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## Corporate Governance

CORPORATE GOVERNANCE

Sumitomo Mitsui Construction Co., Ltd.

Last Update: June 1, 2023

### Sumitomo Mitsui Construction Co., Ltd.

President and Representative Director Shigetoshi Kondo

Inquiries: 03-4582-3000

Securities Code: 1821

<https://www.smcon.co.jp>

The status of our corporate governance is as described below.

## I Basic concepts on corporate governance, capital structure, corporate attributes, and other basic information

### 1. Basic approach

The Group has constructed an efficient and fair management system, and in order to maintain close relationships with all stakeholders, including all shareholders, as well as customers, the local community, and employees, etc., as well as for transparent, fair, prompt, and decisive decision making, by improving sustainable growth and medium to long term corporate value, has adopted the following five points as the basic policy for its corporate governance.

1. Prompt management decision making
2. Highly strategic organizational design
3. Ensuring the transparency and rationality of corporate acts
4. Establishing an appropriate internal control system
5. Performing accountability through proper disclosure

Under this basic policy, we shall construct and operate an appropriate internal control system as a corporate group, shall work on the preparation and enhancement of the compliance system on an ongoing basis, and shall conduct a prompt and accurate response to various risks that have a significant effect on management.

### [Reasons for not implementing each of the principles of the Corporate Governance Code] Updated

All principles are stated in accordance with the codes after the June 2021 revision.

<Supplementary Principle 4-10-1>

In order to ensure the transparency and fairness of officer personnel and officer remuneration, we have established the Nomination and Remuneration Advisory Committee as an advisory body to the Board of Directors. Currently, the committee is composed of two Inside Directors, four Outside Directors, and two Outside Audit & Supervisory Board Members (part-time), and the majority of the members are independent officers, including the Outside Audit & Supervisory Board Members; therefore, we have determined that the committee is sufficiently independent and that the structure is appropriate for strengthening the independence, objectivity, and accountability of the functions of the Board of Directors.

In addition, the authorities, roles, etc. of the Nomination and Remuneration Advisory Committee are described in “II Status of management organizations and other corporate governance systems related to managerial decision making, execution, and supervision 2. Matters relating to functions such as the execution of business, auditing, supervision, nomination, and the determination of remuneration (overview of the current corporate governance system) □ Decisions on the appointment, dismissal, and remuneration of officers” of this report.

### [Disclosures based on each of the principles of the Corporate Governance Code] Updated

<Principle 1-4> [Cross-shareholdings policy]

The Group, in comprehensive consideration of business strategy and business relationships with trading partners, etc., and from the perspective of maintaining and strengthening trading relationships with the companies that we have invested in to improve corporate value in the medium to long term, has cross-shareholdings. For individual cross-shareholdings, the Board of Directors verifies the economic rationality, including the objective of the holding and whether or not the benefits and risks in conjunction with the holding are commensurate with the cost of capital, etc., as well as the future outlook, etc.

Based on the results of the verification, the Group's policy is to reduce the number of shares with diminished meaning behind their holding by selling them. Based on this policy, we sold eight stocks (388 million yen) held by the Group in FY2022.

Furthermore, from the perspective of improving capital efficiency and cash flow, by FY2024, we will reduce our cross-shareholdings balance to 50% compared to FY2022, and reduce our consolidated net asset ratio to 20% or less as soon as possible while aiming to reduce it to 10% or less in the future.

We do not hold shares that are deemed shareholdings.

<Principle 1-7> [Transactions between related parties]

Transactions with officers: Pursuant to the Board of Directors Rules, these are subject to the passing of a resolution at a meeting of the Board of Directors.

Transactions with major shareholders (holdings of 10% or more of voting rights): The Board of Directors verifies market price and transaction conditions, etc., in the same manner as for other general transactions, and a resolution is passed at a meeting of the Board of Directors.

<Supplementary Principle 2-4-1>

(1) Concepts, human resource development policy, and internal environmental improvement policy for ensuring diversity, as well as the implementation status thereof

The Company believes that the source of competitiveness is “human resources” and that securing diverse human resources is the driving

force for enhancing corporate value and for sustainable growth. Based on the motto — “Respect for Employees’ Vitality” — stipulated in our Corporate Principles and in order to realize a work style that respects diversity, we promote diversity and inclusion by creating a working environment that allows each employee to fully exercise their abilities.

With regard to female employees, we believe that building an “environment where women can continuously work with peace of mind” in all workplaces will lead to the realization of a comfortable working environment for not only female employees, but all employees. We promote the active participation of women with a view to long-term career development, such as promoting female employees to managerial positions, converting their career paths from non-career tracks to career tracks, establishing career consultation desks, and responding flexibly to their life events. In addition, in order to cultivate future female executives, we formulate and implement a “Female Executives Training Plan” to systematically train female executive candidates over a certain period of time.

With regard to foreign national employees, in conjunction with setting up a consultation desk for foreign employees working in Japan and their families as well as conducting business Japanese language training courses for foreign employees and foreign students who have received job offers from the Company, we have also prepared an English version of training materials for new recruits.

With regard to recruits hired mid-career, we conduct training for mid-career recruits with the aim of enhancing their overall understanding of our management philosophy, policies, and business, as well as creating a sense of belonging by getting them familiar with our corporate culture.

For details, please see our company website.

Corporate Report [Foundation Strategies] Human Resources (= Human Assets) and Diversity:

[https://www.smcon.co.jp/corporatereport\\_2021/english/foundation/03.html](https://www.smcon.co.jp/corporatereport_2021/english/foundation/03.html)

Diversity initiatives: <https://www.smcon.co.jp/csr/diversity/>

(2) Voluntary and measurable targets as well as current status of efforts in ensuring diversity

The targets and current status concerning female employees (the Company only) are as follows.

<Ratio of females in managerial positions>

• Target: 3% or more by the end of FY2024 (2.6% as of March 31, 2023)

<Ratio of female general managers>

• Target: 5% or more by the end of FY2024 (1.9% as of March 31, 2023)

With regard to foreign national employees, the Company is promoting employees suitable for managerial positions taking into account their experiences, qualities, skills, etc., regardless of nationality. Although we have not set a target for the appointment of foreign national employees to managerial positions, we are giving due considerations to it in anticipation of the future progression of globalization, increase of foreign national employees, etc. As of March 31, 2023, we have 44 foreign national employees (2 of whom are in management positions).

With regard to employees hired mid-career, the Company is promoting employees suitable for managerial positions taking into account their experiences, qualities, skills, etc., regardless of employment type. Although we have not set a target for the appointment of mid-career employees to managerial positions, we are giving due considerations to it in anticipation of the future diversification, increase, etc. of employees hired mid-career. As of March 31, 2023, we have 330 employees who were hired mid-career (200 of whom are in management positions).

For details, please see our company website.

Corporate Report [Foundation Strategies] Human Resources (= Human Assets) and Diversity:

[https://www.smcon.co.jp/corporatereport\\_2021/english/foundation/03.html](https://www.smcon.co.jp/corporatereport_2021/english/foundation/03.html)

Diversity initiatives: <https://www.smcon.co.jp/csr/diversity/>

<Principle 2-6> [Demonstration of function as corporate pension asset owner]

The Company has introduced a defined contribution pension plan, and conducts on going education for employees once per year.

<Principle 3-1> [Enhancement of information disclosures]

(1) We publish our management philosophy and management strategy (mid-term management plan) on our website.

Management Philosophy: <https://www.smcon.co.jp/en/corporate/corporate-principles.html>

Mid-term Management Plan (2022–2024) <Revised May 2023>:

[https://www.smcon.co.jp/topics/assets/uploads/investor/keikaku\\_oshirase\\_20230510.pdf](https://www.smcon.co.jp/topics/assets/uploads/investor/keikaku_oshirase_20230510.pdf)

(2) Our basic concepts and basic policy on corporate governance are as stated in “I. Basic concepts on corporate governance, capital structure, corporate attributes, and other basic information 1. Basic concepts” of this report.

(3) The policies and procedures for determining individual officer remuneration are as described in “II. Overview of management organizations and other corporate governance systems related to managerial decision making 2. Matters relating to functions such as the execution of business, auditing, supervision, nomination, and the determination of remuneration (overview of the current corporate governance system)” of this report.

(4) The policies and procedures for appointment and dismissal of management level executives as well as the nomination of candidate directors and audit & supervisory board members by the Board of Directors are as described in “II. Overview of management organizations and other corporate governance systems related to managerial decision making 2. Matters relating to functions such as the execution of business, auditing, supervision, nomination, and the determination of remuneration (overview of the current corporate governance system)” of this report.

(5) The reasons for the individual appointment (dismissal) of management level executives, directors, and audit & supervisory board member candidates are disclosed on the Company’s website.

Notification of convocation of general meeting of shareholders: <https://www.smcon.co.jp/investor/stock-information/generalmeeting/>

<Supplementary Principle 3-1-3>

(1) Our company’s efforts for sustainability

In order to resolve long-term social issues, the Company is putting into practice sustainable business activities by taking advantage of the strengths it has cultivated over many years, including its technological capabilities, and by encouraging individual officers and employees to take future-oriented actions. For details on our sustainability concepts, policies, and initiatives, please see our company website.

Basic Policy on Sustainability: <https://www.smcon.co.jp/en/corporate/sustainability-policy.html>

(2) Investments in human capital, intellectual property, etc.

The Company is striving to create a corporate culture where diverse human resources can play an active role, and to develop a system and environment in which each employee can demonstrate their abilities. For details on our initiatives relating to human resources, please see our company website.

Corporate Report Materiality 3: [https://www.smcon.co.jp/en/assets/uploads/investor/corporatereport/en\\_corporatereport\\_2022\\_p30-51.pdf](https://www.smcon.co.jp/en/assets/uploads/investor/corporatereport/en_corporatereport_2022_p30-51.pdf)

Mid-term Management Plan (2022–2024) <Revised May 2023>:

[https://www.smcon.co.jp/topics/assets/uploads/investor/keikaku\\_oshirase\\_20230510.pdf](https://www.smcon.co.jp/topics/assets/uploads/investor/keikaku_oshirase_20230510.pdf)

(3) Impact of risks and economic opportunities related to climate change on the Company’s business activities and revenues

The Company announced its support for the Task Force on Climate-related Financial Disclosures (TCFD) in May 2021, and is promoting responses to risks and opportunities related to climate change. We set up a company-wide cross-departmental SX promotion project in March 2021, and in November 2021 formulated a roadmap to achieving carbon neutrality by 2050. We also incorporated our response to risks and opportunities related to climate change into our Mid-Term Management Plan (2022–2024) to achieve a sustainable society and the Company’s sustainable growth. In June 2022, we changed our TCFD-related disclosure content.

For details on our response to climate change risks, please see our company website.

