# Insight

## Advance Technology and Make the Best Use of Human Resources

The Kumagai Gumi Group will contribute to the formation of a sustainable society and strive to develop technology that enhances safety, quality, and productivity.
At the same time, we aim to become an energetic company that leverages the personal qualities and abilities of each employee.
"Technology Strength" and "Human Resources" —
In order to provide places where people can gather, interact, and enrich their lives with a sense of safety, we will maintain and improve our "Worksite Excellence" through Technology Strength and Human Resources.

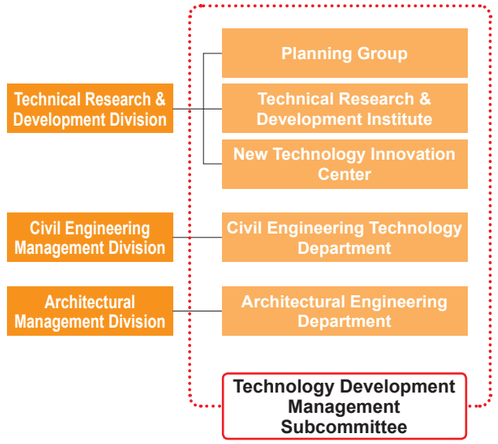
# Technology Development System

In order to provide high-quality construction services, contribute to the formation of a sustainable society, and strengthen the solutions capabilities of the Kumagai Gumi Group and contribute to the enhancement of productivity in construction, Kumagai Gumi is undertaking technological development under three main themes: "adaptation to a recycling-oriented society," "research and development to meet societal needs," and "technology development to improve productivity and safety."

In FY2019, we established a Bridge Solutions Office in the Technical Research & Development Institute. This office will focus on development of technologies for application in large-scale highway renewal.

In the development of unmanned construction technology, which we have been undertaking for from before, we are advancing a new initiative called AI autonomous driving. In technological development in the construction sector, we are working to develop fire-resistant wood-based materials that can be applied to medium- and large-scale wood structures, as well as earthquake resistance and seismic isolation technologies.

Technology Development System




## Kumagai Gumi Technical Research Report

Kumagai Gumi published the "Kumagai Gumi Technical Research Report" in June 1967. In the 52 years since then, we have continued to provide new value in resolving problems.

Beginning with the first issue, which featured a report on "the linear construction method" (a mechanized version of the Hume pipe jacking method), we have published 78 issues through 2019. We distribute the report to major academic societies and related companies.

In recent years, we have published about 20 articles and reports on four themes, beginning with a preface that offers the latest topics in a variety of specialized fields, and moving on to basic research, technological development, and overviews of construction sites. The report was published on paper through the 76th issue, but from issue 77 entered the digital age through publication on CD-ROM. The CD-ROM report is available upon request.

## Patent-related measures

See P13 for number of patent applications

Kumagai Gumi Group implements patent measures in line with the three strategies of the Medium-Term Management Plan.

Our patent applications in FY2019 cover a broad range of materials and construction methods for wood and wood-related technologies that account for 40% of our total number of patent applications. These technologies strengthen our ability to offer solutions. Technologies that contribute to improving productivity, including our advanced unmanned construction and automated driving, and IT, AI, and robotics related to image processing and other measurement technologies, account for 15% of the total number of patents. These contributed to the maintenance and expansion of contracted construction projects.

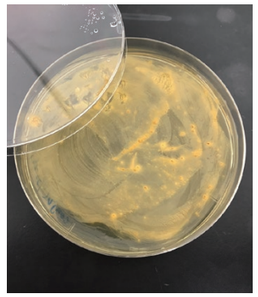
With regard to our technology and design related to independent walking equipment, we are readying the start of a new business by continuing to file applications in Japan and overseas to prepare for general market launches.

Moreover, reflecting our joint research and joint development that spans industries, one-third of our patent applications were joint applications. We are working to strengthen alliances with other companies in our patent measures, too.

# Technology to Create Social Value

## Development of CCU technology that contributes to achieving a carbon cycle-oriented society

From the standpoint of global warming countermeasures and our ESG management, our decarbonization efforts are attracting attention. Expectations are high for CCU (Carbon Capture and Utilization) technology, which effectively utilizes $CO_2$ as a resource, as a means of achieving a carbon cycle-oriented society. Against this background, Kumagai Gumi has worked on the development of CCU technology through a new bio-process that differs from means such as artificial photosynthesis and algae utilization. Using iron-oxidizing bacteria and using $CO_2$ as a raw material, we developed basic technology for the production of ethylene, a raw material for key chemical products. The production of ethylene from $CO_2$, once made possible, is expected to have a great effect on reducing $CO_2$ emissions and in creating a new industrial sector of $CO_2$ chemistry. We believe that these will make major contributions to the achievement of a sustainable, carbon cycle-oriented society. We will tackle further research and development with the aim of practical application.



Ethylene-producing iron-oxidizing bacteria grown on agar medium

Ethylene-producing iron-oxidizing bacteria grown in liquid medium

Ethylene production equipment (electrified cultivation equipment)

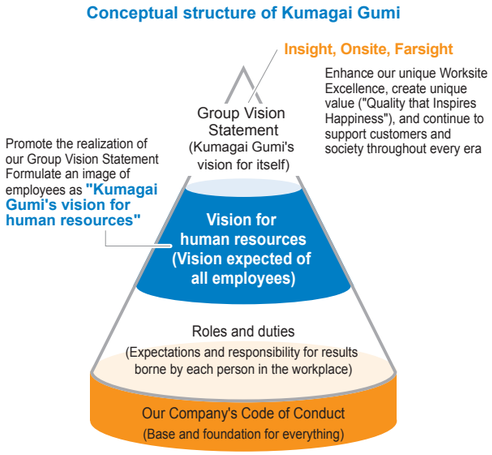




# Diverse Human Resources

## Development of human resources

Our corporate philosophy structure and vision for human resources




Aiming to develop human resources under the idea of "Enrich the self, create the future, and support people," we are working on various efforts. In April 2019, we formulated the Human Resources Development Plan that sets our directions in this area.

### (1) Job rotation

Our company performs job rotation to let employees acquire wide-ranging knowledge and ways of thinking through experience in different work duties at multiple workplaces.

### (2) OJT

Through daily work, superiors and senior employees guide and train subordinates and junior employees by consciously, systematically, methodically, and continuously providing the knowledge, skills, and attitudes necessary for executing work duties.

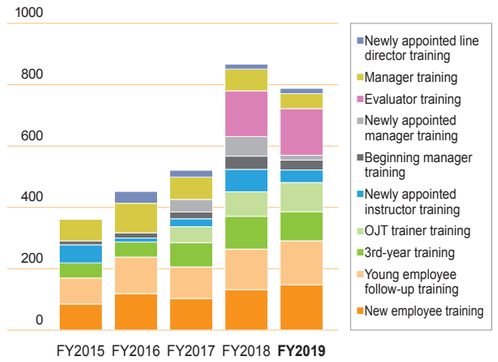
### (3) Group training

We conduct planned education drills and training to complement OJT, drive self-development, and provide expert knowledge.

### (4) Support for self-development

We encourage the acquisition of official qualifications such as Professional Engineer and 1st-Class Architect, conduct supplementary lectures and mock examinations for examinees, and support and promote self-development that leads to employees' skill advancement.

Number of persons undergoing hierarchy-specific training




FY2019 number of persons undergoing hierarchy-specific training

| Name of training | Eligible no. of trainees | No. of trainees | Training rate (%) | Total training hours | Training hours per person |
|---|---|---|---|---|---|
| Newly appointed line director training | 17 | 17 | 10 | 493 | 29 |
| Manager training | 55 | 49 | 89 | 784 | 16 |
| Evaluator training | 152 | 152 | 10 | 1,216 | 8 |
| Newly appointed manager training | 19 | 16 | 84 | 256 | 16 |
| Beginning manager training | 36 | 3.2 | 89 | 512 | 16 |
| Newly appointed instructor training | 46 | 41 | 89 | 656 | 16 |
| OJT trainer training | 111 | 95 | 8.6 | 760 | 8 |
| 3rd-year training | 96 | 95 | 99 | 1,377.5 | 14.5 |
| Young employee follow-up training | 144 | 143 | 99 | 5,148 | 36 |
| New employee training | 148 | 148 | 10 | 27,824 | 188 |

Hierarchy-specific training structure

| Position | Year-specific training | Training at time of promotion | Role training | Selective training |
|---|---|---|---|---|
| Manager position | | | Newly appointed line director training | Next-generation executive development training |
| | | Manager training | | |
| | | | Evaluator training | |
| | | Newly appointed manager training | | |
| Beginning manager position | | Beginning manager training | | |
| Guidance position | | Newly appointed instructor training | | |
| General position | | | OJT trainer training | |
| | 3rd-year training | | | |
| | Young employee follow-up training | | | |
| | New employee training | | | |

See website for details
Personnel-related data https://www.kumagaigumi.co.jp/csr/employee/date/index.html (Japanese only)

## Current state of employment

See P13 for number of employees and number of female managers

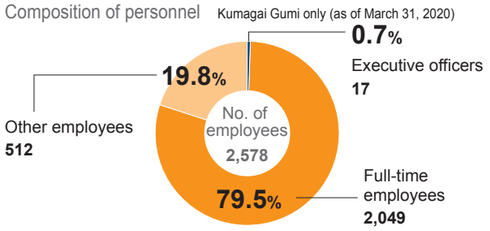
Number of employees and average age and length of service

Kumagai Gumi only

| (FY) | 2015 | 2016 | 2017 | 2018 | **2019** |
|---|---|---|---|---|---|
| Number of employees | 2,223 | 2,305 | 2,382 | 2,497 | **2,578** |
| Average age | 45.4 | 45.2 | 45.3 | 44.9 | **44.5** |
| Average years of service | 20.9 | 20.7 | 20.5 | 19.9 | **19.5** |

Composition of personnel

Kumagai Gumi only (as of March 31, 2020)



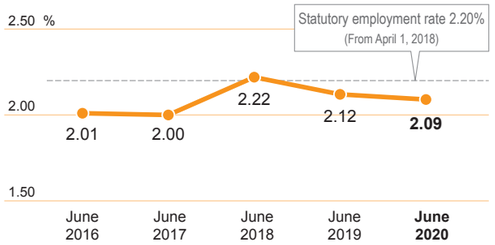

### Status of employment of elderly persons

We operate under the premise of employment after the statutory retirement age, until the age of 65. We are expanding the employment of older workers who have an ambition to work and high skills. We seek to continuously hand down the technical and sales capabilities of older workers to the next generation, energizing employees and organizations alike. To do so, we are enhancing employee benefits to create comfortable work environments. As of April 2020, 359 retirees are working in the company.

### Status of employment of persons with disabilities

We are promoting the employment of persons with disabilities, with the aim of creating workplaces that are motivating to all. As of June 2020, our employment rate of persons with disabilities was 2.09%. We will continue improving working environments and opening up job areas to expand employment of persons with disabilities.

Employment rate of persons with disabilities




### Workplace environments for active participation by women

Between December 2015 and March 2020, we increased our hiring of women and formulated and enacted an action plan to improve the workplace environment for active participation by women, in line with the Act on Promotion of Women's Participation and Advancement in the Workplace.

| Action plan (values at time of formulation) | Performance in FY2019 | |
|---|---|---|
| Increase the percentage of new women hires (management positions) to 20% | **17.3%** | All management positions: 24 out of 139 |
| Increase the percentage of women in manager positions (0.8%) to x2 or more | **x5.6** | All manager positions: 54 out of 1,201 |
| Increase the number of technical-position women in workplaces to 20 or more (14) | **31** | |
| Increase women in manager positions to x2 or more (2) | **x5** | 10 |

We formulated our second Action Plan in April 2020 and are working to create workplace environments that are comfortable for women. We conduct networking events and career design seminars for women and diversity seminars for supervisors of female employees to promote continued work and raise awareness. We have also implemented a mentoring program since FY2019, and from FY2020 are examining mentoring for female manager position candidates in the construction field.

In July 2020, four female employees took on management positions through transition from regional clerical positions to regional management positions.

## Promotion of diversity

With a management philosophy of "We strive to be a progressive and nurturing company, offering each individual the opportunity for personal growth, pride, and satisfaction in his or her work," Kumagai Gumi recognizes the diversity of employees and has promoted the creation of workplace environments that are places for self-actualization. In March 2020, our company was selected by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange for the first time as a "Nadeshiko Brand" (2019 selection) listed company that encourages women's success in the workplace, in recognition of our incorporating diversity into management strategy and construction of a promotion system.

We have created a "Handbook for Supporting Work" that summarizes information on work rules and procedures involving marriage, pregnancy, childcare, and shortened working hours. We have also established a consultation desk to support childcare leave, etc., to enhance our relevant programs. We have also introduced a support interview system for childcare and other issues, aimed at smooth return to the workplace and readiness for work after maternity leave and childcare leave. This helps in relieving employees' anxiety and resolving problems. With regard to long-term care, we have created a nursing care edition of our "Handbook for Supporting Work" for distribution to employees, collecting information on work support programs, basic knowledge, consultation desks, the mechanisms of long-term care NPOs, and more.

# Onsite

## Deliver Quality that Inspires Happiness with Our Worksite Excellence

"Worksite Excellence." — Every employee of the Kumagai Gumi Group is front line personnel.
We gain deep understanding of our customers, learn from them, and share their thoughts. Giving thought to those who use what we create and who will gather at these locations even 10 or 20 years in the future, we consider what we can do to accommodate their wishes, and take action.
To deliver quality not only in terms of the form and function of structures but also "Quality that Inspires Happiness" that continues to satisfy those who gather at and use our structures, we undertake construction with the aim of "Be No. 1 in Safety, Quality and Environment Management."

# Aiming for Safe Workplace Environments

## Safety results in FY2019

In FY2019, we achieved our occupational health and safety target of "frequency of labor accidents rate of 0.5 or less," but two fatal accidents occurred. This is the first time since 2005 that multiple fatal accidents have occurred. As a company that puts respect for human life first, this is an extremely regrettable result.

