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Taikisha Ltd.

Representative Director, President, Toshiaki Shiba

Contact: Managing Corporate Officer, Chief Executive,

Administrative Management, Masanori Nakagawa

Securities Code: 1979

<http://www.taikisha.co.jp/>

The corporate governance of Taikisha Ltd. (the “Company”) is described below.

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

#### 1. Basic Views

The Company has established a basic policy of corporate governance to gain the trust of all stakeholders and aim to become a corporate group that grows and develops in a healthy manner by thoroughly incorporating compliance awareness and realizing fair and highly transparent management, in order to achieve its corporate philosophy and management vision in accordance with the spirit of the Company’s Mission Statement: “Customers First”\*.

In conformity with the basic policy and based on the organizational structure of a company with an audit & supervisory board, the Company is continuously working to strengthen the Taikisha Group’s governance and reform of management. It is doing this by taking measures such as reinforcing the supervisory function of the Board of Directors through the application of Non-executive Directors (meaning Outside Directors and the Director & Chairman, the same shall apply hereinafter) and speeding up the decision making of the Board of Directors through the adoption of the corporate officer system, aiming to further enhance and reinforce corporate governance of Taikisha Group.

\* “Customers” is defined as Overall Society in a broad sense. The spirit of “Customers First” is to win persistent trust from customers.

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

The Company implements each principle of the Corporate Governance Code in conformity with the above-mentioned basic policy of corporate governance: “to gain the trust of all stakeholders and aim to become a corporate group that grows and develops in a healthy manner by thoroughly incorporating compliance awareness and realizing fair and highly transparent management.” In the meantime, the Company will continue to review the following matter from the viewpoint of further strengthening corporate governance.

[Supplementary Principle 4.2.1]

Remuneration to Executive Directors and Corporate Officers is composed of monetary compensation of basic remuneration and bonus which is annual incentive-based remuneration.

In addition, the Company plans to consider introducing new incentive-based remuneration with a composition and proportion, etc. designed to link the incentive-based remuneration to its medium- and long-term operating performance to strengthen its function as a healthy incentive for achieving sustainable growth.

#### **[Disclosure Based on the Principles of the Corporate Governance Code]**

(Securing the Rights and Equal Treatment of Shareholders)

[Principle 1.4]

(1) Policy for cross-shareholdings

The Company holds cross-shareholdings with the aim of maintaining and strengthening the transactional relationships with important clients or suppliers and relationships of trust with various stakeholders to contribute to its sustainable growth and medium-and long-term increase in corporate value.

(2) Checking of the significance of holding

The Company examines the medium- and long-term economic rationality and future outlook of its major cross-shareholdings by giving consideration to their returns and risks, etc. at the meeting of the Board of Directors every year, and checks the aims and rationality of such cross-shareholdings based on the results of examination.

(3) Criteria for exercise of voting rights

The Company exercises the voting rights of shares held under the cross-shareholding arrangements by conducting comprehensive assessment of factors, such as whether said agenda item will contribute to the development of an appropriate corporate governance system and medium- and long-term increase in corporate value of companies whose shares are held in cross-shareholding, as well as its impact on the Company.

[Principle 1.7]

When engaging in transactions with its Directors/Audit & Supervisory Boards and Corporate Officers, the Company is required to obtain the approval of the Board of Directors for said transactions in accordance with laws and regulations and the Board of Directors Rules, etc. When transactions approved by the Board of Directors are conducted, the details will be reported at the Board of Directors.

When engaging in transactions with its major shareholders, etc., the Company is required to obtain the approval of the Board of Directors for transactions of high importance in accordance with the Regulations of the Board of Directors and the Rules for Managerial Approval.

Terms and conditions of transactions with the Company's Directors/Audit & Supervisory Boards and major shareholders, etc. will be determined in the same manner as general transactions so as not to harm the common interests of the Company and its shareholders.

(Ensuring Appropriate Information Disclosure and Transparency)

[Principle 3.1]

i) Company objectives (e.g., business principles), business strategies and business plans

The Company's corporate philosophy, management strategy and management plan, etc. are available for reference on the website.

■Corporate Philosophy

<http://www.taikisha-group.com/corporate/philosophy.html>

■Management Vision, Taikisha's Code of Conduct

[http://www.taikisha-group.com/social\\_env/activity/compliance.html](http://www.taikisha-group.com/social_env/activity/compliance.html)

■Medium-Term Business Plan

[http://www.taikisha-group.com/ir/policy/vision\\_mid\\_vision.html](http://www.taikisha-group.com/ir/policy/vision_mid_vision.html)

ii) Basic views and guidelines on corporate governance

For details, please refer to "I.1. Basic Views" in this report.

iii) Board Policies and procedures in determining the remuneration of the senior management and Directors

For details, please refer to "II. 1. [Incentives] and [Director Remuneration] in this report.

iv) Board policies and procedures in the appointment of the senior management and the nomination of Directors and Audit & Supervisory Boards candidates

(1) Policy

In light of the business environment surrounding the Company, the Company maintains the diversity and the appropriate size (number of members) of the Board of Directors to ensure that decision making and management supervisory function of the Board of Directors will work most effectively and efficiently.

In order to ensure the diversity and increase the effectiveness of supervision of the Board of Directors, the Company selects candidates for Inside Directors in view of their expertise and performance from each business area in which it operates business in a balanced manner and candidates for Outside Directors who have deep insight and experiences in different business areas.

Candidates for Directors are selected from among the people who meet all of the following criteria.

With regards to the composition of the Audit & Supervisory Board, the Company appoints one or more Audit & Supervisory Boards who have expertise in finance and accounting in light of its roles and responsibilities of auditing the execution of duties by Directors and execution of the authority over the appointment and dismissal of external Accounting Auditors and audit fee.

The Company selects candidates for Audit & Supervisory Boards from among people who are considered to have the abilities necessary for performing their duties as Audit & Supervisory Boards set forth in the Rules

for Audit by Audit & Supervisory Boards and meet all of the following criteria.

[Common criteria for Directors and Audit & Supervisory Boards]

- Persons who have a good personality, deep insights and a strong sense of ethics and compliance
- Persons who are free of health concerns in executing their duties

[Criteria for Inside Directors]

- Persons who have an adequate understanding of the Company's Mission Statement and Corporate Philosophy and an excellent ability for corporate governance
- Persons who have adequate knowledge, experience and ability for the Company's businesses and operations as well as an ability for realizing future corporate development
- Persons who have an excellent ability for analyzing and making decisions objectively and promptly from the viewpoint of supervising the company-wide management

[Criteria for Outside Directors]

- Persons who can appropriately reflect opinions that are in accordance with the Company's Mission Statement and Corporate Philosophy in the meeting of the Board of Directors from objective and independent standpoints with the viewpoints of external stakeholders
- Persons who have extensive knowledge and experience in company management and business execution necessary for providing advice and supervision to the management of the Company
- Persons who can allocate sufficient time and energy necessary for fulfilling the roles and responsibilities of Outside Directors appropriately

[Criteria for Inside Audit & Supervisory Boards]

- Persons who are well versed in the Company's operations and have sufficient knowledge, experience and ability

[Criteria for Outside Audit & Supervisory Boards]

- Persons who have extensive knowledge and experience in areas of specialization, such as company management, finance, accounting, legal affairs, etc.
- Persons who can allocate sufficient time and energy necessary for fulfilling the roles and responsibilities of outside Audit & Supervisory Boards appropriately

## (2) Procedures

In accordance with the above-mentioned policy determined by the Board of Directors, candidates for Directors are determined by the Board of Directors based on recommendation by Representative Directors and on opinions and advice of Non-executive Directors (excluding the Non-executive Director who will be a candidate for Director).

