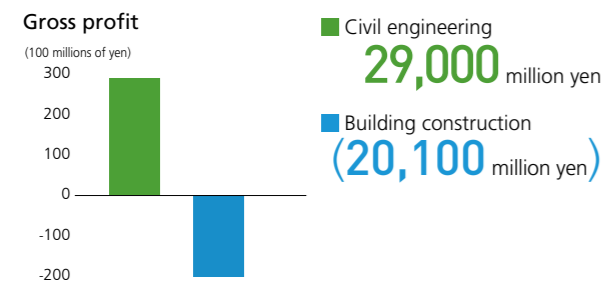
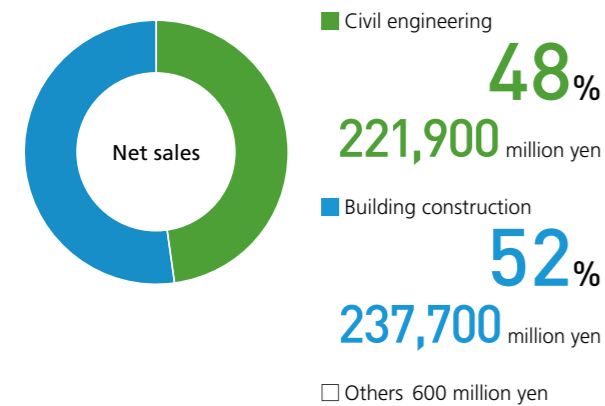


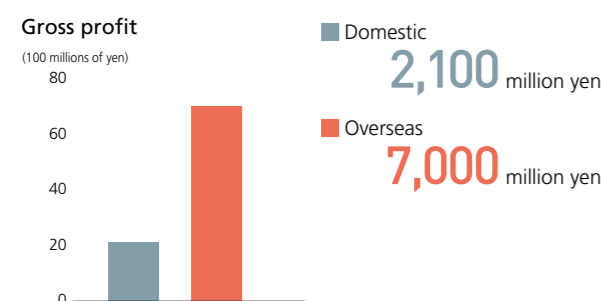
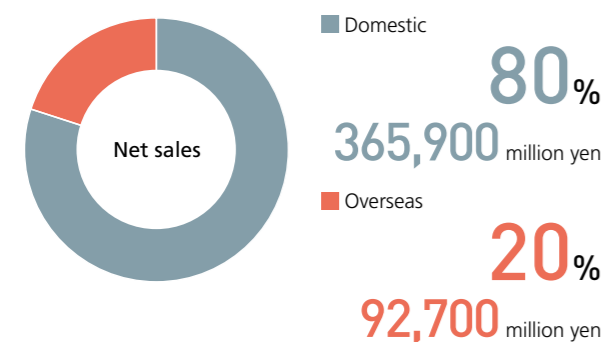
Business of Sumitomo Mitsui Construction

Highly attuned to the needs of a diverse and ever-changing market, the SMCC Group applies its technologies and expertise acquired through years of its civil engineering and building construction businesses, expanding its businesses around the world by contributing to regional development through supporting social infrastructure and such. Through its business activities, the SMCC Group aims to provide value that meets the needs of the times, giving first priority to winning clients' trust.

FY2022 Performance by Segment (Consolidated)



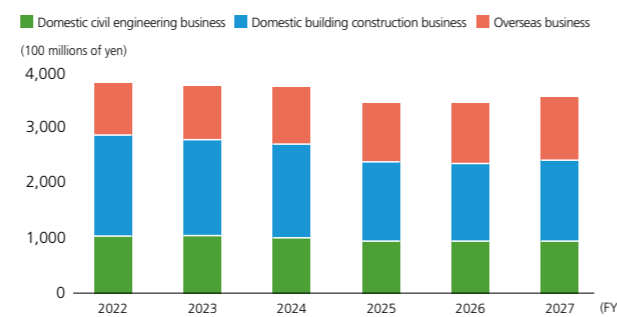
FY2022 Domestic and Overseas Performance (Consolidated)



Business Portfolio Overview

We are gradually reorganizing our business portfolio in the five years through fiscal 2027 to be in line with the direction of each of the business domains below, with the strong performance of our domestic civil engineering business and overseas business supporting the improvement of domestic building construction business performance. We will also continue to invest in growth through a process of selection and focus. Specifically, through the expansion of our renewable energy business, which contributes to a decarbonized society, we will develop technologies and create businesses that meet the needs of a sustainable society.

Trend in Sales by Segment



Direction according to Business Domain

Domestic civil engineering business — Further quality enhancement

- Maintain a strategy for winning orders based on superior technologies such as PC bridges
- Aim to further enhance our dominance and increase profitability and productivity

Domestic building construction business — Structural reform

- Give top priority to improvement of profit margins
- Temporarily reduce the scale of orders and implement business and organizational reforms

Overseas business — Expansion

- Riding the tailwinds of the COVID-19 pandemic recovery, apply our growth drive to further expansion of our overseas business
- Strengthen our human resources and business infrastructure foundations in line with our business expansion

Civil Engineering Business



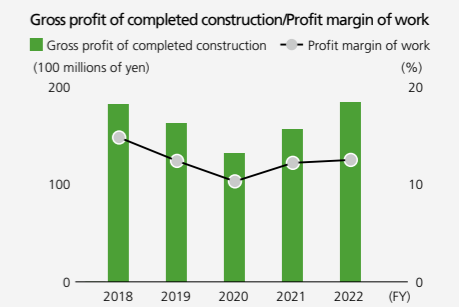
Business domain

- Bridges/PC structures
- Tunnels/Shield tunneling
- RC structures (civil engineering)
- Storage facilities
- Ground/Foundation

With a main base of superior technology (PC bridges), our priority is tunnel construction, which is a large market, and the growing area of energy-related facilities

Focus areas

- Large-scale renewals
- Building national resilience



Building Construction Business



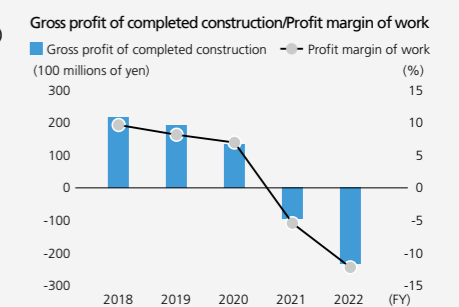
Business domain

- Housing/Accommodation
- Commercial facilities
- Logistics warehouse facilities
- Medical and welfare institutions
- Production/Research facilities
- Office buildings

Focus on the areas of logistics, environment, and medicine

Focus areas

- Logistics facilities
- Medical-related facilities
- High-rise residential buildings



