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Sumitomo Mitsui Construction Co., Ltd.
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Securities Code: 1821
<https://www.smcon.co.jp>

The status of corporate governance of Sumitomo Mitsui Construction Co., Ltd. (“SMCC” or “the Company”) is as indicated below.

I. Basic Views on Corporate Governance, and Capital Structure, Corporate Attributes, and Other Basic Information

1. Basic Views

The SMCC Group aims to maintain good relationships with all stakeholders, including shareholders, customers, local communities, and employees, and carry out transparent, fair, quick, and bold decision-making by building an efficient and fair management system to achieve sustainable growth and enhance mid- to long-term corporate value. To that end, it prioritizes the following five actions for corporate governance.

1. Quick decision-making
2. Designing a highly strategic organization
3. Transparent and rational corporate behavior
4. Developing an appropriate internal control system
5. Practicing accountability with proper disclosure

With this basic concept, SMCC, as a corporate group, is developing and operating an appropriate internal control system, continually developing and enhancing the compliance system, and taking quick and appropriate actions against various risks which may have a significant impact on management.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

SMCC complies with all the principles of the Corporate Governance Code.[Disclosure Based on the Principles of the Corporate Governance Code]

[Principle 1-4] [Cross-Shareholdings]

The SMCC Group takes into consideration the business strategy and business relationships with its clients or suppliers from a comprehensive perspective and holds shares of other companies as cross-shareholdings for the purpose of enhancing mid- to long-term corporate value by maintaining and strengthening transactional relationships with its investee companies. With respect to individual cross-shareholdings, The SMCC Group examines economic rationality and future prospects, including the purpose of holding the shares and whether the benefits and risks associated with holding match its capital costs.

The SMCC Group adopts a policy of reducing shares by selling when it is decided to be of little value to hold them. The SMCC Group decided to sell part of its shares in accordance with an examination result in fiscal year2020.

With respect to the exercise of voting rights in the context of cross-shareholdings, The SMCC Group decides whether to vote for or against proposals after considering whether the proposals are contrary to the enhancement of the mid- to long-term corporate value of its investee companies or whether its investee companies have significant corporate governance problems.

[Principle 1-7] [Related Party Transactions]

Transactions with officers: Decisions on whether to approve the transactions are required to be made at the Board of Directors meeting pursuant to the Regulations of the Board of Directors.

Transactions with major shareholders (holding 10% or more of voting rights): SMCC decides whether to approve the transactions at the Board of Directors meeting after examining market price and transactional terms and conditions as is the case for other general transactions.

[Principle 2-6] [Roles of Corporate Pension Funds as Asset Owners]

SMCC has adopted a defined contribution corporate pension plan. It has provided employees with ongoing education programs on a yearly basis.

[Principle 3-1] [Information Disclosure]

1) SMCC Corporate Principles and Management Strategy (Mid-term Management Plan) on its website.

Corporate Principles: <https://www.smcon.co.jp/company/policy/>

Mid-term Management Plan: <https://www.smcon.co.jp/investor/middle-term/>

2) Basic views and guidelines on corporate governance are as described in “I. Basic Views on Corporate Governance, and Capital Structure, Corporate Attributes, and Other Basic Information 1. Basic Views” of this report.

3) Policies and procedures in deciding remuneration of individual officers are as described in “II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-making, Execution of Business, and Oversight in Management 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)” of this report.

4) The Board of Directors’ policies and procedures in appointing/dismissing members of senior management and nominating director and auditor candidates are as described in “II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-making, Execution of Business, and Oversight in Management 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)” of this report.

5) SMCC discloses specific grounds for appointing (dismissing) members of senior management and director and auditor candidates on its website.

Notice of annual general shareholders meeting:

<https://www.smcon.co.jp/investor/stock-information/generalmeeting/>

[Supplementary Principle 4-1-1]

SMCC has adopted the executive officer system. It separates the oversight function of the Board of Directors from the execution of operations function of the executive officers. Matters to be delegated to executive officers are clearly decided by a resolution of the Board of Directors. The subordinate regulations clearly provide work responsibilities, division of duties, and approval authority according to the matters to be delegated.

[Principle 4-8] [Effective Use of Independent External Directors]

SMCC appoints three persons as independent external directors in order to provide independence and objectivity to the monitoring function of the Audit & Supervisory Board and to the monitoring and oversight functions of the Board of Directors. The General Affairs Department, a secretariat of the Board of Directors, makes contact and arrangements with senior management. In addition, external directors and the Audit & Supervisory Board hold

regular meetings to share information and exchange opinions about important management agendas or functions to be fulfilled by the Board of Directors and promote cooperation.

[Principle 4-9] [Independence Standards and Qualification for Independent External Directors]

SMCC selects a person as an independent external director on the condition that he/she meets the requirements of independent officers provided by the Tokyo Stock Exchange. As a side note, transactional partners should be those other than someone related to “specified associated service providers.” In addition, SMCC holds the view that anyone who belongs to its consulting law firm or accounting audit firm lacks independence.

[Supplementary Principle 4-11-1]

On the grounds that SMCC is a comprehensive construction company mainly engaging in civil engineering and architecture businesses domestically and internationally SMCC appoints a director who has an appreciable extent of knowledge in those businesses. Additionally, from the perspective of maintaining a system appropriate to perform business activities as a corporation listed on the First Section of the Tokyo Stock Exchange, SMCC ensures that its Board of Directors is comprised of those with seasoned knowledge on governance, financing arrangements, and corporate management, with consideration for achieving an appropriate balance of diversity for the Board of Directors, including in terms of the gender and international experience of its members.

SMCC will decide the number of members of the Board of Directors in consideration of the current sales and business lineups.

[Supplementary Principle 4-11-2]

SMCC discloses general information on directors or auditors who also serve as directors or auditors of other companies on its website.

Notice of annual shareholders meeting: <https://www.smcon.co.jp/investor/stock-information/generalmeeting/>

Securities Report: <https://www.smcon.co.jp/investor/library/security-report/>

[Supplementary Principle 4-11-3]

SMCC discloses a summary of the result of the current status evaluation on the effectiveness of the Board of Directors conducted by directors and auditors on its website. SMCC will ask for advice or opinions for further improvement and seek to contribute to the effectiveness of the Board of Directors.

Summary of the result of evaluation on the effectiveness of the Board of Directors: <https://www.smcon.co.jp/investor/corporate-governance/>

[Supplementary Principle 4-14-2]

SMCC utilizes occasions dedicated to the training of officers to foster their qualifications as management executives. In addition, SMCC provides the members of the Board of Directors with opportunities for regular training to acquire knowledge necessary for business management, including the Companies Act and corporate governance, and on management information to improve their skills for achieving missions as the constituent members of the Board of Directors.