Climate change initiatives: <https://www.smcon.co.jp/csr/climate-change/>

<Supplementary Principle 4-1-1>

The Company has introduced an executive officer system to separate the supervisory function of the Board of Directors from the business execution function of executive officers. In regard to matters to be entrusted to executive officers, these matters are made subject to a clear resolution of a meeting of the Board of Directors, and the responsibilities, division of duties, and decision-making authority are clarified in subordinate rules, in accordance with the matter being entrusted.

<Principle 4-8> [Effective use of independent outside directors]

In order to further enhance the independence and objectivity of the supervisory function of the Audit & Supervisory Board and the monitoring and supervisory function of the Board of Directors, we have appointed four independent, outside directors, and communications and coordination, etc., with management being handled by the Secretariat of Board of Directors, an organization under the direct control of the Board of Directors. In addition, outside directors and the Audit & Supervisory Board regularly hold meetings at which they share information and exchange opinions on important managerial issues and the state of the Board of Directors, etc., and aim to work together.

<Principle 4-9> [Independent determination criteria and qualities of independent outside directors]

The Company selects persons as independent outside directors on the condition that they meet the requirements for independent officers set forth by the Tokyo Stock Exchange. It should be noted that for persons involved in transactions, there is the requirement of not being a stakeholder of a "specified related business operator." In addition, we regard persons affiliated with an advising law firm or corporate accounting office as not being independent.

<Supplementary Principle 4-11-1>

From the perspective of maintaining a system appropriate to carry out business activities as a company listed on the Prime Market of the Tokyo Stock Exchange, in consideration of diversity including gender and internationality, members of the Board of Directors must possess not only skills in corporate management, sales and marketing, technology and IT, risk management, compliance, and auditing, but also skills in terms of global competence, sustainability, as well as diversity promotion and human resource development.

As a comprehensive construction company mainly engaged in civil engineering and building construction, any person to be appointed an Inside Director of the Board must have considerable experience in businesses in these two fields.

Outside Directors will be appointed to constitute at least one-third of the Board, and they include those who have managerial experience at other companies and will supplement the skills of Inside Directors for conducting appropriate decision-making and supervision.

Following discussions within the Nomination and Remuneration Advisory Committee, where the majority of committee members are independent Outside Directors and part-time Outside Audit & Supervisory Board Members, the Board of Directors will decide upon the policy pertaining to the nomination of director candidates and the specific proposals for candidate nomination while respecting the opinions of said Committee to the greatest possible extent.

For details on the skills and diversity required of each Director, please see our company website.

Concepts in relation to the composition of the Board of Directors:

[https://www.smcon.co.jp/en/assets/uploads/investor/board\\_composition\\_and\\_skills\\_matrix.pdf](https://www.smcon.co.jp/en/assets/uploads/investor/board_composition_and_skills_matrix.pdf)

The number of members will be determined within the scope stipulated in the Articles of Incorporation depending on current sales and business content.

<Supplementary Principle 4-11-2>

The main concurrent positions of directors and audit & supervisory board members are disclosed on the Company's website.

Notification of convocation of ordinary general meeting of shareholders: <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>

An overview of the results of assessments on the current situation concerning the effectiveness of the Board of Directors conducted by directors and audit & supervisory board members is disclosed on the Company's website. We seek advice and opinions for further improvements, and endeavor to contribute to the effectiveness of the Board of Directors.

Overview of the results of assessments on the effectiveness of the Board of Directors:

[https://www.smcon.co.jp/investor/assets/uploads/corporate-governance/CG\\_evaluation20220615.pdf](https://www.smcon.co.jp/investor/assets/uploads/corporate-governance/CG_evaluation20220615.pdf)

<Supplementary Principle 4-14-2>

We endeavor to utilize opportunities to provide executive training, etc., for directors, and to cultivate their qualities as managers. In addition, we provide members of the Board of Directors with opportunities to learn the knowledge required for business management, including corporate law and corporate governance, as well as for regular training on management information, and aim to cultivate their skills so that they can achieve their missions as members of the Board of Directors.

<Principle 5-1> [Policy on constructive dialog with shareholders]

- (1) We hold various meeting as an opportunity for communication with shareholders and investors, including general meetings of shareholders, annual financial results briefings for analysts, and individual meetings, and we endeavor to provide explanations on the corporate management and business activities of the Company, and aim to enhance content based on the opinions and requests, etc., of shareholders and investors.
- (2) These aforementioned dialogs with shareholders and investors are supervised by the Division Director the Corporate Planning Division and the Division Director the Administration Division, and assistance is provided by the managers of the Public Relations Office, Planning Department, and General Affairs Department. The related internal departments that assist with dialog engage in business while actively collaborating in matters such as the creation and review of disclosure materials and the sharing of information, towards the realization of constructive dialog.
- (3) The content of dialog with all shareholders and investors is reported by the Division Director the division concerned to the Board of Directors, and an explanation is provided on the Company's response policy as necessary.
- (4) When engaging in dialog with shareholders and investors, we appropriately manage insider information in accordance with our internal regulations entitled "Insider Trading Management Regulations." It should be noted that the period from the day following the quarterly settlement date until the settlement announcement date has been positioned as a "silent period" in which we refrain from dialog concerning settlement information.

<Principle 5-2> [Formulation and publication of management strategy and management plan]

The Company regularly calculates the cost of capital. We formulate our business operations and management strategy based on the calculated cost of capital, and are aware of achieving an ROE (return on equity) that is at a level which exceeds the cost of shareholders' equity in the Company.

In addition, in regard to the formulated management strategy, we check and analyze the progress status each year, and conduct reviews on

the allocation of management resources, including investment in new technology development and human resource development. In the future as well, towards improving corporate value, we shall endeavor to secure profits that exceed the cost of shareholders' equity.

As for the status of response to other codes revised in June 2021, it is as described in "V Other 2. Other matters relating to the corporate governance system" at the end of this report.

## 2. Capital Composition

Foreign stockholding ratio	At least 20% and under 30%
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### [Status of Major Shareholders] Updated

Name or Title	Number of Shares Held (Shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	20,097,100	12.84
City Index Eleventh Co., Ltd.	13,411,400	8.56
Mitsui Fudosan Co., Ltd.	5,397,965	3.44
Sumitomo Realty & Development Co., Ltd.	5,340,413	3.41
Custody Bank of Japan, Ltd. (Trust Account)	5,181,200	3.31
MSIP CLIENT SECURITIES	3,200,098	2.04
NORTHERN TRUST GLOBAL SERVICES SE, LUXEMBOURG RE LUDU RE: UCITS CLIENTS 15. 315 PCT NON TREATY ACCOUNT	3,194,120	2.04
JUNIPER	2,449,700	1.56
NOMURA AYA	2,419,100	1.54
Sumitomo Mitsui Construction Company, Ltd. Business Partners' Shareholding Association	2,234,355	1.42

Presence or absence of controlling shareholders (excludes parent company) \_\_\_\_\_

Presence or absence of parent company None

Supplementary Explanation Updated

- [Status of major shareholders] Described based on the registry of shareholders current as of March 31, 2023.
- The Company holds 6,180,515 treasury shares, however, when calculating the ratio in [Status of Major Shareholders], these treasury shares were not included in the total number of issued shares.

## 3. Corporate Attributes

Listed exchange and market classification	Tokyo Prime
Settlement Date	March
Industry	Construction
Number of (consolidated) employees as of the end of the immediately preceding fiscal year	Over 1,000
(Consolidated) sales in the immediately preceding fiscal year	Between 100 billion yen and 1 trillion yen
Number of consolidated subsidiaries as of the end of the immediately preceding fiscal year	Between 10 and 50

## 4. Guidelines on measures to protect minority shareholders at the time of transactions, etc., with controlling shareholders

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## 5. Other special circumstances that have a major impact on corporate governance Updated

- About listed subsidiaries  
The corporate group of the Company includes the listed subsidiary SUMIKEN MITSUI ROAD CO., LTD., and the ratio of voting rights in

said company held by our Company is 53.90% (as of March 31, 2023).

Said subsidiary, through the laying of roads and parking lots, the construction of condominium exteriors, as well as the manufacture and sale of asphalt mixes, is involved in a part of the construction business of the Group, and conducts corporate activities that emphasize profitability in order to contribute to mutual development, under the basic policy of the maintenance of voluntary action and independence. The situation of it being a listed company leads to the maintenance of social credibility, and as it is a major tool for expanding public works, we are aiming to ensure that the company maximizes its corporate value against the background of its social credibility as a listed company; we believe that this will directly lead to an increase in the corporate value of the Group itself.

The Company respects the interest of minority shareholders in the management of subsidiaries that have minority shareholders, and performs appropriate procedures for the setting of transaction conditions, etc., as well, based on the same principle of competition as other partner companies, so as to ensure that no unjust or unreasonable transactions are forced.

The Company has constructed an internal control system to cover the corporate group, and in order to improve the corporate value of the Group, engages in ongoing initiatives to improve and strengthen the compliance system, provides a prompt and accurate response to various risks that may have a significant impact on management, and in addition, has formed a highly transparent corporate group through the making of proper information disclosures to stakeholders and society.

## II Status of business management organizations for the determination, execution, and supervision of management decisions, as well of other corporate governance systems

### 1. Matters relating to institutional composition and organizational management, etc.

Organizational Form	Company with an Audit & Supervisory Board
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#### [Director-related]

Number of Directors Under the Articles of Incorporation	18
Tenure of Directors Under the Articles of Incorporation	1 year
Chair of the Board of Directors	Chairman
Number of Directors	9
Appointment Status of Outside Directors	Number of Appointed
Outside Directors	4
Number of Outside Directors Designated as Independent Officers	4

Relationship with the Company (1)
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Name	Affiliation	Relationship with the Company (*)											
		a	b	c	d	e	f	g	h	i	j	k	
Sakio Sasamoto	From company another									△			
Jun Sugie	Other												
Tamao Hosokawa	Other									△			
Tsukasa Kawada	Other									○			

#### \*Options for relationship with the Company

\*If the individual falls applicable under "current / recent" for each item, then "○", if applicable in the "past", then "△"

\*If the near relative falls applicable under "current / recent" for each item, then "●", if applicable in the "past", then "▲"

- a Business executor of listed company or subsidiaries thereof
- b Business executor or non-executive director of parent company of listed company
- c Business executor of sibling company of listed company
- d Party that has a listed company as a major trading partner, or the business executor of such a party
- e Major trading partner of a listed company, or the business executor thereof
- f Consultants, accounting professionals, and legal professionals who have obtained large sums of money or other property from a listed company other than in the form of officer remuneration
- g Major shareholders of listed company (in the case of a major shareholder being a corporate entity, the business executor of said

corporate entity)

- h Business executor (individual only) of trading partner of listed company (which does not fall applicable under any of d, e, and f)
- i Business executor (individual only) of company at which an outside officer concurrently serves
- j Business executor (individual only) of recipient of donation from a listed company
- k Other

