

Insight, Onsite, Farsight



The Kumagai Gumi Group Corporate Report

2020



KUMAGAI GUMI



Kumagai Gumi Group Vision Statement

Insight, Onsite, Farsight

When we build a structure, we are building a community -
together with the people who will use that space.

Kumagai Gumi constructs and maintains structures where people can congregate and
live fulfilling lives while feeling safe and secure.
This is our job, our mission.

We deliver "Quality that Inspires Happiness" by optimizing construction
for the people who will use the built space.

When putting plans into practice, we apply our unique concept of
Worksite Excellence – the powerful synergy of our technology and human resources.
Our relationship with our structures continues beyond 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 there part in life's ever-evolving story.
Insight, Onsite, Farsight

We feel a deep responsibility to our clients, built on mutual trust and
collaboration that we have nurtured over our hundred-plus-year history.

In this spirit, we are committed to taking on the fresh challenges the future will bring.

Working with people, creating community.
Setting the stage for tomorrow to unfold.

Our Company's Code of Conduct (Mission Statement)

- TRUST:
To develop client trust and earn their confidence.
- CONSISTENCY:
To be consistently professional and responsible.
- CO-OPERATION:
To promote cooperation and mutual prosperity.

Management Philosophy

- ENVIRONMENT: We aim to use our breadth of expertise to design and construct projects, which are environmentally friendly and which will improve quality of life and satisfy the needs of society.
- CLIENTS: We aim to be an innovative and dynamic company, one that can provide our clients with a comprehensive service of consistently high standards, tailored to satisfy clients' individual requirements.
- STAFF: 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.
- REPUTATION: We strive to be a responsible corporate citizen, recognized for our business integrity and social awareness.

Historic site of Shukununo Power Station (Fukui, Fukui Prefecture) See P4 for details
The first job undertaken by the founder of Kumagai Gumi was stonework construction at the Shukununo Power Station, commissioned by Kyoto Dento Co.

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Editorial Policy

This Corporate Report is issued with the goal of communicating the Kumagai Gumi Group's management policies, business strategies, and CSR efforts to all of our stakeholders. Taking the Kumagai Gumi Group Vision Statement of "Insight, Onsite, Farsight" as its approach, the report showcases the Kumagai Gumi Group's concern for the environment, efforts to provide solutions to social issues, and governance initiatives, to support our contribution to the formation of a sustainable society. It meets the expectations of stakeholders for information disclosure, and makes reference to various guidelines in order to ensure objectivity and transparency.

Period of Reporting:
FY2019 (April 1, 2019 to March 31, 2020)
The information in this report includes examples of activities and other information from April 2020 or later, as required.

Scope of Reporting
The scope of this report covers Kumagai Gumi Co., Ltd. and its seven group companies, six of which are in Japan and one of which is in Taiwan. The references in this report to "Kumagai Gumi" or "our company" are used in reporting on Kumagai Gumi Co., Ltd. only. Reports on Group companies mention the specific companies. In reporting on environmental activities, numerical data for Kumagai Gumi covers construction projects undertaken by Kumagai Gumi alone, as well as for joint venture projects with Kumagai Gumi as the lead company.

Issue Date
August 2020 (Previous edition: August 2019; Next edition: Scheduled for August 2021)

Referenced Guidelines
• Environmental Reporting Guidelines (2018 Edition) from the Ministry of the Environment
• International Integrated Reporting Framework from the IIRC

Notes on the Outlook for the Future
Opinions and other forward-looking statements in this report are based on data currently available to us and on certain assumptions that we believe are reasonable. Actual results may, therefore, differ materially from these statements for various reasons.

Our approach to information disclosure

A report presenting our financial and non-financial information in an organized and integrated manner.

More detailed information is disclosed for the purpose of accountability to all stakeholders.

Information on the website
<https://www.kumagaigumi.co.jp/en/index.html>

Seeking to be a company needed by society

Since its foundation in 1898, Kumagai Gumi's history has been one of extensive contribution to the modernization of Japan between the late 19th century and the early 20th century, as well as to the reconstruction of war-torn Japan and its remarkable postwar economic growth.

We will continue to work with customers to contribute to the development of society through Worksite Excellence, the powerful synergy of the technology and human resources we have built up for over a hundred years.

1898 to 1940

Our founding and initial growth period



The foundation of Kumagai Gumi

In 1898, Santaro Kumagai ① founded Kumagai Gumi at the age of 27. The first job that Santaro, a stonemason at the time, undertook was stonework construction at the Shukununo Power Station ②, commissioned by Kyoto Dento Co.

1898 Founding of Kumagai Gumi

1899 Completion of the Shukununo Power Station ②

Initial growth period

In 1934, Santaro took on construction work at the Sanshin Railway Line (current JR Iida Line), one of the greatest civil engineering projects in modern Japan ③. This involved the construction of 116 tunnels and 54 bridges over a 45-kilometer section of peaks and gorges along the Tenryu River. Leading the construction to completion in three years, Santaro turned this success into an opportunity to establish Kumagai Gumi Co., Ltd. in 1938.

1937 Opening of the entire Sanshin Railway Line ③

1938 Establishment of Kumagai Gumi Co., Ltd.
(capital: 400,000 yen)

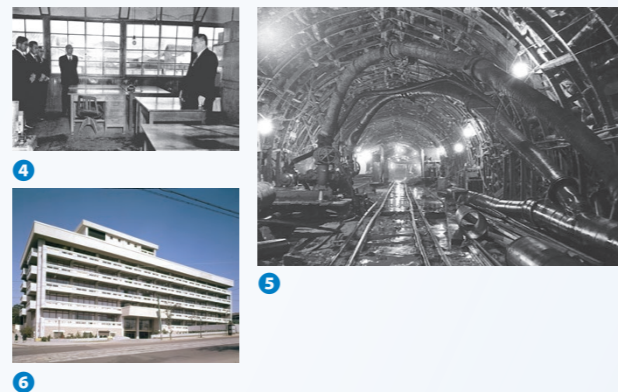
2018 Shukununo Power Station site renovation project ②

The Shukununo Power Station is the third hydroelectric power station in Japan. In 2018, Kumagai Gumi carried out renovation work at the plant site, as a part of our 120th anniversary projects. In the work, we unearthed remnants of the pipelines that sent water to reservoirs and turbines, and built an exhibition hall featuring a generator from the time the plant was in operation. We also built a lawn space, parking lot, and explanatory plaques, and donated the site to the city of Fukui as a place open to the general public.



1941 to 1960

Wartime and postwar reconstruction period



During wartime, Kumagai Gumi received orders including power station and railway construction projects.

After the war, the company founded the Building Construction Division in 1945 ④. Together with the company's strong Civil Engineering Division, this division made great contributions to post-war Japan's revitalization and further development of social infrastructure in the subsequent period of high economic growth, as well as in urban development.

In 1956, the company tackled construction of the Omachi Tunnel (current Kanden Tunnel) at the Kurobe river No. 4 Power Plant, one of the largest projects in the history of civil engineering in Japan ⑤. The project encountered a major fractured zone in a weak stratum containing a large volume of groundwater. Battling water rushing in at up to 660 liters per second, the company spent seven months breaking through this 80-meter fractured zone.

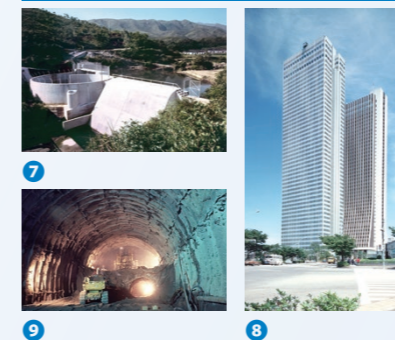
1945 Establishment of the Architectural Construction Division immediately after the end of the war ④

1958 Opening of the Omachi Tunnel at the Kurobe river No. 4 Power Plant ⑤

1960 Completion of the Prefectural Assembly Hall; Kumagai Gumi's first BCS Prize ⑥

1961 to 1980

Second growth period



In 1961, the company won an order for its first overseas project, the Hong Kong Plover Cove Water Tunnel ⑦. The company went on to conduct business development on a global stage, particularly in Hong Kong, Taiwan, and Southeast Asia. In 1975, Kumagai Gumi solely started construction of the Shinjuku Nomura Building ⑧. The company successfully finished the construction of the skyscraper, which has 53 floors and five basement floors. The completion made Kumagai Gumi the first Japanese company to build a skyscraper on its own, which greatly enhanced the reputation of the company. At the Joetsu Shinkansen Nakayama Tunnel project (Gunma Prefecture) in 1977 ⑨, we introduced the first use in Japan of NATM, now the standard method for tunnel construction.

1966

Hong Kong Plover Cove Water Tunnel completed ⑦

1977

Opening of the Joetsu Shinkansen Nakayama Tunnel ⑨

1978

Shinjuku Nomura Building project completed ⑧

1981 to 2000

From the third growth period to the long-lasting economic slump



Starting from Hong Kong, Kumagai Gumi's overseas business extended at a steady pace. In 1985, Kumagai Gumi recorded over one trillion yen in orders, resulting in the greatest ordinary income in the industry.

In 1981, Kumagai Gumi took part in the New City Higashi-Totsuka (Yokohama) development project ⑩, one of the largest private sector urban development projects in Japan.

In 1985, Kumagai Gumi completed work on one of the world's longest undersea tunnels, the Seikan Tunnel ⑪, demonstrating its unchanging strength in the civil engineering industry.

Overseas, the completion of the Eastern Harbour Crossing (EHC) Tunnel in Hong Kong ⑫ in 1989 attracted attention as the first BOT project involving a Japanese company in Hong Kong.

In the latter half of the 1990s, however, Kumagai Gumi was hit by the bursting of the so-called economic bubble and entered a period of difficult trials.

1981

Start of the New City Higashi Totsuka Project ⑩

1985

Opening of the Seikan Tunnel ⑪

1989

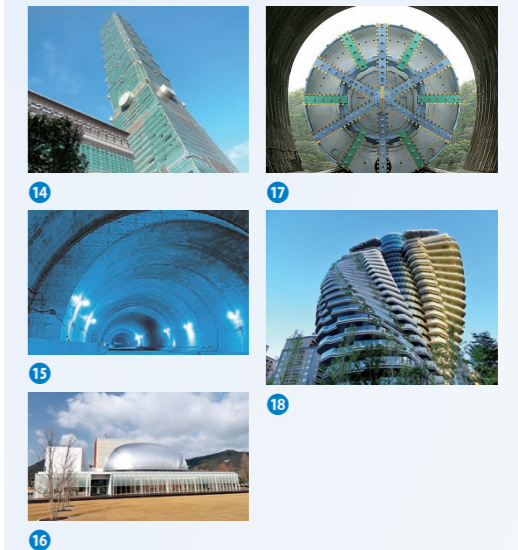
Opening of the Eastern Harbour Crossing (EHC) Tunnel, Hong Kong ⑫

1990

Bank of China Tower (Hong Kong) project completed ⑬

2001 onward

From the long-lasting economic slump to the restoration period



In 1998, the massive real estate investments of the bubble economy era caused Kumagai Gumi to face the most severe management crisis since its founding. Although the company undertook significant business reorganization, reworking of employee treatment, and other measures, in 2000 and 2003 it was forced to seek aid from financial institutions.

While enacting thorough management reforms, the company engaged in new fields of construction such as mobile communication base stations and wind and solar power generation facilities, to overcome the challenging conditions in the construction industry. Never losing its spirit of challenge even during such difficult times, Kumagai Gumi constructed TAIPEI 101 in Taiwan ⑭, the tallest skyscraper in the world at the time of its completion.

The company also tackled unmanned construction and other new technological developments aimed at the next generation of the construction industry. In 2014, the company completed the cancellation of preferred stocks, and carried out a financial reconstruction with the support of many parties.

In response to the Great East Japan Earthquake (2011) and two major earthquakes in Kumamoto (2016) Prefecture, Kumagai Gumi carried out its role as a construction firm by contributing to restoration and reconstruction in the affected areas.

2004 Construction of TAIPEI 101 completed ⑭

2006 Construction of the Mino Toll Road Mino Tunnel completed ⑮

2007 Construction of Mihara Performing Arts Center "Popolo" completed ⑯

2008 Construction of the Tohoku Shinkansen Sanbongihara Tunnel completed ⑰

2018 Construction of Hua Zhu Zi Huan (Taiwan) super high-rise designer's condominium completed ⑰

The History of the Kumagai Gumi Group

1898 Founding of Kumagai Gumi
1938 Establishment of Kumagai Gumi Co., Ltd.

1945 Establishment of the Building Construction Division

1958 Opening of the Toyokawa Factory

1963 Establishment of Kumagai Road Co., Ltd.
* 1994 Change of company name to Gaeart Kumagai Co., Ltd.

1974 Establishment of Taiwan Kumagai Co., Ltd.

1989 Establishment of FATEC Co., Ltd.

1993 Establishment of Kumagai Techno-Space Co., Ltd.
* 2000 Change of company name to Techno-Space Creates Co., Ltd.

1995 Establishment of Technical Support Co., Ltd.

1996 Spin-off of the Toyokawa Factory as Kumagai Technos Co., Ltd.
* 2002 Change of company name to Technos Co., Ltd.

2001 Establishment of K&E Co., Ltd.

2004 Merger of Gaeart Kumagai Co., Ltd. and Tobishima Road Co., Ltd.
Launch of GAEART T. K. Co., Ltd.
* 2016 Change of company name to GAEART Co., Ltd.

2016 Formulation of the Kumagai Gumi Group Vision

2017 Business and capital alliance with Sumitomo Forestry Co., Ltd.



See website for details

History <https://www.kumagaigumi.co.jp/en/company/history/index.html>

Since our foundation in 1898, the construction company Kumagai Gumi has made efforts to contribute to the development of society through construction contracting.

We deliver "Quality that Inspires Happiness" so that we can continue to work as a group to satisfy customers through "Worksite Excellence," the powerful synergy of the technology and human resources we have built up for over a hundred years.

With the aim of further securing sustainable growth and stable earnings, we will focus our efforts on the creation of new businesses and on strategic collaboration with partners.

The Kumagai Gumi Group
8 companies

Kumagai Gumi Co., Ltd.

GAEART Co., Ltd.

K&E Co., Ltd.

Taiwan Kumagai Co., Ltd.

Technos Co., Ltd.

FATEC Co., Ltd.

Techno-Space Creates Co., Ltd.

Technical Support Co., Ltd.

For details, see P8-9, Group Strengths

Civil Engineering

Through the construction of tunnels, bridges, dams, roads, and other infrastructure that is vital to people's lives, Kumagai Gumi Group will continue to support the creation of places where people can live in security and comfort. We will continue to enhance our technological prowess to deal with superannuated infrastructure that is reaching the age of large-scale renewal, as well as increasingly severe natural disasters.

