

Sumitomo Mitsui Construction Group

Mid-term Management Plan 2022-2024

March 4, 2022

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

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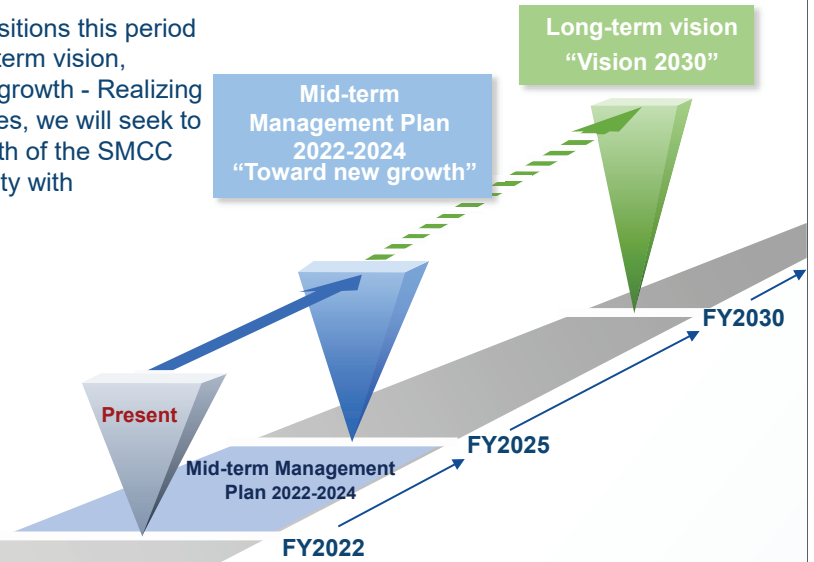
1 Introduction

Introduction

Under the “Mid-term Management Plan 2019-2021,” we have pushed ahead with various measures with the theme of “Accelerate Changes,” but the business environment surrounding the SMCC Group dramatically changed in the aftermath of the spread of the new coronavirus. Moreover, we logged hefty losses in the Plan’s final year of FY2021 due to worsened profitability of major building construction projects. However, we took concrete measures swiftly to address the problem, striving to prevent its recurrence.

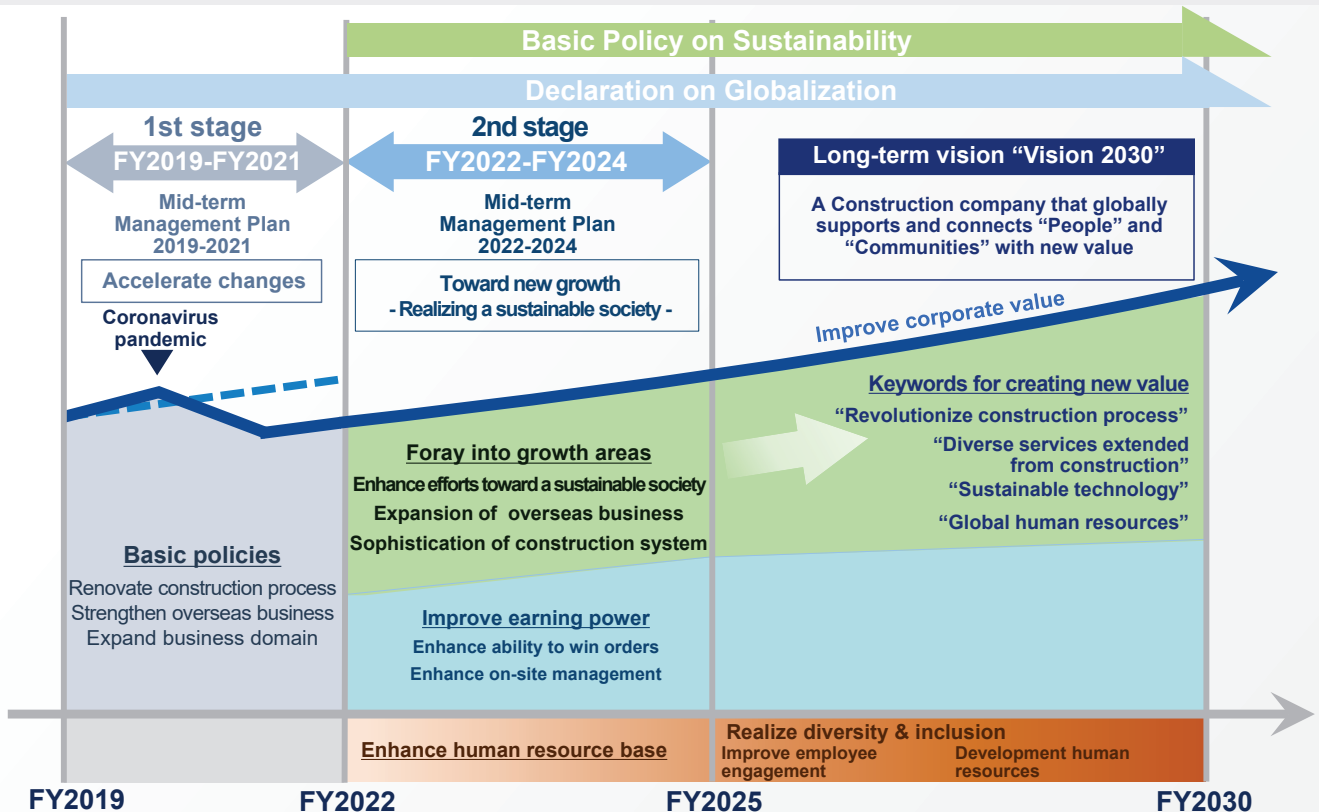
The “Mid-term Management Plan 2022-2024” positions this period as the second stage in the path toward the long-term vision, “Vision 2030,” setting the theme of “Toward new growth - Realizing a sustainable society.” Amid radical social changes, we will seek to realize a sustainable society and sustained growth of the SMCC Group by continuing to meet requests from society with technological expertise and services.

By executing the Plan based on sincerity and good faith, the SMCC Group will strive to boost its social presence and establish itself as a company balancing “corporate growth” and “employee well-being” while valuing care for the work front that constitutes the origin of manufacturing.



2 Path to long-term vision “Vision 2030”

By completing the Plan, the second stage of attaining “Vision 2030,” we will ensure the path toward the long-term vision sought.



Under the previous plan, we took initiatives based on three basic policies under the theme of “Accelerate Changes”

Main results of basic policies

	Main initiatives & results
Renovate construction process	<ul style="list-style-type: none"> Automated reinforcing steel bar assembly system “Robotaras[®]” put to practical use, tower crane operations Individual measures such as support system development make headway Bridge construction technology featuring “ultra-high durability” (Dura-Bridge[®]), made of nonferrous materials, commercialized
Strengthen overseas business	<ul style="list-style-type: none"> Construction contracts won continuously despite the coronavirus pandemic Overseas ocean civil engineering company turned into a subsidiary, giving SMCC Group an advantage in major bridge projects & access to the ocean civil engineering market Two more global human resource development centers set up (Japan, India), helping to promote fostering of local core employees through a 3-center system
Expand business domain	<ul style="list-style-type: none"> Sumitomo Mitsui Construction Steel Structures Engineering, DPS Bridge Works were made into subsidiaries, enhancing the domestic bridge business base Investments made to strengthen own factories, promote renewable energy business, etc.

