

 President Masamitsu Takahashi	DAI-ICHI CUTTER KOGYO K.K. (1716)
	 第一カッター興業株式会社

Company Information

Market	TSE Prime Market
Industry	Construction
President	Masamitsu Takahashi
HQ address	833 Hagisono, Chigasaki-shi, Kanagawa
Year-end	June
Homepage	http://www.daiichi-cutter.co.jp/

¥

Financial information

Sales	Operating profit	Ordinary profit	Net profit	Total assets	Net assets	ROA	ROE
19,337	2,760	2,936	1,743	17,991	14,321	17.5%	13.6%

*Unit: million yen. Results for the term ended June, 2021. Net profit means profit attributable to owners of parent. ROA stands for return on asset.

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1. Corporate Overview

DAI-ICHI CUTTER KOGYO is providing maintenance and repair services for social infrastructure based on its expertise in diamond and water jet method, as well as services of building maintenance and reuse and recycling of IT equipment. The diamond method uses industrial diamonds to saw and drill roads and structures. In the conventional concrete crushing method, it was always necessary to be conscious of nuisances such as noise, vibration, dust, but in the diamond method, the operation can be executed safely, speedily, accurately and without having an adverse effect on the environment. On the other hand, the water jet method destroys concrete bonds by jetting water under extremely high pressure. With this method, a concrete structure can be repaired with pinpoint accuracy without damaging reinforcing steels.

The Group includes 5 consolidated subsidiaries, WALLCUTTING Co., Ltd which engages in wire saw and core boring works; KOUMEI Corporation which is strong in offshore engineering (underwater sawing and drilling works); Shin Shin Corporation which is based in Okinawa Prefecture; ASIRE Corporation which is strong in architecture-related water jet method; Movable Trade Networks Corporation which engages in reuse and recycling business; and Diamond Kiko Corporation, which is an equity method affiliate.

The company operates 23 business establishments, including newly established ones and subsidiaries acquired through M&A, around Japan.

1-1 Corporate History

The founder of the Company, who worked at the operation company that introduced flat saws for roads for the first time in Japan, foresaw the expansion in demand for that in the future. He then founded the Company in Chigasaki in Kanagawa Prefecture in August 1967. He did this to engage in the sawing and drilling work of asphalt and concrete structures with the diamond method.



The Company had few projects at first. However, the Ministry of operation (now: Ministry of Land, Infrastructure, Transport and Tourism) issued a directive making it mandatory to use flat saws from a safety perspective when performing road cutting work. This triggered an increase in the amount of this work.

While other companies in the same industry were doing business locally, the Company expanded to Chiba, Tochigi, Mito and Takasaki upon opening its Sapporo Office in June 1969. At the same time, it also expanded the scope of its operations to include the drilling and cutting work of concrete structures in addition to road cutting. The mobility to respond quickly to customer needs, the level of operation quality, and the wealth of knowledge and expertise on materials and machines used in operations have been highly appreciated by the Company's customers. Therefore, its business operations steadily expanded and it registered its stock over the counter with the Japan Security Dealers Association in 2004.

In the 2000s, the Company further accelerated its diversification of methods and expansion of offices across Japan through M&As. It then listed on the First Section of the Tokyo Stock Exchange in December 2017. It is working to solve the social issues faced by Japan (e.g., aging infrastructure).

【1-2. Corporate Philosophy】

The company updated its corporate brand when formulating new mid-term management plan (FY ending June 2022 to FY ending June 2024). At the same time, it also established the following tagline*, purpose, statement and mission.

<p>CORPORATE IDENTITY</p> 	<p>BRAND IDENTITY</p> 
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TAGLINE	RESET AND GO
PURPOSE	To protect the safety of social infrastructure in both ordinary times and emergencies to support a stable society
STATEMENT	<p>Much of the social infrastructure built during the post-war period of rapid economic growth is approaching the time when it needs to be renovated. In addition to roads and water services across Japan, if the buildings, power plants, dams, railroads and other infrastructure used on a daily basis come to a stop, it will have a massive impact on daily lives and the economy. Before that happens, we at Daiichi Cutter will work on removing and restarting old structures prior to building new ones as the first step in social infrastructure renovation work.</p> <p>We will aim to create an environment in which diverse people can work even if the number of young workers decreases by improving work efficiency, developing personnel training systems and innovating technology in addition to ensuring safety and security in our daily operations. We will aim for an environment in which anyone can work by collaborating with people who speak different languages around the world. It may also eventually become possible to perform work with robots without sending people to dangerous sites.</p> <p>Natural disasters occur frequently in Japan. Disaster response has become commonplace. We will train on a daily basis to display our real abilities even in work in an emergency and to work safely even in dangerous places.</p> <p>We are not just craftsmen. We bring innovation to our daily work. This leads us to supporting society. We aim to be the first company to be called upon in the world as well as in the universe.</p>
MISSION	<p>To contribute to the development of the industry by creating a safe and pleasant working environment for craftsmen regardless of gender or nationality.</p> <p>To respond to the challenges of society and customers by refining highly efficient and low-environmental burden construction technologies.</p> <p>To be a cool company with cool employees who can be proud (not self-satisfied) of working here to the society and their families.</p>

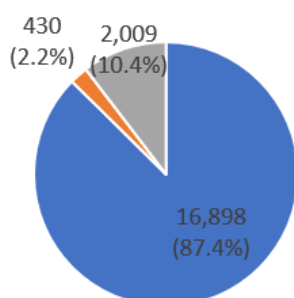
※TAGLINE

These are words that express a company's concept and philosophy or simply state what value that company, its products and its services provide.

【1-3. Business Overview】

The business is divided into several categories, Sawing and Drilling Business, Building Maintenance Business, and Reuse and Recycling Business. The Sawing and Drilling Business is handled by DAI-ICHI CUTTER KOGYO, WALLCUTTING, KOUMEI Corporation, Shin Shin Corporation, ASIRE Corporation and Diamond Kiko. The Building Maintenance Business is handled by DAI-ICHI CUTTER KOGYO and the Reuse and Recycling Business is handled by Movable Trade Networks respectively.

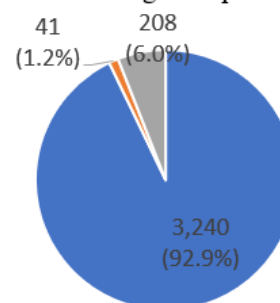
Composition of Sales (FY6/21)



■ Sawing and Drilling Business ■ Building Maintenance Business
■ Reuse and Recycling Business

* Sales for the external customer. Unit: million yen

Composition of Segment profit (FY6/21)



■ Sawing and Drilling Business ■ Building Maintenance Business
■ Reuse and Recycling Business

* Composition of total profit before adjustments. Unit: million yen

<Sawing and Drilling Business>

“Sawing and drilling” refer to the sawing and drilling work necessary for various types of road pavement and the demolition and removal of concrete structures. The Company’s Sawing and Drilling Business mainly focuses on the diamond method using industrial diamond (Diamond Method is a registered trademark of DAI-ICHI CUTTER KOGYO) and the water jet method using water pressure. Wastewater generated from sawing and drilling work is collected and neutralized at a large intermediate treatment facility to be reused as cutting water. Waste generated from sawing concrete is dehydrated and recycled into raw materials for concrete.

The Group operates nationwide. DAI-ICHI CUTTER KOGYO’s sales operation covers all eastern Japan. ASIRE has sales based in Kanagawa and Osaka. WALLCUTTING has sales based mainly in the Tokai region. KOUMEI has sales based in Osaka and the Chugoku and Shikoku regions. Shin Shin has sales based in Okinawa prefecture. Diamond Kiko has sales based in the Kyushu region.

As a constructor, the Group plays a major role in the work and maintenance of infrastructure, and its main clients are general contractors, road contractors, and facility providers. When they receive an order, they order sawing and drilling work of concrete to the Group. Since its clients mainly engage in public works, most of the works carried out by the Group are public works (except ASIRE whose clients are from the private sector). On the other hand, works other than public ones include maintenance of chemical plants, oil refineries, electric power plants as well as cleaning by water jet method. Works are classified into civil engineering works, architecture-related works, urban civil engineering works, road and airport works, and plant maintenance.

◎Main Clients

TAISEI CORPORATION, OBAYASHI CORPORATION, KAJIMA CORPORATION, SHO-BOND CORPORATION, TEKKEN CORPORATION, TOTETSU KOGYO CO., LTD., JFE Engineering Corporation, IHI Infrastructure Systems Co., Ltd., Nomura Real Estate Partners Co., Ltd., Taisei Rotec Corporation, KAJIMA ROAD CO., LTD., Sankyu Inc., Mitsubishi Jisho Community Co., Ltd., Mitsui Fudosan Residential Service Co., Ltd., NIPPO CORPORATION, THE NIPPON ROAD Co., Ltd., SHIMIZU CORPORATION, Sumitomo Mitsui Construction Co., Ltd. (in random order).

◎Main operating work contents

Civil Engineering Work

DAI-ICHI CUTTER KOGYO undertakes repair and removal services for large structures, such as bridge, port and dam, as well as sawing and drilling services under special environments such as underwater operation. In those specific cases, services are carried out by the Company’s exclusive engineers.

Architecture-Related Work

Various kinds of services for demolition and renewal works are carried out, such as demolition work of a building, base isolation work, seismic retrofit, repair work, and new construction. In addition, the Company can carry out service which is difficult by conventional methods, using alternative methods suitable for reducing the environmental load on the surrounding facilities.

Urban Civil Engineering Work

The Company operates civil engineering related works in urban infrastructure, such as railway operation, waste treatment facility, and waterworks facility, and is also involved in environment-related works that can be handled in total from planning to operation.

Road and Airport Operation

The Company carries out various types of sawing and surface treatments for road repair, removal of deteriorated concrete, core drilling for installing lights, runway grooving at airports and others. Its strength is its ability to do the operation even under specific conditions thanks to unique equipment such as grooving machines and custom-made vehicles for core drilling.

Maintenance of Production Facilities

In the maintenance of production facilities, the Company carries out cleaning for plant maintenance, fireless sawing for remodeling work, repainting of floors, and surface treatment. The Company ensures the quality and safety of the work by stationing certified workers for industrial cleaning.

©Main technology : The Company's original method

*Diamond Method

The method is to saw and drill roads or structures by using an industrial diamond. Based on the five basic methods of flat sawing, core drilling, wall sawing, wire sawing, and grooving, the Company has developed a wide variety of diamond methods with its unique ideas.

The "Diamond Method" is a registered trademark of the company, and it has the No. 1 track record in the industry.

The tools used in the diamond method are "Diamond Blade", "Diamond Bit", and "Diamond Wire", each of which uses diamond segments.

"Diamond Blade" is a blade whose edge is attached with segments made by hardening diamond powder with metal bond.

The object is cut by rotating "Diamond Blade" at high speed (using different sizes depending on the type of material and the depth of sawing).

"Diamond Bit" is a cylindrical tool with a cutting edges of diamond tips. It is rotated at a high speed to bore an object (using different bits depending on the size of a hole and the depth of the hole).

"Diamond Wire" is made by attaching beads made by sintering diamond segments with metal bond to a wire at fixed intervals.

"Diamond Wire" can cut any object even in a complicated shape.

Flat Sawing

Generally, flat sawing is the most suitable solution to sawing horizontal surfaces such as floors, floor slabs and pavement. The machine is mounted with a diamond blade. An operator walks from behind and operates the machine by only himself as the machine progresses. It is used for joint sawing, sawing concrete parts for replacement and removal of damaged pavement, and sawing pavement parts when laying pipes under the pavement such as electricity, telephone, gas, water, and sewer pipes. The power source of the machine is gasoline, diesel, electricity and oil pressure. Water is set to come up to the sawing edge during the sawing process in order to cool the cutting edge heated by sawing (dry flat sawing uses compressed air for cooling).

Electric Flat Sawing



(Source: The Company's website)

Core Drilling

In this method, holes are made on objects that are drilled by a diamond bit. Core drilling is used in the field where accurate circular sawing is required. Any diameter of hole can be easily perforated, for water supply and drainage pipes, electric wiring, ducts for air-conditioning system, seismic reinforcement, and others. Core drilling can be very useful when the accuracy of the finish is especially required, such as when collecting samples for strength inspection, drilling holes for anchor bolts, and stitch drilling when removing a part of a thick wall.



(Source: The Company's website)

Wall Sawing

In this method, a traveling guide rail is fixed to a wall, a slope, a floor or the like with anchor bolts, and an object is cut by

high-speed rotation of a diamond blade and movement of a machine on the track. Wall sawing is often used to install door openings, vents, and windows, and can be cut at both right and oblique angles. As it saws along the rail, it can accurately secure an opening. It can also be operated remotely, making it safe to work in any situation. The compact and lightweight machine makes it easy to carry and provides excellent mobility even in places with limited work space such as buildings, expressways and subways.

Wall saw is making a slit for earthquake-resistant on the building



(Source: The Company’s website)

Wire Sawing

In this method, an object is cut by rotating the wire saw at a high speed by a hydraulic or engine type machine while maintaining a constant tension in the wire saw. The method can easily saw a thick and complicated structure regardless of the shape of the object. It can also be operated remotely or automatically, so it can be used safely and freely in all environments, including underwater, high places, and undergrounds.