In FY2020, we will reinforce our commitment to making human life our highest priority, as stated in our Safety and Health, Quality and Environment Policy. By enhancing occupational health and safety education and guidance and steadily practicing basic rules for safe work, we will eliminate serious disasters and work toward our targets for safety and health management.

FY2020 Safety and Health Control Plan (excerpt)

| | |
|---|---|
| Targets | **Fatal accidents: 0 / Frequency of labor accidents rate: 0.5 or less** |
| Actions to be taken | **Prevention of repeated disasters/accidents**<br>1. Prevention of disasters/accidents involving heavy construction equipment<br>2. Prevention of slip-and-fall accidents<br>3. Prevention of tumbling/elderly person accidents<br>4. Prevention of heat stroke<br>5. Reduction of construction work accidents that lead to public disaster<br>**Operation of management system**<br>6. Enforcement of a line and staff control system<br>7. Strengthening of occupational health and safety guidance by specialty constructors<br>8. Support for branch safety priority management sites<br>9. Implementation of programs for mental and physical health promotion |

## Practicing the PDCA cycle under our Safety and Health Management System

Kumagai Gumi obtained the industry's first company-wide certification under the COHSMS (Construction Occupational Health and Safety Management System) program launched in 2008 by the Japan Construction Occupational Safety and Health Association (JCOSHA). In 2018, NEW COHSMS was launched in response to changes in the environment surrounding the construction industry and in the ISO 45001 international standard. Under a system that has received this renewed certification, we are working to prevent occupational accidents.

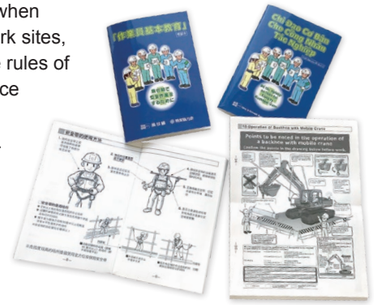
**1. Maintain an excellent workplace environment**
Branch managers, worksite managers, branch managers of the business partnership, chairmen of foremen associations, and all workers make safety declaration from their respective positions, and use the PDCA cycle to develop safe, secure, and pleasant workplaces. Many of our workplaces have been certified under the comfortable workplace certification program of the Japan Federation of Construction Contractors.

**2. Enhance a "line and staff management system"**
Every department that supports workplaces is working to improve occupational safety and health management by carrying out its roles in this system.

**3. Improve safety and health education**
Our headquarters, branches, and Yuuei Kyoryoku Kai provide employees, business owners, foremen, supervisors, and workers with education on improving risk prediction and education on occupational safety and health management systems, in accordance with a fiscal year education plan.

## Safe and secure workplace environments for foreign human resources

Many foreign workers are active in the construction industry, and occupational accidents have increased accordingly. We have translated our Workers' Basic Education booklet into foreign languages and are supporting education for business operators. We are aiming to create safe and secure workplace environments for foreign workers, by means including creating foreign language versions of the materials for occupational health and safety education performed when entering work sites, to make the rules of the workplace easier to understand.



## Safe and secure workplace environments for elderly persons

We are strengthening initiatives to protect seniors, including placement of "thoughtfulness stickers" that encourage surrounding workers to speak to elderly persons, setting of age limits and permission systems for work that involves a risk of falls, and awareness education that encourages elderly persons to make use of their abundant experience while instilling self-awareness of physical weakening.

Through such efforts, in FY2019 we reduced the continually increasing number of accidents involving elderly persons.

## Aiming to become the industry's No. 1 in safety results

See P13 for frequency of labor accidents

Kumagai Gumi introduced an occupational health and safety management system in 1999 and has pursued occupational health and safety up to the present.

In the Medium-term Management Plan that began in FY2018, too, we aim to be at the head of the industry in this area.

See website for details
Occupational health and safety initiatives https://www.kumagaigumi.co.jp/en/csr/safety/index.html





# Quality Control and Environmental Preservation

## Aiming for the highest quality

With the aim of providing construction services that earn the trust of customers, reducing environmental impacts, and creating a better environment, we acquired ISO 9001 certification in 1996 and ISO 14001 certification in 1997, under which we continue to operate our management systems. We believe that the highest quality is achieved through an integration of the quality assurance systems, human resources who are committed to quality, and effective processes. We continuously develop human resources through our personnel development systems, and, in every process under our quality assurance systems, we will ensure the cycle of planning (Plan), execution (Do), confirmation and inspection (Check), and review and improvement (Act) to improve the quality of processes (Figure 2).

Figure 1. Quality and Environment Management System Organization

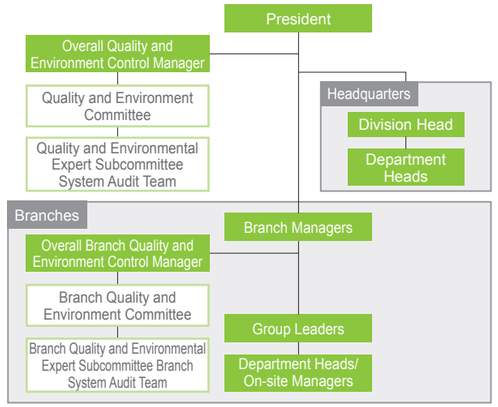



Figure 2. Conceptual diagram of the Quality and Environment Management System

## Training engineers with a commitment to quality

**Employee training**

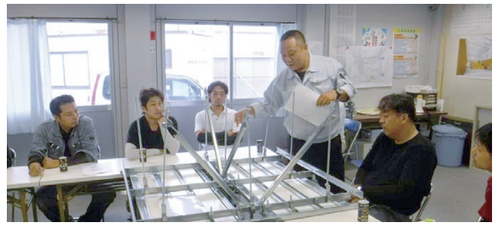
We conduct two-month practical training for construction drawing, with dormitory stays, for employees in their third to twelfth years in the Construction Division.

**Quality instructor program**

We appoint a quality instructor in the Architectural Project Department of every branch, and conduct quality control guidance every month at every workplace.

**Training for partner companies**

The Yuuei Kyoryoku Kai association conducts various types of training with the aim of improving capabilities related to QCDSE (Quality, Cost, Delivery, Safety, and Environment).



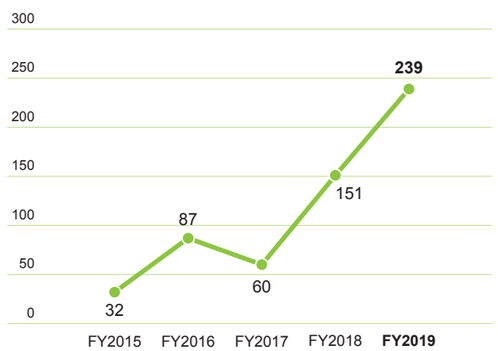
**Technology presentation**

To share information on ever-evolving architectural construction and civil engineering technologies and make full use of these in our everyday work, we hold presentation meets to broadcast technologies we have developed and new technologies introduced at workplaces company-wide.

## Business improvement and creative refinement proposal program

We operate a business improvement and creative refinement proposal program with aim of improving business and work efficiency and cutting costs. The program solicits proposals for business improvements, refinements, and ideas from our employees and the employees of partner companies, receiving 239 submissions in FY2019. Outstanding proposals are entered into a database and are used at sites and workplaces to help improve safety, quality, the environment, and workability.

Number of work improvement proposals

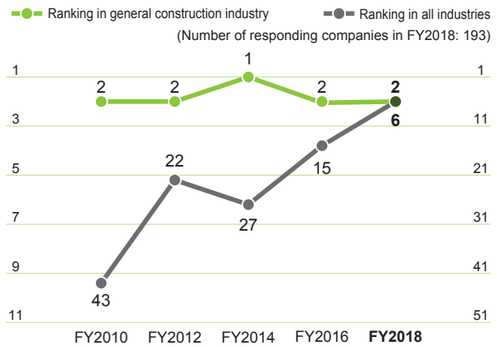



## External evaluation

The Kumagai Gumi Group reviewed the results of the Corporate Quality Management Level Survey by the Union of Japanese Scientists and Engineers to determine our strengths and issues. This information is used to effect ongoing improvements in our management systems.

The Kumagai Gumi Group's "Quality Management Level Ranking"

* Not conducted in FY2019 due to biennial schedule




**Strengths:** Expansion of quality management (quality improvement activities at cooperative association)
Customer value creation (change of technology development system, technology creation)
Inter-departmental collaboration capability

**Issues:** Further trend analysis of market defect costs
Indicators of the effectiveness of new technology development





# Quality Control and Environmental Preservation

## Environmental conservation activities

We have further set our medium- to long-term goals for environmental activity in "The Promise of Eco First," and goals for our biodiversity initiatives in "Policy for Environmental Diversity Initiatives."

### "The Promise of Eco First" (excerpt)

Target values are for Kumagai Gumi only

**1. We promote the building of a low-carbon society via the construction business.**

| (1) Volume Base | | FY2020 | FY2030 | FY2050 |
|---|---|---|---|---|
| $CO_2$ emissions target (10 kt-$CO_2$) | | 4.8 | 3.7 | 1.8 |
| Reduction rate (%) | Compared with FY1990 | 87 | 90 | 95 |
| | Compared with FY2013 | 25 | 4.2 | 71 |
| (2) Intensity Base | | FY2020 | FY2030 | FY2050 |
| $CO_2$ emissions target (t-$CO_2$/100 million yen) | | 20.6 | 16.4 | 8.2 |
| Reduction rate (%) | Compared with FY1990 | 50 | 60 | 80 |
| | Compared with FY2013 | 1.8 | 35 | 67 |

**2. We promote the creation of a recycling society at our construction sites.**

| | Architectural sites | Civil engineering sites |
|---|---|---|
| (1) FY2020 Mixed waste discharge target | All sites Less than 10 kg/m² of floor space | All sites Less than 0.5 t/ 100 million yen |
| (2) FY2020 Green Purchase Rate? target | Architectural sites | Civil engineering sites |
| | 15% or more | 21% or more |

**? Green Purchase Rate**
Percentage of spending on green purchasing items per 100 million yen of construction work value

**3. We strive for a society that coexists with nature and promote initiatives that consider biodiversity.**

**4. We strive to develop, improve, and popularize technologies and methods that consider the environment.**

**5. We actively contribute to environmental conservation activities in the region.**

**6. We actively disclose environmental information and work on communication.**

### Policy for Biodiversity (outline)

**Fundamental concept**

We recognize the following in our business activities, and actively work towards biodiversity protection and sustainable usage.

- That our daily lives are supported by the benefits provided by biodiversity
- That biodiversity is facing a severe crisis due to various human activities
- That there is a deep relationship between the construction industry and nature

**Our initiatives**

We incorporate consideration of ecosystems in our business activities, and carry out such activities company-wide.

1. Initiatives for design and construction
2. Legal compliance
3. Technological development
4. Social contribution initiatives

## Main risks and opportunities involving the environment

We identify environmental risks and opportunities, taking into account factors including our business environment and the nature of our business activities. Major items are shown below.

| | Risk | Opportunity |
|---|---|---|
| Climate change | • Decline in competitiveness due to insufficient adaptation to social systems and regulatory tightening<br>• Occurrence of damage to health due to rise in average temperature<br>• Occurrence of construction delays and shortages of materials and equipment due to abnormal weather | • Creation of technologies, products, and businesses that resolve climate change issues<br>• Expansion of markets due to growing customer needs for environment-friendly design and construction<br>• Expansion of demand for infrastructure development associated with increasing frequency and intensity of natural disasters |
| Resource recycling | • Loss of trust due to non-compliance with laws and regulations<br>• Decline in competitiveness due to insufficient compliance with laws and regulations | • Creation of technologies, products, and businesses for building a recycling-oriented society |
| Biodiversity | • Interruption or cancellation of business due to destruction of the environment | • Creation of technologies, products, and businesses that take biodiversity conservation into consideration |

**See website for details**

**Kumagai Gumi's "The Promise of Eco First"** https://www.kumagaigumi.co.jp/en/csr/environment/ecofirst.html

**Information about $CO_2$ emissions overseas – Taiwan Kumagai Co., Ltd.** https://www.kumagaigumi.co.jp/csr/environment/ecofirst/ecofirst01/ (Japanese only)

## Environmental performance

See P41 for details

Kumagai Gumi is actively working to reduce its environmental impacts as an Eco-First company. Since 2000, we have reduced $CO_2$ emissions nearly according to plan through activities such as prohibiting engine idling at construction sites, vehicle inspection and maintenance, and fuel-efficient driving. Our Scopes 1 and 2 are moving toward the achievement of 2020 targets, and we are currently planning measures for 2021 and beyond.

In addition, Scope 3, which accounts for 98% of our total $CO_2$ emissions, accounts for 95% overall, mainly from the total for categories 1 and 11. We have begun to address Category 11 through environmentally friendly design, and will continue to work toward further reduction in Scope 3.

### Compliance with environmental conservation laws

In FY2019, we undertook the following initiatives to prevent violations of environmental laws and regulations, and continue working to comply with environmental laws regulations.

1. Education on environmental laws and regulations within intensive employee education at Headquarters, by the Headquarters manager in charge of environmental regulations (5 times)
2. Education for branch managers (2 times) and inspection tour of facilities to address global warming (Hokkaido)

* In FY2019, no fines or penalties were levied due to legal violations, and no suits were filed.

### Environmental incidents

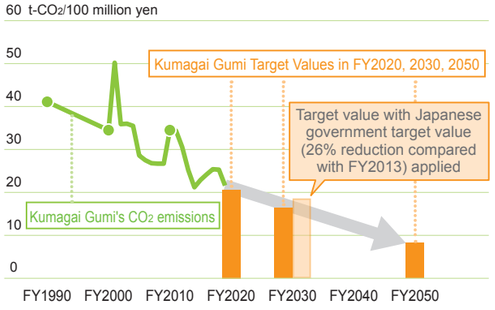
No environmental incidents occurred in FY2019.

