

# Corporate Report 2016

Excerpted Version



## 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, 2015 to March 31, 2016  
(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 2016
- **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 2016. Actual performance may differ from the outlook.

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## 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.

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## Financial & Non-financial Highlights

### Consolidated Management Indicators

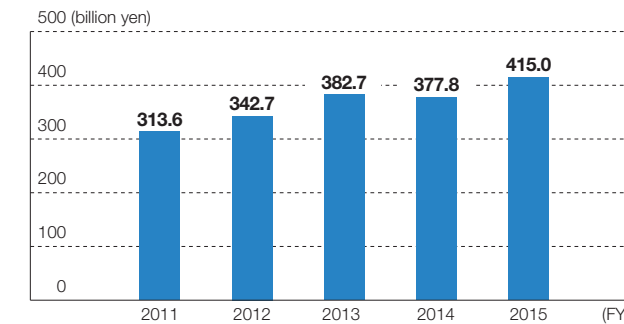
(million yen)

Fiscal Year		2011	2012	2013	2014	2015
Operating performance	Orders received (non-consolidated for reference)	263,048	290,605	302,131	356,144	<b>351,997</b>
	Sales	313,558	342,727	382,724	377,825	<b>414,958</b>
	Operating income	4,691	5,784	7,944	12,265	<b>23,364</b>
	Ordinary income	3,311	4,612	7,989	11,998	<b>21,801</b>
	Net income	1,374	2,042	4,201	6,955	<b>9,902</b>
	Earnings per share	4.82	4.56	5.51	8.59	<b>12.18</b>
	Return on equity (%)	7.4	10.0	17.9	23.2	<b>25.9</b>
	Price earnings ratio (-fold)	16.2	16.7	19.6	19.3	<b>8.3</b>
	Operating profit on sales (%)	1.5	1.7	2.1	3.2	<b>5.6</b>
Financial standing	Total assets	233,608	221,416	250,716	279,450	<b>293,663</b>
	Net assets	22,004	25,361	30,074	40,190	<b>48,136</b>
	Capital-to-asset ratio (%)	8.2	9.8	10.1	12.3	<b>14.3</b>
	Net assets per share (yen)	-37.4	20.0	30.3	42.4	<b>51.8</b>
	Dividend per share (yen) (common stock)	-	-	-	1.0	<b>2.0</b>
CF	Operating cash flow	3,987	16,553	-6,575	14,527	<b>10,742</b>
	Investment cash flow	-3,238	-3,571	-266	-6,628	<b>805</b>
	Financial cash flow	12,598	-12,563	5,400	3,053	<b>2,168</b>

### Non-financial Data (unconsolidated)

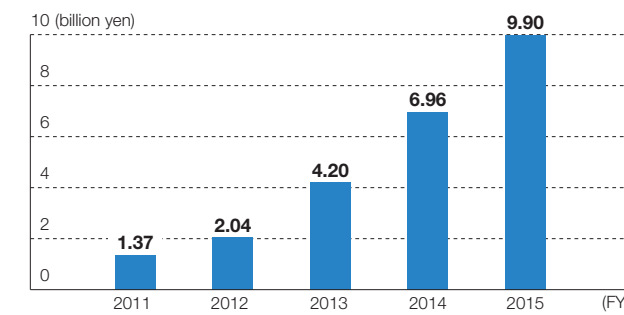
Fiscal Year	2011	2012	2013	2014	2015
No. of employees (consolidated) (persons)	3,822	3,850	4,007	4,171	<b>4,238</b>
No. of employees (unconsolidated) (persons)	2,472	2,376	2,430	2,495	<b>2,552</b>
Male (persons)	2,286	2,190	2,240	2,285	<b>2,312</b>
Female (persons)	186	186	190	210	<b>240</b>
Average age of employees (years old)	44.5	45.2	46.0	46.2	<b>46.5</b>
Average length of service of employees (years)	21.3	21.8	22.4	22.2	<b>22.2</b>
R&D cost (consolidated) (million yen)	909	885	975	1,118	<b>1,380</b>
Frequency of safety incidents	0.61	0.69	0.96	0.48	<b>0.68</b>
Unit of CO <sub>2</sub> emissions (t-CO <sub>2</sub> /100 million yen)	26.8	25.4	21.6	23.7	<b>24.4</b>
Construction waste discharged (1,000 tons)	417	680	429	500	<b>620</b>

### Sales



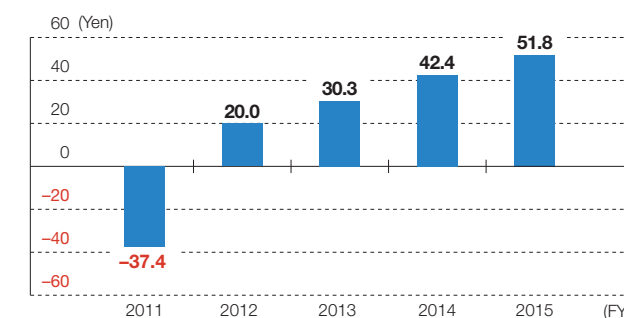
Sales in fiscal 2015 were 415 billion yen, up 37.2 billion yen from the previous year, due to the progress of ongoing construction projects.

### Net income



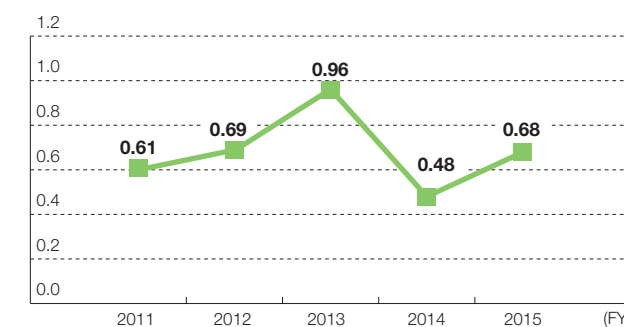
Net income in fiscal 2015 was 9.9 billion yen, up 2.94 billion yen year-on-year, mainly due to improved revenue from the core business.

### Net assets per share



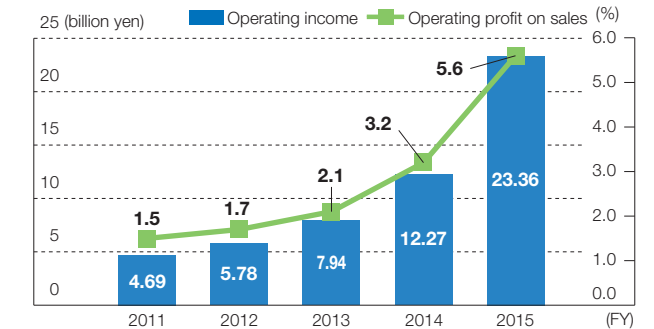
Negative figure for net assets per share in fiscal 2011 was due to the exclusion of capital related to preferred stocks. With the retirement of preferred shares complete in fiscal 2014, we are accumulating net assets per share.

### Frequency of safety incidents



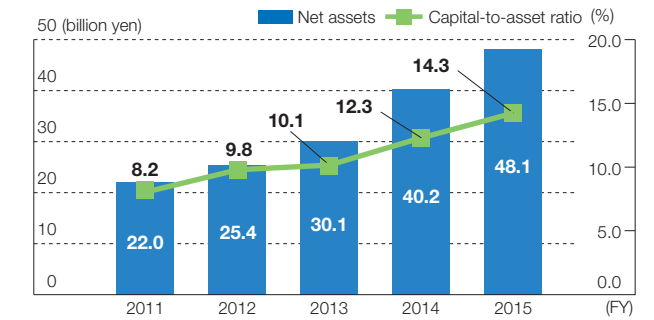
Safety performance in fiscal 2015 declined year-on-year, with the frequency of 0.68, falling short of the target of 0.6.

### Operating income/operating profit on sales



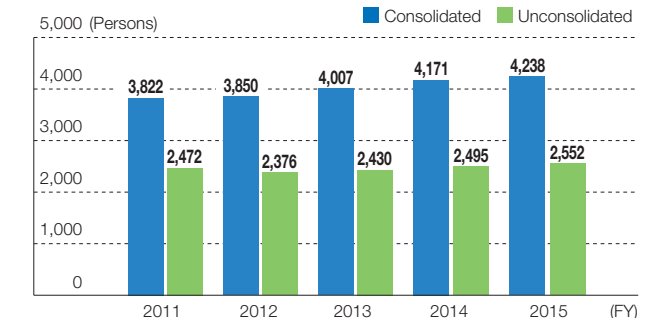
Operating income substantially improved to 23.36 billion yen (5.6%) due to increased sales in the civil engineering business and improved profitability of the building construction business.