For details, see P24-25, Business Report > Civil Engineering

The main businesses
that have supported the
group's development

Building Construction

The Kumagai Gumi Group provides structures for every application and purpose, including housing, offices, hospitals, schools, and commercial facilities. We will continue to build the stages upon which people live their lives, with consideration of their hopes and dreams. We will also advance initiatives for environmentally friendly construction and medium- to large-scale wood structures.

For details, see P26-27, Business Report > Architectural Construction



Aso Ohashi Bridge Area slope disaster prevention construction



Pacifico Energy Toyota Mega Solar Power Plant civil engineering construction



Headquarters of Hokkaido Broadcasting Co., Ltd.



HOTEL COLLECTIVE (Okinawa Prefecture)



Eastern Harbour Crossing (EHC) MOM Project (Hong Kong)



Tao Zhu Yin Yuan Tower (Taiwan)

Overseas Projects

The Kumagai Gumi Group is expanding our sales and marketing networks in our overseas offices, and is working to expand its business to secure stable sources of revenue. To develop our overseas business and enhance our earning power, we will promote alliances with other companies while securing global human resources and making efforts toward risk management.

New business domains
for future activity

For details, see P28-29, Business Report > Overseas Projects, Development Projects, and New Projects

Urban Development Projects and New Category Projects

Kumagai Gumi has an industry-leading track record in urban development projects. Taking advantage of our know-how and expertise, we will contribute to a wide range of urban redevelopment and area revitalization projects. We will also actively undertake projects that include concession projects, infrastructure operation, and renewable energy.



Toyota Municipal Northern District School Meal Supply Center (PFI project)

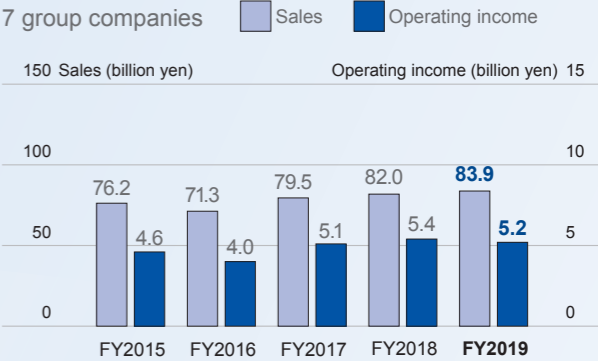
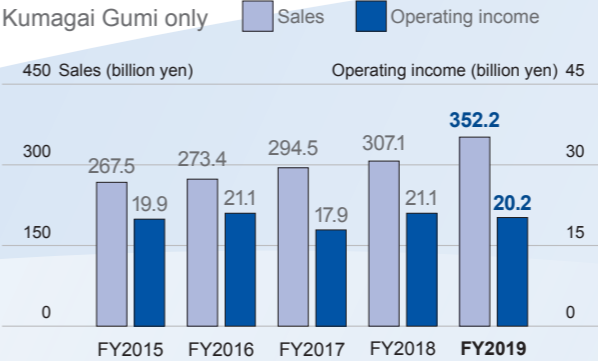


MIDAC Kurematsu Solar Power Plant (renewable energy project)

Based on the Kumagai Gumi Group's vision, we engage in construction services through solutions unique to our group.

Our eight group companies will generate synergies through collaboration.

Looking toward the future, we will promote joint technological development and greater fluidity of management resources, and will enhance the collective capabilities of the group.



* Value after deduction of intra-group transactions

<https://www.kumagaigumi.co.jp/en/index.html>

General Contractor

Kumagai Gumi Co., Ltd.

Civil Engineering

P24-25

Building Construction

P26-27

Overseas Projects, Development Projects, and New Projects

P28-29

Kumagai Gumi implements its projects in close collaboration with its group companies by effectively utilizing and mutually complementing the technologies, expertise, products and management resources held by the group companies, so as to maximize its collective capabilities.

See P62 for corporate information

<https://www.gaeart.com> (Japanese only)

Manufacture and sales of road pavement and asphalt mixture, etc.

GAEART Co., Ltd.

Established	November 1963	Capital	¥1,000,000,000
Headquarters	8-27 Shinogawamachi, Shinjuku-ku, Tokyo	Sales	¥53,768,000,000 (FY ended March 2020)
Representative Officer	Kenji Yamamoto	No. of employees	759 (as of March 2020)

GAEART Co., Ltd. is expanding nationwide as a company that meets various infrastructure needs, from new construction to maintenance management, through infrastructure development including paving for roads, airports, harbors, and bridges, and the manufacturing of asphalt mixtures as paving materials.

<https://www.technos.info> (Japanese only)

Civil Engineering, Renovation, and Production of Construction Machinery and Materials

Technos Co., Ltd.

Established	February 1996	Capital	¥470,000,000
Headquarters	2-1 Honohara, Toyokawa, Aichi Prefecture	Sales	¥7,856,000,000 (FY ended March 2020)
Representative Officer	Eiji Morita	No. of employees	161 (as of March 2020)

Technos manufactures segments for shield tunnels, construction machinery, etc., engages in civil engineering and renovation, environmental-related projects, and basic construction, and operates a leasing business for a steel construction method called ACEUP.

<http://www.fa-tec.co.jp/> (Japanese only)

Trading company specializing in construction

FATEC Co., Ltd.

Established	June 1989	Capital	¥20,000,000
Headquarters	2-1 Tsukudocho, Shinjuku-ku, Tokyo	Sales	¥4,349,000,000 (FY ended March 2020)
Representative Officer	Takayuki Aono	No. of employees	8 (as of March 2020)

FATEC Co., Ltd. is a trading company that offers construction materials and equipment developed with state-of-the-art technologies.

<https://www.k-and-e.co.jp/> (Japanese only)

Building renovation

K&E Co., Ltd.

Established	January 2001	Capital	¥300,000,000
Headquarters	2-1 Tsukudocho, Shinjuku-ku, Tokyo	Sales	¥21,824,000,000 (FY ended March 2020)
Representative Officer	Kazuhisa Iwama	No. of employees	363 (as of March 2020)

K&E Co., Ltd. is a comprehensive producer of planning and design incorporating building surveys and diagnosis, seismic diagnosis and reinforcement design, and proposals for comfortable spaces, as well as construction work leveraging the company's technological capabilities, after-sales service, and more.

<http://www.taiwankumagai.com.tw> (Traditional Chinese and Japanese)

Construction in Taiwan

Taiwan Kumagai Co., Ltd.

Established	December 1974	Capital	NT\$800,000,000
Headquarters	Room 8 (1408), 12F, No. 205, Section 1, Dunhua South Road, Taipei, Taiwan	Sales	¥9,130,000,000 (FY ended December 2019)
Representative Officer	Toyohiko Ina	No. of employees	191 (as of December 2019)

Since its founding in 1974, Taiwan Kumagai Co., Ltd. has built a best-in-class track record as a Japanese general contractor in Taiwan, introducing Kumagai Gumi's technology to Taiwan.

<https://www.technsp.co.jp/> (Japanese only)

Working Drawing and Education

Techno-Space Creates Co., Ltd.

Established	November 1993	Capital	¥30,000,000
Headquarters	3-12-12 Higashi-Ikebukuro, Toshima-ku, Tokyo	Sales	740,000,000 (FY ended March 2020)
Representative Officer	Naoyuki Yamashita	No. of employees	59 (as of March 2020)

The company engages in production of construction drawings and temporary design drawings, preparation of applications, and other business. It also offers educational seminars for universities and construction companies.

<https://www.tsp-kumagai.co.jp/> (Japanese only)

Work Outsourcing and Insurance Agency

Technical Support Co., Ltd.

Established	July 1995	Capital	¥70,000,000
Headquarters	2-1 Tsukudocho, Shinjuku-ku, Tokyo	Sales	¥556,000,000 (FY ended March 2020)
Representative Officer	Hiroshi Shimura	No. of employees	38 (as of March 2020)

The company is developing an outsourcing business for clerical work requiring expert knowledge, and also offers insurance plans as an agency handling both life and non-life insurance.

The Kumagai Gumi Group conducts business activities on the basis of its Group Vision, to contribute to the resolution of social issues and to be of service to our stakeholders. The Kumagai Gumi Group is taking on the challenge of creating new value for the future, exerting the group's uniqueness and aligning all members toward the same goals.

ESG Initiative Direction

1. Kumagai Gumi identifies key issues (Materiality) to be resolved from the perspective of Environment, Social, and Governance, and pursues sustainable business activities.
2. Kumagai Gumi creates new value by leveraging the group's technologies, experience and expertise. We engage in business activities that contribute to the resolution of social issues represented by the SDGs.
3. Through its business activities, Kumagai Gumi aims to build relationships of trust with its stakeholders and to increase its corporate value.

Key issues from the perspective of ESG (Materiality)



Formation of environmentally considerate business



Creation of rewarding workplaces for all



Enhancing of corporate governance proactive communication with stakeholders and others



Management capital
(FY2019 performance)

Financial capital ▶

Total Assets 374.8 billion yen

Manufacturing capital ▶

Yuuei Kyoryoku Kai*
880 companies
Manufacturing sites 32
* Group of partner companies of Kumagai Gumi

Intellectual capital ▶

Number of patents held 475
Research and development expenses (non-consolidated) 2.4 billion yen

Human capital ▶

Number of employees (non-consolidated) 2,578 (consolidated) 4,154

Societal capital ▶

Domestic sites
Branches 29, Sales offices 84
Technical Research & Development Institute 2
Equipment and material centers 2
Overseas offices 9

Natural capital (non-consolidated) ▶

Electric power	31,916,000 kWh	Kerosene	21 kl
Gas	125,000 m ³	Water	352,000 m ³
Diesel oil	22,264 kl		

Kumagai Gumi Group Vision Statement

Insight

"Human Resources"
"Technologies"

Farsight

"Worksite
Excellence
to Farsight"

Onsite

"Worksite
Excellence"

Governance

Outcomes

(FY2019 performance)

Sales
436.2 billion yen

Operating income
25.4 billion yen

Ordinary income
25.7 billion yen

Profit attributable to owners of parent
19.4 billion yen

ROE
13.7%

Dividend per-share
120 yen

"White 500" enterprise with outstanding health and productivity
4 consecutive years of recognition

Selection as "Nadeshiko Brand" enterprise that encourages women's success in the workplace

Customer Consultation Officesame-day initial response
100% for 4 consecutive years