### Environmental Targets and Results Evaluation for FY2019 and Targets for FY2020 (construction) Kumagai Gumi only

| Environmental goal | | FY2019 target | FY2019 results | Evaluation | FY2020 target |
|---|---|---|---|---|---|
| Reduction of $CO_2$ emissions | Civil Engineering | 46.7 t-$CO_2$/100 million yen or less | 40.1 t-$CO_2$/ 100 million yen | Achieved | 39.4 t-$CO_2$/ 100 million yen or less |
| | Building Construction | 10.7 t-$CO_2$/100 million yen or less | 7.2 t-$CO_2$/ 100 million yen | Achieved | 10.2 t-$CO_2$/ 100 million yen or less |
| Reduction of mixed waste discharge (promotion of zero emissions) | Civil Engineering | 0.27 t/100 million yen or less | 0.65 t/ 100 million yen | Not achieved | 0.23 t/100 million yen or less |
| | Building Construction | 5.74 kg/m² or less | 9.1 kg/m² | Not achieved | 5.57 kg/m² or less |
| Promoting green purchasing | Civil Engineering | Green Purchase Rate of 18.5% or more | 14.7% | Not achieved | 21.0% or more |
| | Building Construction | Green Purchase Rate of 14.5% or more | 12.8% | Not achieved | 15.0% or more |

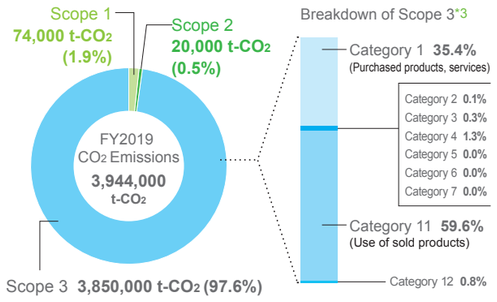
### $CO_2$ Emissions: Intensity*1 (construction work + offices) (Scope 1, 2*2)

Kumagai Gumi only (domestic)




### $CO_2$ Emissions: Gross volume (Scope 1, 2, 3*2)*4

The Kumagai Gumi Group



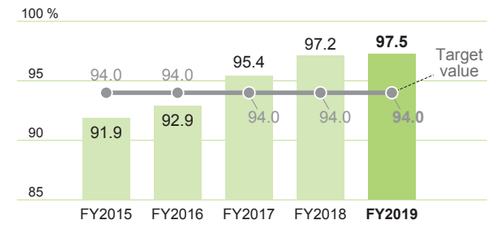

*1 $CO_2$ emissions per 100 million yen of construction work

*2 Scope 1 The business operator's own direct emission of greenhouse gases (burning of fuel, industrial processes)
Scope 2 Indirect emissions accompanying the use of electricity, heat, and steam supplied by other companies
Scope 3 Indirect emissions other than Scope 1 and Scope 2 (emissions from the entire supply chain involved in Kumagai Gumi Group business activities)

*3 Scope 3 is calculated for Categories 1 to 7, 11, and 12. Category 12 is calculated for Kumagai Gumi alone and for construction-related Group companies.

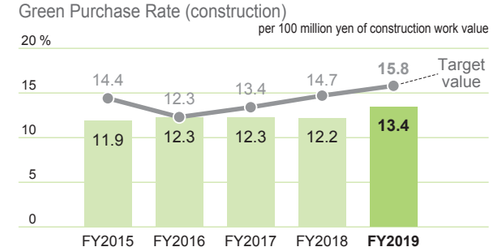
*4 Figures in FY2019 include overseas figures. The Scope 2 emissions coefficient is the market standard.

### Recycling rate (construction)



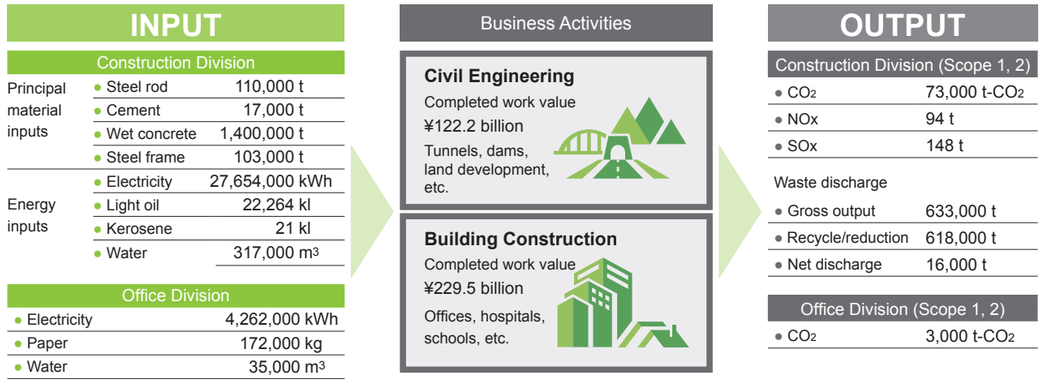

### Green Purchase Rate (construction)

per 100 million yen of construction work value




* Includes construction sludge from FY2017

### Impact on business performance and the environment FY2019 performance/Kumagai Gumi only




* Of the greenhouse gases ($CO_2$, $CH_4$, $N_2O$, HFC, PFC, $SF_6$), those other than $CO_2$ ($CH_4$, $N_2O$, HFC, PFC, $SF_6$) are not emitted through our business activities

# Farsight

## We Feel a Deep Responsibility to Our Clients.

When we build a structure, we are building a community together with the people who will use that space.
Our relationship with our structures continues beyond their physical completion.
It includes ongoing operation, maintenance, renovation, and restoration.
With this ever-ready support, our structures serve as the timeless stage where each generation performs its part in life's ever-evolving story.

# Involvement with Customers

## We deliver "Quality that Inspires Happiness"

Kumagai Gumi established the Customer Satisfaction (CS) Promotion Office in 1998. The following year, we established the Customer Consultation Office at our all branches. We are working toward organizational collaboration that lets us deliver "Quality that Inspires Happiness," to improve our appraisal by customers.

The customer satisfaction functions of Kumagai Gumi are placed within the Corporate Planning Division, as a part of organizational design to directly reflect customers' opinions in our management. Every year since 2008, we have conducted training for all employees of the CS Division as we strive to develop professional human resources.

## Customer Consultation Office

21 years have passed since we established a toll-free telephone number to extend customer response from normal business hours to night and holidays as well, placed dispatch sites throughout the country, and established a 24-hour reception system. In FY2019, we received 517 consultation inquiries. For the fourth consecutive year, we achieved 100% same-day initial responses (and a rate of over 98% for eight consecutive years).

## Primary CS activities of Kumagai Gumi

### 1) Customer insight questionnaires

Three years after delivering a structure to customers, we conduct a comprehensive evaluation questionnaire. We respond promptly to the responses received, analyze the overall questionnaire, and make use of the content as valuable management information of use in design, construction, sales activities, and after-sales follow-up. In FY2019, we received 58 questionnaire responses.

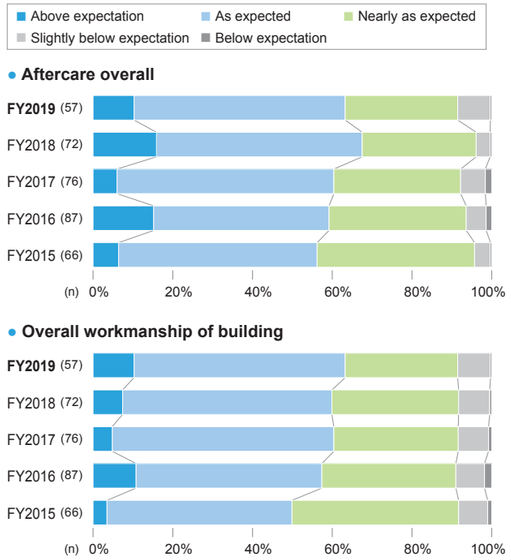
**Questionnaire items**

- Workmanship
- Aftercare
- About Help desk
- Work progress by our employees
- Performance and design of structure
- Comprehensive evaluation

**Purpose of questionnaire**

- For customers with whom contact ends at 2-year scheduled inspection, extend contact to 3 years and strive to maintain positive relationships
- Quickly discern signs of defects that concern customers
- In response to any account of dissatisfaction, visit the customer promptly to restore trust, and prevent recurrence of the issue through thorough investigation of the cause

Questionnaire results




### 2) Visit customer for asking their insight

Our top management makes visits not only to our regular patrons but also to customers with whom we have lost regular contact, to directly hear their honest opinions and incorporate these into our management. (FY2019: 17 visits)

### 3) Improvement of aftercare system

We perform centralized management of requests, inquiries, defect information, and more using "construction clinical records," and share this information within the company.

### 4) Instillation of CS awareness in employees

We conduct internal commendations and lectures on CS initiatives and take other actions to instill Kumagai Gumi's CS awareness in our employees and to achieve CS with the involvement of all.

# Involvement with Employees

## Promotion of work style reform

Kumagai Gumi began full-scale work style reforms in April 2018 to create a workplace in which all employees can work with motivation and maximize their abilities. In addition to establishing a promotion division, we formulated a Work Style Reform Action Plan outlining numerical targets and a plan of action, as we aim to become a company in which every employee is active and motivated.

Work Style Reform Action Plan

| Three areas of reform | | Numerical targets and timing for their achievement | Initiative results | | |
|---|---|---|---|---|---|
| | | | Indicators | FY2018 | FY2019 |
| Correction of long working hours | Establish an upper limit on overtime work and undertake reduction of working hours | Limit overtime work through FY2018 to under 100 hours/month | Percentage of employees achieving target | 98% | 99% |
| | | From FY2019 to FY2020, limit overtime work to 960 hours/year (average 80 hours/month) | Percentage of employees achieving target | 97% | 97% |
| Promotion of use of paid leave (annual) | Establish lower limits on the use of annual leave and targets for average use, and promote the use of annual leave | By FY2018, raise days of use of annual leave to 5 or more | Percentage of employees achieving target | 63% | 100% |
| | | By FY2020, use an average of 10 or more days of annual leave | Average number of days taken | 7 days | 8 days |
| Promotion of flexible work styles | Promote flexible work styles that allow a balance of work and lifestyles | Aim for 100% return to work after child-care leave (FY2018-FY2020) | Return rate | 100% | 96% |
| | | Reduce to zero the number of persons resigning for reasons of balancing work with child-care or nursing care (FY2018-FY2020) | Number resigning | 3 | 1 |
| | | Increase the utilization rate of child-care leave by male employees to 10% by FY2020 | Utilization rate | 5% | 21% |

* As of March 2020 (rounded to nearest whole number)

### Improvement of work efficiency and productivity

Remedying long working hours at sites is a priority issue for the entire company. As one measure to improve work efficiency and productivity, in July 2018 we launched four task teams for promotion of site support, promotion of construction management/safety documentation, promotion of electronic transactions, and promotion of paperless work. We identified specific issues, and conducted repeated examinations of solutions to these along with practical applications. In the promotion of construction management/safety documentation, we have introduced a system that enables on-site work management and creation and management of labor safety documentation over the Internet. In the promotion of electronic transactions, we are constructing a Web-EDI system for transactions such as placing and receiving orders over the Internet, to improve work efficiency and productivity together with our customers and partner companies.

### Transformation in awareness

We consider it important to promote work style reform together with initiatives for awareness changing among employees, not only through improvement of systems and environments. For that reason, Kumagai Gumi regularly communicates messages from top management and works to make every employee aware of the importance of work-life balance.

● **Small Start Project**

In August 2019, we launched the Small Start Project to accumulate small reforms that will lead to individual motivation. Activities to enhance the productivity of in-house conferences include the formulating of 10 Articles for holding meetings and offering IT courses taught by outside instructors. From June 2020, we are also testing "office casual" as a company-wide option for clothes.

## Health management

Kumagai Gumi views the health of employees as the most vital of our management resources. We have established a health promotion office staffed by general industrial physicians and health nurses in the Human Resources and General Affairs Department in the headquarters, and have readied systems for the comprehensive support of employees' health with the cooperation of industrial physicians and health promotion managers at all branches. Every fiscal year, we formulate an employee health promotion plan as part of our programs for mental and physical health promotion, and carry out health promotion activities that seek an upward spiral in PDCA activities.

Annual Plan for the Promotion of Employee Health (FY2020)

**(1) Support for employees experiencing health issues**
**(2) Prevention of damage to health from long working hours**
**(3) Provision of appropriate health check-ups**
**(4) Preventive actions against mental health disorders**
**(5) Initiatives to maintain and promote mental and physical health**
**(6) Active use of industrial health care resources**

For four consecutive years since FY2016, we have been recognized by the Health and Productivity Management Organization Recognition Program ("White 500") of the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a corporation that practices excellent health management. Our initiatives have received commendations for two consecutive years from the Japan Construction Occupational Safety and Health Association at its national conventions for the prevention of industrial accidents in the industry, events at which industrial physicians from our company delivered presentations. We intend to continue strengthening measures for the health of not only employees but all workers at Kumagai Gumi sites.

### Measures in the annual plan

● **Initiatives for employees with higher risks**

All employee health checkup results undergo careful checks by industrial physicians. For employees requiring follow-up, we provide continuous support along with recommendations and reminders for check-ups and interviews. Moreover, to prevent cardiac disease and mental health disorders caused by long working hours, we offer accumulated fatigue checklists for eligible employees and every month provide consultation with industrial physicians to employees who request it. In addition to this, we provide special follow-up through visits by industrial physicians, interviews with employees, and other measures to address workplaces in special environments, such as overseas or at disaster reconstruction sites.

● **Initiatives for mental health**

In initiatives involving mental health, we carry out stress checks, employee training (self care and organizational care), and support for return to the workplace, among a wide range of activities that extend from primary to tertiary prevention. To raise employee health awareness and create an atmosphere that facilitates consultation, we regularly deliver health-related communications and employee health interviews, and conduct health-related events such as health workshops and walk rallies. In response, we have received comments from employees saying that not only have their exercise habits improved, but the workplace atmosphere has improved as well.

## Human rights

The Kumagai Gumi Code of Conduct declares the following:

**The Kumagai Gumi Code of Conduct**

-Corporate Citizenship Declaration-

**Fairness, Equality, and Respect for Human Rights**

We will conduct our corporate activities based on principles of fairness and equality, and will aim to be a creative corporate group in which every person can freely demonstrate individuality.