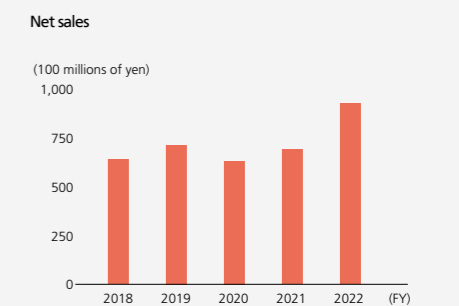
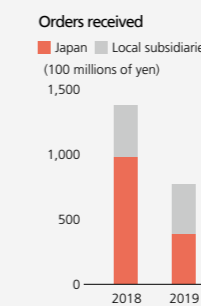
Overseas Business



Business domain

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

Expand the scale of orders received, a driver of corporate growth, through the aggressive overseas application of our domestic superiority in technological and other areas



New Business & Construction Peripheral Business

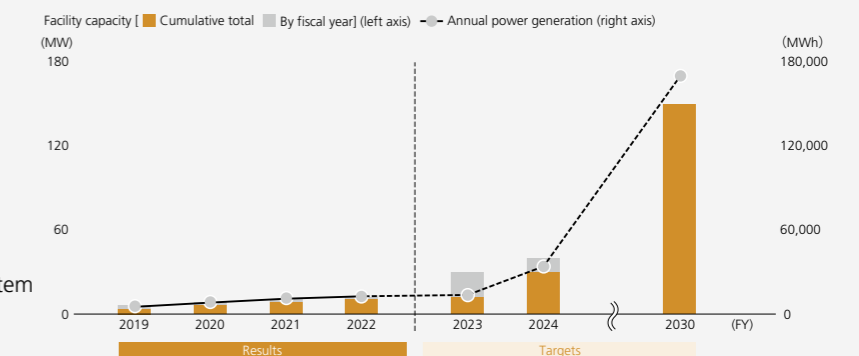


Business domain

- Renewable energy business
- Sales of floating solar power generation system
- PPP/PFI business

Expanding the renewable energy business with a focus on floating solar power generation to achieve a roadmap to carbon neutrality

Renewable energy-related business / Facility capacity and power generated



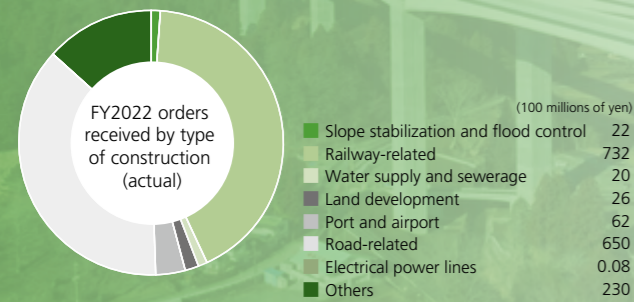
Civil Engineering Business

FY2022 Results

Orders received: **174,200** million yen

Amount of completed construction: **148,000** million yen

Carried-over construction amount **346,500** million yen



Business Overview

Understanding the Business Environment and Initiatives in FY2022

In the domestic market, orders for disaster prevention, disaster reduction, national resilience-related construction, and renovation of aging infrastructure have remained strong. We anticipate a consistent level of orders in the near term. Our civil engineering business has also trended up smoothly due to orders for large-scale highway renovation projects and tunnels.

In fiscal 2022 performance, in addition to the large-scale overseas construction projects, we also secured high individual order received of 174,200 million yen, surpassing the target of 155,000 million yen by a significant margin. Furthermore, our focus on improving productivity resulted in higher sales and profits, achieving the highest profit levels in our history.

Characteristics and Strengths of the Business

Based on our extensive experience, we provide the optimal design and construction technology in the construction and maintenance and renewal of civil engineering structures that support societal infrastructure, such as bridges, tunnels, river improvements, land development, and water supply and sewerage facilities.

In the prestressed concrete (PC) bridge sector, we take pride in being one of the industry's leading firms in terms of design and construction achievements. We promote technological development, such as new structural forms and construction methods using precast concrete (PCa) to shorten length of projects and streamline constructions. Through these, we can offer high-quality, durable, and easily maintainable bridges.

Domestically, we will continue to focus on superior technologies, including PC bridges, and concentrate on large-scale renovation projects such as deck slab

replacement and new tunnel construction. In addition, to realize a sustainable society, we will strategically leverage our expertise in decarbonization-related fields, such as offshore wind power generation and ammonia storage facilities. Internationally, we have steadily accumulated a track record of large-scale projects, such as subways and high-speed railways, establishing our competitive edge. We view overseas operations as our growth engine and aim to further expand orders received, while considering a balance with our domestic operations. We will build a favorable cycle by deploying cutting-edge construction technology overseas and continue to develop civil engineering businesses both domestically and internationally.

FY2023 Policies

Taking into consideration that the backlog of construction projects for fiscal 2022 reached a record high of 340,000 million yen, for fiscal 2023, we have set an order received target of 90,000 million yen and a sales target of 140,000 million yen, aiming for improved quality in our order strategy. We aim to maintain strong performance in technical proposals for comprehensive evaluation bidding method and strive to secure projects with high productivity and profitability.

Moreover, in order to further enhance productivity and profitability, we will continue with technological development and promote digital transformation (DX), while striving to reduce on-site workloads through collaboration among head and branch offices, realizing workstyle reforms. By establishing a foundation where each employee can excel, we aim for the steady growth of our business.

Risks and Opportunities

Risks × Opportunities → Responses to Risks and Opportunities

- ① Shortage of human resources and compliance with overtime work regulations
- ② Shortage of skilled construction workers due to an aging population
- ③ Decrease in large-scale infrastructure projects by the Ministry of Land, Infrastructure, Transport and Tourism and local governments
- ④ Impact on the business due to the introduction of carbon taxes, carbon pricing, and related measures

- ① Increased demand for PCa contributing to productivity improvement
- ② Expansion of the maintenance and renewal market due to the aging infrastructure
- ③ Increased demand for labor-saving technology and maintenance-free technology related to maintenance
- ④ Expansion of the renewable energy market and decarbonization-related demand with the promotion of carbon-neutral policies

- ① ② × ①
 - Expansion of automation technology (Robotaras® II), DX, next-generation construction system construction (SPER construction method), rapid construction, and labor-saving technology
- ③ × ②
 - Technological development aimed at expanding the range of construction work types, such as infrastructure renewal projects
- ③ × ③
 - Utilization of maintenance-free technology in large-scale highway renovation projects using Dura-Slab®
- ④ × ④
 - Development and wider application of low-carbon and high-strength materials, such as Sustain-Crete® and floating offshore wind power foundations
 - Commitment to carbon neutrality initiatives

Enhancing Technology—Realizing a Sustainable Society

DX technology

Automation Technology for Reinforcement Assembly—Robotaras® II



Image of reinforcement assembly for PC floor slabs (Notogawa Plant)

▶ Improved reliability

In this system, reinforcement and bundling work are performed by machines, eliminating human errors and improving work reliability.