Activities that contribute to society
108

Number of patent applications
65

CO₂ Emissions
94,000 t-CO₂

Recycling rate
98%

The Value We Provide to Stakeholders

For Customers and local communities
Quality That Inspires Happiness

For Global environment and Local communities
Sustainable Coexistence with Nature

For Partnercompanies and Business partners
Coexistence in Mutual Prosperity

For employees
Human Resource Development

For Shareholders and investors
Stable Return to Shareholders

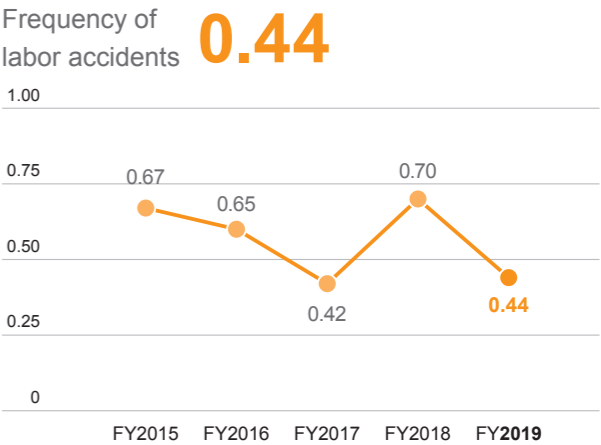
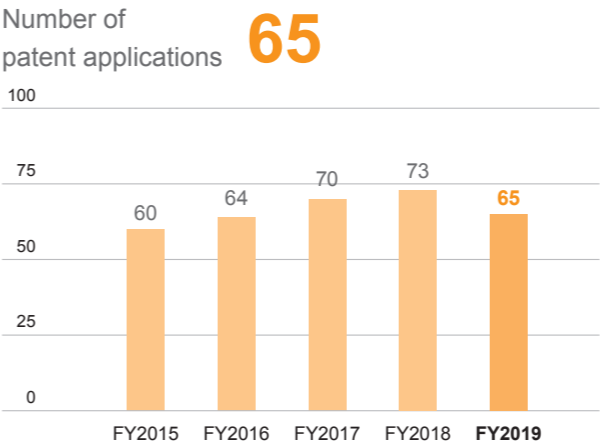
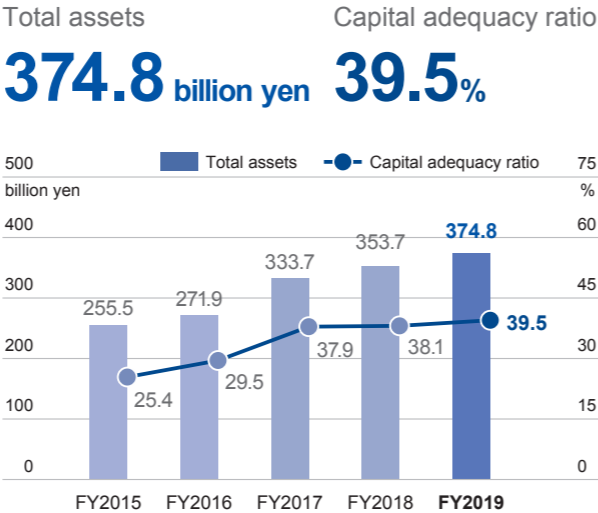
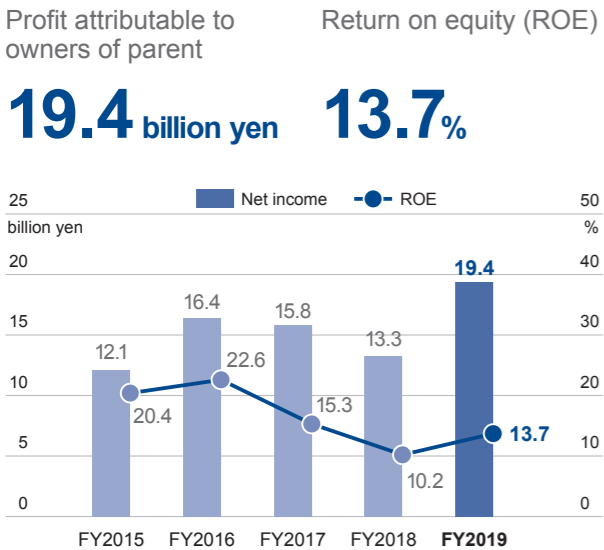
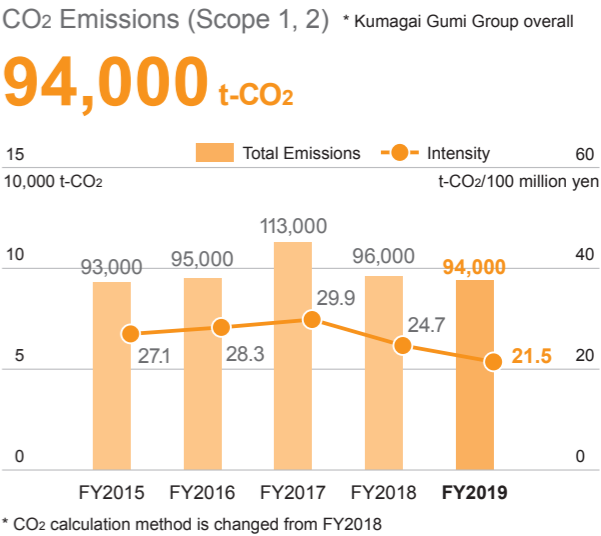
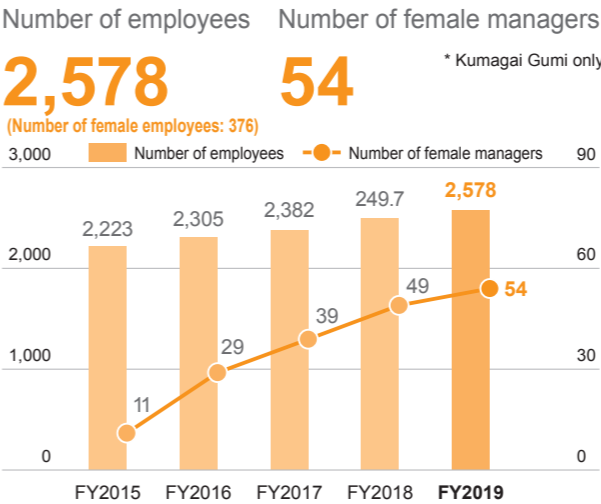
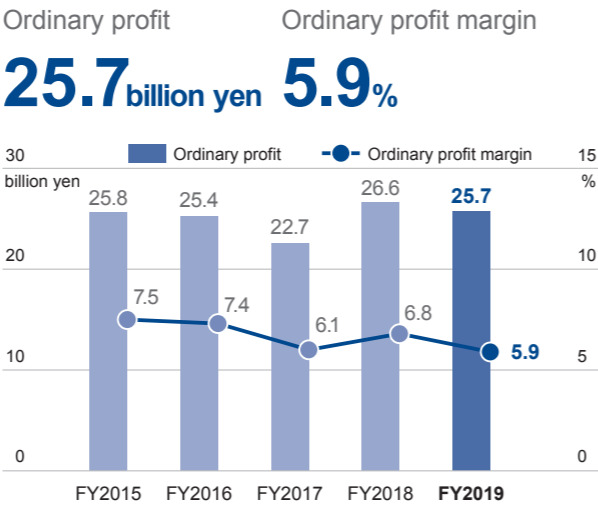
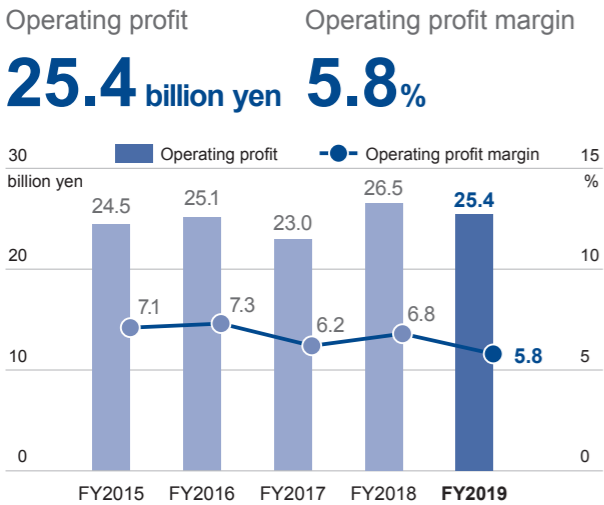
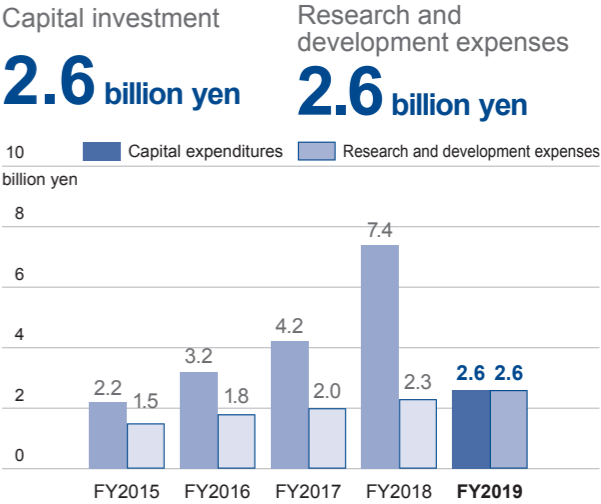
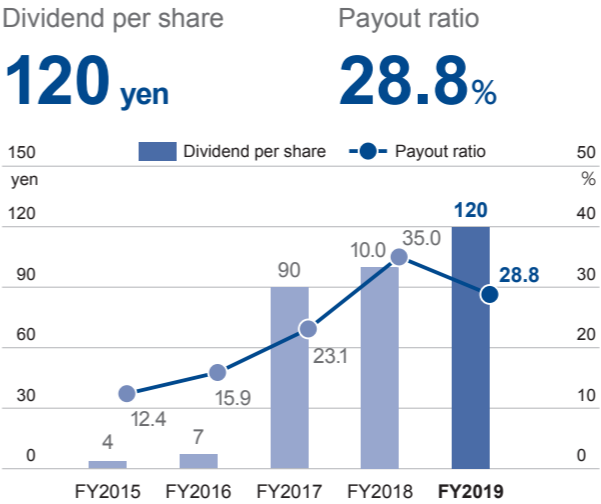
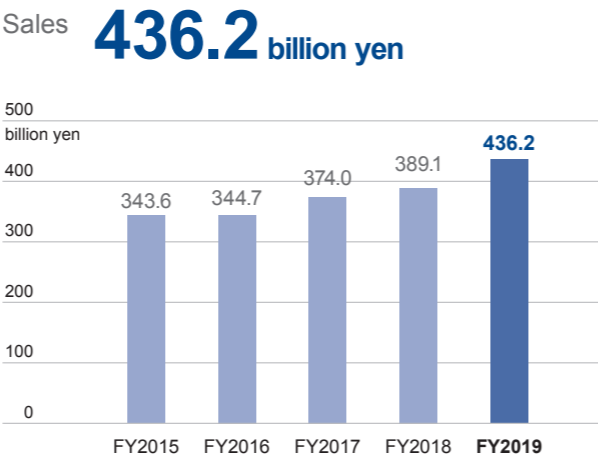
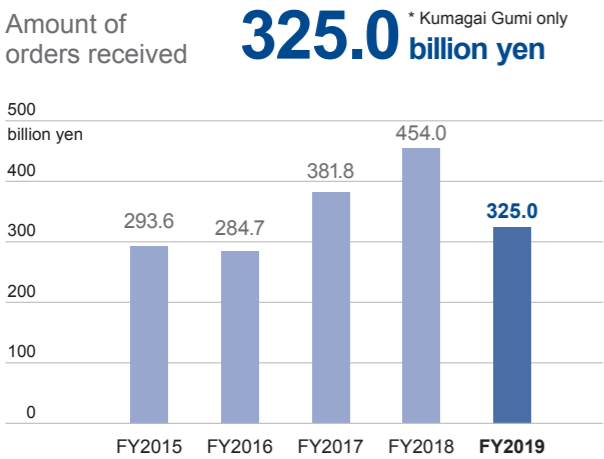
Kumagai Gumi's vision
A corporate group trusted and needed by society

Universal Sustainable Development Goals (SDGs)

SUSTAINABLE DEVELOPMENT GOALS



* The financial information is based on the Kumagai Gumi Group consolidated results, whereas non-financial information is based solely on Kumagai Gumi.
* Amounts less than 100 million yen are rounded.



Based on the Medium-term and Long-term Management Direction that we set forth in November 2017, we formulated "The Medium-term Management Plan (FY2018-2020) – Strategies for Accelerating Growth –". Its strategic pillars are:

1. Maintain and increase contracted construction businesses; 2. Create new and innovative businesses; and 3. Form strategic alliances with other companies.

We are determined to steadily implement these strategies geared toward accelerating growth.

Three Strategies and Target Numbers

Medium-term and Long-term Management Direction

- Kumagai Gumi will continue to provide high quality construction services, responding to qualitative and quantitative changes in the construction market.
- Kumagai Gumi will strengthen its ESG management to realize long-term growth and contribute to the formation of a sustainable society.

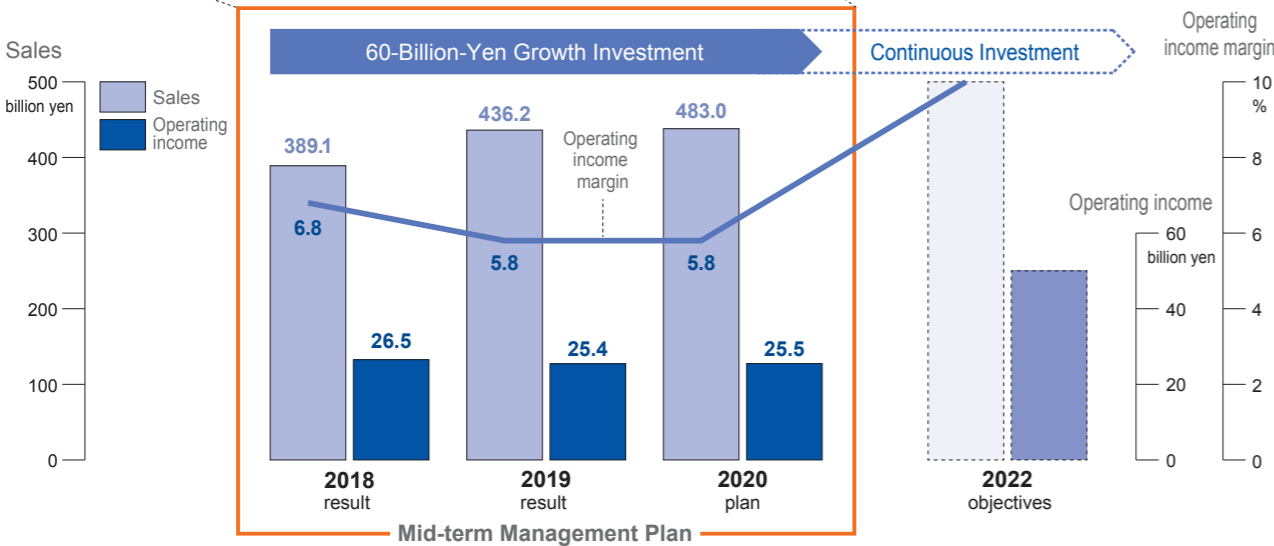


Our Four Target Indicators (by FY2020)

Consolidated Sales 460 Billion Yen	Consolidated Operating Profits 33 Billion Yen	ROE 12%	Dividend Payout Ratio 30%
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FY2022 Goals

Consolidated Sales 500 Billion Yen
Consolidated Operating Profits 50 Billion Yen



* Investment income and dividend income are included in operating income.

■ Interview with the President ■

We seek to realize a growth spiral and, while continuing our growth strategy, to become a corporate group trusted by society.

Kumagai Gumi Co., Ltd.
President
Yasunori Sakurano

Y. Sakurano



Q Please tell us about the market environment and about results in fiscal 2019, the second year of the Medium-Term Management Plan.

We achieved increased income for the fourth consecutive year, but operating revenue fell. While the environment surrounding construction industry has changed greatly, I believe that we are making steady steps toward new growth.

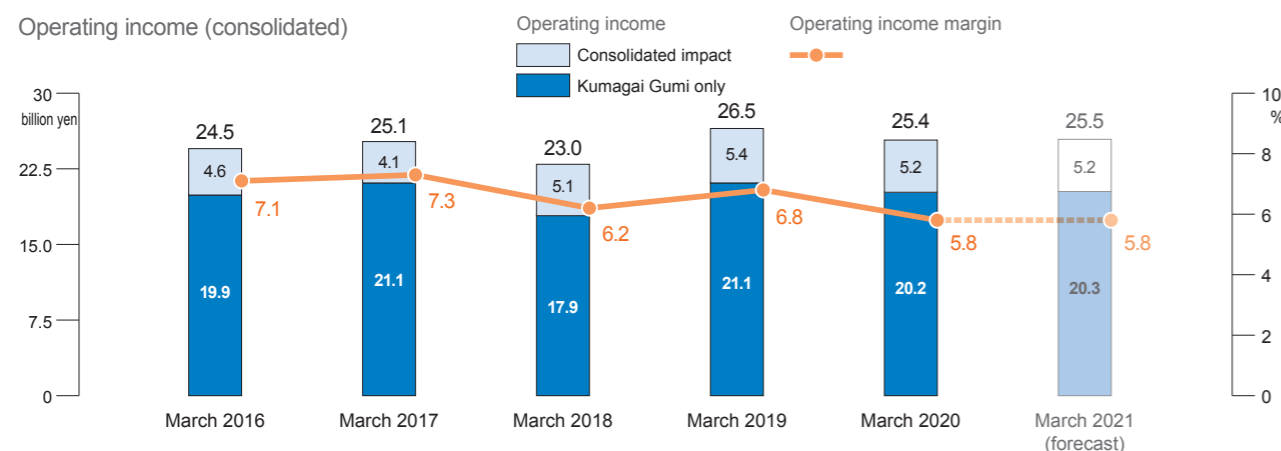
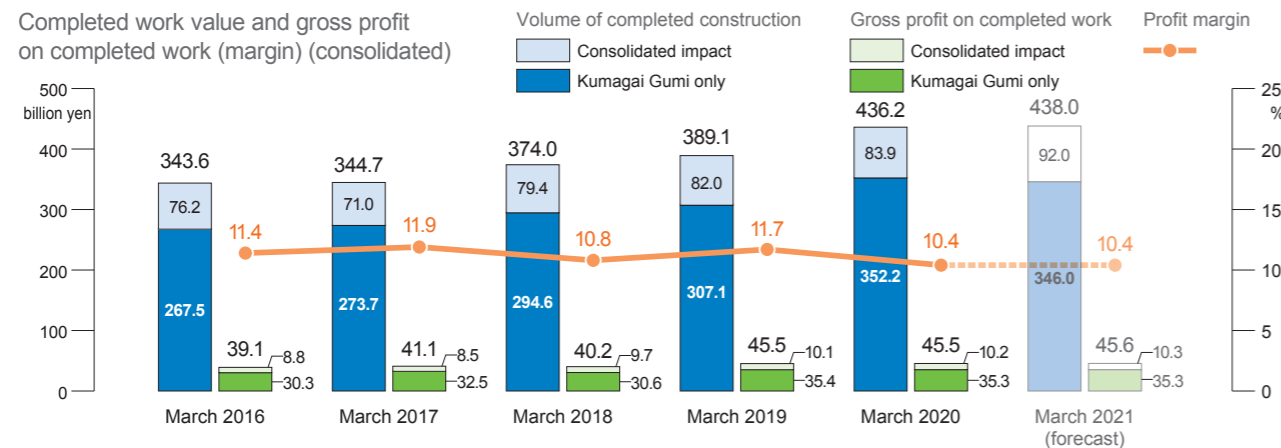
The Kumagai Gumi Group set a Medium-term and Long-term Management Direction in 2017, under which we are now moving ahead with the Medium-term Management Plan. Fiscal 2019 is the second year of the Medium-term Management Plan. Viewing it as a key year in determining success of the plan, all of us, management and employees alike, came together to challenge projects strategically and with a sense of urgency. As a result, sales in fiscal 2019 grew for the fourth consecutive year. However, operating income fell year-on-year due to some unprofitable construction projects, resulting in decreased operating income on higher sales.

