# Corporate Report 2015

Excerpted Version

SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.

## Publication Policy

From fiscal 2006, Sumitomo Mitsui Construction has been issuing 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 will instead issue a Corporate Report. Renamed and enhanced with additional financial information, including information on operating performance and management strategy as well business overviews, the new report will serve as a tool for two-way communication with all stakeholders by bringing together overall initiatives for improving corporate value.

- **Period Covered** From April 1, 2014 to March 31, 2015 (includes some initiatives conducted before and after the period)
- **Scope Covered** Sumitomo Mitsui Construction Co., Ltd. and its consolidated subsidiaries
- **Guidelines Referenced** ISO 26000
- **Publication Date** September 30, 2015
- **Note on Outlook**
  This report contains Sumitomo Mitsui Construction's plans and strategies for the future, as well as forecasts and outlooks for future performance, as of the end of May 2015. Actual performance may differ from the outlook.

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SUMITOMO MITSUI
CONSTRUCTION CO.,LTD.

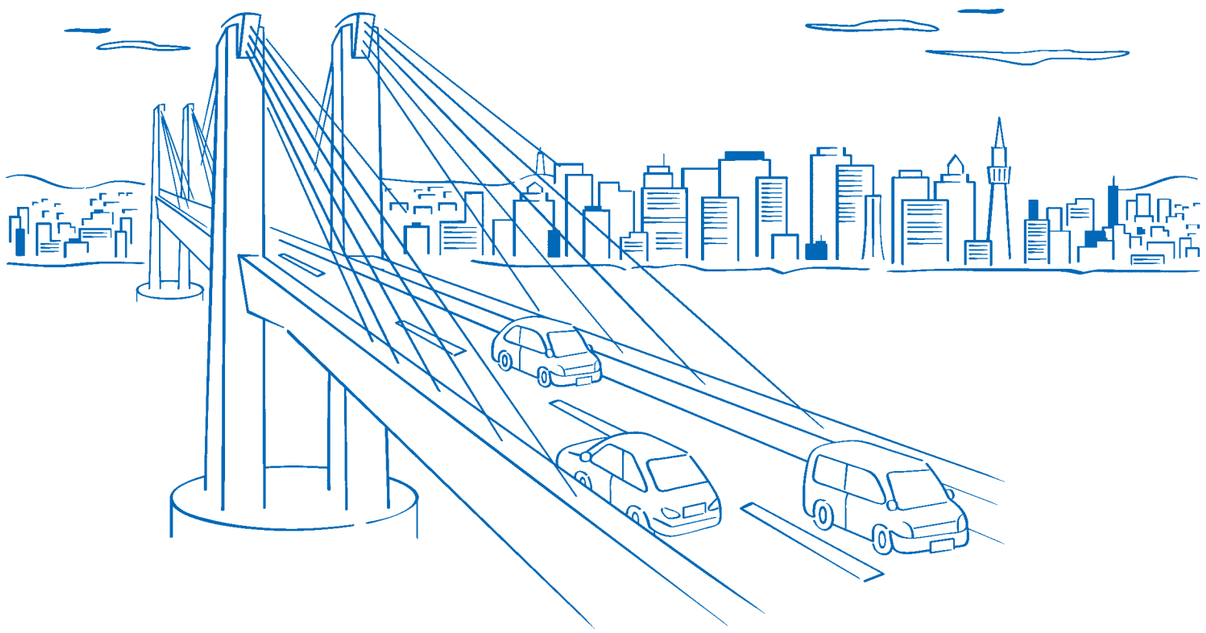
# Bridges, Towns and People

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.

Bridges, towns and people are what we care about.
As we strive to develop and maintain harmonious
relationships with our partners and other stakeholders,
we are creating timeless and universal value
by building infrastructure that embodies
both their hopes and happiness.



## 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.

## Charter of Corporate Conduct

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

Sumitomo Mitsui Construction Corporate Report 2015

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# Corporate Profile

## Outline (as of the end of June 2015)

| | | | |
|---|---|---|---|
| Company Name | Sumitomo Mitsui Construction Co., Ltd. | Capital | 12 billion yen |
| Head Office | 2-1-6 Tsukuda, Chuo-ku, Tokyo, 104-0051, Japan | Number of Employees | 2,495 (4,171 on a consolidated basis) (as of the end of March 2015) |
| Founded | October 14, 1941 | Business Profile | Design, engineering and execution of civil, building and prestressed concrete works, and related operations |
| Representative | Hideo Arai, Representative Director, President & COO | | |

## History

**Mitsui Construction**

**1887** Kenjiro Nishimoto founds Nishimoto-Gumi in Wakayama

**1941** Nishimoto-Gumi Co., Ltd. is founded

**1945** Renamed Mitsui Construction Industry Co., Ltd., with capital investment by Mitsui Fudosan Co., Ltd.

**1952** Renamed Mitsui Construction Co., Ltd.

**Sumitomo Construction**

**1876** Engineering Work Division is established from Sumitomo Besshi Copper Mine's Civil Division

**1950** Besshi Construction Co., Ltd. is founded

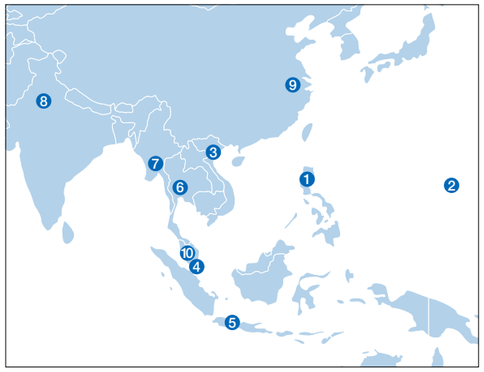
**1962** Sumitomo Construction Co., Ltd. is founded out of the merger with Shizuoka-based Katsuro-Gumi Co., Ltd.

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

## Organization Chart

- Shareholders Meeting
- Board of Directors
  - Audit & Supervisory Board
    - Office of Audit & Supervisory Board Member
  - Chairman & CEO
  - President & COO
    - Audit Department
    - Secretariat
    - Public Relations Office
    - Corporate Planning Department
    - Affiliated Business Department
    - Administration Division
      - General & Legal Affairs Department
      - Personnel Department
      - Accounting Department
      - Treasury Department
      - Business Support Center
      - Safety & Environment Managing Department
    - Civil Engineering Division
      - [Civil Engineering Marketing]
        - Civil Engineering Marketing Administration Department
        - Civil Engineering Marketing Department
        - Civil Engineering Renovation Department
      - [Civil Engineering]
        - Civil Engineering Administration Department
        - Civil Engineering Technical Consulting Department
        - Civil Engineering Designing Department
      - Purchasing Center
    - Building Construction Division
      - [Building Engineering Marketing]
        - Building Construction Marketing Administration Department
        - Building Construction Marketing Department
        - Building Construction Marketing Supporting Department
      - [Building Engineering]
        - Building Construction Administration Department
        - Building Construction Process Planning Department
        - Estimate & Cost Audit Department
        - Building Construction Technical Consulting Department
        - Mechanical & Electrical Construction Department
      - [Building Design]
        - Building Design Management Department
        - Building Design Department No. 1
        - Building Design Department No. 2
        - Building Design Department No. 3
        - Structural Design Department
        - Mechanical & Electrical Design Department
    - Technical & Engineering Service Division
      - Technology Planning Department
      - Technical & Engineering Service Department No. 1
      - Technical & Engineering Service Department No. 2
      - Technical & Engineering Service Department No. 3
      - Technical Research Institute
    - Business Innovation & Incubation Division
      - Planning & Administration Department
      - Business Engineering Department
    - Global Division
      - Administration Department
    - Hokkaido Branch
    - Tohoku Branch
    - Tokyo Civil Engineering Branch
    - Eastern Kanto Branch
    - Tokyo Building Construction Branch
    - Yokohama Branch
    - Shizuoka Branch
    - Chubu Branch
    - Osaka Branch
    - Hiroshima Branch
    - Shikoku Branch
    - Kyushu Branch
    - International Division
  - Executive Management Meeting
  - Executive Officers Meeting
    - Meeting of Heads of Divisions, Branches & Departments

## World Network




**Offices Outside Japan**

1. Manila Office (Philippines)
2. Guam Office (U.S.A.)
3. Hanoi Office (Vietnam)
4. Singapore Office (Singapore)
5. Jakarta Office (Indonesia)
6. Bangkok Office (Thailand)
7. Yangon Office (Myanmar)

**Subsidiaries Outside Japan**

1. SMCC Philippines, Inc. (Philippines)
2. SMCC Guam, Inc. (U.S.A.)
4. SMCC Overseas Singapore Pte. Ltd. (Singapore)
5. Pt. SMCC Utama Indonesia (Indonesia)
6. SMCC (Thailand) Co., Ltd. (Thailand)
8. SMCC Construction India Ltd. (India)
9. SMCC, Shanghai (China)
10. SMCC Malaysia Sdn. Bhd. (Malaysia)

## Affiliates in Japan

| Company Name | Head Office Location | Business Profile |
|---|---|---|
| Sumiken Mitsui Road Co., Ltd. | Shinjuku-ku, Tokyo | Paving, road construction, landscaping and general civil engineering |
| SMC Co., Ltd. | Chuo-ku, Tokyo | Sale of building materials, insurance agency |
| SMC Precon Inc. | Joso, Ibaraki | Precast concrete construction |
| SMC Reform Co., Ltd. | Chuo-ku, Tokyo | Renovation business |
| SMC Civil Technos Co., Ltd. | Shinjuku-ku, Tokyo | Contract construction for general civil engineering and river works, repairing and reinforcing of concrete structures |
| SMC Concrete Co., Ltd. | Shimotsuke, Tochigi | Manufacture, sale and installation of secondary concrete products |
| Seiwa Co., Ltd. | Shinjuku-ku, Tokyo | Contract construction |
| SMC Tech Co., Ltd. | Nagareyama, Chiba | Shield, tunnel and prestressed concrete works, and leasing of construction machinery and materials |
| Aseismic Devices Co., Ltd. | Chiyoda-ku, Tokyo | Sale of seismic isolation and control equipment |
| Fibex Co., Ltd. | Shinjuku-ku, Tokyo | Manufacture and sale of FIBRA products |
| Yoshii Planning Co., Ltd. | Matsuyama, Ehime | Real estate business (development of the Dogodaira housing complex) |
| Amenity Life Co., Ltd. | Hachioji, Tokyo | Operation and management of private retirement homes |
| Cosmo Planning Co., Ltd. | Chuo-ku, Tokyo | Printing, information systems and personnel and general affairs services, and sale of measuring instruments and software |