▶ Increased productivity

Approximately 85% of the total weight of reinforcement is automated, allowing two people to assemble two slabs daily, that previously required six people to complete, achieving a threefold increase in productivity through automation.

▶ Safety assurance

The system is configured to automatically stop the equipment if a person or object enters the safety fence during operation, ensuring safety.

Revolutionize Construction Process

LINK An automated reinforcement assembly system for PC floor slab production (Introduction of the Robotaras® II (Japanese only))

Technology used to realize a sustainable society

Participation in the Feasibility Assessment of Floating Offshore Wind Power Projects



BW Ideol's demonstration unit (Photo credit: BW Ideol / V. Jonchery)

▶ Taking on challenge into growth areas

Positioning floating offshore wind power as a growth area that will play a role in the future of civil engineering, we participate in this feasibility assessment.

▶ Utilization of precast manufacturing technology

Leveraging the technology and know-how for the rapid production of concrete components in large quantities, we are responsible for the construction of concrete floating foundations for large-scale commercial farms in Japan that use large wind turbines.

Realizing a Sustainable Society / Contribution to Global Environment

LINK Participation in and results of a feasibility study of a floating offshore wind project

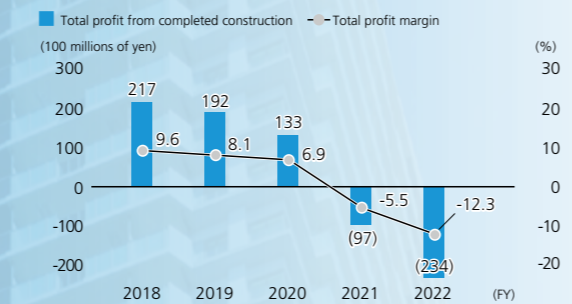
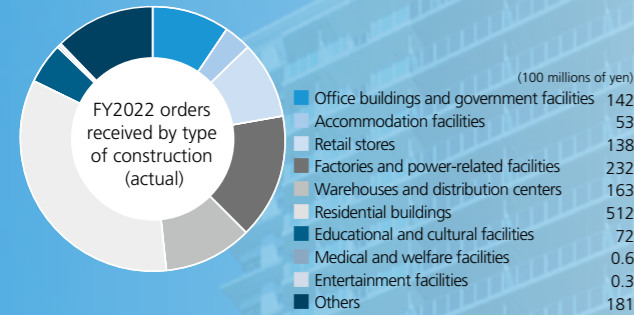
Building Construction Business

FY2022 Results

Orders received: **150,700** million yen

Amount of completed construction: **189,300** million yen

Carried-over construction amount: **348,000** million yen



Business Overview

Understanding the Business Environment

Building construction investment has been on a gradual uptrend, particularly in private facility investment, driven by strong public infrastructure investments. The recovery of the domestic economy, especially in the Tokyo metropolitan area, has led to increased investments in redevelopment projects, logistics facilities, and production facilities such as factories.

However, the impact of the recent global rise in resource and energy prices has resulted in soaring construction material prices, including steel, petroleum products, and lumber. Furthermore, factors such as supply constraints and a tight labor market have led to a significant increase in construction costs, creating a challenging competitive environment.

FY2023 Policies

Restrictions on the amount of orders receiving and profit-focused initiatives

Domestic building construction will prioritize the completion of existing projects and keep the expected order received at around 110,000 million yen. Our new approach places heavy emphasis on profitability.

Currently, we have a substantial backlog of building construction projects, and the completion amount will remain at a high level for the time being. However, we will strengthen our organizational structure by addressing the strain on our construction capacity.

FY2023 marketing strategy

When accepting construction project orders, we prioritize profitability with due consideration to appropriate building construction management and limits on overtime work hours. In the early stages of our initiatives, we will rigorously evaluate the feasibility of each project based on factors such as the scale, complexity, and technical difficulty of the project, workforce

availability, work conditions, and financial balance. In particular, we will focus on medium-sized projects in our marketing strategy, aiming to address various challenges and reduce risks, with the objectives of fostering technical expertise and improving financial efficiency. Furthermore, to ensure stable profit generation, we will accurately grasp new market needs arising from changes in client companies' facility investment status, the reshoring of production facilities, and shifts in the social environment. We will align our marketing policies with the characteristics of each region, considering factors such as project scale, clients, and purpose, while emphasizing continuity.

Measures to prevent recurrence of losses in the large-scale domestic building construction project and improve domestic building construction business performance

As the measures to address the deterioration of profit and loss in the large-scale domestic building construction project, we are addressing the events that resulted in significant building construction losses. In addition, we are establishing a special response team led by the head office to prevent further loss. This team provides support and technical guidance for the overall building construction-related activities.

Furthermore, the Investigative Committee has been formed to identify the causes of loss occurrence and formulate preventive measures. We have also sought advice from external experts with an objective perspective to enhance the effectiveness of these measures and prevent further losses.

In addition, given the sharp decline in project profitability in some domestic building construction projects, we have recently developed four initiatives aimed at improving the performance of our building construction business. We will vigorously pursue the implementation of these initiatives.

Measures to Improve Domestic Building Construction Business Performance

1 Improvement of building construction management constraints and reconstruction of on-site support structure

As a short-term measure, we will reduce the amount of new orders, restrain new construction projects, and maintain a marketing policies that prioritizes securing construction capacity. By steadily completing our existing projects and eliminating construction capacity constraints, we will strengthen our pre-project assessment and on-site support structure.

2 Enhance governance and build the optimal order portfolio in the order receiving process

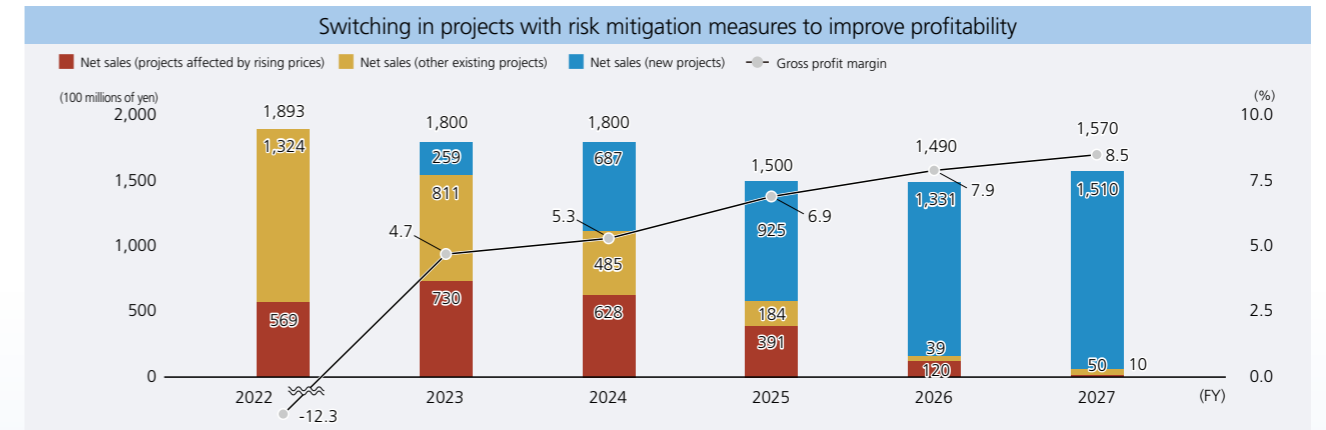
In the initial stages of project involvement, we will establish a review committee to assess project details. We will also enhance governance in the order receiving process and rigorously review order approvals to avoid low-profit projects and eliminate the risk of profit and loss deterioration.