In accordance with the above-mentioned policy determined by the Board of Directors, candidates for Audit & Supervisory Boards are determined by the Board of Directors based on recommendation by Representative Directors and with the consent of the Audit & Supervisory Board.

v) Examinations with respect to the individual appointments and nominations based on iv)

Reasons for nomination of candidates for Directors and Audit & Supervisory Boards are stated in the notice of the annual shareholders' meeting.

Reasons for nomination of candidates for Outside Directors and Outside Audit & Supervisory Boards are stated in the annual securities report as well as "II. 1. [Matters Related to Directors] Relationship with Company (2) and [Matters Related to Audit & Supervisory Boards] Relationship with Company (2)" in this report.

■ Notice of the annual shareholders' meeting

<http://www.taikisha-group.com/ir/stock/meeting.html>

■ Securities report

<http://www.taikisha.co.jp/ir/library/edinet.html> (Japanese Site)

(Responsibilities of the Board)

[Supplementary Principle 4.1.1]

The Board of Directors is positioned as an organization responsible for supervising management and making decisions upon adequate deliberations on important matters stipulated in laws and regulations and the Articles of Incorporation, as well as basic policies and plans related to Taikisha Group's management and important

management matters in accordance with the Board of Directors Rules and the Rules for Managerial Approval. As for matters except for those described above, responsibilities are delegated to the Management Meeting and various committees, etc. according to the degree of importance, in compliance with the Board of Directors Rules and the Rules for Managerial Approval.

The Management Meeting has been in place with the aim of increasing the effectiveness and efficiency of Taikisha Group's management, and carries out sufficient deliberations and prompt decision making on Taikisha Group's specific matters related to business execution delegated by the Board of Directors (deciding and changing the policy of business divisions and headquarters, developing annual plans and conducting evaluation thereof).

[Principle 4.9]

Please refer to "II.1. [Independent Directors / Auditors]" in this report.

[Supplementary Principle 4.11.1]

In light of the business environment surrounding the Company, the Company maintains the diversity and the appropriate size (number of members) of the Board of Directors to ensure that decision making and management supervisory function of the Board of Directors will work most effectively and efficiently. In order to ensure the diversity and increase the effectiveness of supervision of the Board of Directors, the Company selects candidates for Inside Directors in view of their expertise and performance from each business area in a balanced manner and candidates for Outside Directors who have deep insight and experience in different business areas.

For the details of policy and procedures for nomination, please refer to [Principle 3.1] iv) in the above.

[Supplementary Principle 4.11.2]

The Company, in principle, does not approve Inside Directors to concurrently hold positions in other companies other than Directors of affiliates. The Company, in principle, does not approve Inside Audit & Supervisory Boards to concurrently hold positions in other companies.

As for the status of concurrent holding of positions of Outside Directors and Outside Audit & Supervisory Boards, please refer to the notice of the annual shareholders' meeting and securities report.

■Notice of the annual shareholders' meeting

<http://www.taikisha-group.com/ir/stock/meeting.html>

■Securities report

<http://www.taikisha.co.jp/ir/library/edinet.html> (Japanese Site)

The Company has secured a sufficient amount of time necessary for both Outside Directors and outside Audit & Supervisory Boards to attend meetings of the Board of Directors and participate in the policy review meeting and the Corporate Compliance Committee and the Risk Management Committee, etc. to fulfill their roles and responsibilities appropriately.

[Supplementary Principle 4.11.3]

The Company conducts an analysis and evaluation of the effectiveness of the Board of Directors and discloses the results thereof at least once a year in order to increase the effectiveness of the Board of Directors and enhance information provision to external stakeholders.

In Fiscal Year 2015, the Company, led by the Chairman of the Board, conducted an analysis and evaluation of the effectiveness of the Board of Directors as a whole in which each of Directors and Audit & Supervisory Boards was asked to complete a self-evaluation questionnaire on "roles to be played by the Board of Directors" and "matters that should be considered by the Board of Directors in order to fulfill such roles." The Board of Directors discussed its effectiveness based on the results of the analysis, and confirmed, as a result, that its effectiveness is ensured.

The Board of Directors of the Company assumes the roles of making decisions on important management matters and effectively performing the supervisory function on the overall management of the Company in order to put Company's Mission Statement "Customers First" into practice and contribute to achieving sustainable growth and medium- to long-term improvement of corporate value. In order for the Board of Directors to fulfill such roles, it has been provided with sufficient amounts of reference materials and time necessary for deliberations on agendas for the Board of Directors meetings, while receiving reports on the

status of business execution on a regular basis.

The Company considers that it is necessary to reexamine the roles and method of running each meeting and review the system of reporting to the Board of Directors in order to further reinforce the supervisory function of the Board of Directors going forward. In addition, the Company will take more time for deliberations on matters, such as the systematic risk management system of Taikisha Group, basic policies for the mission-critical IT system, personnel system, accounting infrastructure, etc. that supports medium- and long-term growth, and the development of human resources. Moreover, the Company will develop an environment for further promoting constructive dialogue with each stakeholder.

In order to further enhance and strengthen corporate governance, the Company will address the management issues identified through this year's effectiveness analysis and evaluation in order of priority, and continuously examine measures to improve the effectiveness of the Board of Directors.

[Supplementary Principle 4.14.2]

The Company constantly provides training, etc. aimed to support acquisition of necessary knowledge regarding the Company's management issues, finance and legal compliance and other matters to Directors and Audit & Supervisory Boards, including Outside Directors and outside Audit & Supervisory Boards, to enable them to fulfill their management supervisory function and audit function adequately. In addition, the Company arranges opportunities for external education and training when necessary at its expense.

In addition to the above, the Company provides training to Outside Directors and Outside Audit & Supervisory Boards aimed to deepen their understanding about Taikisha Group's corporate philosophy, corporate management, business activities and organization, etc. The Company also provides information related to the above-mentioned matters when necessary.

(Dialogue with shareholders)

[Principle 5.1]

(1) The Company acknowledges that constructive dialogue with shareholders is very important for its sustainable growth and medium- and long-term increase in corporate value. Accordingly, the Company assigns the Director of Administrative Management Headquarters to control dialogue with shareholders and take various measures, such as holding financial results briefing sessions, to actively promote dialogue with shareholders.

(2) The Company will proactively take measures, such as sharing of information in cooperation with departments, such as Management Planning, Finance & Accounting, Legal Affairs, General Affairs and Investor Relations, reviewing the direction of its IR activities, and preparation of disclosure materials.

(3) When the Company has received a request for an interview from a shareholder, the Investor Relations Section, Finance & Accounting Department, Administrative Management Headquarters discusses how to respond to the request with Representative Directors and Director in charge of dialogue with shareholders, etc. and makes appropriate responses. In addition, the Company proactively holds IR meetings with analysts, institutional investors and individual investors.

(4) Opinions, etc. of shareholders obtained through dialogue will be fed back through reporting and distribution of report at the Management Meeting and the meeting of the Board of Directors to promote sharing and use of information in the Company.

(5) When holding dialogue with shareholders, the Company ensures information management based on the Regulations for Prevention of Insider Trading.

(6) The Company conducts a survey to identify substantial shareholders regularly to grasp the shareholder composition.

