

CSR Report 2020

Corporate Social Responsibility Report 2020

Build The Future Air

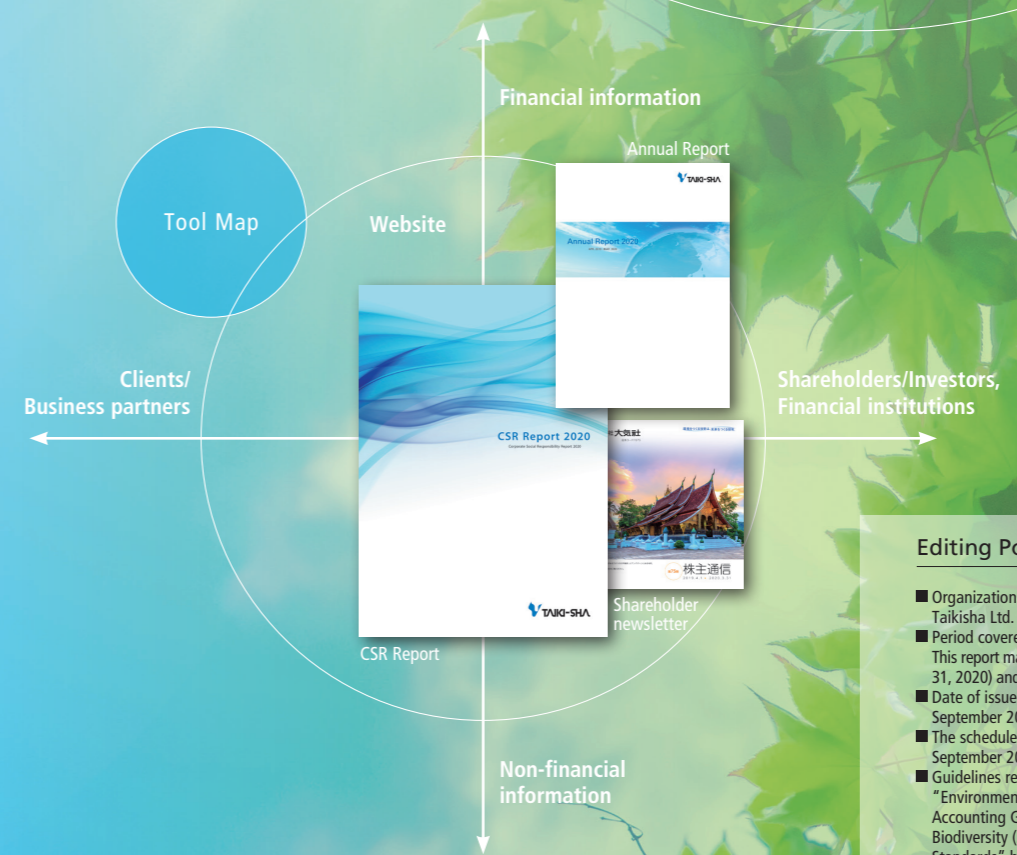
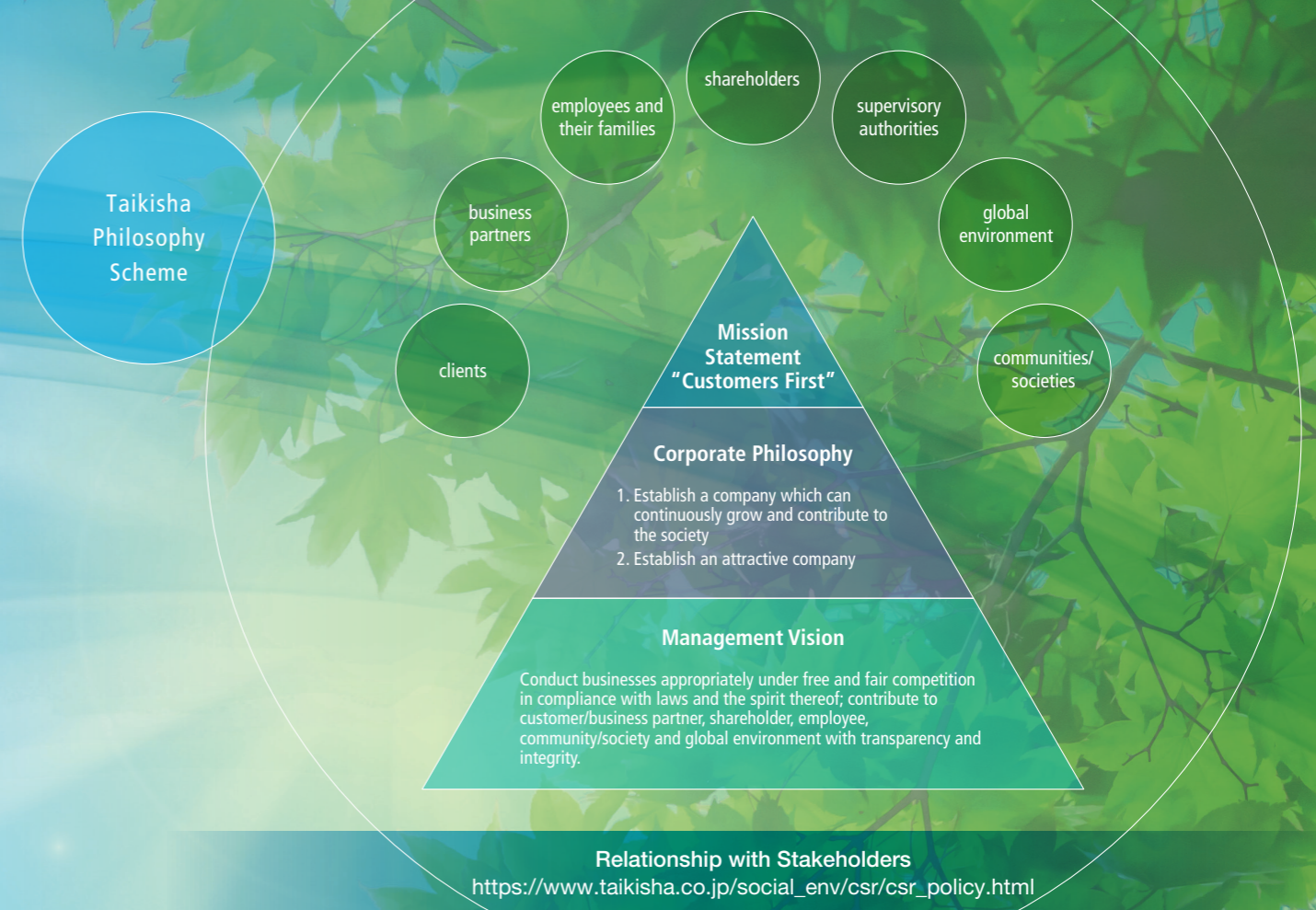
Build the future air

Considering society in general as “Customers,” Taikisha is creating a comfortable environment today as always, in the hope of bringing happiness to all clients.

Taikisha plays an active role in all kinds of places, wherever people are, wherever air exists.

We hope to be at the service of as many people as possible. We want to make more and more places comfortable.

We cherish these thoughts every day.



Editing Policy

- Organizations covered by this report
Taikisha Ltd. and its group companies in Japan and overseas are covered by this report.
- Period covered in this report
This report mainly covers activities conducted during FY2019 (from April 1, 2019 to March 31, 2020) and also includes some activities carried out before or after the said period.
- Date of issue
September 2020
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- Guidelines referenced
“Environmental Reporting Guidelines (Fiscal Year 2012 version),” “Environmental Accounting Guidelines 2005,” and “Guidelines for Private Sector Engagement in Biodiversity (2009)” of the Ministry of the Environment, “Sustainability Reporting Standards” by Global Reporting Initiative (GRI), ISO26000, “International Integrated Reporting Framework” by the International Integrated Reporting Council (IIRC)
- Production
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Top Management's Message

We will overcome changes in society with you and pass on the rich environment to the future.

Contributing to realizing a sustainable society through our energy-saving and environmental impact reduction technologies

Since its foundation in 1913, Taikisha has been providing the environment and conditions that not only support people's comfortable daily lives but also assist in the progress of the industrial world for many years based on air-conditioning technology. We currently conduct a wide range of businesses both in Japan and overseas by leveraging the strengths of our global network in two core business fields: the Green Technology System Business targeted at office buildings, hospitals, factories and others; and the Paint Finishing System Business targeted at paint finishing plants for automobiles, etc.

In recent years, various environmental and social issues have become evident on a global scale, as reflected in the intensifying severity of natural disasters associated with climate change and their impact on food production, as well as the tendency of diseases to become widespread as reflected in the novel coronavirus (COVID-19) pandemic. Under these circumstances, we believe it is our mission to contribute to the realization of a sustainable society by demonstrating the strengths of our energy-saving and environmental impact reduction technologies while supporting the business activities of client companies with our advanced solutions, and in turn, pass on the rich environment to the future.

K. Kato

Representative Director, President



Higher profits achieved in the first year of Mid-Term Business Plan
Novel coronavirus (COVID-19) pandemic makes forecasting difficult

The Taikisha Group, whose long-term vision is to “Aim to become a global corporate group that creates an optimal environment through unique engineering,” is pushing ahead with its three-year Mid-Term Business Plan (from FY2019 to FY2021) to put such vision into practice. Under the Plan, the basic policy for its growth strategy is to “solidify the Company’s position in the global market,” “strengthen initiatives for the future,” and “build an attractive company and establish a solid management base”; the Taikisha Group will thereby seek to expand its business domains while improving its competitiveness and profitability, and enhance its human resources capabilities as well as its corporate governance structure.

In FY2019, we made progress in initiatives to enhance our relationships with overseas group companies and expand our business areas, in addition to conducting technological development aimed at improving productivity and formulating

systems to secure human resources. In terms of business performance, orders received fell short of the previous fiscal year’s level both in Japan and overseas, while net sales remained flat and profit increased due to improvement in profitability.

However, the situation in FY2020—the second year of the Mid-Term Business Plan—is extremely uncertain, as it is impossible to forecast the timing at which the COVID-19 pandemic will come to an end, not to mention its impact on corporate activities and economic conditions. In the Taikisha Group’s businesses, there are concerns that its business performance might be adversely impacted by the suppression of capital investment due to such factors as client companies’ deteriorating profits and reduced product demand, and restrictions on construction work by measures to prevent COVID-19 infections; that said, it is difficult to reasonably estimate the duration, scope and degree of such impact at this point in time.



Introducing remote work as a measure against COVID-19
Consolidating and sharing information at construction sites

Internally, we have assigned more than 80% of our office staff to work from home since early April 2020 as a measure against COVID-19. Remote work is currently ongoing, while adjustments are being made to the number of staff working remotely according to the situation.

The introduction of such remote work has become widespread among Japanese companies to the extent that it symbolizes the “new normal,” i.e., a new way of working in the COVID-19 world. Prompted by measures to prevent COVID-19 infections, the way in which Japanese companies carry out work is deemed to shift from the conventional style whereby employees jointly engage in work by gathering simultaneously at the same place, to a style whereby responsibility and authority are divided among individuals whose respective roles are clarified. The Taikisha Group is no exception to this; we will also work on building a mechanism to clarify the respective roles of organizations and individuals and make business processes and results visible, in order to sort out the issues based on this experience and maximize the effects of introducing remote work.

On the other hand, remote work has been difficult to implement at the Taikisha Group’s construction sites under the present conditions. For execution supervision operations, we are gradually introducing tablets and taking other steps toward digitization, but there are many inadequacies serving as obstacles, such as the site/company-specific closed network environment. Going forward, we will seek to promote digitization by such means as utilizing video-based remote monitoring, RFID and cloud, so that information on construction operations will be consolidated and shared among the execution supervision firm, general contractor and specialist contractors on a common platform.

Of note, we are not only incorporating various impacts of this COVID-19 pandemic on many areas into risk management for the future, but also reviewing our business continuity plan (BCP) in order to make it effective in being well-prepared even against the risk of infectious diseases, having learnt a lesson from the conventional plan that had been formulated with a focus on natural disasters.

Promoting external collaboration and open innovation
amid changes in construction production systems

In the future, construction production systems will shift from the single-line production approach to the modular production approach applied to industrial products: on-site integrated production will be replaced by on-site assembly of components produced at factories in line with the progress and proliferation of Building Information Modeling (BIM), Virtual Reality (VR) and other designing/modeling tools and the deployment of 5G in the field of communications. This change is expected to be facilitated and accelerated further as a measure against COVID-19.

In terms of the role to be fulfilled by a company engaged in facility works amid such a trend, greater importance will be placed not only on the process up until completion and handover but also on maintenance and operation of the facilities after handover. Going forward, it will be indispensable in the Taikisha Group’s growth strategy to assist clients in value creation from the viewpoint of life cycle cost (i.e., maintenance cost of facilities) based on operational data, life cycle assessment (LCA) and flexibility, and pursue differentiation through technological innovation.

Moreover, as a way of dealing with the shortage and aging of workers at construction sites, it will be necessary to pass on skills by utilizing IT tools while making efforts to save labor and improve safety in the work environment by introducing robots, remote operation and artificial intelligence (AI) in tasks performed at the sites.

In order to execute such operational reform, collaboration with construction subcontractors and manufacturers will become indispensable; especially for the Taikisha Group to utilize digital technologies that it does not have, the key will lie in building partnerships broadly. We intend to promote open innovation with IT companies and universities and conduct initiatives with an eye to developing versatile new products and new businesses, in order to integrate environmental technologies in which Taikisha has the edge with digital technologies.

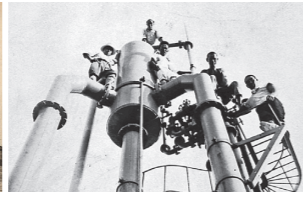
At Taikisha, we are committed to creating a rich, comfortable environment by overcoming any and all changes in society with our stakeholders. For the Taikisha Group’s businesses, we would greatly appreciate your continued understanding and support.



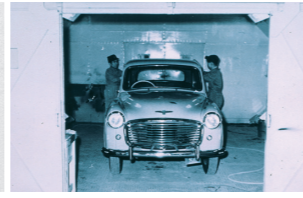
1913 Founded as joint-stock company Kenzaisha (predecessor of Taikisha Ltd.)



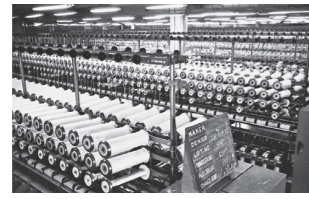
1918 Tokio Marine and Fire Insurance Building, Japan's first modern office building



1935 Steam jet units under construction at the Kinka Keito Company Tsu Plant



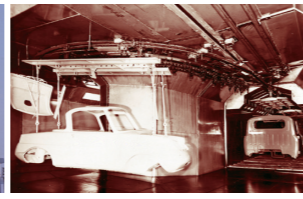
1953 Spray booth in the Isuzu Motors Ltd. Omori Plant



1955 Toyo Nylon Plant in South Korea



1960s Tokyo Nissan Auto Sales Building (now, Roppongi Hills North Tower)



1961 Drying Oven for the R360 Coupe at the Toyo Kogyo Co., Ltd. F Plant



1973 A newspaper advertisement upon the name change of the company



1981 Air-conditioning, water supply and drainage, hygiene, electrical and medical-use gas supply facility works for New Dubai Hospital (United Arab Emirates)



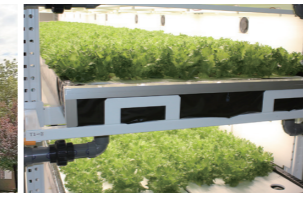
1994 Petronas Twin Towers (Malaysia)



2010 Painting robot at the Research and Development Center (Tianjin, China)



2014 Business and capital alliance formed with Encore Automation LLC (U.S.A.)



2018 Establishment of Plant Factory Demonstration Development Center



2019 Establishment of Technical Center



2020 Business and capital alliance formed with Nicomac Clean Rooms Far East LLP (India)

1913-1948 Helps build the foundation of modern Japan

Given the remarkable growth of Japan's spinning mill industry, Kenzaisha reinforced its air-conditioning technology such as temperature/humidity control and air flow control, which are essential to the yarn-making process, sharply expanding its business performance in this field.

1949-1970 Expansion of business fields during the Period of Rapid Economic Growth

Along with its high economic growth, Japan experienced a flurry of plant constructions, demanding higher quality air-conditioning systems. Taikisha strove to achieve higher technological expertise, delivering precision air-conditioning and cleanroom systems, and entered the automobile paint finishing plant construction business.

1971-1989 Global business development

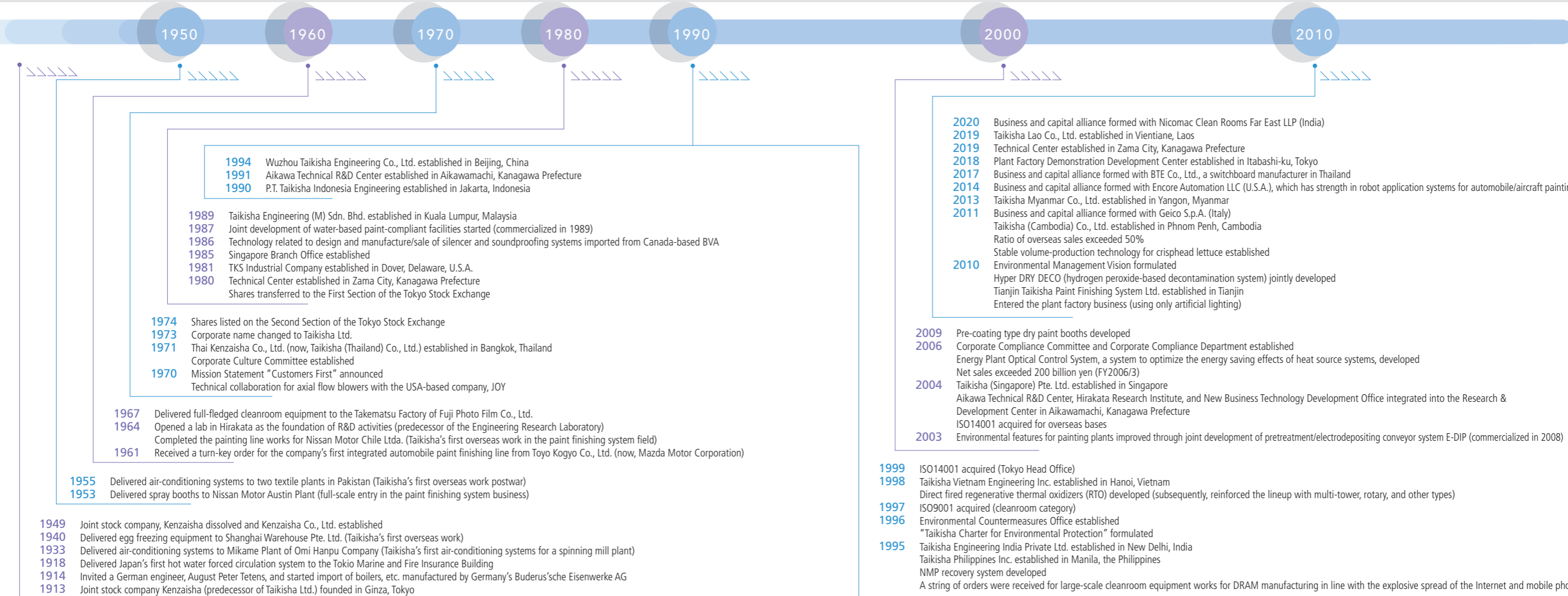
In line with shift overseas of Japanese corporate clients, Taikisha expanded new affiliates worldwide, starting with an affiliate in Thailand, to accumulate experience in overseas works. Taikisha's customer base expanded to include not only Japanese companies but also local and Western ones.

1990-2001 Advent of the IT era

The 1990s was an era characterized by a rapid spread of information technology as consumers began to widely use the Internet and mobile phones. Taikisha, with its leading-edge know-how in cleanroom design and construction, participated in projects to construct manufacturing plants for semiconductors, hard disks and capacitors, a set of devices serving as the backbone of IT hardware. This allowed the company to gain higher recognition in the electronics industry.

2002- Capitalizing on the Group's comprehensive capability

Driven by the progress of IT and globalization, it has become a norm in many industries to conduct borderless investment and collaboration. The Taikisha Group established affiliates in the so-called emerging countries including Cambodia and Myanmar. The Group's comprehensive solution is increasingly vital as affiliates complement each other in purchasing operations, human resources and project management. In response to the needs of society and clients, the Group has entered new fields such as the plant factory business and the aircraft painting business.



Orders received

160.5 billion yen
Composition ratio 70.7%

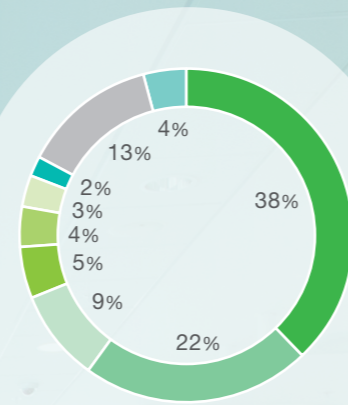
Green Technology System Division

The Green Technology System Division, comprised of the Building HVAC System business sector and the Industrial HVAC System business sector, provides services in both Japan and overseas to help improve the environmental value of its clients.

In the Building HVAC System business sector, Taikisha designs and constructs air-conditioning systems for facilities that are used by many people, such as office buildings, schools, hospitals, hotels, museums, and airport terminals. It does so by conducting new construction and renovation work on facilities with the aim of providing people- and eco-friendly, comfortable spaces.

In the Industrial HVAC System business sector, Taikisha undertakes the role of optimizing air-conditioning systems for factories and R&D facilities in the electronic parts, pharmaceutical products, biotechnology, and other fields where a very clean environment is essential in the manufacturing process.

Taikisha also focuses on providing environment protection systems, such as exhaust-gas treatment devices and antipollution systems.

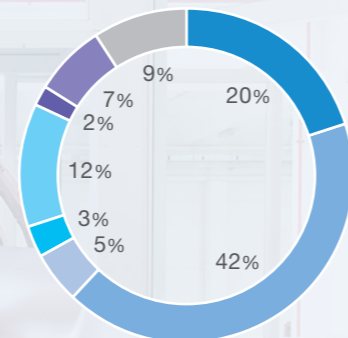


- Electrical, electronic and audio machinery manufacturing plants
- Business and government offices
- Chemical and pharmaceutical plants
- Technical research facilities and space development facilities
- Other plants
- Station and airport facilities
- Transport equipment
- Others
- Uncategorized orders-received by small-scale affiliates

By market segment

Orders received

By region



- Japan
- North America
- Thailand
- Other Southeast Asia
- China
- Other East Asia
- India
- Other areas

Major countries or regions

- Southeast Asia: Singapore, Malaysia, Indonesia, the Philippines, Vietnam, etc.
- East Asia: Taiwan, South Korea
- North America: U.S.A., Canada, Mexico,
- Other areas: Russia, South America, etc.

Paint Finishing System Division

The Paint Finishing System Division has employed advanced environment-related technologies based on Taikisha's core technologies cultivated in the HVAC business, such as exhaust treatment and air flow control. Taikisha also designs and constructs paint finishing systems for railway car and aircraft in recent years in addition to the mainstay automobile paint finishing systems that realize high painting quality and the enhanced use of energy-saving technologies.

Taikisha has received orders for the automobile paint finishing systems of automakers not only in Japan but also globally, including in the U.S.A., Europe, South Korea, China, and India, and currently boasts the top-level of market share in the world. Taikisha's services range from painting robots, conveyor systems, and paint supply systems, expanding to cover total plant engineering services from design to construction of the whole plant.

In recent years, Taikisha pursues increasing painting efficiency to 100% and is making efforts to minimize the amount of paint used and VOC emissions. In addition, Taikisha contributes to the energy management of clients.

66.3 billion yen
Composition ratio 29.3%



Energy-saving air-conditioning system
Effective energy-saving operation is available for the entire air-conditioning system by implementing the Energy Plant Optimal Control System, which calculates optimal values at all times to enable operational settings in real time.



Cleanroom
Taikisha's technology achieves the required clean level at the optimal ventilation count, and its cleanroom technologies provide a cutting-edge production environment with measures such as ultra-precise temperature control, noise control, microscopic vibrations control, and molecular contamination control.



Pharmaceutical manufacturing-related
Taikisha meets a wide variety of requirements imposed by pharmaceutical manufacturers by introducing validation support, which is compliant with the latest GMP at factories and laboratories, optimum room pressure control, the hydrogen peroxide-based decontamination system, and others.



VOC treatment and odor control systems
Organic solvents and malodorous gases are treated by the regenerative thermal oxidizer with high efficiency. Taikisha proposes optimum energy-saving systems combined with hydrophobic zeolite-based concentration equipment as required.

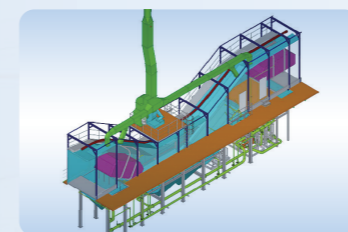


Vege-factory
A fully artificial hydroponic plant factory which ensures cultivation with the optimal biological environment for the plant by precisely controlling the lighting, temperature, humidity, nutrient solution and other elements. It is the world's only facility that can produce crisphead lettuce in a large volume.



Facility renewal
Renewal of heat-source, air-conditioning and electrical facilities, etc. increases the asset value of buildings, factories, etc., improves their productivity and reduces their life cycle costs such as operational management costs and lighting, fuel and water costs.

Technologies and services provided by Taikisha



Pretreatment system
Taikisha offers its paint finishing systems for pretreatment that are designed to improve processing quality and to conserve energy. Its unique lineup includes the iron powder removal system, high-performance washing system, counter-flow circulation tank in the degrease process, and high-pressure spray water washing processes.



Electrodepositing system
Taikisha's counter-flow circulation system (C-FLOW Electrodepositing Circulation System) for electrodepositing tanks has been introduced in many lines. Furthermore, its multi-stage washer systems offer a high paint recovery rate using ultra filter (UF) membranes or reverse osmosis (RO) membranes.



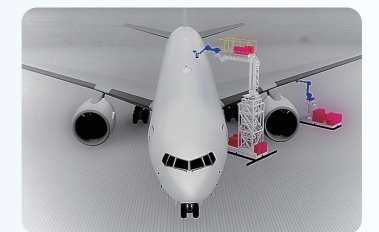
Paint booth
In combination with booth interior environments that realize high-quality painting, Taikisha proposes energy-saving leveraged by technologies such as CIRCULA scrubber which boasts high performance and low noise, dry scrubber, exhaust recycling, HVAC control and other technologies.



Robot paint system
Utilizing simulations with CAD, the design of a robot paint system seeks the most efficient painting procedure and determines the optimal required number and layout of robots. Furthermore, as its solution, Taikisha configures a system to meet each client's tailored needs with an optimized choice for devices.



Conveyor system
Taikisha's unique systems are available with overhead conveyors for pretreatment and electrodepositing lines, as well as floor conveyors for intermediate coat and top coat lines and help to design compact and highly efficient factory layouts for production.



Aircraft and railway car painting
Taikisha delivers automated aircraft painting systems aimed at enhancing productivity and quality, decreasing material requirements and reducing hazardous work by applying know-how cultivated in the automotive painting business. Taikisha can accommodate a wide variety of diversified components and parts.

Taikisha is conducting business globally as an environment engineering company in two core business fields: the Green Technology System Business (Building HVAC and Industrial HVAC) and the Paint Finishing System Business.

Taikisha boasts the highest ratio of overseas sales by far in the Japanese construction industry, with 37 affiliates in 19 countries (as of September 30, 2020).