Furthermore, by resetting our marketing policies considering clients, project scale, purpose, and regional characteristics, we aim to achieve stable profit generation by expanding opportunities for winning contracts and diversifying risks.

3 Emphasize profitability-focused target

To maximize profits for each project, we consider profit assurance as the top priority indicator. We will prioritize profitability in our target management throughout each stage from project finding to construction completion. Currently, there is a certain percentage of low-profit projects influenced by factors like rising prices. However, by shifting toward orders that prioritize profitability, we will transition to high-quality projects. We plan to improve the gross profit margin to 8.5% by fiscal 2027.

By implementing each of the above measures effectively, we aim to strengthen our current business foundation and enhance corporate value for the future.



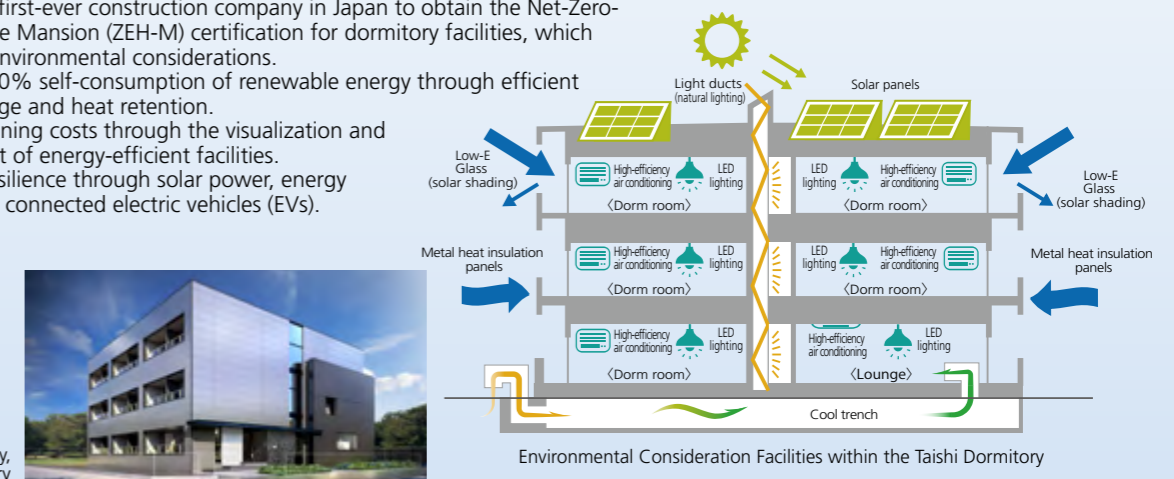
4 Further measures to prevent losses in the large-scale domestic building construction project

- (1) Establishment of a special response team led by the head office to provide support and technical guidance for all building construction-related activities.
- (2) Formation of the Investigative Committee to identify the causes and formulate prevention measures. Additionally, seeking advice from external experts.

Enhancing Technology—Realizing a Sustainable Society

Technology used to realize a sustainable society

- ✓ Became the first-ever construction company in Japan to obtain the Net-Zero-Energy House Mansion (ZEH-M) certification for dormitory facilities, which focuses on environmental considerations.
- ✓ Achieved 100% self-consumption of renewable energy through efficient energy storage and heat retention.
- ✓ Reduced running costs through the visualization and management of energy-efficient facilities.
- ✓ Enhanced resilience through solar power, energy storage, and connected electric vehicles (EVs).



New Business & Construction Peripheral Business

Business Overview

FY2022 Review and the Approach for the Current Period

In fiscal 2022, we worked on: 1) creating new and peripheral businesses, 2) expanding renewable energy businesses, 3) developing decarbonization-related technologies and services, and 4) implementing next-generation construction system.

In particular, we focused on the creation of new and peripheral businesses, including the manufacturing and sales of bio-toilets and the establishment of an internal idea solicitation system open to all employees. In the renewable energy sector, we generated approximately 300 million yen in revenue from the operation of five solar power plants. Furthermore, as our first off-site Power Purchase Agreement (PPA) project, we completed the Izumisano Nagasaki No. 1 and No. 2 floating solar power plants in June 2023, commencing power generation. In this way, we have steadily achieved results, primarily in the creation of new and construction peripheral businesses and the renewable energy sector.

For fiscal 2023, in the renewable energy generation business, we will actively pursue PPA projects in rapidly growing agricultural reservoirs and conduct verification tests for floating solar power generation utilizing dam lakes and marine environments. We aim to expand the scope of our floating solar power generation and target a power generation capacity of 40 MW by fiscal 2024 and 150 MW by fiscal 2030, in line with the 2030 Carbon Neutral Roadmap. Additionally, beyond renewable energy generation, we are aiming to commercialize bio-toilet manufacturing and sales within fiscal 2023. We will continue to work on the development of new businesses contributing to a sustainable society.

Expansion Story of Floating Solar Power Generation

Floating solar power generation facilities involve minimal environmental modification, such as earthworks, i.e. landfilling and excavation, and forest clearing. They receive strong support from the government through subsidies, design and construction guidelines (New Energy and Industrial Technology Development Organization, NEDO), and installation guidance (Ministry of Agriculture, Forestry and Fisheries).

In contrast to large-scale solar power generation, the business environment is changing with the cessation of the

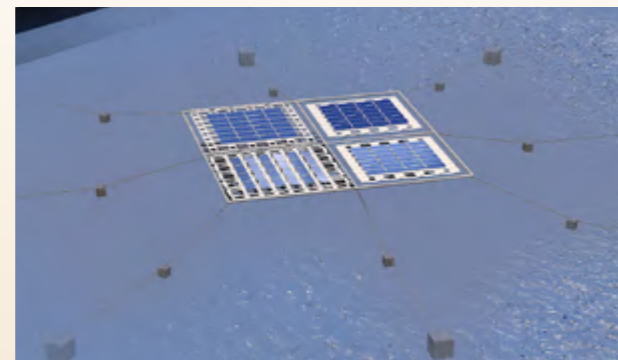
previous Feed-in Tariff (FIT) system, and we are considering the commercialization of off-site and on-site PPA.

