



 SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.



 SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.

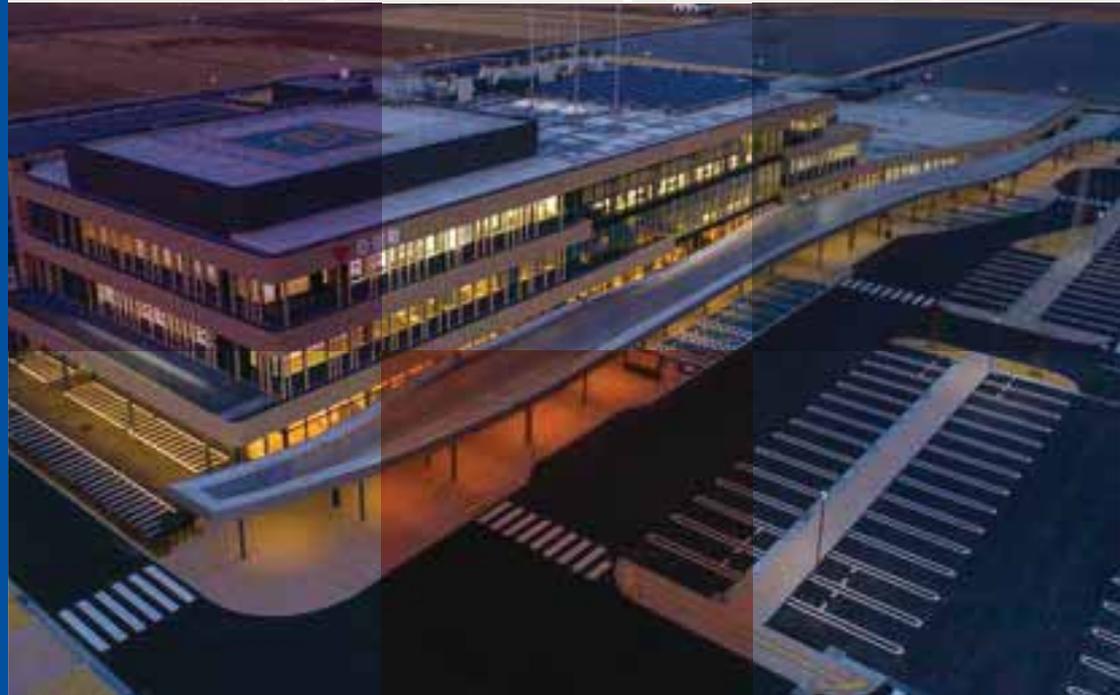
Sumitomo Mitsui Construction

Corporate Report 2020



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/>



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.

Planned Construction Project for Urban Expressway in Hanoi City, Vietnam (Mai Dich to South Thang Long Section)

Table of Contents

| | | |
|--------------------------------------|--|---|
| What Sumitomo Mitsui Construction Is | 3 | Corporate Principles and Group Vision |
| | 5 | History |
| | 7 | Key Projects Completed in Fiscal 2019 |
| | 9 | Business of Sumitomo Mitsui Construction |
| To Realize the Vision 2030 | 11 | Message from the President |
| | 17 | Financial Review |
| | 19 | Value Creation Stories |
| | 21 | Efforts for Sustainability |
| Mid-term Management Plan | 25 | Progress with the Mid-term Management Plan (2019–2021) |
| | 27 | Special Feature 1: Change the construction process |
| | 29 | Special Feature 2: Enhance overseas business |
| Business Strategy | 31 | Civil Engineering |
| | 33 | Building Construction |
| | 35 | Overseas Business |
| | 37 | New Business & Construction Peripheral Business |
| Foundations to Support Growth | 39 | Technological Strategy |
| | 41 | ICT Strategy |
| | 43 | Human Resource (=Human Asset) Strategy |
| | 45 | Establishing a Safety Culture and Achieving Supreme Quality Assurance |
| | 47 | Group Companies Supporting Growth |
| | 49 | List of Officers |
| | 51 | Corporate Governance |
| | 54 | Internal Control/Compliance/Risk Management |
| | 57 | Special Feature 3: Respond to COVID-19 pandemic |
| 59 | Tripartite Discussion among External Directors | |
| Data Section | 61 | Summary of Financial Statements (Excerpts from Annual Report) |
| | 117 | Third Party Opinion |
| | 118 | Corporate Profile |

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, 2019 to March 31, 2020 (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 2020

About the Web Edition

The print edition (PDF) is published on the Internet. Also, there is a questionnaire in the web edition. We ask you to provide us with your thoughts and opinions so that we can use them as references for future reports.
<https://www.smcon.co.jp/en/investor/>

Front cover (top): Shin-Meishin Expressway Anrakugawa Bridge (Mie Prefecture)
Front cover (bottom): Wataricho New Government Office/Health and Welfare Center (Miyagi Prefecture)

Back cover (top): Research and Training Complex at Faculty of Agriculture, University of Jaffna (Sri Lanka)

Back cover (bottom): Agat-Santa Rita Wastewater Treatment Plant (Guam, United States)

Corporate Principles and Group Vision

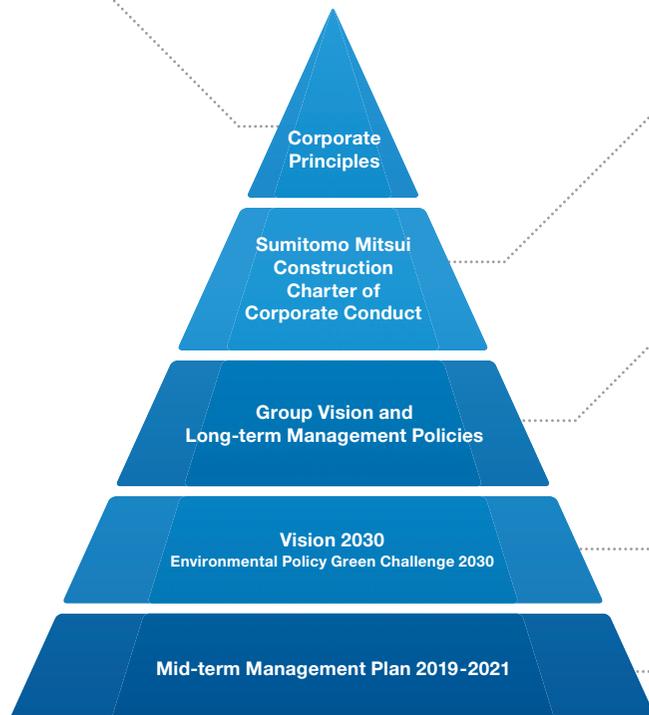
Corporate Principles

| | |
|---|--|
| Pursuit of Client Satisfaction | We continue to innovate our technologies and cultivate creativity to provide high quality construction works and services in response to the needs and trust of clients and the society. |
| Enhancement of Shareholder Value | We make sustainable business development by thoroughly efficient management and maintaining profitability to boost the shareholder value along with the corporate value. |
| Respect for Employees' Vitality | We create an open-minded and rewarding company where the employees can fully exercise their ability and individuality. |
| Social Emphasis | We practice fair corporate activities and aim to become a good corporate citizen which the society can trust. |
| Contribution to Global Environment | We constantly seek to be an eco and human friendly contractor and also value harmony between living environment and nature. |

Sumitomo Mitsui Construction Charter of Corporate Conduct

- (Sustainable economic growth and the resolution of social issues)** Develop and provide socially beneficial and safe construction works and solutions through innovation, and strive for sustainable economic growth and the resolution of social issues.
- (Fair disclosure of information and constructive dialogue with stakeholders)** Disclose corporate information actively, effectively and fairly and engage in constructive dialogue with a wide range of stakeholders, with a purpose of enhancing corporate value.
- (Reform of work practices and enhancement of workplace environments)** Realize work practices that will improve the capability of employees and that respect their diversity, character, and personality. Also, provide safe and healthy working environments.
- (Respect for human rights)** Respect human rights and strive to be a company that values people.
- (Fair business practices)** Raise awareness of compliance with laws, social norms, international rules and corporate ethics, and conduct fair, transparent, free competition and appropriate transactions.
- (Involvement in community and contribution to its development)** Recognize the need to contribute to the sound and sustainable development of society, strive to promote social contribution activities, and strive to be a company that is in harmony with society.
- (Engagement in environmental issues)** Recognize the need to contribute to the environment on a global scale, and actively work on environmental conservation, maintenance and improvement.
- (Role of top management)** Top management shall recognize that it is their role to realize the spirit of this Charter, build effective governance systems for the conduct of business, and strive to raise awareness of the Charter's spirit within the corporation and the entire corporate group to achieve its full compliance. Top management should also encourage behavior based on the principles of this Charter within the corporation's supply chain. In the event that the corporation violates the spirit of this Charter and loses the trust of society, top management shall proactively take responsibility to respond to the situation, including resolving the problem, investigating the causes, and preventing the problem from recurring.

Positioning of Principles and Management Plan



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 | | Sumitomo Construction | |
|---------------------|---|-----------------------|--|
| 1887 | Nishimoto-Gumi is founded by Kenjiro Nishimoto in Wakayama. | 1876 | Civil Division is founded from Besshi Copper Mine's civil engineering section. |
| 1941 | Nishimoto-Gumi Co., Ltd. is established and head office is relocated to Tokyo. | 1950 | Besshi Construction Co., Ltd. is founded. |
| 1945 | Renamed Mitsui Construction Industry Co., Ltd. with the capital participation of Mitsui Fudosan Co., Ltd. | 1957 | Head office is relocated from Niihama to Tokyo. |
| 1950 | Refurbishes Hibiya Sanshin Bldg. in Japan's first joint venture construction project. | 1959 | Completes Arashiyama Bridge, first PC bridge using Dywidag method in Japan. 3 |
| 1952 | Renamed Mitsui Construction Co., Ltd. | 1962 | Sumitomo Construction Co., Ltd. is founded through merger with Shizuoka-based Katsuro-Gumi. |
| 1960 | Starts construction of Mitsui Annex No. 3, representing first use of curtain wall method in Japan. | 1969 | Completes Expo East Gate Bridge, Japan's first PC cable-stayed bridge. |
| 1968 | Completes Mitsui Kasumigaseki Bldg., Japan's first super high-rise building. | 1973 | Completes Tha Chang Bridge, Thailand's first PC bridge. |
| 1971 | Completes 17-story Mita Tsunamachi Park Mansion, then the highest private-sector collective housing complex in Japan. | 1974 | Completes Hokawazu Bridge, world's first arch bridge using truss cantilever erection method. 4 |
| 1974 | Completes Japan's highest building, the Shinjuku Mitsui Bldg. | 1980 | Completes New Nyali Bridge, awarded first OCAJ prize, in Kenya. |
| 1981 | Crown Prince and Princess visit Sri Lankan Parliament Building construction site. 1 | 1987 | Completes OILES Corporation TC Bldg., Japan's first aseismic building using LRI. |
| 1981 | Receives an order from Oriental Land for theme park construction. | 1989 | Completes Asano Bldg., world's first intermediate floor base isolation building. |
| 1987 | Completes Bell Park City Tower G, the first super high-rise collective housing at over 100 meters high in Japan. 2 | 1991 | Completes Kikko Bridge, world's first three-directional stress ribbon bridge, awarded FIP special prize. |
| 1988 | Completes installation of Japan's largest caisson foundation for anchorage of the Port of Tokyo Connector Bridge (Rainbow Bridge). | 1994 | Completes Odawara Blue Way Bridge, world's first extradosed bridge. Completes TV Shizuoka Media City Bldg., world's first full-scale damped building. |
| 1990 | Completes Tohoku's largest dam, the Sagae Dam. Completes world's first concrete bridge using aramid FRP rods. | 1995 | Advertisement on seismic base isolation & damping methods receives Nikkei AD Award. |
| 1991 | Completes Okawabata River City 21 A, Japan's first full-scale structure made of concrete-filled steel tube columns and steel beams. | 1996 | Completes Yumetsuri Bridge, world's largest stress ribbon bridge. |
| 2001 | Develops Mitsui Flex Tower, a next-generation super high-rise collective housing building. | 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 business ■ Building construction business ■ Overseas business ■ New business & construction peripheral business

2003 Foundation

2004 Seiu 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

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 Chouchu-ohashi (Miyazaki Prefecture)
World's first butterfly web bridge
Received fib Award for Outstanding Concrete Structures

2015 Neak Loeung Bridge (Tsubasa Bridge) (Cambodia)
Appears on the 500 riel note

2015 Nhat Tan Bridge (Vietnam-Japan Friendship Bridge) (Vietnam)
Largest bridge in Southeast Asia

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

2017 Shin-Meishin Expressway Mukogawa Bridge (Hyogo Prefecture)
IABSE (International Association for Bridge and Structural Engineering) Outstanding Structure Award
Awarded Finalist Prize

2019 Development of Vision 2030

2020 Declaration of Globalization

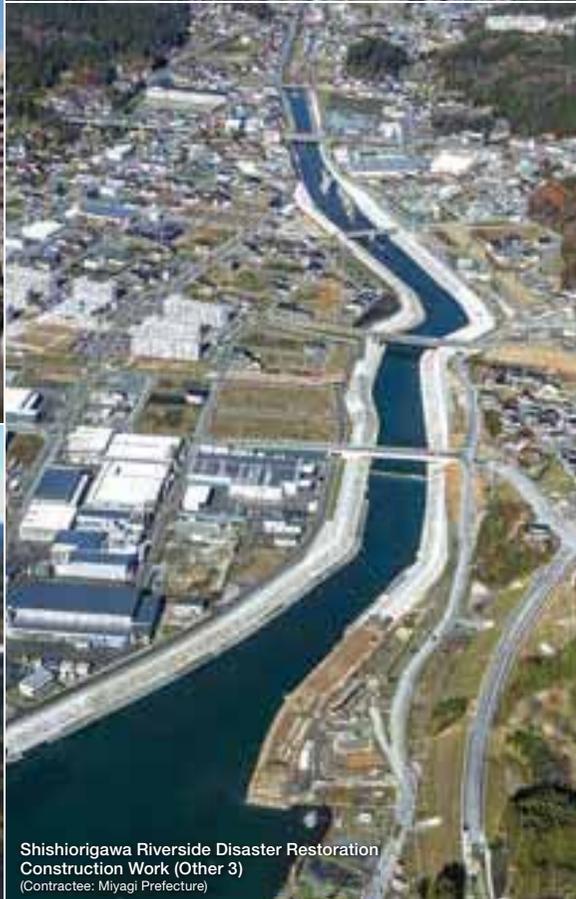
Key Projects Completed in Fiscal 2019



Brillia Tower Ueno Ikenohata
(Contractee: Tokyo Tatemono Co., Ltd.)



Yangon Technological University School Building
(Contractee: Ministry of Science and Technology, Republic of the Union of Myanmar)



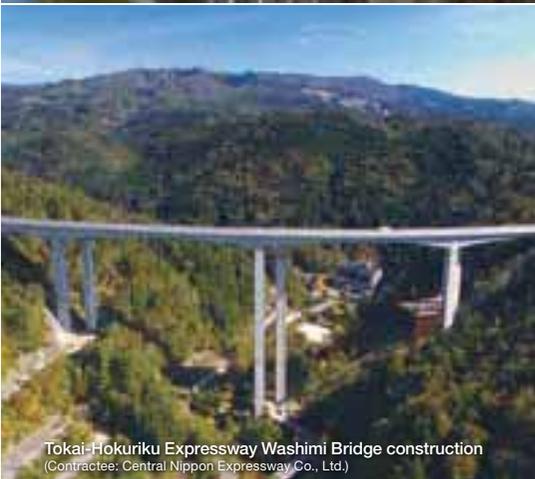
Shishiorigawa Riverside Disaster Restoration Construction Work (Other 3)
(Contractee: Miyagi Prefecture)



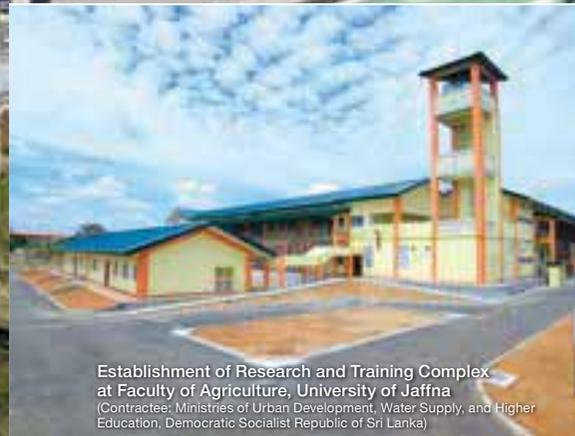
City House Otsuka
(Contractee: Sumitomo Realty & Development Co., Ltd.)



Shin-Meishin Expressway Yobaisan Bridge (PC superstructure) construction
(Contractee: West Nippon Expressway Co., Ltd.)



Tokai-Hokuriku Expressway Washimi Bridge construction
(Contractee: Central Nippon Expressway Co., Ltd.)



Establishment of Research and Training Complex at Faculty of Agriculture, University of Jaffna
(Contractee: Ministries of Urban Development, Water Supply, and Higher Education, Democratic Socialist Republic of Sri Lanka)



Mitsui Garden Hotel Sapporo West
(Contractee: Mitsui Fudosan Co., Ltd.)

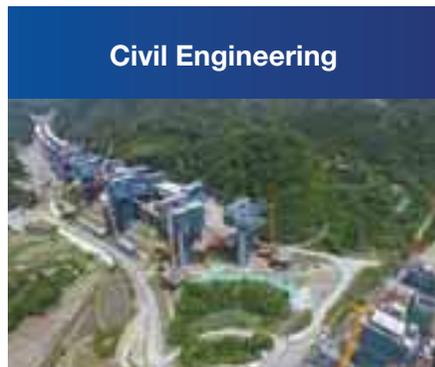
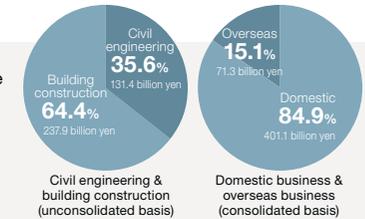
Business of Sumitomo Mitsui Construction

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.

Fiscal 2019 Results

Amount of completed work increased by 5.5% from the previous fiscal year to 369.3 billion yen. The amount of orders in hand as of March 31, 2020, was 707.7 billion yen, continuing to maintain a high-level balance. Overseas sales were 71.3 billion yen, accounting for 15% of consolidated sales.

Percentage in Sales



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



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



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. To become "A construction company that globally supports and connects 'People' and 'Communities' with new value" as set forth in Vision 2030, we will offer proposals that best fit the local environment based on the cutting-edge technologies and optimum process management that we developed in Japan, 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



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.

Among these, we are particularly focusing on projects that address social issues and renewable energy projects. For example, these include participation in the operation of public facilities using private sector expertise and renewable energy using unused land or reservoirs. We provide various solutions combining our accumulated expertise and new ideas.

- Main business areas
- Renewable Energy Projects
 - Sales of floating solar power generation system
 - PPP/PFI business
 - Advanced engineering



Hideo Arai

Representative Director
President & CEO

We Will Accelerate our Transformation by Continuing to Take on Challenges and Improve Long-Term Corporate Value

Vision 2030

In the first half of the fiscal year, Japan moved from the Heisei era into the new era of Reiwa. The country's economy saw an underlying tone of gradual restoration, driven by improved consumer spending, employment and earnings environment. However, the also year saw record-breaking severe rainfalls and large typhoons that caused severe damage throughout the country, exposing vulnerabilities in urban infrastructure. Furthermore, society was changed drastically due to the impact of the global spread of COVID-19. A declaration of a state of emergency was made for the entirety of Japan, and the country's economy faced an exceedingly severe downturn. Following the end of the state of emergency, economic activity is moving toward resuming gradually. However, we are still in highly unpredictable circumstances amidst a sense of uncertainty for the future.

Under such circumstances, we must take measures for a business strategy that is focused on social conditions that are arising due to coexistence with COVID-19 and the new

normal. The Group has set our target in our Vision 2030: a construction company that globally supports and connects "People" and "Communities" with new value. This crisis presents an opportunity to greatly change the lifestyles of "People" and transform the state of things in "Communities." For example, the shape of residences is expected to change through the diversification of workstyles, such as the popularization of remote working. Also, expanding health care facilities is an urgent need. The establishment of urban infrastructure for this kind of transformation of "Communities" is essential. And one of the most important issues for Japan is to reinforce existing infrastructure in order to protect lives and property from the natural disasters that have been occurring frequently in recent years. I believe that using our Group's existing technology to respond in a dependable manner to these varied social needs is an important process that will lead to the achievement of the Company's vision for the future.

About the Company's Response to the COVID-19 Crisis

In responding to the spread of COVID-19, we have taken measures appropriate to the state of affairs ever since the time that the level of danger became apparent. Specifically, when the declaration of a state of emergency was issued on April 7, we set up an Emergency Countermeasures Headquarters of which I serve as the supervisor, and further strengthened countermeasures. In concrete terms, we formulated our Basic Policies as follows, with the entire Company taking thorough measures to prevent the spread of infection.

Basic Policies of the SMCC Group

"To protect the lives and livelihoods of employees and officers, their families, and all concerned, we will enforce possible measures to prevent the spread of infection to the maximum, and continue business."

Particularly important to our Group are the construction sites in various locations around the world. Accordingly, in addition to the above Basic Policy, we set the slogan of **"Let's persevere together and overcome COVID-19!"** We also put up information posters at each construction site and thoroughly took detailed measures for employees, partner companies, and all those concerned.

Even after the end of the state of emergency, we are

continuing to take thorough measures. For example, we created our own original face covering designed for droplet control and heatstroke prevention in summer. Its effectiveness was confirmed through verification tests such as a particulate visualization system. We then distributed them to all employees at our construction sites as well as those at partner companies. Also, we made the pattern paper and instructions to make the covering available to the public to that many people can use it.

These efforts have been successful. As of the end of July 2020, we have been able to continue business without having to shut down an office or construction site due to internal spread of the virus.

On the other hand, in society as a whole, there are those who are working in industries that have been forced to suspend operations for a period of time, and those who are carrying out social missions in severe environments, such as health care professionals. It is our intent to support those who are confronting a difficult situation due to the COVID-19 crisis. Therefore, we are soliciting contributions to our in-house "matching gift" donation system,* and made donations to each relevant place.

*Matching gift: A system in which a company or organization solicits donations or money for a social contribution, and the company adds to the amount collected to increase the total amount before presenting the donation.

Regarding our Progress with the Mid-term Management Plan (2019–2021)

Looking at the medium- to long-term growth prospects in the domestic construction market, I think that the importance of work to optimize social capital stock under the keywords of "lifestyle diversification," "disaster protection and damage reduction," and "energy and the environment," and of actively taking on challenges overseas will increase much more.

In order to achieve our Group's Vision 2030 amidst these circumstances, we are making efforts under the Mid-term Management Plan 2019–2021 which launched in fiscal 2019. The theme of this Mid-term Management Plan is "Accelerate changes." Currently, we are in a time of great social change. The Group must move faster toward its goal of a "transformation."

The goals of the Mid-term Management Plan 2019–2021 are to work on SDGs as social issues through our business and further accelerate enhancement of our business competitiveness and creation of corporate value. We have set three basic policies and determined concrete numerical targets for the plan's final year of 2021.

Basic policies for the Mid-term Management Plan 2019–2021 and Fiscal 2021 targets

1. Change the construction process...Productivity improvement: 10% or higher (from fiscal 2018)
2. Strengthen overseas business...Construction amount from overseas: 100 billion yen
3. Expand business domain...Growth investment (total for the period of operation): 50 billion yen



"Crossing a bridge, strolling about town or spending time with loved ones"

Commitment to building infrastructure to create prosperity for future generations



1. Change the construction process

Fiscal 2021 target: Productivity improvement of 10% or higher (from fiscal 2018)

We made efforts with the digitization of construction production as well as industrialization, primarily with precasting, to develop our next-generation construction production system entitled the SMile Construction System. As a result, productivity in fiscal 2019 improved by 4% over fiscal 2018.

One of our main efforts is the introduction of Robotaras™ at our work sites. Robotaras™ is an automated reinforcing bar assembly production system that uses a robotic arm and is applied in the civil engineering field. Another is SMC-Tunneling series "Automatic de Lining" for application in domestic tunnel work. With these, we are achieving increases in productivity through onsite deployment of ICT.

In building construction, we are promoting labor-saving in construction work through precasting with our superior proprietary SQRIM technology as the focal point. In addition to raising the precast ratio (above-ground frames) of residences, we introduced PATRAC-PM to our group's factories. This manufacturing management system for precast components uses IoT, and is thus promoting

the rationalization of the manufacturing process. Also, we reduced inspections time by half through introducing a bar arrangement inspection system that is one part of our "SMileSite," a construction management system that uses smart devices, to our construction sites.

In fiscal 2020, we are installing the evolved Robotaras™ in other work sites, and have widened the scope to include the manufacture of PC floor slabs with more complicated constructions. Also, in logistics warehouses, where firm demand is forecast, we are making active efforts to roll out our proprietary Mitsui Sumitomo Integrated Composite System. For health care facilities, we are promoting our health care equipment modularization unit, Sukkiri for Pharma. Sukkiri for Pharma is our proprietary technology that achieves shorter construction times through unitization, and can easily respond to future changes.

In these ways, in addition to developing proprietary technologies that adapt to changing social circumstances, we are making active efforts on technological development that is a step ahead of various social paradigm shifts.

2. Strengthen overseas business

Fiscal 2021 target: Orders received outside Japan of 100.0 billion yen

Overseas, we are working to further strengthen the overseas business foundation that we have steadily built ever since our 1971 advance into the Thailand market amidst anticipation for increases in construction demand accompanying the economic growth that is still centered on emerging nations.