Consolidated business results in the plan period

	FY2019	FY2020	FY2021 estimates	(targets)
Net sales	472.4 billion yen	421.6 billion yen	410.0 billion yen	(500.0 billion yen)
Operating profit	24.8 billion yen	15.6 billion yen	- 8.3 billion yen	(30.0 billion yen)
ROE	16.7%	8.8%	- 9.3%	(12% or higher)
Capital-to-asset ratio	27.1%	27.2%	22.5%	(30% or higher)
Total return ratio	30.8%	43.8%	-	(30% or higher)

Review of the previous plan

FY2019 Both results & basic policies generally fare well

FY2020 Spread of COVID-19 greatly affects the progress of the plan

- While earnings performance worsened due to the coronavirus pandemic, digitalization of business duties and remote control made progress in response to social requests

FY2021 Losses logged due to worsened profitability of major building construction projects

- Major factors behind worsened profitability are insufficient risk detection at the time of contract conclusion & inadequate response to risks during construction
- Measures to be taken to prevent recurrence: stricter screening of orders received & work risk minimization through the promotion of front-loading of construction work

Reflection in future

- Enhance sustainability initiatives through business, not just contributing to SDGs
- Strengthen work process management to prevent construction profitability from worsening, enhance work execution system focused on expanding overseas business
- Early realization of newly developed technology application to on-site work, creation of new businesses, etc.

4 Long-term Vision: Vision 2030

Building on “Vision 2030,” which is in place to realize a sustainable society and achieve SMCC Group’s sustained growth, we will give shape to what is being sought for our earnings performance and sustainability.

“Vision 2030” being pursued by SMCC Group

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

“Vision 2030” pursued with four new values

1. Revolutionize construction process -Next-generation construction system-

Realize “SMile Construction System*” through the use of BIM/CIM, automation technology, data, etc., thus improving productivity

2. Diverse services extended from construction

Expand our business domain through the provision of services and solutions contributing to a sustainable society, with M&A deals in sight as well

3. Sustainable technology

Provide society with technologies contributing to the sustainability of the environment and society, including those associated with climate change and human rights

4. Global human resources

Nurture globally active, diverse human resources, building infrastructure that supports the expansion of overseas business, a driving force of growth

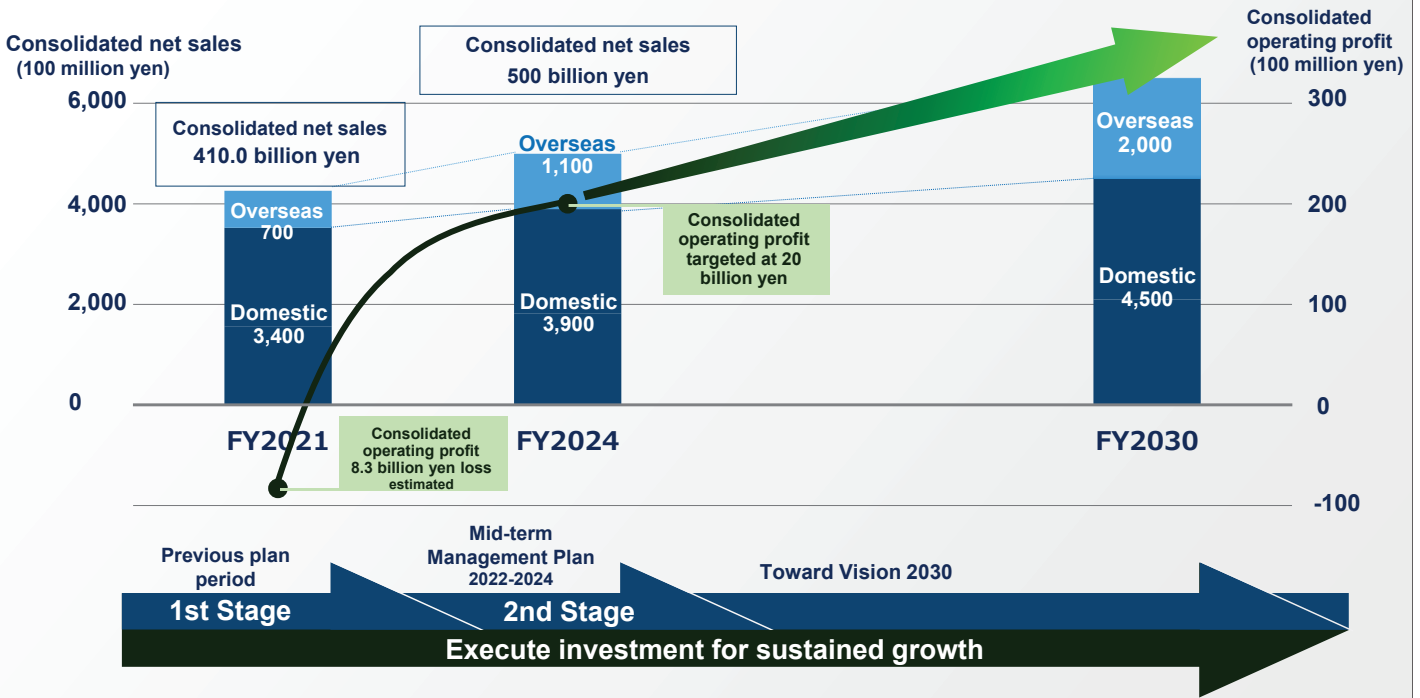
*SMile Construction System: Next-generation construction system that connects construction sites digitalized with ICT, including IoT, AI and robots, to 3D design/construction plans

Projected growth in 2030

Make steady progress toward “Vision 2030” through dramatic growth of overseas business and solid growth of domestic business

Picture of 2030
 Consolidated net sales: 650 billion yen
 Consolidated operating profit: 35 billion yen
 ROE: 12% or higher