Relationship with the Company (2)

Name	Independent Officer	Supplementary Explanation on Conforming Items	Reason for Appointment
Sakio Sasamoto	○	<p>Sakio Sasamoto is originally from our Company's business partner, JFE Holdings Co., Ltd., and has a wealth of experience in management through his work as Senior Managing Executive Officer of JFE Holdings Co., Ltd., Audit &amp; Supervisory Board Member of said company, as well as President and Representative Director of JFE Life Co., Ltd. (He retired from all positions in the Group in June 2016). He has served as (part time) Outside Director of the Company since June 2016.</p>	<p>He was appointed as Outside Director so that his wealth of managerial experience can be used for the management of the Company. This Outside Director has no special relationship with the Company, and in addition, in consideration of the annual amount of transactions between the Group and the JFE Holdings Group having accounted on average for less than 1% of consolidated sales in each of the past three years, as well as of other factors, as there are no concerns of a conflict of interest with general shareholders, it has been determined that his independence has been ensured, and therefore he has been designated as an independent officer.</p>
Jun Sugie	○	<p>Jun Sugie has a wealth of work experience, including through having served in key positions at the National Tax Agency, as director the Japan Securities Depository Center, Inc., as outside Director of IDOM Co., Ltd., and as Vice Chairman and Managing Director of the Investment Trusts Association, Japan. He has served as (part time) Outside Director of the Company since June 2019.</p>	<p>He has been appointed as an Outside Director so that his high level of specialist knowledge in the accounting and tax fields and broad experience and insight in management can be used in the management of the Company. Said Outside Director has no special relationship with the Company; as there are no concerns of a conflict of interest with general shareholders, it has been determined that his independence has been ensured, and therefore he has been designated as an independent officer.</p>
Tamao Hosokawa	○	<p>In addition to being active as a journalist, Tamao Hosokawa has also served as a Director of the Japan Institute for National Fundamentals, a Member of the Council for Cabinet Office Gender Equality, and a Member of the Council for Tokyo Metropolitan Information Disclosure / Personal Information Protection. In addition, she was a Director of the Chiba Institute of Technology, which is a business partner of the Company (She retired from this position in January 2020). She has served as (part time) Outside Director of the Company since June 2019.</p>	<p>She has been appointed as an Outside Director so that her objective perspective and broad insight as a journalist can be used in the management of the Company. This Outside Director has served as Director of the Chiba Institute of Technology, which is a business partner of the Company (She retired from this position in January 2020), however, in consideration of the annual amount of transactions between the Group and said corporate entity having accounted on average for less than 1% of consolidated sales in each of the past three years, as well as of other factors, as there are no concerns of a conflict of interest with general shareholders, it has been determined that her independence has been ensured, and therefore She has been designated as an independent officer.</p>
Tsukasa Kawada	○	<p>Tsukasa Kawada has held important positions such as ambassadors of various countries during his tenure in the Ministry of Foreign Affairs (He retired in November 2020), and has excellence knowledge and experience in the international field. He also serves as an advisor to Mitsui Sumitomo Insurance Co., Ltd., which has a business relationship with the Company. He has served as (part time) Outside Director of the Company since June 2021.</p>	<p>He has been appointed as an Outside Director so that his excellent knowledge and experience in the international field can be utilized in our management such as strengthening overseas business and promoting globalization This Outside Director also serves as an advisor to Mitsui Sumitomo Insurance Co., Ltd., which has a business relationship with the Company. However, in consideration of the annual transaction amount of the Group and the Group was less than 1% of the consolidated sales of the Group and the Group on average over the past three years, as well as of other factors, as there are no concerns of a conflict of interest with general shareholders, it has been determined that his independence has been ensured, and therefore he has been designated as an independent officer.</p>

Presence or absence of a voluntary committee equivalent to a nomination committee or remuneration committee	Yes
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Establishment status of voluntary committees, member composition, and attribution of committee chair (Chairman & CEO)  
Updated

	Name of Committee	All Committee Members (people)	Full-time committee (People)	Inside Directors (People)	Outside Directors (People)	Outside Experts (People)	Other (people)	Committee Chair (Chairman & CEO)
Voluntary committee equivalent to nomination committee	Nomination and Remuneration Advisory Committee	8	0	2	4	0	2	Outside Directors
Voluntary committee equivalent to remuneration committee	Nomination and Remuneration Advisory Committee	8	0	2	4	0	2	Outside Directors

Supplementary Explanation Updated

In order to ensure the transparency and fairness of officer personnel and officer remuneration, we have established the Nomination and Remuneration Advisory Committee as an advisory body to the Board of Directors. The committee is composed of Chairman & CEO, President & COO, the Director in charge of the Personnel Department, Internal Directors, Outside Directors, Outside Audit & Supervisory Board members (part time) with representation rights.

The other two committee members are outside audit & supervisory board members (part time).

There were nine meetings held in FY2022. Below is the attendance status of the individual members in office as of March 31, 2023.

(Committee Member Name)	(Position)	(Attendance Status in FY2022)
• Sakio Sasamoto	Director (Outside)	100% (9 out of 9)
• Hideo Arai	Director, Chairman	100% (9 out of 9)
• Shigetoshi Kondo	Representative Director, President	100% (9 out of 9)
• Shoji Kimijima	Representative Director, Executive Vice President	100% (9 out of 9)
• Jun Sugie	Director (Outside)	100% (9 out of 9)
• Tamao Hosokawa	Director (Outside)	100% (9 out of 9)
• Tsukasa Kawada	Director (Outside)	100% (9 out of 9)
• Aizou Murakami	Audit & Supervisory Board Member (Outside)	66.6% (6 out of 9)
• Harumasa Kurokawa	Audit & Supervisory Board Member (Outside)	100% (6 out of 6) *Appointed in June 2022

### [Audit & Supervisory Board Related]

Presence or Absence of Audit & Supervisory Board	Yes
Number of Audit & Supervisory Board Members Under the Articles of Incorporation	6
Number of Audit & Supervisory Board Members	5

Coordination Status of Audit & Supervisory Board Members, Accounting Auditors, and Internal Audit Department

- The accounting auditor holds regular meetings on audit plans, quarterly reviews, and audit reports, etc., as well as other meetings as appropriate, at which reports and explanations are received on the audit implementation status, issues identified as a result of an audit, the establishment status of a system for ensuring that the duties of the accounting auditor are performed appropriately, as well as assessments of the establishment and operation status of internal control in relation to financial reporting, etc. In addition, explanations on the implementation status of audits are also provided by the Audit & Supervisory Board Members, and efforts are made to strengthen communication through the frank exchanging of opinions.
- We have put in place a system for the regular reporting on the status of audits to the Audit & Supervisory Board by the General Manager of the Audit Department, which is the internal audit department. In addition, as a general rule, the full-time Audit & Supervisory Board Members and the General Manager of the Audit Department hold monthly meetings to share information, such as detailed reports on audit plans, the implementation status of audits, and issues identified as a result of audits.

Appointment Status of Outside Audit & Supervisory Board Members	Number of Appointed
Outside Audit & Supervisory Board Members	3
Number of Outside Audit & Supervisory Board Members Designated as Independent Officers	3

Relationship with the Company (1)

Name	Affiliation	Relationship with the Company (*)														
		a	b	c	d	e	f	g	h	i	j	k	l	m		
Yoshiyuki Kato	From another company													△		
Aizou Murakami	Attorney															
Harumasa Kurokawa	From another company													○		

\*Options for relationship with the Company

\*If the individual falls applicable under "current / recent" for each item, then "○", if applicable in the "past", then "△"

\*If the near relative falls applicable under "current / recent" for each item, then "●", if applicable in the "past", then "▲"

- a Business executor of listed company or subsidiaries thereof
- b Non-executive director or accounting advisor of a listed company or a subsidiary thereof
- c Business executor or non-executive director of parent company of listed company
- d Audit & Supervisory Board Member of the parent company of a listed company
- e Business executor of sibling company of listed company
- f Party that has a listed company as a major trading partner, or the business executor of such a party
- g Major trading partner of a listed company, or the business executor thereof
- h Consultants, accounting professionals, and legal professionals who have obtained large sums of money or other property from a listed company other than in the form of officer remuneration
- i Major shareholders of listed company (in the case of a major shareholder being a corporate entity, the business executor of said corporate entity)
- j Business executor (individual only) of trading partner of listed company (which does not fall applicable under any of f, g, and h)
- k Business executor (individual only) of company at which an outside officer concurrently serves
- l Business executor (individual only) of recipient of donation from a listed company
- m Other

Relationship with the Company (2)

Name	Independent Officer	Supplementary Explanation on Conforming Items	Reason for Appointment
Yoshiyuki Kato	○	Yoshiyuki Kato is from Sumitomo Mitsui Trust Bank, Limited, which is the financial institution used by the Company (He retired from the Company in June 2012), and has specialist and broad knowledge and insight in trust banks. He has served as Outside Audit & Supervisory Board Member of the Company since June 2012.	He was appointed as Outside Audit & Supervisory Board Member so that his experience in internal audits, etc., that he has accumulated at trust banks can be used in the audits of the Company's Audit & Supervisory Board. This Outside Audit & Supervisory Board Member does not have any interest in the Company, and in addition, in consideration of the amount of borrowings of the Group from Sumitomo Mitsui Trust Bank Group accounting on average for less than 3% of the average total consolidated assets of the Company in the past three years, there are no concerns of a conflict of interest with general shareholders, and therefore, it has been determined that independence has been secured, and he has been designated as an independent officer.
Aizou Murakami	○	Aizou Murakami is the representative director of Kioi Law Offices, and has expert knowledge and experience as an attorney. He has served as (part time) Outside Audit & Supervisory Board Member of the Company since June 2012.	He has been appointed as Outside Audit & Supervisory Board Member so that his specialist knowledge and experience as an attorney can be used in the audits of the Company's Audit & Supervisory Board. Said Outside Audit & Supervisory Board has no special relationship with the Company; as there are no concerns of a conflict of interest with general shareholders, it has been determined that his independence has been ensured, and therefore He has been designated as an independent officer.



