



SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.



Sumitomo Mitsui Construction

Corporate Report 2019



Bridges, Towns and People

Sumitomo Mitsui Construction is a comprehensive construction company committed to building infrastructure that improves safety and convenience for people everywhere.

For every customer, every resident, and every family whose lives we touch, we seek to fulfill each of their hopes as well as our own while at the same time preserving our environment and prosperity for future generations.

We do this through our commitment to building infrastructure that people use on a daily basis, whether crossing a bridge, strolling about town or spending time with loved ones.





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Editorial Policy

From fiscal 2006, Sumitomo Mitsui Construction issued CSR Reports in order to give a broad outline of its environmental, social and governance (ESG) initiatives, which were not covered in the company's financial statements. Starting from fiscal 2015, Sumitomo Mitsui Construction has instead been issuing a Corporate Report, with additional financial information, including information on operating performance and management strategy as well as business overviews, as a tool for two-way communication with all stakeholders, bringing together overall initiatives for improving corporate value.

Period Covered: From April 1, 2018 to March 31, 2019 (includes some initiatives conducted before and after the period)

Organizations Covered: Sumitomo Mitsui Construction Co., Ltd.
And its consolidated subsidiaries

Guidelines Referenced: International Integrated Reporting Council (IIRC)

Publication Date: September 2019

Cover (upper): Sakuragawa Regional Medical Center, Ibaraki Prefecture

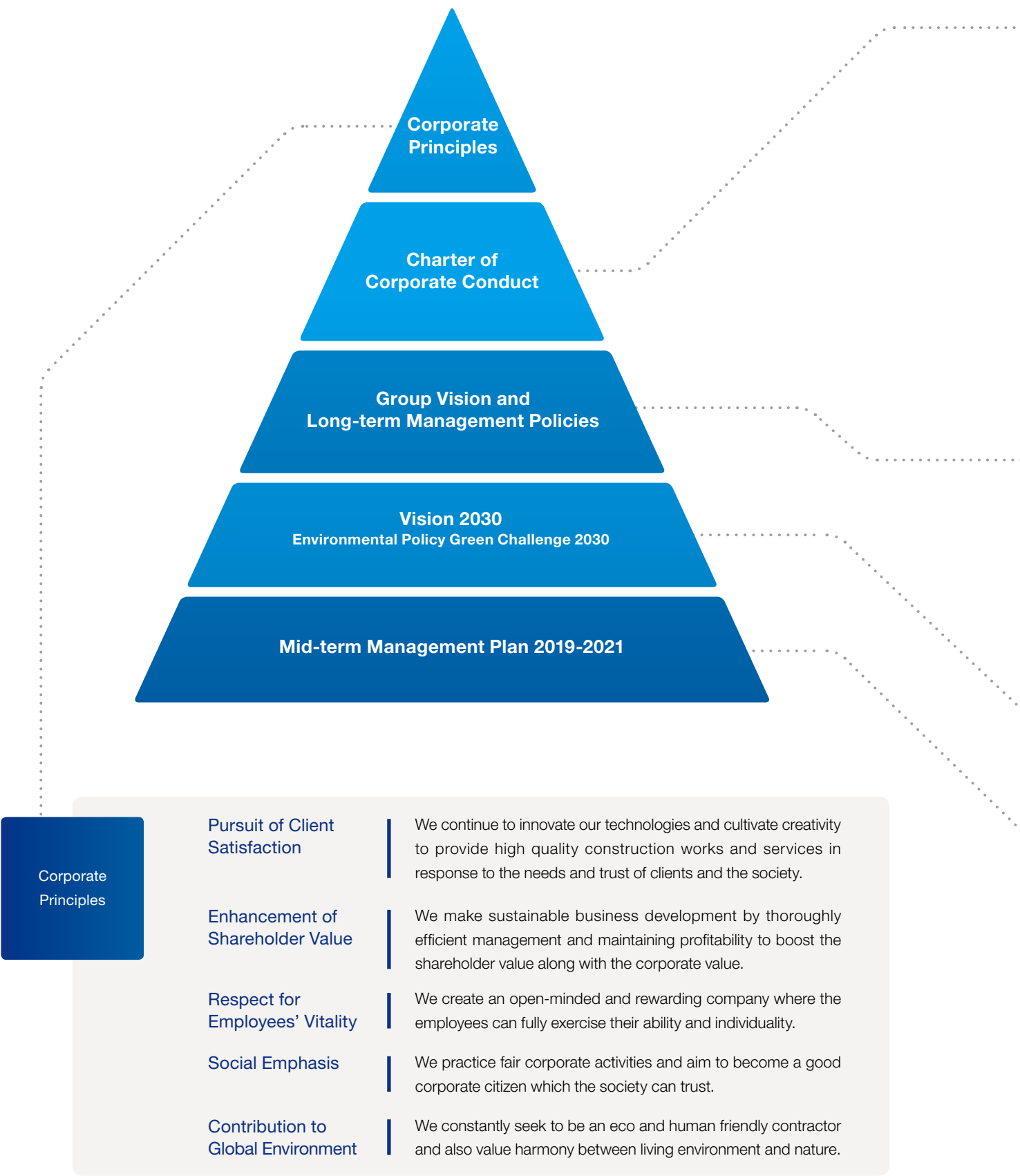
Cover (lower): Hokkaido Odan Expressway Tenjin Bridge

Back cover (upper): Sukagawa Community Center tette, Fukushima Prefecture

Back cover (lower): Mfugale Flyover, Tanzania

Corporate Principles and Group Vision

Positioning of Principles and Management Plan



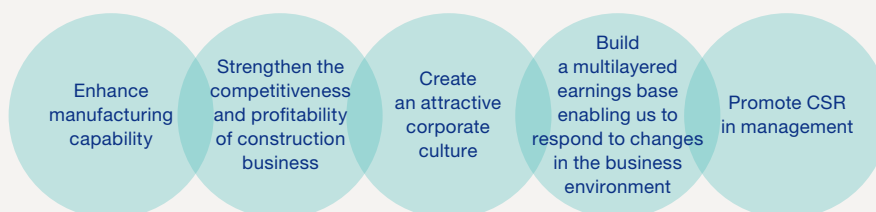
Charter of Corporate Conduct

1. We take countermeasures to meet the various demands in construction activities through technology development and design proposal giving full consideration to quality and environment.
2. We strive for improving the corporate value, and at the same time, by actively disclosing fair corporate information to the stakeholders and the society, we try to achieve the highly transparent corporate management.
3. We maintain the employment and develop human resources of employees through long-term perspective, furthermore, we try to set up the corporate which respects human rights and beings.
4. We improve awareness to comply with laws, social norms, international rules and corporate ethics in order to perform fair, transparent and free competition and fair trade.
5. We recognize the demand of contribution to the society's healthy and continuous development, and we promote social contribution activities in order to achieve corporate harmony with the society.
6. We recognize the demand of contribution to the global environment, and we actively work toward to preserve, sustain and improve environment.
7. In case, our activity against this charter occurs, the top management shall work by themselves to solve the case, and execute accountability to the society as well as disciplinary action that applies to both the top management and employee.

Group Vision and Long-term Management Policies

To be a sustainable company over the medium to long term, we have set our Group Vision, which represents our three aspirations, as well as five Long-term Management Policies for realization of the Vision.

- Corporate group that secures solid profitability and achieves sustainable growth
- Corporate group that challenges to address social issues with its unique technologies and services
- Corporate group that expands its activities both in Japan and overseas by placing emphasis on faith and sincerity and keeping its pride in participating in building a society



Vision 2030

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

Our Vision 2030 sets out our aim to achieve a sustainable society and the continuous growth of the SMCC Group by taking advantage of the strength of the Group and encouraging individual employees to take future-oriented actions in response to medium- to long-term changes in the business environment surrounding the Group. These include growing concerns about a decrease of construction demand in Japan, expansion of infrastructure demand in emerging markets, an increasing shortage of workforce in the construction industry, ICT and other technological innovations, and advances in digitization.

Mid-term Management Plan 2019-2021

Accelerate changes

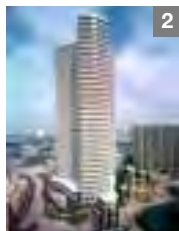
To realize the Vision 2030, we are enhancing our business competitiveness and creating corporate value under the theme of “Accelerate changes,” while stepping up efforts to reform production systems and secure, cultivate and vitalize human resources.

History

Sumitomo Mitsui Construction was born in 2003, merging the DNA of two construction companies: one belonging to the Mitsui Group and the other from the Sumitomo Group.

Mitsui Construction

| | |
|------|---|
| 1887 | Nishimoto-Gumi is founded by Kenjiro Nishimoto in Wakayama. |
| 1941 | Nishimoto-Gumi Co., Ltd. is established and head office is relocated to Tokyo. |
| 1945 | Renamed Mitsui Construction Industry Co., Ltd. with the capital participation of Mitsui Fudosan Co., Ltd. |
| 1950 | Refurbishes Hibiya Sanshin Bldg. in Japan's first joint venture construction project. |
| 1952 | Renamed Mitsui Construction Co., Ltd. |
| 1960 | Starts construction of Mitsui Annex No. 3, representing first use of curtain wall method in Japan. |
| 1968 | Completes Mitsui Kasumigaseki Bldg., Japan's first super high-rise building. |
| 1971 | Completes 17-story Mita Tsunamachi Park Mansion, then the highest private-sector collective housing complex in Japan. |
| 1974 | Completes Japan's highest building, the Shinjuku Mitsui Bldg. |
| 1981 | Crown Prince and Princess visit Sri Lankan Parliament Building construction site. 1 |
| 1981 | Receives an order from Oriental Land for theme park construction. |
| 1987 | Completes Bell Park City Tower G, the first super-high-rise collective housing at over 100 meters high in Japan. 2 |
| 1988 | Completes installation of Japan's largest caisson foundation for anchorage of the Port of Tokyo Connector Bridge (Rainbow Bridge). |
| 1990 | Completes Tohoku's largest dam, the Sagae Dam. Completes world's first concrete bridge using aramid FRP rods. |
| 1991 | Completes Okawabata River City 21 A, Japan's first full-scale structure made of concrete-filled steel tube columns and steel beams. |
| 2001 | Develops Mitsui Flex Tower, a next-generation super high-rise collective housing building. |



Sumitomo Construction

| | |
|------|--|
| 1876 | Civil Division is founded from Besshi Copper Mine's civil engineering section. |
| 1950 | Besshi Construction Co., Ltd. is founded. |
| 1957 | Head office is relocated from Niihama to Tokyo. |
| 1959 | Completes Arashiyama Bridge, first PC bridge using Dywidag method in Japan. 3 |
| 1962 | Sumitomo Construction Co., Ltd. is founded through merger with Shizuoka-based Katsuro-Gumi. |
| 1969 | Completes Expo East Gate Bridge, Japan's first PC cable-stayed bridge. |
| 1973 | Completes Tha Chang Bridge, Thailand's first PC bridge. |
| 1974 | Completes Hokawazu Bridge, world's first arch bridge using truss cantilever erection method. 4 |
| 1980 | Completes New Nyali Bridge, awarded first OCAJI prize, in Kenya. |
| 1987 | Completes OILES Corporation TC Bldg., Japan's first aseismic building using LRI. |
| 1989 | Completes Asano Bldg., world's first intermediate floor base isolation building. |
| 1991 | Completes Kikko Bridge, world's first three-directional stress ribbon bridge, awarded FIP special prize. |
| 1994 | Completes Odawara Blue Way Bridge, world's first extradosed bridge. Completes TV Shizuoka Media City Bldg., world's first full-scale damped building. |
| 1995 | Advertisement on seismic base isolation & damping methods receives Nikkei AD Award. |
| 1996 | Completes Yumetsuri Bridge, world's largest stress ribbon bridge. |
| 2000 | Receives health and safety award of excellence from U.S. Department of Defense Army COE. |
| 2001 | Completes Ibigawa Bridge, world's first composite extradosed bridge. |

2003 Sumitomo Mitsui Construction Co., Ltd. is founded.

Sumitomo Mitsui Construction

■ Civil engineering ■ Building construction ■ Overseas business ■ New business & construction peripheral business



■ 2004 Seiun Bridge (Tokushima Prefecture)

Japan's first bridge to receive the fib (International Federation for Structural Concrete) Award for Outstanding Concrete Structures



■ 2005 Yokohama Towering Square

First adoption of SQRIM method of precasting

2003

Foundation



■ 2006 Second Mekong International Bridge (Thailand-Laos)

Crossing the border between Thailand and Laos

■ 2008 Shimukappu Tunnel (Hokkaido)

3000-meter extension achieved with centrifugal spraying system



■ 2009 Yabegawa Ohashi (Fukuoka Prefecture)

Japan's largest concrete bridge



■ 2010 Musashino Towers (Tokyo)

First adoption of SQRIM-Horizontal method

■ 2012 Park Homes Yokohama Kishine Park Forest Square

First adoption of SuKKIT



■ 2013 Terasako Choucho-ohashi (Miyazaki Prefecture)

World's first butterfly web bridge. Received fib Award for Outstanding Concrete Structures

■ 2014 Park Homes LaLa Shinmisato (Saitama Prefecture)

Winner of fiscal 2014 Good Design Award

■ 2015 Nhat Tan Bridge (Vietnam-Japan Friendship Bridge) (Vietnam)

Largest bridge in Southeast Asia



■ 2015 Neak Loeung Bridge (Tsubasa Bridge) (Cambodia)

Appears on the 500 riel note

2016

Development of Group Vision and Long-term Management Policies

2019

Development of Vision 2030



■ 2016 Yamanashi Culture Hall Seismic Retrofitting Project

Large-scale seismic retrofitting while allowing the building, which houses a TV station, to remain in use

■ 2017 Hiragioike Floating Solar Power Generation Plant (Kagawa Prefecture)

First own floating solar power generation project

Business of Sumitomo Mitsui Construction

As a corporate group responding to diverse needs that change with the times, the SMCC Group is operating business that expands its domain of interest around the world, including improving social infrastructure that supports local development, by taking advantage of its technologies and expertise for building infrastructure that it has acquired in civil engineering and building construction. Through the construction business, the SMCC Group aims to provide value that meets the needs of the times, giving first priority to being creditable with customers.

Civil Engineering



Our civil engineering business provides optimum technologies for design, execution and maintenance of civil engineering structures that support social infrastructure, such as bridges, tunnels, railways and water and sewage facilities, all of which are indispensable to urban life.

Our strength lies particularly in having the industry's top experience in design and execution in prestressed concrete (PC) bridges. We provide high quality, durable and easy-to-maintain bridges by promoting technological development, including new structural forms or precasting for shorter construction periods and labor-saving execution. We also develop social infrastructure using technologies and expertise supported by our wealth of experience in wide-ranging areas including tunnels, dams, urban civil engineering, rivers, land development and energy facilities.

Main
business
areas

- Bridges/PC structures
- Tunnels/shields
- RC structures (civil engineering)
- Container/storage facilities
- Ground/foundation

Building Construction



Our building construction business creates well-rounded, safe living spaces tailored to the needs of customers in wide-ranging sectors, from collective housing as the core of our business to commercial facilities, distribution warehouses, offices and production facilities in various industries.

As a top runner in collective housing, which has been our focus for many years, we aggressively push forward with the development of technologies and products for high quality and high functionality, and work on new value creation for residents and users in a manner unique to a construction company. We also provide facility maintenance and restructuring that are indispensable to making facilities disaster-resistant or to customers' business development.

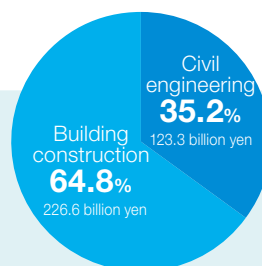
Main
business
areas

- Housing/accommodation
- Commercial facilities/office buildings
- Logistics warehouse facilities
- Medical and welfare institutions
- Production/research facilities

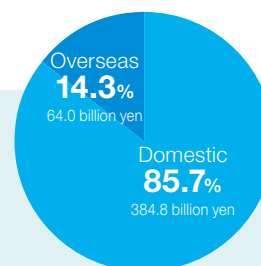
Fiscal 2018 Results

Sales of both civil engineering and building construction increased due to the progress of high-level projects in hand, resulting in a year-on-year increase in revenue (up 33.8 billion yen or 10.7%) on an unconsolidated basis. Overseas sales were 64.0 billion yen on a consolidated basis or 27.1 billion yen on an unconsolidated basis.

Percentage in Sales



Civil engineering & building construction (unconsolidated basis)



Domestic business & overseas business (consolidated basis)

Overseas Business



Taking advantage of networks we have built in Asia ahead of others, we support Japanese companies in entering overseas markets and participate in ODA projects in order to play a part in building bases that support the development of international society. The Project for Improvement of Tazara Intersection in Tanzania, for instance, has not only eased traffic congestion but also improved the efficiency of transportation networks, contributing to the promotion of local industries and improvement of urban environments. Based on the cutting-edge technologies and optimum process management that we developed in Japan, we will offer proposals that best fit the local environment, share our spirit of being committed to building infrastructure, and operate a construction business that is based on high-level safety management and quality control systems.

Main business areas

- Bridges/PC structures
- Urban civil engineering
- Production/research facilities
- Accommodation
- Educational facilities

New Business & Construction Peripheral Business



To satisfy diversifying customer needs and address dramatically changing social issues, we take on challenges in new business areas regardless of the conventional areas of business and styles adopted in the broader construction industry.

What we particularly focus on is projects that address social issues, such as participation in the operation of public facilities using private sector expertise, renewable energy using unused land or reservoirs, and mid- to large-scale wooden building construction aimed at the revitalization of domestic forestry and reforestation. We provide various solutions combining our accumulated expertise and new ideas.

Main business areas

- Solar power generation
- Sales of floating solar power generation system
- PFI
- Advanced engineering

Key Projects Completed in Fiscal 2018



Sukagawa Community Center tette
(Contractee: Sukagawa City in Fukushima Prefecture)



Kampot waterworks expansion
(Contractee: Ministry of Industry and Handicraft of the Kingdom of Cambodia)



Shin-Tomei Expressway Atsugi No. 2 Bridge and 8 other bridges (PC superstructures)
(Contractee: Central Nippon Expressway Co., Ltd.)



Project for Improvement of Tazara Intersection
(Contractee: Tanzania National Road Agency)



Edion Nanba Head Store
(Contractee: Seishin Co., Ltd.)



Mitsui Garden Hotel Fukuoka Gion
(Contractee: Mitsui Fudosan Co., Ltd.)



City Tower Hachioji Freshia and Hachioji Opa
(Contractee: Sumitomo Realty & Development Co., Ltd.;
joint venture with Japan Freight Railway Company)



**Kojirahama Coast Restoration
(H23 Disaster Relief Project No. 594)**
(Contractee: Iwate Prefecture)

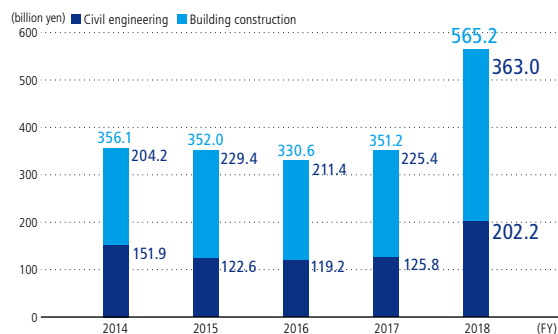


The Parkhouse Sakurazaka Sunriant
(Contractees: Mitsubishi Estate Residence Co., Ltd.,
Nishi-Nippon Railroad Co., Ltd.)

Financial & Non-financial Highlights

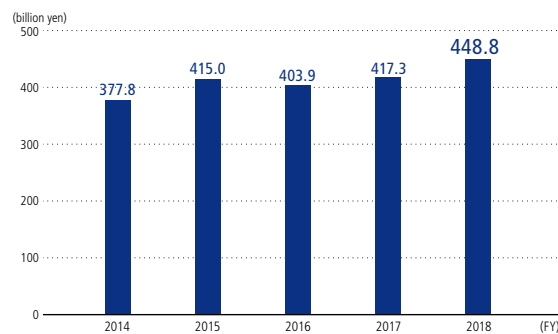
Financial Data (consolidated)

Orders received (unconsolidated)



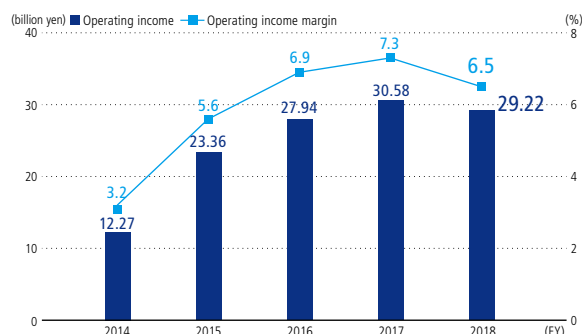
Construction orders received were 565.2 billion yen, with record high orders received for both civil engineering and building construction, due to orders for large-scale projects in and outside Japan.

Sales



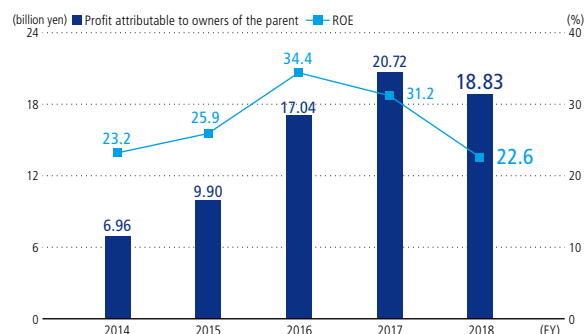
Sales increased to 448.8 billion yen, up 31.5 billion yen or 7.5% from the previous year, due to the progress of high-level projects in hand.

Operating income/operating income margin



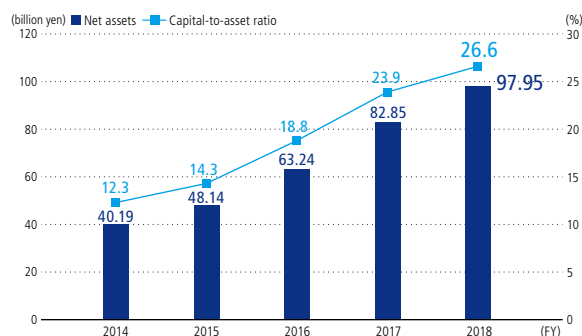
Operating income was 29.2 billion yen, down 1.4 billion yen from the previous year, due to a decline in gross profit margin caused by rising material cost and others and to an increase in labor cost and R&D cost.

Profit attributable to owners of the parent/ROE



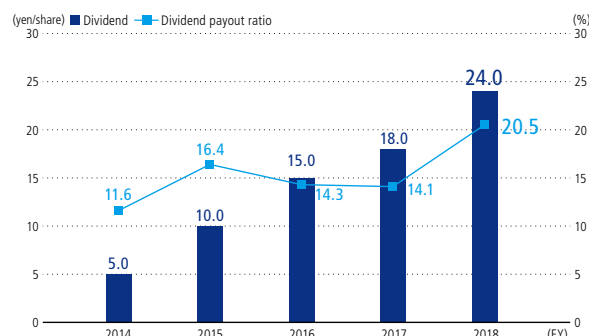
Profit attributable to owners of the parent was 18.8 billion yen, down 1.9 billion yen from the previous year, due to an increase in the burden of corporate tax and others.

Net assets/capital-to-asset ratio



With net income and others, total net assets and the capital-to-asset ratio were 98.0 billion yen and 26.6%, up 15.1 billion yen and up 2.7 points, respectively, from the end of the previous year.

Dividend/dividend payout ratio

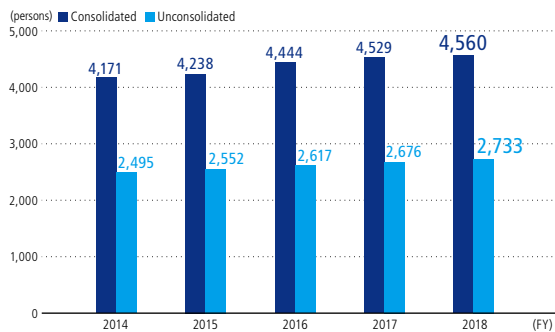


Dividend per share at the end of fiscal 2018 was 24 yen (consolidated dividend payout ratio: 20.5%), up 6 yen from the previous year.

* We carried out stock consolidation, i.e., consolidating five common shares into one, in October 2017.

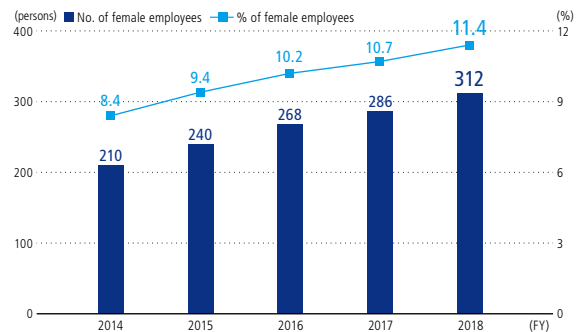
Non-financial Data (unconsolidated)

Number of employees



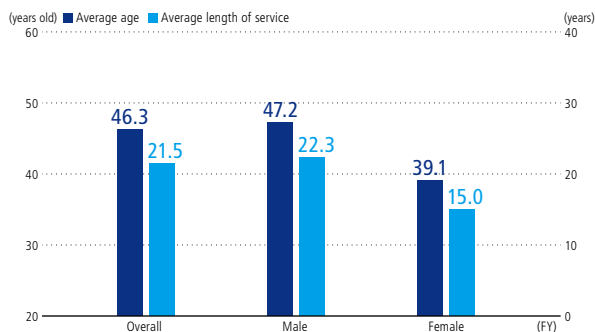
The number of employees, both consolidated and unconsolidated, is increasing as we systematically continue regular recruitment for business scale expansion and uphold the policy to enhance mid-career employment to complement personnel composition.

Number/percentage of female employees



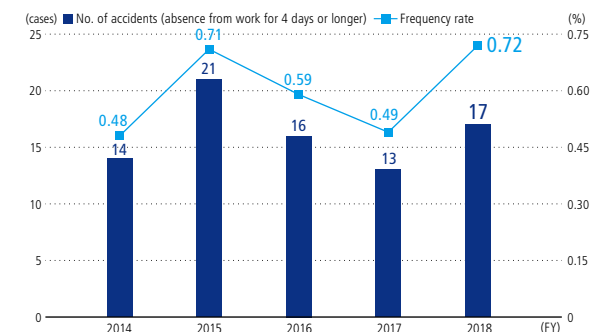
Both the number and the percentage of female employees are increasing as we proactively hire women, with the goal of ensuring that female employees on the major career track account for 20% or higher of new employees hired as part of regular recruitment and 10% or higher for mid-career recruitment.

Average age/average length of service (Fiscal 2018)



Average age and average length of service are somewhat high with the ongoing aging.

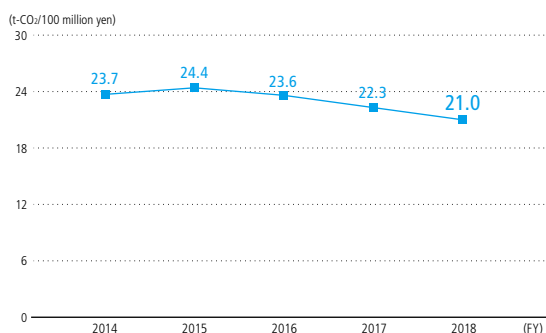
Safety performance



In fiscal 2018, the frequency rate¹ was 0.72, which did not meet the target of 0.6 or less.

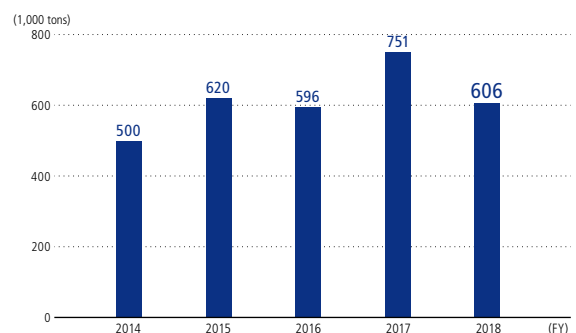
¹ The frequency rate represents the frequency of occupational accidents. The rate shows the number of fatal or serious injuries due to occupational accidents per one million hours worked.

Unit of CO₂ emissions



We have steadily reduced CO₂ emissions to achieve the 2030 target of 16.5 t-CO₂/100 million yen under the Environmental Policy Green Challenge 2030.

Construction waste discharged



Major types of construction waste discharged in fiscal 2018 were concrete rubble from demolition work (230,000 tons) and construction sludge, such as drilling mud and waste mud water (226,000 tons).

Message from the President

A photograph of Hideo Arai, President and CEO of Sumitomo Mitsui Construction Group. He is a middle-aged man with dark hair and glasses, wearing a dark suit, white shirt, and a blue patterned tie. He is sitting at a dark wooden desk with his hands clasped in front of him. The background is a bright, out-of-focus office interior with large windows.

We Will Improve Corporate Value by Looking Ahead to Changes in the Business Environment and Continuing to Take on Challenges

Hideo Arai
Representative Director
President & CEO

The Sumitomo Mitsui Construction Group, inheriting the DNA of two construction companies, Mitsui Construction and Sumitomo Construction, considers it our mission to live up to the confidence our customers place in us as well as social expectations by building infrastructure for people everywhere.

What is essential to accomplish the mission, I believe, is our Group's corporate culture, i.e., the faithfulness and sincerity we inherited from the two companies, consideration for the field, which is something I have continued to say ever since I became president, and supreme quality achieved through commitment to the construction process, not to mention our experience and latest technologies.

Our corporate culture has resulted in our execution experience and new technological development. As we continue to value our corporate culture and encourage individual employees to work for their own personal development, we will be able to create new value that lives up to social expectations.

The business environment surrounding the construction industry has been dramatically changing in recent years and the speed of change will further accelerate. We will look ahead to such changes and boldly continue to take on challenges to keep on meeting social expectations while achieving our own growth and evolution.

Vision 2030

In response to the Sustainable Development Goals (SDGs), which were adopted at the United Nations Summit in 2015, countries are taking various measures to achieve a sustainable world by 2030.

In Japan, where the working-age population is decreasing with the declining birth rate and aging of society, the construction industry is facing an increasing need to secure workers in the medium to long term due to the declining number of young workers entering the industry and the increasing number of older workers withdrawing from the workforce. The aging of infrastructure built during Japan's high economic growth period is another social problem. To secure quality and maintain the proper functions of infrastructure, securing workers and improving productivity are crucial.

Outside Japan, population increase and economic growth are expected to continue in many regions while environmental destruction caused by development, depletion of resources, and many other issues remain to be solved.

We believe that, in addressing these issues, there is some value that only we can provide, which includes nurturing and enhancing new technology. To fulfill our mission to build social infrastructure for people everywhere, the Sumitomo Mitsui Construction Group will make concerted efforts to address social issues, including the SDGs.

In line with the target year of the SDGs, we have set our own Vision 2030: a construction company that globally supports and connects "People" and "Communities" with new value. By providing the four new values below, our Group will support people everywhere with our unique technologies and services to contribute to achieving the SDGs and improve our corporate value.

(1) Revolutionize construction production

—Next-generation construction production system—

Against the background of a shrinking workforce in the construction industry, we will operate a next-generation construction production system, which achieves high productivity by using advanced ICT, including IoT and AI, and links the planning/design phase to production and construction sites with digitization, both in and outside Japan.

(2) Diverse services extended from construction

We will provide new services, including renewable energy and social infrastructure management/operation, beyond construction based on the technologies and expertise we have fostered and cross-industrial cooperation.

(3) Sustainable technology

We will provide 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 reduction of structures' life cycle cost).

(4) Global human resources

We will focus on the development of human resources who are trusted by customers. We will secure and cultivate 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 to contribute to addressing social issues together with customers.