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



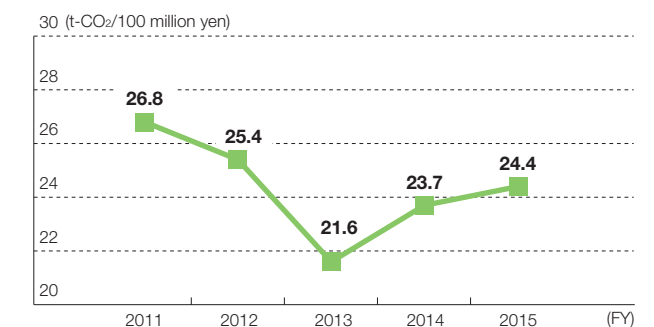
Capital-to-asset ratio was 14.3% as we are accumulating net assets from revenues of every fiscal year.

### Number of employees (consolidated/unconsolidated)



We are making efforts for human resources retention and enhancement by promoting diversity as well as the recruitment of new graduates and mid-career employment.

### Unit of CO<sub>2</sub> emissions



Most of our CO<sub>2</sub> emissions are from construction sites.



■ Message from the President



## We Will Make an All-out Effort to Restore Creditability and Enhance Corporate Value



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

### 1. Introduction

Before reporting our business initiatives in fiscal 2015, I wish to express my sincere apology for the inconvenience and concerns that residents and many stakeholders are experiencing with regard to the defective piling work found last year for one building of a collective housing complex completed in 2007 in Yokohama City. Placing top priority on the safety and security of the residents, we will continue to discuss measures with related parties.

In January 2016, with regard to the system for the piling work, we received an instruction from the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism pursuant to the Construction Business Act. As the primary contractor, we take administrative action seriously to heart. We will make an all-out effort to improve the management system to prevent similar incidents by further raising awareness among our officers and employees regarding compliance with the Construction Business Act and other relevant laws and regulations and by reviewing our education and training programs.

### 2. New Mid-term Management Plan

#### (1) Review of previous Mid-term Management Plan 2013–2015

Over the course of the prolonged reconstruction process, we as a company developed an undue risk avoidance mindset and the vitality of our employees, as well as their eagerness to take on new challenges, was waning. With a strong determination to nurture the spirit of taking on challenges, change the mentality of our employees, address the longstanding management issues of dividend payment resumption and equity capital enhancement, and improve the treatment of employees, we formulated the previous Mid-term Management Plan around the theme of taking on new challenges.

Our intentions in deciding the theme have steadily been translated into reality, although some issues do remain. We have taken positive measures, which include starting to work on new areas of renewable energy and project finance initiatives (PFIs), establishing the Technical & Engineering Service Division to come up with innovations through the integration of civil engineering and building construction technologies,

and expanding overseas business. As proper risk management has been established in these processes, it is evident that the mindset of taking on challenges was nurtured and spread.

Meanwhile, thanks to the positive business environment during the plan period, our earning power has improved significantly. The profitability of building construction, which had been an issue, significantly improved in fiscal 2015, the last year of the plan. This is a major step forward for the building construction business, which was unable to achieve its target for years, and will help it become confident and motivated for further improvement.

In the last year of the plan, we recorded our highest revenue since the merger, further improving our financial standing. In the process, we resumed payment of dividends for the first time in 17 years with the appropriation of income in the second year of the plan. We also improved conditions for employees according to the plan.

Despite the increased sales, however, an undersupply of workers highlighted the issues of needing to retain and develop workers and improve productivity. Moreover, with the discovery of the defective piling work for a residential building in Yokohama City, restoring creditability in our execution quality became a pressing issue.

#### (2) Long-term vision and theme of the new Mid-term Management Plan

Given the prospects for future changes in market trends, SMCC Group employees must be on board with our future heading, which was determined by taking a long-term perspective, in order for the Group to remain sustainable over the mid to long term. We have therefore established the SMCC Group Vision to clarify our long-term management policy based on the past management policy.

The Group Vision comprises three aspirations

of the Group from the perspectives of management, technology, and employees. The Vision is supported by five long-term management policies: enhancing manufacturing capability, creating an attractive corporate culture, strengthening the competitiveness and profitability of construction business, building a multilayered earnings base enabling us to respond to changes in the business environment, and promoting CSR in management.

By enhancing our manufacturing capability with technology development, reforming production system, and securing and vitalizing human resources, we will strengthen our key areas, further enhance overseas business, and create a diverse revenue basis with public-private partnership (PPP) and other new business. By promoting CSR management, we will ensure the sustainability of our overall business activities. Meanwhile, in light of the targets set out in the new Mid-term Management Plan, we set long-term targets to achieve in the next 10 years with regard to consolidated operating profit on sales, overseas business ratio, and consolidated capital-to-asset ratio.

Based on the Group Vision and the long-term management policy, the new Mid-term Management Plan 2016–2018 was designed to achieve targets by addressing pressing management issues and executing the strategies in each business area. The theme of the plan is restoring creditability and enhancing our corporate value, which reflects our intention to make every effort to restore creditability in our execution quality that has been damaged by the defective piling work and improve our corporate value by improving our performance. Among the long-term management policies, we have paid special attention to “enhancing manufacturing capability” and “creating an attractive corporate culture,” and have accordingly set two focus themes to work on during the period of the plan.



**(3) Setting focus themes**

The first of the focus themes is reforming production system. In construction, the production system is the production (design and construction) process, as well as all the organizations and systems related to the process. We will thoroughly examine our production process and review the mechanism for ensuring quality in the field while at the same time ensuring compliance with construction-related laws and regulations. With a view to not only preventing any recurrence of defects but also to retaining of workers and improving productivity issues, we will step up our efforts for improving the site environment, enhancing cooperation with partners, proactively using ICT, promoting the precasting method, and enhancing the safety control system.

As an organization to promote these efforts, we established the Production Management Division in April 2016. We will make corporate-wide changes to the production system to restore credibility in our execution quality.

The second focus theme is to secure, cultivate and vitalize human resources. We will retain workers by reinforcing our recruiting activities and promoting diversity, and will take measures for passing on skills to the next generation and developing global human resources.

Particularly with regard to workforces outside Japan, we are planning to establish a human resource development center in the Philippines in order to promote the development of core local workers who play central roles in our overseas business, while improving the personnel systems to enhance the human resources foundation of local staff.

Meanwhile, we will increase our employees' vitality by improving the workplace environment and

their conditions, including promoting shorter working hours for work-life balance.



**(4) Performance plan**

In addition to promoting the focus themes, we will further drive ongoing new projects and business in new areas and put them on a growth track while implementing business strategies for the three pillars of domestic civil engineering, domestic building construction and overseas business, with the goal of building a multilayered earnings base. We will also promote technology development based on our technological strategy for higher-level construction.

By working on these measures on a consolidated basis, we will enhance our corporate value through improved performance, and achieve the following in fiscal 2018, the last year of the plan:

- Consolidated sales on the scale of 440 billion yen
- Consolidated operating income of 22 billion yen
- Operating profit on sales of 5% or higher.



**(5) Promoting CSR management**

The implementation of measures under the new Mid-term Management Plan is based on the premise that we conduct basic CSR activities, including ensuring transparency and fairness of management, securing safety and quality, complying with laws and regulations, improving the workplace environment, preserving the natural environment, and enhancing internal control, to restore credibility we lost.

Meanwhile, we will develop technologies for addressing social issues, such as measures for aging infrastructure and productivity improvement. By doing so, we will improve our corporate value and invigorate our organization.

remuneration of officers. We also conducted the first evaluation of the Board of Directors to improve the Board's effectiveness.

The Shareholders Meeting in June 2016 appointed multiple external directors. By drawing on the knowledge of the external directors, we will invigorate the Board of Directors and enhance aggressive and defensive governance.

**4. Financial standing and shareholder returns**

The dividend for the last fiscal year (ending March 2016) increased, albeit slightly (up 1 yen to 2 yen/share), from the previous year, when we resumed payment of dividends. Despite our desire for more aggressive shareholder returns, our equity capital remains at a low level (consolidated capital-to-asset ratio of 14.3%). Enhanced equity capital allows for aggressive management in the future, so it is a management issue that is as important for us as the continuance of stable dividend payment.

We will improve our performance in the next three years with the goal of achieving a consolidated capital-to-asset ratio of 20% or higher and dividend payout ratio of 20% or higher by the end of fiscal 2018.