## Major Recognition in Fiscal 2014

| Organization | Award | Award-winning Work |
|---|---|---|
| Japan Society of Civil Engineers (JSCE) | Fiscal 2013 International Contribution Award | Takuji Shigeyama, Head of Phnom Penh Drain Works, Cambodia |
| JSCE | Fiscal 2013 Tanaka Award | Terasako Choucho Ohashi (Miyazaki Prefecture) |
| Japan Prestressed Concrete Institute (JPCI) | Fiscal 2013 JPCI Award for Outstanding Structures | Terasako Choucho Ohashi (Miyazaki Prefecture) |
| JPCI | Fiscal 2013 JPCI Award for Outstanding Structures | Agematsu Bridge (Nagano Prefecture) |
| JPCI | Fiscal 2013 JPCI Award for Outstanding Accomplishments of Constructions | Sekiguchi Viaduct (North Section) (Kanagawa Prefecture) |
| JPCI | Fiscal 2013 JPCI Award for Outstanding Accomplishments of Constructions | Suzuta Bridge (Nagasaki Prefecture) |
| Japan Institute of Design Promotion | Good Design Award [Collective housing] | Park Homes LaLa Shinmisato |
| Japan Environmental Management Association for Industry, Nikkei Inc. | Eco-Products 2014 Special Prize, Eco & Design Booth Prize | Wooden booth "Tamakian" |
| Kyoto City | Encouragement Award, Miyako Environment-Friendly Buildings, 2nd Kyoto City Environment-Friendly Buildings Commendations | Yuaikan, Kyoto Seika University |
| Japan Society of Seismic Isolation | JSSI Distinguished Service Award | Sumitomo Mitsui Construction |
| Sumitomo Mitsui Banking Corporation | SMBC Environment Assessment Loan | Sumitomo Mitsui Construction |
| West Nippon Expressway Co., Ltd., Kansai Branch | Fiscal 2014 Excellent Work Award | Shin-Meishin Expressway Mukogawa Bridge |

# Financial & Non-financial Highlights

## Consolidated Management Indicators

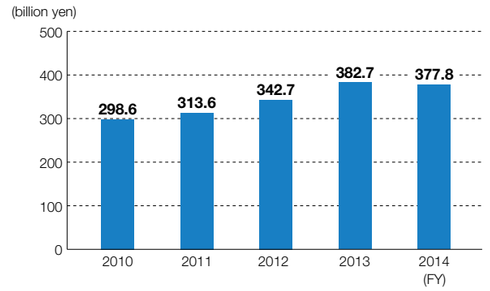
(million yen)

| | Fiscal Year | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Operating performance | Orders received (non-consolidated for reference) | 235,055 | 263,048 | 290,605 | 302,131 | **356,144** |
| | Sales | 298,647 | 313,558 | 342,727 | 382,724 | **377,825** |
| | Operating income | 4,962 | 4,691 | 5,784 | 7,944 | **12,265** |
| | Ordinary income | 3,600 | 3,311 | 4,612 | 7,989 | **11,998** |
| | Net income | 1,541 | 1,374 | 2,042 | 4,201 | **6,955** |
| | Earnings per share | 5.47 | 4.82 | 4.56 | 5.51 | **8.59** |
| | Return on equity (%) | 8.7 | 7.4 | 10.0 | 17.9 | **23.2** |
| | Price earnings ratio (-fold) | 19.7 | 16.2 | 16.7 | 19.6 | **19.3** |
| | Operating profit on sales (%) | 1.7 | 1.5 | 1.7 | 2.1 | **3.2** |
| Financial standing | Total assets | 197,021 | 233,608 | 221,416 | 250,716 | **279,450** |
| | Net assets | 20,648 | 22,004 | 25,361 | 30,074 | **40,190** |
| | Capital-to-asset ratio (%) | 9.1 | 8.2 | 9.8 | 10.1 | **12.3** |
| | Net assets per share (yen) | −44.5 | −37.4 | 20.0 | 30.3 | **42.4** |
| | Dividend per share (common stock) | - | - | - | - | **1.0** |
| CF | Operating cash flow | −8,805 | 3,987 | 16,553 | −6,575 | **14,527** |
| | Investment cash flow | −2,514 | −3,238 | −3,571 | −266 | **−6,628** |
| | Financial cash flow | 1,363 | 12,598 | −12,563 | 5,400 | **3,053** |

## Non-financial Data (unconsolidated)

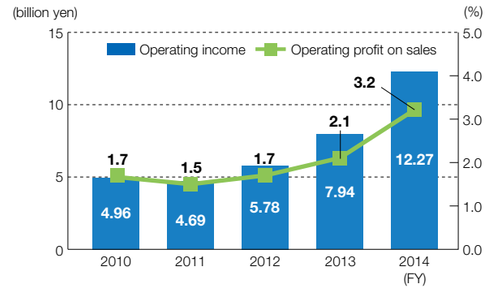
| Fiscal Year | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| No. of employees (consolidated) (persons) | 3,906 | 3,822 | 3,850 | 4,007 | **4,171** |
| No. of employees (unconsolidated) (persons) | 2,557 | 2,472 | 2,376 | 2,430 | **2,495** |
| Male (persons) | 2,372 | 2,286 | 2,190 | 2,240 | **2,285** |
| Female (persons) | 185 | 186 | 186 | 190 | **210** |
| Average age of employees (years old) | 44.3 | 44.5 | 45.2 | 46.0 | **46.2** |
| Average length of service of employees (years) | 21.1 | 21.3 | 21.8 | 22.4 | **22.2** |
| R&D cost (consolidated) (million yen) | 916 | 909 | 885 | 975 | **1,118** |
| Frequency of safety incidents | 0.77 | 0.61 | 0.69 | 0.96 | **0.54** |
| Unit of $CO_2$ emissions (t-$CO_2$/100 million yen) | 24.0 | 26.8 | 25.4 | 21.6 | **23.7** |
| Construction waste discharged (1,000 tons) | 408 | 417 | 680 | 429 | **500** |

### Sales



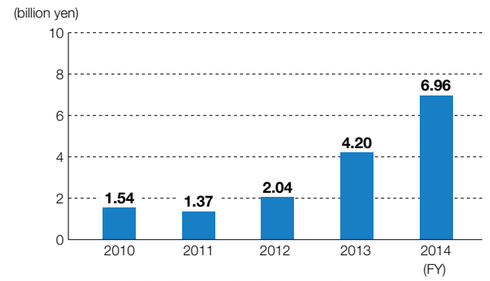

Sales in fiscal 2014 remained almost unchanged from the previous year (−1.3%), at 377.8 billion yen.

### Operating income/operating profit on sales



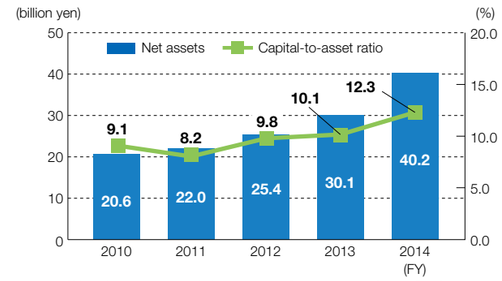

Operating income substantially improved to 12.27 billion yen (up 3.2%) due to strong performance of civil engineering business.

### Net income



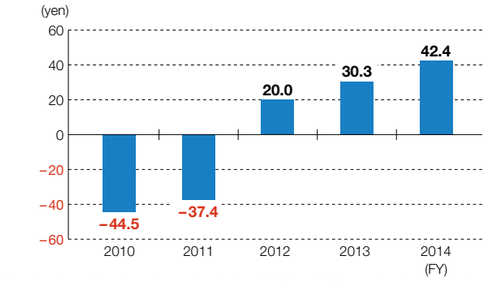

Net income in fiscal 2014 was 6.96 billion yen, up 2.76 billion yen year-on-year, mainly due to improved revenue from the core business.

### Net assets/capital-to-asset ratio



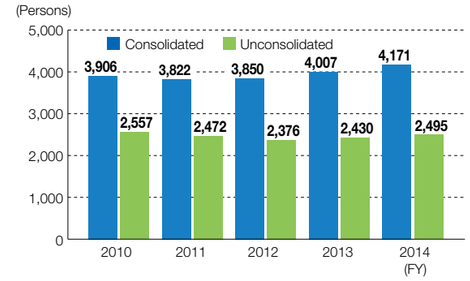

Although we are accumulating net assets from revenues of every fiscal year, the capital-to-asset ratio remained at a low level of 12.3%.
Enhancement of equity capital is recognized as an important management issue.

### Net assets per share



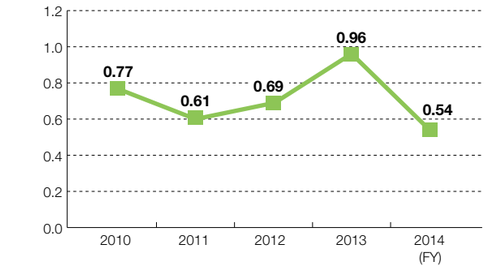

Negative figures for net assets per share in fiscal 2010 and 2011 were due to the exclusion of capital related to preferred stocks. With the retirement of preferred stocks complete, we will now accumulate net assets per share.

### Number of employees (consolidated/unconsolidated)



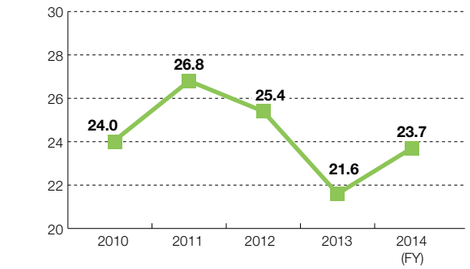

We are making efforts for human resources retention and enhancement by promoting the recruitment of new graduates, mid-career employment and reemployment of employees who have reached retirement age.

### Frequency of safety incidents




The frequency rose in fiscal 2013, but the number of incidents dramatically declined in fiscal 2014.

### Unit of $CO_2$ emissions




Most of our $CO_2$ emissions are from construction sites.

Message from the President

# Solving Social Issues and Achieving Sustainable Growth Together with Society

**Hideo Arai**
Representative Director
President & COO
Sumitomo Mitsui Construction Co., Ltd.

I was appointed president & COO in April 2015.

The current business environment surrounding the construction industry is expected to remain favorable for the time being, but the industry is facing structural issues, including a tight supply-demand balance and the aging of skilled construction workers. To achieve sustainable growth under these circumstances, I will uphold three basic policies.

## 1. Three basic policies

**1) Improve transparency of management and enhance earning power of core business**

In the coming few years, when construction investment is likely to become more active, we will further strengthen the earning power of our core business, steadily accumulate equity capital, and improve our risk-bearing capacity to establish a foundation for aggressive management. At the same time, to ensure compliance and continue to pursue sound and highly transparent corporate activities, we will ensure that the operation of our internal control system is effective.

