

# Sumitomo Mitsui Construction Group

## Mid-term Management Plan 2019-2021

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February 6, 2019



**SUMITOMO MITSUI CONSTRUCTION CO.,LTD.**

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# 1. Introduction

In the “Mid-term Management Plan 2016-2018” the entire company Top Priority was to recover the damaged credibility and corporate value caused by the defective Piling Work in the past and set the theme “Restoring credibility and enhancing our corporate value”. As we made concerted efforts to achieve the plan, profits exceeded the targets throughout the period of operation due to the active construction market in Japan. We are also likely to achieve the targets in terms of capital-to-asset ratio and shareholder returns.

The business environment surrounding the construction industry is expected to face changes, including decrease of construction demand in Japan, increase shortage of work force, and rapid digitization of the construction production process. To achieve a sustainable society and continuous growth of the SMCC Group, responding to such changes in the business environment by taking advantage of the strengths of the Group and encouraging individual employees to take future-oriented actions, we set the “Vision 2030”: a construction company that globally supports and connects “People” and “Communities” with new value.

To realize the Vision, under this mid-term management plan, we will step up efforts for reforming the production system and securing, cultivating and vitalizing human resources—actions which were upheld in the Mid-term Management Plan 2016-2018. With the theme of “Accelerate Changes”, we will enhance our business competitiveness and create corporate value.

## 2. Mid-term Management Plan 2016-2018: Review (1)

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Steady efforts toward “Restoring Credibility and Enhancing Corporate Value”

- Profits are likely to exceed the plan targets.  
Marked record high earnings for the main business in fiscal 2016 and 2017.
- Achieved a capital-to-asset ratio of 20% or higher.
- Dividend increase for three consecutive years is likely; carried out payback.
- Achieved steady results with focus themes.

Focus theme	Summary
Reform production system	<ul style="list-style-type: none"> <li>• Aggressively took measures to eliminate quality defects to achieve supreme quality, which we continue to do as the unending activities of a construction company.</li> <li>• Promoted ICT use and operational efficiency improvement to improve productivity.</li> </ul>
Secure, cultivate and vitalize human resources	<ul style="list-style-type: none"> <li>• Steadily improved employee treatment as well as education and training programs.</li> <li>• Carried out the Action Plan that included a reduction in overtime/work on holidays, eight-days of closure per month at all sites, and diversity promotion. Making continued efforts to achieve work style reforms as early as possible.</li> </ul>

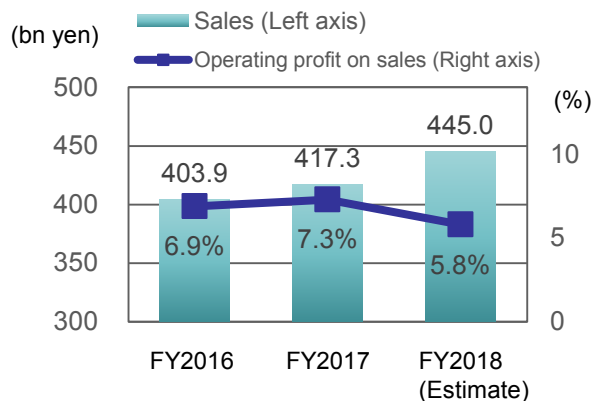
## 2. Mid-term Management Plan 2016-2018: Review (2)

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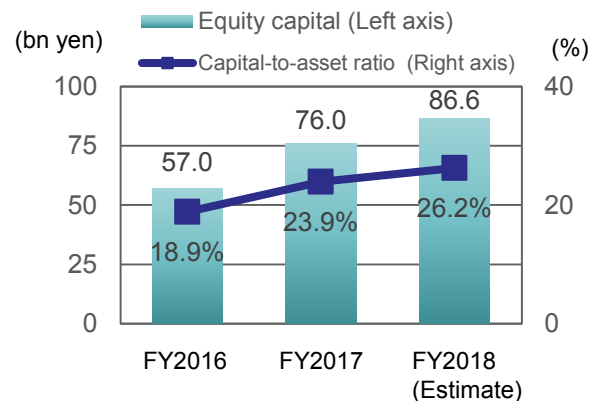
### ◆ Achievement of targets (consolidated)

	Fiscal 2018	
	Plan	Projection
Net Sales	¥440 billion	¥445 billion
Operating profit	¥22.0 billion	¥26.0 billion
Operating profit margin	5% or higher	5.8%
Capital-to-asset ratio	20% or higher	26.2%
Dividend payout ratio	20% or higher	21.4%