However, the suspension of work due to the COVID-19 crisis that has continued since March 2020 has had an impact on overseas business. As a measure to prevent the spread of infection, we are observing the laws and guidelines of each country and thoroughly responding according to the Group's Basic Policies. While some

countries and regions have already restarted economic activities, we are carefully monitoring various circumstances and endeavoring to achieve business continuity.

Looking at our performance in fiscal 2019, overseas orders totaled approximately 77.4 billion yen. We received orders for large-scale projects such as the Jamuna railway bridge (Bangladesh) in the civil engineering field, and a large shopping center (Guam) in the construction business.

In January of 2020, we made our "Declaration of Globalization" based on the Basic Policies of the Mid-term Management Plan. The globalization we are aiming for is more than simply conducting projects overseas. Upon

taking in the unique characteristics of regions everywhere in the world, we aim to offer the value that is needed in each respective area. For that reason, it's important to develop technology and human resources that are accepted all around the world. All company employees are aiming to grow as a "global human resources" that can understand and coexist with various different nationalities, races, religions and senses of values, without losing the will to keep learning.

Our company manages the HDC (Human Resources Development Center), which aims to develop global human resources. The HDC has bases established in the three locations of Japan, the Philippines, and India. They work to develop global human resources through such initiatives as providing all kinds of training and personnel exchanges. Already at each HDC base, employees of various nationalities are studying together and then actively contributing all throughout the world.

We established the Cross Functional Team as a measure to employ foreign national dispatch engineers. In the Bar Arrangement Photograph Cross Workplace Team, approximately 40 foreign nationals from such countries as Myanmar, Mongolia and the Philippines work at the Group's construction sites. Also, we actively accept overseas engineers for domestic training, and many trainees are

learning about Japan's construction technology. Going forward, we will increase places where foreign national engineers can make contributions, such as at construction sites in Japan and elsewhere, and accelerate human resource mobilization globally.

Also, we will further improve global communication by establishing the latest ICT technology. It will likely become an everyday occurrence for all employees to conduct business while communicating throughout the world, overcoming obstacles such as place, time and language with mutual communication through web meeting systems, translation software, and BIM/CIM.*

At construction sites outside of Japan, we have Quality Safety Auditors (QSAs) have started carrying out their activities to contribute to "Achieving supreme quality as early as possible." We are striving to globalize the Group's safety and quality standards through education on the Corporate Principles and the enforcement of QSA inspections.

Our overseas business already has 40 years of history, yet we are further strengthening it through these initiatives. Based on our awareness of this business as a driver of the Group's growth, we are striving to strengthen human resource development, environmental maintenance, and technical ability.

* BIM/CIM: Three-dimensional technology for buildings and structures

3. Expand business domain

Fiscal 2021 target: Growth investment (total for the period of operation) of 50 billion yen

To provide diverse services that spread from construction, we will expand new business, including renewable energy business, as well as construction peripheral business. We proactively make the investments necessary to reach that end. We conduct growth investments with the following two aspects.

1. Investments for technological development and human resource and foundations establishment, such as for the use of ICT in construction, cultivating global human resources, and the expansion of the R&D function
2. Investments for the strengthening and expansion of business areas, such as offshore solar power generation projects and the strengthening and expansion of existing business through M&As and alliances

As an investment to expand business areas, in fiscal 2019, we launched an offshore solar power generation Project (2.8 megawatts) in Meimaike Pond in Kagawa prefecture. This is the Company's third renewable energy project, bringing the total scale of power generated to 6.6 megawatts. Going forward, by proactively promoting our company's power generation business, we will contribute to the achievement of a decarbonized society through the expansion of new business areas and measures to cope with climate change (CO₂ emission reduction).

Also, we are aiming for further growth in our core business of bridge construction. In August 2020, we concluded a transfer contract for the acquisition of shares in Mitsui E&S Steel Structures Engineering. Following this share acquisition, steel bridge specialist Mitsui E&S Steel Structures Engineering (which changed its name to Sumitomo Mitsui Construction Steel Structures Engineering as of October 1, 2020) will become a consolidated subsidiary of the Company. Furthermore, PC specialist DPS Bridge Works will be added to the Group as an indirectly owned subsidiary. This M&A has greater significance than simply increasing the Group's share in the bridge construction market. We are expecting various synergistic effects. One is the expansion of opportunities to receive orders for bridge renewal projects that mix PC bridges and steel bridges. Another is the improvement of our comprehensive technical prowess for constructing large-scale hybrid bridges of PC bridges and steel bridges.

In this way, we will make proactive efforts going forward for partnerships through M&As and alliances as well as technological development and human resource cultivation in order to strengthen and expand an earnings base that makes possible the continuous growth of the Group from a mid- to long-term viewpoint.

Achieving SDGs Through Business Activities

The Group strives to contribute to the creation of a sustainable society through incorporating business activities that forcefully pursue the SDGs. For example, we work actively to ensure the long operating life of infrastructure in order to contribute to SDG Goal 11: "Sustainable cities and communities." In fiscal 2019, Dura-Bridge®, a "high-durable non-metal bridge" that uses a new rustproof tension material, was adopted for a bridge domestically in Japan. Also, Sustain-crete, a high-performance concrete that combines characteristics such as low shrinkage, ultra-low heat generation, and ultra-low carbon, was used in PC bridges.

In social contribution activities, several Company employees participated in disaster-area volunteer activities in Iwaki of Fukushima Prefecture, which was damaged by Typhoon Hagibis. We used the momentum to establish the Volunteer Activity Support System, and we assist our employees in their social contribution activities through establishing a system to provide support for activity expenses and give volunteer employees days off.

In April 2020, we revised the Charter of Corporate Conduct to include details regarding our response to the SDGs. Among these revision is "Reform of work practices and enhancement of workplace environments." As part of this, we are taking on the challenge of achieving diverse work styles in response to the COVID-19 crisis. We are creating an environment in which it is easy to work through the adoption of a flex system for those working at construction sites and an office set up where employees are free to change desks that incorporates a work-from-home system.

Also, we plan to specify the important issues (materiality) that are the main causes of various impacts on the Group's business activities.

Based on the Environmental Policy Green Challenge 2030 which we formulated along with the Mid-term Management Plan 2019–2021, we are striving to contribute to realizing a sustainable society by 2030, which is the goal of the SDGs.

In Conclusion

SMCC Group's mission as a comprehensive construction company is to create various infrastructures that support people's lives. We are proud to carry out work through our manufacturing capability that plays a role in forging bonds to the aspirations and people of the future. What is essential to accomplish the mission, I believe, is our Group's corporate culture of faithfulness and sincerity, consideration for the field, and supreme quality. For example, I believe that even should society undergo a major transformation, we will continue to be a necessary company by carefully building

this corporate culture, under which all employees take on their own personal missions.

In conclusion, by making steady progress with the Vision 2030 that our Group aims to achieve, we are diligently striving to further increase our corporate value. As we seek to carry our mission, we humbly ask for your continued guidance and encouragement.

Hideo Arai

Representative Director
President & CEO

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



Financial Review

Shoji Kimijima

Representative Director Executive
Vice President Division Director
Division Director,
Administration Division

Overview of operating performance for fiscal 2019

Individual construction orders received were 338.4 billion yen (a 226.8 billion yen decrease from the previous year), with large-scale construction work acquired in the previous fiscal year. Sales were 472.4 billion yen, (a 23.6 billion yen increase from the previous year) due to the progress of high-level projects in hand. Operating income was 24.8 billion yen (a 4.5 billion yen decrease from the previous year), and ordinary income was 23.9 billion yen (a 5.0 billion yen decrease from the previous year), caused by a decline in gross profit.

Profit attributable to owners of the parent was 15.6 billion yen (down 3.3 billion yen from the previous year) due to a decrease in the burden of income taxes and others.

Overview of financial standing in fiscal 2019

<Assets>

Cash and deposits decreased by 20.8 billion yen, while trade notes receivable, accounts receivable on completed construction contracts and other increased by 33.9 billion yen compared to the end of the previous fiscal year, respectively.

As a result, total assets at the end of the fiscal year were 353.4 billion yen, up 12.6 billion yen from the end of the previous 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 8.2 billion yen from the end of the previous 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 5.8 billion yen. Advances received on construction contracts in progress were down 3.8 billion yen from the end of the previous fiscal year.

As a result, total liabilities at the end of the fiscal year were 251.0 billion yen, up 8.1 billion yen from the end of the previous fiscal year.

<Net assets>

Shareholders' equity increased by 9.5 billion yen from the end of the previous fiscal year due to profit attributable to owners of the parent of 15.6 billion yen, dividend from surplus of 3.9 billion yen, purchase of treasury stock of 1.5 billion yen, and others.

As a result, total net assets at the end of the fiscal year were 102.4 billion yen, an increase of 4.5 billion yen from the end of the previous fiscal year. The capital-to-asset ratio improved 0.5 points from 26.6% at the end of the previous fiscal year to 27.1%.

Overview of cash flows of the current fiscal year

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

Cash flow decreased by 18.0 billion yen due to factors such as an increase in trade receivables and payment of income taxes, despite the inclusion of 23.7 billion yen from profit before income taxes.

<Net cash (used in) investing activities>

Cash flow decreased by 3.4 billion yen due to expenditures for the acquisition of property and equipment.

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

Cash flow increased by 0.8 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 45.8 billion yen (a 20.6 billion yen decrease of funds compared to the end of the previous fiscal year).

Regarding the supply of Group's working capital, we are securing the long-term stable capital in response to increasing capital requirements through syndicate loans comprising several of the major financial institutions with which we have transactions.

Regarding liquidity of funds, the loan balance at the end of the fiscal year was 39.8 billion yen compared to cash and deposits of 53.5 billion yen, meaning we maintained a net cash flow of a 13.7 billion yen. The Group's degree of dependence on borrowing is at a low level, at 11.3% against total net assets. The Japan Credit Rating Agency, Ltd., has assigned the Group a credit rating of A-.

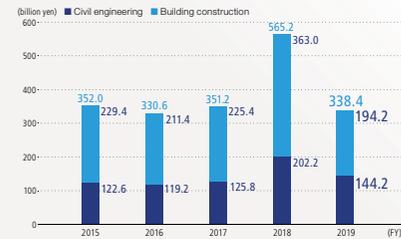
Basic Policy Regarding the Distribution of Profits and Dividends

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 fiscal 2019 was 24 yen per share, decided by comprehensively considering this fiscal's years performance as well as the outlook for the business environment and performance.

Financial Data (consolidated)

Orders received (unconsolidated)



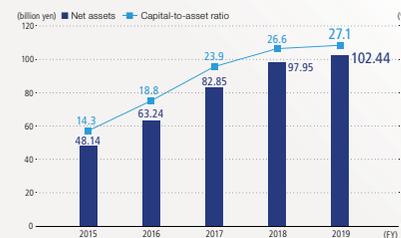
Construction orders received exceeded the full year plan (320.0 billion yen) to reach 338.4 billion yen, despite declining by 226.8 billion yen from the previous fiscal year, partly due to the large-scale projects we received in the previous fiscal year.

Operating income/operating income margin



Operating income was down 4.5 billion yen from the previous fiscal year, to 24.8 billion yen, due to such factors in some of the large-scale projects as lack of progress in improving profitability and the increase of projects costs due to tight construction schedules.

Net assets/capital-to-asset ratio



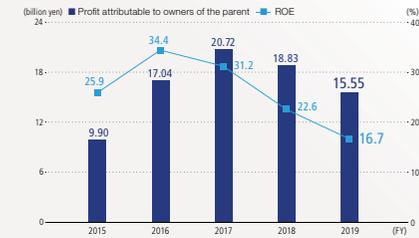
Total net assets and the capital-to-asset ratio were 102.4 billion yen and 27.1%, up 4.5 billion yen and up 0.5 points, respectively, from the end of the previous year.

Net sales



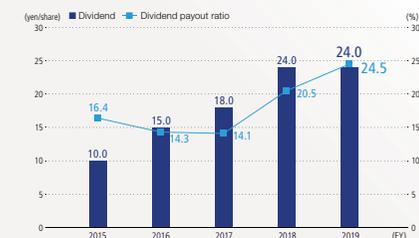
Sales increased to 472.4 billion yen, up 23.6 billion yen from the previous year, due to the execution of high-level projects in hand.

Profit attributable to owners of the parent/ROE



Due to this decline in operating income, profit attributable to owners of the parent was 15.6 billion yen, down 3.3 billion yen from the previous year.

Dividend/dividend payout ratio



Dividend per share at the end of fiscal 2019 was 24 yen (consolidated dividend payout ratio: 24.5%), the same as the previous year.

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

Value Creation Stories



Efforts for Sustainability



Continuous Growth Cycle

Achieving the five items set forth in the Corporate Principles is corporate social responsibility (CSR). It is an essential condition to the continuous growth of our company. Also, we set forth our Charter of Corporate Conduct as a guideline for the actions that should be taken by the Company and its executives and employees in order to achieve the Corporate Principles. We conduct our business activities while striving for co-existence and co-prosperity with society.

We revise the Company's Management Plan in accordance with the management situation and the needs of society at that point in time. The current Mid-term Management Plan 2019–2021 sets forth "promoting measures to achieve the SDGs," and we are enforcing this within the Company. Therefore, we revised the Charter of Corporate Conduct to include responding to the SDGs, bringing it into conformity with the Corporate Governance Code. (P.4)

We are striving to instill our corporate culture. We distributed a credo card including the Corporate Principles, Vision 2030, and Charter of Corporate Conduct to all executives and employees, and they carry this card with them at all times.

Major revisions to the Charter of Corporate Conduct

- Article 1: "Develop and provide socially beneficial and safe construction works and solutions through innovations" was clarified.
- Article 3: "Reform of work practices and enhancement of workplace environments" was clarified.
- Article 4: "Respect for human rights" was made an individual clause.
- Article 8: "Role of top management and implementation of this Charter" was clarified.

Continuous Growth Cycle



CSR Procurement

We believe that efforts from the stage of procuring the labor, materials, and equipment required to offer our Company's construction works and solutions are absolutely essential to carry out CSR. Therefore, based on the spirit of the Corporate Principles, we formulated our CSR Procurement Policy. We ask the companies that supply labor, materials, and equipment to our company to understand and cooperate with the

guidelines. Also, we ask these companies to do the same with their own procurement activities. In this way, we advocate for the expansion of CSR procurement based on our CSR Procurement Policy.

CSR Procurement Policy:
<https://www.smccon.co.jp/company/environment/procurement-policy/>
 (Available in Japanese only)

Contribution to Achieving the SDGs

All executives and employees understand the significance of the SDGs, and act with the awareness that addressing the SDGs is their own issue. We see the creation of a sustainable society and the increase of the Group's corporate value as being interconnected.

We specified six priority targets that have a high affinity with the Group's business from among the 17 goals and 169 targets of the SDGs. Also, we established key performance indicators (KPI) related to the SDGs among the many policies set forth in the Mid-term Management Plan 2019–2021. We manage

progress through the use of a PDCA cycle, and are integrating them with management.

In fiscal 2020, seeking to achieve our Vision 2030, we plan to specify our important issues (materiality) while taking into consideration the specifics of our business and the areas in which we operate. At the same time, we plan to review our KPIs. In conducting these operations, we will refer to all international guidelines regarding the causes of various impacts on the Group's business operations.

Six Priority SDGs and Related KPIs for FY2019

| SDG | Target | FY2019 KPI | FY2019 Results |
|---|---|---|---|
| Goal 5 Gender equality | Percentage of female managers | 2.0% or higher | 1.89% |
| | Percentage of female employees on the major career track among new employees hired as part of regular recruitment | 20% or higher | 16.2% |
| | Percentage of female employees on the major career track among new employees hired as part of midcareer recruitment | 10% or higher | 18.2% |
| Goal 7 Affordable and clean energy | Sales of floating solar power generation system | 60 MW | 7.8 MW |
| Goal 8 Decent work and economic growth | Closure on the second and fourth Saturday of every month | At all sites, in principle* | Civil engineering: 85% Construction (new sites): 82% |
| Goal 9 Industry, innovation and infrastructure | Improvement in the amount of completed work per person | 10% improvement from FY2018 (by FY2021) | 4% improvement from FY2018 |
| Goal 11 Sustainable cities and communities | Application of Dura-Bridge® (see page 40) | Completion of 1 bridge | 1 bridge under construction (as of the end of March 2020) |
| 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 | 21.1 t-CO ₂ /100 million yen |

*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

Exhibiting at SDG Events

February 2020, we had an exhibition booth at Kanagawa SDGs Partner Action Meeting, held at the Pacifico Yokohama Exhibition Center. The Company displayed its efforts to achieve the SDGs. Themes included efforts for increased

durability and operating lives, contributions to a decarbonized society, recycling-oriented society, harmony between society and nature, diversity, CSR, and activities overseas.

Workshop Related to the SDGs

Selected members of the public relations committee from headquarter departments and branches gather once a year for the General Meeting of the Public Relations Committee. In fiscal 2019, they held study groups and workshops on the theme of SDGs. Also, we asked meeting attendees for suggestions on what they could do as a first step towards the SDGs.



Environmental Policy Green Challenge 2030

We are conducting environmental activities based on our Environmental Policy "Green Challenge 2030" to achieve a sustainable society.

Calls for companies to release non-financial information, in particular responses to climate change, are continuing to grow. Strategic efforts related to climate change and resources have become unavoidable for companies. In fiscal 2020, we plan

to reply to the survey on disclosure programs for information related to climate change risks that is being conducted by CDP, an international NGO. Also, we will uncover issues based on the evaluation of our replies and specify a degree of priority. In addition to applying them on our important issues (materiality), we will also reflect them in our environmental policies from the next fiscal year onward.

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"

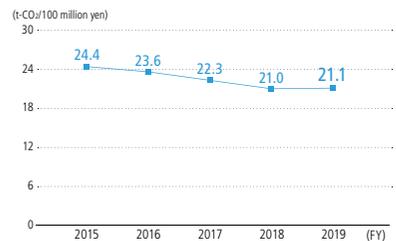


KPIs of "Green Challenge 2030"

- 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

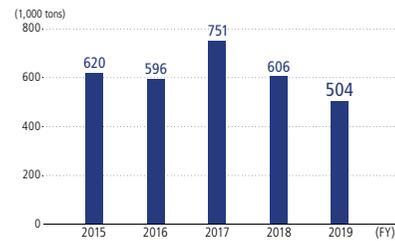
* ESD: Education for Sustainable Development

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 2019 were concrete rubble from demolition work (211,000 tons) and construction sludge, such as drilling mud and waste mud water (162,000 tons).

Initiatives in the 3R

In October 2019, the Koishiwara No. 1 Bridge Construction Project (Kyushu Branch) received the Minister of Land, Infrastructure, Transport and Tourism Award at the 2019 Awards for 3R Promoters.* This award is conferred upon individuals, groups, schools, offices, local public bodies, or others that take the initiative and achieve noteworthy results with the 3R (reduce, reuse, recycle) for the purpose

of promoting such activities. The award was conferred for construction work on the superstructure and substructure of Japan's largest bridge with a continuous beam with a span of 173 meters, executing an upgrade plan, and slimming it down to reduce environmental burden, in addition to proactively promoting various other 3R activities.

*Sponsored by the 3R Suishinkyogikai

Promoting Education for Sustainable Development (ESD)

In November 2019, we held the Fifth Public Lecture at the head office. The regularly held event is intended to facilitate exchanges among local residents and to contribute to regional activity. This time, we received the cooperation of the Chuo-ku Tsukuda Child Welfare Facility. More than 50 participants enjoyed content that was designed so that elementary school students could understand and participate as well. The theme was "Let's think about plastic waste in the oceans!" Going forward, we will continue holding this lecture for the purpose of developing the partnership between local residents and the Company.



Promoting Activities to Contribute to Society

Participating in Volunteer Activities in Areas Damaged by Typhoon Hagibis

From December 4 to 6, 2019, 13 Company employees participated in volunteer activities to support the disaster-stricken area of Iwaki in Fukushima Prefecture, which was damaged by Typhoon Hagibis. The core body implementing this activity was the Joint Committee for Coordinating and Supporting Voluntary Disaster Relief (core institution: Social Welfare Service Corporation Central Community Chest of Japan). A total of 41 employees of the Company and many other corporations participated. On the first day, they inspected the damage at the disaster-stricken area and places of restoration. They could see that the disaster was still ongoing. On the second day, they began their work. They removed mud from gardens and gutters that had flooded in from rivers, took floorboards out of inundated houses, removed nails from joists, collected and removed flood debris (such as straw and dead branches) and took them to a waste collection area. The participants worked across company lines, uniting their strength with the residents of the disaster-stricken area.



Established the Volunteer Activity Support System

We have set forth "Social Emphasis" in the Corporate Principles, and call for the active participation of the Company's employees in social contribution activities in the Charter of Corporate Conduct. We are seeking to make it easier for the Company's employees to participate in volunteer activities. We collected opinions from the employees who participated in the volunteer activities in areas damaged by Typhoon Hagibis, provided support with expenses for participating in the activity, and established a Volunteer Day-Off System for employees with few paid leave days.

We are anticipating several positive effects through such volunteer activities that will increase corporate value. The first is training human resources, including building a network in and outside the Company, personal growth through community participation, gaining practical work capacities and communicative abilities, and improving leadership. Second is awareness of business models that resolve social issues, while third is instilling a sense of belonging within the Company and increasing the desire to contribute. Lastly, we believe they will improve the company's image.

Progress with the Mid-term Management Plan (2019–2021)

The theme of this Mid-term Management Plan 2019–2021 is “Accelerate changes.” By advancing our transformation, we will quickly produce new results. The COVID-19 pandemic has developed into a worldwide crisis and had a major impact on the economic environment. We are taking all appropriate measures to minimize the impact on the Company’s business. Meanwhile, society is confronted with major transformations triggered by this crisis, which are called the new normal. To quickly adapt to this revolution, we will accelerate efforts with the Basic Policies set forth in the Mid-term Management Plan and aim to achieve our Vision 2030.

Theme Accelerate changes

Numerical Management Targets (Consolidated)

| | Sales | Operating income margin | ROE | Capital-to-asset ratio | Total return ratio |
|----------------------------|--------------------------|-------------------------|----------------------|------------------------|----------------------|
| Fiscal 2021 Targets | 500.0 billion yen | 6% or higher | 12% or higher | 30% or higher | 30% or higher |
| Fiscal 2019 Results | 472.4 billion yen | 5.2% | 16.7% | 27.1% | 30.8% |

Basic Policies and Progress in Fiscal 2019

1 Change the construction production process

| Fiscal 2021 Targets | Fiscal 2019 Results |
|---|---|
| Improvement in the amount of completed work per person (unconsolidated, Japan) 10% or higher (from fiscal 2018) | Productivity improvement: 4% or higher (from fiscal 2018) |

| | |
|---|---|
| Major Achievements in Fiscal 2019 | 1. Onsite deployment of ICT <ul style="list-style-type: none"> Application of tunnel ICT technology SMC-Tunneling Series at work sites (see P. 39) “Automatic de Lining” “Clean ni Blasting” Development of real-time automatic system to inspect complete reinforcing bar shapes (see P. 40) |
| | 2. Promote PC/precasting <ul style="list-style-type: none"> Promoted the use of precasting for above-ground frames in domestic construction work Application of precast construction method technology in the Philippines, Vietnam, and India (see P. 36) Installed Robotaras™ for railway slab track production at Mitagawa PC Plant (see P. 28) |
| | 3. Change work processes <ul style="list-style-type: none"> Promoted working from home as triggered by response to COVID-19 (see P. 43) Optimized business through the installation of Robotic Process Automation (RPA) (see P. 42) |
| Major policies of the fiscal 2020 action plan | <ul style="list-style-type: none"> Expand applications of Robotaras™ for PC floor slab manufacturing Progress with efforts to close eight construction work sites in four weeks (see P. 43) Development of policies to further drive work style reforms (office systems where employees are free to change desk) |

Fiscal 2020 Important Points (Productivity improvements are progressing favorably, and we anticipate positive effects from each policy being undertaken)

2 Enhance overseas business

| Fiscal 2021 Targets | Fiscal 2019 Results |
|--|--|
| Orders received outside Japan (including local subsidiaries) 100.0 billion yen | Orders received outside Japan 77.4 billion yen |

| | |
|---|---|
| Major Achievements in Fiscal 2019 | 1. Declaration of Globalization <ul style="list-style-type: none"> Made Declaration of Globalization in January 2020 (see P. 29) |
| | 2. Global education through HDC <ul style="list-style-type: none"> Global human resources education based in Japan, the Philippines, and India (see P. 35) |
| | 3. Enhancement of overseas business foundation <ul style="list-style-type: none"> Opened Phnom Penh Office as a sales base in Cambodia Promoted the shift of personnel overseas based on the global strategy (25% increase in personnel) |
| Major construction orders received in fiscal 2019 | <ul style="list-style-type: none"> Jamuna Railway Bridge (Bangladesh) Large shopping center (Guam) |

Fiscal 2020 Important Points (The amount of orders received from outside Japan is favorable, but the impact from COVID-19 must be carefully monitored)

3 Expand business areas

| Fiscal 2021 Targets | Fiscal 2019 Results |
|---|--|
| Growth investment (total for the period of operation): 50.0 billion yen | Growth investment Approximately 7.0 billion yen invested |

| | |
|---|---|
| Major Achievements in Fiscal 2019 | 1. Development of technology for longer operating lives <ul style="list-style-type: none"> World’s first use of Dura-Bridge® (non-metal bridge) for an expressway First application on an actual project of Sustain-crete®, which contribute to sustainability Development of Dura-Barrier, a corrosion-resistant, ultra high durability bridge railing (see P. 40) |
| | 2. Solar power generation business <ul style="list-style-type: none"> The second offshore solar power generation plant project managed by the Company Launched operations of (Meima Lake offshore solar power generation plant) (see P. 37) |
| Major policies of the fiscal 2020 action plan | Expand bridge business areas through M&As <ul style="list-style-type: none"> Concluded basic written agreement for the acquisition of stock in Mitsui E&S Steel Structures Engineering (which changed its name to Sumitomo Mitsui Construction Steel Structures Engineering as of October 1, 2020) on May 13, 2020 Seeking to strengthen our comprehensive capacity in bridge design and construction Anticipation for an increase in opportunities to receive orders for large-scale bridge renewal projects and expansion into large-scale composite bridge construction projects |

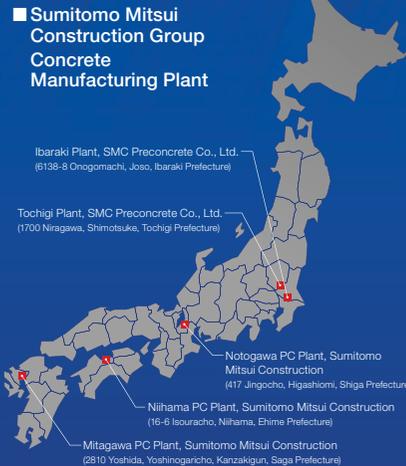
Fiscal 2020 Important Points (Growth investment proposals that were in the preparation stage during fiscal 2019 will launch on a full scale in fiscal 2020)

Improve productivity through using ICT and robotics

“Change the construction production process” is one of the basic policies in the “Mid-term Management Plan 2019–2021. We are taking on initiatives to improve productivity at construction sites and elsewhere.