**2) Achieve growth strategy in light of changes in the market environment**

To appropriately respond to structural changes in the market, including the post-2020 issue, an increasing shortage of skilled workers, and the arrival of a phase of maintenance and management, we will develop a fourth pillar (in addition to civil engineering, building construction and overseas business) that will allow for the creation of diverse revenue bases, with the goal of becoming a company that can achieve sustainable growth.

**3) Form a strong construction group supported by superior technical skills**

The undersupply of engineers and labor is likely to continue. To set firm construction schedules and secure a certain level of quality, it is crucial to promote technological development for substantial productivity improvement and put the results of such development into work. At the same time, we must enhance unity across Shineikai, an organization of our sub-contractors and suppliers, by stepping up efforts to deepen our partnerships with each of the member companies. We will engage in proactive opinion exchange with Shineikai, recognize the skills of foremen, and provide technical training in order to build stronger partnerships and consequently maintain and reinforce our in-the-field capabilities.

Implementing these policies so as to definitively enhance and improve the earning power of our core business, our strategy development capability, and our field capability will improve our corporate value and enable us to return profits to shareholders.

To achieve these, it is crucial that all employees and officers have a shared awareness to further develop Sumitomo Mitsui Construction and make it a company we can all be proud of. With such shared awareness, we are determined to make concerted efforts to create an even more open and vigorous organization.

## 2. Progress of the 4th Mid-term Management Plan and performance overview

**1) Summary of the Plan**

In 2013, the SMCC Group formulated the 4th Mid-term Management Plan 2013–2015 around the theme of taking on new challenges. With the basic policy of enhancing the quality of our three pillars while creating new and diverse revenue bases, we are improving the competitiveness and profitability of our domestic construction business, establishing a stronger management platform for our overseas business, particularly in Asia, and “investing in the future” to contribute to the creation of a sustainable society.

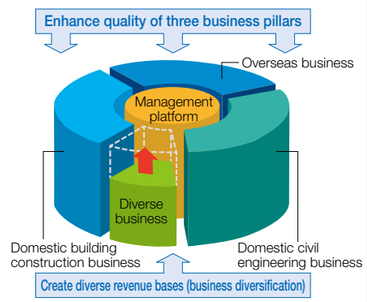
**2) Changes in the business environment**

The business environment has improved since the mid-term management plan was developed. For one thing, private sector capital investment is increasing due to ongoing yen depreciation and economic recovery. This is in addition to reconstruction demand gaining momentum in the wake of the Great East Japan Earthquake and the acceleration of infrastructure development in the Greater Tokyo Area following the selection of Tokyo to host the Olympic and Paralympic Games.

4th Mid-term Management Plan 2013–2015: Basic Policy

**Enhancing the quality of the three pillars while creating new and diverse revenue bases**

1. **Improve competitiveness and profitability of domestic construction business**
   Focus on strong areas; provide high-value-added products & services
2. **Establish a stronger management platform for overseas business, particularly in Asia**
   Grow overseas business from a value of 50 billion yen to 70 billion yen
3. **Invest in the future to contribute to the sustainability of society**
   Take on challenges in new business areas, e.g., PFI/PPP




**Build stable management platform and strong business base**

**3) Performance overview**

The overall performance in fiscal 2014, the second year of the mid-term management plan, was led by the civil engineering business in Japan, which recorded a dramatic improvement in revenue, primarily from large-scale projects, while consolidated sales slightly declined. Overseas business remained solid, primarily at local subsidiaries, despite the intensifying competition brought about by rival players enhancing their overseas business. Building construction in Japan still has some issues, including slower improvement of profitability than initially projected, but our efforts focusing on profitability are steadily improving the foundation of this business.

As a whole, we accomplished good results, including achieving the target of the plan's final year a year early.

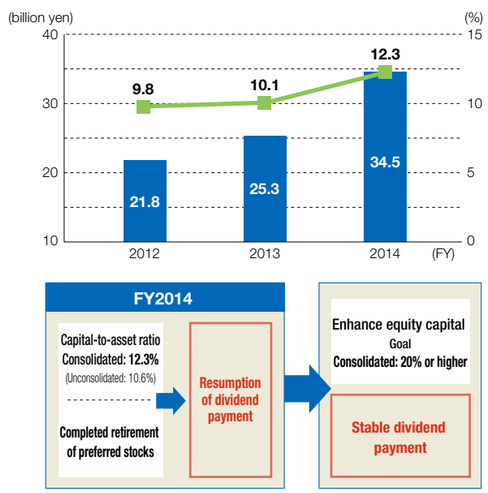
In fiscal 2015, we are projecting substantially better sales and profits than forecast in the mid-term management plan in light of the favorable business environment. Compared with fiscal 2014, we expect an increase in sales in fiscal 2015 due to an increase in the number of construction projects carried forward from last fiscal year. While operating income will remain at the same level, operating profit on sales is likely to reach 3%. We will take thorough measures to steadily achieve our goals.

**Consolidated performance**

(billion yen)

| | FY2013 | FY2014 | | | | FY2015 | | |
|---|---|---|---|---|---|---|---|---|
| | Actual | Plan | Actual | YOY | Difference from plan | Plan | BOY estimate | Difference |
| Sales | 382.7 | 355.0 | 377.8 | −4.9 | +22.8 | 360.0 | 404.0 | +44.0 |
| Operating income | 7.9 | 7.5 | 12.3 | +4.4 | +4.8 | 9.5 | 12.0 | +2.5 |
| Ordinary income | 8.0 | 5.1 | 12.0 | +4.0 | +6.9 | 6.5 | 10.0 | +3.5 |
| Net income | 4.2 | 2.2 | 7.0 | +2.8 | +4.8 | 3.5 | 6.0 | +2.5 |

**Consolidated equity capital**




## 3. Taking on the challenge of new value creation

As of the beginning of fiscal 2015, we established our new Technical & Engineering Service Division. We did this with three main aims: (a) to develop the technological strategy from the mid- to long-term perspective; (b) promote the development of productivity improvement technology (manpower-saving, labor-saving, IT, etc.) as well as technologies required for future business and those encompassing civil engineering and building construction; and (c) enhance technological support for our current business. We will strive to achieve innovations in technological development by providing technological solutions for emerging social issues, such as the shortage of labor and the need for environmental conservation, and by promoting cross-industrial collaboration and collaboration with external organizations.

Meanwhile, in response to the changing business environment, we are exploring new business, such as in the area of project finance initiatives (PFI) and renewable energy. In fiscal 2014, we established our first photovoltaic power generation system on the premises of our PC plant in Kyushu and started to sell electricity in November 2014. In December 2014, we entered into an agreement to work with Sumitomo Forestry Co., Ltd. on joint initiatives for creating and expanding a market for medium- to large-scale wood-based building construction. To create the new market, we will develop composite structures, such as mixing wooden construction and reinforced concrete (RC) construction, and jointly develop buildings with appropriate fire-resistant and aseismic performance.

## 4. Financial standing and shareholder returns

In the previous fiscal year ending March 2015, we completed the retirement of preferred stocks, ending a longstanding management issue, and resumed payment of dividends. However, our equity capital is still weaker than that of our competitors in terms of both amount and ratio (consolidated capital-to-asset ratio as of the end of March 2015: 12.3%). We are aware that enhancing equity capital is a crucial management issue that must be addressed in order to maintain a stable dividend and simultaneously pursue more aggressive management for further growth. We will accumulate revenue from our core business to enhance equity capital early on for more aggressive shareholder returns.

## 5. Creating dynamic workplaces

Employees' energy is what drives the sustainable development of our company. In order to help our employees continue to make active and rewarding contributions, we will take steady actions such as aggressive investment in education and training, diversity promotion, and improving the workplace environment while further developing our open corporate culture.

Safety is the main prerequisite for all business activities. To ensure safety, a faithful adherence to the fundamentals is the most important thing. To eliminate accidents, we will ensure rigorous operation of the occupational safety and health management system and establish a genuine safety culture. By raising safety awareness together with our employees and partners, we will develop a dynamic and accident-free workplace environment.

## 6. For improving corporate value

In fiscal 2015, the last year of the current mid-term management plan, we will make continued efforts to achieve the yearly target of the construction business, our core business, and achieve results in new business with the potential to open up future opportunities, regardless of scale. Meanwhile, for the next mid-term management plan, we will develop strategies around the keyword of "technology" while taking into account possible changes in the market structure. We will also address issues from a higher perspective in the construction business. In these, our goal will be to further enhance our busines foundation in order to improve our corporate value.

The Corporate Governance Code established in June 2015 requires us to facilitate decision-making with transparency and fairness, as well as to be accountable to our shareholders and other stakeholders. In light of the objectives of the code, we will take proactive measures to achieve aggressive governance that leads to the sustainable growth of the SMCC Group and improvement of our corporate value.

Four years have passed since the Great East Japan Earthquake. Earthquake-related construction works for road and river restoration are well underway and relocation of disaster-affected people to higher ground has started in stages. As the business of the SMCC Group involves the maintenance and development of social infrastructure, we started to check damage and got to work on emergency restoration immediately after the earthquake and have taken on restoration projects in disaster-hit areas. We will go forward with a commitment to construction that can contribute to the development of society, including reconstruction of quake-hit areas, and the development of technologies that can contribute to solving social issues. In line with our basic stance that construction processes could be described as our products, we will provide safe and comfortable buildings and structures with our full efforts that meet the expectations of our customers.

We appreciate your continued support and understanding.

September 2015

Special Feature 1

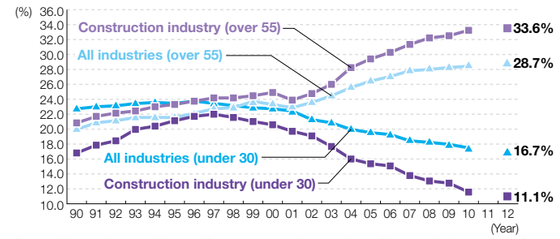
# Initiatives to Address Labor and Construction Engineers Shortages

## Current Situation and Issues

The construction industry is facing the serious issue of an aging workforce, particularly in terms of skilled workers. Currently, the over-55 age group accounts for about 34% of all workers in the industry, while the under-30 cohort has decreased to just 11%. Passing skills on to the next generation is a big challenge. As older workers start to retire in the near future, the number of skilled workers will decline dramatically. It is therefore imperative to retain and train new workers.