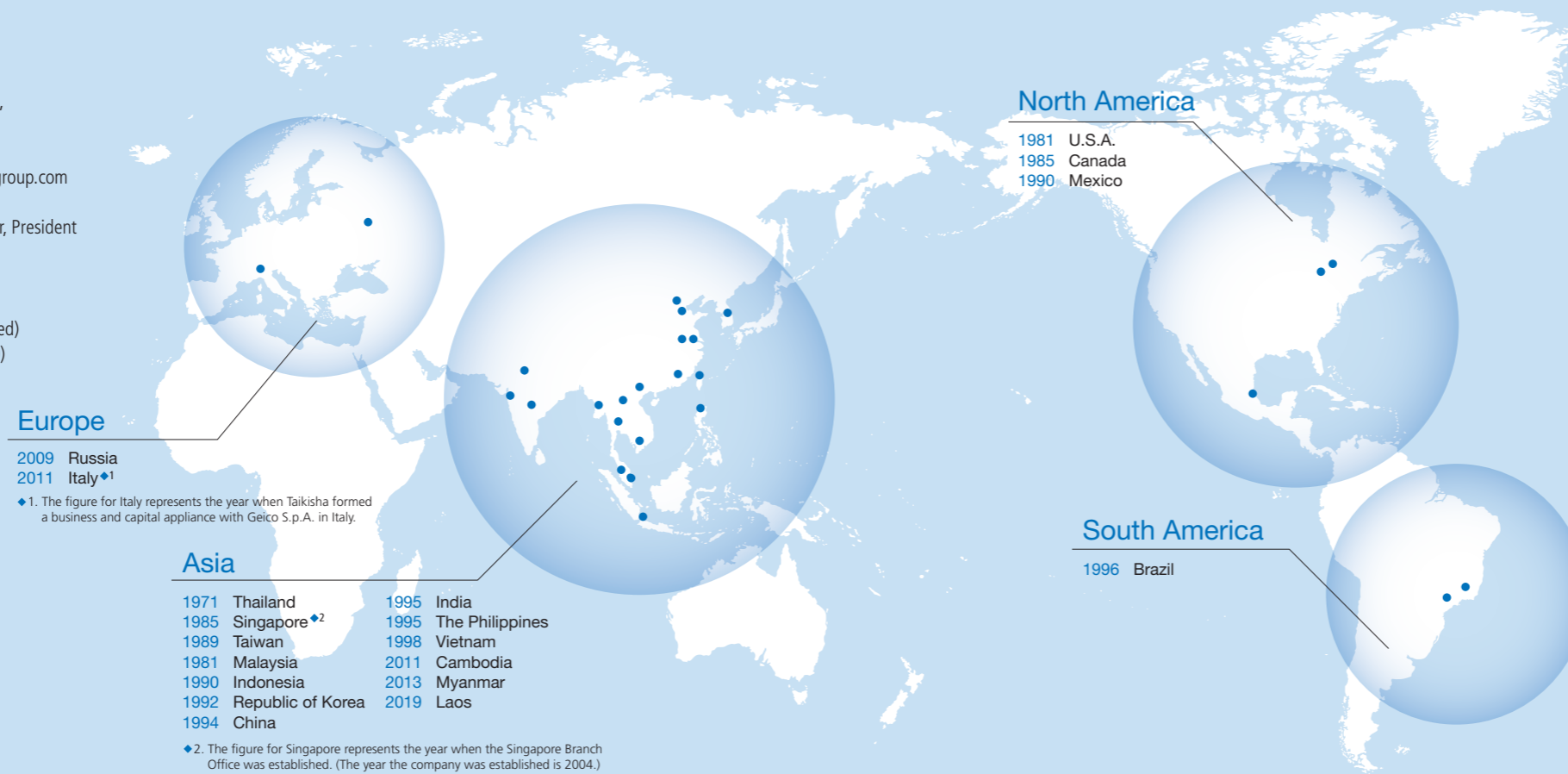
By adapting to the shift of Japanese companies overseas, Taikisha's global network of group companies contributes considerably to attracting orders for overseas projects (the ratio of overseas sales was 41.3% for FY2019).

Corporate Overview

Corporate name: Taikisha Ltd.
 Established: April 10, 1913
 Head office: Sumitomo Fudosan
 Shinjuku Grand Tower,
 8-17-1, Nishi-Shinjuku,
 Shinjuku-ku, Tokyo
 160-6129, Japan
 Website: <https://www.taikisha-group.com>
 Representative: Koji Kato,
 Representative Director, President
 Capital stock: 6,455.17 million yen
 Number of employees: 4,783 (consolidated)
 1,483 (non-consolidated)
 (As of March 31, 2020)

Global Network

(the figures represent years when group companies were established)



Group companies

Japan

San Esu Industry Co., Ltd.
 Nippon Noise Control Ltd.
 Tokyo Taikisha Service Ltd.

Europe

Geico S.p.A.
 J-PM Systems GmbH
 Geico Russia LLC

Asia

Wuzhou Taikisha Engineering Co., Ltd. (Head Office)
 Beijing Wuzhou Taikisha Equipment Co., Ltd.
 Geico Painting System (Suzhou) Co., Ltd.
 Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd.
 Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.
 Tianjin Taikisha Paint Finishing System Ltd.
 Taikisha Hong Kong Ltd.
 Taikisha (Taiwan) Ltd.
 Taikisha Korea Ltd.

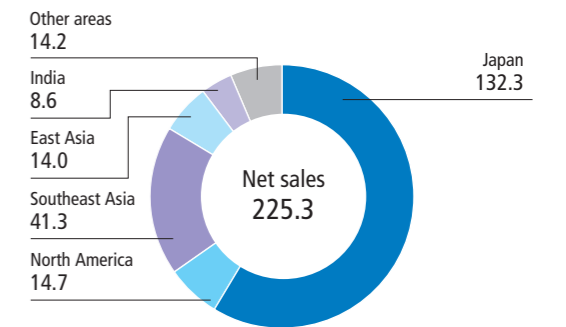
Taikisha (Thailand) Co., Ltd.
 Taikisha Trading (Thailand) Co., Ltd. (Head Office)
 Token Interior & Design Co., Ltd.
 Thaiken Maintenance & Service Co., Ltd.
 TKA Co., Ltd.
 BTE Co., Ltd.
 Taikisha Vietnam Engineering Inc.
 Taikisha Lao Co., Ltd.
 Taikisha (Cambodia) Co., Ltd.
 Taikisha Philippines Inc.

Taikisha (Singapore) Pte. Ltd.
 Taikisha Engineering (M) Sdn. Bhd.
 Makiansia Engineering (M) Sdn. Bhd.
 P.T. Taikisha Indonesia Engineering
 P.T. Taikisha Manufacturing Indonesia
 Taikisha Myanmar Co., Ltd.
 Token Myanmar Co., Ltd.
 Taikisha Engineering India Private Ltd.
 Geico Paint Shop India Private Ltd.
 Nicomac Clean Rooms Far East LLP

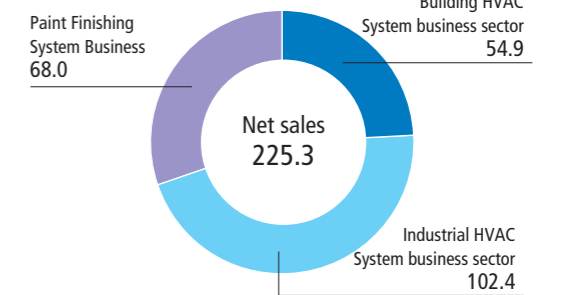
The Americas

TKS Industrial Company
 Encore Automation LLC
 J-CO America Corporation
 Taikisha Canada Inc.
 Taikisha de Mexico, S.A. de C.V.
 Taikisha Mexicana Services, S.A. de C.V.
 J-CO Mexico, S. de R.L. de C.V.
 Taikisha do Brasil Ltda.
 Geico Brasil Ltda.

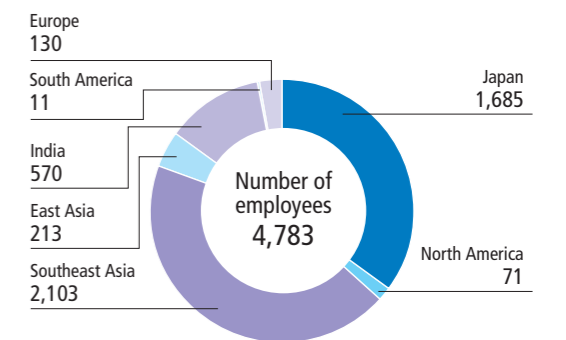
Consolidated net sales by region (billion yen) (FY2019)



Consolidated net sales by business segment (billion yen) (FY2019)



Employee breakdown by region (persons) (FY2019)



POINT

Net sales of the automobile paint finishing system business

Taikisha is a global environment engineering company that boasts **Japan's No. 1 position and the world's No. 2 position** globally in terms of net sales of the automobile paint finishing system business.



Financial items

*Thousands of U.S. dollars

	Unit	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2019
Orders received	Million yen	118,667	165,638	195,268	195,920	189,026	187,311	221,764	218,323	219,844	241,889	226,909	2,084,993
Ratio of overseas orders received	%	41.1	57.7	56.7	61.9	52.6	49.8	54.3	50.4	46.2	46.3	45.1	45.1
Net sales	Million yen	117,234	141,160	189,716	216,051	185,421	183,648	212,424	200,604	231,898	225,402	225,378	2,070,919
Ratio of overseas sales	%	43.7	44.4	51.3	57.4	61.6	55.2	55.5	49.3	50.1	47.1	41.3	41.3
Operating income	Million yen	3,189	5,411	8,325	9,815	8,083	8,669	12,734	8,473	12,180	14,035	15,439	141,872
Ratio of operating income to net sales	%	2.7	3.8	4.4	4.5	4.4	4.7	6.0	4.2	5.3	6.2	6.9	6.9
Ordinary income	Million yen	3,699	6,166	9,033	10,728	9,292	9,579	12,343	9,842	13,082	15,085	15,991	146,938
Ratio of ordinary income to net sales	%	3.2	4.4	4.8	5.0	5.0	5.2	5.8	4.9	5.6	6.7	7.1	7.1
Profit attributable to owners of parent	Million yen	3,666	3,703	4,372	6,200	4,155	6,084	7,084	6,305	7,254	8,841	9,132	83,917
Return on equity (ROE)	%	6.0	5.8	6.6	8.7	5.3	6.9	7.6	6.8	7.2	8.3	8.4	8.4
Total assets	Million yen	121,894	132,698	156,108	163,014	166,680	188,283	189,566	199,024	215,392	223,080	215,389	1,979,137
Net assets	Million yen	66,263	66,978	69,602	78,537	84,712	99,669	95,921	100,184	110,650	113,649	112,843	1,036,875
Equity ratio	%	52.3	48.8	42.9	46.2	48.3	50.4	48.0	48.1	48.8	48.8	50.2	50.2
Cash flows from operating activities	Million yen	1,077	5,869	1,812	10,772	7,532	1,401	7,301	6,679	9,337	9,159	21,386	196,511
Cash flows from investing activities	Million yen	2,105	-5,838	-2,336	-1,308	-1,194	-3,900	-328	-6,505	1,390	-2,830	-877	-8,064
Cash flows from financing activities	Million yen	-1,995	92	-361	-2,569	-3,290	1,264	-7,409	-5,286	-885	2,396	-11,475	-105,441
Research and development expenses	Million yen	668	744	784	800	876	822	889	946	1,024	1,084	1,105	10,154
Depreciation	Million yen	1,107	1,122	1,239	1,211	1,290	1,257	1,348	1,290	1,398	2,030	2,167	19,920
Purchase of property, plant and equipment and intangible assets	Million yen	-826	-783	-1,398	-3,130	-1,734	-1,247	-1,941	-1,807	-3,832	-4,140	-2,086	-19,170

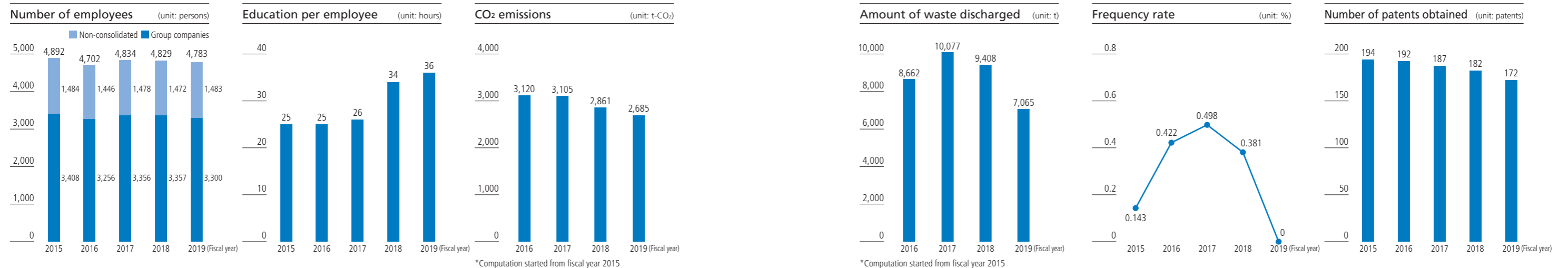
Per share data:

	Unit	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2019
Profit	Yen	99.72	100.73	119.52	170.99	116.08	172.64	204.35	183.16	212.40	259.53	268.07	2.46
Net assets	Yen	1,734.49	1,762.28	1,834.99	2,087.16	2,282.56	2,690.76	2,633.60	2,799.30	3,087.51	3,193.18	3,176.25	29.19
Annual dividend	Yen	30	30	35	50	45	52	67	70	75	91	100	0.92
Dividend payout ratio	%	30.1	29.8	29.3	29.2	38.8	30.1	32.8	38.2	35.3	35.1	37.3	37.3
Total return ratio	%	30.2	29.8	40.0	44.8	80.5	30.2	63.8	54.0	42.2	35.1	37.5	37.5

*U.S. dollars

* The U.S. dollar amounts are translated on the basis of nearly 111.01 yen to 1 dollar, the rate of exchange prevailing at March 31, 2019.
 * As the company has been applying the Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Statement No.28, February 16, 2018) since FY2018, its consolidated financial position in FY2017 is based on indicators, etc. calculated after retrospectively applying the said accounting standard, etc.

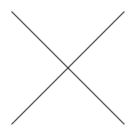
Non-financial items





Kazuhide Hayakawa

Director, Executive Corporate Officer,
Chief General Manager, Paint Finishing System Division



Junichi Murakawa

Director, Managing Corporate Officer
Vice General Manager, Paint Finishing System Division and Senior General Manager, Engineering Supervisory Dept.

Joined Taikisha Ltd. in 1979. Held the positions of Corporate Officer, Senior General Manager, Engineering Supervisory Dept., Green Technology System Division; Senior Corporate Officer, Senior General Manager, Sales and Marketing Dept., Green Technology System Division; and Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters before assuming the position above in April 2019.

Joined Taikisha Ltd. in 1976. Held the positions of Corporate Officer, General Manager, West Japan Head Office, General Manager, Nagoya Office and General Manager, Osaka Office, Paint Finishing System Division; and Senior Corporate Officer, Assistant to Chief General Manager, Paint Finishing System Division before assuming the position above in June 2019.

Opening the possibility of creating new value

—Paint Finishing System Division's challenges—

The Paint Finishing System Division continues to take on challenges to make the next leap forward while placing importance on “technology,” “environment” and “human resources” in the course of running its global business.

Its initiatives are at the forefront of engineering-driven value creation.

In this section, the dialogue between the Chief General Manager and the Vice General Manager of the Paint Finishing System Division sheds light on the future direction of sustainable growth pursued by Taikisha.

Q. Outline of Business What kind of business is the Paint Finishing System Business? Please give an account of its business, such as its history and strengths.

A1. It is a job that involves directly getting a grasp of clients' requests and providing added value based on high painting quality. (Hayakawa)

The Paint Finishing System Division pursues painting quality that boosts the added value of the exterior of industrial products and thus its primary operations involve the designing and construction of systems that offer such quality. The Division is a comprehensive system integrator serving as a full turnkey supplier for painting plants, including systems that perform painting tasks, conveyor systems that convey products, robot systems that automate painting, and systems for feeding paint to the painting machine. It mainly deals with paint finishing systems of automobiles, automobile parts, aircraft, railway cars and other industrial products.

I was transferred to the Paint Finishing System Division in 2018; before that, I had belonged to the Green Technology System Division. For this reason, I truly recognize that they are different in their approach to work even though they are in the same company.

In the Green Technology System Division's business, in most cases, we undertake work contracted out from the general contractors with whom the customer placed a construction work

order. In contrast, most projects in the Paint Finishing System Business are based on orders received directly from automobile manufacturers and related parts and components manufacturers who form our main clients. The Paint Finishing System Business, whose competitors are small in number, is in a so-called niche industry. Another major characteristic is that many of its projects are overseas, accounting for no less than approximately 80% of all projects.

As we work closely with clients and are able to communicate directly with them, we are in a position that allows us to directly get a grasp of what they are thinking and what they require. This also means that if there are management inadequacies on the part of Taikisha, the risk of poor construction becomes higher. When the Paint Finishing System Division receives an order for a project, the first step is the design period, and the next step is going to the site and carrying out construction; in many cases, the employee in charge of design remains in charge of construction. Most employees in mid-level and higher positions are capable of both design and construction management.

A2. We have grown with the automobile industry by making things together with clients while engaging in direct dialogue with them. (Murakawa)

Diverse knowledge/expertise is required in our job in maintaining a close relationship with clients, who are specialists of production. In a sense, we have been educated by our clients in some aspects and made improvements and progress jointly with clients as a team in other aspects.

Looking back at its history, Taikisha gained the chance to expand into the Paint Finishing System Business by receiving an order from Nissan Motor Co., Ltd. for a spray booth at its factory in Austin, U.S.A. in 1953. Subsequently, by the late 1960s, Taikisha started doing business with domestic automobile manufacturers, and in parallel with this, Taikisha expanded its dealings to include related parts and components manufacturers as well, bringing the company to where it is today. Taikisha made inroads into overseas plants following an order received from Nissan Motor Co., Ltd. for its South American line in Chile in the early 1960s, and has since been providing paint finishing plants to overseas sites in pace with Japanese automobile manufacturers expanding overseas and forging ahead along with the progress of the automobile industry in Japan and overseas.

In this process, we have been providing made-to-order designs and cutting-edge technologies tailored to clients' needs, which has been our strong point. Another strong point is that we have established business offices in many overseas locations before other companies.

The Paint Finishing System Business currently has three business offices in Japan and eleven business offices overseas (i.e., U.S.A., Mexico, Brazil, Italy, India, Thailand, Indonesia, Malaysia, China and South Korea), in addition to business offices in Canada, Russia and Germany in the form of subsidiaries of affiliates. Client companies are mainly Japanese automobile manufacturers that have expanded into foreign countries, as well as local automobile manufacturers in the United States, Europe,

China and South Korea, in addition to aircraft makers in Japan and overseas.

We started by making things together with clients while engaging in direct dialogue with them, enabling us to form a relationship with various manufacturers. While developing our technological capabilities to gain market recognition in this process, we have grown together with the automobile industry, which we believe has helped make Taikisha into the company it is today.

Clients' requests are wide-ranging; however, many clients request cost reduction while ensuring quality upon the construction of a new facility or the expansion of an existing facility, or in a nutshell, so-called “Value Engineering (VE)/Value Analysis (VA) proposals.” There is a constant demand for the creation of high-quality facilities within a limited budget, and it is the toughest issue for clients. To meet their requests, we make proposals by leveraging new technologies as well as our wealth of past experience.

In addition to meeting such requests as a matter of course, if we take environmental conservation as an example, I believe Taikisha's engineering is about providing clients with facilities that can contribute to society by further increasing added value through higher-than-ever energy-saving performance, etc.

At automobile plants, a large portion of its energy is consumed in paint finishing lines. This is because of repeated heating and cooling involved in baking the paint onto the auto body in paint finishing lines. Our Paint Finishing System Division excels in providing facilities with high added value that incorporate technologies to reduce energy consumed in such paint finishing lines, as well as technologies to remove volatile organic compounds (VOCs), which cause air pollution.

A3. We have adapted to the globalization of the automobile industry and formed alliances with overseas companies since the early days. (Murakawa)

Since the early days, the Paint Finishing System Division had set its eyes on China, the world's most populous country, and India, the second-most populous country in the world, and expanded our businesses in both countries with the expectation that their domestic automobile demand would increase in the future.

In 1994, Taikisha entered into a joint venture agreement with the Fifth Design Institute of China and commenced its full-fledged expansion into China. At the time, the automobile market was expected to expand rapidly in China, as it was about to enter into a period of high economic growth.

In the following year of 1995, Taikisha entered into a joint venture agreement with MARGO. ENG in India and made inroads into the Indian market as well. At the time, Japanese automobile companies were aggressively making local investments in India.

In 2011, Taikisha formed a business and capital alliance with Geico S.p.A. ("Geico"), a paint systems company in Italy, and

further enhanced its overseas network of business offices to expand its business into Europe, Russia and South America, among others. Geico looks highly promising as a strategic base in Europe. In contrast with Taikisha, which had lacked experience in doing business with major German automobile manufacturers, Geico has an extensive track record with European automobile manufacturers based on its unique sales strategy, and will thus play a central role in tapping the European market going forward, in addition to approaching local joint venture companies of European automobile manufacturers that have expanded into China.

In 2014, Taikisha entered into a business and capital alliance with Encore Automation LLC ("EAL"), a robot application systems engineering company in the United States, and enhanced its after-sales service framework to expand its paint system robot application business in the North American market. EAL, equipped with powder coating technology, receives many work orders from Chrysler, which solely adopts this technology in the U.S. automobile industry to differentiate itself from others.

In the aircraft industry, EAL has experience in doing business with The Boeing Company, and also deals in automatic polishing and automatic painting, among others. In 2019, Taikisha turned EAL into a wholly-owned subsidiary of TKS Industrial Company.

Going forward, we intend to further expand the Paint Finishing System Division's overseas operations with these allied companies.



A4. Localization through technology transfer is becoming a challenge for survival in an environment of global competition. (Hayakawa)

As explained by Mr. Murakawa, Taikisha has a history of evolving its paint technologies together with automobile manufacturers. Especially in our overseas businesses, we pursued overseas expansion together with clients in response to their requests when Japanese automobile manufacturers expanded overseas. In the early days of overseas expansion, lack of understanding of the local culture and language was a problem for employees of Japanese automobile manufacturers who had to take command at overseas sites. So, to begin with, they selected Taikisha as their business partner for its track record in Japan and its ability to go to those overseas sites with them and communicate in Japanese.

However, by the time their second and third factories were established at overseas sites, local contractors who had worked as Taikisha's subcontractors during the construction of the first factory learned the skills and became Taikisha's competitors.

Although the training of local subcontractors cannot be neglected, they will become Taikisha's competitors in the next chapter if we upskill them, posing a huge dilemma. As there is no effective solution to this, we will be required to constantly

train new subcontractors and, at the same time, promote cost reduction to beat the competition. It is also important to provide value without being dragged into price competition by leveraging our strength, that is, our deep knowledge of special specifications unique to clients gained from our extensive construction experience.

On the other hand, we must promote localization by minimizing the number of Japanese staff at our overseas business offices going forward. We need to enhance national staff education and further promote technology transfer.

To deal with these challenges, we are engaged in a trial in which overseas national staff have been assembled in Japan to be provided with education at actual sites in Japan. We also plan to launch a trial of on-the-job education for resident national staff at overseas construction sites to be provided by Japanese employees dispatched from Japan.

**Q. Response to changes and growth axis
What are the issues currently faced by the Paint Finishing System Division? Where is the Division heading?**

A1. The Paint Finishing System Division's portfolio needs to be expanded from a long-term perspective to prepare against changes. (Hayakawa)

The automobile industry is now entering a so-called once-in-a-century transformational period. While the interpretation of this transformation varies slightly from automaker to automaker, not many manufacturers expect exterior paint finishing to disappear from automobiles, at least for now. Rather, they seem to be more conscious about differentiating themselves by paint finishing.

Exterior paint finishing of automobiles is not expected to disappear immediately, but in the long run, it might change in conjunction with changes in materials, or the task of paint finishing itself might disappear. The reason why steel is used in the exterior of automobiles is that it is affordable and easy to procure and process. Another major reason is that in the event of an accident, steel's strength ensures the safety of persons inside the vehicle. If automated driving becomes widespread in future society as a whole, hardly any accidents will occur, so the material will no longer be steel; it is expected to be replaced by plastics, resins and other materials colored from the start. By the time the world of automobiles has undergone so much change, paint finishing may no longer be necessary. It is likely to take many years for us to get there. This is because accident-free safety cannot be realized without eliminating all non-autonomous vehicles.

That said, I believe it will be necessary to expand the Paint Finishing System Business's portfolio to prepare against changes from a long-term perspective. For this purpose, we are working on the automation of polishing and painting processes of aircraft

and railway cars as new fields other than automobile paint finishing. Automatic scanning, automatic polishing/painting/ decorating and other such technologies currently being developed here are expected to be in high demand not only in aircraft and railway car industries but also in other industries, such as machine tools, housing equipment and precision machinery, creating an opportunity for market expansion.



A2. We are pursuing automation by applying robot and conveyor technologies. We are also promoting development to adapt to Internet of Things (IoT) and artificial intelligence (AI). (Murakawa)

In February 2019, Taikisha opened the Technical Center in Zama City, Kanagawa Prefecture by consolidating and expanding the technological development bases of the Paint Finishing System Division.

One of the development themes tackled at the Center is the automation of various processes based on the application of robot technology. Automation of polishing and painting processes for aircraft and railway cars is also part of this effort. As the conventional process involved attaching a paint-spraying gun to the tip of a robot arm for use in automobile paint finishing, the Center completed a device that automates the task of stripping old paint from the surface by replacing this part with rotary sandpaper for polishing purposes. Having already completed the basic robot technology for these kinds of applications, we hope to deploy the technology proactively.

On the other hand, adapting to the IoT and AI trend in society is also a significant development theme. Taikisha has developed "i-Navistar," a system for suspending operation and analyzing causes when a quality defect arises by utilizing IoT and AI based on various sensing data in automobile paint finishing lines. Since

its release in February 2019, many customers—especially automobile manufacturers—have shown interest, and Taikisha has already built a track record of orders received. Going forward, we will pursue the widespread popularization of i-Navistar by overcoming issues in expanding businesses in the fields of IoT and AI, including introducing camera and image processing technologies in place of conventional sensors, aimed at reducing costs of various sensing required for information volume input.

A3. In view of the future impact of the novel coronavirus (COVID-19), we will respond to changes based on finely-tuned strategies. (Hayakawa)

Now, I would like to comment on the impact of the COVID-19 pandemic on clients' industries. In automobile-related industries, which have suffered a global market slowdown combined with supply chain disruptions as a result of the COVID-19 pandemic, there are concerns that manufacturers' earnings might deteriorate, but I believe that innate demand in the automobile market has not disappeared, despite uncertain prospects for the immediate future. While the trend in investments in automobile production facilities is

expected to be subdued due to decreased demand for some time to come, we intend to formulate a strategy to turn this difficult situation into an opportunity. Likewise, for aircraft and railway cars, demand seems to have declined in a manner similar to the automobile market; nonetheless, we will boost Taikisha's presence in these markets, which will be huge in a "Living-with-COVID-19/Post-COVID-19" world.

A4. Allied companies' proprietary technologies will be shared within the entire Group. Efforts will also be made to build a governance system. (Hayakawa)

With the aim of further enhancing the Paint Finishing System Business, Taikisha convenes an alliance meeting to share Geico and EAL's proprietary technologies within the Taikisha Group as a whole. Taikisha is pushing ahead with alliance activities while maintaining a good relationship based on mutual respect with Geico and EAL, both of which have a common passion for creating something new, notwithstanding differences in country and culture. Going forward, we intend to promote collaboration among the business offices in development plans and tasks such as experiments as well, to build an alliance relationship at a deeper level. We believe that the key to governance of allied companies lies in the board of directors—including Taikisha employees who serve as directors in those companies—playing a central role in

governance. On top of this, it is important that Taikisha determines its policies in response to reports on matters brought up by the board of directors by making its business divisions scrutinize and give careful consideration to the content of such reports. Being mindful as a member of the Taikisha Group sharing common management policies, we are pursuing prosperous coexistence by heading in the same direction. As we believe it is important to facilitate communication and build a relationship based on open-mindedness for this purpose, we convene monthly meetings with allied companies in an effort to build a robust governance system by holding discussions not only on business performance but also on important matters, including those related to management.

Q. Approach to and vision for the future
What are your thoughts about the future of the Paint Finishing System Division?

A1. We will identify and fulfill the ideals and needs of painting plants by adapting to the automobile industry, which is entering a period of major transformation. (Hayakawa)

As explained earlier, the automobile industry, which is a major client of the Paint Finishing System Division, is entering a period of dramatic transformation. In addition to the transformation of automobiles themselves (i.e., CASE: Connected, Autonomous/Automated, Shared & Electric) and significant changes in the mode of operation (i.e., MaaS: Mobility-as-a-Service), production systems are also undergoing change. On the other hand, automobile paint finishing lines are shifting from conventional large and heavy systems to simpler systems. Especially in terms of eco-friendliness, there is a trend towards zero CO₂ emissions, reduction of VOC emissions (higher coating efficiency) and simplification of systems. In order to adapt to such changes in the environment, the Paint Finishing System Division has launched the "Dream Plant

Concept" initiative. The objective of the "Dream Plant Concept" is to create a vision of plants to be pursued by Taikisha based on the ideals and needs of painting plants sought by automobile manufacturers, to realize "zero CO₂ emissions," "100% coating efficiency of paints," and "unmanned plants" through the simplification and automation of systems. We will not only contribute to clients' profits but also help reduce the impact on the global environment by striking a balance between the two. While designing, engineering planning and development divisions are playing a central role in this initiative, we will incorporate many opinions of young engineers who will lead the next generation of the Paint Finishing System Business to pave the way for a new era of paint finishing systems.