We have already commercialized off-site PPA in Izumisano City and are currently examining the commercialization of on-site PPA in private companies.

Many of the water surfaces targeted for floating solar power generation were previously agricultural reservoirs, offering favorable conditions for installation due to factors such as the absence of river inflow, shallow water depth, and smooth bottom surfaces. On the other hand, the surface area of domestic dams and lakes is more than ten times that of agricultural reservoirs according to our research. If these water surfaces can be utilized, it represents significant potential for the introduction of solar power generation.

In deep dams and oceans, it is necessary to consider factors such as significant water level fluctuations, waves, and tidal currents that are not present in reservoirs. To overcome these challenges, we have developed a new floating and mooring system. This technology has been selected for the Tokyo Bay eSG Project's pilot project, and we plan to conduct verification tests in the future.

In addition to continuing our efforts in agricultural reservoir-based floating solar power generation, we aim to expand our involvement in rapidly emerging on-site and off-site PPA projects. We also plan to explore suitable locations in deep dams and offshore areas to significantly expand our renewable energy generation business.



New floating and mooring system

Risks and Opportunities

Risks	×	Opportunities	→ Responses to Risks and Opportunities
<ul style="list-style-type: none"> Deterioration of business viability due to a decrease in electricity selling prices Reduction in installation support such as subsidies, etc. Expansion of opposition from nearby residents and local government location regulations Securing and nurturing talents for business development 		<ul style="list-style-type: none"> Adequate subsidies for PPA, etc. Widespread adoption of low-environmental-impact floating solar power generation Promotion of renewable energy utilization in untapped areas of local governments and businesses (locally produced and consumed) 	<ul style="list-style-type: none"> Active utilization of subsidies to secure business viability Realization of locally produced and consumed renewable energy businesses with water surfaces owned by local governments and companies

Topics

Establishment of an Internal System to Solicit New Business Ideas

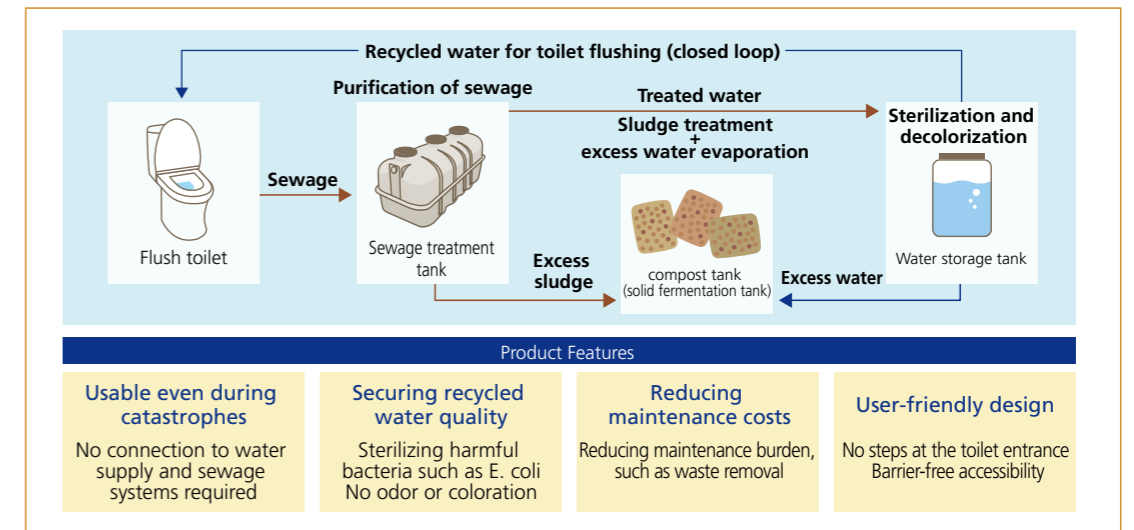
In parallel with activities aimed at commercializing individual projects, we have established the internal ideas solicitation system (commonly known as the Plus One Challenge) to continuously and prolifically generate business ideas, commencing full-scale activities from the fiscal 2023.



Progress Toward Commercialization of Bio-Toilet Manufacturing and Sales

We are advancing the development of a bio-toilet that uses recycled water for toilet flushing. It can provide a hygienic and low-maintenance flush toilet with or without water supply or sewage infrastructure. In the future, we aim to launch its sales in fiscal 2023, after running tests of prototype units at our worksite.

Presentation of Bio-Toilet Treatment System



Starting Verification of Viability of Chicken Manure Biogas Generation Technology

With the aim of achieving a decarbonized society while creating new businesses, we have undertaken the project commissioned by the Ministry of the Environment to develop an energy recovery technology using chicken manure as raw material. We aim to put this into practical use by 2025 and will work on resolving issues at the verification plant.

Challenge for Zero-Carbon Bio-Industrial Creation

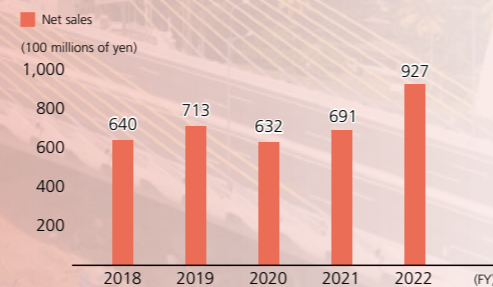
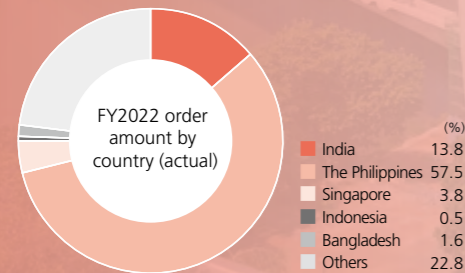
We have participated in a joint research project that focuses on CO₂ fixation using photosynthetic bacteria as its core technology. Cultivation experiments have begun at the demonstration plant located on the Kyoto University Katsura Campus. Furthermore, this initiative has been selected for the Japan Science and Technology Agency (JST) Open Innovation Platform for Industry-Academia Co-Creation (COI-NEXT) program. We will continue to balance industrial creation, led by regional collaboration, with research and development.

Overseas Business

FY2022 Results

Orders received: **133,900** million yen

Net sales: **92,700** million yen



Business Overview

Understanding the Business Environment and Initiatives in FY2022

Due to exchange rate fluctuations and rising prices, country-specific risks in some of our overseas expansion countries have become apparent, leading to instability in our overseas business environment. On the other hand, COVID-19 restrictions have eased globally, facilitating the movement of people and goods across borders. Official Development Assistance (ODA), as well as investments from Japanese and foreign private sectors, have become very active in our expansion countries, especially in India, the Philippines, and Guam.