### Human rights training for employees

Kumagai Gumi conducts training on human rights issues for new employees. In terms of content, the training provides opportunities to deepen understanding of 1) why companies value human rights, 2) our approach to human rights, and (3) a variety of human rights issues (gender, people with disabilities, social discrimination, and harassment in general).

### LGBT-related initiatives

Our new employee training includes a program for gaining basic knowledge of sexual orientation and gender identity, to promote correct understanding. On our in-house portal site, we post articles that promote understanding of LGBT issues. In our company regulations, we have added prohibitions against discriminatory words and behavior based on sexual orientation or gender identity. We have also established an in-house contact desk where employees can consult anonymously.

# Involvement with Shareholders and Investors

## Active dialog with investors

Kumagai Gumi works to properly, fairly, and promptly disclose information pertaining to our management and business activities.

In our engagement with investors in FY2019, we held earnings briefings 2 times (both with top management in attendance), small meetings 4 times (all with top management in attendance), and individual meetings and teleconferences 74 times (including 7 with top management in attendance).

While some planned IR activities were canceled during FY2019 due to political unrest in Hong Kong and the COVID-19 pandemic, we implemented new initiatives such as visits to investors in Taiwan, where our group is expanding its business, and participation in investor meetings hosted by securities companies.

Moreover, due to the seriousness of the pandemic, we promoted telecommuting, staggered work hours, and distributed work. During the state of emergency announced by the government, we temporarily suspended about 60% of our construction work in prefectures under special precautions. However, utilizing tools for remote work, we were able to announce our financial results for the fiscal year on May 13. Regarding our outlook for the next fiscal term, as the extent to which the pandemic impacts our business activities and financial position is important in investment decisions, we set certain conditions and disclosed forecast values.

Subsequent earnings briefings for institutional investors were held online, but in the financial results briefing materials, we noted our status of progress under the new investment plans set out in the Medium-term Management Plan, and details of the status of our collaboration with Sumitomo Forestry. We are also concretely indicating negative and positive impacts of the pandemic on our performance and its impacts our finances, as a means of proactively enhancing our information disclosure to promote faster and deeper understanding of our group.

We will continue to aggressively promote IR activities to gain shareholders' and investors' understanding of the surety of our sustainable growth, and to aid the formation of an appropriate share price.

Impacts of the COVID-19 pandemic

**We predict that the COVID-19 pandemic will bring not only risks but also opportunities to our group**

### Impacts on performance

**Risks**

- Decrease in capital expenditures by private-sector companies due to recession
- Decrease in construction of new hotels, etc. due to contraction of inbound travel demand
- Postponement of public notifications and bidding in government office construction
- Difficulty in negotiations for additional design changes, etc.
- Intensification of domestic competition due to a decrease in overseas construction
- Project delays due to interruption of construction
- Project delays due to delays in delivery of materials
- Increase in risk of bankruptcy among ordering clients and construction partners
- Increased costs associated with contagious disease countermeasures

**Opportunities**

- Increase in public works construction as an economic support measure
- Reduction of construction costs due to deflation
- Expansion and relocation of medical, warehousing, and distribution facilities
- New construction and relocation associated with the return of overseas production sites to Japan and their reorganization
- Development of social infrastructure
- Development of telecommunications infrastructure associated with increase in telework
- Increase in renewal construction in line with changes in modes of behavior
- Shift from centralized to decentralized offices
- Progress of M&A
- Decline in purchase cost of real estate related to redevelopment projects

* Regarding performance of the group for FY2020, forecast values are calculated on the assumption that the amount of orders received will decline by about the same extent as after the 2008 Lehman Brothers collapse.

### Financial stability

- Our capital adequacy ratio is relatively stable at about 40%
- Our solvency is high, with current ratio in excess of 150% and a certain percentage of cash and deposits secured as well
- We have established a commitment line of 20 billion yen and have the capability to handle unexpected situations





# Involvement with Business Partners

## Rules concerning purchasing work

Kumagai Gumi has formulated purchasing management rules with the objective of ensuring transparency in the selection of business partners, as well as consideration of risk management and the environment.

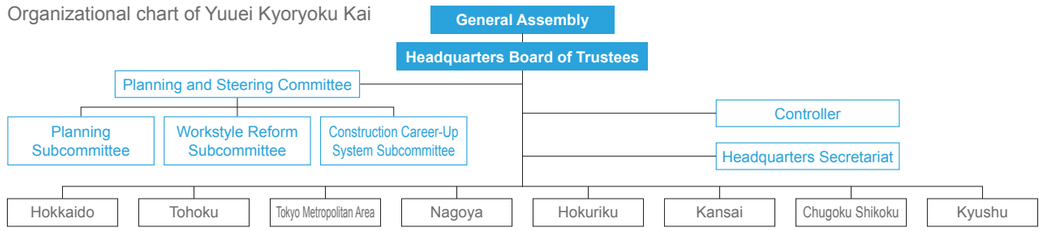
Based on these rules, we comply with laws and ordinances from the standpoint of a corporate citizen as extolled in our Management Philosophy, and conduct purchasing work on a foundation of fairness, clarity, and rationality.

In accordance with the "Declaration of Abiding by Labor Cost Quotations" from the Japan Federation of Construction Contractors, we enforce the submission of quotations from partner companies that clearly state appropriate wages for skilled construction workers, and, after confirming the content, abide by the quotations.

## Yuuei Kyoryoku Kai

Yuuei Kyoryoku Kai, an association composed of 880 partner companies of Kumagai Gumi (as of April 1, 2020), engages in activities under a policy of taking action in all areas of QCDSE and promoting the creation of positive workplace environments, with Kumagai Gumi and the member companies of Yuuei Kyoryoku Kai cooperating as good partners.

Organizational chart of Yuuei Kyoryoku Kai




In FY2018, Kumagai Gumi and 17 civil engineering specialist construction companies in the Yuuei Kyoryoku Kai association formed a team called KUMA-DECS to prepare for recovery work in response to the frequent earthquakes, heavy rains, floods, landslides, storms, and other natural disasters of recent years. This team works disaster response, one of the important roles of the construction industry, and develops activities that protect and support people's lives.

In FY2019, with the Construction Work-Specific Subcommittee developed as a cross-branch activity entering its third year, we conducted workshops and study sessions as well as active exchanges among branches. The outcomes were promptly communicated with members nationwide via the Yuuei Kyoryoku Kai website, which has been completely redesigned for easy sharing at the level of person in charge. In such ways, we are working to improve construction quality overall for Kumagai Gumi and Yuuei Kyoryoku Kai.

Activity targets for FY2020 are:

1. **Safety results: Fatal accidents: 0; Frequency labor accidents rate: 0.5 or less**
2. **Serious quality incidents during construction: 0**
3. **Serious environmental incidents during construction: 0**

Under the slogan "Professional skills that earn trust, and solidarity in building," we will steadily carry out branch activity plans.

We plan to aggressively challenge a number of other issues, including improvement of skilled workers' wage levels (a common issue in the construction industry), promotion of two days off a week, popularization and promotion of construction career advancement systems, adoption and utilization of ICT to promote work efficiency, promotion of electronic transactions, and response to the new status of residence for foreign workers based on their specific skills.

We have established a unique work leave support fund for workers who are forced to take leave from work when construction work is temporarily suspended to prevent the spread of contagion under the COVID-19 pandemic. This support provides a payment of a fixed daily amount to each worker.

On the Yuuei Kyoryoku Kai website, we have posted COVID-19-related Q&A information for companies and workers published by the Ministry of Health, Labour and Welfare, and are working to make this information known to members.

# Involvement with Communities

## The Kumagai Gumi Smile Project

In May 2019, Kumagai Gumi began operating the Kumagai Gumi Smile Project as a platform for engaging in unique social contribution activities.

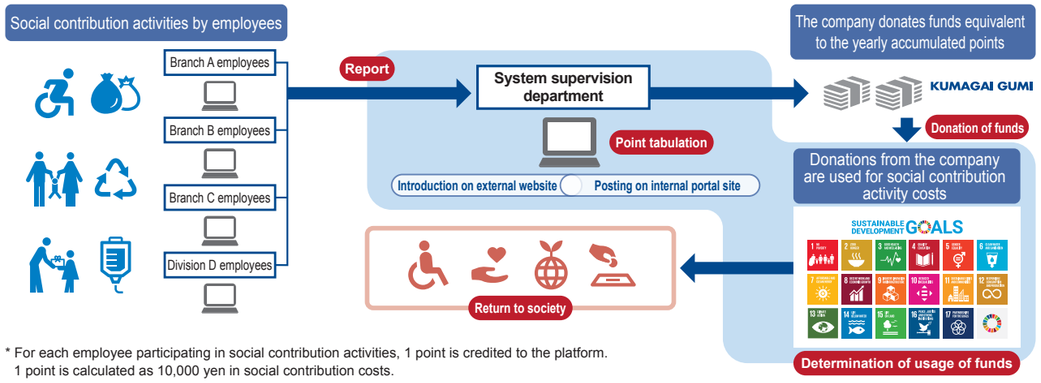
Making use of a matching gift method, it aggregates the number of Kumagai Gumi employees who participated in social contribution activities. Kumagai Gumi then donates social contribution costs in accordance with the cumulative number of participants in each fiscal year.

In FY2019, 879 employees participated in 108 activities in the areas of the environment, education, welfare, regional contribution, and more, with Kumagai Gumi donating 8.79 million yen in social contribution costs.

We made the decision to apply the contributions toward areas that include cooperation with our social contribution activity KUMAGAI STAR PROJECT, as well as support for four organizations working on social issues.

In FY2020, Kumagai Gumi will make donations to the following organizations.

- JUON NETWORK (Activities that relate cities and countryside and give consideration to nature)
- Kosodate Hiroba Zenkoku Renraku Kyogikai (Activities to support childcare in the community)
- Japan Cancer Society (Support for cancer patients awareness of cancer diseases)
- Zenkoku Kodomo Shokudo Shien Center Musubie (Local network bases that serve meals)




* For each employee participating in social contribution activities, 1 point is credited to the platform. 1 point is calculated as 10,000 yen in social contribution costs.

## KUMAGAI STAR PROJECT

Launched in 2015, this project engages in school building construction as international contribution to society in countries in which Kumagai Gumi has sales sites. So far, we have constructed three elementary and junior high school buildings in the Republic of the Union of Myanmar. The third school, Myohaung East Elementary and Junior High School, was certified by the Ministry of Foreign Affairs as a project for Mekong-Japan Exchange Year 2019. In January of 2020, we donated books and bookshelves to the second school, along with wooden toys provided by Sumitomo Forestry. At the third school, we plan to provide scholarships to students in addition to bookshelves.

In addition, we received a special award at the JIA Golden Cubes Awards in recognition of the wall art event related to our school gate restoration, an activity that featured the participation of children studying amid the challenging educational environment in Myanmar.

Mekong-Japan Exchange Year 2019 Logomark

# Evaluation by Society (June 2019 to May 2020)

**June 2019**
Japan Construction Machinery and Construction Association
**Selection Committee Award, Japan Construction Machinery and Construction Awards**
**Development of Automated Driving Technology for Rough Terrain Haulers (Crawler Carrier)**
Joint award with the Kumamoto Reconstruction Project Office of the Kyushu Regional Development Bureau, Ministry of Land, Infrastructure, Transport and Tourism

**June 2019** Tokyo Association of Architectural Firms
**Governor of Tokyo Award, 45th Tokyo Architecture Awards**
**Yui no Mori Arakawa**

**July 2019** Engineering Advancement Association of Japan
**FY2019 Outstanding Achievement in Engineering Award**
**Hokusatsu Odan Road Hokusatsu Tunnel Izumi Construction Zone**

**October 2019**
Council on Tall Buildings and Urban Habitat (CTBUH)
**50 Most Influential Tall Buildings of the Last 50 Years**
**Bank of China Tower (Hong Kong) TAIPEI 101**
See P28 for details

**November 2019** Japan Institute of Design Promotion
**FY2019 Good Design Awards**
**Category 13 Architecture (Medium- to Large-Scale Mass Housing) Category**
**Branz Rokubancho**

**November 2019**
Japan Council for Advancement of Timber Utilization
**2019 Timber Utilization Excellent Facility Contest Ministry of Agriculture, Forestry and Fisheries Director-General Award**
**Hyuga City Hall**

**December 2019** Japan Dam Foundation
**FY2019 Commendation for Contribution to Dam Construction (Construction-related)**
**Hidenori Umeda, Civil Engineering Department, Hokuriku Office**
**Jun Taneya, Civil Engineering Department, Kansai Office**

**January 2020** Chiba city
**Chiba Municipal Urban Culture Awards 2019 Scenery Advertising Category Award for Excellence**
**Makuhari Bay Park sign**

**January 2020** The Japan Institute of Architects (JIA)
**JIA Golden Cubes Awards 2019/2020 Special Award**
**KUMAGAI STAR PROJECT**
**Wall Art Workshop**

**April 2020** Architectural Institute of Japan
**Architectural Institute of Japan Award (Work)**
**Michi-no-eki Mashiko**

# List of the Board of Directors

Back row, from left: **Koji Hidaka, Susumu Ogawa, Junji Konishi**
Front row, from left: **Yoshiaki Ogawa, Yoshihiko Kato, Yasunori Sakurano**

Back row, from left: **Masaaki Ayukawa, Tatsuru Sato, Yutaka Takehana**
Front row, from left: **Mikie Yumoto, Sakae Yoshida**

## Yasunori Sakurano

**President, Representative Director**
CEO and President

| | |
|---|---|
| Apr 1981 | Joined Kumagai Gumi Co., Ltd. |
| Aprl 2010 | General Manager of the Human Resource Division |
| Apr 2011 | Executive Officer |
| Jun 2012 | Director |
| Apr 2014 | Managing Director<br>Managing Executive Officer<br>General Manager of the Management Administration Division |
| Apr 2015 | General Manager of the Corporate Planning Division |
| Apr 2017 | Senior Managing Director<br>Senior Managing Executive Officer |
| Apr 2018 | President, Representative Director (current)<br>CEO and President (current) |