A2. We will contribute to society with our technologies, focusing on energy-saving and environment-responsive technologies. We will take on challenges based on new ideas. (Murakawa)

Earlier, I gave environmental conservation as an example and

stated that Taikisha's engineering is about providing clients with

facilities that can contribute to society by increasing added value through superior energy-saving performance, etc. For us, as you may expect, energy-saving and environment-responsive initiatives in the construction of paint finishing plants are the centerpieces of our efforts.

We meet clients' needs and society's requirements by taking advantage of various environmental technologies, including reducing energy usage by suppressing the airflow in booths and the temperature in drying ovens, in addition to saving electricity by reusing the temperature of high-temperature exhaust gas and refining electrodeposition tanks, and even reducing harmful VOCs by improving the coating efficiency of paints. This requires an eagerness to take on challenges based on new ideas without being bound by existing systems and concepts.

On the other hand, clients who are progressive in their environmental initiatives, for example, Toyota Motor Corporation, has set a target to reduce CO₂ emissions from new vehicles, life cycle and plants to zero by 2050. Even in resolving

clients' issues like this, we will approach clients proactively by endeavoring to make proposals that are more effective, including energy-saving by utilizing solar power generation, wind power generation and other renewable energy, introducing energy management systems and curbing the generation of CO₂ emissions through heat source conversion in drying ovens.

We are engaged in initiatives to contribute to society by leveraging the technologies that we have nurtured to date also with respect to themes other than environmental conservation. In July, we released "Barrier Cube," an emergency shelter to be assembled in the event of a disaster to reduce the risk of COVID-19 infections at indoor evacuation centers, based on the application of results yielded from the development of paint booths and air filters. We intend to continue widening the range of our social contribution in various ways.

A3. We are striving to upskill employees and improve their quality of life by focusing our efforts on education for increasing the value of human resources as well as on the improvement of operations. (Murakawa)

Employees are the biggest assets of Taikisha as an engineering company; nothing is more important than internal education that boosts the value of employees. To begin with, in order to realize the career plans of young employees in Japan, Taikisha has formulated an upskilling education plan that would serve as a basis for their plans. Having enhanced various materials so that they would be useful in practice, including how to use them, we are striving to raise their standards on an ongoing basis over an education period of ten years from the time they join the company. In addition, we hold workshops for acquiring qualifications and recommend employees to take the TOEIC test, given the large number of overseas works.

Furthermore, in terms of initiatives for work style reform, we are improving operational efficiency and simplifying operations in consideration of work-life balance as a measure to adapt to changes in the lifestyles and values of the younger generation. This increases the time they can spend with their family, for leisure and on self-improvement, contributing to better quality of life for each and every employee.

Among operations, overseas construction work, in particular, is deemed to give an enormous sense of fulfillment upon completion to the employee who had to be in charge throughout the entire process, not only the construction of the system designed by him/her while cooperating with local staff at an overseas business office but also all other tasks until the system is handed over to the client. However, an employee cannot be assigned to such overseas construction work without having solid knowledge and experience as an engineer. For this reason,

the Paint Finishing System Division conducts basic education and education tailored to on-site operations targeted at personnel ranging from new recruits to employees in their tenth year of employment and puts them on job rotation to improve their design capabilities and site management abilities.

On the other hand, for the education of national staff, we conduct technology transfer based on on-the-job training (OJT) throughout the progression of the project. In addition, for the training of persons responsible for safety management, we conduct training sessions in Japan in an effort to improve their operation standards through such means as lectures on management methods and site inspection tours. In recent years, there has been an increasing number of "self-contained" projects at overseas business offices, giving rise to the need to carry out technology transfer further with respect to new systems, including acquiring new skills. As for national staff, our challenge for the future is to pursue qualitative improvements in terms of project management, cost control and other aspects, while improving technological capabilities, and make enhancements on the compliance front as well.

As explained by Mr. Hayakawa, headhunting of skilled individuals is rife overseas, resulting in the outflow of human resources to competitors. We must make solid profits at overseas business offices while focusing efforts on improving the treatment of national employees and engaging in communication with them. We will also reflect appropriate personnel assessment in distributing the profits, in an effort to retain national employees.

A4. As a promising business division, we will develop human resources with a positive mindset for taking on challenges and grow together with them. (Hayakawa)

Our motto in the Paint Finishing System Division is to continue to take on challenges in new fields at all times while ensuring solid business performance in its core business.

Our specific initiative going forward will be to master paint technologies and realize paint finishing with 100% coating efficiency at an early date. We intend to apply robot and conveyor technologies and take on various automation challenges as well. Especially for robots, we will expand the possibilities infinitely by substituting the tip of a robot arm with an alternative device without limiting ourselves to automobile

paint spray guns, which are the mainstay in our current business. The Paint Finishing System Division is a business division with enormous future potential. We hope to develop human resources with a positive mindset for taking on challenges and continue to grow together with them.

Taikisha's Mission Statement "Customers First" refers to the spirit of earning the ongoing trust of stakeholders (society in general). Since the foundation of Taikisha in 1913, this guiding principle has underpinned its efforts and was formulated anew in 1970 as the "Customers First" Mission Statement. Based on this mission statement, Taikisha will continue to create new value for others while striving to achieve its sustainable growth.

Environment surrounding Taikisha

- Business opportunities**
 - Response to climate change
 - Efficient use of resources and energy
 - Development of industries and technological innovation
 - Contribution to creating sustainable cities and communities
 - Use of IoT/AI and technological innovations toward automation
- Risk factors**
 - Fluctuations in private-sector capital investment
 - Risks involved in overseas business operations
 - Risks involved in intensified price competition
 - Fluctuations in material prices
 - Natural disasters/accidents
- Internal issues**
 - Work style reform and human resource development
 - Building a solid governance system
 - Optimum quality control
 - Stakeholder engagement

Capital invested

Financial capital



Manufactured capital



Human capital



Intellectual capital



Social/relationship capital



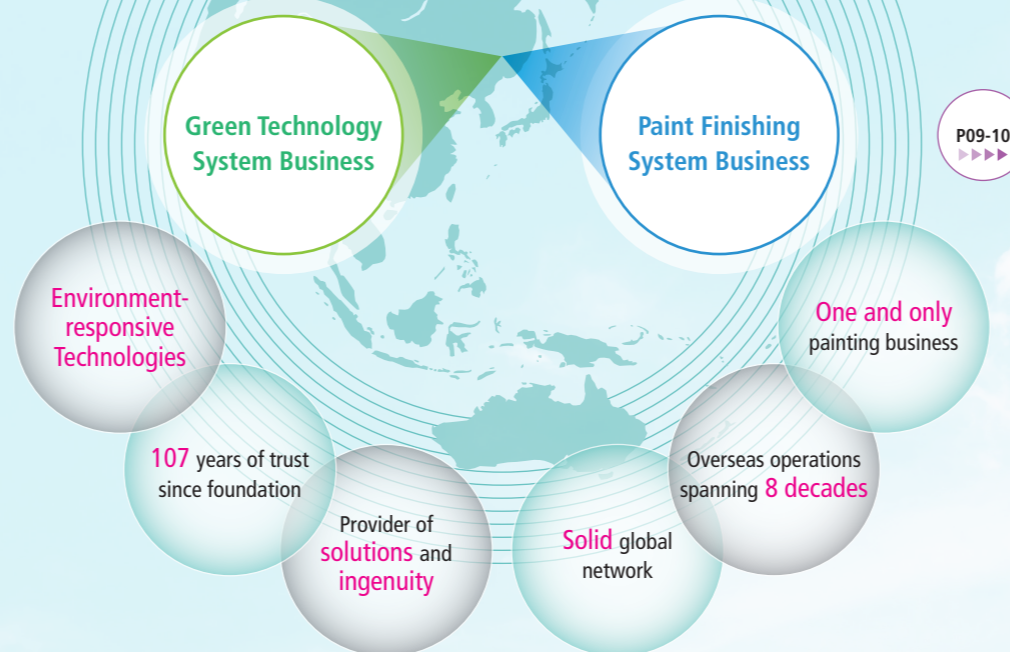
Natural capital



Optimal allocation of capital invested

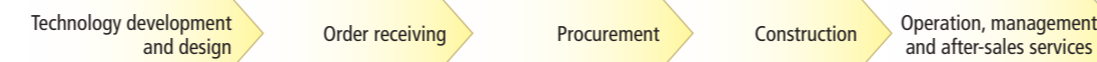
Business activities

Creating an optimal environment through unique engineering



Capitalize on opportunities through business and manage risk factors

Value chain



CSR activities that support sustainable growth

Address internal issues based on our Materiality



Provision of value

Financial capital

- Maintain a solid financial foundation
- Net assets of 112.8 billion yen
- Equity ratio of 50.2%

Manufactured capital

- Respond to clients' needs by leveraging R&D facilities
- Capital investment of 2.2 billion yen
- 5 R&D facilities in Japan and overseas

Human capital

- Generate customer satisfaction
- Advancement of overseas local staff
- Ratio of overseas employees: 65%
- Variety of education and training

Intellectual capital

- Hand down technology to the next generation
- Enhance technological platforms using IT tools
- Accumulate technologies and know-how overseas
- Accumulated overseas affiliates' sales of 2.1 trillion yen

Social/relationship capital

- Maintain a solid global network
- 37 affiliates in Japan and overseas
- Abundant transactions
- 1,408 clients and 1,795 subcontractors

Natural capital

- Reduce environmental impact
- Efficiently utilize resources/energy
- Use "air," a natural resource



Practicing "Customers First"

At Taikisha, "Customers" are broadly interpreted as all stakeholders surrounding the company. By practicing the Mission Statement "Customers First" through its businesses, Taikisha will seek to generate benefits and happiness for all such stakeholders.

FY2019 results except for accumulated amount

For Taikisha's specific "value creation" initiatives, please see the special features on P.23-28. >>>>

Value Creation Feature 1 P23 Environmentally conscious technology

Providing unique technology based on expertise in energy saving and automobile paint finishing

Contributing to Environmental Development with Exhaust Air Processing Technologies (RTO)

Value Creation Feature 2 P25 Solid global network

Technological and innovation initiatives through global alliances

Initiatives at Geico S.p.A., Italy

Value Creation Feature 3 P27 Environment creation technology

Technology supporting automobile development

Environment Test Room

Top Management Message
 Corporate Overview
 Dialogue between Chief and Vice General Managers
 Value Creation Feature
 Materiality
 Key Measures and Progress of Activities
 Governance
 Environment
 Contributions to Society

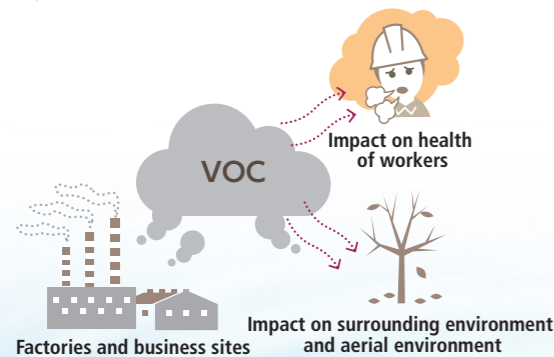
Environmentally conscious technology

Providing unique technology based on expertise in energy saving and automobile paint finishing Contributing to Environmental Development with Exhaust Air Processing Technologies (RTO)

In the automobile paint finishing process, paint booths release volatile organic compounds (VOCs), which cause one of the air pollution problems, namely, photochemical smog. Taking advantage of its experience in constructing automobile paint finishing facilities, Taikisha has been working on the development of exhaust-gas treatment devices that render VOCs harmless. With its know-how and proprietary technologies that have been nurtured over many years, Taikisha will contribute to building an environment with clear air while making proposals and taking action to meet customers' needs.

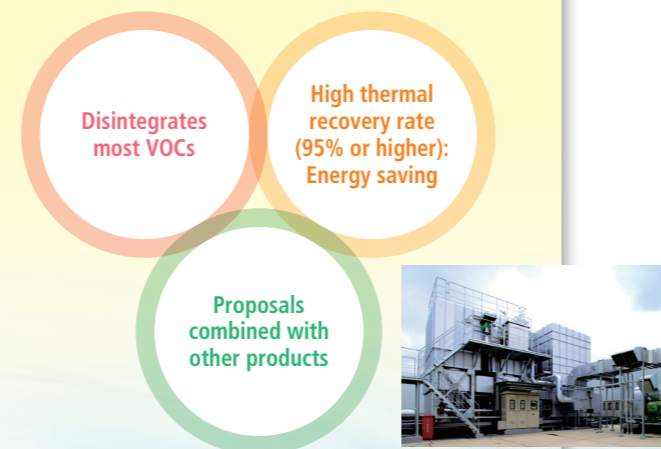
VOCs' impact on people's health and the natural environment is a concern

VOCs are widely used as solvents in automobile painting, as well as in printing and other manufacturing processes. However, there are concerns over the impact of VOCs on the surrounding environment in terms of air pollution, odors, etc., in addition to their impact on the health of construction workers, etc.



Characteristics of Taikisha's RTO *

* Regenerative Thermal Oxidizer



History: Taikisha's response to the environment

Decade	Background and issues during the decade	Taikisha's response
1970s	First case of harm caused by photochemical smog reported in Japan, leading to a surge in demand for exhaust-gas treatment devices that render VOCs harmless.	Taikisha developed a VOC abatement system following the construction of a drying oven for paint finishing process.
1980s	The system developed in the 1970s required enormous amounts of fuel due to its inability to effectively use thermal energy, and failed to treat some types of VOCs.	Taikisha focused its attention on "RTO," which had become widespread in the U.S. and Europe with strict VOC emission regulations. Foreseeing that RTO would become the mainstay of VOC abatement systems in the 1980s, Taikisha commenced the development of RTO.
1990s	In the U.S. and Europe, enactment of laws and regulations led to a downtrend in VOC emissions. In Japan, emissions remained flat despite measures taken by some local governments through municipal ordinances, due to the lack of legal measures to curb emissions.	In 1994, Taikisha established a specialized unit and entered into a sales agreement with MEGTEC in the U.S., which was ahead in the practical application of RTOs. In 1998, Taikisha delivered the first unit to a factory in Japan. Based on its collaboration with MEGTEC, Taikisha gained substantial knowledge and technology related to RTO and, in 1999, delivered an RTO (developed in-house) for drying ovens for automobile paint finishing lines.
2000s	In May 2004, the revised Air Pollution Control Act (VOC regulation) was promulgated. The Act presented guidelines aimed at curbing emissions by combining laws and regulations with business operators' voluntary initiatives in an appropriate manner.	Taikisha made unique proposals combining RTO with its products to meet the needs of its main clients, such as manufacturers in the fields of semiconductors, liquid crystal, film and printing, in addition to automakers. RTO was adopted in an increasing number of projects.
2010s	In 2014, China began toughening VOC regulations as serious air pollution had become a problem. Stricter emission standards were imposed than any other country in Asia, and legal and tax reforms and tougher penalties were promoted with the aim of tightening environmental regulations, while corporate investment in the environment accelerated.	In relation to RTO, Taikisha proactively engaged in activities, including the development of a local production framework in China. While capital investments had tended to be cost-oriented in the early days of tougher regulations, there has since been a gradual increase in inquiries to Taikisha for its high quality and solid track record.

Example of system adoption

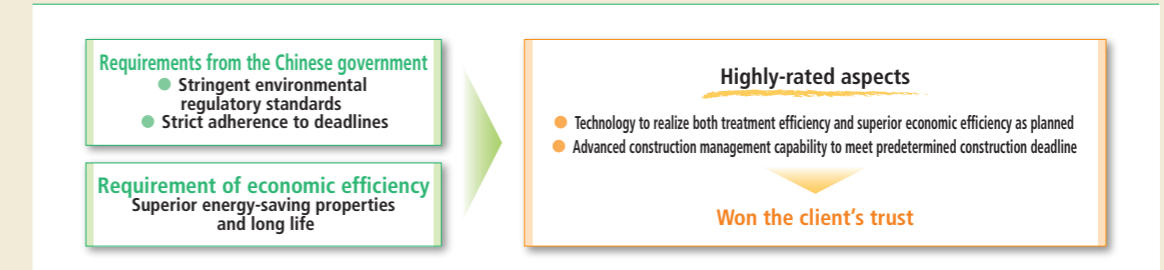
Hefei Plant of Hitachi Construction Machinery Co., Ltd.

Since Taikisha received an order to construct the mother plant of Hitachi Construction Machinery Co., Ltd. (HCM), the two companies have been jointly conducting studies on new technologies with the aim of automating paint finishing and improving quality. At HCM's site in China, namely, its hydraulic shovel production plant in the city of Hefei, Anhui Province, Taikisha undertook work to comply with China's environmental regulations by delivering exhaust-gas treatment systems (RTOs) to its existing paint finishing facilities.

In conjunction with the tightening of environmental regulatory standards by the Chinese government, the latest project required Taikisha to meet the prescribed deadline, before the revised standards came into effect. While exhaust-gas treatment facilities do not have a direct impact on the products manufactured at the client's factory, client satisfaction was pursued in terms of energy-saving and durability of the facilities. In order to fulfill these requirements, Taikisha—a company that has strengths and expertise in both paint finishing and exhaust-gas treatment—brought together its Green Technology System Division and Paint Finishing System Division to establish a joint project team in which members would collaborate closely with each other by cutting across business offices.

Upon the commencement of the project, the joint project team first conducted an on-site survey in advance and identified issues in the existing paint booths. The team then proposed the optimal system based on the measurement results of exhaust airflow, exhaust constituents and concentration and dust volume. In addition, with the cooperation of a client to whom Taikisha's HVAC division in Shanghai had delivered RTO, the team created an opportunity for HCM personnel to visit and inspect existing facilities in operation.

Through the process described above, HCM gained a full understanding that Taikisha has the technology to realize treatment efficiency, energy-saving and durability as planned and advanced construction management capability to meet predetermined construction deadline, and as a result, HCM selected Taikisha from among multiple contractor candidates to undertake the project.



RTO for new B line



RTO for ATT line

Customer Feedback



Kenzo Endo
General Manager of Production
Engineering Dept., Manufacturing Division
Hitachi Construction Machinery (China) Co., Ltd.

This project, in which China's standards had to be met fully in terms of environmental requirements, needed to be completed within the predetermined period. To prepare for tougher environmental requirements in the future, it also required the introduction of a paint finishing line for large structures capable of aqueous coating, as well as an exhaust-gas treatment facility.

For this reason, Taikisha was chosen for its track record in introducing exhaust-gas treatment facilities and its comprehensive range of painting facilities. Thanks to Taikisha, we were able to look into both facilities in a reasonable manner, and select the specifications smoothly.

Having met the tight deadline, the facilities currently in operation meet all the specification requirements and are capable of operating even at times when a first-grade alert, the strictest alert under the environment regulations of the Chinese government, is issued.

Going forward, we hope Taikisha will maintain its advanced technological capabilities and continue to be not only a company that can meet requirements and win trust in each country but also a good partner to the HCM Group, as environmental regulations are becoming increasingly stringent worldwide.

Solid global network

Technological and innovation initiatives through global alliances

Initiatives at Geico S.p.A., Italy

In May 2011, Taikisha formed a strategic global alliance with Geico S.p.A. in Italy. This alliance has created synergies, enabling each company to enhance its respective strengths in technology and markets, and has led to stronger engineering capabilities in paint technologies, and business expansion. Geico S.p.A. is an important partner in Taikisha Group's global strategy. Through this alliance, the Group aims to be an increasingly necessary part of global society.

About Geico S.p.A.

Geico S.p.A. is an engineering firm engaged in the paint systems business from its base in North Milan, Italy. With a company history spanning more than fifty years, Geico has always carried out a policy of constant research, development and innovation, which has allowed it to provide its clients with the most competitive technology solutions.

A strong ethical sense affects the behavior, both internal and external, of the company and together with its values they have allowed Geico to meet the key expectations of clients in the respect of people, communities and the environment.

People are considered the most important resources of the company, therefore it has always carried out several initiatives for their development and for the creation of a pleasant working environment, leading to being awarded in the Great Place to Work ranking.



Important points of Geico S.p.A.'s corporate strategy

- Strong human resources development
- Sustained technological, process and product innovation
- Proactive investment in technology and expertise
- Global expansion and new clients acquisition
- Global-level sales and technological alliances
- Further enhancement of project management
- Systematic management of fixed costs

Aims of the alliance between Geico S.p.A. and Taikisha

- Sustainability and financial stability
- Competitive solutions combining delivery time and price
- Vertical orientation of technical organizations and global infrastructure
- Innovative approach to product development and project management
- Sustainable solutions in the ecology and energy conservation fields

Research and development initiatives — Pardis Innovation Centre

The auto body painting industry's most important worldwide research and development center is the Pardis Innovation Centre, the Alliance's flagship facility, born in 2009 and expanded in 2013 in Geico's new Headquarters. This facility is a global research and development base for the Taikisha-Geico alliance, undertaking technological development for automobile paint finishing plants. It develops paint technologies to reduce environmental impact.

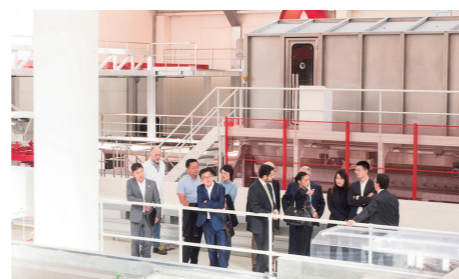
More than 40 practical prototypes for solving a range of technical issues are displayed across the 3,600 m2 floor space, which is twice as large as the previous facility. Clients and business partners can inspect and learn about new technologies at each stage of the paint finishing process.



Utilization as a forum for communication with clients — Experiment Days

The Pardis Innovation Centre hosts events called "Experiment Days." Days dedicated entirely to an individual client, supported by a team of experts, with the aim of designing tailor-made solutions, prototyped and tested based on their specific needs and expectations. The subsequent event with each client, half a year or one year later, includes dialogue based on the results of these discussions, and updates on the progress and details of development.

Geico S.p.A. has held more than 150 Experiment Days with over 60 automobile manufacturers. It has witnessed a marked improvement in communication with clients thanks to the creation of these opportunities for discussion.



The Pardis project: achieving an entirely energy self-sufficient paintshop

The Pardis project launched by Geico S.p.A. in 2005 aimed to design an "entirely energy self-sufficient paintshop" with zero CO₂ emissions. The project's completion was initially scheduled for June 16, 2020, the so called Energy Independence Day, but the world's first entirely energy self-sufficient paintshop was actually achieved in 2017, three years ahead of target.

Geico S.p.A.'s paintshop reduces the amount of energy needed to paint each vehicle by 70%, from the 900 kWh required in 2005 to only 270 kWh. Electrical power is sourced from renewable energy.

The Pardis Innovation Centre played an important role in achieving the project targets.



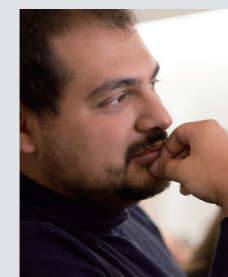
Geico S.p.A.'s initiatives for energy consumption management

	Targets	Main initiatives	Results
2005-2012	Introduce a technological production cycle that pursues the optimal combination of new paint technology utilization, enhanced technological innovation quality and energy conservation	Increase the efficiency of paint transfer, respond flexibly to fluctuation in production volumes, introduce compact technology cycles, ensure zero emissions from water circulation in the paint finishing process, and reliably meet the standards specified in emissions regulation	Halved energy consumption From approx. 900 kWh to approx. 460 kWh (energy required to paint one vehicle)
2012-2015	Maximize the energy efficiency of paint finishing by utilizing energy conservation technologies from other production processes	Phased energy recovery (cascade utilization) and the reduction of energy loss	Halved energy consumption From approx. 460 kWh to approx. 270 kWh (energy required to paint one vehicle)
2015-2019	Utilization of renewable energies in place of conventional fossil fuels Pursue the best mix of energy	Create tools to enable analysis of energy consumption, visualization of the impact of weather conditions etc., and optimization of energy allocation	The development of the software below enables optimization of energy allocation and management of consumption. J-Power: calculates the optimal mix of renewable alternative energy sources for each production site GEM (GEICO ENERGY MANAGEMENT): monitors the energy vectors of production lines, and manages energy consumption

Initiatives for the future

Going forward, the Pardis project will engage in the further pursuit of flexible solutions to respond to fluctuation in production volumes (suppress fixed energy consumption), and new production processes and technologies, such as electric vehicles and hydrogen vehicles. At the same time, Geico and Taikisha plan to continue to use the Pardis Innovation Centre the Group's most important testing and prototyping Centre to present software innovation and its advanced control and automation systems, responding to customer demands for shorter project time frames.

From Geico S.p.A.



Daryush Arabnia
Chairman, President & CEO

Research and development are the motive forces behind Geico S.p.A., and are the keys to unlock our future.

The Pardis Innovation Centre was established with the purpose of clearly expressing Geico's identity to our clients. It provides a forum to communicate not only our technological dominance, but also the spirit and culture at Geico's core. Clients can come into contact with advanced technologies in a calm, warm, boutique-style environment.

In addition to functioning as a research and development facility for testing ideas and commercializing prototypes, the Pardis Innovation Centre also serves an important role in strengthening relationships with our stakeholders, including customers, financial institutions, academic institutions and others.

In the future, we want it to be a showcase not only of Geico's technologies, but also of the technologies of the Taikisha Group.

Environment creation technology

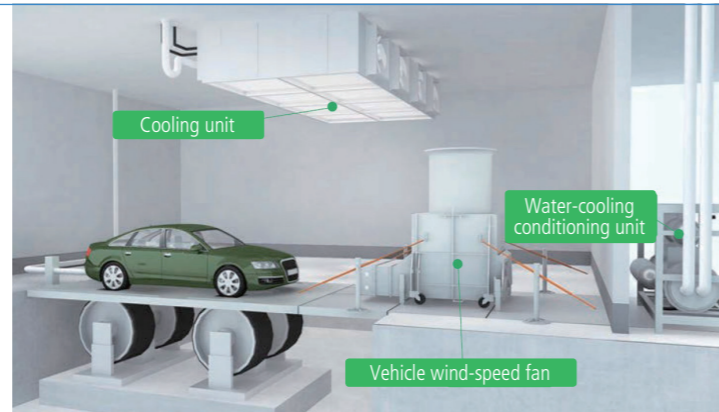
Technologies supporting automobile development

Environment Test Room

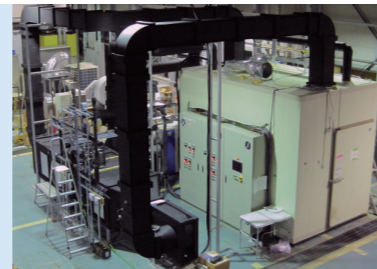
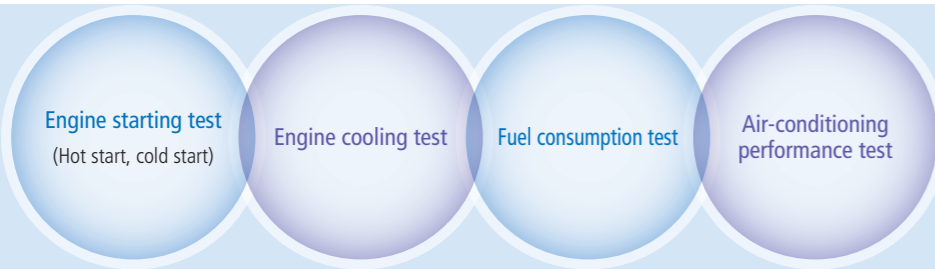
Automobiles are utilized everywhere around the world. Temperatures vary from extremely high to extremely low among different regions and fluctuate dramatically during a single day in certain regions. Some regions are high in humidity. As the climate varies from region to region, it is indispensable to conduct tests using test equipment so that automobiles can be driven safely at each location. The "environment test room" assists in conducting tests for research, development, design and quality control of completed automobiles and automobile parts.

What is the environment test room?