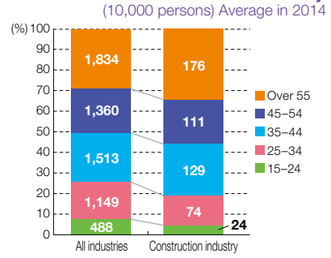
Against this background, we are proactively developing labor-saving technologies by simplifying complicated on-site tasks using industrialization technology as well as developing human resources through cooperation with partners.

Age distribution of workers over time: all industries vs. construction industry




Source: Ministry of Internal Affairs and Communications of Japan, *Annual Report on the Labour Force Survey*
Note: Data for 2011 is unknown due to the Great East Japan Earthquake.

Age distribution of workers: all industries vs. construction industry
(10,000 persons) Average in 2014

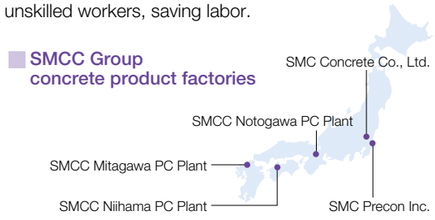



## Initiative 1 Developing Technologies for Industrialization and Saving Labor

To improve productivity on building sites, we have been working on the development of a method of precasting, a process that involves casting reinforced concrete members in advance at a plant or an on-site yard and joining them on-site.

Intensive casting at on-site or off-site locations allows thorough quality management and reduces the need for on-site reinforcement-bar placers and formwork carpenters, making it possible to execute different tasks in parallel and thus improve profitability. Joining precast concrete (PCa) members on-site can be performed by unskilled workers, saving labor.

SMCC Group concrete product factories




### (1) Precasting for civil engineering work

**Second Okegawa Bridge Construction**

This project adopted the span-by-span method: laying out precast segments with a U-Type cross-section on the ground and raising them using an erected girder (green parts in the photo) to install them all at once. The use of a butterfly web structure (butterfly-shaped concrete panels) for the bridge girder, as well as a cast-in-place U-Type core segment for the upper floor slab, helped reduce the weight compared with conventional full cross-section segments. The number of segments per span (45 meters) was reduced to two thirds, 14 blocks. Consequently, the construction period was shortened by three days per span or 1.5 months for 16 spans. Meanwhile, we adopted precasting for the part to be created with temporary timbering so that we could reduce both the number of on-site workers (from the initial estimate of 450 persons) down to 350 persons and difficult on-site tasks, such as complicated arrangement of reinforcement bars, both of which mitigated the shortage of skilled workers. These efforts resulted in shortening of the design and construction period by six months, from the initially planned 24 months down to 18 months, for the total bridge length of 3.2 kilometers.

Installing precast segments using U-shaped core segment and butterfly web

### (2) Precasting for building construction

**(Tentative name) Harumi 3-chome West A2/A3 Blocks Project**

Using our proprietary technology, the DOC method, we simultaneously completed construction of two buildings, quickly executing the construction of each floor in three-day cycles. We also used the SQRIM method of applying PCa[1] to most of the main members in order to achieve reasonable labor savings while securing a high level of execution quality.

1 PCa: Precast concrete

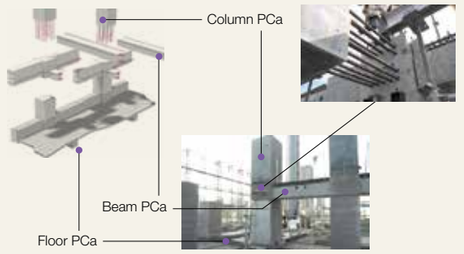
**DOC (one Day-One-Cycle) method**

SMCC's proprietary system construction method for building high-rise residential housing whereby the skeleton is built in one-day cycles (one day, one cycle).

**SQRIM (Sumitomo Mitsui Quick RC Integration) method**

SMC's proprietary technology that facilitates the application of precast concrete to superhigh-rise reinforced concrete buildings, the number of which has been increasing in recent years. This method involves precasting reinforced concrete for columns, beams and other parts that are vulnerable to the outdoor environment in an indoor PC plant. It thereby enables a shorter construction period and helps mitigate labor shortages while maintaining a high level of quality. This method makes it possible to apply PCa to cross rigid frames, corners or other parts of buildings where application of PCa is difficult using conventional methods.

For details (in Japanese), see our website
→ http://www.smcon.co.jp/service/sqrim/




## Initiative 2 Developing Partners and Enhancing Collaboration with Partners

### (1) Construction Meister system

In 2011, we established the Construction Meister system to further enhance partnership with member companies of Shineikai, an organization comprised of our partners, and facilitate the retention of excellent human resources. From among those foremen employed by our partners and working on our construction projects, the system allows us to identify excellent candidates based on their achievements, contribution, cooperative ability and personal attributes and certify them as meisters. Once certified, the foremen are then able to receive a higher wage when working on our projects.

### (2) Bridge Meister system

In order to establish the SMCC brand with regard to our core competence of bridge construction, we certify foremen with outstanding skills in overall execution and leadership as Bridge Meisters. Certified foremen are expected to train the young technicians who will lead the PC industry in the future and to pass on their skills to the next generation.


### (3) Encouraging subcontractors to take out social insurance

Some companies in the construction industry do not offer their employees social insurance, such as health insurance, pension plans and unemployment insurance, and are therefore unable to ensure the security of their employees in the event of a disaster or other unforeseen event. This is part of the reason for the decrease in the number of young people choosing to work in the industry.

Since April 2015, we have been requiring primary subcontractors to submit their quotation with a clear statement of statutory employee benefit expenses in a standard quotation format, as well as to purchase appropriate social insurance. We do not sign a subcontracting agreement with uninsured companies, in principle. As for secondary or lower-tier subcontractors, we check whether they are insured or not using an execution system ledger and our core construction management system, Foreman.Net[2], and advise uninsured companies to purchase social insurance.

### (4) Improving the level of partners' technologies

Every year, Shineikai holds a convention to showcase success stories in which member companies made creative efforts to achieve substantial results in six areas, namely, quality, safety, cost, process, environment and other. Sharing and adopting good practices among member companies and making continued improvement efforts will result in the building of high-quality structures in a more effective and safe manner. This will in turn improve the overall level of member companies and lead to sustainable growth not only for our company but also for our partner companies.

2 Foreman.Net: A system for the online collective management of safety documents, worker entrance and exit records, and work and logistics data exchanged between sites and partner companies

Special Feature 2

# Initiatives to Address Aging Infrastructure

## Current Situation and Issues

Social infrastructure in Japan was developed rapidly during the period of high economic growth that followed World War II. This means that as of 2013, 20% of road bridges and tunnels were 50 years old or older, a figure that will increase at an accelerated rate to exceed 50% by 2033. To address this issue, we must take measures for aging social infrastructure from a life cycle perspective as well as measures for extending infrastructure life. This needs to be done alongside developing mechanisms for efficient and effective maintenance, operation and management. We will continue to aggressively address the issue of aging social infrastructure by developing technologies for infrastructure monitoring and for maintenance and repair.

**Percentage of social infrastructure 50 years old or older**

| | March 2013 | March 2023 | March 2033 |
|---|---|---|---|
| Road bridges (over 2 m in length) About 400,000 bridges | About 18% | About 43% | About 67% |
| Tunnels About 10,000 tunnels | About 20% | About 34% | About 50% |

Source: *2014 White Paper on Land, Infrastructure and Transport in Japan*

## Initiative 1 Conducting Voluntary Inspections of Bridges

We have constructed far more than 4,000 bridges. Some of these bridges have not undergone proper maintenance. To prevent problems, we support bridge administrators by conducting voluntary inspections of bridges, giving priority to poorly managed bridges. With the help of bridge inspection engineers—including both active and retired employees of our company—we inspect 300 to 400 bridges every year. As of March 2015, we have inspected more than 6,400 bridges in total.

## Initiative 2 Developing Infrastructure Monitoring Technology

For maintenance and management of social infrastructure, we are developing monitoring technology to grasp the physical condition of structures using sensor or other devices.

**Development case study**

### Seismic bridge monitoring system

Using a sensor installed on a bridge, this system monitors damage on a real-time basis in the event of an earthquake. If an earthquake occurs, the system quickly determines whether the bridge can remain in service, as well as the level of damage, to help authorities understand the inspection priority for bridges, including those in remote areas, and promote efficient inspections. Currently, the system is installed on a bridge under construction for a field trial. This means that we are checking data communications and collecting data. We will collect and accumulate data, conduct quick and appropriate analysis and diagnosis, and reduce the cost of maintenance, and to aim to expand the monitoring business.

## Initiative 3 Developing Tools for Infrastructure Inspection and Management

To save labor for inspection and production of inspection records, we are developing tools for inspection and management using IT.

**Development case study**

### Database management system for tunnel life cycle management

This management system automatically creates a repair work history database as design and execution details of tunnel repair work are input via tablet terminals.

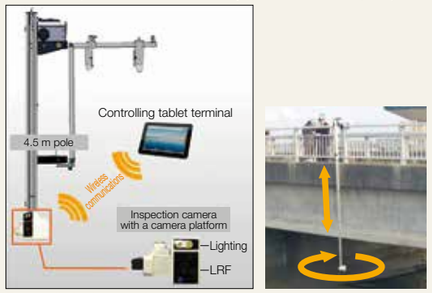
(Joint development with the laboratory of Kenichi Itakura at Muroran Institute of Technology and the Japan Atomic Energy Agency)

For details (in Japanese), see our website
→ http://www.smcon.co.jp/2014/122410440/

### Bridge inspection robot camera

This system inspects sections of bridges for which close in-person visual inspection is difficult. It involves the use of a camera, controlled by a tablet terminal, attached to the end of a telescopic pole.

(Joint development with Hitachi Industry & Control Solutions, Ltd.)




For details (in Japanese), see our website
→ http://www.smcon.co.jp/2014/09309778/

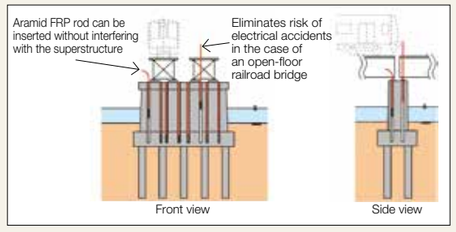
## Initiative 4 Developing Technologies for Maintenance and Renovation

We are developing technologies for infrastructure maintenance and renovation methods pursuing ease and economy.

**Development case study**

### Aseismic reinforcement of RC bridges using aramid FRP rods

For reinforcement work, bridges over rivers require large-scale temporary installations, which results in greater cost and a longer construction period. This means the aseismic reinforcement of such bridges tends to occur at a slow pace. This method involves drilling a hole from the upper end of the existing bridge to insert an aramid FRP rod for prestressing to improve flexural capacity and shear capacity of the bridge pier. The reinforcement work can be done from the top of the pier without interfering with the superstructure and therefore does not require large-scale temporary facilities or underwater work, such as a temporary pier or closure of the river.