## Yoshihiko Kato

**Director**
Executive Vice President and General Manager of the Civil Engineering Management Division
General Manager of the Railway Project Promotion Division of the Civil Engineering Management Division

| | |
|---|---|
| Apr 1982 | Joined Kumagai Gumi Co., Ltd. |
| Apr 2013 | Executive Officer<br>Deputy General Branch Manager of the Tohoku Office |
| Apr 2014 | Managing Executive Officer<br>General Manager of the Civil Engineering Management Division (current) |
| Jun 2014 | Managing Director |
| May 2016 | General Manager of the Railway Project Promotion Division of the Civil Engineering Management Division (current) |
| Apr 2017 | Senior Managing Director<br>Senior Managing Executive Officer |
| Apr 2020 | Director (current)<br>Executive Vice President (current) |

## Susumu Ogawa

**Director**
Senior Managing Executive Officer

| | |
|---|---|
| Apr 2010 | Sumitomo Mitsui Banking Corporation<br>Manager of Public and Finance Institutions |
| Apr 2012 | Senior Inspector of the Audit Department of Sumitomo Mitsui Banking Corporation |
| Jun 2012 | Executive Advisor, Kumagai Gumi Co., Ltd. |
| Jul 2012 | Managing Executive Officer |
| Jun 2013 | Managing Director |
| Apr 2014 | Senior Managing Director<br>Senior Managing Executive Officer (current) |
| Apr 2017 | In charge of International Business<br>In charge of Marketing |
| Apr 2020 | Director (current) |

## Yoshiaki Ogawa

**Director**
Executive Vice President
General Manager of the Building Management Division

| | |
|---|---|
| Apr 1982 | Joined Kumagai Gumi Co., Ltd. |
| Apr 2011 | Executive Officer<br>General Manager of the Building Management Division, Kansai Office |
| Apr 2012 | Deputy General Branch Manager of the Kansai Office |
| Apr 2013 | Managing Executive Officer<br>Branch Manager of the Kansai Office |
| Apr 2017 | Senior Managing Executive Officer<br>General Manager of the Building Management Division (current) |
| Jun 2017 | Senior Managing Director |
| Apr 2020 | Director (current)<br>Executive Vice President (current) |

## Koji Hidaka

**Director**
Senior Managing Executive Officer,
General Manager of the Administration Division
In charge of Discipline, In charge of Personal Information Protection

| | |
|---|---|
| Apr 1981 | Joined Kumagai Gumi Co., Ltd. |
| Apr 2012 | Deputy General Manager of the Administration Division |
| Apr 2013 | Executive Officer |
| Apr 2015 | General Manager of the Administration Division (current) |
| Apr 2016 | In charge of Discipline (current)<br>In charge of Personal Information Protection (current) |
| Apr 2017 | Managing Executive Officer |
| Jun 2018 | Managing Director |
| Apr 2020 | Director (current)<br>Senior Managing Executive Officer (current) |

## Mikie Yumoto

**Director** *1

| | |
|---|---|
| Apr 1971 | Joined IBM Japan Ltd. |
| May 1981 | Joined American Family Life Assurance Company of Columbus, Japan Branch (Aflac)<br>(currently Aflac Life Insurance Japan Ltd.) |
| Jan 1995 | Manager of the Human Resources Development Department of above company |
| Jan 1997 | Director of above company |
| Jan 1999 | Executive Officer of above company |
| Jan 2006 | Representative of Rischiare Consulting (current) |
| Jun 2016 | Director, Kumagai Gumi Co., Ltd. (Current) |

## Junji Konishi

**Standing Audit & Supervisory Board Member**

| | |
|---|---|
| Apr 1981 | Joined Kumagai Gumi Co., Ltd. |
| Apr 2007 | General Manager of the Administration Department of the Kyushu Office |
| Apr 2010 | General Manager of the Administration Department of the Chugoku Shikoku Office |
| Apr 2014 | Assistant General Manager of the Chugoku Shikoku Office |
| Jun 2017 | Standing Audit & Supervisory Board Member (current) |

## Tatsuru Sato

**Audit & Supervisory Board Member**

| | |
|---|---|
| Apr 1978 | Joined Sumitomo Forestry Co., Ltd. |
| Apr 2011 | General Manager of Human Resource Division |
| Jun 2012 | Executive Officer of above company |
| Apr 2013 | Managing Executive Officer of above company |
| Jun 2013 | Director of above company |
| Apr 2016 | Senior Managing Executive Officer of above company |
| Apr 2018 | Representative Director of above company (current)<br>Executive Vice President and Executive Officer of above company (current) |
| Jun 2018 | Audit & Supervisory Board Member, Kumagai Gumi Co., Ltd. (current) |

## Sakae Yoshida

**Director** *1

| | |
|---|---|
| Apr 1981 | Joined Dainippon Ink and Chemicals Inc. (currently DIC Corporation) |
| Apr 2009 | Factory Manager, Sakai Factory, DIC Corporation |
| Apr 2010 | Factory Manager, Chiba Factory of the above company |
| Jan 2015 | Executive Officer and General Manager of the Production Supervising Division of above company |
| Jan 2018 | Advisor to above company |
| Jun 2020 | Director, Kumagai Gumi Co., Ltd. (Current) |

## Masaaki Ayukawa

**Audit & Supervisory Board Member** *2

| | |
|---|---|
| Apr 1969 | Joined Chuo Accounting Office (subsequently ChuoAoyama Audit Corporation) |
| Feb 1971 | Registered as Certified Public Accountant |
| Mar 1983 | Representative Partner, ChuoAoyama Audit Corporation |
| May 2000 | Senior General Manager of ChuoAoyama Audit Corporation |
| Mar 2009 | Tonen General Sekiyu K.K. (currently JXTG Nippon Oil & Energy Corporation)<br>Standing Audit & Supervisory Board Member |
| Jun 2014 | Audit & Supervisory Board Member, Kumagai Gumi Co., Ltd. (current) |
| Mar 2016 | Outside Director (Audit Supervisory Committee Member) of AUCNET INC. (current) |

## Yutaka Takehana

**Audit & Supervisory Board Member** *2

| | |
|---|---|
| Apr 1973 | Joined National Police Agency |
| Sep 2001 | Chief of Police, Hiroshima Prefecture |
| Jun 2003 | Vice Governor of Tokyo Metropolis |
| Apr 2009 | Senior Executive, Panasonic Corporation |
| Jun 2013 | President & CEO, Tokyo Big Sight Inc. |
| Jun 2015 | Outside Director, SOHGO SECURITY SERVICES CO., LTD. (ALSOK) |
| Sep 2017 | Advisor, Meiji Yasuda Life Insurance Company |
| Jun 2019 | Audit & Supervisory Board Member, Kumagai Gumi Co., Ltd. (current) |

*1 Ms. Mikie Yumoto and Mr. Sakae Yoshida are both Outside Directors.
*2 Mr. Masaaki Ayukawa and Mr. Yutaka Takehana are both Outside Audit & Supervisory Board Members.

# Corporate Governance

## Basic Philosophy

In order to realize our Management Philosophy of "We aim to serve as a corporate group that contributes to society through business activities centered on construction," we view enhancing the effectiveness of our corporate governance as a priority issue.

## Corporate governance system

Drawing on the aims of the Corporate Governance Code, Kumagai Gumi has adopted a corporate governance structure that comprises a Board of Directors, an Auditors Committee, and an independent accounting auditor to enhance the effectiveness of our corporate governance.

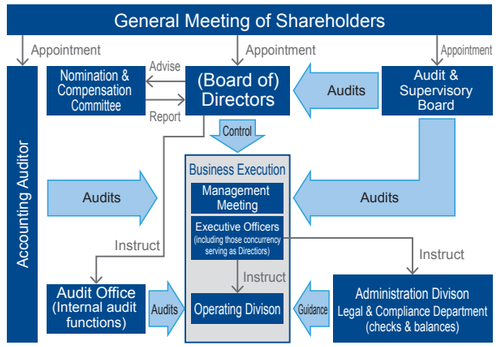
We have clarified the managerial responsibility of Directors, and, to build an optimal management structure with respect to changes in the business environment, have set the term of office of Directors to one year. We also employ an executive officer system to ensure that the duties of Directors are executed efficiently. In addition, we appoint two Outside Directors who provide counsel to management from an objective standpoint.

In determining the nomination and amounts of compensation for Directors and Executive Officers, we conduct deliberation within the Board of Directors on the basis of reports by the Nomination & Compensation Committee, which is composed of the Representative Director and Outside Directors, in order to further ensure objectivity and transparency.

With regard to Audit & Supervisory Board Members, we appoint outside Audit & Supervisory Board Members from among persons who have appropriate experience, capabilities, and knowledge of finances, accounting, and legal matters, in order to conduct audits with high effectiveness.

Regarding accounting audits, we undergo impartial audits by GYOSEI & CO. in accordance with the Companies Act and the Financial Instruments and Exchange Act.

Corporate Governance System




## Meeting the Corporate Governance Code

We engage in a variety of initiatives to enhance the effectiveness of our corporate governance, including evaluations of the effectiveness of the Board of Directors and the establishment of a Nomination & Compensation Committee. Details are noted in the Report on Corporate Governance which is available at our website or the Tokyo Stock Exchange website.

## Improvement of the effectiveness of internal controls

To enhance the effectiveness of our internal control, we are working to review internal rules and management conferences appropriately, and to otherwise improve and operate structures to assure appropriateness in work, based on our Basic Policy to Establish Internal Control Systems.

In addition, the Kumagai Gumi Group as a whole undertakes the improvement and operation of internal control with the aim of maintaining the reliability of our financial reporting, based on the Financial Instruments and Exchange Act.

## Evaluation of the effectiveness of the Board of Directors

See P56-57 for details

Once a year, every Director and Audit & Supervisory Board Member participates in questionnaire -based evaluations of effectiveness. We verify the results in Board of Directors meetings, and consider improvements to ensure effectiveness. From the FY2018 evaluation onward, we are conducting reviews of our evaluation item settings and evaluation results through external experts.

In FY2019, based on the issues for improvement from the previous fiscal year's evaluations, we worked to energize deliberation in the Board of Directors by holding exchanges of opinions following the conclusion of board meetings, as well as by enhancing information sharing through progress reports on plans and by early provision of meeting materials.

In the FY2019 evaluation, we conducted self-evaluations using evaluation items that include the composition of the Board of Directors, its operation, agendas, and support structures, and the status of improvements from the previous fiscal year. Based on the findings of reviews by outside experts, we confirmed that the entire board is appropriately carrying out its roles and responsibilities, and we determined that the effectiveness of the Board of Directors overall is secured. We also shared issues for consideration, including 1) the promotion of delegation of authority through revisions to standards for agendas, 2) consideration of the number and ratio of Outside Directors and the securing of diversity in the composition of the Board of Directors, and 3) further strengthening of compliance and group governance.

## Directors' compensation and selection of Outside Executives

Outside Executives' backgrounds appear on P50-51 ("List of the Board of Directors")

Cash compensation for Directors and Executive Officers consists of 1) fixed compensation, composed of compensation based on position and compensation based on contribution to business performance, and 2) bonuses paid provisionally in accordance with business performance (Outside Directors are paid compensation based on their positions only). The amount of compensation is determined by the Board of Directors, taking into consideration the salary level of employees, marketplace compensation levels, and other factors, and taking into account the results of reports by the Nomination & Compensation Committee, within the limits on total amount of compensation for Directors decided at the General Meeting of Shareholders.

In addition, the company has adopted a stock compensation system employing trusts, by which the company grants points based on position, etc. every fiscal year to Directors (excluding Outside Directors) and to Executive Officers, and, generally at the time of retirement, grants shares of stock, etc. based on the cumulative number of points.

Compensation for Audit & Supervisory Board Members consists of fixed compensation only, and is determined through deliberation with Audit & Supervisory Board Members, with the compensation levels of Directors taken into account.

Compensation, etc. for Directors and Audit & Supervisory Board Members (FY2019)

(¥ million)

| Executive category | Total amount of compensation | Total amount by type of compensation, etc. | | | Number of eligible Executives |
|---|---|---|---|---|---|
| | | Fixed compensation | Bonus | Stock compensation | |
| Directors (excluding Outside Directors) | 169 | 151 | – | 17 | 6 |
| Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) | 21 | 21 | – | – | 2 |
| Outside Executives | 40 | 40 | – | – | 5 |

Reasons for appointment of Outside Executives/Attendance at Board of Directors meetings (FY2019)

| Name | Independent Executive | Reason for appointment | Attendance | |
|---|---|---|---|---|
| | | | Board of Directors | Board of Corporate Auditors |
| Mikie Yumoto | ○ | Mikie Yumoto has a track record of participation in corporate management. Based on her resulting extensive experience and wide-ranging insights, the company has appointed her Outside Director in anticipation that she will provide appropriate guidance and advice to the company's management. | 17 times / 17 times | – |
| Koichi Hironishi (resigned June 2020) | ○ | Koichi Hironishi has a track record of participation in corporate management. Based on his resulting extensive experience and wide-ranging insights, the company has appointed him Outside Director in anticipation that he will provide appropriate guidance and advice to the company's management. | 17 times / 17 times | – |
| Sakae Yoshida (appointed June 2020) | ○ | Sakae Yohida has a track record of participation in corporate management. Based on his resulting extensive experience and wide-ranging insights, the company has appointed him Outside Director in anticipation that he will provide appropriate guidance and advice to the company's management. | – | – |
| Masaaki Ayukawa | ○ | Masaaki Ayukawa has a track record of practical work as a certified public accountant. The company has appointed him Outside Audit & Supervisory Board Member in the expectation that he will leverage his resulting extensive experience and expert knowledge to provide appropriate auditing of the company's management from an objective standpoint. | 16 times / 17 times | 13 times / 13 times |
| Yutaka Takehana | ○ | Yutaka Takehana has a track record of participation in key government office positions and corporate management. Based on his resulting extensive experience and wide-ranging insights, the company has appointed him Outside Audit & Supervisory Board Member in anticipation that he will provide appropriate auditing of the company's management from an objective standpoint. | 13 times / 13 times | 10 times / 10 times |

## Cross Holding

### (1) Policy Concerning the Reduction of Cross Holdings

Kumagai Gumi will reduce the number of cross-held shares, except for such cases as transactions for enhancing sustainable corporate value, strengthening business alliance, and obtaining more opportunities to generate profits. With regard to the cross-held shares, the board meeting will verify the significance of holding such shares every year, and when it is decided to be of little value to hold them, the Company will sell or reduce the number of such shares.