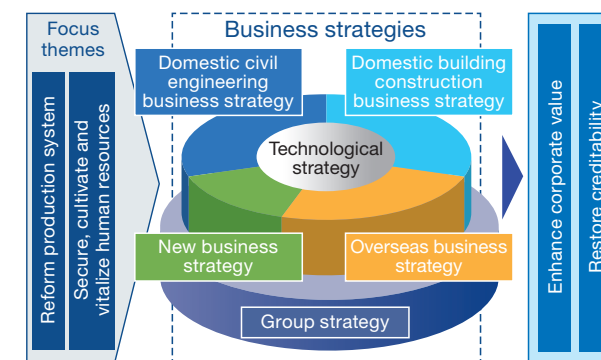
**5. For sustainable growth**

We will promote planned management measures under the current favorable business environment to improve corporate value with improved performance. With management foreseeing future changes in the business environment, we will make every effort to become a corporate group that can achieve sustainable growth.

We appreciate your continued support and understanding.

September 2016

Period of the plan (in three years)				Long-term (in 10 years)
(Consolidated performance)	FY2016	FY2017	FY2018	
Sales	416 billion yen	429 billion yen	440 billion yen	Operating profit on sales Consistently 5% or higher
Operating income	18.4 billion yen	20.5 billion yen	22.0 billion yen	
Operating profit on sales	4.4%	4.8%	5.0%	
Percentage of overseas business	Around 20%			Around 30%
(Consolidated) capital-to-asset ratio	20% or higher			30% or higher



**3. Initiatives for Corporate Governance Code**

In light of the purpose of the code, the Board of Directors discussed the kind of corporate governance system needed for our sustainable growth and corporate value improvement. In the previous fiscal year, we established the Appointment and Remuneration Advisory Committee as an advisory body under the Board of Directors in order to secure transparency and fairness in the appointment and



# Reforming the Production System

## Production Management Division

### We Promote Ultimate Quality and Changes in the Construction Business

**Takeshi Sagara**  
Managing Executive Officer  
Division Director, Production Management Division



#### ■ Roles of the Production Management Division

The Production Management Division was established in April 2016 when the Mid-term Management Plan 2016–2018 started. Due to the defective piling work found last year, we received an instruction from the Ministry of Land, Infrastructure, Transport and Tourism, which shook the public's confidence in us and creditability in our quality, and had no small influence on our reputation. Having valued the execution process, we determined, above all else, to urgently restore creditability in our quality. Accordingly, our division was established to play a leading role in addressing issues of overall production management (e.g., retaining workers and improving productivity), as well as the quality issue, from a corporate-wide perspective.

Our division also guides, supports and promotes initiatives for legal compliance, quality assurance, worker retention, and productivity improvement as secretariat of the Production System Improvement Committee (chair: the president), which was established to promote the ultimate in quality and changes in our construction business.

#### ■ Ultimate quality

We believe that ultimate quality is needed to restore social creditability. Ultimate quality is a concept that draws on the manufacturing industry's concept of quality control (for manufacturing processes). It is not a concept conventionally used in the construction business. The concept encompasses the idea of quality control activities that are conducted persistently by all officers and employees with their utmost attention. These include work processes, quality inspections, recording, and checks that are conducted every day following specified procedures without any deviation. The concept also signals the intention and determination to constantly improve in-the-field quality.

We will implement specific measures to achieve ultimate quality. Such measures in building construction, for example, include analyzing past quality problem data, conducting site inspections to grasp current quality control situations, designating important quality control items, and revising our execution management standards, execution quality control sheet, and check sheet.

To secure the effectiveness of the implementation, the existing QSI (quality safety inspectorate) was

reorganized into the QSA (quality safety auditor) under the Production Management Division to function as an organization that implements key quality measures. It is expected to overcome the negative effect of vertical organization (safety, quality and construction), and help practice and enforce "safety first, quality second" to thoroughly ensure quality. Similarly, in civil engineering, we will focus on the management of risk factors based on analysis of past quality problems and results of site inspections.

#### ■ Changes in the construction business

Retaining workers and improving productivity are serious issues facing not just us but the entire construction industry. The number of skilled construction workers is currently 3.4 million, but it is likely to decrease by 1.3 million in a decade due to aging. The construction market needs 90,000 new workers entering the industry every year, manpower saving of 350,000 workers, and improved productivity to support itself. Worker retention efforts in and outside the industry are likely to intensify further. We will cooperate with Shineikai, an organization comprised of our partners, improve multilayered subcontracting, increase allowances for excellent foremen, and take other measures. On the issue of productivity improvements, we will aggressively introduce ICT<sup>1</sup>, i-Construction, mechanization, automation and production design, promote precasting, and improve the efficiency of in-the-field tasks.

#### ■ Future actions

By hosting the Execution System Improvement Sub-committee as well as the Quality Working Group under the sub-committee, the Worker Retention Sub-committee, and the Productivity Improvement Sub-committee, and by working and talking with related divisions, we are pursuing ultimate quality and changes in the construction business for our sustainable growth and stronger competitiveness.

<sup>1</sup> ICT: Information and communication technology

## Technical & Engineering Service Division

### We Work on Innovative Technology Development

**Akio Kasuga**  
Senior Managing Executive Officer  
Division Director, Technical & Engineering Service Division



#### ■ The Aims of the Technical & Engineering Service Division

On the premise that we promote unique technology development for "enhancing manufacturing capability" as one of our long-term management policies, the Mid-term Management Plan 2016–2018 clearly shows the direction in which we are heading. The specific technological strategy, developed based on the plan, sets basic policy themes of "change," "evolution" and "taking on challenges" in construction to go beyond the framework of civil engineering and building construction, with the goal of developing innovative construction technologies from a long-term perspective.

What the strategy particularly positions as pillars of technology development are the saving of manpower and labor through the use of ICT and productivity improvement driven by robots or automation. Despite some progress, including the adoption of precasting, the construction industry as a whole has not innovated as fast as other industries. Considering such important themes as pillars of its initiatives, the Technical & Engineering Service Division aims to develop innovative technologies and create added value.

#### ■ For achieving productivity improvement

At the center of the initiatives for productivity improvement is the use of BIM/CIM<sup>2</sup> in the construction process. BIM/CIM enables the incorporation of peripheral information into 3D models, so that tasks that used to require time-consuming work by specialized engineers from the design phase to the construction and maintenance phases can be conducted expeditiously. Such a mechanism is expected to bring about a significant change in the conventional construction process. Unlike the manufacturing business, construction requires workers to be at a site and to build a facility in the right position. Robot technology equipped with GPS for grasping positional information can improve worker productivity. With a view to connecting the technology to artificial intelligence (AI) in the future, we will aggressively develop technologies for the robotization and automation of construction work based on BIM/CIM information.

<sup>2</sup> BIM/CIM: BIM and CIM stand for building information modeling and construction information modeling, respectively. Information models created with BIM/CIM have attribute information combined with 3D models created in a computer.

#### ■ Developing engineers and using technology and expertise

Securing, cultivating and vitalize human resources, which is one of the focus themes, is also an important theme in the technological strategy. Starting from now, it is crucial to develop "T type" or "π type" technology R&D workers, who are workers who not only have specialized knowledge but also knowledge in a broad range of areas. The promotion of BIM/CIM requires high skills in the areas of structure, environment and information. The Technical & Engineering Service Division has a functional organization structure to pursue expertise in these areas, and simultaneously develops a mechanism for integrating them. To work on such a theme, we need to procure diverse technologies and expertise through cross-sectoral cooperation and external communication. During the period of the Mid-term Management Plan, we are developing human resources with superior skills in technology management, and building a mechanism for the enhancement and use of accumulating intellectual assets.

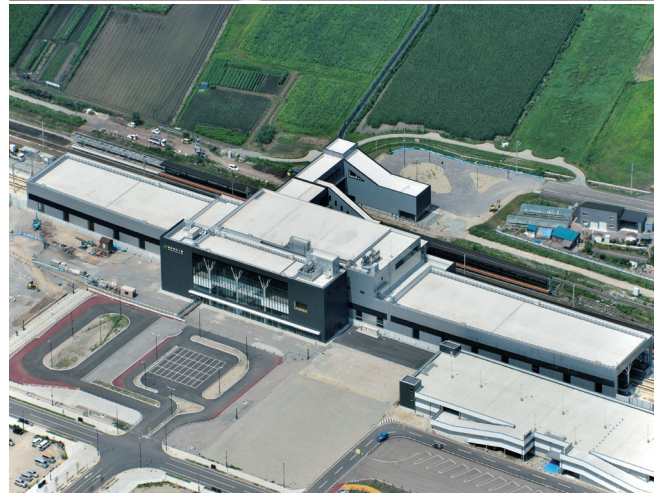
#### ■ Future development

What we are now aiming at is launching our existing construction management system as new solution business in the process of creating innovative technologies. The initiative is still small, but last fiscal year we gave shape to a floating solar power generation system using the expertise acquired in the renewable energy business. In the construction industry, which is facing a decline in new construction and shifting to investment in maintenance and renovation, we can provide unique technologies and expertise accumulated through construction work as new solutions for the renewal of social infrastructure. Taking advantage of our wealth of experience and superior technologies, we will use the technologies developed, as well as the ideas behind their development, to create new value for customers.