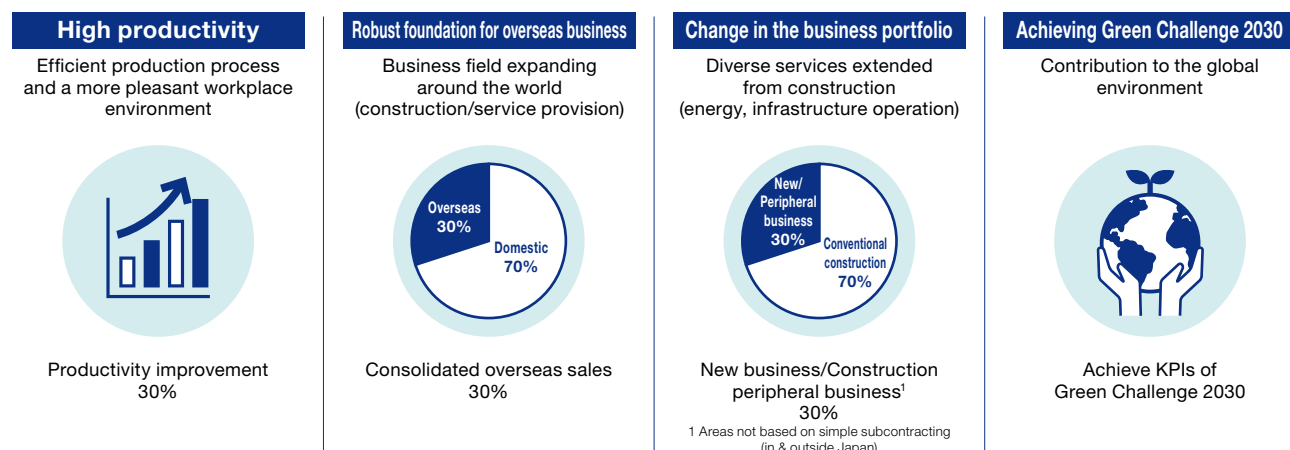


Message from the President

Targets for 2030

Vision 2030 sets the following four specific targets. While operating construction business in Japan as the main business, we will expand business outside Japan, as well

as new business and construction peripheral business, to contribute to the global environment.



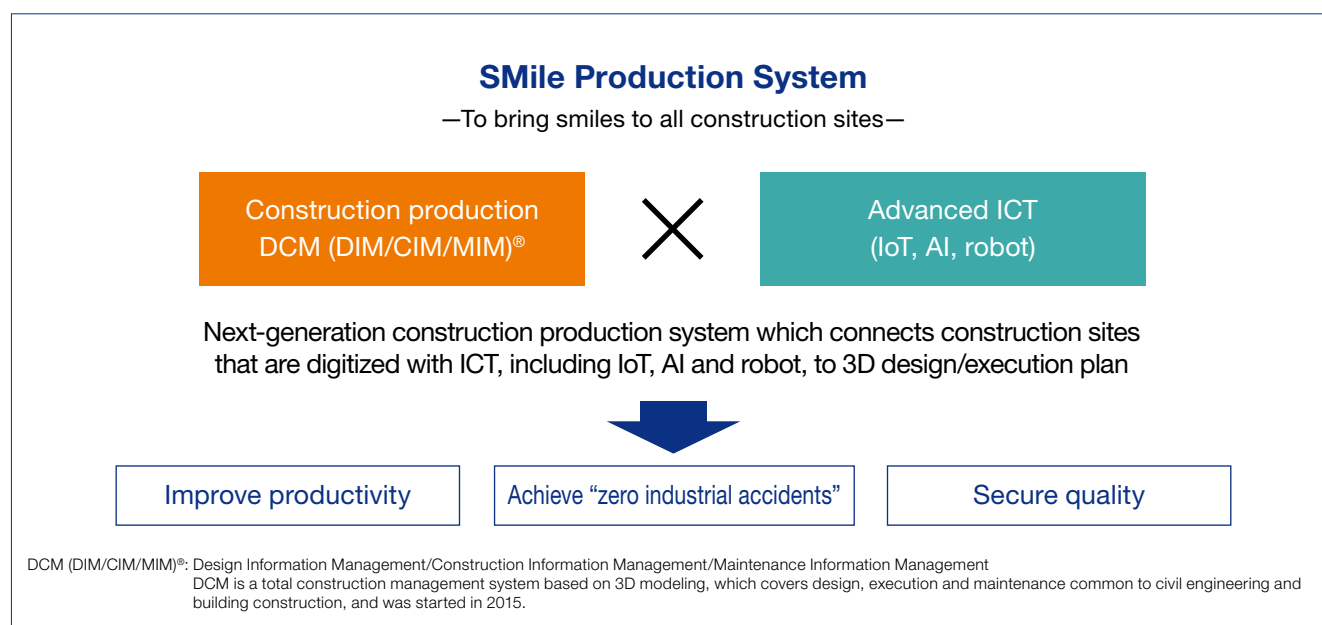
Next-generation Construction Production System

We are building a next-generation construction production system to revolutionize the construction production, which is one of the four new values to be provided under Vision 2030.

“Next-generation construction production system” refers to a system evolved from our total construction management system with the integration of advanced ICT, including IoT, AI and robots, into conventional construction production. We

named the system the “SMile (Sumitomo Mitsui ICT Leads to Evolution) Production System” to reflect our hope of putting smiles on the faces of all workers on all construction sites and advancing construction with the use of ICT.

The SMile Production System aims not only at improving productivity but also at achieving “zero accidents” and securing quality to make the construction industry more appealing.



Contribution to Achieving the SDGs

In fiscal 2018, we announced that we would make concerted efforts to achieve the SDGs. To address the SDGs, we have launched education programs for officers and employees to promote their understanding and identified Six Priority SDGs closely related to the direction of our company's business.

While developing the Mid-term Management Plan 2019-2021, we formulated our new Environmental Policy "Green Challenge 2030," which replaces our former Environmental Vision "Green Challenge 2020," targeting the year 2020, to contribute to the realization of a sustainable society by 2030.

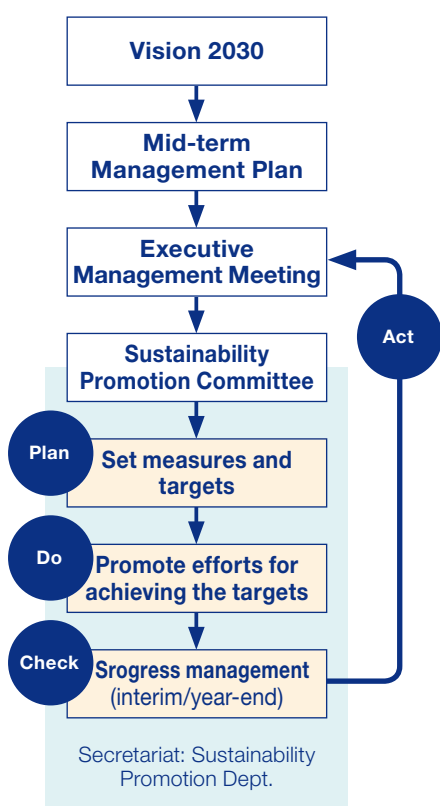
To carry out the Mid-term Management Plan 2019-2021, we set up the Sustainability Promotion Committee as an advisory committee reporting to the Executive Management Meeting in April 2019. Chaired by me as president, the new

committee promotes concerted efforts for the SDGs. For the planning and promotion of various measures, we have established the Sustainability Promotion Department at the Head Office.

Furthermore, we set key performance indicators (KPIs) for SDGs-related measures to be launched under the Mid-term Management Plan 2019-2021. We will incorporate the KPIs into PDCA cycles for progress management to integrate them into management and contribute to achieving the SDGs.

Both risks and opportunities can be found in the SDGs, which indicate issues facing the entire world. As a company, we will carry out strict management in order to avoid aggravating risks while aggressively operating business aimed at addressing the issues.

Progress Management of Sustainability Measures



Six Priority SDGs and Related KPIs for FY2019

| SDG | Target | FY2019 KPI |
|---|---|---|
| Goal 5 Gender equality | Percentage of female managers | 2.0% or higher |
| | Percentage of female employees on the major career track among new employees hired as part of regular recruitment | 20% or higher |
| | Percentage of female employees on the major career track among new employees hired as part of mid-career recruitment | 10% or higher |
| Goal 7 Affordable and clean energy | Sales of floating solar power generation system | 60 MW |
| Goal 8 Decent work and economic growth | Closure on the second and fourth Saturday of every month | At all sites, in principle ¹ |
| Goal 9 Industry, innovation and infrastructure | Improvement in the amount of completed work per person | 10% improvement from FY2018 (by FY2021) |
| Goal 11 Sustainable cities and communities | Application of Dura-Bridge® (see page 37) | Completion of 1 bridge |
| Goal 13 Climate action | Reduction of CO ₂ emissions in the construction stage (2030 target: 16.5 t-CO ₂ /100 million yen) | 20.6 t-CO ₂ /100 million yen |

¹ Excluding construction sites with special circumstances, such as for disaster relief or stadiums for the Tokyo Olympic and Paralympic Games, or sites where application is difficult because the contract was concluded before March 2018 and the construction period is fixed

To Realize the Vision 2030 From Mid-term Management Plan 2016-2018 to 2019-2021

Review of Mid-term Management Plan 2016-2018

The entire company's top priority was to recover the damaged credibility and corporate value caused by the defective piling work in the past. With the theme of restoring credibility and enhancing our corporate value, we made concerted efforts to achieve the plan.

With strategic activities for receiving orders and group-wide efforts for profitability improvement amid a strong business environment, we achieved all numerical targets of the plan. During the period of operation, we marked record high ordinary income, and made efforts to enhance equity capital and return to shareholders.

To reform the production system for securing credibility and quality, we thoroughly conducted supreme quality activities—to manage safety and quality with a focus on the production process—and improved productivity with ICT use and work efficiency improvement. We also improved employees' vitality and satisfaction with the workplace environment through human resource development with the improvement of our education and training programs, work style reforms, and so on.

As a construction company, we have achieved certain results in terms of initiatives for improving productivity and employees' vitality, as well as for restoring credibility. However, there is no end point set for these initiatives; we will continue to make efforts under the Mid-term Management Plan 2019-2021.

Numerical Targets and Results (FY2018)

| | Plan | Actual |
|-------------------------|-------------------|-------------------|
| Sales | 440.0 billion yen | 448.8 billion yen |
| Operating income margin | 5% or higher | 6.5% |
| Capital-to-asset ratio | 20% or higher | 26.6% |
| Dividend payout ratio | 20% or higher | 20.5% |

Mid-term Management Plan 2019-2021

As the first step toward Vision 2030, we set "Accelerate changes" as the theme of the Mid-term Management Plan 2019-2021. We will further put forward the changes made under the previous Mid-term Management Plan and bring about new results in a speedy manner. While working on the SDGs as social issues through our business, we will further accelerate enhancement of our business competitiveness and creation of corporate value. With these aspirations, we set three basic policies:

(1) Change the construction production process

We will promote the digitization of construction production, as well as industrialization, primarily with precasting as our strength, to develop our next-generation construction production system, the SMile Production System. We will also aggressively work on new technological development for digitization and saving manpower and labor. We will introduce advanced technologies (such as robots and

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 production process | Productivity improvement: 10% or higher (from fiscal 2018) |
| 2 | Enhance overseas business | Orders received outside Japan: 100.0 billion yen |
| 3 | Expand business areas | Growth investment: 50.0 billion yen (total for the period of operation) |

sensors) to construction production, where human workers have traditionally played the central role, not only to improve productivity but also to achieve safety and quality at a higher level. By improving productivity, we will address long working hours and promote work style reforms with two days off per week at construction sites to establish a workplace environment that allows diverse work styles.

(2) Enhance overseas business

Construction demand outside Japan is likely to increase with economic growth, primarily in emerging markets. By taking advantage of experience accumulated in overseas business for more than 40 years, we will further improve the skills of more than 2,000 employees working outside Japan, including those at local subsidiaries. We will enhance education programs and use internal and external networks to accelerate two-way domestic and international human resource exchange so that we can establish a system for achieving the target contract amount from overseas orders (group-wide) of 100 billion yen and build a business management system for further growth.

(3) Expand business areas

To provide more diverse services, we will expand new business, including renewable energy business, as well as construction peripheral business. As we believe that cross-industrial partnerships and aggressive R&D investment in and outside Japan is crucial to the creation of and entry into competitive new business, we are planning to make a growth investment of 50 billion yen for the three years. We will take on challenges to yield big results in the future.

Numerical Management Targets for Fiscal 2021

The numerical management targets we set for fiscal 2021, the last year of the operation period, are consolidated sales of 500 billion yen and operating income margin of 6% or higher. We will improve our financial strength and maintain dividend stability to achieve the target total return ratio, including the acquisition of treasury stock, of 30% or higher.

Numerical Management Targets (FY2021)

| | |
|-------------------------|-------------------|
| Sales | 500.0 billion yen |
| Operating income margin | 6% or higher |
| ROE | 12% or higher |
| Capital-to-asset ratio | 30% or higher |
| Total return ratio | 30% or higher |

Conclusion

We at the Sumitomo Mitsui Construction Group, as a comprehensive construction company, are committed to building infrastructure that people use on a daily basis, whether crossing a bridge, strolling about town or spending time with loved ones.

We believe that we can improve our corporate value by steadily working on each and every measure under the Mid-term Management Plan with the faithfulness and sincerity we have inherited.

We will make efforts for sustainable growth to live up to expectations of stakeholders and appreciate your continued support and understanding.

Hideo Arai

Representative Director
President & CEO

Value Creation Stories

Recognize issues

Social issues related to business area

Developing/maintaining infrastructure supporting daily life and economy

- Developing infrastructure resistant to natural disasters
- Measures for aging infrastructure in Japan
- Developing infrastructure necessary for economic development of emerging/developing countries

Solving shortage of workforce/Reducing long working hours

- Securing/cultivating skilled construction workers
- Saving manpower/labor to achieve productivity improvement and work style reforms

Conserving the global environment

- Address global warming
- Developing a recycling-oriented society
- Conserving biodiversity

Own issues

Securing safety/quality

- Eliminating industrial accidents/public accidents
- Eliminating quality defects

Measures for lack of human resources

- Securing/cultivating human resources
- Promoting digitization

Measures for changes in the construction market in Japan

- Preparation for future market shrinkage due to population decrease
- Measures for the shift from new construction to maintenance/renovation

Corporate strategies

(Mid-term Management Plan 2019-2021)

Basic Policy

Accelerate changes

Change the construction production process

Save manpower/labor with digitization and industrialization of construction production to achieve productivity improvement and work style reforms

Numerical target

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

Enhance overseas business

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

Numerical target

Orders received outside Japan:
100.0 billion yen

Expand business areas

Expand new business, including renewable energy business, and construction peripheral business

Numerical target

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

Governance supporting strategies of Sumitomo

Business strategy

Civil engineering business

pp. 21-24

Building construction business

pp. 25-28

Overseas business

pp. 29-32

New business & construction peripheral business

pp. 33-34

Foundations to support growth

Technologies/ICT pp. 35-38

- ▶ Technological development to achieve next-generation construction production system
- ▶ Developing unique sustainable technologies and services
- ▶ Promoting digitization to enhance the competitiveness of the construction business
- ▶ Improving efficiency in core business using digital technologies

Human resources = Human assets pp. 39-42

- ▶ Achieving work style reforms and realizing an attractive workplace environment
- ▶ Hiring human resources and investing in human assets

Safety culture/supreme quality assurance pp. 43-44

- ▶ Establishing a safe, healthy, pleasant workplace environment
- ▶ Achieving "Supreme Quality Assurance" focused on the execution process as early as possible
- ▶ Launching safety/quality control using ICT

Environmental management/harmony with local communities pp. 45-48

- ▶ Achieving the targets of the Environmental Policy Green Challenge 2030
- ▶ Enhancing partnerships with local communities, NPOs, etc.

Group companies pp. 49-52

Create value (=address issues)

Address social issues related to business area



Build long-lived, disaster-resistant social infrastructure



Economic/social development in emerging/developing countries



Reduce environmental impact



Solve shortage of workers



Improve productivity with technologies for labor-saving and mechanized execution

SUSTAINABLE DEVELOPMENT GOALS

Own value (Vision 2030)

A construction company that globally supports and connects "People" and "Communities" with new value

Revolutionize construction production —Next-generation construction production system—

- 3D design/execution plan based on BIM/CIM
- Labor-saving, rapid execution system consistent from production at plants to on-site assembly
- Construction sites digitized with ICT

Diverse services extended from construction

- Renewable energy business in/outside Japan
- Technologies and services that improve urban sustainability
- Life cycle business for social infrastructure maintenance/renovation

Sustainable technology

- Materials/methods of low environmental impact
- Technologies to extend the life of structures
- Energy-saving technologies

Global human resources

- Human resources who have a high degree of professionalism and management ability (=human assets)
- Personnel system for diversity
- Workplace environment that allows diverse work styles

Mitsui Construction and their execution pp. 55-59

Civil Engineering

We will be future-oriented to look ahead to changes and make strides to enter a new stage

Priority
SDGs



Hiroshi Mashiko

Director
Senior Managing Executive Officer
Division Director
Civil Engineering Division



Business
characteristics
& strength

- Having industry's top experience in design and construction of PC bridges
- Developing social infrastructure in wide-ranging domains including tunnels, land development, and energy facilities
- Having established industry's top position in the infrastructure maintenance and renewable market by improving competitiveness in large-scale expressway renovation business
- Having become the first general contractor certified to ISO 55001 (asset management system) for the infrastructure maintenance and renewable market

Business Environment

During the Period of the Mid-term Management Plan (2016-2018)

- Enhanced joint public-private initiatives for productivity improvement, including promotion of eight-day closure per four weeks and other measures to secure/cultivate workers and introduction of i-Construction.
- Final phase of placing orders for disaster reconstruction projects related to the Great East Japan Earthquake
- Enhancement of measures for disaster reduction or mitigation and for "building national resilience" in view of frequent occurrence of large-scale natural disasters including water damage
- Full-scale renovation of aging infrastructure including expressways

Future Prospects

- Increase in the shortage of skilled workers
- Decrease in domestic construction investment, and intensifying competition
- Qualitative change from new construction to maintenance/renovation

Review of Mid-term Management Plan (2016-2018)

Results of Business Strategy Implementation

- Reformed production system and cultivated human resources.
- Significantly increased orders received in the PC area in Japan, securing No. 1 share in 2016 and 2017 among members of the Japan Prestressed Concrete Contractors Association.
- Increased the share of orders received in the expressway maintenance/renovation market.
- Enhanced the system for the infrastructure maintenance and renewable market, including becoming certified to ISO 55001.

Issues Taken over by the New Mid-term Management Plan

- Stepping up efforts for productivity improvement and ICT introduction
- Achieving work style reforms
- Cultivating human resources early on and accelerating shift to overseas
- Securing domestic share and enhancing international competitiveness
- Establishing advantage in the infrastructure maintenance and renewable market
- Making group-wide efforts for improving integrated capability and for business peripheral to construction

Key Projects during the Period of the Previous Mid-term Management Plan



Odanaka Purification Plant Renovation (completed in 2016, contractee: Tsuyama City Waterworks Bureau in Okayama Prefecture)

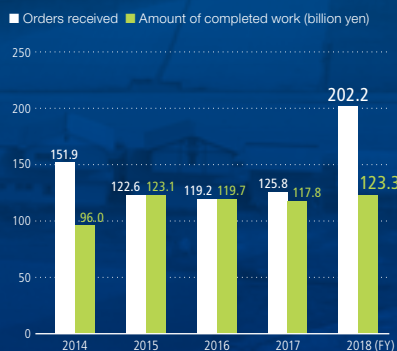


Inland Site Development for Toyota/Okazaki Area Middle Zone Land Preparation (completed in 2017, contractee: Aichi Public Enterprise Bureau)

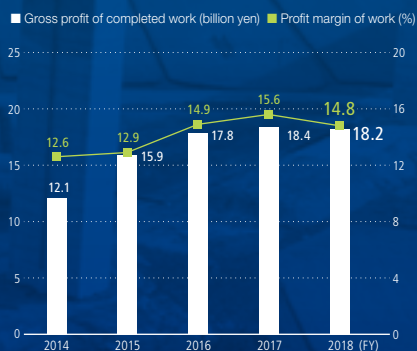


Fiscal 2015 Maki Port Bridge Superstructure (P4-P6) Construction (completed in 2017, contractee: Development Construction Department, Okinawa General Bureau, Cabinet Office)

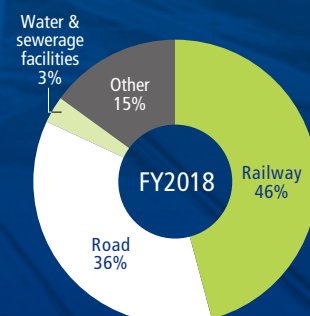
Orders received/Amount of completed work



Gross profit of completed work/Profit margin of work



Orders received by area



ESG data

| (FY) | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|
| No. of engineers ¹ | 806 | 810 | 811 | 802 | 787 |
| Industrial construction waste final landfill (%) | 1.6 | 1.2 | 1.4 | 1.3 | 1.2 |
| Unit of CO ₂ emissions (t-CO ₂ /100 million yen) | 43.0 | 43.0 | 42.6 | 40.8 | 39.9 |

¹ Holders of civil engineering qualifications subject to evaluation under the Business Evaluation System

Initiatives under the Mid-term Management Plan 2019-2021

Top Priority Actions

- Improving productivity and steadily growing domestic business
- Accelerating shift to overseas and expanding overseas business to press forward
- Investing in human resources in light of personnel composition

Basic Policies

1. Stepping up efforts for productivity improvement and achieving work style reforms
2. Cultivating human resources early on and accelerating shift to overseas
3. Securing domestic share and enhancing international competitiveness
4. Establishing advantage in the infrastructure maintenance and renewable market
5. Making group-wide efforts for improving integrated capability and for business peripheral to construction and new business

Key Measures

- (i) Promoting i-Construction
- (ii) Promoting diversity for achieving work style reforms and growth
- (iii) Cultivating human resources, including young employees, early on
- (iv) Cultivating global human resources
- (v) Establishing the comprehensive bridge brand
- (vi) Initiatives for building national resilience
- (vii) Developing areas of competitive advantage, second to bridges, outside Japan
- (viii) Improving productivity and competitiveness in large-scale renovation projects
- (ix) Stepping up initiatives for local government asset renovation business
- (x) Promoting efforts integrating civil engineering and building construction broadly in urban redevelopment, energy, and other areas
- (xi) Enhancing the consolidated business system and entering into renewable energy business

The business environment surrounding civil engineering is seeing further accelerated changes in all areas, including rapid technological innovation in advanced ICT (i.e., IoT, AI, robots), and growing needs for the development of a sustainable society. It is crucial to adroitly adapt to such changes while simultaneously having a long-term direction.

We have various domestic and overseas issues and concerns. In Japan, we must address the shortage of construction workers, which is also an issue for the entire industry, and the change in business lineup associated with the shift to the life prolongation of social capital through maintenance and renewal, which is typified by the large-scale renovation of expressways. Outside Japan, we are facing competition with other Japanese companies, the growth of local general contractors, and a shift in Japan's

ODA recipient countries.

Looking at the personnel composition at our company, the group of middle-ranking employees aged between their late 30s and 40s in construction sections will be extremely small in 2030 if the current personnel composition is maintained. It is imperative to cultivate young employees as early as possible in the short term and to cultivate and secure middle managers as early as possible in the long term.

To aggressively address these issues for sustainable growth and development of business, including business peripheral to construction, in and outside Japan, we will steadily implement measures to ensure our advance under the five basic policies for the promotion of the three top priority actions under the Mid-term Management Plan 2019-2021.

Civil Engineering Topics



Initiatives in the Infrastructure Maintenance and Renewable Market

—Floor Slab Replacement for Expressways—

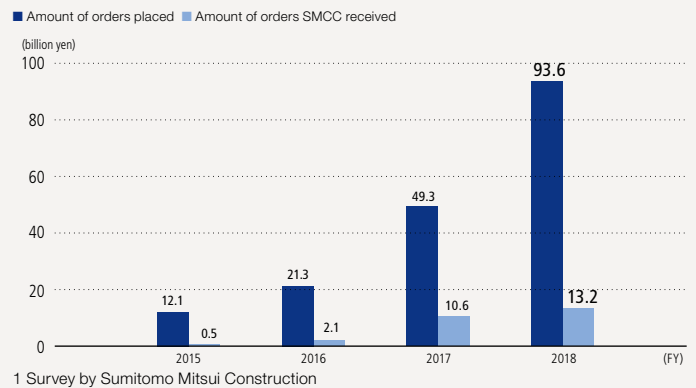
Of the total length of 9,000 km of expressways supplied by expressway companies in east, central and west Japan, about 40% have been in service now for more than 30 years¹ and therefore undergo renovation as needed. When replacing floor slabs for expressway bridges, we carry out rapid construction using bridge construction technologies involving precasting that we have developed ourselves to mitigate the impact of construction on traffic, such as the closure of sections.

¹ As of the end of fiscal 2013





Amount of Orders Placed for Expressway Renovation¹ and Amount of Orders SMCC Received



Related Technology—Precast Bridge Railing Trunc-head®

In projects to replace deteriorated concrete floor slabs of steel beam bridges, we adopt precast PC floor slabs and precast railing for shorter construction periods and durability improvement. Trunc-head is a reinforcing bar forged so as to shape the end into a conical trapezoid for mechanical anchorage. It is used for the joint of precast members. Anchored with the adhesion of the linear part and the bearing pressure of the projection at the end, Trunc-head can shorten the anchorage length compared to a standard reinforcing bar.



Upper:
An application to PCa
bridge railing
Lower:
Enlarged photo of the
end of Trunc-head

Message from Staff in the Field

Re-construction, repair or reinforcement of expressway bridges aims to restore performance and function equivalent to or greater than that at the time of initial construction and thereby extend the life of bridges. Floor slab replacement of Shimo-nagakubo Bridge and railing improvement of Kami-nagakubo Bridge were carried out by closing the lane bound for Tokyo. With the use of precast bridge railing and the use and addition of large machines, we completed the work in 42 days, ahead of the 90 days scheduled for delivery for subsequent paving work. We will continue to work carefully to ensure safer and smoother traffic flow and avoid affecting logistics on the Tomei Expressway, the main artery of Japan.



Tomoaki Sugiyama
Project Manager
Tomei Susono
Numazu Project

Project Outline

Project name: Tomei Expressway (Largescale Renewal Project) Susono IC-Numazu IC Floor Replacement (Fiscal 2017)

Period: March 2018–July 2020

Description:

- Floor slab replacement for about 1,200 m² (Shimo-nagakubo Bridge Tokyo-bound lane)
- Work for fatigue cracks for 3 bridges (Shimo-nagakubo Bridge Tokyo-bound lane, Kami-nagakubo Bridge lanes to/from Tokyo)
- Repainting for about 22,000 m² □ Shoe replacement: 55 units
- Detailed design: 14 bridges

Building Construction

Based on our vision we will look ahead to changes and steadily advance along a growth path

Priority
SDGs



Yoshitaka Mimori

Representative Director
Executive Vice President
Division Director
Building Construction Division



Business
characteristics
& strength

- Being competitive and well experienced in super high-rise collective housing using our proprietary SQRIM technology that lets us achieve high-quality construction in shorter periods. Continuing technological development for further productivity improvement, as well as product development for the creation of comfortable living spaces, in the area of housing
- Expanding initiatives for the targeted growth area of general (non-residential) building construction, which includes office buildings, logistics warehouses, and hotels
- Continuing to build a stable customer base by increasing the percentage of orders received for public works in addition to existing excellent customers including the Mitsui Group and Sumitomo Group

Business Environment

During the Period of the Mid-term Management Plan (2016-2018)

- Remained solid with continued aggressive construction investment, including strong private sector capital investment and large-scale urban redevelopment projects.
- Increasingly apparent shortage of engineers and skilled construction workers. Accelerated initiatives for productivity improvement as well as work style reforms.
- Signs of changes in external environments, including trade friction between the United States and China

Future Prospects

- Increase in the shortage of skilled workers
- Shrinkage of the private sector housing market associated with population decline
- Continued redevelopment projects in the Tokyo metropolitan area

Review of Mid-term Management Plan (2016-2018)

Results of Business Strategy Implementation

- Orders received: Exceeded the targets for three consecutive years. General building construction, which aimed at increasing orders received, progressed steadily while profit margin in housing improved with the narrowing down of projects. The final fiscal year was marked by the receipt of record high orders due to orders for a very large-scale super high-rise collective housing and large-scale public works.
- Amount of completed work: Slightly fell short of the targets in the first two years amid an extremely challenging business environment, factors of which included the shortage of skilled construction workers, but achieved the target in the final year.
- Profit: Exceeded the targets for three consecutive years, bolstered by the thorough implementation of the Housing Initiatives for managing profit margin when receiving orders and for defect prevention.

Issues Taken over by the New Mid-term Management Plan

- Steadfastly executing high-level balance of orders in hand with productivity improvement
- Improving productivity: Use of ICT and BIM, and promotion of digitization including initiatives for automated PCa construction
- Enhancing overseas business, securing/cultivating human resources, improving technologies in overseas building construction, and mobilization/cultivation of human resources in and outside Japan

Key Projects during the Period of the Previous Mid-term Management Plan



Lalaport Shonan Hiratsuka (completed in 2016; contractee: Hiratsuka Special Purpose Corporation)

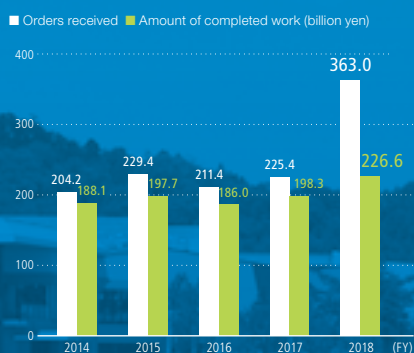


Brilia The Tower Tokyo Yaesu Avenue (completed in 2017; contractees: Tokyo Tatemono Co., Ltd. and Mitsubishi Jisho Residence Co., Ltd.)

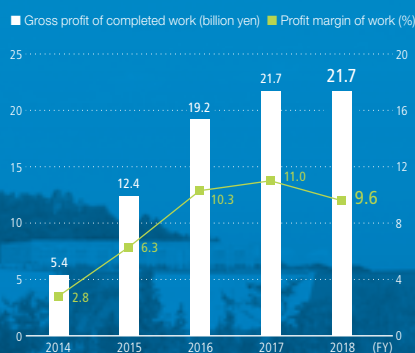


Sumitomo Realty & Development Onarimon Tower (completed in 2018; contractee: Sumitomo Realty & Development Co., Ltd.)

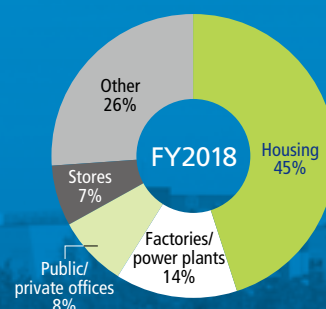
Orders received/Amount of completed work



Gross profit of completed work/Profit margin of work



Orders received by area



ESG data

| (FY) | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------|------|------|------|------|
| No. of engineers ¹ | 945 | 937 | 924 | 914 | 918 |
| Industrial construction waste final landfill (%) | 4.0 | 3.2 | 2.5 | 2.0 | 1.8 |
| Unit of CO ₂ emissions (t-CO ₂ /100 million yen) | 13.8 | 13.8 | 13.4 | 12.5 | 12.4 |

¹ Holders of building construction qualifications subject to evaluation under the Business Evaluation System

Initiatives under the Mid-term Management Plan 2019-2021

Top Priority Actions

- Improving productivity with the use of ICT/BIM and front-loading
- Promoting IoT for automated PCa construction, and increasing the percentage of PCa for housing
- Achieving work style reforms with eight-day closure per four weeks and reduction of overtime

Basic Policies

Enhancing/expanding customer base and reforming production process

1. Building robust customer base
2. Accelerating production process innovation
3. Building a system that accelerates reforms
4. Expanding overseas business and related business

Key Measures

- (i) Stepping up initiatives in the growth area
- (ii) Building robust customer base not depending on changes in the market environment
- (iii) Promoting the use of ICT/BIM to develop SMile Production System
- (iv) Improving productivity with evolution of PCa and achieving work style reforms
- (v) Securing/cultivating diverse human resources
- (vi) Building global execution system with exchange of engineers in and outside Japan
- (vii) Enhancing overseas execution system by transferring building construction engineers in Japan to overseas
- (viii) Enhancing renovation business centering on an affiliate engaged in renovation, SMC Reform

During the period of the previous Mid-term Management Plan, we achieved results that exceeded the targets for orders received amid a favorable business environment. On the other hand, productivity improvement and work style reforms became pressing issues because of the serious shortage of skilled building construction workers despite the considerable amount of work. With the rapid progress of ICT innovation, including IoT and AI, digitization is crucial to productivity improvement in the construction process and one of the major factors that will decide the future of businesses.