Normally, automobile manufacturers are equipped with a bench testing facility called "test bench," chassis dynamometer, engine dynamometer and other drive-train testing equipment. The room in which such equipment is installed—i.e., the "environment test room" that corresponds to the space around such equipment—requires advanced technologies, including the technology for precisely-controlled air conditioning, energy-saving technology for efficiently providing the "environment" required in the tests, and technology that enables centralized management and monitoring of the operational status of each system.



Tests conducted in environment test room



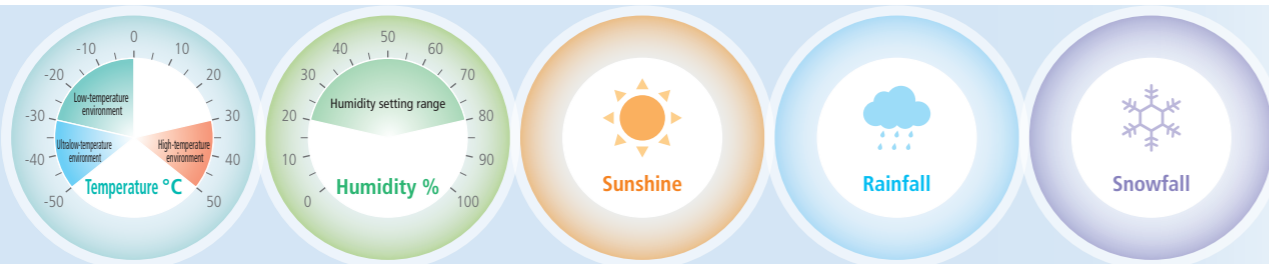
Background to Need for Advanced Technology

Upon conducting the tests referred to above, it is necessary to keep environmental conditions in a constant state to ensure that data will be reproducible and consistent. This gives rise to the need for technologies to reproduce temperature, humidity, sunshine, rainfall, snowfall and other natural environmental conditions at high precision while saving energy. Our ability to freely reproduce the necessary environment indoors without being at the mercy of actual weather allows us to conduct tests not only at low cost but also in an efficient manner. Given that countries have been tightening their

environmental regulations in recent years, there is a demand for creating an environment tailored to the testing requirements (objectives) of vehicles and engines, rather than all-weather facilities that consume large amounts of energy.

Accordingly, it is indispensable to have knowledge of and experience in comprehensive air conditioning designing to build an environment test room. Taikisha offers an environment test room tailored to each customer's needs by leveraging the air conditioning technology it has nurtured over many years.

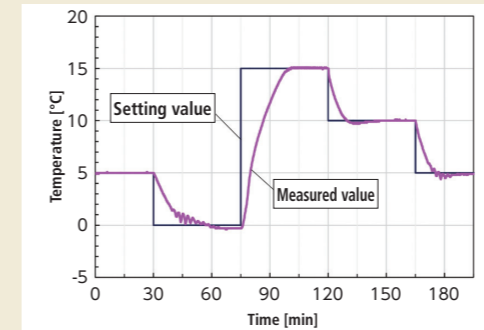
Environment required in environment test room



Characteristics of environment test room provided by Taikisha

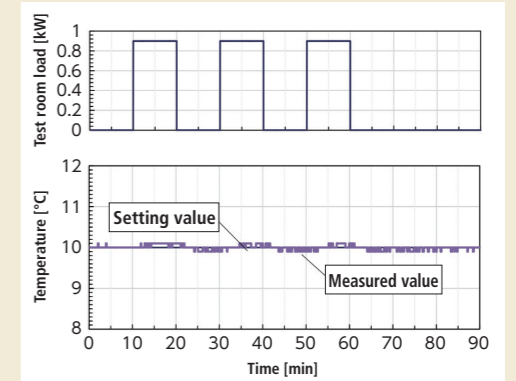
Broad temperature and humidity settings, high precision of control

- Realized broad temperature and humidity settings, high precision of control and less time taken to modify testing conditions.



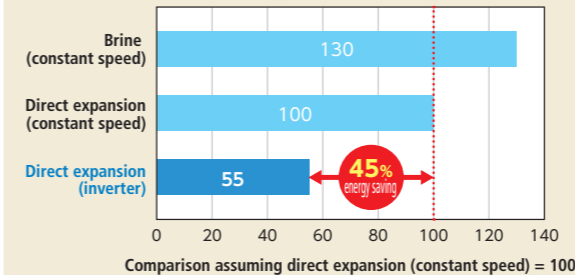
Speedy tracking when testing conditions are changed, stabilization of testing conditions

- Simple adaptive control embedded in the conventional control system enables speedy tracking when testing conditions are changed, as well as stabilization of testing conditions against fluctuations in test load.



Reduced energy consumption by 45%

- Developed proprietary compressor inverter control technology and reduced energy consumption by 45% compared to conventional technology



Seamless switching between cooling and heating

- Taikisha has independently developed a seamless direct-expansion outdoor unit, which is capable of switching between cooling and heating in a seamless manner. It controls the air that exits from the air-conditioning equipment so that its temperature is constant by smoothly responding to fluctuations in outside temperature and changes in weather.

Column

Snowfall facilities based on application of core technology

Taikisha's environment test room is capable of reproducing snow in the form of crystals similar to natural snow, as well as blowing snow (i.e., snow accumulated on the ground being lifted into the air by strong wind).

With our snowfall facilities, we provide support to clients in conducting environment tests by reproducing assumed conditions when automobiles are being driven, including such phenomena as virgin snow that piles up on the vehicle body in the form of crystals, blowing snow that sticks to the vehicle body and wipers, and snow that clogs the radiator while the automobile is in motion.



Message from the responsible person



Yuji Ohno, Senior General Manager of Research and Development Center, Green Technology System Division

Future outlook

Going forward, we will seek to further boost the performance of the environment test room by improving temperature stability/tracking ability, energy-saving performance and system reliability and reducing environmental impact.

Specifically, we will introduce AI control and monitoring to improve stability and tracking ability as well as energy-saving performance. At the same time, we will seek to improve system reliability through the early detection of signs of faults and leakage of refrigerants based on the operational status of facilities.

For the reduction of environmental impact, we will shift to eco-friendly facilities by adopting natural refrigerants and new refrigerants for refrigerants used in devices, not to mention energy saving.

Taikisha is committed to meeting clients' requests in a sophisticated manner through these technologies.

Taikisha's Materiality

Taikisha believes it is important to determine, assess and verify "materiality" in terms of "material matters" at the management level that should be addressed as a matter of priority, and run the PDCA cycle for CSR activities without fail.

Review of Materiality

In consideration of changes in society that have taken place since the determination of "materiality" in June 2017, Taikisha conducted a materiality assessment afresh in view of both sustainability of society (i.e., stakeholders' expectations) and sustainability of Taikisha (i.e., the extent of the impact on long-term growth).

This time, the top management played a central role in reviewing materiality, following discussion and confirmation of appropriateness (based on a questionnaire survey) by members of the Board of Directors.

The key focus of discussions was "shifting from CSR materiality to management materiality," and the biggest objective was to "build a business model that would enable the realization of sustained value creation" by envisioning Taikisha in its ideal form from a long-term perspective and its roadmap/direction to realize it.

Key aspects of the latest review

- (1) Internal viewpoint: Made members of the Board of Directors' understanding visible**
Members of the Board of Directors' understanding of material management issues at present were made visible based on discussions of Directors and Audit & Supervisory Board Members.
- (2) Viewpoint based on external yardstick: Added economic value aspect to list of candidate material issues**
ESG factors were added to the list of candidate material issues from the viewpoint of corporate value by taking financial impact into account as well, not just ESG factors related to social responsibility.
- (3) Viewpoint of the post-COVID-19 world: Factors based on a "vision of the post-COVID-19 world" were added as a long-term point of view that will be required especially due to dramatic changes.**

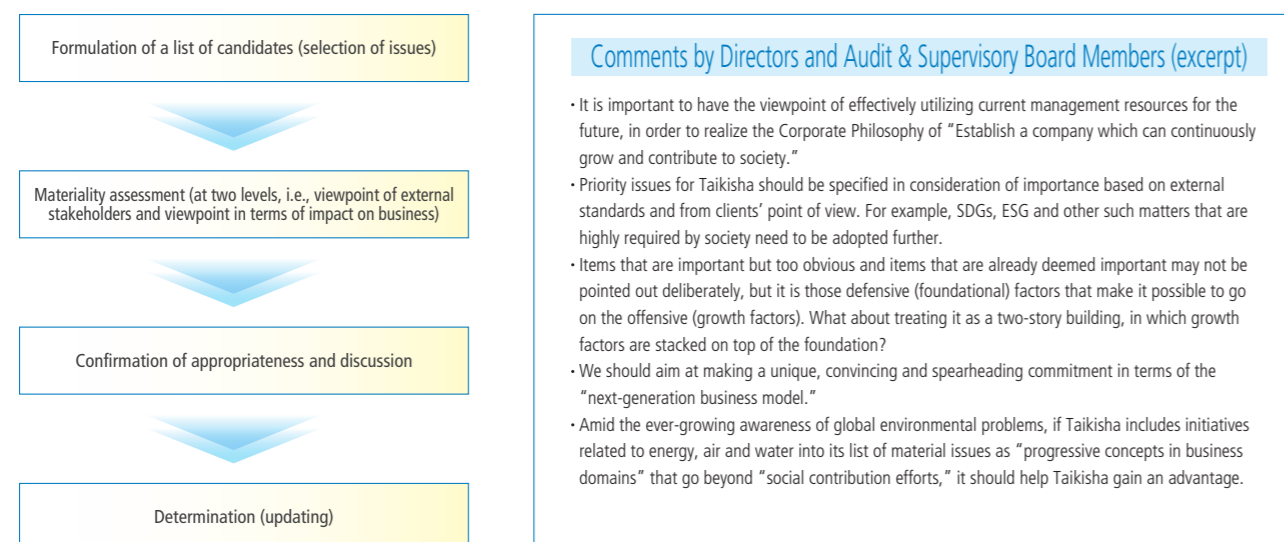
Evolution of Materiality at Taikisha



Materiality Determination Process

Taikisha specified the candidate material issues by broadly taking into consideration the International Integrated Reporting Framework, the viewpoint of Socially Responsible Investment (SRI), global risks, Sustainable Development Goals (SDGs) and other new issues surrounding sustainability, in addition to various conventional frameworks and guidelines related to social responsibility from an all-encompassing viewpoint.

Taikisha quantified and visualized weighting from its clients' perspectives based on the materiality to its major clients, in addition to weighting as recognized by society in general based on external frameworks and guidelines in terms of weighting evaluation by external standards.



New Materiality Scheme

Taikisha determined eight material issues that leverage its strengths and DNA to build a business model that would enable the "realization of sustained value creation" by dividing them into: (1) items directly related to management and business strategies; and (2) items that create social value. Additionally, Taikisha sorted items that are indispensable for realizing them into (3) "management infrastructure."

<Direction sought> Build a business model that enables the "realization of sustained value creation."

1

- **Enhancement of technological competitiveness and ability to innovate**
Enhance technological competitiveness and the ability to innovate, which are the sources of corporate competitiveness and customer satisfaction and also serve as the driving force for creating new businesses.
- **Initiatives for global social issues**
Strategically adopt such initiatives as opportunities to create new businesses such as ESG and enhance the business model.
- **Digital innovation and productivity improvement**
Introduce and utilize technology as a business and as part of efforts to improve labor productivity (promotion of work style reform).

2

Creation of social value in each ESG domain

Environment (E)	Social (S)	Governance (G)
<ul style="list-style-type: none"> ● Climate change mitigation and adaptation Take a two-pronged approach: "mitigation," which involves taking measures to reduce and absorb greenhouse gas emissions; and "adaptation," which involves making preparations to prevent and alleviate the impact of climate change that is already occurring and using the new climate conditions. ● Initiatives to prevent pollution and reduce environmental impact Prevent air pollution, manage chemical substances, etc. 	<ul style="list-style-type: none"> ● Securing and developing human resources Secure, retain and develop capable human resources that create value (innovation) and support competitiveness. ● Creation of pleasant working environment Make improvements in terms of diversity, a wide range of flexible work styles, work-life balance, job satisfaction and employee satisfaction. 	<ul style="list-style-type: none"> ● Highly effective corporate governance A mechanism of corporate governance to prevent impairment of brand value and financial losses, steadily execute strategies for fulfilling own business model and increase corporate value in a sustained manner.

3

"Management infrastructure" indispensable for realizing sustained value creation
Foundation that needs to be developed in view of the sustainability of the business model.

- Compliance
- Risk management
- Quality/safety
- Information security
- Contributions to community

Main SDGs to which the Taikisha Group contributes through its businesses

The Taikisha Group upholds Sustainable Development Goals (SDGs), which are common goals being tackled by the world as a whole to realize a sustainable society. Taikisha is engaging in initiatives to achieve SDGs, focusing on goals that have a stronger connection to its businesses.



Key Measures and Progress of Activities

Theme	Subsidiary theme	Issue/goal	Main activities	Results of implementation of measures in FY2019	Self-assessment	Efforts in FY2020 and thereafter	ISO26000							Pages
							Organizational governance	Human rights	Labor practices	Environment	Fair business practices	Consumer issues	Community participation and development	
General CSR activities							●	●	●	●	●	●	●	pp. 21-30
Governance	Corporate governance	Corporate governance	<ul style="list-style-type: none"> Operate the internal control system continuously and strengthen the risk management system of the Group as a whole Further enhancement and strengthening of corporate governance, reinforcement of internal controls Enhancement of internal audits 	<ul style="list-style-type: none"> Convened meetings of Nomination Advisory Committee (6 times) and Compensation Advisory Committee (4 times) Introduced performance-linked stock-based compensation system for Executive Directors Conducted a visiting audit on a total of 40 sites 	●	<ul style="list-style-type: none"> Optimize internal control system Formulate and implement succession plan for CEO, Directors, etc. 	●	●	●	●	●	●	pp. 33-36	
	Internal control	Risk management	<ul style="list-style-type: none"> Sophistication and enhancement of the risk management system Step up measures to ensure the security of electronic information 	<ul style="list-style-type: none"> Recognized group-wide risks and company-specific risks, performed assessment based on new guidelines, and formulated a group-wide response policy Operated regulations appropriately 	●	<ul style="list-style-type: none"> Continue with activities Continue to execute revised risk management and implement risk-reduction activities for risks requiring prioritized response 	●	●	●	●	●	●	pp. 37-38	
		Raising awareness of compliance	<ul style="list-style-type: none"> Managing compliance risks through compliance education and monitoring Establishing an environment in which Whistle-blowing Contact Window can be used with a sense of security 	<ul style="list-style-type: none"> Implementing training for prevention of harassment Regularly distributing information on making the Whistle-blowing System well known and information on the status of using the Whistle-blowing Contact Window 	●	<ul style="list-style-type: none"> Operate regulations appropriately Investigate information security risks at affiliates and take action against risks Identifying issues through monitoring and making improvements on an ongoing basis Conducting compliance education in consideration of compliance issues and social circumstances of the moment on an ongoing basis 	●	●	●	●	●	●	pp. 39-40	
	Environment	Strengthen environmental management	Achieve the environmental management vision	<ul style="list-style-type: none"> Practice the environmental management master plan 	<ul style="list-style-type: none"> PDCA based on the master plan Continued with activities to visualize GHG emissions in the entire supply chain 	●	<ul style="list-style-type: none"> Continue with activities 	●	●	●	●	●	●	
Promote environmental business		Provision of facilities and systems with high energy-saving performance	<ul style="list-style-type: none"> [Green Technology System Division] Promote proposals for CO₂ emission reduction (energy-saving) in in-house design projects [Paint Finishing System Division] Promote reduction of CO₂ emissions from painting facilities 	<ul style="list-style-type: none"> Proposed 95 plans for CO₂ reductions (energy saving) Achieved CO₂ reduction rate (emission amount) of 24.3% Reduced CO₂ emissions per manufacturing automobile to 72.2 kg 	▲	<ul style="list-style-type: none"> Propose CO₂ reduction in facilities upon new construction/full renovation (reduction rate): -10% Propose CO₂ reduction in facilities upon partial renovation (reduction rate): -25% Develop measures to achieve reduction of CO₂ emissions per automobile produced in 2020 to 70 kg 	●	●	●	●	●	●		
		Removing and reducing emissions of hazardous substances	<ul style="list-style-type: none"> Grasp the reduced amount of annual VOC emissions by using VOC abatement systems Improve performance of rotary regenerative thermal oxidizer (RTO) (by reducing age-related degradation by applying baking system) 	<ul style="list-style-type: none"> Reduced VOC emissions of new constructions by 8,200 t/year Commenced prototyping improved regenerative thermal oxidizer (vertical-type rotary RTO Mark III) 	●	<ul style="list-style-type: none"> Reduce VOC emissions of new constructions by 8,000 t/year Promote dissemination through the expansion of models of improved RTO and purchase from LCC 	●	●	●	●	●	●		
		Promote environmental conservation activities	Development of market for utilizing new environment-responsive technologies	<ul style="list-style-type: none"> Promote new business by applying environmental engineering technologies Development of a paint system designed to achieve a 100% coating efficiency 	<ul style="list-style-type: none"> Business strategy with an eye on overseas development of plant factories and system for factories manufacturing lithium-ion batteries Checked capabilities/issues through basic test Prevented outflow of liquid caused by breakage of tanks of pre-treatment lines and electrodepositing lines of painting facilities Achieved quake-proof design implementation rate of 100% in applicable projects 	●	<ul style="list-style-type: none"> Continue with activities Check capabilities and tackle issues for commercialization 	●	●	●	●	●	●	pp. 41-50
Energy-saving activities in the office			Reduction of environmental impacts in the design and construction phases	<ul style="list-style-type: none"> Designing eco-friendly systems Reduce construction by-products and treat industrial waste appropriately 	<ul style="list-style-type: none"> Reduction, regeneration and recycling of construction waste: Recycling rate of 87% Rate of compliance in the number of manifests issued of 100% Electronic manifest introduction rate of 98% Implemented thorough management by using "Fluorocarbon Refrigerant Filling and Recovery Control Manifest" Achieved a Filling and Recovery Control Manifest storage rate of 100% 	▲	<ul style="list-style-type: none"> Reduction, regeneration and recycling of construction waste: Recycling rate of 90% or more Rate of compliance in the number of manifests issued of 100% Electronic manifest introduction rate of 95% or more Implement thorough management by using "Fluorocarbon Refrigerant Filling and Recovery Control Manifest" Achieve a Filling and Recovery Control Manifest storage rate of 100% 	●	●	●	●	●	●	
			Promote green procurement	<ul style="list-style-type: none"> Reduction of paper usage (promotion of paperless meetings, etc.) Reduce energy use in the office Promote purchase of equipment included in the list of green procurement items Promote paperless purchase order process through online purchases 	<ul style="list-style-type: none"> Purchased volume of photocopy paper (A4-sized equivalent): 10,013 sheets/person per year Reduced power usage to 147 kW/m² per year Achieved a green procurement amount of 3,730 million yen Increased the paperless rate of 81.3% through online purchases 	▲	<ul style="list-style-type: none"> Purchase volume of photocopy paper (A4-sized equivalent): under 9,200 sheets/person per year Reduce power usage to 156 kW/m² per year or less Achieve a green procurement amount of 4,400 million yen or more Increase the paperless rate to 87% through online purchases 	●	●	●	●	●	●	pp. 51-52
Contributions to Society			Industrial health and safety	Health and safety of workers	<ul style="list-style-type: none"> Enhance organized safety management activities (site patrol, etc.) Improvement of the level of industrial health and safety management at each site in Japan and overseas 	<ul style="list-style-type: none"> Safety record: Frequency rate of 0.00, Severity rate of 0.00 Fatal/serious accidents: None Invited safety staff of overseas subcontractors and held a meeting of persons responsible for safety at overseas affiliate Education on internal safety rules using Taikisha Safety Book 	●	<ul style="list-style-type: none"> Prevent similar disasters using video showing examples of accidents produced by Safety Headquarters and promote adoption of IT including worker monitoring system 	●	●	●	●	●	●
		Quality improvement	Quality and customer satisfaction improvement	<ul style="list-style-type: none"> Ensure quality without "Muda" (wasteful), "Mura" (inconsistent), and "Muri" (unreasonable) and continuous implementation of improvement measures Gain customers' trust and high reputation from society by utilizing the QC follow-up chart 	<ul style="list-style-type: none"> Extracted technical issues at the design examination meeting and construction review meeting, and confirmed them by cross-functional departments Reduced quality defects by conducting quality inspections in each construction process 	●	<ul style="list-style-type: none"> Continue with activities 	●	●	●	●	●	●	pp. 55-56
		Consideration of human rights	Respect for human rights/prohibition of discrimination	<ul style="list-style-type: none"> Strengthen responses to harassment Promote employees' use of Employee Consultation Desk 	<ul style="list-style-type: none"> Provided harassment consultation Provided education to new employees/newly appointed managers Compliance audits at overseas affiliates Implemented at compliance group training E-learning education 	●	<ul style="list-style-type: none"> Continue with activities 	●	●	●	●	●	●	
		Human resource development and cultivation	Support and facilitate employees' capacity development	<ul style="list-style-type: none"> Enhancement of the career advancement system Development and improvement of the training system 	<ul style="list-style-type: none"> Provided training for persons in each target job position Improvement activities to enhance the transparency (just and fair) of personnel assessment 	●	<ul style="list-style-type: none"> Continuously improve the content of a program with an eye on PDCA Promote support for employees' career advancement 	●	●	●	●	●	●	pp. 57-60
	Diversity of human resources, work-life balance	Creation of pleasant working environment	<ul style="list-style-type: none"> Achievement of work style reform Promote career advancement of female employees Enhance systems that promote diverse and flexible work styles and create working environment 	<ul style="list-style-type: none"> Measures against long working hours Introduced paid time off system and interval system Implemented an action plan based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace 	●	<ul style="list-style-type: none"> Continue with activities Consider introduction of telework (telecommuting, satellite office and mobile work) 	●	●	●	●	●	●		
		Advancement of overseas national staff	<ul style="list-style-type: none"> Operation of the global human resource system Localization of overseas organizations and provision of more diverse and advanced employment opportunities 	<ul style="list-style-type: none"> Introduction and operation of the global human resource system 	●	<ul style="list-style-type: none"> Firmly establish the global human resource system in each overseas affiliate Provide opportunities for national employees to cross the border Transfer of authority to overseas affiliates 	●	●	●	●	●	●		
	Supply chain management	Sharing and promotion of CSR in the supply chain	<ul style="list-style-type: none"> Promote procurement activities based on fairness and transparency 	<ul style="list-style-type: none"> Eliminated anti-social forces Confirmed appropriate trading conditions Participated in the CSR Network in Shinjuku Conducted activities, such as community cleaning activity and offering a donation to Keidanren Nature Conservation Fund 	●	<ul style="list-style-type: none"> Continue with activities 	●	●	●	●	●	●	p. 61	
	Community/social contribution activities	Activities as a member of society (corporate citizen)	<ul style="list-style-type: none"> Promote activities that help the sustainable development of communities and society 	<ul style="list-style-type: none"> Published shareholder newsletter Held financial results briefing and individual meeting with investors 	●	<ul style="list-style-type: none"> Continue with activities 	●	●	●	●	●	●	p. 62	
Dialogue with shareholders and investors	Promote dialogue with shareholders and investors	<ul style="list-style-type: none"> Timely and appropriate information disclosure and proactive IR activities 	<ul style="list-style-type: none"> Published shareholder newsletter Held financial results briefing and individual meeting with investors 	●	<ul style="list-style-type: none"> Continue with activities 	●	●	●	●	●	●	p. 63		

Self-assessment ● In line with the plan ▲ Fell below the plan

Governance

Taikisha is continuously working to strengthen corporate governance and build an attractive company to achieve continuous growth and contribute to society.

Corporate Governance

Taikisha has established a corporate governance system and structure that wins trust from all stakeholders.



Basic Policy

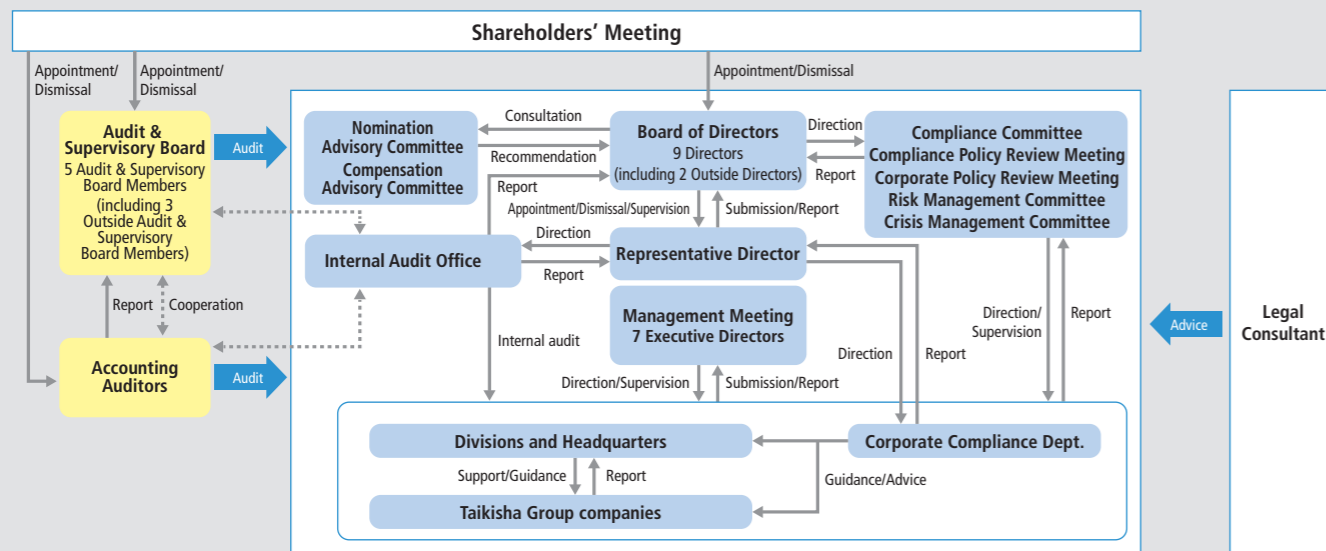
Taikisha has established a basic policy of corporate governance to gain the trust of all stakeholders and aims to become a corporate group that grows and develops in a healthy manner by thoroughly incorporating compliance awareness and realizing fair and highly transparent management. The aim is to achieve its corporate philosophy and management vision in accordance with Taikisha's Mission Statement: "Customers First."*

In conformity with the basic policy and based on the organizational structure of a company with an audit & supervisory

board, Taikisha is continuously working to strengthen the Taikisha Group's governance and reform its management by reinforcing the supervisory function of the Board of Directors through the utilization of Outside Directors and speeding up the decision-making of the Board of Directors through the adoption of the corporate officer system, aiming to further enhance and reinforce the corporate governance of Taikisha.

*"Customers" are defined as Overall Society in a broad sense. Spirit of "Customers first" is to win persistent trust from the "Customers."

Pattern Diagram of Corporate Governance (as of June 26, 2020)



Corporate Governance System

1. Functions of the Board of Directors and the Audit & Supervisory Board

The Board of Directors, chaired by an Independent Outside Director, which consists of 9 Directors, including 2 Independent Outside Directors, is held once each month with additional meetings as and when required. The Board of Directors makes decisions regarding the Taikisha Group's management policy, items stipulated in laws and regulation and the Articles of Incorporation, and important management matters, as well as monitors and supervises the execution of duties by each Director and Corporate Officer. Independent Outside Directors are appointed in order to revitalize deliberation and ensure the transparency of decision-making processes in the Board of Directors, and to reinforce the supervisory function of the Board of Directors over Directors and Corporate Officers.

The Company has 5 Audit & Supervisory Board Members, including 3 Outside Audit & Supervisory Board Members. The Audit & Supervisory Board holds a meeting once a month in principle, in which the Members mainly deliberate the audit plan, exchange opinions on audit result reports, etc., and consider matters related to the appointment, dismissal, or non-reappointment of an accounting auditor and matters that require the resolution of the Audit & Supervisory Board, such as consent to the compensation to be paid to the accounting auditor.

Each Audit & Supervisory Board Member conducts audits in accordance with the audit standard stipulated by the Audit & Supervisory Board and the assignment given to him, and requests Directors and Corporate Officers, etc. to report the execution of duties as needed in order to keep track of important decision-making processes and the progress of the execution of duties within the Company and group companies. The Audit & Supervisory Board Members also review important documents, including internal approval documents, attend major meetings, including meetings of the Board of Directors and the Management Meeting, and collect necessary information about the current progress of the process of considering important matters and making decisions on the same from the Internal Audit Office, the Corporate Compliance Dept., and other related departments and sections and make proposals for the improvement of operations as needed.