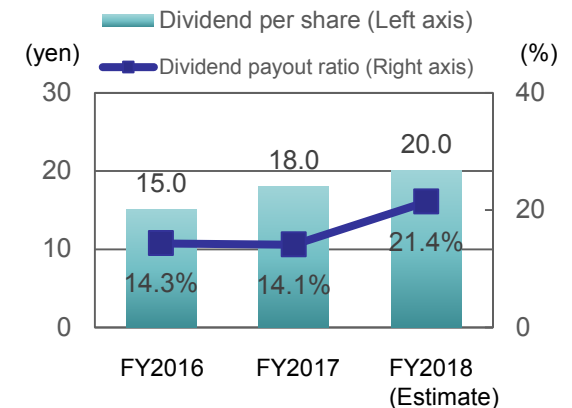
<Net Sales / Operating profit margin>



<Equity capital>



<Dividend>



\* Dividend per share in fiscal 2016 took into account the reverse split in October 2017.

# 3. The Business Environment

The business environment is expected to remain steady for the time being, but will become more uncertain in the mid- to long-term.

## ◆ Changing business environment

Social environment	<ul style="list-style-type: none"> <li>• Declining birthrate, aging society and decreasing population in Japan</li> <li>• Rapid advances in the innovation of digital technology</li> <li>• Population increase and economic development in emerging countries</li> <li>• Growing need for the development of a sustainable society</li> </ul>
Industrial environment	<ul style="list-style-type: none"> <li>• Increase shortage of work force</li> <li>• Decreasing investment in domestic construction</li> <li>• Qualitative change from new construction to maintenance &amp; renovation</li> <li>• Intensifying competition</li> </ul>

## ◆ Strengths of the SMCC Group

<p>[Technology]</p> <ul style="list-style-type: none"> <li>Achievements in bridges &amp; superhigh-rise collective housing</li> <li>Precasting design/construction/plants</li> <li>Abilities for technological development and management</li> </ul> <p>[Network]</p> <ul style="list-style-type: none"> <li>Connection with the Mitsui Group &amp; the Sumitomo Group, Shineikai, partners</li> <li>Cross-industrial cooperation to create innovation</li> </ul> <p>[Overseas Achievement/history]</p> <ul style="list-style-type: none"> <li>Presence in Asia region</li> <li>Strong relationship with local partners</li> </ul>
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We set the vision of what we should realize by 2030 to aggressively take action, leveraging the strengths of our Group, towards the uncertain future.

To Realize the Vision 2030



# 4. Vision 2030 (1)

はしも、  
まちも、  
ひとも。

Revolutionize  
construction process  
Next-generation  
construction system

Diverse services  
extended from  
construction

A Construction company that globally  
supports and connects “People” and  
“Communities” with new value

Sustainable technology

Global human resources





# 4. Vision 2030 (2)

## New value

### Revolutionize construction process Next-generation construction system

Next-generation construction system that links construction sites that are digitized with ICT to a 3D design/execution plan based on BIM/CIM



### Diverse services extended from construction

Creating services in new business areas, including renewable energy and social infrastructure management/operation, with proprietary technologies, expertise and cross-industrial cooperation



### Sustainable technology

Technologies that contribute to the development of a sustainable society from the three aspects of the environment, society and the economy (e.g., materials/methods of low environmental impact and technology that minimizes structures' life cycle cost)



### Global human resources

Diverse human resources who have a high degree of professionalism and education, have project management ability and can play active roles in and outside Japan



High productivity

Robust foundation for overseas business

Change in the business portfolio

Achieving Green Challenge 2030

# 4. Vision 2030 (3)

## High productivity

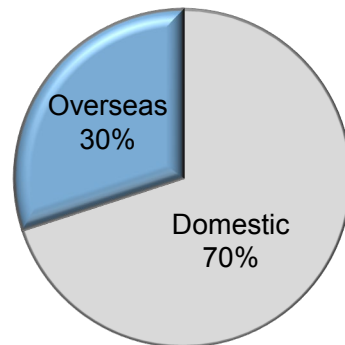
Efficient production process and a more pleasant workplace environment