The construction market in Japan continues to be strong for the moment. In the medium to long term, however, it is difficult to identify major growth trends in light of such developments as the decline in private sector housing investment associated with population decline. Meanwhile, overseas construction markets are likely to expand with the continued population increase and economic growth in

Asian countries.

In response to the business environment, during the period of the Mid-term Management Plan 2019-2021, we will aim to build a robust customer base not dependent on future changes in the market environment. We will retain existing customers including group companies and enhance relationships with them, and step up initiatives for public works and for the growth areas of office buildings, logistics facilities, and hotels. We will also push forward production system reforms for productivity improvement, including ICT use and automated construction, and promote work style reforms to establish eight-day closure per four weeks and reduce overtime at project sites. With regard to the promising overseas construction markets, we will build a global execution system with two-way human resource exchange between Japan and overseas.

Building Construction Topics



Reforming Building Construction System

We are making efforts to reform the building construction system, including the aggressive introduction of precasting and initiatives for automated construction with IoT to achieve both rapid construction and high quality as well as save manpower and labor. Another reform effort is the introduction of digital tools to improve the efficiency of execution management, which includes timely information sharing.





Related Technology—SQRIM

In skeleton work for standard floors (fourth to 31st), we adopted our patent method, SQRIM, which uses a large number of precast members and minimizes on-site concrete placement for quality management and productivity improvement, and thus shortened the period required to build the skeleton of one floor to four days. Even amid conditions of a six-day closure every four weeks, we completed skeleton work for 28 floors in six months.



Related Technology

—Improving Communication with Digitization of Information

The use of liquid crystal digital signage for morning meetings has dramatically improved communication with workers by enabling the unfailing delivery of work and safety instructions. All project staff members carry tablet terminals in order to use cloud servers for timely information sharing. They also use tablet terminals for internal meetings, regular general meetings with contractees, and meetings with partners.



Liquid crystal digital signage for morning meetings

Message from Staff in the Field

We adopted the SQRIM precast technology to build a high-quality building rapidly and safely. We also aggressively introduced the latest ICT to improve efficiency in execution management for productivity improvement and work style reforms. As individual employees realized improvement in productivity, they have become more energetic. All team members will continue to join forces to advance the work and deliver a high-quality building that satisfies customers.



Yasunori Kawai
Project Manager
Collective Housing
Project at Ebina Station
(tentative name)

Project Outline

Project name: Collective Housing Project at Ebina Station (tentative name)

Contractees: Odakyu Real Estate Co., Ltd. and Mitsubishi Estate Residence Co., Ltd.

Period: September 2017–January 2021

Description: 31 aboveground floors, 2-story penthouse, RC construction, 99.25 m in eave height, collective housing, total 606 units

Overseas Business

We will build a global business sector with highly integrated capabilities by steadily expanding overseas business, taking on challenges in new business, and enhancing overseas human resources

Priority
SDGs



Junichi Iwaki

Managing Executive Officer
Division Director
Global Division



Business
characteristics
& strength

- Having established the foundation for overseas business with a long history of overseas operations, including entry into the Thai market in 1971
- Having established relationships of trust with contractors and local partners with our wealth of construction experience in Asian countries east of India
- Having maintained the top position among Japanese construction companies in India in terms of the share of orders received since fiscal 2011 (OCAJI survey)
- Contributing to economic development of countries by allowing early provision of infrastructure with rapid construction using precasting

Business Environment

During the Period of the Mid-term Management Plan (2016-2018)

- Successively received orders for large-scale ODA projects, including roads, bridges and railways, in Southeast Asia for easing of traffic congestion associated with population increase and fluidity in economy.
- The number of Japanese companies' sites in Southeast Asia was increasing year by year. Japanese companies were aggressive in capital investment, including investment in plants. The increase in Japanese companies in India was particularly notable.
- Competition was intensifying with the increase in Japanese construction companies entering overseas markets.

Future Prospects

- Rapid population increase and concentration into cities is expected in Asia and Africa, creating great potential demand for urban development and transportation development.
- Competition with Japanese construction companies will further intensify.

Review of Mid-term Management Plan (2016-2018)

Results of Business Strategy Implementation

- Orders received: Received orders for large-scale ODA projects in Sri Lanka, Bangladesh, Cambodia and Myanmar in addition to the North-South Commuter Railway Project (Malolos-Tutuban) worth over 50 billion yen in the Philippines. Far exceeded the target in the final fiscal year of the Mid-term Management Plan (fiscal 2018), with total orders received of 137.6 billion yen, including orders received by local subsidiaries. Achieved the target in terms of three-month average.
- Entered areas: Increased the markets we entered with the changes in ODA recipient countries; Re-entered Sri Lanka for the first time in eight years and entered Bangladesh and Tanzania.
- Personnel/education-related: Established the Human Resource Development Center (HDC) in the Philippines in July 2016 to cultivate local employees in Southeast Asian countries. Also established HDC in India in January 2019.
- Business-related: Established SMCC Taiwan in December 2017 for sales of floating solar power generation system.

Issues Taken over by the New Mid-term Management Plan

- Enhancing the current business areas by strengthening areas of competitive advantage and expanding overseas construction business
- Expanding business areas including operation in areas peripheral to construction
- Promoting localization and establishing global system

Key Projects during the Period of the Previous Mid-term Management Plan



MOL Magsaysay Maritime Academy Construction
(completed in 2018; contractee: MOL Magsaysay Maritime Academy, Inc. [Local subsidiary of Mitsui O.S.K. Lines, Ltd.]

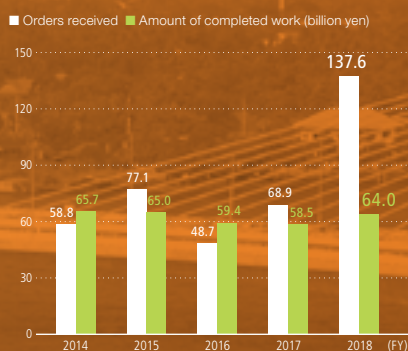


Dinh Vu-Cat Hai Bridge (Lach Huyen Port Access Road)
(completed in 2017; contractee: Project Management Unit No. 2, Ministry of Transport of Vietnam)

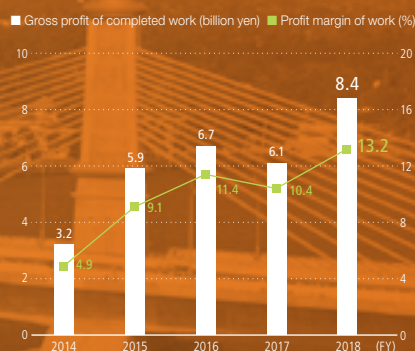


Jakarta MRT Construction Project CP106 Section
(completed in 2019; contractee: PT Mass Rapid Transit Jakarta)

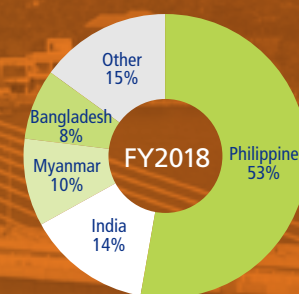
Orders received/Amount of completed work



Gross profit of completed work/Profit margin of work



Percentage in orders received by country



Initiatives under the Mid-term Management Plan 2019-2021

Basic Policies

1. Steadily expanding overseas construction business
2. Creating new earnings bases

Key Measures

- (i) Enhancing linkage of sales information in and outside Japan
- (ii) Enhancing initiatives for work types other than plants, such as office buildings and commercial facilities
- (iii) Launching precasting technologies, including SQRIM
- (iv) Using rapid construction methods in civil engineering and accumulating expertise in water & sewerage facility construction
- (v) Cooperating with business partners (local companies, Japanese companies, etc.)
- (vi) Promoting localization
- (vii) Enhancing and training overseas human resources

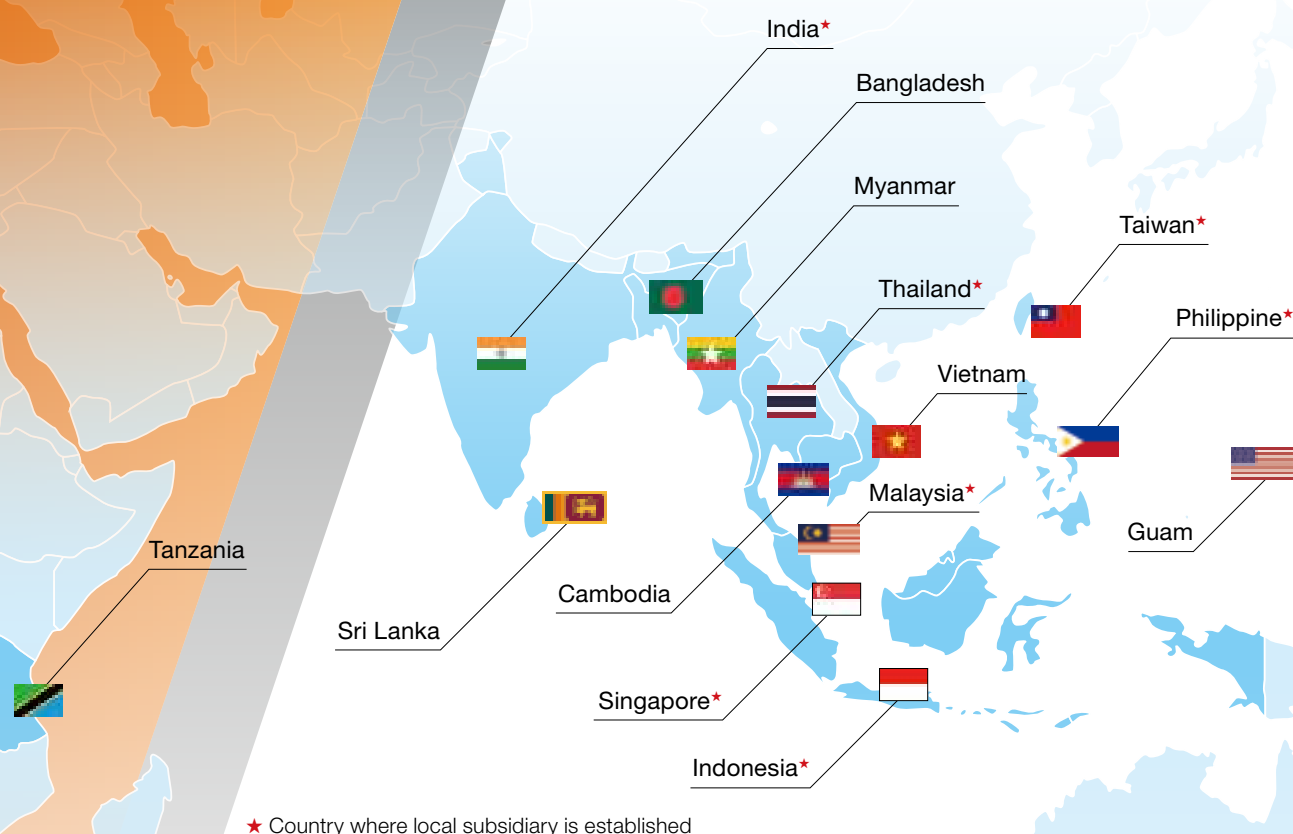
Under the policy of enhancing overseas business, we will operate sales activities to establish a 100-billion-yen system for overseas business, including operations in emerging market countries. In terms of civil engineering, we will aggressively work on high-quality ODA projects, including projects in emerging markets, where we can demonstrate our advantage. In building construction, we will enhance our sales and proposal capabilities and cost competitiveness and focus on Japanese projects while aiming to aggressively participate in projects of excellent non-Japanese local companies.

To achieve the targets of the Mid-term Management

Plan 2019-2021, we need to expand business beyond construction work to peripheral areas. The Global Business Planning Department, which we established this fiscal year, will promote alliances with external organizations, including M&A, and create opportunities to participate in new business projects that can be earnings bases in the medium to long term.

To respond to expanding markets, the Global Human Resources Development Center, established in April 2019, will systematically supply and train overseas human resources to make the organization a multilayered one and achieve real globalization.

Overseas Business Topics



Securing and Cultivating Global Human Resources



In April 2019, the Global Human Resources Development Center was established under the Global Division. To be the global construction company envisaged in our Vision 2030, we will launch measures that contribute to two-way human resource mobilization in and outside Japan.

To build a global education system, we established the Human Resource Development Center (HDC) Japan to facilitate two-way transfer of human resources through cooperation with HDC Philippines (established in July 2016) and HDC India (established in January 2019).

We will also make efforts to secure global human resources, including working with overseas affiliates to aggressively take in competent local employees, to mitigate the shortage of engineers in Japan and enhance overseas business.



Yoshiaki Sakaguchi
HDC General Manager
Global Division

VOICE

New Bridge Construction Project over the Kelani River

Package 2 (Democratic Socialist Republic of Sri Lanka)



Project Outline

Project name: New Bridge Construction Project over the Kelani River Package 2

Contractee: Road Development Authority, Ministry of Higher Education and Highways, Democratic Socialist Republic of Sri Lanka

Period: October 2017–October 2020

Description: Total length: 1,185 m
Main bridge (extradosed bridge): 380 m in total length, 6 lanes
Approach bridge: 625 m in total length, 5–6 lanes
Approach road: 180 m in total length, 6 lanes

With the solid economic growth of Sri Lanka, the country's largest city, Colombo, is facing increasing traffic congestion. In particular, chronic congestion is a problem at the existing Kelani Bridge, an important nexus of four trunk roads, including the national road bound for the country's second largest city, Kandy, and a highway bound for the international airport. The project is ongoing to build a new bridge to decentralize traffic and reduce chronic traffic congestion. All employees are highly motivated to take on the challenge of building Sri Lanka's first extradosed bridge¹. This bridge of the future, the dream of local residents, will be completed in October 2020.

¹ Bridge with a structure in which cables are extended from the low main tower to the main girder.



Shinji Sato
Project Manager

Suzuki Motor Gujarat Line C Plant Construction (Republic of India)



Project Outline

Location: Hansalpur, Ahmedabad, Gujarat, Republic of India

Contractee: Suzuki Motor Gujarat Private Limited

Period: April 2018–March 2020

Description: Four automobile plant buildings, S construction, partial RC construction, 77,000 m² in total floor area

This project is to build the line C plant of Suzuki Motors in Hansalpur, about 100 km northwest of Ahmedabad City in Gujarat State, where the Japanese carmaker has been operating lines A and B for four-wheel car production. The line C plant comprises four buildings, respectively dedicated to pressing, welding, painting and assembly, and boasts a scale of over 1 km from the west end of the press building to the east end of the assembly building. As of July 2019, we are working at multiple sites on the premises of Suzuki Motor Gujarat and in the adjacent supplier park. This area is one of our most important sites in India.



Hiroto Suzuki
Project Manager

New/Construction Peripheral Business

We will take on the challenge of addressing social issues by developing new business and services

Priority
SDGs



Noboru Sekiguchi

Division Director
Business Innovation
& Incubation Division



Business
characteristics
& strength

- Management ability to best combine internal and external resources to create business and services
- Active cross-industrial cooperation based on broad-ranging friendly relations with the Mitsui and the Sumitomo Group companies

Business Environment

- With the Paris Agreement and adoption of the SDGs, it became necessary for the business world to address sustainability.
 - Renewable energy has become mainstream around the world as business domains that use fossil fuels are becoming the targets of divestment.
 - Japan is expected to increase the use of wood as a renewable construction material to balance soil and water conservation and the protection of healthy forest resources.
- The market for PPP (public-private partnership) business, where private sector companies participate in public services to address the shrinking of government finances due to population decline and the aging of infrastructure, is expanding.
 - Increasing number of municipalities carry out infrastructure renovation projects on a PFI (private finance initiative) basis.
 - Concession method, which started with airport and road operation, expanded to museums, etc.
 - Increasing number of municipalities adopt PPP, in which private sector companies take part, to use public assets.

Review of Mid-term Management Plan (2016-2018)

- Renewable energy-related business
 - Established a subsidiary in Taiwan (SMCC Taiwan) to start production and sales of floating solar power generation system outside Japan.
 - Commercialized four floating solar power generation plants in and outside Japan, including the Hiragioike Floating Solar Power Generation Plant (Kagawa Prefecture).
- PPP/PFI business
 - Received an order for Ube City Public Sewerage Tamagawa Pump Station (DBO) as the representative of a consortium.
- Engineering business
 - Received orders based on our sales strategy focusing on the market of pharmaceutical manufacturing facility renovation by taking advantage of expertise in GxP¹ engineering.
 - Started business continuity support service.
 - Launched environmental navigation service including heat measures and condensation measures.

¹ GxP: Standing for "Good x Practice," GxP refers to appropriate criteria often used in many areas including pharmaceuticals and medical instruments.

Key Business during the Period of the Previous Mid-term Management Plan



Solar power generation (Hiragioike Floating Solar Power Generation Plant [own business])



Mid- to large-scale wooden building construction (Shisaka Higurashi House Dismantling and Reconstruction in a Different Place Project)



High value-added engineering service (relocation of Aichi Corporation's R&D function)

Initiatives under the Mid-term Management Plan 2019-2021

■ Diverse business and services to address social issues

We will continue to work on renewable energy while focusing on PPP and engineering services.

- In the area of renewable energy, we will expand the business of floating solar power generation in and outside Japan while commercializing wind power and small hydroelectric generation in Japan.
- In the area of PPP, we will contribute to the development of sustainable towns with PFI, including concession, and PPP for the use of public assets.
- In engineering services, we will develop new products and services for pharmaceutical manufacturing facilities, and promote facility relocation support services, business continuity support services, environmental navigation, and mid- to large-scale wooden building construction.

■ Creating competitive new business through aggressive investment and cross-industrial partnership

While making the best use of our strength as the only general contractor of the Mitsui Group and the Sumitomo Group, we will improve our integrated capability by working together with affiliates, Shineikai and other partners. We will also flexibly work on partnerships with other companies, equity participation, establishment of new affiliates, and so on.

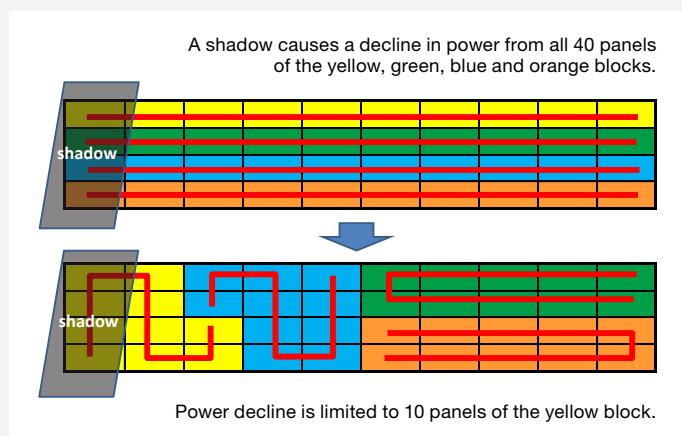
We will not just construct facilities but will consider aggressive initiatives, including entry as a business operator, to provide diverse services beyond construction to meet diversifying customer needs.

Efficient Operation Management of Solar Power Generation (Use of String¹ Monitoring Data)

We introduced a string monitoring system to our own solar power plant for early abnormality detection. We also regularly analyze power generation data in units of string for effective operation management.

When solar panels were shadowed by a new building built on the adjacent property, we quantitatively analyzed its impact with string monitoring data to carry out optimal restringing (rewiring) and verified its effect.

¹ String: A block of solar panels in tandem

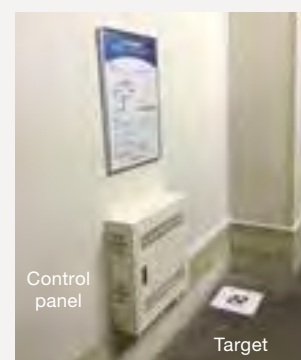


Business Continuity Support Service (Building Recorder)

This service measures interlayer displacement² of a building caused by an earthquake to evaluate safety against aftershocks of the same scale and notifies the building owner of the evaluation results.

The recorder can grasp the maximum displacement and the tilt of the building, which cannot be grasped once the quake stops. As analysis and evaluation based on the interlayer displacement are carried out on a cloud server, it is possible to promptly provide information on the condition of the affected building. It is also possible to remotely grasp the structural safety without entering the building.

² Interlayer displacement: Relative displacement in the horizontal direction caused in the upper and lower floors when the building is deformed by movement such as due to wind or an earthquake



Foundations to Support Growth/ Technological Strategy and ICT Strategy

We will work on advanced
technological development to
dramatically improve productivity



Akio Kasuga

Executive Vice President in charge of Technology
Officer in charge of Construction IT Design Department

Tomio Kurata

Executive Officer
Division Director
Technical & Engineering Service Division

Technological Strategy

Improvement of construction productivity is a measure taken for the shortage of workers throughout the entire construction industry, and requires speedy action. We have improved construction productivity with the use of precasting in our areas of strength, such as PC bridges and high-rise collective housing. As an extension of conventional methods will not lead to substantial improvement, it is imperative to focus on innovation as if fundamentally reviewing the construction system, i.e., further promotion of mechanization and automation and technological development and technology procurement using IoT and AI.

Additionally, Vision 2030 aims to secure a share above a certain level of orders received for domestic construction

while increasing the percentage of overseas construction business, new business, and business peripheral to construction and shifting human resources to these segments. Furthermore, the qualitative change from new construction to renovation is expected in the domestic construction market. To fully respond to these, we need to continue technological development.

Accordingly, technological strategy under the Mid-term Management Plan 2019-2021 aims to accelerate reform, advancement and challenges in technological development with the basic policy of enhancing technology to develop a next-generation construction production system and peripheral services.

Direction of Technological Strategy to Realize the Vision 2030

| | |
|--|--|
| ○ Securing sustainability of construction business | <ul style="list-style-type: none">• Promotion and launch of technological development to improve construction productivity• Development and launch of technologies for overseas construction |
| ○ Creating added value | <ul style="list-style-type: none">• Technology procurement to reinforce profitable business peripheral to construction and take on challenges for new business in the future and technological development for commercialization |
| ○ Realizing a sustainable society | <ul style="list-style-type: none">• Technological development for 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 reduction of structures' life cycle cost) |

Technological Strategy under the Mid-term Management Plan 2019-2021: Basic Policy and Key Actions

Basic Policy: Enhancing technology to develop next-generation construction production system and peripheral services
—Accelerate reform, advancement and challenges in technological development

1. Technological development to develop SMile Production System

- Focusing on development and launch of technology that improves productivity in construction production process

2. Development of unique sustainable technologies and services

- Promoting pioneering technological development to expand the area of business peripheral to construction
- Trying what no other company can try, in pursuit of value creation to address social issues

3. Enhancement of the foundation for technological development to maintain and reinforce technological development capability

- Building a development system that allows for continual work in existing business areas and new/peripheral business areas

ICT Strategy

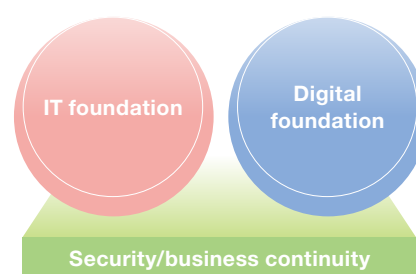
To revolutionize the construction production process in and outside Japan, integrating advanced ICT into the construction process as set out in Vision 2030, we will aim at building a robust foundation and speedily developing the next-generation digital environment by bringing information technology into all company operations. More specifically, we will change the construction production process using advanced digital technologies (e.g., AI, IoT and RPA¹) in addition to existing defensive IT while maintaining security and continuing to enhance measures for information security,

which is diversifying and becoming increasingly complicated. To that end, we established the Construction IT Design Department, which is tasked with designing construction IT from the user perspective with consideration for the field, an approach characteristic to SMCC, on April 1, 2019. Additionally, a team of specialists tasked with promoting ICT was established under each of the Civil Engineering and Building Construction Divisions to enable them to join forces to accelerate IT linked with management strategy.

¹ RPA: RPA (robotic process automation) refers to the automation of computer operations, which would otherwise be conducted by humans, using software robots

ICT Strategy under the Mid-term Management Plan 2019-2021

- (1) Promoting digitization to enhance the competitiveness of the construction business
- (2) Improving efficiency in core business by using digital technologies
- (3) Enhancing information security measures
- (4) Developing a system to promote ICT use company-wide

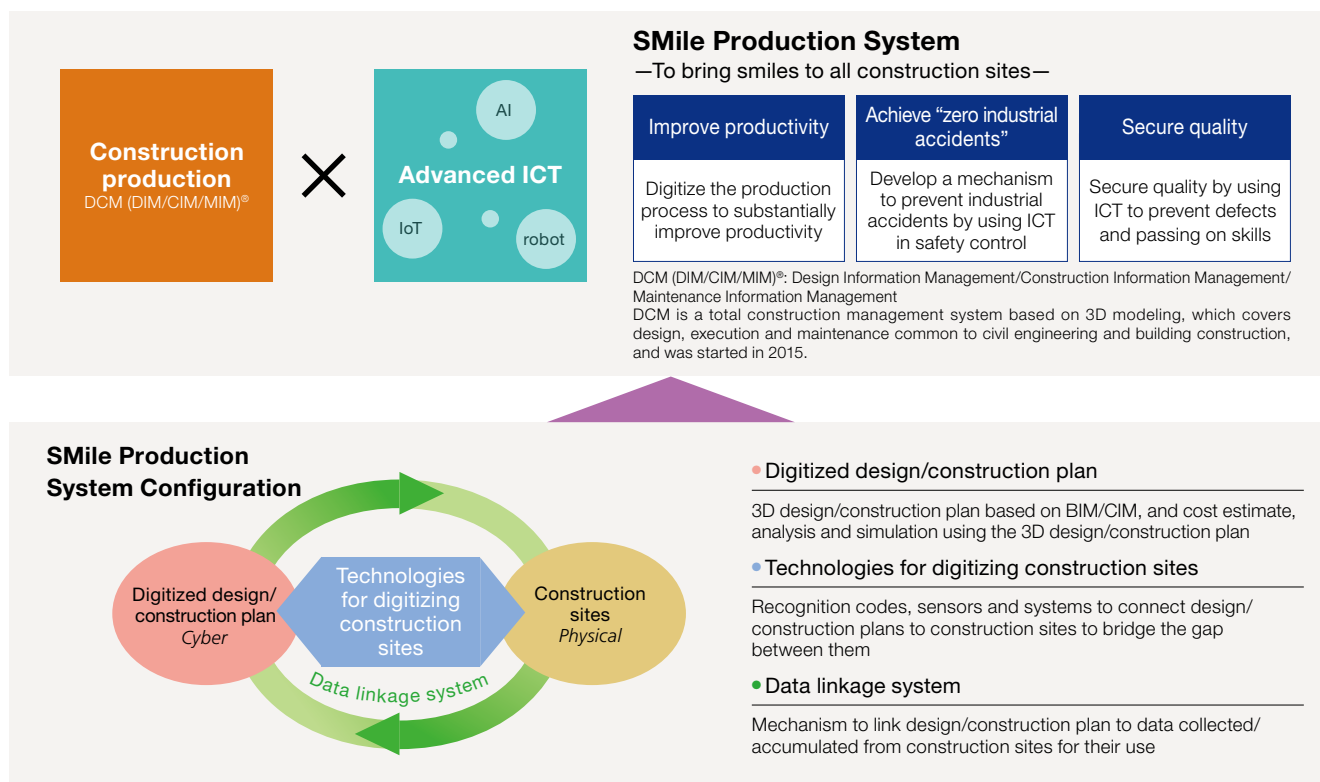


SMile² Production System

SMile Production System, the new value we aim to provide under Vision 2030, aims to improve productivity, achieve “zero industrial accidents” and secure quality. The system is comprised of a digitized design/construction plan (BIM/CIM,

etc.), technologies for digitizing construction sites (with ICT including IoT, AI and robots), and a data linkage system that links them together.

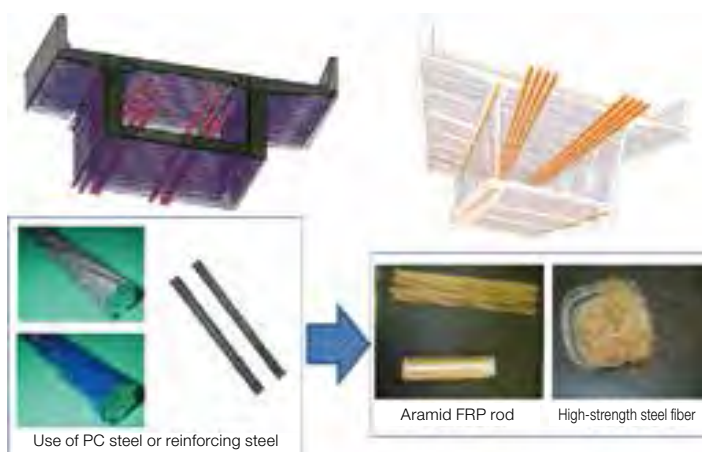
² SMile: Sumitomo Mitsui ICT Leads to Evolution



Technologies Related to Technological Strategy/ICT Strategy

Corrosion-free, Highly Durable **Dura-Bridge®** Adopted for Expressway Bridge for the First Time

Dura-Bridge (jointly developed with West Nippon Expressway Co., Ltd.), which secures long-lasting durability using a new rustproof tension material in place of reinforcing steel or PC steel, was adopted for the first time for the Bessodani Bridge, a new expressway bridge on the Tokushima Expressway. The technology can prevent damage to third parties due to falling pieces of concrete caused by steel corrosion, and dramatically improve durability to reduce maintenance cost.



<Comparison between conventional bridge and Dura-Bridge>

For details ► <https://www.smcon.co.jp/topics/2018/07251345/>

Using Electric Vehicles for Elevator Operation at Super High-rise Housing in the Event of a Disaster: **Connected EV System**

The Connected EV System, which we jointly developed with the Tokyo University of Marine Science and Technology, is a power supply system that can reasonably and economically supply electricity from electric vehicles in the event of a large-scale outage caused by a disaster to operate elevators at super high-rise collective housing. The demonstration experiment using elevators at a super high-rise collective housing complex in Japan confirmed that the system is effective for evacuation from upper floors and for ground-based relief goods transportation during times of disaster-related large-scale power blackout.



Building Outline

Name: River City 21 East Towers II
 Scale: 2 underground floors, 43 aboveground floors
 Reinforced concrete construction, total 642 units
 Location: Tsukuda 2-chome, Chuo-ku, Tokyo

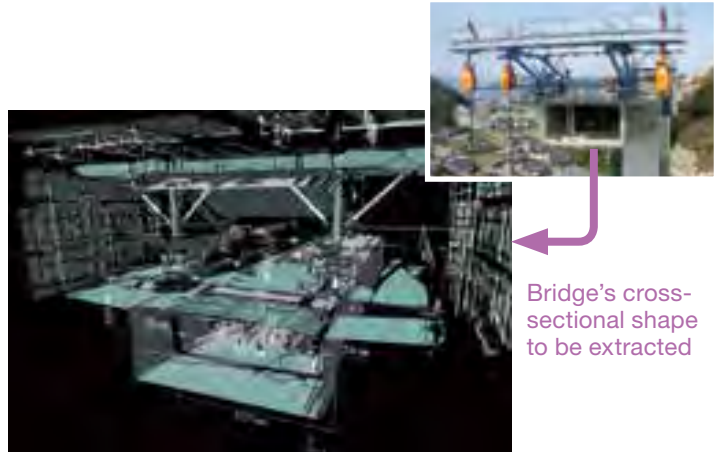


<Super high-rise housing where demonstration experiment was conducted and an EV supplying electricity in underground parking area>

For details ► <https://www.smcon.co.jp/topics/2018/09031409/>

System to Inspect Complete Bridge Parts Using 3D Laser Scanner: **SMC-Smart Measure**

The system can automatically extract the cross-sectional shape of a bridge based on 3D point data measured with a 3D laser scanner, automatically measure the size of a designated completed part, and output the extracted cross-sectional shape as 3D CAD data. Additionally, cloud-based data management allows information sharing among all parties concerned, including contractees, and output into a document on complete shape measurement, which is required for execution management.