Vision 2030



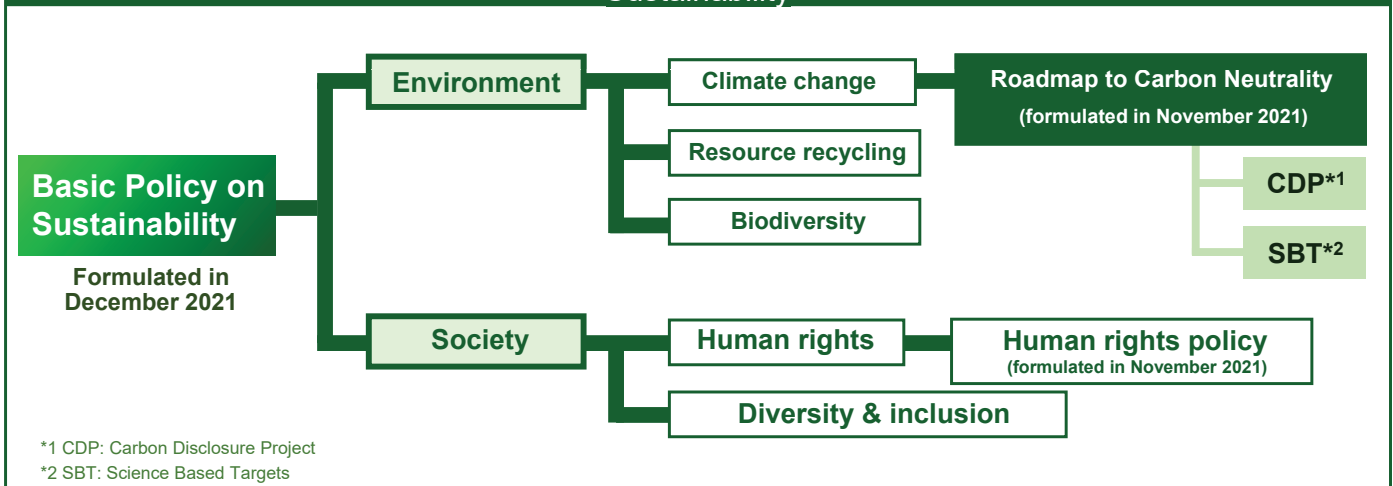
Basic Policy on Sustainability

Formulate basic policies showing SMCC Group’s posture to realize environment, society & economic value simultaneously
 Add achievement of targets based on basic policies to “Vision 2030,” proactively contributing to realizing a sustainable society

Basic Policy on Sustainability

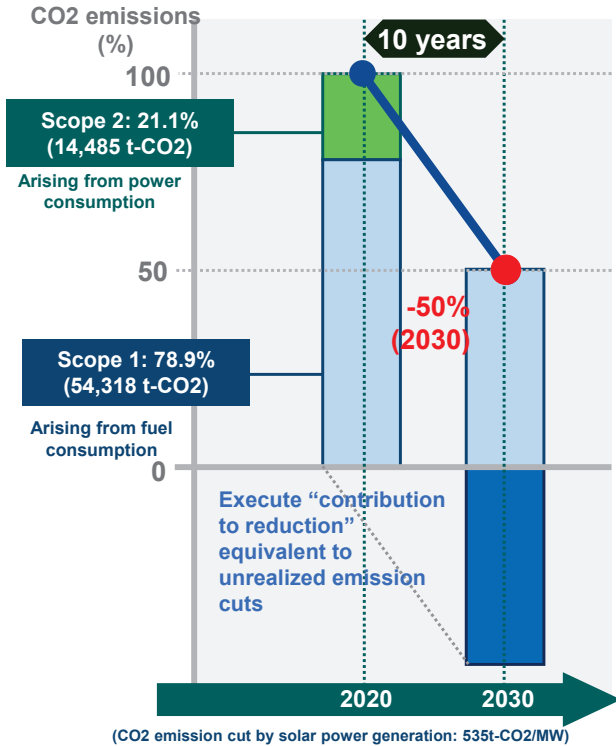
To achieve a sustainable society, we strive to resolve social issues through our global business activities.

Promote initiatives centering on the environment and society based on Basic Policy on Sustainability



Proactive initiatives toward carbon neutrality, championing ambitious targets

Roadmap to Carbon Neutrality



✓ Scope 1 + Scope 2

1. **Realize carbon neutrality by 2050**

2. **50% reduction by 2030** (Base year: 2020)

3. **Realize carbon neutrality* in effect by 2030**
*Including emission cuts through renewable energy-based power generation, etc.

✓ Scope 3

4. **25% reduction by 2030** (Base year: 2020)

Investment in climate change

Have in place an investment framework for climate change measures and introduce ICP to assess investment projects

*ICP : Internal Carbon Pricing

Strengthen the framework for creating & promoting businesses contributing to a sustainable society through organizational restructuring

Establish "Business Creation Division"

Organization of "Business Creation Division"

[Main targets for business creation] Projects related to decarbonization, circular economy, enhanced community resilience, decentralized society, etc.

New Business Planning

✓ Create new businesses contributing to realizing a sustainable society

Carbon Neutral Promotion

✓ Create businesses contributing to realizing carbon neutrality

(ZEB/ZEH, low-carbon materials, other environment-friendly technologies, etc.)

Renewable Energy Promotion

✓ Promote renewable energy businesses (solar & wind power, micro-hydroelectric generation)

(including contribution to emission cuts toward realizing virtual carbon neutrality in 2030 by securing power output equivalent to reduction)

Advanced Construction Development & Technology

✓ Promote industrialized construction process based on precast concrete method (shorter work period, digitalization)

✓ Improve productivity in the manufacture of precast components (automation, digitalization)

6

Mid-term Management Plan 2022-2024

Business Environment & Directionality

Set directionality of initiatives, with further changes in the business environment in sight

Business environment

Long-term vision

Changing lifestyles

Digital technology makes it possible to provide various services, causing digital transformation (DX) to progress rapidly in the construction industry as well.

Changing awareness of the natural environment

Consciousness to seek a sustainable society grows, with companies required to consider mitigation of and adaption to climate change, for example, as premises for corporate activities.

Changing workers

Lifestyles and senses of value change among workers, spurring momentum to seek social contributions through job satisfaction and work.

Vision 2030

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

Changing communities

Importance grows to "build national resilience" to protect communities from increasingly severe natural disasters.

Changing international community

While medium- to long-term economic growth is expected, care for human rights and the environment is sought strongly.

Directionality in which SMCC Group pursues initiatives based on business environment & long-term vision

Improve productivity through digitalization

- Resolve shortage of players
- Improve on-site labor safety
- Enhance competitiveness through greater speed, efficiency

Contribute to sustainable society

- Reduce environmental load
- Respect human rights
- Acquire business opportunities in response to new social needs

Accelerate globalization

- Establish infrastructure, create jobs in developing countries
- Expand overseas business in line with economic growth

Develop human resources
Reform work styles

- Realize diversity
- Secure competent human resources by improving employee engagement

To social growth (sustainability)

To corporate growth

Lead "society's growth" to "company's growth" by executing respective initiatives

Picture of "new growth"

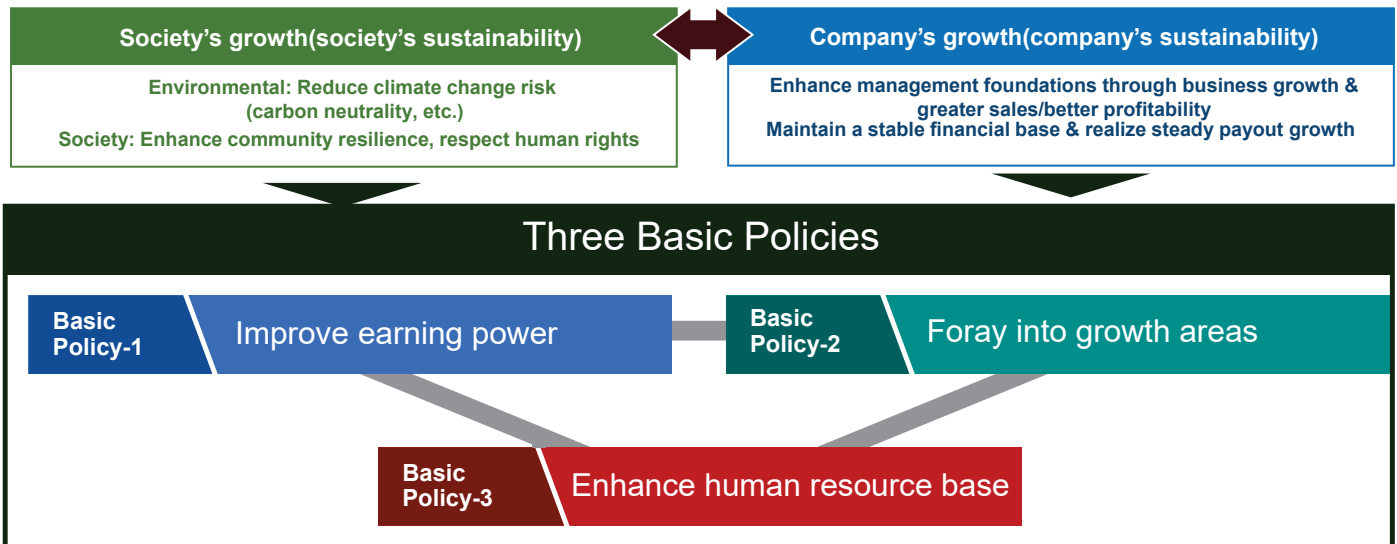
Mid-term Management Plan 2022-2024: Themes

