

two Outside Audit & Supervisory Board Members, and they conduct audits on the legality and appropriateness of important decision-making processes and execution of duties in Taikisha Ltd. and Taikisha group companies. Audit & Supervisory Board Members attend major meetings, including the Board of Directors and the Management Meeting, and collect information from the Internal Audit Office and other relevant departments in order to provide advice and recommendations for operational improvement and other issues. In addition, Audit & Supervisory Board Members, in cooperation with the Internal Audit Office, conduct on-site audits of business offices and affiliates in Japan and overseas that are considered important for consolidated management. Audit & Supervisory Board Members also receive reports from the Internal Audit Office and Accounting Auditors regarding their audit plans, the status of implementation of audits, audit results, and other issues on a periodic basis, and request further examination and explanation on these issues as and when required.

Functions that Support Corporate Governance

Taikisha, based on the recognition that violation of laws and ordinances is its biggest management risk, has formulated a basic policy for the establishment of the internal control system based on the Companies Act in order to ensure and enforce compliance with laws and ordinances. In addition, for the purpose of establishing a lawful and efficient corporate structure, Taikisha has set up the following systems: 1) compliance system; 2) system to store and manage information regarding execution of duties by Directors;

3) risk management system; 4) system to ensure the efficiency and transparency of management decisions; 5) group management system; 6) system regarding audit by Audit & Supervisory Board Members (system to ensure the independence of Audit & Supervisory Board Members, system regarding reporting to Audit & Supervisory Board Members, and system to ensure the effectiveness of audit). The aim is to establish a lawful and efficient corporate structure, and Taikisha will review these systems continuously to make improvements where necessary.

Response to the Corporate Governance Code

Taikisha prepares an English version, as well as the original Japanese version, of the Corporate Governance Report wherein the status of response to the Corporate Governance Code is disclosed.

Regarding evaluation of the effectiveness of the Board of Directors, Taikisha has decided to conduct an analysis and evaluation of the effectiveness of the Board of Directors at least once a year and disclose an overview of its results to external stakeholders as part of its information-provision measures.

Taikisha responds to and discloses its status with other principles in accordance with the Corporate Governance Code, thereby establishing a system and structure that can gain trust from all stakeholders.

Corporate Governance Report:

<http://www.taikisha-group.com/corporate/pdf/CorporateGovernance.pdf>

VOICE



Shuichi Murakami
Outside Director
Taikisha Ltd.

Corporate Governance Code and Stakeholders

We aim to increase corporate value and become a company that can grow continuously by conducting our operations based on the "Customers First" mission statement and the Code of Conduct that calls for maintenance of good relationships with stakeholders.

We consider that the Corporate Governance Code is our guiding principle to practice the above, and our management is making serious efforts to respond to it. In evaluating the Board of Directors, for instance, all Directors and Audit & Supervisory Board Members conduct a rating based on questionnaires and discuss issues, etc. and disclose the results of discussion.

This leads to a greater effectiveness of the Board of Directors and provides information to stakeholders. I feel that we are advancing steadily in implementing measures to reinforce the supervisory function of the Board of Directors.

The role of corporate governance is increasing in importance as society and investors come to have a greater interest in it. Under these circumstances, I will endeavor to increase the corporate value of Taikisha by carrying out my responsibilities more appropriately than ever from the standpoint of Outside Director, someone who is required to present more objective opinions.

Risk Management

Taikisha endeavors to thoroughly manage, avoid and reduce risks on an organizational level.



Basic Policy

Regarding the risk management, Taikisha, 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, each department identifies and prioritizes the risks to be addressed, formulates specific measures with respect to 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 recent years, Taikisha has positioned risks related to compliance with laws and ordinances, crisis management that involves human lives overseas, and information management, as important issues that would have a significant impact on its management, and is striving to strengthen its risk response capabilities.

Crisis Management System

Taikisha has established the Basic Policy for Crisis Management and built the crisis management system to prepare for the occurrence of unforeseen disasters, accidents and incidents in Japan and overseas.

In FY2015, Taikisha developed overseas crisis management guidelines. In the guidelines, Taikisha classified crises into three levels depending on the severity of impact on human lives and business continuity; assigned response entities to each response level; categorized crises into three patterns (natural disasters, terrorism, etc.); and established crisis response flows for each type of crisis. By doing

● Crisis Management System Diagram



this, Taikisha established a system that allows crisis-stricken site to work together in cooperation with the Headquarters to respond to the disaster.

Business Continuity Plan (BCP)

Taikisha has formulated a Business Continuity Plan (BCP) that sets out procedures and steps for employees to take in order to restore operations promptly in the event of a crisis.