<An example of bridge's cross-sectional shape automatically extracted from 3D point data of 3D laser scanner>

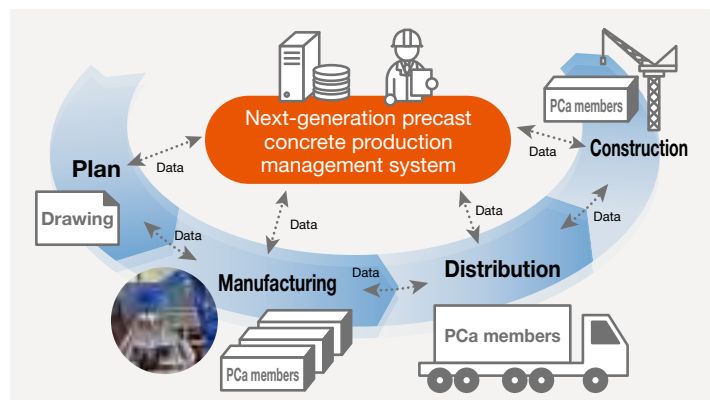
For details ► <https://www.smcon.co.jp/topics/2018/08091300/>

Next-generation PCa Production Management System Using IoT: **PATRAC**

The PATRAC (Precast Automatic TRACing) system manages work processes (drawing, manufacturing, logistics and construction) using ICT and IoT technology for digital transformation of production processes in the precast (PCa) area. More specifically, the system carries out 3D modeling of PCa drawings and automatically and digitally collects and uses all production data at manufacturing plants (goods, people, location, time).

Through BI tools and AI analysis, collected data (big data) are used to automatically create a cost estimate, visualize the progress, and evaluate and optimally improve staffing on a real-time basis. We aim to combine the

system with robotics and 3D scanners to make it an integrated system that is high-speed, sophisticated and centrally managed.



<Conceptual image of PATRAC>

For details ► <https://www.smcon.co.jp/topics/2018/12181300/>

Foundations to Support Growth/ Human Resource (=Human Asset) Strategy

We will promote work style reforms and hiring
and cultivation of human resources for diversity
and globalization



Hiroshi Nagatani
Managing Executive Officer
Division Director, Administration Division

The human resource strategy under the Mid-term Management Plan 2019-2021 aims at achieving work style reforms, realizing an attractive workplace environment, and securing/cultivating human resources. Specific measures we will take include implementing the Guidelines for Promoting Reduction of Long Working Hours, supporting diverse work styles including introducing teleworking and providing support for balancing work and childcare/family care, hiring diverse human resources, and redeveloping the personnel system. For the realization of the Vision 2030, in particular, we will establish an education system to cultivate young and mid-career employees as early as possible while also cultivating global human resources and carrying out systematic two-way rotation of domestic and international human resources to enhance overseas business.

Achieving Work Style Reforms and Realizing an Attractive Workplace Environment

(1) Early achievement of work style reforms with the Guidelines for Promoting Reduction of Long Working Hours 2019-2021, etc.

<Targets of shorter work hours during the period of the plan>

- Overtime/work on holidays of all employees:
Less than 720 hours per year (fiscal 2021)
- Taking of paid leave: 50% or higher on average of all employees
- Six-day or longer closure per four weeks at new project sites:
All sites are closed on the second and fourth Saturday of every month, in principle (fiscal 2019 & 2020).
- Eight-day or longer closure per four weeks at new project sites:
All sites are closed on Saturdays and Sundays, in principle (fiscal 2021).

Based on the President's Policy on Work Style Reforms, we will promote work style reforms company-wide. In line with the Employee Action Guidelines for Achieving Reduction of Long Working Hours, all employees will work to achieve shorter hours while being conscious of goal, time and team. Specifically, we will create a shorter hours policy document to promote voluntary initiatives for shorter hours at project sites, introduce and use IT tools to reduce the workload at project sites, reduce the volume of documents and promote online documentation, and review division of work before launching effective measures at all offices.

In response to mandatory paid leave entitlement of five days per year, we will systematically offer paid leave based on the agreement with the labor union. We will also promote initiatives to ensure two days off per week.

<Sumitomo Mitsui Construction President's Policy on Work Style Reforms>

To achieve sustainable corporate growth and cultivate creative employees for the future, Sumitomo Mitsui Construction will promote the development of an environment where diverse employees can feel satisfied with their jobs and have greater awareness.

• Development of the environment

Building a mechanism to eliminate waste, unevenness and unreasonable overwork, and developing a system for productivity improvement

• Awareness raising

Encouraging employees to make time to achieve and continue their personal development for the future

<Employee Action Guidelines for Achieving Reduction of Long Working Hours>



(2) Enhancing systems that support diverse work styles

To promote the President's Policy on Work Style Reforms, Sumitomo Mitsui Construction, as a company that meets employee needs for diverse work styles, will enhance support systems, protect employees' health, and provide a pleasant and satisfying workplace environment.

- Promoting teleworking (work at home, work at satellite offices), particularly for employees engaged in childcare or family care and employees with disabilities, to promote work styles not limited by place of work
- Considering introduction of flexible working hours system for employees working outside the office to promote unconventional flexible working hours, particularly among young employees
- Encouraging employees to actively take paid leave on an hourly basis
- Considering introduction of the inter-work interval system, which requires employees to rest for certain hours between the end of one day's work and the start of work the following day to secure employees' health
- Establishing an environment where male employees can acquire a better understanding of taking childcare leave and can easily take such leave; and considering a childcare-related leave system for purposes other than nursing
- Enhancing support for employees engaged in family care, other than extension of the period of leave

Promoting Diversity, Hiring Human Resources, and Investing in Human Resources

(1) Securing/cultivating diverse human resources and enhancing the system

Sumitomo Mitsui Construction has promoted diversity promotion, primarily targeting female employees, foreign national employees, employees with disabilities and older employees. We have continued to take measures for developing systems to support work-life balance and providing training to raise awareness. To be an attractive company where diverse workers can play even more active roles, we will make continued efforts.

(i) Empowering women, foreign nationals and people with disabilities, staffing according to individual careers and needs, and providing diversity education

(Women)

- Supporting career development of female employees who are pregnant, giving birth, or engaged in childcare
- Using and improving manuals for providing workplace environments that are pleasant for female employees

(Foreign nationals)

- Establishing and operating a consultation service for foreign national employees and their families
- Continuing to provide Japanese language training for foreign national employees and considering provision of Japanese language training for their families

(People with disabilities)

- Considering development of a system for accepting persons with disabilities, supporting their retention and expanding their job categories

<Target diversity indicators>

- Ensuring that female employees on the major career track account for 20% or higher of new employees hired as part of regular recruitment and 10% or higher in mid-career recruitment
- Percentage of female managers: 2.5% or higher
- Male employees' taking of childcare leave: 10% or higher
- Average taking of annual paid leave by employees: 50% or higher (Above are targets for three years between April 1, 2019 and March 31, 2022)
- Employment rate of people with disabilities: 2.2% or higher
- Employment rate of foreign nationals as part of regular recruitment: 3–5 persons/year

(ii) Building systems for improving motivation and using abilities of older employees

- Reviewing the current employment as non-regular employees and pay system and expanding the scope of retirement age extension

(2) Investment in human resources

The previous Mid-term Management Plan set forth the focus theme of securing, cultivating, and vitalizing human resources, and achieved certain results in terms of securing human resources, including exceeding the target for the hiring of new graduates. We will enhance education for young employees to train them as early as possible.

To be a global construction company as envisaged in our Vision 2030, we will enhance investment in human resources, including global education, and aggressively promote rotation between Japan and overseas.

(i) Enhancing education for young employees to train them as early as possible

- Ensuring provision of education based on the annual education plan
- Developing and implementing young employee education plans (rotation, education, qualification acquisition)
- Considering introduction of a brothers/sisters system for new employee education
- Considering provision of training to enhance leadership of superiors and brothers/sisters

(ii) Promoting education for globalization and rotation of human resources for global operation

- Subsidizing language school tuition in addition to the existing short-term study abroad program and intensive English training program
- Assigning employees of all job classifications to overseas locations within 10 years after joining the company, in principle, to aggressively promote rotation between Japan and overseas
- Establishing the Human Resource Development Center (HDC) in India and the Global Human Resource Development Center (Japan), in addition to the existing HDC in the Philippines to promote two-way human resource exchange between Japan and overseas (see page 31)

<Education Structure>

| Education by job grade | Special education | Education by job classification | | | | | | | Diversity education | General education | Other | | |
|-------------------------|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------|-----------------------|-----------------------|--|---|-------|---------------------------------------|-----------------------------------|
| Senior manager training | Management training for selected employees | Specialized technical education | Specialized technical education | Specialized technical education | Specialized technical education | Specialized education | Specialized education | Specialized education | For managers | Safety and health education Management system Charter of Corporate Conduct Compliance education Harassment education Human rights education Training for mid-career employees | OJT | Support for qualification acquisition | Global human resource development |
| Middle manager training | Study in Japan | | | | | | | | For superiors who have female subordinates | | | | |
| Leader training | Study abroad | | | | | | | | For female leader candidates | | | | |
| New employee training | | | | | | | | | | | | | |
| Common to all divisions | | Civil engineering | Building construction | Design | Technological development | Business development | Sales | Administration | All employees | | | | |

Diverse Human Resource Capabilities Creating New Value

Building construction marketing carries out sales activities to receive orders for building construction, renovation and so on. The job—properly understanding customer needs and connecting them to related departments such as design, estimate and construction to materialize customers' ideas—is creative and worthwhile.



Materializing customers' ideas with strong awareness and responsibility

Yoichi Matsubara

Building Construction Marketing Department
Eastern Kanto Branch

Other marketing tasks include introducing or proposing new initiatives to be undertaken by technical and engineering, business development, or other sections of the company to find new work or connect customer needs to the technological development of our company.

I'm not experienced enough to fulfill all of these tasks, but I want to be a sales representative who is trusted by customers, to the extent that they say, "I would like to place an order with you again."

I am currently working on a bridge superstructure construction project for building bridge girders using the cantilever overhang erection method. It is a difficult project because it requires control of lateral movement of a super large mobile work vehicle. Each time the mobile work vehicle advances after completing the cycle for one construction block, I see the progress of the project and feel very happy. When I drove for the first time over a bridge that was built by a project I was involved in, I remembered the years of construction that went into it and was deeply moved. Keeping this feeling of exaltation in mind, I will make continued efforts as an engineer so that I can be a member of big projects and continue my job, which I am proud of.



Continuing my job, which I am proud of, keeping in mind the first feeling of exaltation

Moeko Saito

Yunosawagawa Bridge Project
Hokkaido Branch



My kids motivate me. Designing better buildings through discussions with on-site staff

Kaori Yamamoto

Building Design Department No. 3
Building Construction Division

The Building Design Departments work with marketing and engineering sections to design buildings that can satisfy customers. As drawings incorporating my ideas become finalized, I feel more anticipation and responsibility. As I continue to talk with on-site staff as part of the project supervision, I realize the extent to which many people are working together to create this one thing. And I could not feel any happier than when I see a completed building becoming part of the streetscape. I have taken childcare leave twice and returned to my work this spring. The childcare-work balance is a big theme, but I will work hard encouraged by my kids, following the example of my predecessors.

The mission of the Business Innovation & Incubation Division is to expand our areas of business and build a multilayered earnings base in business other than construction, our company's core business.



Creating new business, always seeking optimization

Kentaro Tanimoto

Business Innovation & Incubation Division

To that end, rather than blindly sticking to the methods and values that our predecessors have optimized with time and effort, we must nurture them to create a new culture for the company while still basing it on the Corporate Principles. As I joined the company mid-career, I will remain, in a good sense, unencumbered by the conventional wisdom of the company to contribute to making sure the company continues to be needed by society.

Each Division's Human Resources as Source of Creation of Social Value and Corporate Value

Our company's employee education, which starts with etiquette training for new employees, ranges widely from management education by job grade to education by job classification for expertise improvement, and to general education programs including diversity education. Profiles of the kinds of employees sought by the company will change with the times. Currently, our major issues are cultivating young and mid-career employees as early as possible and cultivating global human resources to enhance overseas business.



For a more effective education system for the times, as the future rests on employee education

Yuchiko Kai
Personnel Department

It is very hard to plan and implement an effective education system from a long-term perspective. I will work on this challenging task, motivated by the fact that the future of the company rests on employee education.

I am currently involved in two projects: a study on cable-stayed bridges and an automatic structure measurement system using a 3D laser scanner and computer software. With regard to R&D, I was impressed by what my boss said before: "The world's No. 1 or Japan's No. 1 record will be broken someday, but the first-in-the-world or first-in-Japan record will not." The development of new technology, in which I am taking part, is the creation of such a "first," and this is what drives my daily work.



Creating "firsts" drives my daily work

Rei Takaoka
Structural Engineering Service Department
Technical & Engineering Service Division



Proud to contribute to my country, using knowledge, experience and language skills

Nguyen Anchee
International Division

I was fortunate enough to become involved in a project to construct the longest sea-crossing bridge in my mother country, Vietnam. On the project site, I was tasked with important roles including negotiating with the contractee, government organizations, engineers, and joint venture partner, taking advantage of the knowledge, experience and cross-cultural understanding that I acquired while studying in Japan and using the three languages of Japanese, English and Vietnamese. I worked under pressure but it was worthwhile. I feel proud that the project contributed to economic development and improving the skills of local engineers in my home country. I will never forget the happy tears that residents shed when they saw the completed bridge.

The Safety, Environment & Production Management Division plays a part in the great responsibility we have for securing safety and quality, which is the foundation of construction at our company. We provide safety and quality instructions for project sites based on the understanding that if the project site is messy, it is impossible to build a high-quality building with no accidents, and if you cannot realize that the site is dirty or untidy, you cannot realize safety and quality.



Playing a part in the great responsibility for securing safety and quality

Norimichi Tabata
Building Construction Department
Safety, Environment & Production Management Division

As the QSA system was extended to the Civil Engineering and Global Divisions in this fiscal year, our role became increasingly important. We will work to establish a safety culture and achieve supreme quality assurance by helping all employees understand and share the principle and value of supreme quality assurance.

Foundations to Support Growth/ Establishing a Safety Culture and Achieving Supreme Quality Assurance

With high awareness,
act for Industry-top safety and quality

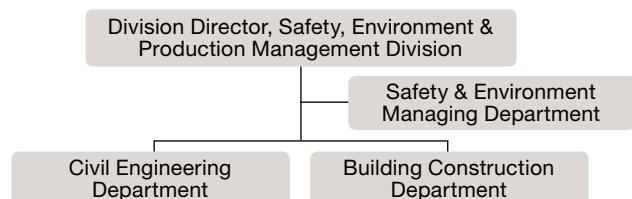


Takeshi Sagara
Senior Managing Executive Officer
Division Director
Safety, Environment & Production Management Division

For establishing a safety culture and achieving supreme quality assurance, we must ensure safety and quality control in line with corporate ethics and engineering ethics, achieve zero deaths, critical injuries and major accidents, and carry out thorough execution process management. All these will be promoted by the newly established Safety, Environment & Production Management Division.

With regard to safety, we will ensure implementation of the plan-do-check-act (PDCA) cycle in all processes from planning to completion to improve work safety, and

<Safety, Environment & Production Management Division: Organization Chart>



reform the production system with the development of manpower-saving technologies and the use of ICT to nip any potential accidents in the bud. As for quality, we will continue and improve the activities we have carried out, with the goal of achieving supreme quality assurance that lives up to our customers' confidence in us. Supreme quality aims for safety and quality at a level exceeding by far the conventional level of the construction industry. It means to unfailingly follow management procedures for work, safety/quality inspection, recording, confirmation, and so on according to the designated operation standards. It means to carry out safety/quality control activities in order to continue to refine safety and quality in the field through the persistent efforts of all employees and officers with the utmost attention, allowing no dependence on subjective emotions or compromise in the process. We will establish a safety culture and achieve supreme quality assurance as all employees understand and share the principle and value of supreme quality assurance.

Establishing a Safety Culture

Slogan: Let's nip danger in the bud and develop a safety consciousness together.

Basic Safety and Health Policy:

Under the principle of "zero-accident" infrastructure building, Sumitomo Mitsui Construction aims to protect the lives and health of its workers by providing a safe, healthy and pleasant workplace environment.

1. To eliminate accidents, we observe laws and regulations related to occupational safety and health as well as the Sumitomo Mitsui Construction health rules, and establish workplace rules.
2. To improve operational safety, we ensure the performance of repeated cycles of plan, do, check and act in all processes from planning to completion.
3. To improve the level of safety and health control, we cooperate with partners and carry out voluntary safety and health activities, eliminate or reduce risks and sources of harm, promote worker health, and develop a pleasant workplace environment, with the Sumitomo Mitsui Construction Occupational Safety and Health Management System as the basis of safety and health control.

Basic Safety and Health Targets

1. Eliminating accidents through zero risks
- (1) Eliminating public accidents (third-party accident, property damage, public facility failure)
- (2) Eliminating three major types of accidents (falls to the ground and falls to the floor, collapsing and overturning, accidents caused by construction machinery, cranes, etc.)

Priority Measures

- (1) Improving operational safety with continued implementation of plan, do, check and act cycles
- (2) Preventing recurring accidents by using accident case studies and complying with rules
- (3) Complying with laws and regulations related to each site
- (4) Improving the level of safety and health control
- (5) Launching safety/quality control using ICT

**Zero deaths, critical injuries
and major accidents**

**Frequency rate:
0.6 or less**

**Severity rate:
0.02 or less**

2. Developing a healthy and pleasant working environment

Priority Measures

- (1) Promoting mental and physical health
- (2) Developing an attractive working environment
- (3) Developing a worker-friendly workplace environment by ensuring the 5S movement (*seiri, seiton, seiso, seiketsu, seijitsu*)
- (4) Taking early measures for heatstroke by grasping the WBGT in summer
- (5) Preventing occupational diseases

Achieving “Supreme Quality Assurance”

Slogan: Carry out the thorough 5S movement, the basis of everything else. Achieve supreme quality assurance with firm resolution.

Basic Production Control Policy: Achieving “Supreme Quality Assurance” focused on the execution process as early as possible for a leap forward to a new stage

Basic Production Control Targets: ○ Zero quality defects ○ Achieving supreme quality as early as possible

Basic Production Control Plan:

1. Preventing quality problems

Priority Measures

- (1) Analyzing causes for past cases (human/physical/methodological factors, measures to prevent human errors)
- (2) Expanding workable practices and issues pointed out in quality audits and quality safety audits company-wide
- (3) Checking key quality-related points in execution process

2. Improving operational efficiency and reducing in-the-field burdens

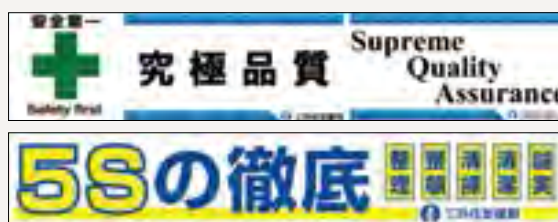
Priority Measures

- (1) Promoting shorter hours for employees
- (2) Reducing on-site workloads
- (3) Improving efficiency of site operations with ICT
- (4) Promoting the Action Plan for Two Days Off per Week (Japan Federation of Construction Contractors)

3. Ensuring legal compliance

Priority Measures

- (1) Complying with the Construction Business Act and related laws and regulations
- (2) Strengthening guidance to companies that have not taken out social insurance



Safety, Environment & Production Management Activities

Supreme quality assurance refers to safety and quality at a level exceeding by far the conventional level of the construction industry, as I have mentioned. That requires doing what you normally do in a thorough manner, giving face-to-face and on the spot reprimands, and ensuring the 5S movement.

“Doing what you normally do in a thorough manner” means to fulfill operation standards a hundred percent with a high awareness. To that end, when it is not done, “giving face-to-face and on the spot reprimands” is necessary. The “5S movement” is the very foundation of construction, contributes to productivity improvement as well as to safety and quality, and is the core basis of operation standards. Believing that failure to ensure the 5S methodology leads to unsafe behavior and deviation from operation standards, we are conducting production management activities.

Specifically, we extended the Quality Safety Auditor (QSA) system¹, which the Building Construction Division implemented ahead of other divisions, to the Civil Engineering and Global Divisions from this fiscal year. In response to the accident prevention plan developed by the Safety & Environment Managing Department, a total of 22 QSAs conduct monthly site patrols and audits (at least

once a month) to ensure detailed checking based on data regarding past quality defects and occupational accidents, as well as awareness raising, inspection and improvement at key management points, with the goal of preventing occupational accidents and quality defects during construction work. Additionally, the Division Director of the Safety, Environment & Production Management Division undertakes patrols and the Civil Engineering and Building Construction Departments conduct safety/quality audits. Issues and defects pointed out by these patrols and audits will be reported at the QSA meeting (held 24 times per year at the Head Office) to share information with and ensure policy implementation is spread directly and speedily across all offices. We also explain to project managers, chiefs, staff, and Shineikai, which is organized by partners, the production control plan, patrol and audit results, and so on by citing specific cases so that Sumitomo Mitsui Construction and partners can make concerted efforts for establishing a safety culture and achieving supreme quality assurance from the same perspective.

¹ QSA system: Under the system, quality safety inspectors (QSIs), who used to be attached to branches, were reorganized into QSAs attached to the Safety, Environment & Production Management Division to enable them to carry out audits while maintaining a certain distance from the branches, with the aim of improving and standardizing safety and quality levels.

<Patrols and audits conducted in FY2018 and initiatives for safety/quality improvement (education for employees/partners)>

| | Civil engineering | Building construction | No. of issues pointed out |
|---|-------------------|-----------------------|---------------------------|
| Patrol by Production Management Division Director | 18 | 189 | 2,014 |
| Quality audit by Production Management Division | 102 | 138 | 2,463 |
| QSA audit | — | 1,310 | 6,024 |
| QSI patrol | 908 | — | 1,050 |

| | No. of participants |
|--------------------------|--|
| Project manager meeting | Civil engineering: 839; building construction: 1,306 |
| Chief/staff meeting | Building construction: 454 |
| Shineikai (partner) | 1,295 persons from 1,230 companies |
| Lecture given to workers | Total 28,837 persons |

Foundations to Support Growth/ Environmental Management/ Harmony with Local Communities

We will conduct business activities for reducing environmental impact and contributing to the development of local communities for the realization of a sustainable society



Shigetoshi Kondo
Director
Senior Managing Executive Officer
Officer in charge of Sustainability Promotion Department

Environmental Policy “Green Challenge 2030”

We have continued environmental management activities since 2011 under the Environmental Vision Green Challenge 2020. As the vision's target year of 2020 is approaching, we became aware of the need to review past environmental management activities and the vision itself in light of new social trends and issues emerging after 2011, when it

was formulated. Accordingly, we constructively revised the vision and established a new environmental policy, “Green Challenge 2030.” Toward the vision of 2030 that combines “improvement of quality of life” and “environment load reduction,” we will contribute to the realization of a sustainable society.

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 ESD¹

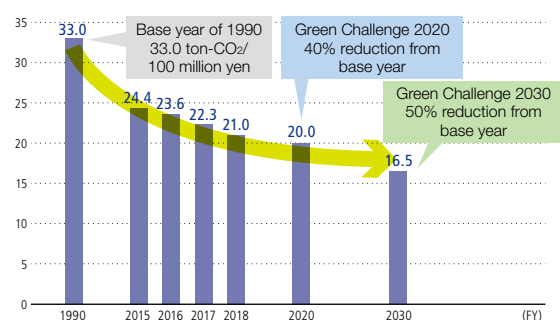


¹ ESD: Education for Sustainable Development

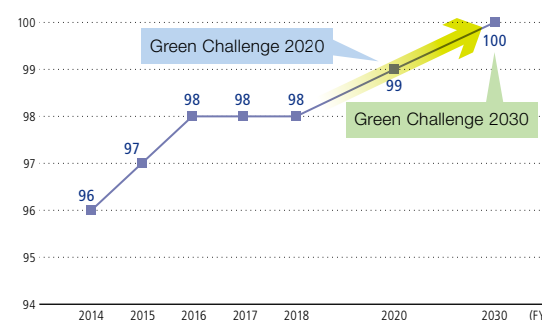
KPIs of “Green Challenge 2030”

- Reduction in CO₂ emissions in the construction stage: 50% reduction in units of CO₂ 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

<CO₂ emissions in construction stage and reduction target
(ton-CO₂/100 million yen)>



<Construction waste recycling rate (%)>



[Environment]

■ Case of Environment-friendly Construction

3R Initiative at a Project Site

— Chubu Branch Washimi Bridge Project (Gujo City, Gifu Prefecture)—

The bridge pier superstructure/substructure construction project made 3R efforts to reduce environmental impact.

<Reduce>

1. Reduced the use of wooden formwork

- Adopted the half-precasting method in which reinforcements are embedded in bridge pier formwork (Reduced by 5,800 m² or 58%)
- Adopted precast embedded formwork for external railing formwork (Reduced by 900 m² or 44%)

2. Reduced fuel (light oil) for construction vehicles

- Used a large-sized bucket for concrete placement (Reduced by 7,000 liters or 50%)

3. Reduced the volume of sludge generated

- Adopted the bleeding bond method to reduce the volume of sludge generated from laitance processing (Reduced by 2.52 m³; 100%)

<Reuse>

4. Reused scaffolding materials by creatively modifying the scaffolding materials, construction steps and construction plan (124%)

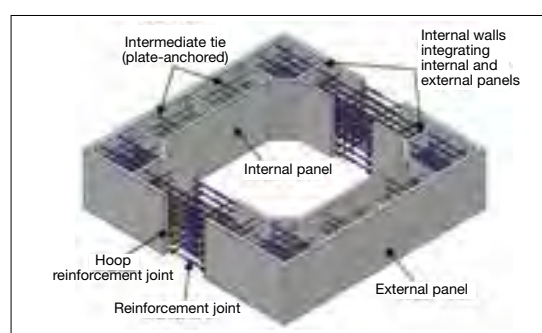
<Recycle>

5. Recyclable materials

- Scrap iron
Reinforcing bars, formwork support materials, steel, etc. were sorted, collected and recycled into steel products (30 tons)
- Paper/cardboard waste
Waste paper from packaging, etc. was taken out to recycling facilities (4.9 tons)
- Wood waste
Sorted, collected and taken out to recycling facilities (wood chips, fuel) (33 tons)
- Plastic waste
Sorted, collected and taken out to recycling facilities (raw material for blast furnace, etc.) (15.7 tons)



Washimi Bridge overview



Half-precast member (conceptual illustration)



Precast embedded formwork



Large-sized bucket for concrete placement



Adopting the bleeding bond method

[Environment]

■ Case of Biodiversity Conservation

In-the-field Initiatives for Ecosystem Conservation —Hokuriku Shinkansen Miyama Tunnel Project—

The Miyama Tunnel passes through the Nakaikemi-sicchi wetland, which is included in the Ramsar Convention list of wetlands of international importance. In working on the tunnel construction, we are taking various measures for ecosystem conservation together with the contractee in order to impact the wetland as little as possible. It has been confirmed that around 3,000 animal and plant species live in the wetland, which is located within the Echizen-Kaga Kaigan Quasi-National Park, including more than 90 endangered species such as an herbaceous plant called *Marsilea quadrifolia* and a type of Japanese killifish known as *Oryzias sakaizumii*. Design and construction for the project have been required to consider conservation of the precious ecosystem, particularly measures to prevent the reduction of water from the wetland spring. To protect rare species and control the migration and overgrowth of non-native species, we selected construction methods with due consideration to sound, vibration and night illumination,

created a nature-friendly construction manual as a material for education on ecosystem conservation for parties related to the project, and provided the parties with education and information on ecosystem conservation. We conduct these initiatives as the project's voluntary activities through cooperation from the contractee, the Japan Railway Construction, Transport and Technology Agency, and a local environmental NPO.

Panel installed in project office to raise awareness of ecosystem conservation
(We will return protected rare species to the wetland after we complete construction work.)



■ Case of Environment-friendly Design

Environment-friendly Collective Housing in Urban Smart City —Proud Tsunashima SST—

Tsunashima Sustainable Smart Town (Tsunashima SST) has been developed as a next-generation urban smart city where people gather in pursuit of a better future. Proud Tsunashima SST (contractees: Nomura Real Estate Development Co., Ltd., Kanden Realty & Development Co., Ltd. and PanaHome Corporation¹⁾), which was constructed in Tsunashima SST, achieved high environmental performance by combining the following technologies:

- Passive design²
- Solar power generation
- HEMS
- Eco Cute
- Collective power reception
- Battery

With these initiatives, Proud Tsunashima SST was given the highest ranking of “S” under CASBEE-Yokohama³ and became Japan’s first collective housing awarded LEED certification⁴ at the Gold level⁵.



(left) Ventilating front door; (right) Sash window frame with slit for constant air volume ventilation

1 Currently, Panasonic Homes Co., Ltd.

2 Ensuring air distribution in a dwelling unit by using a ventilating front door, a ventilating living/dining room door, and sash window frames with a slit for constant air volume ventilation

3 Comprehensive assessment system for built environment efficiency

4 LEED (Leadership in Energy and Environmental Design), developed by the U.S. Green Building Council (USGBC) and operated by Green Business Certification Inc. (GBCI), is a system that evaluates the environmental performance of buildings and cities.

5 As of March 2018

[Local Communities]

■ Communication with Local Community through ESD

In September 2018, we held a public lecture aimed at promoting interaction with local residents and contribution to the local community. About 60 persons, including children and their parents, participated in the event, the fourth of its kind held so far, organized under the theme of wildlife. Speakers from The Nature Conservation Society of Japan and Team Kujiragou, an NPO, gave lectures on biodiversity and the issue of marine plastic waste. Local children made a presentation on the Suzumushi Project in which they raised and learned about the insect *Homoeogryllus japonicus*. Following the introduction of the Ozeshika

Project¹, the participants experienced deerskin craft, making a brooch. A speaker from Sumitomo Mitsui Construction talked about the significance of nature conservation and caring about living creatures.



Making deerskin craft brooch

¹ A social contribution activity that processes the skins of deer, which are captured to mitigate increasing agricultural damage caused by deer in Oze and surrounding areas, into craft products, sells them, and returns part of the proceeds as funds for hunters and special schools.

■ Sponsoring Activity for Bridging Economically Isolated Farming Villages

Bridges to Prosperity² is a U.S.-based organization aiming to create access to critical medical care, education and economic opportunities by constructing pedestrian bridges in poor areas surrounded by rivers. Having being involved in bridge construction as a construction company that supports and connects “People” and “Communities,” Sumitomo Mitsui Construction contributed 100,000 dollars in total for fiscal 2018 and 2019 to the organization in support of its purpose. Additionally, in fiscal 2019, our employees took part in its pedestrian bridge construction project in Bolivia.



Pedestrian bridge construction project in Bolivia

² For details, see the website: <https://bridgestoprosperty.org/>

<Major recognition in fiscal 2018>

| Organization | Award | Award-winning work |
|--|---|---|
| Ministry of Land, Infrastructure, Transport and Tourism | Japan Construction International Award (project category) | Neak Loeung Bridge (Tsubasa Bridge) Construction Project (Cambodia) |
| fib (International Federation for Structural Concrete) | fib Award (Winning Structure) | Takubogawa Bridge (Miyazaki Prefecture) |
| Ministry of the Environment, Environmental Consortium for Leadership Development | Leadership Development Award 2017 Encouragement Award | — |
| Japan Society of Civil Engineers (JSCE) | Tanaka Award (Excellence in Bridge Design and Construction) | Dinh Vu-Cat Hai Bridge (Lach Huyen Port Access Road) (Vietnam) |
| Japan Prestressed Concrete Institute (JPCI) | JPCI Award for Outstanding Structures (civil engineering) | Dinh Vu-Cat Hai Bridge (Lach Huyen Port Access Road) (Vietnam) |
| | JPCI Award for Outstanding Structures (renovation) | Yamanashi Culture Hall Seismic Retrofitting Project |
| The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan | Promotion Award, Engineering Promotion Award | Niihama City Akagane Museum |
| Institute for Building Environment and Energy Conservation (IBEC) | Sustainable Housing Award, Representative Director's Award | Lions Kohoku New Town Laurel Court |
| 3R Suishinkyogikai | Chairman's Award for 3R Promoter | Hachioji Planning Project (tentative name) |
| | | Chubu Branch Washimi Bridge Project (see page 46) |

<Letter of gratitude>

| From | For | Recipient |
|---|---|---|
| Metropolitan Expressway Company Limited | Contribution to early lifting of closure with snow removal from the Metropolitan Expressway during heavy snow event in the metropolitan area (January 2018) | Tokyo Civil Engineering Branch |
| Miyagi Prefecture Fisheries Cooperative Association Karakuwa Branch | Removal of driftwood and waste left at Tsumoto Coast in aftermath of typhoon and cleaning | Tohoku Branch Okawa Disaster Relief Project |
| Hamamatsu City Tenryu Community Neighborhood Self-Governing Association | Effort for early recovery from water outage caused by Typhoon No. 24 | Chubu Branch Ikejima Tunnel Project |
| Central Nippon Expressway Co., Ltd. Nagoya Branch | Support for restoration of the Tokai-Hokuriku Expressway during heavy rain event (July 2018) | Chubu Branch Nakanishi Bridge Project |
| West Nippon Expressway Co., Ltd. | Contribution to early restoration of the Chugoku and Okayama Expressways during heavy rain event (July 2018) | Hiroshima Branch |

Group Companies Supporting Growth

Key Group Companies in Japan

SMC Civil Technos Co., Ltd.