[Principle 5-1] [Policy for Constructive Dialogue with Shareholders]

1) SMCC holds not only shareholders meetings but also annual financial results briefings for analysts and individual meetings as opportunities to communicate with shareholders and investors and explain its corporate management and business activities as well as to improve the content of such dialogue based on opinions and requests from shareholders and investors.

2) The Division Director of the Corporate Planning Division and Administration Division supervise the aforementioned dialogue with shareholders and investors. The Office Manager of the Public Relations Office, the Department Manager of the Corporate Planning Department and General Affairs Department assist them. Relevant internal departments assisting the dialogue perform operations, such as preparing and evaluating documents to be disclosed and sharing necessary information, in active cooperation, with the aim of realizing constructive dialogue.

3) Directors in charge make reports on the content of dialogue with shareholders and investors to the Board of Directors as necessary, and at the same time explain policies to be taken by the Company.

4) Upon having dialogue with shareholders and investors, SMCC manages insider information in an appropriate manner pursuant to the internal regulations titled “Insider Transaction Management Regulations.” As a side note, SMCC designates a period from the day following the account closing date of each quarter to the date of announcement of financial results as a “silent period,” during which SMCC refrains from engaging in dialogue on financial results information.

[Principle 5-2] [Establishing and Disclosing Business Strategies and Business Plans]

SMCC calculates capital costs on a regular basis. SMCC develops its business plans and management strategy based on the calculated capital costs and is conscious of the aim of maintaining ROE (return on equity) at a level exceeding its shareholders’ equity.

In addition, SMCC checks and analyzes the progress of the management strategy every year and reviews the distribution of the management resources, including investment into new technological development and human resource development. SMCC will continually seek to earn revenue exceeding shareholders’ equity with the aim of enhancing corporate value over the long-term.

2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Proportion (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,698,000	7.39
Custody Bank of Japan, Ltd. (Trust Account)	6,314,900	3.99
Mitsui Fudosan Co., Ltd.	5,397,965	3.41
Sumitomo Realty & Development Co., Ltd.	5,340,413	3.37
Custody Bank of Japan, Ltd. (Trust Account 9)	5,226,500	3.30
Morgan Stanley MUFG Securities Co., Ltd.	3,732,697	2.35
NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15.315 PCT NON TREATY ACCOUNT	3,215,120	2.03
Custody Bank of Japan, Ltd. (Trust Account 5)	3,169,100	2.00
JP MORGAN CHASE BANK 385781	2,803,841	1.77
MSIP CLIENT SECURITIES	2,745,300	1.73

Controlling Shareholder (Except for Parent Company)	—
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Parent Company	None
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Supplementary Explanations

○The aforementioned [Status of Major Shareholders] is based on descriptions on the shareholder registry as of September 30, 2020.

○The Company's treasury stock of 4,648 thousand shares is not included in the total number of issued shares when calculating the ratio of [Status of Major Shareholders].

○The large volume holding report (the change report) is made available for public inspection as of August 21, 2019 states that Sumitomo Mitsui Trust Asset Management Co, Ltd. and one co-holder hold the following shares as of August 15, 2019. However, SMCC cannot fully obtain information on the number of shares substantially held by those companies as of September 30, 2020. Therefore, the number is not included in the aforementioned status of major shareholders.

- Holder of shares: Sumitomo Mitsui Trust Asset Management Co., Ltd. and one other company

- Number of shares held: 13,123 thousand shares

- Proportion of shares held: 8.07%

○The large volume holding report (the change report) is made available for public inspection as of December 4, 2019 states that JPMorgan Asset Management (Japan) Limited and one co-holder hold the following shares as of December 29, 2019. However, SMCC cannot fully obtain information on the number of shares substantially held by those companies as of September 30, 2020. Therefore, the number is not included in the aforementioned status of major shareholders.

- Holder of shares: JPMorgan Asset Management (Japan) Limited and one other company

- Number of shares held: 6,600 thousand shares

- Proportion of shares held: 4.06%

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
Fiscal Year-End	March
Type of Business	Construction
Number of Employees (Consolidated) as of the End of the Previous Fiscal Year	1,000 or more
Sales (Consolidated) as of the End of the Previous Fiscal Year	From 100 billion yen to less than 1 trillion yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholders

5. Other Special Circumstances Which May Have Material Impacts on Corporate Governance

○Listed subsidiaries

SMCC's corporate group includes "Sumiken Mitsui Road Co., Ltd.," a listed subsidiary. The share of voting rights SMCC owns for the subsidiary is 53.94% (as of September 30, 2020).

The subsidiary is responsible for part of the construction business of the Group for paving of roads and parking lots, construction of condominium exterior construction, and manufacturing and sales of asphalt mix. The subsidiary adopts a policy of maintaining autonomy and independence and performs corporate activities placing great emphasis on profitability in order to contribute to mutual development.

Being a listed company is an important tool for expanding private constructions as it helps us maintain social credit. Therefore, it is important for us to maximize the corporate value of the company against the backdrop of social trust as a listed company. SMCC believes that this will directly improve the corporate value of the group itself.

With respect to the management of the subsidiary, which has minority shareholders, SMCC respects the minority shareholders' interests, and performs proper procedures for setting transaction terms and conditions in accordance with the competition principle as is the case for other subcontracting companies, in order to avoid coercing the subsidiary to engage in unjust and unfair transactions.

SMCC is building an internal control system as a corporate group, continually developing and enhancing the compliance system, taking quick and appropriate actions against various risks that may have a significant impact on management; we will form a highly transparent corporate group by properly disclosing information to our stakeholders and society, in order to enhance the SMCC Group's corporate value.

○Others

With respect to the case of a collective housing complex SMCC constructed in Yokohama, we have continuous meetings with the rebuilding association, the sellers and other stakeholders as necessary and taking appropriate actions.