Toward new growth

-Realizing a sustainable society-

Society has been changing at an accelerating pace, as seen in growing worldwide awareness over sustainability as well as in digital technology evolving day by day and its practical applications.

By precisely understanding these trends and acting accordingly, we connect them to new growth, which in turn leads to realizing a sustainable society. The SMCC Group will seek to be a company that grows along with society toward realizing a sustainable society.



Build solid management foundations capable of responding to business environment changes

Performance targets

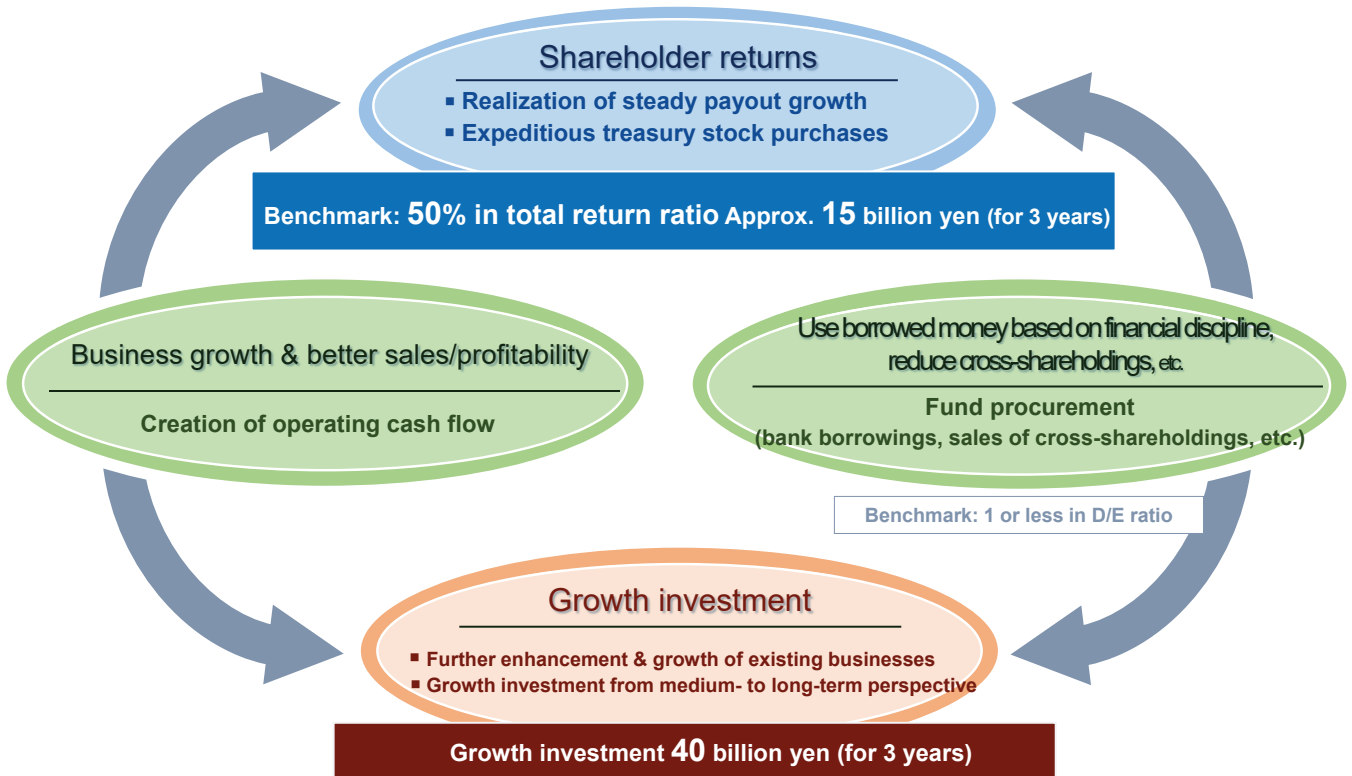
	FY2021 estimate	Mid-term Management Plan 2022-2024	
		FY2024 targets	Remarks
Consolidated net sales	410 billion yen	500 billion yen	<ul style="list-style-type: none"> Improve corporate value by maintaining & boosting stable profit level
Consolidated operating profit	-8.3 billion yen	20 billion yen	

Financial KPIs

	FY2021 estimate	Mid-term Management Plan 2022-2024	
		KPIs for FY2024	Remarks
ROE	-9% approx.	10% or higher	<ul style="list-style-type: none"> Restore ROE to 10% or higher early by (1) improving profit, (2) boosting capital efficiency and (3) achieving optimum capital composition Expand shareholder returns while retaining financial strength
Total return ratio	(targeting at 30% or higher)	50% approx.	

8 Numerical Management Plan Philosophy of Financial Strategy

Optimum capital composition by use of newly created cash flow and borrowings (growth investment & shareholder returns)



8 Numerical Management Plan Shareholder Returns & Financial Measures

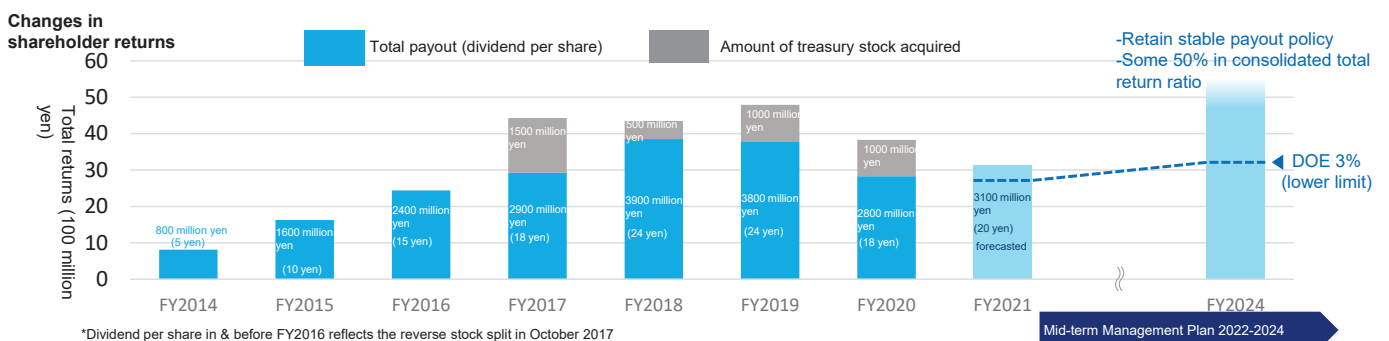
Expand shareholder returns while retaining financial strength