Wire Sawing can cut metals as well



(Source: The Company’s website)

Grooving

In this method, multiple shallow grooves (safety groove) are carved on a road surface in a direction parallel or perpendicular to the traveling direction of vehicles. Diamond blades are attached to a cylindrical device called a drum at a predetermined pitch, which is rotated to cut a road surface (to improve quality of the road surface by improving slip resistance and drainage). And a drum is attached with a grooving machine. There are both dry method and wet method, and by carving grooves on runways, paved roads and steep slopes, slippage can be prevented. This method was first used at an airport in England in 1956, and has spread throughout the world.



(Source: The Company’s website)

*Water Jet Method

In this method, high-speed water, pressurized and compressed by a high-pressure water generator and jetted from a nozzle, is used for chipping and washing. This method is attracting attention from the industry as an excellent method with consideration for the environment, because it has features such as generating less distortion, few microcracks, and less vibration.

The Company uses the water jet method in a wide range of fields, including civil engineering, architecture, plant maintenance and the environment. In civil engineering and architecture, it is used in concrete removal, molding (opening through concrete walls, selective demolition of concrete structure), surface treatment, coating removal, cleaning, and others. In plant maintenance, it is used in cleaning work (including scale removal, and others.) of plant equipment such as tank reactors, and others. In addition, this method can be used for sawing metal (abrasive sawing), so it can be deployed in places where fire is strictly prohibited.

(The strong point of Water Jet Method)

Less Vibration	Unlike the impact crushing by breakers, rock drills, and others, it is characterized by the mechanism to destroy cement mortar bond of concrete by the energy of ultra-high-pressure water jetted from the nozzle.
Minimal Impact on the Structure	Since deformation, strain and residual stress given to the object are small and microcracks are hardly generated, it is possible to work with the minimized impact on the structure.
Pinpointed Removal	By setting the appropriate pressure and flow rate, only the deteriorated part of the concrete can be removed with pinpoint accuracy without damaging the reinforcing steels.
Removing only Coating and Stains	By adjusting the pressure, only the coating or stains of the object can be removed.
Remote Operation	Remote operation of the machine is easy because the nozzle does not contact with the object. This allows operation in curves and on curved surfaces with uniform quality.

<Building Maintenance Business>

DAI-ICHI CUTTER KOGYO is the only one in the group which handles this business. In complex housing and office buildings, the Company carries out drain pipe cleaning, water tank cleaning, water supply facility inspection, floor cleaning, fiberscope survey, mechanical pit cleaning and so on.

Reuse and Recycling Business

Reuse and Recycling Business is undertaken by Movable Trade Networks, a non-consolidated subsidiary, not subject to the equity method, and two non-equity method affiliates. In the Reuse Business, used IT-related equipment and office automation equipment, such as tablets, PCs, server, and liquid crystal displays (LCD displays), are purchased mainly from companies, and this equipment are sold mainly to corporate clients after data erasing and repairing. The Company also provides data erasing services of IT-related equipment and office installation services of office automation equipment mainly for corporate clients. Used products that are difficult to reuse are dismantled, carried out intermediate processing, and then sold to material manufacturers, who carry out recycling. The items that the Company sells to recyclers range from general materials to “rare metals” such as gold, silver, cobalt and others.

【1-4. Business model, characteristics, and strengths】

(1) Business model “to specialize in subcontract work to increase the number of orders received”

Without becoming a main contractor, the company engages in subcontract works only.

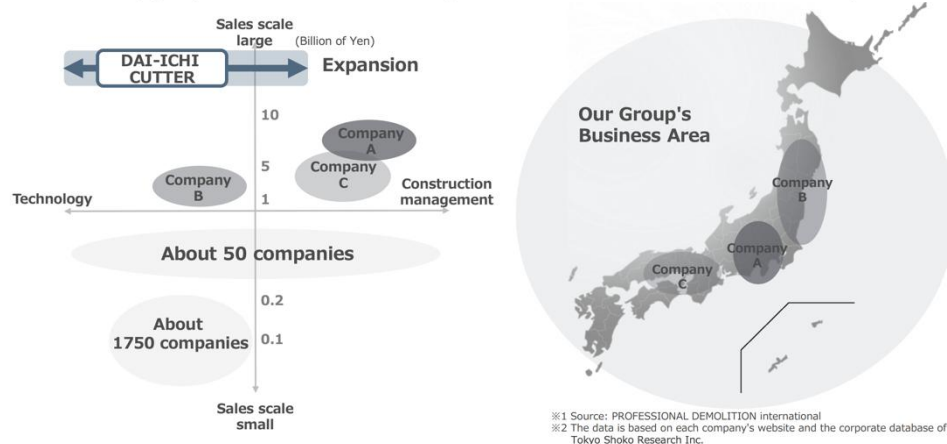
In the construction field, which has a multi-tiered subcontracting structure, it is generally considered more advantageous to become “a main contractor” with high profitability. However, DAI-ICHI CUTTER KOGYO can focus on works in the field of their specialty as a subcontractor, while “a main contractor” needs to oversee all works ranging from upstream to downstream ones, so DAI-ICHI CUTTER KOGYO can finish their tasks swiftly. Therefore, the company can undertake a lot of works and aim to expand its business scale.

(2) Characteristics and strengths

① “The greatest performance in this field thanks to nationwide business operation”

Since the company operates the niche business specializing in specific works, it needs to secure certain numbers of works and

clients in order to increase sales and profit, so it started operating business nationwide in the early days. It has 23 sales offices throughout Japan, and deals with about 60,000 works entrusted by about 7,000 clients, ranging from local builder's offices to major general contractors, by utilizing the network with affiliates. DAI-ICHI CUTTER KOGYO is the only company that operates this kind of business nationwide and can undertake such a large number of works. Another strength of the company is the dispersion of risk by receiving orders from diverse clients.



(Provided by the Company)

② Pursuit of value of having “human resources”

They consider that the core competence of the company is “human resources.”

In the construction field, which is labor-intensive, one third of about 3.4 million construction workers are projected to retire by 2030 due to aging amid the declining birthrate and the aging population, and it will produce a significant impact.

It is certain that the value of having “human resources” will increase considerably in ten years, and it is expected that the competitive advantage of enterprises that have human resources will grow steeply.

The company puts importance on “human resources,” while considering that “their social mission is to supply excellent personnel,” and makes efforts to secure as many excellent workers as possible.

Labor saving is another theme, but they will not refrain from recruitment, but keep in mind “the value of having human resources” and strive to strengthen their competitiveness and fulfill their social responsibility.

③ To deal with a broad range of works with high-level technologies in a one-stop manner

In this field, there exist about 1,800 enterprises, but there are a few enterprises that have plentiful human resources and offer a wide array of specialized technologies with the keywords: “cut,” “chip,” “wash,” “peel,” and “scrape.” Accordingly, many clients highly evaluate the company.

If it is necessary to cut roads, bore holes in concrete, and remove pillars in a site, it is unnecessary to designate contractors suited for respective works, and the company can deal with a broad range of works with high-level technologies in a one-stop manner. This is a great advantage.

④ Network with affiliates

The network with affiliates is also an important point in their competitive advantage.

The company recognizes affiliates as important partners, so the employees of the company are prohibited from calling them “subcontractors.”

At presents, works are allocated equally to the company and affiliates, so that even if the amount of works decreases, the company can keep operation rate high, and if the amount of works increases unexpectedly, affiliates can deal with it. The company can operate business nationwide, thanks to the network with affiliates.

The affiliates feel that supporting DAI-ICHI CUTTER KOGYO in works is worthwhile, and the company strives to solve social issues while pursuing coexistence and coprosperity with the affiliates without relying on them or ordering them high-handedly.



Engineering Group (human resources)

A pioneer in the diamond industry with advanced technology and overwhelming scale



Sales Structure (human resources)

Having an organized sales structure that is rare in the industry



Nationwide Expansion

Branching and sales offices throughout Japan, allowing sales to be conducted regardless of geographic location

Partner Company Network (human resources)

Nationwide network of branches and sales offices, as well as a network of high-quality subcontractors

(Provided by the Company)

[1-5. Flow of value creation]



※ Each figure is the result of FY June 2020.

(made by Investment Bridge Co., Ltd)

The Company is involved in a variety of operations to repair and improve the aging social infrastructure in Japan using its advanced technological skills with its core competence of people as a top company in the industry. In this way, it is providing safe and secure lives to people while realizing a sustainable improvement in corporate value.

2. Interview with President Takahashi

• Social Responsibility and Social Meaning of Existence

Q. In recent years, as society as a whole is aiming for sustainable growth, the philosophy, mission and social meaning of existence has been emphasized in companies that are key players in that.

First, please tell us about the social responsibility and meaning of existence of your company as you see it.

Japan's social infrastructure, such as roads, bridges and water and sewer services, were developed together with rapid economic growth. However, now, almost 60 years later, the aging of that social infrastructure has become a major challenge for Japan as a whole.

For example, many of the sudden road collapse accidents that have occurred in various places in recent years have been caused by the aging of sewer pipes. It also became clear in the wake of the Great East Japan Earthquake that many facilities lack seismic strength.

Moreover, in Japan, where there are many natural disasters in the first place, damage caused by typhoons and heavy rains has become severe in recent years. The aging infrastructure has been greatly damaged and this has had a massive impact on the lives of people.



Under such circumstances, the seismic reinforcement, water pipe renewal work, maintenance, highway repair, bridge and river reconstruction and restoration work we perform are extremely important efforts for Japanese people to live with peace of mind. We believe that protecting the safety and peace of mind of people is our social responsibility and meaning of existence.

In addition, as the amount of aging social capital stock continues to increase, we must hire and train excellent personnel and then continuously send them to job sites to perform a variety of operations appropriately and reliably.

We strongly believe that the supply of such human capital is also an important responsibility of our company.

• Awareness and Way of Thinking about ESG

Q. Please tell us about the relationship between the responsibility and meaning of existence of your company that you just told us about and the environment, society and governance (ESG).

As I mentioned earlier, it is our social meaning of existence to protect the safety and peace of mind of people by engaging in the repair and maintenance of Japan's aging social infrastructure. We recognize that the supply of personnel for that is a major responsibility we must fulfil.

In other words, this social responsibility and meaning of existence is truly the "S" itself in ESG.

Moreover, in terms of the "E" as well, we have worked on the development of methods to reduce the noise and vibrations that come with various operations as a measure against nuisances since our foundation. We have also been focusing on carbon offset in recent years.

In that sense, we think that the sustainable promotion of business activities while being clearly aware of our social responsibility and meaning of existence will solve social and environmental problems. Furthermore, we also believe it will lead to an improvement in our corporate value.

• Efforts in Major Materialities

Q. Your company has now selected 11 materialities. (Refer to "3. Challenges, Materialities and Efforts.") Of these, I would like to ask you about the particularly important materialities for the sustainable growth of your company.

First, I would like to ask about human capital. What do you think about the position of human capital in your company?

As I mentioned earlier, human capital is an indispensable and important asset to responsibly fulfill our responsibilities in our company for which the repair and maintenance of Japan's aging social infrastructure is our social meaning of existence.

I am proud to think of our employees working in job sites as "cool."

I think it is really cool to work without forgetting to smile with a sense of mission in various environments – even if they are sometimes covered in mud, sweaty from being in the intense heat or frozen from working in the extreme cold.

However, they themselves have yet to realize how cool they are. That is a great shame. There are also cases in which people don't pay attention to their appearance, for example, because they have not realized that yet.

Instead, I want them to change their awareness to understand that they are doing good work, wonderful work and work for society.

In that way, more people will understand the work of our company. The number of people who want to join our company will also increase and our relationship with our customers will also become stronger.

In that sense, while strongly recognizing the importance of human capital, I believe it is my mission as president to work on creating an environment that changes the awareness of our employees.



(Provided by the Company)

I think that one of the efforts necessary for that is branding. I believe that branding is especially important in the company. The Daiichi Cutter Management School made a video to train managers and executives.

The participants brought together as one the scenarios they had come up with imagining the ideal state of the company under the theme of "Daiichi Cutter 10 Years from Now." These included the future social situation, their private lives, the people they work with and cooperation in the reconstruction of disaster-affected areas. They even arranged the cast before appearing in the video as the performers themselves.

The work we do of cutting roads, cleaning scale, removing structures and eliminating things does not result in deliverables that remain as a shape like in the manufacturing and construction industries. Consequently, it is kind of difficult to feel a sense of accomplishment and there are parts that depend on each individual's resourcefulness.

Accordingly, we had the trainees attempt to make a video as a deliverable in this training.

Designing the process, producing the video and working together with coworkers in the work we do daily is the same as manufacturing. It is possible to really feel a sense of accomplishment. The participating members could really feel this through this training and video production.

In addition, when making a presentation to all employees, I received good impressions and positive opinions from many of them.

I think that working on their awareness made it possible to provide the realization that their work is "cool."

We have published this video on our website. Please take a look at it.

(URL: <https://youtu.be/JywTRAXxLYs>)

In addition, at the time of formulating a new mid-term management plan in 2021, we worked on the improvement of brand development, setting of our purpose, etc. in order to reinforce the capability of disseminating a message.