# Business Overview

Key Construction Projects Completed in Fiscal 2015



**Hokkaido Shinkansen Shin-hakodate-hokuto Station Construction**  
(Contractee: Hokkaido Shinkansen Construction Bureau, Railway Construction Headquarters, Japan Railway Construction, Transport and Technology Agency)



**DEUX TOURS CANAL&SPA**  
(Contractee: Sumitomo Realty & Development Co., Ltd.)



**Neak Loeung Bridge** (Contractee: Ministry of Public Works and Transport, Kingdom of Cambodia)



**Bank of Yokohama Ice Arena (Kanagawa Skating Rink)**  
(Contractee: Yokohama Sports Association)



**Petroleum product storage ultradome**  
(Contractee: JX Nippon Oil & Energy Corporation)



**Kinki Expressway Kisei Line Kurosaki Tunnel** (Contractee: Ministry of Land, Infrastructure, Transport and Tourism)



**Akagane Museum** (Contractee: Niihama City in Ehime Prefecture)

Corporate Profile

Message from the President

TOPICS:  
Focus Themes of the Mid-term Management Plan 2016-2018

Business Overview

Governance Report



# Domestic Civil Engineering

## We Will Build a Robust Organization that Can Respond to Changes in the Market Environment to Win through and Improve Competitiveness and Profitability

Hiroshi Mashiko

Senior Managing Executive Officer  
Division Director, Civil Engineering Division



### 1. Fiscal 2015 Overview (including overseas)

Civil engineering results in and outside Japan in fiscal 2015 were:

Orders received:  
122.6 billion yen (Down 29.3 billion yen year-on-year)  
Amount of completed work:  
123.1 billion yen (Up 27.1 billion yen year-on-year)  
Gross profit of completed work:  
15.9 billion yen (Up 3.8 billion yen year-on-year)  
Profit margin of work: 12.9% (previous year: 12.6%)

Key construction orders received include Shin-Tomei Expressway Yamakita Minase River work, National Highway No. 45 Natsui Bridge construction, and Expressway No.1 Haneda Line (Higashi-shinagawa Pier/Samezu landfill) renovation, in which we partake as a member of a joint venture.

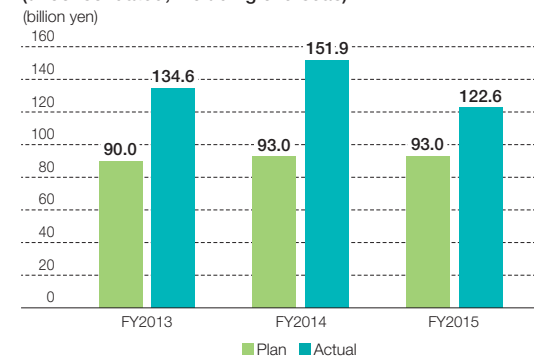
Thanks to the improved profitability of large-scale construction projects, we secured profitability exceeding the previous year.

### 2. Summary of the Previous Mid-term Management Plan

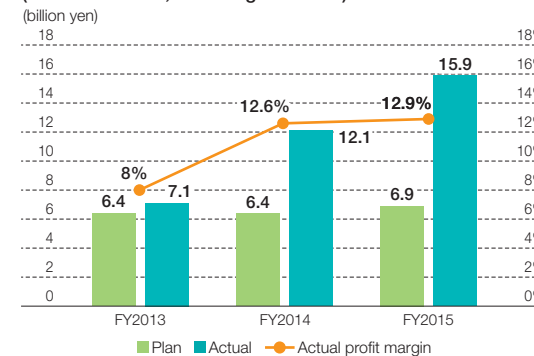
The previous Mid-term Management Plan aimed at a shift to overseas construction projects, as well as the steady expansion of the scale of our business and improvement of profitability. Our results successfully surpassed all key performance targets for the period of the plan. In particular, the amount of orders received from the Japanese government exceeded the plan by more than 50%. With the strong order intake, the amount of completed work rapidly increased, so that profitability far surpassed the level of the plan.

Orders received during the period of the previous Mid-term Management Plan include the Shin-Tomei Expressway Yubune Bridge construction in our key area of PC bridges and the Shin-Tomei Expressway Tanigayama Tunnel West in the area of tunnels. In the area of maintenance and renovation, we received an order for floor slab replacement of expressways. Expressway companies will soon begin this in earnest, so we are accumulating technological capabilities in preparation for further development. Regarding projects to recover infrastructure damaged by the Great East Japan Earthquake, we worked strenuously on decontamination and road recovery in Fukushima Prefecture.

Civil engineering orders received (unconsolidated; including overseas)



Gross profit of completed work/profit margin of work (unconsolidated; including overseas)



### 3. Business Environment

In the short term, we expect voracious construction investment in reconstruction projects in the areas affected by the Great East Japan Earthquake, projects aimed at strengthening the nation such as disaster prevention and mitigation, maintenance and renovation of aging expressways and infrastructure, redevelopment of Tokyo for the hosting of the Olympic and Paralympic Games, and the start of a big project to construct the Chuo Shinkansen Line. The energy market is also likely to expand due to the revitalization of renewable energy and coal- or LNG-fired thermal power generation, which are associated with the energy system reform.

On the other hand, in the mid and long term, the market environment is likely to change dramatically as new construction projects will decrease while maintenance and renovation will increase.

### 4. Business Strategy

During the period of the previous Mid-term Management Plan, orders received and profits far exceeded the projections, but issues such as an increase in work volume for ongoing construction projects and a labor shortage emerged. It has become imperative to build an execution system for ensuring quality and develop the next generation of workers.

In light of these issues and changes in the market environment, the new Mid-term Management Plan is designed to improve profitability during the plan period, reform the production system for sustainable growth, and develop systems in preparation for future changes in the business environment. Over the period of the plan, we will carry out the development of the business environment for profitability enhancement and the promotion of reform for future society. To that end, we set the three basic policies below:

#### (1) Establishing new advantages in key areas

In the area of prestressed concrete (PC), we will improve the construction process with ICT, CIM and other technologies, improve productivity, and improve safety for enhanced competitiveness. We will also develop next-generation bridge technology with high added value, such as non-ferrous bridges, with the goal of establishing a solid advantage in the existing business areas. Meanwhile, we will promote the application of PC technology to peripheral areas. That includes the application of precasting technology, which we have accumulated through bridge construction projects, to general civil engineering (e.g., underground structures), and launch of structures and reinforcement methods

using proprietary technologies and fiber-reinforced materials, such as highly durable concrete and highly tough concrete. In terms of tunnels, we will enhance technology proposals for mountain tunnels and focus on hardware development, while promoting technology development for medium diameter shields to receive a steady stream of orders. Regarding disaster prevention and mitigation, we will improve our execution technology by drawing on our experience in reconstructing disaster-hit areas to enhance our competitiveness.

#### (2) Systematic initiatives in the maintenance/renovation market

Being a general contractor that excels in bridges, we will aggressively work on large-scale renovation projects planned by expressway companies. We will accumulate experience for the future, when maintenance and renovation gain momentum, and promote the development of highly unique and advantageous repair and reinforcement technology.

#### (3) Focus on growth areas

By using our experience in design and execution, civil engineering and building construction divisions will work together on projects based on the design-build order system associated with renovation of energy-related facilities and water and sewerage facilities, which are the areas expected to continue growing.

Human resources are the key to maintaining and enhancing competitiveness, so we will pass on skills to the next generation and systematically develop our workforce. In order to achieve the targets during the period of the plan with the optimum allocation of limited management resources (human resources) and enhance competitiveness for sustainable development in the mid to long term, we will build a robust organization that can respond to changes in the market environment to win through and improve competitiveness and profitability.

### TOPIC Steady Progress in Reconstruction Works in Disaster-hit Areas

We have been working on restoration since immediately after the Great East Japan Earthquake. We have also participated in various projects related to reconstruction in disaster-hit areas, with which we are going ahead at a rapid pace. Projects we are taking on include reconstruction road and reconstruction assistance road projects as the leading projects for early recovery, relocation of disaster-affected people to higher ground and other town development projects, and tide embankment restoration and construction.



Coast restoration work in Kojirahama area (Iwate Prefecture)

In Fukushima Prefecture, we are taking part in housing decontamination and the setting up of contaminated soil storage facilities, as well as work in the Fukushima Daiichi Nuclear Power Plant. Feeling a sense of responsibility as a general contractor, we are committed to the reconstruction of the Tohoku region.