At construction sites, there are still many parts that are accomplished through human effort, compared to other manufacturing industries. Saving labor, reducing manpower, and establishing an advanced construction system are effective in raising productivity.

The Company owns five plants for prestressed concrete (PC) throughout Japan, including relevant group companies. In the construction of concrete structures, we are striving to use this strength to save labor, reduce manpower, and establish an advanced construction system by proactively employing the precast method, which involves onsite assembly of components made of precast concrete (PCa) that have been manufactured beforehand at these plants and site grounds of casting yards. Further improving productivity at PC plants is directly connected to changing the construction production process, so we are making progress with the application of ICT and robotics.



Robotaras™

Automated reinforcing bar assembly system Robotaras™

Mitagawa PC Plant (Saga Prefecture) manufactures the railway slab track for the Kyushu Shinkansen. It installed the automated reinforcing bar assembly production system Robotaras™. Programmed robots automatically attach and detach three types of reinforcing bar holding jigs that match the length of the reinforcing bar and commercially available reinforcing bar binding machines on the tip of their arm, to conduct operations for the arrangement and bundling of reinforcing bars. With this set up, workers only perform such tasks as refilling reinforcing bar supply machinery and loading wire in reinforcing bar binding machines. This has accomplished the saving of labor and reduction of manpower, thereby increasing productivity by approximately 50%.

We are striving to further develop this system and install it in production lines at other plants, aiming for its extensive use in manufacturing PCa components, which are used in major structures such as large-scale expressway renovation projects and ultra high-rise condominiums.



Using robots to automate the arrangement and bundling of reinforcing bars

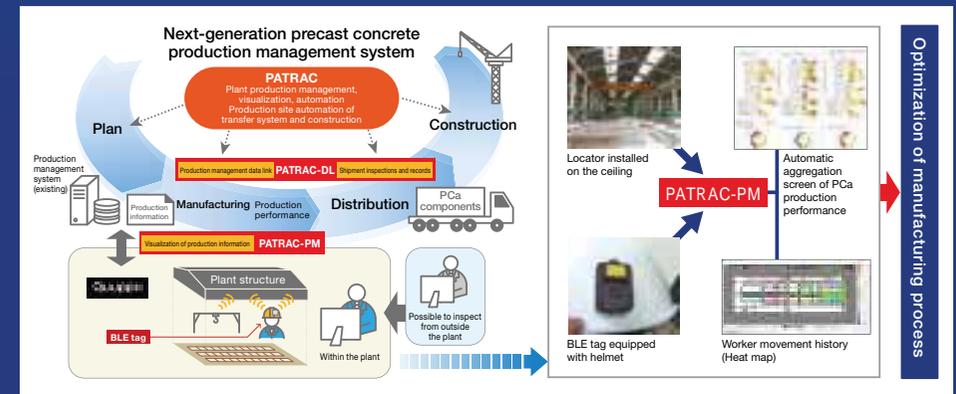
PATRAC-PM: Precast Automatic TRACing system-Production Management

PATRAC: Production Management System Using IoT

We are making progress with developing PATRAC, a next-generation PCa production management system that further raises quality and improves productivity at PCa plants. We have introduced PATRAC-PM, a manufacturing management system that optimizes the manufacturing process by using IoT to visualize the operating condition of production lines and the actual results of production. PATRAC-PM follows PATRAC-DL (DeLiver), a system that performs shipping schedule control by sticking an RFID tag on PCa components.

- 1 Visualization of manufacturing data**
With the Quuppa Intelligent Locating System,* a locator is installed in the factory ceiling and a Bluetooth Low Energy (BLE) tag is placed on the positioning target (person, crane, etc.). This makes it possible to collect data on the working hours by component and the history of worker movements in each work process at the high accuracy of every other second, and with a movement variation of 50 centimeters.
* Positioning technology that uses a Bluetooth base to track the angle of arriving waves
- 2 Automatic aggregation and storage of production results**
After the completion of PCa components, the collected production data is automatically aggregated with an independently developed business intelligence (BI) tool. The data can be shown on a screen as required, and stored as results of production. This makes it possible to easily evaluate and revise everything from the production situation for the entire plant on the macro level, down to a single operation on the micro level.
- 3 Manufacturing process visualization tool**
Quantifying and producing graphs of the daily results of production allows for all kinds of analysis to optimize work, evenly distribute work, and improve productivity. It can be used to narrow down the time needed for production and to uncover areas where production improvements are possible separated by influencing factor, such as date of manufacture, production line, production bed, component type, or worker.

<Conceptual image of PATRAC>



Identify worker location in real time, optimize PCa plant manufacturing processes

Efforts for globalization

The Group has set forth “a construction company that globally supports and connects ‘People’ and ‘Communities’ with new value” as our Vision 2030, and we are aiming to solve social issues from a global point of view as well as seeking the continuous growth of the Group.

The globalization we are aiming for is more than simply conducting projects overseas. We aim to offer the value that is needed in each respective area. Technologies and human resources that can be widely used on a global

scale are what make this possible. We seek to precisely understand what society requires of us. To do so, we need a wide outlook, to learn about each others’ culture and way of thinking through communication, and the capacity for sympathy. Amidst a world facing turbulent change, we will achieve globalization through all Group employees understanding and coexisting with a diversity of nationalities, races, religions, and senses of value.

Sumitomo Mitsui Construction Declaration of Globalization

Sumitomo Mitsui Construction Group contribute:

- I. To solve social issues through the provisions of world-class technologies and services.
- II. To solve social issues by developing of global human resources who always conduct with a broad perspective.

Specific Measures

- (i) Establish new technologies that contribute to the development of a sustainable society from the three aspects of the environment, society and the economy by fusing technologies we have cultivated until today and advanced technologies around the world.
 - (ii) Build a strong supply chain that supports technologies and quality by enhancing cooperation with local partners.
 - (iii) Establish a common safety culture and achieve Supreme Quality Assurance for the Group (see P. 45).
-
- (i) Enhance educations and supports by utilizing the Human Resource Development Center and studying abroad program, in order to deepen our understanding of different cultures and improve language skills.
 - (ii) Promote globalization of the entire Group by accelerating the mobility of human resources on a global scale.
 - (iii) Establish developing and evaluating systems of global human resources, actively recruit and promote talented human resources regardless of nationality.



Safety culture/supreme quality around the world—Globalization of our unique safety and quality standards

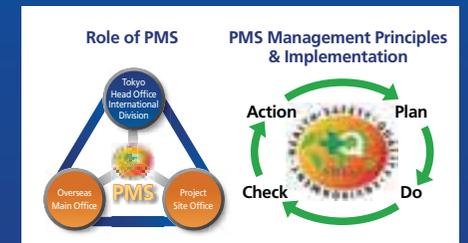
In overseas construction work, our Project Management System (PMS) stipulates important management matters related to the environment, health, quality, and safety. It was established in 2006, and we are now expanding its use. For the proper operation of PMS, selected Japanese employees and local employees from all overseas business and project sites gather in one place annually in Japan or Singapore for group training.

In fiscal 2019, we rolled out and started expanding the Quality Safety Auditor (QSA) activity (refer to P. 46), which was already being carried out in Japan, in line with “Achieving supreme quality as early as possible” as set forth in the Mid-term Management Plan 2019–2021. We are



Group training in Singapore

working toward strengthening safety and quality control by introducing the QSA system as well as cooperation with and application of PMS. In this way, we will aim to achieve supreme quality as early as possible.



Employ foreign national dispatch engineers (Cross Functional Team)—Globalization of human resources

The Cross Functional Team is the name for the “Bar Arrangement Photograph Cross Workplace Team” given by foreign national employees working in various branches. The team was established in fiscal 2019. It aims for the smooth employment of foreign national employees at domestic sites by improving their skills through site OJT and specialized duties, and to quickly compensate for a shortage of engineers at domestic sites.

As of the end of March 2020, 38 individuals in 17 sites and departments are serving on the team. The team has 14 female members, comprising 37% of the membership and making it a stage for women to play an active role. The team is in charge of tasks that are highly needed at sites, such as photographing bars, interior construction controls, ICT, and creating diagrams.

Their places of origin are diverse, including Myanmar, Mongolia, South Korea, the Philippines, and Nepal. They are very serious, and are often receive high evaluations from sites.

We have just begun our efforts related to the workplace management of the next generation that will be created by diverse human resources. We must provide

consideration for women and foreign nationals where it is necessary. We are listing the honest opinions of foreign national employees on assignments as well as the onsite employees working together with them. This will prove useful for the practically applying global human resources.

Solidifying ties with mutual respect

After graduating from Yangon Technological University, I joined the Cross Functional Team in 2019, where I engage in quality control work.

I think that teamwork is very important at work. The personnel were raised in different countries and have different backgrounds, but we are aiming for the same target of “supreme quality.” More important than anything else is solidifying ties with mutual respect.



Ms. Khin Hsu Mon Ko
(Country of origin: Republic of the Union of Myanmar)



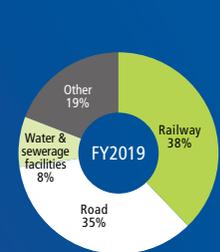
Orders received/Amount of completed work



Gross profit of completed work/Profit margin of work



Orders received by area



ESG data

| | (FY) | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|------|
| No. of engineers* | | 810 | 811 | 802 | 787 | 778 |
| Industrial construction waste final landfill (%) | | 1.2 | 1.4 | 1.3 | 1.2 | 1.1 |
| Unit of CO ₂ emissions (t-CO ₂ /100 million yen) | | 43.0 | 42.6 | 40.8 | 39.9 | 39.9 |

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

Business opportunities and risks as well as the Basic Policies of the Mid-term Management Plan 2019–2021

Opportunities

- Expansion of the infrastructure improvement market in emerging nations
- Increase of projects related to prevention and mitigation of damage caused by natural disasters in line with the reinforcement of national territory
- Expansion of the infrastructure maintenance and renovation market along with the increase in deteriorating infrastructure
- New business opportunities such as renewable energy-related business and the creation of compact cities

Risks

- Shortage of construction workers in the future due to the decreasing birthrate and aging population
- Response to the reduction of overtime work
- Shortage of foreign national engineers
- Shortage of human resources among mid-level employees
- Decline in the new infrastructure market

Basic Policies of the Mid-term Management Plan 2019–2021

- Stepping up efforts for productivity improvement and 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 and new business

Results and Major Efforts in Fiscal 2019

We have launched our Mid-term Management Plan 2019–2021 under the slogan, “Leap forward to a new stage – Vision 2030.” In fiscal 2019, the first year of the Plan, orders received were 144.2 billion yen, greatly exceeding our target of 110.0 billion yen. The amount of completed work increased 8.1 billion yen from the previous fiscal year to 131.4 billion yen, driven by favorable progress with the many domestic projects in hand. Gross profit of completed work was 16.2 billion yen, falling slightly short of our target. However, our performance in this first fiscal year represented a largely solid start.

The order environment for domestic civil engineering was generally favorable. We received many orders for such projects as maintenance and renovation work along with the increase in deteriorating infrastructure and the reinforcement of national territory against natural disasters. Amidst these circumstances, we made strategic efforts such as a large-scale renovation project on an expressway where we performed much of the original construction and water and sewerage facilities renovation projects. The large-

scale expressway renovation project involves more than just construction work on the bridge renovation. The order also includes tunnel repair and reinforcing work. We are focusing on blanket orders with bridge construction going forward, and anticipate that they will lead to the preservation of our competitive edge. In addition, we are continuously acquiring projects such as renovation work on water and sewerage services facilities in regional towns and cities which includes private-sector construction work, large-scale development of plant site land for corporations, and construction work on rainwater drainage shielding. We are proactively working to improve productivity in order to ensure the completion of a large number of projects in hand due to a favorable market environment. We worked for the standardization of ICT earthwork as a promotion of i-Construction. Also, we accelerated technological developments that contribute to saving labor and reducing manpower. For example, we have developed such technology as a real-time automatic system to inspect complete reinforcing bar shapes.

Fiscal 2020 Policies and Outlook

We are still wrapped up in the COVID-19 pandemic. It is having an impact on domestic private-sector construction investments. However, we forecast that domestic public-works projects will be generally on par with average. Our maximum priority is to protect the lives and livelihoods of not only the Company’s employees, but also those of the workers at sites, their families, and all concerned. We have set strict rules as measures to prevent infection, and are continuing our production activities with everyone following these rules and no suspension of operations at sites.

In fiscal 2020, we are aiming to achieve our performance targets while being mindful of coexisting with COVID-19 by both preventing infection and continuing business. In addition, we are working on the following two important points.

The first is “install new technology that can respond to a paradigm shift in work sites.” Raising production is an urgent issue for the construction industry. We are addressing it by

continuously working to reduce manpower in addition to adding ICT to construction management tools. Last fiscal year, we launched application of automated reinforcing bar assembly system Robotaras™ in railway slab track production. As the next step, we aiming to apply it to the large-scale renovation of PC floor slab production (refer to P. 28). This fiscal year, we will accelerate our transformation under the theme of “installation at the site” of technology to reduce manpower, such as an automated concrete pouring system for tunnel lining concrete (refer to P. 39).

The second point is “promote reforms for diverse work styles.” We are clarifying career paths for the female and foreign national engineers that we have been proactively hiring, and offering venues in various fields where they can plan active roles. Also, to accelerate the shift of domestic engineers overseas, we are promoting the active use of our English language training and study abroad system, and striving to raise the awareness of the Company’s employees toward true globalization.

—Basic Strategy Used to Achieve Business Strategy—

Efforts in technological development to improve productivity —Standardization of ICT earthworks

We are promoting and expanding the saving of labor in field work and management tasks through the standardization of ICT earthworks. This includes UAV (drone) measurements in cut and fill earthwork and structure foundation ground excavation work, as well as operations without using finishing stakes.* Based on actual onsite results, the following effects have been gained through ICT earthworks.

* Finishing stake: An approximate measuring ruler used to complete a foundation mound and cut or filled earth

- A 1.5 times productivity improvement for machinery used in slope shaping work
- In addition to operations without using finishing stakes, we achieved reduction of labor for engineers and manpower in work progress control, earth fill quality control, and report preparation. (Example: Productivity of survey work increased four times as a result of operations without using finishing stakes.)
- Safety was improved through reducing the proximity of survey workers and partner technicians to heavy machinery.



Yasunori Yano
General Manager,
Foundation Ground and
Environmental Technology
Group, Civil Engineering
Technical Consulting
Department

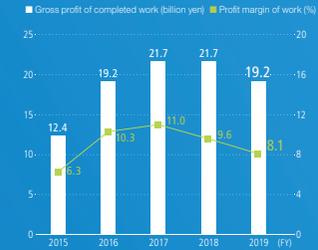
Building Construction



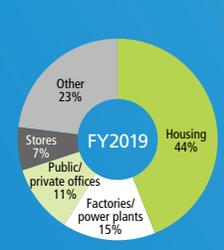
Orders received/Amount of completed work



Gross profit of completed work/Profit margin of work



Orders received by area



ESG data

| | (FY) | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|------|
| No. of engineers* | | 937 | 924 | 914 | 918 | 925 |
| Industrial construction waste final landfill (%) | | 3.2 | 2.5 | 2.0 | 1.8 | 1.2 |
| Unit of CO ₂ emissions (t-CO ₂ /100 million yen) | | 13.8 | 13.4 | 12.5 | 12.4 | 10.7 |

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

Business opportunities and risks as well as the Basic Policies of the Mid-term Management Plan 2019–2021

Opportunities

- Redevelopment centered on the Tokyo area, capital investment with a backdrop of favorable corporate earnings, increase in inbound tourism demand.
- Expansion forecast in the domestic renovation market

Risks

- Predicted decline in the domestic building construction market and intensifying competition
- Shortage of construction workers in the future due to the decreasing birthrate and aging population
- Response to the reduction of overtime work
- Shortage of foreign national engineers
- Shortage of human resources among mid-level employees (time of poor employment opportunities)

Basic Policies of the Mid-term Management Plan 2019–2021

- Building robust customer base
- Accelerating production process innovation
- Building a system that accelerates reforms
- Expanding overseas business and related business

Results and Major Efforts in Fiscal 2019

Fiscal 2019 was the first year of the Mid-term Management Plan 2019–2021. All of the Company's employees gained the perspective of Vision 2030. Anticipating changes and transformations in the era and market, we launched our slogans of "new mind" and "efforts to materialize a vision of the future for construction industry areas."

In fiscal 2019, completed work was 237.9 billion yen, driven by favorable progress with the many projects in hand and exceeding the target set at the beginning of the year. Orders received were 194.2 billion yen, due to factors such as a slight slowing in the growth of private-sector housing investments. While they did not reach our target, we saw positive outcomes in categories positioned as growth fields, such as high-performance logistics facilities, renovation plans for production facilities such as plants, and accommodation facilities, where demand is expanding. While we maintained a consistent level in terms of profits, gross profits of completed work fell short

of our target at the beginning of the term at 19.2 billion yen. Improvements to earning power were insufficient, so were undertaking strict profit management policies in fiscal 2020.

In the domestic construction market, investment remains firm since the previous Mid-term Management Plan, including strong private-sector capital investments and large-scale urban redevelopment in city centers.

Based on this favorable market environment, we maintained a high-level balance of orders as we started the Mid-term Management Plan for its first year. In order to complete our considerable amount of work at high quality, we focused our energy in particular on improving productivity. Specifically, we extended front loading to sites through the application of ICT and BIM, expanded applications for the precast concrete (PCa) production method, and promoted digitalization to automate construction.

In the next fiscal year, we will continue promoting policies to improve productivity, accelerate the incorporation of technology as well as improve its effectiveness as a business tool.

Fiscal 2020 Policies and Outlook

In the fourth quarter of fiscal 2019, COVID-19 began to spread on a worldwide level, having a major impact on domestic industry.

Now is the time when corporations must have the ability to respond to environmental changes. The Company is conducting thorough steps to prevent infection at sites where construction is ongoing as well as in internal departments. We are taking all possible measures to protect the health of those engaged in the Company's business activities while minimizing the impact on our contractees' business plans and the Company's performance as much as possible. Going forward, dealing with COVID-19 will continue to be essential. Absolute certainty of infection prevention will be a prerequisite for conducting corporate business. At the same time, we will conform to new ways of working in the new normal and protect the lives and livelihoods of all concerned.

Fiscal 2020 is the second year of the Mid-term

Management Plan 2019–2021. During the year, we will strive to achieve our performance targets and make efforts with the following two Priority Measures.

The first Priority Measure is to accelerate change the construction process, and achieve improvements in productivity. In the previous fiscal year, we focused our efforts on policies to improve productivity. This year, we will strategically execute these policies after building a cooperative system with all departments of sales, construction, engineering, and planning.

The second Priority Measure is to accelerate globalization by sharing different cultures to enhance overseas business. We seek to promote globalization across the entire Company. To that end, we will promote the mobilization of human resources going both ways, domestically and overseas. We will further our understanding and learning of foreign cultures by employing temporary foreign national employees. In addition, we will spur global communication through the use of ICT.

—Basic Strategy Used to Achieve Business Strategy—

Create a next-generation production system—Transformation of business processes on a foundation of BIM

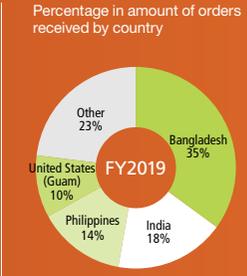
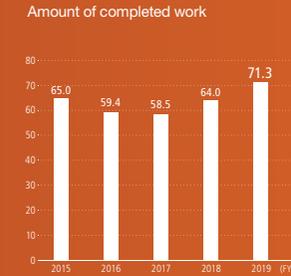
An ICT/BIM Promotion Office has been established at the Building Construction Division. It aims at a transformation of construction processes with a foundation of BIM. It is also promoting system development and application at sites.

The conventional procedure is to revise the design each time when carrying out construction. By introducing BIM, inspections and simulations can be conducted many times over at the design stage. This improves productivity by making it possible to move work conventionally performed during the construction phase to the design phase and completing it there. Also, there are benefits in terms of construction time and costs. The Company's superiority in business activities will lead to us further appealing to customers.



Hideyuki Tabata
ICT/BIM Promotion Office

Overseas Business



Business opportunities and risks as well as the Basic Policies of the Mid-term Management Plan 2019–2021

Opportunities

- Expansion of the infrastructure improvement market in emerging nations
- Commercialization of new business overseas

Risks

- Shortage of personnel required for overseas business
- Intensification of competition with Japanese general contractors, local businesses, and Chinese and Korean companies
- Major fluctuations such as political and economic situations, exchange rates, and legal systems affecting entry into overseas markets
- Terrorism, natural disasters, and infection risk affecting entry into overseas markets

Basic Policies of the Mid-term Management Plan 2019–2021

- Steadily expanding overseas construction business
- Expand support for education through HDC and globalization
- Creating new earnings bases

Results and Major Efforts in Fiscal 2019

We conducted a business strategy aiming for the construction of a system for 100.0 billion yen in orders received outside Japan, as set forth in the Mid-term Management Plan. In fiscal 2019, however, consolidated orders received outside Japan were 77.4 billion yen. This was a 44% decrease from the previous fiscal year, in which we received orders for large civil engineering projects on a 10.0 billion yen scale. Also, operating income declined 3.0 billion yen from the previous fiscal year, to 3.5 billion yen.

In civil engineering, we have been making proactive efforts in high-quality ODA projects, including those in emerging countries, where we can display the Company's advantage. We received an order for a bridge construction project in Bangabandhu, Bangladesh. In building construction, we are enhancing our abilities in sales, proposals, and cost reductions. We have received order for projects from Japanese companies operating overseas and from excellent non-Japanese local companies. We will continue to make proactive efforts so as to contribute to the development of all countries.

Next, we will turn to HDC* Japan, which we launched in fiscal 2019. The Center is driving the globalization of the entire Group by promoting the training of global human resources and the mobilization of employees in Japan and elsewhere. Also, we started efforts to improve safety and quality through carrying out international inspections of the Project Management System (PMS). In this way, we are expanding Sumitomo Mitsui

Construction's culture of supreme quality overseas.

We are seeking to further raise productivity and to address long working hours. As such, we have started efforts to improve productivity through the use of BIM. In addition to BIM education for each site leader and the organization of BIM teams at overseas sites, we have monthly education at HDC Philippines and HDC India. We believe these efforts will improve productivity through increasing the skill levels of local employees. Also, we are pursuing work style reforms through such efforts as promoting a change in the thinking of each site leader regarding long working hours and having interviews with those who work long hours.

* HDC: Human Resources Development Center

Fiscal 2020 Policies and Outlook

In fiscal 2020, we will continue constructing a system for 100.0 billion yen in orders received outside Japan, as set forth in the Mid-term Management Plan. We are promoting five important topics for this goal: 1) achieve the target budget, 2) accelerate globalization, 3) expand technological development and business areas with a focus on the future, 4) establish a safety culture and achieve supreme quality, and 5) promote sustainability.

First, let's look at "achieve the target budget." At our sites that have been impacted by the spread of COVID-19, we are moving forward with incremental reopening by using remote control. We are striving for a speedy recovery to normal

operations while closely cooperating with Tokyo and the sites. Also, we are making plans for after COVID-19. In large-scale civil engineering projects, we are aiming for the promotion of work underway and the early start of new projects. In building construction, we are pushing forward with building a construction system that can manage 60.0 billion yen.

The next topic is "accelerate globalization." We are striving to cultivate global human resources through the expansion of support for education, promotion of globalization, and mobilization of employees in Japan and elsewhere.

Third is "expand technological development and business areas with a focus on the future." We are making efforts to implement BIM with a focus on Singapore and raise

productivity in digitalization. Also, we are developing the business of floating solar power generation systems in Taiwan.

