

[Governance]

Corporate Governance

- [Initiatives to Strengthen Corporate Governance](#) ▼
- [Corporate Governance \(Governance Structure\)](#) ▼
- [Overview of Effectiveness of the Board of Directors](#) ▼
- [Successor Development](#) ▼
- [Responding to Corporate Governance Code](#) ▼
- [Officer Appointment and Dismissal](#) ▼
- [Remuneration of Officers](#) ▼
- [Cross-held Stocks](#) ▼

In order to ensure the fairness, transparency, and objectivity of management, the Group has reformed and maintained the corporate governance system and measures according to the changes of the business environment and the era. Going forward, we will continue enhancing the system by reviewing and revising as necessary.

Initiatives to Strengthen Corporate Governance

At the Board of Directors meeting in fiscal 2020, we repeatedly held discussions and considerations over policies for returns to shareholders, cross-held stocks, and opinions of investors that we have obtained through IR activities, as well as various measures including sustainability promotion, based on the purpose of the Corporate Governance Code. We also continued to further discussions on ensuring and improving the effectiveness of the Board of Directors. In June 2021, we increased the number of Independent Outside Directors by one. As a result, the number of total Independent Outside Directors is four, maintaining the ratio of one-third or more of the Board.

Regarding the changes in the business environment, the Group set forth and aims for its Vision 2030 in order to achieve a sustainable society and the continuous growth of the Group, and toward achieving this vision, continues to make efforts to enhance its business competitiveness and create corporate value.

Overview of corporate governance reform

Year/Month		Main Initiatives
2003	April	Introduced Executive Officer system and selected Outside Auditor *
2014	June	Selected Independent Outside Director (female, one person) and selected female Director (one person)
2016	January	Established Appointment and Remuneration Advisory Committee
	May	Started evaluations of the effectiveness of the Board of Directors
	June	The number of Independent Outside Directors is increased to two
2018	June	Introduced stock compensation plan
	November	Outside Director is appointed the Chair of the Appointment and Remuneration Advisory Committee
2019	June	The number of Independent Outside Directors is increased to three (ratio of Outside Directors on the Board is one-third or more)
2021	June	The number of Independent Outside Directors is increased to four

* Based on the Act on Special Measures for the Commercial Code on the Audit, etc. of Stock Company Article 18, Paragraph 1 (abolished on May 1, 2006)

Responding to Corporate Governance Code

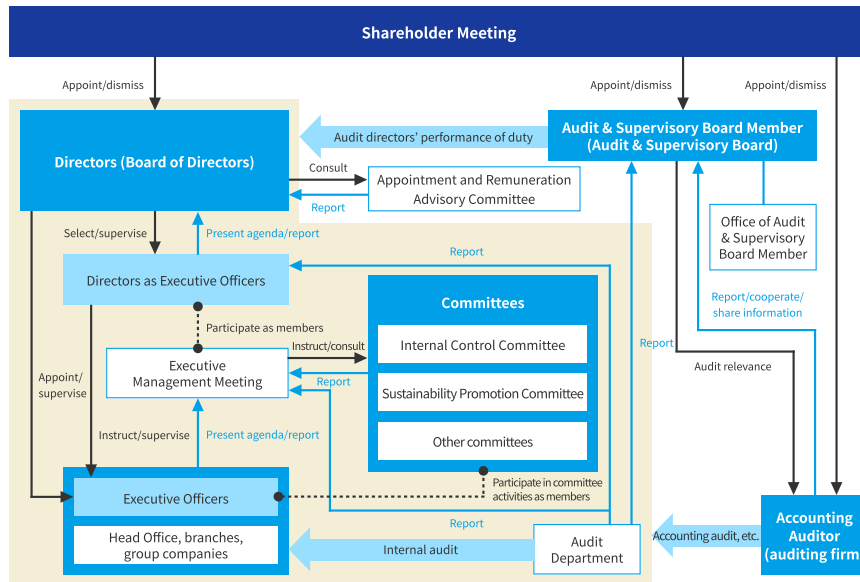
Sumitomo Mitsui Construction is working on strengthening its corporate governance system based on the Corporate Governance Code entered into force in June 2015. Our basic policies regarding corporate governance and disclosures based on each principles stipulated in the Corporate Governance Code can be found in the below document.