In response to the Kumamoto Earthquake that occurred in April 2016, we performed on-site checks of three quake-hit bridges on the day following the main quake as per requests from public organizations, and began restoration of two of them on the same day. We will continue to contribute to the early recovery of disaster-affected areas by using our technology and network with partners.



Higashibarū Bridge (Kumamoto Prefecture) emergency restoration underway (left) and after seismic reinforcement (right)

# Domestic Building Construction

## We Will Make Concerted Efforts to Restore Trust and Establish a Structure that Ensures Stable Profitability



**Yoshitaka Mimori**  
Director, Senior Managing Executive Officer  
Division Director, Building Construction Division

### 1. Fiscal 2015 Overview (including overseas)

Results of building construction in and outside Japan in fiscal 2015 were:

Orders received :  
229.4 billion yen (Up 25.2 billion yen year-on-year)  
Amount of completed work:  
197.7 billion yen (Up 9.6 billion yen year-on-year)  
Gross profit of completed work:  
12.4 billion yen (Up 7.0 billion yen year-on-year)  
Profit margin of work: 6.3% (previous year: 2.8%)

Profit margin of work, in particular, improved significantly to 6.3% from 2.8% in the previous year as we ensured that our efforts for receiving orders focused on profitability.

In terms of order intake, we received multiple orders for construction of superhigh-rise collective housing and large-scale collective housing, with orders for more than 300 units received in the area of collective housing, which is our company's strength. Moreover, having made focused efforts for general building construction, our orders for the construction of large-scale office buildings, government facilities, factory plants and power plants increased by 12.4% from the previous year.

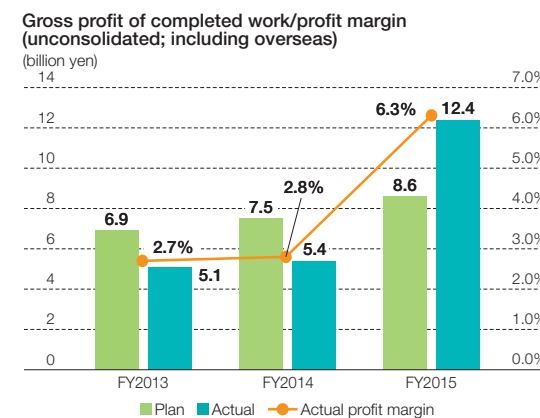
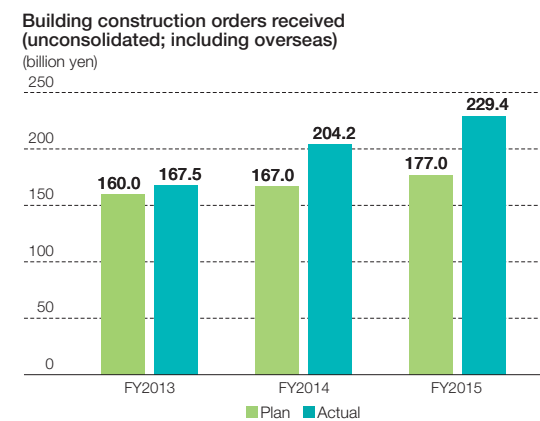
On the other hand, a serious quality defect was found in the foundation piling work for a collective housing in Yokohama City (see page 28). We would like to express our apologies for the inconvenience and concerns experienced by residents and stakeholders.

### 2. Summary of the Previous Mid-term Management Plan

During the period of the previous Mid-term Management Plan, a period with a favorable construction environment, the orders received and amount of completed work far surpassed the targets. In terms of profit, we didn't achieve the target in the first and second years due to the significant impact of rising prices of construction materials. In the final fiscal year, however, we consolidated three building construction divisions and made continued efforts to both ensure profitability when receiving orders and to reduce costs, with the result that we reached our target profit.

With the orders received for large-scale projects (primarily in the Greater Tokyo area) and the launch

of the SuKKiT series, collective housing is becoming a key strength of our building construction business. In general building construction, we have been accumulating experience for commercial facilities, offices, hospitals and production facilities. We have particularly demonstrated our strength in projects by the Mitsui Group and the Sumitomo Group.



### 3. Business Environment

Private capital investment has been recovering since hitting the bottom in fiscal 2010. Continued construction demand is expected for the time being in the areas of offices, factories and distribution warehouses. Collective housing, particularly superhigh-rise collective housing, is over concentrated in the Greater Tokyo area. There is likely to be abundant demand in the next few years, but in the long term, we need to watch the changes in the market environment caused by the declining population.

### 4. Business Strategy

During the period of the previous Mid-term Management Plan, orders received and the amount of completed work far exceeded the plan, but the tight execution system became a major issue. Regarding the profit margin of work, we achieved our target in the final fiscal year but our profit margin still compared unfavorably with that of competitors.

As mentioned earlier, it is also imperative to restore credibility damaged by the quality defect.

In light of these issues, under the new Mid-term Management Plan, all officers and employees will make concerted efforts to restore credibility and establish a structure that ensures stable profitability beyond 2020, when the market environment is likely to change dramatically. Our focuses are as follows:

#### (1) Expanding general building construction (non-residential) and improving quality in housing construction to establish a stable business foundation

We will increase our order intake and sales in the area of general building construction by enhancing sales, design and execution systems, energizing and increasing the customer bases of the Mitsui Group and the Sumitomo Group, finding new customers, launching solution sales for redevelopment of production facilities, and enhancing initiatives for government projects.

In the area of housing, we will adopt BIM and promote precasting by taking advantage of the precast member production facilities already present in the SMCC Group. This will lead to shorter construction periods and efficiency improvements to enable improved productivity, higher quality and higher functionality.

#### (2) Securing high quality and enhancing competitiveness

To secure construction quality, we will improve management standards for design and construction and ensure monitoring. We will also set and thoroughly implement specific initiatives to enhance quality and eliminate defects.

To further improve quality, we will reform operations by reviewing construction management operations, promote ICT and enhance engineer training.

In terms of technology development, we will develop execution technology for the renovation and reconstruction market, which is thriving in urban areas, as well as technologies for achieving shorter execution periods and for disaster prevention and mitigation. With technology development that meets social demands, we will enhance our competitiveness.

#### (3) Expanding business opportunities and enhancing initiatives in peripheral areas

We will work on urban redevelopment projects from their early stages with proper project risk assessment. We will enhance and accelerate initiatives for PFI/PPP projects to ensure we win more of them. Furthermore, we will promote cooperation with companies in other industries, including companies in the Mitsui Group and the Sumitomo Group, to increase business opportunities in new areas surrounding the construction industry.

### TOPIC SuKKiT Series Wins 2015 Good Design Award

Our SuKKiT series for collective housing won the 2015 Good Design Award given by the Japan Institute of Design Promotion. The SuKKiT series offers open, high value-added collective housing featuring wide windows. The award recognized the contribution of the series to improved basic collective housing performance, which was made possible through creative structural elements, such as the height of openings and exterior design.

To meet diverse needs in planning collective housing, the SuKKiT series lineup provides 15 types of housing, ranging from flat collective housing featuring external corridors to residential towers, with different seismic isolation and control structures. Since 2010, the series has been adopted for 37 collective housing buildings across Japan and 28 buildings (3,634 units) have been completed (as of the end of March 2016).





# Overseas Business

**We Will Provide Safe, High-quality Infrastructure while Focusing on Training to Establish a Stable Business Foundation**



**Yuji Sugio**  
Senior Managing Executive Officer  
Division Director, Global Division

## 1. Fiscal 2015 Overview

Results of overseas business in fiscal 2015 were:

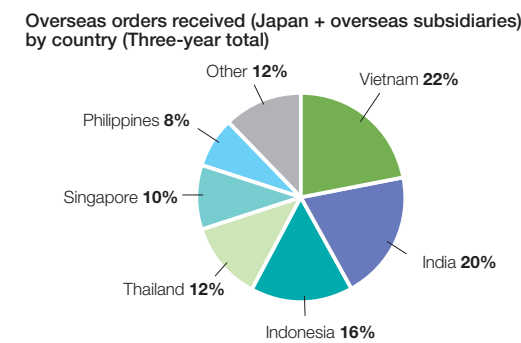
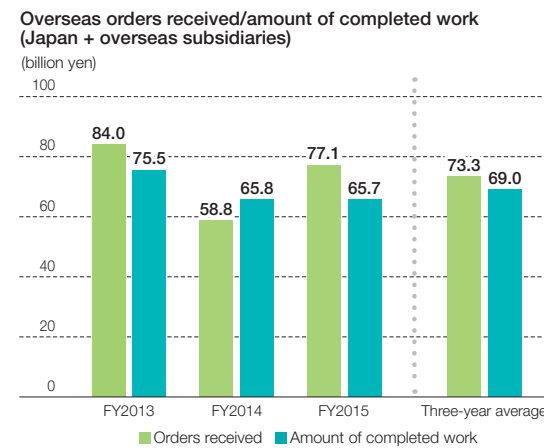
Orders received (unconsolidated + overseas subsidiaries):  
77.1 billion yen (Up 18.3 billion yen year-on-year)  
Sales (unconsolidated + overseas subsidiaries):  
65.7 billion yen (Down 0.1 billion yen year-on-year)  
Percentage of consolidated sales: 18.5%

In the area of civil engineering, we received an order for the J3 Section of the North-South Expressway Construction Project in Vietnam, where we have continued to be chosen for large-scale ODA projects. In the area of building construction, we received orders for large-scale plant construction in India and Indonesia from a new customer, a Taiwanese tire manufacturer. We thereby successfully expanded our customer base.