II. Business Management Organization and Other Corporate Governance Systems Regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	18
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Term of Office Stipulated in Articles of Incorporation	1 year
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Chairperson of the Board of Directors	President
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Number of Directors	9
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Appointment of External Directors	Appointed
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Number of External Directors	3
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Number of Independent Directors among External Directors	3
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Relationships with the Company (1)

Name	Attribute	Relationships with the Company (*)									
		a	b	c	d	e	g	h	i	j	k
Sakio Sasamoto	From another company							△			
Jun Sugie	From another company										
Tamao Hosokawa	Other							○			

* Categories for Relationships with the Company:

- “○” when the director presently falls or has recently fallen under the category; “△” when the director fell under the category in the past

- “●” when a close relative of the director presently falls or has recently fallen under the category; “▲” when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Executive or non-executive director of a parent company of the Company

c. Executive of a fellow subsidiary of the Company

d. A Party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed Company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides officer remuneration

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

- i. Executive of a company, between which and the Company external officers are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Relationships with the Company (2)

Name	Independent Officer	Supplementary Explanations of the Relationship	Reasons for Appointment
Sakio Sasamoto	○	Mr. Sasamoto has extensive experience in corporate management. He worked for JFE Holdings, Inc., which is SMCC's client company. He also served as representative director and president of JFE Life Corporation as well as Senior Managing Executive Officer and Auditor of JFE Holdings, Inc. Mr. Sasamoto has assumed the position of External Director of SMCC (part-time) since June 2016.	SMCC appointed Mr. Sasamoto as an external director in the expectation that he leverage his extensive experience in corporate management for the benefit of SMCC's management. Mr. Sasamoto has no stake in SMCC. In addition, since the annual transaction amount between the SMCC Group and JFE Holdings Group is less than 1% of the consolidated sales of each in average for the last three years, there is no risk of conflict of interest with general shareholders. Therefore, SMCC holds the view that his independence is assured, and designates him as an independent officer.
Jun Sugie	○	Mr. Sugie has extensive work experience. He assumed a position of significant responsibility at the National Tax Agency. He has also held several other positions, including Director of the Japan Securities Depository Center, Incorporated, External Director of IDOM Inc., and Vice Chairman and Executive Director of The Investment Trusts	SMCC appointed Mr. Sugie as an External Director in the expectation that leverage his professional knowledge in the area of tax and extensive experience and insight into corporate management for the benefit of SMCC's management. Mr. Sugie has no stake in SMCC. In addition, there is no risk of a

		Association, Japan. Mr. Sugie has assumed the position of External Director of SMCC (part-time) since June 2019.	conflict of interests with regular shareholders. Therefore, SMCC holds the view that his independence is assured, and designates him as an independent officer.
Tamao Hosokawa	○	Ms. Hosokawa works as a journalist as well as, part-time lecturer at Seisa University, Director of the Japan Institute for National Fundamentals, and Director of the Chiba Institute of Technology, which is SMCC's client (retired in January 2020). Ms. Hosokawa has assumed the position of External Director of SMCC (part-time) since June 2019.	Ms. Hosokawa has extensive experience as a journalist. SMCC appointed her as an External Director in the expectation that she leverages her objective perspective and extensive insights for the benefit of SMCC's management. Ms. Hosokawa also served as a director of the educational corporation Chiba Institute of Technology, which is SMCC's client (retired in January 2020), but the annual transaction amount between the SMCC Group and the corporation is less than 1% of the consolidated sales of the SMCC Group on average over the last three years. Therefore, SMCC holds the view that her independence is assured, and designates her as an independent officer.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson
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	Committee's Name	All Committee Members	Full-time Committee Members	Internal Directors	External Directors	External Experts	Others	Chairperson
Committee Corresponding to Nomination Committee	Appointment and Remuneration Advisory Committee	9	0	4	3	0	2	External Director
Committee Corresponding to Remuneration Committee	Appointment and Remuneration Advisory Committee	9	0	4	3	0	2	External Director

Supplementary Explanations

SMCC has established the Appointment and Remuneration Advisory Committee as an advisory body to the Board of Directors in order to ensure the transparency and fairness of officer personnel change and officer remuneration. The Committee comprises internal directors having the right to represent, external directors, and external auditors (part-time). The other two committee members are external auditors (part-time).

Name	(Position)	(Attendance in FY2019)
- Sakio Sasamoto	Director (External)	100% (7 times / 7 meetings)
- Hideo Arai	Representative Director, President & CEO	100% (7 times / 7 meetings)
- Yoshitaka Mimori	Representative Director, Executive Vice President	85% (6 times / 7 meetings)
- Kunio Hanato	Representative Director, Executive Vice President	100% (7 times / 7 meetings)
- Shoji Kimijima	Representative Director, Executive Vice President	100% (7 times / 7 meetings)
- Jun Sugie	Director (External)	80% (4 times / 5 meetings)
- Tamao Hosokawa	Director (External)	100% (5 times / 5 meetings)
- Aizou Murakami	Auditor (External)	100% (7 times / 7 meetings)
- Yukihiro Hoshi	Auditor (External)	100% (7 times / 7 meetings)

[Audit & Supervisory Board]

Establishment of the Audit & Supervisory Board	Established
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Maximum Number of Auditors Stipulated in Articles of Incorporation	6
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Number of Auditors	5
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Cooperation among Auditors, Accounting Auditors and Internal Audit Departments
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- The Audit & Supervisory Board holds regular meetings such as audit plans, quarterly reviews, and audit reports, as part of monitoring and examination activities for checking the appropriateness of accounting audit approaches and results conducted by accounting auditors. It receives reports and explanations on audit plans including audit approaches, the progress of implementation of audits, problems identified as a consequence of audits, the progress of development of systems for ensuring that accounting auditors perform their duties in a proper manner, and evaluation on the progress of development and operations of internal control on financial reports. Meanwhile, auditors also explain the progress of implementation of audits. In this way, the Audit & Supervisory Board seeks to strengthen communication with accounting auditors through candid dialogue.

- The Audit & Supervisory Board holds meetings with the Audit Department, an internal audit department, on a monthly basis in principle. Thus, it seeks to conduct audits in an organized and efficient manner as well as share information, such as receiving detailed reports on audit plans, the progress of implementation of audits, and problems identified as a consequence of audits.