Financial measures

- Maintain financial soundness permitting response to growth investment and changing business environment
- Procure necessary funds in an expeditious & stable manner
- Retain credit rating, which represents assessment from an objective, third-party perspective ("A-" rating obtained for long-term debt from Japan Credit Rating Agency)

Shareholder returns

- Make it fundamental to **maintain a stable payout policy** while strengthening corporate standing and improving internal reserves in preparation for business development, deciding profit distribution in consideration of performance trends and future management environment in general
- Implement stable shareholder returns under Mid-term Management Plan 2022-2024, based on the **benchmark of 50% in total return ratio** and setting a **lower limit of 3% in dividend on equity (DOE) ratio**



Investment Plan

Execute growth investment totaling 40 billion yen in three years, based on the basic principle of investment high in capital efficiency
In making investment decisions, the capital cost is taken into account to realize a greater return than the cost

Mid-term Management Plan 2022-2024

Investment size
(total amount)

40 billion yen

1. Investment to shore up construction business 15 billion yen

- Realize SMile Construction System (promote construction DX)
- Technological development to improve competitiveness
- Enhance business foundations, expand business scale

2. Investment to foray into new/peripheral business areas 15 billion yen

- Businesses contributing to a decarbonized society
- Businesses contributing to a more resilient social infrastructure & longer life span
- Businesses peripheral to construction that contribute to the growth of construction business

3. Investment to enhance foundations 10 billion yen

- Related to human resources (e.g., educate & secure globally capable human resources, DX talent)
- Data/information computerization, information security enhancement
- Other capital investment, etc.

Investment areas with top priority

Sustainability-related investment

Investment size **30%** or more of total investment

- Decarbonization, energy conservation, longer operating life, reuse-related technological development, capital investment
- Business creation contributing to a sustainable society
- Renewable energy business (solar & wind power, micro-hydroelectric generation)

Growth investment to be rendered with different set of budget

M&A investment

- M&A investment, etc., to enhance construction business foundations, expand business domain, etc.

Note: Investment amount budgeted separately (but D/E ratio subject to the benchmark of one or less)

Non-financial Targets

	Item	Initiatives' policy	FY2024 targets
Safety / Quality	Safety	Realize "safe," "healthy" and "comfortable" workplace	Deaths/serious accidents: "None" Frequency rate: 0.6 or less (construction divisions), 0.5 or less (company-wide)
	Quality	"Supreme quality" prioritizing construction processes	Defective results: "None"

	Item	FY2021 estimates	FY2024 targets	
Basic Policy on Sustainability	Carbon neutrality	CDP assessment	B	
		CO2 emission cuts*1	Scope 1+2	-20%
			Scope 3	-10%
	Human rights	Human rights due diligence (DD)	Human rights DD launched	Human rights DD in place (response to human rights risk)
Build human rights protection mechanism*2		(efforts for this project launched after human rights DD was put into place)	To be put into operation from FY2023	

*1 Target based on SBT 1.5-degree standard *2 Whistle-blowing system in place for response to harassment & compliance

	Item	FY2024 targets
Productivity	Amount of work completed per employees' total work time*3	5% improvement (Base year: FY2020)

*3 Productivity indicator = Amount of work completed (domestic) / employees' total work time (payroll listed in securities report)

	Item	FY2024 targets
Employee Engagement	Work engagement indicator*4	4.0 or more (average based on a total score of 5)

*4 Indicators on work engagement in organizational diagnosis survey

Basic Policies & Respective Measures

Realize “new growth” by taking measures based on three basic policies

Three basic policies & specific measures

Basic Policy-1

Improve Earning Power

Measures

- (1) Enhance Ability to Win Orders
- (2) Enhance On-Site Management

Basic Policy-2

Foray into Growth Areas

Measures

- (1) Enhance Efforts toward a Sustainable Society
- (2) Expansion of Overseas Business -Make Bases Self-subsistent & Enhance Networking
- (3) Sophistication of Construction System

Basic Policy-3

Enhance Human Resource Base

Measures

- (1) Realize Diversity & Inclusion
- (2) Improve Employee Engagement
- (3) Development of Human Resources

(1) Enhance Ability to Win Orders

Enhance competitiveness by proactive use of digital technology, thus maintaining & improving an order-accepting environment of good quality

Order-winning strategy in construction business

Civil engineering business	<p>✔ On the strength of superior technology (PC), priority is focused on tunnel construction, whose market is big, and on the growing area of energy-related facilities.</p> <p>Priority areas PC (new area)/tunneling/shield/energy-related facilities/large-scale refurbishing projects</p>
Building construction business	<p>✔ On the strength of our specialty (superhigh-rise residential buildings), priority is focused on logistics, demand for which is expected to grow, as well as environmental and pharmaceutical areas</p> <p>Priority areas Superhigh-rise residential buildings (redevelopment, regional cities)/logistics facilities/drug-manufacturing facilities/environment-related facilities</p>
Overseas business	<p>✔ Expand the scale of orders received, as a driving force for our corporate growth through aggressive overseas application of our domestic superior technologies, etc.</p> <p>Priority areas [Civil Engineering] Urban rapid transit railways (elevated bridges, subways)/large, long bridges/ocean civil engineering/renewable energy [Building construction] Acquire new customers (foreign firms, local companies) & foray into other applications (housing, etc.) besides overseas production facilities of Japanese companies</p>

Establish a competitive edge that supports the order-winning strategy

Enhance information power (sophistication of data use)	Enhance cost competitiveness	Seek closer partnership with the “Shineikai” group of partner companies
Enhance environment-friendly technology	Enhance precast concrete technology	Enhance technology-proposing ability

(2) Enhance On-Site Management

Seek to minimize construction risks and secure stable earnings from construction work by enhancing on-site management

Enhance system of on-site management

- Build on-site framework permitting concentration on core duties (safety, quality, process and cost management)
- Enhance power to address construction risks (detection & response measures)

Measure 1 Build system of backing up on-site duties

- Transfer on-site “peripheral duties” to head/branch offices, outsource them
- Enhance system of supporting on-site construction work (comprehensive support by Civil Engineering Management Office & Building Construction Management Office)
- ▶ On-site management duty improves in “quality”



Measure 2 Have in place work front-loading system

- Bring forward examination of high-precision construction work plans
- ▶ Grasp construction work risks early and reflect measures addressing them in work plans

Enhance education of technical experts

- Pass down implicit knowledge owned by veteran technical experts to mid-level & young employees through education
- Enforce highly flexible & effective education based on an online education system
- ▶ Improve risk detection & problem-solving ability, train up young technical experts early

Support “on-site power” with promotion of digitalization

Virtual completion of construction through BIM/CIM, making construction work visible