At 65.7 billion yen, sales remained at the level of the previous year.

## 2. Summary of the Previous Mid-term Management Plan

The previous Mid-term Management Plan targeted growing Asian countries, with the goal of developing overseas business to the value of 70 billion yen. In civil engineering, we received orders for large-scale projects, including the Lach Huyen Port Infrastructure Construction Project in Vietnam, in the first fiscal year, thereby far exceeding the target. With building construction strong in India, Thailand and the Philippines, we also achieved our target on a three-year basis. Total orders received for the three years reached 220 billion yen, allowing us to achieve the overall target of business valued at 70 billion yen in terms of orders received.



## 3. Business Environment

The ASEAN Economic Community (AEC), comprising the 10 countries that make up the Association of Southeast Asian Nations (ASEAN), was founded in 2015. Progress in the development of economic corridors crossing Southeast Asia has vitalized distribution in the region. Our involvement in this development has taken the form of construction of the Neak Loeung Bridge (Cambodia), Second Mekong International Bridge (Thailand-Laos) and other projects. In light of the economic growth prospects of the ASEAN member countries, Japanese companies are seeking to enter the region. The government of Japan has announced infrastructure investment in Asia to the value of around 110 billion dollars of ODA in the next five years. Markets in our main target area east of India are expected to expand further.

## 4. Business Strategy

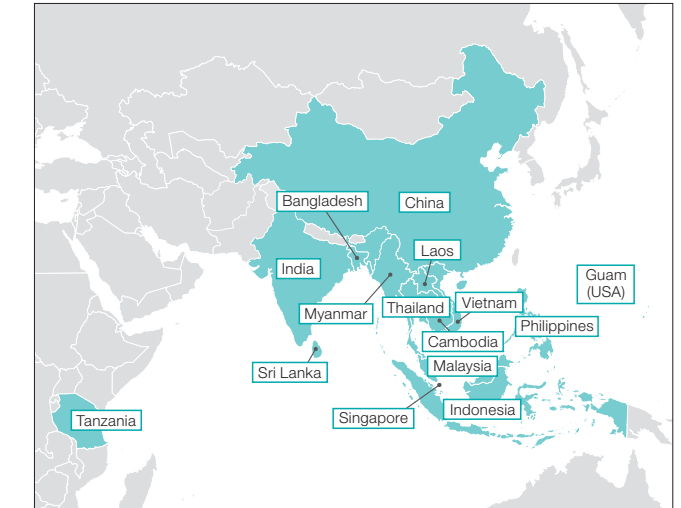
Under the new Mid-term Management Plan, we will uphold the basic policies of enhancing competitiveness and establishing global readiness to steadily expand the scale of our business.

To that end, we will expand our sales target areas in Asia to cover the countries east of India. With a view to further expanding our business to southeast Africa, we will also conduct sales activities with a foothold in Tanzania, where we received an order for an ODA project in fiscal 2015. For enhanced competitiveness both in sales and execution, we will build and promote systems for cooperation with local companies. Meanwhile, in order to reinforce readiness to enter expanding markets, we will grow our workforce and simultaneously step up our ongoing effort to enhance internal controls to thoroughly control risks in overseas business and establish global readiness.

The amount of work completed in the area of overseas business increased from a value of 45 billion yen in fiscal 2011 to 70 billion yen under the previous Mid-term Management Plan. The new Mid-term Management Plan sets a higher target of 80 billion yen. Currently, more than 2,000 local staff members

are working in countries where we operate, but it is imperative to train local staff to reinforce an operating foundation and establish global readiness. The new Mid-term Management Plan aims to increase Japanese staff and train and develop local staff as core human resources.

Sales target countries



## TOPIC Received Order for First Flyover Construction in Tanzania

We received an order for flyover construction in Dar es Salaam in the United Republic of Tanzania. The construction is planned as part of a grant aid project conducted with official development assistance (ODA) provided by the Japanese government.

Dar es Salaam is the largest city in Tanzania, and plays a key strategic role as a transportation hub not only for Tanzania but also for the inland states of East Africa. However, traffic congestion on highways

has gotten worse every year with increasing traffic volume due to the growing population and intensifying economic activity. To address this major social issue, the project will construct Tanzania's first flyover at the Tazara Intersection, where traffic congestion is the worst in the city. The project is expected to contribute to the economic development of Tanzania and neighboring countries.



Drawing of completed flyover (courtesy of the Tanzania National Road Agency)



Ceremony to unveil the cornerstone by President Magufuli



# Business Innovation & Incubation

For Our Sustainable Growth,  
We Will Create New Business that is  
Meaningful to Society

Masami Noumori  
Managing Executive Officer  
Division Director, Business Innovation & Incubation Division



## 1. Summary of the Previous Mid-term Management Plan

The Business Innovation & Incubation Division was established in April 2014 in the second year of the previous Mid-term Management Plan. It has since upheld the basic policy of taking on challenges in new business areas to create a diverse revenue basis. In the area of renewable energy, we started a solar power business on the premises of our Mitagawa PC Plant. We have also worked on the actualization of a floating solar power generation business and established a sales system. In the area of PPP/PFI, we won one PPP project and one PFI project. To provide new services through cross-industrial collaboration and create a market for medium- to large-scale wooden buildings, we are examining product planning with an agreement to work with Sumitomo Forestry Co., Ltd. on joint initiatives.

## 2. Business Environment

The domestic construction market has matured. The long-term outlook is for investment in new construction to shrink while greater investment will be made in maintenance and renovation. It will become difficult for businesses to survive on orders in the conventional contract business alone. We need to launch services in areas surrounding construction and solution sales driven by the issues customers are confronting.

## 3. Issues Noted and Business Strategy

Our construction business has always dealt with social issues. As the market matures, however, new social issues emerge, prompting us to respond to these issues and changes in the market in a flexible manner.

- ◇ Stable supply of energy, food and water
- ◇ Achieving low-carbon, healthy lifestyles
- ◇ Preparing for massive earthquakes
- ◇ Regional revitalization and industrial promotion in the face of overconcentration in Tokyo
- ◇ Solving social distortions caused by the rapid aging of society
- ◇ Public-private cooperation in an environment of fiscal austerity

We categorize new markets as above from the perspective of the sustainability of civil life.

To resolve these issues, we will develop new business that will be welcomed by future generations and thereby build a diverse revenue basis.



Mitagawa Solar Power Plant

## TOPIC / 1 Floating Solar Power Generation System

In 2014, we were entrusted with a pilot program for the introduction of a solar power generation system floating on an agricultural reservoir in Kagawa Prefecture. We developed a floating solar power generation system and started sales in 2015. The first power-generating system has been completed and has started to produce electricity.

Since the start of Japan's feed-in tariff scheme for renewable energy, solar power generation systems have been introduced across Japan, resulting in fewer locations being left available for land-based solar power generation. In terms of water-based locations, however, there are more than 240,000 agricultural reservoirs across Japan, not counting the dams and reservoirs for industrial or other uses.

Locating a solar power generation system on water also has advantages over land-based locations. Obstacles that block out sunlight are fewer on the water and the water can keep solar panels cool, resulting in greater output. Floating systems covering

the water surface will also reduce algae populations, which could improve water quality. Therefore, floating solar power generation is likely to spread, not only in the electricity sales market but also among facilities seeking energy self-sufficiency, emergency power supply systems, distributed regional power supply systems, and many others.