Harumasa Kurokawa	○	<p>Harumasa Kurokawa has been working for Sumitomo Metal Mining Co., Ltd., a business partner of the Company, for many years. Having served as, among others, the factory head at a main site engaging in the Smelting and Refining business and the General Manager of Technology Division who oversees technological operations, he has vast experience and advanced knowledge in the fields of manufacturing, technology, etc. In addition to that, he also has experience in management as a Director.</p> <p>He has served as (part time) Outside Audit &amp; Supervisory Board Member of the Company since June 2022.</p>	<p>He has been appointed as Outside Audit &amp; Supervisory Board Member so that his vast experience and advanced knowledge in the fields of manufacturing, technology, etc. as well as his experience in management as a Director can be used to strengthen the audit system of the Company's Audit &amp; Supervisory Board. Although he is also an advisor to Sumitomo Metal Mining Co., Ltd., this Outside Audit &amp; Supervisory Board Member has no special relationship with the Company, and in addition, in consideration of the annual amount of transactions between the Group and the Sumitomo Metal Mining Co., Ltd. Group having accounted on average for less than 2% of the Company's consolidated sales in each of the past three years, as well as of other factors, as there are no concerns of a conflict of interest with general shareholders, he has thus been designated as an independent officer.</p>
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### [Independent Officer Related]

Number of Independent Officers	7
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Other Matters Relating to Independent Officers
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### [Incentive Related]

Implementation status of measures relating to the granting of incentives to Directors	Introduction of performance-linked remuneration system, and others
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Supplementary Explanation on Applicable Items
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In order to share the benefits and risks of stock price fluctuations with all shareholders, and to further increase the appetite to contribute to an increased stock price and corporate value, by resolution of the general meeting of shareholders held on June 28, 2018, a remuneration system was introduced for Directors (excludes Outside Directors) in which they are allocated restricted shares of the Company. Furthermore, by resolution of the meeting of the Board of Directors held on April 22, 2022, a performance-linked monetary remuneration system was introduced for Directors (excluding Outside Directors) of the Company. Performance-linked monetary remuneration shall be determined based on indicators of the Company's performance. Evaluation indicators shall include average consolidated operating income for the period under evaluation, external ESG evaluation, and the degree of achievement of targets for human resource-related indicators.

Persons Eligible for Stock Options	
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Supplementary Explanation on Applicable Items
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### [Director Remuneration Related]

Disclosure Status (of Individual Director Remuneration)	Individual remuneration is not disclosed
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Supplementary Explanation on Applicable Items
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The number of Directors paid remuneration in the applicable fiscal year and the total amount of such remuneration is disclosed in the securities report and the business report. (The same disclosures are made for Audit & Supervisory Board Members)

Presence or absence of decision-making policy for amount of remuneration or the calculation method thereof	Yes
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[1] Matters relating to the decision-making policy for the content of remuneration, etc., of individual Directors

At the meeting of the Board of Directors held on April 22, 2022, the Company, based on the report from the Nomination and Remuneration Advisory Committee, partially revised the decision-making policy for the content of remuneration, etc. of individual Directors prescribed at the meeting of the Board of Directors held on February 24, 2021, and an overview of this is provided below.

1. Basic Policy

Remuneration for Directors (excludes Outside Directors) of the Company is comprised of standard monetary remuneration, performance-linked monetary remuneration for increasing the incentive to improve performance and for enhancing the consistency between management strategy and Director remuneration, as well as restricted share-based remuneration which serves as a medium- to long-term incentive in order to share the benefits and risks of stock price fluctuations and to further improve the motivation to contribute to improving the stock price and corporate value.

Outside Directors, in consideration of their monitoring and supervisory role, are only paid the standard monetary remuneration.

2. Decision-making policy (includes the policy for determining the timing or conditions for the granting of remuneration, etc.) for the amount of monetary remuneration, etc. (excludes performance-linked remuneration and non-monetary remuneration, etc.), as well as the policy for the calculation thereof

The standard remuneration (monetary remuneration) for Directors (excludes Outside Directors) of the Company is paid monthly, and the basic policy is to set the amount at an appropriate level in comprehensive consideration of the role of each position, as well as the business environment, performance, remuneration levels at other companies in related industries, as well as the treatment of employees.

The standard remuneration (monetary remuneration of Outside Directors is paid monthly, and the basic policy is to set the amount at an appropriate level in consideration of the securing of talented personnel, and the effective demonstration of monitoring and supervisory functions as independent officers.

3. Decision-making policy for the content of non-monetary remuneration, as well as the amount or quantity of this, and the calculation method thereof (includes the policy for the determination of the timing or conditions for the payment of remuneration, etc.)

a. Allocation and payment of restricted shares

The Company, based on a resolution of a meeting of the Company's Board of Directors, which was held after the ordinary general meeting of shareholders, as remuneration for Directors (excludes Outside Directors. Hereinafter referred to as "Eligible Directors") until the next general meeting of shareholders, shall provide monetary remuneration receivables for the allotment of restricted shares, within the range of 60 million yen per year, and each Eligible Director shall receive an allotment of restricted shares through the payment of the full amount of said monetary remuneration receivables by the method of in-kind investment.

It should be noted that the paid-in amount per restricted share shall be determined by the Company's Board of Directors, based on the closing price of ordinary shares of the Company on the Tokyo Stock Exchange on the business day prior to the resolution date of the Company's Board of Directors concerning the allotment (if no transactions were established on that day, the closing price on the immediately preceding day on which transactions were established), within a range that is not particularly favorable to the Eligible Director receiving said restricted shares.

In addition, the aforementioned monetary remuneration receivables shall be paid on the condition that the Eligible Director has agreed to the aforementioned in-kind investment, and has executed a restricted share allotment agreement that includes the content stipulated in c below.

b. Total Number of Restricted Shares

The total number of restricted shares to be allotted by the Company to the Eligible Directors shall not exceed 150,000 shares in any fiscal year.

However, in the event of a stock split of the ordinary shares of the Company (includes a gratis allotment of ordinary shares of the Company) or reverse stock split being conducted, or in the event of the need arising to adjust the total number of restricted shares to be allotted in other cases, the total number of restricted shares shall be adjusted within a reasonable range, in accordance with the ratio of the stock split or the ratio of the reverse stock split, etc.

c. Content of restricted share allotment agreement

At the time of an allotment of restricted shares, based on the resolution of the Company's Board of Directors, the restricted share allotment agreement to be executed between the Company and the Eligible Director receiving an allotment of restricted shares shall include the content described below.

A. The content of the transfer restrictions

An Eligible Director who has received an allotment of restricted shares may not transfer to a third party, pledge, provide as collateral, provide as an inter vivos gift, bequest, or dispose in any other manner of the applicable restricted shares for a 30-year period (hereinafter referred to as "Transfer Restriction Period").

B. Gratis acquisition of restricted shares

The Company, in the event of an Eligible Director who has received an allotment of restricted shares having retired from their position as Director or Executive Officer of the Company in the period from the start date of the Transfer Restriction Period until the day prior to the date of the immediately following ordinary general meeting of shareholders of the Company, with the exception of where there is a reason recognized to be justified by the Company's Board of Directors, the full amount of the restricted shares allotted to the Eligible Director (hereinafter referred to as "the Allotted Shares") shall be acquired free of charge, as a matter of course.

It should be noted that of the Allotted Shares, in the event of the transfer restriction based on the provisions on the reasons for the release of the transfer restrictions stated in c below not having been released as of the expiration of the Transfer Restriction Period of a above, the Company shall acquire these free of charge, as a matter of course.

In addition, in the event of an Eligible Director having been made subject to criminal penalty of incarceration or above during the Transfer Restriction Period, or in the event of having been engaged in business that competes with the Company's business without the prior permission of the Company, or in the event of it being recognized by the Board of Directors that such an Eligible Director has violated an important element of the internal regulations, etc., of the Company, the Company shall acquire the full amount of the Allotted Shares at no charge, as a matter of course.

C. Release of transfer restrictions

The Company, on the condition that an Eligible Director who has received an allotment of Transfer Restricted Shares has been in a position of either Director or Executive Officer of the Company for a continuous period from the start date of the Transfer Restriction Period until the date on which the immediately following ordinary general meeting of shareholders of the Company is held, shall release the transfer restriction on all of the Allotted Shares upon the expiration of the Transfer Restriction Period.

However, in the event of an Eligible Director having retired from the position of Director and Executive Officer of the Company prior to the expiration of the Transfer Restriction Period due to a reason recognized to be justified by the Company's Board of Directors, the number of the Allotted Shares subject to the release of the transfer restriction and the timing of the release of the transfer restriction shall be reasonably adjusted as necessary.

D. Handling in the case of organizational restructuring, etc.

The Company, during the Transfer Restriction Period, in the event of a proposal for a merger agreement in which the Company will become the extinguished company, for a share exchange agreement, share transfer plan, or other proposal relating to organizational restructuring, etc., in which the Company will become a wholly owned subsidiary, having been approved by a meeting of the general shareholders of the

Company (however, in the case of approval by a meeting of the general shareholders of the Company not being required for the organizational restructuring, etc., the Board of Directors of the Company), by resolution of the Board of Directors, the transfer restrictions shall be released for the reasonably determined number of shares to be allotted, based on the period from the start date of the Transfer Restriction Period until the date of the approval of the organizational restructuring, etc., and prior to the effective date of the organizational restructuring, etc.

In such a case, the Company shall acquire free of charge as a matter of course the Allotted Shares for which the transfer restrictions have not been released at the time immediately following the release of the transfer restrictions based on the provisions above.

E. Other matters to be prescribed by the Board of Directors

In addition to the above, the method for manifestations of intent and notifications in restricted share allotment agreements, the method of amending restricted share allotment agreements, and other matters to be prescribed by the Board of Directors shall be included in restricted share allotment agreements.

4. Policy on the determination of the ratio of monetary remuneration (standard remuneration and performance-linked remuneration) and non-monetary remuneration against individual Director remuneration, etc.

The ratio of monetary remuneration (standard remuneration and performance-linked remuneration) and restricted share remuneration for Eligible Directors shall generally be set at an appropriate ratio in consideration of the business environment, performance, and remuneration levels at other companies in related industries, and the approximate ratios of which shall be as follows.

- Monetary remuneration (standard remuneration) 60%; monetary remuneration (performance-linked remuneration) 30%; restricted share-based remuneration 10%

5. Policy for determining the timing and conditions for the granting of remuneration, etc., to Directors  
(Described in 2 and 3 above)

6. Method for determining the content of individual Director remuneration, etc.

The Company has the policy for the determination of individual Director remuneration, etc., determined at the Board of Directors, and in addition, upon consultation and a decision at the Board of Directors regarding the specific officer remuneration system and levels, etc., based on this policy, has the detailed individual remuneration determined within this range by the representative director authorized by the Board of Directors.

When holding consultation and determining the officer remuneration system and levels, etc., at the Company's Board of Directors, a condition for submission to the Board of Directors is the holding of consultation with the Nomination and Remuneration Advisory Committee, which is an advisory body to the Board of Directors, and in which the majority of committee members are outside officers.

7. Other important matters concerning the determination of the content of individual Director remuneration, etc.  
(Described above in 3c b)

8. Reasons for the determination by the Board of Directors that the content of individual Director remuneration, etc., for this fiscal year is in conformance with the decision-making policy

As described above, at the Board of Directors, when holding consultation and determining the officer remuneration system and levels, etc., discussions were held based on the aforementioned decision-making policy, and it was determined that the individual Director remuneration, etc., for this fiscal year was in conformance with the aforementioned decision-making policy.