For 70 years since our foundation, we as a comprehensive construction company have been engaged in river civil engineering and foundation work, ground improvement, prestressed concrete (PC) bridge superstructure/substructure construction, road, railway, port, water and sewerage facility construction, and environmental work including antipollution measures. Recently, we have been focusing on maintenance and renovation, including bridge repair and reinforcement.

| | |
|-----------------------|--|
| Location: | Head Office: Chuo-ku, Tokyo Branches: Aichi, Osaka, Ehime, Fukuoka |
| Founded: | March 1949 |
| Business description: | Repair/reinforcement and design for bridge and other road structures; river work, bridge substructure and other general civil engineering; PC bridge construction; and application development and product sales of aramid fiber and other new materials |



Joban Expressway Hiro-oka Bridge Seismic Reinforcement Project (contractee: East Nippon Expressway Co., Ltd.; received Fiscal 2019 Excellent Project Manager Award)

Seiwa Co., Ltd.

Having top-level technology in prestressed concrete bridge superstructure construction, we are playing a role as one of the key specialized companies of Sumitomo Mitsui Construction.

<Key project experience>

- Shin-Tomei Expressway Atsugi No. 2 Bridge and 8 other bridges (PC superstructure) construction (Kanagawa Prefecture)
- Shin-Meishin Expressway Akutagawa Bridge (PC superstructure) construction (Osaka Prefecture)
- Shin-Meishin Expressway Yobaisan Bridge (PC superstructure) construction (Osaka Prefecture)
- Tokai-Hokuriku Expressway Washimi Bridge construction (Gifu Prefecture)
- Shin-Meishin Expressway Anrakugawa Bridge and other 1 bridge construction (Mie Prefecture)

| | |
|-----------------------|---|
| Location: | Chuo-ku, Tokyo |
| Founded: | January 1962 |
| Business description: | Prestressed concrete bridge construction; bridge reinforcement; road construction; residential land development work; golf course development work; general structure construction; and contracts for general civil engineering |



Bizen▼Hinase Ohashi (Okayama Prefecture)

SMC Reform Co., Ltd.

Having been spun off from the renovation section of Sumitomo Mitsui Construction, we, as a refurbishment specialist company, renovate all types of buildings including collective housing, commercial facilities and plants based on our know-how and integrated technology.

The use of vacant buildings and collective housing associated with the declining birth rate and the ongoing depopulation of regional cities is becoming a social issue. We offer not only reliable execution techniques for all aspects of renovation including interior, exterior and equipment but also proposals for comprehensive renovation and conversion including inspection, diagnosis, planning and design.

| | |
|------------------------------|---|
| Location: | Head Office: Taito-ku, Tokyo Branches: Hokkaido, Chiba, Tokyo, Kanagawa, Shizuoka, Aichi, Osaka, Ehime, Fukuoka |
| Founded: | May 1987 |
| Business description: | Building inspection and diagnosis; planning, design, estimate and execution for renovation; regular inspection of special buildings; and general building design and construction |



Before conversion



After conversion

Conversion of an aging public junior high school

SMC Preconcrete Co., Ltd.

We are engaged in manufacturing, in the Kanto area, of concrete members used for precast concrete and prestressed concrete (PC) methods as core technologies of Sumitomo Mitsui Construction as well as manufacturing of secondary concrete products and renovation of buildings.

Unlike the conventional method of placing concrete into formwork on the construction site, the PC method, in which precast concrete members produced at plants under strict, millimeter-level control are transported to construction sites for on-site assembly, contributes to the improvement of productivity, safety and quality in the field.

| | |
|------------------------------|---|
| Location: | Head Office: Taito-ku, Tokyo Branch: Ibaraki Plants: Shimotsuke City in Tochigi Prefecture, Joso City in Ibaraki Prefecture |
| Founded: | July 1982 |
| Business description: | Manufacturing and sales of secondary concrete products and prefabricated concrete products and associated construction work; and design, execution, supervision, technical instruction and contracts for building construction, civil engineering work, electrical work and concrete work |



Tochigi Plant

Group Companies Supporting Growth

Key Group Companies in Japan

Aseismic Devices Co., Ltd.

We are a comprehensive manufacturer of seismic isolation devices that protects human life, buildings and assets against the vibrations of earthquakes in the earthquake-prone country of Japan. We are also engaged in the design, production, installation support and maintenance of seismic isolation devices, as well as the planning, design and comprehensive planning of seismic isolation and control structures.

<Seismic isolation structure>

Separating the building from the ground and inserting seismic isolation equipment, which is hard in the vertical direction and soft in the horizontal direction, so that the intense shaking of an earthquake is less likely to be transmitted to the building.

<Seismic control structure>

Incorporating seismic control equipment that absorbs vibration energy into the building's skeleton to inhibit movement (shaking) of the building caused by the power of an earthquake or wind.

Rotary damping tube (RDT) as attenuation equipment with amplification mechanism



Location: Head Office: Chiyoda-ku, Tokyo
Technology Center: Shimotsuke City,
Tochigi Prefecture

Founded: December 1996

Business description: Design, production, installation support and maintenance of seismic isolation devices; seismic isolation and control structure planning and design; and comprehensive seismic isolation and control structure planning

Fibex Co., Ltd.

Aramid fiber is one of the highly functional fibers that have characteristics of high-strength, heat resistance, dimensional stability and chemical resistance. With an advantage in terms of strength and bullet- and stab-proof properties, the fiber is mainly used for bulletproof vests, friction materials such as automotive brake pads (replacing asbestos), and optical fiber reinforcement. Our business uses aramid fiber to reinforce concrete structures.

<Aramid rod (product name: Fibra Rod)>

Suitable for reinforcement of RC structures that require electrical insulation and RC structures such as hospitals and research institutes that must be non-magnetic. Also used as a tension material (pre-tension) for prestressed concrete (PC) structures including PC bridges, floating bridges, floor slabs for inspection passages, and PC sleepers for railways.

<Aramid sheet (product name: Fibra Sheet)>

Often used for repairing/reinforcement of deteriorated structures, including reinforcement of building pillars, reinforcement of piers and floor slabs of road bridges and railway bridges, and reinforcement of warehouse floors.

Foundation of tensioning portal using aramid rod for electricity reception



Location: Head office: Chuo-ku, Tokyo
Plant: Tochigi City, Tochigi Prefecture

Founded: June 1992

Business description: Manufacturing and sales of reinforcement materials using high-strength fiber, etc.; sales of reinforcement materials and related products used in civil engineering and building structures; and proposal and study of reinforcement structure for civil engineering and building structures

SMC Tech Co., Ltd.



Specialized in machine-power technology, we have two divisions: civil engineering for PC bridges, PC tanks, tunnels and shield construction, and leasing of construction machinery, including vehicles for bridge superstructure construction and tower cranes for high-rise housing.

Founded: July 1986

Location: Head Office: Nagareyama City, Chiba Prefecture
Plants: Nagareyama City in Chiba Prefecture, Hiki-gun in Saitama Prefecture

Sumiken Mitsui Road Co., Ltd.



We design, execute and supervise road, garden and civil engineering work, primarily road pavement work, and manufacture and sell asphalt mixture.

Founded: February 1948

Location: Head Office: Shinjuku-ku, Tokyo
Branches: Hokkaido, Miyagi, Tokyo, Aichi, Osaka, Fukuoka

Listed on the second section of the Tokyo Stock Exchange

SMC Co., Ltd.

Sale of building materials, insurance agency

Yoshii Planning Co., Ltd.

Real estate business (development of the Dogodaira housing complex)

Amenity Life Co., Ltd.

Operation and management of private retirement homes

Cosmo Planning Co., Ltd.

Printing, information systems and personnel and general affairs services, and sale of measuring instruments and software

Group Companies Outside Japan

SMCC Philippines, Inc. (Philippines)

Founded: September 1995

Pt. SMCC Utama Indonesia (Indonesia)

Founded: June 1976

SMCC (Thailand) Co., Ltd. (Thailand)

Founded: August 1972

SMCC Construction India Ltd. (India)

Founded: December 1996

SMCC Malaysia Sdn. Bhd. (Malaysia)

Founded: April 2014

SMCC Taiwan Co., Ltd. (Taiwan)

Founded: December 2017

SMCC Overseas Singapore Pte. Ltd. (Singapore)

Founded: August 2012



Topre Corporation Gujarat Press Plant Construction (India)



Nex Logistics Indonesia (Nippon Express) new warehouse construction (Indonesia)

List of Officers (as of the end of June 2019)

Representative Directors



Hideo Arai
Representative Director
President & CEO

April 1977 Joined Sumitomo Construction Co., Ltd.
April 2010 Executive Officer, Sumitomo Mitsui Construction Co., Ltd.
Branch Manager, Tokyo Civil Engineering Branch
June 2012 Director
April 2015 Representative Director, President & CEO (to present)



Yoshitaka Mimori
Representative Director
Executive Vice President
Division Director, Building Construction Div.

April 1979 Joined Sumitomo Construction Co., Ltd.
April 2011 Executive Officer, Sumitomo Mitsui Construction Co., Ltd.
June 2015 Director
April 2016 Division Director, Building Construction Div. (to present)
April 2018 Representative Director (to present)
Executive Vice President (to present)



Kunio Hanato
Representative Director
Executive Vice President
Supervising Safety, Environment & Production
Management Div.
In charge of Safety, Environment & Production
Management Div.

April 1974 Joined Mitsui Construction Co., Ltd.
October 2012 Executive Officer, Sumitomo Mitsui Construction Co., Ltd.
April 2015 Branch Manager, Tokyo Building Construction Branch
April 2018 Executive Vice President (to present)
June 2018 Representative Director (to present)
April 2019 Officer supervising Safety, Environment & Production
Management Div. (to present)
Officer in charge of Safety, Environment & Production
Management Div. (to present)



Shoji Kimijima
Representative Director
Executive Vice President
Supervising Corporate Planning Dept.,
Affiliated Business Dept., Administration Div.,
Business Innovation & Incubation Div. and
Global Div., etc.

April 1979 Joined Sumitomo Construction Co., Ltd.
April 2011 Executive Officer, Sumitomo Mitsui Construction Co., Ltd.
April 2012 Officer in charge of Secretariat (to present)
April 2013 Officer in charge of Public Relations Office (to present)
Division Director, Administration Div.
June 2013 Director
April 2019 Representative Director (to present)
Executive Vice President (to present)
Officer supervising Corporate Planning Dept., Affiliated
Business Dept., Administration Div., Business Innovation
& Incubation Div. and Global Div. (to present)
Officer in charge of Audit Dept. (to present)

Directors



Shigetoshi Kondo

Director
Senior Managing Executive Officer
In charge of Corporate Planning Dept.,
Affiliated Business Dept. and Sustainability
Promotion Dept.
Assistant in charge of Construction IT
Design Dept.

April 1988
Joined The Sumitomo Bank, Ltd.

April 2015
Director, Nagoya Corporate Solution Center
Department Manager, Corporate Strategy Dept.

April 2017
General Project Manager of Corporate Planning Dept. and
Affiliated Business Dept., Sumitomo Mitsui Construction
Co., Ltd.

April 2018
Managing Executive Officer
Department Manager, Corporate Planning Dept.

April 2019
Officer in charge of Corporate Planning Dept., Affiliated
Business Dept. and Sustainability Promotion Dept. (to
present)
Assistant Officer in charge of Construction IT Design Dept.
(to present)

June 2019
Director (to present)

Hiroshi Mashiko

Director
Senior Managing Executive Officer
Division Director, Civil Engineering Division

April 1979
Joined Sumitomo Construction Co., Ltd.

April 2007
Department Manager, Civil Engineering Dept., Civil
Engineering Administration Div., Sumitomo Mitsui
Construction Co., Ltd.

April 2010
Branch Manager, Tohoku Branch

April 2012
Executive Officer

April 2015
Division Director, Civil Engineering Div. (to present)

June 2018
Director (to present)

Sakio Sasamoto

Director (External Director)

April 1974
Joined Nippon Kokan Ltd.

April 2005
Senior Executive Officer, Manager, General Affairs and Legal
Affairs, JFE Holdings, Inc.

August 2005
Department Manager, General Affairs Dept., JFE Holdings, Inc.
June 2009
Representative Director, President, JFE Life Corporation

June 2012
Auditor, JFE Holdings, Inc.

June 2016
Director, Sumitomo Mitsui Construction Co., Ltd. (to present)

Jun Sugie

Director (External Director)

April 1979
Joined Ministry of Finance

July 2007
Deputy Commissioner, Large Enterprise Examination and
Criminal Investigation Dept.
National Tax Agency

July 2008
Regional Commissioner, Kantoshinetsu Regional Taxation
Bureau

July 2009
Deputy Commissioner (International Affairs), Commissioner's
Secretariat, National Tax Agency

July 2011
Regional Commissioner, Tokyo Regional Taxation Bureau

December 2012
Councillor, Japan Securities Depository Center, Inc.

June 2014
Director, Senior Executive Officer, Japan Securities
Depository Center, Inc.
Director, Senior Executive Officer, JASDEC DVP
Clearing Corporation

July 2015
Senior Executive Officer, Japan Securities Depository
Center, Inc.

May 2017
External Director, IDOM Inc. (to present)

April 2018
Vice Chairman and Executive Director, The Investment Trusts
Association, Japan (to present)

June 2019
Director, Sumitomo Mitsui Construction Co., Ltd. (to present)

Tamao Hosokawa

Director (External Director)

May 1993
Freelance journalist

September 1995
Radio personality, RF Radio Japan (to present)

October 2003
Member, Shinagawa City Board of Education

April 2004
Part-time lecturer (contemporary politics),
Seisa University (to present)

January 2016
Director, Chiba Institute of Technology (to present)

June 2017
Director, Japan Institute for National Fundamentals
(to present)

June 2019
Director, Sumitomo Mitsui Construction Co., Ltd.
(to present)

Auditors



Aizou Murakami

Auditor (External Auditor)

April 1974
Registered as a lawyer

April 2001
Executive Governor, Japan Federation of Bar Associations

June 2002
External Auditor, Airport Facilities Co., Ltd.

July 2005
Established Kiwi Law Office

June 2012
Auditor, Sumitomo Mitsui Construction Co., Ltd. (to present)

Yoshiyuki Kato

Full-time Auditor (External Auditor)

April 1982
Joined The Sumitomo Trust & Banking Co., Ltd.

November 2011
Chief Investigator, Internal Audit Dept., Sumitomo
Mitsui Trust Holdings, Inc.

April 2012
Chief, Internal Audit Dept., Sumitomo Mitsui Trust Bank,
Limited.

June 2012
Full-time Auditor, Sumitomo Mitsui Construction Co.,
Ltd. (to present)

Michio Harada

Full-time Auditor

April 1981
Joined Sumitomo Construction Co., Ltd.

June 2011
Department Manager, Audit Dept., Sumitomo Mitsui
Construction Co., Ltd.

June 2018
Full-time Auditor (to present)

Hisato Tokunaga

Full-time Auditor

April 1980
Joined Mitsui Construction Co., Ltd.

June 2001
Office Manager, Treasury Office, Finance Management Dept.

April 2003
Deputy Manager, Treasury Dept., Finance Management Div.,
Sumitomo Mitsui Construction Co., Ltd.

April 2004
Manager, Business Support Center, Administration Div.

April 2006
Department Manager, Treasury Dept., Corporate Planning &
Administration Div.

April 2015
Department Manager, Affiliated Business Dept.

June 2016
Representative Director, President, Cosmo Planning
Corporation

June 2019
Full-time Auditor, Sumitomo Mitsui Construction Co., Ltd.
(to present)

Yukihiro Hoshi

Auditor (External Auditor)

April 1975
Joined Sumitomo Metal Mining Co., Ltd.

July 1997
Toshigi Plant Manager, Housing & Building
Materials Div.

June 2007
Department Manager, Risk Management Dept.

April 2010
Director, Japan Mining Industry Association
Department Manager, Technology Dept. and
Environmental Security Dept.

April 2014
Department Manager in charge of the Environment,
Safety & Environment Control Dept.

June 2014
Department Manager in charge of Environment,
Safety & Environment Control Dept.
Department Manager, Corporate Planning Dept.

June 2018
Auditor, Sumitomo Mitsui Construction Co., Ltd.
(to present)

Corporate Governance

Corporate Governance

■ Initiatives in Fiscal 2018

In line with the purpose of the revision of the Corporate Governance Code in June 2018, the Board of Directors discussed the composition of the Board of Directors, appointment and dismissal of directors, review of remuneration of officers, and policy on cross-held stocks, and deepened discussions for further securing and improving the effectiveness of the Board of Directors. In developing the Mid-term Management Plan 2019-2021, the Board of Directors properly grasped the capital cost of Sumitomo Mitsui Construction, continued to examine and discuss the contents of the plan, and set Vision 2030 to achieve a sustainable society and continuous growth of the SMCC Group, responding to changes in the business environment surrounding the Group. The SMCC Group will enhance its business competitiveness and create corporate value to realize the vision.

■ Composition of the Board of Directors

At Sumitomo Mitsui Construction, as a comprehensive construction company mainly engaged in civil engineering and building construction in and outside Japan, any person to be appointed a director of the company must have considerable knowledge of business in the two fields. Additionally, to maintain a system appropriate to

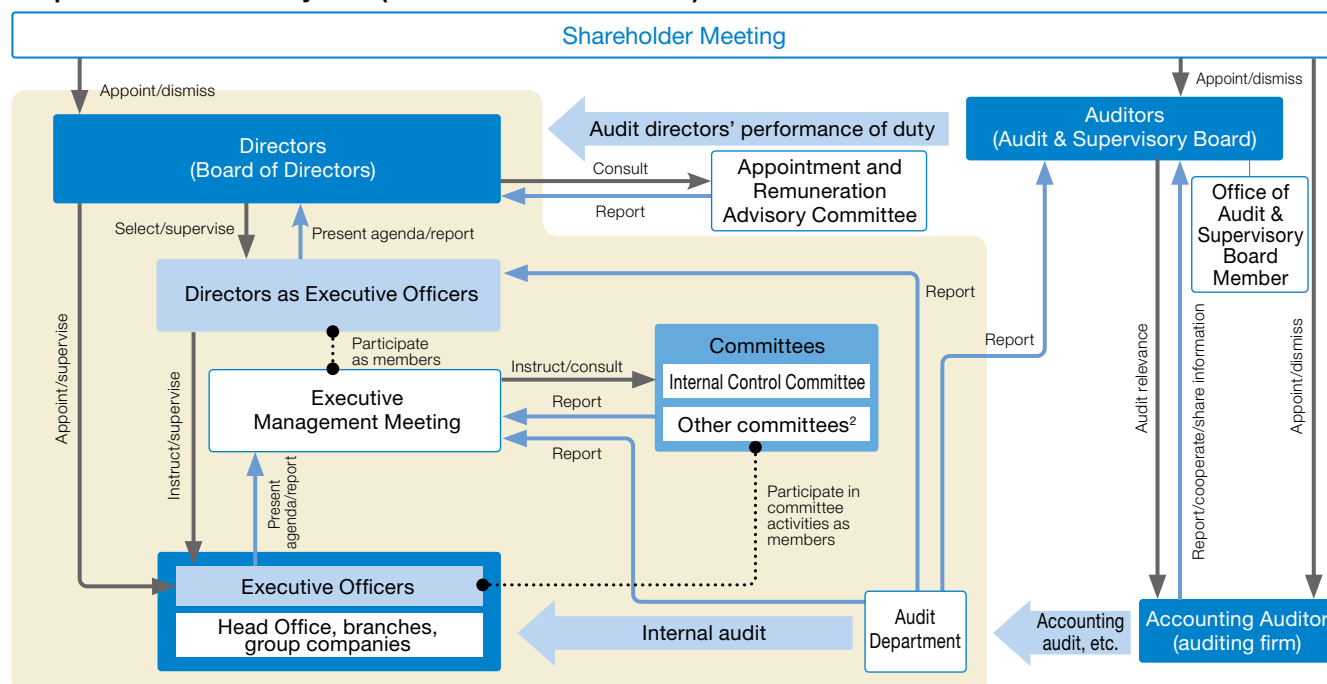
carry out business activities of the company, which is listed in the first section of the Tokyo Stock Exchange, the Board of Directors must be comprised of members who are conversant with governance, funding and corporate management and appointed with due consideration to balance in terms of diversity, including gender and internationality. The number of members will be decided depending on sales and the business description at the relevant time.

Corporate Governance System Item List

| Key item | Description |
|---|-----------------------|
| Organization design | Company with auditors |
| No. of board members (external directors) ¹ | 9 (3) |
| No. of auditors (external auditors) ¹ | 5 (3) |
| No. of board meetings held (FY2018) | 15 |
| (Average attendance of external directors) | (96.7%) |
| (Average attendance of external auditors) | (100%) |
| No. of Audit & Supervisory Board meetings held (FY2018) | 14 |
| (Average attendance of external auditors) | (100%) |
| Term of directors | 1 year |
| Executive officer system | Adopted |

¹ As of the end of June 2019

Corporate Governance System (as of the end of June 2019)



² Other committees: Technology Committee, Sustainability Promotion Committee, Overseas Safety Committee, Business Investment Examination Committee, Diversity Committee, Production System Improvement Committee

Overview of Effectiveness of the Board of Directors

Based on the Corporate Governance Code (Supplementary Principle 4-11(3)), Sumitomo Mitsui Construction seeks evaluation on the current effectiveness of the Board of Directors by directors and auditors, as well as their advice and opinions for further improvement, and discloses an overview of the results to improve the effectiveness of the Board of Directors.

The analysis and assessment of the results of the Board of Directors evaluation in fiscal 2018 and the future policy are as follows.

1. Methods and contents of analysis and assessment in fiscal 2018

For analysis and assessment in fiscal 2018, we conducted an anonymous survey (asking respondents to enter scores for each question and provide descriptive feedback) of all directors and auditors, and received responses. For evaluation, we commissioned an external organization to set the questions and aggregate the responses in order to provide us with an objective view of the company from a third-party perspective as we did last year.

<Survey questions (outline)>

- (i) Composition of the Board of Directors
- (ii) Operation of the Board of Directors
- (iii) Support system for the Board of Directors
- (iv) Initiatives by officers
- (v) Appointment and Remuneration Advisory Committee
- (vi) Feedback to the Board of Directors on dialogues with shareholders (investors)

2. Overview of analysis and assessment results in fiscal 2018

- (1) General
In light of the positive overall evaluation from the survey respondents, we recognize that the effectiveness of the entire Board of Directors has been secured.
- (2) Comparison with the time of the previous evaluation
Compared with the period from the time of the previous evaluation, evaluation scores improved regarding the following matters, which reflects the result of improvement efforts.
 - (i) Internal control and risk management systems are properly established and their operation is sufficiently supervised by the Board of Directors.
 - (ii) The number of agenda items discussed by the Board of Directors is appropriate.
 - (iii) Time required for discussions by the Board of Directors is sufficiently secured.
 - (iv) Efforts are made to provide information necessary to discuss agenda items.
- (3) Opinions for future improvement
Meanwhile, issues associated with the following matters that need improvement were shared to further improve the function of the Board of Directors and to stimulate discussion.
 - (i) The status of dialogues with investors is reported to the Board of Directors, but the content and volume of the report should be further enhanced.
 - (ii) With regard to training required for directors, opportunities for timely sharing of information on changes in the Governance Code, concept of cross-held stocks, and changes in laws, regulations and guidelines related to execution of directors' and auditors' duties must be increased.

■ Remuneration of Officers

We have established the Appointment and Remuneration Advisory Committee, comprising representative directors and part-time external officers, to carefully discuss senior management proposals on the officer remuneration structure of Sumitomo Mitsui Construction from an independent and objective perspective and provide appropriate advice and opinions. By referring to the advice and opinions of the committee, the Board of Directors makes decisions on remuneration of individual officers.

The upper limit of remuneration of officers is as follows:

(1) Resolution at the ordinary shareholders' meeting on June 27, 2019

- Monetary remuneration
Up to 450 million yen in total per year (including employee salary paid to persons who act as both employees and directors)

(2) Resolution at the ordinary shareholders' meeting on June 28, 2018

- Monetary remuneration receivables provided as remuneration related to restricted stocks, separately from the remuneration under (1) above
Up to 60 million yen in total per year

Remuneration of Officers (breakdown) (fiscal 2018)

| Officer category | No. of persons | Total amount | Remuneration, etc. (million yen) | | |
|--------------------------------------|----------------|--------------|----------------------------------|------------------|--------------------|
| | | | Fixed | | Performance-linked |
| | | | Basic | Restricted stock | |
| Directors (excl. external directors) | 9 | 254 | 234 | 19 | — |
| Auditors (excl. external auditors) | 3 | 33 | 33 | — | — |
| External officers | 6 | 55 | 55 | — | — |

Note: The amount of 25 million yen is paid as employee salary to three persons who act as both employees and directors, separately from the amount in the left table.

Corporate Governance

■ Successor Development

As for successor appointment, Sumitomo Mitsui Construction has set the Successor Succession Plan, which clarifies requirements for successors, the appointment process, and the development plan. The Appointment and Remuneration Advisory Committee examines each successor appointment proposal made by the president as to transparency, fairness and timeliness and evaluates its appropriateness and rationality according to the Plan. By referring to the evaluation of the Appointment and Remuneration Advisory Committee, the Board of Directors makes decisions on appointment of successors.

■ Officer Appointment and Dismissal

The Appointment and Remuneration Advisory Committee examines officer appointment proposals made by the president as to transparency, fairness and timeliness and evaluates their appropriateness and rationality according to the criteria for officer appointment. By referring to the evaluation of the Appointment and Remuneration Advisory Committee, the Board of Directors makes decisions on appointment of officers.

Regarding the dismissal of top-level executives in the middle of their term, the Appointment and Remuneration Advisory Committee examines issues of transparency, fairness and timeliness and discusses the appropriateness and rationality according to the criteria for chief executive dismissal or the criteria for officer dismissal. The Board of Directors makes decisions on dismissal with reference to the evaluation of the Appointment and Remuneration Advisory Committee.

■ Cross-held Stocks

Sumitomo Mitsui Construction owns cross-held stocks to improve its corporate value over the medium to long term by maintaining and enhancing business relationships with other companies as investment destinations while comprehensively considering business strategies and business relationships with its partners. Our policy is that the economic rationality and future prospects of individual cross-held stocks, including the purpose of holding the stocks and whether benefits and risks associated with holding the stocks match the capital cost or not, should be verified by the Board of Directors, and that stocks that are confirmed as being no longer worthwhile to hold should be sold and holdings reduced.

Whether to exercise voting rights or not is determined by considering if the agenda runs counter to the improvement of the mid- to long-term corporate value of the companies as investment destinations, whether or not the investment destination companies have any serious problems in corporate governance, and other issues.

Internal Control/Compliance/Risk Management

■ Internal Control System

Sumitomo Mitsui Construction regards its Basic Policies for Internal Control as efforts that continue over multiple fiscal years, and reviews their content every fiscal year. Meanwhile, the Internal Control Committee holds quarterly meetings where the progress of the review, correction and improvement of issues identified in the operation of the internal control system, and the progress of preventive measures taken as necessary are reported to monitor the status of operation. The results are reported to the Board of Directors to properly build and operate the internal control system.

■ Construction Business Act Patrol

In response to having received an instruction in January 2016 from the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism pursuant to the Construction Business Act with regard to the case of a collective housing complex we constructed in Yokohama City, we have systematically carried out the "Construction Business Act Patrol." Branches conduct patrols of construction sites that they oversee to check compliance with the Construction Business Act, including assignment of engineers and also covering subcontractors. Results of patrols, issues and other information are shared among all branches. The Execution System Improvement Sub-committee, which is established under the Production System Improvement Committee, examines, formulates and promotes necessary measures.

■ Compliance Education

To keep employees informed of and raise awareness of legal compliance, we formulate a compliance education plan each year, and provide compliance education for officers and employees under the initiative of the Legal Affairs Department. While mainly focusing on the Construction Business Act, Antimonopoly Act, and other related laws and regulations, education programs cover a wide range of themes, including defect issues, the Subcontract Act, bankruptcy-related legislation, bribery, and GDPR, according to the needs of different job categories/ranks and departments. We incorporate education into meetings and programs, such as training for different job categories or ranks, training for new recruits, training for mid-career employees, and e-learning.

We also provide group companies with compliance education for top-level executives. Each group company familiarizes its employees with the content of the education to promote the understanding and penetration of corporate ethics and compliance management.

■ Bid-rigging Elimination Program

We have established a bid-rigging elimination program and keep all officers and employees informed of it.

The program clearly states the recognition that complete elimination and prohibition of bid-rigging requires the upholding of all the following: (1) the clear and unshakable commitment of senior management to completely eliminate and prohibit the practice, (2) the establishment of internal compliance and monitoring systems, and (3) a full understanding and high level of compliance awareness among company officers and employees.

Based on the program, every April, our officers and employees are required to pledge in writing not to conduct or become involved in bid-rigging and submit the written pledges to the company. Meanwhile, each group company has established its own bid-rigging elimination program and ensures compliance with it.

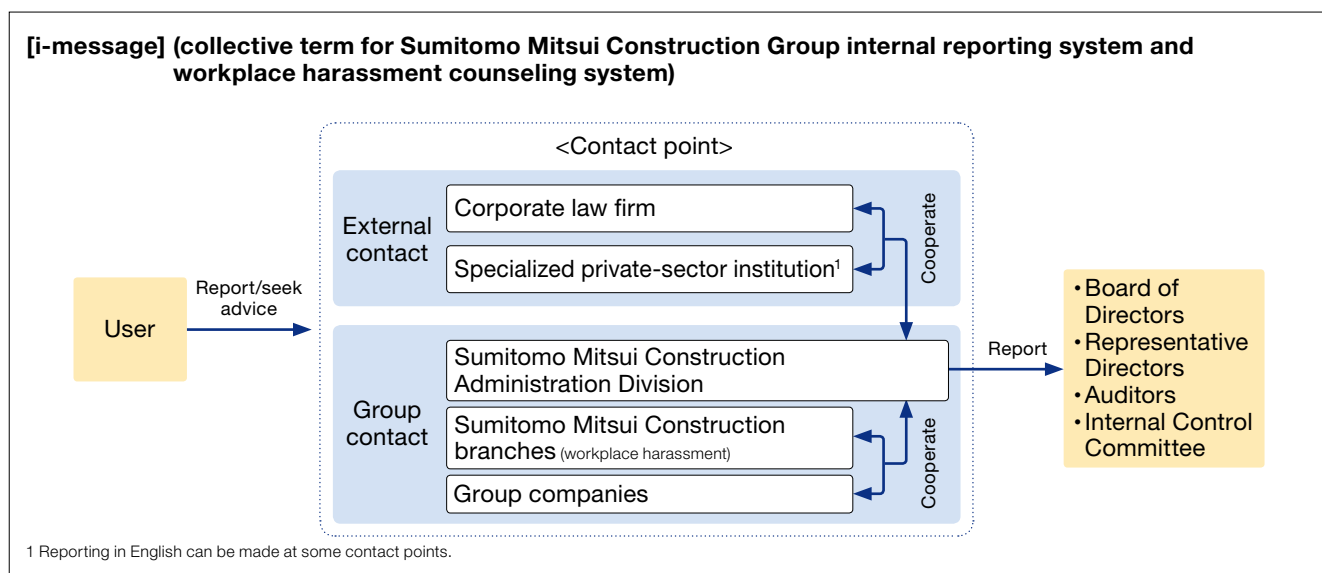
■ i-message (Internal Reporting System)

We operate an internal reporting system based on the Internal Whistleblower Protection Regulations (i-message is a collective term for the internal reporting system and workplace harassment counseling system).

