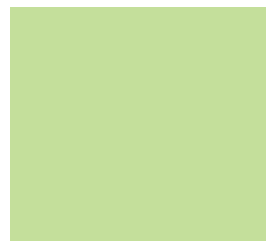




Insight, Onsite, Farsight

The Kumagai Gumi Group
Corporate Report

2019



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 never-ending support, our structures serve as the timeless stage
on which each generation performs its 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.

Civil engineering renewal work between Chugoku Expressway Hokubo Interchange and Osa Smart Interchange (inbound lanes)

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 our 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.

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 and its efforts to provide solutions to social issues, 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:

FY2018 (April 1, 2018 to March 31, 2019)

The information in this report includes some information from April 2019 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 conservation activities, construction data is provided for the projects undertaken by Kumagai Gumi in Japan only as well as for joint venture projects with Kumagai Gumi as the lead company.

Issue Date

August 2019 (Previous edition: August 2018; Next edition: Scheduled for August 2020)

Referenced Guidelines

- Environmental Reporting Guidelines (2018 Edition) by the Ministry of the Environment
- IIRC International Integrated Reporting Framework

Information on the website

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



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 certain assumptions that we believe are reasonable. Actual results may, therefore, differ materially from these statements for various reasons.

Table of Contents

Kumagai Gumi Group Vision Statement	2
Mission Statement, Management Philosophy and Editorial Policy	3
The Kumagai Gumi Group's Business	4
The Kumagai Gumi Group's Value Creation Process	6
Financial and Non-Financial Highlights	8

The Medium-term Management Plan (FY2018-2020) ~ Strategies for Accelerating Growth ~	10
Interview with the President	11

Insight	18
Technology Development System	19
Technology to Create Social Value	20
Diverse Human Resources	21

Onsite	23
Aiming for Safe Workplace Environments	24
Quality Control and Environmental Preservation	25

Farsight	30
Involvement with Customers	31
Involvement with Employees	32
Involvement with Shareholders and Investors	33
Involvement with Business Partners	33
Involvement with Local Communities	34
Evaluation by Society	35

Governance	36
List of the Board of Directors	36
Corporate Governance	38
Risk Management	40

Business Overview	42
Group Strengths	42
Civil Engineering	44
Architectural Construction	45
Overseas Projects and Other Business	46

Financial Information	48
Analysis of Financial and Management Performance	48
Consolidated Financial Statements	50

Corporate Information and Stock Information	54
Organizational Chart	55

The Kumagai Gumi Group's Business

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 8 companies of the Kumagai Gumi Group

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.

► See details of companies on P42-43

The main businesses that have supported the group's development

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.

P44



Tohoku-Chuo Expressway, Yamagatazao Tunnel construction



Wasabizawa Geothermal Power Plant production and return facilities construction

Architectural 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.

P45



Park Court Gyoei The Forest



Nagoya Campus Taiho, Nagoya Gakuin University

New business domains for future activity

Overseas Projects

The Kumagai Gumi Group is expanding our sales and marketing networks in our overseas offices, and is striving to expand our business to secure stable sources of revenue. To enhance the earnings potential of our overseas business, we will focus our energies on the promotion of alliances with partner companies, the strengthening of global human resources, and risk management.

P46-47



TAIPEI 101 (Taiwan)



Route 9 Eagle's Nest Tunnel (Hong Kong)

Other Projects

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

P46-47



Inagi City Central Library (PFI project)



Shiraito Highland Way (infrastructure operation project / GAEART Co., Ltd.)

The History of the Kumagai Gumi Group

1898 Founding of Kumagai Gumi

1938 Establishment of Kumagai Gumi Co., Ltd.

1945 Establishment of Architectural Construction Division

1958 Opening of 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 Technical Support Co., Ltd.

1996 Spin-off of Toyokawa Plant 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.

The Kumagai Gumi Group's Value Creation Process

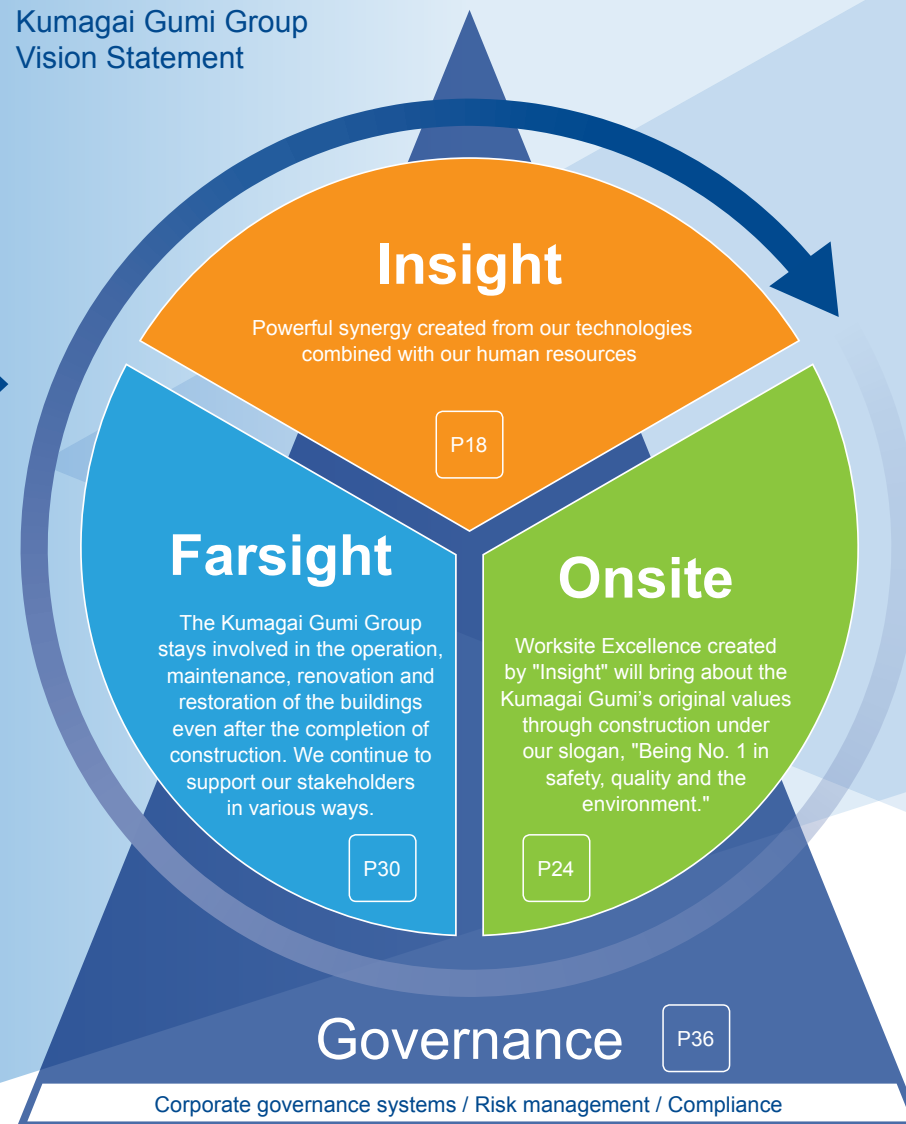
The Kumagai Gumi Group conducts business activities on the basis of its Group Vision to contribute to the resolution of social issues and be of service to our stakeholders.

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.

Key issues from the perspective of ESG (Materiality)

Environment	Society	Governance
Formation of environmentally considerate business	Achievement of motivating workplaces where diverse human resources can exert their capabilities	Strengthening of corporate governance
	Achievement of sustainable communities	Reinforcement of relationships with stakeholders

Kumagai Gumi Group Vision Statement



Financial constitution
Total Assets 353.7 billion yen
Manufacturing capital
"Yuuei Kyoryoku Kai" 868 companies
Manufacturing sites 32 <small>*A group composed of 868 (as of April 1, 2019) partner companies of Kumagai Gumi.</small>
Intellectual capital
No. of patents 73 Research and development expenses 2.3 billion yen (non-consolidated)
Human capital
Number of employees (non-consolidated) 2,497 (consolidated) 4,032
Societal capital
Domestic sites (non-consolidated) Branches 10 Sales offices 34 Technical laboratories 1
Natural capital
Electric power 31,468,000 kWh Gas 102,000 m³ Diesel oil 23,292 kl Kerosene 12 kl Water 399,000 m³ (non-consolidated)

FY2018 performance



Domestic civil engineering sales 111.6 billion yen
Domestic architectural construction sales 195 billion yen
Overseas projects sales (including overseas group companies) 10.8 billion yen
Domestic group companies' sales 71.7 billion yen

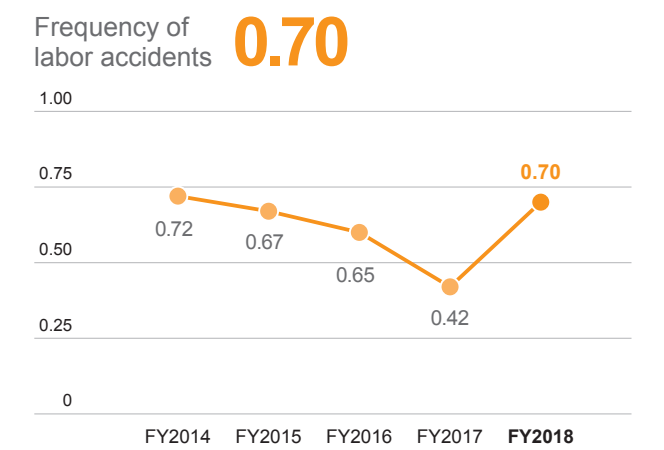
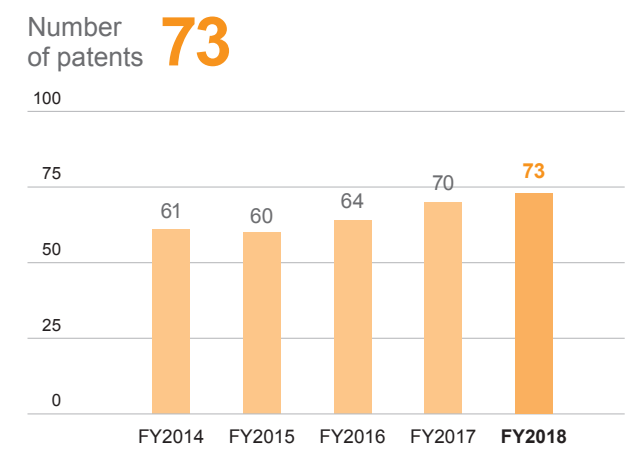
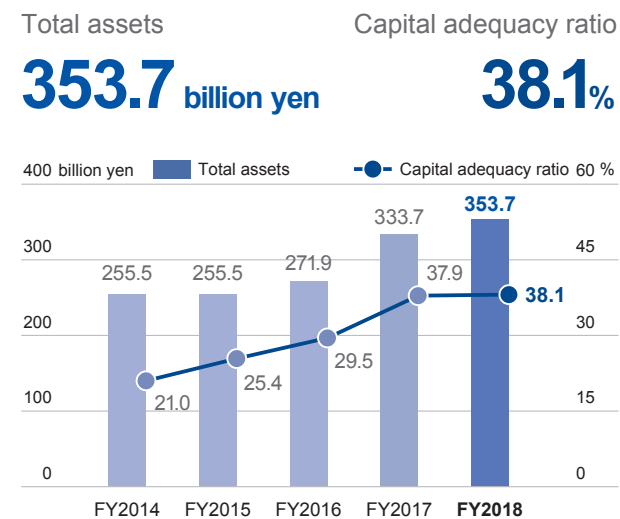
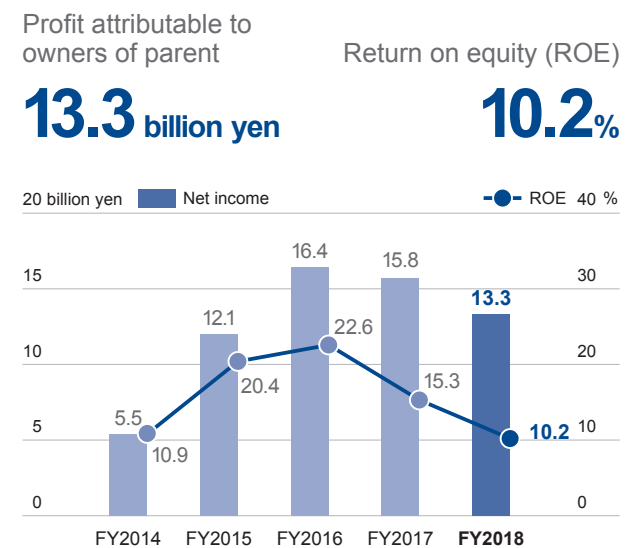
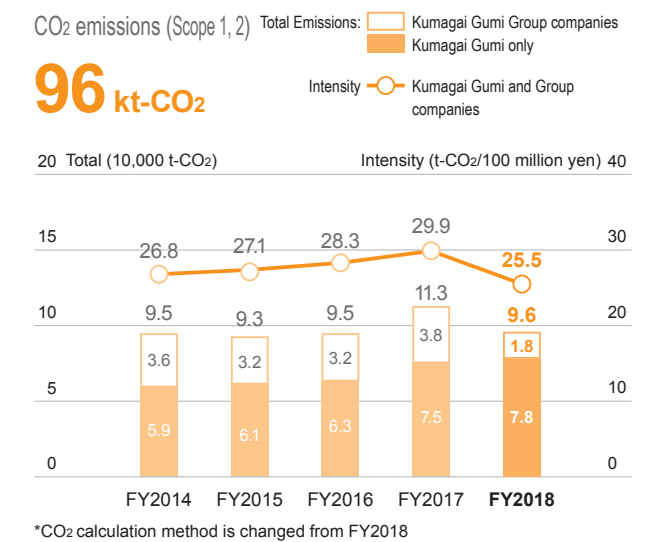
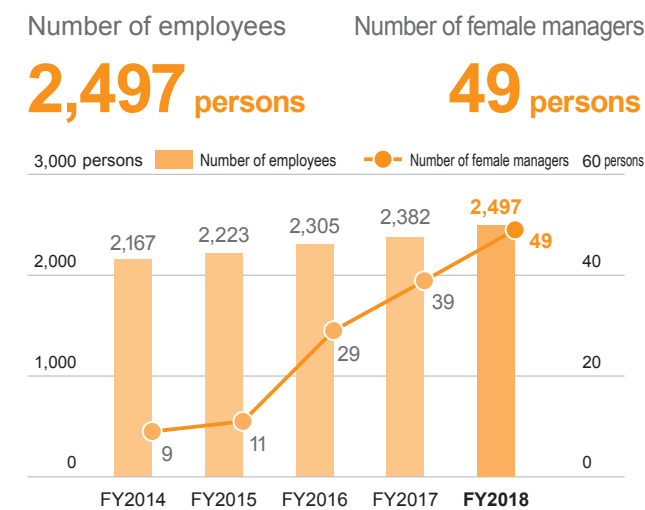
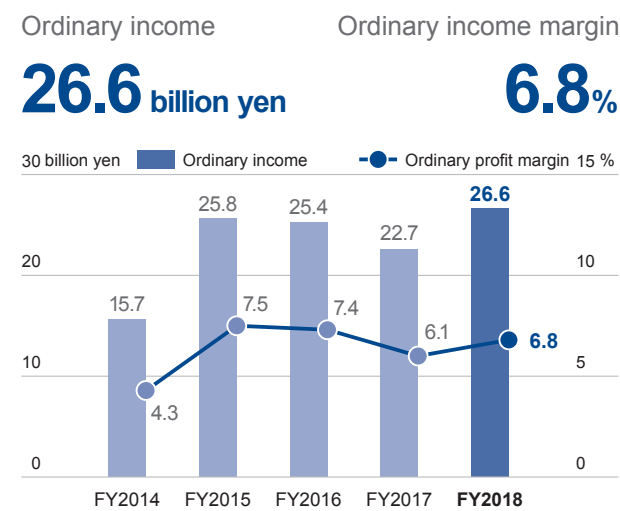
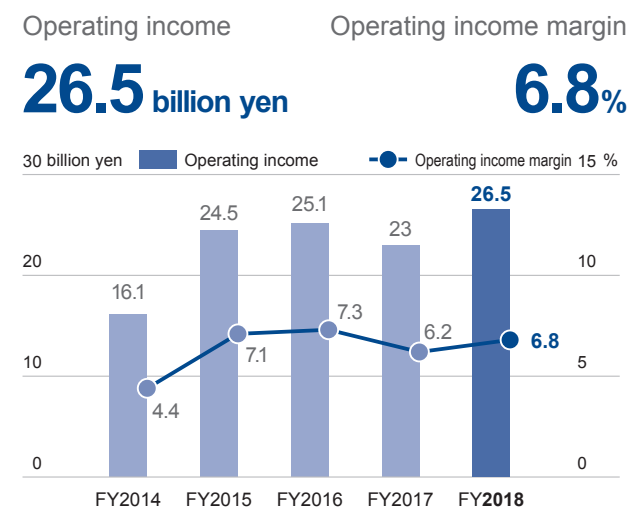
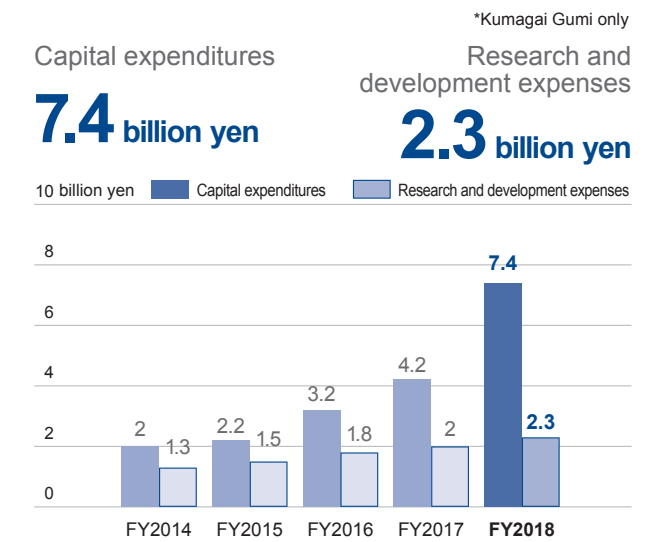
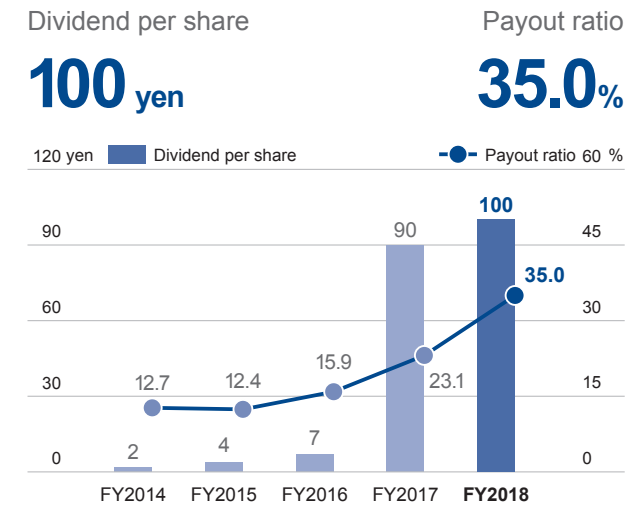
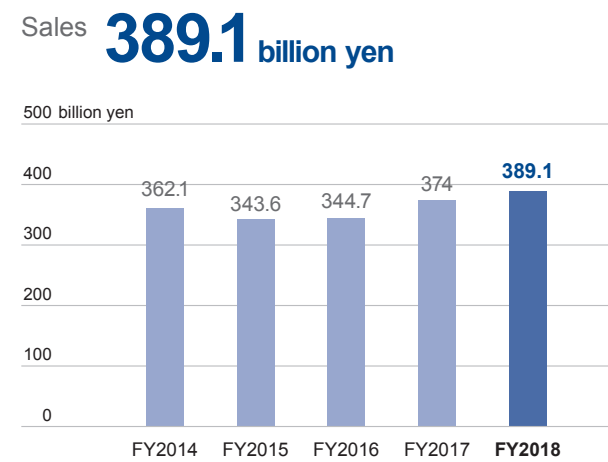
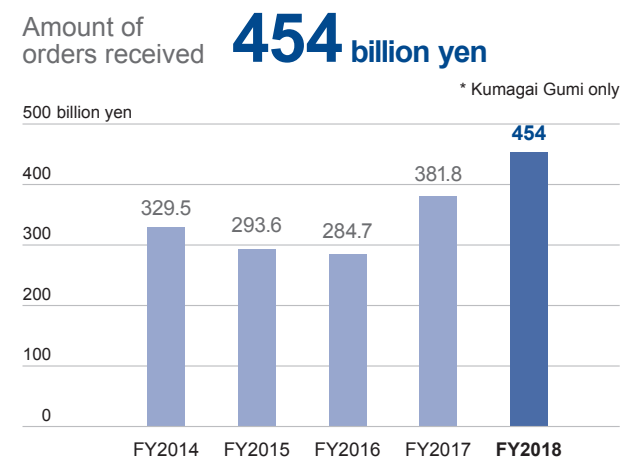
FY2018 performance