Appointment of External Auditors	Appointed
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Number of External Auditors	3
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Number of Independent Auditors	3
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Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)											
		a	b	c	d	e	g	h	i	j	k	l	m
Yoshiyuki Kato	From another company									△			
Aizou Murakami	Lawyer												
Yukihiro Hoshi	From another company									△			

* Categories for Relationships with the Company:

- “○” when the auditor presently falls or has recently fallen under the category; “△” when the auditor fell under the category in the past

- “●” when a close relative of the auditor presently falls or has recently fallen under the category; “▲” when a close relative of the auditor fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or accounting advisor of the Company or its subsidiaries

- c. Executive or non-executive director of a parent company of the Company
- d. Auditor of a parent company of the Company
- e. Executive of a fellow subsidiary of the Company
- f. A Party whose major client or supplier is the listed Company or its executive
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides officer remuneration
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier of the Company (which does not correspond to any of f, g, or h) (the auditor himself/herself only)
- k. Executive of a company, between which and the Company external officers are mutually appointed (the auditor himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the auditor himself/herself only)
- m. Others

Relationship with the Company (2)

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanations of the Relationship	Reasons for Appointment
Yoshiyuki Kato	○	Mr. Kato has extensive professional experience and knowledge in trust banking. He worked for Sumitomo Mitsui Trust Bank, Limited, which is SMCC's correspondent financial institution. Mr. Kato has assumed the position of External Auditor of SMCC since June 2012.	SMCC appointed Mr. Kato as an external auditor in the expectation that he leverage his experience in internal auditing he acquired while working for the trust bank to enhance the audit system of SMCC. Mr. Kato has no stake in SMCC. In addition, the average amount of loans from the Sumitomo Mitsui Trust Bank, Limited Group of the SMCC Group is less than 2% of the consolidated total assets of the Company on average over the last three years. Therefore, SMCC holds the view that his independence is secured, and designates him as an independent Auditor.

Aizou Murakami	○	Mr. Murakami has professional knowledge and experience as an attorney, being the Chief Representative Attorney of Kioi General Law Office. Mr. Murakami has assumed the position of external auditor of SMCC (part-time) since June 2012.	SMCC appointed Mr. Murakami as an external auditor in the expectation that he leverage his professional knowledge and experience as an attorney to enhance the audit system of SMCC. Mr. Murakami has no stake in SMCC. In addition, there is no risk of a conflict of interests with regular shareholders. Therefore, SMCC holds the view that his independence is secured, and designates him as an independent Auditor.
Yukihiro Hoshi	○	Mr. Hoshi has extensive experience in manufacturing, security, the environment, and risk management. He has worked for Sumitomo Metal Mining Co., Ltd., which is SMCC's client company. Mr. Hoshi has assumed the position of External Auditor of SMCC (part-time) since June 2018.	SMCC appointed Mr. Hoshi as an External auditor in the expectation that he leverages his extensive experience in manufacturing, security, the environment, and risk management to enhance the audit system of SMCC. Mr. Hoshi has no stake in SMCC. In addition, the annual transaction amount of the SMCC Group and Sumitomo Metal Mining Co., Ltd. is less than 2% of the consolidated sales of each, on average over the last three years. Therefore, SMCC holds the view that his independence is secured, and designates him as an independent Auditor.

[Independent Officers]

Number of Independent Officers	6
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Other Matters Relating to Independent Officers

[Incentives]

Incentive Policies for Directors	Other
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Supplementary Explanations

By a resolution of the annual general shareholders meeting held on June 28, 2018, SMCC has adopted the remuneration system of allocating transfer-restricted SMCC shares to directors (except for external directors) in order that they may share the advantages and risks of the fluctuation of share value with shareholders and to thereby further increase directors' motivation for contributing to the rise in share value and enhancement of corporate value.

Recipients of Stock Options	
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Supplementary Explanations

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	Individual directors' Remuneration is not disclosed.
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Supplementary Explanations

SMCC discloses the number of directors to whom it paid remuneration in the fiscal year and the total amount of remuneration in the Securities Report and the Business Report. (It discloses such information pertaining to auditors as well.)

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Board of Directors decides director remuneration by its resolution after the Appointment and Remuneration Advisory Committee discusses the structure and criteria of officer remuneration. As a side note, the cap on director remuneration is as indicated below.

(1) Annual shareholders meeting held on June 27, 2019

- Monetary remuneration: not more than the annual total amount of 450 million yen including employee salaries to be paid to employees who also serve as directors (among those, not more than 80 million yen for external directors)

(2) Annual shareholders meeting held on June 28, 2018

- Monetary remuneration claims as remuneration for shares with restriction on transfer to be provided separately from the aforementioned remuneration indicated in (1): not more than the annual total amount of 60 million yen (except for external directors)

[Supporting Systems for External Directors (External Auditors)]

- SMCC has a system in which the administrative departments of the Head Office provide external directors with information useful for the execution of duties as necessary.
- SMCC has established the Office of Audit & Supervisory Board Members under the direct control of auditors. The Office provides external auditors with information useful for the execution of duties as necessary.

[Status of Persons Who Retired from Position of Representative Director and President, etc.]

Name and Other Information of Advisors (“Sodanyaku” or “Komon”) Who Have Formerly Served as Representative Director and President or Other Officers

Name	Title / Position	Summary of Duties	Working Arrangement / Conditions (Full-time / Part-time, Remuneration, and Others)	Date of Retirement from President ,etc.	Term
Yoshiyuki Norihisa	Advisor (“Sodanyaku”)	- Matters concerning maintenance and expansion of transactional relationships with clients - Matters concerning activities of industry organizations, financial communities, and corporate groups - Matters concerning public activities, including social contribution activities	Paid	June 28, 2018	Annual renewal

Total Number of Advisors (“Sodanyaku” or “Komon”) who have formerly served as Representative Director and President,etc.

1

Others

- SMCC appoints an advisor from among those who have retired from the position of Chairperson or President by a resolution of the Board of Directors based on discussions at the Appointment and Remuneration Advisory Committee as necessary.
- The advisors neither attend the Board of Directors meeting or Executive Management Meeting nor become involved in any decision-making related to management. They

sometimes give advice at the request of the current Senior Management Team. However, they have no authority to influence the judgment of management.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

□Officers

- Directors (9 persons) Internal Directors: 6 persons / External Directors: 3 persons, Men: 8 persons / Women: 1 person
- Auditors (5 persons) Internal Auditors: 2 persons / External Auditors: 3 persons, Men: 5 persons / Women: 0 persons
- SMCC has established the Appointment and Remuneration Advisory Committee as an advisory body to the Board of Directors in order to ensure the transparency and fairness of officer personnel change and officer remuneration and enhance corporate governance.
- SMCC has concluded agreements limiting liability as provided in Article 423, paragraph (1) of the Companies Act with external directors and all auditors. The liability amount under the agreements is the minimum liability amount provided by laws and regulations.

□Execution of Operations

- The Board of Directors discusses, makes decisions and reports on SMCC's management policy and other important matters. The Board of Directors holds meetings on a monthly basis, in principle, as well as when necessary.

At the Board of Directors meetings, each director makes regular reports on the progress of execution of operations he/she oversees to improve the Board of Directors' oversight function.