Moreover, I repeatedly send messages through various opportunities, such as management briefings, in-house newsletters, morning meetings and evening meetings to all employees.

We are also working to turn women into valuable assets.

At present, we have three women working in job sites. They brighten the atmosphere of job sites and our customers also love them. We have seen good aspects from that.

We would like to connect their opinions to reform and improvement of job sites in the future.

For example, the weight of machines is a challenge that needs to be solved for women to work. Moreover, solving this will also help those who are getting older in addition to women.

Moreover, it was said that you could only be called a fully qualified worker once you had done everything for yourself – from steps 1 to 10 – for the first time. However, it is fine for strong male employees to do steps 1 to 7 and then women to take charge of finishing off steps 8 to 10.

Dividing labor can also improve efficiency. Therefore, I tell offices which have been assigned women to favor those women to the fullest to discover many realizations like that.

In other words, creating an environment in which women can work easily has many benefits over the entire job site.

It is likely that those women will transfer to operation management and sales after working in job sites for several years. The fact those women will be active for a long time will bring about opportunities that will lead to our next female employees joining the company. We have high expectations for the success of those women while creating the right environment.

On the other hand, we also need to secure personnel with expertise in addition to site personnel for our company to continue growing.

For example, in the fields of finance, human resources, public relations and R&D.

I believe it is necessary to strengthen our team focused on mid-career employment in this respect.

Q. Please tell us what kind of efforts you are making under what kind of thinking in regards to fostering the worth of working for your employees, your education and training systems, and the health and safety of your workers.

The thing we are most aware of in terms of training our employees is to give them the opportunities to work and take on challenges.

For example, by allowing a second-year employee to participate in the planning and implementation of exhibitions for recruitment, he becomes aware that he was chosen to be a part of our company. On the day, he can look back at himself to talk to students in an easy-to-understand manner about what he has been doing since he joined our company. This also serves as training to speak in public.

We give meticulous education by year and rank. Moreover, in parallel with training, we want to provide various opportunities and challenges to lead to personal growth.



(Provided by the company)

We also encourage motivated employees to enter university as mature students.

Of course, it is difficult for those people to create the time to continue studying for two to four years while working. That is a challenge. Overcoming that challenge gives them confidence. They also contribute greatly to the company, so we consider this an extremely important program.

Moreover, we have enhanced various subsidy programs that apply not only to employees but to their families. For example, we assist with influenza vaccination subsidies for families and help with the physical examinations of spouses of employees with a set of gynecological examinations.

This is a message to families that our employees can work because they are supported by healthy families.

Q. Next, please tell us about your efforts and innovations to strengthen the competitiveness of your company.

We work on R&D under the keywords of troubles, safety and energy saving. In addition, we are also aware that our important tasks include environmental measures such as the ECOA hydraulic drive system driven by water without using oil that we developed recently and labor saving under a declining birthrate and aging population.

In terms of labor saving, we are also focusing on research and development to create an environment in which it is also easy for women to work, and environment in which people with disabilities can work in the same way as those without disabilities and an environment in which elderly people can continue to work on job sites.

If we achieve these, I believe it will also greatly contribute to society in addition to creating business opportunities. This is because we will have refined remote and automation technologies that are the future of laborsaving operation. It will also be because we are able to reliably capture the demand for the maintenance and construction of infrastructure – including the decommissioning of nuclear power plants.

Nevertheless, it is difficult to complete everything by ourselves. Therefore, we are working on open innovation with various universities and companies.

Strengthening our development capabilities will serve as a source of our competitive advantage in addition to enhancing our human capital. Accordingly, we will continue to invest in and refine management resources on this in the future.

Q. What are your thoughts about environmental challenges? For example, greenhouse gas emission control, vibration and noise suppression, and water and sewage management?

We have worked on developing methods to reduce noise and vibrations that come with various projects as measures against nuisances since the foundation of our company. In recent years, we have promoted carbon offset with two services: Intermediate Sludge Treatment Service with Carbon Offset and PlaCon floor®. We are the only company in the industry that has introduced carbon offset.

In addition, various plants across Japan that currently emit carbon dioxide will be forced to undergo large-scale renovations to reduce those emissions according to the target set by the Japanese government in 2020 to realize a carbon neutral society by 2050.

This will lead to a significant increase in business opportunities through the resolution of social issues for our company. We would like to expand out human capital to steadily meet such demands and expectations.

Q. Please tell us your thoughts and efforts with regards to corporate governance.

We recognize that improving our corporate value over the mid- to long-term by building a corporate governance structure in which we co-exist and co-prosper with our customers, shareholders, local residents, employees and other stakeholders is an important management issue.

However, please let me apologize again on this occasion for the concerns and trouble we caused due to the misappropriation suspected at our subsidiary, which was discovered last year.

As a result of seriously accepting this fact and thinking that we need to make sure that nothing like this happens again, and also due to obligations stemming from the selection of the Prime Market, we reviewed the fundamentals of the way in which governance should work.

First, based on a recommendation from the third-party committee, we made the majority of directors outside directors. Furthermore, we set up a whistle-blowing desk outside of the company and we are also taking steps to elevate the mental security of employees.

We shall build a sound governance system by implementing measures for “creating corporate culture centered around compliance.” I would like to point out that this is a strategy as well as a declaration.

● Mid-term Management Plan

Q. Next, please tell us about the mid-term management plan. First, could you please summarize the previous mid-term

management plan, which ended last term?

I will talk on each of the four basic strategies.

“Basic strategy 1: Reinforcement and expansion of the recruitment and development of human resources”

Regarding recruitment, we increased the number of recruitment channels and endeavored to make a thorough explanation to reduce mismatches when hiring mid-career recruits. In addition, as a result of engaging in referral-based recruitment, in which our employees introduce their friends and acquaintances, we were able to increase the number of our staff by 133, which considerably exceeded our plan for adding 75 new members to our staff.

Approximately 60 % of our employees are engineers and craftsmen, and I believe that managing to recruit such a number of personnel is more than enough amid the progressing decrease in the population.

However, as I feel that the attractive point of our company is still not sufficiently conveyed when recruiting new graduates, I would like to continue to elevate the interest in our company by making our purpose and social significance known.

With regard to personnel training, we faced difficulties in implementing all training programs as planned in the coronavirus crisis, but I believe that even so, we have been successful in assisting new graduates who joined our company through the mentor system (a system where senior employees close in age and senior employees with a similar career length support new employees and young employees).

In addition, we have been conducting training for third-year employees over one and a half month for some time now. While assembling employees who joined our company at the same time and are working at different branch offices for a certain time period and thus allowing them to see how they engage in their work and how much they have grown, the training also leads them to understand the business of our company more deeply by experiencing a variety of short courses, such as in the Water Jet Department, Surface Treatment Department and Building Maintenance Department, not only their own work.

I would like them to utilize this kind of experience once they returned to their workplace after the training in order to expand the range of their work.

Regarding attendance management aimed at retaining employees, we have been successful in setting stricter standards for overtime work time every year and we are also promoting measures to increase the number of days off per year while securing productivity.

Moreover, regarding employee benefits, we have introduced “Group Long-Term Disability Insurance,” allowing for the compensation of income that decreases in case an employee becomes incapable of working due to an injury or illness, and we are steadily progressing with initiatives for creating an environment where employees can feel reassured working.

However, as there isn’t quite a goal for this kind of matter, we shall keep engaging in such initiatives in the current mid-term management plan as well.

“Basic strategy 2: Reinforcement of marketing”

We focused on transportation infrastructure as well as industrial infrastructure instead of daily-life infrastructure, which is easily affected by the market situation.

Regarding transportation infrastructure, while projects for the renovation and anti-quake reinforcement of slabs of mainly expressways drove the overall performance, we could not avoid the impact of the coronavirus crisis in the travel field, including airports and railways.

Regarding industrial infrastructure, investment in production facilities stagnated depending on the industry type due to the impact of COVID-19 as well.

On the other hand, renovations of hydroelectric power plants are increasing as a consequence of the shift to renewable energy for the realization of a carbon-free society.

Test marketing and recruitment of human resources for the advancement into overseas markets were difficult to conduct due to the coronavirus crisis. While we would like to keep considering the expansion of our business abroad, we intend to concentrate on our activities on the Japanese market for the time being.

“Basic strategy 3: Improvement of the network with partner companies”

As a result of proactively accepting orders for the renovation of expressways, where the work site spans over a large area, we were able to build a wide network with partner companies in various region.

While the outsourcing ratio temporarily rose as we asked more partner companies to help us, we believe that we succeeded in performing works ensuring the quality demanded by the clients.

As we realized anew that there are partner companies with a variety of workstyles, philosophies, and ways of progressing with work duties owing to the increase of relationships with them, I am thinking that such realization could give us clues for future service development in our company.

Seeing there were many projects, we intended to provide education opportunities and stimulate the communication with the

partner companies in order to reinforce the network, but we were unfortunately unable to conduct such initiatives as planned due to the impact of the coronavirus crisis.

“Basic strategy 4: Research and development”

Regarding our achievements, we succeeded in completing the “ECO Water Pressure-Driven Cutting System,” which is driven by water without using oil.

We received favorable recognition at some renovations of fishing ports because there are no oil leaks, so we have received orders over multiple years.

Furthermore, the “Hydro-Jet RD Method,” which was born as a result of joint research with the Hanshin Expressway and Tobishima Corporation, was completed and adopted for the expressway. We are expecting that this accomplishment will bring opportunities to use the method on other expressways. As it will significantly contribute to revenues by reducing the road closure period by half, I believe that it will be highly appreciated.

Regarding investment in growth other than these basic strategies, we succeeded in investing 3.7 billion yen in total over the three years, exceeding the investment goal of 2 billion yen, in the education of personnel, research and development, enhancement of the functions of each office, M&A, etc.

In addition to implementing the above-mentioned strategies, we succeeded in exceeding the planned figures for the three years in all items.

For our self-evaluation, we believe that the mid-term management plan has been achieved well.

Q. Next, we would like to ask about the new mid-term management plan.

First of all, the proactive branding strategy is eye-catching. What kind of philosophy lies behind this initiative?

I have always thought that the employees working at Daiichi Cutter Kogyo are cool. The way they work on the maintenance and repair of the deteriorating Japanese social infrastructure, which are challenging, no matter whether it’s hot or cold, is really cool. However, as I felt that it is a shame if they themselves don’t realize this coolness a little more, I thought of making the coolness of our company employees clearer in new light, through the upgrade of our brand. Furthermore, we set the purpose for clarifying the social significance of our company.

For the project, a total of 38 members, from new hires to myself, voluntarily applied for this project from various departments ranging from front-line to administrative.

We are progressing with activities in the four categories: DX, new business domains, brand development and the mid-term management plan. We once stopped the activities due to the scandal in our subsidiary, but now we have restarted the activities with the objective of making our purpose well-known in our company.

By reevaluating the significance of working at Daiichi Cutter and realizing how cool we are, as a step toward the realization of our purpose, I am expecting that employees who have pride in working at our company will increase, which in turn will bring about increases of applicants to our company, partner companies who would lend us a hand, clients who would like to entrust us and investors who would consider becoming a shareholder and grow alongside us.

As our company is going to celebrate the 55th anniversary of its establishment in September 2022, we are planning an overall upgrade of the brand on this occasion.

Q. In the current mid-term management plan, you stated that while aiming for your long-term ambitions of “the world’s best team of engineers” and “a market capitalization of 100 billion yen,” you are going to commit to E (environment)/S (society)/G (governance) goals as well as numerical goals (financial/non-financial), with the strategies for the realization being “Human Resources Strategy,” “Market Position Strengthening Strategy,” “Governance Strategy” and “Growth Strategy.” As you already kindly talked on “Governance Strategy,” please give us a comment on the “Human Resources Strategy,” “Market Position Strengthening Strategy” and “Growth Strategy,” respectively.

“Human Resources Strategy”

In general, “business” is first mentioned in mid-term management plans and business plans, but we first set our “Human Resources Strategy.”

This is because we view the “Human Resources Strategy” as the first and foremost, in other words, the most important challenge for us.

The deterioration of the social infrastructure is a significant challenge for Japan. If we assume that the year 1992 saw the peak of investment in construction, the stock of facilities, buildings, etc. whose durability period has passed is going to keep growing from now on as well.

Amid such situation, the country, municipalities, expressway companies, etc. perform a diagnosis of architectural structures, aim for extending the life of those which can be used for a long time and quickly repair or dispose of damaged ones. This also leads to the reduction of the burden on the global environment. This stance is now mainstream.

We take pride in our company's technologies being indispensable in the maintenance and repair of social infrastructure, so I think that we are obliged to sustainably keep providing excellent human resources.

As it is said that one third of craftsmen will have retired due to old age by 2030 and the birth rate keeps declining, it is not easy to fulfill this duty, but this is why we believe that in regard to the development of human resources, increasing our partners by clarifying our connection with the society through brand development, developing an environment where employees can feel secure and reassured working, etc. while realizing diversity and improving quality will form the foundations for realizing sustainable growth of our company.

As the "value of having human resources" will further grow in the next 10 years, we believe that the corporate value of our company will also improve if we continue this kind of initiatives and achieve results through them.