[2] Matters relating to resolutions of a general meeting of shareholders regarding Director remuneration, etc.

(1) At the 16th ordinary general meeting of shareholders held on June 27, 2019, a resolution was passed to set the total amount of annual Director remuneration as an amount no higher than 450 million yen (80 million yen for Outside Directors), and to include the employee portion of salary in this remuneration amount in the case of a Director who concurrently serves as an employee. As at the close of said general meeting of shareholders, the number of Directors was 9 (including 3 Outside Directors).

In addition, at said ordinary general meeting of shareholders, a resolution was passed to set the total amount of annual Audit & Supervisory Board Member remuneration to an amount no higher than 108 million yen. As at the close of said general meeting of shareholders, the number of Audit & Supervisory Board Members was 5 (including 3 Outside Audit & Supervisory Board Members).

(2) At the 15th ordinary general meeting of shareholders held on June 28, 2018, separate to the remuneration limit described in (1) above, a resolution was passed to set the total annual amount of monetary remuneration receivables to be paid as remuneration for restricted shares as an amount no higher than 60 million yen (Outside Directors are excluded). As at the close of said general meeting of shareholders, the number of Directors was 9 (including 2 Outside Directors).

[3] Matters relating to delegation of determination of the content regarding individual Director remuneration, etc.

As stated above, the Company delegates to its Representative Directors the determination of the amount of individual remuneration, etc. within the scope of the officer remuneration system and levels, etc. established by the Board of Directors. The reason for such delegation is to determine the content of individual remuneration in a timely and appropriate manner based on the performance of Directors.

For the current fiscal year, the determination of the content of individual remuneration, etc., including monetary remuneration and non-monetary remuneration, has been delegated to Representative Director Shigetoshi Kondo. Furthermore, as stated above, appropriate exercise of the delegated authority is ensured by requiring consultation with the Nomination and Remuneration Advisory Committee, at least half of whose members are outside officers, as a condition for submission of proposals to the Board of Directors, and by having the Board of Directors discuss and determine the specific officer remuneration system and levels, etc. in advance.

[4] Matters relating to performance-linked remuneration, etc.

By resolution of the meeting of the Board of Directors held on April 22, 2022, the Company introduced a performance-linked monetary remuneration system for Directors (excluding Outside Directors). Performance-linked monetary remuneration shall be determined based on indicators of the Company's performance. Evaluation indicators shall include average consolidated operating income for the period under evaluation, external ESG evaluation, and the degree of achievement of targets for human resource-related indicators.

[5] Matters relating to non-monetary remuneration, etc.

As stated above in "3. Decision-making policy for the content of non-monetary remuneration, as well as the amount or quantity of this, and the calculation method thereof (includes the policy for the determination of the timing or conditions for the payment of remuneration, etc.)" under "[1] Matters relating to the decision-making policy for the content of remuneration, etc. of individual Directors."

## [Outside Director (Outside Audit & Supervisory Board Member) Support System]

- A system has been put in place in which information that will contribute to the execution of duties is provided in a timely manner by the Secretariat of Board of Directors has been established as an organization under the direct control of the Board of Directors to Outside Directors.
- An Audit & Supervisory Board Office has been established as the organization that reports directly to Audit & Supervisory Board Members, and a system has been put in place where information that will contribute to the execution of duties is provided in a timely manner by the applicable department to the Outside Audit & Supervisory Board Members.

[Status of persons who have retired from the position of President and Representative Director, etc.]

Names, etc., of consultants and advisors, etc., who are former President and Representative Director, etc.

Name	Job Title / Position	Business Content	Working Form / Conditions (Full or part time, presence or absence of remuneration, etc.)	President, Etc., Retirement Date	Tenure
Yoshiyuki Norihisa	Honorary Advisor	<ul style="list-style-type: none"> <li>Matters relating to industry groups, the financial world, and corporate group activities</li> <li>Matters relating to public interest activities, such as social contribution activities</li> </ul>	Part time; remuneration paid	June 28, 2018	1 year renewal

Total number of consultants and advisors, etc., who are former President and Representative Director, etc.

1

Other Matters

- The Company, by resolution of the Board of Directors, based on consultations held at the Nomination and Remuneration Advisory Committee, appoints Special Advisors or Honorary Advisors as necessary from the persons who have retired as Chairman or President.
- Special Advisors and Honorary Advisors do not attend meetings of the Board of Directors, management meetings, etc., and are not involved in any managerial decisions. In addition, although they may give advice based on requests from the current management team, they do not have any authority to influence managerial decisions.

2. Matters relating to the business execution, audit and supervisory, nomination, and remuneration determination, etc., functions (summary of the current corporate governance system) Updated

□ Officer Status

- Directors (9): 5 Inside Directors / 4 Outside Directors, 8 males / 1 female
- Audit & Supervisory Board Members (5): 2 Inside Audit & Supervisory Board Members / 3 Outside Audit & Supervisory Board Members, 5 males / 0 females
- The Nomination and Remuneration Advisory Committee has been established as an advisory body to the Board of Directors which is aimed at ensuring the transparency and fairness of officer human resources and officer remuneration, as well as strengthening corporate governance.
- The Company has executed contracts that limit liability under Article 423 Paragraph 1 of the Companies Act with the Outside Directors and all Audit & Supervisory Board Members. The compensation limit under said contract is the minimum liability limit prescribed by law.

□ Business Execution

- The Board of Directors deliberates, determines, and reports, etc., on the management policies and other important matters of the Company. As a general rule, meetings are held once per month or from time to time as necessary. The execution status of business being covered by each Director is regularly reported at meetings of the Board of Directors, which improves the business execution supervisory function of the Board of Directors. There were 17 meetings held in FY2022. Below is the attendance status of the individual officers in office as of March 31, 2023.

Director's Name	(Position)	(Attendance Status in FY2022)
• Hideo Arai	Director, Chairman	100% (17 out of 17)
• Shigetoshi Kondo	Representative Director, President	100% (17 out of 17)
• Shoji Kimijima	Representative Director, Executive Vice President	100% (17 out of 17)
• Toshio Shibata	Representative Director, Senior Managing Executive Officer	100% (17 out of 17)
• Takeshi Sagara	Director, Senior Managing Executive Officer	100% (17 out of 17)
• Sakio Sasamoto	Director (Outside)	94.1% (16 out of 17)
• Jun Sugie	Director (Outside)	100% (17 out of 17)
• Tamao Hosokawa	Director (Outside)	100% (17 out of 17)
• Tsukasa Kawada	Director (Outside)	100% (17 out of 17)

- The executive officer system was introduced with the objective of revitalizing the Board of Directors, enhancing the business execution system, and improving management efficiency, by separating and clarifying the decision-making and supervisory functions of the Board of Directors from the business execution function.
- The management meeting which is composed mainly of executive officers, etc., has been established as a body for the deliberation of important matters relating to the execution of business. A management meeting, as a general rule, is held once per week and from time to time as necessary, in order to improve business efficiency, and with the objective of speeding up the execution of business based on the decisions of the Board of Directors.
- Various committees have been established as advisory bodies to the management meeting in order to ensure agile and accurate decision-making in the execution of business. The committees established as advisory bodies to the management meeting include various committees, such as the Internal Control Committee, which deliberates important policies for the performance of the social responsibility of the Company as well as the establishment of a compliance system, the Sustainability Promotion Committee and so on. The committee membership comprises of Directors or Executive Officers, and meetings are held regularly or from time to time as necessary.

- Audit & Supervisory Board
  - The Audit & Supervisory Board is composed solely of corporate auditors, and as a general rule, meetings are held once per month, or from time to time as necessary.
  - The Audit & Supervisory Board determines the investigation method for audit policies, business, and assets, as well as other matters relating to the execution of duties of Audit & Supervisory Board Members, and in addition, reports are received on the status and results of the audits conducted by each Audit & Supervisory Board Member, and important matters relating to audits are discussed and resolved.
  - The Audit & Supervisory Board Office has been established; it reports directly to the Audit & Supervisory Board Members, and two dedicated employees have been assigned to assist with the duties of Audit & Supervisory Board Members. Only Audit & Supervisory Board Members have the right to instruct and command these assisting employees, and the independence of the assisting employees from all of the Directors has been guaranteed.
  - Two Audit & Supervisory Board Members (full time) have been appointed from within the Company.  
Hisato Tokunaga, a full time Audit & Supervisory Board Member, has gained extensive knowledge in finance and accounting from his many years of experience at the Accounting and Finance Department, and in addition, has been involved with related business departments; therefore, he has abundant knowledge of the business of affiliated companies.  
Michio Harada, a full time Audit & Supervisory Board Member, has gained extensive knowledge in finance and accounting from his many years of experience at the Accounting Department, and in addition, has been involved with the Internal Audit Department; therefore, he has abundant knowledge of the business of the Company, and has expertise in audit practice.
  - Meetings to exchange opinions with the President and Representative Directors are held regularly, and efforts are made to deepen the mutual awareness of the environment surrounding the Company, important issues and risks that should be addressed by the Company, as well as the direction of management, etc. In addition, regular meetings are held with Outside Directors, and efforts are made to exchange opinions and to share awareness regarding the issues that should be addressed by the Company, the risks surrounding the Company, as well as major audit-related issues, etc.
  
- Accounting Auditor
  - The Company has executed an audit agreement with Ernst & Young ShinNihon LLC which appoints said company as our accounting auditor, and the ongoing audit period is 56 years.  
It should be noted that the names of the certified public accountants who have engaged in audit business during FY2021, as well as assistants involved in audit business, are as shown below.
    - Names of certified public accounts who have engaged in business
      - Business execution employee designated with limited liability      Sento Fukumoto
      - Business execution employee designated with limited liability      Yoshikatsu Nakahara
    - Composition of assistants involved in audit business
      - Certified public accountants: 6 people; Other: 16 people
  
- Decisions on the appointment, dismissal, and remuneration of officers
  - A Nomination and Remuneration Advisory Committee comprising of Chairman & CEO, President & COO, the Director in charge of the Personnel Department and part time Outside Officers has been established as an advisory body to the Board of Directors; it provides appropriate advice and remarks on the managerial proposals concerning the Company's officer remuneration system from an independent and objective perspective, and upon conducting careful verification, and the Board of Directors makes individual decisions on remuneration in consideration of the advice and opinions of the Nomination and Remuneration Advisory Committee.
  - In regard to proposals for officer human resources prepared by the President, their validity and rationality is assessed upon the performance of a check on the transparency, fairness, and timeliness of the appointment at the Nomination and Remuneration Advisory Committee, in reference to the independently prescribed "Officer Appointment Criteria". The Board of Directors passes resolutions on officer human resources in reference to the evaluation of the Nomination and Remuneration Advisory Committee.  
In addition, in relation to successors, a "Successor Succession Plan", which clarifies the successor requirements, selection process, and training plan, etc., has been independently prescribed, and the validity and rationality of proposals for successor human resources prepared by the President are evaluated upon confirmation of the transparency, fairness, and timeliness of the appointment at the Nomination and Remuneration Advisory Committee, in reference to said plan. The Board of Directors passes resolutions on successor human resources in reference to the evaluation of the Nomination and Remuneration Advisory Committee.
  - In the event of an business executive being dismissed during their tenure, the validity and rationality of this is discussed upon confirming objectivity, timeliness, and transparency at the Nomination and Remuneration Advisory Committee, in reference to the independently prescribed "Chief Executive Officer, Etc., Dismissal Criteria" or the "Officer Dismissal Criteria." The Board of Directors passes resolutions on dismissal in reference to the results of the discussions of the Nomination and Remuneration Advisory Committee.