The three pillars of our strategy under the Medium-term Management Plan are: 1. Maintain and increase contracted construction businesses; 2. Create new and innovative businesses; and 3. Form strategic alliances with other companies. Regarding the contracted construction business, I believe that our production capabilities are steadily growing, as seen in the achievement of four consecutive years of increased sales. Regarding the creation of new businesses and strategic alliances with

other companies, we are moving ahead with diverse projects, including our collaboration with Sumitomo Forestry. These plans have fallen behind a bit, however, and are not yet making sufficient contribution to profits.

In the environment surrounding the construction industry in fiscal 2019, housing construction remained weak; corporate construction investment also declined, rebounding from the last-minute demand preceding the consumption tax hike in the previous year. However, a generally strong market environment continued for projects related to disaster readiness and mitigation in preparation for natural disasters, projects to address aging social infrastructure, as well as facility development projects related to the Tokyo Olympic and Paralympic Games. Regarding the impact of the COVID-19 pandemic, delay in delivery of materials and other issues occurred in some projects, but impacts in fiscal 2019 were rather limited.

The theme of the Medium-term Management Plan is "Strategies for Accelerating Growth" for the reborn Kumagai Gumi Group. Although income declined in fiscal 2019, I feel that we are making steady progress toward new growth.



Q What initiatives do you plan to advance in fiscal 2020?

We've set a direction of realizing a growth spiral, and will stick to our ongoing growth strategies.

Fiscal 2020 will mark the final year of the Medium-term Management Plan. I would like to make this a year in which our efforts so far will be rewarded and lead to further growth. With that wish in mind, we have set Realization of a Growth Spiral as the president's policy for fiscal 2020. While there are many things that we cannot foresee because of the ongoing pandemic, we should manage without changing the direction.

In fiscal 2020, we will continue to advance the three strategies of the Medium-term Management Plan.

In the strategy no.1 (maintain and increase contracted construction business), improving profitability is the top priority. With regard to sales capabilities on the front lines of the business, my sense is that we are steadily gaining strength in the fields of both civil engineering and architectural construction. We will promote efficiency

through on-site technological development and innovation, the use of ICT tools, and other means, and will work to improve productivity and strengthen cost competitiveness.

Moreover, expansion of overseas business is an indispensable strategy for our company in achieving sustainable growth in the future. We are expanding our business in Myanmar and India, as we have in Taiwan and Hong Kong, but overall, our stage is one of cultivating the market and building a foundation. To strengthen this development, in April 2020 we expanded the functions and organizations of Overseas Divisions to create the International Division.

In conducting our business, the proposition that we must tackle above all else is "Safety." While aiming to be "No.1 in Safety, Quality and Environment Management," we will further strengthen our activities in fiscal 2020.

Q Please tell us about the creation of new businesses and strategic alliances with other companies.

We will actively take on the creation of new businesses as a strategies supporting sustainable growth.

With Japan's construction market expected to decrease in the future, the creation of new businesses is an extremely important strategy along with expansion of overseas business. We have strengthened our structure for promoting new business initiatives by making the New Business Development Division independent of the Corporate Planning Division. We intend to make even greater efforts to create new businesses, including PPP/PFI concession businesses and collaboration with many companies such as Sumitomo Forestry.

In our collaboration with Sumitomo Forestry, we have established and are working through eight subcommittees in five fields of focus. Among these, we aim to commercialize greening and wood-building promotion and greening-related construction projects as quickly as possible, and to create a new medium- to large-scale wood structure market. We are also moving ahead with the commercialization of projects in renewable energy fields, including biomass power generation and wind power generation.

In January 2020, Kumagai Gumi and Sumitomo Forestry established SFGK Property Asia Pte. Ltd., a Singaporean joint venture that is already active in projects in Jakarta, Indonesia. In the future, we intend to work together on real estate development in the Asian region.

We also plan to focus efforts on technological development and expansion of our business domains in response to changes in society. One such effort is FLORA TENDER, an independent walking equipment for nursing care and other markets, with sales launch scheduled for fiscal 2020.

With regard to the third strategy of the Medium-term Management Plan, strategic alliances with other companies, we are promoting alliances with a variety of domestic and overseas companies with rich knowledge and technologies that we do not have, and hope to commercialize these alliances at an early stage.

By cultivating the architectural construction field, which accounts for about 70% of our sales, and by creating new businesses, we will work to build a more robust business structure that will support the next generation for Kumagai Gumi.

🗣️ How do you plan to incorporate ESG into the company's management and businesses?

We will boost our efforts to incorporate ESG perspectives in management, to solidly meet the needs of society.

The emergence of global societal issues, as symbolized by the SDGs, will bring about changes in the behaviors and thoughts of company stakeholders. I now have a strong and renewed sense of those changes. The COVID-19 pandemic that hit the world in 2020 is something that we have never experienced before. It will likely spur changes in the relationships among companies, society, and stakeholders. For companies to achieve sustainable growth, initiatives aimed at creation of business opportunities and risk management to address these challenges will take on important roles.

In our Medium-term and Long-term Management Direction, we included enhanced management in terms of ESG perspectives, and formulated our ESG Initiative Direction in April 2019. This initiative aligns ESG-related vectors across the company, and clearly communicates our stance and initiatives to society. It sets five key issues (Materiality) from the three perspectives of Environment, Social, and Governance.

A year has passed since the creation of the initiative, and from fiscal 2020, we are working to clarify which key issues of the ESG Initiative Direction relate to our policy measures, and to enhance awareness and enforce initiatives.

🗣️ Are there any initiatives of particular focus under the ESG Initiative Direction?

**We want to give particular consideration to "work style reform" and to employee health management.
In recognition of these efforts, we were selected as a "Nadeshiko Brand" enterprise.**

In the "Environment" area of the ESG Initiative Direction, we are continuing our approaches to climate change risks while also advancing a wide range of initiatives, including wooden architecture projects and renewable energy projects. For many of these projects, our alliance with Sumitomo Forestry, a company with cutting-edge knowledge in the environmental field, is a major driving force.

Regarding the "Society" component of the ESG Initiative Direction, we believe this is an area that will require ever stronger approaches following the COVID-19 global emergency. The construction industry still faces many issues that call for improvement in the area of working environments. We will make further efforts toward reforming work styles and toward employee health management.

As an effort to promote diversity, we are working to create environments that support the active participation of female employees. In recognition of these efforts, in March 2020 our company was selected as a "Nadeshiko Brand*" enterprise by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. We actively communicate such achievements both inside and outside the company to foster a corporate culture that embraces awareness of ESG.

We also work to create opportunities for direct communication between employees and me as President, such as the round-table conferences we hold at headquarters and at domestic branches, although these are suspended for some time due to the pandemic. Thinking together with employees, I want to lay out an image for a company that has a strong presence in society.

Finally, there is the "Governance" component of the ESG Initiative Direction. This is a critical proposition for us in earning trust within a global society. With the addition of Outside Directors in 2015 and through questionnaire-based evaluations of the effectiveness of each Director and Audit & Supervisory Board Member, I feel that discussions by the Board of Directors have been energized and that effectiveness is steadily improving.

Another issue that requires immediate improvement is that of governance of group companies. I want to rebuild a group governance system that achieves governance while respecting each company's autonomy. We intend to work toward group management by which every company in the Kumagai Gumi Group can aim for growth from the same perspective as Kumagai Gumi.

* "The Nadeshiko Brand" is an initiative aiming to introduce certain TSE-listed enterprises that are outstanding in terms of encouraging the empowerment of women in the workplace as attractive stocks to investors.

🗣️ Do you have a message for shareholders and investors regarding capital policy or other topics?

**Our ROE and dividend payout ratio remain steady.
We expect a stable dividend in fiscal 2020 as well.**

Under the Medium-Term Management Plan, we plan 60 billion yen in growth investments over the plan's three years, with the target of creating 7 billion yen in 2022. In fiscal 2020, we will continue to make aggressive growth investments while closely examining investment projects. We have set an ROE of 12% as a numerical target for fiscal 2020, and have already reached the level of achievement. Our payout ratio, with 30% as our aim, is progressing according to plan, and amid the pandemic concerns of 2020 we expect to maintain the same stable dividend.

I will continue working to optimize the balance between growth investments and returns to shareholders. My intent is to achieve solid growth with the understanding of shareholders and investors.

Our ESG Initiative Direction positions reinforcement of relationships with stakeholders as a key issue. Looking ahead, we will actively hold institutional investor meetings in Japan as well as overseas. We will also increase opportunities for direct dialogs with a wide range of shareholders, and will work to speedily incorporate their valued opinions in our management.

🗣️ Amid current concerns over impacts of the pandemic, what sort of corporate image do you aim to achieve?

By sharing Kumagai Gumi's DNA of integrity and spirit of endeavor with our employees, we will overcome the tides of the times and aim for sustainable growth.

In the face of the pandemic emergency situation, I feel anew the weight of the social responsibilities that our businesses bear.

In 2018, Kumagai Gumi celebrated its 120th anniversary. At our start in 1898, our founder Santaro Kumagai expressed a wish to perform work that would benefit the society someday, and a wish to take on difficult construction projects. Those words and thoughts have been carried forward in the DNA of our company. I believe that his words represent integrity and a spirit of endeavor.

It is not easy to predict how the world will change in the coming "post-COVID" era. However, the mission that the Kumagai Gumi Group should shoulder in society, and the spirit of integrity and spirit of endeavor that will support our mission, will not change. Sharing this sense anew with our employees, we will overcome the tides of the times and will work to be a corporate group that achieves sustainable growth together with our stakeholders.



Growth strategies envisioned through partnerships, and new domains cultivated by Kumagai Gumi



Yasunori Sakurano, President

Tatsuru Sato, Audit & Supervisory Board Member (Representative Director, Executive Vice President and Executive Officer, Sumitomo Forestry Co., Ltd.)

Entering into a business and capital alliance in November 2017, Kumagai Gumi and Sumitomo Forestry are now engaged in collaborative projects in a wide range of fields with the aim of creating new businesses. Tatsuru Sato, Representative Director and Executive Vice President of Sumitomo Forestry and an Audit & Supervisory Board Member of Kumagai Gumi, spoke with Kumagai Gumi President Yasunori Sakurano about the significance and the achievements of the two companies' collaboration and the future.

Promoting collaborative projects in a wide range of fields

Sakurano About two and a half years have already passed since Sumitomo Forestry and Kumagai Gumi began their collaboration. So far, we have set up eight subcommittees in five fields, and employees of both companies have worked together to advance projects. What are your frank thoughts on our current achievements?

Sato There are still a lot of areas that have yet to manifest as businesses, but we are growing a lot of promising buds from business seeds, and I can feel solid effects appearing.

Sakurano I think that the greening-related business, the field of environmental real estate, has yielded early results.

Sato I agree. This is a business that proposes an integration of architectural construction planning and greenery planning. We also undertook a sustainable concept project involving currently unused facilities that were constructed using timber provided by 63 local governments nationwide. Kumagai Gumi and Sumitomo Forestry jointly dismantle the facilities and return the timber to the local governments.

Sakurano There is also project in which, at the project proposal stage of a medical facility for which we were engaged in sales activities, we presented a

plan using wood from a Sumitomo Forestry group company, and we won the order. The effects of our collaboration are already seen in various places.

Sato In the renewable energy field, too, we are proceeding with plans for a joint venture related to biomass power generation. We are also moving ahead with projects related to wind power generation, and in the future, would like to challenge offshore wind power generation.

Sakurano One unique project is the development of a forestry machinery system that makes use of the unmanned construction technologies that Kumagai Gumi has acquired. Joint research with the Japan Aerospace Exploration Agency (JAXA) has developed from this. In the future, we aim to apply the technologies to structures, material transport, installation, and other purposes on the moon.

Sumitomo Forestry has a very long history of involvement with trees and forests. The company has accumulated know-how during that history, and is engaged in advanced and sustainable initiatives. There is much that Kumagai Gumi can learn from this. I feel that we have built a very positive relationship that will spur new initiatives within Kumagai Gumi.

Medium- and large-scale wooden architectural structure projects that change the urban landscape

Sakurano I understand that medium- and large-scale wooden architectural structure projects are an area that we want to commercialize as quickly as possible.

Sato That's right. I also think that medium- and large-scale wooden architectural structures are the most important key issue in the collaboration between our companies. This is a business with huge potential.

The concept behind medium- and large-scale wooden architectural structure projects is to reassemble the business of architectural construction from a sustainable perspective.

Recently, in the field of architectural construction, attention has focused on the idea of reducing the CO₂ emitted within the cycle that spans manufacturing of materials, transport, construction, and demolition, in order to lessen the burden on the environment. Wooden architecture excels from that standpoint. As growing trees absorb and fix atmospheric CO₂, wooden architecture is expected to yield the same effect as creating forests within cities.



An era is coming in which wooden architecture, which reduces burdens on the environment, will create major markets. In fact, wooden architecture is viewed highly by Western institutional investors who focus on ESG investment. I really hope to pioneer this future market together with Kumagai Gumi.

Sakurano I feel the same. There are research results that predict an expansion of 300 to 400 billion yen in the wooden architecture market. I want to turn this business into a pillar supporting the next era of Kumagai Gumi. We are advancing a strategy by which our two companies jointly create a private brand and develop sales to open up that new market.