Regarding "establish a safety culture and achieve supreme quality," the Project Management System (PMS) is at the core. We are taking measures to prevent the spread of COVID-19 and promote a safety culture. In cooperation with the head office, we are conducting international inspections of the PMS, expanding the culture of supreme quality overseas.

This brings us to the final topic of "promote sustainability." Here, we are making active efforts by continuing compliance education and enhancing internal controls. And, with an awareness of the need to address the SDGs, we are contributing to society and conducting environmental activities.

—Basic Strategy Used to Achieve Business Strategy—

Site management policy: Raise productivity through education and training for young personnel provided by Japanese people with overseas experience and foreign national personnel, maintain a pleasant workplace environment, and to carry out business in a sustainable manner.

We are constructing an elevated railway bridge on Luzon Island in the Philippines using the precast segment construction method. The team playing the lead role has experience with this construction method in a large-scale bridge construction project in Vietnam. Its members consist of Japanese people with extensive overseas experience and Philippine engineers. The Philippine personnel burn with a strong desire to contribute to improving their country's social infrastructure. They are putting their skills and experience with construction work outside the country to good use to build a good relationship with the contractee. Furthermore, they have been providing education and training to young Japanese personnel who are on their first overseas assignment and locally hired staff, thereby raising productivity. Amidst the COVID-19 pandemic, some of the Japanese



personnel temporarily returned to Japan, and now cannot return to the site. The Philippine personnel will take the initiative in restarting construction on their behalf (as of May 2020). The site has a 24-hour construction system, and we are aiming for four weeks with eight days off through using our own creative plan.



Osamu Sawata
Project Manager,
Republic of the Philippines
North-South Commuter
Railway Project CP2 Section

New Business & Construction Peripheral Business



Business opportunities and risks as well as strategies based on the Mid-term Management Plan 2019–2021

Opportunities

- Transformation of the energy framework in the post-COVID-19 society and expansion in the renewable energy market
- Expand the overseas PPP market against the backdrop of a lack of infrastructure improvement funds globally
- Expansion of the domestic PPP/PFI business to resolve the issues of national and local governments
- Increase in the pharmaceutical market driven by products to combat COVID-19
- Increase in the worldwide trend toward implementing the SDGs and expansion in the related markets

Risks

- Confusion and recession in governments and economies around the world in the post-COVID-19 society
- Revision and reduction of capital investments due to uncertainty in the economy
- Declining project profitability due to revisions (decline of purchasing value) to the system for purchasing power generated with renewable energy

Business strategies based on the Mid-term Management Plan 2019–2021

- Expansion of the renewable energy generation business centered on solar power generation
- Expand domestic and overseas sales of floating solar power generation systems
- Medical and pharmaceutical facility engineering targeting small quantity/large variety production
Expansion of the engineering service business
- Taking on challenges in the domestic and overseas PPP business
- Create new businesses that contribute to achieving the SDGs

Results and Major Efforts in Fiscal 2019

Based on the Mid-term Management Plan 2019–2021, we focused our efforts on the three businesses of 1) renewable energy-related, 2) PPP/PFI, and 3) medical and pharmaceutical facility engineering.

(1) Renewable energy-related business: We made progress with energy generation projects and sales of floating solar power generation systems. Regarding the former, operations at the Meimaike Pond offshore solar power generation plant in Kagawa Prefecture launched December 2019. This brings the total of the Company's solar power generators to three, at a scale of 6.6 MW. Regarding the latter, we conducted business at our manufacturing and sales bases located domestically as well as in Taiwan. In fiscal 2019, we sold floating systems that generate five MW in Japan and three MW overseas.

(2) PPP/PFI business: We received orders for three new PFI projects (DBO model), bringing the total number of PFI orders received by the Company to 10 (three for civil engineering projects, seven for building construction). In addition, we have been making proactive efforts for PPP projects such as for the use of public assets.

(3) Medical and pharmaceutical facility engineering: We have been promoting activities to obtain orders by providing solutions featuring specialized technology and know-how. We are capturing new trends in the pharmaceutical field for such targets as GMP compliant, small quantity and large variety production facilities. As a peripheral business, we have consigned and implemented solutions services based on the Group's unique viewpoint. These include a one-stop research function transfer service that responds to customers' needs to reorganize their facilities, as well as counseling for countermeasures against the heat of summer to improve indoor environments that are inadequate in light of recent heat waves.

Fiscal 2020 Policies and Outlook

In fiscal 2020, we will continue focusing our efforts on the three businesses of renewable energy-related, PPP/PFI, and medical and pharmaceutical facility engineering. In addition, we will aim to generate business that contributes to the SDGs as well as new business that fits the new normal.

Among these, in the renewable energy-related business, we plan to start construction work on two new solar power

generation plants, and are making specific studies into the micro-hydroelectric power generation business in Japan and elsewhere. In medical and pharmaceutical facility engineering, we are aiming to increase orders for the Company's original technology and products, with a focus on the market stimulation related to COVID-19, in addition to the existing anti-cancer drugs and regenerative medicine markets.

TOPIC 1

Commercialization of the Pharmaceutical Manufacturing Facility Unit "Sukkiri Unit"

We have developed and commercialized its own original construction methods to offer a modular pharmaceutical manufacturing facility. We manufacture modularized living room space and production equipment at plants, then transport them to sites and set them up. This reduces construction time and repair costs, and also make conversion simple.

In February 2019, we exhibited the concept at INTERPHEX Osaka 2018 to receive high praise from many pharmaceutical companies. Currently, we are making progress with the production of an actual machine, and diligently conducting sales activities to receive an order for our first model.



INTERPHEX Osaka 2018 exhibition booth

TOPIC 2

Development of a composting toilet

This recycling toilet decomposes and processes waste matter using the power of microbes (bio). Water and pumping work are unnecessary, so it can be used cleanly and safely during a disaster or in developing countries where the sewer systems are not serviceable.

We started using them at the Company's sites and confirmed their effectiveness. Furthermore, we are cooperating with NPO on a plan to install them near a world heritage temple in Nepal, a country that faces severe water pollution issues. Going forward, we plan to expand in Japan and elsewhere as a business that contributes to the SDGs.



A bio-toilet being installed at a Company site

TOPIC 3

Fiscal 2019 PFI business

- Project name:** Yokosuka School Lunch Center Maintenance Management Project (Temporary name)
- Contractee:** Yokosuka City, Kanagawa Prefecture
- Business model:** DBO model
- Project term:** August 2019 to July 2036



Yokosuka School Lunch Center Completed image

- Project name:** Kobe Uegahara Water Purification Plant Redevelopment Project
- Contractee:** Kobe City Waterworks Bureau
- Business model:** BTO model
- Project term:** March 2020 to the end of March 2040



Completed image of the Uegahara Water Purification Plant

—Basic Strategy Used to Achieve Business Strategy—

Diversity of human resources that can achieve new business development

To develop new business and new business areas, various technologies and know-how that are outside of the construction industry are necessary. That's why the Business Innovation & Incubation Division is proactively promoting mid-career recruitment from the medical care, pharmaceutical, and real estate industries. Already, over 40% of the personnel at the Head Office are mid-career hires. Female employees account for 18%, higher than the average for the entire company.

I'm using my experience from my last job in real estate (such as commercial facilities, residential complexes, hotels, office leasing) to work on participation in public private partnerships and new business start ups. I hope to contribute to pioneering new fields and the expansion of business areas.



Sanae Ono
Business Innovation & Incubation Division

Foundations to support growth

Technological Strategy

Trends in technical research and development and mid-term strategies

We are flexibly responding to major changes in domestic and overseas market structures. In order to continue being a company that responds to the expectations of society, we established a Technical & Engineering Service Division in April 2015. It is promoting the collaboration of civil engineering and building construction engineering in planning technology strategies and conducting technology development.

The 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 system and peripheral services. Therefore, we reorganized the Technical & Engineering Service Division in April 2020. Through working on technology development themes that straddle the fields of civil engineering and building construction, we will promote the development of innovative building construction technology.

Furthermore, we are applying precast technology in the Group's strengths of PC bridges and high rise housing while

focusing efforts on improving productivity by mechanization and automation that employs information technologies such as AI and IoT.



Major technical research development achievements in fiscal 2019

- Automated reinforcing bar assembly system Robotaras™
- Real-time automatic system to inspect complete reinforcing bar shapes
- Automated concrete pouring system for tunnel lining concrete "Automatic de Lining"
- Explosive power volume system "Clean ni Blasting," suitable for tunnel boring machines
- Corrosion-resistant steel material, ultra high durability bridge railing Dura-Barrier
- PC structures using high performance concrete Sustain-crete®
- Vibration Control System that controls multistory vibrations all at once
- RC-constructed building disassembly and reuse "SQRIM-SSUT Serve method of construction"
- Construction management system "SMileSite"
- PATRAC: Production Management System Using IoT

Major technical research development plans in fiscal 2020

- Construction management and quality control technology using ICT
- Labor saving technology for tunnel construction
- Technology for the performance enhancement and rationalization of PC bridges and PC floor slabs
- Technology for the performance enhancement and automation of precasting
- Technology to improve building sustainability
- Technology for the rationalization of steel frame structures
- Technology for the health monitoring of structures
- Technology related to the value creation of new materials
- Technology for environmental energy applications
- Technology to reduce environmental impacts

SMC-Tunneling series "Automatic de Lining" Reduction of workers and work time through automating lining concrete placement work

The system involves setting up a sensor that detects the height of the concrete that is being poured into the center (moveable formwork) for lining concrete in tunnels. When it reaches the predetermined height, that information is displayed on the control panel, and it automatically switches to the concrete pumping pipe installed in a designated place. Real-time information (pouring height, pumping speed) by pouring location is displayed on a tablet. The operator can use the tablet to centrally manage such instructions as changing pumping locations and stopping pumping when there is an abnormality. This achieves the reduction of workers and work time.



Efforts to acquire stable earnings and differentiated value

The company is making efforts for 1) technological development to develop SMile Construction System and 2) development of unique sustainable technologies and services with the basic

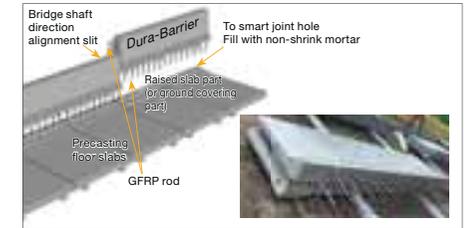
policy of enhancing technology to develop a next-generation construction production system and peripheral services.

(1) Example of technological development to develop SMile Construction System



[SQRIM-SSUT Serve method of construction]

Buildings can be quickly constructed by unbonded crimping using PC steel materials joining precast concrete (PCa) components used for columns and beams in RC buildings. It is also possible to simply disassemble and reuse each component by releasing the crimping force.

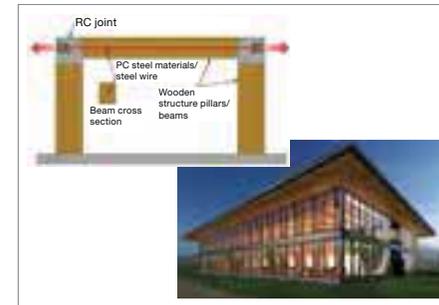


[Dura-Barrier]

An ultra-high durability bridge railing that uses rods of corrosion-resistant Glass Fiber Reinforced Plastics (GFRP) for reinforcement materials and joining materials.

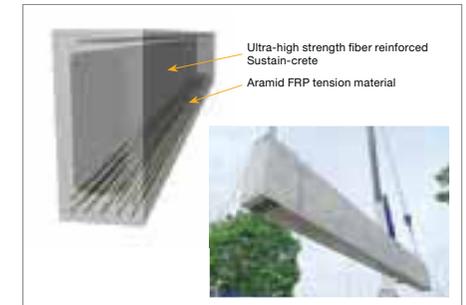
*Used in the Bessodani Bridge on the Tokushima Expressway of West Nippon Expressway Co., Ltd.

(2) Examples of the development of unique sustainable technologies and services



[Prestressed wooden structures]

Superior earthquake resistance by incorporating PC steel materials into beams in buildings with wooden structures and joining them with prestressed pillars, makes possible large open spaces without restrictions through large spans as well as open structures without walls around the circumference.



[Sustain-crete used in demonstration bridge]

Production of ultra-high endurance pretensioned girders by combining ultra-low shrinkage / low environmental burden Sustain-crete (cement-free concrete) with fiber reinforced concrete technology and corrosion-resistant Aramid FRP tension materials to construct a demonstration bridge

Construction management system "SMileSite"

50% reduction of the time required for bar arrangement inspections through the use of smart devices

The system saves labor for bar arrangement inspections at construction sites through application of a smart device, such as an iPad or iPhone.* After inputting inspection results and taking photographs, inspection forms and photograph ledgers are automatically created simply by sending data to the server. This reduces the time required for bar arrangement inspections by 50% compared to before installation. It can also deal with inspections for reinforced joints, steel frames, precast concrete, and interior finishing for dwelling units. It improves productivity through business optimization and ICT by usage according to building structure and purpose.

* iPad and iPhone are registered trademarks of Apple Inc., United States

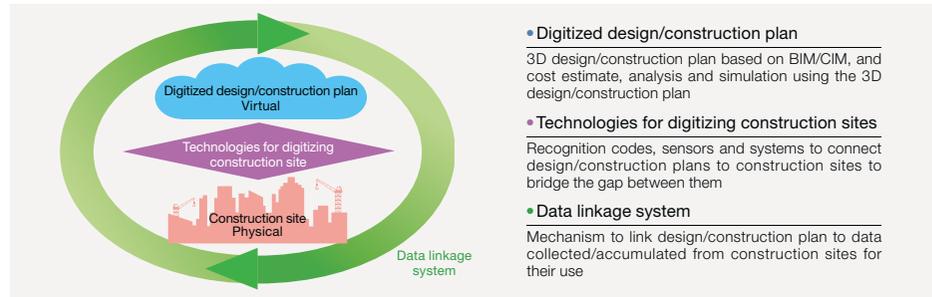


Foundations to support growth
ICT Strategy

Building construction revolution through leading digital technology

Vision 2030

Next-generation construction system that brings together the virtual and physical



SMile Construction System

To bring smiles to all construction sites

SMile: Sumitomo Mitsui ICT Leads to Evolution

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



Information security

Currently, the use and application of information communication technology (ICT) is advancing in companies. Going forward, this era will see radical changes in business and society by using digital technology (digital transformation) and major shifts in work styles. On the other hand, targeted cyberattacks aimed at governments and companies are growing more sophisticated every year. Going forward, continuous countermeasures against increasingly diversified and complex threats to information

security will be imperative. The company continuously acquires the external certification of ISO27001 (ISMS) and takes measures to conform to the requirements. Going forward, we will promote efforts to take a cross-departmental overview of the entire company's IT, enhance the system in order to achieve total optimization that works together with the management strategy and flexible expansion, and add "offensive IT" to the conventional "defensive IT."

Creation of the SMile Construction System—combining BIM/CIM and ICT

Focusing on the Vision 2030 that the Company is aiming for, we are working to create a next-generation construction system, the SMile Construction System. It is an evolution of the mutual civil engineering/building construction total construction management system, DCM (DIM/CIM/MIM)*. BIM/CIM is the foundation for this next-generation construction system. A 3D design/construction plan is linked to a digitalized construction site that incorporates ICT, such as IoT, AI, and robotics. Without this, we can't hope to raise the efficiency and productivity of design and construction.

We plan to improve productivity, safety, and quality by using BIM/CIM linked with ICT. Consensus with customers can be built quickly by the visualization effect of a BIM model. Also, they can enjoy major advantages, such as confirming ongoing construction or construction completion at an early project stage. The Company is proactively promoting BIM/CIM applications through domestic and overseas civil engineering/building construction.

DCM (DIM/CIM/MIM): Design Information Management/Construction Information Management/Maintenance Information Management

| | | |
|---|--|---|
| <p>Consistent use for planning, construction, and maintenance management, and front loading</p> <p>We are consistently using BIM for planning, construction, and maintenance management, building mutual understanding among persons involved in the project through front loading, and striving to improve productivity and maintain quality.</p> | <p>Automation of the manufacturing process</p> <p>We are using automation of the manufacturing process using BIM data and robotics, linking data between the manufacturing plant and the manufacturer, and striving to improve productivity and maintain quality.</p> | <p>Construction automation and optimization</p> <p>We are promoting the automation of construction machinery using BIM data, inspections linked to all types of ICT and management optimization, striving to improve productivity, reduce accidents to zero, and maintain quality.</p> |
|---|--|---|

Business optimization of the entire company

By introducing and expanding use of the latest digital technology (such as RPA and AI) in existing business processes, we are promoting work style reforms and the business optimization of the entire company through creating an environment that can make possible secure smart work.

Specifically, we are carrying out an update of the core system as per the mid- to long-term IT plan and switching over

to a next-generation system. Through strategic introduction next-generation standards, thin clients, and mobile devices, we are creating an environment which safely makes possible diverse work styles. Also, we are striving to establish infrastructure and improve business systems at overseas positions, upgrading the global network.

Optimizing business duties by introducing RPA

An RPA Promotion Team has been assembled in the Information Systems Department. In fiscal 2019, approximately 3,500 hours of labor were supplied by 20 robots. In addition to reducing work hours, this had various positive effects. Being freed from routine work lightens the mental burden, information can be received in real time, and processing work for massive quantities of data, which people found conventionally difficult to carry out, was made possible. Going forward, we plan to expand this to the entire Group and train robot developers. During fiscal 2020, we will aim to reduce working time by 10,000 hours.

Using communication tools

Through introducing communication tools that have a chat function, we can obtain immediate confirmation of photographs taken in field surveys and other inspections of construction sites, and make situation reports more effective. Also, the summer of 2019 saw several natural disasters, in particular Typhoon Hagibis. At such times, we were able to use these tools to confirm safety and situations at sites as well as indoor offices, allowing for the smooth construction of a contact system. Furthermore, in emergency response, they were used to contact each other in such cases as incident/accident reports when it was not possible to use the telephone, and for shared knowledge confirmations.

We are taking measures to prevent the spread of COVID-19. A maximum of 80% of those who work indoors at the head and branch offices are working from home, and work hours are staggered when they must go to the office. By using the chat function, we have been able to communicate smoothly.

Going forward, we are striving to quickly share and transmit information at the site by expanding the scope of use of the chat function to include partners, and making efforts to improve functions to optimize business.

Foundations to support growth

Human Resource (=Human Asset) Strategy



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.

<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

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.

| Targets of shorter work hours during the period of the plan | | Fiscal 2019 Results |
|---|---|-----------------------------|
| • Overtime/work on holidays of all employees | Less than 720 hours per year (fiscal 2021) | Achievement rate: 76.1% |
| • Taking of paid leave | 50% or higher on average of all employees | Average: 41.3% |
| • 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). | Implementation ratio: 53.4% |
| • Eight-day or longer closure per four weeks at new project sites | All sites are closed on Saturdays and Sundays, in principle (fiscal 2021). | — |

(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.

We have promoted working from home as far as possible for those who work indoors at the head and branch offices as a preventive measure against the spread of COVID-19. Going forward, society will experience major changes in work styles and lifestyles. We are building a flexible work system and establishing an organization that will fit the era.

■ Major support systems

- Promoting teleworking (work at home, work at satellite offices) to promote work styles not limited by place of work
- In addition to employees working outside the office, we have introduced a flextime system for employees working inside the office, promoting flexible working hours
- We are proactively promoting the use of annual paid leave by hourly units and annual paid leave by half-day units, and transitioning to workplaces where it is easy to receive an annual paid leave.
- We are planning to revise the non-regular employee salary system, and improve the motivation of senior employees

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.

| KPIs | Fiscal 2019 | | Fiscal 2020 |
|---|-------------------|-------------|----------------------|
| | Targets | Actual | Targets |
| Percentage of female managers | 2.0% or higher | 1.96% | 2.2% |
| Percentage of female employees on the major career track among new employees hired as part of regular recruitment | 20% or higher | 16.2% | 20% or higher |
| Percentage of female employees on the major career track among new employees hired as part of midcareer recruitment | 10% or higher | 18.2% | 10% or higher |
| Number of foreign nationals recruited in regular recruitment | Three to five | Four | Three to five |
| Childcare leave usage ratio | Male 8% or higher | Male 7.8% | Male and Female 100% |
| | Female 100% | Female 100% | |
| Employment rate of people with disabilities | 2.2% | 2.06% | 2.3% |
| Retirement reemployment ratio/continued employment ratio | 90% or higher | 96.4% | 90% or higher |

■ Diversity training/diversity promotion system

| | |
|----------|--|
| Training | Diversity training for managers |
| | Career training for female leader candidates |
| | Training for managers in charge of female employees |
| | Business Japanese training for foreign national employees/foreign national prospective employees |
| System | Reestablishing a female-friendly workplace environment |
| | Plans to establish a career counseling service for female employees |
| | Use of a counseling service for foreign national employees and their families |

(2) Promotion of female activity

The company is making active efforts to sweep away the conventional image of a construction company. We are supporting the advancement of women in the industry by achieving work-life balance and creating a comfortable labor environment so that all employees regardless of gender can

Promote health in management

In fiscal 2019, we set forth the policy of "making healthy, comfortable workplaces," and seek to further enhance the health management we have been working on to this point. Therefore, we have created an occupational health system by employing an outside consultant, clarifying the concept of health management in the Company, and creating a network of public health nurses for all branches.

Also, we introduced a health management system. We collaborated with a health insurance society to promote the health management of employees by shared use of physical examination result data. We've started using the data for interviews with occupational health physicians and public health nurses. Furthermore, we used the physical examination results to analyze the health conditions and risks of lifestyle disease for employees. Based on the analysis, we created visual representations of health issues, set improvement targets for physical examinations, and implemented policies

fully demonstrate their abilities. At the fifth Female Construction Activity Promotion Awards (held in fiscal 2019) sponsored by the Japan Federation of Construction Contractors, the Company's Cross Functional Team (refer to P.30) received a special award (the Global Award) for their efforts.

The company has established a Diversity Committee, under which we are launching the Female Participation Promotion Subcommittee. As part of these activities, it is being established as a place for exchanges of opinions among the Company's female employees.

In January 2020, Director Hosokawa participated in the meeting to exchange opinions held at the Chubu Branch. As the Chair of the Japan Federation of Construction Contractors' Female Construction Activity Promotion Committee, Director Hosokawa leads the Committee's activities. Also, she provides support from her position as an expert to the female participation promotion activities in the Company. At the informal gathering, attendees exchanged opinions on the situation at the workplace (restrooms and changing rooms, how lunch breaks are spent), communications with superiors and workers, and a work environment where one can balance life events and work.

(3) Investment in human resources

Toward the achievement of the global construction company as set forth in the Company's Vision 2030, we will enhance education and policies to train young employees as early as possible.

■ Education and policies to train young employees as early as possible

- Ensuring provision of education based on the annual education plan
- Starting mentor system to educate young employees and to convince them stay with the Company for a long period of time
- Developing and implementing young employee education plans (rotation, education, qualification acquisition)

to promote the health of employees. In this way, we are conducting a PDCA cycle related to health management.

In fiscal 2019, we participated in spring and fall sessions of "Let's Walk Together!" (sponsored by the National Health Insurance Society for Architecture and Civil Engineering Companies). In this program, teams of families and coworkers compete for the highest average number of steps during the event period. The fall session was the Company's second time to participate, with 614 people forming 110 teams. They totaled over average 9,549 steps, greatly exceeding our target of 8,000 steps.



The members of the Kawajuku Team, who won the superior award in the "Let's Walk Together!" program



Establishing a Safety Culture and Achieving 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.

- 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.
- To improve operational safety, we ensure the performance of repeated cycles of plan, do, check and act in all processes from planning to completion.
- 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 | Zero deaths, critical injuries and major accidents | Frequency rate: 0.6 or less | Severity rate: 0.02 or less |
|--|---|-----------------------------|-----------------------------|
| <p>1. Eliminating accidents through zero risks</p> <p>(1) Eliminating public accidents (third-party accident, property damage, public facility failure)</p> <p>(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.)</p> <p>Priority Measures</p> <p>(1) Improving operational safety with continued implementation of plan, do, check and act cycles</p> <p>(2) Preventing recurring accidents by using accident case studies and complying with rules</p> <p>(3) Complying with laws and regulations related to each site</p> <p>(4) Improving the level of safety and health control</p> <p>(5) Launching safety control using ICT</p> | <p>2. Developing a healthy and pleasant working environment</p> <p>Priority Measures</p> <p>(1) Preventing occupational diseases</p> <p>(2) Promoting mental and physical health</p> <p>(3) Developing an attractive working environment</p> <p>(4) Promoting Construction Career Up System (CCUS)* registration</p> <p><small>* CCUS: Unified government and private sector initiative with the goals of training and increasing the skills of technicians working in the construction industry, and environmental improvements so that technicians can enjoy suitable assessments and treatment.</small></p> | | |

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 construction 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. Measures to respond to COVID-19 pandemic | 2. Preventing quality problems | 3. Improving operational efficiency and reducing in-the-field burdens | 4. Ensuring legal compliance |
|--------------------------------|---|--|--|--|
| | <p>Priority Measures</p> <p>(1) Effective measures based on the declaration of a state of emergency</p> <p>(2) Protect the lives and livelihoods of employees and officers, their families, and all concerned</p> <p>(3) Prevent spread of infection and continue business</p> | <p>Priority Measures</p> <p>(1) Analyzing causes for past cases (human/physical/methodological factors, measures to prevent human errors)</p> <p>(2) Expanding workable practices and issues pointed out in safety and quality audits as well as QSA audits company-wide</p> <p>(3) Checking key quality-related points in construction process</p> | <p>Priority Measures</p> <p>(1) Promoting shorter hours for employees</p> <p>(2) Improving efficiency of site operations with ICT</p> <p>(3) Promoting the Action Plan for Two Days Off per Week (Japan Federation of Construction Contractors)</p> <p>(4) Promote knowledge management</p> | <p>Priority Measures</p> <p>(1) Complying with the Construction Business Act and related laws and regulations</p> <p>(2) Strengthening guidance to companies that have not taken out social insurance</p> |

Efforts to improve safety and quality

To prevent similar accidents, we create safety measure confirmation tools for times when an accident occurs. We are calling for attention at all domestic sites as well as requiring safety measures. By registering the status of implementation of safety measures at sites in the Safety Measures Visualization System

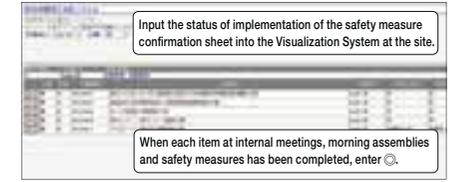
System, reports to and confirmation by the head and branch offices are made simple. This is useful for saving labor. Also, we are providing safety education for employees at all branches, continuously working on improving the level of safety and health control of employees.