2. Nomination Advisory Committee/Compensation Advisory Committee

Taikisha has established the Nomination Advisory Committee and the Compensation Advisory Committee as advisory bodies for the Board of Directors, with the aim of enhancing the independence and objectivity of functions and the accountability of the Board of Directors regarding nomination and compensation of senior management and Directors. Each Committee is chaired by an Independent Outside Director and comprises 2 Independent Outside Directors, and 2 Representative Directors.

The Company deliberated the election of candidates for director and the planning of the successor to the President at a meeting of the Nomination Advisory Committee, and made efforts to improve the effectiveness and transparency of the Compensation Advisory Committee by deliberating, for example, the stock-based compensation to Directors introduced in August 2019.

3. Internal Audit

The Internal Audit Office conducts audits on business execution departments and identifies and gives advice on points to be improved, while working in cooperation with Directors and Audit &

Supervisory Board Members as a department directly under the Representative Director, and follows up on the status of improvement.

In FY2019, with a main focus on "effectiveness and efficiency of operations," "reliability of financial reporting," "compliance with laws and regulations," and "asset protection," Taikisha Ltd. performed audits by visiting its business offices in Japan and overseas from the perspective of legitimacy and rationality of the status of compliance with laws and ordinances that are closely related to Taikisha's operations including the Construction Business Act and the Antimonopoly Act, the status of construction project contract management, and appropriateness of construction activities.

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

Functions that Support Corporate Governance

As functions to support its corporate governance, Taikisha has set up and operates: 1) Management Meeting; 2) Corporate Policy Review Meeting; 3) Risk management system; and 4) Compliance system. Taikisha makes improvements to each function while conducting a review on an ongoing basis.



Corporate Governance Report

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

Evaluation of the Effectiveness of the Board of Directors

Evaluation method

Taikisha conducts an analysis and evaluation of the effectiveness of the Board of Directors at least once a year, deliberates relevant issues and policies for dealing with the same based on the evaluation results at a meeting of the Board of Directors, and discloses a summary of the results thereof in order to increase the effectiveness of the Board of Directors and enhance information provision to external stakeholders.

In FY2019, Taikisha was committed to further augmenting the supervisory function of the Board of Directors, including a review of the roles and operation method of each meeting body, the improvement of matters to be reported to the Board of Directors, the expansion of discussions about the risk management system of the Taikisha Group, the holding of a meeting to be attended only by the Outside Directors and the Outside Audit & Supervisory Board Members to exchange opinions, and the improvement of the functions of the Nomination Advisory Committee and the Compensation Advisory Committee. Considering these factors, in the analysis and evaluation of the effectiveness of the Board of Directors in FY2019, which targeted the Board of Directors as a whole under the direction of the Chairman of the Board of Directors, all of the Directors and the Audit & Supervisory Board Members replied to a self-evaluation questionnaire for the purpose of collecting their opinions about matters on the conventional "roles to be played by the Board of Directors" and "matters that should be considered by the Board of Directors in order to fulfill its roles" as well as other matters that should be preferentially discussed to further improve the effectiveness of the Board of Directors in view of the business environment surrounding Taikisha. In addition, based on the results of an objective analysis by an external advisor, deliberations were held on the sharing of issues recognized by the Board of Directors and policies to address such issues, and other matters.

Results of evaluation

As a result of the above, it was determined that the Board of Directors of Taikisha is sufficiently effective.

The Board of Directors of Taikisha has the role of making decisions on important management matters and effectively demonstrating its supervisory function over general management to put into practice the "Customers First" Mission Statement and contribute to sustained growth and the medium- to long-term improvement of corporate value. To fulfill these roles, the provision of materials and the time for discussions have been sufficiently ensured to stimulate deliberations at the Board of Directors meetings. Meanwhile, the status of the execution of important duties is regularly reported to the Board of Directors.

Initiatives to address the issues raised

With regard to the matters identified as issues in the effectiveness analysis and evaluation conducted in the preceding fiscal year, Taikisha has been improving such matters in order of precedence. In connection with long-term plans, the members of the Board of Directors held an off-site discussion envisaging the industrial structure, changes in the social environment, and future vision both 10 years and 20 years from now. Taikisha has commenced efforts in view of the changes resulting from the novel coronavirus (COVID-19) crisis and improved the method of reporting to the Board of Directors with the aim of effectively supervising the progress of the Mid-Term Business Plan. Moreover, Taikisha has expanded the scope of the content to be reported by the executive side about the status of the construction and operation of the risk management system of the Taikisha Group and analyzed and deliberated matters to a deeper level at meetings of the Risk Management Committee, the Corporate Policy Review Meeting, etc. based on the opinions of the Board of Directors. At the Nomination Advisory Committee, the election of candidates for directors and the planning of the President's successor were deliberated, and at the Compensation Advisory Committee, efforts were made to improve its effectiveness and transparency by deliberating, for example, the stock-based compensation plan for Directors introduced in August 2019.

In order to further strengthen the supervisory function of the Board of Directors, Taikisha will continue to discuss the long-term strategy and consider the effective supervision of the risk management and internal control systems of the Taikisha Group, including overseas affiliates.

What is more, in order to address the COVID-19 crisis, the Board of Directors is extending management's support to business operations based on the "basic policy that places the highest priority on securing the safety of employees and external parties involved and preventing the spread of infection," and focusing energies on the supervision of the status thereof. Taikisha will also continue to analyze the issues that have come to the surface in the current COVID-19 crisis, deepen deliberations for the purpose of further strengthening the crisis management system in preparation for the occurrence of situations that are difficult to predict even in normal times, and utilize the outcomes for deliberations on a "long-term strategy toward sustainable growth."

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

Appointment and Development of Directors and Audit & Supervisory Board Members

In light of the business environment surrounding Taikisha Ltd., it maintains the diversity and the appropriate number of Board members to ensure that decision-making and management supervisory function of the Board of Directors will work most effectively and efficiently. The Audit & Supervisory Board appoints one or more Audit & Supervisory Board Members who have sufficient expertise in finance and accounting in light of its roles and responsibilities of auditing the execution of duties by Directors and execution of the authority relative to the appointment and dismissal of external Accounting Auditors and audit fee. Common requirements for candidates for Directors and Audit & Supervisory Board Members are as follows: persons who have a good personality, deep insights and a strong sense of ethics and compliance; and persons who are free of health concerns in executing their duties.

The Company selects candidates for Inside Directors in view of their expertise and performance from each business area in a balanced manner. Requirements are as follows: persons who have an adequate understanding of Taikisha's Mission Statement and Corporate Philosophy and an excellent ability for corporate governance; persons who have adequate knowledge, experience and ability for the businesses and operations as well as an ability for realizing future development; persons who have an excellent ability for analyzing and making decisions objectively and promptly from the viewpoint of supervising the company-wide management.

The Company selects candidates for Outside Directors who have deep insight and experiences in different business areas. Persons who can appropriately reflect opinions in Board of Directors meetings from objective and independent standpoints are required.

Candidates for Audit & Supervisory Board Members shall be persons who are considered to have the abilities necessary for performing their duties as Audit & Supervisory Board Members as set forth in the internal rules for audit by Audit & Supervisory Board Members. Inside Audit & Supervisory Board Members are required to be well versed in the Company's operations and have sufficient knowledge, experience and ability. Requirements for Outside Audit & Supervisory Board Members are as follows: persons who have extensive knowledge and experience in areas of specialization, such as company management, finance, accounting and legal affairs, etc.; persons who can allocate sufficient time and energy necessary for fulfilling the roles of Outside Audit & Supervisory Board Members appropriately.

The Company constantly provides training, etc. aimed to support acquisition of necessary knowledge regarding the company's management issues, finance and legal compliance and other matters to Directors and Audit & Supervisory Board Members, including Outside Directors and Outside Audit & Supervisory Board Members, and provides information related to the above-mentioned matters when necessary.

Compensation to Directors and Audit & Supervisory Board Members

Policy

Taikisha Ltd. has determined the following policy concerning the amount of compensation to Directors and Audit & Supervisory Board Members or the calculation method thereof.

(1) Basic views on the system of compensation

The compensation to Executive Directors (Directors who concurrently serve as Corporate Officers) is composed of basic compensation, which is fixed compensation, and bonus and stock-based compensation, which are performance-linked compensation. The amount of bonus and stock-based compensation fluctuates in close

correlation with the company's consolidated ordinary income to serve as an incentive for achieving their performance goals. Compensation to Non-executive Directors and Audit & Supervisory Board Members is limited to basic compensation and no bonus and stock-based compensation shall be paid.

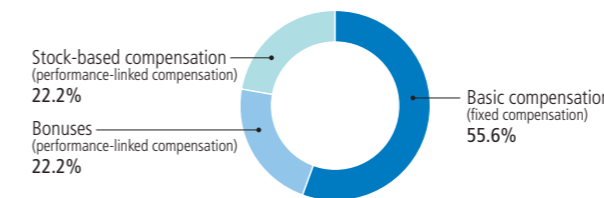
(2) Compensation structure

(i) Compensation to Directors and Audit & Supervisory Board Members is composed of basic compensation, which is fixed compensation, and bonus and stock-based compensation, which are performance-linked compensation. The types of compensation applicable according to officer classification are as follows:

- Executive Directors : Basic compensation, bonuses, stock-based compensation
- Non-executive Directors: Basic compensation
- Audit & Supervisory Board Members: Basic compensation

(ii) The ratio of fixed compensation to performance-linked compensation (total bonus and stock-based compensation) within the total compensation paid to Executive Directors shall be approximately 6:4 based on the standard payment amount, and reflect the content of the "(3) Performance-linked compensation scheme" below.

Ratio of Executive Directors' compensation



(3) Performance-linked compensation scheme

Performance-linked compensation is composed of bonus and stock-based compensation. A fixed percentage of the company's consolidated ordinary income shall be paid as the base payment amount of performance-linked compensation, with an amount equal to 50% of the base payment amount paid each as bonus and stock-based compensation.

The bonus is paid in cash after the company's operating performance is finalized. For stock-based compensation, points are granted after the company's operating performance is finalized. The points granted will be provided, in principle, to Executive Directors at the time of their retirement in the form of the company's shares or cash equivalent to the fair value thereof.

Consolidated ordinary income is one of the key KPIs in the company's Mid-Term Business Plan, and is thus selected as an indicator for the calculation of performance-linked compensation. In addition to the base payment amount equal to a fixed percentage of consolidated ordinary income, if consolidated ordinary income exceeds a certain amount, an amount obtained by multiplying the base payment by the ratio of excess performance shall be paid as an extra payment, which is expected to serve as an incentive for achieving numerical targets in the Mid-Term Business Plan, thereby further improving the company's operating performance.

(4) Level of compensation

The Compensation Advisory Committee verifies the level of compensation by analyzing and comparing compensation data of industry peer companies from survey data compiled by a third-party organization.

Methods for decisions on compensation

Based on "(1) Basic views on the system of compensation" above, the Representative Director, delegated by the Board of Directors, determines the system and level, etc. of Directors' compensation upon consultation with the Compensation Advisory Committee, which is chaired by an Independent Outside Director. The compensation details thus determined are reported to the Compensation Advisory Committee. In this manner, the company improves the objectivity and transparency of the process for determining compensation.

Methods for decisions on policy

The policy for compensation, etc. of Directors and Audit & Supervisory Board Members is determined by the Board of Directors upon consultation with the Compensation Advisory Committee.

Message from an Outside Director

With two Outside Directors and three Outside Audit & Supervisory Board Members as independent directors/auditors, Taikisha's management structure proactively takes in supervision and advice from an external perspective. Taikisha introduces Mr. Kiyotaka Fuke's insight into Taikisha's corporate governance. He has been serving as Outside Director since June 2017.



Kiyotaka Fuke, Outside Director

Given that uncertainty is expected to increase as a result of changes in the business environment surrounding the industry as well as the coronavirus (COVID-19) pandemic, the Taikisha Group is required to make decisions more drastically and promptly than ever before under these circumstances, in order to move on to the next stage of growth.

For this very reason, Outside Directors—who are in a position independent from the management—are also being called into question for their part in shaping governance to support such resolute decision-making. I believe that not only the fulfillment of "accountability for dealing with materiality and as a measure for improving corporate value" and "supervisory responsibility through timely and appropriate monitoring operation," but also the provision of "support for appropriate risk-taking" through the oversight of tolerable risks is important in terms of boosting the dynamism of management.

In addition to such meeting bodies as the Board of Directors and the Advisory Committees, Taikisha has created a wide range of opportunities to exchange opinions, whereby lively discussions are being held from the respective viewpoints of each committee member—namely, "Inside and Outside Directors and Audit & Supervisory Board Members," "Executive and Non-executive Directors" and "Directors and Audit & Supervisory Board Members."

Consequently, as verified in the evaluation of the effectiveness of the Board of Directors, I recognize that Taikisha's initiatives to enhance governance have been implemented steadily, and further efforts are underway for the current fiscal year as well, based on its key selected themes, i.e., "reinforcement of global risk management," "company-wide systematization of internal controls," and "enhancement of functions of Advisory Committees."

Risk Management

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



Basic Policy

Taikisha has upheld the corporate philosophy of "Establish a company which can continuously grow and contribute to society." Guided by this philosophy, Taikisha is working to reduce material risks and minimize risks before they materialize, in order to continue with businesses and achieve their sustainable development. From the Taikisha Group's integrated perspective, the Risk Management Committee performs such tasks as assessing the risk level (degree of importance) of each risk, selecting risks that need to be addressed, and formulating a policy to reduce risks. In addition, to prepare for the occurrence of a crisis such as a disaster, an accident or an incident, Taikisha has established a crisis management system and formulated a Business Continuity Plan (BCP).

Risk Management System

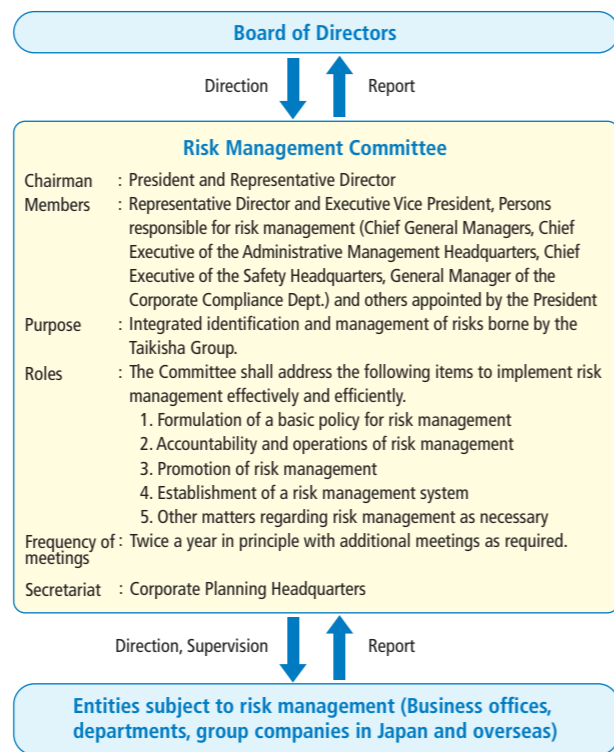
Taikisha, in accordance with the Risk Management Rules that have been in place, has established the Risk Management Committee to implement effective, efficient and integrated risk management in the Taikisha Group. The Risk Management Committee is chaired by the President and Representative Director and meets twice a year and as required. The Committee establishes basic policies, responsibility systems, operations, and other necessary measures for group-wide risk management, and keeps all persons involved well informed about the establishment and implementation of policies.

Regarding risks associated with operations assigned to each department, such as quality control, safety control, compliance, and finance, each responsible department extracts risks, selects risks that need to be addressed on a priority basis after determining the risk level (degree of importance) in consideration of "impact on management" and "frequency of occurrence," and then develops priority management policies and goals to be reported to the Risk Management Committee. The Risk Management Committee discusses the risk level assessment and priority management policies and goals of each risk from a group-wide and integrated perspective, and formulates the basic policy. Each responsible department monitors the status of execution of action plans and reports the results to the Risk Management Committee. The Chairman of the Risk

Management Committee puts together the status of group-wide risk management and reports it to the Board of Directors twice a year.

During FY2019, the Risk Management Committee took up work style reform and long working hours as immediate risks and issues for the second consecutive fiscal year and formulated a policy to continue to take a multidimensional approach. Additionally, based on the recognition that the novel coronavirus (COVID-19) pandemic that broke out during FY2019 is one of the most significant risks of having a major impact on management, the Committee launched a task force to tackle COVID-19 on a group-wide scale.

Risk Management Structure



Major Risks and Remedial Measures

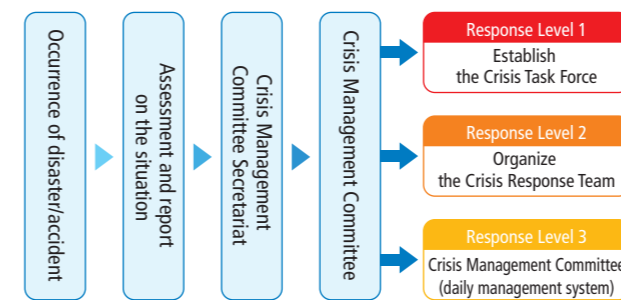
Risk	Content	Remedial Policy and Measures
Risk of fluctuations in private-sector capital investment	Decrease in orders received due to deterioration of environment for receiving orders, fall in capital investment by clients and change in investment fields	<ul style="list-style-type: none"> Broaden the client base by enhancing sales system Enhance competitiveness in receiving orders by lowering costs Tap new markets and new clients in painting field based on automation technology
Risk related to COVID-19 pandemic	Health hazard to employees, delays in procurement of construction materials, suspension of construction process, etc. due to COVID-19 pandemic	<ul style="list-style-type: none"> Group-wide crisis management response by Crisis Task Force headed by President Thoroughly implement measures for health & safety management and infection prevention at construction sites Promote staggered working hours and telecommuting
Risk related to management and control of overseas businesses and overseas affiliates	Deterioration in business performance due to overseas affiliates' failure to fulfill business plan attributable to unexpected amendment of local laws and regulations, political instability, etc.	<ul style="list-style-type: none"> Proactively collect information on political, economic, legal and regulatory information at overseas sites Reduce risks through hedging based on forward exchange contracts, etc. Make overseas affiliates' governance system more sophisticated
Risk concerning human resources	Delays in engineers' growth, shortage of skilled and experienced engineers	<ul style="list-style-type: none"> Improve basic technological capabilities through training and promote on-site practical education Create an appealing workplace and secure human resources by conducting work style reform and taking measures against long working hours Introduce global human resource system, secure and train key human resources and promote localization at overseas sites
Risk concerning legal compliance	Violation of Antimonopoly Act, violation of Construction Business Act, violation of Labor Standards Act	<ul style="list-style-type: none"> Conduct compliance education programs on an ongoing basis as well as follow-up activities Develop a culture and mechanism that prevent rules from being violated
Risk of serious accident or defects, etc. due to poor quality	Serious accident in construction stage, material defects due to poor quality, etc.	<ul style="list-style-type: none"> Enhance safety management system Take out various non-life insurance, etc. to prepare against occurrence of accidents and poor quality

Crisis Management System

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

In the event of a crisis, Taikisha classifies crises into three response levels depending on the severity of impact on human lives and business continuity, and implement crisis response measures according to each response level. The Chief Executive of the Administrative Management Headquarters assumes the position of Chairman of the Crisis Management Committee. If it is decided that a particularly serious crisis has occurred, the President and Representative Director takes command as the Head of the Crisis Task Force.

Diagram of Crisis Management System



Overseas Crisis Management System

The Taikisha Group's business fields are continuing to expand globally. For smooth business activities, Taikisha needs to implement crisis management measures overseas to be able to address diverse risks.

From the perspective of prioritizing human lives, for Taikisha employees deployed overseas and those on overseas business travel to be able to engage in business activities without concern, Taikisha has formulated the "Overseas Security Response Manual" to help employees prevent and avoid risks of crimes and terrorism and the "Overseas Crisis Management Guidelines (main vol.)," which stipulates the actions to be taken by Taikisha's headquarters and overseas affiliates in the event of an occurrence of a crisis.

Furthermore, to help each employee with his/her own safety management before overseas business travel, an e-learning course is provided to prepare for the trip.

Concerning business travel to a high-risk region, Taikisha investigates and obtains the latest information on the current situation of the country beforehand and takes safety measures such as ensuring safe transportation method, route and accommodation facilities before determining whether to permit the business travel.

To eliminate concern employees might have regarding their situation during and even after overseas travel and so that they can focus on business activities, Taikisha has a contract with a company that provides the referral of a hospital in case of an emergency such as illness or injury overseas, arranges transportation to the hospital and medical translators, guarantees payments of healthcare expenses, etc., and coordinates the transport of the patient on his/her behalf or his/her family's behalf.

Business Continuity Plan (BCP)

To prepare against the possibility of a crisis occurring, Taikisha has formulated a business continuity plan (BCP) for employees to restore operations promptly.

The Crisis Management Manual provides procedures for dealing with crisis situations, centering on large-scale earthquakes, by placing the highest priority on protecting the lives of its employees and their families. At business offices, Taikisha periodically conducts training, such as training on wireless phone communication, taking inventories and checking expiration dates on emergency food stocks. In addition, Taikisha carries out training on how to handle the safety confirmation system. To ensure the safety of employees, Taikisha has organized a company-wide self-defense firefighter team and conducts training activities. In addition to continually conducting evacuation drills and training sessions provided by the self-defense firefighter team, Taikisha holds training sessions on AED and first-aid rescue to train employees so that they can respond to emergencies not only inside but also outside the company. Taikisha continually conducts activities to raise employees' awareness of disaster control measures, such as carrying out a questionnaire to grasp employees' commuting distances assuming disruption of public transportation in the event of a disaster.



A disaster prevention drill

AED and first-aid rescue training session

Information Security

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

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

Type of measures	Measures
Ensuring thorough compliance with rules and regulations	Formation of the Information Security Rules
	Creation of the Information Security Guidebook
Measures to prevent information abuse	Provision of e-learning programs to officers and employees
	Encrypting information terminal data
	Password authentication at startup of information terminals
	ID and password management
Measures to protect against malware and other external threats	Security measures for entrance and exit control
	Automatic encryption of email attachments
	Anti-virus measures
	Automatic application of patches
	Website filtering
	Measures to block spam
	Monitoring of unauthorized communication on the company network

Compliance

Taikisha strives to thoroughly enforce compliance based on the recognition that one of the biggest managerial risk is a violation of laws and regulations.



Basic Policy

To thoroughly enforce compliance for fulfilling its Corporate Philosophy, Taikisha has established Taikisha Ltd. Code of Conduct, clarifying its objective to become a company that contributes to all stakeholders by realizing fair and highly transparent management while not only complying with laws and regulations but also observing ethics and common sense. Taikisha believes that raising awareness in this context and putting it into practice means fulfilling the social responsibility it is expected to uphold, leading to the establishment of compliance.

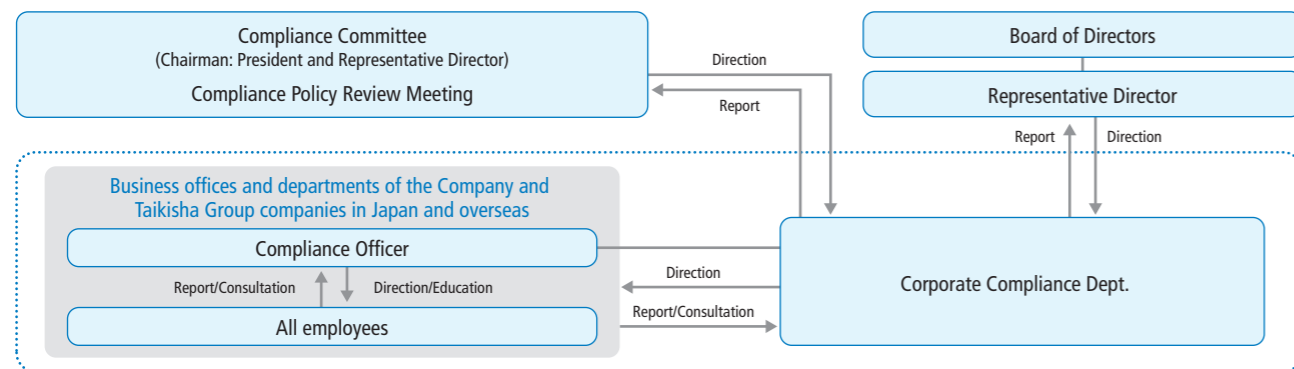
Compliance System

To raise the awareness of corporate ethics and compliance among all officers and employees and to enhance compliance management, Taikisha has established the Compliance Policy Review Meeting, the Compliance Committee, and the Corporate Compliance Department. Taikisha has also assigned Compliance Officers and established a Whistle-blowing Contact Window.

The Compliance Policy Review Meeting is held twice a year attended by all Directors and Audit & Supervisory Board Members to examine the annual policy and plan for compliance activities and response to compliance issues, and to validate the implementation status thereof. The Representative Director reports a summary of the results of examination and validation at the Compliance Policy Review Meeting to the Board of Directors.

The Corporate Compliance Department, an independent department under the direct control of the Representative Director, prepares and distributes compliance manuals, disseminates information via the corporate intranet, makes the Whistle-blowing System well known, implements compliance education, monitors status of compliance with laws and regulations, and provides guidance on improvement on an ongoing basis, based on the annual policy and plan for compliance activities approved by the Compliance

Diagram of Taikisha's Compliance System



Policy Review Meeting. The Department, in addition, reports on the status of its activities to the Compliance Committee.

Compliance Officers, who engage in compliance activities in collaboration with the Corporate Compliance Department, are assigned to each division/headquarters in the Head Office and each branch/affiliate in Japan and overseas. Compliance Officers at overseas affiliates share information regarding applicable local laws and regulations with the Corporate Compliance Department, disseminate information regarding compliance and carry out education/enlightenment activities.

Taikisha works to enhance tax compliance and properly pays taxes in accordance with applicable tax-related laws and regulations of each country and region and international rules.

Monitoring of Compliance Risk

The Corporate Compliance Department regularly visits branches and affiliates in Japan and overseas to monitor the status of compliance with laws and regulations. The Corporate Compliance Department evaluates each branch and affiliate on a three-point-grading of A, B, and C, and provides guidance on recognition of issues and improvement.

In the monitoring in Japan, the Corporate Compliance Department broadly checks and validates the status of compliance with and application of laws and regulations, including the Antimonopoly Act, and internal rules, as well as the status of dissemination of its Corporate Philosophy and the Whistle-blowing System, and issues such as work environments. In the monitoring of overseas affiliates, the Corporate Compliance Department checks and validates risks specific to each affiliate based on the conditions of the country and region, the status of development and operation of the management system for the purpose of complying with laws and regulations related to such as bribery, cartels and bid rigging, and the status of dissemination of the Whistle-blowing System.

Compliance Risk Grading in Monitoring

Grade	Rated at three levels
A	Minor incidents have occurred. However, the business office has detected them on its own and voluntarily dealt with them in an appropriate manner.
B	Non-minor incidents have occurred. The system for compliance with laws and regulations, etc. needs to be improved.
C	Serious incidents have occurred. There is a risk of corporate failure or a risk equivalent thereto.

Efforts to Firmly Establish Compliance

Taikisha distributes the Compliance Manual that summarizes the standards of practice for compliance to all employees, in an effort to familiarize them with compliance and thoroughly enforce compliance among them. Having designated October of each year as the Compliance Promotion Month, Taikisha strives to spread and instill compliance awareness by holding read-through sessions of the Compliance Manual targeting all employees, and calling for entries of compliance slogans internally. The entries involve inviting Taikisha Group's employees broadly to display the best slogans in Japan and overseas in the form of awareness-raising posters at branches and overseas affiliates in Japan and overseas respectively.

As part of efforts to instill its Corporate Philosophy and Taikisha Ltd. Code of Conduct as well as to implement compliance education, Taikisha conducts e-learning targeting all employees three times a year. E-learning covers matters that employees should understand, and is shaped to improve its effectiveness in terms such as the timing and method.

Compliance posters



Implementation of Compliance Training

The Corporate Compliance Department conducts compliance training targeting employees in Japan and overseas, in order to reduce the risk of compliance violations by familiarizing them with important laws, regulations and internal rules that are deemed to have a huge impact if violated and by thoroughly enforcing compliance with them among the employees.

In FY2019, Taikisha held 25 training sessions in Japan mainly on the themes of the Corporate Philosophy, case studies, the Whistle-blowing System and prevention of harassment, and a total of 636 employees attended.