### 3. Reasons for the selection of the current corporate governance system

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. In addition, 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, and in addition, in order to further improve the transparency and fairness of corporate management, the Nomination and Remuneration Advisory Committee has been established for the monitoring function of a company with an Audit & Supervisory Board.

### III Implementation status of measures concerning shareholders and other stakeholders

#### 1. Status of initiatives for the revitalization of general shareholder meetings and the facilitation of the exercising of voting rights

	Supplementary Explanation
Early issuance of notification of convocation of general meeting of shareholders	When voting rights are to be exercised by shareholders, a notification is sent three weeks prior to the date of the general meeting of shareholders in order to ensure sufficient time for examination.
Electronic exercising of voting rights	Voting rights may be exercised electronically.
Participation in the electronic voting right exercising platform and other initiatives towards improving the environment for the exercising of voting rights by institutional investors	We have adopted the "Institutional Investor Voting Rights Exercise Platform."
Provision of convocation notice (summary) in English	An English version of the notification of convocation of general meeting of shareholders is created, is submitted to the "Institutional Investor Voting Rights Exercise Platform," and in addition, is posted on the Company's website.

#### 2. Status of IR Activities

	Supplementary Explanation	Presence or absence of explanation from representative
Creation and publication of disclosure policy	Posted on the Company's website. <a href="https://www.smcon.co.jp/investor/disclosure-policy/">https://www.smcon.co.jp/investor/disclosure-policy/</a>	
Holding of regular briefings for analysts and institutional investors	As a general rule, "financial results briefings" are held twice per year (after the publication of the annual financial results and the Q2 financial results).	Yes
Posting of IR materials on the website	Posted without delay after publication.	
Establishment of department (representative) for IR	The "Public Relations Office" has been established.	

#### 3. Status of initiatives relating to respecting the position of stakeholders

	Supplementary Explanation
Implementation of environmental preservation activities and CSR activities, etc.	<p>We regard our social responsibility as "responding to the demands of stakeholders through our business activities", and promote company-wide CSR activities aimed at realizing the management philosophy of the Company in order to ensure our sustainable development.</p> <p><input type="checkbox"/> Establishment of compliance system A "Corporate Behavior Charter" has been created as action guidelines and a "Detailed Explanation on Laws and Ordinances, Etc." has been created as a supplementary explanation in order for the officers and employees of the Company as well as Group officers and employees to engage in fair corporate activities, and these are incorporated into the promotion of sound business activities.</p> <p><input type="checkbox"/> Establishment of an appropriate internal control system An Internal Control Committee has been established; said committee conducts deliberations on the implementation of the measures required in order to ensure the effectiveness and efficiency of business, which is one of the objectives of internal control, and in addition, monitors the implementation status thereof, based on the "Basic Policy on the Internal Control System" (Resolution of the Board of Directors).</p> <p><input type="checkbox"/> Identification of materiality We evaluate and deliberate issues that have a major impact on the Company and its stakeholders, and identify the key issues (materiality). In March 2022, we reevaluated and redeliberated issues that have a major impact on the Company and its stakeholders, and reviewed the key issues (materiality).</p>

□ Promotion of sustainability

We have established a Sustainability Promotion Committee, which identifies issues in the three areas of the environment, society, and the economy, and proposes measures, etc., with the objective of the realization of a sustainable society.

It should be noted in regard to the environment that the medium to long term outlook has been clarified in the “Green Challenge 2030” environmental policy, and that we are strengthening our efforts.

In addition, in November 2021, we formulated and announced the “Roadmap for Achieving Carbon Neutrality by 2050,” which establishes our decarbonization targets. Furthermore, in December 2021, we formulated and announced the “Basic Policy on Sustainability,” which sets forth our basic approach to sustainability.

□ Support for the Task Force on Climate-related Financial Disclosures (TCFD)

We are aware that the evaluation and formulation of measures, etc., on business impact in relation to the risks and opportunities of climate change are necessary for the realization of a sustainable society and the sustainability of business, and announced our support for the TCFD Declaration in May 2021. We are aware of climate change drivers affecting civil engineering, construction, overseas, and new area businesses at the Group, and identify risks and opportunities based on scenario analysis.

□ Promotion of diversity

We have established a D&I Promotion Committee to actively promote women, foreign nationals, seniors, and persons with disabilities, etc., under the strong commitment of top management and the reformation of employee awareness, and in addition, to realize a corporate culture in which diverse human resources play an active role.

Among these issues, we are aware that the promotion of female advancement is a key issue required by the times and society, and in addition, that the initiatives towards the realization of this are our mission as a company. In order to dispel the traditional image of the construction industry, and to make it possible for women to actively enter the industry, we are actively working on the achievement of a work-life balance and the establishment of a working environment in which all employees, including women, are able to demonstrate their abilities.

□ Issuance of corporate report

The Company has positioned the business activities aimed at the realization of the “management philosophy” as CSR activities.

Therefore, we publish a “corporate report” once each year with the objective of making stakeholders aware in an easy-to-understand manner of our initiatives over the course of the fiscal year based on our management philosophy.

## IV Matters Relating to the Internal Control System, Etc.

### 1. Basic Concepts and Establishment Status of Internal Control System Updated

○ Basic concepts on the internal control system

The Company and the Group, in order to improve the corporate value of the Group, engages in ongoing initiatives to improve and strengthen the compliance system, provides a prompt and accurate response to various risks that may have a significant impact on management, and in addition, has formed a highly transparent corporate group through the making of proper information disclosures to stakeholders and society; this has been adopted as the basic policy for the internal control system.

It should be noted that the Company has regarded the “Basic Policy on the Internal Control System” as the basic policy for continuous efforts conducted over many years, and conducts a review every fiscal year. In addition, a meeting of the Internal Control Committee is held each quarter, at which reports are given on the progress status, the rectification and improvement status of issues, etc., detected over the course of the operation of the internal control system, as well as the status of efforts for measures to prevent recurrence that are taken as necessary, and at which the operation status is monitored. By reporting the results of this to the Board of Directors, we are working towards the construction and operation of an appropriate internal control system.

Overview of the “Basic Internal Control Policy for FY2023”

#### 1. System for ensuring that the execution of duties by Directors and employees of the Company conforms with laws, ordinances, and the Articles of Incorporation

- In order to further raise awareness of compliance, as well as to establish an even higher level of corporate ethics, we conduct ongoing compliance education concerning laws, ordinances, regulations, and social norms, etc., relating to business, including the Antimonopoly Act, the Construction Business Act, and work style reform-related laws, based on internal and external risk cases, including collusion issues, etc., for officers and employees (includes seconded and dispatched personnel, etc.), including those at affiliated companies.
- In order to ensure the reliability of financial reporting, we operate an internal control system based on the “Basic plan and policy for the establishment and operation of internal control for financial reporting”.
- For the establishment of higher corporate ethics, the transparency of management, and for the prompt and appropriate response to risk events, we continue to conduct awareness education for officers and employees of the Company and our affiliated companies in order to deepen a correct understanding of “i-message” (a general term for the whistleblowing system and harassment consultation help desk system). In addition, we thoroughly operate this in order to further improve the reliability and effectiveness of the system.
- In order to further raise awareness and to establish internal control and risk / crisis management, the Audit Department audits the operational status of the internal control system, and in addition, verifies and evaluates the effectiveness of the monitoring system and the individual procedures prescribed in the basic policy for said system, and urges the department in charge at headquarters to make improvements as necessary. The department in charge at headquarters provides guidance, ensures horizontal deployment, and monitors the indications from