In response to reported incidents, including those at group companies, we take appropriate and necessary actions in a timely manner through close cooperation with our corporate lawyers, with due consideration given to the protection of the whistleblower. In the event a problem is found, we take necessary action against the persons involved according to internal rules, as well as corrective measures and recurrence prevention measures.

■ Measures to Raise Awareness of Human Rights and Address Harassment

For all employees, we provide education to raise awareness of human rights and assign at least one male and one female staff member to the Personnel Department at Head Office and the Administration Department at each branch. When new personnel are assigned to replace the staff in charge, we provide the new personnel with education on their task. To make workplaces harassment-free, in fiscal 2018, we provided an e-learning program on harassment prevention using a Q&A format.



■ Business Continuity Plan (BCP)

Recognizing that we have the important social responsibility of providing safety and security through our construction business, we have developed a BCP to make efforts to maintain and continue key functions of our own business activities while carrying out restoration, reconstruction and relief activities for affected areas and infrastructure in the event of a disaster. We also acquired a resilience certification based on the Guidelines for Certification of Organizations Contributing to National Resilience, and are making efforts to improve our response abilities through training, etc.

■ Safety Measures Outside Japan

To secure the safety of expatriate employees (and accompanying family members) as well as employees on overseas business trips during emergencies, Sumitomo Mitsui Construction has established the Overseas Crisis Management Manual and the Overseas Safety Manual. To examine, formulate and promote measures for securing the safety of employees engaged in overseas business, including local staff, and maintain the system, we established the Overseas Safety Committee, which will hold meetings in the event of a terrorist incident and as necessary.

■ Serious Risk Event

With regard to the case of a collective housing complex we constructed in Yokohama City, we will continue to have meetings with the rebuilding association, seller and other stakeholders as necessary, and take appropriate actions.

In November 2017, one of the contractees of the housing complex brought an action claiming compensation from Sumitomo Mitsui Construction and the two companies that undertook the piling work for expenses related to the rebuilding of the entire housing complex and for temporary accommodation during the reconstruction period.

We consider the demands to be unreasonable and lacking evidence and grounds, and will properly present our views in court.

Message from an External Auditor

It has been over a year since I assumed the position of outside corporate auditor in June last year. In my first year, I participated in many audits and was impressed by the serious attitude taken toward your work, the large scale of the construction site, and the high level of technical capabilities.

I was involved in several fields, such as manufacturing, safety/environment, and risk management, at my former company. I would like to make use of my experience in auditing. In particular, I am focused on business activities aimed at achieving supreme quality, and I strongly agree with the sentiment of “no quality without the 5Ss.” The 5Ss (*seiri, seiton, seisou, seiketsu, and seijitsu*) constitute a fundamental movement, not only for quality but also for safety, and I believe that top-level preparedness is the most important aspect of safety activities. The top of the company is, of course, the president, while down the line the branch manager and work manager sit at the top of each respective organization.

Encouragingly, the department responsible for safety, environment and quality at the head office has been integrated into the Safety, Environment & Production Management Division from this fiscal year. I recognize the establishment of a safety culture and supreme quality in Japan as a future challenge, along with expansion overseas.

Yukihiro Hoshi



Explanation and Analysis of Operating Performance

(1) Overview of operating performance for fiscal year ended March 2019

While sales were 448.8 billion yen (up 31.5 billion yen from the previous year) due to the progress of high-level projects in hand, gross profit was 51.0 billion yen (down 0.0 billion yen from the previous year) due to rising material cost and others.

Operating income was 29.2 billion yen (down 1.4 billion yen from the previous year) due to an increase in labor cost and R&D cost. Meanwhile, we marked record high ordinary income for the fifth consecutive year at 28.9 billion yen (up 0.4 billion yen from the previous year) due to a decrease in non-operating expenses. Profit attributable to owners of the parent was 18.8 billion yen (down 1.9 billion yen from the previous year) due to an increase in the burden of corporate tax and others.

(2) Overview of financial standing of fiscal year ended March 2019

<Assets>

Trade notes receivable, accounts receivable on completed construction contracts and other increased by 19.9 billion yen from the end of the previous consolidated fiscal year. Investments in securities increased by 8.3 billion yen due to new acquisition, appreciated market price and others. Consequently, total assets at the end of the current consolidated fiscal year were 340.9 billion yen, up 23.2 billion yen from the end of the previous consolidated fiscal year.

<Liabilities>

The balance of interest-bearing liabilities, combining long-term debt and short-term bank loans and the current portion of long-term debt, increased by 7.5 billion yen from the end of the previous consolidated fiscal year due to loan execution based on a syndicated loan agreement. Total liabilities payable, combining trade notes payable, accounts payable on construction contracts and others, and electronically recorded payables, increased by 4.3 billion yen. Consequently, total liabilities as of the end of the current consolidated fiscal year were 242.9 billion yen, up 8.1 billion yen from the end of the previous consolidated fiscal year.

<Net assets>

Shareholders' equity increased by 14.5 billion yen from the previous consolidated fiscal year due to profit attributable to owners of the parent of 18.8 billion yen, dividend from surplus of 2.9 billion yen, purchase of treasury stock of 1.5 billion yen, and others. Consequently, total net assets as of the end of the current consolidated fiscal year were 98.0 billion yen, up 15.1 billion yen from the end of the previous consolidated fiscal year. The capital-to-asset ratio was 26.6%, up 2.7 points from the end of the previous consolidated fiscal year.

(3) Overview of cash flows of fiscal year ended March 2019

<Net cash provided by (used in) operating activities>

Cash flow decreased by 1.0 billion yen due to an increase in trade receivables and other assets, a decrease in advances received on construction contracts in progress, and payment of income taxes, despite profit before income taxes of 28.4 billion yen and an increase of funds due to increase in trade payables, etc.

<Net cash (used in) investing activities>

Cash flow decreased by 6.4 billion yen due to purchase of investment in securities and others.

<Net cash (used in) provided by financing activities>

Cash flow increased by 2.7 billion yen due to loan execution based on a committed syndicated loan agreement despite a decrease in funds due to dividend from surplus, payment of long-term debt, purchase of treasury stock, and others.

As a result, cash and cash equivalents at the end of the year were 66.4 billion yen.

(4) Dividend policy

We maintain, in principle, a stable dividend policy while enhancing internal reserves to reinforce our business structure and prepare for future business operations, and decide profit allocation by comprehensively considering changes in performance, future business environment, etc.

The dividend for the year ended March 2019 was 24 yen per share, decided by comprehensively considering performance that exceeded the consolidated targets and the outlook for the business environment and performance.

According to the policy above, the dividend in the year ended March 2020 is planned to be 24 yen per share (as of May 10, 2019). The Board of Directors meeting held on May 10, 2019 decided to purchase treasury stock with the upper limit of 800,000 shares (0.5 billion yen) to implement an expeditious capital policy in response to the business environment and to improve capital efficiency.

Consolidated Balance Sheets

March 31, 2019

| | As of March 31, | | |
|--|-------------------|--------------|---|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Assets | | | |
| Current assets: | | | |
| Cash and deposits (Notes 6-(b), 10 and 11) | ¥ 74,319 | ¥ 80,788 | \$ 669,600 |
| Trade notes receivable, accounts receivable on completed construction contracts and other (Notes 6-(f) and 11) | 166,875 | 146,933 | 1,503,513 |
| Inventories (Notes 6-(a) and 6-(e)) | 25,826 | 25,909 | 232,687 |
| Other current assets (Note 6-(b)) | 18,121 | 13,390 | 163,266 |
| Total current assets | 285,143 | 267,022 | 2,569,087 |
| Non-current assets: | | | |
| Property and equipment, at cost: | | | |
| Land (Notes 6-(b) and 6-(c)) | 13,995 | 14,611 | 126,092 |
| Buildings and structures (Note 6-(b)) | 15,951 | 16,353 | 143,715 |
| Machinery, equipment and vehicles (Note 6-(b)) | 19,179 | 18,796 | 172,799 |
| Construction in progress | 16 | 54 | 144 |
| Accumulated depreciation | (26,735) | (25,718) | (240,877) |
| Property and equipment, net | 22,406 | 24,096 | 201,874 |
| Intangible fixed assets | 2,225 | 2,109 | 20,046 |
| Investments and other assets: | | | |
| Investments in securities (Notes 6-(b), 11 and 12) | 20,677 | 12,899 | 186,296 |
| Deferred tax assets (Note 15) | 3,684 | 5,004 | 33,192 |
| Investments in unconsolidated subsidiaries and affiliates | 1,159 | 916 | 10,442 |
| Other (Note 6-(b)) | 6,499 | 6,899 | 58,554 |
| Allowance for doubtful receivables | (944) | (1,259) | (8,505) |
| Total investments and other assets | 31,076 | 24,460 | 279,989 |
| Total non-current assets | 55,708 | 50,666 | 501,919 |
| Total assets | ¥340,851 | ¥317,688 | \$3,071,006 |

Consolidated Balance Sheets

March 31, 2019

| | As of March 31, | | |
|--|-------------------|----------|---|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Trade notes payable, accounts payable on construction contracts and other (Notes 6-(f) and 11) | ¥ 98,496 | ¥ 94,632 | \$ 887,431 |
| Electronically recorded payable (Note 6-(f) and 11) | 32,103 | 31,691 | 289,242 |
| Short-term bank loans and current portion of long-term debt (Notes 6-(b), 6-(g), 11 and 20) | 1,777 | 2,769 | 16,010 |
| Accrued expenses | 7,610 | 7,354 | 68,564 |
| Income tax payable | 4,481 | 3,178 | 40,373 |
| Advances received on construction contracts in progress | 25,030 | 28,707 | 225,515 |
| Reserve for defects on completed construction projects | 1,008 | 976 | 9,081 |
| Allowance for losses on construction contracts (Note 6-(e)) | 257 | 127 | 2,315 |
| Allowance for contingency loss | 2,159 | 2,159 | 19,452 |
| Other current liabilities | 17,470 | 18,511 | 157,401 |
| Total current liabilities | 190,395 | 190,108 | 1,715,424 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 6-(b), 6-(g), 11 and 20) | 29,842 | 21,353 | 268,871 |
| Deferred tax liability on land revaluation (Note 6-(c)) | 285 | 285 | 2,567 |
| Liability for retirement benefits (Note 14) | 17,475 | 18,231 | 157,446 |
| Other long-term liabilities | 4,899 | 4,857 | 44,139 |
| Total long-term liabilities | 52,502 | 44,727 | 473,033 |
| Contingent liabilities (Notes 6-(d) and 17) | | | |
| Net assets: | | | |
| Shareholders' equity: | | | |
| Capital stock: | 12,003 | 12,003 | 108,144 |
| Common stock: | | | |
| Authorized: | | | |
| 533,892,994 shares in 2019 and 2018 | | | |
| Issued and outstanding: | | | |
| 162,673,321 shares in 2019 and 2018 | | | |
| Additional paid-in capital | 528 | 524 | 4,757 |
| Retained earnings | 79,694 | 63,790 | 718,028 |
| Treasury stock, at cost: | | | |
| 2,094,304 shares in 2019 and 131,601 shares in 2018 | (1,716) | (262) | (15,460) |
| Total shareholders' equity | 90,509 | 76,056 | 815,469 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on securities | 1,926 | 1,010 | 17,352 |
| Deferred (loss) on hedging instruments, net of taxes (Note 13) | (170) | (0) | (1,531) |
| Land revaluation (Note 6-(c)) | 73 | 73 | 657 |
| Translation adjustments | (1,086) | (466) | (9,784) |
| Retirement benefits liability adjustment (Note 14) | (655) | (660) | (5,901) |
| Total accumulated other comprehensive income | 86 | (44) | 774 |
| Non-controlling interests | 7,357 | 6,840 | 66,285 |
| Total net assets | 97,953 | 82,852 | 882,538 |
| Total liabilities and net assets | ¥340,851 | ¥317,688 | \$3,071,006 |

The accompanying notes are an integral part of these statements.

| | Years ended March 31, | | |
|---|-----------------------|----------|---|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Net sales (Note 7-(a)) | ¥448,758 | ¥417,310 | \$4,043,229 |
| Cost of sales (Notes 7-(b) and 7-(d)) | 397,709 | 366,252 | 3,583,286 |
| Gross profit | 51,049 | 51,057 | 459,942 |
| Selling, general and administrative expenses (Notes 7-(c), 7-(d) and 14) | 21,831 | 20,473 | 196,693 |
| Operating income | 29,217 | 30,584 | 263,239 |
| Other income (expenses): | | | |
| Interest and dividend income | 975 | 905 | 8,784 |
| Payments received from insurance claims | 89 | 126 | 801 |
| Reversal of allowance for PCB disposal expenses | 165 | — | 1,486 |
| Interest expense | (462) | (556) | (4,162) |
| Litigation expenses | (209) | (983) | (1,883) |
| Gain on sales of property and equipment (Note 7-(e)) | 98 | 8 | 882 |
| Gain on sales of investment in securities (Note 12-(c)) | 325 | 189 | 2,928 |
| Gain on liquidation of subsidiaries and affiliates | 75 | 45 | 675 |
| Loss on sales and disposal of property and equipment (Note 7-(f)) | (111) | (79) | (1,000) |
| Impairment loss (Note 7-(g)) | (794) | (581) | (7,153) |
| Other, net | (924) | (1,617) | (8,325) |
| | (772) | (2,542) | (6,955) |
| Profit before income taxes | 28,444 | 28,041 | 256,275 |
| Income taxes (Note 15): | | | |
| Current | 7,811 | 7,200 | 70,375 |
| Deferred | 944 | (553) | 8,505 |
| | 8,755 | 6,646 | 78,880 |
| Profit | 19,688 | 21,395 | 177,385 |
| Profit attributable to: | | | |
| Non-controlling interests | 859 | 672 | 7,739 |
| Owners of parent | ¥ 18,828 | ¥ 20,723 | \$169,636 |
| | (Yen) | | (U.S. dollars) (Note 4) |
| Profit per share (Note 18) | ¥ 117.03 | ¥ 127.48 | \$ 1.054 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

March 31, 2019

| | Years ended March 31, | | |
|---|-----------------------|---------|---|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Profit | ¥19,688 | ¥21,395 | \$177,385 |
| Other comprehensive income: | | | |
| Unrealized holding gain on securities | 916 | 697 | 8,252 |
| Deferred (loss) gain on hedging instruments, net of taxes | (170) | 3 | (1,531) |
| Translation adjustments | (726) | 183 | (6,541) |
| Retirement benefits liability adjustments | 11 | (14) | 99 |
| Total other comprehensive income (Note 8) | 30 | 870 | 270 |
| Comprehensive income | ¥19,719 | ¥22,265 | \$177,664 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | ¥18,960 | ¥21,515 | \$170,826 |
| Non-controlling interests | 759 | 750 | 6,838 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes In Net Assets

March 31, 2019

| | Year ended March 31, 2019 | | | | |
|---|---------------------------|----------------------------|-------------------|-------------------------|----------------------------|
| | Shareholders' equity | | | | |
| | Capital stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| | (Millions of yen) | | | | |
| Balance at the beginning of the period | ¥12,003 | ¥524 | ¥63,790 | ¥ (262) | ¥76,056 |
| Changes in items during the period: | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | 0 | | | 0 |
| Dividends from surplus | | | (2,925) | | (2,925) |
| Profit attributable to owners of the parent | | | 18,828 | | 18,828 |
| Purchases of treasury stock | | | | (1,512) | (1,512) |
| Disposition of treasury stock | | 3 | | 58 | 61 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | 3 | 15,903 | (1,453) | 14,452 |
| Balance at the end of the period | ¥12,003 | ¥528 | ¥79,694 | ¥(1,716) | ¥90,509 |

| | Year ended March 31, 2019 | | | | | | | |
|---|--|--|------------------|-------------------------|---|--|---------------------------|------------------|
| | Accumulated other comprehensive income | | | | | | | |
| | Unrealized gain on securities | Deferred loss on hedging instruments, net of taxes | Land revaluation | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| | (Millions of yen) | | | | | | | |
| Balance at the beginning of the period | ¥1,010 | ¥ (0) | ¥73 | ¥ (466) | ¥(660) | ¥(44) | ¥6,840 | ¥82,852 |
| Changes in items during the period: | | | | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | | | | | | | 0 |
| Dividends from surplus | | | | | | | | (2,925) |
| Profit attributable to owners of the parent | | | | | | | | 18,828 |
| Purchases of treasury stock | | | | | | | | (1,512) |
| Disposition of treasury stock | | | | | | | | 61 |
| Net changes in items other than shareholders' equity | 916 | (170) | 0 | (619) | 5 | 131 | 517 | 648 |
| Total changes in items during the period | 916 | (170) | 0 | (619) | 5 | 131 | 517 | 15,101 |
| Balance at the end of the period | ¥1,926 | ¥(170) | ¥73 | ¥(1,086) | ¥(655) | ¥ 86 | ¥7,357 | ¥97,953 |

Consolidated Statements of Changes In Net Assets

March 31, 2019

| | Year ended March 31, 2019 | | | | |
|---|---|----------------------------|-------------------|-------------------------|----------------------------|
| | Shareholders' equity | | | | |
| | Capital stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| | <i>(Thousands of U.S. dollars) (Note 4)</i> | | | | |
| Balance at the beginning of the period | \$108,144 | \$4,721 | \$574,736 | \$ (2,360) | \$685,250 |
| Changes in items during the period: | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | 0 | | | 0 |
| Dividends from surplus | | | (26,353) | | (26,353) |
| Profit attributable to owners of the parent | | | 169,636 | | 169,636 |
| Purchases of treasury stock | | | | (13,622) | (13,622) |
| Disposition of treasury stock | | 27 | | 522 | 549 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | 27 | 143,283 | (13,091) | 130,209 |
| Balance at the end of the period | <u>\$108,144</u> | <u>\$4,757</u> | <u>\$718,028</u> | <u>\$ (15,460)</u> | <u>\$815,469</u> |

| | Year ended March 31, 2019 | | | | | | | |
|---|---|--|------------------|-------------------------|---|--|---------------------------|------------------|
| | Accumulated other comprehensive income | | | | | | | |
| | Unrealized holding gain on securities | Deferred loss on hedging instruments, net of taxes | Land revaluation | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| | <i>(Thousands of U.S. dollars) (Note 4)</i> | | | | | | | |
| Balance at the beginning of the period | \$ 9,099 | \$ (0) | \$657 | \$ (4,198) | \$ (5,946) | \$ (396) | \$61,627 | \$746,481 |
| Changes in items during the period: | | | | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | | | | | | | 0 |
| Dividends from surplus | | | | | | | | (26,353) |
| Profit attributable to owners of the parent | | | | | | | | 169,636 |
| Purchases of treasury stock | | | | | | | | (13,622) |
| Disposition of treasury stock | | | | | | | | 549 |
| Net changes in items other than shareholders' equity | 8,252 | (1,531) | 0 | (5,577) | 45 | 1,180 | 4,658 | 5,838 |
| Total changes in items during the period | 8,252 | (1,531) | 0 | (5,577) | 45 | 1,180 | 4,658 | 136,057 |
| Balance at the end of the period | <u>\$17,352</u> | <u>\$ (1,531)</u> | <u>\$657</u> | <u>\$ (9,784)</u> | <u>\$ (5,901)</u> | <u>\$ 774</u> | <u>\$66,285</u> | <u>\$882,538</u> |

Consolidated Statements of Changes In Net Assets

March 31, 2019

| | Year ended March 31, 2018 | | | | |
|---|---------------------------|----------------------------|-------------------|-------------------------|----------------------------|
| | Shareholders' equity | | | | |
| | Capital stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' Equity |
| | <i>(Millions of yen)</i> | | | | |
| Balance at the beginning of the period | ¥12,003 | ¥523 | ¥45,506 | ¥(247) | ¥57,786 |
| Changes in items during the period: | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | 6 | | | 6 |
| Dividends from surplus | | | (2,438) | | (2,438) |
| Profit attributable to owners of the parent | | | 20,723 | | 20,723 |
| Purchases of treasury stock | | | | (21) | (21) |
| Disposition of treasury stock | | (4) | | 6 | 2 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | 1 | 18,284 | (15) | 18,270 |
| Balance at the end of the period | ¥12,003 | ¥524 | ¥63,790 | ¥(262) | ¥76,056 |

| | Year ended March 31, 2018 | | | | | | | |
|---|--|---|------------------|-------------------------|---|--|---------------------------|------------------|
| | Accumulated other comprehensive income | | | | | | | |
| | Unrealized holding gain on securities | Deferred (loss) gain on hedging instruments, net of taxes | Land revaluation | Translation adjustments | Retirement benefits liability adjustments | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| | <i>(Millions of yen)</i> | | | | | | | |
| Balance at the beginning of the period | ¥ 312 | ¥(4) | ¥73 | ¥(601) | ¥(617) | ¥(837) | ¥6,293 | ¥63,242 |
| Changes in items during the period: | | | | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | | | | | | | 6 |
| Dividends from surplus | | | | | | | | (2,438) |
| Profit attributable to owners of the parent | | | | | | | | 20,723 |
| Purchases of treasury stock | | | | | | | | (21) |
| Disposition of treasury stock | | | | | | | | 2 |
| Net changes in items other than shareholders' equity | 697 | 3 | — | 134 | (43) | 792 | 546 | 1,338 |
| Total changes in items during the period | 697 | 3 | — | 134 | (43) | 792 | 546 | 19,609 |
| Balance at the end of the period | ¥1,010 | ¥(0) | ¥73 | ¥(466) | ¥(660) | ¥ (44) | ¥6,840 | ¥82,852 |

The accompanying notes are an integral part of these statements.

| | Years ended March 31, | | |
|--|-----------------------|---------|---|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Operating activities | | | |
| Profit before income taxes | ¥28,444 | ¥28,041 | \$256,275 |
| Depreciation and amortization | 2,115 | 1,998 | 19,055 |
| Impairment loss | 794 | 581 | 7,153 |
| Decrease in allowance for doubtful receivables | (18) | (12) | (162) |
| Increase in reserve for defects on completed construction projects | 41 | 171 | 369 |
| Increase (decrease) in allowance for losses on construction contracts | 129 | (262) | 1,162 |
| (Decrease) in allowance for loss related to Antitrust Law | — | (146) | — |
| (Decrease) in liability for retirement benefits | (727) | (486) | (6,550) |
| Loss on sales and disposal of property and equipment | 13 | 70 | 117 |
| Interest and dividend income | (975) | (905) | (8,784) |
| Interest expense | 462 | 556 | 4,162 |
| Exchange (gain) loss, net | (324) | 494 | (2,919) |
| Equity in loss of affiliates | 45 | — | 405 |
| Reversal of allowance for PCB disposal expenses | (165) | — | (1,486) |
| (Increase) in trade notes receivable, accounts receivable on completed construction contracts and other | (20,644) | (3,163) | (185,998) |
| Decrease (increase) in inventories | 51 | (3,603) | 459 |
| (Increase) decrease in other assets | (4,655) | 6,276 | (41,940) |
| Increase in retirement benefits liability adjustments included in accumulated other comprehensive income | 27 | 2 | 243 |
| Increase (decrease) in trade notes payable, accounts payable on construction contracts and other | 4,873 | (4,318) | 43,904 |
| (Decrease) increase in advances received on construction contracts in progress | (3,505) | 4,427 | (31,579) |
| (Decrease) increase in other liabilities | (574) | 7,041 | (5,171) |
| Other | (275) | (209) | (2,477) |
| Subtotal | 5,131 | 36,553 | 46,229 |
| Interest and dividends received | 898 | 893 | 8,090 |
| Interest paid | (451) | (574) | (4,063) |
| Income taxes paid | (6,601) | (8,592) | (59,473) |
| Net cash provided by (used in) operating activities | (1,021) | 28,279 | (9,199) |
| Investing activities | | | |
| Decrease (increase) in fixed deposits | 1,172 | (1,322) | 10,559 |
| Purchases of property and equipment | (874) | (1,908) | (7,874) |
| Proceeds from sales of property and equipment | 444 | 274 | 4,000 |
| Purchases of intangible fixed assets | (352) | (275) | (3,171) |
| Purchases of investments in securities | (6,915) | (1,921) | (62,302) |
| Proceeds from sales of investments in securities | 490 | 651 | 4,414 |
| Purchases of shares of subsidiaries and affiliates | (295) | (183) | (2,657) |
| Proceeds from liquidation of subsidiaries and affiliates | — | 45 | — |
| Disbursements for loans receivable | (160) | (22) | (1,441) |
| Proceeds from collection of loans receivable | 125 | 93 | 1,126 |
| Other | (36) | 327 | (324) |
| Net cash (used in) investing activities | (6,400) | (4,241) | (57,662) |

| | Years ended March 31, | | |
|---|-----------------------|----------|---|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Financing activities | | | |
| (Decrease) in short-term bank loans | ¥ (196) | ¥ (196) | \$ (1,765) |
| Proceed from long-term debt | 10,000 | — | 90,098 |
| Payments of long-term debt | (2,286) | (9,557) | (20,596) |
| Increase in long-term loans of employees | 267 | 333 | 2,405 |
| (Increase) in treasury stock | (1,511) | (19) | (13,613) |
| Cash dividends paid | (2,918) | (2,430) | (26,290) |
| Cash dividends paid for non-controlling shareholders | (225) | (164) | (2,027) |
| Other | (409) | (541) | (3,685) |
| Net cash provided by (used in) financing activities | 2,719 | (12,576) | 24,497 |
| Effect of exchange rate changes on cash and cash equivalents | 7 | (146) | 63 |
| Net (decrease) increase in cash and cash equivalents | (4,695) | 11,315 | (42,301) |
| Cash and cash equivalents at beginning of the year | 71,125 | 59,809 | 640,823 |
| Cash and cash equivalents at end of the year (Note 10) | ¥66,430 | ¥71,125 | \$598,522 |

The accompanying notes are an integral part of these statements.

1. Basis of Preparation

The accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. (the “Company”) and consolidated subsidiaries (collectively the “Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan. In addition, certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Basis of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of the cost over the underlying net assets at fair value at the respective dates of acquisition of the consolidated subsidiaries (goodwill) or the excess of fair value of the net assets acquired over cost (negative goodwill) is charged or credited to income in the year of acquisition.

Investments in affiliates not accounted for by the equity method are principally stated at cost.

The Company had 17 consolidated subsidiaries and 1 affiliates accounted for by the equity method as of March 31, 2019.

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (6 companies) have a fiscal year that ends on December 31. The accompanying consolidated financial statements were prepared based on the financial statements as of the same date. Necessary adjustments for consolidation were made on significant transactions that took place during the period between the fiscal year-end of the subsidiaries and the fiscal year-end of the Company.

(c) Securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities for which market prices are determinable are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Inventories

Inventories other than materials and supplies are stated at cost determined by the specific identification method. Materials and supplies are valued at cost determined by the average method. Cost of real estate for sale and materials and supplies is written down when their carrying amounts become unrecoverable.

(e) Depreciation and Amortization

(1) Property and equipment (except leased assets) and investments in real estate

Depreciation of property and equipment (except leased assets) and investments in real estate is determined primarily by the declining-balance method based on the estimated useful lives and the residual value of the respective assets as prescribed in the Corporation Tax Law of Japan except that the straight-line method is applied to office buildings (except facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016.

Depreciation at all overseas subsidiaries is determined by the straight-line method or by the declining-balance method based on the estimated useful lives of the respective assets.

(2) Intangible fixed assets (except leased assets)

Amortization of intangible fixed assets (except leased assets) is calculated by the straight-line method based on the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law of Japan. Amortization of computer software for internal use is calculated by the straight-line method over the estimated useful lives of 5 years.

(e) Depreciation and Amortization (continued)

(3) Leased assets

Depreciation of leased assets under finance leases other than those that transfer the ownership of the leased assets to the lessees is calculated by the straight-line method over the lease term with a residual value of zero.

(f) Advances Received on Construction Contracts in Progress

As is customary in Japan, the Company and its domestic consolidated subsidiaries receive payments from customers on an installment basis in accordance with the terms of the respective construction contracts.

(g) Allowance for Doubtful Receivables

An allowance for doubtful receivables has been provided for future losses on general receivables at an amount calculated by applying the percentage of actual losses on collection experienced in the past, and an uncollectible amount for doubtful receivables estimated based on an individual assessment of each receivable and probability of collection.

(h) Reserve for Defects on Completed Construction Projects

A reserve has been provided at an estimated amount for the fiscal year's sales proceeds in order to cover the liability for future costs of defects of the completed construction projects.

(i) Allowance for Losses on Construction Contracts

An allowance has been provided based on the estimated amount for the future losses on construction projects in progress at the fiscal year end which are anticipated to be substantial losses in the future.

(j) Allowance for Contingency Loss

An allowance for contingency loss related to the defective piling work at a condominium in Yokohama has been provided based on the reasonably estimated amount necessary for payments to be borne as the contractor in accordance with defect liability applicable to the construction contract.

(k) Accounting for Retirement Benefits

(1) Method of attributing expected retirement benefits to periods

In calculating the retirement benefit obligation, the benefit formula method is applied to attribute the expected retirement benefits to the periods up to year ended March 31, 2019.

(k) Accounting for Retirement Benefits (continued)

(2) Amortization of actuarial gain or loss and prior service cost

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

(l) Recognition of Revenues and Costs on Construction Contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method is applied for contracts for which the percentage of completion cannot be reliably estimated.

(m) Recognition of Income from Finance Leases

Income from finance leases is recorded as sales and cost of sales at the time a lease payment is received.

(n) Derivatives and Hedge Accounting

(1) Method of hedge accounting

Derivative financial instruments are mainly stated at fair value except those accounted for under deferred hedge accounting.

(2) Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange contracts
Interest rate swaps

Hedged items: Future foreign currency transactions
Interest on debt

(3) Hedging policy

The Company utilizes foreign exchange forward contracts and interest rate swaps only for the purpose of hedging future risks of fluctuation of foreign currency exchange rates or interest rates.

(n) Derivatives and Hedge Accounting (continued)

(4) Assessment of hedge effectiveness

An evaluation of hedge effectiveness for a foreign exchange forward contract is performed on a quarterly basis to confirm that amount of the foreign exchange contract is within amount of the underlying hedged item to assess whether the forward contract qualifies for hedge accounting.

An evaluation of hedge effectiveness for interest rate swaps is performed on a quarterly basis to confirm that there is a strong correlation between hedged items and hedging instruments by comparing accumulated amount of the change of cash flows of hedged items and accumulated amount of the change of cash flows of hedging instruments to assess whether the forward contract qualifies for hedge accounting.

(o) Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased, which can easily be converted to cash and are subject to little risk of change in value, are considered cash equivalents.

(p) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(q) Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the amounts calculated for financial reporting purposes and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The Company has adopted the consolidated taxation system.

3. Accounting Changes

Change in presentation

Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company and its consolidated subsidiaries have adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) (hereinafter, the “Partial Amendments”) from the beginning of the fiscal year ended March 31, 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and long-term liabilities, respectively, and related income tax disclosures have been expanded.

As a result, ¥3,409million of deferred tax assets in current assets previously presented in consolidated balance sheet as of March 31, 2018 have been reclassified and included within ¥5,004million of deferred tax assets in investments and other assets.

4. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥110.99 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2019. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

5. Unapplied Accounting Standard and Implementation Guidance

- (a) “Accounting Standard for Revenue Recognition”
(ASBJ Statement No. 29 issued on March 30, 2018)
“Implementation Guidance on Accounting Standard for Revenue Recognition”
(ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Outline

This is a comprehensive accounting standard for revenue recognition. Revenue is recognised using the following five steps:

- (i) Identify the contract(s) with a customer
- (ii) Identify the performance obligations in the contract(s)
- (iii) Determine the transaction price
- (iv) Allocate the transaction price to the performance obligations
- (v) Recognise revenue when (or as) the entity satisfied each performance obligation

(2) Scheduled Date of Application

The Company will apply the accounting standard and the implementation guidance from the beginning of the year ended March 31, 2022.