Sato Joint research on fire resistance and soundproofing performance is progressing, and the elemental technologies for medium-rise wooden structures are already coming together. We are also undertaking research and development on high-rise and even super-high-rise wooden structures.

Sakurano Sumitomo Forestry is moving ahead with a concept called the W350 Plan, which aims to build a 350-meter high-rise wooden structure in 2041, the 350th anniversary of the company. The arrival of such high-rise and super-high-rise wooden structures would change the urban landscape dramatically. I would definitely like to make this a reality through collaboration between our companies.

Developing joint projects in Asia and elsewhere overseas

Sakurano Another major pillar of our collaboration is overseas business.

Sato In January 2020, we launched a joint venture in Singapore and began a real estate investment business in Indonesia. Looking ahead, I would like to expand our business to the Asian region and tackle large-scale projects such as real estate development and urban development.

Sakurano Yes, of course. If we think about future growth, the expansion of overseas business is also an indispensable strategy for Kumagai Gumi.

On the topic of urban development that just came up, Kumagai Gumi is undertaking urban redevelopment projects that include a new development project in the Iidabashi area of Tokyo. This project is also an area in which we have expectations for Sumitomo Forestry's knowledge of wood-building promotion and greening.

Sato Moving forward with construction projects related to wood-building promotion and greening will naturally connect to large-scale developments

such as urban redevelopment. Sumitomo Forestry wants to achieve environmental wooded cities that transform neighborhoods into forests. This is a dream that we would love to bring about with Kumagai Gumi, not only in Japan but around the world. It is actually easier to proceed with medium- and large-scale wood structures overseas than in Japan, for reasons including laws and regulations.

Sakurano I share the same wish. We plan to continue deepening our partnership with Sumitomo Forestry to tackle the creation of new businesses and seek sustainable growth.



See website for details

<https://www.kumagaigumi.co.jp/ir/management/strategy/index.html>
(Japanese only)

The construction industry that Kumagai Gumi has engaged in for so many years supports the infrastructure of society. Contributing to society through this core business is Kumagai Gumi's ultimate goal. The Sustainable Development Goals (SDGs) adopted by the United Nations set out global priority issues and a vision for the year 2030. We believe that we can contribute to these through our business activities. Under this thinking and based on the Kumagai Gumi Group's Vision Statement, Kumagai Gumi formulated its ESG Initiative Direction. Through it, we aim to contribute to the resolution of social issues through our business activities and to increase our corporate value through sustainable growth.

ESG Initiative Direction

1. Kumagai Gumi identifies key issues (Materiality) to be resolved from the perspective of Environment, Social, and Governance, and pursues sustainable business activities.
2. Kumagai Gumi creates new value by leveraging the group's technologies, experience and expertise. We engage in business activities that contribute to the resolution of social issues represented by the SDGs.
3. Through its business activities, Kumagai Gumi aims to build relationships of trust with its stakeholders and to increase its corporate value.

Example of initiatives

● CDP evaluation

CDP uses questionnaires to collect, analyze, and evaluate information on environmental topics such as the greenhouse gas emissions and climate change initiatives of major companies around the world. It releases information on corporate initiatives, based on common scales. As a result of our response to the 2019 CDP questionnaire in the field of climate change, we achieved a rating of "B" on an 8-step scale.

● Third-party verification

To enhance the transparency and reliability of disclosed non-financial information, greenhouse gas emissions reported by our Company underwent third-party verification from SOCOTEC Certification Japan in March 2020. We will continue working to improve the objectivity and quality of our environmental reports.

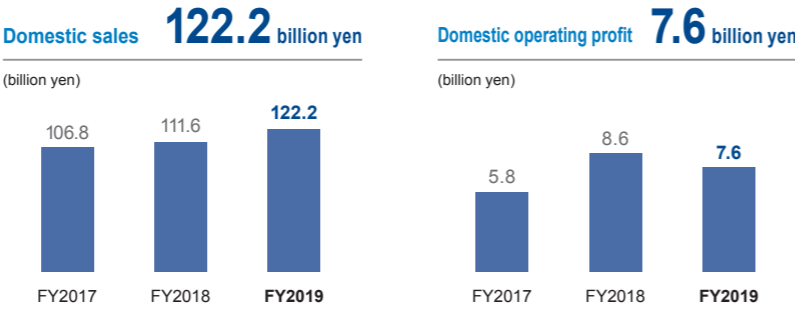
Key issues (Materiality)		Specific issues	Achievements in FY2019 concerning specific issues		Pages	
<div>E</div> <div>(Environment)</div>	Formation of environmentally considerate business	Addressing climate change risks	CO2 emissions intensity	Civil Engineering 40.1t-CO2/¥100 million Building Construction 7.2t-CO2/¥100 million	39-41	
		Achievement of zero emissions	Mixed waste discharge intensity	Civil Engineering 0.65t/¥100 million Building Construction 9.1kg/m²	40-41	
		Initiatives with consideration of biodiversity	Significant environmental accidents during construction		0 cases	39-40
		Initiatives for wooden architecture projects	Acquisition of Ministerial certification for two-hour fireproof structures of CLT (wooden structural panel) floors and walls		-	
		Initiatives in the forest conservation business				
		Initiatives in the renewable energy business	Start of renewable energy projects	1 project	29	
		Development of environmentally considerate technologies	Development of algae biomass production technologies	-	32	
<div>S</div> <div>(Society)</div>	Creation of rewarding workplaces for all	Securing and developing human resources	New graduate hiring / mid-career hiring	118 persons / 24 persons	34	
		Succession of technology	New employee training / young employee follow-up training	188 hours/person / 36 hours/person	33	
		Promotion of diversity	First selection as "Nadeshiko Brand" enterprise	-	34	
		Achievement of work-life balance	Limit overtime work through FY2018 to under 100 hours/month	99%	44	
			Percentage of employees taking 5 days or more of annual paid leave through FY2018	100%	44	
		Promotion of worker health and prevention of labor accidents	Safety/Frequency of labor accidents	0.44	36	
			Safety/severity rate	0.02	36	
		4 consecutive years of recognition as a "White 500" enterprise with outstanding health and productivity	-	45		
	Achievement of sustainable communities	Contribution to local communities	Number of reports on activities that contribute to society (Smile Project)	108	48	
			Activities that contribute to society overseas (KUMAGAI STAR PROJECT school construction)	1 project	48	
			Participant in redevelopment project as a business agent	-	28	
		Response to natural disasters	Disaster-related construction	Civil Engineering: 11 projects / Building Construction: 28 projects		
			Seismic reinforcement construction	Civil Engineering: 10 projects / Building Construction: 10 projects		
		Development of technologies that lead to resolution of social issues	Number of projects applying productivity enhancement technologies onsite	Civil Engineering-related: 3 projects Building Construction-related: 3 projects		
Number of technology research projects related to resolving social issues	6 projects		31-32			
<div>G</div> <div>(Governance)</div>	Enhancing of corporate governance	Improvement of the effectiveness of the Board of Directors	Review of internal rules and management conferences based on the Basic Policy to Establish Internal Control Systems	-	52	
		Enforcement of compliance	Compliance reinforcement month (October), submission of written pledges concerning compliance, compliance training	-	54	
		Strengthening of risk management	Setting of tax policy, BCP, health management, respect for human rights	-	45,55	
	Proactive communication with stakeholders and others	Active dialog with investors	Small meetings	4 times	46	
			Individual meetings/teleconferences	74 times		
		Improvement of CS	24-hour consultation desk (100% same-day initial responses), customer insights investigate (questionnaires/visiting)	-	43	
Promotion of CSR procurement	Green procurement ratio	Civil Engineering: 14.7% / Architectural Construction: 12.8%	39-41			

Civil Engineering



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

Amid rampant natural disasters and the COVID-19 pandemic, Kumagai Gumi will commit to its mission as a civil engineering firm, including disaster recovery and the renewal and maintenance of infrastructure. Our goal is to let our employees feel the joy of construction things in comfortable working environments, and to be a company that contributes to the world.



Business environment

	Business risks	Business opportunities
Capital investment	<ul style="list-style-type: none">Fluctuations in construction investmentMarket fluctuations in construction materials/equipment and labor cost	<ul style="list-style-type: none">PPP/PFI/concessions projects/MOM projects/DB, ECILarge-scale infrastructure renewal/expansion of Cotta deck slab projects
Productivity	<ul style="list-style-type: none">Securing full-time engineers for specific construction projects and passing down skills and expertiseSignificant shortages of human resources, and structural decrease in skilled construction workersApplication of the revised Labor Standards Act to the construction industry	<ul style="list-style-type: none">DX (Digital Transformation), roboticsDevelopment and promotion of ICT, AI-related technologies, and other next-generation technologiesPromotion of flexible work styles (securing of human resources)
Environment	<ul style="list-style-type: none">Regulations for ecosystem conservationRecycling-related regulationsIntensifying natural disasters	<ul style="list-style-type: none">Growth of business related to renewable energy, forest conservation, smart cities, and waste treatmentDisaster recovery through unmanned construction technologies and disaster prevention support

Strategy

		Initiatives in FY2019	Future initiatives
Maintain and increase contracted construction businesses	Expansion of orders for major construction projects	<ul style="list-style-type: none">Receipt of orders for advanced construction projects, including survey and design leveraging our solutions capabilities	<ul style="list-style-type: none">Integration, analysis, and sharing of digital data; technology transfer and developmentImprovement of operational efficiency and elimination of occupational accidents
	Response to natural disasters	<ul style="list-style-type: none">Contribution to society through response to natural disasters	<ul style="list-style-type: none">Training of operators for unmanned construction machinery and high function operating roomContinuation of KUMA-DECS training in disaster information communication
Create new and innovative businesses	PPP/PFI projects	<ul style="list-style-type: none">Provision of technology concerning final disposal site maintenance and operation businessEfforts toward hydroelectric power generation concessions	<ul style="list-style-type: none">Approaches to PPP/PFI methods (concessions, comprehensive private contracting, etc.)
	Renewable energy projects	<ul style="list-style-type: none">Strengthening of support for solar power, wind power, and geothermal powerExpansion of the renewable energy project domainParticipation in EPC as investor	<ul style="list-style-type: none">Strengthening of hydroelectric repowering project initiativesFocus on frontier sectors such as biomass power generation, off-shore wind power, and geothermal power generation
Form strategic alliances with other companies	Large-scale infrastructure renewal	<ul style="list-style-type: none">Practical use and diffusion of Cotta deck slabs in large-scale highway renewal projects	<ul style="list-style-type: none">Human resource development and accumulation of design and construction technologies for deck slab replacement constructionParticipation in electric power development projects
	Partnership with Sumitomo Forestry	<ul style="list-style-type: none">Expansion of use of wood materials in the civil engineering sector	<ul style="list-style-type: none">Application of civil engineering technology to the forest industry



Hokkaido Electric Power Shintoku Hydroelectric Power Plant

Looking back on FY2019

A generally favorable environment for orders continued in the domestic market, but signs of restrained investment became visible under the COVID-19 pandemic.

As a result of FY2019, our orders received declined year-on-year to 92.4 billion yen. However, we accumulated orders in sectors in which we have less construction experience. We aim to connect this experience to the expansion of bid participation opportunities in the future.

Our sales remained strong, rising 10.6 billion yen from the previous year to 122.2 billion yen. This marked the first

time in 17 years that our sales exceeded 120 billion yen.

Amid this high level of sales, we advanced the use of ICT tools such as CIM, the IoT, and unmanned construction technologies to promote compelling working environments. We are introducing AI to sites for three main types of construction: tunnels, shields, and dams.

In this fiscal year, we started practical application of the Cotta deck slab method, a technology that we have developed. This technology is scheduled to be put to great use in works starting in the next fiscal year.

Future initiatives

To adapt to long-term changes in the construction industry, we have broadened the business domains of Kumagai Gumi to the domains of maintenance, repair, and renewal, as seen in large-scale highway renewal projects, along with our ongoing domains of PPP/PFI, concessions, ECI, DB, and other domains of project planning. We plan to continue accelerating these domains. We will also continue our efforts in overseas civil engineering and renewable energy projects.

We declared FY2019 to be our "DX ground year" and began digitalization and accumulation of numerous construction information in order to develop and transmit technology and improve operational efficiency. At present, we have stored all past construction records in the cloud,

reaching the stage at which these records can be shared. In the future, we will collect expanded information such as videos of ongoing construction works, CIM, and 3D data in the cloud in real time. We will share and analyze this information, and put it to use in everyday work.

In 2018, we launched the KUMA-DECS disaster recovery team together with 17 major civil engineering companies in the Yuuei Kyoryoku Kai* association to promptly respond to requests for support from disaster areas. We have carried out dispatch training and unmanned construction machinery operator training. We will enhance this training along with accelerated development of new unmanned construction technologies.

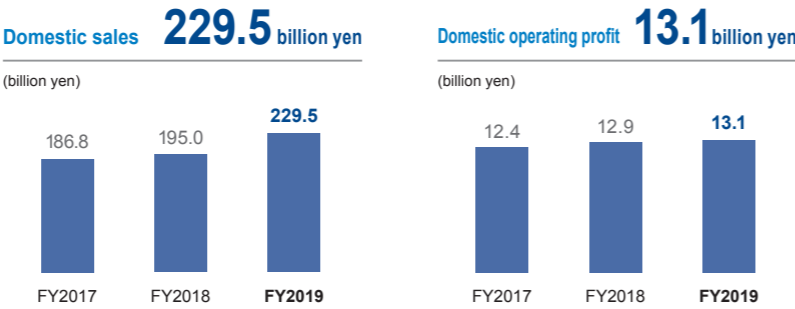
* Group of partner companies of Kumagai Gumi

Building Construction



Director and Executive Vice President
General Manager of the Building
Management Division
Yoshiaki Ogawa

- We will strengthen solution-oriented sales that resolve customer issues, and will build relationships of trust with customers.
- Our Headquarters, branches, and workplaces come together in our "Aiming to Be No.1 in Safety, Quality and Environment Management" initiative to provide construction services that customers trust.
- We will discover growth opportunities through flexible creativity, and will realize them through rapid actions.