Productivity improvement  
30%

## Robust foundation for overseas business

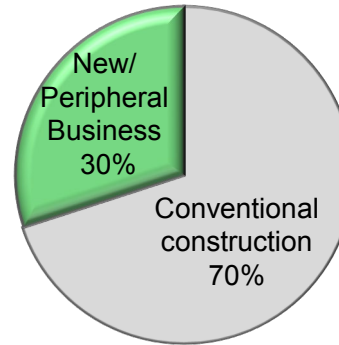
Business field expanding around the world (construction/service provision)



Consolidated overseas sales  
30%

## Change in the business portfolio

Diverse services extended from construction (energy, infrastructure operation)



New business/Construction peripheral business  
30%

## Achieving Green Challenge 2030

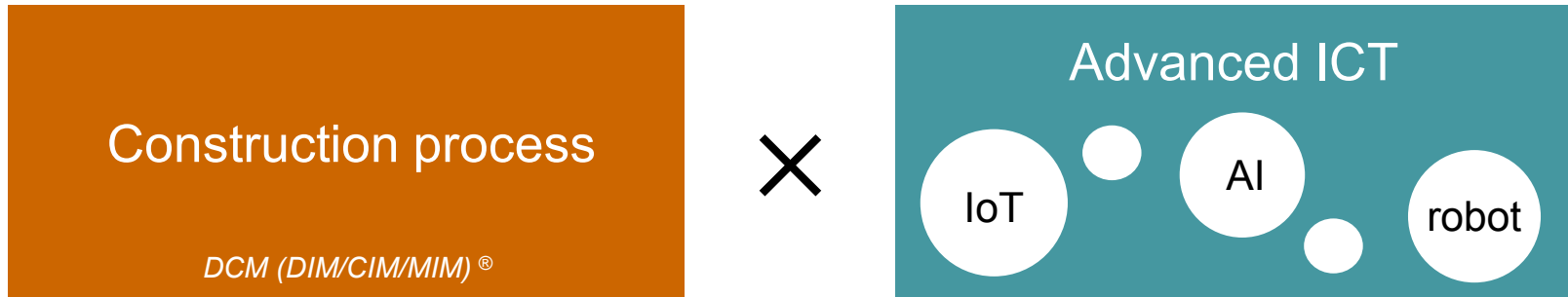
Contribution to the global environment



Achieve KPIs of Green Challenge 2030

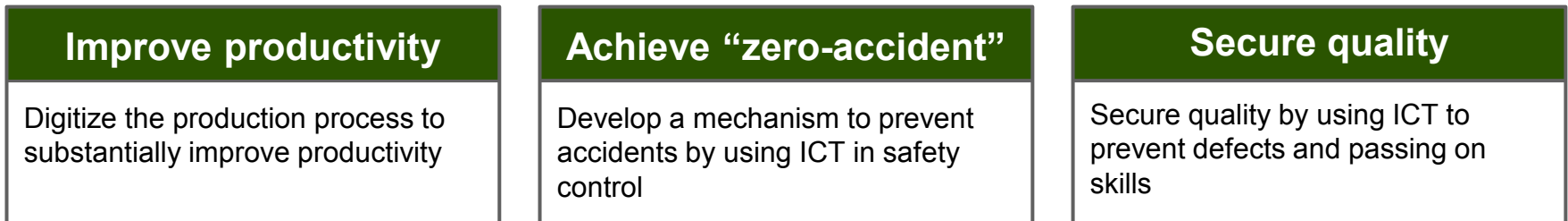
# 4. Vision 2030 (4) Revolutionize Construction Process

Revolutionize Construction Process in and outside Japan, integrating advanced ICT into construction process by advancing our total construction management system common to civil engineering and building construction (DCM [DIM/CIM/MIM]<sup>®</sup>).