Education in the Project Manager Meeting



Education through remote meeting system



Safety Measure Visualization System

Input the status of implementation of the safety measure confirmation sheet into the Visualization System at the site.

When each item at internal meetings, morning assemblies and safety measures has been completed, enter Ⓞ.

We conduct patrols by the Safety, Environment & Production Management Division Director, Division patrol, safety and quality inspections, and QSA* inspections. By repeatedly conducting highly detailed investigations based on past accident examples and quality defects, calls for attention, and instructions for revisions, we are preventing industrial accidents and quality defects before they happen. Also, information on matters identified and flaws in construction processes accumulated by patrols and inspections is shared

at QSA* meetings. Also, we repeatedly provide information on them at the project manager meeting, briefings for the partner-composed Shineikai, chief/staff meeting, and other meetings.

The Company and its partners share the same awareness and viewpoint, working together as one to improve safety and quality.

*QSA (Quality Safety Auditor)
Our main duties are to appropriately confirm and inspect the safety and quality management activities conducted in order for sites to meet product requirements, thereby preventing accidents and quality problems before they happen during construction work and in the future after completion.

■ Fiscal 2019 status of implementation of patrols and inspections

| | Civil engineering | Building construction | No. of issues pointed out |
|---|-------------------|-----------------------|---------------------------|
| Patrol by the Safety, Environment & Production Management Division Director | 44 times | 78 times | 1,082 cases |
| Division patrol | — | 104 times | 745 cases |
| Safety and quality inspections | 100 times | 103 times | 2,536 cases |
| QSA audit | 973 times | 1,447 times | 7,119 cases |

■ Efforts to improve safety and quality (education for employees and partners)

| | Civil engineering | Building construction |
|--------------------------------------|------------------------------------|-----------------------|
| Project manager meeting | 761 persons | 1,189 persons |
| Chief/staff meeting | 212 persons | 394 persons |
| Shineikai (partner company) briefing | 1,514 persons from 1,454 companies | |
| Lecture given to workers | Total 26,831 persons | |

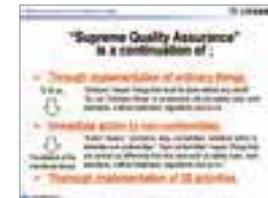
Started QSA operations with the International Division

In line with the increase in construction overseas, domestic production control initiatives are expanding overseas. Therefore, we started QSA Operations with the International Division in fiscal 2019. In fiscal 2020, important quality control items were determined, and we are making sequential

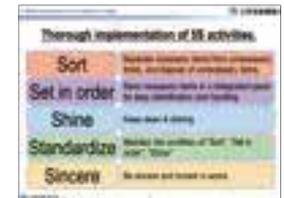
revisions to the construction quality control forms that match the circumstances in each country. Also, for onsite employees and local staff members, we conduct principle education on supreme quality assurance and QSA inspections through the Internet, working to enhance construction quality control.



February 2020 Onsite Supreme Quality Assurance Information Session (Delhi, India)



Doing what you normally do in a thorough manner, supreme quality assurance, giving face-to-face and on the spot reprimands, ensuring the 5S movement



Principle education material excerpt

Foundations to support growth

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



Hideki Monde
Representative Director,
President

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.

Location : Head Office: Taïto-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



Kozo Amemiya
Representative Director,
President

Seiwa Co., Ltd.

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

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



Toru Sugawara
Representative Director,
President

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.

Location : Head Office: Taïto-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



Koji Tada
Representative Director,
President

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.

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



Hisaya Tanaka
Representative Director,
President

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.

Location : Head Office: Nagareyama City, Chiba Prefecture
Plants: Nagareyama City in Chiba Prefecture, Hiki-gun in Saitama Prefecture
Founded : July 1986
Business description: Shield, tunnels, PC construction, lease of machinery and materials for construction, etc.



Tsunehisa Otsuki
Representative Director,
President

<Other companies>

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 |
| SMCC (Thailand) Co., Ltd. (Thailand) | Founded: August 1972 |
| SMCC Malaysia Sdn. Bhd. (Malaysia) | Founded: April 2014 |
| SMCC Overseas Singapore Pte. Ltd. (Singapore) | Founded: August 2012 |

| | |
|--------------------------------------|------------------------|
| Pt. SMCC Utama Indonesia (Indonesia) | Founded: June 1976 |
| SMCC Construction India Ltd. (India) | Founded: December 1996 |
| SMCC Taiwan Co., Ltd. (Taiwan) | Founded: December 2017 |

Fibex Co., Ltd.

Aramid is a high functional fiber that has characteristics such as high power, heat resistance, dimensional stability and chemical resistance. We are expanding its use as a reinforcement material in concrete and other structures.

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



Shinichi Kondo
Representative Director,
President

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.

Location : Head Office: Shinjuku-ku, Tokyo
Branches: Hokkaido, Miyagi, Tokyo, Aichi, Osaka, Fukuoka
Founded : February 1948
Listed on the second section of the Tokyo Stock Exchange
Business description: Road, expressway, garden, and description: general civil engineering work, etc.



Takayuki Matsui
Representative Director,
President

List of Officers (as of the end of June 2020)

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, Sumitomo Mitsui Construction Co., Ltd.
April 2015 Representative Director, President & CEO (to present)



Yoshitaka Mimori
Representative Director
Executive Vice President
Division Director

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



Kunio Hanato
Representative Director
Executive Vice President
Division Director

Officer supervising Safety, Environment & Production Management Div.,
Officer in charge of Safety, Environment & Production Management Div.

April 1974 Joined Mitsui Construction Co., Ltd.
October 2012 Executive Officer
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
Division Director

Officer supervising Business Innovation & Incubation Div./Global Div.,
Officer in charge of Audit Department/Secretariat
Division Director, Administration Div.

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

Directors



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.
April 2008 Senior Managing Executive Officer, JFE Holdings, Inc.
June 2009 Representative Director, President, JFE Life Corporation
April 2011 Executive Officer
June 2012 Auditor, JFE Holdings, Inc.
June 2016 Director, Sumitomo Mitsui Construction Co., Ltd. (to present)



Jun Sugie
Director (External Director)

April 1979 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
June 2011 Regional Commissioner, Tokyo Regional Taxation Bureau
December 2012 Counselor, 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 Senior Managing Executive Officer

May 1993 Journalist (to present)
October 2003 Member, Shiga-Gun City Board of Education
April 2004 Part-time lecturer (contemporary politics), Seisa University (to present)
January 2016 Director, Chiba Institute of Technology
June 2017 Director, Japan Institute for National Fundamentals (to present)
June 2019 Director, Sumitomo Mitsui Construction Co., Ltd. (to present)



Shigetoshi Kondo
Director Managing Executive Officer

April 1988 Joined The Sumitomo Bank, Ltd.
April 2016 Director, Nagoya Corporate Solution Center
Department Manager, Corporate Strategy Dept., Sumitomo Mitsui Banking Corporation
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 Senior Managing Executive Officer, Sumitomo Mitsui Construction Co., Ltd. (to present)
Officer in charge of Corporate Planning Dept., Affiliated Business Dept. and Sustainability Promotion Dept.
Assistant Officer in charge of Construction IT Design Dept.
June 2019 Director, Sumitomo Mitsui Construction Co., Ltd. (to present)
April 2020 Division Director, Corporate Planning Division, Sumitomo Mitsui Construction Co., Ltd. (to present)



Toshio Shibata
Director Managing Executive Officer

April 1985 Joined Mitsui Construction Co., Ltd.
April 2019 Department Manager, Civil Engineering Technical Consulting Dept., Civil Engineering Div., Sumitomo Mitsui Construction Co., Ltd.
April 2018 Executive Officer
April 2019 Branch Manager, Tokyo Civil Engineering Branch
April 2020 Managing Executive Officer (to present)
Division Director, Civil Engineering Division (to present)
June 2020 Director, Sumitomo Mitsui Construction Co., Ltd. (to present)

Auditors



Michio Harada
Full-time Auditor

April 1981 Joined Sumitomo Construction Co., Ltd.
June 2011 Department Manager, Audit Dept., Sumitomo Mitsui Construction Co., Ltd.
June 2016 Full-time 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)



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 2010 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)



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



Yukihiko Hoshi
Auditor (External Auditor)

April 1975 Joined Sumitomo Metal Mining Co., Ltd.
July 1979 Topical Report 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 Environment, Safety & Environment Control Dept., Sumitomo Metal Mining Co., Ltd.
June 2014 Department Manager in charge of Environment, Safety & Environment Control Dept., Department Manager in charge of Corporate Planning Dept.
June 2018 Auditor, Sumitomo Mitsui Construction Co., Ltd. (to present)

Corporate Governance

Initiatives in Fiscal 2019

At the Board of Directors meeting in fiscal 2019, based on the intent of our Corporate Governance Code, beginning with deliberation on such topics as the appointment and dismissal of Officers, measures for returns to shareholders, and policies related to cross-held stocks, we repeatedly held discussions and considerations regarding various measures such as those on the opinions of investors that we have obtained

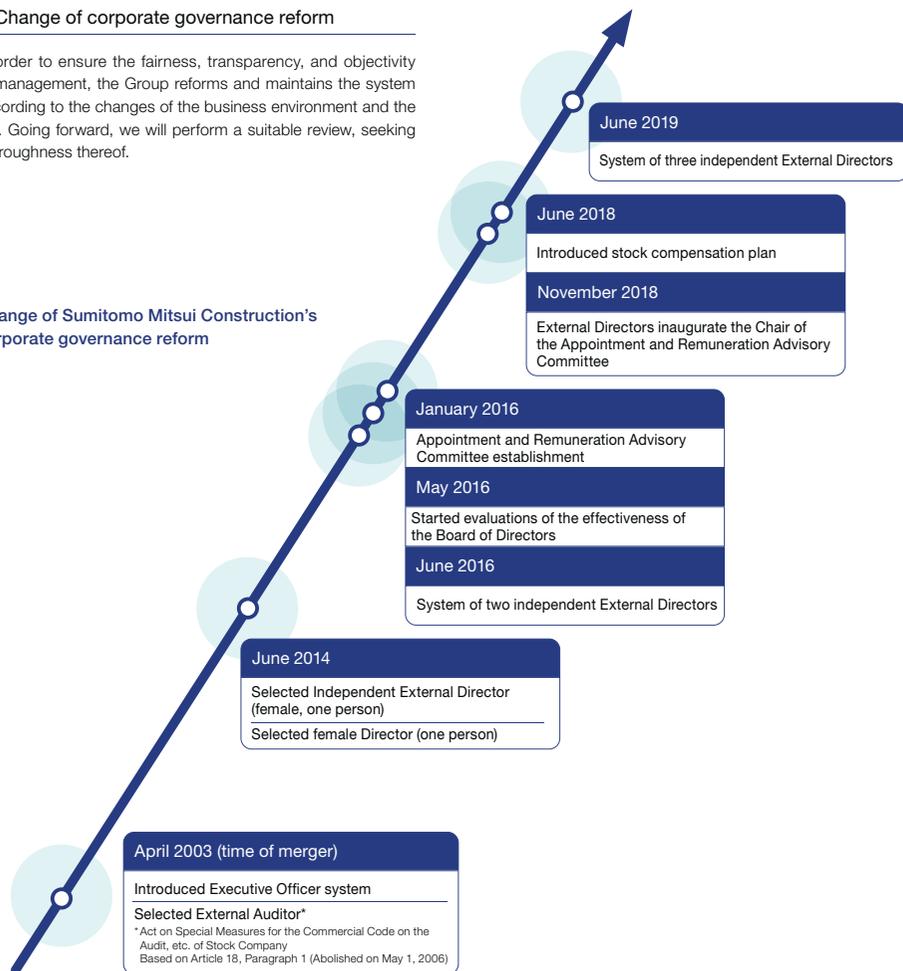
through IR activities, sustainability promotion measures, and the formulation of the Declaration of Globalization, and also continued to further discussions regarding the ensuring and improving of the effectiveness of the Board of Directors.

Regarding the changes in the business environment, the Group set forth and aims for its Vision 2030 in order to achieve a sustainable society and the continuous growth of the Group, and toward achieving this vision, continues to make efforts to enhance its business competitiveness and create corporate value.

Change of corporate governance reform

In order to ensure the fairness, transparency, and objectivity of management, the Group reforms and maintains the system according to the changes of the business environment and the era. Going forward, we will perform a suitable review, seeking thoroughness thereof.

Change of Sumitomo Mitsui Construction's corporate governance reform



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)* | 9 (3) |
| No. of auditors (external auditors)* | 5 (3) |
| No. of board meetings held (FY2019) | 16 |
| (Average attendance of external directors) | (100%) |
| (Average attendance of external auditors) | (100%) |
| No. of Audit & Supervisory Board meetings held (FY2019) | 14 |
| (Average attendance of external auditors) | (100%) |
| Term of directors | One year |
| Executive officer system | Adopted |

* As of the end of June 2020

Officer Appointment and Dismissal

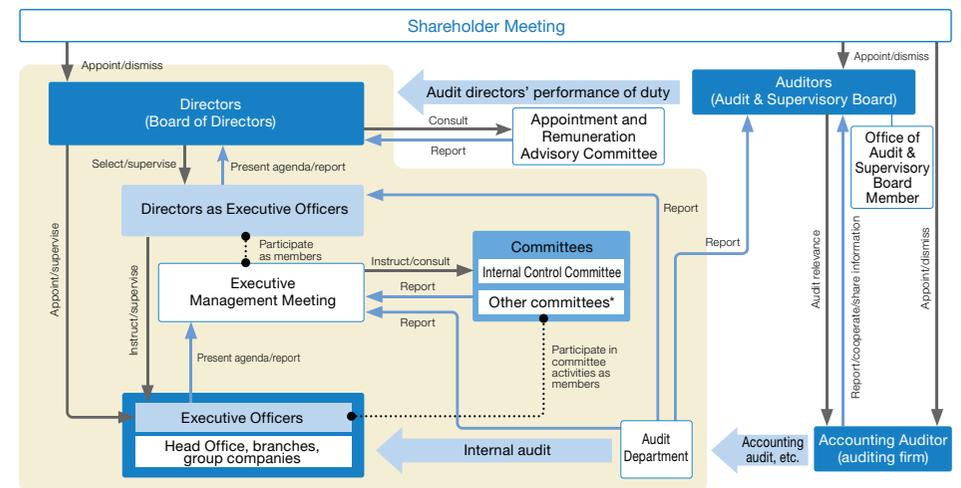
The Appointment and Remuneration Advisory Committee examines officer appointment proposals made by the president as to transparency, fairness and timeliness and discusses their appropriateness and rationality according to the criteria for officer appointment. By referring to the evaluation of the Appointment 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.

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.

Corporate Governance System (as of the end of June 2020)



* Other committees: 11 committees established, including 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)), we seek 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 2019 and the future policy are as follows.

1. Methods of analysis and assessment in fiscal 2019

(1) Carry out questionnaires and interviews through third-party organizations

In fiscal 2019 analysis and evaluations, for the purpose of objectively understanding the position of the Company from a third-party viewpoint, we commissioned third-party organizations to establish and aggregate questions for an anonymous questionnaire (entry of evaluation score for each question, and entry of opinions in a free opinion column) with the following items, conduct individual interviews for External Officers, and generate a report which analyzes them comprehensively.

<Survey questions (outline)>

- Composition of the Board of Directors, Operation of the Board of Directors, Discussion of the Board of Directors
- Monitoring function of the Board of Directors
- Performance of Internal Directors
- Support system and training for Directors and Auditors
- Dialogue with shareholders (investors), and evaluation of their own efforts, etc.

(2) Evaluations by the Board of Directors

In evaluations, analysis and evaluation were conducted by the Board of Directors in reference to the third-party report.

2. Overview of analysis and assessment results in fiscal 2019

(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) Items receiving positive evaluations

The items for which evaluations remained positive and items for which the evaluation score has improved since the last time and thereby show the results of our efforts for improvement were indicated by the replies as follows.

- (i) The number of members of the Board of Directors as well as the number of Internal Directors and independent External Directors is appropriate.
 - (ii) The frequency with which the meeting of the Board of Directors is held is appropriate.
 - (iii) The meeting of the Board of Directors allows for free, constructive discussions and exchanges of ideas.
 - (iv) The personnel system which supports the activities of Directors and Auditors is adequately arranged.
 - (v) Dialogues with shareholders (investors) are fed back to the Board of Directors and applied accordingly.
- (3) Opinions for future improvement**
- Meanwhile, items associated with the following matters that need improvement have been shared to further improve the function of the Board of Directors and to stimulate discussion.
- (i) Regarding supervision and monitoring of the entire Group's internal controls systems, the Board of Directors will participate in further depth in order to further improve their effectiveness.
 - (ii) In order to provide External Directors an even more appropriate, precise understanding of the Company's business, we will conduct systemic inspections of the Company's divisions (construction sites), hearings with affiliates and other such activities.
 - (iii) It is necessary to secure adequate time to discuss forecast potential risks that may occur in the process of executing management strategies and management plans and methods to deal with such risks, as well as the mid- to long-term strategy which includes such initiatives as pioneering overseas business, new technology fields, and new business.

Remuneration of Officers

Regarding items related to the remuneration system and standard for Directors, the Appointment and Remuneration Advisory Committee, an advisory body to the Board of Directors that comprises a majority of its members from External Officers, carefully examines them from an independent and objective perspective and provides appropriate advice and opinions, and upon consultation with the committee, the items are deemed as meeting the requirements to be submitted to the Board of Directors. By referring to the advice and opinions of the committee, decisions on remuneration of individual officers are made by the Board of Directors.

Remuneration of Directors (excl. External Directors) is composed of basic remuneration as monetary remuneration, combined with restricted stock system which involves ownership of stocks that rise and fall with market fluctuations sharing the benefits and risks of stock price fluctuations with shareholders as a mid- to long-term incentive remuneration in order to further raise the desire to contribute to stock price increases and improvements in corporate value. Monetary remuneration and restricted stock are fundamentally determined on an appropriate level by taking into account, in addition to position according

to duties, the management environment, performance, remuneration levels of other companies in related industries, and consistency in treatment of employees.

Regarding External Directors, from the point of view of guaranteeing their independence, they receive only basic remuneration as monetary remuneration, the level for which is fundamentally determined by taking into account factors such as the securing of superior human resources and the effective functioning of the monitoring, supervision and audit functions as independent officers.

The upper limit of remuneration of officers is as follows:

- (1) Resolution at the ordinary shareholders' meeting on June 27, 2019
 - Up to 450 million yen in total per year (including employee salary paid to persons who act as both employees and directors, of which External Directors were within 80 million yen)
- (2) Resolution at the ordinary shareholders' meeting on June 28, 2018
 - Monetary remuneration receivables provided as remuneration related to restricted stocks to Directors excluding External Directors, separately from the remuneration under (1) above Up to 60 million yen in total per year

Remuneration of Officers (breakdown) (fiscal 2019)

| Officer category | No. of persons | Total amount | Remuneration, etc. (million yen) | | |
|--------------------------------------|----------------|--------------|----------------------------------|------------------|--------------------|
| | | | Fixed | | Performance-linked |
| | | | Basic | Restricted stock | |
| Directors (excl. External Directors) | 8 | 269 | 243 | 26 | — |
| Auditors (excl. external auditors) | 3 | 37 | 37 | — | — |
| External officers | 7 | 69 | 69 | — | — |

Note: The amount of 16 million yen is paid as employee salary to two persons who act as both employees and directors, separately from the amount in the left table.

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.

Fiscal 2020 Basic Policies for Internal Controls were determined by resolution of the Board of Directors meeting held on April 22, 2020. In fiscal 2020, we will focus our attention on the following items.

- (i) Promoting work style reforms and reducing long work hours
- (ii) Promoting compliance management and improving the reliability and effectiveness of i-message.
- (iii) Establishing a safety culture and achieving supreme quality assurance at domestic and overseas businesses
- (iv) Enhancing the internal controls and governance systems of all companies in the Sumitomo Mitsui Construction Group
- (v) Building a system that can adapt to situations that impact business continuity, such as the spread of COVID-19.

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, at branches with jurisdiction over the relevant sites, we made plans for the "Construction Business Act Patrol," and are continuously carrying out patrols. 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 revisions to the Civil Code, issues with non-conformity with contracts, the Subcontract Act, bankruptcy-related legislation, bribery, etc., 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.

Also, on November 1, 2019, the i-message (Internal Reporting System) became the first general contractor to be registered in the Whistleblowing Compliance Management System (autonomous conformity declaration registration system) of the Consumer Affairs Agency.



■ Measures to Raise Awareness of Human Rights and Address Harassment

For all employees, we provide education to raise awareness of human rights. We assign at least one male and one female staff member to sever as a Harassment Consultation Service at 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. In fiscal 2019, we conducted activities to create a workplace where harassment doesn't happen. We provided harassment prevention education that incorporates recent trends, including at affiliates, worked to revise work regulations, and clarified prohibited acts and discipline items.

■ Risk Management System

The Group recognizes "risk" as a primary factor that obstructs the accomplishment of organizational targets due to the ultimate deterioration of profit performance, increases the effectiveness of risk management by continuously constructing, applying, and improving a risk management system based on the Risk Management Regulations, and thoroughly reduces risks that may impact the Group's business operations. Also, we are working to control and promote risk management from a company-wide viewpoint, and to build a system and structure in order to promote independent risk management in each division and each department.

Also, in a cases where a risk may have a major impact on the Group's management or business activities due to human/physical damage or a loss of societal trust, or where there is a possibility that such a risk may materialize, we take appropriate countermeasures based on the Crisis Management Regulations.

■ Business Continuity Plan (BCP)

Fully 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 (certification renewed in November 2019), 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 on response to a terrorist incident and as necessary. Regarding response to a terrorist incident, we have concluded a contract related to crisis management with a consulting company that specializes in crisis management, striving to further enhance our crisis management system.

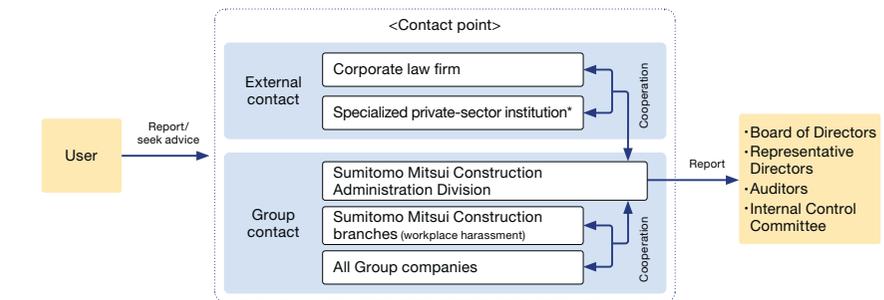
■ Serious Risk Event

(1) There are concerns regarding a reduction of construction demand along with a major impact on corporate earnings in manufacturing and other industries due to the spread of COVID-19 causing a rapid deterioration of the global economy. Domestically, a declaration of a state of emergency was made for the entire country, taking into account the increase of infections and growing severity of impact. There are concerns around the world regarding a lingering impact. The construction industry has a wide range, and bears responsibility for the appropriate operation, maintenance, and renovation of social capital such as public infrastructure, even in the face of the COVID-19 crisis, and has a wide sphere of potential impact, in particular employment. Therefore, we shall continue to carry out responses based on the policies and action plans of the governments of Japan and each country where we are active while making the safety and health of involved parties and employees our highest priority. (For specific initiatives, see P. 57)

(2) 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, litigation was filed by one of the companies that ordered the housing complex regarding such issues as the rebuilding costs for all buildings of the complex and costs for temporary housing during the rebuilding period. Regarding the lawsuit claiming compensation from our company and two pile construction companies, we believe this litigation lacks grounds and reasons, and we will continue to make this case as appropriate in the trial.



[i-message] (collective term for Sumitomo Mitsui Construction Group internal reporting system and workplace harassment counseling system)



* Reporting in English and Chinese can be made at some contact points.

Respond to COVID-19 pandemic

At the Group, to respond to cases where a risk may have a major impact on the Group's management or business activities due to such factors as human/physical damage or damage to societal trust, or where there is a possibility that such a risk may materialize, we set forth the Crisis Management Regulations, and strive to take appropriate countermeasures. The current spread of COVID-19 is a crisis that may potentially have a serious negative impact in general on the management of the Group. It has been positioned as a level three alert, the highest of the three-staged levels. We have established the Emergency Countermeasures Headquarters with the President in charge, and are making an appropriate response.