Business environment

	Business risks	Business opportunities
COVID-19 pandemic	Decrease in markets for accommodation industry, etc. due to decrease in inbound travel	Increase in investment in telecommunications infrastructure due to increased demand for telework
Deflationary trend in the economy	Decline in appetite for private-sector construction investment	Reduction of construction costs
Aging population	Shortage of skilled workers due to declining working population	Increase in investment for school system reformation
Increased number of natural disasters such as heavy rains, typhoons, and earthquakes	Delays in processes due to construction interruptions; incurring of disaster recovery costs	Demand for BCP-compliant buildings that are resistant to disasters

Strategy

	Initiatives in FY2019	Future initiatives
Maintain and increase contracted construction businesses	● Strengthening of sales at large logistics facilities	● Strengthening of cost competitiveness in large-scale logistics facilities
	● Creation of an achievement in the hotel sector	● Strengthening of initiatives aimed at luxury-class hotels
	● Continued sales activities in the medical and welfare sector	● Strengthening of initiatives aimed at public-private demand for hospital rebuilding
	● Ongoing endeavors to become "No.1 in Safety, Quality and Environmental Management"	● Improvement of productivity through ICT technology and construction BIM activities
Create new and innovative businesses	● Expansion of business domain in the medium- and large-scale wood structure market	● Strengthening of initiatives aimed at wooden office buildings
	● Promotion of urban redevelopment projects	● Promotion of participation in urban redevelopment projects
Form strategic alliances with other companies	● Strengthening of partnership with Sumitomo Forestry	● Creation and realization of synergies with Sumitomo Forestry
	● Collaboration with plant manufacturers	● Promotion of alliances with incineration facilities



The Fukui Bank, Ltd. Head office

Looking back on FY2019

The amount of orders received decreased from the previous year due to the considerable number of orders placed at the end of FY2018, as a measure against the consumption tax hike in October 2019. Meanwhile, orders received were focused on promising growth sectors in the private-sector market, such as large-scale logistics facilities undergoing growing demand due to the growth of e-commerce in the retail industry, office buildings centered in Tokyo metropolitan hubs, and production facilities across Japan. These will help maintain and expand sales of Building Construction in the future.

With regard to sales, all of our headquarters, branches, and workplaces have made efforts to increase productivity in our abundant existing construction projects, achieving new highs in productivity for the past few years.

We believe that technological advancement lie at the core of our corporate value. In FY2019, we received a Good Design Award for the Branz Rokubancho condominium (Chiyoda-ku, Tokyo), which we designed and constructed. We will continue working to hone and pass down our technical skills and expertise.

Future initiatives

We believe that the COVID-19 pandemic will have a variety of effects on construction investment. As the pandemic moves toward subsiding, we will flexibly and promptly respond to changes in society and will continue to provide construction services that customers can trust.

Areas in which growth is expected include renewal of waste treatment facilities, the medical and welfare sector under the expansion of regional medical services in an aging society, and the e-commerce logistics sector boosted by the pandemic.

In the medium- and large-scale wood structures that we are pursuing in collaboration with Sumitomo Forestry, we will seek to seize business opportunities such as utilization for office buildings.

Overseas Projects



Bank of China Tower (Hong Kong)



TAIPEI 101

Looking back on FY2019

As a new initiative in FY2019, we established a joint venture with Sumitomo Forestry focusing on real estate investment in Singapore. As our first overseas development project in collaboration with Sumitomo Forestry, we will invest through this joint venture and undertake a development project for a condominium and commercial high-rise complex in the central area of Jakarta, Indonesia, with a total project cost of about 16 billion yen.

In addition, in Management, Operations, and Maintenance (MOM) projects in Hong Kong, we added to the previous fiscal year's order for the Tate's Cairn Tunnel by receiving another order for the Eastern Harbour Crossing (EHC) Tunnel and renewing our contract (6 years).

In addition, the Bank of China Tower (Hong Kong) and TAIPEI 101 properties constructed by Kumagai Gumi were selected among the "50 Most Influential Tall Buildings of the Last 50 Years" by the Council on Tall Buildings and Urban Habitat (CTBUH), an eminent US-based international NPO.

Future initiatives

In April 2020, we reorganized the existing International Branch Offices to establish the International Division, and simultaneously established a new sales office in Indonesia. These were done to accelerate measures aimed at making our international business a base for sustained income, as indicated in our Medium-term Management Plan. We will powerfully promote a wide range of developments in collaboration with group companies, in addition to contracted construction work such as ODA projects in Asian countries and support for overseas expansion by Japanese companies, to take on development projects including projects in collaboration with Sumitomo Forestry, PPP projects, infrastructure MOM projects, and more.

Urban Development Projects



Conceptual image of completed new construction of Type-1 Urban Area
Redevelopment Project facility in the Kanazawa Station Musashi-minami area

Looking back on FY2019

In urban redevelopment projects, we received an order for new construction of Residence in the Kanazawa Station Musashi-minami area. Construction is now underway, with completion scheduled for the autumn of 2021. In addition, we were selected as a designated business agent for urban redevelopment projects in Shinjuku Ward in Tokyo and the city of Iwaki in Fukushima Prefecture. We will work toward successful redevelopment in these projects while holding discussions with the respective proprietors and providing support to the secretariats.

In projects to utilize the space of shrines and temples, we provided support from the project configuration stage of a temple restoration project in Kyoto, which successfully completed in June 2020.

Future initiatives

Two urban redevelopment project properties in which we are currently participating as a designated business agent will enter important phases in starting their construction. We will work to advance these projects while resolving issues one by one.

In new urban redevelopment projects, we will actively challenge publicly offered projects and work to further increase orders, so that we can continue participating in projects from the previous year.

Looking ahead, we will strengthen our efforts in built-in sales, such as effective utilization of public land.

Through the variety of knowledge we have accumulated through projects to utilize the space of shrines and temples, we will continue to develop our sales activities to religious corporations, positioning these projects as real estate utilization-oriented restoration projects to strengthen our sales efforts.

New Category Projects

Looking back on FY2019

In response to future contraction of the domestic construction market, we are taking part in projects that involving investments. Our goal is diversification in our income bases beyond contracted construction businesses, and securing stable income bases that will compensate for income fluctuations.

In PPP and PFI projects, we have traditionally focused on service purchase-oriented projects as a means of public procurement, but are also advancing larger-scale projects and independent profit-oriented projects. As in FY2018, we launched and bid on concession projects, infrastructure operation projects, renewable energy projects, and other projects in the aim of securing profits through project operation.

Future initiatives

We position the following businesses as key sectors for our company and will continue challenging them with the goal of commercialization.

- Concession projects that form one essential of Japan's future growth strategy.
- Infrastructure operation projects and renewable energy projects that promise long-term and stable revenue.

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.



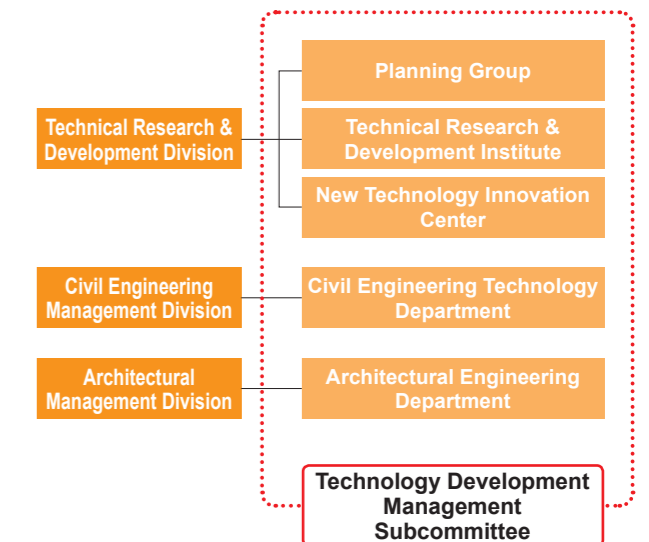
Technology Development System

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

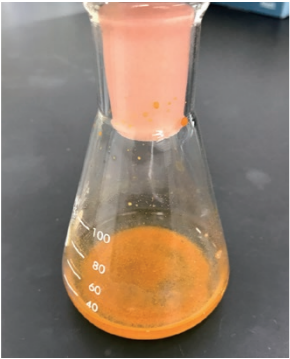
Development of CCU technology that contributes to achieving a carbon cycle-oriented society

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 CO₂ 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 CO₂ 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 CO₂, once made possible, is expected to have a great effect on reducing CO₂ emissions and in creating a new industrial sector of CO₂ 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

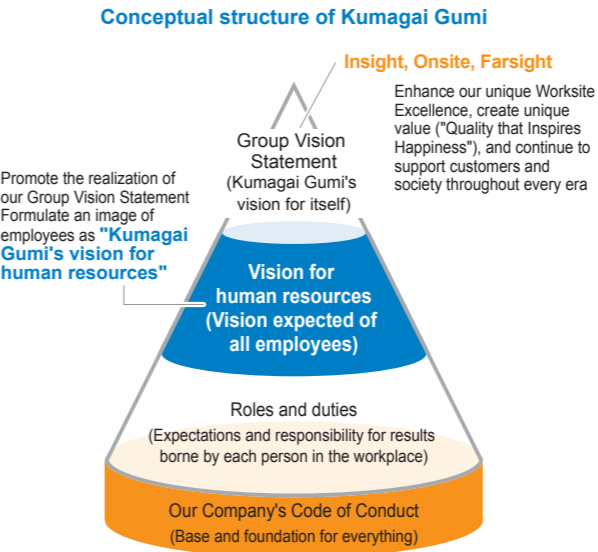


Ethylene production equipment (electrified cultivation equipment)

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.

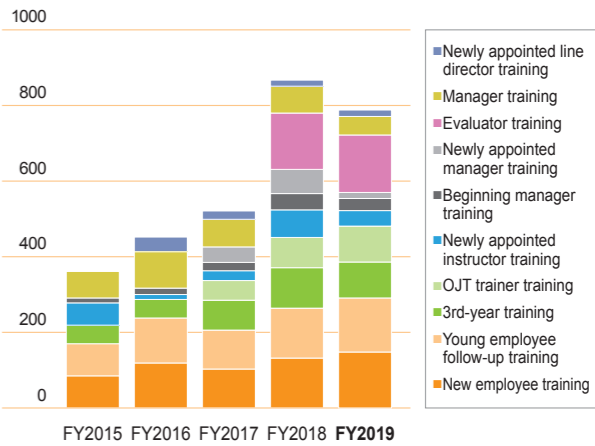
(3) Group training

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

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

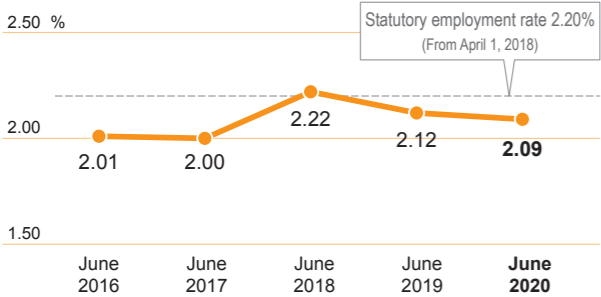
Status of employment of elderly persons

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



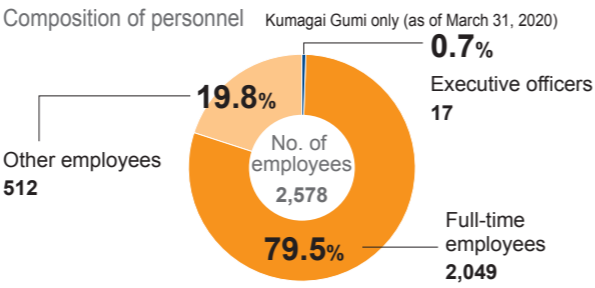
Promotion of diversity

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.

See P13 for number of employees and number of female managers



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.

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 <ol style="list-style-type: none"> 1. Prevention of disasters/accidents involving heavy construction equipment 2. Prevention of slip-and-fall accidents 3. Prevention of tumbling/elderly person accidents 4. Prevention of heat stroke 5. Reduction of construction work accidents that lead to public disaster
	Operation of management system <ol style="list-style-type: none"> 6. Enforcement of a line and staff control system 7. Strengthening of occupational health and safety guidance by specialty constructors 8. Support for branch safety priority management sites 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"

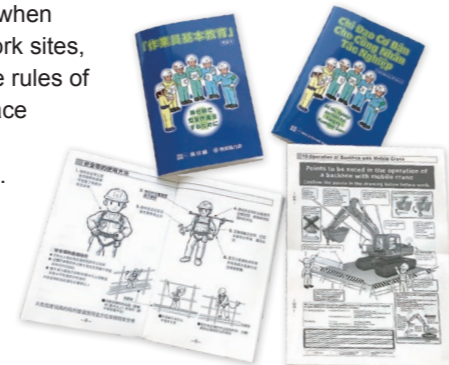
Every department that supports workplaces is working to improve occupational safety and health management by carrying out its roles in this system.

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.

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

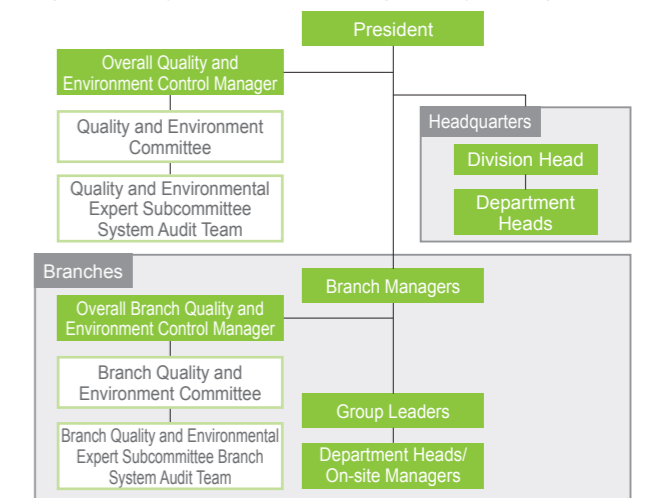


Figure 2. Conceptual diagram of the Quality and Environment Management System



See website for details

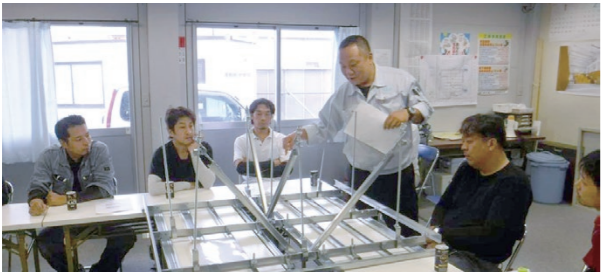
Occupational health and safety initiatives <https://www.kumagaigumi.co.jp/en/csr/safety/index.html>

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.



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).



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.