Sophisticated use of past record, other data

Digitalize construction work management

Use AI in safety management

(1) Enhance Efforts toward a Sustainable Society

Realize growth by continuing to address newly arising social needs with technology & services

Category	Main themes of initiatives	Targets of initiatives
Construction business	Construction of environment-related facilities <ul style="list-style-type: none"> ✓ Renewable energy-based power generation (biomass facilities, wind power facilities) ✓ Storage facilities for hydrogen carriers (ammonia, MCH*, etc.) <small>*MCH: methylcyclohexane, which carries hydrogen efficiently</small> 	Sustainability-related investment (FY2022-FY2024) 12 billion yen in scale (30% or more of total investment amount) CO2 emission cuts (2030 targets) Scope 1+2 <u>-50%</u> Scope 3 <u>-25%</u> (vs. 2020)
	Products <ul style="list-style-type: none"> ✓ Structures of super-high durability (Dura Series) based on non-metal technology ✓ Low-carbon materials (Sustain-Crete®, development of new materials) ✓ ZEB/ZEH technology 	
	Processes <ul style="list-style-type: none"> ✓ Processes restricting environmental load, impact on neighborhood ✓ Use construction machinery powered by green electricity or environment-friendly fuels 	
New/peripheral businesses	Services <ul style="list-style-type: none"> ✓ Energy-saving repair, energy-saving solution services ✓ Services regarding earthquake retrofitting, BCP ✓ Evolving from “EPC-based contracting” to “infrastructure-managing/operating business” ✓ Promote the spread of environmental technology, etc., by licensing proprietary technology 	Renewable energy business (power output) 2024 target <u>40MW</u> 2030 target <u>150MW</u>
	Renewable energy business <ul style="list-style-type: none"> ✓ Expand solar power business ✓ Foray into micro-hydroelectric, wind power businesses 	

▶ Grow into a “construction company selected for sustainable technology”

(2) Expansion of Overseas Business -Make Bases Self-subsistent & Enhance Networking - 1

Contribute to the development of sustainable regional communities through business, realizing growth together with communities

FY2021

Business scale 70 billion yen

- ✓ Operating in 14 countries centering on Asia
- ✓ Enhance Initiatives based on Declaration of Globalization

- ✓ Three global Human Resource Development Centers (HDCs) go into operation
- ✓ Competitiveness enhanced in areas of harbor works & super-long bridges by turning ocean civil engineering company (Singapore) into subsidiary

FY2022-2024 overseas business strategy

FY2024 target Business scale: 110 billion yen

Basic policies

1. Growth of overseas construction business

- Propose services & technologies in response to local needs
- Build strategic partnerships to find new possibilities

2. Enhance business foundations supporting growth ("Localization" & "Global Identity"*)

- Make bases self-subsistent, capable of addressing emergencies
- Forge "Global Identity"

3. Promote initiatives in line with social changes

- CO2 reduction based on Basic Policy on Sustainability
- Improve productivity through investment in digital technology

Technology

- Overseas application of technology focused on precast concrete process
- Overseas application of safety & supreme quality policies

Human resources

- Set up more HDCs & enhance networking
- Foster local core employees & appoint local staff to management posts

Investment

- Investment for solving environmental issues (carbon neutrality)
- Initiatives for renewable energy business
- Expand business domain by use of M&A deals, etc.

*Global Identity: "Sense of value unique to Sumitomo Mitsui Construction (safety, supreme quality, etc.)" to be shared by SMCC Group employees and common to overseas business

Picture in 2030

Business scale: Growing to 200 billion yen

(2) Expansion of Overseas Business - Make Bases Self-subsistent & Enhance Networking - 2

Enhance overseas business foundations by turning an ocean civil engineering company (Antara Koh Private Limited) into a subsidiary

Basic scheme

SUMITOMO MITSUI CONSTRUCTION CO.,LTD.

Shareholding ratio 100%

Shares transferred in February 2022

Antara Koh Private Limited (Singapore)

Antara Koh Private Limited (AKPL)

- ✓ Business lines: Mechanical engineering (marine pile driving, etc.), ocean civil engineering (jetty/wharf works, etc.)
*Pile driving license "L6" (top rank)
- ✓ Has a fleet of piling barges, crane barges, work vessels, ordinary barges, etc.
- ✓ Has a track record of continuous transactions with SMCC as a contractor specializing in foundation works for the construction of large bridges
- ✓ Main areas of operation: Singapore, Malaysia, Myanmar, Bangladesh

Synergy effects arising from 100% ownership

Create a competitive edge in large bridge construction projects

- Sophistication of construction technology for driving foundation piles (joint development, human resource exchanges, etc.)
- Enhance AKPL's business foundations through planned capital investment (reinforce vessels/equipment, expand business operations)
- Enhance certainty of winning contracts by tackling upper & bottom projects, including pile foundation work (3-company collaboration: SMCC's PC, SMCSSE's steel girders, and AKPL's foundation works)

Acquire opportunities for entering the ocean civil engineering market

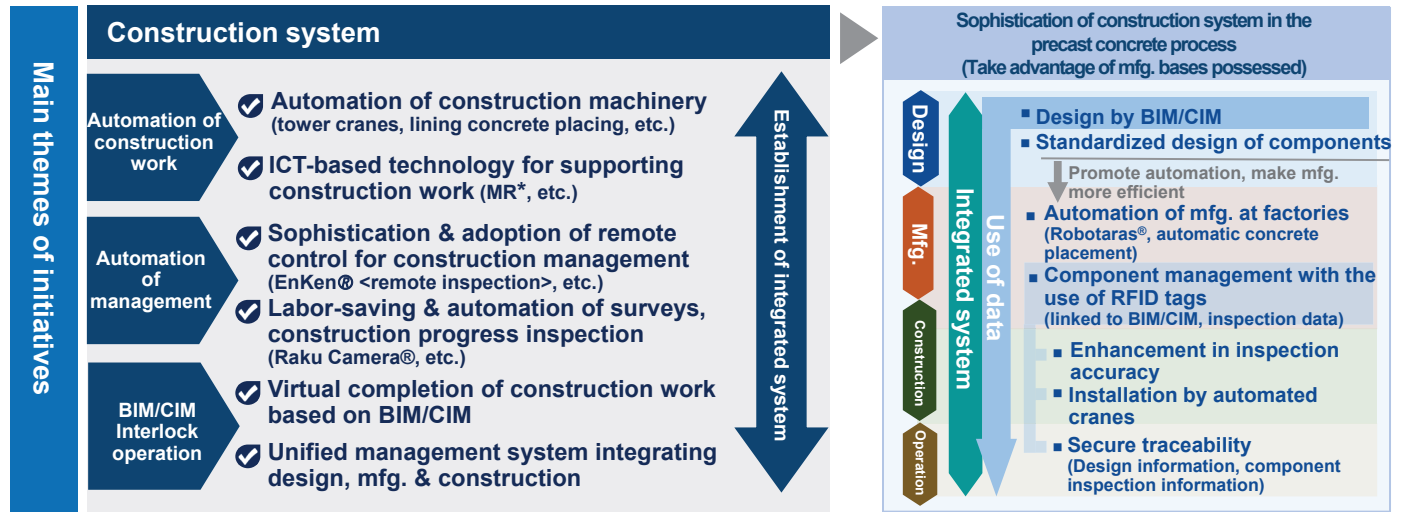
- Efforts to enter a new area, ocean civil engineering