- various audits, etc., as well as measures to prevent the recurrence of events in which risks have emerged, and confirms the effectiveness of these in cooperation with the Audit Department. (The same applies to each of the items of 2, 3, 4, and 5 of the basic policy below.)
- The progress status of activities based on the basic policy for the internal control system (includes reports on individual events relating to the emergency of risks) are regularly reported by the Director in charge to the Board of Directors. (The same applies to each of the items of 2, 3, 4, and 5 of the basic policy below.)
2. System for the storage and management of information relating to the execution of duties of Directors of the Company
    - In regard to documents concerning the execution of duties of Directors, with the exception of where otherwise prescribed in laws and ordinances, these are appropriately stored and managed by the department with jurisdiction together with the related documents, and requests for viewing from Directors and Audit & Supervisory Board Members are responded to, in accordance with the "Document Management Regulations".
    - Through provisions on information security based on the "Information Security Basic Policy" (ISMS manual, etc.) and the improvement of the IT environment, etc., we have established a system that can promote the protection, sharing, and use of information held by the Company and its affiliated companies. In addition, we conduct measures to make officers and employees (includes seconded and dispatched employees, etc.), including those of affiliated companies, aware of the importance of information security, and furthermore, we aim to enhance the management system in order to prevent the leakage of information.
  3. Regulations and other systems for managing the risk of losses of the Company
    - Through the construction and operation of a risk management system based on the "Risk Management Regulations" and the ongoing making of improvements thereto, we are further increasing the effectiveness of risk management, the reduction of risks that may have an effect on the operation of the Company's business, as well as the prevention of such risks from emerging.
    - We promote reforms in awareness and business towards the realization of work style reforms through company-wide initiatives, and steadily execute various measures, including the "time saving program". In addition, when implementing these reforms and measures, the performance of monitoring and guidance on improvements by officers and employees with sufficient understand will lead to enhanced effectiveness and the reduction of long working hours.
    - We scrutinize and respond in advance to the major potential risks that may arise in the performance of the Company's business on a project by project basis, thoroughly prevent the occurrence of risks, and in addition, have enhanced the system so that events that arise can be revealed immediately through the sharing and reliable and prompt transmission of information.
    - In order to respond to the manifestation of risks that cause, or which may cause, a significant impact on the management or business activities of the Company due to personal or property damage or the loss of social credibility, etc., we conduct appropriate deployments based on the "Crisis Management Regulations."
    - We have established a business continuity system in order to mitigate losses in the case of a major disaster or pandemic, etc., occurring. In addition, in order to respond to these events as they occur, we conduct ongoing verifications and reviews in a timely manner on the effectiveness of the business continuity system.
  4. System for ensuring that the execution of duties of Directors of the Company is performed efficiently
    - We have improved business efficiency and have clarified the authority and responsibility for the execution of business by clearly distinguishing the decision making function and business execution monitoring function of the Board of Directors, and the business execution function of the executive officers. In addition, regular reports are given on the execution status of the business under the jurisdiction of each Director at meetings of the Board of Directors.
    - We have established a management meeting comprising mainly of executive officers, etc., with the objective of the multi-faceted and efficient examination of important management issues concerning the execution of business of the Company and the Group, as well as to speed up decision making.
    - In regard to the annual management plan, in addition to the expanded management meeting comprising of executive officers who are managers, etc., and branch managers, we aim for the regular ascertainment of the progress status at the Board of Directors and the management meeting, etc., as well as the improvement of plan efficiency.
  5. System for ensuring the appropriateness of business at the corporate group comprising of the Company and our subsidiaries
    - The departments under the jurisdiction of affiliated companies (domestic: affiliate administration division, overseas: international branches) promote the establishment of an appropriate governance system, internal control system, and risk management system in accordance with the circumstances of each affiliated company, and in addition, make efforts for the enhancement of Group control and the construction and operation of an effective internal control system through confirmations of effectiveness by monitoring.
    - Opportunities for reports on the status of the execution of duties, etc., by President & COOs, etc., of affiliated companies are regularly made available; the progress status of the annual management plan of each company is monitored, and support and guidance are provided towards the achievement of each company's plan, through such status reports, etc.
    - In order to further improve awareness and establish the presence of internal control and risk / crisis management at the Group, the Audit Department conducts audits on the construction and operation status of an internal control system in accordance with the circumstances of each company, and in addition, verifies and evaluates effectiveness, and urges the department with jurisdiction at affiliated companies to make improvements as necessary. The department in charge at affiliated companies provides guidance, ensures horizontal deployment, and monitors the indications from various audits, etc., as well as measures to prevent the recurrence of events in which risks have emerged, and confirms the effectiveness in cooperation with the Audit Department.
  6. Matters relating to the system for employees who should assist the duties of the Audit & Supervisory Board Members of the Company and the independence of such employees from the Directors of the Company, as well as matters relating to the ensuring of the effectiveness of instructions provided by Audit & Supervisory Board Members to such employees
    - We have established an Audit & Supervisory Board Office, which reports directly to the Audit & Supervisory Board, and have placed two dedicated employees to assist with the duties of the Audit & Supervisory Board Members ("Assisting Employees").
    - Only Audit & Supervisory Board Members have the right to give instructions and orders to the Assisting Employees affiliated with the Audit & Supervisory Board Office, the independence of the Assisting Employees from all Directors is guaranteed, and the prior consent of a full time Audit & Supervisory Board Member is required for personnel transfers, personnel evaluations, and disciplinary action, etc.
    - Assisting Employees are granted the authority to collect the information required for the performance of Audit & Supervisory Board audits, based on the instructions of Audit & Supervisory Board Members, from the various internal departments and from affiliated companies.
  7. System for reporting to Audit & Supervisory Board Members of the Company and system for ensuring that persons who file reports are not made subject to disadvantageous treatment
    - Representative Directors and other Directors, etc. (includes the Division Director of each division and officers in charge), specifically prescribe the meetings to be attended by Audit & Supervisory Board Members, the materials that they should review, as well as the matters that should be reported to Audit & Supervisory Board Members regularly or in a timely and prompt manner, and thoroughly inform the general



- managers of each department at the Company under their charge.
- The Directors and employees of the Company, as well as the Directors, Audit & Supervisory Board Members, and employees of affiliated companies (“Affiliate Personnel, Etc.”) provide reports from time to time to Audit & Supervisory Board Members on the business of the Company and affiliated companies, as well as important matters that have an impact on performance. Notwithstanding the above, the Audit & Supervisory Board may request reports from Affiliate Personnel, Etc., at any time, as necessary. It should be noted that there shall be no unfair treatment on the grounds of having given such a report.
  - Reports and information which may conflict with compliance, such as whistleblowing, are promptly reported to the Audit & Supervisory Board after being obtained. In addition, in the event of a case that falls applicable under crisis level 2 or higher based on the Crisis Management Regulations, this is reported without delay to the Audit & Supervisory Board.
8. Matters relating to procedures and treatment, etc., such as for the prepayment of expenses that arise for the execution of the duties of the Audit & Supervisory Board of the Company
- The Audit & Supervisory Board Members may request advice from external experts for the performance of audits, and may freely commission the implementation of investigations, etc., and the costs that arise in conjunction with these, including prepaid expenses, with the exception of those recognized to not be necessary for the execution of the duties of such Audit & Supervisory Board Members, shall be promptly processed by the Company.
9. System for ensuring that the audits by the Audit & Supervisory Board Members of the Company are performed effectively
- We aim to maintain and improve effectiveness by further promoting understanding among the Representative Directors and other Directors, Etc. (includes the Division Director of each division and the officers in charge), of the importance and effectiveness of the audits conducted by the Audit & Supervisory Board.
  - Regular discussion events are held with the Representative Directors in order to deepen mutual understanding with Audit & Supervisory Board Members.
  - The effectiveness of audits is improved through the regular exchanging of opinions and cooperation between the Audit & Supervisory Board Members and the accounting auditor, Internal Audit Department, and Outside Directors.
  - We are making efforts to improve the IT environment in order to increase the effectiveness of the audits by the Audit & Supervisory Board.

## 2. Basic concept for the elimination of antisocial forces and the establishment status thereof

- Basic concept for the elimination of antisocial forces  
The Company prescribes in the “Corporate Behavior Charter,” pursuant to the purport of the Anti-Organized Crime Law, etc., that the non-responding to unreasonable demands from antisocial forces and the non-performance of acts involving the use, etc., of an antisocial force, are compliance items.
- Establishment status of system for the elimination of antisocial forces  
The establishment status of internal systems at the Company is as shown below.
  - (1) Establishment status of response supervisory department and manager for the prevention of unreasonable demands  
The Company has established the General Affairs Department at headquarters and an Administration Department at each branch as the department in charge of supervising the response to unreasonable demands. In addition, a manager for the prevention of unreasonable demands is appointed at each response supervisory department.
  - (2) Status of cooperation with outside specialist organizations  
We always maintain close contact with the officer in charge at the police department with jurisdiction, and have established a contact and reporting system with the persons in charge at headquarters and each branch.
  - (3) Status of collection and management of information relating to antisocial forces  
We actively participate in seminars, etc., held by the activities to eliminate violence promotion center of each prefecture, and in addition to collecting information, the latest information on antisocial forces is managed at the General Affairs Department, based on the information obtained through cooperation with the policy department with jurisdiction.
  - (4) Establishment status of response manuals  
An explanation on the Anti-Organized Crime Law and the Company's response are prescribed in the “Detailed Explanation on Laws and Ordinances, Etc.”
  - (5) Implementation status of training activities  
Education is conducted during onboarding training and other internal training, etc., through the use of the “Detailed Explanation on Laws and Ordinances, Etc.”

## V Other

### 1. Presence or absence of the introduction of takeover defense measures

Presence or absence of the introduction of takeover defense measures	None
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Supplementary Explanation on Applicable Items
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The Company is aware that the improvement of corporate value is an important responsibility of the Company as a corporate entity. We believe that the raising of profitability and the increasing of corporate value will lead to the benefit of all shareholders, and will bring about long-term capital stability, and are aware that this in itself is the most effective measures to defend against corporate acquisitions. On the other hand, in the event of a large-scale share acquisition that is determined not to contribute to the corporate value of the Company and the common interests of shareholders, the response to this shall be carefully examined by the Board of Directors.

### 2. Other matters relating to the corporate governance system

- Overview of timely disclosure system  
The Company has designated the Planning Department as the department in charge of timely disclosures, and timely disclosures are performed via the system described below.
  1. Collection and ascertaining of internal information

The Planning Department is in charge of the collection and ascertaining of internal information at the Company.

2. Timely disclosure

In regard to the ascertained internal information, upon consultation with related departments, centered on the Planning Department, the fact of a decision and financial results information is disclosed without delay after their determination and approval, and facts that occur are disclosed without delay after their occurrence.

- Status of response to codes revised in June 2021 other than [Disclosures based on each of the principles of the Corporate Governance Code]

<Supplementary Principle 1-2-4>

Since 2014, we have adopted an electronic voting right exercising platform for institutional investors, and we will continue to use this in the future.

<Supplementary Principle 2-3-1>

At Sumitomo Mitsui Construction, we recognize sustainability initiatives as an important issue in medium- to long-term corporate management, and in addition to passing resolutions to address various issues, planned deliberations of these issues as agenda items and active engagement to resolve them are being carried out within the Board of Directors.

(1) Initiatives for respect for human rights

In December 2021, we formulated a Human Rights Policy which expresses our commitment to human rights. We consider respect for human rights to be fundamental to all of our business activities. We are promoting human rights due diligence initiatives based on our Human Rights Policy.

Our human rights policy can be found on our website.

Human Rights Policy: <https://www.smcon.co.jp/en/corporate/human-rights-policy.html>

<Supplementary Principle 3-1-2>

Considering the ratio of overseas investors, the English disclosure of the following disclosure materials have been carried out.

- Notices of the annual general meetings of shareholders and reference documents for general meetings of shareholders
- Mid-term Management Plan (2022-2024)
- Annual reports
- Corporate reports
- Corporate governance reports
- The Company's public website (English version)

We will continue to enhance our disclosure materials in the future.

<Supplementary Principle 4-2-2>

On December 1, 2021, we formulated the "Basic Sustainability Policy."

For details on this policy, please see our company website.

Basic Policy on Sustainability: <https://www.smcon.co.jp/en/corporate/sustainability-policy.html>

In addition, concerning matters such as the allocation of management resources to investments in human capital and intellectual property as well as the execution of strategies related to the business portfolio, the Board of Directors carries out planned deliberations of these matters as agenda items and conducts effective supervision.

<Supplementary Principle 4-3-4>

The Company regards its Basic Policies on the Internal Control System as efforts that continue over multiple fiscal years, and reviews their content every fiscal year. Meanwhile, quarterly reports are made to the Board of Directors regarding the operational status of the internal control system and we are working to improve its effectiveness.

Under the basic policies, the Group recognizes "risk" as a primary factor that obstructs the accomplishment of organizational targets due to the ultimate deterioration of profit performance, enhances the effectiveness of risk management by continuously constructing, applying, and improving a risk management system based on the Risk Management Regulations, and thoroughly reduces risks that may impact the Group's business operations. We are also working to control and promote risk management from a company-wide viewpoint, and to build a system and structure with the aim of promoting independent risk management in each division and each department.