"Market Position Strengthening Strategy"

We have brought up three measures for elevating our position on this niche market – "research and development," "corporate group activities" and "the network with partner companies."

The most important point is research and development.

Currently, we are making preparations for the establishment of a research institute-like department, allowing for the consideration of all kinds of matters from a medium- to long-term viewpoint.

We are expecting that this will bring about significant effects by developing solutions while reflecting ideas which can be raised specifically at our company thanks to employing many craftsmen and the points we noticed in our relationship with partner companies as mentioned above in joint development with other companies, while improving productivity and saving labor.

In addition, we assume that providing such solutions to partner companies will lead to the development and growth of partner companies as a supply chain and we would like to contribute to the development of the industry beyond that as well.

We are also promoting the maximization of the advantages of group companies through personal interaction, sharing of education, etc., streamlining business operations through DX, etc. as group activities.

Regarding the network with partner companies, we would like to keep strengthening the relationships, through the support of education and recruitment, while viewing them as our important partners.

To partner companies, our company may seem difficult to approach due to its large scale. Therefore, we would like to proactively pursue communication for them to understand that this is not the case and that we are all partners involved in the same work.

"Growth Strategy"

We brought up three strategies: "expansion of the existing business," "M&A" and "new business."

Regarding the "expansion of the existing business," we are thinking of expansion of the area and deepening, or opening up new fields.

For the expansion of the area, we intend to reinforce our business in the Tokyo metropolitan area and the western Japan area. Projects in western Japan are undertaken mainly by our subsidiary Koumei Kouji and further enhancement of the back-up system for this company will form the most reliable pillar. The renovation of expressways is increasing in Osaka, on the Chugoku Expressway, Matsuyama Expressway in Shikoku, etc., and we would like to proactively expand projects in western Japan as well.

One approach for growth is the demolition of thermal power stations, which is currently talked about in relation to the environment. In addition, there are excellent Japanese technologies, which would reduce the burden on the environment even in thermal power stations, so we assume that projects for the reconstruction of thermal power stations may also increase. Besides that, we shall engage in new fields, which deepen our original business, such as the enhancement of water power generation plants, demolition of deteriorated wind turbines for wind power generation in regard to wind power generation, etc.

An interesting topic is that we intend to participate in the development of space airports. We are the only company specialized in works as a regular member of an organization called Space Port Japan. We still don't know what kind of work will concretely come up in future, but we think that we may undertake works at airports, such as installing runway grooves to prevent hydroplaning, and repair of coated surfaces damaged by lights and jet engines. We believe that space-related business will also motivate our employees.

Regarding M&A, we intend to proactively keep deepening the relationships with characteristic companies and acquiring them as subsidiaries as the next step.

We are not considering a significant shift from our current business domain and we suppose that we will focus on the preceding and following processes of our current work.

Works in which we are involved are considerably subdivided. Placing an order for works all at once would save labor for clients, so we suppose that this may be a chance to expand our business domain as our clients may ask DAIICHI CUTTER also for the removal when cutting and removing something or request an investigation and the production of a blueprint before works.

With regard to new business, we are aiming for contributing to the improvement of the productivity of medium- to small-size companies.

In the 55 years until now, we have employed many engineers and craftsmen and by going through trials and errors, we accumulated know-how while placing importance on specializing in people and taking good care of our employees.

We are thinking that providing this kind of know-how for the management of business operations and employee education to many medium- to small-size companies in labor-intensive industries which are facing labor shortage may lead to resolving challenges in society, and we are currently making preparations with commercialization in mind.

● **ROE**

Q. What do you think about your ROE?

Our ROE has been at a level of around 12 to 13% over the past few terms.

We will continue to invest, but we would like to raise our asset efficiency and maintain our ROE at the same level for the time being and raise it to 15% until 2036 to meet the expectations of our shareholders and investors.

● **Message to Stakeholders**

Q. Thank you for talking to us about various matters. Finally, please can you give a message to your stakeholders?

We are an extremely modest company. We are a company that is rarely seen by customers. Nevertheless, as I said at the start, we are a company shining bright with an extremely large social responsibility and social meaning of existence to solve the challenges faced by Japan with aging social infrastructure.

This time, we set the purpose of “protecting the safety of the social infrastructure in normal times as well as in emergencies and supporting a stable society” in order to further clarify such social significance. We believe that taking action toward the realization of this ideal will contribute to society and lead to the improvement of the value we have as an enterprise.

We will continue to aim to be a company that shines even brighter so that we satisfy our customers, partner companies, employees, communities, shareholders and all our other stakeholders by realizing sustainable growth and by providing value to society in the future.

On the other hand, although we have started to disclose ESG information with the issuance of this ESG report, we do not think we have made sufficient concrete efforts or data disclosure on ESG from a perspective of completeness. We will continue to work on this as an important challenge with a focus on developing our internal structures.

I would like to ask all our shareholders for your continued warm support. Thank you.

3. Issues, Materiality, and Measures

The following are the challenges and materialities that Daiichi Cutter Kogyo is aware of currently.

We also conducted interviews with those outside the Company when selecting the materialities.

Challenge	Materiality
Environment	Control of greenhouse gas emissions

	Suppression of vibrations and noise
	Water and drainage management
Social capital	Specialized technologies and high standard services
	Contribution to local communities
Human capital	Fostering of the job satisfaction of employees
	Education and training system
	Employee health and safety
Business model and innovation	Efforts and innovations to strengthen competitiveness
Risk management and governance	Expansion of the corporate governance structure
	Risk management (accidents and laws/ordinances)

*Prepared with reference to the SASB Materiality Map.

3-1 Materialities in Environment Challenges

The Company recognizes that contributing to environmental problems is one of its important responsibilities. In addition to reducing its environmental burden with various methods, it is possible for its client companies to implement carbon offset using the Company's services as below. This also leads to the creation of business opportunities.

(1) Reduction of Greenhouse Gas Emissions

The Company is promoting carbon offset* with two services incidentals to its main business: The Intermediate Sludge Treatment Service with Carbon Offset and PlaCon floor®. It does this to reduce greenhouse gas emissions.

*Carbon Offset

Companies are making efforts to reduce greenhouse gas (GHG) emissions (e.g., CO₂) that cannot be avoided in daily life and economic activities. Carbon offset is the concept of contributing to the environment by offsetting the amount that cannot be reduced despite that with credits created from reduction and absorption activities implemented elsewhere.

(i) Intermediate Sludge Treatment Service with Carbon Offset

The Company started offering the Intermediate Sludge Treatment Service with Carbon Offset on July 1 2020. This is the first effort in the industry to carbon offset the energy of the facility operation used when performing the intermediate treatment of sludge discharged through its flat saw operations in-house.

Overview of the Effort

When Daiichi Cutter Kogyo performs in-house the intermediate treatment of sludge discharged through its flat saw operations, its carbon offsets one year's worth of CO₂ generated from the energy used when operating the treatment facilities. Sludge becomes neutralized water and dehydrated cakes when it is intermediately treated. The neutralized water is reused as cutting water and the dehydrated cakes are reused as the raw materials of concrete to be environmentally-friendly.

The Company has also now furthermore decided to carbon offset the energy used in the operation of its sludge treatment facilities as its corporate responsibility.

Emission credits used for carbon offset are an effort that responds to the opportunity to utilize renewable energy that includes the supply chain by adopting renewable energy credits.

The Company has acquired Carbon Offset Certification, third-party authentication, for this service. This ensures a certain level of reliability and transparency for this effort. Moreover, there is no additional charge for carbon offset. Therefore, it is possible for customers to contribute to the environment just by asking the Company for intermediate sludge treatment.

Background to the Introduction of This Service

The Company provides sophisticated technology by implementing a variety of operations in a wide range of fields including

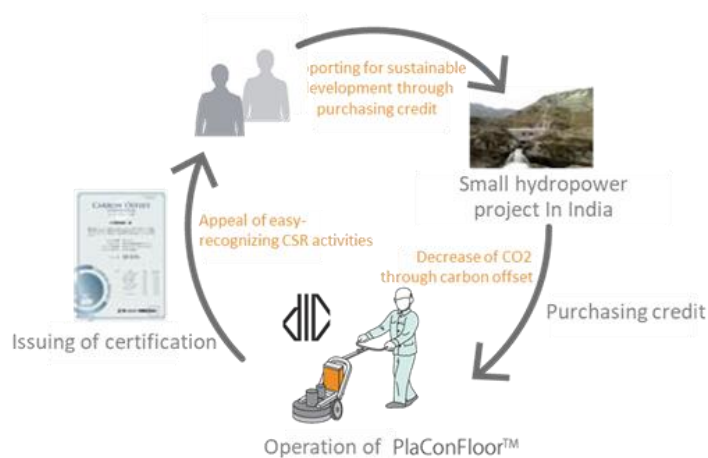
construction, architecture and facilities with a focus on the sawing and drilling of concrete structures. In recent years, global warming has become more serious. Against this backdrop, it has become necessary to balance conflicting matters in terms of urban development and conservation of the global environment. Accordingly, the Company decided to provide this service to reduce its environmental burden to also be able to continue its business activities in the future.

(ii) PlaCon floor: Carbon Offset Compatible Operation

Damage to the floor and around cracks is liable to occur in factories and warehouses. This is caused by the adhesion of oil, the impact from falling objects and repeated loads from the movement of heavy objects. If the flooring peels from the damaged points on coated floors and oil permeates the peeled surface, the concrete floor itself will weaken and its functions as a floor will be impaired.

The Company implements operation called PlaCon floor in response to this challenge. PlaCon floor involves grinding and polishing the low-strength surface layer to produce floors that take advantage of the inherent durability of concrete.

Like the intermediate sludge treatment service, the Company is deploying PlaCon floor as carbon offset compatible operation to support the activities of its customers to proactively reduce their environmental burden.



(Provided by the Company)

(2) Suppression of Vibrations and Noise

As touched upon in “1-3. Business Description,” the major feature of the diamond method and water jet method employed by the Company is the reduced vibrations and noise. The adoption of these methods is expanding as an alternative to conventional methods with lots of vibrations and noise despite being inexpensive.

The low vibrations and noise also have a significance in anti-aging work in addition to not adversely affecting local residents when implementing operations in urban areas.

The Company cares for part of existing old structures with repairs and reinforcements when extending the life of those structures. However, if adopting a method with lots of vibrations on those parts, it is possible that cracks will occur even on the parts it is not working on.

In contrast to that, the diamond method and water jet method are highly rated because it is possible to suppress the generation of cracks that cannot be seen with the eyes.

(3) Water and Drainage Management

Water is used in the work when implementing the diamond method and water jet methods that are the main methods of the Company. Therefore, it generates wastewater in which sludge (chips) and water are mixed together by cutting.

The Company is implementing the following methods to appropriately treat this wastewater without burdening the environment.

Method	Overview
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<p>Water recycling method</p>	<p>This is a system in which it is possible to collect and reuse wastewater used for cooling water. The flat saw wastewater at the time of road cutting is pumped up as it is and collected as mud (slag). It is then separated into water and solids by filtration, pH treatment and solidification treatment. The water can be reused as cooling water while the solids can be reused as cement materials and other resources.</p> <p>< Flow chart of the water recycle process ></p> <p>(From the materials of the Company)</p>
<p>Dry diamond method</p>	<p>This is a method that does not use cooling water for cutting. It was difficult to cut without water in the past because the diamond segments could not endure. However, the quality of diamond segments has improved in recent years enabling a dry cutting. This does not generate dirty water, so it is environmentally-friendly. In addition, it also has the benefits of being able to significantly reduce the amount of industrial waste and cut costs while making post-treatment easier. There is a dry flat sawing method, dry core drilling method, dry wall sawing method and dry wire sawing method among others.</p> <p>(From the materials of the Company)</p> <p>The Company is also developing its own machines and tools that assume use under conditions with a high level of difficulty (e.g., nuclear power plants).</p>
<p>Intermediate disposal site</p>	<p>The Company has its own dedicated plant to perform the intermediate treatment of wastewater approved by the local government (intermediate disposal business). The Company opened a large intermediate treatment facility dedicated to flat saw wastewater that can process more than 10 cubic meters a day for the first time in Japan in 2014. Having an intermediate disposal site enables the Company to provide a one-stop service from cutting work to wastewater disposal.</p>

The Company is taking comprehensive measures against discharged slurry by using the water recycling method and by operating the intermediate disposal site.

Another major feature is that it is possible to provide variations in slurry disposal to the customer according to the actual conditions at each job site.