Greater opportunities for winning overseas projects

- Boost sales power through group cooperation

(3) Sophistication of Construction System - 1

Enhance SMCC Group's competitive edge through pursuit of value provided in construction processes



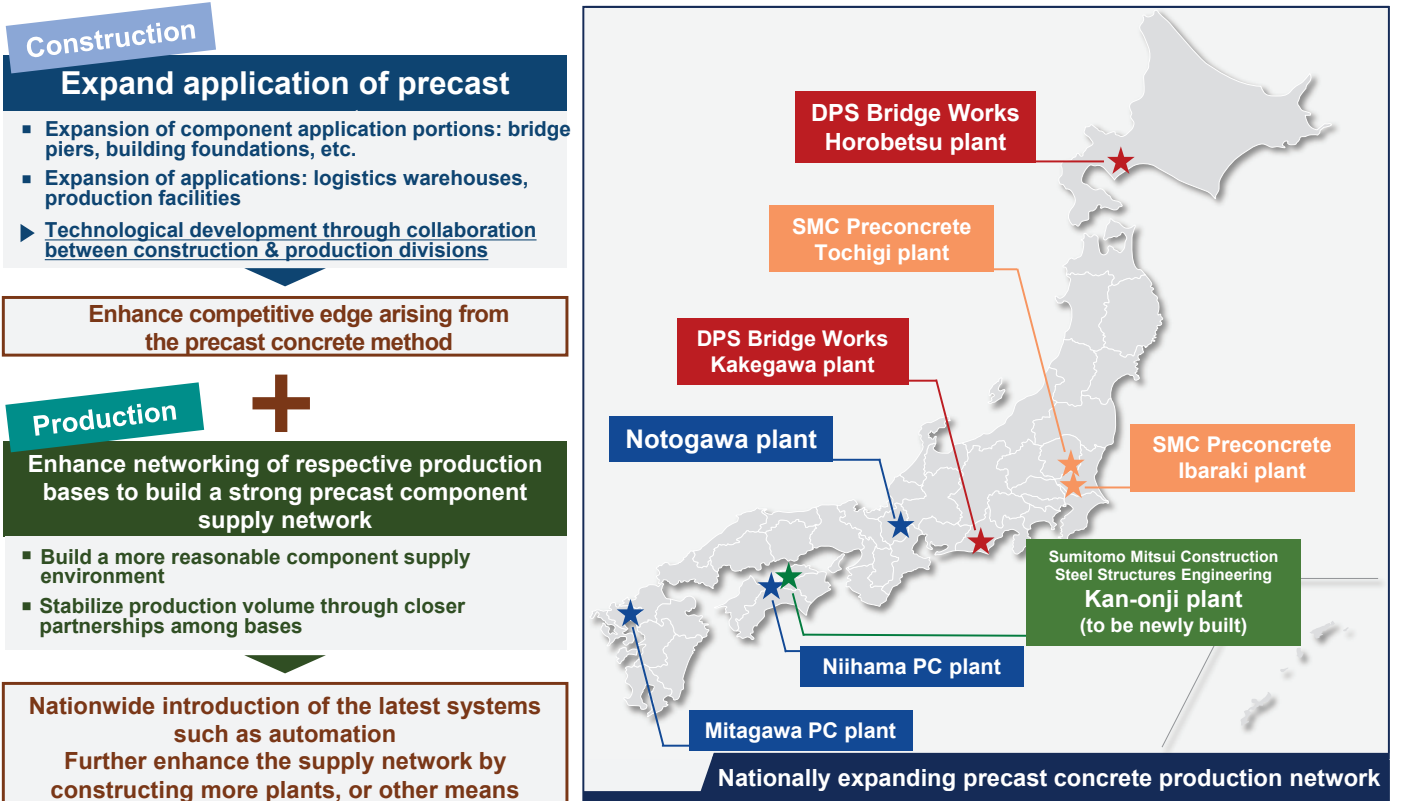
Enhance competitiveness by industrializing & automating on-site construction work



*MR: Mixed Reality Technology that shows imaginary objects through a device as if they existed before one's eyes.

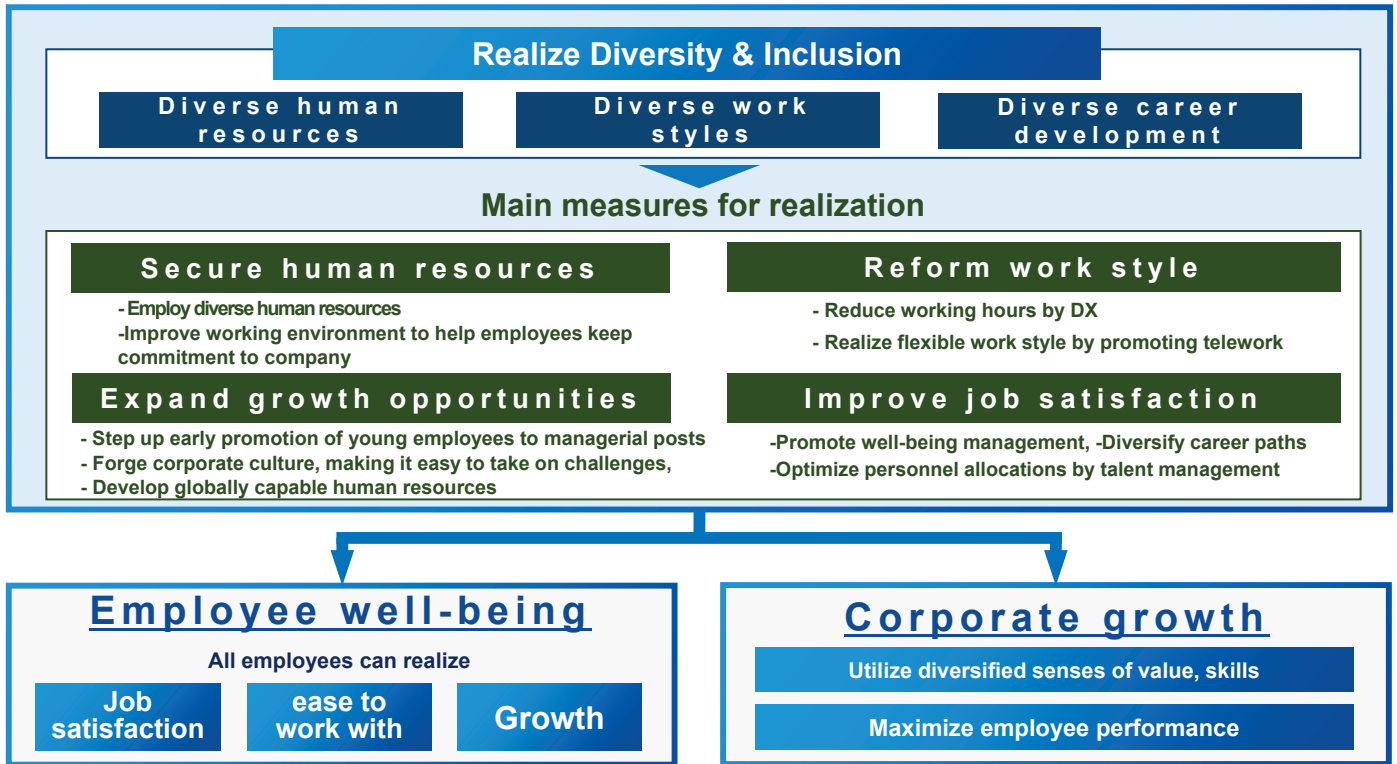
(3) Sophistication of Construction System - 2