The Crisis Management Manual provides procedures for dealing with crisis situations, centering on large-scale earthquakes, by placing the highest priority on protecting the lives of its employees and their families. At business offices, Taikisha periodically conducts training, such as training on satellite phone communication and taking inventories and checking expiry of emergency food stocks. In addition, Taikisha carries out training on how to handle the safety confirmation system and evacuation drills. When the Kumamoto Earthquakes occurred in April 2016, Taikisha immediately triggered the safety confirmation system and confirmed the safety of employees and their families in the Kyushu region. Taikisha also provided logistical support to the disaster-stricken site by shipping emergency supplies of the Tokyo Head Office on the day the first earthquake occurred. In this way, Taikisha has established a system to support recovery efforts of disaster-stricken sites with the Crisis Task Force, set up in the Headquarters, serving as the control tower.



Emergency drill



Fire extinguisher training

Information Security

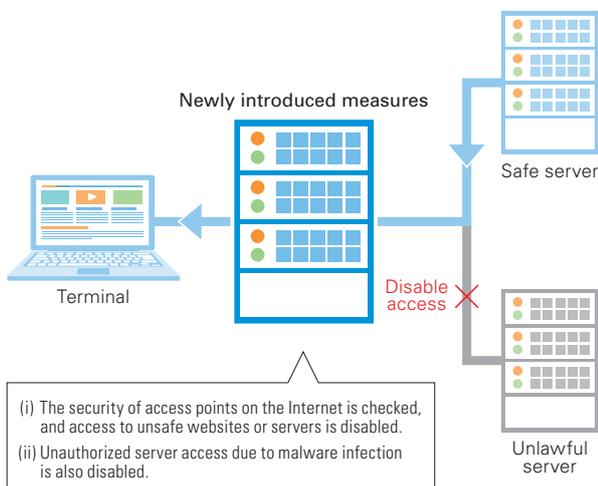
Taikisha has strengthened the group's overall information management system to prevent the leakage of information of customers and business partners Taikisha has business contact with, as well as personal information of employees and others.

Taikisha has drawn up the Information Security Rules with bylaws established for all employees and for persons with relevant responsibilities, such as persons in charge of IT system/facility development, and rules based on personal information protection policy. Taikisha also distributed the Information Security Guidebook that shows concrete information security measures. Taikisha has thus been working to raise the awareness of information security among officers and employees.

Taikisha has recently identified possible information security risks, such as unauthorized access to terminals and the network and computer viruses, and put together concrete measures, such as renewing facilities and introducing antivirus software. Taikisha's plan is to implement these measures in five stages (STEP 1-5), with the target of achieving the completion rate of approximately 90% by FY2019. Taikisha conducts detailed risk evaluation of the information management system of Taikisha's overseas business offices by using a checklist to grasp the progress of measures.

Based on this plan, efforts are underway at overseas business offices to review and standardize the Information Security Rules. In FY2015, three business offices, out of the nineteen overseas business offices, completed preparing new rules, and the remaining sixteen business offices are expected to finish developing new rules by the end of FY2016.

Measures with respect to Cyber Attack (conceptual diagram)



Taikisha also took measures to avoid sending an email to the wrong person and to cope with cyber attack in FY2015.

Internal Audit

The Internal Audit Office conducts audits on business execution divisions and identifies and gives advice on points to be improved, while working in cooperation with Directors and Audit & Supervisory Board Members as a division directly under the Representative Director, and follows up on the status of improvement.

In FY2015, Taikisha sets issues such as the status of compliance with laws and ordinances that are closely related to operations including the Construction Industry Act and the Antimonopoly Act, the status of construction project contract management, and appropriateness of construction activities as important audit themes again this year, and carried out audits from the perspectives of legitimacy and rationality.

In creating the audit plan, Taikisha included construction sites, in addition to business offices in Japan and overseas, as on-site audit sites to conduct audits on the appropriateness and effectiveness of operations. In FY2015, Taikisha carried out audits at a total of 56 sites (including 20 construction sites in Japan and 8 overseas business offices).

The Internal Audit Office also evaluated the status of establishment and operation of internal control over financial reporting of Taikisha, and reported on the effectiveness thereof to the Board of Directors.



Internal audit at overseas business offices

Compliance

Taikisha is ensuring compliance with laws and ordinances across the organization.



Compliance System

Taikisha aims to enhance its corporate culture by making its mission statement well known, complying with all laws and ordinances related to its business operations, and conducting transparent and sound business activities. To this end, Taikisha has set out the Principles of Behavior and Standards of Ethical Conduct in the Taikisha Code of Conduct and the Compliance Activity Standards. In addition, specific compliance items are laid down in the Compliance Manual.

The Corporate Compliance Committee, which is directly under the Representative Director, is comprised of members of the Board of Directors, the General Manager of the Internal Audit Office, and the General Manager of the Corporate Compliance Dept. The committee, which has been chaired by the General Manager of the Corporate Compliance Dept. since the beginning of FY2016, generally meets once a month, and reports and responds to compliance issues of Taikisha's overall business from a management perspective.

The Corporate Compliance Dept. formulates plans based on the Compliance Policy set out by the Corporate Compliance Committee, while maintaining independence as a division directly under the Representative Director, and promotes activities for enhancing compliance awareness in all officers and employees. The Corporate Compliance Dept. reports on the status of its activities to the Corporate Compliance Committee.