(Name)	(Position)	(Attendance at Board of Directors meetings in FY2019)
- Hideo Arai	Representative Director, President & CEO	100% (16 times / 16 meetings)
- Yoshitaka Mimori	Representative Director, Executive Vice President	100% (16 times / 16 meetings)
- Kunio Hanato	Representative Director, Executive Vice President	100% (16 times / 16 meetings)
- Shoji Kimijima	Representative Director, Executive Vice President	100% (16 times / 16 meetings)
- Shigetoshi Kondo	Director, Senior Managing Executive Officer	100% (12 times / 12 meetings)
- Toshio Shibata	Director, Managing Executive Officer	– (Appointed in June 2020)
- Sakio Sasamoto	Director (External)	100% (16 times / 16 meetings)
- Jun Sugie	Director (External)	100% (12 times / 12 meetings)
- Tamao Hosokawa	Director (External)	100% (12 times / 12 meetings)

- SMCC has adopted the executive officer system for the purpose of vitalizing the Board of Directors, strengthening the system of execution of operations, and increasing management efficiency by separating and clearly defining the decision-making and oversight functions of the Board of Directors and the execution of operations functions of the executive officers.

- SMCC has established the Executive Management Meeting comprising mainly key executive officers as an advisory body for discussing important matters related to execution of operations. The Executive Management Meeting holds meetings on a weekly basis, in principle, as well as when necessary, to speed up the execution of operations and improve the operational efficiency.

- SMCC has established various committees as advisory bodies to the Executive Management Meeting to ensure expeditious and accurate decision-making in the execution of operations. The committees established as advisory bodies to the Executive Management Meeting include various ones, such as the Internal Control Committee, established to discuss important policies for fulfilling SMCC's social responsibilities and the development of the compliance system. The committees are led by chairpersons who are directors or executive officers and hold meetings when necessary.

☐ Auditors' Audit

- The Audit & Supervisory Board is composed of all audit & supervisory board members. It holds meetings on a monthly basis, in principle, as well as when necessary.
- The Audit & Supervisory Board has the authority to decide all audit policies, operations and assets investigation detail, as well as all other matters related to the duty execution of auditors. Board members shall receive audit reports from each auditor for discussions and strategy planning.
- SMCC has established the Office of Audit & Supervisory Board Members that reports directly to the Auditors, and has two dedicated employees who assist the duties of the Auditors. Only the Audit & Supervisory Board Members have the authority to direct and order the Assistant Employee, and it is guaranteed that the Assistant Employee has independence from all directors.
- SMCC has appointed two auditors (full-time) from within the Company. Michio Harada has an appreciable extent of knowledge in finance and accounting through longtime experience in the accounting department and, furthermore, has extensive knowledge of SMCC's operations and expertise in audit practice through working in the internal audit department. Hisato Tokunaga has an appreciable extent of knowledge in finance and accounting through longtime experience in the accounting and finance departments and, furthermore, has extensive knowledge of affiliated companies' operations through working in relevant business divisions.
- Auditors hold regular meetings for exchanging opinions with the president and representative directors to share recognition and deepen mutual understanding of the environment surrounding the company, important issues to be addressed by the company, risks, and management direction. In addition, they hold regular meetings with external directors to exchange opinions on important issues in auditing as well as challenges to be handled by the Company and risks surrounding the Company and share recognition with them.

☐ Accounting Auditors

- SMCC has concluded an audit agreement with Ernst & Young ShinNihon LLC as its accounting auditor, and the continuous audit period is 54 years.
As a side note, the following are the names of the certified public accountants who performed the audit in FY2019 and the number of assistants.

☐ Names of certified public accountants who conducted the audit

- Designated limited liability partner: Executive partner Sento Fukumoto
- Designated limited liability partner: Executive partner Yoshikatsu Nakahara

☐ Number of assistants

- Certified public accountants: 6 persons, Others: 14 persons

☐ Appointment and Dismissal of Officers and Remuneration Decisions

- SMCC has established the Appointment and Remuneration Advisory Committee, comprising representative directors and part-time external officers, as an advisory body to the Board of Directors. The Committee carefully discusses senior management proposals on SMCC's officer remuneration structure from an independent and objective perspective and

provides appropriate advice and opinions. By referring to the advice and opinions of the Committee, the Board of Directors makes decisions on remuneration of individual officers.

- The Appointment and Remuneration Advisory Committee examines proposals on officer personnel change made by the president as to transparency, fairness, and timeliness and evaluates their appropriateness and rationality according to the uniquely provided "Criteria for Officer Appointment." By referring to the evaluation of the Committee, the Board of Directors makes decisions on officer personnel change. In addition, with respect to successor selection, SMCC has uniquely set the "Successor Succession Plan," which clarifies requirements for successors, the selection process, and the development plan. The Appointment and Remuneration Advisory Committee examines successor selection proposals made by the president as to transparency, fairness, and timeliness and evaluates their appropriateness and rationality according to the Plan. By referring to the evaluation of the Committee, the Board of Directors makes decisions on successor selection.

- When dismissing members of the senior management team before expiry of their term of office, the Appointment and Remuneration Advisory Committee confirms their dismissal as to objectivity, timeliness, and transparency and discusses its appropriateness and rationality according to the uniquely provided "Criteria for Dismissal of CEO and Other Officers" or "Criteria for Dismissal of Officers." By referring to the discussions of the Committee, the Board of Directors makes decisions on dismissal.

3. Reasons for Adoption of Current Corporate Governance System

SMCC has adopted the executive officer system and the auditor system as systems in which the function of execution of operations and that of monitoring and oversight of such execution are respectively fulfilled. It is managed under an organizational structure divided into "decision-making and oversight" by the Board of Directors, "execution of operations" by executive officers, and "audit" by the Audit & Supervisory Board and accounting auditors. In addition, besides appointing external auditors, it also appoints external directors to enhance the decision-making and oversight functions of the Board of Directors. Furthermore, separate to enhancing the monitoring function as a company with a board of auditors, it has established the Appointment and Remuneration Advisory Committee in order to improve the transparency and fairness of corporate management.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the Shareholders Meeting and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Dispatch of Convocation Notice of Shareholders Meetings	SMCC dispatches convocation notices for shareholders meetings three weeks before the date of each meeting in order to provide shareholders with sufficient time for consideration ahead of their exercise of voting rights.
Electronic Exercise of Voting Rights	SMCC has allowed the electronic exercising of voting rights.
Participation in the Electronic Voting Platform	SMCC has adopted the “ICJ platform for institutional investors.”
Providing Convocation Notice in English	SMCC prepares English versions of convocation notices for shareholders meetings, submits them to the “ICJ platform for institutional investors,” and posts them on its website.