To maintain the scale of our overseas business and achieve steady growth in line with our Mid-term Management Plan, we will systematically assess risks. We will accelerate the recruitment, training, and onboarding of diverse foreign national employees and local staff, strengthening our construction capacity and management capability visibly. Additionally, as a medium-term goal, we will expand our business into regions such as Tanzania in Africa.

Overseas COVID-19 restrictions have been eased before Japan. In fiscal 2022, our overseas order amount exceeded 130,000 million yen (including domestic and local orders), showing a significant increase compared to the previous year. Without dropping our guard, we will continue to focus on ensuring the safety of our overseas expatriate employees with vigilance.

Characteristics and Strengths of the Business

Building on the technical expertise established by our domestic division, we have accumulated excellent track records in overseas construction, earning the trust of clients, local joint venture partners, and cooperating

companies. In civil engineering, our directly managed construction teams have been locally organized for each project and consistently developed transportation infrastructure such as large bridges, roads, railways, and subways in developing countries. We have contributed to international cooperation and social contributions. In building construction, our subsidiaries and local companies established in seven countries support the construction plans of leading Japanese manufacturing and transportation companies, including factories, warehouses, and offices, thus helping many outstanding Japanese companies in their local expansion. Moreover, new clients who have seen our accumulated construction track records in local areas have approached us, expanding the scope of our sales activities.

FY2023 Policies

To achieve the gradual expansion of our overseas business, which is the driving force behind our company's growth, we will work together to achieve the annual plan and budget goals set for sales and construction this year. We will harmonize our global identity, which is our corporate governance policy aiming for safety and ultimate quality in overseas fields, with localization, where each base and site operates independently and grows sustainably. We will respond appropriately and swiftly to the rapidly changing overseas business environment. We will work to enhance the education of systematically recruited Japanese and foreign employees, as well as strengthen their sense of belonging to the company. We will continue to introduce various tools, including Building Information Modeling (BIM), at the project-site level to improve productivity and promote workstyle reforms.

In addition, we will actively implement D&I activities by sharing the experiences of coexistence and mutual understanding with foreigners in overseas organizations and sharing international values with our domestic division. Antara Koh Private Limited (acquired in March 2022)

shares its independently held markets and technologies. Through collaboration with them, we are working on several acquired projects. In the future, to enhance the synergy effects of acquisitions, we will work on collaborative projects and steadily expand our business area.

Risks and Opportunities

Risks × Opportunities → Responses to Risks and Opportunities

Risks	Opportunities	Responses to Risks and Opportunities
<ul style="list-style-type: none"> Changes in the political, economic, legal, and exchange rate environments of expansion countries, especially geopolitical risks originating from Russia and China Natural disasters, weather changes, and infectious diseases unique to emerging countries Control and education in organizations with multinational, multilingual, and diverse cultures 	<ul style="list-style-type: none"> Track records and experience in sites, subsidiaries, and local companies in each emerging country The internal mobility of employees to facilitate leverage of technical expertise established by the Japan's division in overseas construction Overseas orders and on-site activity support from various Sumitomo Group and Mitsui Group companies The effectiveness of the activities of the Human Resources Development Center (HDC), which operates in three locations worldwide, with the aim of nurturing global talent and promoting the appointment of outstanding local employees as management executives 	<ul style="list-style-type: none"> Safety measures for expatriates against infectious diseases and security risks Establishment of overseas crisis management manuals and overseas safety measures manuals Utilization of risk consultants and external experts to anticipate dangerous situations such as terrorist attacks, including evacuation from the countries and securing designated medical institutions Information sharing with local government agencies, the Ministry of Foreign Affairs, Japanese embassies, and Japan International Cooperation Agency (JICA) Measures to funnel opportunities into sales performance Leveraging the network and track record of local subsidiaries primarily in the Asian region, which established themselves since the 1970s as pioneers in the industry, to funnel collected information into orders Respecting the strengths of Antara Koh Pte Ltd and working on collaborative projects to steadily expand the business area Maximizing the use of HDC to share goals and values with foreign employees and promote diversity and inclusion (D&I) activities to secure a diverse workforce

Major Overseas Projects in FY2022



Project name North-South Commuter Railway Project (Malolos-Tutuban) CP02 Section
Location Republic of the Philippines
Client Department of Transportation of the Republic of the Philippines (DOTr)
Construction period July 2019 – Ongoing
Overview Elevated bridge extension of 14 km
3 elevated station buildings

Project name Gerezani Road Widening Project (Phase 1 & 2)
Location United Republic of Tanzania
Client Tanzania National Roads Agency
Completion January 2023
Overview 1 overpass bridge (composite deck slab bridge)
1 project of bridge-related works

Project name Neste Singapore Expansion Project
Location Republic of Singapore
Client Benefactor Neste Singapore Pte Ltd
Contractor EPC Technip Energies
Completion December 2022
Overview Civil construction for a sustainable aviation fuel manufacturing plant with a site area of 252,000 m².
10 buildings, plant foundation for piping, and other civil engineering structures, green areas, and tree planting

Overseas Business

Topics Award of Large Overseas Projects



Project name Metro Manila Subway Project (Phase 1) Package CP103
Client Department of Transportation of the Republic of the Philippines
Design Oriental Consultants Global Joint Venture
Construction Sumitomo Mitsui Construction Co., Ltd.
Contract amount Approx. 65,700 million yen (converted to Japanese yen)
Construction period 290 weeks from the start (approx. 66.7 months)
Overview One project involving civil, architectural construction, and equipment for an extension of approximately 6.5 km. The project includes construction of two station buildings (Anonas Station: 253 m, Camp Aguinaldo Station: 277 m) and a total of 11.97 km of up-and-down line shield tunnel sections connecting four station buildings, with an inner diameter of 6.1 m.

Introduction of Our First Local Subsidiary President



Richard Balingit Vergara President, SMCC Overseas Singapore

I am a civil engineer, and joined the company in 1994, accumulating diverse project history with specializations in the industrial, petrochemical, and pharmaceutical sectors. Serving as MD at SMCC Overseas Singapore since April 2022, I am dedicated to revitalizing revenue to 2008-2014 levels (\$100M) through strategies such as diversification, design and build projects, nurturing new-generation leaders, leveraging digitization, and upholding sustainability principles.

Outside Director Perspective



Tsukasa Kawada
Outside Director

During his time in office at the Ministry of Foreign Affairs, Director Kawada held a succession of important roles, including as ambassador to several countries. He brings his high-level expertise and experience in the international field to bear in the management of our company, including the strengthening our overseas business and promotion of the globalization of our business.