## 2. Capital Structure

|                            |                           |
|----------------------------|---------------------------|
| Foreign Shareholding Ratio | From 20% to less than 30% |
|----------------------------|---------------------------|

### [Status of Major Shareholders]

| Name / Company Name                                  | Number of Shares Owned | Percentage (%) |
|--|------------------------|----------------|
| Ichigo Trust Pte. Ltd.                               | 2,818,600              | 7.66           |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2,669,700              | 7.26           |
| Kenzaisha Ltd.                                       | 1,730,000              | 4.70           |
| Japan Trustee Services Bank, Ltd. (Trust Account 9)  | 1,500,600              | 4.08           |

|   |           |      |
|---|-----------|------|
| Japan Trustee Services Bank, Ltd. (Trust Account)   | 1,272,500 | 3.46 |
| Taikisha Business Partners shareholding Association | 1,003,200 | 2.73 |
| Dai ni Kenzaisha Ltd.                               | 1,000,000 | 2.72 |
| BNYML-NON TREATY ACCOUNT                            | 930,600   | 2.53 |
| Taikisha Employees Shareholding Association         | 873,601   | 2.38 |
| Nippon Life Insurance Company                       | 866,416   | 2.36 |

|   |       |
|---|-------|
| Controlling Shareholder (except for Parent Company) | ----- |
| Parent Company                                      | None  |

### Supplementary Explanation

1. The above descriptions on the Foreign Shareholding Ratio and Major Shareholders are based on the shareholder registry as of March 31, 2016.
2. The Company holds 2,219,061 treasury shares but excludes these shares from the list of major shareholders above. The above treasury shares do not include 167 thousand shares of the Company's shares held by Trust & Custody Services Bank, Ltd. (Trust E Account), because of the introduction of the ESOP (Employee Stock Ownership Plan).
3. Based on the Change Report pertaining to the Report of Possession of Large Volume submitted by Nomura Securities Co., Ltd. on October 21, 2015, the Company has been informed that Nomura Securities and two other joint holders held 1,996 thousand shares (shareholding ratio: 5.43%) as of October 15, 2015. However, these shareholdings were not included in the above list of major shareholders as the Company could not confirm the actual number of shares owned as of March 31, 2016.
4. Based on the Change Report pertaining to the Report of Possession of Large Volume submitted by Ichigo Asset Management International, Pte. Ltd. on September 25, 2015, the Company has been informed that Ichigo Asset Management International and two other joint holders held 2,818 thousand shares (shareholding ratio: 7.66%) as of September 18, 2015. However, these shareholdings were not included in the above list of major shareholders as the Company could not confirm the actual number of shares owned as of March 31, 2016.
5. Based on the Change Report pertaining to the Report of Possession of Large Volume submitted by Invesco Asset Management (Japan) Limited on September 24, 2015, the Company has been informed that Invesco Asset Management (Japan) Limited held 3,123 thousand shares (shareholding ratio: 8.49%) as of September 15, 2015. However, these shareholdings were not included in the above list of major shareholders as the Company could not confirm the actual number of shares owned as of March 31, 2016.
6. Based on the Report of Possession of Large Volume submitted by Mizuho Bank, Ltd. on February 6, 2015, the Company has been informed that Mizuho Bank and two other joint holders held 1,850 thousand shares (shareholder ratio: 5.03%) as of January 30, 2015. However, these shareholdings were not included in the above list of major shareholders as the Company could not confirm the actual number of shares owned as of March 31, 2016.

### 3. Corporate Attributes

|   |  |
|---|--|
| Listed Stock Market and Market Section  | Tokyo Stock Exchange<br>First Section      |
| Fiscal Year-End   | March                                      |
| Type of Business  | Construction                               |
| Number of Employees (consolidated) as of the End of the Previous Fiscal Year  | More than 1000                             |
| Sales (consolidated) as of the End of the Previous Fiscal Year                | From ¥10 billion to less than ¥100 billion |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | From 10 to less than 50                    |

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

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|-------|
| ----- |
|-------|

**5. Other Special Circumstances which may have Material Impact on Corporate Governance**

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| ----- |
|-------|

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

**1. Organizational Composition and Operation**

|                   |  |
|-------------------|--|
| Organization Form | Company with Audit & Supervisory Board |
|-------------------|--|

**[Directors]**

|   |            |
|---|------------|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 10         |
| Term of Office Stipulated in Articles of Incorporation              | For 1 year |
| Chairperson of the Board  | Chairman   |
| Number of Directors   | 10         |
| Number of Outside Directors   | 2          |
| Number of Independent Directors                                     | 2          |

**Outside Directors' Relationship with the Company (1)**

| Name             | Attribute            | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |  |
|------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|--|
|                  |                      | a                              | b | c | d | e | f | g | h | i | j | k |  |
| Shuichi Murakami | From another company |                                |   |   |   |   |   |   |   | △ |   |   |  |
| Kazumasa Suezawa | From another company |                                |   |   |   |   |   |   |   |   |   |   |  |

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive Director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

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

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

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director/Audit & Supervisory Boards

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

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

i. Executive of a company, between which and the Company Outside Directors/Audit & Supervisory Boards are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

**Outside Directors' Relationship with the Company (2)**

| Name             | Designation as Independent Director | Supplementary Explanation of the Relationship   | Reasons of Appointment  |
|------------------|-------------------------------------|---|---|
| Shuichi Murakami | ○                                   | <p>He came from Sompo Japan Nipponkoa Insurance Inc. but resigned in 2008. Although this company holds the Company's shares, its shareholding ratio is 0.36%. Although this company and the Company had transactions such as construction contract and insurance contracts in fiscal 2015, the respective amount of the relevant transactions did not exceed the amount of payments specified in the after-mentioned "Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board" stipulated by the Company. (The average transaction amounts between both companies for the past three fiscal years (meaning fiscal 2013 through fiscal 2015; hereinafter, the same shall apply) was less than 1% of the three-year average transaction amounts of this company's consolidated ordinary income as well as the Company's consolidated net sales of completed construction contracts for the past three fiscal years.)</p> | <p>[Reason for appointment as Director]<br/>As he has abundant expertise and experience nurtured during his tenure as the person responsible for conducting business and affairs at a leading non-life insurance company and has provided precise advice on the management of the Company from an independent objective standpoint, the Company has judged that he is qualified for director from the viewpoint of ensuring transparent decision making by the Board of Directors and reinforcing the supervisory function of the Board of Directors.</p> <p>[Reason for designation as Independent Director]<br/>As he is not in conflict with the independence standards stipulated by the Tokyo Stock Exchange regulations and also satisfies the after-mentioned "Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board" stipulated by the Company, the Company has judged that he maintains independence that presents no risk of causing a conflict of interest with general shareholders.</p> |



|                  |   |   |  |
|------------------|---|---|--|
| Kazumasa Suezawa | ○ | There are no interests including personal, capital and transactional relationships between him and the Company. | <p>[Reason for appointment as Director]<br/>As he has abundant expertise and experience nurtured during his tenure as a manager of operating companies and would be expected to provide valuable advice on the management of the Company from an independent objective standpoint, the Company has judged that he is qualified for director from the viewpoint of ensuring transparent decision making by the Board of Directors and reinforcing the supervisory function of the Board of Directors.</p> <p>[Reason for designation as Independent Director]<br/>As he is not in conflict with the independence standards stipulated by the Tokyo Stock Exchange regulations and also satisfies the after-mentioned “Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board” stipulated by the Company, the Company has judged that he maintains independence that presents no risk of causing a conflict of interest with general shareholders.</p> |
|------------------|---|---|--|

|   |                 |
|---|-----------------|
| Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee | Not Established |
|---|-----------------|

Supplementary Explanation

**[Audit & Supervisory Boards]**

|  |             |
|--|-------------|
| Establishment of the Audit & Supervisory Board                                       | Established |
| Maximum Number of Audit & Supervisory Boards Stipulated in Articles of Incorporation | 5           |
| Number of Audit & Supervisory Boards   | 4           |

Cooperation among Audit & Supervisory Boards, Accounting Auditors and Internal Audit Departments

|  |
|--|
| <p>[Status of cooperation between Audit &amp; Supervisory Boards and the Accounting Auditors]<br/>The Audit &amp; Supervisory Boards ask and answer questions or exchange opinions with the accounting auditors concerning operation or accounting issues, audit plans, audit results and other relevant matters on a regular basis.</p> |
| <p>[Status of cooperation between Audit &amp; Supervisory Boards and the Internal Audit Department]</p>  |

The Internal Audit Office, which is the internal audit department of Taikisha Group, makes reports to or exchanges opinions with the Audit & Supervisory Boards concerning audit plans, audit results and other matters relevant to the internal audits on a regular basis. In addition, through a request by the Audit & Supervisory Boards, the Internal Audit Office improves systems to cooperate with and support a variety of investigations conducted by the Audit & Supervisory Boards.