Taikisha held 15 compliance training sessions overseas, in which a total of 181 members attended. Themes of the training sessions included the Corporate Philosophy, case studies, the Whistle-blowing System, and laws and regulations related to bribery, cartels and bid rigging.

Compliance Manual



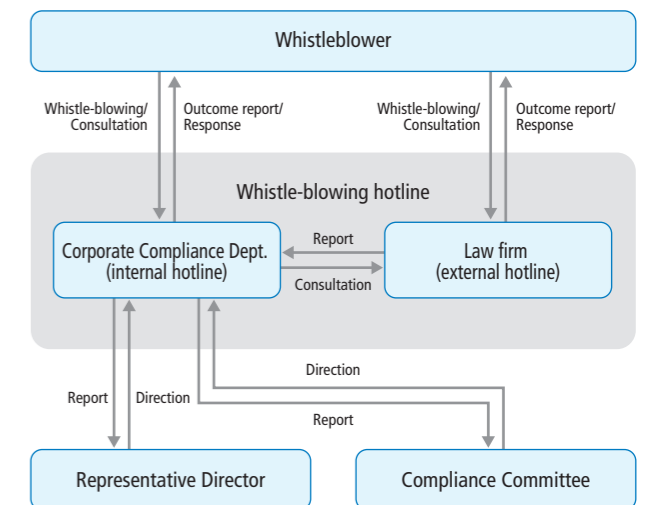
Whistle-blowing System

Taikisha has the Whistle-blowing System in place to identify at an early stage and resolve violation of laws, regulations and internal rules, or unethical conduct, and has a Whistle-blowing Contact Window in the Corporate Compliance Department and a law firm. The Whistle-blowing System is available to employees of Taikisha and its affiliates as well as employees dispatched to Taikisha and employees of business partners.

In operating the Whistle-blowing System, Taikisha ensures that whistle-blowers are protected by stipulating in its Whistle-blowing Rules that information on whistle-blowers are to be kept confidential and that dismissal and other disadvantageous treatment of whistleblowers on the grounds of their whistle-blowing is prohibited.

In FY2019, the Whistle-blowing Contact Window received 8 domestic cases and took appropriate actions upon prompt investigation of each of these cases.

Whistleblowing Flow Chart



Number of whistle-blowing cases

FY2016	FY2017	FY2018	FY2019
11	8	6	8



Environment

Taikisha is working to realize a low carbon society by reducing greenhouse gas (GHG) emissions and environmentally hazardous substances by leveraging its technological expertise cultivated in the HVAC business.

Environmental Management

Taikisha continuously operates the environmental management system to raise awareness of the environment and reduce environmental risks.



Environmental Management Vision

Taikisha strives to improve environmental value for its clients and to protect the global environment using Taikisha's solution technologies as a company engaged in business related to the environment.

1. Improving Environmental Management

Actively engage in finding solutions for social issues related to the global environment by accurately understanding social trends changing day by day.

Continuously apply environmental management system and reduce environmental risks.

Actively disclose environmental information to the public while improving environmental education and awareness in its offices.

2. Promoting Environmental Business

Promote energy management in life cycles and reduce CO₂ emissions during the operation of systems Taikisha supplies.

Develop technologies for exhaust gas and effluent treatment and contribute to the prevention of environmental pollution.

Promote R&D of new eco-friendly technologies and products.

3. Developing Environmental Conservation Activities

Check and minimize energy consumption in its offices and laboratories.

Implement thorough measures regarding the surroundings, construction by-products and harmful materials at its workplaces.

Promote green procurement.

Operation and Promotion System

At Taikisha, the officer in charge of CSR takes the initiative to draw up company-wide action plans, check and assess the status of efforts, and review goals, with the purpose of promoting its efforts for environmental protection based on the "Environmental Management Vision." Taikisha will strive to raise its environmental protection activity level by continuously making improvements through the operation of the environmental management system.

Taikisha distributes its environmental policy to its business partners in accordance with the ISO14001 standard and requests their full cooperation in observing the policy.

Environmental Management System Operation and Promotion System Chart



Environmental Management Activities

Taikisha has set out the Business Division Environmental Policy and Branch Office Environmental Policy, based on the Company-wide Environmental Management Vision and Environmental Management Master Plan. Taikisha also evaluates the environmental impact in business processes and creates an environmental impact evaluation sheet. Each department breaks them down into a development plan, design policy plan, and project policy plan for each project and development theme, and promotes day-to-day environmental management activities.

The effectiveness of environmental management policies and activities are confirmed at the Corporate Policy Review Meeting, Domestic Business Office General Manager Meeting, Branch Office Management Review Meeting, Development Review Meeting, Design Examination Meeting and Construction Review Meeting, in order to confirm the status of environmental management activities.

Development of the Environmental Management Activities



Compliance with Laws and Regulations and Responses to Complaints Regarding Environmental Issues

Taikisha stores information in an internal database about revisions to environment-related laws and regulations that need to be taken into account in conducting business operations and information on ordinances of prefectures and designated cities to disseminate the information to all employees.

In addition, Taikisha puts information on laws and regulations relevant to each business process in the Quality Assurance System Diagram to further ensure compliance with such laws and regulations. Taikisha records complaints regarding environmental issues that came up in Taikisha, including information on causes of complaints, remedial measures and preventive measures, in the internal database to share information within the group.

There was no major complaint regarding environmental issues that occurred in FY2019.

Taikisha conducts employee education in all business offices to prevent the recurrence of complaints that occurred in the past, and provides guidance and education through on-site patrols and other measures.

Status of Acquisition of ISO Certification

The Green Technology System Division and the Paint Finishing System Division integrated quality and environmental management systems and were certified with ISO Standards 2015.

Taikisha Group's Status of Acquisition of ISO Certification

Country name	Company name	ISO 9001	ISO 14001
Japan	Taikisha Ltd.	●	●
China	Wuzhou Taikisha Engineering Co.,Ltd.	●	●
Taiwan	Taikisha (Taiwan) Ltd.	●	
Thailand	Taikisha (Thailand) Co.,Ltd.	●	●
Vietnam	Taikisha Vietnam Engineering Inc.	●	●
Philippines	Taikisha Philippines Inc.	●	
Singapore	Taikisha (Singapore) Pte. Ltd.	●	●
Malaysia	Taikisha Engineering (M) Sdn. Bhd.	●	
Indonesia	P.T. Taikisha Indonesia Engineering	●	
India	Taikisha Engineering India Pvt. Ltd.	●	●
USA	TKS Industrial Company	●	●
Italy	Geico S.p.A.	●	●

The certification acquisition rates at business offices in Japan are 100% in both business divisions.

Environmental Accounting

Taikisha calculates the cost and economic effects of environmental protection based on the basic concept of the Environmental Accounting Guidelines issued by the Ministry of the Environment.

Environmental protection cost	Amount of cost	Main activities
The cost within the business area	309 million yen	Waste disposal cost, introduction of eco-friendly cars
Management activities cost	8 million yen	In-house environmental management system operation cost, environmental education
Research and development cost	446 million yen	Research and development cost for eco-friendly products and services
Social activity cost	1 million yen	Donation to environment conservation groups
Total	764 million yen	

Economic effects of environmental protection measures	Amount of cost	Main activities
Revenue amount	7 million yen	Proceeds from the sales of valuables through waste recycling
Cost reduction	6 million yen	Cost reduction effect of introduction of eco-friendly cars
Total	13 million yen	

Environmental Education (for New Employees)

Taikisha provides introductory education on the Vision and System of Environmental Management and education on the environmental management operations of each department, to new employees every year. They also attend skill training courses for senior operations engineers relative to asbestos, organic solvent work, and hazardous work in oxygen-deficient air or work involving hydrogen sulfide, and obtain certifications. This system ensures that new employees learn the necessary knowledge to handle chemical substances and hazardous substances from their first year.

[Taikisha Group] Efforts for Realizing a Low Carbon Society

Taikisha is working on reducing GHG emissions in the entire supply chain.



Risks and Opportunities of Climate Change

The United Nations adopted the Sustainable Development Goals (SDGs), a set of 17 global goals to be attained by 2030. These SDGs, based on the recognition that climate change is threatening the sustainability of the earth's life support system, strongly urge organizations to take urgent measures to reduce the impact of climate change. Against such a backdrop, the Paris Agreement governing climate change reduction measures from 2020, adopted at the United Nations Framework Convention on Climate Change (COP21), has come into effect. To realize the aim of the Paris Agreement, which is to limit the rise in global average temperature, it is important to take measures toward realizing low-carbon emissions to reduce greenhouse gas (GHG) emissions and, furthermore, zero-carbon emissions.

Taikisha recognizes that the potential disturbance of the continuity of business by typhoons, heavy rain and other natural disasters as well as business development being affected by the tightening of environmental regulations are climate change risks. On the other hand, Taikisha expects that climate change could expand customer needs for environmental measures and create opportunities for many clients to utilize Taikisha's environmental technologies. By capturing such opportunities accurately, Taikisha will promote "zero-carbon emissions" through its business operations.

Energy- and Resource-Saving Achievements

Taikisha's power usage in all offices (Japanese offices) in FY2019 was 147 kWh/m². Taikisha will continue to conduct energy-saving and consumption-reduction activities by raising the awareness of each employee to ensure the implementation of energy-saving measures, such as observing Cool Biz and setting air conditioners at energy-efficient temperatures.

Grasping the Level of Scope 1 and 2 Emissions to Reduce CO₂ Emissions

Companies are being required to reduce GHG emissions through business operations at construction sites and offices to help curb global warming.

Looking at Taikisha's GHG emissions in FY2019, Scope 1 emissions, which are direct emissions from combustion of fuels, etc., were 1,356 t-CO₂, and Scope 2 emissions, which are indirect emissions from use of electricity, etc., were 1,329 t-CO₂. Taikisha will continue to work on saving energy at construction sites and offices.

Breakdown of Scope 3 Emissions

Looking at Taikisha's GHG emissions in the supply chain for FY2019, Scope 3 emissions were 3,827,369 t-CO₂, of which emissions from Category 11 (use of sold products) accounted for the largest portion at 93.2%. Considering that GHG emissions from the operation phase of the facilities Taikisha provides are largest across its supply chain, Taikisha will make greater efforts than ever to provide facilities and systems with high energy-saving capabilities.

In addition, Taikisha will further promote green procurement by cooperating with suppliers and continue to reduce construction by-products and to appropriately dispose of industrial waste, aiming to curb GHG emissions from production, transportation, and disposal of materials and to help conserve the global environment.

Initiatives in the Green Technology System Business

To promote a low carbon society, the Green Technology System Business is focused on making energy-saving proposals at the operation phase of clients' air-conditioning and sanitary facilities.

Taikisha is engaged in the design and construction of air-conditioning and sanitary facilities for clients in broad areas, such as factories, office buildings and hospitals in Japan and overseas. The volumes of CO₂ emissions from the operation of those facilities over many years significantly exceed the CO₂ emissions from the construction of buildings. The Green Technology System Division proposes systems that reduce energy consumption throughout the life cycle of buildings and offer superior technologies to reduce carbon emissions and environmental impact.

Initiatives in the Paint Finishing System Business

The Paint Finishing System Business is engaged in the design and construction of large-scale paint finishing plants of automobile and aircraft makers in Japan and overseas. Reducing CO₂ emissions in the paint process at these plants has become an important issue in the automobile and aircraft industries. Through providing solutions for this issue, Taikisha contributes to clients' low carbon operation.

Taikisha strives to promote the energy efficiency and downsizing of facilities by using an energy calculation model for paint finishing lines and setting medium-term reduction targets. Taikisha also makes proposals to reduce CO₂ emissions by introducing renewable energy and a system to recover waste heat from lower temperature sources.

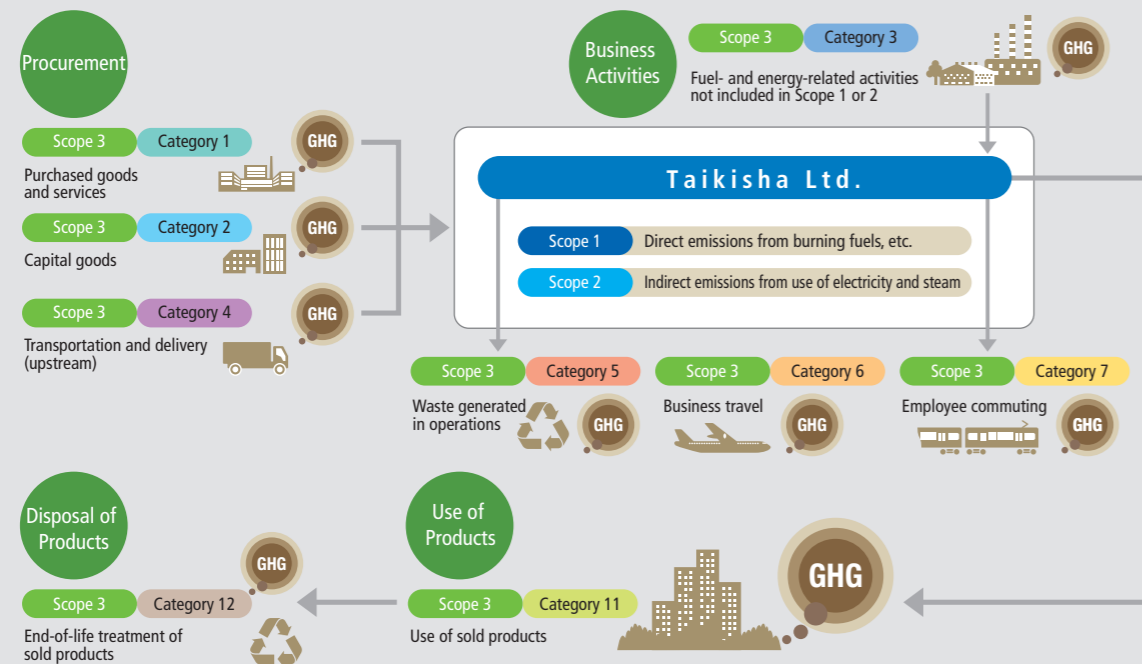
Please see the pages below for details.

● Eco-friendly design and energy-saving proposal activities	P.45
● Development of energy-saving technologies	P.47

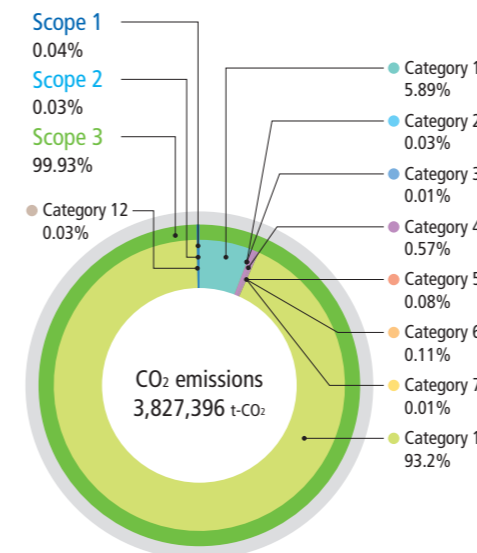
Please see the pages below for details.

● Activities to reduce CO ₂ emissions from the paint finishing process	P.46
● Achievement of third medium-term target in 2020 and formulation of new medium-term plan going forward	

Conceptual Diagram of GHG Emissions Control in the Entire Supply Chain



Breakdown of Scope/Category



*Emission factor is calculated based on the Emission Factor Database on Accounting for Greenhouse Gas Emissions throughout the Supply Chain (ver. 3.0) of the Ministry of the Environment and the Ministry of Economy, Trade and Industry in Japan

Scope/Category	Accounting methods*	Emission amount (t-CO ₂)
Scope 1	-	1,356
Scope 2	-	1,329
Scope 3		3,823,237
Category 1	Purchased goods and services	225,200
Category 2	Capital goods	1,295
Category 3	Fuel- and energy-related activities not included in Scope 1 or 2	385
Category 4	Transportation and delivery (upstream)	21,720
Category 5	Waste generated in operations	1,689
Category 6	Business travel	4,292
Category 7	Employee commuting	390
Category 8	Leased assets (upstream)	Included in Scope 1 and 2 emission calculation
Category 9	Transportation and delivery (downstream)	No relevant activities
Category 10	Processing of sold products	There are some products that are relevant, but calculations are ignored because their ratios in sales are extremely small.
Category 11	Use of sold products	3,567,200
Category 12	End-of-life treatment of sold products	1,066
Category 13	Leased assets (downstream)	No relevant activities
Category 14	Franchises	No relevant activities
Category 15	Investments	Calculations are ignored because the validity of the category 15 estimates is low as a result of many portfolio companies not disclosing Scope 1 and 2 emissions and the impact of the category 15 estimates on the entire supply chain is small.
Total of Scope 1, 2 and 3		3,825,922

[Green Technology System Division] Efforts for Realizing a Low Carbon Society

Taikisha is helping to reduce GHG emissions at the operation phase of the air-conditioning and sanitary facilities it provides to clients.



Activities in the Field of Air-Conditioning System for Buildings and Factories

Eco-Friendly Design

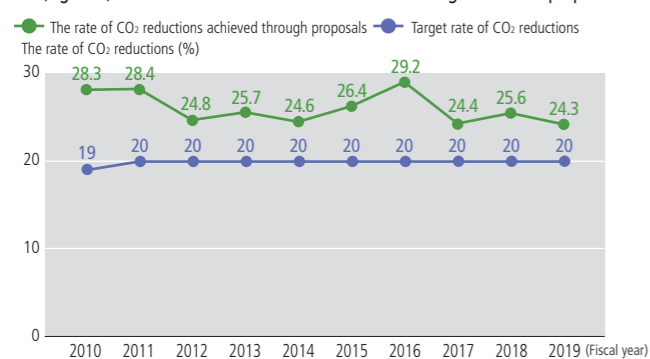
The Green Technology System Business, as part of promoting ecofriendly designs, makes proposals for improving the energy efficiency (reducing environmental impacts) of facilities owned by clients. In energy-saving proposal activities, the Division repeats the cycle of energy-saving diagnosis to grasp the current status, make detailed proposals based on clients' future visions, design and construction, and verify the effects in the operation phase.

To contribute to the target reduction in energy originated CO₂ emissions by FY2030 (25.0% reduction compared with FY2013) under the Plan for Global Warming Countermeasures, a Cabinet decision made in May 2016, Taikisha has developed a proprietary simulation-based Energy Plant Optimal Control System, which maximizes the amount of energy saved by heat source systems through optimal operation control according to external conditions that change from hour to hour and thus helps reduce CO₂ emissions and running costs.

Taikisha is also working on the development of energy-saving technologies of clean room systems that control the circulating air volume by tracking the operation status of production equipment, staffing and indoor environment as well as room pressure control systems, by incorporating the technological progress of AI and IoT in air-conditioning systems to adapt to smart plants and buildings.

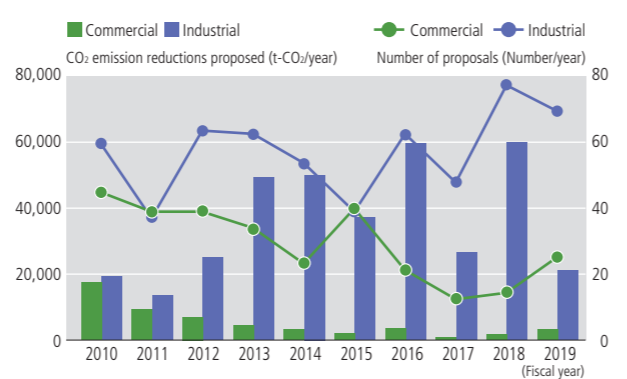
Taikisha defines the rate of CO₂ emissions reduced from facilities owned by clients due to Taikisha's proposals as the rate of CO₂ reductions. The transition in the rate of CO₂ reductions for the past 10 years is shown in Figure 1. In FY2019, Taikisha conducted activities by setting a target for the rate of CO₂ reductions of a weighted average of 20% or higher in in-house design projects, and Taikisha exceeded the target at 24.3%. The number of proposals and the proposed amount of CO₂ emission reductions are classified by commercial client (for offices and hospitals, etc.) and industrial client

● (Figure 1) Transition in the rate of CO₂ reductions through Taikisha's proposals



(plants, etc.) and their transitions are shown in Figure 2. The amount of proposed CO₂ emission reductions that corresponds to Category 11 under Scope 3 was about 370,000 t-CO₂ (the effect of 15 years of operation).

● (Figure 2) Transition in CO₂ emission reductions proposed and number of proposals



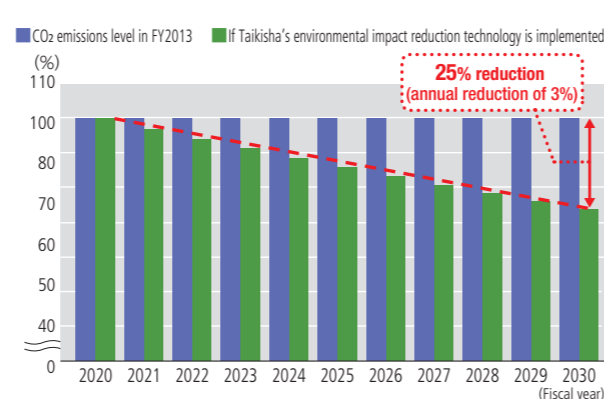
Formulation of New Medium-Term Plan for 2020 and Beyond

As its new medium-term plan's target for 2020 and subsequent years, Taikisha will reduce its CO₂ emission factor in designing and construction by 25% by 2030 relative to the 2013 emissions level.

In order to achieve this target under the medium-term plan, Taikisha will aim to reduce its CO₂ emission factor by 10% in proposals for new construction/full renovation of facilities and by 25% in proposals for partial renovation of facilities for in-house design projects by utilizing energy-saving technologies in its current portfolio.

Furthermore, Taikisha will seek to achieve the FY2030 target by utilizing energy-saving technologies such as production device tracking control currently under development.

● Roadmap for reduction of CO₂ emissions (illustration)



[Paint Finishing System Division] Efforts for Realizing a Low Carbon Society

Taikisha is helping to reduce GHG emissions in the paint finishing process for automobiles, etc.



Activities in the Field of Automobile Paint Finishing Systems

Activities to Reduce CO₂ Emissions from the Paint Finishing Process

In order to help reduce the environmental impact of the paint finishing process, in which energy usage is particularly high in the automobile manufacturing process, the Paint Finishing System Business has proposed plans to reduce CO₂ emissions from paint facilities in the automobile manufacturing process.

Since 2000, Taikisha has been examining proposals in each fiscal year to meet the medium-term target of 70 kg-CO₂/unit in 2020 by calculating the reduction in CO₂ emissions using the energy estimation model for automobile paint finishing lines.

CO₂ emissions, which were 160.1 kg-CO₂/unit in 2005, decreased to 100 kg-CO₂/unit, which is the first medium-term target, by 2012. By 2015, Taikisha reduced CO₂ emissions further to 80 kg-CO₂/unit, which is the second medium-term target, by promoting facility technologies such as dry filtration booths (dry booths that use pre-coating materials).

Currently, Taikisha is looking into technological proposals aimed at fulfilling the final medium-term target, i.e., the third final target of 70 kg-CO₂/unit to be achieved by 2020. In FY2019, Taikisha achieved 72.2 kg-CO₂/unit based on proposals of such technologies as the new dry scrubber (a dry booth using a cardboard filter).

Achievement of Third Medium-Term Target in 2020 and Formulation of New Medium-Term Plan Going Forward

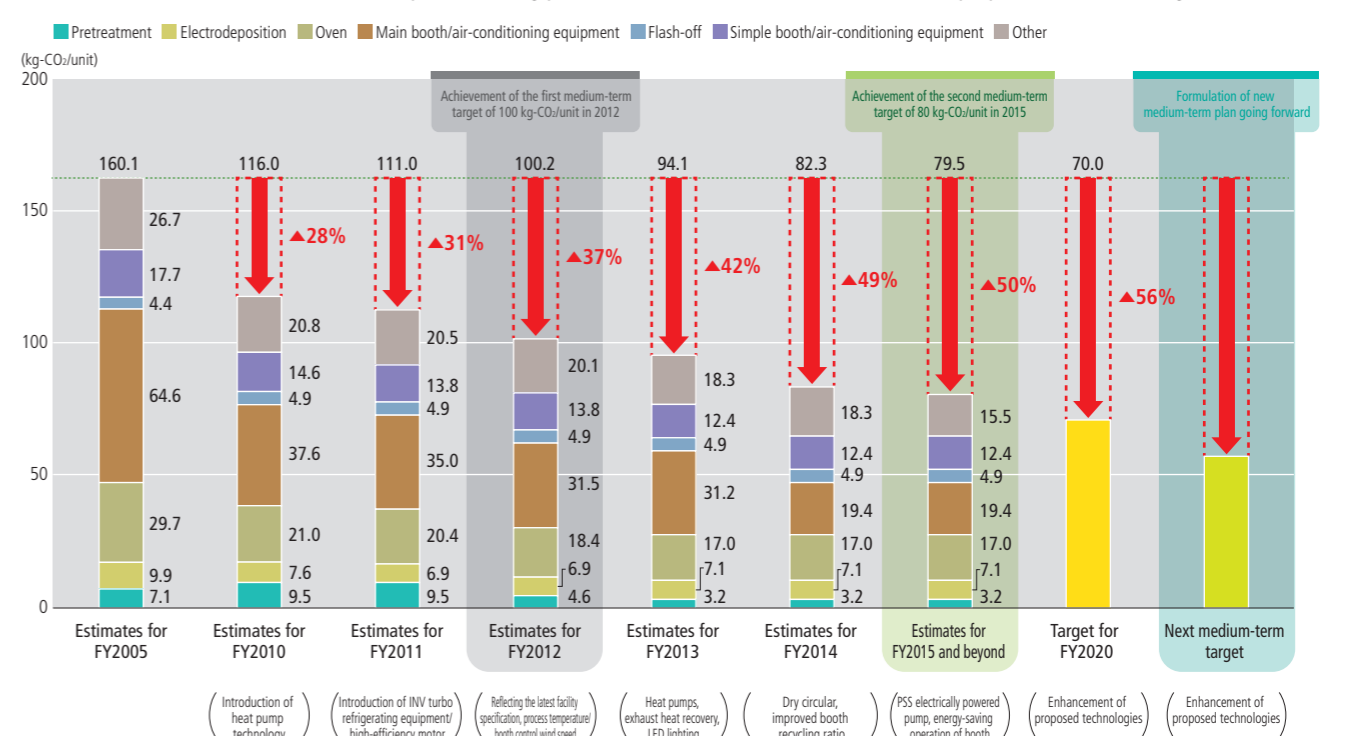
Taikisha is examining technologies to reduce CO₂ emissions with an eye on achieving the target of 70 kg-CO₂/unit in 2020, which is the final fiscal year for the medium-term plan proposed continually since 2010.

For the current fiscal year, Taikisha will also set a new medium-term CO₂ reduction target for automobile painting processes in view of long-term low-carbon targets of automakers who form our clientele, considering the current status of greenhouse gas emissions and the latest environmental technologies, following the achievement of such medium-term target for 2020.

Specifically, Taikisha will promote the introduction of renewable energy (solar thermal energy, etc.), consider waste heat recovery from lower temperature sources, and technology development such as downsizing paint finishing systems and enabling lower baking temperatures in drying ovens. Taikisha will consider adopting next-generation energy sources including hydrogen by 2020.

Taikisha aims to help protect the global environment by implementing these technology proposals for paint finishing systems in cooperation with automobile manufacturers and other related companies.

● CO₂ emissions estimates at automobile paint finishing plants: Transition in CO₂ emission reductions proposed and future target



[Exhaust Air Processing Technologies] Environmental Impact Reduction Technologies

Taikisha is striving to reduce environmental impacts by utilizing its technologies cultivated over the years.



Environmental Impact Reduction through Exhaust Gas Treatment Technology

Volatile Organic Compounds (VOC), used in automobile painting and various other fields, are the main causative agent of photochemical smog, etc., and reducing these VOC emissions has become a major social concern in recent years.

Taikisha has been undertaking the development of high-heat recovery efficiency, direct fired regenerative thermal oxidizers (RTO) with superior energy-saving properties over the years based on its VOC-reduction technologies developed in the automobile paint finishing system business field. The equipment performs oxidative

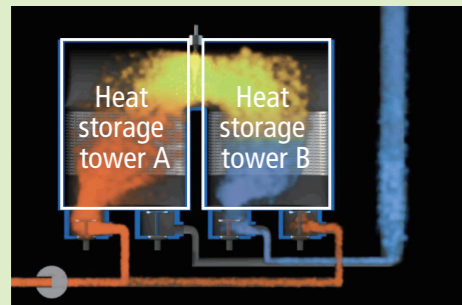
● Product line of RTO

Dual-Tower RTO

Dual-Tower RTO offers a high heat recovery rate during operation of 95% or higher with minimum energy usage.