Using the Track Record and Trust We Have Built to Harness the Potential of Overseas Business

Even in the very difficult situation our company is currently facing in terms of performance, our overseas business remains strong. In fiscal 2022, our overseas business received orders amounting to 133.9 billion yen and achieved a gross profit of 7.0 billion yen. A highlight from this fiscal year was receiving an order for construction of the Philippines' first subway, to be built in Manila.*

I think it is no exaggeration to say that the company's future is in its overseas business. While the Japanese market is limited, the countries of the Global South—and Asian and African nations in particular—present great potential for expansion, with demand for infrastructure remaining high. These countries place a high value on Japanese construction and civil engineering technologies and have great faith in Sumitomo Mitsui Construction in particular, thanks to our proven track record to date. Not only do we complete construction projects we have been commissioned to do, we also consider it our mission to simultaneously work closely with local companies to transfer our skills to the local area. I have no doubt that this approach is building a solid reputation for our company.

I also view our overseas human resources as the future of the company. The number of local staff members we are employing on-site has now reached 3,000, equaling the number of employees at the parent company. Since last year, the post of General Manager of our Singapore Office has been filled by a Singaporean. With a tight labor market in the construction industry, hiring foreign national personnel is integral to the future of our company. Going forward, we must continue to work proactively to train foreign national employees, with our Global Human Resources Development Center in Japan playing a central role in this aim.

When I look ahead to what the company will look like 10 years from now, we might have changed our name to SMCC International.

* Metro Manila Subway Project – Phase I Contract Package 103 – Two Underground Stations (Anonas and Camp Aguinaldo) and Tunnels

Financial Review

Working toward a performance recovery and a sound financial position as early as possible to improve corporate value

Reflecting on FY2022

For the domestic building construction industry in fiscal 2022, public works investment remained steady and private capital investment showed signs of recovery. For the overseas building construction market, the countries in which our Group operates showed a trend to recovery as well. On the other hand, the competitive environment remained harsh due to soaring prices for construction materials and tight labor supply and demand.

In light of these circumstances, the Group has set a theme of “Toward new growth—Realizing a sustainable society” for our Mid-term Management Plan 2022–2024, which began in fiscal 2022. The three basic policies under this plan are to improve earning power, make a foray into new growth areas, and enhance our human resources (human assets) base.

However, we recorded large additional construction losses on the current large-scale domestic building construction project. Additionally, some domestic building construction projects were also affected by soaring construction materials prices. Business performance therefore deteriorated considerably due to a significant decline in business construction profitability as well as a partial reversal of deferred tax assets, which were recorded as deferred income taxes. As a result, the consolidated financial results for fiscal 2022 show sales of 458,600 million yen, an operating loss of 18,800 million yen, and a net loss attributable to the parent company shareholders of 25,700 million yen.

As a group, we will steadily implement the specific measures in the Mid-term Management Plan 2022–2024 and work to quickly recover our business performance and improve our corporate value.

Strengthening Cash flow management

Operating cash flow decreased by 16,100 million yen in fiscal 2022 due to advance construction-related expenditures. Investment cash flow decreased by 3,500 million yen due to the acquisition of fixed assets and the like, while free cash flow had an over-expenditure of 19,600 million yen. Financing cash flow increased by 14,200 million yen due to an increase in borrowings and other factors.

Interest-bearing debt is expected to remain high in fiscal 2023 due to financing needs for construction work on hand. We will continue to thoroughly strengthen cash flow management across the entire company, including improving cash flow by shortening the cash conversion cycle (CCC) and streamlining assets such as reducing cross-shareholdings.

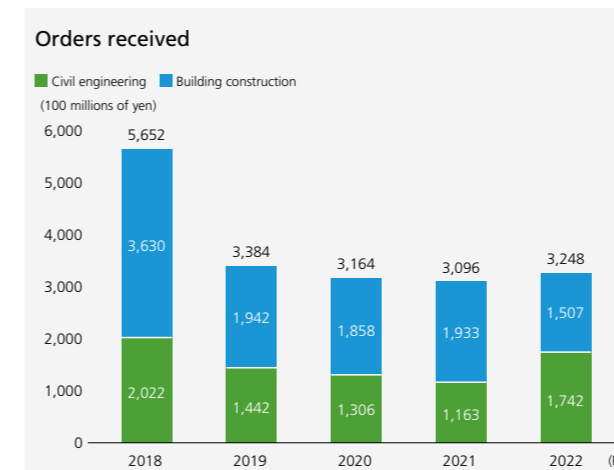
Conscious funding with financial discipline

Our basic stance is to use syndicated loans and other borrowing instruments from financial institutions to procure necessary funds in a flexible and stable manner. As part of our efforts to diversify our funding sources, we issued 5,000 million yen in sustainability bonds (second round of unsecured corporate bonds) in June 2022. Use of the bond funds is limited to projects that help solve environmental and social issues.

Due to precedence given to construction-related expenditures in fiscal 2022 and an increased demand for funds, the balance of interest-bearing debt at the end of March 2023 was 84,300 million yen (an increase of 19,500 million yen from the end of the previous fiscal year) for a D/E ratio of 1.2 at the end of March 2023.

The Group is committed to conscious funding with financial discipline in order to quickly achieve a sound financial position that can respond to the changing business environment.

Having recorded a net loss for two consecutive fiscal years (fiscal 2021 and 2022), the Group was in violation of the financial covenants for some of our syndicated loan agreements at a number of financial institutions, but we have obtained approval from them to not claim for loss of timely benefits due to this violation.



Financial Review

Revision of numerical management targets in the Mid-term Management Plan 2022–2024

In May, 2023, we established various additional measures in response to the significant downturn in the performance of our building construction business, taking into account the drastic changes to the Group's business environment and the progress of our business strategies. Those measures were reflected to the numerical management targets in our revised Mid-term Management Plan 2022–2024. We have also set numerical management targets for the next five years through fiscal 2027, when the effects of these measures are expected to be realized.

Specifically, the plan aims to significantly curb the volume of orders in our domestic building construction business and ensure an appropriate project execution system, while continuing to secure steady growth in our well-performing domestic civil engineering business and overseas business. We have also set the same consolidated net sales target levels for fiscal 2024 (the final year of our current Mid-term Management Plan) and the following three years through fiscal 2027, while continuing with efforts to rebuild a business foundation that will allow us to generate stable profits over this period.

Please refer to "Value Creation Story" on pages 14–16 for details on numerical management target revisions in the Mid-Term Management Plan 2022-2024.

To enhance corporate value

With the May 2023 revisions to the Mid-term Management Plan 2022-2024, we have set the direction for our efforts to realize management that is conscious of capital costs and stock prices.

For market evaluation, as a management topic we have reaffirmed that our stock price continues to remain below 1x PBR and that our ROE level is far below the cost of stockholders' equity required by the market. We have decided to position ROE and the cost of stockholders' equity as key indicators and will aim to improve corporate value.