(4) Other

ECO Hydraulic Drive Cutting Method

It was common to work with hydraulic equipment and air tools in operations at the waterside or underwater for which electric

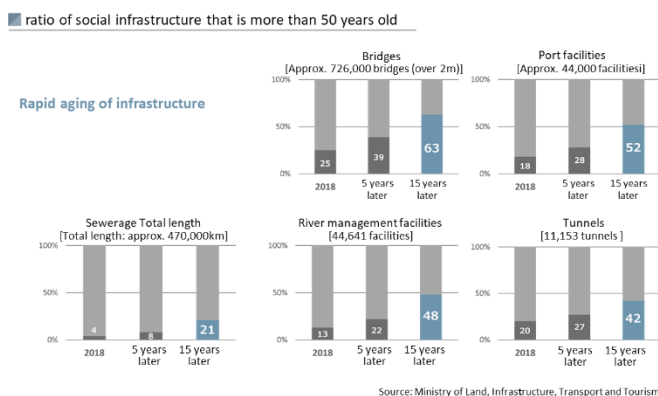
tools cannot be used. Measures to prevent oil leaks from hydraulic equipment were a big challenge and were a lot of stress. The Company developed a drilling machine equipped with a motor driven hydraulically (force by circulating water) instead of driven by oil (force by circulating hydraulic oil) to solve this problem. In addition to eliminating the risk of oil leaks, it is also not necessary to treat the waste oil. This contributes to a reduction in the Company’s environmental burden.

3-2 Materialities in Social Capital Challenges (1) Specialized Technologies and High-level Services

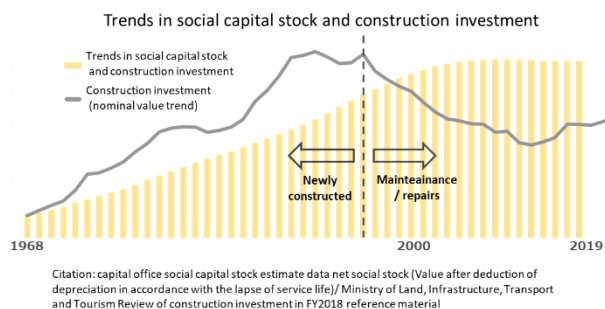
Social infrastructure is aging. In 15 years, 63% of the approximately 726,000 bridges and 52% of the approximately 44,000 port facilities in Japan will have been built more than 50 years ago. This trend is the same as the changes in the demographics and is an almost accurate estimate of the future.

Let’s also look at long-term trends in the Japanese construction market. Construction investment has halved from its peak at the time of the financial crisis in 2008. While it has been recovering in recent years, the upward trend in the total amount of net social capital since 2000 has returned to normal. It has been flat or slightly downward recently. This indicates that construction investment has shifted from construction and building to maintenance and repairs. As described above, the majority of infrastructure have been around for nearly 50 years since when they were built. Against this backdrop, there has been a shift from tearing down and rebuilding to repairing and using for longer. In other words, the necessity of maintenance and repairs is rapidly increasing with the aging of social infrastructure.

This is proven by the fact the maintenance and repair expenses announced by the Ministry of Internal Affairs and Communications have been showing steady growth every year while public works projects have been curtailed. The increasing need for maintenance and repairs is an unchanging trend against the background of the aging of social infrastructure.



Construction investment has been recovering in recent years, but social infrastructure is on a downward trend
Clear shift from construction to maintenance and repair



(From the materials of the Company)

Under such trends, the work the Company is involved in is mostly maintenance and repairs under the assumption that existing structures will be used in the future.

Moreover, as touched upon in “(2) Suppression of Vibrations and Noise” in “3-1. Materialities in Environmental Issues,” the great feature of the diamond method and water jet method employed by the Company is that they have few vibrations and little noise. Customers also highly rate the ability of the Company to suppress cracks which cannot be seen by the eyes that damage structures during anti-aging work.

In this way, the Company is an important player in contributing to solving this social issue by having the technologies to deal with the aging of social infrastructure that will become increasingly serious over time and having many craftsmen who support these technologies as full-time employees.

Operations of “sawing” “chipping” “cleaning” “stripping” “grinding” which are managed by the company are based on the concept that to continue to use existing structures



For example, sawing a part of a dam...

using the remaining parts which are still available



sawing out slabs of bridges...

renewing bridges with remaining beams

To break only damaged concrete...



integrating with new concretez

To make holes to structures which are not earth quake resistant...



reinforcing by add new reinforcing steels and concrete

(From the materials of the Company)

(2) Contribution to Local Communities

① Conclusion of a contract for naming rights for “Ariake Dam,” which is managed by the Hokkaido government

The company applied for the partnership as a contractor specializing in flood control infrastructure, in order to contribute to the economy of Hokkaido, popularize the community-based facility by distributing dam cards, etc.

② Session for experiencing jobs

The company held a session for experiencing jobs for elementary school pupils at Sapporo Office, as part of career education. The company plans to continue initiatives for stirring children’s interest in the construction industry and their future jobs.



③ Lecture on occupations

The company delivered a lecture on occupations to junior high school students in Kanagawa Prefecture and briefly explained the construction industry, the meanings of working at construction sites, hardship, etc.



④ Donation to donation-based restaurants for children

The company donates vegetables grown by its employees with disabilities to donation-based restaurants for children.

⑤ School safety patrol

Sapporo Office organized a school safety patrol for nearby elementary schools.

Around pedestrian overpasses, which had not been patrolled enough during commuting hours, the employees of the company patrol there in the morning and the evening so that elementary school pupils can commute safely.

3-3 Materialities in Human Capital Challenges

The shortage of personnel and engineers in the future due to various factors (e.g., the impact of the declining birthrate and aging society and the image of the industry) is becoming a challenge in the construction industry.

The Company has set securing and training future leaders, reforming work styles and improving productivity as priority measures under the keyword of personnel in its mid-term management plan. Under this, it has been touting many new efforts ahead of others in the industry. These include the creation of an environment in which women and those with disabilities can work comfortably and the recruitment of foreign workers with a view to expansion overseas in the future.

The Company recognizes that it is people who support its core competence. It plans to proactively further strengthen its efforts to secure and train personnel and its competitive advantage by “winning with people” at the core in its future strategy.

(1) Fostering of the Awareness and Job Satisfaction of Employees

● Labor Management and Work Styles

The upper limit on working hours has been relaxed by special provisions in the construction industry. However, a curb on working hours is being sought toward 2024.

The workplace of employees is job sites away from the company for specialized contractors. Therefore, travel time is inevitably included in working hours. This means there are many challenges to reducing working hours. Nevertheless, it is necessary to be an attractive company compared to other industries from the perspective of securing personnel.

Accordingly, the Company, which considers people to be its most important asset, has been striving to reduce working hours under its own standards in anticipation of a gradual tightening of regulations in the industry.

Regarding the reduction of overtime hours the company has focused on, the company achieved the goals of “not exceeding 840 overtime hours per month (70 hours per month on average)” and “not exceeding 80 overtime hours per month on average for 4-6 months, including work on holidays,” which were to be attained by 2023, earlier than scheduled.

With the aim of achieving the goal of “not exceeding 45 overtime hours, including work on holidays” by 2024, the company launched the company-wide large-scale “work-life balance project.”

The Company recognizes that working hours include the following time. The time traveling from the Company to the job site, the time returning to the Company, and the one performing miscellaneous tasks in the company. Therefore, there is a structure in which several hours of overtime arise per day just by moving back and forth even if work at the job site is completed within the scheduled time.

It is common in this industry to only perceive the time spent working at the job site as working hours. Recognizing that working hours include travel time itself is rare. However, because it is necessary to be an attractive company compared to other industries from a perspective of securing personnel, it is tackling this challenge. It is working on designing a system in

this project in a form that brings together many members well-versed in business from all over the Company and divides them into subcommittees. It is working to improve working conditions from all directions and to build attractive workplaces as a prerequisite to fostering job satisfaction. This includes employing a flexible paid vacation system, adopting a complete five-day workweek system, increasing salaries periodically and enhancing the retirement allowance system in addition to curbing overtime hours.

In addition to introducing attendance management using tablets, it is building a structure that can manage overtime (holiday) hours on a daily basis. It is also streamlining coordination with office work (e.g., the digitalization of work slips). In this way, it is also reducing the burden of work other than job site work for craftsmen.

This labor management structure is at a level that is also highly rated by the Labor Standards Bureau.

Moreover, it is backing the diverse work styles of its employees. It is also working on creating a job site environment that can accept female employees in addition to the selection of work over the whole of Japan or limited to a certain region and the establishment of work hours according to work style.

● Brand Value Improvement

The Company is also working to improve the brand value of craftsmen to foster job satisfaction.

The Company has been active with an inconspicuous existence rarely seen as a company specializing in subcontracting since its foundation. However, the Company believes it needs to stand out by showcasing its charms as an important player that supports social infrastructure in an industry in which there is an increasing gap between supply and demand in terms of the increased demand for the repair of aging structure and the lack of craftsmen due to the decrease in population in the future. It is promoting its own branding strategy under that belief.

The Company thinks it can honestly express the sight of its craftsmen working as “cool.” It is promoting efforts to showcase this coolness to those inside and outside the Company to give it a presence seen by many people. In this way, it is striving to have pride in its own work.

In March 2022, the company upgraded its website exclusively for recruitment in the motif of samurai warriors. The company linked samurai warriors with craftsmen, as the company cuts roads, bridges, buildings, etc. and cuts out a new path, to indicate that working for the company as a craftsman is cool.



(Provided by the Company)

In addition, three women currently work as craftsmen. The Company would like to develop an environment that enables women to work as craftsmen from all angles in the future.





(Provided by the Company)

(2) Education and Training System

The Company performs operations under conditions that are different at each site. Therefore, in addition to various techniques, the Company's craftsmen need to have a wide range of skills (e.g., extensive peripheral knowledge and strong communication skills).

To support this, the Company provides training on a group basis. This training is divided into various categories (e.g., safety, techniques, qualification acquisition, acquisition of peripheral knowledge and cultivation of humanity).

Taking craftsmen away from job sites to give them educational opportunities leads to a decrease in productivity in the short term. This means that "learning by observing" – so-called OJT – is common in other companies in the same industry. However, the Company has adopted this education system from a long-term perspective in that forming a group of craftsmen equipped with advanced skills will lead to a continuous improvement in results in the end.

For example, third-year training given to employees in the Service Division in their third year in the Company aims to give experiences of special methods and to promote understanding of the Company for 30 days or more. The Company believes that long-term training is essential for the growth of mid-career employees who will represent the company in the future.

The education system is based on a personnel development roadmap of "improve technical capabilities → acquire qualifications → expand technical fields → improve resourcefulness → become a leader." This system secures differentiation and superiority in the industry. At the same time, it forms depth in the engineer group. This leads to the further strengthening and growth of the Company's competitive advantage.

In addition to this, the Company also endorses admission to university as mature students (correspondence system) for its employees. It has adopted a mechanism to reduce the financial burden of this on its employees.

(3) Employee Health and Safety

The Company attaches great importance to the health and safety of its employees. This has led it to running a work-life system ahead of others in the industry. It is focusing on building a workplace environment in which its workers, an important management resource, can work easily. This includes an enhanced welfare system in addition to the aforementioned job site work management and office work optimization (systemization).

● Health

The Company has enhanced various subsidy programs that can be applied to families in addition to its employees themselves.

- *Influenza vaccination subsidies
- *GLTD insurance systems (lifetime leave compensation)
- *Spousal physical examination subsidies
- *Quitting smoking subsidy system
- *Infertility treatment subsidy system, etc.

● Safety

The Company prioritizes improving literacy against dangers associated with operations through its training system and many internal rules over costs. It thoroughly puts into practice safety first operation.

Operation is often accompanied by the removal of large concrete blocks. This can easily lead to serious accidents. There are an especially large number of rules for the technology to remove these large concrete blocks. Together with this, the Company provides education using a safety manual made with illustrations, photographs and videos.

This safety manual is more than 50 pages long. It contains precautions, work procedures, preventative measures, damage

mitigation measures and advice on all aspects that may lead to dangers relating to the work to remove large concrete blocks.

3-4 Materialities in the Business Model & Innovation Challenge

(1) Efforts and Innovations to Strengthen Competitiveness

• Development of New Methods and Technologies

The Company has been developing its own technologies, including the diamond method, and leading the industry. The ability to develop such methods and technologies is the source of its competitiveness.

It successfully developed a new method called the eCOA core drill method in 2020. In addition, it is investing to establish laser technologies relating to the five keywords of cutting, chipping, cleaning, stripping and grinding.

TOYOKOH Inc. (Shizuoka Prefecture) is a technological startup company. It developed the CoolLaser technology that can be used in job sites by bringing stripping and grinding technologies outdoors for the first time in the world with a laser that had only previously been used in factories.

Many bridges built during the period of rapid growth in Japan are at increasing risk of collapse due to rust that has advanced deeply into the bearing points and other important parts. Moreover, many of the fire accidents at petrochemical industrial complexes are due to deterioration from rust. There is an increasing need across the world to safely remove the harmful substances contained in paints and materials. Cool Laser removes stains using light. Accordingly, it has advantages such as prolonging the life of structures, improving workability and reducing the environmental burden,

Daiichi Cutter Kogyo participated in TOYOKOH's series A round investment and intends to create new business. Currently, TOYOKOH has completed fundraising up to the series B round. In addition to Daiichi Cutter Kogyo, Maeda Corporation, Digital Information Technologies Corporation, NYK Line, Suzuyo Kensetsu Co., Ltd., Yamamoto Kogaku Co., Ltd. and The Shizuoka Bank, Ltd. have become investors and are supporting commercialization.

Daiichi Cutter Kogyo is one of those investors and is playing a role as a partner in operations. It is aiming to use laser technology to cultivate markets such as the removal and decontamination of rust on aging steel infrastructure structures.