In addition to basic measures such as avoiding the 3Cs, reducing the scattering of droplets, disinfecting and washing

hands, we are enforcing countermeasures such as measuring temperatures and prohibiting the entry into business areas of those with fevers and health consultations with public health nurses. We are striving to conduct our business continuity plan as an entity that is responsible for infrastructure improvement.

As of July, we are continuing to take measures such as staggered work hours, keeping attendance at the office to 50% or less, holding meetings on the Internet, and enhancing environmental maintenance for telecommuting in preparation for a second and third wave. Through continuing to provide information on and thoroughly enforce countermeasure items in accordance with the situation, we are striving to continue business operations without suspensions at the sites.

Note: The details of the countermeasures are current as of the end of July 2020.

Basic Policies of Sumitomo Mitsui Construction Group

To protect the lives and livelihoods of employees and officers, their families, and all concerned, we will enforce possible measures to prevent the spread of infection to the maximum, and continue business.

“Let's persevere together and overcome COVID-19!”

Establishment of Emergency Countermeasures Headquarters

Promoting telecommuting for head and branch offices indoor work departments

Thoroughly staggered work hours for both indoor and outdoor work

Wearing masks, thoroughly ensuring a distance of two meters

Thoroughly take other measures such as mobility limitations, measuring temperatures, and following up on fevers

COVID-19 countermeasures at sites

Wash hands and face

In addition to thorough enforcement of health management through such measures as using antiseptic solution, strictly observing hand and face washing with soap, and measuring temperatures, as well as the wearing of masks and other such measures during work and meetings, we are making various efforts and thinking of various ways to combat infection in ways such as avoiding the 3Cs.



Strictly observe hand and face washing with soap and running water



Use alcohol disinfectant and gloves when using ice machine

Temperature measurement

- Remaining home in cases where a fever is present (37 degrees or higher. For women, normal fever plus one degree or higher)
- Register the results of each person's temperature measurement on KY (work injury prevention) forms
- Report when the presence of a fever in the past week



Measure temperatures for the morning assembly (Use contactless thermometer)



Record and check temperature and physical condition every day on KY sheet

Everyday calls for attention

Display of an alert screen when a user logs in to the Company's mission critical task systems



Countermeasure enforcement report

Uniform control of the whole branch site through regular reporting which incorporates a system to check the status of implementation of safety measures

Ventilation

- Do not work in places that cannot be ventilated
- Vehicle used to commute, work area, smoking area, office, station (When eating or on break)



Strictly observe meals and breaks inside vehicles. Open windows to ventilate



Keep the window open in the break room. Eat while maintaining distance



Check that there is adequate space for the morning assembly and reduce the number of attendees



Separate meeting venues into two places and use Internet meetings, conduct process meetings

Introduce face covering that effectively reduces scattering of droplets and prevents heatstroke risks

May 4, 2020, the Ministry of Health, Labour and Welfare announced its "new lifestyle model," which recommends wearing a mask. During work, wearing a non-woven mask that excels in stopping droplets has been made compulsory. However, wearing a mask when working outdoors during the summer season brings with it the risk of developing heatstroke. Therefore, we cooperated with Shin Nippon Air Technologies

Co., Ltd., in using materials on hand to develop a face covering that is effective at stopping droplets. We performed verification tests on various shapes, materials, sizes, and wearing methods and checked the results. Since July 2020, we have been conducting sequential distribution to approximately 20,000 employees of the Company and the Group as well as workers from partners at sites.



Face covering



Verification test of particulate visualization system (VIEST)



Other Responses

Accompanying the spread of COVID-19, we started a trial for working remotely from the Head Office in March 2020. Since the Japanese government made a declaration of a state of emergency on April 7, 2020, based on the Basic Policies, we have thoroughly taken the following measures: 1) promoting telecommuting for head and branch offices indoor work departments, 2) thoroughly staggering hours when attending the office, and 3) wearing masks and maintaining a distance of two meters when attending the office (separated office spaces).

In the business aspect, we have taken temporary measures such as prohibiting business trips or work outside of the prefecture as a general rule, and voluntarily restraining from meetings (excluding meetings via the Internet).

In terms of health management, have made measuring

and reporting body temperatures, including for the family members in the same household, notifications in a case where the temperature is over 37°C and progress reports mandatory. From April to June, we established a COVID-19 counseling service in cases where there were concerns such as health management and cases of infection even where there is no fever, with public health nurses at the Head Office responding even on days off.

Also, as a response regarding the temporary closure of schools such as elementary schools due to COVID-19 countermeasures, in cases where an employee has a child who is elementary school student in the sixth grade or under and their school is closed, we took measures such treating the number of business days up to May 8 as childcare leave.



Ensure a distance of two meters or more between seats



Hold the welcoming ceremony via teleconferencing (to homes) from the Head Office



Hold management meetings via the Internet

Carry out donations

Through the joint signatures of the employee association and volunteer officers and employees, we have made donations totaling 25,835 thousand yen to provide support for the resolution of social issues such as the medical care crisis and economic hardship that have accompanied the spread of COVID-19. We used a matching gift* system, in which the Company added to the amounts donated by the employees.

We selected donation recipients by choosing, from among the 17 SDG goals, fields related to Goal 1: End poverty in all its forms everywhere, Goal 2: Zero Hunger, Goal 3: Ensure healthy lives and

promote well-being for all at all ages, and Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Specifically, we raised donations for the Akai Hane Central Community Chest of Japan, Medecins Sans Frontieres, the UNICEF Tokyo Office, The Nippon Foundation, Ashinaga, and to support medical care conducted by government administrations in areas where branches are located.

*Matching gift: A system in which a company or organization solicits donations or money for a social contribution, and the company adds to the amount collected to increase the total amount before presenting the donation.

Tripartite Discussion among External Directors

Connecting to the Future To achieve continuous growth



Jun Sugie
External Director



Sakio Sasamoto
External Director



Tamao Hosokawa
External Director

On the Company's image

Sasamoto: I'm from NKK (currently JFE Holdings, Inc.), which is similarly acknowledged as a company with a deep involvement with manufacturing skills. It's been 17 years since the merger of Mitsui Construction and Sumitomo Construction. In the time that I've been working, the steel industry has consolidated from six companies to three. Going forward, I think we'll see

the same progression in the construction industry, so I'm interested in whether or not management is being performed to prepare for that.

Sugie: In my case, I'm from a government office, where there was no focus on pursuing profits. So I'm interested in the thinking of pursuit of profits of the private sector, such as achieving the

target budget. Also, I didn't really have any involvement with the construction industry before becoming a Director. So I thought more roughly that it was all just making concrete structures. Now that I'm a Director and attend the meetings of the Board, we have of course had discussions on new fields such as the SDGs and solar power generation as well as various issues. In January 2020, the Group made its Declaration of Globalization. In an industry not thought as very

global, I admire the dynamism of the president himself taking initiative with this kind of declaration.

Sasamoto: I'd say that having advanced into overseas markets ahead of other companies and built a network with local partners is a strength of the Company overseas. This is the fourth year I've been in this position. The Declaration of Globalization was made amidst overseas orders increasing in the past two years and progress with positioning personnel overseas. I think it was done at just the right time.

Hosokawa: In my work as a journalist, I've had dealings with universities and government offices. I've found that private-sector companies differ completely from other sectors in budget and profit management.

Sasamoto: For private-sector companies to survive and continue to provide employment, pay taxes, and distribute dividends, they collect money by making and selling things, and ultimately think about how much profit they can generate. A focus on the SDGs is of course also important, and I myself have a spotlight on that issue.

Sugie: Also, I'm impressed with the thoroughness of safety control. The Division Directors of the Safety, Environment & Production Management Division themselves make inspection tours of the sites.

Hosokawa: Letting their guard down even slightly can have a direct effect on a person's life, so the managers as well are exceedingly vigilant.

Sasamoto: In terms of hazardous factors, the steel industry

deals with heavy weight, while the construction industry deals with height. No matter how careful, accidents cannot be eliminated. So there's nothing to do but repeatedly provide guidance with simple honesty. At the Company, they are making efforts to establish of a safety culture, and make the achievement of supreme quality assurance at an early stage take root as their corporate culture.

On diversity and human resource training

Hosokawa: I think it's important to create an environment in which women can get married and raise children while working. I'd like companies to have a mentality toward women of maintaining a good balance between work and raising children. Achieving that requires the cooperation of men, and that makes communication important. And that's both at home and in the work place. By making work and family compatible for not only women but men as well, I believe synergies will be generated.

Sasamoto: In the coming age, companies will have to create systems and alternatives that can make work and family compatible.

Hosokawa: The Company has thorough systems such as childcare leave and reduced hours, but we often hear people say they don't know how to use them. It's extremely important to create an atmosphere in the workplace where people can use these services without feeling hesitant, in accordance with their family situations.

Sugie: At the beginning of the period, there's a meeting in which those in the positions of Department Manager and up meet, and there are no women there. In the case of similar meetings at government offices, about 10% of the attendees are women.

Hosokawa: Posts (roles) also serve to develop people. If there are multiple candidates, I'd say it's necessary for one among them to be a woman.

Sasamoto: In order to secure capable human resources, I think it's necessary for the company to appeal to women by directly asking them to join.

Hosokawa: I participate in the Japan Federation of Construction Contractors' Female Construction Activity Promotion Committee activity as the Chair. Now, the construction industry is hiring an increasing number of women. As a result, it is necessary to clarify the expectations and future vision for the industry, and also to show results. Up until now, the construction industry has been made up of companies where only men worked. We can expect the industry to widen the outlook due to the increase of women as well as generating new ideas and businesses from that. As the construction industry makes living spaces, I think a woman's viewpoint is important.

Sugie: At government offices as well, women cannot further their development because bosses have difficulty with determining

a suitable management style. With men, bosses have no problem scolding or being tough when necessary. However, they hesitate to do that with women. The current challenge for the management ranks is working on methods for training women.

Sasamoto: Even if women were to be systematically placed in managerial positions, how motivated an individual is to be engaged in their work would present a different issue. I think it's necessary to interview individuals and set goals, and to provide education to bosses who have female employees among their subordinates. If human resources are being developed, it is necessary to have a successor development plan. It is regarded as important for consolidated management, Group governance, and internal controls. I think one way to train management is to have individuals serve as President of an affiliate, enhance their careers, and then return to the Company.

Sugie: In management training, we need to think about the Company creating opportunities for learning, such as through human resource exchanges including exchanges with those outside of the Company as well as overseas experience.



On the role of the Board of Directors

Sugie: I believe that the Company often has discussions regarding issues such as those with corporate governance.

Hosokawa: The direction and trends of society have changed greatly due to the impact of COVID-19. For us, we must think seriously about the future of the construction industry. I think it's advisable to view COVID-19 as a cue to quickly start discussions regarding a mid- to long-term strategy in the core business of civil engineering/building construction and new businesses.

Sasamoto: I want us to be a bright, forward-looking company. It is encouraging and hopeful for the younger generation that there are departments in the Company that pursue dreams, and frontier departments that perform a slightly different business from their original business, and will shoulder the future of the Company. Of course we will continue working to improve civil engineering/building construction, but I want us to find the next issue and make it a target for the Company. I think the management should remain aware of such things. A severe business environment has continued ever since the business merger, but the treatment of company employees has improved greatly in the four years in which I have served as director. Amidst all this, I believe that the Vision 2030 is a good target. I think it will be advisable to specifically describe how Company will move toward achieving Vision 2030 under the next Mid-term Management Plan.

Data Section

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Balance Sheets
March 31, 2020

| | As of March 31, | | |
|--|---------------------------|-----------------|---|
| | 2020 (Millions of yen) | 2019 | 2020 (Thousands of U.S. dollars) (Note 4) |
| Assets | | | |
| Current assets: | | | |
| Cash and deposits (Notes 6-(b), 10 and 11) | ¥ 53,495 | ¥ 74,319 | \$ 491,546 |
| Trade notes receivable, accounts receivable on completed construction contracts and other (Notes 6-(f) and 11) | 200,794 | 166,875 | 1,845,024 |
| Inventories (Notes 6-(a) and 6-(e)) | 30,180 | 25,826 | 277,313 |
| Other current assets (Note 6-(b)) | 15,942 | 18,121 | 146,485 |
| Total current assets | 300,413 | 285,143 | 2,760,387 |
| Non-current assets: | | | |
| Property and equipment, at cost: | | | |
| Land (Notes 6-(b) and 6-(c)) | 14,333 | 13,995 | 131,700 |
| Buildings and structures (Note 6-(b)) | 16,067 | 15,951 | 147,633 |
| Machinery, equipment and vehicles (Note 6-(b)) | 20,468 | 19,179 | 188,073 |
| Construction in progress | 168 | 16 | 1,543 |
| Accumulated depreciation | (27,783) | (26,735) | (255,288) |
| Property and equipment, net | 23,254 | 22,406 | 213,672 |
| Intangible fixed assets | 2,504 | 2,225 | 23,008 |
| Investments and other assets: | | | |
| Investments in securities (Notes 6-(b), 11 and 12) | 15,048 | 20,677 | 138,270 |
| Deferred tax assets (Note 15) | 5,293 | 3,684 | 48,635 |
| Investments in unconsolidated subsidiaries and affiliates | 1,125 | 1,159 | 10,337 |
| Other (Note 6-(b)) | 6,690 | 6,499 | 61,472 |
| Allowance for doubtful receivables | (919) | (944) | (8,444) |
| Total investments and other assets | 27,238 | 31,076 | 250,280 |
| Total non-current assets | 52,997 | 55,708 | 486,970 |
| Total assets | ¥353,410 | ¥340,851 | \$3,247,358 |

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Balance Sheets
March 31, 2020

| | As of March 31, | | |
|--|---------------------------|----------|---|
| | 2020 (Millions of yen) | 2019 | 2020 (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) | ¥103,870 | ¥ 98,496 | \$ 954,424 |
| Electronically recorded payable (Note 6-(f) and 11) | 32,568 | 32,103 | 299,255 |
| Short-term bank loans and current portion of long-term debt (Notes 6-(b), 6-(g), 11 and 20) | 11,511 | 1,777 | 105,770 |
| Lease obligations | 408 | 350 | 3,748 |
| Accrued expenses | 7,962 | 7,610 | 73,159 |
| Income tax payable | 3,565 | 4,481 | 32,757 |
| Advances received on construction contracts in progress | 21,181 | 25,030 | 194,624 |
| Reserve for defects on completed construction projects | 920 | 1,008 | 8,453 |
| Allowance for losses on construction contracts (Note 6-(e)) | 330 | 257 | 3,032 |
| Allowance for contingency loss | 2,159 | 2,159 | 19,838 |
| Other current liabilities | 15,497 | 17,119 | 142,396 |
| Total current liabilities | 199,977 | 190,395 | 1,837,517 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 6-(b), 6-(g), 11 and 20) | 28,330 | 29,842 | 260,314 |
| Lease obligations | 634 | 687 | 5,825 |
| Deferred tax liability on land revaluation (Note 6-(c)) | 285 | 285 | 2,618 |
| Allowance for share-based payment | 16 | — | 147 |
| Liability for retirement benefits (Note 14) | 17,540 | 17,475 | 161,168 |
| Other long-term liabilities | 4,181 | 4,212 | 38,417 |
| Total long-term liabilities | 50,989 | 52,502 | 468,519 |
| Contingent liabilities (Notes 6-(d) and 17) | | | |
| Net assets: | | | |
| Shareholders' equity: | | | |
| Capital stock: | 12,003 | 12,003 | 110,291 |
| Common stock: | | | |
| Authorized: | | | |
| 533,892,994 shares in 2020 and 2019 | | | |
| Issued and outstanding: | | | |
| 162,673,321 shares in 2020 and 2019 | | | |
| Additional paid-in capital | — | 528 | — |
| Retained earnings | 91,084 | 79,694 | 836,938 |
| Treasury stock, at cost: | | | |
| 4,648,600 shares in 2020 and 2,094,304 shares in 2019 | (3,118) | (1,716) | (28,650) |
| Total shareholders' equity | 99,969 | 90,509 | 918,579 |
| Accumulated other comprehensive income: | | | |
| Unrealized holding gain on securities | (2,274) | 1,926 | (20,894) |
| Deferred (loss) on hedging instruments, net of taxes (Note 13) | (156) | (170) | (1,433) |
| Land revaluation (Note 6-(c)) | 73 | 73 | 670 |
| Translation adjustments | (1,130) | (1,086) | (10,383) |
| Retirement benefits liability adjustment (Note 14) | (775) | (655) | (7,121) |
| Total accumulated other comprehensive income | (4,264) | 86 | (39,180) |
| Non-controlling interests | 6,738 | 7,357 | 61,913 |
| Total net assets | 102,443 | 97,953 | 941,312 |
| Total liabilities and net assets | ¥353,410 | ¥340,851 | \$3,247,358 |

The accompanying notes are an integral part of these statements.

Data Section

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Income
 March 31, 2020

| | Years ended March 31, | | |
|---|-----------------------|----------|---|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Net sales (Note 7-(a)) | ¥472,402 | ¥448,758 | \$4,340,733 |
| Cost of sales (Notes 7-(b) and 7-(d)) | 424,733 | 397,709 | 3,902,719 |
| Gross profit | 47,669 | 51,049 | 438,013 |
| Selling, general and administrative expenses (Notes 7-(c), 7-(d) and 14) | 22,903 | 21,831 | 210,447 |
| Operating income | 24,765 | 29,217 | 227,556 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,057 | 975 | 9,712 |
| Payments received from insurance claims | 99 | 89 | 909 |
| Interest expense | (754) | (462) | (6,928) |
| Exchange loss, net | (535) | (109) | (4,915) |
| Financing related expenses | (245) | (54) | (2,251) |
| Gain on sales of property and equipment (Note 7-(e)) | 4 | 98 | 36 |
| Gain on sales of investment in securities (Note 12-(c)) | 0 | 325 | 0 |
| Gain on liquidation of subsidiaries and affiliates | — | 75 | — |
| Loss on sales and disposal of property and equipment (Note 7-(f)) | (66) | (111) | (606) |
| Loss on valuation of shares of subsidiaries and affiliates | (81) | — | (744) |
| Impairment loss (Note 7-(g)) | — | (794) | — |
| Other, net | (506) | (805) | (4,649) |
| | (1,026) | (772) | (9,427) |
| Profit before income taxes | 23,738 | 28,444 | 218,120 |
| Income taxes (Note 15): | | | |
| Current | 7,255 | 7,811 | 66,663 |
| Deferred | 269 | 944 | 2,471 |
| | 7,524 | 8,755 | 69,135 |
| Profit | 16,213 | 19,688 | 148,975 |
| Profit attributable to: | | | |
| Non-controlling interests | 662 | 859 | 6,082 |
| Owners of parent | ¥ 15,550 | ¥ 18,828 | \$ 142,883 |
| | (Yen) | | (U.S. dollars) (Note 4) |
| Profit per share (Note 18) | ¥ 97.89 | ¥ 117.03 | \$ 0.899 |

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Comprehensive Income
 March 31, 2020

| | Years ended March 31, | | |
|---|-----------------------|---------|---|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Profit | ¥16,213 | ¥19,688 | \$148,975 |
| Other comprehensive income: | | | |
| Unrealized holding gain on securities | (4,201) | 916 | (38,601) |
| Deferred gain (loss) on hedging instruments, net of taxes | 14 | (170) | 128 |
| Translation adjustments | (22) | (726) | (202) |
| Retirement benefits liability adjustments | (141) | 11 | (1,295) |
| Total other comprehensive income (Note 8) | (4,351) | 30 | (39,979) |
| Comprehensive income | ¥11,862 | ¥19,719 | \$108,995 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | ¥11,204 | ¥18,960 | \$102,949 |
| Non-controlling interests | 657 | 759 | 6,036 |

The accompanying notes are an integral part of these statements.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Consolidated Statements of Changes In Net Assets

March 31, 2020

| | Year ended March 31, 2020 | | | | |
|---|---------------------------|----------------------------|-------------------|-------------------------|----------------------------|
| | 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 | ¥528 | ¥79,694 | ¥(1,716) | ¥90,509 |
| Changes in items during the period: | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | (513) | (247) | | (760) |
| Dividends from surplus | | | (3,853) | | (3,853) |
| Profit attributable to owners of the parent | | | 15,550 | | 15,550 |
| Change of scope of consolidation | | | (59) | | (59) |
| Purchases of treasury stock | | | | (1,501) | (1,501) |
| Disposition of treasury stock | | (15) | | 98 | 83 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | (528) | 11,390 | (1,402) | 9,459 |
| Balance at the end of the period | ¥12,003 | — | ¥91,084 | ¥(3,118) | ¥99,969 |

| | Year ended March 31, 2020 | | | | | | | |
|---|--|--|------------------|-------------------------|---|--|---------------------------|------------------|
| | 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 |
| | <i>(Millions of yen)</i> | | | | | | | |
| Balance at the beginning of the period | ¥1,926 | ¥(170) | ¥73 | ¥(1,086) | ¥(655) | ¥ 86 | ¥7,357 | ¥ 97,953 |
| Changes in items during the period: | | | | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | | | | | | | (760) |
| Dividends from surplus | | | | | | | | (3,853) |
| Profit attributable to owners of the parent | | | | | | | | 15,550 |
| Change of scope of consolidation | | | | | | | | (59) |
| Purchases of treasury stock | | | | | | | | (1,501) |
| Disposition of treasury stock | | | | | | | | 83 |
| Net changes in items other than shareholders' equity | (4,201) | 14 | — | (44) | (119) | (4,351) | (618) | (4,970) |
| Total changes in items during the period | (4,201) | 14 | — | (44) | (119) | (4,351) | (618) | 4,489 |
| Balance at the end of the period | ¥(2,274) | ¥(156) | ¥73 | ¥(1,130) | ¥(775) | ¥(4,264) | ¥6,738 | ¥102,443 |

Sumitomo Mitsui Construction Co., Ltd.

Consolidated Statements of Changes In Net Assets

March 31, 2020

| | Year ended March 31, 2020 | | | | |
|---|---|----------------------------|-------------------|-------------------------|----------------------------|
| | 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 | \$110,291 | \$4,851 | \$732,279 | \$(15,767) | \$831,654 |
| Changes in items during the period: | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | (4,713) | (2,269) | | (6,983) |
| Dividends from surplus | | | (35,403) | | (35,403) |
| Profit attributable to owners of the parent | | | 142,883 | | 142,883 |
| Change of scope of consolidation | | | (542) | | (542) |
| Purchases of treasury stock | | | | (13,792) | (13,792) |
| Disposition of treasury stock | | (137) | | 900 | 762 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes in items during the period | — | (4,851) | 104,658 | (12,882) | 86,915 |
| Balance at the end of the period | \$110,291 | — | \$836,938 | \$(28,650) | \$918,579 |

| | Year ended March 31, 2020 | | | | | | | |
|---|---|--|------------------|-------------------------|---|--|---------------------------|------------------|
| | 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 |
| | <i>(Thousands of U.S. dollars) (Note 4)</i> | | | | | | | |
| Balance at the beginning of the period | \$ 17,697 | \$(1,562) | \$670 | \$(9,978) | \$(6,018) | \$ 790 | \$67,600 | \$900,055 |
| Changes in items during the period: | | | | | | | | |
| Change in a parent's ownership interest due to transaction with non-controlling interests | | | | | | | | (6,983) |
| Dividends from surplus | | | | | | | | (35,403) |
| Profit attributable to owners of the parent | | | | | | | | 142,883 |
| Change of scope of consolidation | | | | | | | | (542) |
| Purchases of treasury stock | | | | | | | | (13,792) |
| Disposition of treasury stock | | | | | | | | 762 |
| Net changes in items other than shareholders' equity | (38,601) | 128 | 0 | (404) | (1,093) | (39,979) | (5,678) | (45,667) |
| Total changes in items during the period | (38,601) | 128 | 0 | (404) | (1,093) | (39,979) | (5,678) | 41,247 |
| Balance at the end of the period | \$(20,894) | \$(1,433) | \$670 | \$(10,383) | \$(7,121) | \$(39,180) | \$61,913 | \$941,312 |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Consolidated Statements of Changes In Net Assets

March 31, 2020

| | 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 |
| Change of scope of consolidation | | | | | — |
| 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 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 |
| | (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 |
| Change of scope of consolidation | | | | | | | | — |
| 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 |

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.