2. IR Activities

	Supplementary Explanations	Explanations by Representative
Preparation and Publication of Disclosure Policy	SMCC posts the Disclosure Policy on its website. https://www.smcon.co.jp/investor/disclosure-policy/	Explained
Regular Investor Briefings for Analysts and Institutional Investors	SMCC holds “financial results briefings” twice a year (after making public its annual and second-quarter financial results), in principle.	
Posting of IR Materials on Website	SMCC posts IR materials promptly after making them public.	
Establishment of Department /Manager in Charge of IR	SMCC has established the “Public Relations Office.”	

3. Measures to Ensure Respect for Stakeholders

	Supplementary Explanations
Implementation of Environmental Protection Activities, CSR Activities, and Other Activities	SMCC regards “responding to stakeholders’ requests through its business activities” as its social responsibility. It promotes company-wide CSR activities, aiming to realize the Corporate Principles in order to further ensure its sustainable corporate development.

	☐ Issuance of Corporate Report SMCC regards its business activities that aim to realize the “Corporate Principles” as CSR activities. Thus, it issues the “Corporate Report” on a yearly basis for the purpose of informing stakeholders of its activities performed in each fiscal year based on the Corporate Principles in an easy-to-understand manner. ☐ Development of Compliance System SMCC has prepared the “Charter of Corporate Conduct” to guide officers and employees of SMCC and the SMCC Group in conducting fair corporate activities and the “Commentaries on Laws and Regulations” as auxiliary instruction manuals. By use of these materials, it has promoted sound business activities. ☐ Development of Appropriate Internal Control System SMCC has established the Internal Control Committee to discuss the implementation of measures necessary to ensure the effectiveness and efficiency of operations as one of the purposes of internal control in accordance with the “Basic Policies for Internal Control System” (decided by a resolution of the Board of Directors) and monitor the progress of the implementation. ☐ Promotion of Sustainability SMCC has established the Sustainability Promotion Committee to identify issues in the three areas of the environment, society, and economy and formulate measures to deal with them with the aim of realizing a sustainable society. As a side note, it has formulated clear mid- to long-term visions for environmental protection activities in “Green Challenge 2030” and increases its efforts. ☐ Promotion of Diversity SMCC has established the Diversity Committee. Having a strong commitment of the top management and making efforts to change employees’ awareness, it is proactively promoting women, foreign nationals, senior employees, and employees with disabilities and developing a corporate culture that allows a diverse range of people to make active contributions. Above all, it recognizes that the promotion of female empowerment is an important challenge to be tackled in today’s society and that it is required to engage in activities for realizing female empowerment as a corporate mission. It will eradicate the past image of the construction industry and proactively conduct activities to achieve a work-life balance that enables women to actively advance in this industry developing a pleasant working environment not only for female employees but for all employees so they can exert their abilities.
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IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and Progress of System Development

○Basic Views on Internal Control System

It is a basic principle of the internal control system of SMCC and the SMCC Group to continually develop and enhance the compliance system, take quick and appropriate actions against risks that may have a significant impact on management, disclose information to stakeholders and society at large in a proper manner, and form a highly transparent corporate group, in order to enhance the Group's value as a corporate group.

As a side note, SMCC regards the "Basic Policies for Internal Control System" as providing the basic direction for efforts that continue over multiple fiscal years, and reviews their content every fiscal year. At the same time, the Internal Control Committee holds quarterly meetings where the progress of the review, correction and improvement of issues identified in the operation of the internal control system, and the progress of preventive measures taken as necessary are reported, and monitors the status of operation. The results are reported to the Board of Directors to properly build and operate the internal control system.

Outline of "FY2020 Basic Policies for Internal Control System"

(1) System for Ensuring that SMCC's Directors and Employees Execute Duties in Compliance with Laws and Regulations and the Articles of Incorporation

- To further raise awareness around compliance and establish higher corporate ethical standards, SMCC continually provides its officers and employees (including loaned employees and temporary employees), including those of its affiliated companies, with compliance education on laws and regulations, rules, and social norms pertaining to its operations, such as the Anti-Monopoly Act, the Construction Business Act, and the Act on Work Style Reform, by referring to bid-rigging issues and internal and external risk cases.
- To ensure the credibility of financial reports, SMCC operates the internal control system based on the "Basic Plan and Policy regarding Development and Operation of Internal Control on Financial Reports."
- To seek and establish a higher corporate ethical standard, ensure management transparency, take quick and appropriate actions against risk events by checking and self-cleaning functions, SMCC provides officers and employees of SMCC and its affiliated companies with continues education to raise awareness of correct understanding of the "i-message" system (a general term for the internal reporting system and the anti-harassment counseling system). In addition, it ensures operations to increase the credibility and effectiveness of the system.
- To further raise awareness and facilitate the anchoring of internal control and risk and crisis management, the Audit Department audits the progress of operations of the internal control system. At the same time, it examines and evaluates the effectiveness of individual procedures provided in the basic policies on the monitoring system and the internal control system and requests the leading departments of the Head Office to improve the procedures. The leading departments of the Head Office ensure that they provide guidance for preventive measures for matters pointed out during various audits and materializing risk events, expand such guidance company-wide, and conduct monitoring. They also confirm the effectiveness of those activities in cooperation with the Audit Department. (They will do likewise with respect to each item of the following basic policies 2, 3, 4, and 5.)
- Directors in charge of the internal control system make regular reports about the progress of activities based on the basic policies for the (including those individual events related to materializing of risk events) to the Board of Directors. (They will do likewise with respect to each item of the following basic policies 2, 3, 4, and 5.)

(2) System for Storing and Managing Information on Execution of Duties by SMCC's Directors

- Departments in charge keep and manage documents on the execution of duties by directors along with relevant materials in a proper manner pursuant to the “Document Management Regulations” and respond to requests for inspection made by directors and auditors, unless laws and regulations provide otherwise.
- SMCC Group develops a system which enables to promote protection, sharing, and utilization of information it holds by improving provisions on information security based on the “Information Security Basic Policy” (ISMS Manuals and other materials), IT environment, and other matters. In addition, it implements measures to make officers and employees including affiliated companies (including seconded employees and temporary employees) aware of the importance of information security, and continually promoting awareness about the prevention of information security breaches.