It will continue to further strengthen its competitiveness by developing such new methods and technologies in addition to fine tuning existing methods in the future.

• Visualization of Technologies

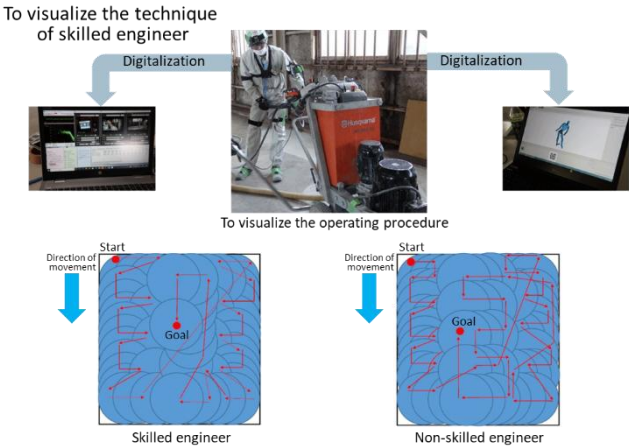
The Company started research that contributes to the development of personnel from the fiscal year ended June 30, 2020.

In terms of the technologies handled by the Company, in addition to a large number of machines, it needs to provide custom-made operation each time because the operation environment differs at all job sites. There is a difficulty to maintenance and repair work unlike new construction. The level of technical capabilities is determined by the ability to respond flexibly in the situations where the conditions are all different from site to site, and the most appropriate response must be made for each.

Therefore, this is an area in which it is difficult to apply automation and other general-purpose technologies. The technical capabilities of individual craftsmen lead to superiority. Nevertheless, without being content with that, the Company has started efforts to improve the speed at which they acquire techniques by visualizing the techniques of skilled workers.

The Company visualizes the operation procedures of machines, systematizes the movement of the line of sight and mounts motion sensors to the heads, arms and lower backs of skilled workers. This allows it to analyze how they move, at what angle they move and at what speed they move.

In addition, the Company is working on visualizing the level of each worker who has learned the techniques of these skilled workers. It is developing an environment that produces spontaneous improvement in technical capabilities by preparing an achievement stage table and hand gun master system.



(From the materials of the Company)

• Expansion of the Development Structure

“R&D Division,” which is composed of members from Works Dept. and Marketing Dept. and operated under the direct control of the president, engages in the improvement of existing technologies, automation, and visualization. It is composed of self-appointed and assigned members and promotes development projects ranging from small to large ones with keywords, such as “trouble,” “inconvenience,” and “eco.” Focusing on each kind of trouble, it engages in development projects in a speedy fashion in cooperation with in-company staff, clients, including major general contractors and plant manufacturers, business partners, colleges, and other third parties.

Over the past 8 years, it completed 172 projects, creating unique methods and technologies.

The company is preparing for the establishment of a new development organization “Co-Dimensional Innovation Lab. (CDI-Lab.)”

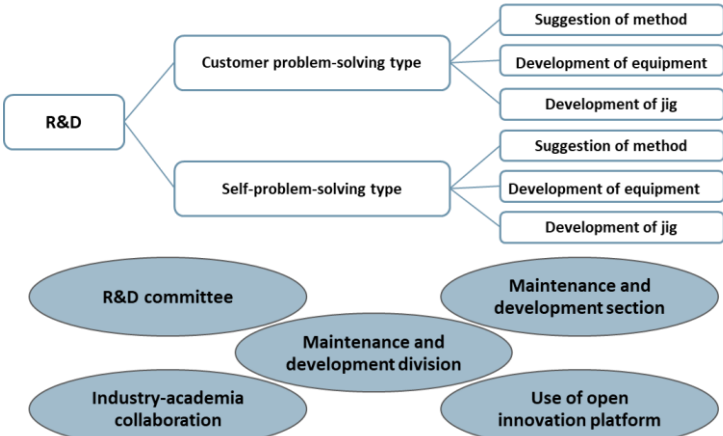
This will be an independent organization, and it will be operated separately from the above-mentioned R&D Division. The company is planning to invite external experts.

While R&D Division upgrades existing technologies, CDI-Lab. will mainly develop machinery for DX, advanced machinery for IoT, and new methods, and research fundamental technologies and assisting technologies in the medium/long term.

The company will develop advanced technologies and methods, to improve productivity and reduce workloads for the entire industry and develop a sustainable, attractive workplace in the specialized work field, which is indispensable for Japan. In addition, its mission is to contribute to the DEEP TECH* economy.

The Company had been using part of its head office premises to perform trial operations and operations relating to research and development. However, the number of projects brought to it by its customers has also been increasing in addition to its in-house development. This led to the space becoming cramped. Accordingly, the Company remodeled a large warehouse of approximately 1,800 m² into a trial operation and research and development yard to further focus its efforts on promoting research and development.

◆ To choose the appropriate solution method for each issue and work on it



(From the materials of the Company)

Development Example

Hydro-Jet RD Method

This technology has been developed by three companies unitedly. . Tobishima Corporation and Daiichi Cutter Kogyo applied to take part in a communication-style joint study recruited by Hanshin Expressway Co., Ltd.

There was a challenge in removal technology. The replacement of slabs for synthetic girder bridges conventionally required a long closure period. It took time and effort to remove the cements between the steel girders and the concrete slabs.

Consequently, the Hydro-Jet RD method makes it possible to remove those cements in the preparation period up to the start date of the closure without traffic restrictions. There is no need to remove the cements after the start of the closure. This means it is possible to shorten the slab removal period and traffic restriction period by removing a large slab at one time wherever the steel girder is located.

3-5 Materialities in Risk Management and Governance Challenges

(1) Corporate Governance

The Company recognizes that improving its mid- to long-term corporate value by building a corporate governance structure in which it is possible to coexist with its stakeholders (e.g., customers, shareholders, local residents and employees) is an important management challenge.

The Company has an audit & supervisory board. It is looking to strengthen its management monitoring functions by electing outside auditors and outside directors to ensure transparency and soundness in management.

Outside directors shall occupy the majority of directors.

Organization type and the composition of directors and auditors

Organization type	Company with auditors
Directors	5 directors, including 3 outside ones
Auditors	3 auditors, including 2 outside ones

<Reasons for Non-compliance with the Principles of the Corporate Governance Code>

*This is based on the Code revised in June 2021.

【Principle 1-4 Strategically held shares】

In principle, our company will not strategically hold shares. However, our company may hold shares of business partners, if the maintenance or cementing of stable transaction relationships with them is expected to contribute to the improvement in the corporate value of our company, when the details, scales, etc. of transactions are taken into account comprehensively. Regarding the shares our company holds, the board of directors checks whether the shareholding will help improve the corporate value of our company every year. If it is concluded that the shareholding has become worthless or less meaningful, our company will perform the procedure for selling them.

When exercising the voting rights of shares our company holds, we discuss whether or not the exercise would degrade their corporate value.

【Supplementary Principle 2-4-1】

Putting importance on the development of an environment that allows each of our employees to show their diverse values and abilities to the fullest, our company promotes human resources regardless of gender or how they were recruited through comprehensive judgment of their respective abilities and aptitude. At the moment, our company has not set any measurable numerical goals regarding diversity in our human resources, but we will discuss such goals as well as continue pursuing our policies toward ensuring diversity.

【Supplementary Principle 3-1-3】 and 【Supplementary Principle 4-2-2】

Our company has recognized initiatives on sustainability as an important business issue from the perspective of medium- and long-term improvement in corporate value. Currently, our company is holding discussions about policies and approaches in regard to sustainability, and we intend to disclose our policies and approaches as soon as we have given shape to them.

【Principle 5-1 Policy for constructive dialogue with shareholders】

In our company, the financial and accounting department is in charge of IR. We hold a session for briefing financial results twice a year for shareholders and investors, while holding individual interviews, etc. when necessary.

In addition, our company considers that in order to promote constructive dialogue with shareholders and investors, it is important to foster and maintain trusting relationships with the shareholders and investors and it is indispensable to disclose information appropriately. In order to put them into practice, our company actively discloses information on management strategies and conditions, which are considered important by stakeholders, including shareholders, in addition to the information specified by laws and regulations via its website.

Our company will discuss the setting and disclosure of its policies for system development and measures for promoting constructive dialogue with shareholders.

<Disclosure Based on the Principles of the Corporate Governance Code>

【Principle 1-7 Transactions among related parties】

In principle, our company will not make deals with related parties.

However, if our company has no choice but to make a deal with related parties, the board of directors will deliberate it before the start of said deal and determine whether or not to approve it, in order to secure the appropriateness of transactions.

*As disclosed in “Notification on the receipt of a report on the results of a survey by a third-party committee” dated Oct. 8, 2021, Koumei Kouji Co., Ltd. and Balance Control Co., Ltd. (headquartered in Matsuyama City, Ehime Prefecture), which are subsidiaries of our company, placed orders for products and works mutually, and it was revealed that some of them fell under conflict-of-interest transactions or improper transactions. Our company’s measures for preventing the recurrence of such wrongdoing are written in “5. Special circumstances that would affect corporate governance considerably.”

(2) Risk Management (Accidents and Laws/Ordinances)

(i) Efforts to Ensure Safety

The Company is making the following efforts in addition to its training system to ensure the safety of its employees as introduced in “Human Capital.”

	Safety environment division	Operating headquarters	Offices
Safety check on the projects involving block removal		◎	○
Safety patrol (site observation)	◎	◎	○
Check system of Legal inspection (machine, car, and drivers’ license)			◎
Safety and health council (safety education)	◎		○
Others (training related to safety)	◎	◎	○
Accident handling	◎	◎	○

◎ : Leading division, ○ : Related division

Training contents are incidental to site operations such as Dust operation, scaffold assembly, asbestos scattering prevention (Provided by the Company)

Accidents are more likely to occur when performing the cutting work that accompanies the removal of concrete blocks. Therefore, the Company has built a structure to identify all projects involving the removal of concrete blocks from its more than 60,000 projects a year and to then check the consideration of their safety from the time when the project comes into existence (the time when planning starts or when a quotation is given) across multiple departments.

The Company aims to reflect changes to the methods and procedures that ensure safety in the planning stage. It also looks to for its craftsmen who actually perform the operation to do so with an awareness of the dangers by grasping the situation in advance.

Safety patrols are on-site patrols at job sites. The Company uses a special check sheet that clarifies the check points for each type of work it handles.

(ii) Law/Ordinance Efforts

The sawing and drilling work performed by the group belongs to scaffolding/earthworks and civil engineering business that are subject to regulations by the Construction Business Act.

It is necessary to operate most of its corporate activities according to the Construction Business Act. Consequently, the

Management Department is responsible for operations from the management of permits to the management of various qualifications. The Risk Management Committee, a separate independent organization, periodically identifies risks associated with the Company's business activities. This structure is designed to perform efforts aimed at reducing risks.

4. Policy of Medium-term Business Plan FY 6/22-FY 6/24

The company announced its mid-term management plan (FY ending June 2022 to FY ending June 2024) in November 2021.

4-1 Review of Previous Mid-Term Management Plan

In the construction industry, the company is considered a subcontractor, assigning craftsmen to various job sites. However, the company has established a unique position as a contractor specializing in cutting and drilling, and forming a group of highly skilled craftsmen in this field is key to the company's growth. To that end, the company placed a focus on people in its previous mid-term management plan and worked on the following four basic strategies: "basic strategy 1: enhance and expand personnel recruitment and training," "basic strategy 2: strengthen sales development capabilities," "basic strategy 3: enhance partner company network," and "basic strategy 4: conduct R&D."

The status of achievement of each item established as numerical targets is as below.

◎Quantitative Targets of recent three years

	FY 6/19 Plan	FY 6/19 Act.	FY 6/20 Plan	FY 6/20 Act.	FY 6/21 Plan	FY 6/21 Act.
Net Sales	14,318	14,871	15,700	17,440	17,400	19,337
Operating Profit	1,624	1,760	1,730	2,296	1,910	2,760
Operating Profit Margin	11.3%	11.8%	11.0%	13.2%	11.0%	14.2%
Profit Attributable to Owners of Parent	1,014	1,251	1,080	1,523	1,190	1,743
EPS	89.12	109.90	94.88	133.86	104.54	153.16

Number of Employees (Consolidated)	500	501	525	568	550	608
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*Unit: Million-yen, yen, person. EPS is shown for the previous fiscal year according to the current number of shares outstanding, since a 1:2 stock split was implemented on January 1, 2021.

The company exceeded its planned values for all items.

◎Sales Composition Ratio by Infrastructure

	FY 6/16	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21 Act.
Living Infrastructure	62.0%	59.1%	56.9%	58.9%	54.8%	56.4%
Transportation Infrastructure	23.5%	26.6%	27.0%	29.0%	32.2%	33.9%
Industrial Infrastructure	14.6%	14.3%	16.1%	12.1%	12.9%	9.7%

The bullish market conditions have served as a tailwind for transportation infrastructure. Although this ratio increased, there was a slump in industrial infrastructure due to the impact of COVID-19. The ratio of transportation and industrial infrastructure has increased over the past three years for the overall ratio.