The Value We Provide to Stakeholders



Financial and Non-Financial Highlights

* 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.



The Medium-term Management Plan (FY2018-2020) ~ Strategies for Accelerating Growth ~

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.

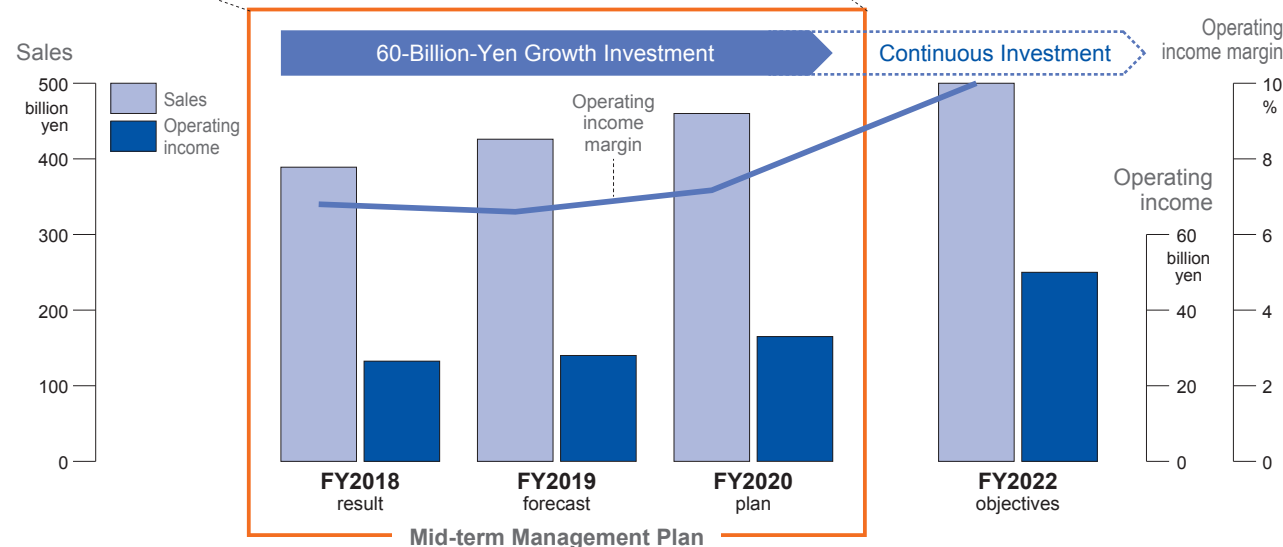
Three Strategies and Target Numbers

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)



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

Interview with the President



We will take on the challenge of further growth together with our employees, with the aim of being a company that exerts a presence.

Kumagai Gumi Co., Ltd.
President
Yasunori Sakurano

Y. Sakurano

Please tell us about the market environment and the results of the first year of the Medium-Term Management Plan.

Compared to the previous term, we achieved increases in both sales and operating income, and greatly exceeded the operating income target in the Medium-Term Management Plan. We were able to feel new effects.

For Kumagai Gumi, 2018 was a milestone as the 120th year since our founding. Along with the start of a new Medium-Term Management Plan, it was a year in which we took a great step forward toward further growth.

Based on the Medium-term and Long-term Management Direction that we put forth in 2017, the Kumagai Gumi Group formulated a Medium-Term Management Plan built on three strategic pillars: "Maintain and increase contracted construction businesses," "Create new and innovative businesses," and "Form strategic alliances with other companies." Having gone through a period of renewal, the reborn Kumagai Gumi Group is setting "Strategies for Accelerating Growth" as our theme.

Fiscal 2018 marked our first step toward that challenge. Under favorable conditions in the construction market, our company was able to unite and deliver solid results. Sales were nearly in line with plans, while operating income significantly exceeded our target, resulting in an increase in both sales and profits. For me personally, fiscal 2018 was the year in which I was appointed President, and I believe it was a year in which I was able to feel new

effects together with executives and employees.

The environment surrounding the construction industry remains robust, for reasons including natural disaster readiness and mitigation projects, projects to address superannuated social infrastructure, and projects to develop facilities for the Tokyo Olympic and Paralympic Games. The market is expected to remain robust for the time being, with continued inbound demand, the full-scale start of construction on the Chuo Shinkansen maglev line, and the decision to host Expo 2025 in Osaka.

At the same time, looking outward toward the world, factors including US-China trade frictions and the UK's Brexit issue are creating uncertainty in the global economy. Domestically, a major turning point will come for our company in the near future, for reasons including a declining market under a shrinking population. To respond to these changes, further strengthening of our core contracted construction businesses, as well as the creation of new businesses and strategic alliances with other companies, will be vital.

What sort of effects do you feel from the goal of "maintain and increase contracted construction businesses," as set forth in the Medium-Term Management Plan?

We received a succession of large-scale project orders. We also accumulated a large amount of projects carried forward, and were able to make a solid start.

Regarding "Maintain and increase contracted construction businesses," we received orders for a succession of major projects, including construction for the Chuo Shinkansen maglev line, and we expanded orders in both civil engineering and construction. Orders received by Kumagai Gumi alone in fiscal 2018 increased by 18.9% year on year, the second consecutive year of increases. We achieved increases in sales and operating income, making a solid start.

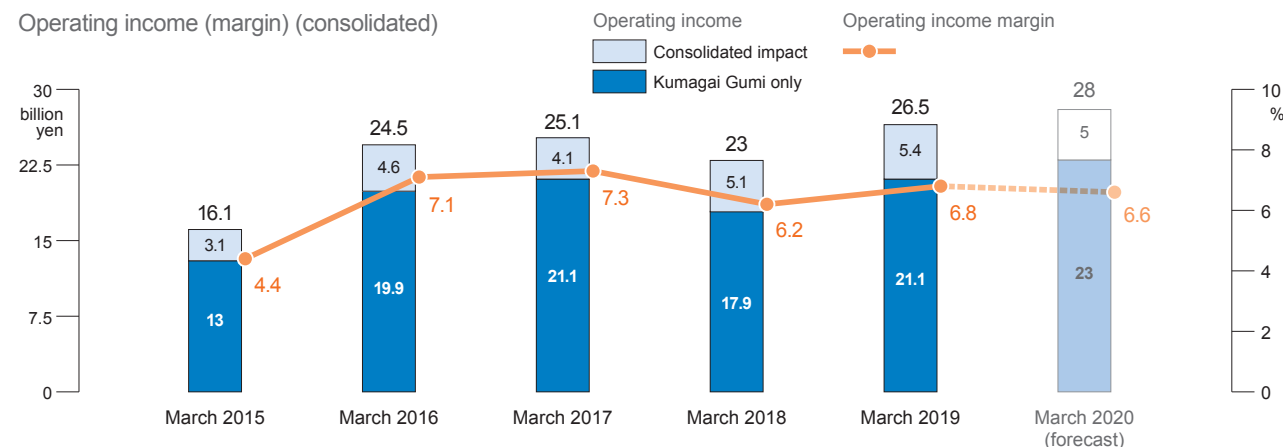
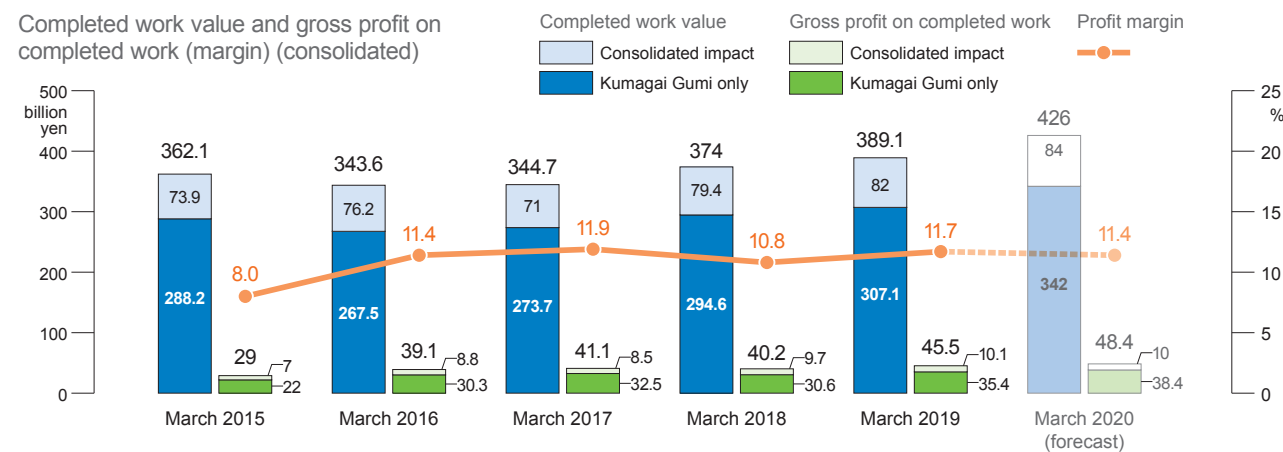
This is the result of our strengthening of solutions capabilities, a measure set forth in the Medium-Term Management Plan, continuing to bear fruit. I feel that we are steadily building up ability in both civil engineering and architecture. We will continue to burnish our unique solutions sales capabilities and technical sales capabilities.

In overseas business, we continue to deliver results

including landmark architecture in Taipei and the MOM toll road project in Hong Kong*. Seen overall, however, we are working to deepen our market and make basic preparations for our new business. We will also make efforts toward collaboration with Sumitomo Forestry, which has strengths overseas, and will aim to secure profit from the businesses that will support our company's next era.

While orders are expanding steadily in these contracted construction businesses, there are also many issues to address, including the improvement of productivity. We will also pursue initiatives in measures to enhance the level of our operating income. In fiscal 2018, we were unable to achieve our targets for safety results. Needless to say, safety is the most important mission for us. I feel strongly that this is the theme for improvement that we must tackle above all else.

* MOM projects Management, Operations and Maintenance projects



Please tell us about initiatives to "create new and innovative businesses."

**Projects are underway in a variety of fields.
For growth in our next era, we plan to actively take on challenges aimed at the creation of businesses.**

Our initiatives to "create new and innovative businesses" can be broadly divided into two directions. There are initiatives that we undertake with ourselves as the operating body, and initiatives in which we sell products created from technologies we have developed. In the former initiatives, we are promoting projects including PPP, PFI, and concession projects. These projects are an area in which we can leverage our accumulated know-how and our distinctness as a construction company, and we intend to work at actively developing them further.

Moreover, in urban redevelopment projects, we are seeking to expand orders under collaboration between headquarters and branch offices. In renewable energy projects and medium- and large-scale wooden architecture projects, we will undertake a full-scale expansion of business in collaboration with Sumitomo Forestry.

In the latter initiatives to sell products developed from our technologies, we are advancing commercialization of the "Cotter Floor slab method for bridges" developed jointly by four companies, including GAEART Co., Ltd. This method is a technology used in traffic bridge floor slab replacement. It can shorten work time to

about half that of conventional methods. In Japan, the deterioration of bridges constructed during the era of high economic growth has become a social issue, and we expect significant expansion of demand for floor slab replacement. Technos Co., Ltd. is strengthening the overseas expansion of its leasing business for "ACE UP", a jig used in steel frame construction.

As an expansion of its business domain and technological development to address changes in society, the company has also developed the independent walking aid "FLORA TENDER". At present, we are creating a product aimed at home nursing care and other markets through FATEC Co., Ltd. The product targets markets that are not familiar to our company and thus entails difficulties. It is worth undertaking from an ESG perspective, however, and I really hope to commercialize it.

With contraction of Japan's construction market forecast in the future, the creation of new businesses is an indispensable strategy for Kumagai Gumi in achieving sustainable growth. I believe that particularly now, when the contracted construction businesses is robust, we must take on the challenge of working toward the next era.



What sort of developments took place in "strategic alliances with other companies"?

**Our collaboration with Sumitomo Forestry is close to the stage of commercialization.
We will strengthen this partnership and move forward with a variety of collaborations in Japan and overseas.**

In our collaboration with Sumitomo Forestry, we have established and are working through eight subcommittees in five fields of focus. One of these is "Mocca" or wood-building promotion and green-related construction projects, in which we took a strong step toward commercialization by establishing a joint team in April 2019 to undertake design and construction of wood buildings. Moreover, Kumagai Gumi Group company K&E Co., Ltd. and Sumitomo Forestry Group company Sumitomo Forestry Home Tech Co., Ltd. have collaborated on sales activities for building redesign and renovation, with results beginning to show.

In renewable energies, we are investigating the operation of joint projects for biomass-based power generation in Japan. In overseas business, we are considering participation in the development of high-quality condominium complexes in Thailand and Indonesia, among other projects.

A unique project in the area of joint research and development is joint research with the Japan Aerospace Exploration Agency (JAXA). This project developed out of research into automation for forestry machinery systems by Kumagai Gumi, Sumitomo Forestry, and two other companies. Our aim is future application to structures on the moon, transport of materials, installation, and more.

We are moving ahead with joint research in a wide range of other fields as well.

Recently, there has been renewed awareness of the potential of wood as a construction material. Survey research has suggested that 3% to 4% of reinforced concrete or steel frame structures will be replaced by wood, with 300 to 400 billion yen as the expected market scale. Sumitomo Forestry is advancing the W350 Project, a super high-rise wood building development concept. Fused with the high-rise construction and wood construction know-how of Kumagai Gumi, this may open up a large new market.

Our partnership with Sumitomo Forestry is a powerful one that has extended to a capital investment relationship. Through the creation of synergies and the development and strengthening of a long-term partner relationship between the companies, we believe that the partnership will contribute to greater corporate value.

At the same time, we are studying the creation of businesses with other companies, too, through our civil engineering, architecture, technology development, and other divisions. We will move ahead with open alliances in diverse domains, and will take on the challenge of creating new businesses that will lead us in the next era.

What sort of initiatives and issues face the company in fiscal 2019?

**Fiscal 2019 is an important year for achieving the goals of our Medium-Term Management Plan.
We will continue to promote our three strategies, and will make efforts to improve our level of operating income.**

In fiscal 2019, the second year of our Medium-Term Management Plan, we are also going to work at promoting our three strategies and achieving our plan. We have abundant projects on hand, and the achievement of our Medium-Term Management Plan's fiscal 2020 targets – consolidated sales of 460 billion yen and consolidated operating income of 33 billion yen – has come into view.

However, there are unquestionably still many issues that we must address. In "maintain and increase contracted construction businesses," we tend to active expansion of orders. However, as I noted, there are also many productivity improvements we need to make, including reductions of costs and labor. Precisely because orders are robust now, we will focus on promoting measures to

enhance our level of operating income. Regarding safety, which was an issue in fiscal 2018, we are continually strengthening efforts to "Be No. 1 in Safety, Quality and Environment Management."

Regarding our goals of "create new and innovative businesses" and "form strategic alliances with other companies," we will focus on creating a structure for quickly advancing commercialization and steadily generating profits. I believe that fiscal 2019 is an important period that holds the key to achieving the next Medium-Term Management Plan and the Medium-term and Long-term Management Direction, which sets targets of 500 billion yen in sales and 50 billion yen in operating income for fiscal 2022.