## Smile Construction System

– To bring smiles to all construction sites –



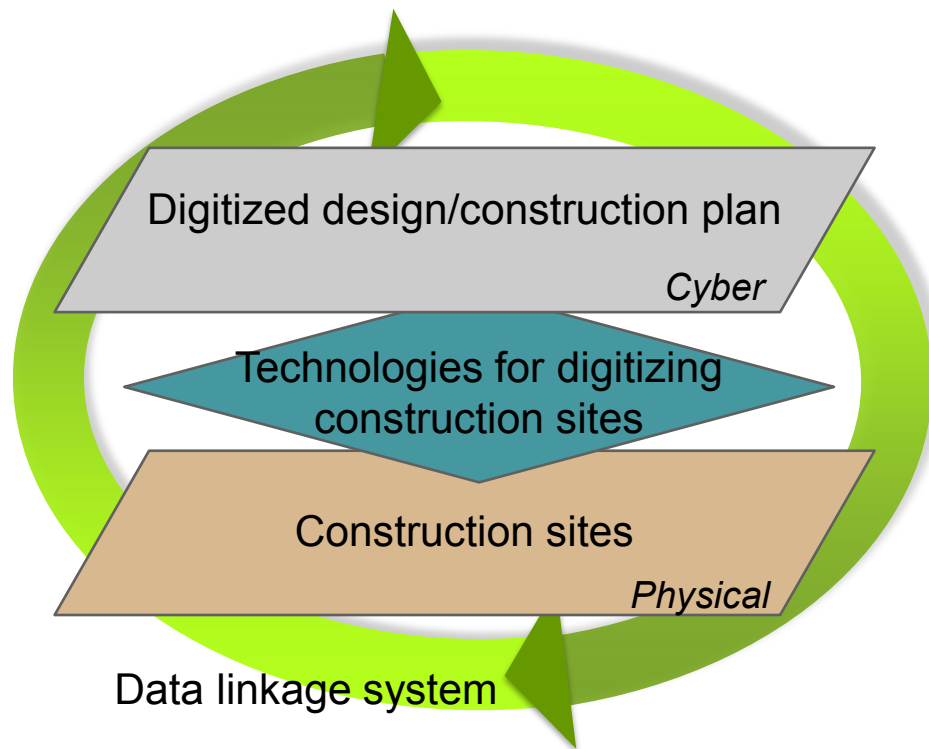
DCM (DIM/CIM/MIM)<sup>®</sup>: DIM, CIM and MIM stand for Design Information Management, Construction Information Management and Maintenance Information Management, respectively.

DCM is a total construction management system based on 3D modeling, which covers design, execution and maintenance common to civil engineering and building construction, and was started in 2015.

# 4. Vision 2030 (5) SMile Construction System

## “SMile Construction System”

Next-generation construction system which connects construction sites that are digitized with ICT, including IoT, AI and robots, to a 3D design/construction plan



### Components

#### Digitized design/construction plan

3D design/construction plan based on BIM/CIM, and cost estimate, analysis and simulation using the 3D design/construction plan

#### Technologies for digitizing construction sites

Recognition codes, sensors and systems to connect design/construction plans to construction sites to bridge the gap between them

#### Data linkage system

Mechanism to link design/construction plan to data collected/accumulated from construction sites for their use

# 4. Vision 2030 (6)

## Environmental Policy “Green Challenge 2030”

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### Safeguarding our environment for future generations

We will contribute to the realization of a sustainable society by creating a living space that combines “improvement of quality of life” and “environment load reduction”