Consolidated Statements of Cash Flows

March 31, 2020

| | Years ended March 31, | | |
|---|-----------------------|----------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| | (Note 4) | | |
| Operating activities | | | |
| Profit before income taxes | ¥23,738 | ¥28,444 | \$218,120 |
| Depreciation and amortization | 2,143 | 2,115 | 19,691 |
| Impairment loss | — | 794 | — |
| (Decrease) in allowance for doubtful receivables | (20) | (18) | (183) |
| (Decrease) increase in reserve for defects on completed construction projects | (86) | 41 | (790) |
| Increase in allowance for losses on construction contracts | 73 | 129 | 670 |
| Increase in allowance for share-based payment | 16 | — | 147 |
| Increase (decrease) in liability for retirement benefits | 65 | (727) | 597 |
| Loss on sales and disposal of property and equipment | 61 | 13 | 560 |
| Interest and dividend income | (1,057) | (975) | (9,712) |
| Interest expense | 754 | 462 | 6,928 |
| Exchange loss (gain), net | 203 | (324) | 1,865 |
| Equity in loss of affiliates | — | 45 | — |
| Reversal of allowance for PCB disposal expenses | (4) | (165) | (36) |
| (Increase) in trade notes receivable, accounts receivable on completed construction contracts and other | (33,947) | (20,644) | (311,926) |
| (Increase) decrease in inventories | (4,361) | 51 | (40,071) |
| Decrease (increase) in other assets | 2,004 | (4,655) | 18,414 |
| (Decrease) increase in retirement benefits liability adjustments included in accumulated other comprehensive income | (172) | 27 | (1,580) |
| Increase in trade notes payable, accounts payable on construction contracts and other | 5,809 | 4,873 | 53,376 |
| (Decrease) in advances received on construction contracts in progress | (3,787) | (3,505) | (34,797) |
| (Decrease) in other liabilities | (1,839) | (574) | (16,897) |
| Other | 146 | (275) | 1,341 |
| Subtotal | (10,259) | 5,131 | (94,266) |
| Interest and dividends received | 1,104 | 898 | 10,144 |
| Interest paid | (756) | (451) | (6,946) |
| Income taxes paid | (8,093) | (6,601) | (74,363) |
| Net cash provided by (used in) operating activities | (18,005) | (1,021) | (165,441) |
| Investing activities | | | |
| Decrease in fixed deposits | 10 | 1,172 | 91 |
| Purchases of property and equipment | (2,228) | (874) | (20,472) |
| Proceeds from sales of property and equipment | 51 | 444 | 468 |
| Purchases of intangible fixed assets | (555) | (352) | (5,099) |
| Purchases of investments in securities | (501) | (6,915) | (4,603) |
| Proceeds from sales of investments in securities | 27 | 490 | 248 |
| Purchases of shares of subsidiaries and affiliates | — | (295) | — |
| Disbursements for loans receivable | (341) | (160) | (3,133) |
| Proceeds from collection of loans receivable | 158 | 125 | 1,451 |
| Other | (36) | (36) | (330) |
| Net cash (used in) investing activities | (3,416) | (6,400) | (31,388) |

Data Section

Sumitomo Mitsui Construction Co., Ltd.
Consolidated Statements of Cash Flows
March 31, 2020

| | Years ended March 31, | | |
|---|-----------------------|---------|---|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) (Note 4) |
| Financing activities | | | |
| (Decrease) in short-term bank loans | ¥ (265) | ¥ (196) | \$ (2,434) |
| Proceed from long-term debt | 10,000 | 10,000 | 91,886 |
| Payments of long-term debt | (1,511) | (2,286) | (13,884) |
| Increase in long-term loans of employees | 433 | 267 | 3,978 |
| (Increase) in treasury stock | (1,500) | (1,511) | (13,782) |
| Cash dividends paid | (3,844) | (2,918) | (35,321) |
| Cash dividends paid for non-controlling shareholders | (215) | (225) | (1,975) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (1,809) | — | (16,622) |
| Other | (447) | (409) | (4,107) |
| Net cash provided by (used in) financing activities | 837 | 2,719 | 7,690 |
| Effect of exchange rate changes on cash and cash equivalents | (102) | 7 | (937) |
| Net (decrease) increase in cash and cash equivalents | (20,686) | (4,695) | (190,076) |
| Cash and cash equivalents at beginning of the year | 66,430 | 71,125 | 610,401 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 98 | — | 900 |
| Cash and cash equivalents at end of the year (Note 10) | ¥45,842 | ¥66,430 | \$421,225 |

The accompanying notes are an integral part of these statements.

Sumitomo Mitsui Construction Co., Ltd.
Notes to Consolidated Financial Statements
March 31, 2020

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 18 consolidated subsidiaries and 1 affiliates accounted for by the equity method as of March 31, 2020.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(b) Fiscal Year of Consolidated Subsidiaries

All foreign consolidated subsidiaries (7 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.

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(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) Allowance for Share-based Payment

An allowance has been provided based on the estimated amount for share-based payment liability as of 31 March, 2020 in order to cover payments of share to directors based on a share-based payment regulation.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(l) 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, 2020.

(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.

(m) 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.

(n) 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.

(o) 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.

Interest rate swaps qualifying for hedge accounting and meeting specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements is charged or credited to income (short-cut method).

(2) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps

Hedged items: Interest on debt

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(o) Derivatives and Hedge Accounting (continued)

(3) Hedging policy

The Company utilizes interest rate swaps only for the purpose of hedging future risks of fluctuation of interest rates.

(4) Assessment of hedge effectiveness

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.

(p) 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.

(q) Consumption Taxes

Consumption taxes are accounted for by the tax exclusion method.

(r) 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. 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 ¥108.83 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2020. 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.

4. 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 recognized 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) Recognize 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.

- (b) “Accounting Standard for Fair Value Measurement”
(ASBJ Statement No. 30 issued on July 4, 2019)
“Implementation Guidance on Accounting Standard for Fair Value Measurement”
(ASBJ Guidance No. 31 issued on July 4, 2019)
“Accounting Standard for Measurement of Inventories”
(ASBJ Statement No. 9 revised 2019)
“Accounting Standard for Financial Instruments”
(ASBJ Statement No. 10 revised 2019)
“Implementation Guidance on Disclosures about Fair Value of Financial Instruments”
(ASBJ Guidance No. 19 revised 2020)

(1) Outline

The ASBJ has developed an “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter collectively, the “Fair Value Measurement Standard”), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards. The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- (i) Financial instruments defined in “Accounting Standard for Financial Instruments”
- (ii) Inventories held for trading purposes defined in “Accounting Standard for Measurement of Inventories”

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised requiring disclosure of financial instruments broken down by level in the fair value hierarchy.

(2) Scheduled Date of Application

The Company will apply the accounting standards 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.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

- (c) “Accounting Standard for Disclosure of Accounting Estimates”
(ASBJ Statement No. 31 issued on March 31, 2020)

(1) Outline

This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that embody a risk of a significant impact on the financial statements of the following accounting period.

(2) Scheduled Date of Application

The Company will apply the accounting standard from the end of the fiscal year ending March 31, 2021.

- (d) “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections”
(ASBJ Statement No. 24 issued on March 31, 2020)

(1) Outline

This accounting standard has been released to provide and outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

(2) Scheduled Date of Application

The Company will apply the accounting standard from the end of the fiscal year ending March 31, 2021.

5. Additional Information

The estimation of accounting consequences of COVID-19

The timing of the end and the impacts upon domestic and global economy of COVID-19 pandemic are unpredictable and the outlook of market conditions of the future global economy and the Group is laborious to foresee.

Whereas consequences such as suspension of a project are moderate in domestic projects, limitation of activities continues in overseas projects. The Group predicts effects on progress of the projects and calculates accounting estimates such as profit and loss and recovery possibility of deferred tax assets.

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

6. Notes to Consolidated Balance Sheets

(a) Inventories

The components of inventories as of March 31, 2020 and 2019 were as follows:

| | As of March 31, | | |
|---|-------------------|----------------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Merchandise and finished goods | ¥ 1,991 | ¥ 1,292 | \$ 18,294 |
| Materials and supplies | 3,111 | 2,637 | 28,585 |
| Costs on uncompleted construction contracts | 25,074 | 21,894 | 230,396 |
| Real estate for sale | 2 | 2 | 18 |
| | <u>¥30,180</u> | <u>¥25,826</u> | <u>\$277,313</u> |

(b) Pledged Assets

The following assets were pledged at March 31, 2020 and 2019 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, | | |
|--|-------------------|---------------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Cash and deposits | ¥ 0 | ¥ 0 | \$ 0 |
| Land | 6,070 | 6,070 | 55,775 |
| Buildings and structures, net of accumulated depreciation | 540 | 565 | 4,961 |
| Machinery, equipment and vehicles, net of accumulated depreciation | 152 | 152 | 1,396 |
| Investments in securities | 4 | 10 | 36 |
| Others (Investments and other assets) | 10 | 10 | 91 |
| | <u>¥6,778</u> | <u>¥6,810</u> | <u>\$62,280</u> |

Of the above property and equipment, mortgaged assets for factory foundations at March 31, 2020 and 2019 were summarized as follows:

| | As of March 31, | | |
|--|-------------------|---------------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Land | ¥1,258 | ¥1,258 | \$11,559 |
| Buildings and structures, net of accumulated depreciation | 235 | 229 | 2,159 |
| Machinery, equipment and vehicles, net of accumulated depreciation | 152 | 152 | 1,396 |
| | <u>¥1,646</u> | <u>¥1,640</u> | <u>\$15,124</u> |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(b) Pledged Assets (continued)

The secured liabilities as of March 31, 2020 and 2019 were summarized as follows:

| | As of March 31, | | |
|---|-------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Short-term bank loans | ¥ 11 | ¥ 11 | \$ 101 |
| [Including current portion of long-term debt] | [11] | [11] | [101] |
| Long-term debt | 80 | 92 | 735 |

(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 ¥658 million (\$6,046 thousand) and ¥660 million at March 31, 2020 and 2019, respectively.

(d) Contingent Liabilities

At March 31, 2020 and 2019, the Company and consolidated subsidiaries were contingently liable for the following:

| | As of March 31, | | |
|--|-------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| As guarantors of bank loans to employees (house building fund) | ¥ 3 | ¥ 3 | \$ 27 |
| Advance deposits | 1,226 | — | 11,265 |
| As endorsers of notes receivable discounted with banks | — | 300 | — |
| As endorsers of notes receivable endorsed to vendors | — | 11 | — |

(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 ¥24 million (\$220 thousand) and ¥37 million as of March 31, 2020 and 2019, 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 ended March 31, 2019 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.

| | As of March 31, | | |
|---------------------------------|-------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Trade notes receivable | — | ¥213 | — |
| Trade notes payable | — | 51 | — |
| Electronically recorded payable | — | 123 | — |

(g) Financial covenants

For the year ended March 31, 2020

- 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 (\$91,886 thousand) in long-term debt (including the current portion) as of March 31, 2020.

Unused amount on loan commitment agreement as of March 31, 2020 and 2019 were as follows.

| | As of March 31, | | |
|-----------------------------------|-------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Maximum limit under the agreement | ¥20,000 | ¥20,000 | \$183,772 |
| Loan balance outstanding | — | — | — |
| Difference (unused portion) | ¥20,000 | ¥20,000 | \$183,772 |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(g) Financial covenants (continued)

- (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 ¥6,500 million (\$59,726 thousand) in long-term debt (including the current portion) as of March 31, 2020.

- (3) The Company has entered into a syndicated loan contract dated on September 28, 2016 with its seven banks (including different 5 banks 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 ¥3,250 million (\$29,863 thousand) in long-term debt (including the current portion) as of March 31, 2020.

(g) Financial covenants (continued)

- (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 (\$91,886 thousand) in long-term debt as of March 31, 2020.

Unused amount on the committed syndicated loan contract as of March 31, 2020 and 2019 were as follows.

| | As of March 31, | | |
|----------------------------------|-------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Maximum limit under the contract | ¥10,000 | ¥10,000 | \$91,886 |
| Loan balance outstanding | 10,000 | 10,000 | 91,886 |
| Difference (unused portion) | ¥ — | ¥ — | \$ — |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(g) Financial covenants (continued)

- (5) The Company has entered into a committed syndicated loan contract dated on December 26, 2019 with its ten banks (including different 6 banks from above (4)) 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, 2020 shall be equal to or exceed 75% of total consolidated net assets as of March 31, 2019 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 (\$91,886 thousand) in long-term debt as of March 31, 2020.

Unused amount on the committed syndicated loan contract as of March 31, 2020 and 2019 were as follows.

| | As of March 31, | | |
|----------------------------------|-------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Maximum limit under the contract | ¥10,000 | ¥ - | \$91,886 |
| Loan balance outstanding | 10,000 | - | 91,886 |
| Difference (unused portion) | ¥ - | ¥ - | \$ - |

(g) Financial covenants (continued)

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:

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, 2019.

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

| | As of March 31, | |
|-----------------------------------|-------------------|---------|
| | 2019 | 2018 |
| | (Millions of yen) | |
| 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.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(g) Financial covenants (continued)

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

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

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

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 ¥381,887 million (\$3,112,136 thousand) and ¥345,416 million for the years ended March 31, 2020 and 2019, 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 ¥184 million (\$1,946 thousand) and ¥216 million for the years ended March 31, 2020 and 2019, respectively.

- (c) Selling, General and Administrative Expenses

The significant components of selling, general and administrative expenses at March 31, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|---|--------------------------|---------|------------------------------------|
| | 2020 | 2019 | 2020 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Salaries and wages | ¥10,526 | ¥ 9,884 | \$96,719 |
| Retirement benefit expenses | 595 | 574 | 5,467 |
| Provision of allowance for doubtful receivables | - | 0 | 0 |
| Other | 11,782 | 11,371 | 108,260 |
| Total | ¥22,903 | ¥21,831 | \$210,447 |

- (d) Research and Development Expenses

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥2,750 million (\$22,290 thousand) and ¥2,474 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|-----------------------------------|--------------------------|------|------------------------------------|
| | 2020 | 2019 | 2020 |
| | <i>(Millions of yen)</i> | | <i>(Thousands of U.S. dollars)</i> |
| Buildings and structures | ¥- | ¥32 | \$ - |
| Machinery, equipment and vehicles | 4 | 29 | 36 |
| Land | - | 36 | - |
| Total | ¥ 4 | ¥98 | \$36 |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(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, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|------------------|-----------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Loss on disposal | ¥59 | ¥ 34 | \$542 |
| Loss on sales | 6 | 77 | 55 |
| Total | ¥66 | ¥111 | \$606 |

(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, 2020

There were no impairment loss recognized for the year ended March 31, 2020.

(2) 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 as part of other expenses.

| Location | Usage | Classification | Year ended March 31, 2019 (Millions of yen) |
|-----------------|----------------------------------|--------------------------------|---|
| Hachioji, Tokyo | Elder care facility (1 building) | Land, buildings and structures | ¥794 |

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.

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, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|---|-----------------------|--------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrealized holding gain on securities: | | | |
| Changes in items during the period | ¥(6,056) | ¥1,322 | \$(55,646) |
| Amount of recycling | 2 | (0) | 18 |
| Before income tax effect adjustment | (6,053) | 1,322 | (55,618) |
| Income tax effect adjustment | 1,852 | (406) | 17,017 |
| Unrealized holding gain on securities | (4,201) | 916 | (38,601) |
| Deferred gain on hedging instruments, net of taxes: | | | |
| Changes in items during the period | 21 | (245) | 192 |
| Amount of recycling | - | - | - |
| Before income tax effect adjustment | 21 | (245) | 192 |
| Income tax effect adjustment | (6) | 75 | (55) |
| Deferred gain on hedging instruments, net of taxes | 14 | (170) | 128 |
| Translation adjustments: | | | |
| Changes in items during the period | (22) | (651) | (202) |
| Amount of recycling | - | (75) | - |
| Before income tax effect adjustment | (22) | (726) | (202) |
| Income tax effect adjustment | - | - | - |
| Translation adjustments | (22) | (726) | (202) |
| Retirement benefits liability adjustments: | | | |
| Changes in items during the period | (210) | 1 | (1,929) |
| Amount of recycling | 38 | 25 | 349 |
| Before income tax effect adjustment | (172) | 27 | (1,580) |
| Income tax effect adjustment | 30 | (15) | 275 |
| Retirement benefits liability adjustments | (141) | 11 | (1,295) |
| Total other comprehensive income | ¥(4,351) | ¥ 30 | \$(39,979) |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

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, 2020

| | Balance at | Increase | Decrease | Balance at |
|------------------|--------------------|-----------|----------|-------------------|
| | April 1, 2019 | | | March 31, 2020 |
| | (Number of shares) | | | |
| Shares issued: | | | | |
| Common stock | 162,673,321 | – | – | 162,673,321 |
| | (Number of shares) | | | |
| | Balance at | Increase | Decrease | Balance at |
| | April 1, 2019 | | | March 31, 2020 |
| Treasury shares: | | | | |
| Common stock | 2,094,304 | 2,695,089 | 140,793 | 4,648,600 |

Note 1: Increase of common stock is due to the purchase of fractional 6,689 shares and the acquisition of treasury stock of 800,000 shares and 1,888,400 shares based on the resolution of the board of directors held on May 10, 2019 and on August 7, 2019, respectively.

Note 2: Decrease of common stock is due to the sale of fractional 562 shares in response to shareholder requests and the disposition of treasury stock of 140,231 shares as the compensation of restricted stocks based on the resolution of the board of directors held on August 8, 2019.

For the year ended March 31, 2019

| | Balance at | Increase | Decrease | Balance at |
|------------------|--------------------|-----------|----------|-------------------|
| | April 1, 2018 | | | March 31, 2019 |
| | (Number of shares) | | | |
| Shares issued: | | | | |
| Common stock | 162,673,321 | – | – | 162,673,321 |
| | (Number of shares) | | | |
| | Balance at | Increase | Decrease | Balance at |
| | April 1, 2018 | | | March 31, 2019 |
| 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.

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(b) Dividends:

(1) Dividends paid

For the year ended March 31, 2020

| 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 27, 2019 | Common stock | ¥3,853 | ¥24.00 | March 31, 2019 | June 28, 2019 |

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 |

(2) Dividends with the cut-off date in the year ended March 31, 2020 and the effective date in the year ending March 31, 2021 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 26, 2020 | Common stock | Retained earnings | ¥3,792 | ¥24.00 | March 31, 2020 | June 29, 2020 |

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 |

10. Notes to Consolidated Statements of Cash Flows

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2020 and 2019 were as follows:

| | As of March 31, | | |
|--|-------------------|----------------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Cash and deposits | ¥53,495 | ¥74,319 | \$491,546 |
| Time deposits with maturities of over three months | (7,652) | (7,888) | (70,311) |
| Cash and cash equivalents | <u>¥45,842</u> | <u>¥66,430</u> | <u>\$421,225</u> |

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-(o).

(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.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(b) Fair value of financial instruments

Amounts recognized in the consolidated balance sheets, market value, and the difference at March 31, 2020 and 2019, 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, 2020 | | | | | |
|---|-------------------------------------|-----------------|---------------|---|--------------------|------------------|
| | Carrying value (Millions of yen) | Fair value | Difference | Carrying value (Thousands of U.S. dollars) | Fair value | Difference |
| Cash and deposits | ¥ 53,495 | ¥ 53,495 | ¥ - | \$ 491,546 | \$ 491,546 | \$ - |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 200,794 | 200,764 | (29) | 1,845,024 | 1,844,748 | (266) |
| Securities and investments in securities | 11,581 | 11,584 | 2 | 106,413 | 106,441 | 18 |
| Held-to-maturity securities | 162 | 164 | 2 | 1,488 | 1,506 | 18 |
| Other securities | 11,419 | 11,419 | - | 104,925 | 104,925 | - |
| Total assets | <u>¥265,872</u> | <u>¥265,844</u> | <u>¥ (27)</u> | <u>\$2,443,002</u> | <u>\$2,442,745</u> | <u>\$(248)</u> |
| Trade notes payable, accounts payable on construction contracts and other | ¥103,870 | ¥103,870 | ¥ - | \$ 954,424 | \$ 954,424 | \$ - |
| Electronically recorded payable | 32,568 | 32,568 | - | 299,255 | 299,255 | - |
| Short-term bank loans and current portion of long-term debt | 11,511 | 11,378 | (133) | 105,770 | 104,548 | (1,222) |
| Long-term debt | 28,330 | 28,185 | (145) | 260,314 | 258,981 | (1,332) |
| Total liabilities | <u>¥176,281</u> | <u>¥176,002</u> | <u>¥(278)</u> | <u>\$1,619,783</u> | <u>\$1,617,219</u> | <u>\$(2,554)</u> |
| Derivative transactions (*) | ¥ (224) | ¥ (224) | ¥ - | \$ (2,058) | \$ (2,058) | \$ - |

(*): 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, 2019 | | |
|---|----------------------|-------------------|---------------|
| | Carrying value | Fair value | Difference |
| | | (Millions of yen) | |
| Cash and deposits | ¥ 74,319 | ¥ 74,319 | ¥ - |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 166,875 | 166,858 | (17) |
| Securities and investments in securities | 17,276 | 17,281 | 4 |
| Held-to-maturity securities | 274 | 279 | 4 |
| Other securities | 17,001 | 17,001 | - |
| Total assets | <u>¥258,471</u> | <u>¥258,459</u> | <u>¥(12)</u> |
| Trade notes payable, accounts payable on construction contracts and other | ¥ 98,496 | ¥ 98,496 | ¥ - |
| Electronically recorded payable | 32,103 | 32,103 | - |
| Short-term bank loans and current portion of long-term debt | 1,777 | 1,760 | (17) |
| Long-term debt | 29,842 | 29,150 | (691) |
| Total liabilities | <u>¥162,219</u> | <u>¥161,510</u> | <u>¥(708)</u> |
| Derivative transactions (*) | | | |
| Hedge accounting is not applied | ¥ (246) | ¥ (246) | ¥ - |

(*): 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.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

(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 fair value of loans subject to special hedge accounting treatment of interest rate swaps is based on the present value of the total principal and interest of the borrowings hedged by interest rate swaps, discounted by the interest rate to be applied if similar new loans were entered into.

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, | | |
|-------------------|------|-----------------------------|
| 2020 | 2019 | 2020 |
| (Millions of yen) | | (Thousands of U.S. dollars) |
| | | |

Unlisted stocks (*) ¥4,288 ¥4,535 \$39,400

(*): 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, 2020 and 2019

| | As of March 31, 2020 | | | | | | | |
|---|----------------------|--------------------------------|----------------------------------|---------------|-----------------------------|--------------------------------|----------------------------------|---------------|
| | 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 | ¥ 53,490 | ¥ – | ¥– | ¥– | \$ 491,500 | \$ – | \$– | \$– |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 192,156 | 8,637 | – | – | 1,765,652 | 79,362 | – | – |
| Securities and investments in securities | | | | | | | | |
| Held-to-maturity securities (Bonds) | 45 | 116 | – | – | 413 | 1,065 | – | – |
| | <u>¥245,693</u> | <u>¥8,753</u> | <u>¥–</u> | <u>¥–</u> | <u>\$2,257,585</u> | <u>\$80,428</u> | <u>\$–</u> | <u>\$–</u> |

| | 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 |
| | (Millions of yen) | | | |
| Deposits | ¥ 74,302 | ¥ – | ¥– | ¥– |
| Trade notes receivable, accounts receivable on completed construction contracts and other | 154,199 | 12,676 | – | – |
| Securities and Investments in securities | | | | |
| Held-to-maturity securities (Bonds) | 113 | 161 | – | – |
| | <u>¥228,615</u> | <u>¥12,837</u> | <u>¥–</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, 2020 and 2019. See Note 20.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

12. Securities

Securities at March 31, 2020 and 2019 were summarized as follows:

(a) Held-to-maturity securities

| | As of March 31, 2020 | | | | | |
|---|----------------------|------------|-----------------|-----------------------------|------------|-----------------|
| | 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 | ¥162 | ¥164 | ¥2 | \$1,488 | \$1,506 | \$18 |

| | As of March 31, 2019 | | |
|---|----------------------|------------|-----------------|
| | Carrying value | Fair value | Unrealized gain |
| | (Millions of yen) | | |
| Securities whose fair value exceeds their carrying value: | | | |
| Bonds | ¥274 | ¥279 | ¥4 |

(b) Other securities

| | As of March 31, 2020 | | | | | |
|------------------|----------------------|---------|------------------------|-----------------------------|-----------|------------------------|
| | 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 | ¥ 3,021 | ¥ 1,674 | ¥1,346 | \$ 27,758 | \$ 15,381 | \$12,367 |
| Unrealized loss: | | | | | | |
| Stock | 8,397 | 13,007 | (4,609) | 77,157 | 119,516 | (42,350) |
| Total | ¥11,419 | ¥14,682 | ¥3,262 | \$104,925 | \$134,907 | \$29,973 |

| | As of March 31, 2019 | | |
|------------------|----------------------|---------|------------------------|
| | Balance sheet amount | Cost | Unrealized gain (loss) |
| | (Millions of yen) | | |
| Unrealized gain: | | | |
| Stock | ¥13,693 | ¥10,591 | ¥3,101 |
| Unrealized loss: | | | |
| Stock | 3,307 | 3,618 | (310) |
| Total | ¥17,001 | ¥14,210 | ¥2,791 |

(c) Sales of other securities

| | Year ended March 31, | | |
|---------------------------------|----------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Sales proceeds | ¥27 | ¥490 | \$248 |
| Total gain on sales of security | 0 | 325 | 0 |
| Total loss on sales of security | 3 | 0 | 27 |

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

13. Derivatives and Hedge Accounting

Derivative transactions for the years ended March 31, 2020 and 2019 were summarized as follows:

(a) 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, 2020 and 2019.