Why did the company formulate a new ESG Initiative Direction?

To align the ESG-related vectors across the company and clearly communicate our stance and initiatives to society, we formulated our ESG Initiative Direction.

Within the Medium-term and Long-term Management Direction that we formulated in November 2017, the Kumagai Gumi Group has included strengthening of management from an ESG perspective. We are moving ahead with addressing ESG issues as a key strategy in the current Medium-Term Management Plan. The emergence of global societal issues is bringing about changes in the behavior and thinking of companies' stakeholders. The creation of business opportunities and risk management matched to changes in stakeholders will be important for companies in achieving sustainable growth.

In response, Kumagai Gumi formulated our ESG Initiative Direction in April 2019. This aligns ESG-related vectors across the company, and clearly communicates our stance and initiatives to society. We have set five key issues (materiality) from the three perspectives of Environment, Social, and Governance, and are identifying issues related to each of these. These issues were clearly identified on the basis of consideration under the Medium-term and Long-term Management Direction and Medium-Term Management Plan.

Taking "the realization of motivating workplaces where diverse human resources can exert their capabilities" as

an example of an initiative, we established the Workstyle Reform Promotion Committee, which I chair, and are undertaking six tasks. Regarding individual issues such as "securing and developing human resources," I hope to make efforts that extend to the construction of governance systems that operate from a single high-level perspective of these issues.

I see in ESG the same sort of spirit that is behind the founding of Kumagai Gumi, and I consider it something that we have always practiced throughout our 120 years of history. The business in which we are engaged, construction, is work that supports society, and the sustainable growth of society connects to the future of the Kumagai Gumi Group. Looking ahead, I hope to clearly communicate to stakeholders the stance and initiatives of the Kumagai Gumi Group that will contribute to the sustainable growth of society.

The new ESG Initiative Direction seeks to promote ESG with all employees aligning their visions. We will work to create an environment in which every employee is consciously involved in ESG and is able to work with pride and enthusiasm.

ESG issues

Perspectives	Key issues (materiality)	Specific issues	Related SDGs
Environment	Creation of businesses with consideration of the environment	Addressing climate change risks Achievement of zero emissions Initiatives with consideration of biodiversity Initiatives for the wooden architecture business Initiatives for the forest conservation business Development of environmentally considerate technologies Initiatives for the renewable energy business	7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND
Social	Achievement of motivating workplaces where diverse human resources can exert their capabilities	Securing and developing human resources Succession of technology Promotion of diversity Achievement of work-life balance Promotion of worker health and prevention of occupational accidents	3 GOOD HEALTH AND WELL-BEING, 4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 11 SUSTAINABLE CITIES AND COMMUNITIES, 17 PARTNERSHIPS FOR THE GOALS
	Achievement of sustainable communities	Contribution to communities Response to natural disasters Development of technologies that lead to resolution of social issues	
Governance	Strengthening of corporate governance	Improvement of the effectiveness of the Board of Directors Enforcement of compliance Strengthening of risk management	12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS, 17 PARTNERSHIPS FOR THE GOALS
	Strengthening of relationships with stakeholders	Active dialog with investors Improvement of CS Promotion of CSR procurement	

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

**We are moving in line with forecasts in terms of ROE and dividend propensity.
We will work to optimize the balance between investment for growth and return to shareholders.**

Under the Medium-Term Management Plan, we plan 60 billion yen in growth investments over the plan's three years, and aim to create 7 billion yen in profits in 2022, five years from now. In addition, we have set ROE of 12% as a numerical target for fiscal 2020, the last year of the plan, and have already come close to that level. In dividend propensity, too, we are moving as planned toward our goal of 30%.

We will to continue to optimize the balance between investment for growth and return to shareholders, and,

with the understanding of shareholders and investors, to achieve solid growth to meet these targets.

In fiscal 2018, Kumagai Gumi held its first overseas institutional investor meetings in Singapore and Hong Kong. For me, it was a very valuable experience that let me convey in person what is unique about our company, and directly hear numerous comments. Looking ahead, we will work to communicate with shareholders and investors at every opportunity, and to speedily reflect this communication in management.

Looking toward the future, what sort of vision do you seek for the company?

I want to share with employees the same vision for the future, and create an ideal form of company that is unique to Kumagai Gumi.

As I noted at the outset, Japan's construction market is expected to remain robust for the time being. Looking further ahead, however, it is certain that drastic changes will come, including shrinking of the market as a result of the declining population, checks on public investment due to financial constraints, and an accelerated decrease in the number of construction engineers and skilled workers. The surrounding environment will change as well, including the evolution of technologies such as AI and the IoT.

In order for the Kumagai Gumi Group to continue growing sustainably, we need to accurately foresee such long-term changes and further strengthen our management from an ESG perspective.

In this ESG-conscious management, I believe that what is most important is human resources. The only way by which we can get through the turning points coming soon and create new business opportunities will be to secure and develop outstanding human resources who will act as the driving force in these activities. We will also make efforts to promote diversity, with greater activity by women and more hiring of foreigners.

Since October 2018, we have held round-table conferences with employees in branches around the country and in headquarters. This is something that I myself proposed and began, with the aim of creating a more energetic Kumagai Gumi. In the first year, I spoke face-to-face and exchanged ideas with many employees, on the theme of "My ideal company (workplace)." Specific requests from employees included wishes for more clear

evaluation systems, the consideration of compensation systems that reward reductions in overtime work, and the institutionalization of telecommuting programs. In this way, I want to create an ideal company form that is unique to Kumagai Gumi and that has a presence in society, sharing with our employees the same wishes for the future.



Scene from round-table conference with the President

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" —

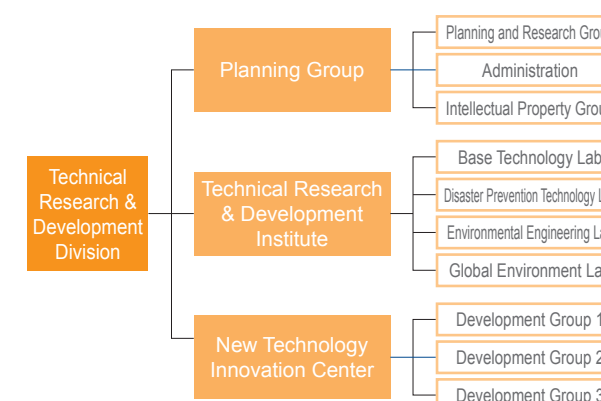
In order to provide places where people can gather, interact, and enrich their lives with a sense of safety, we will maintain and improve our "Worksite Excellence" through Technology Strength and Human Resources.



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 working primarily through its Technical Research & Development Division to promote technology development in cooperation with the Civil Engineering Management Division, the Architectural Management Division, and the Safety, Quality and Environment Division. The Technical Research & Development Division undertakes technology development in three areas: adaptation to a recycling-oriented society, research and development to meet societal needs, and technology development to improve productivity and safety.

Technology Development System



Technical Research & Development Institute — Toward a new stage

On July 26 of 2018, we held a commemoration to mark the 120th year of Kumagai Gumi and the 30th year of the Technical Research & Development Institute. We invited the presidents of group companies and President Ichikawa of Sumitomo Forestry, a company with which we have a business and capital partnership, and conducted a ceremonial tree planting. The tree was a type of cherry tree called taikochiyoshidare, propagated from a cherry tree at Daigo Temple in Kyoto by Sumitomo Forestry using cloning technology.

As of April 2019, there are about 50 regular staff persons at the Technical Research & Development Institute, including 28, or over half of all staff, in their 20s and 30s. These young staff persons engage in active communication, through means including study groups. We believe that innovative ideas may be born from venues like these study groups.



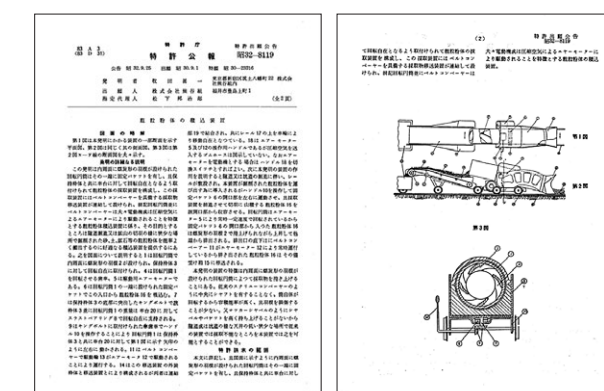
Patent-related measures

Kumagai Gumi's patent applications began with an earth and sand unloading device in September 1955 ("Title of Invention: Coarse-Grain Powder Loading Device"). Patent applications were rare in the construction industry at that time, and the stance of using the patent system as a means of protecting technology and asserting originality showed foresight. So far, our company has submitted over 5,000 patent applications. In recent years, our applications have been on an upward trend in line with the strengthening of our technology development structure.

Our patent applications are characterized by an importance placed on ideas, and we submit applications for the proposed technologies with as few restrictions as possible. We naturally seek to actively submit applications for those technologies that are prioritized by management, as well as technologies that are advanced or unique, even if difficult to achieve at the time or if extending outside of our industry. We have also prepared mechanisms for adapting to improvement and reform technologies that stem from worksites, and submit applications for technologies that are directly connected to on-site work.

When submitting applications, we seek to collaborate with engineers from the initial stages of technological development, in order to improve quality and avoid infringing on other companies' patents.

The main fields in which we made applications for patents in FY2018 covered a wide range not appreciable from the number of applications alone. They encompassed worksite efficiency improvements, IT and robotics technologies for reducing labor, nursing care support aimed at new business areas, wooden structure-related technologies, recycling for the realization of a recycling-oriented society, technology for the efficient use of energy, and sound environment technology to improve the quality of housing.



The first patent of Kumagai Gumi

Technology to Create Social Value

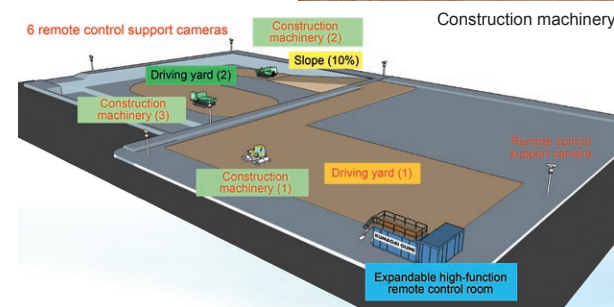
Improvement of facilities to promote ICT

The Technical Research & Development Institute, which reached its 30th year in 2018, has established a main building and nine other facilities on about 490,000 square meters of ground, where it engages in basic and applied research.

In addition to our ongoing basic research, from FY2017 we have improved the facilities to meet the need to research and develop technologies for informatization, labor-saving construction, and open innovation.

Improvement of the outdoor experiment yard

We improved the outdoor test yard that has been used in the development of technologies for contaminated soil purification, pile construction, tunnel boring, and more, along with the adjacent retention pond, enabling their use for experiments related to the development of information mechanized construction technologies such as unmanned construction machinery.



Outdoor experiment yard

In the improved outdoor experiment yard is the high-function remote control room, which serves as a control tower for remote operation. It is able to remotely control multiple construction machinery units simultaneously, and is used in the development of technology related to automatic operation.

Expandable high-function remote control room

The expandable high-function remote control room set up in the outdoor experiment yard was already used in the development of next-generation technologies, and was prepared for quick mobilization to worksites in the event of disaster.

To operate many vehicles at a site of disaster reconstruction, the communications system had become complex, and incorrect wiring, equipment malfunction, and other troubles occurred easily when setting up the room.

As a solution, we developed a high-performance operation unit room equipped with a built-in network-enabled digital transmission device and a built-in operation monitor.

Furthermore, with the scale of disasters increasing in recent years, there was a need for flexible accommodation of an increasing number of construction machinery units operated simultaneously through remote control. In response, we developed the expandable high-function remote control room that allows expansion up to three units. This has increased the flexibility, expandability, and reliability of the system overall.



KUMA-DECS

The outdoor experiment yard and expandable high-function remote control room are used not only for development and experimentation concerning next-generation technologies but also for KUMA-DECS unmanned construction operator training and for the transfer of skills from experienced operators to the next generation. (See P44)



Diverse Human Resources

Development of human resources

Aiming to develop human resources under the idea of "Enrich the self, create the future, and support people," Kumagai Gumi is engaged in a variety of initiatives. 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.

We form career paths through systematic and stepwise transfers, drawing on employees' careers, desired future job duties, and individual aptitudes.

(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. Carrying out face-to-face discussions on goal setting and confirmation of achievements, they check the status of the employees' acquisition of skills in line with our vision for human resources.

(3) Group training

We conduct planned education drills and training to complement OJT, drive self-development, and provide expert knowledge. We set guidelines for the skills that employees should acquire, and every year conduct field-specific training and hierarchy-specific training employees to enhance 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.

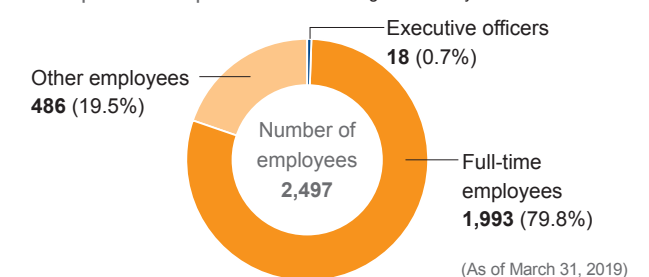
Current state of employment

* Kumagai Gumi only
Number of employees, ages, and length of service

Fiscal Year	2014	2015	2016	2017	2018
Number of employees	2,167	2,223	2,305	2,382	2,497
Average age	45.2	45.4	45.2	45.2	44.8
Average years of service	21.9	20.9	20.7	20.5	19.9

* The number of employees is the number of employed persons.

Composition of personnel * Kumagai Gumi only



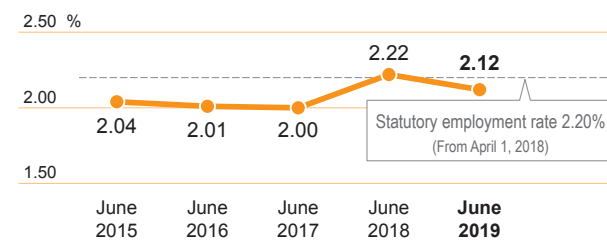
Status of employment of older workers

We operate systems under the assumption of employment after the formal retirement age until the age of 65. We are expanding employment of older workers who have an ambition to work and high skills. We seek to seamlessly hand down the technical and sales capabilities of older workers to the next generation, energizing employees and organizations alike. As of April 2019, 330 employees who have passed the formal retirement age 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 2019, our employment rate for persons with disabilities is 2.12%. We will continue developing workplaces and improving environments that facilitate work by persons with disabilities.

Employment rate of persons with disabilities



Number of female managers

In July 2019, the number of female employees who took management positions through transition from region-limited clerical positions to region-limited overseer positions was 5, by which the number of female management positions in our company increased to roughly 5 times the same number (11) at the time of formulation of the General Employers Action Plan under the Act on Promotion of Women's Participation and Advancement in the Workplace.

Initiatives for the 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. We will continue to actively promote diversity.

Health management

Health support structure

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 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.

Annual Plan for the Promotion of Employee Health (FY2019)

- (1) Support for employees experiencing health issues
- (2) Prevention of damage to health from long working hours
- (3) Appropriate conducting of health checkups
- (4) Prevention of mental health disorders
- (5) Initiatives to maintain and promote mental and physical health
- (6) Active use of industrial health care resources

For three consecutive years since 2017, 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. In addition, our company put forth the greatest number of participants (393) in the walking event held by the National Health Insurance Association/ Society of Engineering and Construction Contractors. We were presented with a letter of appreciation from that organization for our major contribution to the domestic relief fund of the Japanese Red Cross Society through the event. These initiatives of ours received commendation from the Japan Construction Occupational Safety and Health Association at its 55th national convention for the prevention of industrial accidents in the industry, an event which also featured the first platform presentation at these conventions by an industrial physician from our company. We intend to continue strengthening measures for the health of workers at Kumagai Gumi worksites.

Initiatives toward high-risk persons

All employee health checkup results are checked by industrial physicians. For those persons requiring follow-up, we provide advice through consultations and interviews, along with continuous support. Moreover, we offer accumulated fatigue checklists for employees working long hours, and every month provide consultation with industrial physicians to persons 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

As 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.



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 FY2018

We set a frequency rate of 0.5 or less as our occupational safety and health target for FY2018 and placed our highest priority on the prevention of industrial accidents in our annual plan, but did not achieve this target.

In FY2019, we are placing the highest priority on human life in accordance with our Safety and Health, Quality and Environment Policy, and will engage in occupational safety and health management aimed at eliminating serious accidents and achieving occupational safety and health targets.

83rd (FY2019) Safety and Health Control Plan (extract)

Targets	Frequency rate of 0.5 or less
Actions to be taken	Prevention of similar disasters/accidents (continuation of the Safety Declaration Campaign) 1. Prevention of slip-and-fall accidents 2. Prevention of disasters/accidents involving heavy construction equipment 3. Prevention of tumbling/elderly accidents 4. Prevention of heat stroke 5. Reduction of construction work accidents that lead to public disaster
	Diligent system operation 6. Enforcement of a line and staff control system 7. Strengthening of occupational safety and health management systems for subcontractors or partner companies 8. Strengthening of guidance and support for branches' key designated construction work 9. Implementation of programs for mental and physical health promotion

Enforcement of hazard prediction and thoughtful work

Industrial accidents stemming from non-enforcement of risk management are on the rise. We will continue to enhance risk prediction capabilities, connect this to behavior that reduces risk, and work to prevent industrial accidents.

Practicing the PDCA cycle under our Safety and Health Management System

1. Maintain a safe, secure and pleasant workplace environment
Branch managers, on-site managers, branch managers of the business partnership, chairmen of foremen associations, and all workers express safety declarations in their respective positions, and realize safe, secure, and pleasant workplace environments through the involvement of all staff, based on the pleasant workplace commendation system of the Japan Federation of Construction Contractors.