1. Contribution to a decarbonized society



2. Contribution to a recycling-oriented society



3. Contribution to a society in harmony with nature



4. Management of environmental risks



5. Environmental communication/Promotion of ESD



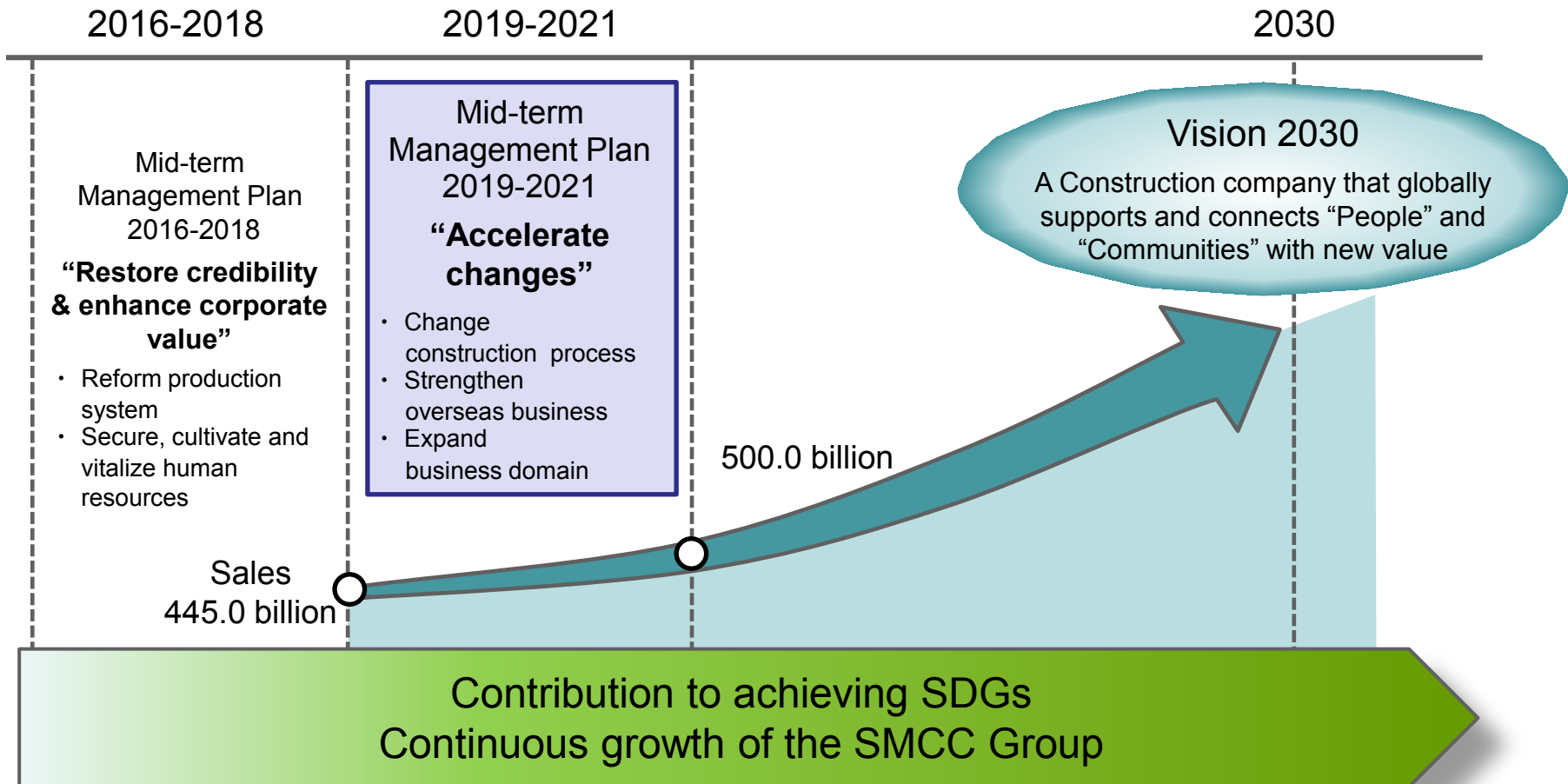
\* ESD: Education for Sustainable Development

#### ◆ KPIs of “Green Challenge 2030”

- Reduction in CO<sub>2</sub> emissions in the construction stage: 50% reduction in units of CO<sub>2</sub> emissions from 1990 levels
- Recycling of construction waste: 100% (excluding waste containing asbestos and specially controlled waste)
- Avoid or minimize Impact on biodiversity
- Avoid or minimize environmental incidents
- Promotion of renewable energy business: Generation capacity of 650 MW or higher