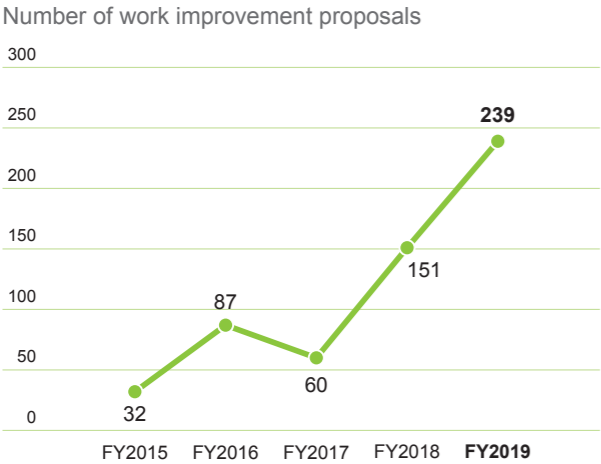


Technology presentation To share information on ever-evolving architectural construction and civil engineering technologies and make full use of these in our everyday work, we hold presentation meets to broadcast technologies we have developed and new technologies introduced at workplaces company-wide.



Business improvement and creative refinement proposal program

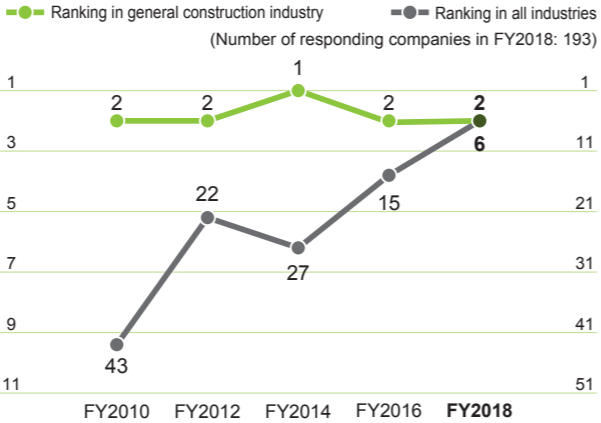
We operate a business improvement and creative refinement proposal program with aim of improving business and work efficiency and cutting costs. The program solicits proposals for business improvements, refinements, and ideas from our employees and the employees of partner companies, receiving 239 submissions 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.



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.

(1) FY2020 Mixed waste discharge target	Architectural sites	Civil engineering sites
	All sites Less than 10 kg/m ² 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	<ul style="list-style-type: none">Decline in competitiveness due to insufficient adaptation to social systems and regulatory tighteningOccurrence of damage to health due to rise in average temperatureOccurrence of construction delays and shortages of materials and equipment due to abnormal weather	<ul style="list-style-type: none">Creation of technologies, products, and businesses that resolve climate change issuesExpansion of markets due to growing customer needs for environment-friendly design and constructionExpansion of demand for infrastructure development associated with increasing frequency and intensity of natural disasters
Resource recycling	<ul style="list-style-type: none">Loss of trust due to non-compliance with laws and regulationsDecline in competitiveness due to insufficient compliance with laws and regulations	<ul style="list-style-type: none">Creation of technologies, products, and businesses for building a recycling-oriented society
Biodiversity	<ul style="list-style-type: none">Interruption or cancellation of business due to destruction of the environment	<ul style="list-style-type: none">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 CO₂ emissions overseas – Taiwan Kumagai Co., Ltd. <https://www.kumagaigumi.co.jp/csr/environment/ecofirst/ecofirst01/> (Japanese only)
The Kumagai Gumi Group Corporate Report 2020

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 CO₂ 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 CO₂ 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.

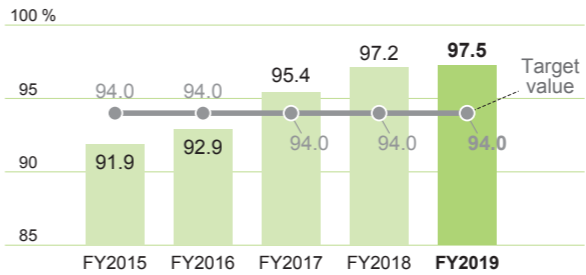
Environmental incidents

No environmental incidents occurred in FY2019.

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

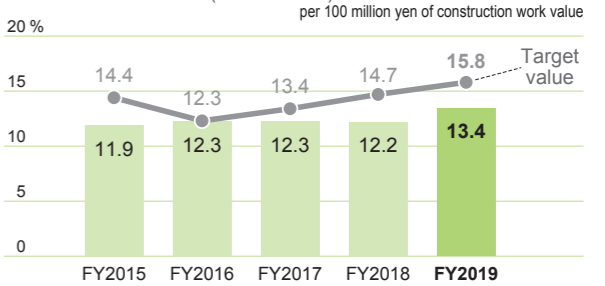
Environmental goal		FY2019 target	FY2019 results	Evaluation	FY2020 target
Reduction of CO ₂ emissions	Civil Engineering	46.7 t-CO ₂ /100 million yen or less	40.1 t-CO ₂ /100 million yen	Achieved	39.4 t-CO ₂ /100 million yen or less
	Building Construction	10.7 t-CO ₂ /100 million yen or less	7.2 t-CO 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/m ² or less	9.1 kg/m ²	Not achieved	5.57 kg/m ² 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

Recycling rate (construction)

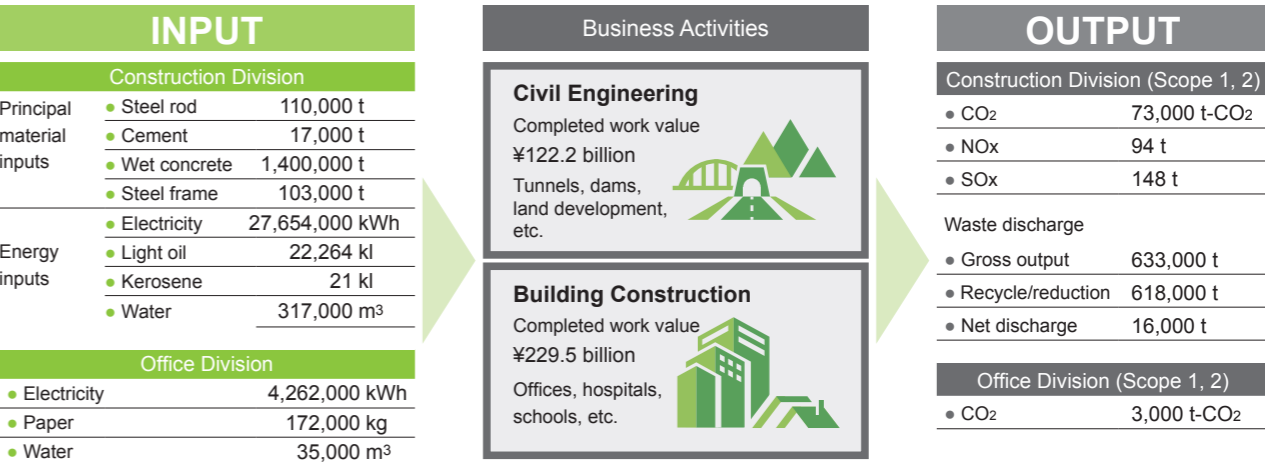


* Includes construction sludge from FY2017

Green Purchase Rate (construction)

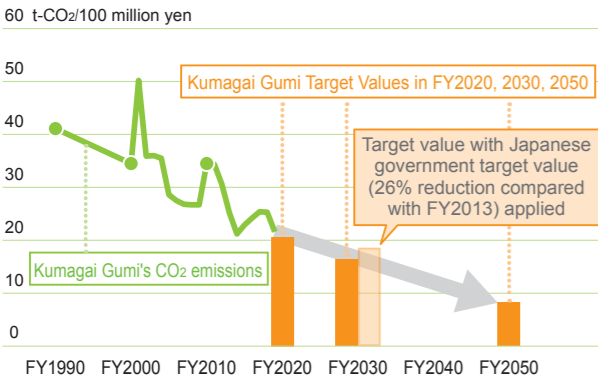


Impact on business performance and the environment FY2019 performance/Kumagai Gumi only

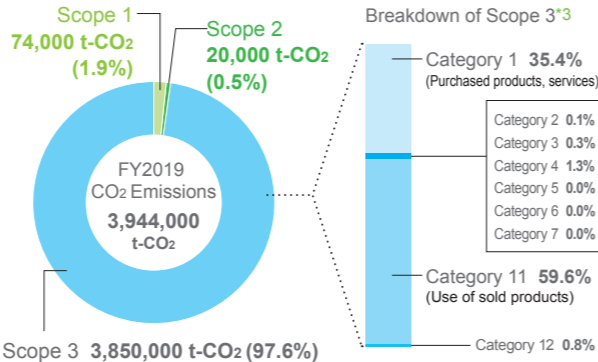


* Of the greenhouse gases (CO₂, CH₄, N₂O, HFC, PFC, SF₆), those other than CO₂ (CH₄, N₂O, HFC, PFC, SF₆) are not emitted through our business activities

CO₂ Emissions: Intensity*¹ (construction work + offices) (Scope 1, 2)*²
Kumagai Gumi only (domestic)



CO₂ Emissions: Gross volume (Scope 1, 2, 3)*⁴
The Kumagai Gumi Group



*¹ CO₂ 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.



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

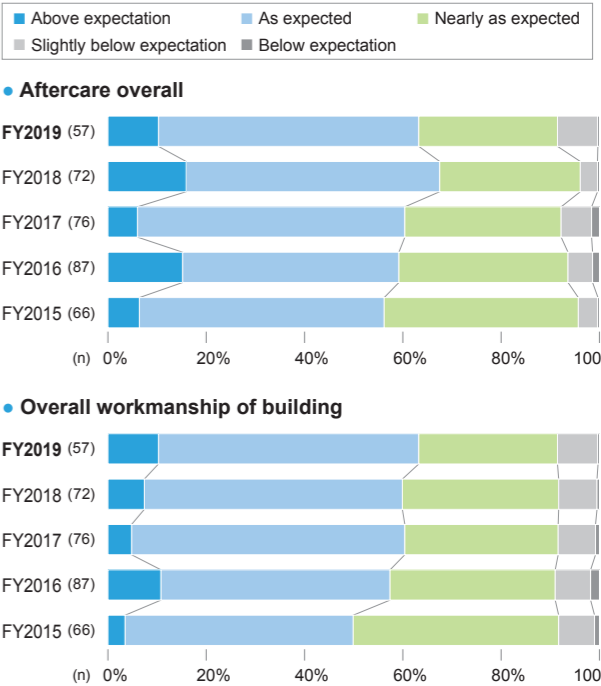
Three years after delivering a structure to customers, we conduct a comprehensive evaluation questionnaire. We respond promptly to the responses received, analyze the overall questionnaire, and make use of the content as valuable management information of use in design, construction, sales activities,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

Questionnaire items
<ul style="list-style-type: none">• Workmanship• Aftercare• About Help desk• Work progress by our employees• Performance and design of structure• Comprehensive evaluation
Purpose of questionnaire
<ul style="list-style-type: none">• 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

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)

Questionnaire results



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	Opportunities
<ul style="list-style-type: none">● 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	<ul style="list-style-type: none">● 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.

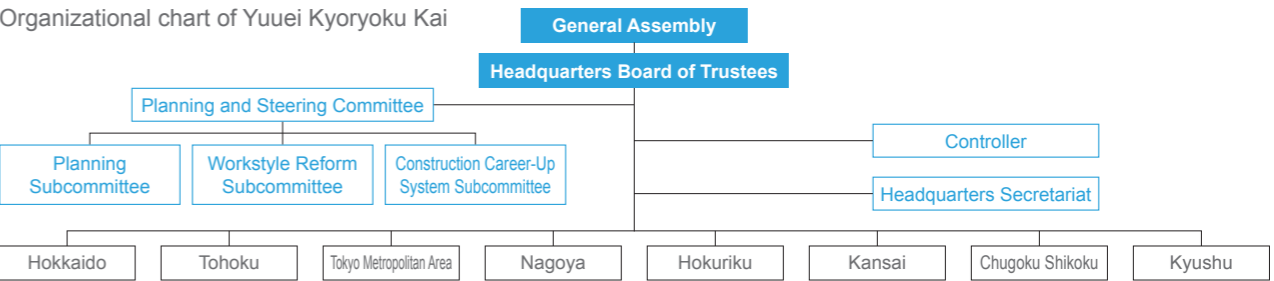
In accordance with the "Declaration of Abiding by Labor Cost Quotations" from the Japan Federation of Construction Contractors, we enforce the submission of quotations from partner companies that clearly state appropriate wages for skilled construction workers, and, after confirming the content, abide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

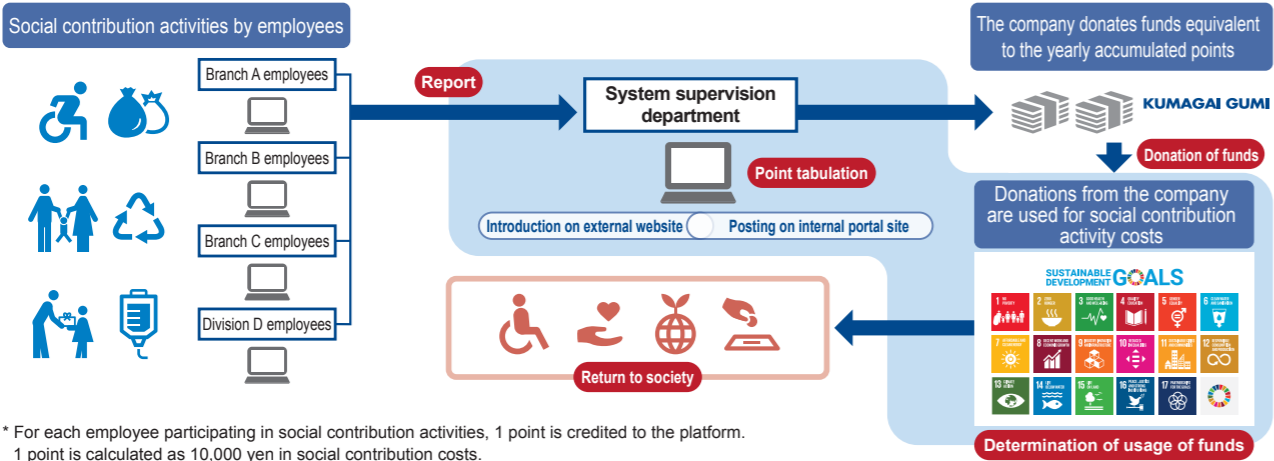
In FY2019, 879 employees participated in 108 activities in the areas of the environment, education, welfare, regional contribution, and more, with Kumagai Gumi donating 8.79 million yen in social contribution costs.

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)



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.