|   |           |
|---|-----------|
| Appointment of Outside Audit & Supervisory Boards | Appointed |
| Number of Outside Audit & Supervisory Boards      | 2         |
| Number of Independent Auditors                    | 2         |

#### Outside Audit & Supervisory Boards' Relationship with the Company (1)

| Name              | Attribute            | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |   |   |  |
|-------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|--|
|                   |                      | a                              | b | c | d | e | f | g | h | i | j | k | l | m |  |
| Junichi Noro      | From another company |                                |   |   |   |   |   |   |   |   |   |   | △ |   |  |
| Hirokazu Hikosaka | Lawyer               |                                |   |   |   |   |   |   |   |   |   |   |   |   |  |

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

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

c. Non-executive Director or executive of a parent company of the Company

d. Audit & Supervisory Board of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board

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

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board himself/herself only)

k. Executive of a company, between which and the Company Outside Directors/ Audit & Supervisory Boards are mutually appointed (the Audit & Supervisory Board himself/herself only)

l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board himself/herself only)

m. Others

#### Outside Audit & Supervisory Boards' Relationship with the Company (2)

| Name         | Designation as Independent Auditor | Supplementary Explanation of the Relationship  | Reasons of Appointment   |
|--------------|------------------------------------|--|--|
| Junichi Noro | ○                                  | Although he concurrently serves as President of NLI Research Institute, there are no personal, capital, transactional or any other relationships between this company and the Company. He came from Nippon Life Insurance Company but resigned | [Reason for appointment as Audit & Supervisory Board]<br>As he has abundant expertise and experience nurtured during his tenure as an executing person of a leading life insurance company and a manager of a operating company, the Company has |

|                   |   |   |   |
|-------------------|---|---|---|
|                   |   | <p>in 2012. Although this company holds the Company's shares, its shareholding ratio is 2.36%. Although this company and the Company had transactions such as construction contract and insurance contracts in fiscal 2015, the respective amount of the relevant transactions did not exceed the amount of payments specified in the after-mentioned "Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board" stipulated by the Company. (The average transaction amounts between both companies for the past three fiscal years was less than 1% of the three-year average transaction amounts of this company's consolidated ordinary income as well as the Company's consolidated net sales of completed construction contracts for the past three fiscal years.)</p> | <p>judged that he is qualified to perform duties as Audit &amp; Supervisory Board from an independent objective standpoint to supervise the legality of the execution of duties by directors.</p> <p>[Reason for designation as Independent Auditor]<br/>As he is not in conflict with the independence standards stipulated by the Tokyo Stock Exchange regulations and satisfies the after-mentioned "Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board" stipulated by the Company, the Company has judged that he maintains independence that presents no risk of causing a conflict of interest with general shareholders.</p>   |
| Hirokazu Hikosaka | ○ | <p>There are no interests including personal, capital and transactional relationships between him and the Company.</p>  | <p>[Reason for appointment as Audit &amp; Supervisory Board]<br/>As he has professional expertise and experience as lawyer, the Company has judged that he is qualified to perform duties as Audit &amp; Supervisory Board from an independent objective standpoint to supervise the legality of the execution of duties of directors.</p> <p>[Reason for designation as Independent Auditor]<br/>As he is not in conflict with the independence standards stipulated by the Tokyo Stock Exchange regulations and also satisfies the after-mentioned "Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board" stipulated by the Company, the Company has judged that he maintains independence that presents no risk of causing a conflict of interest with general shareholders.</p> |

**[Independent Directors/Auditors]**

|  |   |
|--|---|
| Number of Independent Directors/Auditors | 4 |
|--|---|

|  |
|--|
| Matters relating to Independent Directors/Auditors |
|--|

[Designation of Independent Director/Auditor]

The Company designates all of the qualified Outside Director and Audit & Supervisory Boards as Independent Director/Auditor.

[Independence Criteria for Outside Director/Outside Audit & Supervisory Board]

In order to increase the soundness and transparency of management, the Company has established the following independence criteria for Outside Directors and Outside Audit & Supervisory Boards. Outside Directors and Outside Audit & Supervisory Boards are considered to be independent unless any of the following criteria applies.

1. Major shareholder (\*1) of the Company or an Executive thereof;
2. Major lender (\*2) of the Company or an Executive thereof;
3. A party whose major client or supplier is the Company (\*3) or an Executive thereof;
4. Major client or supplier (\*4) of the Company or an Executive thereof;
5. Consultant, accountant, or legal professional who receives million yen per year in monetary consideration or other property from the Company besides compensation as a Director/ Audit & Supervisory Board (if the recipient of such property is a corporation, partnership or other entities, a person who belongs to an entity for which the total amount of money and property received from the Company exceeds 2% of its annual gross revenue);
6. Person who receives more than 10 million yen per year in donation (or Executive thereof, if the recipient of such donation is a corporation, partnership or other entities);
7. Person who fell under any of the above-listed items 1 through 6 during the past three years; or
8. Relatives within the second degree of kinship of person (excluding insignificant persons) who fall under any of the following items (1) through (3).
  - (1) Person who falls under any of the above-listed items 1 through 7;
  - (2) Executive of any subsidiaries of the Company; or
  - (3) Non-executive Director of any subsidiaries of the Company.

(\*1) "Major shareholder" refers to a shareholder who holds 10% or more of the voting rights directly or indirectly.

(\*2) "Major lender" refers to a lender to whom the Company has outstanding borrowings in the amount that exceeds 2% of its consolidated total assets at the end of the most nearest fiscal year.

(\*3) "A party whose major client or supplier is the Company" refers to a party for whom the average amount of payments received from the Company for the past three fiscal years exceeds 2% of the average consolidated net sales of said party for the past three fiscal years.

(\*4) "A major client or supplier of the Company" refers to a party for whom the average amount of payments to the Company for the past three fiscal years exceeds 2% of the average consolidated net sales of the Company for the past three fiscal years.

**[Incentives]**

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|----------------------------------|---------------------------------|
| Incentive Policies for Directors | Performance-linked Remuneration |
|----------------------------------|---------------------------------|

Supplementary Explanation

Remuneration to Executive Directors is composed of basic remuneration and bonus which is incentive-based remuneration. The amount of bonus fluctuates in close correlation with the annual operating performance of the Company to serve as an incentive for achieving the annual policy targets.

In addition, Directors and Audit & Supervisory Boards are expected to contribute a portion of their monthly remuneration to the shareholding association for them to continually purchase the Company's shares, and the acquired shares are to be held during the term of office in principle.

For details, please refer to "II. 1. [Director Remuneration]" in this report.

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| Recipients of Stock Options | None |
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Supplementary Explanation