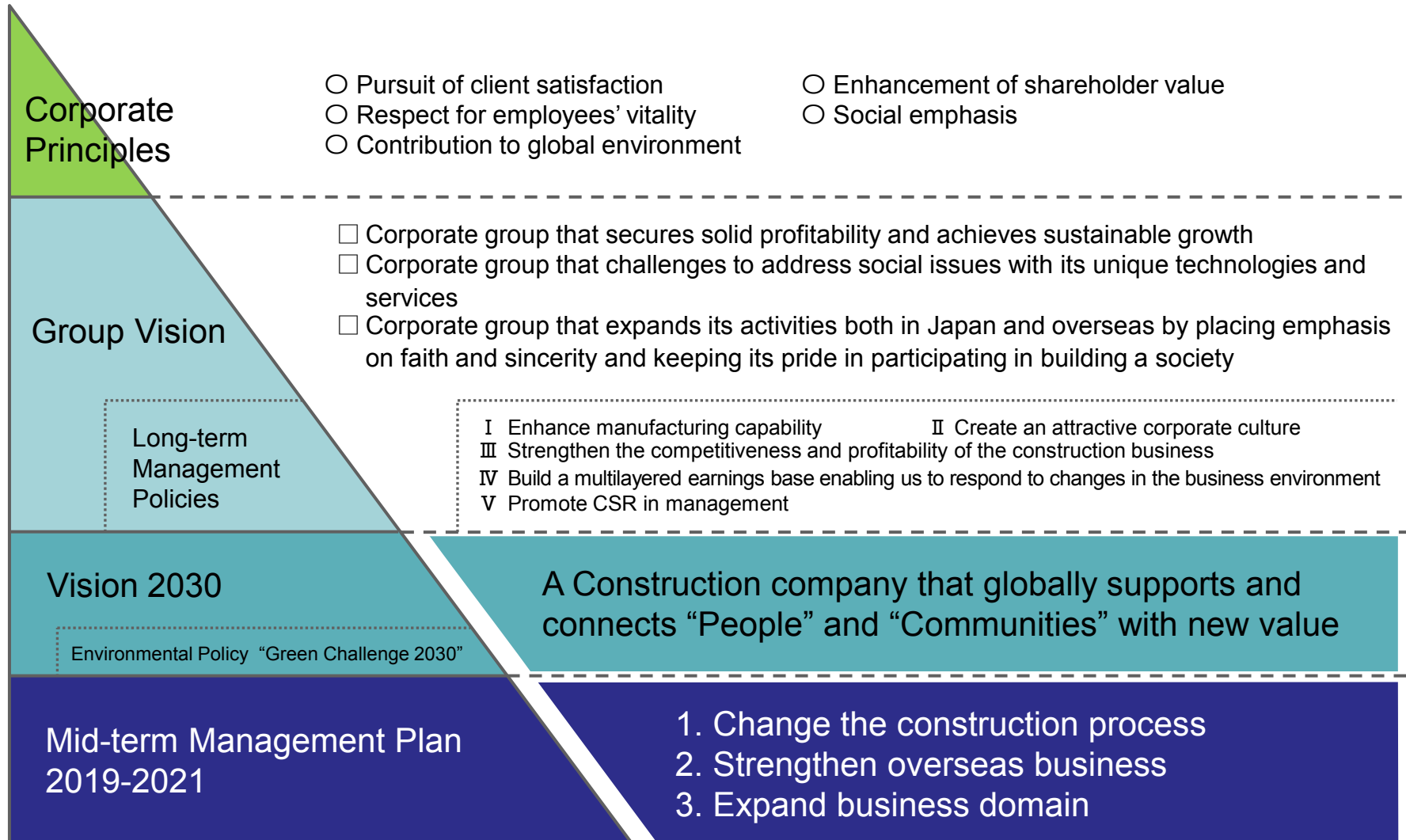
# 5. To Realize the Vision 2030

Developed the Mid-term Management Plan 2019-2021 to realize the Vision 2030



## 6. Positioning of the Mid-term Management Plan 2019-2021

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# Mid-term Management Plan 2019-2021





# 7. Basic Policies

## “Accelerate changes”

Accelerate changes to enhance our business competitiveness and create corporate value while flexibly adapting to the changing business environment to contribute to achieving SDGs.

### 1. Change the construction process

Productivity improvement:  
10% or higher (from fiscal 2018)

Save manpower/labor with digitization and industrialization of construction production for the development of the SMile Construction System to achieve productivity improvement and work style reforms.

### 2. Strengthen overseas business

Construction amount from overseas orders:  
100.0 billion yen

Strengthen overseas business management with resource shift and network development to expand the overseas business area.

### 3. Expand business domain

Growth investment: 50.0 billion yen  
(total for the period of operation)

Create competitive new business with aggressive investments and cross-industrial partnerships to expand new business including renewable energy business, and construction peripheral business.

## 8. Numerical Management Targets (1)

### ◆ Management targets (consolidated)

	Fiscal 2021
Net Sales	<b>¥500 billion</b>
Operating income margin	6% or higher
ROE	12% or higher
Capital-to-asset ratio	30% or higher

### ◆ Strengthen overseas business

Contract amount from overseas orders (including local subsidiaries)	<b>¥100 billion</b>
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### ◆ Productivity improvement (non-consolidated/domestic)