2. Enhance a “line and staff control system”
Each department that supports work sites plays an assured role in the system.
The Construction Division, a line organization, coordinates with the Safety Division to maintain systems that guide and support occupational safety and health management at work sites.
In construction plans, experienced staff from headquarters and branch offices participate to perform risk assessment and prevent disasters and accidents, with no risks overlooked. We prevent industrial accidents through a support and guidance system. In this system, employees at work sites and the foremen association work together in daily safety inspections to eliminate hazards. These safety activities are then reviewed from different angles by headquarters, branch offices, and "Yuuei Kyoryoku Kai".

* A group composed of 868 (as of April 1, 2019) partner companies of Kumagai Gumi.

3. Improve safety and health education
Our headquarters, branches, and Yuuei Kyoryoku Kai provide employees, business owners, supervisors, and workers with education on improving risk prediction and education on occupational safety and health management systems.
Already, over 10,000 foremen have undergone supervisors skill enhancement education based on occupational safety and health education guidelines from the Ministry of Health, Labour and Welfare. In FY2018, we conducted 12 education sessions for over 300 supervisors.

4. Enhance the prevention of accidents among seniors and prevention of falls
Accidents among seniors and falls are issues that our company must further address.
To prevent accidents among seniors, we continue to encourage senior employees to leverage their abundant experience while instilling self-awareness of physical weakening, along with the placement of “thoughtfulness stickers.” We are also working to place age restrictions and permission systems on work that accompanies a risk of falls.
To prevent falls, we practice “KST exercises” that train the sense of balance, and enforce basic rules such as organization of workplaces and securing safe passageways.

Quality Control and Environmental Preservation

Quality and Environment Management System

Toward the provision of construction services that earn the trust of customers, the reduction of environmental impacts, and the creation of a better environment, we began operation of our reconstructed Quality and Environment Management System in April 2016. The Quality and Environment Management System operates under the structure shown in Figure 1.

Figure 1. Quality and Environment Management System Organization

We have further set our medium- to long-term goals for environmental activity in "The Promise of Eco First," and those for our biodiversity initiatives in "Policy for Environmental Diversity Initiatives." Quality control and environmental preservation initiatives in individual projects are carried out under a cycle of planning (P), execution (D), checking/inspection (C) and review/improvement (A), including assessment of customers' requirements, project attributes, etc. and identification of risks and opportunities, under management resources that include people, technology, and information. (See Figure 2)

Policy for Environmental Diversity Initiatives (outline)

Basic Philosophy
In the conduct of its business activities, Kumagai Gumi:
■ Recognizes that our daily lives are supported by the benefits of biodiversity
■ Recognizes that biodiversity faces severe threats from the various activities of people
■ Recognizes the deep connection between the construction industry and nature, and actively works toward the preservation and sustainable use of biodiversity

The stance of 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. Technology development
4. Activities that contribute to society

"The Promise of Eco First" (extract)

* Figures are for non-consolidated Kumagai Gumi

1. Promote development of a "low-carbon society" through the construction business.

(1) Volume Base	FY2020	FY2030	FY2050
CO2 emissions target (10 kt-CO2)	4.8	3.7	1.8
Reduction rate (%)	Compared with FY1990	87	90
	Compared with FY2013	25	42

(2) Intensity Base	FY2020	FY2030	FY2050
CO2 emissions target (t-CO2/100 million yen)	20.6	16.4	8.2
Reduction rate (%)	Compared with FY1990	50	60
	Compared with FY2013	18	35

2. Promote the formation of a "recycling-based society" at construction sites.

(1) FY2020 Mixed waste discharge volume objectives	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 procurement rate* objectives	Architectural Sites	Civil Engineering Sites
15% or more	21% or more	

* Green procurement rate: Percentage of spending on green procurement items per 100 million yen of construction work value.

3. Aim for a society that coexists with nature, and promote initiatives with consideration of biological diversity.
4. Strive for the development, improvement, and permeation of technologies and methods with consideration of the environment.
5. Actively participate in environmental preservation activities in the community.
6. Actively disclose and communicate environmental information.

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.

		Climate change	Waste discharge	Biodiversity
Risk	Type	Physical/transitional risk	Transitional risk	Transitional risk
	Details	Difficulty of business continuity	Strengthening of policy measures and laws	Strengthening of policy measures and laws
	Response	Advance consideration of countermeasures for envisioned conditions		
Opportunity	Type	Market	Resource efficiency	Products and services
	Details	Entry into new businesses	Increase in recycling	Development of new technologies
	Response	According to the Medium-term Management Plan		

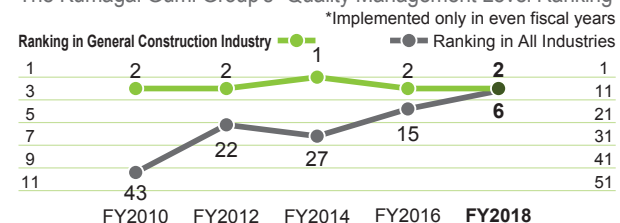
Figure 2. Conceptual diagram of the Quality and Environment Management System



Utilizing third-party evaluations

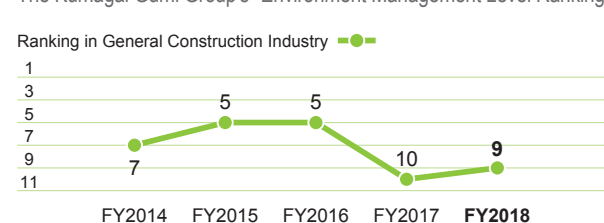
The Kumagai Gumi Group reviewed the results of the Corporate Quality Management Level Survey by the Union of Japanese Scientists and Engineers and the Environment Management Level Survey by Nikkei Inc. to determine our strengths and issues, and is making use of these in ongoing improvement of our management systems.

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



- Strengths:** Expansion of quality management
Customer value creation
Inter-departmental collaboration capability
- Issues:** Further trend analysis of market defect costs
Indicators of the effectiveness of new technology development

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



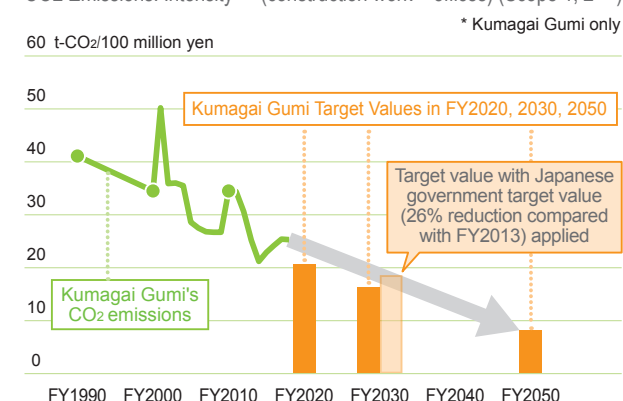
- Strengths:** Support for biodiversity, green procurement, and provision of environmentally conscious product and services
- Issues:** Global warming countermeasures, initiatives to address wastes/water resources

Quality Control and Environmental Preservation

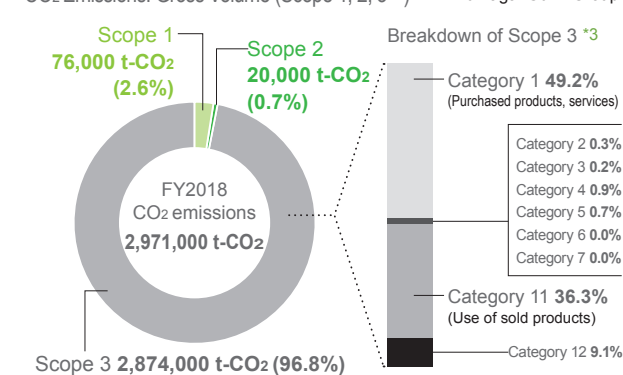
Kumagai Gumi Group activities for environmental preservation

Under our Safety and Health, Quality and Environment Policy, Kumagai Gumi is actively striving to reduce environmental impacts as an Eco-First company (see P26). The Kumagai Gumi Group's environmental preservation activities have earned the praise of customers and many other people.

CO₂ Emissions: Intensity ^{*1} (construction work + offices) (Scope 1, 2 ^{*2})



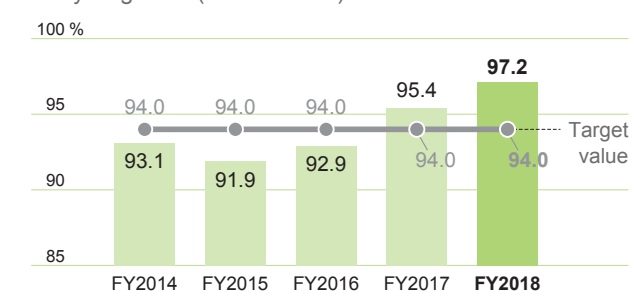
CO₂ Emissions: Gross Volume (Scope 1, 2, 3 ^{*2}) * Kumagai Gumi Group



- ^{*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 business activities)
- ^{*3} Scope 3 is calculated for Categories 1 to 7, 11, and 12
Revision of calculated range and method from FY2018
Category 12 is calculated for Kumagai Gumi alone and for construction-related group companies

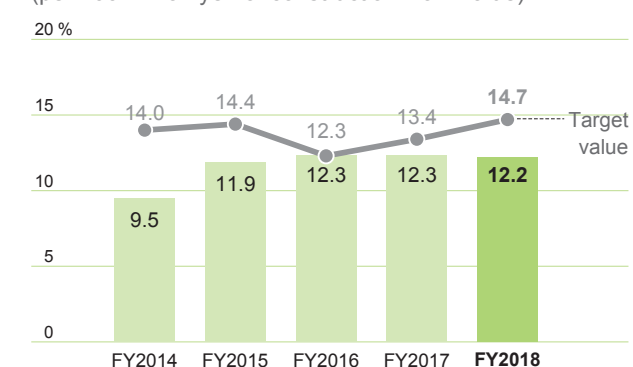
Since FY2000, we have practiced reduction activities at construction sites including prohibition of engine idling, inspection and maintenance of vehicles, and fuel-conscious driving, with the result of reductions in CO₂ emissions nearly in line with plans. Regarding Scope 1 and 2, we are moving toward achievement of our FY2020 targets. We are currently studying reduction measures for FY2020 onward. As shown in the diagram, Scope 3 makes up 97% of the total for Scope 1, 2, and 3. In particular, the total of Category 1 and 11 make up 88% of Scope 3. Regarding Category 11, we have already begun initiatives through environmentally considerate design. We will further advance initiatives aimed at reducing Scope 3.

Recycling Rate (Construction) *



* Includes construction sludge from FY2017

Green Purchase Rate (Construction)
(per 100 million yen of construction work value)



See the website for CO₂ emissions and waste discharge volumes overseas (Taiwan Kumagai Co., Ltd.).
<https://www.kumagaigumi.co.jp/csr/environment/ecofirst/index.html> (Japanese only)

Compliance with environmental conservation laws

To prevent violations of environmental laws and regulations, we undertook the following initiatives in FY2018, and continue working to comply with environmental laws regulations.

1. Education on environmental laws and regulations within the intensive employee education at headquarters, by the headquarters manager in charge of environmental regulations (6 times)
2. Education for branch managers (2 times) and inspection tour of waste treatment facilities (Hokkaido)

* In FY2018, no fines or penalties were levied due to legal violations, and no suits were filed.

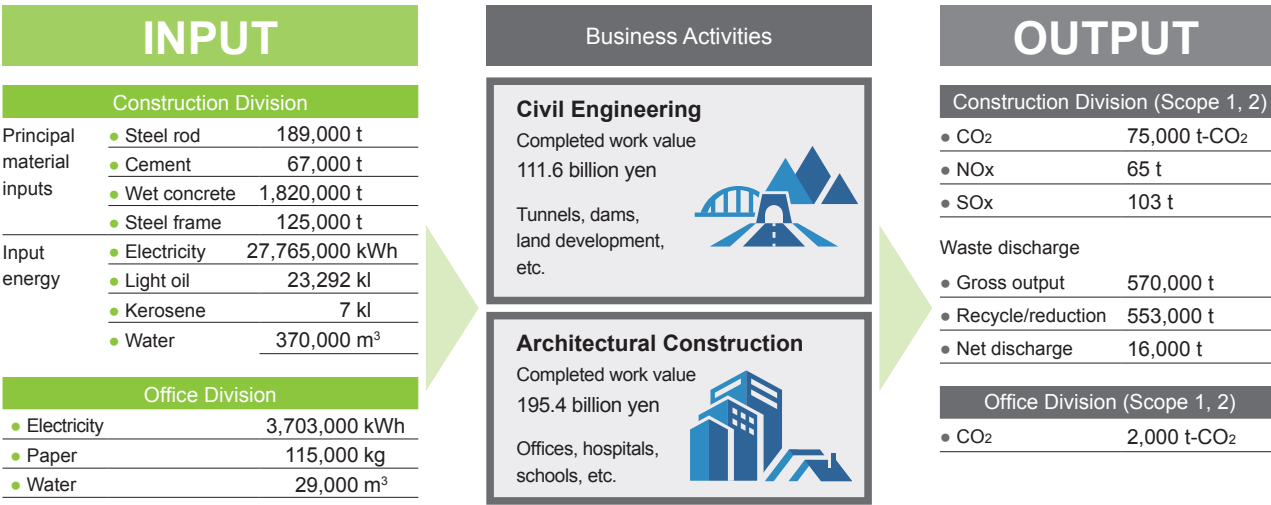
Environmental incidents

No environmental incidents occurred in FY2018.

Environmental Targets and Results Evaluation for FY2018 and Targets for FY2019 (construction) * Kumagai Gumi only

Environmental goal		FY2018 target	FY2018 performance	Evaluation	FY2019 target
Reduction in CO2 emissions	Civil Engineering	53.7 t-CO2/100 million yen or less	44.4 t-CO2/100 million yen	Achieved	46.7 t-CO2/100 million yen or less
	Architectural Construction	11.2 t-CO2/100 million yen or less	10.0 t-CO2/100 million yen	Achieved	10.7 t-CO2/100 million yen or less
Reduction in mixed waste discharge (promoting zero emissions)	Civil Engineering	0.33 t/100 million yen or less	0.74 t/100 million yen	Not achieved	0.27 t/100 million yen or less
	Architectural Construction	5.92 kg/m2 or less	5.43 kg/m2	Achieved	5.74 kg/m2 or less
Promoting green purchases	Civil Engineering	Green purchase rate of 15.9% or more	12.8%	Not achieved	18.5% or more
	Architectural Construction	Green purchase rate of 14.0% or more	11.9%	Not achieved	14.5% or more

Business Activities and Their Impact on the Environment * FY2018 performance/Kumagai Gumi only



Manufacturing Together with Partner Companies

To achieve "No. 1 in Safety, Quality and Environment Management," our partnership with the cooperating organization "Yuuei Kyoryoku Kai*" is vital.

* A group composed of 868 (as of April 1, 2019) partner companies of Kumagai Gumi.

Safety and health

Kumagai Gumi and Yuuei Kyoryoku Kai have set a frequency rate of 0.5 or lower as an occupational safety and health target. We implement mutual patrols between branches, foremen association patrols, business operator patrols, and so on, with the aim of creating safe workplaces.

Quality and the environment

Kumagai Gumi and Yuuei Kyoryoku Kai identify a model site for each branch, and hold activity presentation meets hosted by Yuuei Kyoryoku Kai once a year. At these meets, the status of activities at the model sites is widely reported, addressing themes of quality assurance, productivity enhancement, and environmental conservation activities.

Securing and developing human resources

From FY2017, Kumagai Gumi has taken note of Yuuei Kyoryoku Kai member company workplaces that actively undertake the securing and development of human resources, widely communicating these examples to other member companies. From FY2018, we have leveraged our participation in the "Tsunaguka" program of the Ministry of Health, Labour and Welfare to offer on-site work experiences to high school students, and are working with Yuuei Kyoryoku Kai to communicate the appeal of the construction industry.

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 Promotion Office in 1998 and the Customer Consultation Office in the following year.

We are working toward organizational collaboration that instills a corporate culture of "Inspiring Customers" and further lets us deliver "Quality that Inspires Happiness," to improve our appraisal by customers. The customer

satisfaction (CS) functions of Kumagai Gumi are placed within the Corporate Planning Division. The organization is designed to directly reflect the voices of customers in our management. Every year we conduct training for all employees of the CS Division as we strive to develop professional human resources.

Primary CS activities of Kumagai Gumi

1) CS hearings

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 our their honest thoughts and incorporate these into our management. (FY2018: 18 visits)

2) Customer opinion 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.

Questionnaire items

- Workmanship
- Aftercare
- Support by contact desk
- Work progress by our employees
- Performance and design of structure
- Comprehensive evaluation (added in 2018)

Purpose of questionnaire

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

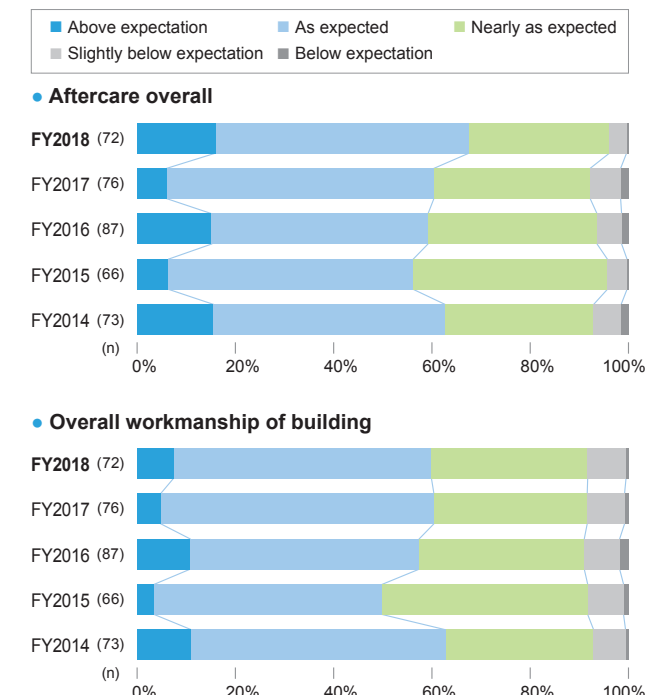
3) Improvement of aftercare system

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 hold lectures and distribute an email newsletter to instill Kumagai Gumi's CS awareness in our employees and to achieve CS with the involvement of all.