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**[Director Remuneration]**

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| Disclosure of Individual Directors' Remuneration | No Individual Disclosure |
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| Supplementary Explanation |
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| <p>The details of the remuneration to Directors and Audit &amp; Supervisory Boards in fiscal 2015</p> <p>The total remuneration paid to Directors in fiscal 2015:<br/> 406 million yen (of which 8 million yen had been paid to Outside Director)</p> <p>The total remuneration paid to Audit &amp; Supervisory Boards in fiscal 2015:<br/> 59 million yen (of which 15 million yen had been paid to outside Audit &amp; Supervisory Boards)</p> |
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| Policy on Determining Remuneration Amounts and Calculation Methods | Established |
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|--|
| Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods |
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|---|
| <p>(1) Policy</p> <p>Remuneration to Executive Directors is composed of basic remuneration and bonus which is incentive-based remuneration. The amount of bonus fluctuates in close correlation with the annual operating performance of the Company to serve as an incentive for achieving the annual policy targets.</p> <p>In addition, the Company plans to consider introducing new incentive-based remuneration with a composition and proportion, etc. designed to link the incentive-based remuneration to its medium- and long-term performance to strengthen its function as a healthy incentive for achieving sustainable growth.</p> <p>[Fixed remuneration]<br/> The Basic remuneration (monthly remuneration) is commensurate with the position.</p> <p>[Incentive-based remuneration]<br/> The bonus is composed of basic bonus and performance-linked bonus. The basic bonus is commensurate with the position and the performance-linked bonus is determined based on the evaluation of consolidated operating results and the achievement rate of policy targets.</p> <p>The remuneration for Non-executive Directors and Audit &amp; Supervisory Boards is limited to the fixed remuneration and no bonus will be paid. The retirement benefit program for Directors and Audit &amp; Supervisory Boards was abolished upon the end of the 63rd Annual Shareholders' Meeting held on June 27, 2008.</p> <p>(2) Procedures</p> <p>In accordance with the above-mentioned policy determined by the Board of Directors, remuneration paid to each Director is determined by Representative Directors who is delegated by the Board of Directors, based on opinions and advice of Non-executive Directors, within the range of amounts (no more than 540 million yen a year [of which no more than 20 million yen a year for the Outside Directors]) as resolved at the 71st Annual Shareholders' Meeting held on June 29, 2016. Representative Directors report the decision about remuneration to Non-executive Directors.</p> <p>In accordance with the above-mentioned Policy, remuneration paid to the each Audit &amp; Supervisory Boards is determined upon consultation among Audit &amp; Supervisory Boards, within the range of amounts (no more than 85 million yen a year) as resolved at the 59th Shareholders' Meeting held on June 29, 2004.</p> |
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**[Supporting System for Outside Directors and Audit & Supervisory Boards]**

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| <p>[Outside Directors]<br/> Mainly, the General Affairs Dept., as an executive office of the Board of Directors, supports Outside Directors by distributing materials for the Board of Directors in advance, explaining the main issues of the bills in advance, and providing various relevant information as and when required.</p> <p>[Outside Audit &amp; Supervisory Boards]<br/> The Corporate Auditor Office, established as a secretariat for the Audit &amp; Supervisory Board, supports</p> |
|---|

Outside Audit & Supervisory Boards by distributing materials for the Audit & Supervisory Board and the Board of Directors in advance, explaining the main issues of the bills in advance and providing various relevant information as and when required.

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

### **1. Board of Directors and Directors**

The Board of Directors, which consists of 10 Directors (10 males and no females), including 2 Outside Directors, meets once each month with additional meetings as and when required. The Board of Directors makes decisions regarding Taikisha Group's management policy, items stipulated in laws and articles of incorporation, and important management matters, as well as monitors and supervises the execution of duties by each Director and Corporate Officer.

Outside Directors are appointed in order to revitalize deliberation and ensure the transparency of decision-making processes in the Board of Directors, and to reinforce the supervisory function of the Board of Directors over Directors and Corporate Officers.

### **2. Corporate Officer System**

The Company has adopted the Corporate Officer system in order to clarify the responsibilities and authorities in corporate management and the execution of duties, as well as to revitalize the Board of Directors and speed up its decision-making processes through reduction of the number of the Directors. Corporate Officers are appointed through the resolution of the Board of Directors (tenure: 1 year) and execute their duties based on the management policy decided by the Board of Directors.

### **3. Management Meeting**

The Company has established the Management Meeting to increase the effectiveness and efficiency of Taikisha Group's management. The Management Meeting, consisting of 6 Directors, generally meets once each month with additional meetings as and when required and serves as a decision-making authority. It makes adequate deliberations and prompt decisions delegated by the Board of Directors regarding matters related to business execution of Taikisha Group (deciding and changing policy of business divisions and headquarters and deciding annual plans and evaluating the results thereof, etc.). In addition, Audit & Supervisory Boards attend the Management Meeting and present their opinions from an objective and neutral standpoint. Important matters to be discussed in the Management Meeting are submitted to the Board of Directors for a final decision.

### **4. Corporate Compliance Committee**

The Company has established the Corporate Compliance Committee to monitor compliance. The Corporate Compliance Committee, consisting of Directors, the General Manager of the Corporate Compliance Department and the General Manager of Internal Audit Office, generally meets once each month in order to examine and respond to issues regarding compliance in the overall business operations of the Company from a management standpoint and to validate the status of compliance with laws and regulations as well as the Articles of Incorporation. In addition, Audit & Supervisory Boards attend the Corporate Compliance Committee with an independent stance to assure the effectiveness of management monitoring.

### **5. Policy Review Meeting**

The Company has established the Policy Review Meeting to grasp the status of activities designed to achieve the Taikisha Group's management policy. The Policy Review Meeting meets twice a year, with participation by Directors, Audit & Supervisory Boards, chief executives of each Headquarters and the General Manager of Internal Audit Office, to examine and validate the details of annual plans and targets of each department and headquarters established to realize the annual management policy and the status of achievement thereof.

### **6. Risk Management System**

Regarding the risk management of Taikisha and Taikisha Group, the Company, in accordance with the Risk Management Rules, has established the Risk Management Committee to identify risks in an integrated fashion and to implement effective and efficient risk management. The Risk Management Committee establishes basic policies, responsibility systems, operations and other necessary measures for group-wide risk management, and keeps all persons involved well informed about the establishment and implementation of policies.

Regarding risks associated with operations, such as quality control, safety control and compliance assigned to each department, each department identifies and prioritizes the risks to be addressed, and formulates specific measures against the risks and reports to the Risk Management Committee. Each department improves the relevant internal rules and regulations, and keeps all persons involved well informed about the details of the improvement.

In preparation for situations in which measures should be taken to respond to exposed major risks which have not been deterred (hereinafter referred to as a crisis), the company established the Crisis Management Committee for the purpose of crisis response and daily crisis management. In the event that crisis breaks out, the Crisis Management Committee organizes the crisis management team or establishes a crisis task force to respond to the crisis under the supervision of the Crisis Management Committee in accordance with the basic policy for risk management. In preparation for crisis occurrences, business continuity plans for recovery from a crisis shall be improved and completed from time to time.

#### 7. Audit & Supervisory Board and Audit & Supervisory Boards

The Company has 4 Audit & Supervisory Boards (consisting of 4 males and no females), including 2 Outside Audit & Supervisory Boards. Among them is Toshiya Furukatsu, who has been engaged in accounting and finance operations within the Company for many years and has a respectable degree of knowledge regarding financial and accounting matters.

Audit & Supervisory Boards review important documents, including internal approval documents, and attend major meetings, including the Board of Directors and the Management Meeting, in order to understand important decision-making processes and the execution of duties in the Company and its subsidiaries, as well as to collect information about the current decision making processes for important matters from each department including the Internal Audit Office and provide advice and recommendations for operational improvement and other issues as and when required. Regarding business offices and affiliates in Japan and abroad that are considered important for consolidated management, the Company, in cooperation with the Internal Audit Office, conducts on-site investigations based on the audit plan.

Audit & Supervisory Boards receive reports from the Internal Audit Office and the accounting auditors regarding their audit plans, the status of implementation of audits, audit results, and other issues on a periodic and as-needed basis, and may request further examination and explanation of these issues as and when required. Furthermore, audits by the Audit & Supervisory Boards related to the status of development and operation of the internal control system have been conducted based on these audit results, reports from the internal control department and investigation into each department.

Each Audit & Supervisory Board reports all audit activities to the audit & supervisory board in order to share information.

#### 8. Internal Audits

The Internal Audit Office (consisting of 9 staff members), which is responsible for conducting internal audits of Taikisha Group, carries out audits in accordance with the Internal Audit Rules as an independent department under the direct control of Representative Directors. The Internal Audit Office conducts audits on the effectiveness and efficiency of the overall business activities in Taikisha Group, and reports the audit results to Representative Directors.

The Internal Audit Office announces matters identified for improvement as a result of audits to departments subject to audits, and conducts follow-up audits to confirm whether the matters have been improved or not. Results of these audits are reported to Representative Directors, as well as the Board of Directors, the Audit & Supervisory Board and the accounting auditors.