▶ [Corporate Governance Report](#) 

Corporate Governance (Governance Structure)

The Company has adopted the Audit & Supervisory Board Member System and Executive Officer System as systems that sufficiently demonstrate the respective monitoring and supervisory functions for the execution of business, and these systems are operated through an organizational structure that has been divided so that “decision-making and supervision” is performed by the Board of Directors, the “execution of business” is performed by Executive Officers, and “audits” are performed by the Audit & Supervisory Board and the accounting auditor. Additionally, Outside Audit & Supervisory Board Members and Outside Directors have been appointed to enhance the decision-making function and supervisory function of the Board of Directors. To further improve the transparency and fairness of corporate management, the Appointment and Remuneration Advisory Committee comprised of Representative Director and part-time Outside Directors has been established in addition to the monitoring function of a company with an Audit & Supervisory Board.

Corporate Governance System (as of the end of June 2020)



Corporate Governance System Item List

Key Item	Description
Organization design	Company with Audit & Supervisory Board Members
Number of Directors (number of Outside Directors included)*	10 (4)
Number of Audit & Supervisory Board Members (number of Outside Audit & Supervisory Board Members included)*	5 (3)
Number of Board meetings held (FY2020)	17
(Average attendance of Outside Directors)	(100%)
(Average attendance of Outside Audit & Supervisory Board Members)	(100%)
Number of Audit & Supervisory Board meetings held (FY2020)	14
(Average attendance of Outside Audit & Supervisory Board Members)	(100%)
Term of directors	One year
Executive officer system	Adopted

* As of the end of June 2021

Composition of the Board of Directors

At Sumitomo Mitsui Construction, as a comprehensive construction company mainly engaged in civil engineering and building construction in and outside Japan, any person to be appointed a director of the company must have considerable knowledge of business in the two fields. Additionally, to maintain a system appropriate to carry out business activities of the company, which is listed in the first section of the Tokyo Stock Exchange, the Board of Directors must be comprised of members who are conversant with governance, funding and corporate management and appointed with due consideration to balance in terms of diversity, including gender and internationality. The number of members will be decided depending on sales and the business description at the relevant time.

Overview of Effectiveness of the Board of Directors

Based on the Corporate Governance Code (Supplementary Principle 4-11(3)), we seek evaluation on the current effectiveness of the Board of Directors by Directors and Audit & Supervisory Board Members, as well as their advice and opinions for further improvement, and disclose an overview of the results to improve the effectiveness of the Board of Directors. The analysis and assessment of the results of the Board of Directors evaluation in fiscal 2020 and the future policy are as follows.

1. Methods of analysis and assessment in fiscal 2020

(1) Carry out questionnaires through third-party organizations

In fiscal 2020 analysis and evaluations, for the purpose of objectively understanding the position of the Company from a third-party viewpoint, we commissioned third-party organizations to establish and aggregate questions for an anonymous questionnaire (entry of evaluation score for each question, and entry of opinions in a free opinion column) with the following items and generate a report which analyzes them comprehensively.

Survey questions (outline)

- Composition of the Board of Directors, Operation of the Board of Directors, Discussion of the Board of Directors
- Monitoring function of the Board of Directors
- Performance of Internal Directors
- Support system and training for Directors and Audit & Supervisory Board Members
- Dialogue with shareholders (investors), and evaluation of their own efforts, etc.

(2) Evaluations by the Board of Directors

In evaluations, analysis and evaluation were conducted by the Board of Directors in reference to the third-party report.

2. Overview of analysis and assessment results in fiscal 2020

(1) General

In light of the positive overall evaluation from the survey respondents, we recognize that the effectiveness of the entire Board of Directors has been secured.

(2) Items receiving positive evaluations

The items for which evaluations remained positive and items for which the evaluation score has improved since the last time and thereby show the results of our efforts for improvement were indicated by the replies as follows.

1. Dialogues with shareholders (investors) are fed back to the Board of Directors and applied accordingly.
2. Outside Directors are exchanging opinions in places other than the meeting of the Board of Directors
3. The number of members of the Board of Directors as well as the number of Internal Directors and Independent Outside Directors is appropriate.
4. The frequency with which the meeting of the Board of Directors is held is appropriate.

(3) Opinions for future improvement

Meanwhile, the following items have been shared as matters the Company will continue its efforts for improvement, in order to enhance the function of the Board of Directors and to stimulate discussion.

1. Enhance initiatives to further enrich the function to monitor domestic and overseas subsidiaries.
2. Systematically secure time to deliberate important matters such as Medium-term Management Plan, sustainability, DX, and risk management, in addition to narrowing down other individual topics to discuss and focusing to general and relevant matters.
3. Continue on-going improvement on ways to provide Board of Directors meeting materials (are the materials organized and analyzed in an easy-to-understand manner?)