In addition, Taikisha assigns a Compliance Officer in each business office and business division in Japan and overseas, thus clearly separating the commanding/reporting line from the Corporate Compliance Dept., to strengthen the compliance system.

● Compliance Manual



Monitoring of Compliance Risk

Taikisha monitors the legal compliance system of each business office to visualize compliance issues, in order to ensure its mission statement and corporate philosophy are made well known and realize a more robust compliance system.

In Japan, Taikisha identifies broad-ranging compliance issues of each branch office, including the status of compliance with laws and ordinances such as the Antimonopoly Act, the status of dissemination of the whistleblowing system, and the status of excessive overwork.

Taikisha also works on visualizing compliance issues of its overseas business offices, such as the status of compliance with laws and ordinances such as the Anti-Bribery Act and Competition Act and the status of development of whistleblowing system, as well as risks specific to each business office based on the conditions of each country. By taking these measures, Taikisha aims to establish a compliance management system that prevents material legal violations both in domestic and overseas business offices, while helping them to detect minor cases and implement remedial measures on their own.

Internal Check System

The Corporate Compliance Dept. visits business offices in Japan and overseas to monitor the status of compliance with laws, ordinances and internal rules and to point out issues and give guidance for improvement. In overseas business offices, Taikisha has established a double-check system whereby a Compliance Officer manages the status of compliance of each business office while the Corporate Compliance Dept. checks the status of activities of the Compliance Officers.

Taikisha has also established a whistleblowing hotline through which any legal violation, misconduct, or unethical conduct can be reported directly to the Corporate Compliance Dept. or an outside law firm. The whistleblowing hotline, which can be used by officers and employees of group companies as well as business partners, ensures protection of privacy and prevention of disadvantageous treatment of informers. In FY2015, Taikisha started developing the whistleblowing system at its overseas business offices as well. Taikisha conducted an awareness survey on the whistleblowing hotline targeting employees of domestic business offices, and the result showed that 98.5% of respondents were aware of the system. If a whistleblower actually speaks out against Taikisha, it takes appropriate action upon investigating the case promptly and undertakes corrective action where necessary.

Efforts to Firmly Establish Compliance

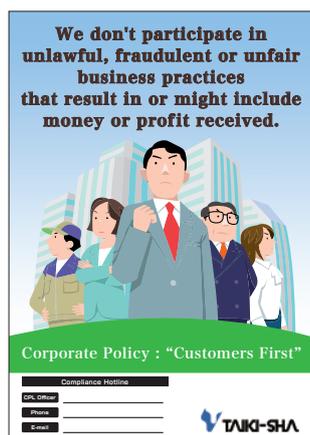
Taikisha has designated November of each year as Compliance Promotion Month to promote the penetration and establishment of compliance awareness, and holds read-through sessions of the Compliance Manual targeting all employees to ensure the compliance requirements are thoroughly communicated. In addition, Taikisha provides e-learning programs for all employees. Taikisha also invites people to suggest compliance slogans internally, and makes a poster with the best slogan on it and distribute it to all business offices in Japan and overseas. The slogan on the compliance poster sent to

overseas business offices is translated into local languages.

Taikisha selected 28 Japanese laws and ordinances closely associated with its businesses, and has been preparing manuals that contain explanations of their legal requirements, penalties, and relations with its operations since 2014. Taikisha compiled 16 laws and ordinances in the manual by the end of FY2015, and plans to complete compiling the remaining 12 laws and ordinances by the end of FY2017.

The compliance manual is made available in English, Korean, Chinese, Thai, Indonesian, Vietnamese, Cambodian, Burmese, and Portuguese, and Taikisha will create it in other languages as needed.

● Compliance Poster



English



Japanese



Chinese



Korean



Thai



Indonesian

The Status of Implementation of Compliance Training

As a company-wide effort for ensuring compliance, Taikisha also provides group compliance training. In FY2015, Taikisha held 32 training sessions with the mission statement, the Anti-Monopoly Act, and the basic approach to compliance as the main themes, and a total of 547 employees attended.

Taikisha also held 23 compliance training sessions overseas and had a total of 597 attendants. The main themes were the mission statement, the Competition Act (the Anti-Monopoly Act in Japan), the Anti-Bribery Act, and the whistleblowing system. In this way, Taikisha is endeavoring to raise the awareness of compliance of national employees in its overseas business offices. Taikisha recognizes that the development of the Competition Act and the Anti-Bribery Act is well underway in Asia, in particular, and it is leading to the increased

compliance risks in this region.

As for the efforts for preventing bribery, the Compliance Manual states that Taikisha takes a strong stance to prevent bribery and prohibits bribing anybody regardless of the attribution of the other party, e.g. public officers or private sector companies, to prevent corruption. Through such compliance training and, the Compliance Manual etc., Taikisha prevents not only intentional misconduct but also getting involved in bribery due to a lack of awareness and knowledge of the persons concerned.