#### 9. Accounting Auditors

The certified public accountants who conduct accounting audits of the Company are Yuko Sakamoto (who has been conducting audits for 3 years), Satoshi Terada (who has been conducting audits for 5 years). All of them belong to A&A Partners (auditing corporation.). Assistants involved in the Company's accounting audits consist of 6 certified public accountants and 3 other staff members.

### 3. Reasons for Adoption of Current Corporate Governance System

The Company has reinforced the supervisory function of the Board of Directors by appointing Non-executive Directors and speeded up decision making by the Board of Directors through the introduction of the Corporate Officer system towards further enhancement and reinforcement of corporate governance as a company with Audit & Supervisory Board, and has continuously made efforts to reinforce governance and reform management of Taikisha Group. At the moment, the Company recognizes that the corporate

governance has been effectively working through all such efforts, and thereby will keep the current status.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

|   | Supplementary Explanations   |
|---|--|
| Early Notification of General Shareholder Meeting | The notice of convocation is sent at least three weeks before the date of the meeting. In addition, the notice of convocation is disclosed on the website five business days prior to the date of sending it.  |
| Allowing Electronic Exercise of Voting Rights     | Electromagnetic means to exercise voting rights have been available since the annual shareholders' meeting held in June 2016.  |
| Participation in Electronic Voting Platform       | The Company has participated in the Electronic Voting Platform operated by ICJ, Inc. since the annual shareholders' meeting held in June 2016.   |
| Providing Convocation Notice in English           | An English translation of the notice of convocation is also available on the website.<br><a href="http://www.taikisha-group.com/ir/index.html">http://www.taikisha-group.com/ir/index.html</a>   |
| Other   | The notice of convocation (in Japanese and English translation) and the notice of resolution (only in Japanese) are available on the website. In addition, in order to ensure transparency of the annual shareholders' meeting, the voting results regarding matters for resolution at the meeting, including the number of votes of "for", "against" and "abstain", are released on the website.<br><a href="http://www.taikisha-group.com/ir/stock/meeting.html">http://www.taikisha-group.com/ir/stock/meeting.html</a> |

#### 2. IR Activities

|   | Supplementary Explanations   |
|---|--|
| Preparation and Publication of Disclosure Policy                    | Posted on the website.<br><a href="http://www.taikisha-group.com/ir/disclosure.html">http://www.taikisha-group.com/ir/disclosure.html</a>  |
| Regular Investor Briefings for Individual Investors                 | Briefings are held for individual investors (approximately twice each year).   |
| Regular Investor Briefings for Analysts and Institutional Investors | Briefings are held when financial reports for the second quarter of the fiscal year and for the end of the fiscal year are released, where explanations about major indicators, descriptions of business, performance forecasts and future business developments and other matters are provided. |
| Posting of IR Materials on Website                                  | Messages from President, brief financial statements, timely disclosure documents and other contents are posted on the website.<br><a href="http://www.taikisha-group.com/ir/index.html">http://www.taikisha-group.com/ir/index.html</a>  |
| Establishment of Department and/or Manager in Charge of IR          | Responsible Director:<br>Managing Corporate Officer, Chief Executive,<br>Administrative Management, Masanori Nakagawa<br>Responsible department:<br>Investor Relations Section, Finance and Accounting Dept., Administrative Management Headquarters   |
| Other   | Specialized contents targeted for individual stockholders and investors are posted on the website.<br><a href="http://www.taikisha-group.com/ir/individual/index.html">http://www.taikisha-group.com/ir/individual/index.html</a>  |

#### 3. Measures to Ensure Due Respect for Stakeholders

|   | Supplementary Explanations  |
|---|---|
| Stipulation of Internal Rules for Respecting the Position of Stakeholders | The Company has established its management vision: "Conduct businesses under free and fair competition in compliance with laws and the spirit thereof; contribute to customer/business partner, shareholder, employee, community/society and global environment with transparency and integrity." |
| Implementation of Environmental Activities, CSR                           | The Company strives to conduct CSR activities to help create a sustainable society and global environment. The Company does this by using our   |



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| Activities etc.  | <p>technologies to conserve the environment, return profits to our shareholders and society through our sound business operations, and create prosperity for customers and clients while providing comfortable lives for employees through our constant growth. These activities are in accordance with our corporate philosophy, “establish a company which can continuously grow and contribute to the society” and “establish an attractive company.”</p> <p>In addition, the Company makes every effort to create a corporate culture with a high level of corporate ethics to thoroughly observe the applicable laws and regulations and to gain our stakeholders’ trust as a faithful company.</p> <p>The details of our CSR activities are introduced in the CSR Report, which is available for reference on the website.<br/> <a href="http://www.taikisha.co.jp/social_env/csr/csr_report.html">http://www.taikisha.co.jp/social_env/csr/csr_report.html</a> (Japanese Site)</p> |
| Development of Policies on Information Provision to Stakeholders | <p>The Company stipulates that, in Taikisha’s Code of Conduct, the Company makes an effort to improve the transparency of management including corporate accounting and disclose information in accordance with laws and regulations in an appropriate manner.<br/> <a href="http://www.taikisha-group.com/social_env/compliance/index.html">http://www.taikisha-group.com/social_env/compliance/index.html</a></p>   |

#### IV. Matters Related to the Internal Control System

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

The Board of Directors has resolved its basic policy for the internal control system, which is set forth in the Companies Act and the Ordinance for Enforcement of the Companies Act, as follows (Revised as of April 24, 2015):

[Objectives]

This resolution shall stipulate the outline regarding the establishment and operation of the Company’s internal control system, pursuant to the Companies Act and the Ordinance for Enforcement of the Companies Act, in order to recognize the fact that the biggest current managerial risk is violation of the laws and ordinances, and to familiarize and thoroughly carry out execution of observance of the laws and ordinances. The internal control system, in accordance with this resolution, shall be thoroughly established and operated, and shall be improved by constant review with the purpose of ensuring an efficient and proper company structure.

1. The System to Ensure Directors and Employees of the Company Conformance to Laws and Articles of Incorporation

(1) According to the Company’s philosophy and policy, the Company shall consider its management vision—to conduct transactions through free and fair competition by abiding by the laws and their spirit, and to contribute to our customers, partners, shareholders, employees, community, society and global environment through transparency and high ethical standards—and Taikisha’s Code of Conduct as performance guidelines for directors and employees, and shall remind all persons involved about these standards.

(2) The Corporate Compliance Committee headed by the Representative Director as chairperson and consisting of Directors, the General Manager of the Corporate Compliance Department and the General Manager of the Internal Audit Office shall meet in principle monthly in order to examine and respond to issues regarding compliance in the overall business operations of the Company from a management standpoint and to validate the status of compliance with laws and ordinances as well as the Articles of Incorporation. In addition, Audit & Supervisory Boards shall attend the Corporate Compliance Committee with an independent stance to assure the effectiveness of management monitoring.

(3) The Company shall, in Taikisha’s Code of Conduct, implement a basic policy for Anti-Social Forces of refusing any involvement of Anti-Social Forces in our business, rejecting any requirement from Anti-Social Forces and prohibiting all directors and employees of the Company to have any relationship with Anti-Social Forces. In addition, the Company shall constantly conduct educational and dissemination activities related to compliance in order to familiarize all directors and employees of the Company, shall make every effort to prevent any violation of the policy, and shall gather information related to Anti-Social Forces from the outside of the Company regularly. If the Company receives undue demands from Anti-Social Forces, the Company is

committed to confront Anti-Social Forces systematically in cooperation with outside experts.

(4) The Corporate Compliance Department, which is under the direct control of the Representative Director, shall constantly conduct educational and dissemination activities related to compliance in order to familiarize all directors and employees of the Company with the management vision and Taikisha's Code of Conduct, and shall make every effort to prevent any violations of the law in cooperation with other compliance-related departments of business divisions, and shall report all relevant activities to the Corporate Compliance Committee.