Officer Appointment and Dismissal

The Appointment and Remuneration Advisory Committee examines officer appointment proposals made by the president as to transparency, fairness and timeliness and discusses their appropriateness and rationality according to the criteria for officer appointment. By referring to the evaluation of the Appointment and Remuneration Advisory Committee, the Board of Directors makes decisions on appointment of officers.

Regarding the dismissal of top-level executives in the middle of their term, the Appointment and Remuneration Advisory Committee examines issues of transparency, objectivity and timeliness and discusses the appropriateness and rationality according to the criteria for chief executive dismissal or the criteria for officer dismissal. The Board of Directors makes decisions on dismissal with reference to the evaluation of the Appointment and Remuneration Advisory Committee.

Successor Development

As for successor appointment, Sumitomo Mitsui Construction has set the Successor Succession Plan, which clarifies requirements for successors, the appointment process, and the development plan. The Appointment and Remuneration Advisory Committee examines each successor appointment proposal made by the president as to transparency, fairness and timeliness and evaluates its appropriateness and rationality according to the Plan. By referring to the evaluation of the Appointment and Remuneration Advisory Committee, the Board of Directors makes decisions on appointment of successors.

Remuneration of Officers

Directors' remuneration is determined based on the deliberation of director's remuneration system and remuneration level by the Appointment and Remuneration Advisory Committee followed by the resolution of the Board. The Audit & Supervisory Board Members' remuneration is determined based on deliberation by the Audit & Supervisory Board Members.

Remuneration of Directors (excl. Outside Directors) is composed of monetary remuneration as basic remuneration, combined with restricted stock compensation system which involves ownership of stocks that rise and fall with market fluctuations sharing the benefits and risks of stock price fluctuations with shareholders as a mid- to long-term incentive remuneration in order to further raise the desire to contribute to stock price increases and improvements in corporate value. Basic remuneration (monetary remuneration) is a monthly remuneration determined, in principle, by taking into consideration duties based on each position, management environment, operating results, remuneration levels of other companies in related industries, and coherence between payments to employees and directors.

Regarding Outside Directors, from the view point of securing their independence, they are paid only basic remuneration in the form of monetary remuneration. The amount is set at a reasonable level, in principle, by taking into account factors such as securing talented human resources as well as to facilitate effective performance of the monitoring, supervision and audit functions of independent officers.

The upper limit of remuneration of officers is as follows:

1. Resolution at the ordinary shareholders' meeting on June 27, 2019
 - Monetary remuneration: Not exceeding annual total of 450 million yen (including up to 80 million yen allocated to Outside Directors; also includes employee portion of salary paid to directors concurrently serving as employees).
2. Resolution at the ordinary shareholders' meeting on June 28, 2018
 - Apart from the remuneration set forth in 1. above, annual total monetary remuneration receivables not exceeding 60 million yen is provided as remuneration allocated to restricted stocks to Directors excluding Outside Directors.

Remuneration of Officers (breakdown) (fiscal 2020)

Remuneration of Officers	Number of persons	Total amount	Remuneration, etc. (million yen)		
			Fixed		Performance- linked
			Basic	Restricted stock	
Directors (excluding Outside Directors)	7	266	240	26	-
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	2	39	39	-	-
Outside Directors and Audit & Supervisory Board Members	6	74	74	-	-

Note 1 : In addition to the amount shown in the above table, 16 million yen is paid as employee-portion salary to two directors concurrently serving as employees.

Note 2 : The number of Directors and Audit & Supervisory Board Members as of March 31, 2021 is six (excluding Outside Directors) and two (excluding Outside Audit & Supervisory Board Members), respectively. The above table includes a director who resigned due to his death on April 23, 2020.

Cross-held Stocks

Sumitomo Mitsui Construction owns cross-held stocks to improve its corporate value over the medium to long term by maintaining and enhancing business relationships with other companies as investment destinations while comprehensively considering business strategies and business relationships with its partners. Our policy is that the economic rationality and future prospects of individual cross-held stocks, including the purpose of holding the stocks and whether benefits and risks associated with holding the stocks match the capital cost or not, should be verified by the Board of Directors, and that stocks that are confirmed as being no longer worthwhile to hold should be sold and holdings reduced. Based on the results of examination, in fiscal 2020, we sold two stocks (34 million yen) held by affiliates.

Whether to exercise voting rights or not is determined by considering if the agenda runs counter to the improvement of the mid- to long-term corporate value of the companies as investment destinations, whether or not the investment destination companies have any serious problems in corporate governance, and other issues.