- VOC treatment efficiency of 98% or higher
- Space-saving/cost-saving

Heat storage alternates with heat release repeatedly in the two heat storage towers and efficiently performs oxidative decomposition of VOC.



decomposition at a high temperature, allowing most VOC to decompose, and achieves a high thermal recovery rate of 95% or higher. Another feature of the equipment is that it can perform self-sustained combustion operation, whereby high temperature conditions can be sustained only with combustion heat of a solvent if the level of VOC is high.

Taikisha has a track record of selling more than 380 units of dual-tower RTO and more than 80 units of rotary-type RTO and offers wide-ranging product lines.

Rotary-type

Introduction of rotary valves eliminated emissions of untreated exhaust gas and bad odors and further improved the VOC treatment efficiency.

- VOC treatment efficiency of 99% or higher
 - Reduction in pressure fluctuation of exhaust air duct
- Untreated gas will be introduced from the opening of the rotary valve to the combustion chamber and decomposed completely.



Triple-Tower RTO helps reduce environmental impact in China

In recent years, environmental regulations have been tightened at a dramatic pace in China, in line with the rapid heightening of environmental awareness. Crackdowns by the environmental protection department of the Chinese government and environment-related organizations of local governments are intensifying.

In some regions in China, the emission standards related to air pollution include a limit of total emission volume under constant monitoring. There are more than a few cases where environmental standards stricter than Japan's are adopted.

Under such circumstances, Taikisha's triple-tower RTO (direct fired regenerative thermal oxidizer) has been appreciated for its high VOC removal efficiency and energy-saving properties, and it has been

increasingly adopted mainly by Japanese companies.

Compared to a dual-tower RTO, a triple-tower RTO is capable of returning the untreated gas to the RTO by allocating one of the three towers to serve as a purge section, preventing gas from being released directly into the atmosphere and enabling a VOC treatment efficiency of 99% or higher.

To address some clients' request for treatment of a high airflow gas with a low concentration of VOCs, Taikisha also proposes a solution in the form of a system with a two-stage VOC concentrator installed as a prior step to the triple-tower RTO to absorb such a gas to convert it to a low airflow gas with a high VOC concentration before treatment of the gas with the triple-tower RTO. This system

● Track record of construction in China



enables overall VOC treatment efficiency of 99% or higher, while at the same time saving energy for operating the RTO. For that reason, an increasing number of units of this system have also been adopted in China.

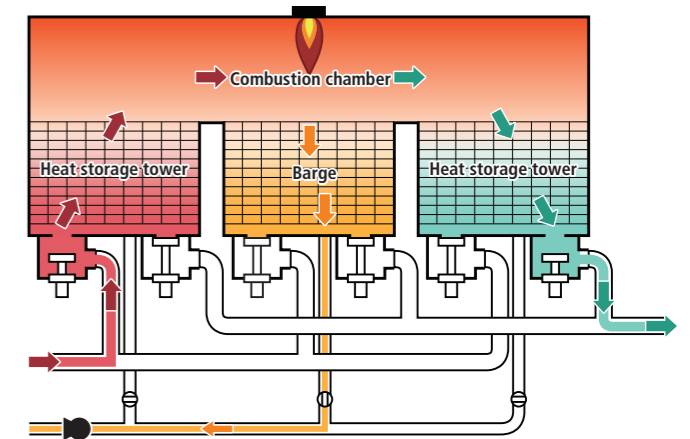
Taikisha sold more than 100 units of VOC exhaust-gas treatment systems throughout China. In addition, Taikisha's local production and procurement structure is now in place in China, which enables us to offer quality products comparable to those of Japan at competitive prices in China.

Having enhanced its maintenance structure following the increase in units sold, Taikisha is now capable of responding quickly to maintenance demand.

Going forward, Taikisha will strive to further contribute to reducing the environmental impact in China through ceaseless efforts such as offering information and guidance on China's environmental regulations for many companies including Japanese companies, as well as enhancing the promotion of its counter-air-pollution technologies for environmental organizations in China.

Also in the future, Taikisha will proactively expand its business to Southeast Asia and India as well as in China.

● Triple-Tower RTO Flow Chart

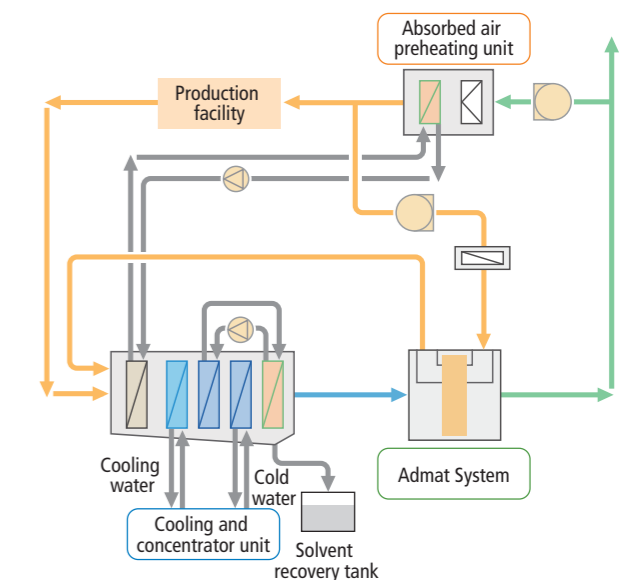


Reduction of Environmental Impact by Utilizing Our Solvent Recovery Technology

Rapid dissemination and increasing adoptions of eco-friendly cars such as electric vehicles (EVs) and plug-in hybrid electric vehicles (PHEVs) are seen nowadays, especially in China, Europe and the United States. As a major energy source of EVs and PHEVs, lithium-ion secondary batteries are the most common. For the production of lithium-ion secondary batteries, N-Methyl-2-Pyrrolidone (NMP) is the essential solvent. From the manufacturing process of these batteries, high volumes of gases containing NMP are emitted.

Taikisha possesses ample experience in its NMP Recovery System to recover NMP from gases containing NMP, and this system has been adopted by many battery makers.

● Taikisha's NMP Recovery System



Recycling-Oriented Society

Taikisha disposes of waste appropriately for effective use of limited resources.



Industrial Waste Disposal and Recycling

At construction sites where Taikisha performs work as the main contractor, Taikisha promotes 4R* activities that involve separating and collecting recyclable industrial waste and curbing the amount of mixed waste generated, in order to reduce the amount of industrial waste generated from such sites that ends up in landfills at final disposal sites.

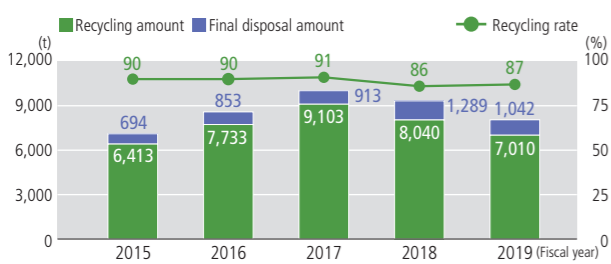
Industrial waste generated is classified into: recycling amount of recyclable resources; and final disposal amount that ends up in landfills. The recycling rate represents the ratio of recycled resources.

*4R=Refuse (eliminating waste in resource use); Reduce (reducing waste); Reuse (reusing waste); Recycle (recycling waste)

Main efforts for recycling

Recycling of work uniforms	Recycling of heat shield materials
Recycling of helmets	Recycling of specified equipment

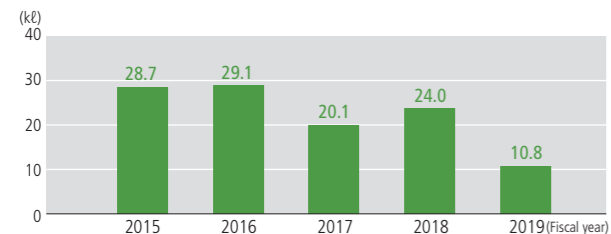
Industrial waste generated and recycling rate



Collection and Management of Hazardous Substances

Taikisha manages the status of collection and proper disposal of hazardous substances (lithium bromide, etc.) generated during renovation work or other projects by creating Hazardous Substances Collection Control Sheets after confirming the existence of such substances based on the Design Policy Plan and Site Environment Control Plan in the design and construction planning stages.

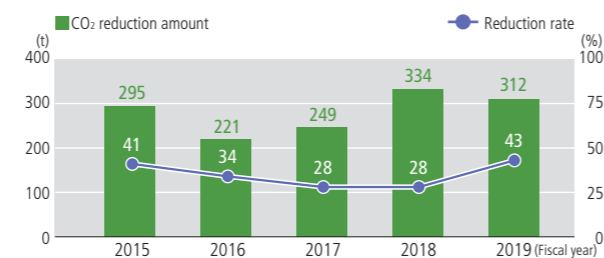
Amount of hazardous substances collected (collection rate: 100%)



Reduction of Waste Generation

Taikisha draws up a plan for reducing waste generation in the Site Environment Control Plan created at construction sites and incorporates such plan into construction plans and drawings. In performing construction works, implemented measures and the reduced amount of waste are calculated, and good improvement cases are updated on the internal document database and shared across the company. Taikisha is reducing CO₂ production by making efforts for preventing waste generation and planning and implementing construction methods and measures, enabling reduction of waste generation.

The amount and rate of CO₂ reduction achieved by curbing waste generation



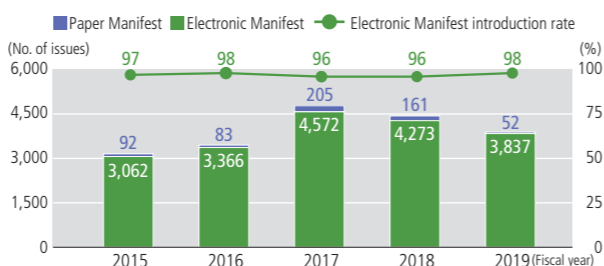
Proper Waste Management

All works in which the main contractor is Taikisha are listed and the waste disposal status is monitored to ensure the waste is treated properly.

Also, local government permit information on all industrial waste disposal agencies with which Taikisha has contracts is collected, listed, and regularly updated on its internal database, and Taikisha develops and manages a scheme whereby contracts are conducted only with the listed agencies.

Taikisha has introduced the Electronic Manifest scheme since 2009. It has been promoted by the Ministry of the Environment with the purpose of ensuring proper disposal of industrial waste. Taikisha's current introduction rate is 98.7%.

No. of Manifest issues/Electronic Manifest introduction rate



Management of Chemical Substances

Taikisha thoroughly manages chemical substances to reduce environmental impacts.

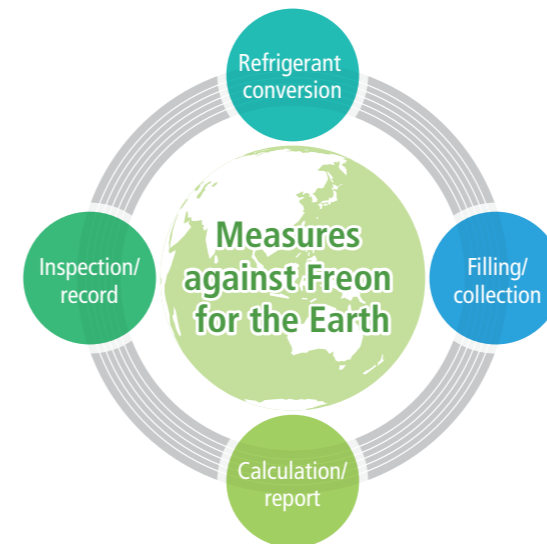


Efforts for Chemical Substance Management

To manage chemical substances handled in construction sites, Taikisha creates a Design Policy Plan and Site Environment Control Plan in the design and construction planning phases of each project based on the Environmental Impact Assessment Sheets and thereby manages relevant substances in an appropriate manner.

Before performing day-to-day on-site work, chemical substances to be used on the day are identified, and their risks are assessed.

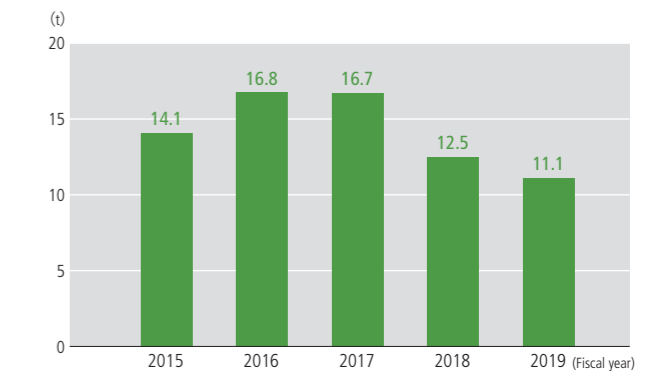
The Research and Development Center isolates and properly manages chemical substances to be handled in the stage of creating the Development Plan for each research and development item.



Efforts for Freon Management

In compliance with the Act on Rational Use and Appropriate Management of Fluorocarbons, each business office creates Freon Collection Control Sheets and manages the status of filling, collection, and proper disposal of Freon (process management system). When conducting Freon collection work, Taikisha draws up Freon collection plans and procedures and endeavors to prevent Freon leaks and other accidents.

Freon collection amount (collection rate: 100%)



Efforts for Water Resources

The preservation of water resources has become one of the crucial issues in line with climate change and population expansion. Taikisha is conducting designing operations from the viewpoint of efficient use and recycling of water resources and working to prevent water contamination and reduce wasteful water use in construction operations in accordance with environmental laws and regulations.

Column

Technical Center's Measures for Water Resources

In 2019, Taikisha opened the Technical Center in Zama City, Kanagawa Prefecture, as the new technological development hub of the Paint Finishing System Business. Having revamped and expanded part of the former Zama Technical Center and integrated it with the former Hirakata Development Center in Hirakata City, Osaka Prefecture, the Technical Center serves as a demonstration and public relations venue for clients and seeks to further enhance Taikisha's comprehensive development capabilities and quality assurance system.

Given that the Technical Center deals in facilities involved in painting processes that use the most water in automobile manufacturing, efforts are being made to develop technologies to save water and utilize alternative energy.

Specific examples include the development of a water-saving system in pretreatment and electrodepositing processes and devices that can separate air and paint mist without water.

Taikisha will continue making efforts to develop technologies that lead to the reduction of water usage and the efficient use of water.



Green Procurement

Taikisha is helping to reduce environmental impact through procurement activities conducted based on its own guidelines.



Green Procurement Policy

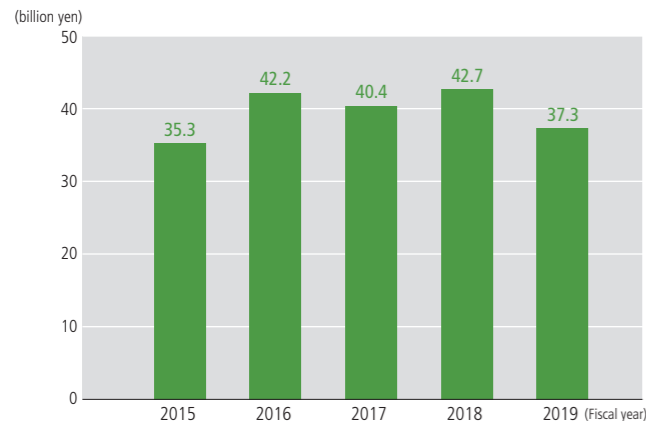
To lead the green procurement described in the Environmental Management Vision, Taikisha strives for preferential procurement and selection of new equipment, systems, working methods and technologies to help reduce environmental impact in business activities (design and construction). Taikisha has determined green procurement items based on its own standards, and grasps the results of procurement and conducts periodic reviews on these green procurement items.

Judging Criteria for the Green Procurement Items

Decision on whether or not items are acceptable as green procurement items shall be made after a comprehensive evaluation. This is based on how they contribute to reduction of environmental impact compared to conventional products with equivalent functions. Evaluation criteria are as follows:

- 1 Less environmental impact when equipment and materials are manufactured or operated (for consumption of energy and resources, etc.)
- 2 Use of recycled resources for production materials
- 3 Less environmental impact during construction (for waste generation, noise, vibration, etc.)
- 4 Less environmental impact during operation (for energy consumption, emission of harmful substances, etc.)
- 5 Long life expectancy (durability, easy renewal and convertibility, etc.)
- 6 Easy recycling after disposal
- 7 Easy processing after disposal (easy processing, whether or not it contains harmful substances, etc.)

Performance in Green Procurement



Adoption of Carbon Offset Products

Taikisha selects office supplies for its construction site offices from among the carbon offset applicable items so that Taikisha can help reduce environmental impacts. For example, Taikisha has adopted goods with carbon offset credits attached, provided by Yamanashi Prefecture under the Yamanashi Prefecture Project to Combat Global Warming by Forest Utilization, in an effort to promote procurement with consideration for conserving forest ecosystems.



Tree thinning work to protect the forest (Yamanashi Prefecture)



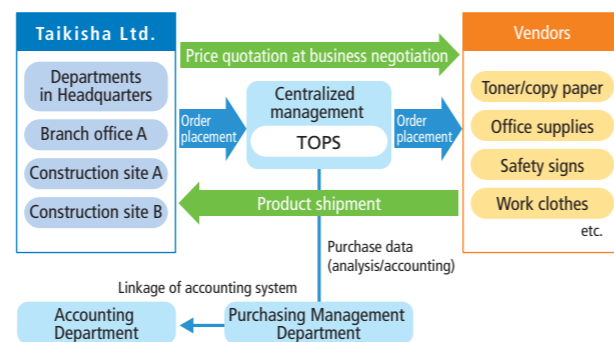
Carbon Offset Certification of a project

Promotion of Paperless Operations with Online Purchasing System

Taikisha has been promoting the use of TOPS, its online purchasing system for indirect materials. Users access the TOPS website to order and purchase various supplies ranging from daily necessities and office stationery regularly used to work clothes and safety-related products necessary at construction sites. The use of TOPS eliminates the need for processing conventional individual purchase invoices, and, by linking the online purchase system to the accounting system, drastically reduces the number of account slips used for payment, promoting paperless operations.

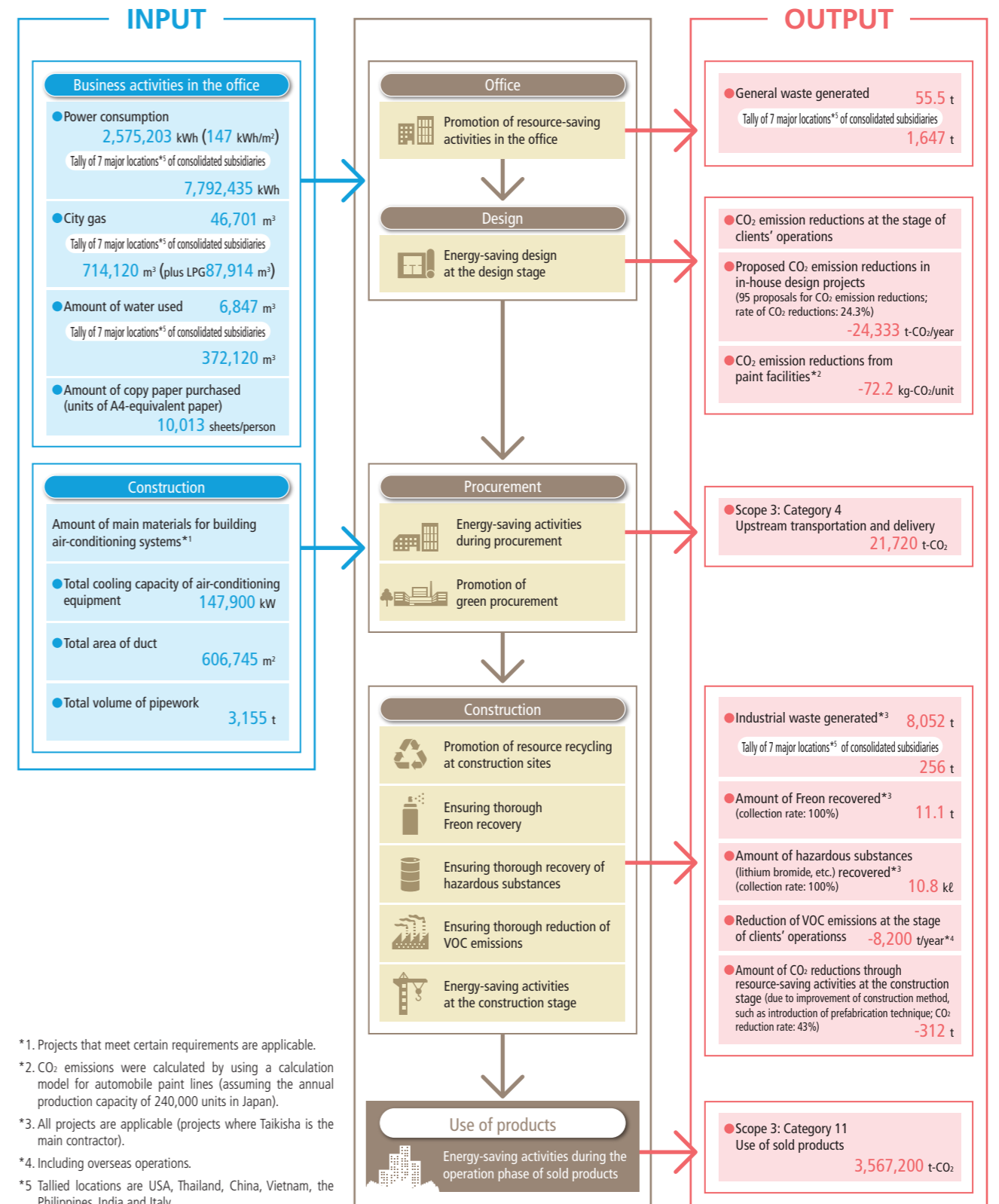
During FY2019, the total value of online purchase amounted to 90.033 million yen, and the ratio of paperless operations was 81.3%.

System flow diagram



Material Flow Diagram

Taikisha quantitatively grasps the overall picture of the environmental impacts associated with business operations to lead efforts for reducing environmental impacts.



*1. Projects that meet certain requirements are applicable.
 *2. CO₂ emissions were calculated by using a calculation model for automobile paint lines (assuming the annual production capacity of 240,000 units in Japan).
 *3. All projects are applicable (projects where Taikisha is the main contractor).
 *4. Including overseas operations.
 *5 Talled locations are USA, Thailand, China, Vietnam, the Philippines, India and Italy

Contributions to Society

Taikisha is promoting business activities that meet the expectations of stakeholders to widely win the trust of society.

Initiatives for Industrial Health and Safety

Based on the annual company-wide safety policy announced by the President, Taikisha aims to build a more comfortable working environment by placing the utmost priority on safety.



Basic Principles of Industrial Health and Safety

Based on an understanding of the importance of human life as its basic principle, Taikisha thoroughly implements safety-first planning and construction and fulfills its social responsibilities as a company in the construction industry out of respect for the law. Taikisha aims to protect the health and lives of employees and workers and makes efforts to build a more comfortable working environment.

Figure of the Corporate Health & Safety Policy

株式会社 大気社 全社安全衛生方針

《基本理念》
大気社は、人命尊重を基本理念とし、順法精神に則り、建設業界における社会的責任を果たすため、『安全第一主義に徹した計画・施工』を実践し、働く人の生命と健康を確保して、快適な職場環境の向上に努め、社会貢献を持って、信頼される持続可能な企業活動のできる経営基盤を確立する。

《2020年度 方針》

- 1 重大・公衆災害の防止
 - ① 「安全第一」に徹した安全衛生計画の策定
 - ② 組織的安全管理活動による重大・公衆災害の未然防止
- 2 快適な作業環境の形成
 - ① 職業性疾病と健康障害の防止と、心と体の健康維持向上
 - ② 高齢者、未成年者、年少者、女性作業員、未熟練工の「適正配置」
- 3 安全衛生管理水準の向上
 - ① 教育体系に基づく社員安全衛生管理能力向上教育の実施・指導
 - ② 協力会社専業主・作業員に対する安全衛生教育の実施・指導強化
 - ③ 特定元方工事における安全衛生統括管理能力の向上
- 4 海外関係会社の安全衛生管理水準の向上
 - ① 労働安全衛生マネジメントシステム運営状況の監査及び指導
 - ② 海外スタッフへ継続的教育の実施、安全に関する情報の提供

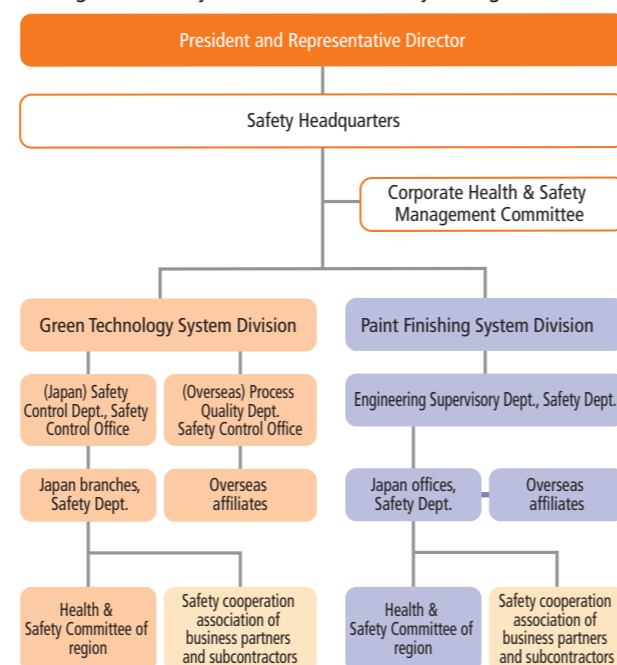
2020年4月1日
株式会社 大気社 代表取締役社長
加藤 為二

Health and Safety Management System and Activities

Taikisha has established its own Taikisha Occupational Health & Safety Management System with respect for human lives and a law-abiding spirit as its basic principle.

Taikisha has established the Safety Headquarters in its Headquarters and the Safety Control Department in each of its business divisions, and they support safety activities of Branch Offices and Offices while supervising and managing industrial safety of the entire group.

Diagram of the System for Health & Safety Management

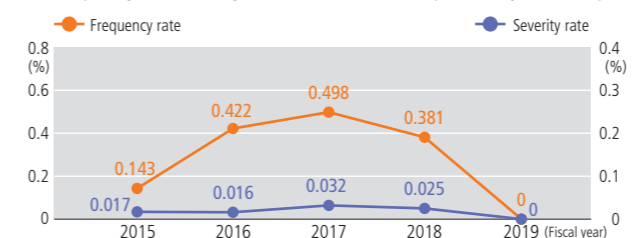


Monitoring of Safety Activity Results

Taikisha measures and monitors the effects of safety activities by using a frequency rate that indicates the frequency of industrial accidents and a severity rate that indicates the severity of accidents as safety indicators. The transition of these indicators is as follows.

Frequency rate: This indicates the frequency of occurrence of industrial accidents, which is calculated based on the number of deaths and injuries due to industrial accidents (accidents involving at least four days of lost work time according to the criteria of the Ministry of Health, Labour and Welfare) per 1,000,000 cumulative hours worked.
Severity rate: This indicates the degree of seriousness of the accident, which is calculated based on the number of work-days lost per 1,000 cumulative hours worked.
Scope: Taikisha's construction sites (employees on a non-consolidated basis and subcontractors)

Frequency and severity rate indicators for the past five years in Japan

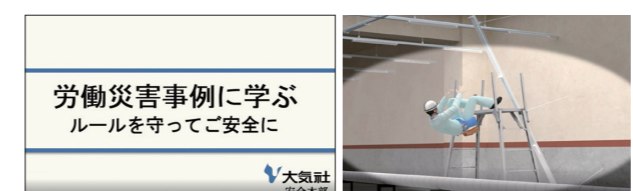


Number of industrial accidents occurred



Efforts for Accident Prevention

In FY2019, Taikisha created a video of past cases of accidents including fall accidents and started making it available for viewing to prevent similar accidents from occurring. Taikisha plans to make this video available also at overseas affiliates in the future.



Efforts for Improvement of Industrial Health & Safety Management in Overseas Affiliates

The Safety Headquarters audits each overseas affiliate once every two years to check whether its offices and workplaces conform to industrial health and safety management activities based on its OHSAS*.