(3) Impact of the Application of the Unapplied Accounting Standard and the Implementation Guidance

The Company is currently assessing the effects of application of the accounting standards and the implementation guidance on its consolidated financial statements.

6. Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2019 and 2018 were as follows:

| | As of March 31, | | |
|---|--------------------------|----------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Merchandise and finished goods | ¥ 1,292 | ¥ 1,148 | \$ 11,640 |
| Materials and supplies | 2,637 | 1,939 | 23,758 |
| Costs on uncompleted construction contracts | 21,894 | 22,819 | 197,261 |
| Real estate for sale | 2 | 2 | 18 |
| | <u>¥25,826</u> | <u>¥25,909</u> | <u>\$232,687</u> |

(b) Pledged Assets

The following assets were pledged at March 31, 2019 and 2018 principally as collateral for short-term bank loans, long-term debt, and guarantees (such as guarantees for the completion of construction contracts):

| | As of March 31, | | |
|--|--------------------------|----------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Cash and deposits | ¥ 0 | ¥ 0 | \$ 0 |
| Land | 6,070 | 9,831 | 54,689 |
| Buildings and structures, net of accumulated depreciation | 565 | 766 | 5,090 |
| Machinery, equipment and vehicles, net of accumulated depreciation | 152 | 117 | 1,369 |
| Investments in securities | 10 | 10 | 90 |
| Others (Current assets) | — | 9 | — |
| Others (Investments and other assets) | 10 | 530 | 90 |
| | <u>¥6,810</u> | <u>¥11,268</u> | <u>\$61,356</u> |

(b) Pledged Assets (continued)

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2019 and 2018 were summarized as follows:

| | As of March 31, | | |
|--|-------------------|--------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Land | ¥1,258 | ¥1,258 | \$11,334 |
| Buildings and structures, net of accumulated depreciation | 229 | 213 | 2,063 |
| Machinery, equipment and vehicles, net of accumulated depreciation | 152 | 117 | 1,369 |
| | ¥1,640 | ¥1,589 | \$14,776 |

The secured liabilities as of March 31, 2019 and 2018 were summarized as follows:

| | As of March 31, | | |
|---|-------------------|------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Short-term bank loans | ¥ 11 | ¥ 11 | \$ 99 |
| [Including current portion of long-term debt] | [11] | [11] | [99] |
| Long-term debt | 92 | 103 | 828 |

(c) Land Revaluation

Land for operations was revalued by a consolidated subsidiary under the Law for Land Revaluation during the year ended March 31, 2001. The revaluation amount is shown as a separate component of net assets.

The market value of the land was less than the revalued book amount by ¥660 million (\$5,946 thousand) and ¥666 million at March 31, 2019 and 2018, respectively.

(d) Contingent Liabilities

At March 31, 2019 and 2018, the Company and consolidated subsidiaries were contingently liable for the following:

| | As of March 31, | | |
|--|---------------------------|---------------------------|-------------------------------------|
| | 2019 (Millions of yen) | 2018 (Millions of yen) | 2019 (Thousands of U.S. dollars) |
| As guarantors of bank loans to employees (house building fund) | ¥ 3 | ¥ 4 | \$ 27 |
| As endorsers of notes receivable discounted with banks | 300 | 300 | 2,702 |
| As endorsers of notes receivable endorsed to vendors | 11 | — | 99 |

(e) Estimated Loss on Uncompleted Construction Contracts

An estimated loss on uncompleted construction contracts was recognized and included as part of inventories but was not offset against the amount on the balance sheet. It has been recorded as an allowance for losses on construction contracts in the amounts of ¥37 million (\$333 thousand) and ¥8 million as of March 31, 2019 and 2018, respectively.

(f) Trade Notes Maturing on the Balance Sheet Date

Trade notes maturing at the end of the fiscal year are settled on the dates they mature.

Since the last day of the fiscal year which is March 31, 2019 and 2018 fell on a bank holiday, the below-listed trade notes maturing on that date were excluded from the corresponding balances in the consolidated balance sheets as of March 31, 2019 and 2018, respectively.

| | As of March 31, | | |
|---------------------------------|---------------------------|---------------------------|-------------------------------------|
| | 2019 (Millions of yen) | 2018 (Millions of yen) | 2019 (Thousands of U.S. dollars) |
| Trade notes receivable | ¥213 | ¥278 | \$1,919 |
| Trade notes payable | 51 | 274 | 459 |
| Electronically recorded payable | 123 | 67 | 1,108 |

(g) Financial covenants

For the year ended March 31, 2019

- (1) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

(g) Financial covenants (continued)

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million (\$90,098 thousand) in long-term debt as of March 31, 2019.

Unused amount on loan commitment agreement as of March 31, 2019 and 2018 were as follows.

| | As of March 31, | | |
|-----------------------------------|-------------------|---------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Maximum limit under the agreement | ¥20,000 | ¥20,000 | \$180,196 |
| Loan balance outstanding | — | — | — |
| Difference (unused portion) | ¥20,000 | ¥20,000 | \$180,196 |

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥7,500 million (\$67,573 thousand) in long-term debt (including the current portion) as of March 31, 2019.

(g) Financial covenants (continued)

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 bank from above (2)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥3,750 million (\$33,786 thousand) in long-term debt (including the current portion) as of March 31, 2019.

- (4) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is ¥10,000 million (\$90,098 thousand) in long-term debt as of March 31, 2019.

Unused amount on the committed syndicated loan contract as of March 31, 2019 and 2018 were as follows.

| | As of March 31, | | |
|----------------------------------|---------------------------|---------|-------------------------------------|
| | 2019 (Millions of yen) | 2018 | 2019 (Thousands of U.S. dollars) |
| Maximum limit under the contract | ¥10,000 | ¥10,000 | \$90,098 |
| Loan balance outstanding | 10,000 | — | 90,098 |
| Difference (unused portion) | ¥ — | ¥10,000 | \$ — |

(g) Financial covenants (continued)

For the year ended March 31, 2018

- (1) The Company has entered into a syndicated loan contract dated on March 29, 2016 and loan commitment agreement dated on March 31, 2016 with its seven banks with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2016 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥10,000 million in long-term debt as of March 31, 2018.

Unused amount on loan commitment agreement as of March 31, 2018 and 2017 were as follows.

| | As of March 31, | |
|-----------------------------------|--------------------------|-------------|
| | 2018 | 2017 |
| | <i>(Millions of yen)</i> | |
| Maximum limit under the agreement | ¥20,000 | ¥20,000 |
| Loan balance outstanding | — | — |
| Difference (unused portion) | ¥20,000 | ¥20,000 |

- (2) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2014 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

(g) Financial covenants (continued)

In addition, the balance of bank borrowings under this syndicated loan contract is ¥8,500 million in long-term debt (including the current portion) as of March 31, 2018.

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 bank from above (2)) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2017 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2016 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In addition, the balance of bank borrowings under this syndicated loan contract is ¥4,250 million in long-term debt (including the current portion) as of March 31, 2018.

- (4) The Company has entered into a committed syndicated loan contract dated on March 30, 2018 with its seven banks (same bank as we had contracted for the year ended March 31, 2016) with Sumitomo Mitsui Banking Corporation as arranger. The following financial covenant is included in the contract:

Total consolidated net assets at the end of each fiscal year beginning March 31, 2018 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2017 or of total consolidated net assets at the end of the most recent fiscal year, whichever is greater.

In calculating consolidated net assets, any allowance or costs related to the condominium in Yokohama will be excluded from the calculation in accordance with instructions received from the Ministry of Land, Infrastructure Transportation and Tourism of Japan on January 13, 2016.

In addition, the balance of bank borrowings under the committed syndicated loan contract is immaterial as of March 31, 2018.

Unused amount on the committed syndicated loan contract as of March 31, 2018 and 2017 were as follows.

| | As of March 31, | |
|----------------------------------|--------------------------|-------------|
| | 2018 | 2017 |
| | <i>(Millions of yen)</i> | |
| Maximum limit under the contract | ¥10,000 | ¥— |
| Loan balance outstanding | — | — |
| Difference (unused portion) | ¥10,000 | ¥— |

7. Notes to Consolidated Statements of Income

(a) Net Sales Based on Percentage-of-completion Method

Net sales on construction contracts accounted for under the percentage-of-completion method amounted to ¥345,416 million (\$3,112,136 thousand) and ¥323,114 million for the years ended March 31, 2019 and 2018, respectively.

(b) Allowance for Losses on Construction Contracts Included in Cost of Sales

The allowance for losses on construction contracts was included in cost of sales in the amounts of ¥216 million (\$1,946 thousand) and ¥93 million for the years ended March 31, 2019 and 2018, respectively.

(c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|---|-----------------------|---------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Salaries and wages | ¥ 9,884 | ¥ 9,339 | \$ 89,053 |
| Retirement benefit expenses | 574 | 636 | 5,171 |
| Provision of allowance for doubtful receivables | 0 | 1 | 0 |
| Other | 11,371 | 10,497 | 102,450 |
| Total | ¥21,831 | ¥20,473 | \$196,693 |

(d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥2,474 million (\$22,290 thousand) and ¥2,067 million for the years ended March 31, 2019 and 2018, respectively.

(e) Gain on Sales of Property and Equipment

The significant components of gain on sales of property and equipment for the years ended March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|-----------------------------------|-----------------------|------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Buildings and structures | ¥32 | ¥0 | \$288 |
| Machinery, equipment and vehicles | 29 | 7 | 261 |
| Land | 36 | 0 | 324 |
| Total | ¥98 | ¥8 | \$882 |

(f) Loss on Sales and Disposal of Property and Equipment

The significant components of loss on sales and disposal of property and equipment for the years ended March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|------------------|-----------------------|------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Loss on disposal | ¥ 34 | ¥77 | \$ 306 |
| Loss on sales | 77 | 0 | 693 |
| Others | — | 1 | — |
| Total | ¥111 | ¥79 | \$1,000 |

(g) Impairment Loss

The Group recognized impairment loss on the following asset groups.

The Group principally calculates impairment loss by grouping together assets of the construction segments and by grouping assets of the other segment individually.

(1) For the year ended March 31, 2019

The book values of following assets were reduced to their recoverable values as a result of profit deterioration on elder care facility. The corresponding write-down was recognized in the amount of ¥794 million (\$7,153 thousand) as part of other expenses.

| Location | Usage | Classification | Year ended March 31, 2018 | |
|-----------------|-------------------------------------|--------------------------------|---------------------------|-----------------------------|
| | | | (Millions of yen) | (Thousands of U.S. dollars) |
| Hachioji, Tokyo | Elder care facility (1 building) | Land, buildings and structures | ¥794 | \$7,153 |

In addition, the recoverable value of above assets was estimated at its net realizable value based on amounts determined by a valuation made in accordance with real estate appraisal standards.

(2) For the year ended March 31, 2018

The book values of following assets were reduced to their recoverable values as a result of profit deterioration on elder care facility and determination of sales of assets for business. The corresponding write-down was recognized in the amount of ¥581 million as part of other expenses.

(g) Impairment Loss (continued)

| Location | Usage | Classification | Year ended March 31, 2018 <i>(Millions of yen)</i> |
|--------------------|-------------------------------------|--------------------------------|--|
| Hachioji, Tokyo | Elder care facility (1 building) | Land, buildings and structures | ¥568 |
| Sayama, Saitama | Assets for business (1 building) | Land | 6 |
| Shizuoka, Shizuoka | Assets for business (1 building) | Land, buildings and structures | 6 |

In addition, the recoverable value of above assets was estimated at its net realizable value based on amounts determined mainly by a valuation made in accordance with real estate appraisal standards.

8. Notes to Consolidated Statements of Comprehensive Income

Amount of recycling and amount of income tax effects associated with other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|---|-----------------------|--------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrealized holding gain on securities: | | | |
| Changes in items during the period | ¥1,322 | ¥1,194 | \$11,910 |
| Amount of recycling | (0) | (188) | (0) |
| Before income tax effect adjustment | 1,322 | 1,005 | 11,910 |
| Income tax effect adjustment | (406) | (307) | (3,657) |
| Unrealized holding gain on securities | 916 | 697 | 8,252 |
| Deferred gain on hedging instruments, net of taxes: | | | |
| Changes in items during the period | (245) | 6 | (2,207) |
| Amount of recycling | — | — | — |
| Before income tax effect adjustment | (245) | 6 | (2,207) |
| Income tax effect adjustment | 75 | (2) | 675 |
| Deferred gain on hedging instruments, net of taxes | (170) | 3 | (1,531) |
| Translation adjustments: | | | |
| Changes in items during the period | (651) | 183 | (5,865) |
| Amount of recycling | (75) | — | (675) |
| Before income tax effect adjustment | (726) | 183 | (6,541) |
| Income tax effect adjustment | — | — | — |
| Translation adjustments | (726) | 183 | (6,541) |
| Retirement benefits liability adjustments: | | | |
| Changes in items during the period | 1 | (65) | 9 |
| Amount of recycling | 25 | 67 | 225 |
| Before income tax effect adjustment | 27 | 2 | 243 |
| Income tax effect adjustment | (15) | (17) | (135) |
| Retirement benefits liability adjustments | 11 | (14) | 99 |
| Total other comprehensive income | ¥ 30 | ¥ 870 | \$ 270 |

9. Notes to Consolidated Statements of Changes in Net Assets

(a) Type and number of shares issued and treasury stock

For the year ended March 31, 2019

| | Balance at April 1, 2018 | Increase | Decrease | Balance at March 31, 2019 |
|------------------|--------------------------------|---------------------------|----------|---------------------------------|
| | | <i>(Number of shares)</i> | | |
| Shares issued: | | | | |
| Common stock | 162,673,321 | – | – | 162,673,321 |
| | Balance at April 1, 2018 | Increase | Decrease | Balance at March 31, 2019 |
| | | <i>(Number of shares)</i> | | |
| Treasury shares: | | | | |
| Common stock | 131,601 | 2,033,555 | 70,852 | 2,094,304 |

Note 1: Increase of common stock is due to the purchase of fractional 16,755 shares and the acquisition of treasury stock of 2,016,800 shares based on the resolution of the board of directors held on May 14, 2018.

Note 2: Decrease of common stock is due to the sale of fractional 1,207 shares in response to shareholder requests and the disposition of treasury stock of 69,645 shares as the compensation of restricted stocks based on the resolution of the board of directors held on July 27, 2018.

For the year ended March 31, 2018

| | Balance at April 1, 2017 | Increase | Decrease | Balance at March 31, 2018 |
|------------------|--------------------------------|---------------------------|-------------|---------------------------------|
| | | <i>(Number of shares)</i> | | |
| Shares issued: | | | | |
| Common stock | 813,366,605 | – | 650,693,284 | 162,673,321 |
| | Balance at April 1, 2017 | Increase | Decrease | Balance at March 31, 2018 |
| | | <i>(Number of shares)</i> | | |
| Treasury shares: | | | | |
| Common stock | 511,444 | 40,743 | 420,586 | 131,601 |

Note 1: Increase of common stock is due to the purchase of fractional 36,919 shares and the purchase of 3,824 shares related to the consolidation of shares.

Note 2: Decrease of common stock is due to the sale of fractional 3,896 shares in response to shareholder requests and the decrease of 416,690 shares related to the consolidation of shares.

(b) Dividends:

(1) Dividends paid

For the year ended March 31, 2019

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|----------------|--------------------------------------|------------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 28, 2018 | Common stock | ¥2,925 | ¥18.00 | March 31, 2018 | June 29, 2018 |

For the year ended March 31, 2018

| Resolution | Type of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|----------------|--------------------------------------|------------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 29, 2017 | Common stock | ¥2,438 | ¥3.00 | March 31, 2017 | June 30, 2017 |

Note: The Company executed the consolidation of shares at the ratio of 5 shares into 1 share effective from October 1, 2017. Dividends per share with the cut-off date in the year ended March 31, 2017 is the amount before the consolidation of shares.

(2) Dividends with the cut-off date in the year ended March 31, 2019 and the effective date in the year ending March 31, 2020 were as follows:

| Resolution | Type of shares | Source of dividends | Total dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|----------------|---------------------|--------------------------------------|------------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 27, 2019 | Common stock | Retained earnings | ¥3,853 | ¥24.00 | March 31, 2019 | June 28, 2019 |

Dividends with the cut-off date in the year ended March 31, 2018 and the effective date in the year ending March 31, 2019 were as follows:

| Resolution | Type of shares | Source of dividends | Total dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|----------------|---------------------|--------------------------------------|------------------------------|----------------|----------------|
| Annual general meeting of the shareholders on June 28, 2018 | Common stock | Retained earnings | ¥2,925 | ¥18.00 | March 31, 2018 | June 29, 2018 |

10. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2019 and 2018 were as follows:

| | As of March 31, | | |
|--|-------------------|---------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Cash and deposits | ¥74,319 | ¥80,788 | \$669,600 |
| Time deposits with maturities of over three months | (7,888) | (9,662) | (71,069) |
| Cash and cash equivalents | ¥66,430 | ¥71,125 | \$598,522 |

11. Financial Instruments

(a) Overview

(1) Policy for financial instruments

The Group limits investments of surplus funds to short-term bank deposits and raises necessary funds through bank loans.

In addition, the Group only uses derivatives for hedging risk of fluctuation of foreign currency exchange rates or interest rates, not for speculative transactions.

(2) Types of financial instruments and related risk and risk management system

Trade notes receivable, accounts receivable on completed construction contracts and other are exposed to credit risk in relation to customers and trading partners. Also, the Group's main investments in securities are shares of companies, and they are exposed to market price fluctuation risk.

Management of credit risks (Risks of default by customers and trading partners)

The Company manages due dates and balances of trade notes receivable, accounts receivable on completed construction contracts and other for individual customers and trading partners through its internal systems and monitors their credit status. These systems enable the Group to identify any concerns for doubtful receivables at an early stage and reduce risks of uncollectible amounts. Consolidated subsidiaries also manage credit risks in the same manner as the Company. The Company minimizes credit risks by mainly holding held-to-maturity securities with high credit ratings.

(a) Overview (continued)

Management of market risks (Risks of fluctuations in currency exchange and interest rates)

The Company and certain consolidated subsidiaries hold trade receivables in foreign currencies. However, the risk of fluctuations in the currency exchange rate is not significant because a similar amount of trade payables are also held, and the Company utilizes foreign exchange forward contracts to hedge the risk of changes in the foreign currency exchange rate.

Loan payables are used for operating funds. The Group manages loan payables by flexibly preparing or revising its fund management plans.

Derivatives are foreign currency exchange forward contracts held for the purpose of hedging future risk of fluctuation of foreign currency exchange rate of the monetary liabilities denominated in foreign currencies, and interest rate swaps held for the purpose of hedging future risk of fluctuation of interest rates on loan payables.

Derivative transactions are carried out in accordance with the Companies' internal rules on transactions, and with highly rated financial institutions used as counter parties to reduce the risk of default.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and assessment of hedge effectiveness is found in Note 2-(n).

(3) Supplementary explanation of the fair value of financial instruments

The fair values of financial instruments are based on market prices, or, if no market prices are available, they include estimated amounts. Because estimations of the fair value incorporate various factors, applying different assumptions can, in some cases, result in different fair values.

In addition, the amounts of derivatives in Note 13 "Derivatives and Hedge Accounting" are not necessarily indicative of the actual market risk involved in the derivative transactions.

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheets, market value, and the difference at March 31, 2019 and 2018, were as shown below. Moreover, items for which it is extremely difficult to determine fair values are not included in the following table (see Note 2).

| | As of March 31, 2019 | | | | | |
|--|-------------------------------------|---------------------------------|---------------|---|---|------------------|
| | Carrying value (Millions of yen) | Fair value (Millions of yen) | Difference | Carrying value (Thousands of U.S. dollars) | Fair value (Thousands of U.S. dollars) | Difference |
| Cash and deposits | ¥ 74,319 | ¥ 74,319 | ¥ – | \$ 669,600 | \$ 669,600 | \$ – |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 166,875 | 166,858 | (17) | 1,503,513 | 1,503,360 | (153) |
| Securities and investments in securities | 17,276 | 17,281 | 4 | 155,653 | 155,698 | 36 |
| Held-to-maturity securities | 274 | 279 | 4 | 2,468 | 2,513 | 36 |
| Other securities | 17,001 | 17,001 | – | 153,175 | 153,175 | – |
| Total assets | <u>¥258,471</u> | <u>¥258,459</u> | <u>¥(12)</u> | <u>\$2,328,777</u> | <u>\$2,328,669</u> | <u>\$(108)</u> |
| Trade notes payable, accounts payable on construction contracts and other | ¥ 98,496 | ¥ 98,496 | ¥ – | \$ 887,431 | \$ 887,431 | \$ – |
| Electronically recorded payable | 32,103 | 32,103 | – | 289,242 | 289,242 | – |
| Short-term bank loans and current portion of long-term debt | 1,777 | 1,760 | (17) | 16,010 | 15,857 | (153) |
| Long-term debt | 29,842 | 29,150 | (691) | 268,871 | 262,636 | (6,225) |
| Total liabilities | <u>¥162,219</u> | <u>¥161,510</u> | <u>¥(708)</u> | <u>\$1,461,564</u> | <u>\$1,455,176</u> | <u>\$(6,378)</u> |
| Derivative transactions (*) Hedge accounting is applied | ¥ (246) | ¥ (246) | ¥ – | \$ (2,216) | \$ (2,216) | \$ – |

(*): Assets and liabilities arising from derivative transactions are shown at net value. If total is liabilities, amounts is shown as “().”

(b) Fair value of financial instruments (continued)

| | As of March 31, 2018 | | |
|---|----------------------|-----------------|---------------|
| | Carrying value | Fair value | Difference |
| | (Millions of yen) | | |
| Cash and deposits | ¥ 80,788 | ¥ 80,788 | ¥ - |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 146,933 | 146,919 | (13) |
| Securities and investments in securities | 10,083 | 10,089 | 5 |
| Held-to-maturity securities | 283 | 289 | 5 |
| Other securities | 9,800 | 9,800 | - |
| Total assets | <u>¥237,805</u> | <u>¥237,797</u> | <u>¥ (7)</u> |
| Trade notes payable, accounts payable on construction contracts and other | ¥ 94,632 | ¥ 94,632 | ¥ - |
| Electronically recorded payable | 31,691 | 31,691 | - |
| Short-term bank loans and current portion of long-term debt | 2,769 | 2,746 | (23) |
| Long-term debt | 21,353 | 21,098 | (255) |
| Total liabilities | <u>¥150,447</u> | <u>¥150,169</u> | <u>¥(278)</u> |
| Derivative transactions (*) | | | |
| Hedge accounting is not applied | ¥ (4) | ¥ (4) | ¥ - |
| Hedge accounting is applied | ¥ (0) | ¥ (0) | ¥ - |

(*): Assets and liabilities arising from derivative transactions are shown at net value. If total is liabilities, amounts is shown as “().”

Note 1: Calculation of the fair value of financial instruments and other matters related to investment securities and derivative transactions

Assets

(1) Cash and deposits

The book values are used, because settlement periods of deposits are short and their market values are almost the same as their book values.

(2) Trade notes receivable, accounts receivable on completed construction contracts and other

The fair values are determined using the present value of discounted collectible principal and interest amounts estimated reflecting their collectability based on an appropriate rate in which a credit spread is added to a risk-free benchmark rate (such as a government bond yield) corresponding to the remaining term.

(b) Fair value of financial instruments (continued)

(3) Securities and investments in securities

Concerning the market value of investment securities, the market value for stocks is the price quoted on the stock exchange, and the market value for bonds is the price provided by financial institutions.

In addition, for matters concerning to securities, see “Notes on securities.”

Liabilities

(1) Trade notes payable, accounts payable on construction contracts, Electronically recorded payable

The book values are used, because these are operation payable and settlement periods are within a year and their market values are almost the same as their book values.

(2) Short-term bank loans

The carrying amount of the current portion of long-term debt approximates fair value since the carrying amount is equivalent to the present value of future cash flows discounted using the current borrowing rate for similar debt with a compatible maturity. For borrowings other than the current portion of long-term debt, the carrying amount approximates fair value due to the short maturities of these instruments.

(3) Long-term debt

Fair value of long-term debt is based on the price provided by financial institutions or the present value of future cash flows discounted using the current borrowing rate for similar debt with a comparable maturity.

The information of the fair value for derivatives is included in Note 13.

Note 2: Financial instruments for which it is extremely difficult to measure the fair value

| | As of March 31, | | |
|---------------------|-------------------|--------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unlisted stocks (*) | ¥4,535 | ¥3,367 | \$40,859 |

(*): Unlisted stocks are not included in “Securities and investments in securities” because these have no market value and it is extremely difficult to measure the fair value.

(b) Fair value of financial instruments (continued)

Note 3: The redemption schedule for monetary claims and held-to-maturity debt securities with maturity dates subsequent to March 31, 2019 and 2018

| As of March 31, 2019 | | | | | | | | |
|--|-------------------|---|---|------------------|-----------------------------|---|---|------------------|
| | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years |
| | (Millions of yen) | | | | (Thousands of U.S. dollars) | | | |
| Deposits | ¥ 74,302 | ¥ – | ¥– | ¥– | \$ 669,447 | \$ – | \$– | \$– |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 154,199 | 12,676 | – | – | 1,389,305 | 114,208 | – | – |
| Securities and investments in securities | | | | | | | | |
| Held-to-maturity securities (Bonds) | 113 | 161 | – | – | 1,018 | 1,450 | – | – |
| | <u>¥228,615</u> | <u>¥12,837</u> | <u>¥–</u> | <u>¥–</u> | <u>\$2,059,780</u> | <u>\$115,659</u> | <u>\$–</u> | <u>\$–</u> |
| As of March 31, 2018 | | | | | | | | |
| | Within 1 year | Over 1 year and within 5 years | Over 5 years and within 10 years | Over 10 years | | | | |
| | (Millions of yen) | | | | | | | |
| Deposits | ¥ 80,767 | ¥ – | ¥ – | ¥– | | | | |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 139,873 | 7,060 | – | – | | | | |
| Securities and Investments in securities | | | | | | | | |
| Held-to-maturity securities (Bonds) | 9 | 212 | 60 | – | | | | |
| | <u>¥220,650</u> | <u>¥7,272</u> | <u>¥60</u> | <u>¥–</u> | | | | |

Note 4: The redemption schedule for corporate bonds, long-term debt and other interest bearing debt with maturity dates subsequent to March 31, 2019 and 2018. See Note 20.

12. Securities

Securities at March 31, 2019 and 2018 were summarized as follows:

(a) Held-to-maturity securities

| As of March 31, 2019 | | | | | | |
|---|-------------------|---------------|--------------------|-----------------------------|---------------|--------------------|
| | Carrying value | Fair value | Unrealized gain | Carrying value | Fair value | Unrealized gain |
| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
| Securities whose fair value exceeds their carrying value: | | | | | | |
| Bonds | ¥274 | ¥279 | ¥4 | \$2,468 | \$2,513 | \$36 |

| As of March 31, 2018 | | | |
|---|-------------------|---------------|--------------------|
| | Carrying value | Fair value | Unrealized gain |
| | (Millions of yen) | | |
| Securities whose fair value exceeds their carrying value: | | | |
| Bonds | ¥283 | ¥289 | ¥5 |

(b) Other securities

| As of March 31, 2019 | | | | | | |
|---------------------------|----------------------------|---------|---------------------------|-----------------------------|-----------|---------------------------|
| | Balance sheet amount | Cost | Unrealized gain (loss) | Balance sheet amount | Cost | Unrealized gain (loss) |
| | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
| Unrealized gain: Stock | ¥13,693 | ¥10,591 | ¥3,101 | \$123,371 | \$ 95,423 | \$27,939 |
| Unrealized loss: Stock | 3,307 | 3,618 | (310) | 29,795 | 32,597 | (2,793) |
| Total | ¥17,001 | ¥14,210 | ¥2,791 | \$153,175 | \$128,029 | \$25,146 |

| As of March 31, 2018 | | | |
|---------------------------|----------------------------|--------|---------------------------|
| | Balance sheet amount | Cost | Unrealized gain (loss) |
| | (Millions of yen) | | |
| Unrealized gain: Stock | ¥4,707 | ¥2,667 | ¥2,039 |
| Unrealized loss: Stock | 5,093 | 5,663 | (570) |
| Total | ¥9,800 | ¥8,331 | ¥1,469 |

(c) Sales of other securities

| | Year ended March 31, | | |
|---------------------------------|----------------------|------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Sales proceeds | ¥490 | ¥651 | \$4,414 |
| Total gain on sales of security | 325 | 188 | 2,928 |
| Total loss on sales of security | 0 | — | 0 |

13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2019 and 2018 were summarized as follows:

- (a) Derivative transactions to which the hedge accounting is not applied.

Currency-related transactions

There were no currency-related transactions to which the hedge accounting is not applied for the year ended March 31, 2019.

| As of March 31, 2018 | | | | | |
|--------------------------|------------------------------------|-----------------|-------------|------------|------------------|
| Segmentation | Transaction type | Contract amount | Over 1 year | Fair value | Valuation (loss) |
| <i>(Millions of yen)</i> | | | | | |
| Off-market transaction | Foreign exchange forward contracts | | | | |
| | Long U.S. dollar | ¥102 | ¥— | ¥(4) | ¥(4) |

Note 1: Estimated fair value was provided by the counterparty financial institution.

- (b) Derivative transactions to which the hedge accounting is applied

(1) Currency-related transactions

There were no currency-related transactions to which the hedge accounting is applied for the year ended March 31, 2019.

| As of March 31, 2018 | | | | | |
|---|------------------------------------|--------------------------------------|-----------------|-------------|------------|
| Method of hedge accounting | Transaction type | Hedged item | Contract amount | Over 1 year | Fair value |
| <i>(Millions of yen)</i> | | | | | |
| Allocation accounting method for foreign exchange forward contracts | Foreign exchange forward contracts | Accounts payable | | | |
| | Long U.S. dollar | | ¥— | ¥— | Note 2 |
| | Long U.S. dollar | Future foreign currency transactions | 9 | — | ¥(0) |
| Total | | | ¥9 | ¥— | ¥(0) |

Note 1: Estimated fair value was provided by the counterparty financial institution.

Note 2: Since foreign exchange forward contracts accounted for are included in that of the account payable as the hedged item, the fair values of the contracts are included in the fair values of the account payable.

(2) Interest-related transactions

| As of March 31, 2019 | | | | | | | | |
|----------------------------------|-----------------------------------|-------------------|--------------------|----------------|---------------|-----------------------------|----------------|---------------|
| Method of hedge accounting | Transaction type | Hedged item | Contract amount | Over 1 year | Fair value | Contract amount | Over 1 year | Fair value |
| | | | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
| Fair value | Interest rate swaps: | Long-term debt | | | | | | |
| | Pay fixed/ Receive floating | | ¥ 7,500 | ¥ 7,500 | ¥(139) | \$67,573 | \$67,573 | \$ (1,252) |
| | Pay fixed/ Receive floating | Long-term debt | 2,500 | 2,500 | (106) | 22,524 | 22,524 | (955) |
| Total | | | ¥10,000 | ¥10,000 | ¥(246) | \$90,098 | \$90,098 | \$(2,216) |

Note 1: Estimated fair value was provided by the counterparty financial institution.

There were no interest-related transactions to which the hedge accounting is applied for the year ended March 31, 2018.

14. Retirement Benefit Plans

For the year ended March 31, 2019, the Group has either funded or unfunded defined benefit and defined contribution plans.

The Group has a defined benefits pension plan, i.e. defined benefit company pension plan and lump-sum retirement benefit plans. Certain consolidated domestic subsidiaries participate in the Small and Medium Enterprise Retirement Allowance Mutual Aid Scheme. Certain foreign consolidated subsidiaries have an employee pension trust. The Company and certain consolidated subsidiaries have a defined contribution pension plan.

In addition, for certain defined benefit company pension plan and lump-sum retirement benefit plans and the defined contribution pension plan of the Company and certain consolidated subsidiaries, the simplified method is applied to calculate their liability for retirement benefits and retirement benefits expenses.