◎Growth Investment

	Content	FY 6/19 Act.	FY 6/20 Act	FY 6/21 Plan	FY 6/21 Act.	3 years accumulative
Human Resource Development	Recruitment and Training	170	200	100	160	530
Productivity Improvement	Improvement of workplace environment and promotion of work style reforms	400	410	300	1,160	1,970
Expansion of Business Fields	Establishment of new offices, M&A	120	870	200	10	1,000
Research and Development	Investment in R&D and new technologies	30	80	50	130	240
Total		720	1,560	650	1,460	3,740

*Unit: million yen

The company has proactively invested in personnel education, R&D, enhancement of the function of each office and M&As. Its investment record exceeded its target investment level (2,000 million yen). This led to the source of growth.


4-2 New Mid-term Management Plan

The new mid-term management plan expresses how it can provide value to social issues as a company involved in the maintenance and repair of social capital stock. Moreover, it expresses the framework for how it will provide value to social issues such as creating an attractive workplace and passing on technologies in response to the accelerating decline in the birthrate and the aging of the population.

The company's business is deeply related to social issues. This means it strongly feels the need to clarify its reason for existence, to increase communication to business partners, shareholders, and communities in addition to company employees, and to make preparations in ordinary times to continue to have an existence of being the first to respond to disasters that have been more frequent and severe in recent years. It decided to update its corporate branding in line with its mid-term management plan.

(1) Brand Update

President Takahashi and interested employees worked together to update the corporate branding in the branding project. At the same time, it established the following tagline*, purpose, statement and mission.

CORPORATE IDENTITY	BRAND IDENTITY
	

TAGLINE	RESET AND GO
PURPOSE	To protect the safety of social infrastructure in both ordinary times and emergencies to support a stable society

STATEMENT	<p>Much of the social infrastructure built during the post-war period of rapid economic growth is approaching the time when it needs to be renovated. In addition to roads and water services across Japan, if the buildings, power plants, dams, railroads and other infrastructure used on a daily basis come to a stop, it will have a massive impact on daily lives and the economy. Before that happens, we at Daiichi Cutter will work on removing and restarting old structures prior to building new ones as the first step in social infrastructure renovation work.</p> <p>We will aim to create an environment in which diverse people can work even if the number of young workers decreases by improving work efficiency, developing personnel training systems and innovating technology in addition to ensuring safety and security in our daily operations. We will aim for an environment in which anyone can work by collaborating with people who speak different languages around the world. It may also eventually become possible to perform work with robots without sending people to dangerous sites.</p> <p>Natural disasters occur frequently in Japan. Disaster response has become commonplace. We will train on a daily basis to display our real abilities even in work in an emergency and to work safely even in dangerous places.</p> <p>We are not just craftsmen. We bring innovation to our daily work. This leads to us supporting society. We will aim to be a company called the number one in the world and in the universe.</p>
MISSION	<p>To contribute to the development of industry by creating a safe and pleasant working environment for craftsmen regardless of gender or nationality.</p> <p>To respond to the challenges of society and customers by refining highly efficient and low-environmental burden construction technologies.</p> <p>To be a company that society and families can take pride in by aiming to be stylish people without becoming selfish.</p>

※TAGLINE

These are words that express a company's concept and philosophy or simply state what value that company, its products and its services provide.

(2) Position of the Mid-term Management Plan 2024

The mid-term management plan is a guidepost and also a commitment to achieving the company's purpose to protect the safety of social infrastructure in both ordinary times and emergencies to support a stable society.

The company will provide value through infrastructure cleansing (cutting and drilling / building maintenance), reuse and recycling, and services for small and mid-sized construction companies by utilizing its personnel, expertise, network and finance capital to solve social issues such as safety and security, sustainable growth, and a recycling-orientated society.



(Source: The Company's website)

(3) Overview of the Mid-term Management Plan 2024

The company is committed to environment (E), society (S) and governance (G) targets and numerical targets (financial and non-financial) while aiming to become the world's number one engineer group and to achieve a market capitalization of 100,000 million yen for its long-term outlook.

It has established a personnel strategy, advantage enhancement strategy, governance strategy and growth strategy to realize that.

Reason Why Daiichi Cutter Kogyo Is Particular about Engineers (Craftsmen and Skilled Workers)

It is said that one-third of the approximately 3.4 million workers currently engaged in construction will leave their jobs due to aging while the birthrate declines and the population ages in the labor-intensive construction industry. To deal with this decrease in craftsmen, construction is being outsourced at construction sites and the conversion to fabless is proceeding by assembly products manufactured in factories on-site. To that end, craftsmen are positioned as subcontractors rather than demonstrating their skills. Their treatment has also declined. There is a negative spiral in that this environment makes becoming a craftsman even less popular.

On the other hand, social infrastructure in Japan is aging. The situation is such that 63% of the approximately 726,000 overpasses and 52% of the approximately 44,000 port facilities that exist in Japan will be more than 50 years old in 15 years. Moreover, looking at long-term trends in the Japanese construction market, the total amount of net social capital stock has seen less of an increase since 2000. It has changed from being flat to slightly declining in recent year. This indicates that construction investment is shifting from new establishment and new construction to maintenance and repair. Accordingly, while it has been almost 50 years since most infrastructure structures were newly established as mentioned above, the necessity of demolishing and rebuilding and rehabilitating for long-term use is rapidly increasing together with the aging of social infrastructure.

In the midst of this gap developing, the company believes there is no doubt that the value in having people will rise incomparably higher than it is now. It also thinks that the competitive advantage of companies with people will improve dramatically. Accordingly, it recognizes that providing excellent engineers (craftsmen and skilled workers) is its social responsibility.

(3) Mid-term Management Targets

The numerical targets of the company for its new mid-term management plan and for the FY ending June 2036 are as follows.

Mid- to Long-Term Management Indices

C ... Cutting, drilling
 B ... Building maintenance
 R ... Reuse, recycle
 N ... New business

	(Consolidated, billion of yen)			(Consolidated, billion of yen)	
	FY2022	FY2023	FY2024	FY2036	
Sales	18.19 C 15.82 B 0.42 R 1.95	18.5 C 16.3 B 0.38 R 1.82	20 C 17.3 B 0.41 R 2 N 0.29	51 C 30 B 1 R 10 N 10	
Operating Profit	2.42 C 2.25 B 0.04 R 0.13	2.64 C 2.4 B 0.04 R 0.2	2.7 C 2.53 B 0.05 R 0.22 N ▲0.1	8.65 C 4.5 B 0.15 R 1 N 3	
ROE/ROIC	ROE 12% · ROIC10%			ROE 15% ROIC 13%	
Market Capitalization (Billion of yen)	20			100	
Payout Ratio	20%			-	
Investment Amount (Billion of yen)	4 (Total for 3 years)			-	
Number of Employees	630	655	690	1000	

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(Source: The Company's website)

(4) Overview of Each Strategy

The overview of the four strategies – personnel strategy, advantage enhancement strategy, governance strategy and growth strategy – to achieve its commitments is as follows.

① Personnel Strategy

The company has set targets in the three themes that form the basis of sustainable growth.

Theme	Target
Diversification and improvement in the quality of the employee experience (EX)	Engineer career diversification Educational opportunities according to life stage Advancement of women in the workplace
Branding	Visualization of social value Showcasing of stylishness Expansion of partners (stakeholders)
Pursuit of safety and security	Visualization of safety Securing of work life Safe environment

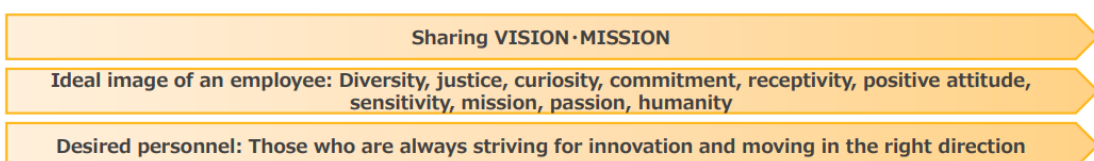
◎ Diversification and Improvement in the Quality of the Employee Experience

The company will create a journey map from when an employee joins the company until when he/she leaves to visualize the employee experience value.

It is very important to always share the vision and mission.

Visualizing employee experience value through journey mapping

	Recruitment period	Training period	Sharing period	Retirement period
Employees' wishes	[Respect for Diversity] No matter what gender, nationality or expertise [Sharing values]	[Respect for diversity] Career path Gender and nationality [Educational opportunity diversification] Safety, technology and knowledge fields Humanity, non-technical fields, teaching skills	[Output in specialized areas] [Role as an educator and trainer] [Enhancing management team quality and quantity]	
Likely troubles difficulties encountered				
EX improvement measures				
Mind state gained				
KPI Evaluation criteria				



(Source: The Company's website)

◎Branding

The company will expand stakeholder trust through brand renewal and action. Stakeholders include people and organizations that the company may build a relationship with in the future (e.g., potential shareholders, potential business partners, potential employees and potential stakeholders) in addition to current shareholders, customers, suppliers, partner companies and employees.

Daiichi Cutter Kogyo will increase the number of employees who take pride in their work at the company, candidates for recruitment who want to work at the company, stakeholders who want to help the company somehow, customers who want to work together with the company and shareholders who want to support the company with a corporate culture that places compliance at its core.

◎Safety and Security

The company achieved its targets for 2023 in relation to an initiative it has been concentrating on to curtail overtime hours to within 840 hours a month (70 hours a month on average) and to within 80 hours on average for four six months including holiday work ahead of schedule. It will aim to achieve its target of less than 45 hours including holiday work in principle by 2024.

The company is also striving for the following: “time: complete five-workday week system and an increase in the number of annual holidays, “remuneration: increase in base salary and expansion of retirement system using shares” and “lifestyle: expansion of insurance, promotion of health and diversification of working styles.”

Moreover, in addition to diversifying the training system by year, rank and purpose, the company is also focusing on safety and technology training (e.g., safety patrols, safety and technology visualization, and compliance).

②Advantage Enhancement Strategy

The company has set the following three themes and targets.

Theme	Target
R&D	R&D Subcommittee New Co-Dimensional Innovation Lab. (CDI-Lab.) development organization Skills × tech
Group deployment	Maximization of the benefits of group companies Personnel exchange Sharing of education

Partner company network enhancement	Opening of maintenance areas Safety education Support for hiring inexperienced people
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◎R&D

The R&D Subcommittee comprised of the Construction Division and Sales Division under the direct control of the President is working on areas from the improvement of existing technology to automation and visualization.

The company is promoting development projects regardless of their size under the keywords of "troubles," "inconvenience" and "eco" with a development organization for both self-recommendations and recommendations by others.

It has output 172 items over the past eight years. This has produced construction methods and technologies unique to the company.

The company has established a new Co-Dimensional Innovation Lab. (CDI-Lab) development organization.

This is an independent organization in the company. It operates separately from the aforementioned R&D Subcommittee. The company is also considering acquiring external experts for it.

Therefore, it is compartmentalized from the R&D Subcommittee's improvement of existing technologies. It mainly develops advanced IoT-compatible machines from basic research, researches assist technologies and develops new construction methods in the mid- to long-term (e.g., digital transformation-compatible machine development, assist technologies and new construction methods).

It provides productivity improvement and burden reduction widely to the entire industry with development of advanced technologies and construction methods. In this way, it is transforming the professional construction industry that is indispensable for Japan into a sustainable and attractive workplace. Moreover, the company see it as its mission to contribute to the deep tech* economy.

*Deep Tech

This is an initiative to solve problems that have a massive impact on the world based on scientific discoveries and innovative technologies

◎Group Deployment

The company is involved in the specialized construction business in a niche industry. Therefore, it needs to secure a certain number of construction projects and customers to pursue scale of sales and profits. Consequently, it has worked on deploying across Japan using M&As at an early stage.

It provides multifaceted benefits including training, recruitment, personnel exchanges and sales for the companies in its group. This has led to sales and profits increasing significantly for each company after consolidation.

◎Partner Company Network Enhancement

The network with partner companies is a very important element in the competitive advantage of the company. Its network with partner companies enabled the company's aforementioned advancement across Japan. Accordingly, it recognizes its partner companies as important partners. It forbids its partner companies to be called "subcontractors" internally.

It believes it has an obligation to provide safe and secure foundations to partner companies for the company's sustainable growth and social contribution.

Many of its partner companies are small operators. Therefore, it works on preparations with the opening of maintenance areas, the provision of various safety education programs and the provision of recruitment support based on the current situation in which it is difficult to develop infrastructure alone.

③Governance Strategy

The company has set the following three themes and targets. It is aiming for a level of conformity with the Prime Market to which it has applied for selection.

Theme	Target
Governance enhancement	Enhancement of the supervisory functions of the board of directors Enhancement of management and internal audit departments Basic philosophy and action guidelines formulation and education enhancement

Enhancement of sustainability-related disclosures	Clarification of the sustainability policy TCFD support Diversification of non-financial information disclosures
Deepening of dialogue with shareholders	Shareholder return policy Specification of capital costs Enhancement of information dissemination

◎Governance Enhancement

The company is looking to enhance its supervisory functions by raising its external ratio of Directors to more than half of them, of Corporate Auditors to all of them and of members of top decision-making bodies to more than half of them.