(3) SMCC’s Regulations on Management on Risk of Loss and Other Systems

- SMCC increases the effectiveness of risk management by developing, operating, and constantly improving the risk control system based on the “Risk Management Regulations” and works to thoroughly reduce risks that may affect business operations and prevent their materialization.
- SMCC raises awareness and promotes operations for realizing work style reforms by company-wide actions and steadily implements various measures including the “Shorter Hours Program.” In addition, SMCC implements these reforms and various measures with the adequate understanding of officers and employees, increases their effectiveness through providing guidance for improvement, and reduces long working hours.
- SMCC closely examines potential significant risks of each project to prevent their materialization and enhances the response system to enable fast action through rapid and unfailing information sharing.
- SMCC appropriately conducts activities in accordance with the “Crisis Management Regulations” in order to take actions in response to materializing risks that may cause damage to human life or property or loss of social credibility and that affect or may affect SMCC’s management or business activities.
- To cope with large-scale disasters, infectious diseases and seek to reduce loss, SMCC establishes a system for business continuity. In addition, to cope with these events, SMCC continues to verify and review the effectiveness of the business continuity system in a timely manner.

(4) System for Ensuring that SMCC’s Directors Execute Duties Efficiently

- SMCC clearly defines authorities and responsibilities to increase management efficiency and execute operations by clearly separating the decision-making and oversight functions of the Board of Directors from the execution of operations function of the executive officers. In addition, at meetings of the Board of Directors, each director makes regular reports on the progress of execution of operations for which he/she has oversight.
- The Executive Management Meeting comprising senior executive officers considers important management issues regarding the execution of operations of SMCC and the SMCC Group from various aspects in an efficient manner and seeks to expedite decision-making.
- The progress of the fiscal year management plan is shared at the Board of Directors meeting and the Executive Management Meeting as well as the Expanded Executive Management Meeting comprising executive officers and branch office managers in charge of the plan for the purpose of improving its effectiveness.

(5) System for Ensuring Propriety of Operations in Corporate Group Comprising SMCC and its Subsidiaries

- Departments in charge of affiliated companies (domestic: relevant business divisions, overseas: international branch offices) develop appropriate governance systems in consideration of the actual situation of each affiliated company and the internal control and

risk management systems. At the same time, they enhance SMCC's group control and build and operate an effective internal control system.

- SMCC creates regular occasions for presidents or other officers of affiliated companies to make reports on the execution of their duties. Through such reporting, it monitors the progress of implementation of each company's fiscal year management plan and provides support and guidance for the achievement of the plan.
- To further raise awareness regarding internal control and risk and crisis management and firmly establish those concepts within the SMCC Group, the Audit Department audits the progress of the building and operation of the internal control system in consideration of the actual situation of each company. At the same time, it examines and evaluates the effectiveness of the system and requests departments in charge of affiliated companies to improve the system. Departments in charge of affiliated companies ensure that they provide guidance for preventive measures for matters pointed out during various audits and materializing risk events, expand the guidance company-wide, and conduct monitoring. They also confirm the effectiveness of those activities in cooperation with the Audit Department.

(6) Matters concerning System of Employees who Assist SMCC's Auditors in Performing Duties and Independence of the Employees from SMCC's Directors, and Matters concerning Ensuring Effectiveness of Auditors' Directions to the Employees

- SMCC establishes the Office of Audit & Supervisory Board Members under the direct control of auditors and assigns to two persons to serve as a dedicated assistant to auditors (hereinafter referred to as the "Assistant Employee").
- Only auditors have the authority to instruct and give orders to the Assistant Employee assigned to the Office of Audit & Supervisory Board Members. It is ensured that the Assistant Employee is independent from all directors, and any transfer personnel, personnel evaluation, or disciplinary measures related to such person require the prior consent of full-time auditors.
- The Assistant Employee is granted the authority to collect information necessary for conducting the auditors' audit under the instruction of auditors from each internal department or affiliated company.

(7) System for Reporting to SMCC's Auditors and System for Ensuring that Whistleblowers Are Not Treated Unfavorably

- Representative directors and other directors (including managers of each department and officers in charge) specifically define meetings to be attended and documents to be inspected by auditors and matters to be reported to them regularly or temporarily and immediately. They also keep managers of each internal department under their management informed about those matters.
- SMCC's directors and employees as well as directors, auditors, and employees of its affiliated companies (hereinafter referred to as "Interested Persons") make reports about important matters that affect operations or business performances of SMCC and its affiliated companies to auditors as they occur. Regardless of the above, auditors may request Interested Persons to make reports whenever necessary. Interested Persons are not treated unfavorably on the grounds of having made such reports.
- Interested Persons make reports immediately to auditors after obtaining reports and information that may violate compliance, including internal reporting. In addition, if any event classified as risk level 2 or higher in the Risk Management Regulations occurs, Interested Persons make reports to auditors promptly.

(8) Matters concerning Procedures and Payment of Costs Arising from Execution of Duties of SMCC's Auditors Including Advance Payment

- Auditors may ask for the advice of external experts in conducting audits or outsource investigations at their discretion. The Company pays costs arising from those activities

immediately, including advance payment, unless it is found that such costs are not necessary for the auditors' execution of duties.

(9) System for Ensuring that Audits by SMCC's Auditors are Conducted Effectively

- SMCC promotes better understanding of representative directors and other directors (including managers of each department and officers in charge) of the significance and beneficial effects of auditors' audits to maintain and enforce their effectiveness.
- The president and representative directors hold regular meetings for exchanging opinions with auditors to share recognition with them.
- Auditors exchange information with the internal audit department and external directors on a regular basis and cooperate with them to enhance the effectiveness of auditors' audits.
- SMCC seeks to develop an IT environment to enhance the effectiveness of auditors' audits.

2. Basic Views on Eliminating Anti-Social Forces

☐ Basic Views on Eliminating Anti-Social Forces

SMCC provides as a matter of compliance an assurance that it neither accedes to the unreasonable demands of anti-social forces nor engages in activities utilizing such forces in its adherence to the purposes of the Act for the Prevention of Wrongful Acts by Members of Organized Crime Groups in the "Charter of Corporate Conduct."

☐ Progress Report on Eliminating Anti-Social Forces

The progress of development of SMCC's internal systems is as indicated below.

(1) Establishment of response management departments and persons in charge of prevention of unreasonable demands

SMCC has established the General Affairs Department at the Head Office and a Management Department at each branch office as response management departments that handle unreasonable demands. In addition, it has established persons in charge of prevention of unreasonable demands in each response management department.

(2) Cooperation with external professional organizations

SMCC has maintained regular and close cooperation with police officers in charge at local police stations and established contact and reporting systems between persons in charge at the Head Office and each branch office and those police officers.

(3) Collection and management of information regarding anti-social forces

SMCC actively participates in seminars held by the Center for Removal of Criminal Organizations in each prefecture to collect information. It also manages updated information on anti-social forces within the General Affairs Department in accordance with information obtained as a result of cooperation with local police stations.