(5) For instances where a director or employee finds a violation of laws or Articles of Incorporation, an internal reporting system informing to the Corporate Compliance Department shall be developed and an external reporting system informing to independent outside attorneys shall be established. The Corporate Compliance Department shall remind all persons involved, both inside and outside the Company, of the reporting system so that those contacts are effectively utilized, and shall monitor and supervise the situation in accordance with the internal reporting rules so that a person who made a report pursuant to the preceding paragraph is not treated in a disadvantageous manner because he or she made such report.

(6) In the event of a compliance violation, the offenders concerned shall be severely disciplined according to internal rules and regulations.

## 2. The System regarding the Storage and Management of Information Related to the Execution of Duties by Directors of the Company

Information and materials related to the directors' execution of duties shall be handled pursuant to internal rules and regulations, especially the Information Security Rules and Document Management Rules, and shall be appropriately stored, managed and disposed of. If necessary, management status shall be examined and internal rules and regulations shall be reviewed.

## 3. Rules regarding Risk Management of Loss of the Company and Other Systems

(1) The Company shall, in accordance with the Risk Management Rules, establish the Risk Management Committee to identify risks of Taikisha Group in an integrated fashion and to implement effective and efficient risk management. The Committee shall establish basic policies, responsibility systems, operations and other necessary measures for risk management of Taikisha Group, and shall keep all persons involved informed about the establishment and implementation.

(2) Regarding risks associated with operations, such as quality control, safety control and compliance, assigned to each department, each department shall identify and prioritize the risks, draft specific measures against the risks and report to the Risk Management Committee. Each department shall implement internal rules and regulations, and shall keep all persons involved informed about the details of the implementation.

(3) On the assumption of situations in which measures should be taken to respond to exposed potential major risks (hereinafter referred to as crisis), the Company shall establish the Crisis Management Committee for the purpose of crisis response and daily crisis management. In the event that crisis breaks out, the Crisis Management Committee shall organize the crisis management team or establish the crisis task force to respond to the crisis under the supervision of the Crisis Management Committee. On the assumption of the outbreak of the crisis, the Company shall establish a business continuity plan to restore the damage caused by the crisis.

(4) The Internal Audit Office, which is under the direct control of the Representative Director, shall conduct internal audits in accordance with the Internal Audit Rules. The effectiveness of internal audits shall be ensured by the appointment of the General Manager of the Internal Audit Office chosen from employees at the level of Corporate Officer or higher, and by the placement of other necessary personnel. Furthermore, the Internal Audit Office shall examine audit methods and items to be audited, and shall amend the audit procedures as needed.

## 4. The System to Ensure the Efficient Execution of Duties by Directors of the Company

(1) By adopting a corporate officer system, responsibilities and authorities of corporate management and duty execution shall be clarified, aiming for revitalization of the Board of Directors, promotion of rapid

decision-making, and advancement of management reforms.

(2) Based on the Board of Directors Rules, Rules for Managerial Approval, and other internal rules, the matters applicable for submission to the Board shall be submitted to the Board of Directors. In this regard, the appropriate materials concerning the agendas shall be distributed to all directors in advance and the Board of Directors shall pass a resolution after a full discussion based on such materials.

(3) With the Company's philosophy as a foundation, each departmental headquarters and business divisions, after a policy review meeting, shall establish an appropriate annual business plan and annual target, and shall work in order to achieve those targets.

(4) The Management Meeting, mainly consisting of directors at the level of Managing Corporate Officer or higher, shall be established to conduct deliberations regarding Taikisha Group's important management issues to be addressed pursuant to the Rules for Management Approval, and shall make prompt decisions on these issues. In addition, the Management Meeting shall examine the progress toward annual target by monthly reviewing operating reports.

5. The System to Ensure the Appropriateness of Operations conducted by the Corporate Group Consisting of the Company and its Subsidiaries (including Affiliated Companies, the same hereinafter)

(1) Directors and employees of the subsidiaries of the Company who execute the business shall report the matters pertaining to the execution of duties to a responsible department and the responsible department shall manage subsidiaries based on the Affiliate Management Rules to enhance management efficiency of Taikisha Group.

(2) The Company shall conduct regular audits mainly by the Internal Audit Office to audit whether any risk exists in subsidiaries in accordance with the Internal Audit Rules and other related internal rules. In addition, the Company shall immediately report a risk of loss in subsidiaries, detected in subsidiaries as a result of audit, to Directors, Audit & Supervisory Boards and other departments in charge.

(3) Regarding a system to ensure the adequacy of materials concerning the finances and accounting of Taikisha Group, and to ensure the adequacy of other related information pursuant to the Financial Instruments and Exchange Act, the Company shall, under the instructions of the Representative Director and President, establish the Basic Rules for Internal Control in compliance with the "Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" and "Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" issued by the Financial Services Agency. In addition, the Company shall, in accordance with the Basic Rules, conduct improvement and management status assessments of internal control procedures carried out by Taikisha Group.

(4) To ensure that directors and employees of the subsidiaries execute their duties in compliance with laws and ordinances as well as their articles of association, the Internal Audit Office shall play a central role in regular audits and the Corporate Compliance Department shall conduct regular investigations in accordance with the Internal Audit Rules and other related internal rules. In addition, the Corporate Compliance Department shall remind all persons involved of the system so that the internal reporting systems of the Company are effectively utilized.

6. Matters regarding Employees in Cases where Audit & Supervisory Boards Request to Hire the Employees to Assist in their Audits, and Matters regarding the Independence of the Employees from Directors, and Matters regarding the Ensuring of Effective Instructions to such Employees

The Company shall establish the Audit & Supervisory Boards Office under the Audit & Supervisory Boards and appoint employees who shall assist with the Audit & Supervisory Boards' duties. Consent from Audit & Supervisory Boards shall be required for appointment, dismissal and transfer of the employees from positions and personnel evaluation and the Company shall ensure that the employees are independent of directors and instructions to the employees are effective.

7. The System for Reporting Information Received from Directors and Employees of the Company and Directors, Statutory Auditors and Employees of Subsidiaries to the Audit & Supervisory Boards and Other Systems relating to Reporting to the Audit & Supervisory Boards

(1) Directors and employees shall be obligated to report the following matters to Audit & Supervisory Boards, and shall also provide the necessary reports and information upon request from each Audit & Supervisory Board pursuant to the Audit & Supervisory Board Rules and the Rules for Audit by Audit & Supervisory Boards;

- Matters resolved and reported by the Management Meeting
- Matters discussed at the Corporate Compliance Committee, Risk Management Committee and Crisis Management Committee
- Matters which may cause serious harm to the Company and its subsidiaries
- Violation of laws and ordinances or the Articles of Incorporation by directors and employees or facts that may lead to such violations
- Results of internal audits by the Internal Audit Office
- Request forms for internal managerial decisions and proceedings of meetings requested by Audit & Supervisory Boards

(2) The manager of the responsible department of the Company who received a report from a director, statutory auditor or employee of the subsidiaries shall make a report to the Audit & Supervisory Boards of the Company at a meeting at which the Audit & Supervisory Boards are present or periodically as necessary in accordance with the Affiliate Management Rules.

8. The System for Ensuring a Person who made a Report pursuant to the preceding Paragraph is not treated in a Disadvantageous Manner because He or She made Such Report

At the request of the Audit & Supervisory Board, the Company shall ensure that a person who made a report pursuant to the preceding paragraph is not treated in a disadvantageous manner because he or she made such report. In addition, the Corporate Compliance Department shall monitor and supervise the situation so that the person who made such report is not treated in a disadvantageous manner.