Questionnaire results



Customer Consultation Office

20 years have passed since we established a toll-free telephone number to extend customer response from normal hours to night and holidays as well, placed dispatch sites throughout the country, and established a 24-hour reception system. In FY2018, we received 546 consultation inquiries. For the third consecutive year, we achieved 100% same-day primary responses (and a rate of over 98% for seven consecutive years).

Involvement with Employees

Promotion of work style reform at Kumagai Gumi

Creating an environment in which all employees can tackle work with motivation enhances the capacity of every employee, which in turn becomes a driving force for changing the company and work for the better. Under this thinking, in April 2018 we launched a full-scale reform of work styles at Kumagai Gumi. 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 pillars of reform	Numerical targets and timing for their achievement
Correction of long working hours	Establish an upper limit on overtime work and undertake reduction of working hours <ul style="list-style-type: none"> Limit overtime work through FY2018 to under 100 hours/month From FY2019 to FY2020, limit overtime work to 960 hours/year (average 80 hours/month)
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 <ul style="list-style-type: none"> By FY2018, raise days of use of annual leave to 5 or more By FY2020, use an average of 10 or more days of annual leave
Promotion of flexible work styles	Promote flexible work styles that allow a balance of work and lifestyles <ul style="list-style-type: none"> Aim for 100% return to work after child-care leave (FY2018-FY2020) Reduce to zero the number of persons resigning for reasons of balancing work with child-care and nursing care (FY2018-FY2020) Increase the usage rate of child-care leave by male employees to 10% by FY2020

1. Correction of long working hours

In order to make progress in correcting long working hours, Kumagai Gumi has set numerical targets for working hours and is working toward reduction. In addition, to achieve a five-day workweek at all worksites by FY2021 (with the exception of sites at which application is difficult), we have formulated the Kumagai Gumi Co., Ltd. Action Program and are working to enforce appropriate order receipt activities, support for cooperating companies, and self-help efforts.

2. Promotion of the use of paid leave

We are using employee training, e-learning, our internal portal site, and other tools to improve understanding of the leave system and to promote its use. In addition to the company's annual leave, at the beginning of the fiscal year the company discloses its plans for leaves related to employees' work-life balance, including planned dates for taking annual leave, annual leave incentive dates, "no overtime" days, and unified Saturday closing dates, to promote the planned use of annual leave. We are also promoting the visualization of annual leave days used, and are conducting follow-up to promote use by employees who fail to do so.

3. Flexible work style reform

Kumagai Gumi is making improvements to work environments to achieve flexible work style reform for diverse employees. In particular, we are improving systems to support employees involved in childbirth, child-care, and nursing care, have created a Handbook for Supporting Balance that offers simple summaries of these systems, relevant laws, and more, and have set up a consultation desk in the company. Of female employees who desire to continue working after childbirth, 100% make use of child-care leave. Regarding nursing care, we are constructing a system for consultation outside of the company with the cooperation of NPOs, due to the need for expert knowledge.

Involvement with Shareholders and Investors

Disclosure of information to shareholders and investors

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

In our engagement with investors, we held earnings briefings 2 times (for the fiscal year ended March 2019; the same applies to the following numbers) (including 2 times with top management in attendance; the same applies to the following numbers in parentheses), small meetings 6 times (6 times), individual meetings and teleconferences 86 times (14 times), and site/facility tours 2 times.

In FY2018, we worked to enhance the content of our IR tools to enable faster and deeper understanding of our

group. On our website, we graphed various management indicators, offered ESG-related content, and took other steps to meet users' needs, and renewed our notices for the convocation of shareholders' meetings and our earnings briefing materials.

For overseas investors, an area of increasing importance, we produced English editions of IR tools and conducted visits by top management to overseas investors.

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

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

Involvement with Local Communities

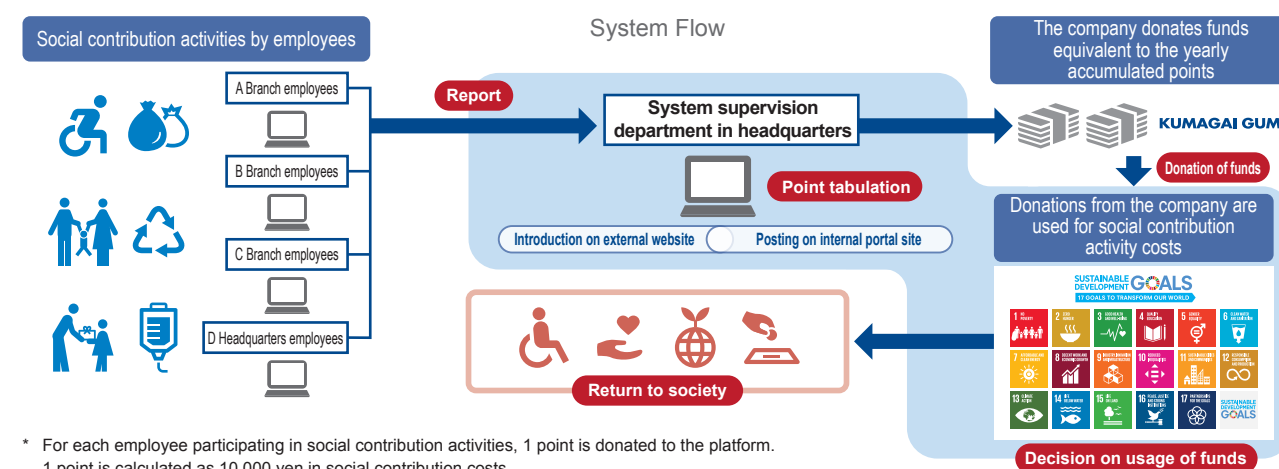
At our headquarters, branches, and worksites, Kumagai Gumi is continuously involved in a variety of activities as a member of our communities.

Start of operation of the Kumagai Gumi Smile Project social contribution activity platform

Kumagai Gumi built the Kumagai Gumi Smile Project as a platform for engaging in unique social contribution activities, and launched operation in May 2019.

Kumagai Gumi Smile Project is a platform for our unique social contribution activities that makes use of a matching gift mechanism. It aggregates the number of employees who participated in social contribution

activities by site, workplace, or other region, and donates social contribution costs in accordance with the cumulative number of participants in each fiscal year. The spending on social contribution costs will be considered in terms of resolution of the social issues represented in the SDGs, and will be used as funds and donations for greater social contribution activities.



KUMAGAI STAR PROJECT

In our construction business overseas, Kumagai Gumi has collaborated with NPOs on the construction of school buildings in Myanmar from 2015 as an initiative to resolve social issues as a general contractor.

To raise the level of education to international levels in Myanmar, we are engaged in educational reform with the improvement of the school environment as a key item. However, school classrooms remain insufficient, and there are children who do not go on to higher education or who otherwise learn in a difficult environment.

In response, we surveyed the state of classroom deficiency in areas around Kumagai Gumi construction sites, and took part in the construction of buildings at Teline Elementary School and Tepuchaun Elementary and Junior High School.

Following the construction, we have continued our interaction with the schools, donating shelves of books through NPOs and holding wall painting events to enrich the school environments.

We intend to continue engaging in community-based activities, with the hope that small circles of happiness can emanate from our company.

Evaluation by Society (July 2018 to June 2019)

August 2018 Engineering Advancement Association of Japan (ENAA)
40th Anniversary Great Contribution to Engineering Ministry of Economy, Trade and Industry Bureau Chief Award
Toyohiko Ina, Chairman of the Board, Taiwan Kumagai Co., Ltd.

October 2018 3R Suishinkyogikai
FY2018 Commendation for Contribution to 3R Promotion, etc. Minister of Land, Infrastructure, Transport and Tourism Award
"3R Activities in Small-Scale Construction Using Proprietary Checklists in Cooperation with Orderers and Excellent Industrial Waste Businesses" (tentative name) "Grande Maison Shukugawa Chitose-machi"
Contractor: Kumagai Gumi Co., Ltd., Kansai Branch
Orderer: Sekisui House, Ltd.



November 2018 Republic of China Executive Yuan Ministry of Labor
FY2018 National Occupational Safety and Health Award
Taiwan Kumagai Co., Ltd.

November 2018 Japan Federation of Construction Contractors
59th BCS Awards
"Tajimi City Crematorium Hanadate Yasuraginomori" "Roadside Station Mashiko"



"Roadside Station Mashiko" project members

November 2018 Japan Dam Foundation
Commendation for Contribution to Dam Construction (Construction-related)
Hidekazu Takagi, Dam Technology Department, Civil Engineering Division

November 2018 Japan Construction Machinery and Construction Association
FY2018 Symposium on Construction Work and Construction Equipment Academic Paper Award
"Development of Automated Driving Technology for Rough Terrain Haulers"
Masaru Kobayashi, Katsumi Miyagawa, Shigeo Kitahara, Civil Engineering Division

February 2019 Japan Facility Management Association
13th Japan Facility Management Award (JFMA Award) Special Award
"Effective Utilization of Assets through FM (AM) Methods to Achieve Regional Revitalization"
GAEART Co., Ltd.

March 2019 Japan Federation of Construction Contractors
Award for Excellence, 4th Awards for Promotion of Activity by Women in Construction
"Kumagai Gumi × Otsuma Women's University: Achieving Temporary Enclosures Conceived by Women's University Students"

May 2019 Japan Dam Foundation
2018 Japan Dam Foundation Award, Technical Award
Funagira Dam Downstream Riverbed Scouring Countermeasure Project

June 2019 Japan Construction Engineers' Association
FY2018 Zenken Award
(Architecture Category) Hyuga City New Government Office Building Construction Project

June 2019 Ministry of Defense
2019 Special Honor for Excellence in Construction, etc. JGSDF Camp Miyakojima (29) Building (A), etc. New Construction
Kumagai Gumi / Kyowa Sangyou / Sahira Kensetsu Joint Venture



Yasushi Higuchi
Chairperson, Director

Apr 1976 Joined Kumagai Gumi Co., Ltd.
Jun 2003 Representative Director and President of K&E Co., Ltd.
Apr 2008 Executive Officer of the Company/Branch Manager of the Tohoku Branch of the Company
Apr 2011 Managing Executive Officer of the Company
Apr 2012 Senior Managing Executive Officer of the Company
Apr 2013 Executive Vice President of the Company
Jun 2013 President/Representative Director of the Company
Apr 2018 Chairperson and Director (Current)



Susumu Ogawa
Senior Managing Director and Senior Managing Executive Officer
In charge of International Business, in charge of Marketing

Apr 2010 Manager of Public and Finance Institutions of Sumitomo Mitsui Banking Corporation
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 of the Company
Jun 2013 Managing Director of the Company
Apr 2014 Senior Managing Director/Senior Managing Executive Officer of the Company (Current)
Apr 2015 In charge of International Business/Domestic Architectural Marketing at the Company
Apr 2017 In charge of International Business, In charge of Marketing at the Company (Current)



Yoshiaki Ogawa
Senior Managing Director and Senior Managing Executive Officer
General Manager of the Architectural Management Division

Apr 1982 Joined Kumagai Gumi Co., Ltd.
Apr 2011 Executive Officer of the Company
Apr 2012 Deputy General Branch Manager of the Kansai Branch of the Company
Apr 2013 Managing Executive Officer/Branch Manager of the Kansai Branch
Apr 2017 Senior Managing Executive Officer (Current), General Manager of the Architectural Management Division of the Company (Current)
Jun 2017 Senior Managing Director of the company (Current)



Yasunori Sakurano
President, Representative Director
CEO and President

Apr 1981 Joined Kumagai Gumi Co., Ltd.
Apr 2010 General Manager of the Personnel Division of the Company
Apr 2011 Executive Officer of the Company
Jun 2012 Director of the Company
Apr 2014 Managing Director/Managing Executive Officer/General Manager, Management Administration Division of the Company
Apr 2015 Managing Director/Executive Officer/General Manager, Corporate Planning Division of the Company
Apr 2017 Senior Managing Director/Senior Managing Executive Officer of the Company
Apr 2018 President and Representative Director of the Company (current)



Yoshihiko Kato
Senior Managing Director and Senior Managing Executive Officer
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 Branch of the Company
Apr 2014 Managing Executive Officer, General Manager of the Civil Engineering Management Division of the Company (Current)
Jun 2014 Managing Director of the Company
May 2016 General Manager of the Railway Project Promotion Division of the Civil Engineering Management Division of the Company (Current)
Apr 2017 Senior Managing Director/Senior Managing Executive Officer of the Company (Current)



Koji Hidaka
Managing Director and Managing Executive Officer
General Manager of the Administration Division in charge of Discipline and Personal Information Protection

Apr 1981 Joined Kumagai Gumi Co., Ltd.
Apr 2012 Joint General Manager of the Administration Division of the Company
Apr 2013 Executive Officer of the Company
Apr 2015 General Manager of the Administration Division of the Company (Current)
Apr 2016 In charge of Discipline at the Company (Current); In charge of Personal Information Protection at the Company (Current)
Apr 2017 Managing Executive Officer of the Company (Current)
Jun 2018 Managing Director of the Company (Current)



Koichi Hironishi
Director

Apr 1968 Joined Fujitsu Ltd.
Jun 2003 Representative Director and President of Fujitsu Advanced Solutions Limited
May 2005 Corporate Executive Officer of FUJITSU LIMITED
Jun 2008 Director and Vice President of FUJITSU LIMITED
Jun 2009 Representative Director and Vice President of above company
Jun 2010 Representative Director and Chairman of FUJITSU FSAS INC.
Jun 2015 Director, Kumagai Gumi Co., Ltd. (Current)

* Mr. Koichi Hironishi and Ms. Mikie Yumoto are both outside directors of the company.



Mikie Yumoto
Director

Apr 1971 Joined IBM Japan Ltd.
May 1981 Joined American Family Life Assurance Company of Columbus, Japan Branch (Aflac)
Jan 1995 Manager of the Human Resources Development Department of Aflac
Jan 1997 Director, Aflac
Jan 1999 Executive Officer, Aflac
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 Branch of the Company
Apr 2010 General Manager of the Administration Department of the Chushikoku Branch of the Company
Apr 2014 Assistant General Manager of the Chushikoku Branch of the Company
Jun 2017 Standing Audit & Supervisory Board Member (Current)



Tatsuru Satoh
Audit & Supervisory Board Member

Apr 1978 Joined Sumitomo Forestry Co., Ltd.
Apr 2011 General Manager of Personnel Department of above company
Jun 2012 Executive Officer of above company
Apr 2013 Managing Executive Director 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)

* Mr. Masaaki Ayukawa and Mr. Yutaka Takehana are both outside Audit & Supervisory Board Members.



Masaaki Ayukawa
Audit & Supervisory Board Member

Apr 1969 Joined Chuo Aoyama Audit Corporation
Feb 1971 Registered as Certified Public Accountant
Mar 1983 Representative Partner, Chuo Aoyama Audit Corporation
May 2000 Senior General Manager of Chuo Aoyama Audit Corporation
Mar 2009 Full-Time Statutory Auditor of Tonen General Sekiyu K.K.
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

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 (Current)
Jun 2019 Audit & Supervisory Board Member, Kumagai Gumi Co., Ltd. (Current)

Basic Philosophy

In order to make our Management Philosophy of "We aim to serve as a corporate group that contributes to society through business activities centered on construction" a reality, we position enhancement of the efficacy of our corporate governance as a priority issue.

Corporate governance structure

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

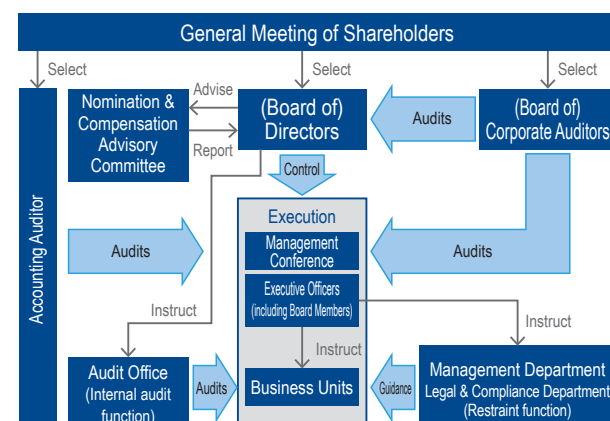
We have clarified the managerial responsibility of directors, and, to build an optimal management structure with respect to changes in the business environment, have set the term of office of directors to one year. We also employ an executive officer system to ensure that the duties of directors are 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 Advisory Committee, which is composed of the Representative Director and outside directors, in order to further ensure objectivity and transparency.

With regard to corporate auditors, we appoint outside auditors from among persons who have appropriate experience and capabilities knowledge concerning finances, accounting, and legal matters, in order to conduct audits with high efficacy.

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

Corporate Governance Structure



Improvement of the effectiveness of internal controls

To enhance the efficacy of our internal control, we are working to review internal rules and management conferences as required, and to otherwise continually improve our systems, based on our Basic Policy to Establish Internal Control Systems.

In addition, the Kumagai Gumi Group as a whole is engaged in the improvement and operation of internal control aimed at maintaining the reliability of our financial reporting, in accordance with the Financial Instruments and Exchange Act.

Evaluation of the effectiveness of the Board of Directors

From the past, our company has implemented improvements to secure the efficacy of the Board of Directors. Once a year since 2015, we use a questionnaire to conduct an evaluation by directors and auditors of the efficacy of the Board of Directors. We then study the results in Board of Directors meetings, and engage in consideration of improvements to ensure efficacy. Based on our evaluation in FY2018, we carried out a review of the evaluation items and evaluation results by external experts, and are using this to ensure and improve efficacy.

In evaluations involving the efficacy of the Board of Directors in FY2018, we conducted self-evaluations using evaluation items including the composition of the Board of Directors, its operation, agendas, and support structures, and the status of improvement from the previous fiscal year. Based on the findings of reviews by outside experts, we confirmed that the board as a whole is appropriately carrying out its role and responsibilities, and we determined that the efficacy of the Board of Directors overall is secured.