### (2) The Significance of Cross Holdings

The Company comprehensively reviews the significance of cross-held shares; whether the earnings generated by cross holdings are sufficiently beneficial in relation to their capital cost, and whether it is worthwhile to hold such shares in the daily performance of business.

### (3) The Standards Regarding the Exercise of Voting Rights Associated with Cross Holdings

When exercising its cross holdings voting rights, the Company will do so by determining whether owning stock in another publicly traded company will increase the value of the corporations in which it invests, from a medium- to long-term perspective. With regard to the following issues, among others, the Company will exercise its voting rights only after deliberately examining them in relation to raising corporate value.

- Organizational restructuring, including the merger, acquisition, transfer, and/or takeover of an important business
- Retirement allowances to executives to be paid by an underperforming company, such as a company with excessive liabilities
- A planned third-party share issuance that may have the risk of being considered a favorable issuance
- Introduction of defensive measures against hostile corporate takeovers

See website for details
Corporate Governance https://www.kumagaigumi.co.jp/en/company/governance.html

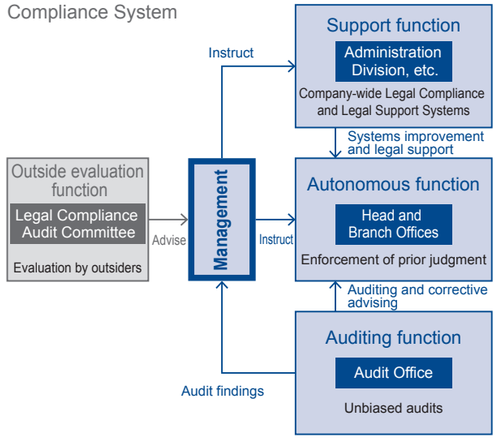
# Risk Management

## Compliance system

Kumagai Gumi's compliance system consists primarily of autonomous functions by headquarters and branch offices, support functions by the administration division and other specialized divisions, and auditing functions by the Audit Office (diagram below).

In addition, the Legal Compliance Audit Committee, which is independent of management, periodically carries out evaluations of the company from an outside point of view and advises company management of any problems uncovered, in order to strengthen the enforcement of compliance.

Compliance System




### Legal Compliance Audit Committee

The Legal Compliance Audit Committee is composed of internal company committee members as well as outside committee members who include former judges and former prosecutors. It convenes every year to strengthen the compliance systems of Kumagai Gumi Group.

## Main Initiatives Aimed at Legal Compliance

### Submission of written pledge from all managers and employees

To raise all employees' awareness in enforcing compliance with laws and ordinances, every year all executives and staff members of Kumagai Gumi Group submit a written pledge concerning compliance (100% submission rate).

### Implementation of compliance training

To improve basic understanding of compliance, from October 2019 through March 2020 our company conducted an internal training program on topics including antitrust law, bribery, and corruption, targeting employees of Kumagai Gumi as well as group companies, from a perspective of strengthening the group's compliance structure.

### Compliance reinforcement month

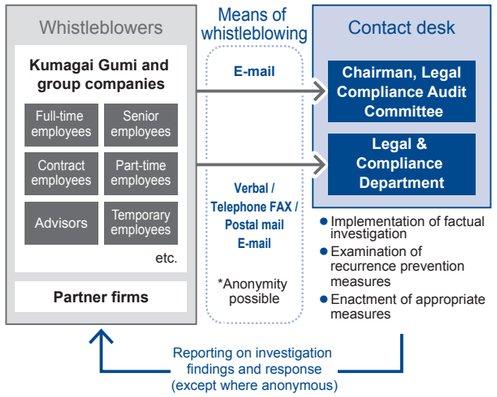
Kumagai Gumi has designated October as a month to strengthen compliance, with the aim of enhancing employees' awareness of compliance and re-examining potential risks in daily work.

### Internal whistleblower system

The Kumagai Gumi Group has set up a hotline for quickly assessing, correcting, and preventing problems involving compliance. We are working to root out compliance violations by accepting a wide range of whistleblower reports, including from our employees, group company employees, and partner businesses.

On September 1, 2019, we introduced an in-house leniency program (measures reducing penalties for whistleblowers) to encourage use of the voluntary whistleblower system.

Internal whistleblower system




## System to eradicate anti-social forces

In the Kumagai Gumi Code of Conduct, our company declares that we take a firm stance against anti-social forces. We have also established a program for dealing with anti-social forces, and educate our employees on specific ways of eliminating such forces.

We have also incorporated provisions regarding anti-social forces into the Special Construction Contracting Agreement and the Equipment and Material Sales Agreement involved in transactions with partner companies. We are working to thoroughly eliminate any involvement with anti-social forces by collecting written pledges prior to concluding agreements with transacting partners.

## Status of Legal Suits

Excluding lawsuits for tunnel-related pneumonoconiosis damage compensation in six district courts nationwide, as of the end of March 2020 our company is involved in eight civil cases.

## Legal Violations (including administrative disposition, administrative measures, etc.)

On July 30, 2019, the Kumagai Gumi Group company GAEART Co., Ltd. received a cease and desist order and an order for payment of surcharge from the Japan Fair Trade Commission, for violating the Antimonopoly Act (asphalt mixture selling price cartel). The Kumagai Gumi Group will enforce the prevention of recurrence and will undertake further strengthening of groupwide compliance.

## Setting of Tax Policy

In March 2020, the Kumagai Gumi Group documented its existing initiative direction concerning tax affairs to create the Kumagai Gumi Group Tax Policy, with the aim of improving corporate governance and compliance regarding tax affairs and fostering proper awareness of taxation payment matters among executives and staff members.

**Kumagai Gumi Group Tax Policy**

The Kumagai Gumi Group recognizes that it is an important obligation for companies to fully understand the social significance of tax payment and properly fulfill their tax obligations in each country and region.

1. **Compliance with Laws and Regulations**
   The Kumagai Gumi Group fulfills its tax return and tax payment obligations in compliance with tax laws, regulations, and conventions of each country and region.
2. **Optimization of Tax Expenses**
   The Kumagai Gumi Group will conduct tax planning, including the utilization of preferential tax systems, within the scope of normal business activities, in order to optimize tax expenses. It should be noted that we will not take any action to reduce the tax burden unreasonably, which is not in line with the spirit of laws and regulations.
3. **To Reduce Tax Risk**
   The Kumagai Gumi Group shall endeavor to reduce tax risks by seeking agreement with the tax authorities through advance inquiries and other means regarding matters that are unclear in terms of tax matters.
4. **Relationship with Tax Authorities**
   The Kumagai Gumi Group will provide information in a timely and appropriate manner in response to requests from tax authorities in each country and region, and build relationships of trust with and favorable cooperative relations with tax authorities through constructive dialogue.

## Business Continuity Plan (BCP)

In the event of a major disaster, Kumagai Gumi will make every effort toward the rapid recovery of sites under construction and restoration of infrastructure, and to respond to requests for restoration aid from customers and residents. The company has formulated a Business Continuity Plan (BCP) as its basic policy for contributing to prevention of secondary accidents, restoration of urban functions, and recovery of safety for residents.

Kumagai Gumi's BCP received its initial certification from the Kanto Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism in FY2009, and has been renewed and re-certified five times so far. We have also received certification for our BCP from the Kinki Regional Development Bureau and the Tohoku Regional Development Bureau.

We have established an expert committee to maintain and improve the effectiveness of the BCP, and will formulate fiscal year plans for BCP activities based on the PDCA cycle.

## Operation of the Safety Confirmation Communication System

Kumagai Gumi operates a Safety Confirmation Communication System to confirm the safety of employees, a key matter in preparing support systems based on our BCP. We are implementing a system that enables confirmation of the safety of employees in group companies and some partner companies, and are improving systems for the business continuity of the Kumagai Gumi Group.

## Protection of Personal Data

Kumagai Gumi has established its Basic Principle, Privacy Policy, Personal Information Protection Regulations, and other matters concerning personal data, and posts necessary information on its website. The company enacts initiatives for the proper handling and protection of the private data of all stakeholders, including shareholders and employees.

The company has also prepared a manual concerning personal data protection, which is provided to all executives and employees.

## COVID-19 countermeasures

Since the end of January 2020, the Kumagai Gumi Group has undertaken COVID-19 countermeasures through its Crisis Management Committee. In line with the April 7 national emergency declaration based on special measures legislated by the government to combat the pandemic, our group established a new COVID-19 countermeasure task force headed by the President.

This task force implemented the actions below to cooperate in preventing the spread of the pandemic, and to protect the health and lives of employees, their families, and participants such as partner companies.

- Formulation of guidelines for overseas travel
- Formulation of guidelines for dealing with COVID-19
- Implementation of staggered working hours
- Implementation of telework
  (Work from home, shift work, satellite offices, etc.)
- Granting of special paid leave (up to 5 days) to employees with children at home due to nationwide temporary school closures*
- Distribution of masks to employees
- Special provisional pay (paid together with salary in May)
- Reporting on health status using the safety confirmation system
- Special paid leave for infected employees

* For cases in which taking leave is required and no paid leave days remain

Interview: President Yasunori Sakurano and Hideo Tsukamoto (Attorney)

# Incorporating objective perspectives into management to further enhance corporate governance

Kumagai Gumi is working to enhance its corporate governance by actively taking in the opinions of external experts.

President Yasunori Sakurano spoke with Hideo Tsukamoto, an attorney who has reviewed the company's questionnaire for evaluating the effectiveness of the Board of Directors.

President
**Yasunori Sakurano**

Anderson Mori & Tomotsune
Partner
**Hideo Tsukamoto**

## Conducting a questionnaire to evaluate the effectiveness of the Board of Directors

**Sakurano** Kumagai Gumi conducts a questionnaire survey for our Directors and Audit & Supervisory Board Members once a year to evaluate the effectiveness of the Board of Directors and to connect the results to improvements. We ask you, Mr. Tsukamoto, to perform reviews of evaluation results and other matters related to the questionnaire.

**Tsukamoto** That's right. This is my second time to be involved with Kumagai Gumi, following the first time in fiscal 2018. Looking at the results of the questionnaire, my impression is that a variety of opinions have been expressed, that awareness of corporate governance is high, and that the company is addressing evaluation with a positive attitude.

**Sakurano** As you note, the responses to the questionnaire are becoming more substantive each time. They include some sharp criticisms, and the Secretariat is keeping themselves busy connecting the comments to improvements. The atmosphere of the Board of Directors has changed considerably, especially with the addition of Outside Directors in fiscal 2015.

**Tsukamoto** You mention that it's changed. What are your frank thoughts on the company's current Board of Directors and corporate governance?

**Sakurano** Let me talk a little about background here. Our company has been laying out a region-specific business structure.

There are many advantages to a region-specific business structure, but disadvantages can appear when the authority of a Business Unit in a region becomes too strong. This was a contributing factor in our past management crisis.

Since then, we have walked a long path to revitalization, doing so while organizing a management structure through actions including strengthening headquarters functions, introducing an executive officer system, and appointing Outside Directors. These efforts have continued to the present. There are still many areas for improvement, but I feel that we have steadily enhanced our corporate governance.

## Promotion of diversity in the Board of Directors

**Tsukamoto** Looking at the fiscal 2019 survey, several opinions stood out. One of these was a suggestion that the company should add female internal executives to the Board of Directors.

**Sakurano** I think that adding human resources with diverse insight and backgrounds, not necessarily limited to women, to the Board of Directors is an issue that we have to actively address in the future.

However, with regard to female executives, our company first faces the issue that our fraction of female employees remains low. Currently, the percentage of female employees is 17.1% (as of the end of March 2020). There are still no female on-site managers or line managers. We are making efforts to create environments in which female employees play active roles, but my sense is that this will take a bit more time.

**Tsukamoto** Hiring female employees and providing them with active roles is an issue across the construction industry in Japan. As you note, it may be difficult to resolve this issue quickly. I think that if we gradually resolve the issue, shore up our footing, and increase the number of women in manager positions, and if female executives appear as a result, our corporate activities will be reinvigorated and we will become a more resilient company.

Another opinion coming out of the questionnaire is that we should increase the number of Outside Directors. There is a possibility that the Corporate Governance Code will require that one-third or more of a company's directors be outside directors in the future. I think you should actively consider the matter.

## The issue of "defensive" governance

**Tsukamoto** In order for companies to achieve sustainable growth, it is indispensable that governance be "defensive," not only "offensive." Another comment that stood out in the questionnaire suggested that the company should strengthen governance in group companies.

**Sakurano** We recognize the urgent need to improve governance in group companies, as was pointed out in the questionnaire. A series of improprieties related to governance has recently occurred in group companies, leading to the Board of Directors taking up the improvement of governance in its discussions.

**Tsukamoto** In group management, there is the problem of how to balance the independence of group companies with management and supervision by the parent company. How to put this into actual practice is a very difficult topic, I think. The Ministry of Economy, Trade and Industry published its "Practical Guidelines for Corporate Governance Systems." I was involved in the formulation of this. As one improvement measure for increasing the value of the group as a whole, I think it is important to enhance awareness so that group companies hold the same perspective as Kumagai Gumi.

**Sakurano** Exactly. From here on out, I want to examine measures for achieving that. Performance by group companies makes up an increasingly large percentage of the performance of the group overall, and the growth of group companies is indispensable to the future of our company. We intend to speedily build a governance structure that can foster a sense of unity among all of us in the Kumagai Gumi Group.

## Linking ESG to growth strategy

**Tsukamoto** The Stewardship Code revised in March 2020 makes sustainability-oriented dialog one of its keywords. Kumagai Gumi has set an ESG Initiative Direction. How do you view the "Environment" and "Social" components of that?

**Sakurano** I personally consider ESG a vital theme for Kumagai Gumi Group in growing sustainably in the future. Regarding environmental initiatives, the business and capital alliance we formed with Sumitomo Forestry in 2017 has been a major driver. With regard to social aspects, health management for employees has been particularly on my mind nowadays. Now, with response to the COVID-19 pandemic a major social issue, I feel anew the importance of health management. I want to actively challenge the creation of suitable environments not only within our group but also for those in partner companies and elsewhere.