9. Matters regarding the Policy for Procedures for Advance Payment or Reimbursement of Expenses incurred with Respect to the Execution of Duties of Audit & Supervisory Boards and Handling of Other Expenses or Obligations incurred with Respect to the Execution of Such Duties

Audit & Supervisory Boards may request that any expenses incurred with respect to the execution of duties be paid in advance or reimbursed in accordance with the provisions of the rules of the Audit & Supervisory Board.

10. System to Ensure the Effective Implementation of Audits by Audit & Supervisory Boards

(1) The Representative Director, the Chief Executive of the Administrative Management Headquarters and the General Manager of the Internal Audit Office shall arrange meetings and consultations in order to thoroughly discuss and examine the improvement of the environments for audits conducted by Audit & Supervisory Boards, and shall ensure the effectiveness of such audits.

(2) Audit & Supervisory Boards may make requests for improvement of the audit system and other related matters in order to ensure the effectiveness of audits conducted by them.

## **2. Basic Views on Eliminating Anti-Social Forces**

1. The Company rejects the involvement of antisocial forces such as organized crime groups with Taikisha's business by stipulating provisions in Taikisha's Code of Conduct, as well as prohibits employees from accepting any undue claim from antisocial forces or having any relationship with them.

2. The Corporate Compliance Dept. keeps all employees well informed about the elimination of antisocial forces through continuous education and dissemination activities concerning compliance in order to prevent involvement with antisocial forces.

3. The Company periodically collects information concerning antisocial forces from the Special Violence Prevention Association, which Taikisha joined as a member, and from other organizations, and will systematically respond to any undue claim from antisocial forces by cooperating with all relevant departments in the Company as well as cooperating with external professionals.

## V. Other

### 1. Adoption of Anti-Takeover Measures

|                                    |         |
|------------------------------------|---------|
| Adoption of Anti-Takeover Measures | Adopted |
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#### Supplementary Explanation

The Company resolved to introduce the “Countermeasures against Large-Scale Purchases of the Company’s Share Certificates or Other Securities (Takeover Defense Measures)” at the Board of Directors meeting held on January 31, 2008, to counter against purchases of the Company’s share certificates or other securities, in which the ratio of voting rights of specified shareholders, etc. of the Company’s share certificates or other securities is 20% or more, or purchases of the Company’s share certificates or other securities that result in the ratio of voting rights of the specified shareholders, etc. is 20% or more (“Large-Scale Purchase”; and a person conducting a Large-Scale Purchase shall be referred to as the “Large-Scale Purchaser” hereinafter) with the aim of securing and enhancing the Company’s corporate value, and consequently, the common interests of shareholders. Subsequently, the partial amendments to and continuation of the Takeover Defense Measures was approved by the shareholders at the 63rd Annual Shareholders’ Meeting held on June 27, 2008, at the 65th Annual Shareholders’ Meeting held on June 29, 2010, at the 68th Annual Shareholders’ Meeting held on June 27, 2013, and the 71th Annual Shareholders’ Meeting held on June 29, 2016 (hereinafter, the currently effective Takeover Defense Measures shall be referred to as the “Plan”).

#### (1) Summary of the Plan

The Plan stipulates the procedures for the Board of Directors to require a Large-Scale Purchaser to provide information on a large-scale purchase in advance to evaluate and examine the Large-Scale Purchase, negotiate with the Large-Scale Purchaser regarding terms and other matters of the purchase, and to propose an alternative plan to shareholders and other matters to shareholders, in order to secure sufficient information and time necessary for shareholders to appropriately decide whether to accept the Large-Scale Purchase upon a Large-Scale Purchase of the Company’s share certificates or other securities, and also stipulates the procedures for the Board of Directors to, while, as a general rule, following the recommendations of the Independent Committee (whose members will be appointed from Outside Directors, Outside Audit & Supervisory Boards and outside advisors who are highly independent from the Board of Directors), or exercise other countermeasures against a Large-Scale Purchaser that are deemed reasonable at the point in time against a Large-Scale Purchase (“Large-Scale Purchase Rules”).

Where the Large-Scale Purchaser fails to observe the Large-Scale Purchase Rules, or even where the Large-Scale Purchaser observes the Large-Scale Purchase Rules, however, if, the Large-Scale Purchase is deemed obvious to be an act that will inflict upon the Company any damage that is difficult to recover from, for example, only when the Large-Scale Purchase satisfies the objective requirements stipulated reasonably and in detail, the Board of Directors will, as a general rule, resolve to exercise countermeasures, and will exercise such countermeasures, in accordance with the recommendations of the Independent Committee. As specific countermeasures, appropriate countermeasures will be selected, depending on the situation at different times, out of those accepted as being within the authority of the Board of Directors in relation to a gratis allotment of share subscription rights, other laws and regulations, and the Company’s Articles of Incorporation.

For your information, the validity of this Plan expires at the end of the last Annual Shareholders’ Meeting (the 74th Annual Shareholders’ Meeting to be held in June 2019) which will be held within 3 fiscal years after the 71st Annual Shareholders’ Meeting.

#### (2) Rationality of the Plan

The Plan fully satisfies the three principles set out in the “Guidelines Regarding Takeover Defense for the Purposes of Ensuring and Enhancing Corporate Value and Shareholders’ Common Interests” released by the Ministry of Economy, Trade and Industry and the Ministry of Justice as of May 27, 2005. In addition, the contents of the Plan reflect the spirit of “Takeover Defense Measures in Light of Recent Environmental Changes” released on June 30, 2008 by the Corporate Value Study Group established by the Ministry of Economy, Trade and Industry.

If a Large-Scale Purchase is made against the Company, the Independent Committee will make a recommendation to the Board of Directors upon discussing and examining whether to exercise

countermeasures against the Large-Scale Purchase, and other matters, and the Board of Directors will, as a general rule, make a resolution following the recommendation of the Independent Committee and a scheme to eliminate the exercise of countermeasures based on arbitrary decisions by the Board of Directors is thereby secured.

Furthermore, in certain cases a shareholders' meeting can be held in order to have an opportunity to confirm the intent of shareholders regarding the advantage and disadvantages of exercising countermeasures and countermeasures are exercised only when the approval of the majority of shareholders is obtained.

Consequently, also on this point, a scheme to eliminate the exercise of arbitrary countermeasures by the Board of Directors will be in place.

Please see the website for the details of the Plan.

[http://www.taikisha-group.com/corporate/news/20160516\\_1.pdf](http://www.taikisha-group.com/corporate/news/20160516_1.pdf)

## **2. Other Matters Concerning to Corporate Governance System**

The Company stipulates that, in Taikisha's Code of Conduct, the Company makes an effort to improve the transparency of management as well as disclose information in a fair, accurate, timely and appropriate manner, based on the Securities Listing Regulations of the Tokyo Stock Exchange.

The Company designates the Chief Executive of the Administrative Management Headquarters as a responsible person for information handling as well as designates the General Affairs Dept., of the Administrative Headquarters as a responsible department for the timely disclosure of the Company's and Taikisha Group's information, and establishes system to make prompt disclosure in cooperation with relevant departments. In addition, advice or guidance has been received from company attorney as and when required. The Company will disclose decisions and accounting information after obtaining an approval by the Board of Directors, and will disclose incurred issues after discussing disclosure policies mainly with the Chief Executive of the Administrative Management Headquarters, without any delay. Furthermore, when the Company judges that any information is likely to make a serious impact on the investment decisions of investors, even though such information is not required to be disclosed by relevant laws and regulations such as the Companies Act, and the Financial Instruments and Exchange Act, as well as Securities Listing Regulations of the Tokyo Stock Exchange or other rules, the Company will disclose such information actively and fairly to the greatest extent possible.

The Audit & Supervisory Boards conduct audits on the legality of the execution of duties of timely disclosure based on the "Basic Policy for the Internal Control System" resolved by the Board of Directors. In addition, the Internal Audit Office, which is an independent department under the direct control of Representative Directors, constantly conducts audits on the execution of duties of timely disclosure, from the perspective of efficiency and rationality, appropriateness including compliance, and other perspectives.