## TOPIC / 2 Disaster Stockpile Warehouse Business (PPP): Public-private Cooperation Effectively Using Public Real Estate

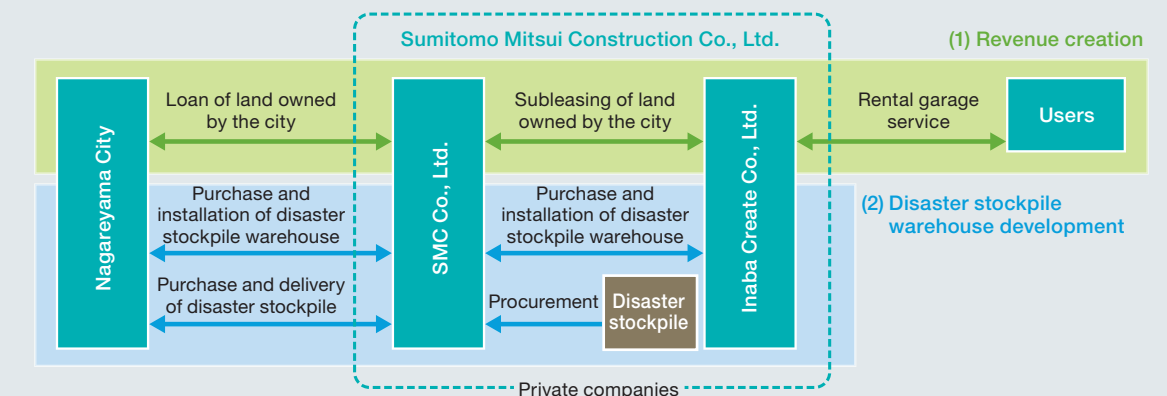
In partnership with SMCC affiliate SMC Co., Ltd. and Inaba Create Co., Ltd. (based in Ota-ku, Tokyo), we were commissioned by Nagareyama City in Chiba Prefecture to develop a commercially operated disaster stockpile warehouse. The City took on the project under the Nagareyama City facility management scheme, which commissions projects proposed by businesses as PPPs. Our project was aimed at creating revenue by using land owned by the City and using that revenue to build a relief supply warehouse. SMCC was responsible for the coordination of the entire project.

**■ Background to the need for PPP**  
Japan's total population has been on the decline since peaking at 128 million in 2008. Many municipalities are facing a decline in the number of residents and households. At the same time, welfare benefits will increase due to the aging population while maintenance and renovation costs may also rise due to the aging of public facilities and infrastructure.

Many municipalities therefore need to respond to changing financial demands while balancing (shrinking the scale of) their finances.

**■ What is PPP?**  
A PPP (public-private partnership) is a partnership between the public sector (e.g., local governments, the central government, public organizations) and the private sector (e.g., private companies, NPOs, private citizens). PPP is a generic term for projects aiming to contribute to both the public interest and corporate profits. PFIs are included in the term PPP. PPP projects are roughly categorized into public service or public asset use. Our project falls into the latter category, which is likely to increase in the future.

**■ Notable features of our project**  
To solve issues facing municipalities and revitalize the local economy, the public and private sectors joined forces to develop the business in a prompt and flexible manner. This approach can provide a model as to how PPPs should work in the future.





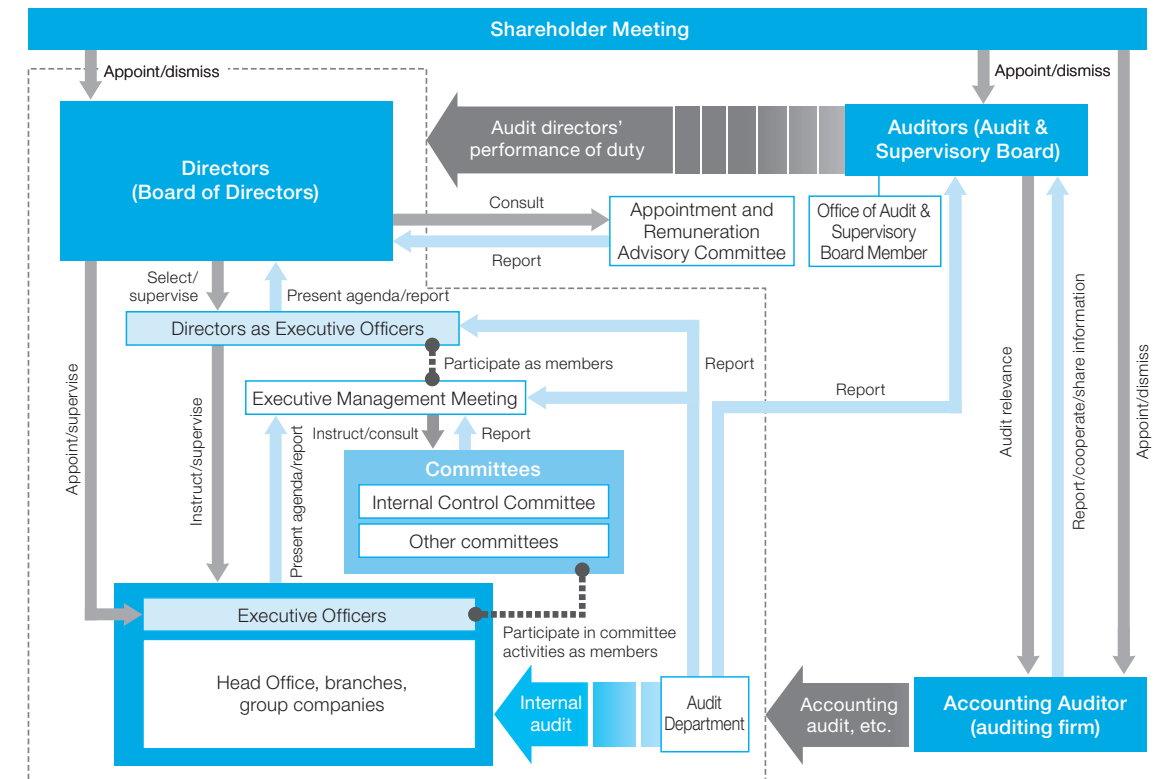
# Governance Report

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.

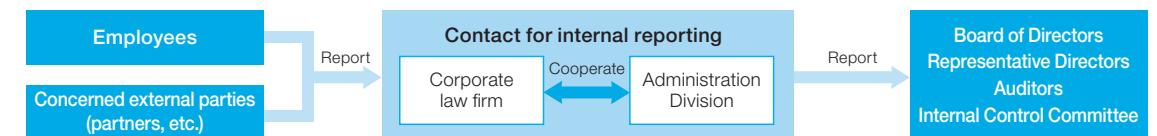


## Enhancing Corporate Governance

Corporate Governance System (as of the end of June 2016)



Internal Reporting System



### Corporate Governance System Overview

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. We appoint external board members and external auditors to enhance the decision-making and supervisory functions of the

Board of Directors. Aiming to improve transparency and soundness, in addition to the supervisory function inherent in a company with auditors, we have established the Appointment and Remuneration Advisory Committee.

Following the application of the Corporate Governance Code in June 2015, we enhanced our corporate governance system as follows:

1. Establishing the Appointment and Remuneration Advisory Committee (January 2016)
2. Starting to evaluate the effectiveness of the Board of Directors
3. Increasing the number of external directors (from one to two) at the Ordinary Shareholders Meeting in June 2016

#### Officers (as of the end of June 2016)

- Nine directors  
Seven internal directors,  
two external directors  
(Eight males and one female)
- Five auditors  
Two internal auditors and  
three external auditors  
(Five males)

### 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.



# Operation of Internal Control System/ Improving Compliance Awareness

## ■ Board of Directors

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 (held 14 board meetings in fiscal 2015). At the meetings, the various directors regularly report the progress of operations they oversee to reinforce the Board's function of supervising execution.

## ■ Activities of the Board of Directors (Overview of Board of Directors Evaluation)

Based on the Corporate Governance Code, we evaluate the effectiveness of the Board of Directors. The fiscal 2015 evaluation recognized a significant improvement in effectiveness, particularly due to two things. One was that improvements in the operation of the Board of Directors, such as reporting the progress of internal discussions on important matters, led to active discussions among internal and external directors. The second was that board members held meetings as needed to earnestly discuss important management themes, such as the formulation of the Mid-term Management Plan.

## ■ Audit & Supervisory Board

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 (held 15 board meetings in fiscal 2015). At regular meetings with representative directors, auditors share information with representative directors on pending management issues and the current business environment to deepen mutual understanding and further improve communication.

## ■ Appointment and Remuneration Advisory Committee

As an advisory committee under the Board of Directors, the Appointment and Remuneration Advisory Committee, comprising representative directors and external officers, carefully examines and discusses the officer remuneration system from an independent and objective standpoint, and presents appropriate advice and opinions at the Board of Directors meetings when necessary. The committee also sets criteria for mid-term (successor) appointments and for appointment of candidates in their own right. In accordance with the criteria, the committee evaluates the fitness and appropriateness of proposed successors/officers and ensures the transparency and fairness of the appointment process. The Board of Directors refers to evaluations made by the advisory committee in adopting resolutions regarding the remuneration of individual officers and appointment of successors and officers.