**Tsukamoto** As you say, linking ESG to growth strategies will become an important management issue.

**Sakurano** To some extent, I admit that we are not very good at outwardly communicating how we address ESG through our business activities. I want to create a variety of opportunities to have active dialogs with institutional investors and other stakeholders. We plan to continue incorporating the opinions of external experts like you to enhance our corporate governance. Thank you today for your valuable comments.

See website for details
Interview: President Yasunori Sakurano and Hideo Tsukamoto (Attorney) https://www.kumagaigumi.co.jp/company/director's-interview-2020.html (Japanese only)

# Analysis of Financial and Management Performance

* Numbers are rounded down to the nearest 100 million yen.

During the consolidated fiscal year, the Japanese economy maintained gradual recovery against a backdrop of strong corporate profits and an improved employment and income environment, despite the impact of slowdowns in overseas economies. However, due to the COVID-19 pandemic situation that occurred from the beginning of the year, personal consumption fell sharply and corporate profits turned downward and deteriorated due to a decrease in sales and stagnant production, creating a chaotic situation over the end of the fiscal year.

In the construction industry, the housing construction sector remained weak. Corporate construction investment fell, rebounding from the last-minute demand prior to the consumption tax hike in the previous fiscal year. Public investment remained firm, however, and against a background of abundant existing construction projects, construction volume maintained an increasing trend amid a generally positive overall business environment.

## Management performance

**Sales (+12.1% year on year)** Due to an increase in the amount of construction work brought forward at the beginning of the term, sales increased by 47.0 billion yen (12.1%) from the previous consolidated fiscal year to 436.1 billion yen.

**Gross profit (-0.1% year on year)** Due to a decline in gross profit margin, gross profit decreased by 30.0 million yen (0.1%) from the previous consolidated fiscal year to 45.4 billion yen. Gross profit margin declined 1.3 points from the previous consolidated fiscal year to 10.4%.

**Selling, general and administrative expenses** These expenses increased by 900.0 million yen (5.2%) from the previous consolidated fiscal year to 20.0 billion yen due to reasons including an increase in personnel expenses related to revision of employee treatment.

**Operating profit (-3.9% year on year)** Due primarily to the increase in selling expense and general administrative expense, operating profit decreased from the previous consolidated fiscal year by 1.0 billion (3.9%) to 25.4 billion yen. Operating profit margin fell 1.0% from the previous consolidated fiscal year to 5.8%.

**Non-operating profit and loss** Non-operating profit and loss increased by 70.0 million yen from the previous consolidated fiscal year to 700.0 million yen, due to an increase in investment income under the equity method.

Non-operating expenses decreased by 100.0 million yen from the previous consolidated fiscal year to 400.0 million yen due to a decrease in syndicated loan fees and other factors.

**Ordinary profit (-3.1% year on year)** Due to a decrease in operating profit, ordinary profit decreased by 800.0 million yen (3.1%) from the previous consolidated fiscal year to 25.7 billion yen.

**Extraordinary profit and loss** The company recorded extraordinary profit and loss of 2.0 billion yen, due to reasons including a 1.3 billion yen refund in provision for loss related to the Anti-Monopoly Act, and a 700.0 million yen gain on sales of memberships.

The company recorded an extraordinary loss of 700.0 million yen, including 200.0 million yen in provision for contingent loss as an additional expense related to the condominium in Nishi-ku, Yokohama, Kanagewa Prefecture, in which our construction defects were identified in 2014, as well as a loss on valuation of investment securities of 100.0 million yen.

**Income taxes, etc.** The company recorded adjusted income taxes of 1.4 billion yen due to income taxes, residential taxes, and business taxes of 6.1 billion yen, a review of recoverability of deferred tax assets, etc.

**Profit attributable to owners of parent (+46.1% year on year)** Profit attributable to owners of parent increased by 6.1 billion yen (46.1%) from the previous consolidated fiscal year to 19.4 billion yen, due to reasons including the recording of extraordinary profit and a rebound from the previous extraordinary loss. Return on equity (ROE) improved 3.5% from the previous consolidated fiscal year to 13.7%.

A comparison with the performance target values set in the Medium-term Management Plan (FY2018-2020) – Strategies for Accelerating Growth is as follows.

Consolidated performance

| Indicators | FY2019 (Planned) | FY2019 (Performance) | Difference |
|---|---|---|---|
| **Net sales** (million yen) | 420,000 | 436,151 | 16,151 |
| **Operating profit** (million yen) | 26,000 | 25,440 | (559) |
| **ROE** (%) | 12.0 | 13.7 | 1.7 |
| **Payout ratio** (%) | 30.0 | 28.8 | (1.2) |

## Management performance by segment

**Civil Engineering** Orders received decreased 40.7% from the previous consolidated fiscal year to 92.3 billion yen, due to a rebound from orders received for large-scale construction in the railway sector in the previous consolidated fiscal year, and projects for which order placement was brought forward to the next fiscal year.

Sales increased 9.5% from the previous consolidated fiscal year to 122.2 billion yen, due to an increase in construction brought forward at the beginning of the term. However, operating profit decreased 11.6% from the previous consolidated fiscal year to 7.6 billion yen due to a decrease in gross profit associated with a decline in profit margin on sales caused by the occurrence of low-profit and unprofitable projects, and an increase in selling, general, and administrative expenses due to reasons including improved employee treatment.

**Construction** Orders were led by warehouses and distribution facilities, which are on the upswing due to growth in e-commerce in the retail industry. Despite this, orders received decreased by 22.0% from the previous consolidated fiscal year to 232.5 billion due to rebound from the last-minute demand prior to the consumption tax hike in the previous consolidated fiscal year.

Sales increased 17.7% from the previous consolidated fiscal year to 229.9 billion yen due to an increase in construction work brought forward at the beginning of the term. Operating profit margin decreased due to the occurrence of low-profit and unprofitable projects, but gross profit increased in line with an increase in sales, growing 1.4% from the previous consolidated fiscal year to 12.6 billion yen.

**Subsidiaries** Sales at GAEART Co., Ltd. increased due to an increase in construction work brought forward at the start of the term and an increase in orders received. Subsidiary sales overall increased by 1.1% from the previous consolidated fiscal year to 98.6 billion yen, while operating profit decreased 3.3% from the previous consolidated fiscal year to 5.1 billion yen due to a decline in gross profit margin.

## Financial status

**Total assets (+6.0% year on year)** Total assets increased by 21.1 billion yen (6.0%) from the end of the previous consolidated fiscal year to 374.8 billion yen.

Current assets increased by 22.7 billion yen (7.9%) from the end of the previous consolidated fiscal year to 310.6 billion yen. Accounts receivable increased by 14.1 billion yen due to factors including the recording of 14.9 billion yen in notes receivable and accounts receivable from completed construction contracts associated with an increase in sales, and the recording of uncollected consumption tax.

Fixed assets decreased by 1.5 billion yen (2.4%) from the end of the previous consolidated fiscal year to 64.1 billion yen. Investment securities decreased by 1.5 billion yen due to reasons including a decline in the market value of shares held.

**Liabilities (+3.6% year on year)** Liabilities increased by 7.9 billion yen (3.6%) from the end of the previous consolidated fiscal year to 226.8 billion yen.

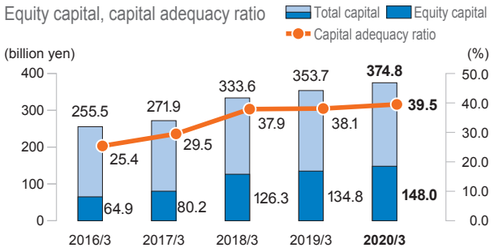
Current liabilities increased by 10.4 billion yen (5.5%) from the end of the previous consolidated fiscal year to 201.5 billion yen. Current liabilities decreased for reasons including liquidation of provision for losses related to the Anti-Monopoly Act and in provision for contingent loss due to drawdowns associated with payments. Deposits increased by 10.0 billion yen due to reasons including an increase in consumption taxes held, while notes receivable and accounts receivable from completed construction contracts, etc., electronically recorded obligations operating, and other accounts payable increased by 6.0 billion yen.

Fixed liabilities decreased by 2.4 billion yen (8.9%) from the end of the previous consolidated fiscal year to 25.2 billion yen. Long-term loans payable decreased by 1.6 billion yen.

**Net assets (+9.7% year on year)** Net assets increased by 13.1 billion yen (9.7%) from the end of the previous consolidated fiscal year to 148.0 billion yen. Retained earnings increased by 14.7 billion yen due to factors including the recording of 19.4 billion yen in profit attributable to owners of parent, despite distribution of 4.6 billion yen in surplus.

Capital adequacy ratio increased by 1.4 points from the end of the previous consolidated fiscal year to 39.5%.

Equity capital, capital adequacy ratio




## Status of cash flow

**Cash flow from operating activities** Cash flow from operating activities was positive 300.0 million yen (negative 12.3 billion yen in the previous consolidated fiscal year) due to factors including an increase in accounts receivable trade as well as payments of corporate tax, despite the recording of 27.0 billion yen in profit before income taxes.

**Cash flow from investing activities** Cash flow from investing activities was negative 2.2 billion yen (negative 7.3 billion yen in the previous consolidated fiscal year), due to acquisition and renewal of equipment and the acquisition of shares of affiliated companies.

**Cash flow from financing activities** Cash flow from financing activities was negative 5.3 billion yen (negative 6.1 billion yen in the previous consolidated fiscal year) due to factors including payment of dividends.

**Cash and cash equivalents** The balance of cash and cash equivalents at the end of the consolidated fiscal year, including an increase due to currency conversion, decreased by 7.2 billion yen (8.8%) from the end of the previous consolidated fiscal year to 75.1 billion yen.

## Capital resources and liquidity of funds

The group bases its short-term working capital on self-funding and short-term borrowings from financial institutions, and bases its capital and long-term working capital related to capital expenditures on self-funding and long-term borrowings from financial institutions.

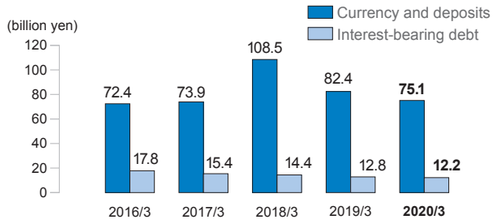
Our balance of interest-bearing debt at the end of the consolidated fiscal year was 12.2 billion yen, while our current ratio was 154.1% and our fixed long term conformity rate was 37.0%.

We have also entered into syndicated loan agreements to achieve further stabilization of fund procurement and contraction of financial expenses. The total amount of agreements at the end of the consolidated fiscal year was 7.0 billion yen.

We have also entered into loan commitment agreements in order to efficiently procure working capital. The total amount of the agreements at the end of the consolidated fiscal year is 20.0 billion yen (with outstanding borrowings of 0 yen).

We have secured stable means of raising funds, and we can fully cope with the sudden occurrence of demands for funding, including demands related to the COVID-19 pandemic.

Currency/Deposits and Balance of Interest-Bearing Debt



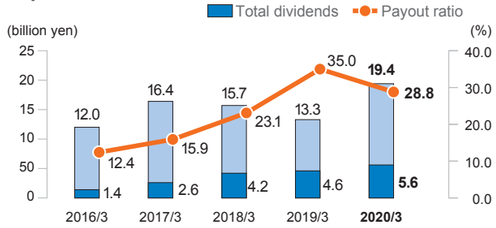

## Dividends

Our basic policy for distribution of profits is to fairly and stably return profits to shareholders, taking into account factors including our current business performance, our medium- to long-term business outlook, and the business environment, while striving to enhance internal reserves for the purpose of enhancing our management foundation and expanding business income.

At the end of the 83rd term, we paid a dividend of 120 yen per share, an increase of 20 yen per share from the 100 yen per share in the previous term.

Looking ahead, we will further weigh on the return of profits to shareholders, and will continue returning profits with the goal of a 30% payout ratio.