For details (in Japanese), see our website
→ http://www.smcon.co.jp/2015/032413050/

## Initiative 5 Developing Technology for Extending Infrastructure Life

The life of modern concrete structures is said to be 50 to 100 years, depending on the installation site and usage. We are working on technological developments to create bridges that can be used for 200 years. Such an extended lifespan will result in less maintenance and management costs, and contributes to the improved durability of concrete structures as well as reducing refurbishment expenditures.

**Development case study**

### Highly durable Non-Metal Bridge

This highly durable bridge can be built using fiber-reinforced concrete with design standard strength of 80 N/mm$^2$ and an aramid FRP rod as rustproof tension material in place of physically corrodible reinforcing steel or prestressed concrete (PC) steel. We are working to apply this technology to actual structures.

(Joint development with West Nippon Expressway Co., Ltd.)

For details (in Japanese), see our website
→ http://www.smcon.co.jp/2013/09116433/

Special Feature 3

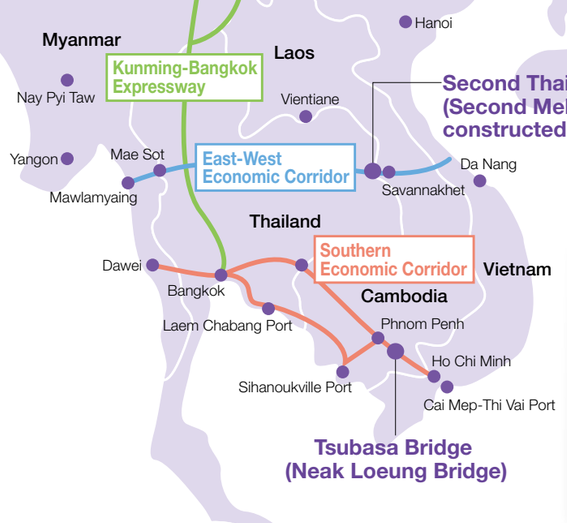
# Contributing to Regional Development Using Building Construction Technology

## Bridge Featured on New Banknote (Tsubasa Bridge, Cambodia)

Project name: Neak Loeung Bridge Construction Project
Contractee: Ministry of Public Works and Transport, Kingdom of Cambodia
Design: Joint venture between Chodai and Oriental Consultants
Construction period: December 20, 2010–March 15, 2015
Bridge type: Three-span cable-stayed PC bridge (main bridge)
Total length: 5,460 m
Bridge length: 640 m (main bridge), 1,575 m (approach bridge)
Span length: 155 m + 330 m + 155 m (main bridge)
Road: 3,245 m (approach road)

In Indochina, economic corridors crossing multiple countries, namely, the East-West Economic Corridor, Kunming-Bangkok Expressway, and Southern Economic Corridor, are being developed. This bridge is constructed at a bottleneck crossing of the Mekong River along the Southern Economic Corridor that connects Ho Chi Minh City (Vietnam) and Bangkok (Thailand) via Phnom Penh (Cambodia). Before the bridge was constructed, people wanting to cross the river had to catch a ferry, with waiting times lasting up to seven or eight hours. The bridge allows people to cross the river in the much shorter time of five minutes, greatly contributing to the economic growth not only of Cambodia but also countries in southern Indochina. The government of Cambodia had been requesting the government of Japan to construct the bridge using official development assistance (ODA) since 2001. The area, however, used to be home to a Pol Pot ammunition depot and was hard fought over during the civil war period from 1970 to 1991. This meant unexploded bombs had to be removed before construction work could take place. Following the disposal of more than 4,000 bombs, construction started in 2010 with grant aid from Japan.

The project was not without setbacks however. In 2011, the construction site was inundated by large-scale flooding. In 2012, a dud bomb exploded during piling in the river and construction was suspended for four months. The difficult project was finally completed in March 2015 and opened to traffic. Because the opening of the bridge contributed to the completion of the Southern Economic Corridor, the opening ceremony received extensive media coverage. As the shape of the bridge resembles two birds spreading their wings to touch each other, it has been named the Tsubasa (“wings”) Bridge, with the hope of further enhancing the relationship between Cambodia and Japan. The new Cambodian 500 riel bill, issued to mark the opening of the new bridge, features both the Tsubasa Bridge and the Kizuna (“bonds”) Bridge, together with the national flags of Cambodia and Japan. The Kizuna Bridge was completed in 2001 through a joint venture involving SMCC and was named to mark the bonds of friendship between Cambodia and Japan.





New 500 riel banknote

Pre-construction overhead view (perspective drawing) (provided by JICA)

Piling in the river

Constructing approach bridge

Building main tower with reinforced prefabrication

Constructing main bridge section

Building cantilever with supporting wagon

Opening ceremony: Ribbon cutting by President Hun Sen (center) and Senior Vice-Minister of Land, Infrastructure and Transport and Tourism Nishimura (left)

Project Manager Kitada awarded a decoration by President Hun Sen

# Business Overview

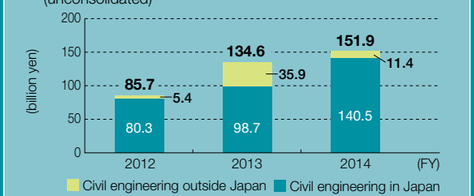
## Domestic Civil Engineering

Civil engineering provides optimal technologies for the design, construction, maintenance and management of civil engineering structures that support public infrastructure, such as bridges, tunnels, roads, railways, and water and sewerage systems, upon which the life of a country depends.

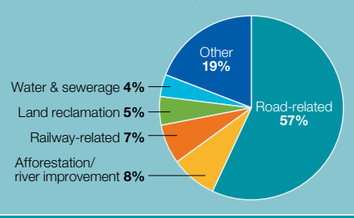
Particularly in the area of prestressed concrete (PC) bridges, we have the industry's best track record for design and construction, promote technological development for new types of structures as well as for reducing construction periods through labor-saving execution based on precasting, and provide high-quality and highly durable bridges with due consideration to maintenance and repair.

We also develop public infrastructure across a wider range of areas, including mountain tunnels as our second pillar, shield tunnels, dams, urban civil engineering, rivers, land reclamation and energy facilities, by taking advantage of our technologies and know-how supported by a wealth of achievements.

**Civil engineering orders received**
(unconsolidated)




**Civil engineering orders received**
(in Japan + outside Japan) **by type of work** (3-year total)



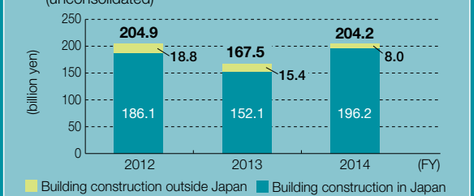

## Domestic Building Construction

Committed to providing people with ample and safe spaces in which to live and work, our building construction business develops buildings that meet a variety of customer needs, ranging from collective housing (our core offering) to commercial facilities, logistics warehouses and production facilities for various industries.

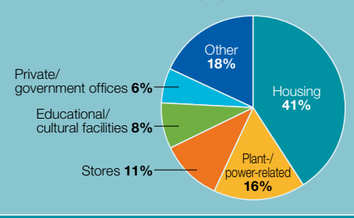
Collective housing construction is what we have mainly focused on over the years. As a proud top player in this area, we are aggressively implementing measures to improve quality and functionality and creating and providing new value for residents and users.

We are also providing our clients with the facilities they need in order to grow, such as world-leading precision equipment research and development facilities as well as BCP-compliant logistics facilities able to withstand natural disasters.

**Building construction orders received**
(unconsolidated)




**Building construction orders received**
(in Japan + outside Japan) **by type of work** (3-year total)




## Overseas Business

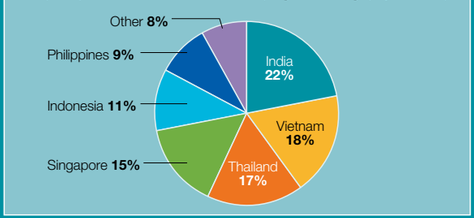
As we are among the first to build strong networks in Asia, we are now in a position to take advantage of these networks in order to contribute to global development by assisting Japanese companies to enter overseas markets and facilitating official development assistance (ODA) projects.

For example, the bridges that we constructed over the Chao Phraya River in Thailand, including our ninth, the Nonthaburi Bridge (photo) opened in 2014, reduce traffic congestion and improve the efficiency of the local transportation network, thereby giving a boost to local industry while enhancing the urban environment.

Employing the latest technologies and optimal process management, we offer proposals tailored to suit specific local environments. During the execution stage, we actively pass on our treasured spirit of construction to local personnel through high-level safety management and quality control systems. In these and other ways, we thus serve as a bridge between countries, between companies and between people.

**Overseas orders received**
(in Japan + with local subsidiaries)


**Overseas orders received**
(in Japan + with local subsidiaries) **by country** (3-year total)




## Business Innovation & Incubation

Besides conventional contract business, we endeavor to enter new business areas by constantly seeking out viable businesses based on an understanding of social needs and global trends.

For instance, we take part in project finance initiatives (PFIs) and public-private partnerships (PPPs), and propose renewable energy projects using unused land and reservoirs.

We also provide engineering solutions to address the business operation concerns of our clients through the application of our accumulated technologies and expertise.

Focusing on entry into new business fields and engineering solutions, we are launching activities for business innovation and incubation.

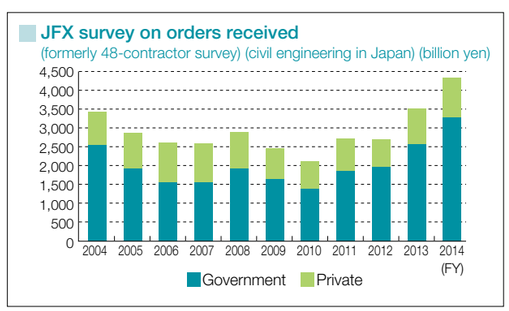
# Domestic Civil Engineering

Contractee: East Nippon Expressway Co., Ltd., Kantou Regional Head Office
Project name: Shuto-Ken-Chuo-Renraku expressway (Ken-O Expressway) Second Okegawa Bridge (PC superstructure)

Completed tunnel

Tunnel breakthrough ceremony

Contractee: Tohoku Regional Development Bureau, Ministry of Land, Infrastructure, Transport and Tourism
Project name: Tohoku-Chuo Expressway Kuriko Tunnel (Yamagata side) Construction




## Business Environment

The civil engineering orders received in Japan in fiscal 2014 remained at a high level as projects to recover roads, sea embankments and other infrastructure damaged by the Great East Japan Earthquake got into full swing and government investment for infrastructure construction was executed at an early stage.