## ■ Executive Management Meeting

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.

## ■ Audit System

Auditors and the auditing firm perform audits from an independent standpoint. Auditors exchange opinions with the auditing firm, which also provides reports and explanations.

The Office of Audit, which is independent from the directors, has been established to support auditors.

The Audit Department, as an internal audit department, audits the execution of duties by the respective divisions, including group companies, according to an annual audit plan.

The Audit Department reports audit results to the Board of Directors, the Executive Management Meeting and the Internal Control Committee, and exchanges opinions and shares information with the Audit & Supervisory Board.

## ■ Basic Concept of Internal Control System

To prevent damage to the value of our corporate group, SMCC and the SMCC Group constantly develop and enhance the compliance system. The basic stance regarding internal control is to 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 operates its Basic Policies for Internal Control, which it reviews every fiscal year.

## ■ Internal Control Committee

As an advisory committee under the Executive Management Meeting, the Internal Control Committee holds meetings on a quarterly basis, where the progress of operation of the Basic Policies for 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.

## ■ 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. Specifically, we have 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.

Additionally, to take fast and appropriate action in the event of a situation that could seriously affect our business operations, we have established Crisis Management Regulations that set forth basic matters relating to crisis management. With regard to the defective quality of piling work found in fiscal 2015, we set up a task force headed by the president based on the Crisis Management Regulations to share information and discuss and lead the formulation and implementation of responsive measures.

## ■ Business Continuity Plan (BCP)

In the event of a large-scale natural disaster or accident, construction business operators are required to maintain and continue key functions of their own business activities while carrying out restoration, reconstruction and relief activities for affected areas and infrastructure. 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. Certified firms are requested to quickly secure emergency transportation roads and provide cooperation for the early recovery of riverbanks and port facilities.

To strengthen the viability of the BCP, we installed our proprietary earthquake aftermath monitoring device in buildings where our Head Office and branches are located. The device monitors changes in the position of floors and beams to provide immediate data on displacement of, and damage to, the building following an earthquake. The data is sent to an administrator on a real-time basis.

## ■ Compliance Education

Each fiscal year, we formulate a compliance education plan, and provide compliance education for all employees. We incorporate education about the Construction Business Act, the Antimonopoly Act and other laws and regulations closely related to our corporate activities, education referring to details of internal and external cases related to operations, and education led by external instructors, such as our corporate lawyers, into meetings and programs, including training for new recruits and group training for different job categories. We also proactively provide e-learning programs.

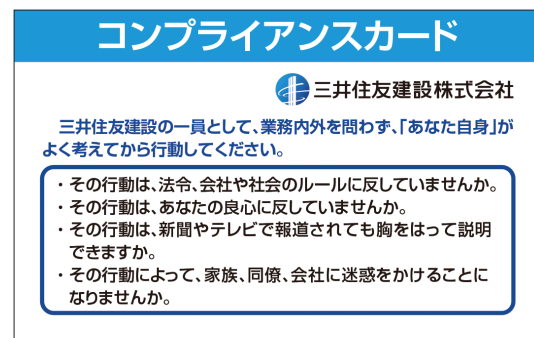
# Preventing Recurrence of Defective Piling Work

## Internal Reporting System

To create a system for the early detection, correction and prevention of misconduct, we operate an internal reporting system based on the Internal Whistleblower Protection Regulations. We have established contact points for making reports at the Legal Affairs Department and a corporate law firm. 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 the management as well as to auditors. We conduct factual investigations with due consideration given to the protection of the whistleblower, cooperate closely with our corporate lawyers, and take proper and necessary actions in a timely manner. In the event a problem is found, we take necessary action against the persons involved according to internal rules, and implement preventive measures.

## 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 staff members engaged in our operations, including officers, employees, temporary workers and secondees, and require them to carry the card with them at all times. The compliance posters are affixed to walls in noticeable locations in order to raise awareness of the purpose.



Compliance card



Compliance poster

## Bid-rigging Elimination Program

We recognize that complete elimination and prohibition of bid-rigging requires the upholding of all the following: (1) the clear and unshakable commitment of senior management to completely eliminate and prohibit the practice, (2) the establishment of internal compliance and monitoring systems, and (3) a full understanding and high level of compliance awareness among company officers and employees. 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, every April, SMCC officers and employees are required to renew their pledge not to conduct or become involved in bid-rigging.

## Serious Risk Event

As of February 29, 2016, the Tokyo District Public Prosecutors Office presented an indictment in the Tokyo District Court against SMCC Group company Sumiken Mitsui Road Co., Ltd. and related persons for a violation of the Antimonopoly Act in connection with a bid for a pavement restoration project related to the Great East Japan Earthquake ordered by the Tohoku Branch of East Nippon Expressway Co., Ltd. In light of the significance of the case, 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.

For the defective quality of piling work for a collective housing in Yokohama City, and the instruction issued pursuant to the Construction Business Act, see the page opposite.

## Risk Event Overview

It has been confirmed that some of the foundation piles have not reached the bearing ground in the piling work we carried out for a building that is part of a collective housing complex in Yokohama City.

As of January 13, 2016, we received an instruction from the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism pursuant to Article 28, Paragraph 1 of the Construction Business Act (Act No.100 of May 24, 1949). The instruction was issued for a violation of the Act in light of the following: our subcontractor did not assign a full-time chief engineer with regard to the piling work for the collective housing; SMCC did not provide guidance nor correct the situation although it was aware of the blanket subcontracting by its subcontractor; and SMCC did not report the violation of the Act to its licensor.

## Preventive Measures

The previous operation management system was far from perfect. Oversight systems at the Head Office and branches failed to ensure that a full-time chief engineer was assigned and there were no violations of the Construction Business Act, such as blanket subcontracting. Oversight rules and actions to take in response to a subcontractor violation of the Construction Business Act were not specified clearly.

We are taking this opportunity to develop and reinforce our current operation management system as follows to ensure the prevention of similar incidents.

### (1) Reinforcing systems for ensuring compliance with the Construction Business Act and other laws and regulations

We are making renewed efforts to further raise awareness of compliance with the Construction Business Act and other related laws and regulations among officers and employees. We are also reviewing our education and training programs while improving our management system to prevent any recurrence.

- Further enhancing education on the Construction Business Act (ensuring compliance through position-based training, providing repeat training for all officers and employees as well as partners, etc.)
- Requiring partners to assign a chief engineer and ensure legal compliance, including compliance with the prohibition against blanket subcontracting, at the quotation stage.
- Providing a field for the signature of the subcontractor's chief engineer in the work diary, so that the diary can serve as a tool for checking whether a full-time chief engineer is assigned.
- Establishing guidelines and corrective measures to respond to possible violations of the Construction Business Act by subcontractors.
- Conducting Construction Business Act site patrols for correction/guidance:  
The Head Office and branches conduct safety and quality patrols to check whether a full-time chief engineer is

assigned and whether blanket subcontracting is undertaken. We have also started Construction Business Act site patrols to check whether each site is complying with the Construction Business Act and thereby ensure the prevention of any recurrence.



Conducting a Construction Business Act patrol

### (2) Developing a management policy for piling work involving prefabricated concrete piles

In light of this case of defective piling, we are committed to take all possible measures to improve conventional management of piling work using prefabricated concrete piles. Therefore, we reviewed our execution management policy in reference to the Japan Federation of Construction Contractors' policy for the management of piling work involving prefabricated concrete piles.

Focuses of our review included checking design details, checking detailed information about the ground, checking the roles and responsibilities of the prime contractor and the piling work execution system, checking the execution system, ensuring attendance at all works, checking and retaining execution records, and providing education.

We will check the implementation of these at the time of site patrols or on other occasions.

### (3) Establishing the Production Management Division and the Production System Improvement Committee to address structural issues

○ Production Management Division  
With regard to securing quality and other important themes in the production system that need to be addressed, the division plays a leading role in grasping the current situation and analyzing issues from a corporate-wide perspective, which means looking beyond current efforts by the respective divisions. It then has responsibility for formulating, preparing and promoting necessary measures and managing their progress. The division also effectively operates the Production System Improvement Committee, which is a cross-sectoral organization, to improve the overall production system and prevent recurrence. In this fiscal year, the division is focusing on implementing measures for securing quality and, accordingly, designates important quality control items and monitors implementation through quality audits (see page 11).  
○ Production System Improvement Committee  
To improve the execution management system, we need to work on a broad range of issues, including undersupply of in-the-field engineers and skilled workers, improvement in multilayered subcontracting, and implementation of productivity improvement measures. The committee plays a pivotal role in our efforts to make structural and systematic improvements to these issues to absolutely prevent any recurrence.