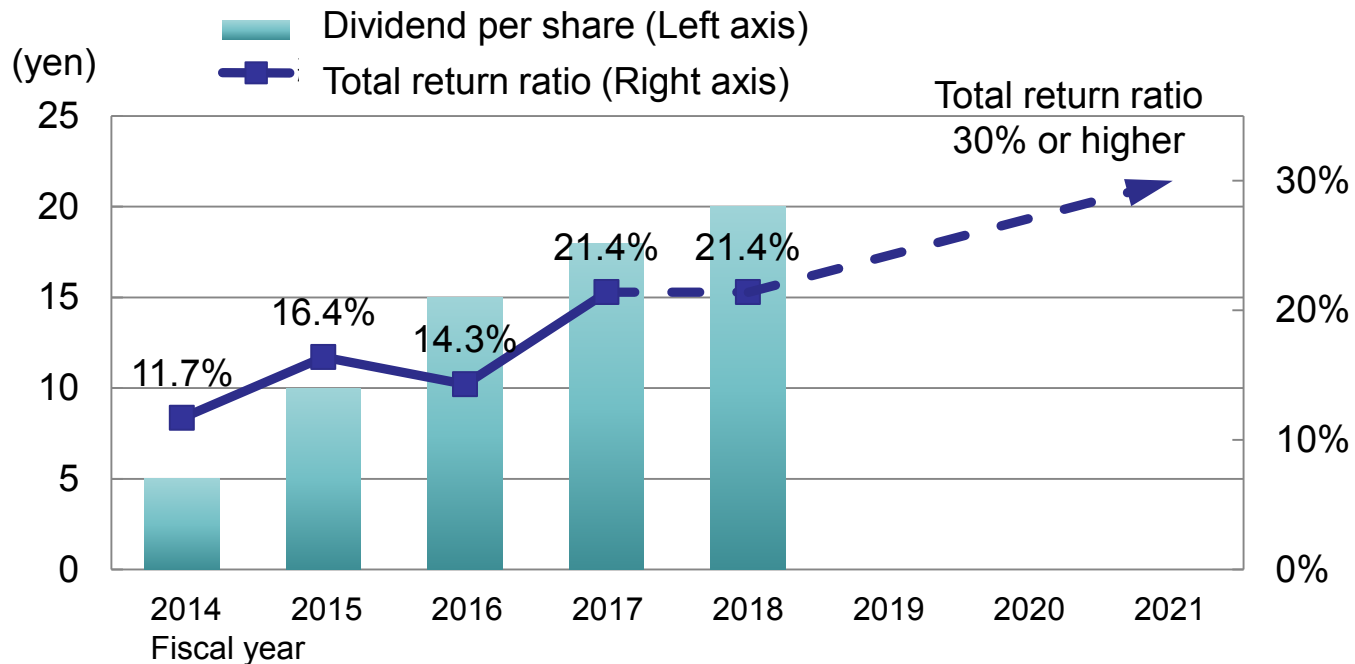
Amount of completed work per person	<b>10% improvement</b> (from fiscal 2018)
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## 8. Numerical Management Targets (2) Shareholder Returns

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### ◆ Total return ratio (consolidated): 30% or higher (fiscal 2021)

While further improving financial strength, maintain dividend stability and return profits, including payback



\* Dividend per share before fiscal 2016 took into account the reverse split in October 2017.

\* Total return ratio of fiscal 2017 includes a 1.5 billion-yen payback.

# 9. Investment Plan

- ◆ Scale of investment: 50.0 billion yen (total for the period of operation)

Accelerate investment for continued growth

Investment item	Scale of investment	Details
Technological development Development of human resources & foundation	¥10 billion	Enhance the Human Resource Development Center <ul style="list-style-type: none"> <li>• Philippines, India (new)</li> </ul> Enhance the R&D function Reinforce precast plants Renovate IT systems
Business domain expansion	¥40 billion	Alliance in/outside Japan <ul style="list-style-type: none"> <li>• Construction peripheral business</li> <li>• Local construction companies outside Japan</li> </ul> Renewable energy business
<b>Total</b>	<b>¥50 billion</b>	

Examine the most appropriate financing method, including bond issuance, by taking into account financial condition, market environment, etc., while making investments with own capital to maintain financial health for long-term investment.