(2) Interest-related transactions

| Method of hedge accounting | Transaction type | Hedged item | As of March 31, 2020 | | | | | |
|----------------------------|----------------------------|----------------|----------------------|-------------|------------|-----------------------------|-------------|------------|
| | | | 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 | ¥(109) | \$68,914 | \$68,914 | \$(1,001) |
| | Pay fixed/Receive floating | Long-term debt | | | | | | |
| | | | 2,500 | 2,500 | (114) | 22,971 | 22,971 | (1,047) |
| Total | | | ¥10,000 | ¥10,000 | ¥(224) | \$91,886 | \$91,886 | \$(2,058) |

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

| Method of hedge accounting | Transaction type | Hedged item | As of March 31, 2020 | | | | | |
|----------------------------|----------------------------|----------------|----------------------|-------------|------------|-----------------------------|-------------|------------|
| | | | Contract amount | Over 1 year | Fair value | Contract amount | Over 1 year | Fair value |
| | | | (Millions of yen) | | | (Thousands of U.S. dollars) | | |
| Short-cut method | Interest-rate swaps: | Long-term debt | | | | | | |
| | Pay fixed/Receive floating | | ¥ 6,000 | ¥ 6,000 | (Note 1) | \$55,131 | \$55,131 | (Note 1) |
| | Pay fixed/Receive floating | Long-term debt | | | | | | |
| | | | 4,000 | 4,000 | (Note 1) | 36,754 | 36,754 | (Note 1) |
| Total | | | ¥10,000 | ¥10,000 | | \$91,886 | \$91,886 | |

Note 1: Since these interest rate swaps accounted for by short-cut method are included in that of the long-term debt as the hedged item, the fair values of the contracts are included in the long-term debt.

| Method of hedge accounting | Transaction type | Hedged item | As of March 31, 2019 | | |
|----------------------------|----------------------------|----------------|----------------------|-------------|------------|
| | | | Contract amount | Over 1 year | Fair value |
| | | | (Millions of yen) | | |
| Fair value | Interest-rate swaps: | Long-term debt | | | |
| | Pay fixed/Receive floating | | ¥ 7,500 | ¥ 7,500 | ¥(139) |
| | Pay fixed/Receive floating | Long-term debt | | | |
| | | | 2,500 | 2,500 | (106) |
| Total | | | ¥10,000 | ¥10,000 | ¥(246) |

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

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

14. Retirement Benefit Plans

For the year ended March 31, 2020, 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, 2020 and 2019 were as follows (excluding plans for which the simplified method is applied):

| | Year ended March 31, | | |
|----------------------------------|----------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance at the beginning of year | ¥16,116 | ¥16,929 | \$148,084 |
| Service cost | 866 | 866 | 7,957 |
| Interest cost | 67 | 72 | 615 |
| Actuarial loss | 214 | (6) | 1,966 |
| Retirement benefit paid | (1,145) | (1,714) | (10,520) |
| Foreign currency translation | 0 | (31) | 0 |
| Balance at the end of year | ¥16,120 | ¥16,116 | \$148,120 |

The changes in plan assets during the year ended March 31, 2020 and 2019 were as follows (excluding plans for which the simplified method is applied):

| | Years ended March 31, | | |
|----------------------------------|-----------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance at the beginning of year | ¥44 | ¥52 | \$404 |
| Expected return on plan assets | 4 | 3 | 36 |
| Actuarial gain | 3 | (4) | 27 |
| Retirement benefit paid | (8) | (3) | (73) |
| Foreign currency translation | 0 | (3) | 0 |
| Balance at the end of year | ¥45 | ¥44 | \$413 |

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

The changes in liability for retirement benefits based on the simplified method during the year ended March 31, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|---|-----------------------|--------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Balance at the beginning of year | ¥1,404 | ¥1,354 | \$12,900 |
| Retirement benefit expense | 122 | 120 | 1,121 |
| Retirement benefit paid | (45) | (57) | (413) |
| Contribution to defined contribution plan | (15) | (13) | (137) |
| Balance at the end of year | ¥1,466 | ¥1,404 | \$13,470 |

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, 2020 and 2019 is as follows:

| | As of March 31, | | |
|---|-------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Funded retirement benefit obligation | ¥ 415 | ¥ 345 | \$ 3,813 |
| Plan assets at fair value | (194) | (182) | (1,782) |
| | 221 | 163 | 2,030 |
| Unfunded retirement benefit obligation | 17,319 | 17,312 | 159,138 |
| Net liability for retirement benefits in the consolidated balance sheet | 17,540 | 17,475 | 161,168 |
| Liability for retirement benefits | 17,540 | 17,475 | 161,168 |
| Assets for retirement benefits | – | – | – |
| Net liability for retirement benefits in the consolidated balance sheet | ¥17,540 | ¥17,475 | \$161,168 |

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

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

The components of retirement benefit expense during the year ended March 31, 2020 and 2019 were as follows:

| | Year ended March 31, | | |
|--|----------------------|--------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Service cost | ¥ 866 | ¥ 866 | \$ 7,957 |
| Interest cost | 67 | 72 | 615 |
| Expected return on plan assets | (4) | (3) | (36) |
| Amortization of actuarial loss | 398 | 385 | 3,657 |
| Amortization of prior service cost | (360) | (360) | (3,307) |
| Retirement benefit expense calculated by the simplified method | 122 | 120 | 1,121 |
| Total retirement benefit expense | ¥1,090 | ¥1,081 | \$10,015 |

The components of retirement benefit liability adjustments included in other comprehensive income (before tax effect) during the year ended March 31, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|--------------------|-----------------------|-------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Actuarial loss | ¥ 187 | ¥387 | \$ 1,718 |
| Prior service cost | (360) | (360) | (3,307) |
| Total | ¥(172) | ¥ 27 | \$(1,580) |

The components of retirement benefit liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 were as follows:

| | As of March 31, | | |
|---------------------------------|-------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Unrecognized actuarial loss | ¥1,752 | ¥1,940 | \$16,098 |
| Unrecognized prior service cost | (864) | (1,224) | (7,938) |
| Total | ¥ 888 | ¥ 716 | \$ 8,159 |

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 were as follows:

| | As of March 31, | |
|-------|-----------------|------|
| | 2020 | 2019 |
| Bonds | 98% | 93% |
| Other | 2% | 7% |
| 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, | |
|--|-----------------------|------------------|
| | 2020 | 2019 |
| Discount rate | Principally 0.3% | Principally 0.3% |
| Expected rate of return on plan assets | 7.6% | 5.8% |
| Expected rate of increase in salaries | Principally 4.7% | Principally 4.7% |

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

| | Years ended March 31, | | |
|--|-----------------------|------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Contribution to defined contribution plans | ¥779 | ¥792 | \$7,157 |

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

15. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

| | As of March 31, | | |
|--|-------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Deferred tax assets: | | | |
| Liability for retirement benefits | ¥ 5,379 | ¥ 5,360 | \$ 49,425 |
| Accounts payable and accrued expenses | 3,445 | 3,521 | 31,654 |
| Impairment loss | 1,016 | 1,062 | 9,335 |
| Loss on valuation of investment securities | 998 | 8 | 9,170 |
| Other | 2,225 | 2,054 | 20,444 |
| Gross deferred tax assets | 13,066 | 12,008 | 120,058 |
| Valuation allowance | (7,314) | (7,070) | (67,205) |
| Total deferred tax assets | 5,751 | 4,938 | 52,843 |
| Deferred tax liabilities: | | | |
| Retained earnings of foreign consolidated subsidiaries | (428) | (375) | (3,932) |
| Unrealized holding gain on securities | (0) | (855) | (0) |
| Other | (34) | (27) | (312) |
| Total deferred tax liabilities | (463) | (1,258) | (4,254) |
| Net deferred tax assets | ¥ 5,288 | ¥ 3,679 | \$ 48,589 |

The significant differences between the statutory tax rate and the effective tax rates for the years ended March 31, 2020 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.

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Segment Information (continued)

(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.

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

| | Year ended March 31, 2020 | | | | | | |
|--|-------------------------------|----------|----------|--------|----------|-------------|--------------|
| | Reportable operating segments | | | Others | Total | Adjustments | Consolidated |
| | Civil | Building | Total | | | | |
| | (Millions of yen) | | | | | | |
| Sales | | | | | | | |
| External Customers | ¥176,594 | ¥294,776 | ¥471,371 | ¥1,031 | ¥472,402 | ¥ - | ¥472,402 |
| Intersegment transactions or transfers | 617 | - | 617 | 82 | 700 | (700) | - |
| Net sales | ¥177,212 | ¥294,776 | ¥471,988 | ¥1,114 | ¥473,102 | ¥(700) | ¥472,402 |
| Segment income | ¥ 22,265 | ¥ 25,074 | ¥ 47,340 | ¥ 386 | ¥ 47,726 | ¥ (57) | ¥ 47,669 |

| | Year ended March 31, 2020 | | | | | | |
|--|-------------------------------|-------------|-------------|----------|-------------|-------------|--------------|
| | Reportable operating segments | | | Others | Total | Adjustments | Consolidated |
| | Civil | Building | Total | | | | |
| | (Thousands of U.S. dollars) | | | | | | |
| Sales | | | | | | | |
| External Customers | \$1,622,659 | \$2,708,591 | \$4,331,259 | \$ 9,473 | \$4,340,733 | \$ - | \$4,340,733 |
| Intersegment transactions or transfers | 5,669 | - | 5,669 | 753 | 6,432 | (6,432) | - |
| Net sales | \$1,628,337 | \$2,708,591 | \$4,336,929 | \$10,236 | \$4,347,165 | \$(6,432) | \$4,340,733 |
| Segment income | \$ 204,585 | \$ 230,396 | \$ 434,990 | \$ 3,546 | \$ 438,537 | \$ (523) | \$ 438,013 |

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.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Segment Information (continued)

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

| | 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 |

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, 2020

(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, 2020 | | | | | | | |
|---------------------------|---------|--------|----------|-----------------------------|-----------|----------|-------------|
| Japan | Asia | Others | Total | Japan | Asia | Others | Total |
| (Millions of yen) | | | | (Thousands of U.S. dollars) | | | |
| ¥401,065 | ¥67,075 | ¥4,260 | ¥472,402 | \$3,685,243 | \$616,328 | \$39,143 | \$4,340,733 |

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, 2020.

Related Information (continued)

(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, 2020.

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 |
| (Millions of yen) | | | |
| ¥384,728 | ¥55,324 | ¥8,706 | ¥448,758 |

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.

Losses on impairment by reportable segment

For the year ended March 31, 2020, there were no losses on impairment by reportable segment.

For the year ended March 31, 2019, ¥794 million impairment loss was recorded.

Note 1: The above amount consists of elder care facilities of ¥794 million.

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

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Amortization of goodwill and unamortized balance by reportable segment

For the year ended March 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 were summarized as follows:

| Year ended March 31, 2020 | | | | | | |
|---|--|-----------------------|---|-----------------------|---|----------|
| 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, 2020 | |
| <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, 2020 | | | | | | |
| 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, 2020 | |
| <i>(Thousands of U.S. dollars)</i> | | | | | | |
| Affiliated company: Yoshiikikaku Co., Ltd. (Real estate business) | \$91 | 30.0% | Long-term non operating accounts receivable | \$- | Long-term non operating accounts receivable | \$26,812 |
| | | | Long-term accounts payable | \$- | Long-term accounts payable | \$21,492 |

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 (\$26,545 thousand).

Note 3: Consumption tax was excluded from the total amount of the transaction, however it was included in the balance at March 31, 2020.

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Related party transaction (continued)

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 |

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.

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

18. Per Share Information

Net assets and basic profit per share as of and for the years ended March 31, 2020 and 2019 were as follows:

| | 2020 | 2019 | 2020 |
|----------------------|--------------|---------|-----------------------|
| | <i>(Yen)</i> | | <i>(U.S. dollars)</i> |
| Net assets per share | ¥605.63 | ¥564.19 | \$5.565 |
| Profit per share | 97.89 | 117.03 | 0.899 |

Note: Profit per share – diluted was omitted as there were no diluted share for the year ended March 31, 2020 and 2019.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

The basis of calculation for net assets per share at March 31, 2020 and 2019 were as follows:

| | As of March 31, | | |
|---|-----------------------|------------------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Total net assets | ¥102,443 | ¥97,953 | \$941,312 |
| Amounts deducted from total net assets [Including non-controlling interests] | 6,738 [6,738] | 7,357 [7,357] | 61,913 [61,913] |
| Total net assets attributable to common stock | ¥95,704 | ¥90,596 | \$879,389 |
| | (Thousands of shares) | | |
| Number of shares of common stock used to determine net assets per share | 158,024 | 160,579 | |

The basis for calculating basic profit per share – based and profit per share – diluted for the years ended March 31, 2020 and 2019 were as follows:

| | Years ended March 31, | | |
|--|-----------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Profit per share – basic: | | | |
| Profit attributable to owners of parent | ¥15,550 | ¥18,828 | \$142,883 |
| Amount not available to common shareholders | – | – | – |
| Profit attributable to owners of parent per share – basic | ¥15,550 | ¥18,828 | \$142,883 |
| | (Thousands of shares) | | |
| Average number of shares of common stock outstanding | 158,867 | 160,886 | |

19. Subsequent Event

Business Combination by Acquisition

At the meeting of the Board of Directors held on May 13, 2020, the Company resolved to enter into a basic agreement for acquiring 70% of the Mitsui E&S Steel Structures Engineering Co., Ltd. (hereinafter as “MSE”) stock with Mitsui E&S Holdings Co., Ltd. (hereinafter as “MES”) which owns the whole MSE stock, and entered into the agreement on the same date.

As a result of the acquisition, DPS Bridge Works Co., Ltd. (hereinafter as “DPS”) which is a subsidiary of MSE become a second-tier subsidiary of the Company.

MES and the Company will enter into a definitive agreement in accordance with the provision of the basic agreement.

(a) Summary of business combination

(1) Name of the acquired company and the company’s business

| | |
|------------------------------|---|
| Name of the acquired company | Mitsui E&S Steel Structures Engineering Co., Ltd. |
| The company’s business | Construction of bridge, maintenance of bridge, construction in coastal area |

(2) Purpose of business combination

The SMCC Group has established “Mid-term Management Plan 2019-2021” and its theme as “Accelerate Changes”, which aims to accelerate changes to enhance our business competitiveness and create corporate value based on policies: (1) Change the construction process (2) Strengthen overseas business (3) Expand businesses domain.

The Group considers this acquisition of stock will leads to expand to steel structure business, and will enables to make comprehensive design/build approach for prestressed concrete and steel structure bridges.

Massive renewal of infrastructure and expanding business in overseas are expected in this business area, and it is also expected that utilization of technology from MSE and DPS and improvement of efficiency of business/production bases and construction management system will lead to improve productivity of the Group. Therefore, the Group determine the business combination is sufficiently cost-effective and matches the basic policies of the Group’s mid-term management plan, and also the Group’s business resources are beneficial for increasing MSE’s corporate value.

The Group expects great contribution to the Group’s civil construction business strategy and enter into the basic agreement for the acquisition.

(3) Date of business combination

October 1, 2020 (schedule)

(4) Legal form of business combination

Acquisition of stock

(5) Name of the company after business combination

Not determined at present.

(6) Acquiring ratio of voting rights

70%

(7) Measure of acquisition

The Company obtains the stock in exchange for cash.

Data Section

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

- (b) Acquisition cost of the acquired company and the breakdown of the cost

Cannot be disclosed due to stipulation with the counterparty.

- (c) Composition and amount of major acquiring expenses

Not determined at present.

- (d) Price and major components of assets and liabilities transferred on the combination date

Not determined at present.

- (e) Amount of emerged goodwill, source of the goodwill, measure and term of amortization

Not determined at present.

20. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2020 and 2019 were summarized as follows:

| | As of March 31, | | |
|--|-------------------|--------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Short-term bank loans (at weighted-average interest rates of 4.8% at 2019) | ¥ — | ¥ 266 | \$ — |
| Deposits from employees (at interest rates of 1.0% at 2020 and 2019) | ¥3,415 | ¥2,982 | \$31,379 |

Long-term debt at March 31, 2020 and 2019 were summarized as follows:

| | As of March 31, | | |
|---|-------------------|---------|-----------------------------|
| | 2020 | 2019 | 2020 |
| | (Millions of yen) | | (Thousands of U.S. dollars) |
| Debt with collateral (at weighted-average interest rates of 2.5% at 2020 and 2.5% at 2019) | ¥ 92 | ¥ 103 | \$ 845 |
| Debt without collateral (at weighted-average interest rates of 1.3% at 2020 and 1.4% at 2019) | 39,750 | 31,250 | 365,248 |
| Lease obligations | 1,043 | 1,037 | 9,583 |
| Current portion (excluding lease obligations) | (11,511) | (1,511) | (105,770) |
| Current portion of lease obligations | (408) | (350) | (3,748) |

Sumitomo Mitsui Construction Co., Ltd.

Notes to Consolidated Financial Statements

March 31, 2020

The aggregate annual maturities of long-term debt subsequent to March 31, 2020 were summarized as follows:

| Year ending March 31, | (Millions of yen) | (Thousands of U.S. dollars) |
|-----------------------|-------------------|-----------------------------|
| 2021 | ¥11,511 | \$105,770 |
| 2022 | 6,012 | 55,242 |
| 2023 | 512 | 4,704 |
| 2024 | 9,262 | 85,105 |
| 2025 | 12 | 110 |
| 2026 and thereafter | 12,530 | 115,133 |
| | ¥39,842 | \$366,093 |

The aggregate annual maturities of lease obligations subsequent to March 31, 2020 were summarized as follows:

| Year ending March 31, | (Millions of yen) | (Thousands of U.S. dollars) |
|-----------------------|-------------------|-----------------------------|
| 2021 | ¥ 408 | \$3,748 |
| 2022 | 315 | 2,894 |
| 2023 | 210 | 1,929 |
| 2024 | 87 | 799 |
| 2025 | 21 | 192 |
| 2026 and thereafter | 0 | 0 |
| | ¥1,043 | \$9,583 |

Independent Auditor's Report

The Board of Directors
Sumitomo Mitsui Construction Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
June 26, 2020

福本 予人 

Kazuo Fukumoto
Designated Engagement Partner
Certified Public Accountant

中原 義勝 

Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

Third Party Opinion

Opinion provider: Masao Seki

Professor (non-tenured), School of Business Administration, Meiji University
Senior Advisor on CSR, Sampo Japan Insurance

Graduated from the Faculty of Law, THE University of Tokyo. Served as Director and CSR General Manager at Sampo Japan. He has made efforts to instill CSR in the industrial world, such as his involvement as Chair of the Japan Business Federation (Keidanren) Charter of Corporate Behavior Task Force in a 2017 revision of the Charter of Corporate Behavior to include the SDGs. He also works in capacities such as an expert for the social responsibility standard ISO 26000 and a member of the SDGs Stakeholder Meeting (Ministry of the Environment). He is the author of *SDGs Kaiei Jidai ni Motomarareru CSR towa Nanika* [What kind of CSR will be Required in the SDG Management Era?], (Da-ichi Hoki Co., Ltd.), and other books



1. Introduction

Throughout this entire report, Sumitomo Mitsui Construction upholds their corporate message of "Bridges, Towns, and People," and conveys the Company's stance of commitment to building infrastructure to create prosperity for future generations. Also, I can positively assess that across years of publishing reports, they have clearly set the tone regarding their stance toward striving to integrate sustainability into their Corporate Principles and corporate planning. Below I'll describe the points where improvement has been seen in initiatives and reports, as well as points where further initiatives are anticipated from a sustainability point of view.

2. Points where improvement has been seen in initiatives and reports

The Vision 2030 that the Company is aiming to achieve clarifies that, in the SDG era, it is indispensable for companies to take a long-term point of view and aim to achieve a sustainable society. Furthermore, in April 2020, the Company revised the Charter of Corporate Conduct to include response to the SDGs. This charter sets forth the guidelines for actions that should be taken by Officers and employees to achieve the Corporate Principles. This revision clarified what kind of initiatives should be taken and what kind of contributions should be made through the Company's business to help create a sustainable society. Going forward, I hope to see the creation of a business model based on a substantive understanding of the SDGs, as well as the resolution of social issues through that model.

In terms of organization, there are new pages for the financial review, progress with the Mid-term Management Plan 2019-2021, and the Tripartite Discussion among External Directors. In content, the change of corporate governance reform and ten-year financial statements have been published. Through these improvements, the Company has sent a complete message to stakeholders including institutional investors on the aspects of its financial condition, management strategy and governance. Also, we can read and understand progress with initiatives for diversity and compliance such as promoting female activity and the training of global human resources, and registering a declaration of voluntary conformity with internal reporting systems.

3. Points where further initiatives are anticipated from a sustainability point of view

(1) Specifying materiality

In the analysis and identification of materiality, it is necessary to make progress with the participation and leadership of the top management, analyze of the impact on the economy, environment, and society across the entire value chain, and furthermore, to conduct analysis from both the viewpoints of the positive aspects creating corporate value as well as the negative aspects damaging corporate value.

Also, in materiality identification, it is indispensable to have adequate dialogue with various stakeholders. It is advisable to establish opportunities for employee participation as described on

page 22, and to absorb the opinions and proposals of employees, who are important stakeholders.

(2) Integration with business strategy and future orientation

Upon incorporating sustainability into business, I'd like to see the Company make progress with future orientation. As a characteristic of the Company's business, the urban infrastructure it constructs, such as bridges and high-rise housing buildings, are used for long periods of time. Therefore, it is necessary to take a long-term point of view. Imagining society a few decades from now, it will be necessary to use such digital technologies as the BIM described on page 34, analyze the impact on the economy, environment, and society from the planning stage through future orientation, and incorporate that into designs.

Also, in efforts to address the urgent issue of climate change, it is advisable to take on the challenge of answering the global standard of CDP. In the disclosure of sustainability information, including responding to the TCFD which is spreading among Japanese companies, it is necessary to pay heed to intensifying inquiries into future strategies from the dual aspects of business risk and opportunity based not only past achievements but also on scenario analysis, and commitments to mid- to long-term targets.

(3) Societal aspects, particularly issues related to human rights

Human rights is a theme that stands alongside the environment in terms of importance. In displaying competitive ability as a corporation, management and information disclosure that conform to the global model related to business and human rights that has been established in recent years are required. This report describes such education for employees as raising awareness of human rights and harassment prevention, but the specifics of human rights risks in the entire value chain, including consideration for human rights and labor in procurement and supply chains, and the construction of systems to prevent human rights violations, are not described.

During this fiscal year, the Japanese government plans to release the National Action Plan on Business and Human Rights. I'd like to see the Company make efforts on this point while referring to the descriptions related to the human rights due diligence incorporated in the Charter of Corporate Behavior of the Japan Business Federation (Keidanren) and its implementation guidance.

4. Moving into the future

I think that the Group's Vision 2030 of "A construction company that globally supports and connects 'People' and 'Communities' with new value" can be implemented for the first time by integrating sustainability as a cross-departmental theme in every component of the foundations which support growth, such as technology/ICT/human resources/safety and quality.

Going forward, I hope to see a long series of unyielding efforts and improvements as Sumitomo Mitsui Construction strives toward the kind of company it is aiming to become.

Response to Third Party Opinion

We would like to express our sincere gratitude to Professor Masao Seki for providing his opinions on this report as well as his valuable suggestions offered from a new perspective. Based on the areas that were pointed out regarding the specifics of our materiality as well as initiatives for climate change and human rights, we will engage with them as maximum priority initiatives for this fiscal year. We will carry out endeavors that will lead to the resolution of societal issues and the continuous growth of the Group by further promoting future orientation and fully incorporating sustainability into business activities. We ask for your continued guidance and support.

Shigetoshi Kondo
Director
Senior Managing Executive Officer
Division Director, Corporate Planning Division

Corporate Profile (as of June 30, 2020)

- **Company Name** Sumitomo Mitsui Construction Co., Ltd.
- **Founded** October 14, 1941
- **Established** April 1, 2003
- **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: 4,705 Unconsolidated: 2,798 (as of March 31, 2020)

<Key Offices>

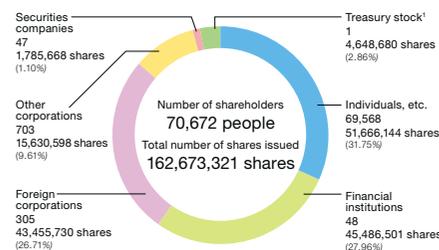
| | | | |
|--|--|---|---|
| Technical & Engineering Service Division R&D Center (Nagareyama City, Chiba Prefecture) | Tokyo Civil Engineering Branch (Chuo-ku, Tokyo) Tokyo Building Construction Branch (Chuo-ku, Tokyo) | Chubu Branch (Naka-ku, Nagoya City) Osaka Branch (Chuo-ku, Osaka City) Hiroshima Branch (Naka-ku, Hiroshima City) | [Offices outside Japan] Manila (Philippines) Guam (U.S.A.) Hanoi (Vietnam) Singapore (Singapore) Jakarta (Indonesia) Bangkok (Thailand) Yangon (Myanmar) Phnom Penh (Cambodia) |
| [Branches] Hokkaido Branch (Chuo-ku, Sapporo City) Tohoku Branch (Aoba-ku, Sendai City) Eastern Kanto Branch (Mihama-ku, Chiba City) | International Division (Chuo-ku, Tokyo) Yokohama Branch (Kanagawa-ku, Yokohama City) Shizuoka Branch (Aoi-ku, Shizuoka City) | Kyushu Branch (Hakata-ku, Fukuoka City) | |

Stock Data (as of March 31, 2020)

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** 70,672 people

Shareholder Composition



¹ Includes 80 shares for which the name of the new shareholder has not yet been registered from the transfer of shares

Major Shareholders

| Rank | Shareholders | No. of shares owned (1,000 shares) | Shareholding ratio ² |
|------|---|------------------------------------|---------------------------------|
| 1 | The Master Trust Bank of Japan, Ltd. (trust account) | 12,286 | 7.77% |
| 2 | Japan Trustee Services Bank, Ltd. (trust account) | 10,200 | 6.45% |
| 3 | Mitsui Fudosan Co., Ltd. | 5,397 | 3.41% |
| 4 | Sumitomo Realty & Development Co., Ltd. | 5,340 | 3.37% |
| 5 | Japan Trustee Services Bank, Ltd. (trust account 9) | 3,510 | 2.22% |
| 6 | BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD | 3,187 | 2.01% |
| 7 | NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15,315 PCT NON TREATY ACCOUNT | 3,107 | 1.96% |
| 8 | Japan Trustee Services Bank, Ltd. (trust account 5) | 3,095 | 1.95% |
| 9 | JP MORGAN CHASE BANK 385151 | 2,971 | 1.88% |
| 10 | JUNIPER | 2,703 | 1.71% |

² In calculating the shareholding ratio, treasury stock is excluded from the total number of shares issued.