◎Enhancement of Sustainability-related Disclosures

It is working on its response to each challenge according to the following schedule, contributing to society, and presenting and widely raising the recognition of a sustainable business model.

Topic	2021	2022	2023	2024	Remarks
Sustainability Policy	×	○	○	○	
Responding to TCFD	×	△	○	○	△: Promote numerical evidence development
Diversifying Non-financial Information Disclosure	×	△	○	○	△: Promote numerical evidence development
ESG Report	△	△	○	○	△: Brushing up the content based on integrated reporting
Integrated Report	×	×	×	○	

(Source: The Company's website)

◎Deepening of Dialogue with Shareholders

The company is aiming to achieve the following targets.

Shareholder Return	<ul style="list-style-type: none"> •Review existing dividend policy and raise its level •Stable return of dividends •Share buybacks considered depending on investment trends 			
Capital cost	<ul style="list-style-type: none"> •Capital cost 6.04% •ROE 12% or more 	<ul style="list-style-type: none"> WACC 6.02% ROIC 10% or more 		
Dissemination of information	<ul style="list-style-type: none"> •Corporate website reconstruction (enrichment of information) •Diversification of information dissemination •Briefings for individual shareholders 			

(Source: The Company's website)

④Growth Strategy

The company has set the following three themes and targets.

Theme	Target
Expansion in existing markets	Strengthening in the central Tokyo metropolitan area Strengthening in the Kyushu area Carbon neutral Space-related business
M&As	Existing business (business succession, growth companies and niche specialized companies) Search for peripheral businesses
New businesses	Trial and error toward the fourth segment Preparations for the commercialization of the unique strengths of internal personnel capital

◎Expansion in Existing Markets

The company estimates that the size of the market in the central Tokyo metropolitan area is 3,000 million yen per year, 8,000 million yen per year in Kyushu and 50,000 million yen per year in Kansai.

The company is looking to capture the green growth strategy market by being carbon neutral.

The Electric Power Department currently has the highest CO₂ emission ratio by department. However, it is expected that the ratio derived from electric power will further increase in the future due to the electrification of industries and transportation that now use fossil fuels. It will explore the electric power industry.

The estimated market size is 17,000 million yen.

The company expects to acquire spaceport development and maintenance-related business and to be active in outer space in the space-related market.

In the case of the former, development of a spaceport (departure and landing site) is expected to proceed in the future based on the Basic Space Plan determined by the Cabinet in June 2020. Therefore, it is working to acquire airport development-related technologies that are the specialty of the company.

In the case of the former, it will seek out businesses that allow it to utilize its expertise in outer space as the world's number one engineer group.

It is currently participating as the only full member specialist construction company in Space Port Japan*.

*Space Port Japan

This is an organization aiming to widely promote the Japanese space-related industry by opening a spaceport in Japan. Under

this aim, it is creating business opportunities, exchanging information and cooperating with related companies and organizations in Japan and overseas, disseminating information, and holding seminars and events.

◎M&As

The company is aiming to become a receptacle for engineers and technologies with high-added value that will be in short supply in the future. Under this aim, it is promoting an M&A strategy.

It has three M&A policies.

*Clarification of Business Areas

Specialized construction companies involved with the five keywords that are the specialty of the company: cutting, chipping, cleaning, stripping and grinding

*Before and After the Supply Chain

Companies involved in surveys, design and maintenance before and after the construction work in the company's business

*Related Businesses with Specialized Technologies

Companies with specialized technologies, mechanisms and customer bases that cannot be found elsewhere

◎New Businesses

The company has the expertise needed by companies that find it difficult to comply with regulatory frameworks (e.g., the subcontracting format and SMEs). Accordingly, it believes this expertise has a high level of synergy with an improvement in productivity of SMEs. Consequently, it is exploring service businesses for SMEs using that expertise.

It will target SMEs. SMEs account for 99.7% of Japanese companies. There are approximately 470,000 companies in the construction industry alone. It will contribute to lowering the turnover rate by providing education in addition to contributing to an improvement in administrative productivity in SMEs through the development and provision of services for SMEs.

5. Financial and non-financial data

(1) Financial data

◎BS/PL

	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21
Sales	12,840	16,283	14,871	17,440	19,337
Operating profit	1,412	2,187	1,760	2,296	2,760
Ordinary profit	1,473	2,263	1,843	2,482	2,936
Net profit	990	1,487	1,251	1,523	1,743
EPS (¥)	87.01	130.69	109.90	133.86	153.16
ROE(%)	13.1	17.0	12.5	13.5	13.6
ROA(%)	14.5	19.4	14.2	17.2	17.5
Total assets	10,597	12,707	13,304	15,533	17,991
Net assets	8,333	9,822	10,956	12,548	14,321
Capital-to-asset ratio (%)	75.9	74.3	79.3	77.1	75.8

*Unit: million yen. 1:2 stock split on January 1, 2021; EPS adjusted retroactively.

◎CF

	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21
Operating CF	913	2,224	1,231	2,515	1,957
Investing CF	-594	-622	-649	-1,699	-1,594
Free CF	319	1,602	581	815	363
Financing CF	-113	-140	-179	-198	-69
Cash and cash equivalents	3,834	5,295	5,698	6,316	6,610

*Unit: million yen

(2) Non-financial data

① Social capital-related data

	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21
Number of shareholders	4,086	4,015	2,644	2,298	2,309
Number of partner companies	1,379	1,420	1,470	1,513	1,546
Number of customers	6,538	6,565	7,136	6,932	7,210

② Employee capital-related data (Non-consolidated basis)

	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21
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Number of employees	347	359	364	390	407
Of these, the number of female employees	27	29	30	38	50
Ratio of female employees	7.78%	8.08%	8.24%	9.74%	12.29%
Number of new employees	25	26	28	46	46
Number of retirees (including those at retirement age)	27	20	41	22	29
Number of retirees within three years of joining the Company	13	7	21	11	14
Ratio of the those retiring within three years of joining the Company*	17.1%	9.7%	26.6%	11.0%	9.6%
Employment continuation rate of new graduate employees*	93.1%	100.0%	84.4%	89.2%	85.7%

*Ratio of those retiring within three years of joining the Company: number of retirees ÷ number of employees joining the Company over the last three years

*Employment continuation rate of new graduate employees: number of new graduate employees who survived over the last three years ÷ total number of those employed in the same period

	FY 6/17	FY 6/18	FY 6/19	FY 6/20	FY 6/21
Number of projects	59,169	60,225	64,415	62,044	60,113
Number of work accidents (Including partner companies)	39	46	47	45	61
Number of work accidents (lost time of four or more days –personal injuries including partner companies)	3	0	6	1	0
Ratio of work accidents with lost time of four or more days*	0.003%	0.000%	0.006%	0.000%	0.000%

*Number of work accidents during the period with lost time of four or more lost days ÷ Number of projects during the period

<For reference>

For publishing ESG Bridge Report, the company enlisted significant cooperation from Mr. Ryohei Yanagi (PhD. in economics from Kyoto University, Executive Vice President and CFO of Eisai Co., Ltd., and a visiting professor of Graduate School of Accountancy, Waseda University).

This section mentions the purpose of publishing ESG Bridge Report and outlines the “ROESG model” proposed by Mr. Yanagi, while citing a passage from his literature “CFO Policy.”

(1) Regarding ESG Bridge Report

While ESG investment became mainstream, investors demand that Japanese companies disclose ESG information proactively. Accordingly, an increasing number of companies produce integrated reports.

However, the production of integrated reports requires the understanding and involvement of executives, some human resources and some budgets. Accordingly, many companies still cannot produce integrated reports.

Also, for producing integrated reports, it is necessary to take many steps, including the summarization of various data, the identification of materiality, and the setting of indicators and goals. It seems that many companies are not prepared enough, so they are reluctant.

However, Mr. Yanagi mentioned, in “CFO Policy,” that “if Japanese enterprises shed light on their potential ESG value, their PBR will probably be at least the same level (around 2x) as that of companies in the UK” and “by actualizing ROESG, it is possible to double the value of Japanese companies, probably improving investment, employment, and pensions and maximizing national wealth, which have a high probability.” Investment Bridge Co., Ltd. considers that the provision of ESG information of Japanese companies is meaningful for the entire Japan and should be promoted actively.

Under these circumstances, for companies who deeply recognize the necessity to disclose ESG information although they still cannot produce integrated reports, our company cooperatively produces “ESG Bridge Report” based on currently available data and resources, to provide investors with ESG information as needed by investors as much as possible.

Japan Exchange Group actively encourages Japanese companies to disclose ESG information, and published “Practical Handbook for ESG Disclosure.” Page 6 of this handbook mentions “We do not mean that you cannot disclose information unless all of the elements mentioned here are covered. We expect that this handbook will provide you with some clues when you start with what you can do while considering your situation for disclosing ESG information to communicate with investors and proceed with more initiatives.” We believe that “ESG Bridge Report” is a tool for “starting with what you can do for disclosing ESG information.”

Mr. Yanagi mentioned that in order to achieve full-scale ROESG, it is necessary to conduct empirical research indicating positive correlation between ESG and corporate value and disclose concrete cases in which companies’ contribution to society helps increase long-term economic value. Accordingly, the actual hurdle is high, but we would like to explicitly describe how ESG initiatives of each company lead to the improvement in corporate value.

Based on the feedback from many investors who have read our reports, we would like to improve the quality of our reports. We would appreciate your candid opinions.

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(2) Regarding “ROESG Model”

(Increasing value of non-financial capital, rapid increase of ESG investment, and production of a conceptual framework for connecting ESG and corporate value)

Recently, many empirical studies have verified the increase in importance of non-financial information in corporate value evaluation, and it can be inferred that invisible value (intangible assets) and non-financial capital value account for about 80% of corporate value.

In addition, it can be considered, from the results of many empirical studies on the relation between non-financial information and corporate value, that ESG may be positively correlated with corporate value.

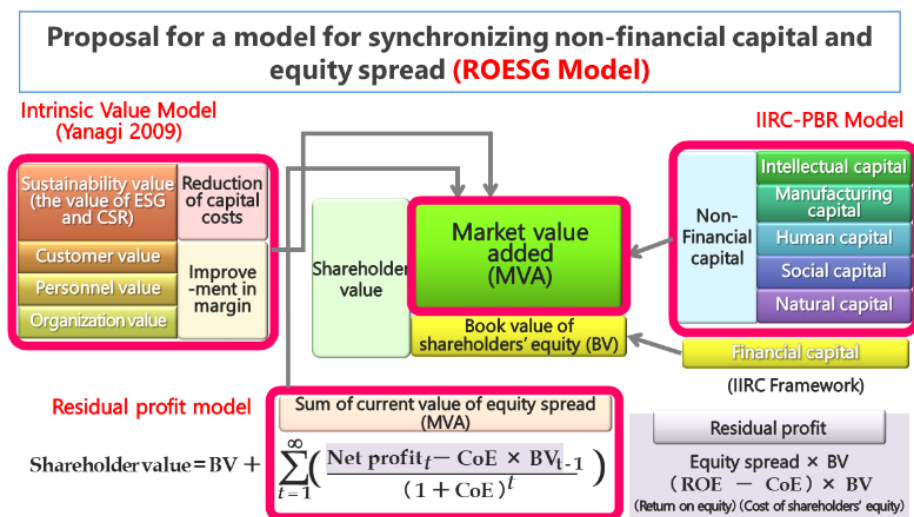
On the other hand, as ESG investment is becoming mainstream globally, Japanese enterprises, whose PBR is less than one or stagnant in many cases although they have latent ESG value, need to transform non-financial capital into future financial capital with the “ROESG model” for raising PBR, or produce and disclose a conceptual framework for connecting ESG and corporate value.

(Overview of the “ROESG Model”)

Out of shareholder value, the book value of shareholders’ equity, which corresponds to “the part where PBR = 1,” is composed of current financial capital and financial value.

On the other hand, out of shareholder value, market value added, which corresponds to “the part where PBR exceeds 1,” is composed of non-financial capital (which can be said to be future financial capital), and the sum of current value of cash flow of equity spread (= ROE – Cost of shareholders’ equity) in the residual profit model.

Therefore, Mr. Yanagi proposed “the synchronization model of non-financial capital and equity spread” = “ROESG Model” as a conceptual framework for synchronizing ESG and corporate value, as a result of non-financial strategy.



Source: Ryohei Yanagi “CFO Policy” CHUOKEIZAI-SHA (2020)

In the “ROESG Model,” non-financial capital has a mutually complementary relation with equity spread, which is the sum of current value of residual profit through “market value added.” Namely, the value creation with equity spread is consistent in the long term because of the delay, via the creation of value of non-financial capital, including ESG, and market value added. Therefore, ESG management can be synchronized with long-term investors, who demand capital efficiency, via marked value added, and cooperation is possible.

According to Mr. Yanagi’s survey on investors for supporting the model, many investors around the world demand that “the relation between ESG and ROE values is explained” and answered that “100% or a significant proportion of the value of ESG is taken into account in PBR.” It can be considered that the “ROESG model” is supported directly or indirectly by most of long-term investors.

(For details about his “ROESG Model,” refer to “CFO Policy” authored by Ryohei Yanagi, CHUOKEIZAI-SHA (2020).)

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