The changes in the retirement benefit obligation during the year ended March 31, 2019 and 2018 were as follows (excluding plans for which the simplified method is applied):

| | Year ended March 31, | | |
|----------------------------------|----------------------|---------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance at the beginning of year | ¥16,929 | ¥17,499 | \$152,527 |
| Service cost | 866 | 851 | 7,802 |
| Interest cost | 72 | 75 | 648 |
| Actuarial loss | (6) | 26 | (54) |
| Retirement benefit paid | (1,714) | (1,556) | (15,442) |
| Prior service cost | — | 36 | — |
| Foreign currency translation | (31) | (3) | (279) |
| Balance at the end of year | ¥16,116 | ¥16,929 | \$145,202 |

The changes in plan assets during the year ended March 31, 2019 and 2018 were as follows (excluding plans for which the simplified method is applied):

| | Years ended March 31, | | |
|----------------------------------|-----------------------|------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance at the beginning of year | ¥52 | ¥59 | \$468 |
| Expected return on plan assets | 3 | 4 | 27 |
| Actuarial gain | (4) | (2) | (36) |
| Retirement benefit paid | (3) | (7) | (27) |
| Foreign currency translation | (3) | (1) | (27) |
| Balance at the end of year | ¥44 | ¥52 | \$396 |

The changes in liability for retirement benefits based on the simplified method during the year ended March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|---|-----------------------|--------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance at the beginning of year | ¥1,354 | ¥1,280 | \$12,199 |
| Retirement benefit expense | 120 | 156 | 1,081 |
| Retirement benefit paid | (57) | (72) | (513) |
| Contribution to defined contribution plan | (13) | (10) | (117) |
| Balance at the end of year | ¥1,404 | ¥1,354 | \$12,649 |

A reconciliation of the funded retirement benefit obligation and plan assets and the net liability for retirement benefits recognized in the consolidated balance sheet at March 31, 2019 and 2018 is as follows:

| | As of March 31, | | |
|---|-------------------|---------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Funded retirement benefit obligation | ¥ 345 | ¥ 350 | \$ 3,108 |
| Plan assets at fair value | (182) | (185) | (1,639) |
| | 163 | 165 | 1,468 |
| Unfunded retirement benefit obligation | 17,312 | 18,066 | 155,978 |
| Net liability for retirement benefits in the consolidated balance sheet | 17,475 | 18,231 | 157,446 |
| Liability for retirement benefits | 17,475 | 18,231 | 157,446 |
| Assets for retirement benefits | — | — | — |
| Net liability for retirement benefits in the consolidated balance sheet | ¥17,475 | ¥18,231 | \$157,446 |

Note: Including plans for which the simplified method is applied.

The components of retirement benefit expense during the year ended March 31, 2019 and 2018 were as follows:

| | Year ended March 31, | | |
|--|-----------------------------|---------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Service cost | ¥ 866 | ¥ 851 | \$7,802 |
| Interest cost | 72 | 75 | 648 |
| Expected return on plan assets | (3) | (4) | (27) |
| Amortization of actuarial loss | 385 | 430 | 3,468 |
| Amortization of prior service cost | (360) | (363) | (3,243) |
| Retirement benefit expense calculated by the simplified method | 120 | 156 | 1,081 |
| Total retirement benefit expense | <u>¥1,081</u> | <u>¥1,146</u> | <u>\$9,739</u> |

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the year ended March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|--------------------|------------------------------|-------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Actuarial loss | ¥387 | ¥402 | \$3,486 |
| Prior service cost | (360) | (399) | (3,243) |
| Total | <u>¥ 27</u> | <u>¥ 2</u> | <u>\$ 243</u> |

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2018 were follows:

| | As of March 31, | | |
|---------------------------------|--------------------------|--------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Unrecognized actuarial loss | ¥1,940 | ¥2,328 | \$17,479 |
| Unrecognized prior service cost | (1,224) | (1,584) | (11,028) |
| Total | <u>¥ 716</u> | <u>¥ 743</u> | <u>\$ 6,451</u> |

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were follows:

| | As of March 31, | |
|-------|------------------------|-------------|
| | 2019 | 2018 |
| Bonds | 93% | 95% |
| Other | 7% | 5% |
| Total | 100% | 100% |

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The principal assumptions used for above plans were as follows:

| | Years ended March 31, | |
|--|------------------------------|------------------|
| | 2019 | 2018 |
| Discount rate | Principally 0.3% | Principally 0.3% |
| Expected rate of return on plan assets | 5.8% | 5.4% |
| Expected rate of increase in salaries | Principally 4.7% | Principally 4.4% |

The contribution to defined contribution plans in the company and consolidated subsidiaries were as follows:

| | Years ended March 31, | | |
|--|------------------------------|-------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Contribution to defined contribution plans | ¥792 | ¥808 | \$7,135 |

15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

| | As of March 31, | | |
|--|---------------------------|---------------------------|-------------------------------------|
| | 2019 (Millions of yen) | 2018 (Millions of yen) | 2019 (Thousands of U.S. dollars) |
| Deferred tax assets: | | | |
| Liability for retirement benefits | ¥ 5,360 | ¥ 5,660 | \$ 48,292 |
| Accounts payable and accrued expenses | 3,521 | 3,697 | 31,723 |
| Impairment loss | 1,062 | 979 | 9,568 |
| Other | 2,063 | 3,447 | 18,587 |
| Gross deferred tax assets | 12,008 | 13,784 | 108,189 |
| Valuation allowance | (7,070) | (7,943) | (63,699) |
| Total deferred tax assets | 4,938 | 5,841 | 44,490 |
| Deferred tax liabilities: | | | |
| Retained earnings of foreign consolidated subsidiaries | (375) | (337) | (3,378) |
| Unrealized holding gain on securities | (855) | (449) | (7,703) |
| Other | (27) | (49) | (243) |
| Total deferred tax liabilities | (1,258) | (837) | (11,334) |
| Net deferred tax assets | ¥ 3,679 | ¥ 5,004 | \$ 33,147 |

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2019 and 2018:

| | Years ended March 31, | |
|--|-----------------------|-------|
| | 2019 | 2018 |
| Statutory tax rate | —% | 30.9% |
| Non-deductible expenses | — | 0.7 |
| Non-taxable income | — | (0.9) |
| Per capita inhabitants' taxes | — | 0.4 |
| Tax credit | — | (2.3) |
| Valuation allowance | — | (6.2) |
| Different tax rate applied to foreign subsidiaries | — | 0.5 |
| Retained earnings of foreign consolidated subsidiaries | — | (0.1) |
| Other | — | 0.7 |
| Effective tax rates | —% | 23.7% |

The significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2019 has been omitted as its difference was less than 5% of the statutory tax rate.

16. Segment Information, etc.

Segment Information

(a) Outline of Segments

The Company's reportable operating segments are components for which separate financial information is available and that are evaluated regularly by the board of directors in determining the allocation of management resources and in assessing performance.

The Company currently divides its operations into Civil Construction and Building Construction, managed by the Civil Engineering Division and the Building Administration Division, respectively. Business strategies are formulated by each segment.

Accordingly, the Company divides its operations into two reportable operating segments on the same basis as it uses internally; Civil Construction and Building Construction.

Civil Construction consists mainly of governmental public works like bridge construction. Building Construction is awarded by private sector companies for things like high rise apartment buildings.

(b) Accounting methods used to calculate segment income (loss), segment assets and other items for reportable segments

Accounts for reportable segments are for the most part calculated in line with the generally accepted standards used for the preparation of the consolidated financial statements.

Segment income (loss) for reportable segments is based on gross profit.

Amounts for intersegment transactions or transfers are based on the market prices determined by third party transactions.

The Company does not allocate any assets to reportable operating segments.

Segment Information (continued)

(c) Segment income, segment assets and other items for reportable segments

| Year ended March 31, 2019 | | | | | | | |
|--|----------|----------|----------|--------|----------|-------------|--------------|
| Reportable operating segments | | | | Others | Total | Adjustments | Consolidated |
| Civil | Building | Total | | | | | |
| (Millions of yen) | | | | | | | |
| Sales | | | | | | | |
| External Customers | ¥168,109 | ¥279,775 | ¥447,884 | ¥873 | ¥448,758 | ¥ – | ¥448,758 |
| Intersegment transactions or transfers | 792 | 32 | 825 | 72 | 897 | (897) | – |
| Net sales | ¥168,901 | ¥279,808 | ¥448,709 | ¥946 | ¥449,655 | ¥(897) | ¥448,758 |
| Segment income | ¥ 23,580 | ¥ 27,211 | ¥ 50,791 | ¥346 | ¥ 51,138 | ¥ (89) | ¥ 51,049 |

| Year ended March 31, 2019 | | | | | | | |
|--|-------------|-------------|-------------|---------|-------------|-------------|--------------|
| Reportable operating segments | | | | Others | Total | Adjustments | Consolidated |
| Civil | Building | Total | | | | | |
| (Thousands of U.S. dollars) | | | | | | | |
| Sales | | | | | | | |
| External Customers | \$1,514,631 | \$2,520,722 | \$4,035,354 | \$7,865 | \$4,043,229 | \$ – | \$4,043,229 |
| Intersegment transactions or transfers | 7,135 | 288 | 7,433 | 648 | 8,081 | (8,081) | – |
| Net sales | \$1,521,767 | \$2,521,019 | \$4,042,787 | \$8,523 | \$4,051,310 | \$ (8,081) | \$4,043,229 |
| Segment income | \$ 212,451 | \$ 245,166 | \$ 457,617 | \$3,117 | \$ 460,744 | \$ (801) | \$ 459,942 |

Note 1: “Others” which includes the Company’s business of solar power, elder care facilities and insurance agent, does not qualify as a reportable operating segment.

Note 2: Adjustment for segment income is the reduction of income recognized between reportable operating segments.

Note 3: Segment income corresponds to gross profit in the consolidated statement of income.

| Year ended March 31, 2018 | | | | | | | |
|--|-------------------------------|----------|----------|--------|----------|-------------|--------------|
| | Reportable operating segments | | | Others | Total | Adjustments | Consolidated |
| | Civil | Building | Total | | | | |
| | (Millions of yen) | | | | | | |
| Sales | | | | | | | |
| External Customers | ¥161,704 | ¥254,787 | ¥416,492 | ¥817 | ¥417,310 | ¥ – | ¥417,310 |
| Intersegment transactions or transfers | 1,478 | 1 | 1,479 | 91 | 1,570 | (1,570) | – |
| Net sales | ¥163,183 | ¥254,788 | ¥417,972 | ¥909 | ¥418,881 | ¥(1,570) | ¥417,310 |
| Segment income | ¥ 23,693 | ¥ 27,197 | ¥ 50,891 | ¥322 | ¥ 51,213 | ¥ (156) | ¥ 51,057 |

Note 1: “Others” which includes the Company’s business of solar power, elder care facilities and insurance agent, does not qualify as a reportable operating segment.

Note 2: Adjustment for segment income is the reduction of income recognized between reportable operating segments.

Note 3: Segment income corresponds to gross profit in the consolidated statement of income.

Related Information

For the year ended March 31, 2019

(a) Product and service information

See “Segment income, segment assets and other items for reportable segments.”

(b) Geographical segment information

(1) Sales

| Year ended March 31, 2019 | | | | | | | |
|---------------------------|---------|--------|----------|-----------------------------|-----------|----------|-------------|
| Japan | Asia | Others | Total | Japan | Asia | Others | Total |
| (Millions of yen) | | | | (Thousands of U.S. dollars) | | | |
| ¥384,728 | ¥55,324 | ¥8,706 | ¥448,758 | \$3,466,330 | \$498,459 | \$78,439 | \$4,043,229 |

Notes: Geographical segments are determined based on the country/region of domicile of customers.

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2019.

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2019.

For the year ended March 31, 2018

(a) Product and service information

See “Segment income, segment assets and other items for reportable segments.”

(b) Geographical segment information

(1) Sales

| Year ended March 31, 2018 | | | |
|---------------------------|---------|--------|----------|
| Japan | Asia | Others | Total |
| (Millions of yen) | | | |
| ¥358,797 | ¥54,123 | ¥4,389 | ¥417,310 |

Notes: Geographical segments are determined based on the country/region of domicile of customers.

Related Information (continued)

(b) Geographical segment information (continued)

(2) Tangible fixed assets

Geographical segment information on tangible fixed assets has been omitted as the amount of tangible fixed assets in Japan constituted over 90% of total as of March 31, 2018.

(c) Major customer information

Information on major customers has been omitted as there were no sales to a single customer constituting over 10% of net sales for the year ended March 31, 2018.

Losses on impairment by reportable segment

For the year ended March 31, 2019, ¥794 million (\$7,153 thousand) impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥794 million (\$7,153 thousand).

Note 2: The impairment loss was not allocated to operating segments.

For the year ended March 31, 2018, ¥581 million impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥568 million and assets for business of ¥13 million.

Note 2: The impairment loss was not allocated to operating segments.

Amortization of goodwill and unamortized balance by reportable segment

For the year ended March 31, 2019 and 2018, there were no amortization and unamortized balance of goodwill by reportable segment.

Gain on negative goodwill by reportable segment

For the years ended March 31, 2019 and 2018, there were no gain on negative goodwill by reportable segment.

17. Related Party Transactions

Related party transaction

Transactions with affiliates for the year ended March 31, 2019 were summarized as follows:

| Year ended March 31, 2019 | | | | | | |
|---|--------------------|--|---|-----------------------------|---|---------------------------|
| | Capital investment | Number of voting shares held as a percentage of voting shares issued | Nature of transaction | Total amount of transaction | Balance sheet account | Balance at March 31, 2019 |
| <i>(Millions of yen)</i> | | | | | | |
| Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business) | ¥10 | 30.0% | Long-term non operating accounts receivable | ¥— | Long-term non operating accounts receivable | ¥2,918 |
| | | | Long-term accounts payable | ¥— | Long-term accounts payable | ¥2,339 |
| Year ended March 31, 2019 | | | | | | |
| | Capital investment | Number of voting shares held as a percentage of voting shares issued | Nature of transaction | Total amount of transaction | Balance sheet account | Balance at March 31, 2019 |
| <i>(Thousands of U.S. dollars)</i> | | | | | | |
| Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business) | \$90 | 30.0% | Long-term non operating accounts receivable | \$— | Long-term non operating accounts receivable | \$26,290 |
| | | | Long-term accounts payable | \$— | Long-term accounts payable | \$21,073 |

Note 1: Total amount of transaction represents the amount of a claim for damages from Yoshiikikaku Co., Ltd. and the amount of guarantee for financial institution.

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,889 million (\$26,029 thousand).

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2019

Related party transaction (continued)

Transactions with affiliates for the year ended March 31, 2018 were summarized as follows:

| Year ended March 31, 2018 | | | | | |
|---|--|-----------------------|---|---|---------------------------|
| Capital investment | Number of voting shares held as a percentage of voting shares issued | Nature of transaction | Total amount of transaction | Balance sheet account | Balance at March 31, 2018 |
| <i>(Millions of yen)</i> | | | | | |
| Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business) | ¥10 | 30.0% | Long-term non operating accounts receivable | Long-term non operating accounts receivable | ¥3,158 |
| | | | Long-term accounts payable | Long-term accounts payable | ¥2,579 |

Note 1: Total amount of transaction represents the amount of a claim for damages from Yoshiikikaku Co., Ltd. and the amount of guarantee for financial institution.

Note 2: Allowance for above long-term non operating accounts receivable was recognized in the amount of ¥2,843 million.

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2018

18. Per Share Information

Net assets and basic profit per share as of and for the years ended March 31, 2019 and 2018 were as follows:

| | 2019 | 2018 | 2019 |
|----------------------|--------------|---------|-----------------------|
| | <i>(Yen)</i> | | <i>(U.S. dollars)</i> |
| Net assets per share | ¥564.19 | ¥467.65 | \$5.083 |
| Profit per share | 117.03 | 127.48 | 1.054 |

Note 1: Profit per share – diluted was omitted as there were no diluted share for the year ended March 31, 2019 and 2018.

Note 2: The Company executed the consolidation of shares at the ratio of 5 shares into 1 share effective from October 1, 2017. Net assets per share and Profit per share are recalculated on the assumption that the consolidation of shares executed at the beginning of the year ended March 31, 2018.

The basis of calculation for net assets per share at March 31, 2019 and 2018 were as follows:

| | As of March 31, | | |
|---|------------------------------|-------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Total net assets | ¥97,953 | ¥82,852 | \$882,538 |
| Amounts deducted from total net assets | 7,357 | 6,840 | 66,285 |
| [Including non-controlling interests] | [7,357] | [6,840] | [66,285] |
| Total net assets attributable to common stock | ¥90,596 | ¥76,012 | \$816,253 |
| | <i>(Thousands of shares)</i> | | |
| Number of shares of common stock used to determine net assets per share | 160,579 | 162,541 | |

The basis for calculating basic profit per share – based and profit per share – diluted for the years ended March 31, 2019 and 2018 were as follows:

| | Years ended March 31, | | |
|---|------------------------------|-------------|------------------------------------|
| | 2019 | 2018 | 2019 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Profit per share – basic: | | | |
| Profit attributable to owners of parent | ¥18,828 | ¥20,723 | \$169,636 |
| Amount not available to common shareholders | — | — | — |
| Profit attributable to owners of parent per share – basic | ¥18,828 | ¥20,723 | \$169,636 |
| | <i>(Thousands of shares)</i> | | |
| Average number of shares of common stock outstanding | 160,886 | 162,560 | |

19. Subsequent Event

Stock Repurchase

At the meeting of the Board of Directors held on May 10, 2019, the Company resolved to repurchase its stock in accordance with Article 156 of the Company Act of Japan, as applied pursuant to paragraph 3 of Article 165 of the Companies Act of Japan.

(a) Reason for repurchase of treasury stock

To improve capital efficiency and to engage flexible capital policies in response to changes in management environment.

| | |
|--|--|
| (b) Details of repurchase | |
| (1) Class of share | Common stock of the Company |
| (2) Total number of shares of common stock to be repurchased | Up to 800,000 shares (0.50% of the total number of shares of common stock outstanding excluding treasury stock) |
| (3) Total amount | Up to 500,000,000 yen |
| (4) Period | From May 13, 2019 to September 30, 2019 |
| (5) Repurchase method | Auction market on Tokyo Stock Exchange |
| (Reference) | |
| Result of repurchase | |
| (1) Class of share | Common stock of the Company |
| (2) Total number of shares of common stock to be repurchased | 800,000 shares |
| (3) Total amount | 497,082,300 yen |
| (4) Period | From May 13, 2019 to June 10, 2019 (contract basis) |
| (5) Repurchase method | Auction market on Tokyo Stock Exchange |

20. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2019 and 2018 were summarized as follows:

| | As of March 31, | | |
|---|-------------------|--------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Short-term bank loans (at weighted-average interest rates of 4.8% at 2019 and 4.5% at 2018) | ¥ 266 | ¥ 483 | \$ 2,396 |
| Deposits from employees (at interest rates of 1.0% at 2019 and 1.0% at 2018) | ¥2,982 | ¥2,714 | \$26,867 |

Long-term debt at March 31, 2019 and 2018 were summarized as follows:

| | As of March 31, | | |
|---|-------------------|---------|-----------------------------|
| | 2019 | 2018 | 2019 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Debt with collateral (at weighted-average interest rates of 2.5% at 2019 and 2.5% at 2018) | ¥ 103 | ¥ 115 | \$ 928 |
| Debt without collateral (at weighted-average interest rates of 1.4% at 2019 and 1.2% at 2018) | 31,250 | 23,525 | 281,556 |
| Lease obligations | 1,037 | 956 | 9,343 |
| Current portion (excluding lease obligations) | (1,511) | (2,286) | (13,613) |
| Current portion of lease obligations | (350) | (392) | (3,153) |

The aggregate annual maturities of long-term debt subsequent to March 31, 2019 were summarized as follows:

| <u>Year ending March 31,</u> | <u>(Millions of yen)</u> | <u>(Thousands of U.S. dollars)</u> |
|------------------------------|------------------------------|--|
| 2020 | ¥ 1,511 | \$ 13,613 |
| 2021 | 11,511 | 103,712 |
| 2022 | 6,012 | 54,167 |
| 2023 | 512 | 4,613 |
| 2024 | 9,262 | 83,448 |
| 2025 and thereafter | 2,543 | 22,911 |
| | <u>¥31,353</u> | <u>\$282,484</u> |

The aggregate annual maturities of lease obligations subsequent to March 31, 2019 were summarized as follows:

| <u>Year ending March 31,</u> | <u>(Millions of yen)</u> | <u>(Thousands of U.S. dollars)</u> |
|------------------------------|------------------------------|--|
| 2020 | ¥ 350 | \$3,153 |
| 2021 | 285 | 2,567 |
| 2022 | 222 | 2,000 |
| 2023 | 136 | 1,225 |
| 2024 | 40 | 360 |
| 2025 and thereafter | 0 | 0 |
| | <u>¥1,037</u> | <u>\$9,343</u> |

Independent Auditor's Report

The Board of Directors
Sumitomo Mitsui Construction Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young (Japan) LLC

June 27, 2019
Tokyo, Japan

Third Party Opinion

Opinion provider: **Masahiko Uomori**

Former Auditor, RIKEN, Japan
Former Professor, Shibaura Institute of Technology Graduate School
President, NPO Peet-Greening Association
Executive Director, Center for Collaborative Interdisciplinary Sciences
Family conciliation commissioner, Tokyo Family Court
Author of *Nihon no gijutsu to kokoro*
(Japanese Technology and Spirit), Maruzen
Sotan no kagaku (Science of Peet Greening), Waseda University Press



With one year left before the Tokyo Olympic and Paralympic Games, construction of game venues is in the final stage. The International Olympic Committee expressed admiration for the incomparably smooth progress of the construction in relation to other host countries. That seems to prove the high level of Japan's construction technologies and schedule management, which is something the construction industry can be proud of.

Characteristics of This Report

- The volume of text per page was reduced to make the entire report easier to read.
- The report communicates that the company is making concerted efforts under the leadership of the president to achieve the international targets, the Sustainable Development Goals (SDGs), by 2030.
- Vision 2030 described in the president's message clarifies the Sumitomo Mitsui Construction Group's vision of building infrastructure for people everywhere.
- The report covers an opinion from an external auditor as I requested last year. I find the comment, coming from a multifaceted perspective, very positive. I hope that opinions from external directors, which are also important for stakeholders, will also be covered.
- Divisions and their business are explained very precisely.

Requests for Next Year's Report

- The report explains technological strategy, ICT strategy and human resource strategy to support growth. How these strategies are connected to the strategies of each division and business is important. From next fiscal year, I hope the report will cover how each division uses these strategies and tactics.

Aspects to Be Continued or Promoted

- The principle of the SMile Production System—To bring smiles to all construction sites—has been introduced to the development of the next-generation construction production system. The principle is easy to understand not only for those working in the field but also for stakeholders. I hope it will be promoted to achieve zero industrial accidents.
- The report covers project managers' comments as messages from persons in charge of, or related to, the field from each division. Authentic voices from managers working on the front lines resonate with readers. There could be more of this coverage.
- Regarding the human resource (=human asset) strategy, considerable space is devoted to the article titled "Diverse Human Resource Capabilities Creating New Value," which introduces a diverse range of people at different divisions and departments as the source of creation of social value and corporate value. It not only expresses the high level of quality of Sumitomo Mitsui Construction but also helps gain stakeholders' trust and secure excellent human resources.

Response to Third Party Opinion

I am grateful that Mr. Uomori has provided us with valuable opinions from a steady perspective every year. I believe he recognized, to some extent, the improvements we made based on what he has pointed out, including the entire layout and readability, the composition of information about each division and messages from an external auditor, employees and personnel in the field.

As seen in the rise of ESG investment, businesses of today are required to actively provide non-financial information. In response to his opinions, including his suggestion as to connecting foundational strategies to business strategies, we will make efforts to communicate our group's initiatives for addressing social issues and improving corporate value to stakeholders in an easier-to-understand manner. I appreciate Mr. Uomori's continued guidance.

Shigetoshi Kondo

Director
Senior Managing Executive Officer
Officer in charge of Sustainability Promotion Department

Corporate Profile (as of June 30, 2019)

| | |
|-----------------------------|---|
| Company Name | Sumitomo Mitsui Construction Co., Ltd. |
| Founded | October 14, 1941 |
| Capital | 12 billion yen |
| Head Office | 2-1-6 Tsukuda, Chuo-ku, Tokyo, 104-0051, Japan |
| Representative | Hideo Arai, Representative Director, President & CEO |
| Business Description | Design/construction of civil engineering, building construction and prestressed concrete construction, and related business |
| Number of Employees | Consolidated: 4,560 Unconsolidated: 2,733 (as of March 31, 2019) |

<Key Offices>

| | | | |
|---|--|--|--|
| Technical Research Institute (Nagareyama City, Chiba Prefecture) | Tokyo Civil Engineering Branch (Chuo-ku, Tokyo) | Chubu Branch (Naka-ku, Nagoya City) | [Offices outside Japan] Manila (Philippines) |
| | Tokyo Building Construction Branch (Chuo-ku, Tokyo) | Osaka Branch (Chuo-ku, Osaka City) | Guam (U.S.A.) |
| [Branches] | International Division (Chuo-ku, Tokyo) | Hiroshima Branch (Naka-ku, Hiroshima City) | Hanoi (Vietnam) |
| Hokkaido Branch (Chuo-ku, Sapporo City) | Yokohama Branch (Kanagawa-ku, Yokohama City) | Shikoku Branch (Niihama City, Ehime Prefecture) | Singapore (Singapore) |
| Tohoku Branch (Aoba-ku, Sendai City) | Shizuoka Branch (Aoi-ku, Shizuoka City) | Kyushu Branch (Hakata-ku, Fukuoka City) | Jakarta (Indonesia) |
| Eastern Kanto Branch (Mihama-ku, Chiba City) | | | Bangkok (Thailand) |
| | | | Yangon (Myanmar) |
| | | | Phnom Penh (Cambodia) |

Stock Data (as of March 31, 2019)

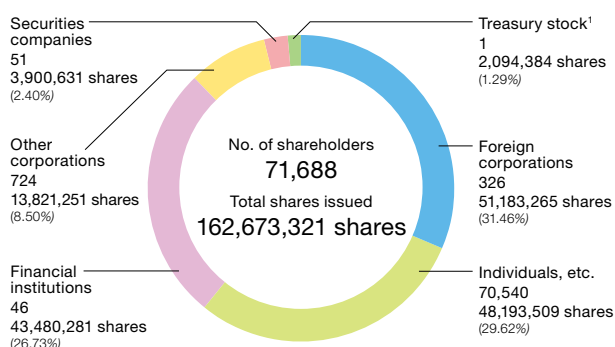
Stock

| | |
|---|---|
| Securities Code | 1821 |
| Listed Stock Exchange | 1st section of the Tokyo Stock Exchange |
| Share Unit Number | 100 shares |
| Total Number of Authorized Shares | 533,892,994 shares |
| Total Number of Shares Issued (including treasury stock) | 162,673,321 shares |
| Number of Shareholders | 71,688 persons |

Major Shareholders

| Rank | Shareholder | No. of shares owned (1,000 shares) | Shareholding ratio ² |
|------|---|---------------------------------------|---------------------------------|
| 1 | Japan Trustee Services Bank, Ltd. (trust account) | 15,060 | 9.37% |
| 2 | The Master Trust Bank of Japan, Ltd. (trust account) | 9,378 | 5.84% |
| 3 | Mitsui Fudosan Co., Ltd. | 5,397 | 3.36% |
| 4 | STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS-UNITED KINGDOM | 3,935 | 2.45% |
| 5 | Sumitomo Realty & Development Co., Ltd. | 3,427 | 2.13% |
| 6 | Japan Trustee Services Bank, Ltd. (trust account 5) | 3,164 | 1.97% |
| 7 | Japan Trustee Services Bank, Ltd. (trust account 9) | 2,970 | 1.85% |
| 8 | STATE STREET BANK AND TRUST COMPANY 505001 | 2,937 | 1.82% |
| 9 | NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15.315 PCT NON TREATY ACCOUNT | 2,838 | 1.76% |
| 10 | JUNIPER | 2,574 | 1.60% |

Shareholder Composition

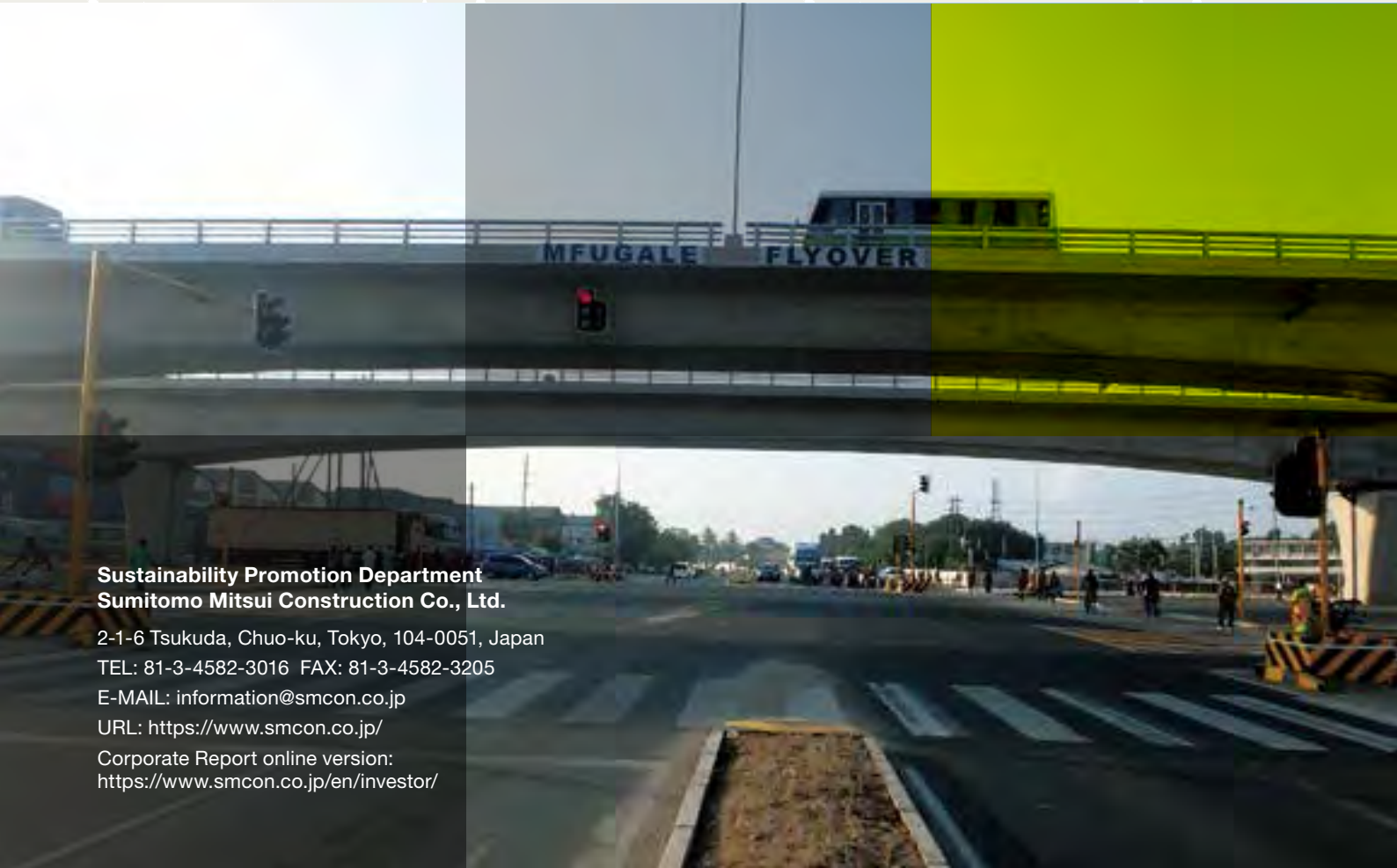


1 Including 80 shares whose transfer was forgotten

2 In calculating the shareholding ratio, treasury stock is excluded from the total number of shares issued.



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



**Sustainability Promotion Department
Sumitomo Mitsui Construction Co., Ltd.**

2-1-6 Tsukuda, Chuo-ku, Tokyo, 104-0051, Japan

TEL: 81-3-4582-3016 FAX: 81-3-4582-3205

E-MAIL: information@smcon.co.jp

URL: <https://www.smcon.co.jp/>

Corporate Report online version:

<https://www.smcon.co.jp/en/investor/>