While the number of bids solicited in relation to earthquake recovery projects has peaked, bids solicited for large projects related to the Tokyo Outer Ring Road, Shin-Tomei Expressway and Chuo Shinkansen Line are likely to increase gradually, with general contractors continuing to play a significant role.

## Fiscal 2014 Overview

Results of civil engineering in and outside Japan in fiscal 2014 were:

| | |
|---|---|
| Orders received | 151.9 billion yen |
| | (Up 17.3 billion yen or 12.9% year on year) |
| Amount of completed work | 96 billion yen |
| | (up 7.5 billion yen year on year) |
| Gross profit of completed work | 12.1 billion yen |
| | (up 5 billion yen year on year) |
| Gross profit margin of completed work | 12.6% |
| | (up 8.1% year on year) |

Key construction orders received include Shin-Tomei Expressway Tanigayama Tunnel West, a mega solar power plant in Fushimi, Kyoto, and the Metropolitan Inter-City Expressway Main Expressway Tunnel (south bound) Tomei Kita Construction, in which we participate as a member of a joint venture.

Thanks to the completion of many long-term, large-scale construction projects, profit margin improved from the previous year.

## Initiatives in Fiscal 2014

To enhance our technology proposals in line with the overall evaluation bidding method, we are developing technologies for improving quality, efficiency and safety and reducing environmental impact.

With regard to bridge construction, we are promoting the butterfly web method, which can help speed up execution and reduce weight. In fiscal 2014, we completed the construction of the Second Okegawa Bridge (PC superstructure) of the Shuto-Ken-Chuo-Renraku expressway. The method has been adopted in two completed projects and two ongoing projects.

➔See Special Feature on page 11.

As for tunnel construction, we completed the Kuriko Tunnel connecting Fukushima City (Fukushima Prefecture) and Yonezawa City (Yamagata Prefecture) in March 2015. When put into service in 2017, the tunnel will become the longest road tunnel in the Tohoku region and the fifth longest in Japan.

In the area of renovation, we received an order for the Higashikuma Water Purification Plant facility improvement (Kasuga-Nakagawa Waterworks Bureau, Fukuoka Prefecture) by leveraging the design and construction expertise we acquired during the renovation of the Odanaka Purification Plant (Tsuyama City Waterworks Department, Okayama Prefecture) in which we executed the work while the existing facilities remained in operation.

Construction orders received in relation to restoration from the Great East Japan Earthquake include the Shishiorigawa River Riverside Restoration Part 3 (Kesennuma City, Miyagi Prefecture) and Yanagawa Tunnel construction on the reconstruction assistance road Miyako-Morioka crossing road (Tohoku Regional Development Bureau, Ministry of Land, Infrastructure, Transport and Tourism; Morioka City, Iwate Prefecture).

## Issues and Future Initiatives

In line with the overall evaluation bidding method, we will continue to develop new technology proposals that will provide value to government contractees.

In the long-term, the market for new building construction is likely to shrink while markets for renovation and reconstruction will expand, as will markets related to strengthening the nation through disaster prevention. Therefore, these areas will be our focus in terms of developing technologies and establishing a performance track record. With regard to maintenance and management of public infrastructure, such as water and sewerage and roads, government-private projects, including PFIs/PPPs and concessions, are expected to increase to record levels. We will therefore enhance our initiatives and efforts in terms of cross-industrial partnerships.

With the strong growth in orders received, we are confronted with the issue of a shortage of civil engineers, which requires us to bolster our retention and training of technical employees. We are also ensuring that design and technological expertise will be passed on to mid-career and young engineers, who are in particularly short supply, by carrying out systematic rotation to allow them to experience a variety of design tasks and types of work from an early stage.

At the same time, to reduce site management tasks, we will step up our efforts for improving efficiency and streamlining with the use of ICT, including managing the final shape of a structure using photogrammetry technology. With regard to construction information modeling (CIM), which is promoted by Japan's Ministry of Land, Infrastructure, Transport and Tourism, we started trials in earthmoving and tunnel construction to build a unified data management system, covering everything from design to execution, maintenance and management, based on a 3D model with the goal of improving the efficiency of work execution management.

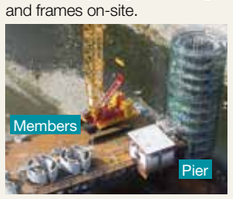
In response to the industry-wide issue of an under supply of skilled construction workers, we are improving productivity with methods for saving labor and accelerating execution using precast concrete members, such as SPER[1] and butterfly web, while ensuring superior technological skills are passed on to the next generation by certifying outstanding foremen as Construction Meisters and Bridge Meisters.

➔See Special Feature on page 12.

Having set "unmanned bridge construction methods" as one of the themes of our next-stage development for the coming decade, we are working on basic research to save labor in such human-intensive tasks as joining frames and reinforcing rods or pouring concrete, with the ultimate aim of achieving unmanned processes. Besides these, we will continue to make efforts to overcome challenges and improve performance through the use of technology.

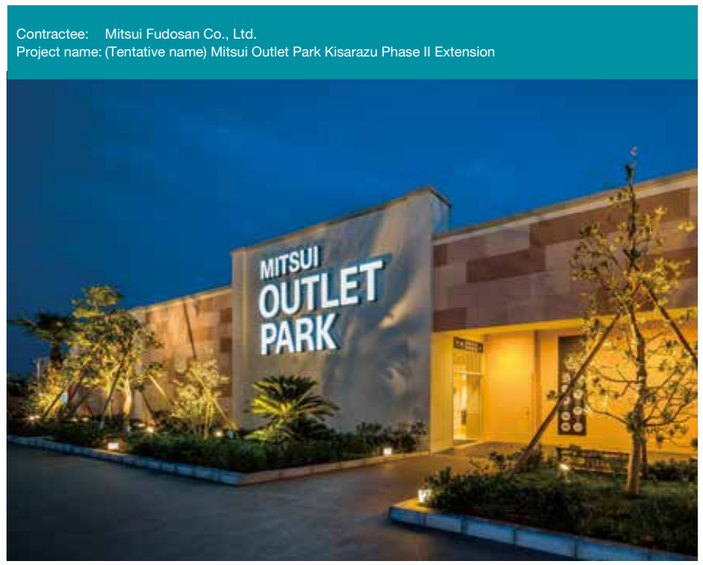
### *1 SPER

The SPER (Sumitomo Mitsui's Precast Form for Earthquake Resistance and Rapid Construction) method is used to build high bridge piers. It involves transporting factory-made half-precast members with embedded hoop reinforcement to the construction site, where they are raised and filled with concrete to serve as both members and frames. This method can substantially shorten the process by saving the labor involved in joining reinforcing rods and frames on-site.



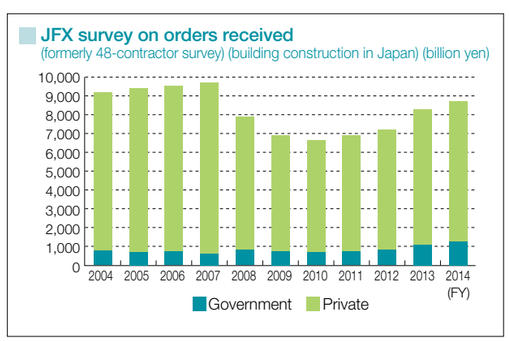
# Domestic Building Construction

Contractee: Oji Container Co., Ltd.
Project name: Oji Container Co., Ltd., Fukushima Plant Reinforcement




Contractee: Mitsui Fudosan Co., Ltd.
Project name: (Tentative name) Mitsui Outlet Park Kisarazu Phase II Extension

Contractee: Tokyo Tatemono Co., Ltd., Sumitomo Realty & Development Co., Ltd.
Building name: Brillia Ariake City Tower
(Project name: Ariake Kita 2-2-A Block Construction)




## Business Environment

Building construction in Japan in fiscal 2014 got off to a weak beginning, with housing unit starts declining from the high base set by last-minute demand for housing investment prior to the consumption tax increase. However, with urban developers' strong willingness to develop and improving corporate earnings associated with economic recovery and ongoing yen weakness, manufacturers are gradually making active investment in production facilities. The area of general building construction (non-housing) is expected to see brisk construction demand.

## Fiscal 2014 Overview

Results of building construction in and outside Japan in fiscal 2014 were:

| | |
|---|---|
| Orders received | 204.2 billion yen |
| | (Up 36.7 billion yen, 21.9% year on year) |
| Amount of completed work | 188.1 billion yen |
| | (down 4 billion yen year on year) |
| Gross profit of completed work | 5.4 billion yen |
| | (up 0.3 billion yen year on year) |
| Profit margin of work | 2.8% |
| | (2.6% in fiscal 2013) |

With a favorable construction environment, we received orders for large-scale construction projects in our area of focus, resulting in a 21.9% increase in orders received from the previous year. By taking advantage of our status as the only general construction company in both the Mitsui Group and the Sumitomo Group, we are enhancing cooperation with our fellow group companies and putting considerable effort into the area of general building construction as well as housing construction, where we enjoy a competitive edge.

Profits from construction work remained at a low level, with a 2.8% profit margin, due to increasing costs of labor and materials. Currently, we are making efforts to win profitable orders and are gradually seeing improvements in terms of ongoing construction projects.

## Initiatives in Fiscal 2014

With regard to construction technology for collective housing, we are pressing on with initiatives for on-site reductions in labor and manpower. Particularly in superhigh-rise residential housing construction, we aggressively adopt precasting (PCa) and industrialization methods to achieve the industry's fastest execution, building one floor in a three-day cycle. In response to the industry-wide issue of an undersupply of skilled construction workers, we are improving production lines at concrete product plants operated by the SMCC Group and working on execution process management using IT so as to ensure our ongoing ability to secure and provide stable quality.

➔See Special Feature on page 12.

Our design system series for mid- to high-rise residential buildings, SuKKiT, has steadily been adopted by an increasing number of projects thanks to its high added value, including the elimination of beams to create open residential spaces. A total of 23 projects using the system had been completed as of March 2015.

As for general building construction, we received an order for LaLaPort Hiratsuka, a project to develop a large-scale store at an old factory site in Hiratsuka City. Using the design and execution expertise we have accumulated through shopping center and outlet mall projects across Japan, we worked on a broad range of plans, including floor extension and renovation, while maintaining a balance between functionality and cost.

In the area of aseismic renovation technology, which is drawing attention in terms of the so-called "stock-based society," our proprietary vibration control retrofit method, which achieves superior aseismic performance with a little burden on facility users, was adopted by 11 projects.