In addition, based on the issues for improvement shared following evaluations of the efficacy of the Board of Directors in FY2017, we strove to energize deliberation in the Board of Directors by holding study sessions following the conclusion of board meetings, as well as by enhancing information sharing through progress reports on plans and by sharing information in a timely manner.

In order to further enhance the efficacy of the Board of Directors in the future, we will continually address issues for improvement shared through evaluations of the efficacy of the Board of Directors in FY2018. These include the further practice of constructive and active declarations of opinion, the enhancement of information sharing for supervising the execution of work with high efficacy, and the promotion of delegation of authority by reviewing criteria for inclusion in agendas.

Executive compensation

Cash compensation for directors and top management is composed of compensation according to position, plus basic compensation that reflects results in contributing to annual performance plans based on the Medium-term Management Plan, and extraordinary bonuses linked to business performance. (Outside directors receive basic compensation only, with results of contribution not reflected.) Amounts of compensation are determined by the Board of Directors within the limits on compensation for directors determined at General Meetings of Shareholders, and take into consideration factors including employee wage levels and marketplace compensation levels, as well as findings reported by the Nomination & Compensation Advisory Committee.

In addition, the company has adopted a stock compensation system employing trusts, by which the company grants points based on position, etc. each fiscal year to directors (excluding outside directors) and top management, and, generally at the time of retirement, grants shares of stock, etc. based on the cumulative number of points.

Reasons for appointment of outside directors/
Attendance at Board of Directors meetings (FY2018)

Name	Reason for appointment	Attendance
Koichi Hironishi	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.	16 times/ 18 times
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.	18 times/ 18 times



Site visit by outside directors

Strategic stock holdings

(1) Policies concerning the reduction of strategic stock holdings

Our company carries out reductions in strategic stock holdings, other than stock held for the purpose of strengthening transactions and collaborative relationships to improve sustainable corporate value, or to capture earnings opportunities. Moreover, every year the Board of Directors conducts verification of strategic stock holdings, and sells or reconsiders the number of held shares for which the significance of holding is deemed to have lessened.

(2) Results of verification of the significance of strategic stock holdings

From a comprehensive perspective, our company performs verification of whether earned profits, etc. based on various transactions with investee companies are in line with our cost of capital, and whether holding the stock of investee companies is beneficial to the execution of our business. By doing so, we confirm the significance of our strategic stock holdings.

(3) Criteria for the exercise of voting rights involving strategic stock holdings

In exercising voting rights for strategic stock holdings, our company employs criteria for determining whether the exercise of voting rights leads to improvement of corporate value in the investee company from a medium- to long-term perspective. We exercised voting rights for the following sort of proposals, after particularly careful consideration from the perspective of improvement of corporate value.

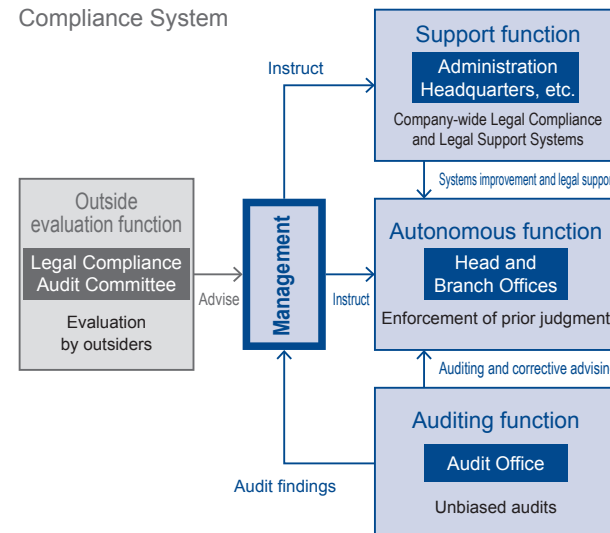
- Organizational restructuring including mergers, acquisitions, and transfer of important business
- Presentation of executive retirement benefits implemented by companies with excessive debt or other poor business performance
- Capital increase through third-party allotment via interest-bearing issuance
- Introduction of hostile takeover defense measures, etc.

Compliance system

Our company's compliance system consists primarily of three internal functions: Autonomous functions by headquarters and branch offices, support functions by the administration head office and other specialized divisions, and audits by the Audit Office.

In addition, the Legal Compliance Committee, an organization independent of management, periodically carries out evaluations of the company from an outsider's point of view and advises the management of any problems uncovered, in order to strengthen the enforcement of compliance.

Compliance System



Legal Compliance Audit Committee

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

Our initiatives toward 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 2018 through March 2019 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 the month to strengthen compliance, in an attempt to enhance employees' awareness of compliance and to re-examine potential risks in daily work.

Internal whistleblower system

Our company 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.

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 that we use for 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 2019 our company is involved in four civil cases.

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

In FY2018, our company was involved in no legal violations, including administrative disposition or administrative measures.

Business Continuity Plan (BCP)

Kumagai Gumi has formulated a Business Continuity Plan (BCP) that will enable our primary business to continue operating even in the event of large-scale disasters, through means including recovery support and reconstruction work on behalf of customers and local residents. We have also established a permanent Crisis Control Committee to maintain and improve the effectiveness of BCP. We create a PDCA-based plan for BCP activities each fiscal year, and cooperate with branch offices, group companies, and partner companies on drill planning and training. We continue working to improve and enhance our BCP so that we can remain a construction company that earns the trust of customers and contributes to society.

Operation of the Safety Confirmation Communication System

We operate 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 fundamental rules and regulations, such as the Basic Principle, the Privacy Policy, and the Personal Information Protection Regulations, and has posted the necessary information on its website, in order to properly handle and protect the private information of all stakeholders, including shareholders and employees.

We have also prepared an instruction manual for all employees that concerns the Personal Information Protection Law, and communicate the importance of personal data protection to all executives and staff members, as we continue to improve our personal information protection systems and methods.

Business and other risks

Regarding the business and financial status of Kumagai Gumi, items such as the following may have a significant impact on decisions of investors, and are deliberated by the Management Conference and supervising committees.

(1) Trends in construction investment

When construction investment by government offices, private capital investment, housing investment, etc. have fluctuated significantly

(2) Fluctuations in the prices of construction materials and labor

When suddenly market inflation or labor shortages have occurred

(3) Business partner credit risk

Construction delays, inability to recover claims, etc. when credit uncertainty has occurred among orderers, contractors, joint contractors, etc.

(4) Business expansion overseas

When unexpected events have occurred in the country's political situation, economy, etc., and the political and economic situation has deteriorated

(5) Exchange rate fluctuations

Fluctuations in exchange rates when local currency-denominated transactions, assets, liabilities, revenue, and expenses are converted into yen by the company

(6) Fluctuations in interest rates

Future interest rate conditions, such as a rapid rise in interest rates

(7) Legal regulations

Adaption when laws concerning the operation of construction businesses (construction industry laws, construction recycling laws, etc.) are revised
When unforeseen circumstances such as environmental pollution caused by construction work have occurred

(8) Effects of natural conditions on the construction business

Geological or ground conditions, natural conditions such as weather, unexpected phenomena in the natural environment, etc.

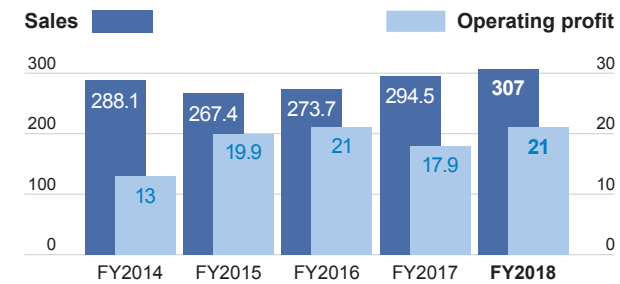
(9) Occupational disasters and accidents in the construction business

Expenses required for compensation, etc. in the event of occupational disasters or accidents

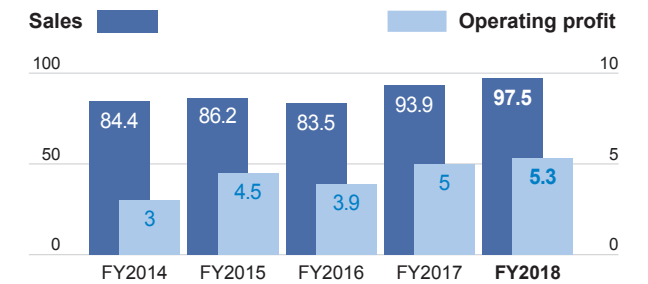
(10) Defects in construction, etc.

Major expenses which may be incurred for repair in the case of major defects in structures, etc. which we have constructed

Kumagai Gumi only (Unit: billion yen)



Subsidiaries (Unit: billion yen)



* Value after deduction of intra-group transactions

General Contractor

Kumagai Gumi Co., Ltd.

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.

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

P54



Civil Engineering

P44



Construction

P45

Overseas and
Other Business

P46

Road paving

Manufacture and sales of
asphalt mixture, etc.

GAEART Co., Ltd.

GAEART Co., Ltd. engages in construction work centered on paving services for roads, airports, harbors, bridges, etc., as well as the manufacture and sale of asphalt paving materials, etc.



Established November 1963
Head office 8-27 Shinogawamachi,
Shinjuku-ku, Tokyo
Capital ¥1,000,000,000
Sales ¥50,623,000,000
(FY ended March 2019)
No. of employees 756 (as of March 2019)
Representative Kenji Yamamoto
Officer

<https://www.gaeart.com> (Japanese only)
Public works renewal
Equipment manufacture

Technos Co., Ltd.

At its Toyokawa Factory headquarters, Technos designs, manufactures, and installs steel segments for shield tunnels, construction machinery, and soil decontamination equipment, along with leasing of the ACEUP steel frame construction method.



Established February 1996
Head office 2-1 Honohara, Toyokawa,
Aichi Prefecture
Capital ¥470,000,000
Sales ¥8,366,000,000
(FY ended March 2019)
No. of employees 173 (as of March 2019)
Representative Eiji Morita
Officer

<http://www.technos.info> (Japanese only)
Trading company specializing
in construction

FATEC Co., Ltd.

FATEC Co., Ltd. is a trading company that sells construction materials and equipment developed with state-of-the-art technologies. Currently the company is engaged in the development of technologies related to maintenance and renovation, primarily in the construction sector. It is also advancing development of independent walking aid devices in the welfare and nursing care sector.



Established June 1989
Head office 2-1 Tsukudocho,
Shinjuku-ku, Tokyo
Capital ¥20,000,000
Sales ¥3,062,000,000
(FY ended March 2019)
No. of employees 8 (as of March 2019)
Representative Takayuki Aono
Officer

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

Building renovation

K&E Co. Ltd.

As a specialist in building renovation, K&E Co., Ltd. comprehensively offers planning and design incorporating building surveys and diagnosis, seismic diagnosis and reinforcement design, and proposals for comfortable spaces, as well as construction work leveraging technological capabilities, after-sales service, and more.



Established January 2001
Head office 2-1 Tsukudocho,
Shinjuku-ku, Tokyo
Capital ¥300,000,000
Sales ¥23,618,000,000
(FY ended March 2019)
No. of employees 354 (as of March 2019)
Representative Kazuhisa Iwama
Officer

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

Construction in Taiwan

Taiwan Kumagai Co., Ltd.

Taiwan Kumagai Co., Ltd. was established in Taiwan in 1974 as a Kumagai Gumi Group company. It has a best-in-class track record as a general contractor, bringing Kumagai Gumi technology to Taiwan.



Established December 1974
Head office Room 8 (1408), 12F, No.
205, Section 1, Dunhua
South Road, Taipei, Taiwan
Capital 600,000,000 NTD
Sales ¥10,252,000,000
(FY ended December 2018)
No. of employees 182 (as of March 2019)
Representative Toyohiko Ina
Officer

<http://www.taiwankumagai.com.tw/>
Production of construction
drawings
Education businessTechno-Space Creates
Co., Ltd.

Utilizing CAD and information systems, Techno-Space Creates provides software services that span the planning phase to the completion of projects, including preparation of construction and architectural schematics and application documents.



Established November 1993
Head office 9F Showa Bldg., Higashi-
Ikebukuro 3-12-12,
Toshima-ku, Tokyo
Capital ¥30,000,000
Sales ¥797,000,000
(FY ended March 2019)
No. of employees 57 (as of March 2019)
Representative Tsukasa Wakuta
Officer

<https://www.techsp.co.jp/> (Japanese only)
Clerical services
Insurance agency

Technical Support Co., Ltd.

Technical Support supports the strengthening of clients' core business through outsourcing services for vital but complex work and work that requires expert knowledge. It also offers insurance plans as an agency handling both life and non-life insurance.



Established July 1995
Head office 2-1 Tsukudocho,
Shinjuku-ku, Tokyo
Capital ¥70,000,000
Sales ¥556,300,000
(FY ended March 2019)
No. of employees 37 (as of March 2019)
Representative Hiroshi Shimura
Officer

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

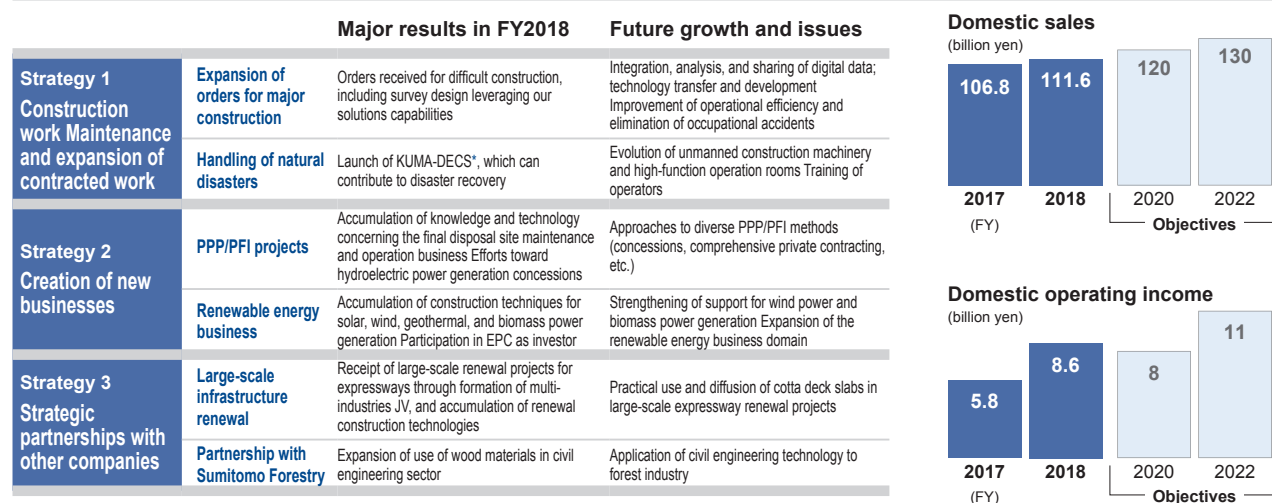


We will quickly respond to expanding societal issues such as increasingly severe natural disasters, social infrastructure reaching the stage of large-scale renewal, and the inexorably declining birthrate and aging population. Through manufacturing, we will deliver inspiration and happiness that leads to an abundant society in the next generation.

Senior Managing Director, Senior Managing Executive, General Manager of the Railway Project Promotion Division of Civil Engineering Management Division

Yoshihiko Kato

Progress of the Medium-Term Management Plan (2018-2020)



* A name incorporating an acronym for Disaster, Emergency, Construction work, and Support.

■ Looking back on FY2018

In FY2018, orders for private-sector construction, including the Chuo Shinkansen maglev line and renewable energy projects, were robust, reaching the highest level in nearly 20 years. More than the amount of the orders, I believe that there was value in the opportunities that we gained to further polish our Worksite Excellence through difficult projects, and to connect these more advanced technological development. These projects included the Kitashinagawa portion of the Chuo Shinkansen maglev line No. 1 metropolitan tunnel (length 9.2 km, shield construction), the Omori portion of the Chuo Shinkansen maglev line No. 1 Chukyo tunnel (length 4.9 km, mountain tunnel), the Arishima portion of the Hokkaido Shinkansen Yotei tunnel (length 4.2 km, SENS method tunnel construction), and Tohoku Expressway Towada renewal construction (length 66 km, bridge deck slab replacement construction).

In terms of profits, too, we saw considerable improvement from the previous fiscal year due to the strength of major construction projects. Amid this increase in construction work on hand, we recognize that furthering the evolution of the IoT, AI, and unmanned construction technology to achieve substantive productivity increases in construction is an issue that we face in successfully reforming work styles, especially in correcting long working hours.

The construction industry is seeing an increase in new workers coming from other industries or from overseas, and ensuring safety and proper treatment for unfamiliar faces is a new issue.

■ Future initiatives

To respond to long-term changes in the construction industry, we have worked to enhance our main business of construction contracting, and have expanded Kumagai Gumi's "defensive range" into the domains of project planning, such as PPP/PFI, concessions, ECI, and DB, and domains of maintenance, repair, and renewal, as seen in large-scale renewal of expressways. Looking ahead, we will build up new know-how gained through construction work, and and will enter the stage of connecting this to our next projects. We will start accumulating digital data as a first step toward this. We will collect video, CIM, 3D data, and more in the cloud, and analyze and share these, so that we can connect them to the transfer and development of technology and to the streamlining of work. We will also continue making efforts in overseas civil engineering and renewable energy projects.

A succession of natural disasters occurred in 2018. Kumagai Gumi responded to requests for aid from afflicted areas, dispatching employees, heavy machinery, operators, and more. In order to respond even more quickly, we launched the KUMA-DECS disaster recovery team together with 17 major civil engineering company members of "Yuuei Kyoryoku Kai*". We also began training operators in parallel with the evolution of unmanned construction machinery and high-function operation room technologies, and will prepare for the occurrence of disaster.

* A group composed of 868 (as of April 1, 2019) partner companies of Kumagai Gumi.