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
Brantz 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.
Apr 2010 General Manager of the Human Resource Division
Apr 2011 Executive Officer
Jun 2012 Director
Apr 2014 Managing Director
Managing Executive Officer
General Manager of the Management Administration Division
Apr 2015 General Manager of the Corporate Planning Division
Apr 2017 Senior Managing Director
Senior Managing Executive Officer
Apr 2018 President, Representative Director (current)
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
Deputy General Branch Manager of the Tohoku Office
Apr 2014 Managing Executive Officer
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
Senior Managing Executive Officer
Apr 2020 Director (current)
Executive Vice President (current)

Susumu Ogawa

Director
Senior Managing Executive Officer

Apr 2010 Sumitomo Mitsui Banking Corporation
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
Senior Managing Executive Officer (current)
Apr 2017 In charge of International Business
In charge of Marketing
Apr 2020 Director (current)

Mikie Yumoto

Director *1

Apr 1971 Joined IBM Japan Ltd.
May 1981 Joined American Family Life Assurance Company of Columbus, Japan Branch (Aflac)
(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)
Executive Vice President and Executive Officer of above company (current)
Jun 2018 Audit & Supervisory Board Member, Kumagai Gumi Co., Ltd. (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
General Manager of the Building Management Division, Kansai Office
Apr 2012 Deputy General Branch Manager of the Kansai Office
Apr 2013 Managing Executive Officer
Branch Manager of the Kansai Office
Apr 2017 Senior Managing Executive Officer
General Manager of the Building Management Division (current)
Jun 2017 Senior Managing Director
Apr 2020 Director (current)
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)
In charge of Personal Information Protection (current)
Apr 2017 Managing Executive Officer
Jun 2018 Managing Director
Apr 2020 Director (current)
Senior Managing Executive Officer (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)
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.

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

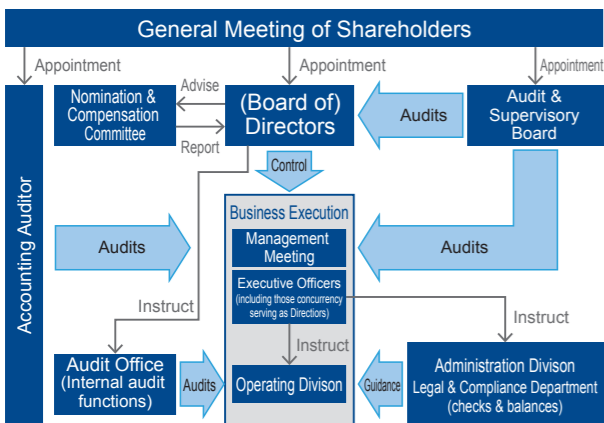
See P56-57 for details

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.

Corporate Governance System



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



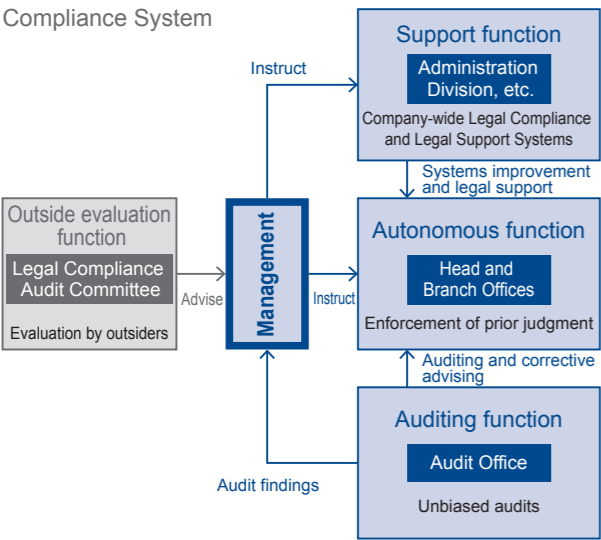
See website for details

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.



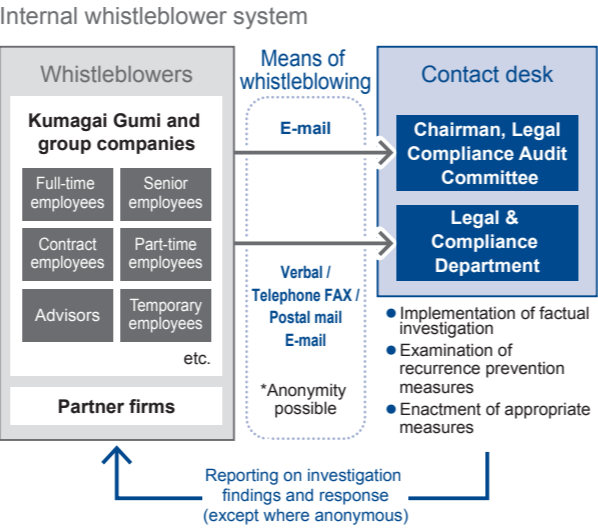
Legal Compliance Audit Committee
The Legal Compliance Audit Committee is composed of internal company committee members as well as outside committee members who include former judges and former prosecutors. It convenes every year to strengthen the compliance systems of Kumagai Gumi Group.

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.



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 pneumoconiosis 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)

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, Kanagawa 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

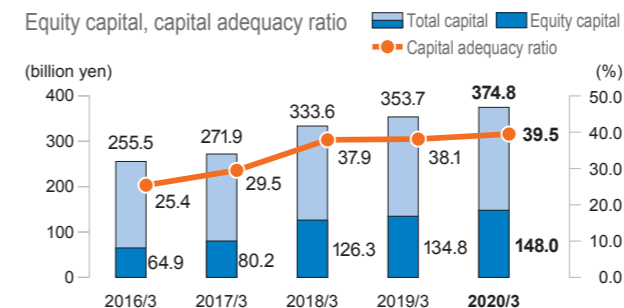
due to factors including the recording of 14.9 billion yen in notes receivable and accounts receivable from completed construction contracts associated with an increase in sales, and the recording of uncollected consumption tax.

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%.



■ 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

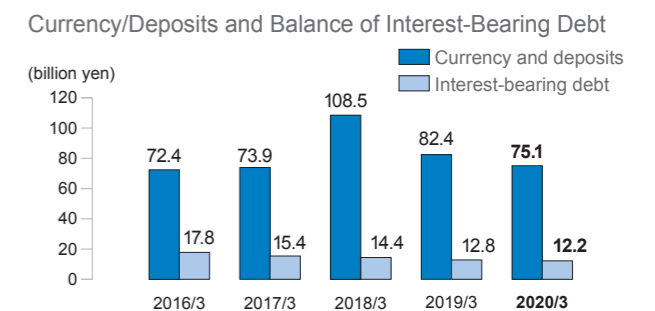
The group bases its short-term working capital on self-funding and short-term borrowings from financial institutions, and bases its capital and long-term working capital related to capital expenditures on self-funding and long-term borrowings from financial institutions.

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.

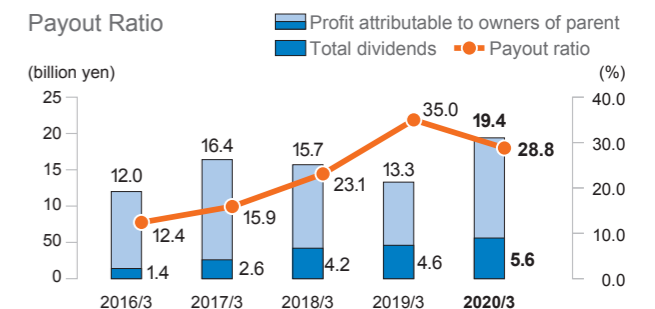


■ Dividends

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.



(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

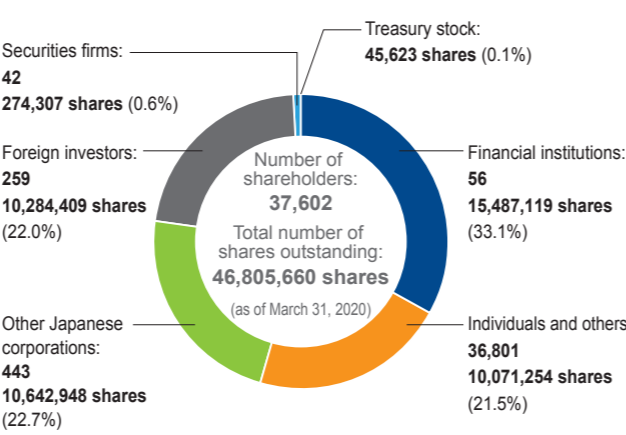
- **Registered Head Office:** 2-1, 3-chome, Ote, Fukui-shi, Fukui 910-0005, Japan
- **Headquarters:** 2-1, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8557, Japan
- **Domestic Offices:** Hokkaido Office, Tohoku Office, Tokyo Metropolitan Area Office, Nagoya Office, Hokuriku Office, Kansai Office, Chugoku Shikoku 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

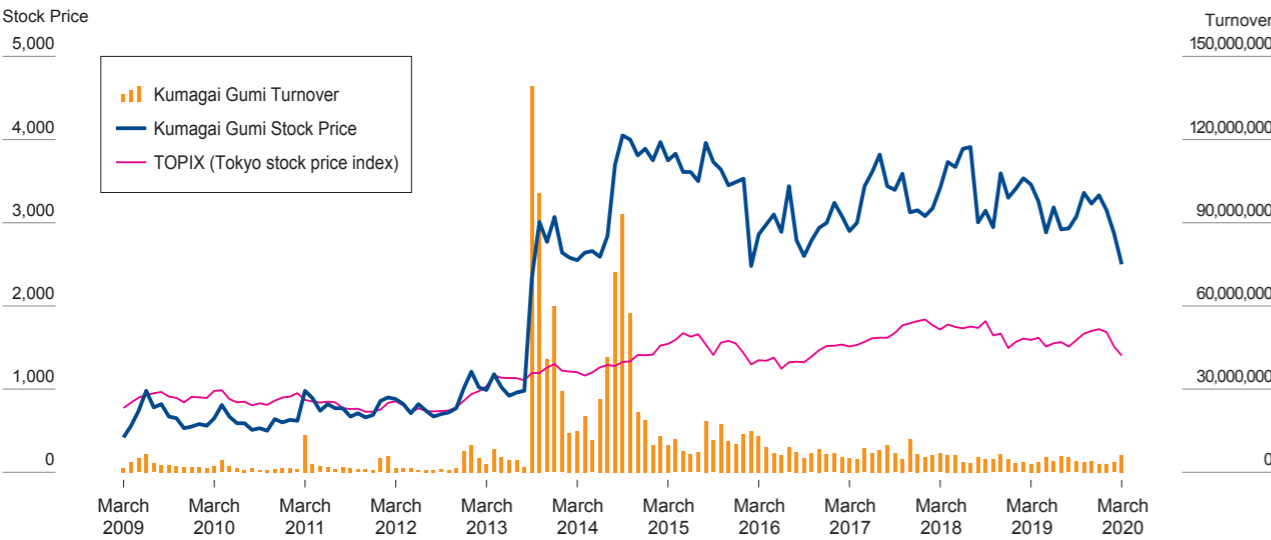
Current Status

- **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



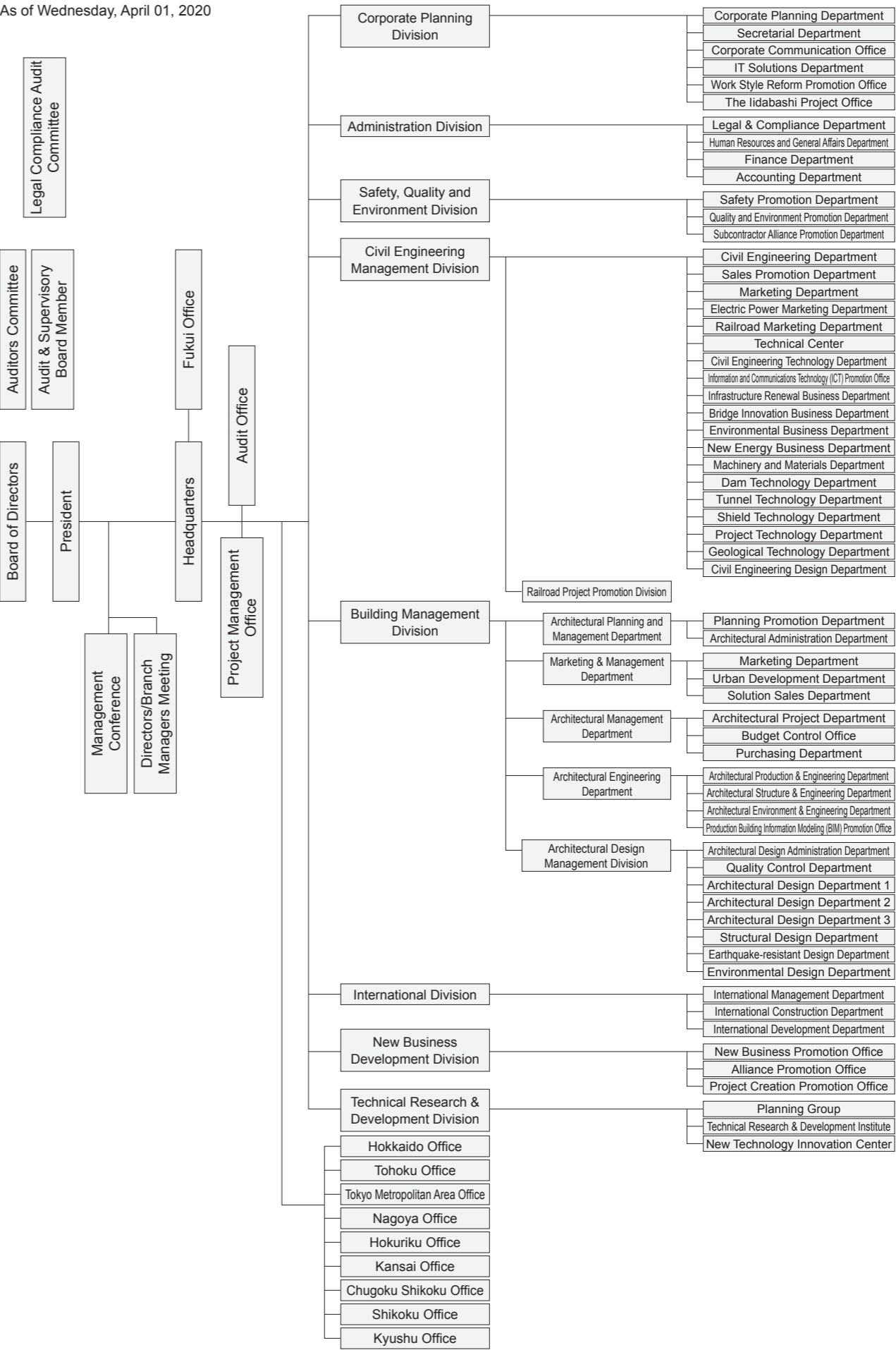
Stock Trading Data



* 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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