## Initiatives for the Future

For the 2020 Tokyo Olympic and Paralympic Games, related facilities will be developed in Japan such that the entire construction market is likely to experience a concentrated burst of activity over a limited period of time. Against this background, we will strategically conduct activities to ensure orders and manage the execution process while employing our labor-saving and manpower-saving execution technology and developing new technologies to meet market needs.

While facilitating technology proposals in the area of collective housing, we will enhance solution proposals and build good relationships of trust with clients from a mid- to long-term perspective in the general building construction market, with the goal of creating new business opportunities. In the area of national and local government projects aimed at strengthening the nation and vitalizing regional economies, we will promote cross-industrial cooperation and increase our commitment to PFIs/PPPs.

The construction industry as a whole is facing a growing shortage of workers due to the prolonged market depression. To address the twin issues of an under supply of young engineers and the aging of specialized engineers, it is imperative to retain and train technical employees. Because of the current imbalance in personnel composition, it is becoming difficult to ensure technologies are passed on from experienced to younger workers via field-oriented on-the-job training alone.

In light of this, we are enhancing group education, led by Head Office. We provide uniform education for young employees and a wide variety of education programs according to years of experience, and carry out systematic rotation to different work sites to ensure well-balanced professional development. Based on our understanding of the labor crunch as a common issue for the entire construction industry, we will respond by making continued efforts to secure labor at an early stage in view of estimate orders received, and will enhance cooperation with our partners.

➔See Special Feature on page 12.

The most important thing in the execution of construction work is to secure safety and quality. Loss of credibility from serious incidents or quality problems can lead not only to lost earnings in the short term but also threaten a company's corporate value and its very existence. We are committed to reducing risks through safety and quality patrols, focused management for specific work types, rapid response and investigation into causes when a problem does occur, and horizontal deployment of preventive measures.

We are committed to maximizing fair return while pursuing customer value and winning trust.

# Overseas Business

Project name: Nhat Tan Bridge (Vietnam-Japan Friendship Bridge) Construction Project (Package 1)
Contractee: Ministry of Transport, Vietnam
A 3.8-km bridge crossing the Red River.
Won the Fiscal 2014 Tanaka Award of the Japan Society of Civil Engineers.

Project name: Nonthaburi 1 Road Chao Phraya River Bridge Construction Project
Contractee: Department of Rural Roads, Ministry of Transport, Thailand
Our ninth bridge over the Chao Phraya.

Project name: TOTO Gujarat Plant Construction Project
Contractee: TOTO India Industries Pvt. Ltd.

## Business Environment

Recognizing the overseas market as a growth market, our third mid-term management plan focused on overseas business as our third pillar, and we are making continued efforts to enhance this business. For risk management, we carry out sales activities by limiting the primary scope of clients to ODA-recipients and Japanese companies in South Asia east of India and in Southeast Asia.

Relocation of production from Japan to overseas has slowed down somewhat, but relocation of production from China to Southeast Asian countries is increasing and ODA projects are likely to continue, primarily around the Mekong Basin. With the development of economic corridors connecting cities across Southeast Asia and the inauguration of the ASEAN Economic Community scheduled for the end of fiscal 2015, this region is likely to achieve steady growth in the medium and long term.

Meanwhile, more and more Japanese general contractors will foresee a future shrinkage in Japan's construction market and enter the overseas market, making it more difficult to win orders.


## Fiscal 2014 Overview

Results of overseas business in fiscal 2014 were:

| | |
|---|---|
| Orders received (unconsolidated + overseas subsidiaries) | 58.8 billion yen |
| | (Down 25.2 billion yen year on year) |
| Sales (unconsolidated + overseas subsidiaries) | 61.8 billion yen |
| | (Down 8.4 billion yen year on year) |
| Percentage of consolidated sales | 16% |

Orders received in fiscal 2014 declined from fiscal 2013, when we received orders for large-scale ODA projects in Vietnam and Indonesia. Looking at the two-year average, however, we are doing well, at the same level as the 70-billion-yen target set in the fourth mid-term management plan.

Although both unconsolidated sales and sales at subsidiaries have slightly declined from the previous year, sales in general are progressing as planned.

### Main orders received

- **Vietnam:**
  North-South Expressway Construction Project (Ben Luc-Long Thanh section)
  Package J2 Construction (ODA project)
  Construction of elevated highway with total length of 4.7 km
- **India:**
  Construction of "Honda Two Wheeler Manufacturing Plant" in Gujarat
  Scooter plant with site area of 376,000 $m^2$ and building area of 130,000 $m^2$

### Main completed works

- **Vietnam:** Nhat Tan Bridge (Vietnam-Japan Friendship Bridge) Construction Project Package 1
- **Thailand:** Nonthaburi 1 Road Chao Phraya River Bridge Construction Project
- **Thailand:** Sumitomo Electric Industries Construction of a new plant (automotive wire manufacturing plant)
- **India:** TOTO Gujarat Plant Construction Project (Sanitary ware manufacturing plant)
- **Indonesia:** Mitsubishi Tanabe Pharma Construction of a new drug manufacturing building (Medicinal chemicals manufacturing plant)

## Initiatives to Enhance Overseas Business Foundation

With intensifying competition to receive ODA orders and orders from Japanese companies, we are enhancing sales in countries where we have established new offices, such as Myanmar and Malaysia, primarily through our overseas offices and existing local subsidiaries. For countries where we have project execution experience, such as Sri Lanka and Laos, we will work primarily on ODA projects. Specifically, in order to be competitive in ODA projects, we combine our technology and local execution capacity under an execution system whereby we partner with major local general contractors. In Myanmar and other new markets, we are strengthening sales initiatives with a view to tying in with major local general contractors in neighboring countries to secure supply chains.

To deal with various risks outside Japan, enhancement of risk management systems is crucial. With regard to projects in new markets, we examine various methods of making sales. As for each project, we then examine the order to identify any risks related to execution or the overall contract, give instructions for countermeasures, and carry out periodic work progress management during the construction period.

To secure Japanese-standard safety and quality even at overseas sites, we operate our project management system (PMS), which represents our unique safety and quality management standard. Additionally, we have launched a contract management system (CMS) to manage contractual risk at sites.

For localization, we are making efforts to educate and develop locally hired employees. For example, we provide group training on our PMS and CMS every year in either Japan or Singapore. We offer this in the form of training for different job grades, such as project manager (PM) and construction manager (CM), as well as group training for different job categories, such as staff in charge of the PMS, for both Japanese employees and local hires working at all overseas offices and sites.

Having started development of information security systems at offices outside Japan, we are enhancing our series of risk management systems for risk management of our overseas business.

Meanwhile, in light of the frequency of incidents of terrorism, infectious disease and natural disasters in recent years, it is becoming critical to secure the safety of both Japanese expatriates and locally hired employees as well their families. In fiscal 2014, we developed an overseas safety manual as part of our safety efforts both in and outside Japan. Local offices, International Division and Head Office are making concerted efforts for risk management.

Fiscal 2014 CM training (at Head Office)

# Business Innovation & Incubation

(Yoshinogari)
Mitagawa Solar Power Plant

Mid- to large-scale wooden building: exterior drawing

Mid- to large-scale wooden building: interior drawing

The construction business in Japan is expected to shrink over the long term in line with changes in construction demand due to the declining birthrate and aging population as well as financial constraints due to increasing public debt. On the other hand, the construction industry needs to take on new roles in society, including addressing the issue of old social infrastructure and global environmental issues.

In order to pursue possibilities open to our company through broad initiatives for social issues, we established the Business Innovation & Incubation Division in April 2014 and have since been exploring new avenues for business outside of the conventional boundaries.

## New Business

To achieve our 2011 environmental vision, “Green Challenge 2020,” we are working on the area of renewable energy. In 2014, we established the (Yoshinogari) Mitagawa Solar Power Plant, which produces about 1 megawatt of electricity, on the premises of the Mitagawa PC Plant, and thereby launched our solar power business. In Kagawa Prefecture, meanwhile, we have been entrusted to conduct a pilot experiment for the introduction of a floating solar power generation system suspended over an agricultural reservoir.

Meanwhile, for the intensive use of wood as a carbon-neutral construction material, we entered into an agreement to work with Sumitomo Forestry Co., Ltd. on joint initiatives for creating and expanding the market for medium- to large-scale wooden building and for creating new business opportunities (drawings on opposite page).

Example of wooden interior execution: Mokumoku Childcare Center

To keep the broader public abreast of these initiatives, we are carrying out environment-related communication activities, including exhibiting at Eco-Products 2014 and organizing public lectures.

## PPP/PFI

To explore new avenues for business through public-private cooperation, we are working on PPPs and PFIs. In fiscal 2014, we took part in a PFI for the development and operation of the Kawanishi City Gymnasium.

Drawing of proposed Kawanishi City Gymnasium

## Facilities Engineering

We are expanding our business in the promising growth areas of pharmaceutical products/ regenerative medicine and food. Specifically, we are laying out the framework to provide advanced GxP[1] engineering in line with changes in the business environment, such as the revision of the Pharmaceutical Affairs Act and Japan’s participation in PIC/S[2], and food safety management systems compliant with HACCP[3] and ISO 22000.

Meanwhile, to secure business continuity, including maintaining supply chains, we have put in place a system to provide not only aseismic renovation and other “hard” products and services but also “soft” solutions, including support for establishing operation systems and management systems.

1 GxP: Good x Practice. A general term used in such fields as pharmaceuticals and medical devices to mean “appropriate criterion.” Major GxP include GCP (Good Clinical Practice), GDP (Good Distribution Practice), GLP (Good Laboratory Practice), GMP (Good Manufacturing Practice) and GQP (Good Quality Practice).
2 PIC/S: Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme
3 HACCP: Hazard Analysis and Critical Control Points. A management method to secure safety by analyzing hazards in food production processes and continuously managing critical control points where the hazards can be most efficiently dealt with.

## Environmental Engineering

Addressing soil contamination is becoming increasingly crucial not only from the environmental perspective but also from the perspectives of legal compliance and asset management. As a designated investigation institution (2003-8-1040) under the Soil Contamination Countermeasures Act of Japan, we provide soil contamination investigation services as well as bio remediation and other soil decontamination engineering.

# Governance Report

We are striving to enhance our corporate governance and group-wide systems for internal control and compliance in order to build a highly transparent management system and improve the value of our corporate group.

## Basic Concept of Corporate Governance

The SMCC Group aims to live up to the trust and expectations of its shareholders and numerous other stakeholders by building an efficient and fair management system, achieving sound growth and performance goals, and increasing corporate value. To that end, we prioritize the following five actions.