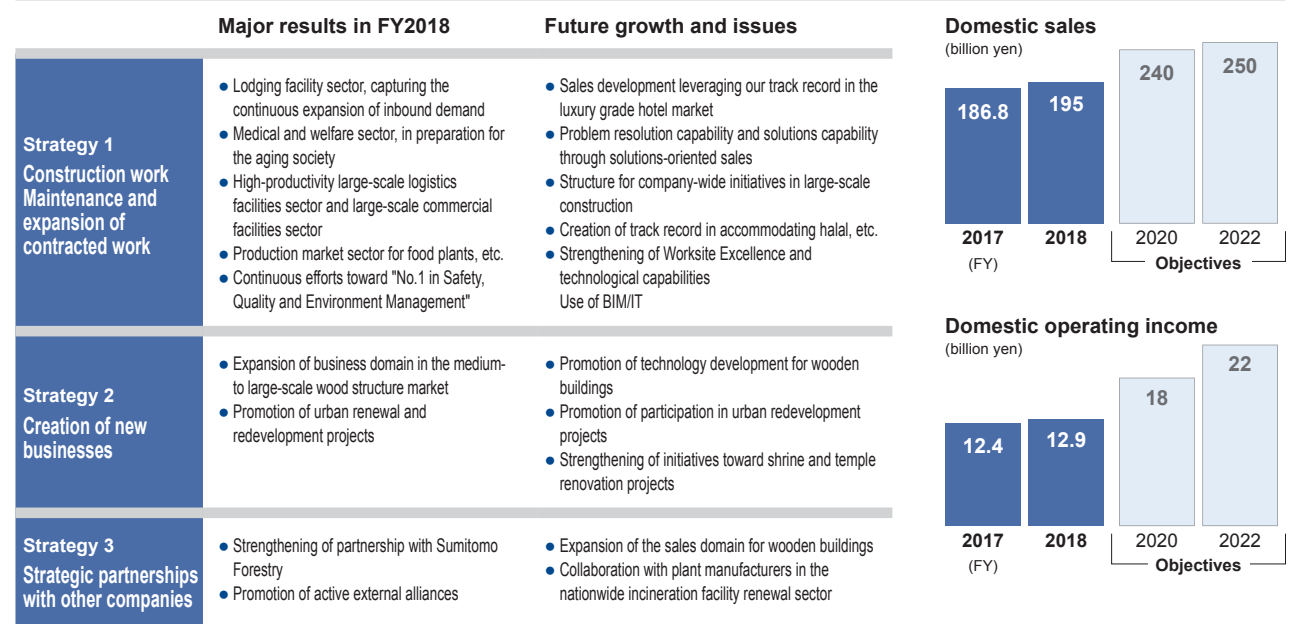
We will strengthen solution-oriented sales that resolve customer issues, and will build relationships of trust with customers.

With a goal of 250 billion yen in net sales and 22 billion yen in operating income 5 years from now, each and every one of us will continue our efforts to raise productivity and strengthen Worksite Excellence.

Senior Managing Director, General Manager of the Architectural Management Division

Yoshiaki Ogawa

Progress of the Medium-Term Management Plan (2018-2020)



■ Looking back on FY2018

In order volume, we were able to greatly surpass our targets. Reasons for this include apt response to the marketplace though the strengthening of initiatives for large-scale projects and the strengthening of solutions-oriented sales that resolve customers' issues in the execution of their projects, which led to our winning construction orders while building relationships of trust with customers.

Looking at net sales, delayed deliveries of materials had some effect, leading to results slightly under target. However, we maintained a high level of profit margin.

In addition, our work on Roadside Station Mashiko (Mashiko, Tochigi Prefecture) and Tajimi City Crematorium Hanadate Yasuraginomori (Tajimi, Gifu Prefecture) received BCS awards for architectural work incorporating advanced construction technology. We will continue to further deepen and hand down our technologies.

■ Future initiatives

The origins of our business lie in manufacturing with safety and integrity, to deliver quality that customers can trust. We will not change in our goal of working as one to achieve "Be No.1 in Safety, Quality and Environment Management."

Looking at the environment for orders, we foresee robust construction demand, including in the hotel sector due to inbound demand, and the medical and welfare sector in preparation for the aging of society.

We will continue striving to resolve customers' issues in advancing projects, and will focus on strengthening our project proposal capabilities. In addition, we will strengthen our urban renewal business, including the urban district redevelopment business and real estate development business. Through such sales activities, we aim to make a special mission of increasing orders in private-sector architecture.

Moreover, viewing wood and the promotion of building with wood as a growth sector, we established a new Medium- to Large-Scale Wood Architecture Promotion Office. We will highlight the merits of wood in proposals and productization aimed at stores, hotels, senior facilities, and more.

Through the promotion of BIM and electronic commerce, the active adoption of ICT tools in workplaces, and other initiatives, we will promote the enhancement of productivity.



We will respond flexibly to qualitative and quantitative changes in the domestic construction market, will aim to diversify our revenue base outside of the construction contracting business to secure a stable revenue base, and will promote our overseas business, PPP/PFI/concession business, and development business.

Namxouang Aquaculture Development Center Construction (Vientiane special municipal zone, Laos)

Progress of the Medium-Term Management Plan (2018-2020)

	Major results in FY2018		Future growth and issues
Strategy 1 Maintain and increase contracted construction businesses	Overseas	<ul style="list-style-type: none">Completion of Namxouang Aquaculture Development Center Construction (Laos)Construction of plants by Japanese companies is at a peak (India)Receipt of order for the Yulon Motor new commercial mall, said to be a posthumous work of the late Zaha Hadid (Taiwan Kumagai/Taiwan)	<ul style="list-style-type: none">Aim to win construction orders for ODA projects and from Japanese companiesWinning orders for ongoing and related construction, and preparing a management foundation (India)While aiming for continued receipt of orders, also work toward receipt of orders for landmark construction projects (Taiwan Kumagai/Taiwan)
Strategy 2 Create new and innovative businesses	Overseas	<ul style="list-style-type: none">Receipt of order for Tate's Cairn Tunnel MOM Project, the second of the Hong Kong MOM projects	<ul style="list-style-type: none">Aim to continue winning orders for MOM projects in Hong KongAim to advance into new development projects in cooperation with local developers (Hong Kong)
	Domestic	<ul style="list-style-type: none">Initiatives aimed at large and diverse projects, and self-supporting businessesPromotion of urban renewal and redevelopment projects	<ul style="list-style-type: none">Acceleration of entry into businesses including investmentPromotion of entry into urban redevelopment projects
Strategy 3 Form strategic alliances with other companies	Overseas	<ul style="list-style-type: none">Collaborative projects overseas with Sumitomo Forestry, etc. are under consideration	<ul style="list-style-type: none">Internal consideration of business expansion destination, and execution

Looking back at FY2018

Overseas Projects

In 2018 we completed construction of the Namxouang Aquaculture Development Center in Laos, a pro bono government project that we were awarded in 2017. In Myanmar, we have received orders for ongoing construction work from Japanese companies. In India, orders received by our local subsidiary for plant construction for Japanese companies have reached a peak.

Our subsidiary in Taiwan, in recognition of its track record, was able to win the order for the Yulon Motor new commercial mall, considered a posthumous work of the late Zaha Hadid. The project is expected to become a new landmark when completed.

To win construction orders, we are constructing a system in Japan to support overseas sites. In FY2018, with our sights on the invigoration of our overseas business, we held the 1st Global Staff Meeting in Hong Kong, targeting global staff at overseas sites.

In Hong Kong, we also received the order for the Tate's Cairn Tunnel MOM Project, coming after the Eastern Harbour Crossing (EHC) MOM Project.

Development business

We created a new Urban Development Group to strengthen our approach to urban renewal and redevelopment projects, one of the strategies of our Medium-term Management Plan.

Moreover, we were recognized for our contribution as a subsidized project contractor in a project for the development of compelling residential areas in the Wakabayashi district of Shinjuku-ku, Tokyo, through neighborhood fireproofing and living environment improvements involving the replacement of dense wooden construction. This has led to receiving orders for joint rebuilding work.

PPP/PFI/concession business

In response to the future contraction of the Japanese construction market, we are advancing initiatives involving project participation with accompanying investment, specifically PPP and PFI projects, concession projects, infrastructure operation projects, and renewable energy projects, to secure a more diversified revenue base outside of construction contracting and secure a stable revenue base that will smooth out fluctuations in revenue.

In the past, we have participated in PPP and PFI projects, mostly service purchase-oriented projects. We are now advancing initiatives for large and diverse projects and self-supporting projects, and since FY2017 have continued bidding on these together with concession projects.

Future initiatives

Overseas Projects

The Kumagai Gumi Group will continue overseas business activities with a focus on Taiwan, Hong Kong, Southeast Asia, and South Asia. We will expand orders received for government pro bono construction work, and, with regard to private-sector construction, will aim to win orders by leveraging our record of success and our trusted relationships in Japan.

As a part of our global human resources development, we will dispatch architectural staff to worksites in Myanmar and India for short-term training of about two months. We will also send clerical staff on two-month assignments to our subsidiary in Bangkok.

In Hong Kong, we are seeking to acquire an extension of our contract for the Eastern Harbour Crossing (EHC) MOM Project. We are engaged in specific discussions with Sumitomo Forestry regarding the development business, focused on Southeast Asia. We are also studying investment projects involving local subsidiaries.

Development business

With our sights on the creation of opportunities to participate as the operating party in projects accompanying investment, we created an Urban Development Department within the Architectural Management Division. We will further strengthen our approach to development businesses, including urban renewal and redevelopment projects.

In the urban district redevelopment business, this fiscal year we will collect information on urban district redevelopment with a focus on becoming a business partner or designated business agent, and will conduct sales activities aimed at resolving issues in commercialization.

Regarding our approach to real estate development projects in which we act as business owner, we will actively consider proposals for commercialization.

PPP/PFI/concession business

Regarding the concession business that forms one of the pillars of Japan's future growth strategy, the infrastructure operation business, and the renewable energy business that promises stable revenue, we are positioning these as central sectors for our company as well, and will tackle these over the medium- to long-term.

Looking ahead, we will more actively tackle all of these business sectors.

Looking at Japan's economy during the consolidated fiscal year, the continuing high level of corporate earnings showed some signs of weakness. However, capital expenditures continued their upward trend, consumer spending remained solid against a backdrop of steady improvement in employment and wage levels, and mild recovery continued in business conditions.

In the construction industry, although residential construction remained generally flat, corporate construction investment increased and public works investment maintained its high level, continuing a favorable business environment.

Looking at our group's consolidated performance, net sales increased 4.0% from the previous fiscal year to 389 billion yen. Operating income was 26.4 billion yen and ordinary income was 26.5 billion yen due to improvement in gross profit ratio. Current net income attributable to shareholders of the parent company was 13.3 billion yen, due to factors including the recording of special losses (including provision for loss related to the Anti-monopoly Act).

■ Financial status

Assets (total assets: +6.0% year on year)

Total assets increased by 20 billion yen (6.0%) from the end of the previous consolidated fiscal year to 353.7 billion yen.

Current assets increased by 13.8 billion yen (5.1%) from the end of the previous consolidated fiscal year to 287.9 billion yen. Notes receivable and accounts receivable from completed construction contracts increased by 36.4 billion yen, due to an increase in completed construction work over the end of the fiscal year.

Non-current assets increased by 6.2 billion yen (10.5%) from the end of the previous consolidated fiscal year to 65.6 billion yen. Tangible non-current assets increased by 5.3 billion yen, due to factors including the acquisition of business real estate.

Liabilities (+5.6% year on year)

Liabilities increased by 11.5 billion yen (5.6%) from the end of the previous consolidated fiscal year to 218.8 billion yen.

Current liabilities increased by 13.2 billion yen (7.5%) from the end of the previous consolidated fiscal year to 191.1 billion yen. In addition to an increase of 10.8 billion yen in notes receivable and accounts receivable from completed construction contracts, etc. due to an increase in construction sales over the end of the fiscal year, we recorded a provision for losses of 3.9 billion yen related to the Anti-monopoly Law.

Fixed liabilities decreased by 1.7 billion yen (-6.0%) from the end of the previous consolidated fiscal year to 27.6 billion yen.

Net assets (+6.7% year on year)

Net assets increased by 8.5 billion yen (6.7%) from the end of the previous consolidated fiscal year to 134.8 billion yen. Retained earnings increased by 9.1 billion yen due to factors including the recording of 13.3 billion yen in current net income attributable to shareholders of the parent company, despite distribution of 4.2 billion yen in surplus.

Equity ratio increased 0.2 points from the end of the previous consolidated fiscal year to 38.1%.

■ Management performance

Net sales (+4.0% year on year)

Net sales increased by 15 billion yen (4.0%) from the previous consolidated fiscal year to 389 billion yen, due to an increase in construction work brought forward at the beginning of the period.

Gross profit (+13.2% year on year)

Gross profit increased by 5.3 billion yen (13.2%) from the previous consolidated fiscal year to 45.5 billion yen, due to improvement in gross profit margin. Gross profit margin improved 0.9 points from the previous consolidated fiscal year to 11.7%.

Selling, general and administrative expenses (+10.9% year on year)

SG&A expenses increased by 1.8 billion yen (10.9%) from the previous consolidated fiscal year to 19 billion yen, due to factors including increased personnel expenses caused by revised employee treatment.

Operating profit (+14.9% year on year)

Operating income increased by 3.4 billion yen (14.9%) from the previous consolidated fiscal year to 26.4 billion yen, due to improvement in gross profit. Operating income margin improved 0.6% from the previous consolidated fiscal year to 6.8%.

Non-operating profit and loss

Non-operating profit and loss increased 0.1 billion yen from the previous consolidated fiscal year to 0.6 billion yen, due to factors including an increase in dividend income.

Non-operating expenses decreased by 0.3 billion yen from the previous consolidated fiscal year to 0.5 billion yen, due to factors including a decline in expenses related to capital business tie-ups.

Ordinary profit

Ordinary income increased by 3.8 billion yen (17.1%) from the previous consolidated fiscal year to 26.5 billion yen, due to increases in operating income and non-operating income.

Extraordinary profit and loss

We recorded extraordinary profit of 0.1 billion yen, including 70 million yen in gain on sales of investment securities.

We recorded an extraordinary loss of 5.5 billion yen, including 1.3 billion yen in provision for contingent loss as an additional expense related to the condominium in Nishi-ku, Yokohama in which construction defects by our company were identified in 2014, and 3.9 billion yen in provision for loss related to the Anti-monopoly Act based on the draft order for payment of surcharge in accordance with the Anti-monopoly Act received by GAEART Co., Ltd.

Income taxes, etc.

We recorded adjusted income taxes, etc. of 0.4 billion yen due to residential tax and business tax of 7.3 billion yen, review of recoverability of deferred tax assets, etc.

Profit attributable to owners of parent (-15.7% year on year)

Current net income attributable to shareholders of the parent company decreased by 2.4 billion yen (-15.7%) from the previous consolidated fiscal year to 13.3 billion yen. Return on equity (ROE) declined 5.1% from the previous consolidated fiscal year to 10.2%.

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

Metrics	FY2018 (Planned)	FY2018 (Performance)	Difference
Net sales (million yen)	400,000	389,058	(10,941)
Operating profit (million yen)	24,000	26,464	2,464
Operating profit margin (%)	6.0	6.8	0.8

■ Status of cash flow

Cash flow from operating activities

Cash flow from operating activities was negative 12.3 billion yen (positive 17.6 billion yen in the previous consolidated fiscal year), due to factors including an increase in trade receivables accompanying increased completed construction work over the end of the fiscal year.

Cash flow from investing activities

Cash flow from investing activities was negative 7.3 billion yen (negative 14.0 billion yen in the previous consolidated fiscal year), due to factors including the acquisition of tangible non-current assets.

Cash flow from financing activities

Cash flow from financing activities was negative 6.1 billion yen (positive 30.8 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 current consolidated fiscal year, including a decline due to currency conversion, declined by 26.0 billion yen (24.0%) from the end of the previous consolidated fiscal year to 82.4 billion yen.

■ Capital resources and liquidity of funds

Within our group's demand for working capital, the greatest demand is for operating expenses including construction expenses involving construction projects and SG&A expenses. Capital demand for the purpose of investment is primarily for equipment investment.

The basic policy of our group is to stably secure sources of the funding and liquidity necessary for business operation.

Short-term working capital is based on self-funding and short-term borrowings from financial institutions. Capital related to equipment investment and long-term working capital are based 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 12.8 billion yen.

■ Management performance by segment

Civil Engineering

Orders received increased by 19.9% from the previous consolidated fiscal year to 155.7 billion yen, due to factors including growth in the railway sector.

Net sales increased by 4.5% from the previous consolidated fiscal year to 111.6 billion yen due to an increase in construction work brought forward at the beginning of the period. Operating income increased by 48.2% in the same period to 8.6 billion yen, due to increased net sales and an improvement in gross profit margin.

Construction

Orders received increased by 18.4% from the previous consolidated fiscal year to 298.2 billion yen, due to factors including growth in the medical and welfare facilities sector caused by rush demand prior to the consumption tax hike.

Net sales increased by 4.1% in the same period to 195.4 billion yen, due to an increase in construction work brought forward at the beginning of the period. Operating income increased by 2.7% in the same period to 12.4 billion yen, due to increased net sales and an improvement in gross profit margin.

Subsidiaries

Net sales increased by 3.9% overall in the same period to 97.5 billion yen, due to an increase in construction work brought forward at the beginning of the period at GAEART Co., Ltd. and an increase in orders. Operating income increased by 5.0% in the same period to 5.3 billion yen, due to an improvement in gross profit margin and subsequent increase in gross profit.

■ 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 82nd term, we paid a dividend of 100 yen per share, an increase of 10 yen per share from the 90 yen per share in the previous term, which had included a dividend of 20 yen per share to commemorate the company's 120th anniversary.

Looking ahead, we will place further importance on the return of profits to shareholders, and will continue returning profits with the goal of a 30% dividend propensity as stated in the Medium-term Management Plan (FY2018-2020).