Moreover, in order to further raise awareness and to establish internal control and risk/crisis management, the Audit Department, which is the internal audit department, audits the operational status of the internal control system and, in addition, verifies and evaluates the effectiveness of the monitoring system as well as the individual procedures prescribed in the basic internal control policies, and urges the department in charge at headquarters to make improvements as necessary. The department in charge at headquarters provides guidance, ensures horizontal deployment, and monitors the indications from various audits, etc. as well as measures to prevent the recurrence of events in which risks have emerged, and confirms the effectiveness of the foregoing in cooperation with the Audit Department.

<Principle 4-4> [Roles and responsibilities of Audit & Supervisory Board Members and the Audit & Supervisory Board]

We have established a system for Audit & Supervisory Board Members and the Audit & Supervisory Board to make appropriate decisions on the following matters from an independent and objective standpoint.

- Auditing of the execution of duties of Directors

As described in "4. [Status of corporate governance] (3) [Status of audits]" of the Company's securities report, other than attending the meetings of the Board of Directors etc., the Audit & Supervisory Board Members are conducting audits, etc. appropriately based on the annual audit plan.

- Appointment and remuneration of Audit & Supervisory Board Members

With regard to the appointment of Audit & Supervisory Board Members, decisions are made by the Board of Directors upon obtaining the consent of the Audit & Supervisory Board based on the outcome of the discussions within the Nomination and Remuneration Advisory Committee. With regard to the remuneration of Audit & Supervisory Board Members, decisions are made based on discussions among the Audit & Supervisory Board Members, with the amount being limited to the total annual amount (JPY 108 million) approved at the General Meeting of Shareholders.

- Appointment and remuneration of the accounting auditor

With regard to the appointment of the accounting auditor, a "Policy for Determining the Dismissal or Non-reappointment of the Accounting Auditor" has been established, and where applicable, the policy serves as a guideline for the Audit & Supervisory Board to dismiss the accounting auditor based on the consent of all Audit & Supervisory Board Members.

For details, please see "5. Status of the Accounting Auditor (6) Policy for Determining the Dismissal or Non-reappointment of the Accounting Auditor" of the Company's business report.

With regard to the remuneration of the accounting auditor, the Audit & Supervisory Board considers and agrees to the amount after obtaining the necessary materials and listening to reports from the relevant departments within the Company and the accounting auditor, and confirming the contents of the audit plan, status of job performance, changes in audit fee, etc. pertaining to the accounting auditor. Other than attending important meetings, such as meetings of the Board of Directors, and convening regular meetings with the Representative Directors, each Audit & Supervisory Board Member also actively expresses their constructive opinions on corporate management at these meetings.

<Principle 4-11> [Prerequisites for ensuring the effectiveness of the Board of Directors and the Audit & Supervisory Board]

- Composition of the Board of Directors: As stated in Supplementary Principle 4-11-1.
- Audit & Supervisory Board Members: As stated in Supplementary Principle 4-11-1, we have appointed multiple persons with skills in finance, accounting, compliance, etc.
- Independent Outside Directors: As stated in Supplementary Principle 4-11-1, we have appointed multiple persons who have managerial experience at other companies.

<Supplementary Principle 4-13-3>

The Company has put in place a system for the regular reporting on the implementation status of audits to the Board of Directors by the General Manager of the Audit Department, which is the internal audit department. A system has also been put in place for the Audit & Supervisory Board to regularly receive reports on the implementation status of audits from the General Manager of the Audit Department and, as a general rule, the full-time Audit & Supervisory Board Members and the General Manager of the Audit Department hold monthly meetings to share information, such as detailed reports on audit plans, the implementation status of audits, and issues identified as a result of audits.

In addition, in order to further strengthen the function of the Board of Directors and contribute to improving corporate governance, we have established the "Secretariat of Board of Directors" under the direct control of the Board of Directors, putting in place a system that can accurately provide the necessary information to Outside Directors and Outside Audit & Supervisory Board Members.

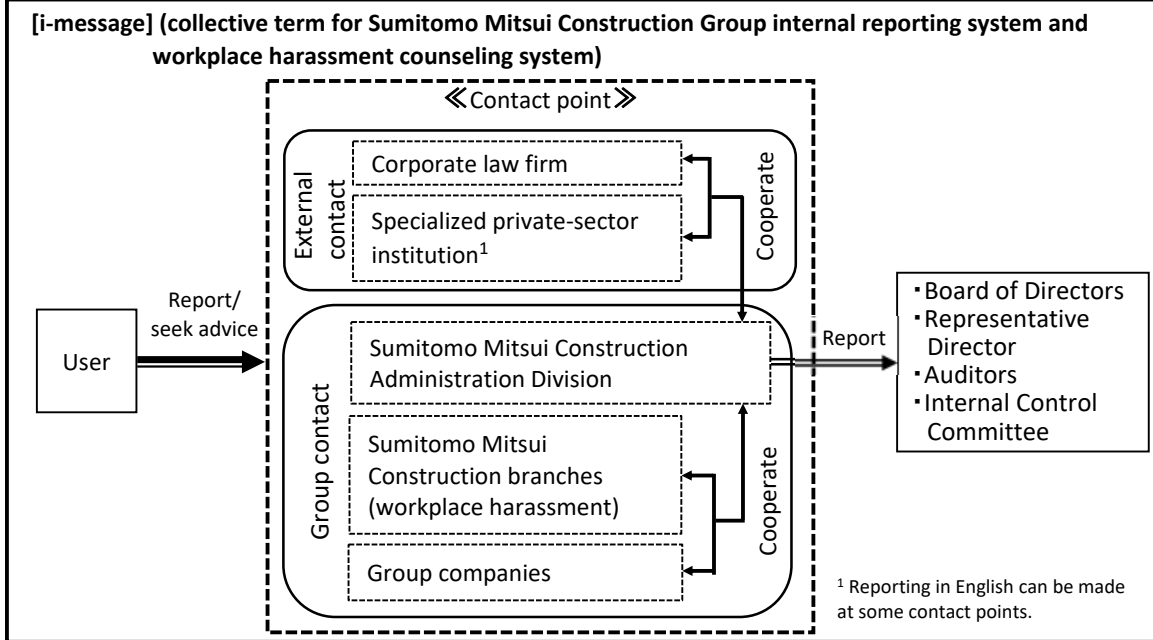
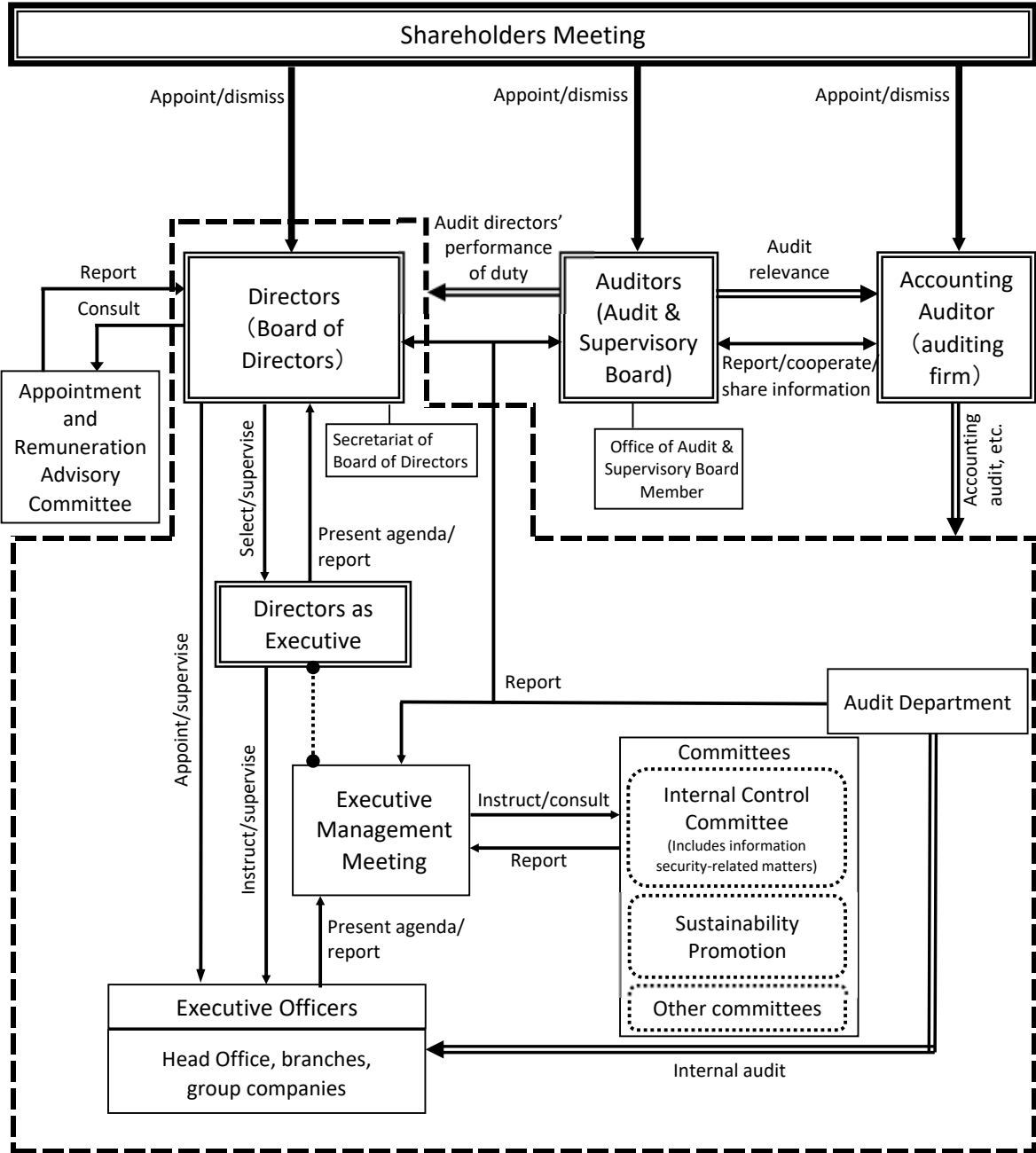
<Supplementary Principle 5-1-1>

As stated in Supplementary Principle 5-1, dialogs with shareholders are supervised by the Division Director of the Corporate Planning Division and the Division Director of the Administration Division, and assistance is provided by the managers of the Public Relations Office, Planning Department, and General Affairs Department. When conducting a face-to-face dialog, we will consider the appropriate person to engage with the shareholders based on the wishes and primary concerns of the shareholders.

<Supplementary Principle 5-2-1>

As stated in Principle 5-2 (Formulation and publication of management strategy and management plan), we will make appropriate announcements with regard to the basic policies relating to the business portfolio and the status of the review of the business portfolio.

**【Corporate Governance System】**



(Timely Disclosure Framework)