Payout Ratio



# ■ Key financial data over a 10-year period ■

(Unit: millions of yen)

| | | 74th term | 75th term | 76th term | 77th term | 78th term | 79th term | 80th term | 81st term | 82nd term | **83rd term** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2011/3 | 2012/3 | 2013/3 | 2014/3 | 2015/3 | 2016/3 | 2017/3 | 2018/3 | 2019/3 | **2020/3** |
| **Orders received** | Orders received (Non-Consolidated) | 176,708 | 208,479 | 223,429 | 291,024 | 329,495 | 293,558 | 284,711 | 381,784 | 454,007 | **324,959** |
| | Civil engineering | 43,908 | 73,082 | 63,410 | 100,805 | 115,764 | 109,463 | 103,718 | 129,891 | 155,751 | **92,371** |
| | Building construction | 132,799 | 135,396 | 160,019 | 190,219 | 213,730 | 184,094 | 180,992 | 251,892 | 298,255 | **232,587** |
| **Performance** | Sales | 240,481 | 257,581 | 260,753 | 328,900 | 362,090 | 343,647 | 344,706 | 374,019 | 389,058 | **436,151** |
| | Gross profit | 15,819 | 14,385 | 10,408 | 18,359 | 29,038 | 39,068 | 41,080 | 40,230 | 45,530 | **45,498** |
| | Gross profit margin (%) | 6.6 | 5.6 | 4.0 | 5.6 | 8.0 | 11.4 | 11.9 | 10.8 | 11.7 | **10.4** |
| | SG&A Expenses | 11,785 | 11,931 | 11,575 | 11,750 | 12,934 | 14,528 | 15,945 | 17,188 | 19,065 | **20,057** |
| | Operating profit (loss) | 4,034 | 2,454 | (1,167) | 6,608 | 16,104 | 24,540 | 25,135 | 23,041 | 26,464 | **25,440** |
| | Operating profit margin (%) | 1.7 | 1.0 | (0.4) | 2.0 | 4.4 | 7.1 | 7.3 | 6.2 | 6.8 | **5.8** |
| | Ordinary profit | 2,941 | 2,904 | 65 | 6,791 | 15,658 | 25,772 | 25,358 | 22,682 | 26,553 | **25,718** |
| | Profit (loss) attributable to owners of parent | 1,575 | 1,593 | (1,083) | 4,299 | 5,458 | 12,092 | 16,433 | 15,783 | 13,312 | **19,447** |
| | Comprehensive profit | 1,072 | 2,435 | 123 | 6,313 | 6,683 | 12,157 | 16,947 | 14,098 | 12,956 | **17,851** |
| **Financial status** | Net assets | 45,375 | 45,389 | 45,471 | 50,461 | 53,551 | 64,933 | 80,288 | 126,374 | 134,883 | **148,034** |
| | Total assets | 179,922 | 200,568 | 202,800 | 235,929 | 255,514 | 255,525 | 271,908 | 333,665 | 353,718 | **374,841** |
| | Property, plant and equipment | 13,923 | 13,845 | 14,193 | 14,080 | 15,053 | 15,745 | 17,199 | 19,504 | 24,836 | **25,347** |
| | Interest-bearing debt | 28,446 | 25,626 | 22,527 | 21,161 | 19,938 | 17,821 | 15,422 | 14,479 | 12,849 | **12,258** |
| | Capital adequacy ratio (%) | 24.4 | 21.9 | 21.7 | 20.7 | 21.0 | 25.4 | 29.5 | 37.9 | 38.1 | **39.5** |
| **Cash flow** | Cash flow from operating activities | 9,720 | 1,317 | 3,540 | 21,816 | 18,262 | 4,234 | 8,625 | 17,641 | (12,398) | **345** |
| | Cash flow from investing activities | (132) | (526) | (1,426) | (369) | (3,042) | (448) | (3,090) | (14,010) | (7,379) | **(2,298)** |
| | Cash flow from financing activities | (1,316) | (2,862) | (3,208) | (1,472) | (1,338) | (2,926) | (4,024) | 30,856 | (6,126) | **(5,361)** |
| | Cash and cash equivalents, end of term | 39,964 | 37,734 | 37,166 | 57,609 | 71,702 | 72,422 | 73,926 | 108,532 | 82,446 | **75,155** |
| **Per-share information** | Book-value per share (BPS) (yen) | 136.58 | 135.42 | 135.70 | 142.09 | 143.27 | 173.76 | 2,150.32 | 2,707.51 | 2,894.41 | **3,177.22** |
| | Earnings (loss) per share (EPS) (yen) | 8.82 | 8.79 | (5.91) | 19.71 | 15.72 | 32.35 | 439.93 | 389.63 | 285.48 | **417.34** |
| | Dividend per share (yen) | – | – | – | – | 2.00 | 4.00 | 7.00 | 90.00 | 100.00 | **120.00** |
| | Payout ratio (%) | – | – | – | – | 12.7 | 12.4 | 15.9 | 23.1 | 35.0 | **28.8** |
| **Stock price indicators** | Stock price at end of term (yen) | 98 | 88 | 99 | 255 | 375 | 286 | 290 | 3,420 | 3,460 | **2,501** |
| | Price-earnings ratio (PER) (multiple) | 11.1 | 10.0 | – | 12.9 | 23.8 | 8.8 | 6.6 | 8.8 | 12.1 | **6.0** |
| | Price-to-book ratio (PBR) (multiple) | 0.7 | 0.6 | 0.7 | 1.8 | 2.6 | 1.6 | 1.3 | 1.3 | 1.2 | **0.8** |
| | Number of issued shares at end of term | 181,544,607 | 186,544,607 | 186,544,607 | 277,544,607 | 377,544,607 | 377,544,607 | 37,754,460 | 46,805,660 | 46,805,660 | **46,805,660** |
| **Other** | Return on equity (ROE) (%) | 3.6 | 3.6 | (2.5) | 9.3 | 10.9 | 20.4 | 22.6 | 15.3 | 10.2 | **13.7** |
| | Ordinary profit to total assets ratio (ROA) (%) | 1.6 | 1.5 | 0.0 | 3.1 | 6.4 | 10.1 | 9.6 | 7.5 | 7.7 | **7.1** |
| | Capital investment | 854 | 846 | 1,279 | 1,272 | 2,018 | 2,234 | 3,187 | 4,183 | 7,374 | **2,636** |
| | Research and development expenses | 1,778 | 1,368 | 1,323 | 1,374 | 1,285 | 1,516 | 1,784 | 1,987 | 2,348 | **2,581** |
| | Depreciation | 1,078 | 976 | 939 | 951 | 1,045 | 1,268 | 1,344 | 1,684 | 1,911 | **2,062** |
| | Number of employees | 3,655 | 3,531 | 3,524 | 3,510 | 3,579 | 3,702 | 3,798 | 3,892 | 4,032 | **4,154** |

*1 The company performed a stock merger at a ratio of 1 share per 10 shares of common stock, effective October 1, 2017. Book-value per share and Earnings per share were calculated on the assumption of the stock merger carried out at the beginning of the 80th term.
*2 The dividend per share of 90 yen in the 81st term includes a dividend of 20 yen per share to commemorate the company's 120th anniversary.

See website for details
To our investors https://www.kumagaigumi.co.jp/en/ir/index.html

# Corporate Information

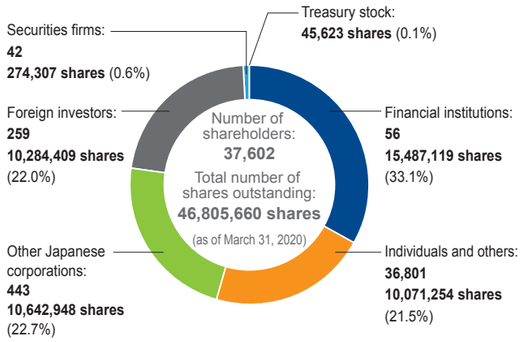
- **Company Name:** Kumagai Gumi Co., Ltd.
- **Founded:** January 1, 1898
- **Incorporated:** January 6, 1938
- **Representative:** Yasunori Sakurano, President and Representative Director
- **Capital:** JPY 30.1 billion
- **Number of Employees:** 4,154 consolidated; 2,578 non-consolidated (as of March 31, 2020)
- **Scope of Business:**
  To investigate, survey, plan, design, execute, and supervise construction works, and to provide technical guidance, provide comprehensive engineering, management, and consulting services, as well as related contracting
- **Registered Head Office:** 2-1, 3-chome, Ote, Fukui-shi, Fukui 910-0005, Japan
- **Headquarters:** 2-1, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8557, Japan
- **Domestic Offices:**
  Hokkaido Office, Tohoku Office, Tokyo Metropolitan Area Office, Nagoya Office, Hokuriku Office, Kansai Office, Chugoku Shikoku Office, Shikoku Office, Kyushu Office, Technical Research & Development Institute
- **Overseas Offices:**
  China (Hong Kong), Taiwan, Vietnam, Sri Lanka, Myanmar
- **Group Companies:**
  GAEART Co., Ltd., K&E Co., Ltd., Technos Co., Ltd., Techno-Space Creates Co., Ltd., FATEC Co., Ltd., Technical Support Co., Ltd., Taiwan Kumagai Co., Ltd.

# Stock Information

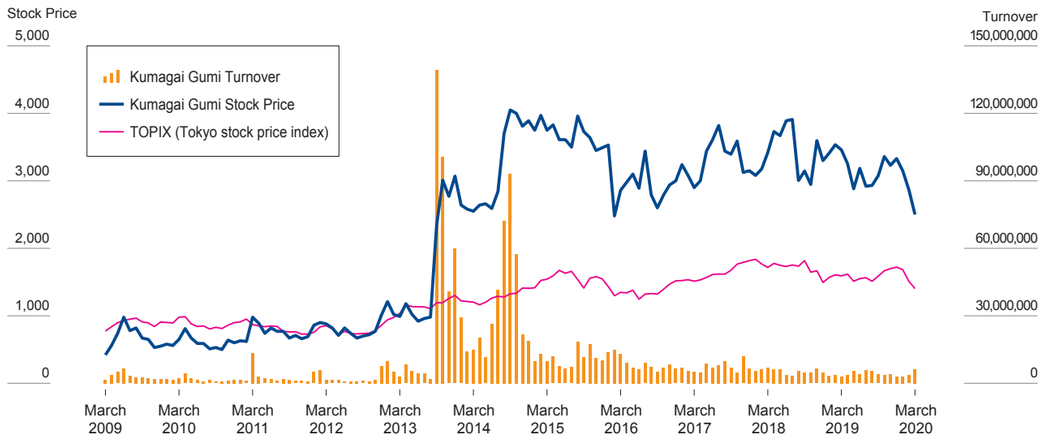
## Current Status

- **Securities Code:** 1861
- **Stock Exchange Listing:** First Section of the Tokyo Stock Exchange
- **Total Number of Shares Authorized to Be Issued:** 71,400,000 shares
- **Total number of Shares outstanding:** 46,805,660 shares
- **Share Unit:** 100 shares
- **Number of Shareholders:** 37,602 (as of March 31, 2020)
- **Administrator of Shareholders Registry:** Sumitomo Mitsui Trust Bank, Limited
- **Fiscal Year:** From April 1 through March 31
- **Base Date for Annual Dividend:** March 31
- **Annual Shareholders' Meeting:** June of the Year

## Shareholder Composition



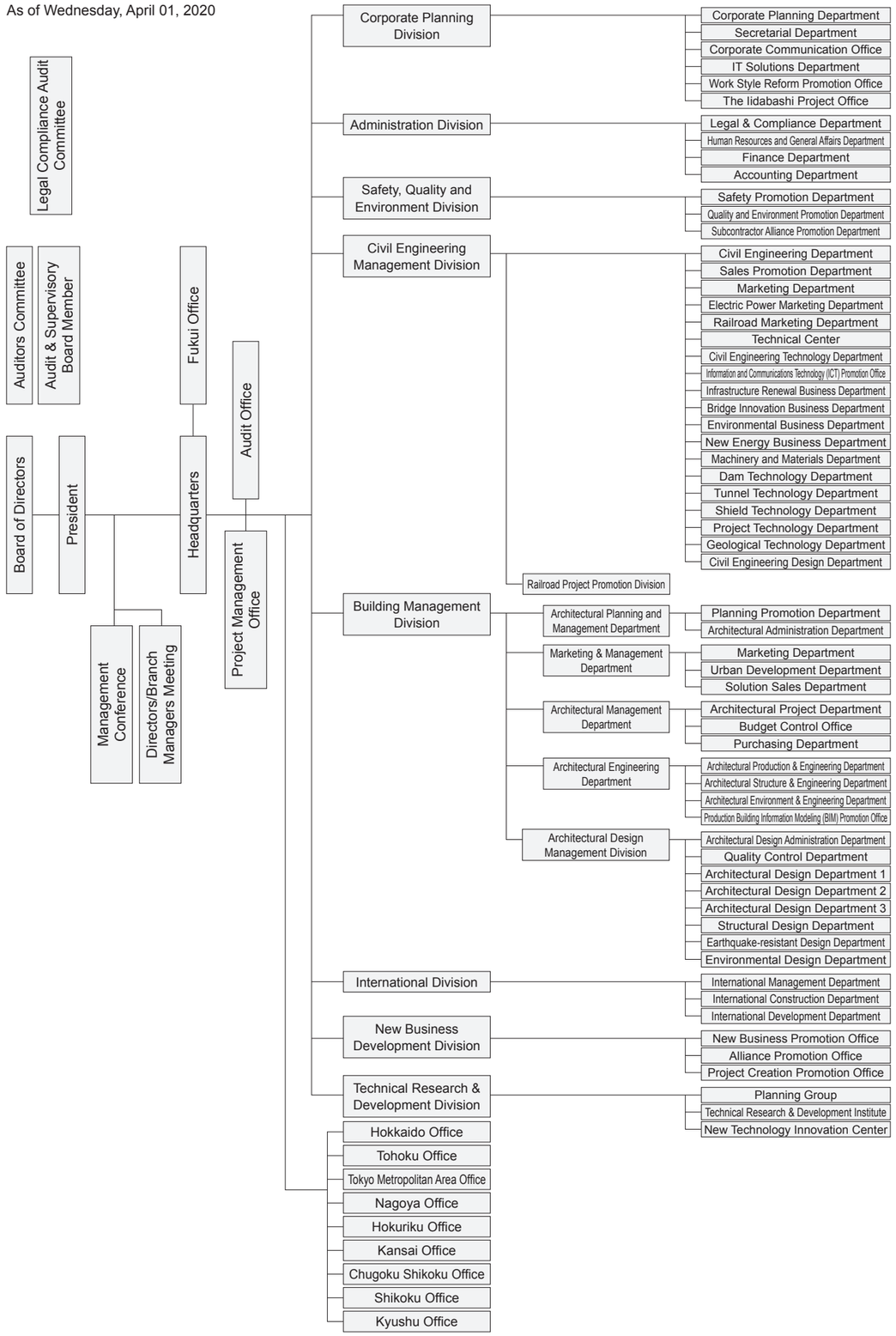

## Stock Trading Data




* The company performed a stock merger at a ratio of 1 share per 10 shares of common stock, effective October 1, 2017. Kumagai Gumi turnover and Kumagai Gumi stock price prior to the stock merger have been retroactively revised accordingly.

# Organizational Chart

As of Wednesday, April 01, 2020



## About the Front Cover

The large work at the top is "I Found a Crayfish in Rice Field," which won the Kumagai Gumi Corporate Prize at "the Children's Painting Exhibit 2019: Rice Fields and Water in Your Hometown". The remaining five works were created on the theme of the environment by children at Tsukudo Elementary School in Shinjuku, Tokyo.

* Kumagai Gumi supports opportunities to foster a mindset that treasures nature and the environment in the children who will lead the next generation. Together with the Tsukudo Elementary School sited adjacent to our headquarters, Kumagai Gumi actively engages in environmental learning and cleanup of the local area. The company also sponsors the above-mentioned Children's Painting Exhibit hosted by the national Federation of Land Improvement Associations.

KUMAGAI GUMI
Insight, Onsite, Farsight


**Kumagai Gumi Co., Ltd.**

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