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

Consolidated Financial Statements

Consolidated balance sheet

(Unit: millions of yen)

	FY2017 (As of March 31, 2018)	FY2018 (As of March 31, 2019)		FY2017 (As of March 31, 2018)	FY2018 (As of March 31, 2019)
Assets			Liabilities		
Current assets			Current liabilities		
Cash and deposits	¥108,536	¥82,449	Notes payable, accounts payable for construction contracts and other	¥76,043	¥86,893
Notes receivable, accounts receivable from completed construction contracts and other	139,287	175,696	Electronically recorded obligations - operating	29,297	33,172
Costs on uncompleted construction contracts	6,905	7,300	Short-term loans payable	4,090	3,030
Accounts receivable - other	12,178	15,696	Income taxes payable	2,871	4,821
Other	7,309	6,998	Advances received on uncompleted construction contracts	21,527	14,739
Allowance for doubtful accounts	(151)	(191)	Deposits received	20,700	19,411
Total current assets	274,066	287,949	Provision for warranties for completed construction	433	467
Non-current assets			Provision for loss on construction contracts	438	626
Property, plant and equipment			Provision for contingent loss	11,341	10,736
Buildings and structures	17,094	18,378	Provision for loss on anti-monopoly act	—	3,933
Machinery, vehicles, tools, furniture and fixtures	16,374	17,464	Provision for bonuses	3,911	3,911
Land	10,524	14,587	Other	7,188	9,397
Leased assets	262	398	Total current liabilities	177,845	191,141
Construction in progress	618	730	Non-current liabilities		
Accumulated depreciation	(25,370)	(26,723)	Long-term loans payable	10,389	9,819
Total property, plant and equipment	19,504	24,836	Provision for stock payments	—	42
Intangible assets	441	484	Retirement benefit liability	16,677	16,499
Investments and other assets			Other	2,378	1,331
Investment securities	24,382	24,438	Total non-current liabilities	29,444	27,692
Long-term loans receivable	858	858	Total liabilities	207,290	218,834
Long-term non-operating accounts receivable	235	157	Net assets		
Claims provable in bankruptcy, claims provable in rehabilitation and other	69	40	Shareholders' equity		
Deferred tax assets	11,427	11,045	Capital stock	30,108	30,108
Other	2,818	4,014	Capital surplus	25,157	25,157
Allowance for doubtful accounts	(271)	(189)	Retained earnings	68,540	77,642
Total investments and other assets	39,520	40,365	Treasury shares	(189)	(426)
Total non-current assets	59,466	65,686	Total shareholders' equity	123,616	132,481
Deferred assets			Accumulated other comprehensive income		
Share issuance cost	132	82	Valuation difference on available-for-sale securities	2,699	2,501
Total deferred assets	132	82	Foreign currency translation adjustment	516	349
Total assets	¥333,665	¥353,718	Remeasurements of defined benefit plans	(457)	(449)
			Total accumulated other comprehensive income	2,758	2,402
			Total net assets	126,374	134,883
			Total liabilities and net assets	¥333,665	¥353,718

Consolidated statement of income

(Unit: millions of yen)

	FY2017 (Apr 1, 2017 - Mar 31, 2018)	FY2018 (Apr 1, 2018 - Mar 31, 2019)
Net sales of completed construction contracts	¥374,019	¥389,058
Cost of sales of completed construction contracts	333,789	343,527
Gross profit on completed construction contracts	40,230	45,530
Selling, general and administrative expenses	17,188	19,065
Operating profit	23,041	26,464
Non-operating income		
Interest income	38	34
Dividend income	106	329
Share of profit of entities accounted for using equity method	144	159
Foreign exchange gains	—	3
Compensation for damage income	85	10
Other	148	91
Total non-operating income	524	629
Non-operating expenses		
Interest expenses	241	231
Foreign exchange losses	28	—
Commission for syndicate loan	223	183
Capital and business alliance expenses	236	—
Amortization of share issuance cost	16	49
Other	136	75
Total non-operating expenses	883	541
Ordinary profit	22,682	26,553
Extraordinary income		
Gain on sales of non-current assets	22	32
Gain on sales of investment securities	0	73
Gain on sales of memberships	39	0
Other	2	—
Total extraordinary income	64	106
Extraordinary losses		
Loss on sales of non-current assets	17	—
Loss on retirement of non-current assets	84	63
Compensation for damage	16	73
Loss on litigation	49	125
Provision for contingent loss	481	1,349
Provision for loss on anti-monopoly act	—	3,933
Other	1	7
Total extraordinary losses	651	5,553
Profit before income taxes	22,095	21,106
Income taxes - current	5,386	7,341
Income taxes - deferred	925	452
Total income taxes	6,311	7,793
Profit	15,783	13,312
Profit attributable to owners of parent	¥15,783	¥13,312

Consolidated statement of comprehensive income

(Unit: millions of yen)

	FY2017 (Apr 1, 2017 - Mar 31, 2018)	FY2018 (Apr 1, 2018 - Mar 31, 2019)
Profit	¥15,783	¥13,312
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,722)	(196)
Foreign currency translation adjustment	127	(167)
Remeasurements of defined benefit plans, net of tax	(83)	8
Share of other comprehensive income of entities accounted for using equity method	(7)	(1)
Total other comprehensive income	(1,685)	(356)
Comprehensive income	¥14,098	¥12,956
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,098	12,956
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of changes in equity

(Unit: millions of yen)

FY2017 (Apr 1, 2017 - Mar 31, 2018)

	Shareholders' equity					Accumulated other comprehensive income				Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	¥13,341	¥7,880	¥55,377	¥(753)	¥75,845	¥4,428	¥388	¥(374)	¥4,443	¥80,288
Changes of items during period										
Issuance of new shares	16,767	16,767			33,534					33,534
Dividends of surplus			(2,621)		(2,621)					(2,621)
Profit attributable to owners of parent			15,783		15,783					15,783
Purchase of treasury shares				(77)	(77)					(77)
Disposal of treasury shares		509		641	1,151					1,151
Net changes of items other than shareholders' equity						(1,729)	127	(83)	(1,685)	(1,685)
Total changes of items during period	16,767	17,276	13,162	564	47,771	(1,729)	127	(83)	(1,685)	46,086
Balance at end of current period	¥30,108	¥25,157	¥68,540	¥(189)	¥123,616	¥2,699	¥516	¥(457)	¥2,758	¥126,374

FY2018 (Apr 1, 2018 - Mar 31, 2019)

	Shareholders' equity					Accumulated other comprehensive income				Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	¥30,108	¥25,157	¥68,540	¥(189)	¥123,616	¥2,699	¥516	¥(457)	¥2,758	¥126,374
Changes of items during period										
Dividends of surplus			(4,210)		(4,210)					(4,210)
Profit attributable to owners of parent			13,312		13,312					13,312
Purchase of treasury shares				(238)	(238)					(238)
Disposal of treasury shares		0		1	1					1
Net changes of items other than shareholders' equity						(197)	(167)	8	(356)	(356)
Total changes of items during period	—	0	9,102	(237)	8,865	(197)	(167)	8	(356)	8,508
Balance at end of current period	¥30,108	¥25,157	¥77,642	¥(426)	¥132,481	¥2,501	¥349	¥(449)	¥2,402	¥134,883

Consolidated statement of cash flows

(Unit: millions of yen)

	FY2017 (Apr 1, 2017 - Mar 31, 2018)	FY2018 (Apr 1, 2018 - Mar 31, 2019)
Cash flows from operating activities		
Profit before income taxes	¥22,095	¥21,106
Depreciation	1,735	1,934
Amortization of share issuance cost	16	49
Increase (decrease) in allowance for doubtful accounts	(13)	(38)
Increase (decrease) in provision for contingent loss	(2,575)	(605)
Increase (decrease) in provision for loss on anti-monopoly act	—	3,933
Increase (decrease) in net defined benefit liability	(1,746)	(165)
Interest and dividend income	(145)	(363)
Interest expenses	241	231
Foreign exchange losses (gains)	30	(6)
Share of loss (profit) of entities accounted for using equity method	(144)	(159)
Loss (gain) on valuation of investment securities	(0)	(73)
Loss (gain) on sales of non-current assets	(4)	(32)
Loss on retirement of non-current assets	84	63
Decrease (increase) in notes and accounts receivable - trade	(14,814)	(36,504)
Decrease (increase) in costs on uncompleted construction contracts	209	(394)
Increase (decrease) in notes and accounts payable - trade	8,048	13,263
Increase (decrease) in advances received on uncompleted construction contracts	6,910	(6,759)
Decrease (increase) in other other assets and other	(668)	377
Other, net	3,879	(2,975)
Subtotal	23,138	(7,119)
Interest and dividend income received	147	371
Interest expenses paid	(242)	(227)
Income taxes paid	(5,402)	(5,423)
Net cash provided by (used in) operating activities	17,641	(12,398)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,763)	(7,245)
Proceeds from sales of property, plant and equipment	130	15
Purchase of investment securities	(240)	(226)
Proceeds from sales of investment securities	0	217
Purchase of shares of subsidiaries and associates	(10,271)	(92)
Payments of loans receivable	(52)	(107)
Collection of loans receivable	186	159
Other, net	(0)	(99)
Net cash provided by (used in) investing activities	(14,010)	(7,379)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(420)	(690)
Proceeds from long-term loans payable	8,884	550
Repayments of long-term loans payable	(9,407)	(1,490)
Proceeds from issuance of common shares	33,385	—
Proceeds from disposal of treasury shares	1,151	1
Purchase of treasury shares	(75)	(236)
Cash dividends paid	(2,621)	(4,210)
Other, net	(41)	(50)
Net cash provided by (used in) financing activities	30,856	(6,126)
Effect of exchange rate change on cash and cash equivalents	119	(181)
Net increase (decrease) in cash and cash equivalents	34,606	(26,085)
Cash and cash equivalents at beginning of period	73,926	108,532
Cash and cash equivalents at end of period	¥108,532	¥82,446

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:

4,032 consolidated;
2,497 non-consolidated
(As of March 31, 2019)

■ Scope of Business:

To investigate, survey, plan, design, execute, and supervise construction works, and to give technical guidance, provide comprehensive engineering, management, and consulting services as well as contracted construction businesses in respect thereof and to contract for such works.

■ Headquarters:

2-1, Tsukudo-cho, Shinjuku-ku,
Tokyo 162-8557, Japan

■ Registered Head Office:

2-1, 3-chome, Ote, Fukui-shi,
Fukui 910-0005, Japan

■ Domestic Offices:

Hokkaido Office, Tohoku Office, Tokyo Metropolitan
Area Office, Nagoya Office, Hokuriku Office, Kansai
Office, Chugoku/Shikoku Office, Shikoku Office,
Kyushu Office, International Office, Technology
Laboratory

■ 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:

38,474 (as of March 31, 2019)

■ Administrator of Shareholders Registry:

Sumitomo Mitsui Trust Bank,
Limited

■ Fiscal Year:

From April 1 through March 31

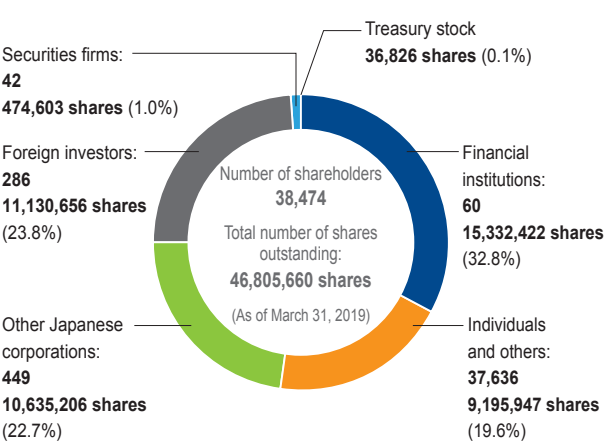
■ Base Date for Annual Dividend:

March 31

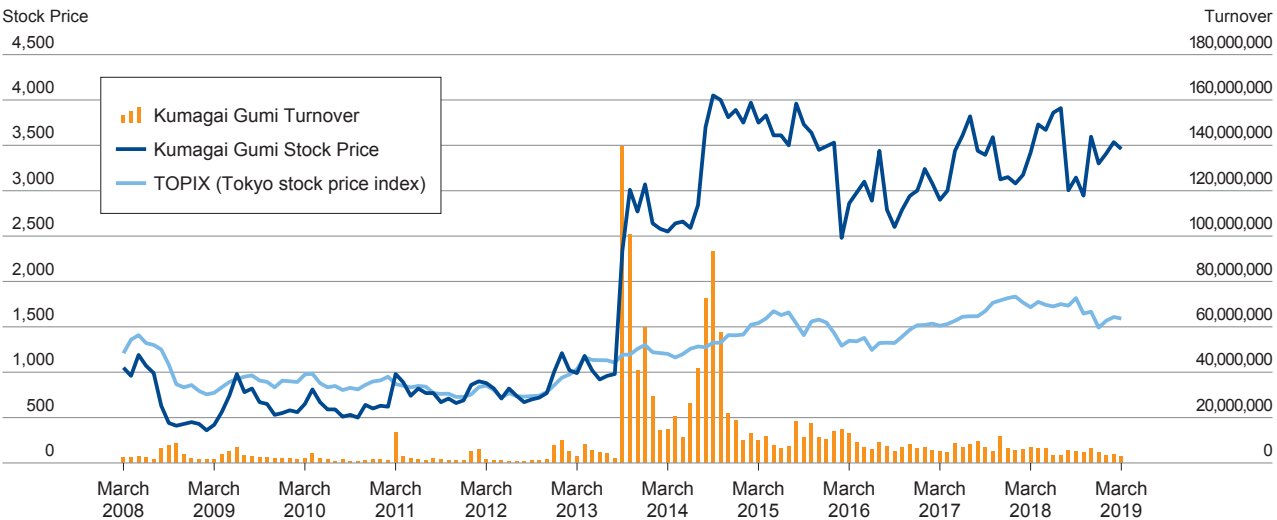
■ Annual Shareholders' Meeting:

June of the Year

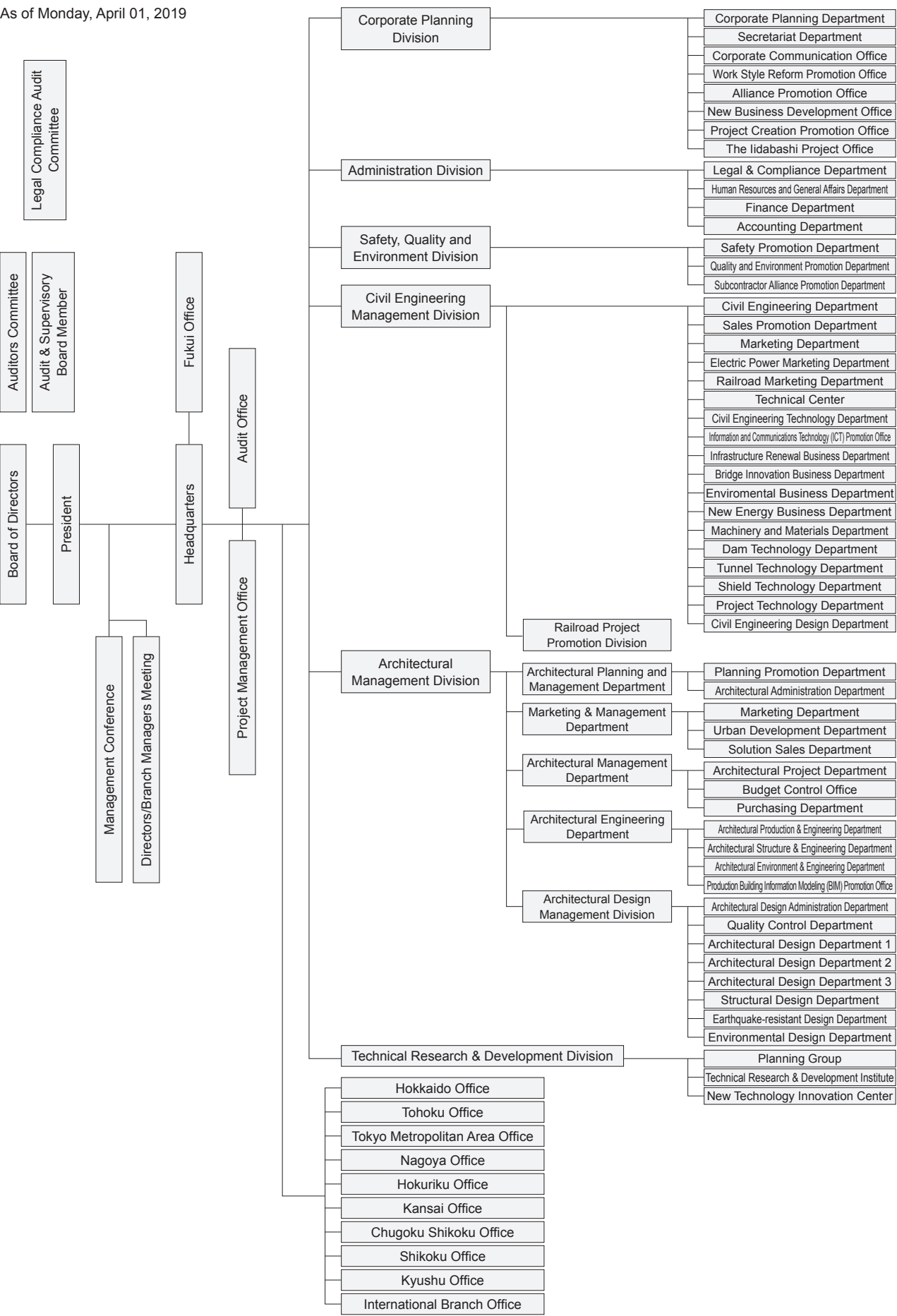
Shareholder Composition



Stock Trading Data



Organizational Chart



About the Front Cover

The large work at the top left is "Tomatoes Grown in Clean Water," which won the Kumagai Gumi Corporate Prize at "the Children's Painting Exhibit 2018: Rice Fields and Water in Your Hometown". The remaining seven 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 Water Earth Hometown Networks and the Prefectural Water, Earth, and Hometown Networks.



KUMAGAI GUMI
— Insight, Onsite, Farsight

Kumagai Gumi Co., Ltd.

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