other hand, we have separately positioned the items related to the foundation of corporate management and the mission as a construction company as material issues that form the premise of our business activities.

Materiality Matrix



Material issues that form the premise of our business activities

<p style="text-align: center;">Material issues that form the foundation of corporate management</p> <ul style="list-style-type: none"> ● Sophistication of governance ● Promotion of risk management ● Strengthening of compliance 	<p style="text-align: center;">Material issues linked to our mission as a construction company</p> <ul style="list-style-type: none"> ● Urban and residential development to support improvement in quality of life ● Establishment of long-lived, disaster-resistant infrastructure ● Supporting socioeconomic development through infrastructure development
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STEP 4: Setting KPIs

We have established KPIs for the identified materiality to set specific targets and target years. We will continue to put the KPIs on the PDCA cycle and work on activities to solve issues.

Materiality and KPIs

Materiality	KPI	Target	Target year
1 Realizing a sustainable society			
① Contribution to a decarbonized society	CO ₂ emission reduction in the construction phase (CO ₂ /billion yen)	50% lower than 1990	2030
② Development of sustainable technologies	Research and development costs associated with sustainable technologies	480 million yen or more	2021
③ Contribution to a recycling-oriented society	Recycling of construction waste	100%	2030
④ Contribution to a society in harmony with nature	Number of biodiversity conservation activities	4 or more civil engineering cases 2 or more building construction cases	2021
⑤ Management of environmental risks	Serious violations of environment-related laws and regulations (fines/sanctions)	0	2021
⑥ Conservation of water resources	Number of workplaces implementing wastewater quality control (cases)	2 or more civil engineering cases	2021
2 Realizing a safe and comfortable society			
⑦ Improvement of quality and customer satisfaction	Average patrol points based on in-house standards	77 points or more	2021
	(Civil engineering) Annual average points for engineering performance evaluation points	80 points or more	2021
	(Building construction) Operation of a project evaluation system that includes customer satisfaction	Start of operation	2021
3 Realizing an attractive work environment, and securing and developing human resources			
⑧ Recruitment and fostering of young skilled construction workers	Promoting two days off per week (eight-day or longer closure per four weeks)	100% at new project sites	2021
	Promoting registration for the Construction Career Advancement System (primary contractor)	100%	2023
	Promoting registration for the Construction Career Advancement System (secondary contractor)	100%	2023
	Promoting registration for the Construction Career Advancement System (tertiary contractor)	100%	2023
⑨ Promotion of diversity	Percentage of female managers	2.5% or more	2021
	Percentage of female employees on the major career track among new employees hired as part of regular recruitment	20% or higher	2021
	Percentage of female employees on the major career track among new employees hired as part of midcareer recruitment	10% or more	2021
	Employment rate of people with disabilities	2.3% or higher	2021
	Retirement reemployment ratio / continued employment ratio	90% or higher	2021
⑩ Promotion of work-life balance	Average number of overtime and holiday work hours per month during a year for employees (excluding managers and supervisors)	Less than 60 hours	2021
	Average annual paid leave utilization rate	50% or higher	2021
	Percentage of male employees taking childcare leave	80% or higher	2021
⑪ Recruitment and fostering of global human resources	Number of foreign nationals recruited in regular recruitment	3 to 5 persons	2021
	Recruitment of global human resources (domestic to overseas, overseas to domestic)	35 persons	2021
	Education of language and other skills for receiving human resources in Japan and sending them overseas	60 persons	2021
⑫ Promotion of occupational safety and health	Frequency rate	0.6 or less	2021
	Severity rate	0.02 or less	2021
4 Strengthening the management base			
⑬ Promotion of fair trade	Collection rate of written pledge for bid-rigging elimination	100%	2021
⑭ ESG considerations in the supply chain	Confirming the status of consideration of the CSR procurement policy (compliance items) when evaluating partner companies	100%	2021
⑮ Respect for human rights	Rate of participation in human rights awareness education	100%	2021
	Conducting human rights due diligence	100%	2021