(Rated “A-” by Japan Credit Rating Agency, Ltd. Long-term Issuer Rating)

# 10. Business Strategies

## Domestic civil engineering

- (1) Change the construction production process
  - Promoting i-Construction (expanding the application of precast members, launching automatic measurement technology, advancing SMC-Bridge)
  - Saving labor with robotization at construction sites
- (2) Priority areas
  - “Building National Resilience” (preventing and mitigating disasters, roads [bridges, tunnels])
  - Continued initiatives in large-scale renovation
  - Focus on renovation of water and sewerage facilities

## Domestic building construction

- (1) Change the construction production process
  - Promoting the application of BIM, cultivating human resources and developing a system to promote these efforts
  - Initiatives for automated precast construction and expanding applications to general (non-residential) building
- (2) Priority areas
  - Superhigh-rise collective housing using the precast method (SQRIM)
  - Participating in urban redevelopment projects
  - Expanding initiatives in public works

## Overseas business

- (1) Expand business areas
  - Focusing on South Asia in response to changes in ODA recipient countries, primarily in the area of bridge and urban civil engineering
  - Expanding initiatives for offices and commercial facilities, in addition to factories; enhancing relationships with excellent local companies
- (2) Enhance the global business platform
  - Enhancing the Human Resource Development Center (Philippines, India)
  - Alliances with local companies
  - Enhancing internal control and promoting localization

## New business & Construction peripheral business

- (1) New business
  - Power generation business (solar, wind power, micro-hydroelectric, etc.); promoting sales of the floating solar power generation system
- (2) Construction peripheral business
  - Sophisticating ISO 55001-certified bridge management technology and using it in the management business
  - Renovation business, including aseismic renovation and conversion
  - Engineering services, including drug manufacturing

# 11. Management Foundation Strategies

Technology	<ul style="list-style-type: none"> <li>(1) Technological development to achieve the SMile Construction System           <ul style="list-style-type: none"> <li>• Digitization, mechanization and automation at construction sites</li> <li>• Developing new precast concrete methods and expanding those applications</li> </ul> </li> <li>(2) Developing unique sustainable technologies and services           <ul style="list-style-type: none"> <li>• Technological development to extend the life of structures (Dura-Bridge, Sustain-crete*)</li> <li>• Technological development through cooperation with start-up company</li> </ul> </li> <li>(3) Strengthening the foundation for technological development           <ul style="list-style-type: none"> <li>• Strengthening the marketing function</li> <li>• Effective management and use of Intellectual property</li> </ul> </li> </ul> <div style="margin-left: 680px; margin-top: 10px;"> <p>* Dura-Bridge: Ultra-high durable bridges using non-corrosive material</p> <p>Sustain-crete: Ultra-low shrinkage concrete</p> </div>
Human resource	<ul style="list-style-type: none"> <li>(1) Achieving work style reforms and realizing an attractive workplace environment           <ul style="list-style-type: none"> <li>• Promoting reduction of long working hours</li> <li>• Supporting diverse and flexible work styles</li> </ul> </li> <li>(2) Securing/cultivating human resources           <ul style="list-style-type: none"> <li>• Hiring diverse human resources and developing a personnel system</li> <li>• Cultivating global human resources</li> </ul> </li> </ul>
ICT	<ul style="list-style-type: none"> <li>(1) Promoting digitization to enhance the competitiveness of the construction business</li> <li>(2) Improving efficiency in core business using digital technologies</li> <li>(3) Enhancing information security measures</li> <li>(4) Developing a system to promote ICT use company-wide</li> </ul>
ESG Management	<ul style="list-style-type: none"> <li>E: Achieving a sustainable society based on the Environmental Policy “Green Challenge 2030”</li> <li>S: Developing a attractive workplace environment (work style reforms, diversity promotion, health and productivity management)</li> <li>G: Ensuring legal compliance; continuing to enhance corporate governance</li> </ul>

## 12. Establishing a Safety Culture and Achieving “Supreme Quality Assurance”

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### 1. Establishing a safe, healthy, pleasant workplace environment

- Improving work safety by repeating PDCA cycles; enhancing safety and health patrols
- Enhancing safety and health education for employees and foremen based on cases of accidents, experience and knowledge
- Ensuring risk assessment in construction planning to prevent accidents
- Developing a healthy, pleasant workplace environment to achieve work style reforms

### 2. Achieving “Supreme Quality Assurance” focused on the execution process as early as possible

- Improving safety/quality level by “Thorough implementation of 5S activities (*Sort, Set in order, Shine, Standardize, Sincere*)
- Quality Safety Auditor (QSA): Improving the construction management with QSAs
- Check appropriateness of construction process with quality audits (audits with effective process)
- Practicing quality control activities aiming at zero quality defects
- Launching “Supreme Quality Assurance” to the overseas projects

### 3. Launching safety/quality control using ICT

- Developing Smart Safety & Quality to prevent accidents and quality defects



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