SMCC is committed to:

1. **Quick decision-making**
2. **Designing a highly strategic organization**
3. **Transparent and rational corporate behavior**
4. **Developing a proper internal control system**
5. **Practicing accountability with proper disclosure**

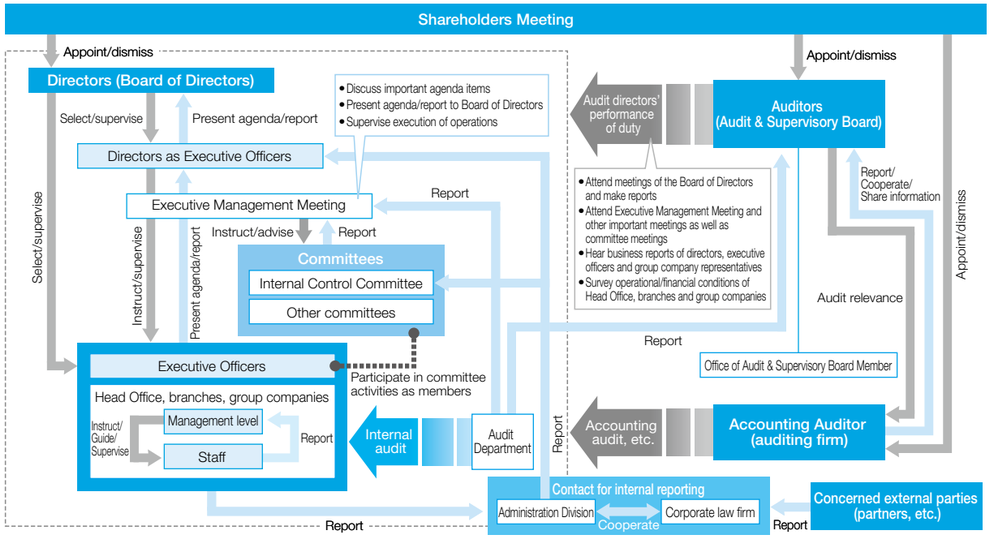
With this basic concept, we, as a corporate group, are building and operating a proper internal control system, constantly improving and enhancing our compliance system, and taking fast and appropriate action against risks that may have a significant impact on management.





## Enhancing Corporate Governance

### Corporate Governance System (as of the end of June 2015)




For our corporate governance, we have adopted the auditor system and executive officer system. Our Board of Directors is tasked with decision-making and supervising the execution of duties by individual directors. Our executive officers carry out operations and audits are performed by our Audit & Supervisory Board and accounting auditor. Aiming to improve transparency and soundness, we appoint an external board member and external auditors to enhance the decision-making and supervisory functions of the Board of Directors.

**Officers** (as of the end of June 2015)
- Nine directors
  Eight internal directors, one external director (eight males and one female)
- Five auditors
  Two internal auditors and three external auditors (five males)

### Execution of Operations

- The Board of Directors discusses and makes decisions on management policies and other important matters concerning the company. The board holds meetings on a monthly basis, in principle, as well as ad hoc meetings when necessary. At board meetings, the various directors regularly report the progress of operations they oversee to improve the board's function of supervising execution.
- The Executive Management Meeting, comprising mainly key executive officers, was established to discuss important matters related to the execution of operations. The Executive Management Meeting holds meetings on a weekly basis, in principle, to speed up execution of operations and improve operational efficiency.
- The Executive Management Meeting has advisory committees under it to ensure agile and accurate decision-making in relation to operational execution.

### Auditors

The Audit & Supervisory Board receives audit reports from the auditors, and discusses and makes decisions on important matters concerning audits. The board holds meetings on a monthly basis, in principle, as well as ad hoc meetings when necessary. Auditors regularly exchange opinions and information with representative directors to further improve communication and deepen mutual understanding.

## Operation of Internal Control System

### Basic Concept of Internal Control System

To improve the value of our corporate group, the basic stance regarding internal control at SMCC and the SMCC Group is to constantly develop and enhance the compliance system, take quick and appropriate actions against risks that may have a significant impact on management, properly disclose information to stakeholders and society at large, and develop a highly transparent management system. SMCC reviews its Basic Policies for Internal Control every fiscal year. SMCC also holds Internal Control Committee meetings on a quarterly basis, where the progress of internal control, status of correction, improvement of issues identified in the operation of the internal control system, and the progress of preventive measures taken as necessary are reported to enable monitoring. The results are reported to the Board of Directors for the ongoing development and operation of appropriate internal control.

### Improving Viability of the Business Continuity Plan (BCP)

Our construction business has an important social mission to provide safety and security through the development of social infrastructure. In the event of a large-scale natural disaster or accident, it is important that we maintain and continue key functions of our business activities while carrying out restoration, reconstruction and relief activities for affected areas and infrastructure. To ensure this, we have developed a business continuity plan (BCP) and have been certified as a construction firm possessing a fundamental ability to promote business continuity in the event of disaster by the Kanto Regional Development Bureau, the Kinki Regional Development Bureau and the Tohoku Regional Development Bureau. This certification program is enforced by Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT). Firms certified by MLIT's regional development bureaus are requested to quickly secure emergency transportation roads and provide cooperation for the early recovery of river banks and port facilities.

To improve the viability of the BCP, in fiscal 2014, we conducted tabletop exercises at branches designated to become a local task force in the event of a large-scale disaster. The branches read through their BCP manuals to identify any problems and make improvements.

### Risk and Crisis Management

To reduce risks that may affect business operations and prevent their materialization, we operate a risk control system developed, run and constantly improved based on our Risk Management Regulations. To take fast and appropriate action in the event of a situation that could seriously affect our business operations, we have further established Crisis Management Regulations that set forth basic matters relating to crisis management. We have also established committees and meetings in charge of examining potential significant risks in business operations to prevent their materialization. For events that do materialize, we are enhancing our response system to enable fast action through rapid and unfailing information sharing.

#### Crisis Management System

**Definition of Crisis**

A situation that has, or may have, a significant impact on our management or business activities, such as a situation that may result in injury or loss of human life, a situation that may result in property damage, or a situation that may harm our corporate reputation.

**Basic Policies**

In light of the role our company plays in society, we deal with crises based on the following basic principles. All officers are required to make concerted efforts to minimize loss, repair damage and prevent recurrence.

(1) Place top priority on securing human life and health.
(2) Minimize loss to the company and our stakeholders.
(3) Take actions in a sincere and fair manner, even during emergency situations.

### Serious Risk Event

On January 28, 2015, SMCC Group company Sumiken Mitsui Road Co., Ltd. was subject to an on-the-spot investigation by the Japan Fair Trade Commission on suspicion of violating the Antimonopoly Act with regard to a construction project ordered by the Tohoku Branch of East Nippon Expressway Co., Ltd. and the Tohoku Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism. Sumiken Mitsui Road has fully cooperated with the investigation. SMCC will provide the company with guidance and support to help it establish a compliance system and risk management system while at the same time stepping up efforts to enhance internal control within the SMCC Group.

## Establishing Strong Corporate Ethics and Improving Compliance Awareness

### Compliance Education

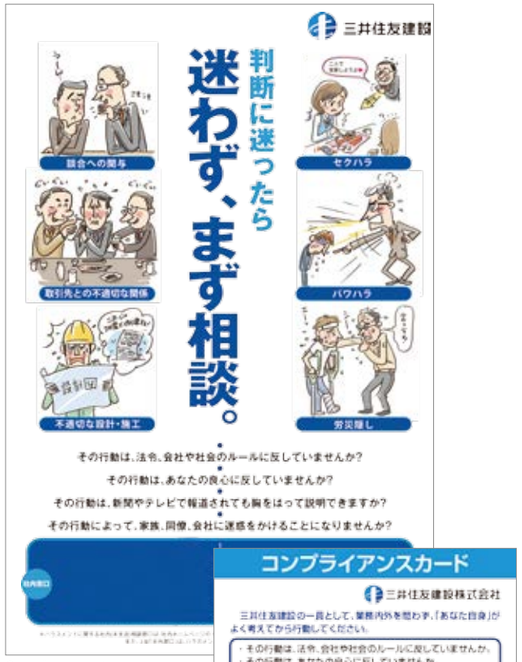
Each fiscal year, we formulate a compliance education plan based on the Basic Policies for Internal Control and provide compliance education for all employees. The General & Legal Affairs Department incorporates education about the Construction Business Act, the Antimonopoly Act and other laws and regulations closely related to our corporate activities, as well as details of internal and external cases related to operations, into meetings and programs, including training for new recruits and group training for different job categories. Based on real-life examples, this pragmatic training has helped employees to raise their compliance awareness. We also proactively provide education led by external instructors, such as our corporate lawyers, and e-learning programs.

### Internal Reporting System

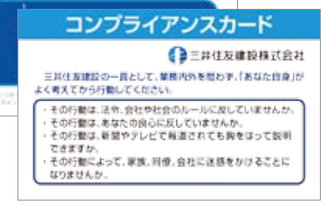
To create a system for the early detection, correction and prevention of misconduct with appropriate consulting, reporting and handling procedures in relation to legal violations committed by an organization or individuals, we operate an internal reporting system based on the Internal Whistleblower Protection Regulations. We have established contact points for making reports at the General & Legal Affairs Department and a corporate law firm. Reporting can be made via telephone, fax, e-mail or face-to-face interview. In order to encourage reporting, we allow whistleblowers to remain anonymous. When an incident at an affiliate organization is reported, information about the incident is shared between the affiliate's department serving as a contact point for internal reporting and the SMCC's Affiliated Business Department for the sake of group-wide control. Reported incidents, including those at affiliates, are promptly reported to senior management as well as to auditors. We conduct factual investigations with due consideration given to the protection of the whistleblower, consult closely with our corporate lawyers, and take proper and necessary actions in a timely manner. In the event a problem is found, we take action against the persons involved according to internal rules, implement preventive measures, and apply them horizontally to related departments.

### Putting up Compliance Posters and Carrying the Compliance Card

To educate employees about compliance in both their on-duty and off-duty conduct, operate the internal reporting system in an appropriate manner, and inform employees of internal and external contact points for reporting misconduct or harassment, we create and distribute compliance cards and compliance posters. We distribute the cards to all individuals engaged in our operations, including officers, employees, temporary workers and secondees, and instruct them to carry the card with them at all times. The compliance posters are affixed to walls in highly visible locations in order to raise awareness about compliance.




Compliance poster




Compliance card

### Bid-rigging Elimination Program

We recognize that complete elimination and prohibition of bid-rigging requires the upholding all of 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. Accordingly, we have established a bid-rigging elimination program in which we clearly state this recognition and keep all officers and employees informed of it. Based on the program, SMCC officers and employees are required on a regular basis (every April) to renew their pledge not to conduct or become involved in bid-rigging.