(4) Preparation of handling manuals

The "Commentaries on Laws and Regulations" explain the Act for the Prevention of Wrongful Acts by Members of Organized Crime Groups and provide for how to handle the unreasonable demands of anti-social forces.

(5) Implementation of training activities

SMCC has provided education on how to handle the unreasonable demands of anti-social forces by use of the "Commentaries on Laws and Regulations" at induction training seminars or other internal training seminars.

V. Others

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

SMCC recognizes that it has an important responsibility as a corporation to enhance its own corporate value. It recognizes that increasing profitability and enhancing corporate value align with shareholder interests and result in long-term capital stability, which are the most effective measures against corporate takeovers. On the other hand, if a large volume of its shares is acquired in a way that it judges as not contributing to corporate value and the common interests of shareholders, the Board of Directors carefully considers responsive measures.

2. Other Matters concerning Corporate Governance System

☐ Outline of Timely Disclosure System

SMCC designates the Corporate Planning Department as a department in charge of timely disclosure and discloses information under the following systems.

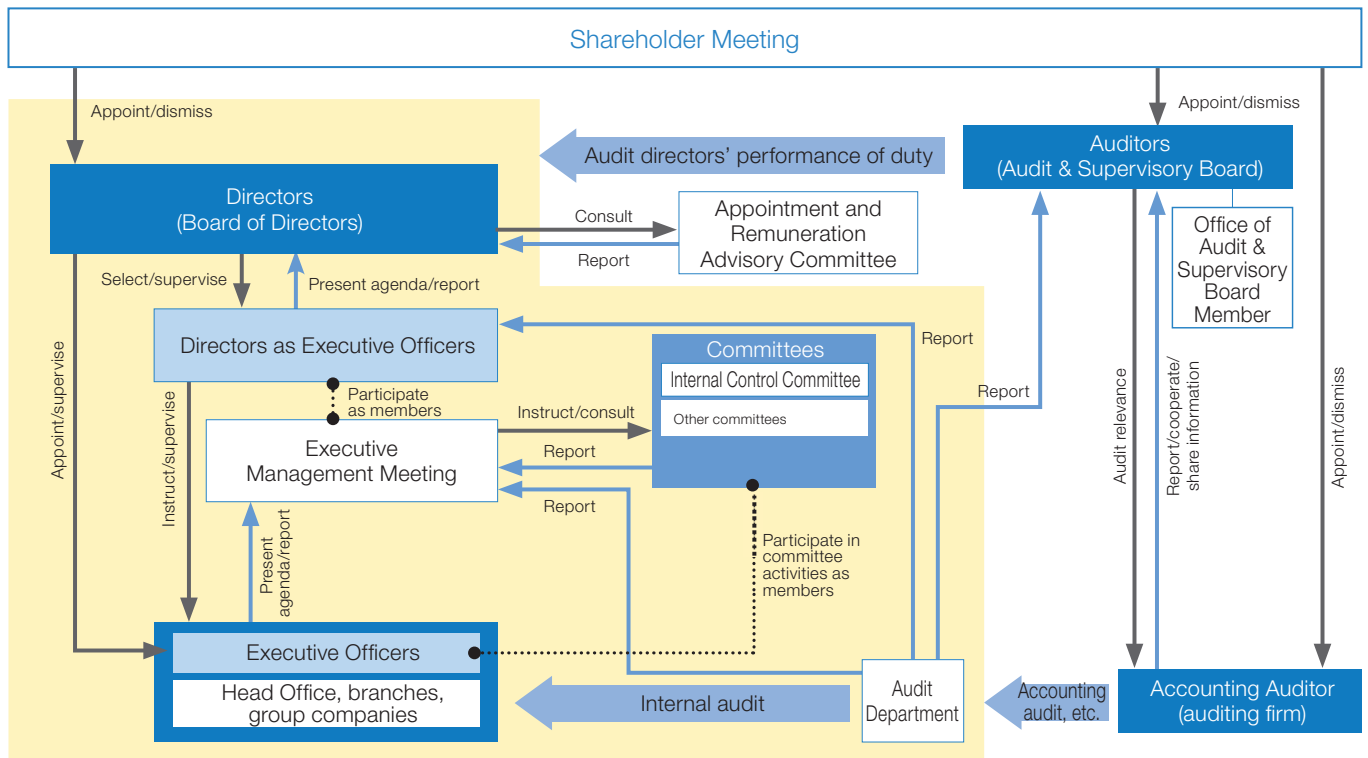
(1) Collection and Acquisition of Internal Information

The Corporate Planning Department is in charge of collecting and acquiring SMCC's internal information.

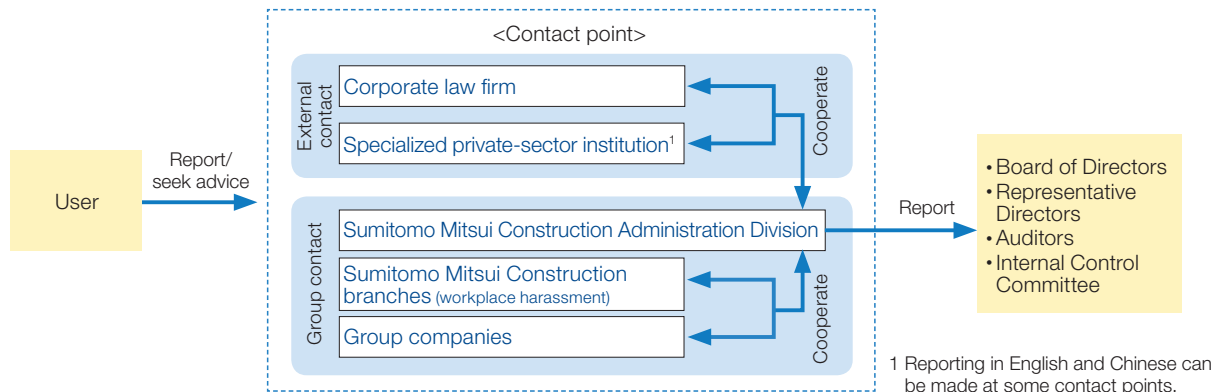
(2) Timely Disclosure

Acquired internal information is disclosed after the Corporate Planning Department discusses it with relevant departments. Decisions and financial results are disclosed promptly after being decided or approved, and information on incidents or accidents is disclosed promptly after their occurrence.

Corporate Governance System



[i-message] (collective term for Sumitomo Mitsui Construction Group internal reporting system and workplace harassment counseling system)



(Timely Disclosure Framework)