Our basic policies for improving ROE are 1) improved earning power, 2) streamlined assets, and 3) optimized capital structure. By working on these three factors, we will be able to steadily improve ROE, which will eventually lead to an improvement in PBR.

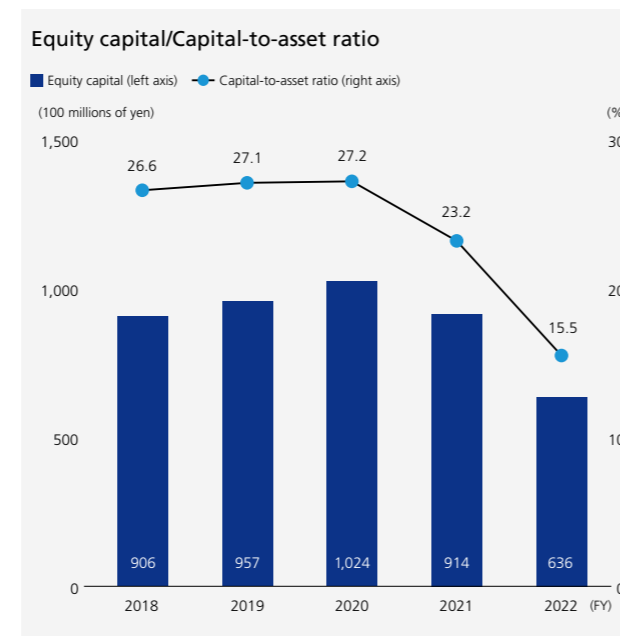
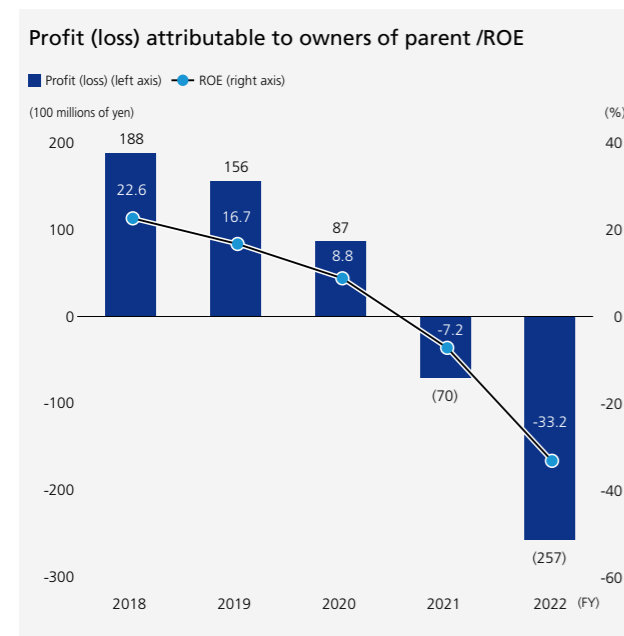
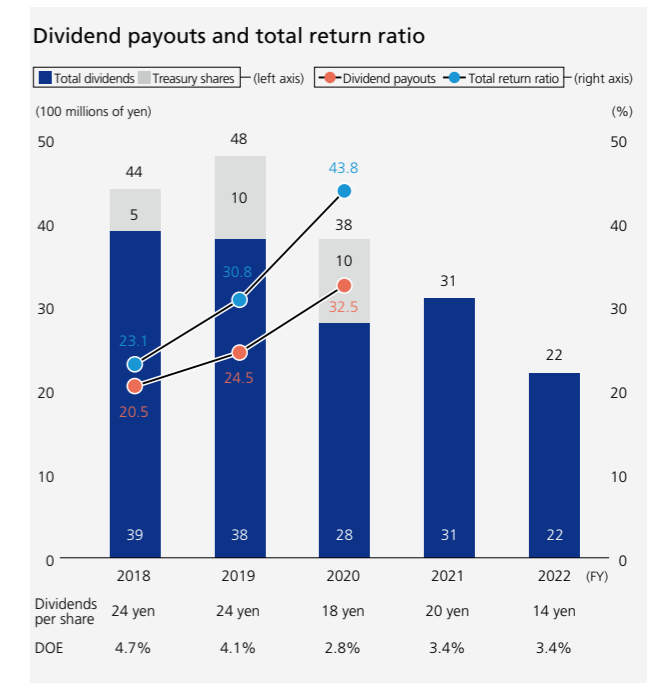
We will also further strengthen our corporate governance and work to improve our long-term corporate value.

Implement stable shareholder returns and promote dialogue with shareholders

With regard to shareholder returns, Sumitomo Mitsui Construction's basic policy is to maintain stable dividends and strive to increase retained earnings to strengthen the corporate structure and prepare for business development as well as determine profit distribution after comprehensively examining business performance trends and the future business environment. Shareholder returns for the Mid-term Management Plan 2022–2024 have a targeted total return ratio of 50% and a minimum Dividend on Equity Ratio (DOE) of 3% to ensure stable shareholder returns.

For fiscal 2022, after comprehensively considering our business performance and the future business environment, regrettably we must say that we have decided to pay an annual dividend of 14 yen, which represents a decrease of 6 yen per share over the previous fiscal year.

In addition to improving shareholder returns and corporate value, we will further enhance dialogue with our shareholders to deepen their understanding of and trust in our company.



Outside Director Perspective



Jun Sugie
Outside Director

Director Sugie applies the high-level expertise he gained in the fields of accounting and taxation over the course of his work at the Ministry of Finance and his wide-ranging experience and insight in the realm of management to the running of our company.

Restructuring the Foundations of Our Business and Generating Stable Profits on an Ongoing Basis

The company is currently facing an extremely difficult financial situation due to a significant dip in performance. In order to respond to this situation, we have revised the numerical management targets of our Mid-term Management Plan 2022–2024 and are working to restructure the foundations of our business to facilitate the generation of stable profits in the aim of new growth.

Based on my more than 30 years' experience in the Ministry of Finance and from my independent and objective perspective as an Outside Director, I have been able to offer useful pointers and opinions for the company's management.

For example, in the area of shareholder returns, I have made the case for a basic policy of maintaining stable dividends while striving to increase retained earnings in order to allow us to strengthen our corporate structure and develop our business. I also called for a review to look into reduction of cross-shareholdings, from the perspective of increasing our capital efficiency and improving our cash flows, and the company will now be reducing its balance of cross-shareholdings by 50% by fiscal 2024.

In addition to steadily moving forward with the basic policies of our Mid-term Management Plan (improving earning power, taking on challenges in growth areas, and enhancing our human resource base), management of the company going forward must involve quick but reliable implementation of a variety of policies that will allow us to generate stable profits on an ongoing basis and lead to both new growth and the building of a sustainable society. In order to do this, I believe that it is vital that we strengthen our corporate governance through full discussion of any matters requiring important management decisions by the Board of Directors.