Establish a greater competitive edge based on precast concrete technology, taking advantage of manufacturing bases across Japan



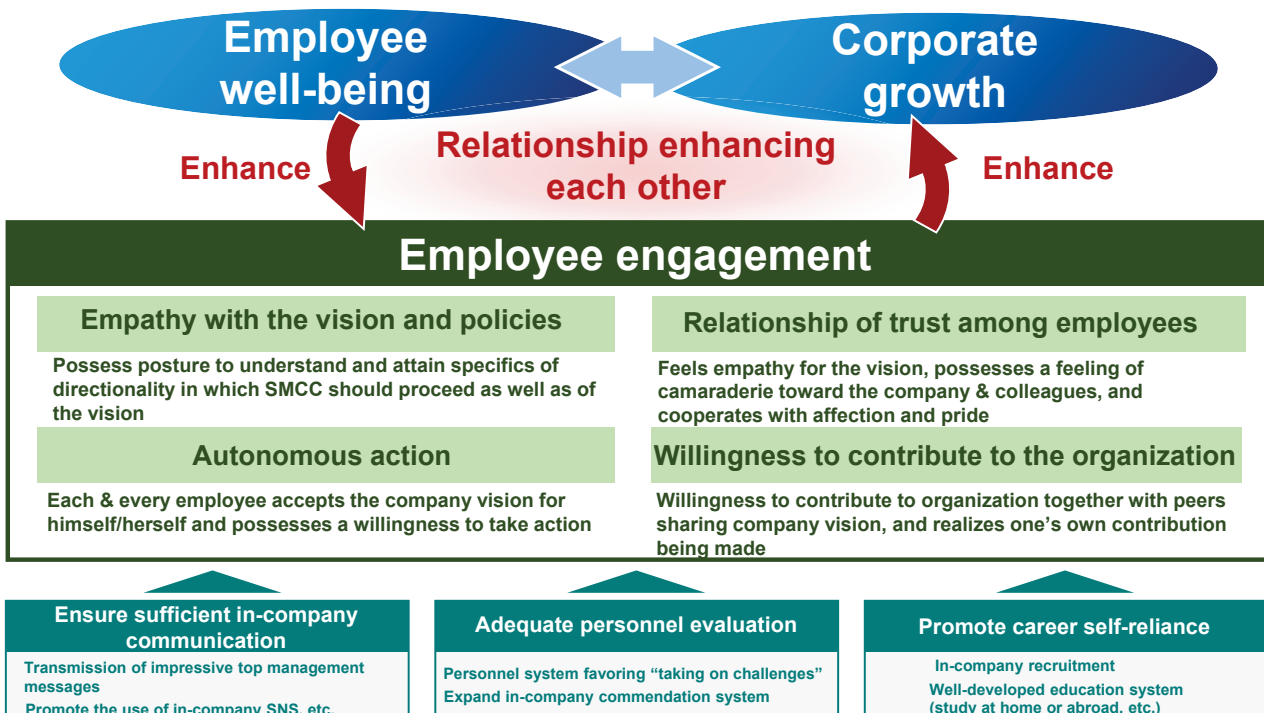
(1) Realize Diversity & Inclusion

Lead improvement in employee well-being to corporate growth through the realization of diversity & inclusion



(2) Improve Employee Engagement

Build a relationship in which “employee well-being,” “corporate growth” and employee engagement enhance each other



Improve employee engagement by taking measures in response to the results of regular questionnaires

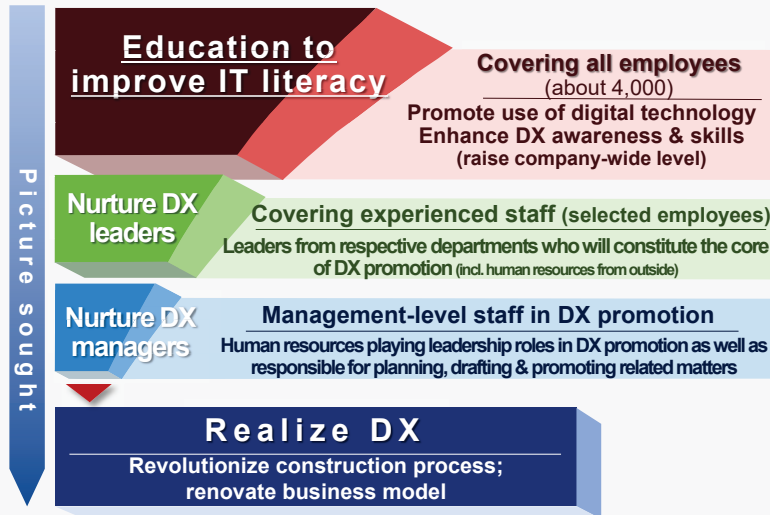
(3) Development of Human Resources

Focus on efforts to foster and secure diverse human resources, including digital-savvy and globally capable people, who play a leading role in “new growth”



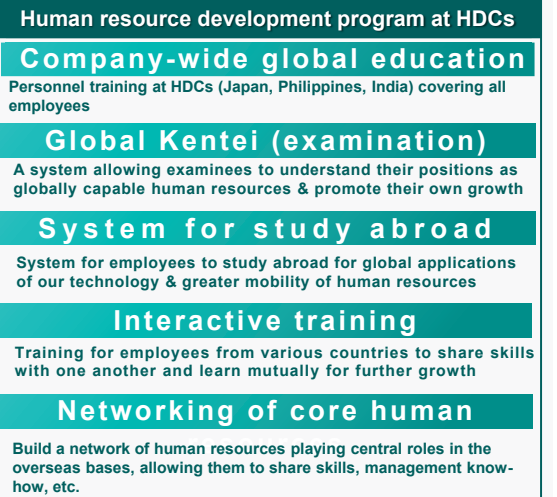
Enhance DX awareness & skills

Promote human resource development in a company-wide drive to realize DX



Foster globally capable human resources

Promote the development of globally active human resources, using HDCs as the axis



SUMITOMO MITSUI CONSTRUCTION CO.,LTD.

Sumiken Mitsui Road Co., Ltd.
SMCR Co., Ltd.
SMC Preconcrete Co., Ltd.
Seiwa Co., Ltd.
Fibex Co., Ltd.
SMC Cosmo Solutions Co., Ltd.
Sumitomo Mitsui Construction Steel Structures Engineering Co., Ltd.

SMC Civil Technos Co., Ltd.
SMC Tech Co., Ltd.
Aseismic Devices Co., Ltd.
DPS Bridge Works Co., Ltd.
SMC Co., Ltd.
Antara Koh Private Limited

[Points of attention]

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