* OHSAS: Abbreviation of Occupational Health and Safety Assessment Series. OHSAS refers to a standard for occupational health and safety management systems. It serves as a standard for building a management system for protecting the physical and mental health of people working in companies; its implementation enables an organization to continually improve its level of occupational health and safety.



Conferences and Safety Training by Inviting Overseas Local Staff

On an annual basis, engineering and safety staff of overseas affiliates are assembled in Japan to be provided with safety education, in an effort to improve their safety management skills.

(Safety education items for staff members of overseas affiliates)

- (1) Safety activity guidance
- (2) Presentation of safety activities of each country
- (3) Group discussion
- (4) Inspection of sites in Japan
- (5) Crisis experience training
- (6) Education on various safety management capabilities
- (7) Opinion exchange meeting, etc.



Voice



DONALD MARIA L. DATARIO
Taikisha Philippines Inc.
General Manager, Safety Dept.

Safety Initiatives at Taikisha Philippines Inc.

At Taikisha Philippines Inc., we conduct risk assessment on an ongoing basis, especially for the prevention of accidents during work in high places (including inside ceilings) as well as electrocution and fire accidents, and make workers mindful of the ban on any unscheduled work at all times.

Safety targets set by Taikisha Philippines Inc.

- (1) "Zero" lost work time due to accidents
- (2) Immediately resolve problems on the spot during safety patrols
- (3) Comply with laws and regulations related to industrial health and safety
- (4) Constantly manage industrial health and safety targets and the basics of industrial health and safety
- (5) Manage the health and safety of workers at all times
- (6) Make everyone recognize that practicing safety-first translates into family-first

Initiatives for Quality Improvement

Taikisha is continuously working on quality improvement to gain high reputation and trust.



Basic Policy of the Green Technology System Division

The Green Technology System Division has established the basic principle of quality policy: "We will continuously work on business process management and improvement amid changing social requirements and under the quality management system, aiming to achieve product quality that is free from Muda (wasteful), Mura (inconsistent) and Muri (unreasonable)." In addition, it has set out action guidelines for each business process and is conducting quality improvement activities.

Basic Policy of the Paint Finishing System Division

The Paint Finishing System Division has set out the following three quality policy initiatives based on the basic principle of the quality policy: "We will continue to provide paint systems that meet customers' needs and expectations to gain trust from customers and high reputation from society." In addition, it has created a checklist of the Quality Control (QC) Follow-up Sheet according to the flow of operations in the quality assurance system and is promoting quality control projects.

- 1 Provide eco-friendly paint systems.
- 2 Strive to improve technology, maintain and improve design quality, and enhance construction quality.
- 3 Increase productivity as a result of the above to reduce costs and meet customers' quality requirements.

Design and Construction Quality Improvement Activities

In the design process, Taikisha constructs a system by applying design policies based on client needs and examines them at the Design Review Meeting and the Examination Meeting, and hands them over to the construction division.

Before the commencement of a construction project, persons responsible at each of the sales, design, safety, quality, purchase and construction divisions work together, and at the Construction Policy Meeting and the Review Meeting, they identify risks regarding defective works and legal violations, the following six important quality control issues and other project-specific risks, and reflect the findings in construction plans.

- 1 Prevention of water leakage in important functional rooms
- 2 Prevention of cross connection
- 3 Prevention of leakage of oil, chemical solutions, and waste liquid
- 4 Prevention of lack of smoke exhaust air flow
- 5 Prevention of frozen coil
- 6 Prevention of stoppage of existing production facilities

Before starting construction, on-site managers, department and section managers and the quality department work together with a focus on the following five items.

- 1 Review of design drawings
- 2 Review of construction work instructions
- 3 Preparation of the rules for creating work drawings
- 4 Review of work drawings
- 5 Review of the specifications of delivered equipment

A construction quality inspection at construction sites involves self-inspection by subcontractors at each construction milestone and self-inspection by worksite managers, as well as quality inspection by the Engineering Dept. and Quality Control Dept. prior to construction, during construction and before the completion of construction. The status of correction of defects is checked periodically based on inspection records, and confirmation and follow-up on the status of correction are carried out until the correction is completed.

After the completion of construction, the fulfillment of design conditions is confirmed through trial-run calibration and performance verification, followed by an assessment at a project completion report meeting and the implementation of the PDCA cycle.

In addition, efforts are made to raise the standards of engineering employees through the preparation of quality standardization materials and the enhancement of periodic employee education.



On-site quality patrol

Efforts for Quality Improvement at Overseas Affiliates

In order to improve quality at overseas affiliates, candidates for executives of the affiliates are seconded to Taikisha to undergo education on basic technical capabilities and on-site practice, in pursuit of higher standards of employees of overseas affiliates.

Education policy	<ul style="list-style-type: none"> • Develop human resources that are capable of giving guidance to local staff of overseas affiliates • Learn methods of and approach to work in Japan and apply them in ways suited to overseas affiliates • Learn quality control and performance management and apply them to overseas affiliates for the purpose of training candidates into prospective executives of overseas affiliates
Aim	Acquire skills at a level equivalent to worksite managers who manage projects amounting to around 100 million yen in Japan
Skills to be acquired	Level to pass Japanese-Language Proficiency Test N4 (language level equivalent to junior high school students/high school students) and qualifying exam for first-class plumbing management engineer
Content of education	<ul style="list-style-type: none"> • Japanese language education (language, business etiquette, daily living and etiquette) • Basic technical education (psychrometric chart, basic skills for pipework and ducts, etc.) • Creation of working drawings using CADEWA software, on-site practical education (Experience at two sites in 18 months)
Training period	Two to three years

In FY2019, education started with the acceptance of two employees. In FY2020, Taikisha plans to accept eight employees to spread Japanese-style quality control among its overseas affiliates.



Japanese language education conducted in Japan targeted at candidates for executives of overseas affiliates

Voice



Tetsuya Imai
General Manager of Process Quality Dept.,
Osaka Branch Office,
Green Technology System Division

Creating easy-to-understand materials with the aim of improving technical capabilities, raising awareness of quality and providing on-site support

The Process Quality Dept. at Osaka Branch Office shares the results of quality inspections conducted at a site with members of the site, the Engineering Dept. and the Design Dept., and the Field Support Office established in

2018 checks and verifies materials for technical support operations before distributing them at the site.

In quality inspection, we do not merely communicate the inspection results and findings; we make sure that we can distribute and provide materials that not only spark interest in quality but are also visually understandable (comprehensible), to help improve the technical capabilities of young employees and subcontractors.

In technical support operations of the Field Support Office, we are mindful of providing high-quality materials for construction plans and construction work instructions, etc. so that those who have asked the Field Support Office for assistance will be glad to have done so. In order to facilitate the execution of operations of the Engineering Dept. and subcontractors at the site, we intend to take on all tasks as requested to the greatest extent possible. For this purpose, efforts are being made in the Process Quality Dept. to work out how to put the right people in the right jobs and develop a system that enables mutual support.

Column

Improved operational efficiency by division of labor and collaboration by utilization of tablets New landmark in Shibuya area: Shibuya Scramble Square

In August 2019, the construction of Shibuya Scramble Square was completed as a new landmark for the Shibuya area. This huge 47-story complex, which stands approx. 230 meters above ground, is home to commercial facilities on the middle and lower floors and offices on the higher floors. Taikisha undertook the air-conditioning system work on the higher floors.

At construction sites of late, the busy period tends to become longer because of shortened facilities processes and the increased workload for the person in charge of the site. These factors had made it impossible to secure enough time to check the progress and conduct self-inspections when necessary, giving rise to tasks that needed re-doing and leading to longer working hours.

In order to prevent such a situation from arising at Taikisha's construction sites, Taikisha built a system for conducting self-inspections at the appropriate time by turning inspections into a routine task. Taikisha also executed division of labor with respect to operations concerning on-site progress, installation, inspection and temporary materials and thereby reduced the workload for the person in charge of the site.

Furthermore, cloud and business chat tools were utilized through tablets, realizing improved efficiency in terms of information sharing and communication.

Such efforts have helped Taikisha win clients' trust. In future projects, Taikisha will focus its efforts on leveling out duties for the person in charge of the site and improving the efficiency of information sharing, and will further endeavor to ensure construction quality and improve productivity.



Shibuya Scramble Square

[Respect for Human Rights and Development of Human Resources] Labor Practices

Taikisha is striving to build an attractive company that provides job satisfaction to its employees.



Basic Policy on Human Rights

For Taikisha, respect for human rights is one of the top priorities as a company operating globally. In line with this policy, the Taikisha Ltd. Code of Conduct stipulates respect for basic human rights and says Taikisha shall not engage in behavior that would undermine individual dignity, such as discriminatory treatment and harassment. Taikisha respects international codes, such as the Universal Declaration of Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, and Guiding Principles on Business and Human Rights. Taikisha endeavors to conduct business activities with consideration to human rights of all stakeholders, including employees and business partners.

Taikisha makes its policy regarding human rights known to all employees. In addition, it makes efforts to grasp conduct that goes against human rights through internal audits and the whistle-blowing hotline, and promptly takes appropriate responses.

Taikisha Ltd. Code of Conduct (abstract)

I. Principles of behavior

3. We act prioritizing contribution to customers, business partners, stockholders, communities/societies and global environment; and give proper consideration to employee rights

II. Standards of ethical conduct

1. Respect for basic human rights and maintenance of sound workplace environment

(1) We respect basic human rights in corporate activities, and do not discriminate against any employee based on her/his race, religion, creed, origin, sex, disability, physical characteristics, age or other attributes that are not related to the business of our company.

(2) At the workplace, we prohibit sexual and other harassment using hierarchical relationships or superiority of position, regardless of whether such harassment is intentional or not.

Corporate Culture Committee

The Corporate Culture Committee was set up in 1975 with the aim of creating an organizational culture that provides material and spiritual job satisfaction based on the spirit of mutual trust and cooperation among all employees. In this committee, the employees broadly exchange opinions about operational improvements or organizational revisions while researching, discussing, and planning in cooperation with related departments. It is engaged in activities to proactively incorporate employees' opinions and thoughts; for example, a person in charge of planning can request opinions from the committee if any important changes are made in the schemes related to employment treatment, such as labor regulations and others. In labor-management agreement, etc., the Chairman of the Group Culture Committee serves as the labor side's party entering into the agreement as a representative of the majority of employees.

Employee data (scope: non-consolidated)

Item		FY2017	FY2018	FY2019	
Number of employees (as of March 31)	Nonconsolidated	Male	1,314	1,297	1,302
		Female	164	175	181
		Total	1,478	1,472	1,483
Consolidated	Domestic	1,679	1,669	1,685	
	Overseas	3,155	3,160	3,098	
	Total	4,834	4,829	4,783	
Average length of service (years)		18.1	18.1	17.8	
Number of nonregular employees (as of March 31)	Fixed-time employees	87	89	84	
	Contract employees	87	92	89	
	Total	174	181	173	
Number of newly employed employees (from April 1 of the previous year to March 31 of the relevant year)	New graduates	Male	51	47	60
		Female	3	7	6
		Total	54	54	66
Mid-career employment	Male	23	17	13	
	Female	7	6	5	
	Total	30	23	18	
Number of new graduates retained		40 (newly employed in 2015) 34 (as of 2018)	44 (newly employed in 2016) 40 (as of 2019)	54 (newly employed in 2017) 48 (as of 2020)	
Retention rate of new graduates (%)		85.0	90.9	88.9	
Number of employees who left their job (from April 1 of the previous year to March 31 of the relevant year)	Mandatory retirement	26	27	23	
	Retirement for personal reasons	28	38	29	
Total		54	65	52	
Number of re-employed employees after mandatory retirement		86	88	82	
Rate of re-employment after mandatory retirement (%)		87.0	91.3	89.5	
Employment rate of persons with disabilities (%)		2.23	2.14	2.27	

Harassment Prevention

Taikisha has a specialized consultation counter for workplace harassment (i.e., sexual, maternity, power and other types of harassment). Harassment is also addressed by handling reports made to internal and external reporting counters established by the Corporate Compliance Dept.

The consulter and informer are protected by Taikisha's Whistleblowing Rules and other similar rules. As soon as a matter is reported for consultation, Taikisha takes quick actions to resolve it. In training, Taikisha also engages in enlightenment activities to make its employees aware of the need for dialogue, the significance of prevention and resolution of issues, etc.

Basic Policy for Human Resource Development

Taikisha is an engineering company, and its best asset is its human resources. Human resource development and education is positioned as one of the most important management challenges.

There is a lineup of training schemes available in Taikisha to enhance its members' skills in managing projects and teams and communicating with clients, business partners, supervisors, colleagues and subordinates in addition to improving the expertise of individual employees. Training programs continue to be improved and developed so that they can help employees acquire the knowledge and skills they think they need, thereby providing target-oriented education.

With the aim of developing self-motivated human resources, Taikisha provides education to accelerate the development of professionals and leaders.

Human Development Vision

1. Develop human resources with high morals.

- They are able to conduct fair and just business activities using global perspectives while observing the norms of society, regulations and laws, and rules

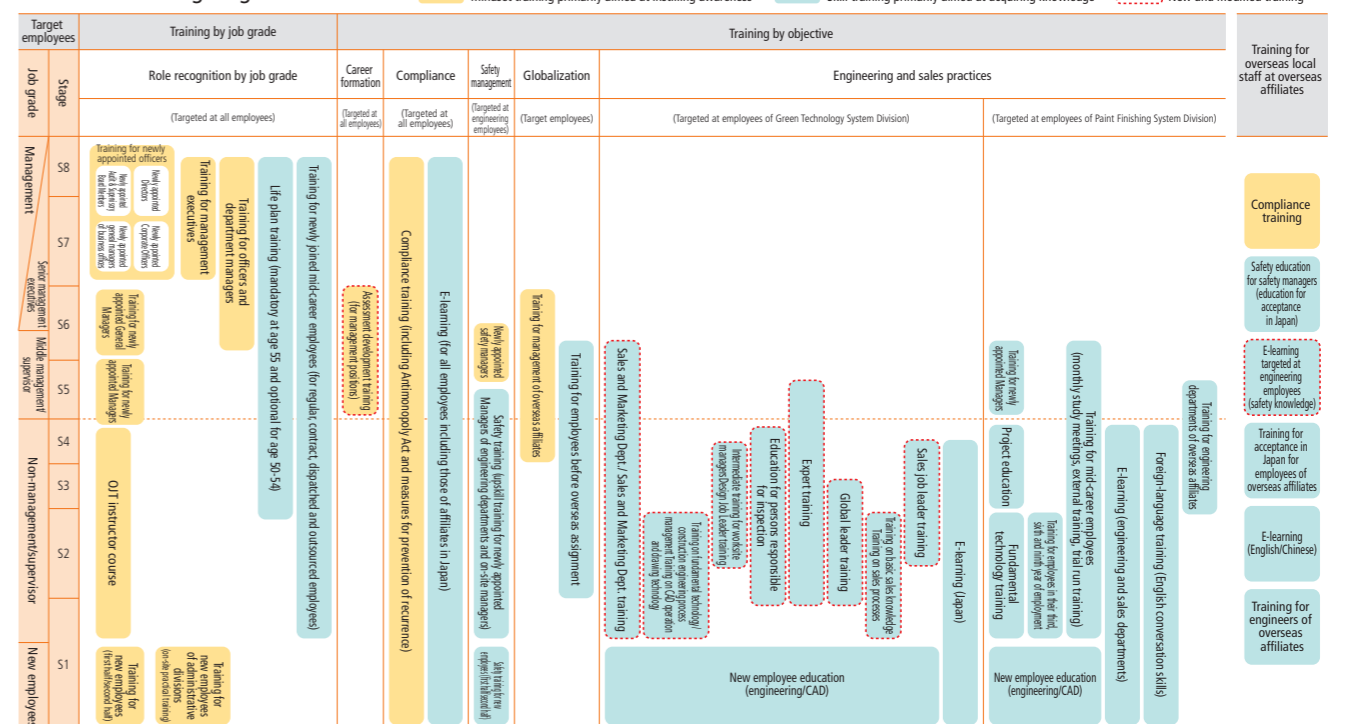
2. Develop human resources who are capable of achieving goals and realizing the visions of organizations and individuals through their work

- They are highly creative
- They are cooperative and rational, and take action based on mutual trust

3. Develop human resources that can flexibly adapt to market changes

- They are able to handle operations on a global scale
- They are able to take on challenges to expand business fields

Taikisha Training Programs



Support for Career Advancement and Acquisition of Certifications

Taikisha has introduced a career planning scheme as a framework to assist employees in pursuing medium/long-term growth and upskilling. Based on our Corporate Philosophy that "we aim to be a motivation-oriented company where the employees can demonstrate creativity and vitality through their work responsibilities," Taikisha will encourage employees to develop their abilities in a proactive manner.

Just and Fair Assessment

Taikisha's personnel assessment is conducted based on the philosophies of fair and transparent operations.

In performance evaluation, employees are assessed based on their abilities, motivation and conduct required for each employee and the degree of contribution to business performance. The results are given to employees as feedback, and this is expected to lead to enhanced human resource development. In particular, the evaluation of skills, which is one area of ability evaluation, is based on a clear and transparent definition of skills according to the grade and type of job.

At the beginning of the fiscal year, employees and their supervisors set job targets and individual growth targets through interviews and have a monthly dialogue, while being mindful of a monthly PDCA cycle to achieve the targets. By doing so, Taikisha nurtures employees and gives them guidance.

Evaluations at the end of the fiscal year are not limited to assessing employees based on numerical performance results alone, which an excessive achievement-based system tends to do; instead, employees are evaluated not only in view of how much they have boosted their capabilities relative to their individual long-term growth targets, but also by placing importance on how much they have contributed to the creation of added value that Taikisha seeks to generate for society, such as making efforts and demonstrating creativity repeatedly in tackling matters beyond their knowledge as a challenger with enthusiasm while getting others involved as well.

[Diversity of Human Resources and Work-Life Balance] Labor Practices

Taikisha is striving to build an attractive company that provides job satisfaction to its employees.



Basic Policy for Achievement of Diversity

For corporations, making efforts for diversity has become more important. Taikisha believes that sharing diverse perspectives and values helps an organization to respond to the changing environment and needs while creating a more attractive and pleasant work environment.

Taikisha's overseas affiliates have 3,098 employees of various nationalities, while its domestic organization also has 19 foreign employees from seven countries including China and South Korea as of April 1, 2020.

In the recruitment of new graduates in April 2020, 101 newly-hired employees included nine female employees and two foreign employees. Going forward, Taikisha will continue to engage in hiring activities without prejudice against any nationality, gender, or disability.

For the employment of disabled persons, Taikisha has been hiring disabled persons at a higher rate than the statutory employment rate. For example, Taikisha has been working on remote employment in collaboration with an Operator of a Designated Welfare Service Business for Persons with Disabilities in Kofu since May 2019. Disabled persons are hired by Taikisha directly and provided with a workplace and support by the Operator, realizing an environment in which they can work with peace of mind. Taikisha believes that its initiatives for diversity help secure superior human resources and increase its employees' motivation to work.

Promoting Career Advancement of the Overseas Local Staff

Taikisha is promoting the introduction of a global human resource system that will allow the transfer of staff between countries in the future, in order to facilitate the career advancement of overseas local staff across national boundaries.

This system defines the roles expected of employees to realize the Corporate Philosophy and enables just and fair evaluations and the appropriate level of compensation that reflects such evaluations.

The global human resource system has been introduced step by step since FY2014 and is operational in India, Indonesia, and Thailand as of April 2020.

Going forward, Taikisha will promote overseas local staff to key positions and transfer authority to them so that human resources of overseas affiliates will be sourced locally.

Re-employment after Mandatory Retirement

Taikisha is working on the active participation of diverse human resources also in terms of age, having introduced a post-retirement re-employment system. In FY2019, 17 out of 19 persons who reached mandatory retirement age opted for re-employment. Work and personnel treatment plans tailored to their life cycles are made available to them at Taikisha.

Promoting Women's Career Advancement

As part of Taikisha's efforts for promoting diversity at the workplace, Taikisha is working hard for career advancement for its female employees. It is indispensable to develop an environment in which all employees can pursue career advancement and fully demonstrate their individuality and abilities to make Taikisha an attractive company to its employees.

In 2016, Taikisha set its aim at increasing the ratio of female employees in managerial positions in the plan of action for general employers pursuant to the Act on the Promotion of Female Participation and Career Advancement in the Workplace, and has since been making gradual progress. In April 2019, Taikisha formulated a new action plan and announced its aim to double the number of female employees among new graduates hired compared to each of the past three years.

Going forward, Taikisha will not only proactively hire and train female employees but also further enhance its upskill training and systems to create a better working environment for female employees and step up support for women's career advancement even further.

Basic Policy for Improvement of the Work-Life Balance

Taikisha believes that work supports our livelihood and gives a sense of fulfillment and joy, but it is equally important to enrich our lives; a good balance between them doubles our sense of fulfillment and joy in life. Taikisha also believes that a good work-life balance increases the likelihood of securing, developing and retaining capable human resources.

To improve work-life balance, Taikisha introduced a telework scheme in April 2020, realizing flexible and diverse work styles.

System to Support a Good Balance Between Work and Childcare/Nursing Care

Taikisha has introduced various systems to help employees strike a balance between work and childcare/nursing care. Many of its systems offer more than what is required by law, and in 2019, Taikisha took out nursing care leave compensation insurance entirely at its expense and introduced a system that provides income protection covering approximately 80% of the salary of employees who take nursing care leave.

Furthermore, Taikisha has formulated a "plan of action for general employers" relating to employees' work and child-raising pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children.

Going forward, Taikisha will work on creating a workplace in which everyone can work with vigor and enthusiasm and advance their career by developing an environment in which male employees can participate in childcare and enhancing the nursing care support system.

Childcare/Nursing Care Support System

Item	Taikisha Ltd.	Laws and regulations
Childcare leave	If the employee is the primary income earner, 30% of his/her base salary is paid	The employee may receive no pay
Short-working-hours system for childcare	Until the child finishes the third grade of elementary school (until March 31 of the applicable year)	Until the child reaches three years old
Time off for sick/injured childcare	Until the child finishes the third grade of elementary school (until March 31 of the applicable year)	Until the child enrolls in elementary school
Leave due to spouse giving birth	Up to three days of paid leave	—
Nursing care leave	Payment of nursing care leave benefits (approx. 67% of salary) plus approx. 13% of salary	Nursing care leave benefits (approx. 67% of salary)
	If the employee is the primary income earner, 20% of his/her base salary is paid	The employee may receive no pay
Time off for nursing care	Up to two days per week for a maximum of one year (approx. 104 days on a single-year basis)	Up to five days per year

Status of Use of Support System and Paid Leave (Scope: non-consolidated)

Item	FY2016	FY2017	FY2018	FY2019
Number of employees on maternity leave	4	2	3	4
Number of employees on childcare leave	7	4 (including 2 male employees)	4 (including 0 male employees)	10 (including 3 male employees)
Ratio of employees who returned to work after childcare leave (%)	100	100	100	100
Retention rate 12 months after returning to work (%)	100	100	100	100
Number of employees who are using the short-working-hours system	21	22	23	21
Average paid leave taken by all employees (days)	6.0	7.0	9.1	10.3

Physical and Mental Health of Employees

Taikisha has set up the Taikisha Group Health Insurance Association and opened an online physical and mental health counseling service called Health Counseling Dial 24, through which it provides speedy and appropriate support to help employees and their family members eliminate any concerns and worries about physical and mental health. This is done through counseling given by specialized counseling staff who are experienced doctors, health nurses, nurses, registered dietitians, etc., 24 hours a day, 365 days a year. Concurrently with the introduction of the stress check system in accordance with the revised Industrial Health and Safety Act, Taikisha has established a mechanism that can provide employees with the opportunity to monitor their mental state and cope with stresses and support employees in doing so. Taikisha will continue to create a working environment based on the results of group analysis.

In April 2019, Taikisha introduced an interval system, which sets an eight-hour interval from the close of business to ensure that employees who worked long hours will have time to rest.

In October 2019, Taikisha adopted a Group Long Term Disability (GLTD) insurance scheme by bearing the cost of insurance premiums in full. Under the scheme, full-time employees below the age of 60 who take long-term leave to undergo medical treatment are entitled to income protection covering 80% of the standard monthly remuneration amount. Taikisha supports employees' early reinstatement to work by developing an environment in which employees can concentrate on their recovery while securing income similar to the level of take-home pay received when they were working.

Mental Health Support

Prevention 1 Activities to protect the employees from mentally unwell conditions.

Internal training, etc. to raise awareness of the employees.

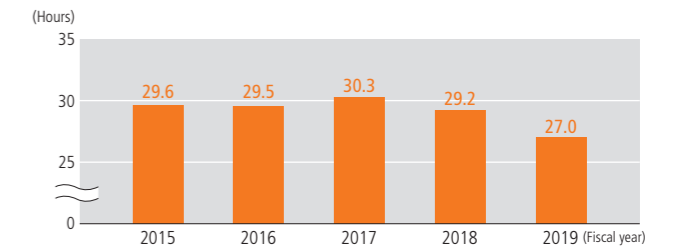
Prevention 2 Measures to find problems at an early stage and take prompt and appropriate actions.

Appropriate advice and instructions are given upon consultation or communication with the supervisors or the division leader of the person who is unwell. If needed, consultation is available for the employee.

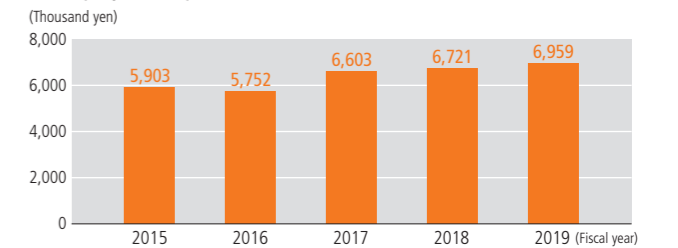
Prevention 3 Measures to precisely learn and manage symptoms in order to prevent them from becoming worse.

If an employee becomes unwell, the Personnel Administration Department at the Administrative Management Headquarters immediately responds, follows up and provides support until the employee can return to his/her work.

Average overtime work per month/employee (scope: non-consolidated)



Monthly net sales of completed construction contracts per employee (scope: non-consolidated)



Voice



Daichi Tagawa
Engineering Dept., Kyushu Branch Office,
Green Technology System Division

Taking childcare leave to support wife giving birth away from hometown

I took childcare leave for about one and a half months, starting in mid-June 2019. At the time, my wife and I had moved away from our hometown in Fukuoka Prefecture and been residing in Miyazaki Prefecture, where I worked, so we decided that my wife would give birth in Miyazaki Prefecture—not in Fukuoka Prefecture, where both of our parents lived. I took childcare leave, having been advised to do so by the manager of the site where I had been a resident employee at the time, as well as my boss and seniors.

I believe taking childcare leave enabled me to relieve my wife's concerns about giving birth and raising our first child in a place without family and friends, by being next to her and taking care of her mentally and physically. Cooperating with each other in child-raising upon the birth of our first child has been a precious experience for us as a married couple, allowing us to deepen our bond as a family.

Relationships with Business Partners

Taikisha promotes procurement activities based on the principle of fairness and justice.



Basic Policy for Procurement

Taikisha conducts procurement activities in accordance with the following basic policy based on the principle of fairness and justice.

- Compliance with laws and regulations and the spirit thereof
- Reasonable selection of business partners and proper transactions therewith
- Management of confidential information
- Concern for resource protection and environmental conservation
- Promotion of trusting relationships with business partners, etc.

Business Partner Selection System

In order to conduct fair and just transactions, Taikisha has set a basic principle of asking more than one business partner to submit a quote. It then selects business partners based on the evaluation of purchase quality (specifications, performance, delivery time, price, etc.). Price negotiations are carried out based on reasonable grounds (past performance, etc.).

Management of Confidential Information

Taikisha strictly manages confidential information, personal information, and client information in accordance with the Information Security Regulations. In order to prevent information leakage, Taikisha requires business partners to make a written pledge on prevention of confidential information leakage, serving as an alert to them to handle such information carefully.

Coordination with Business Partners

In order to maintain and continue favorable relationships with business partners, Taikisha holds a liaison workshop with business partners. There, participants study to learn about revisions of laws and regulations related to business transactions, check points to keep in mind, and deepen mutual understanding about a work flow that accommodates changes in society. In FY2019, Taikisha held nine liaison workshops in total targeting approx. 300 companies consisting of equipment contractors in Tokyo, Osaka, Chubu, Sapporo, Tohoku, Kyushu, and Hiroshima.

Exclusion of Anti-Social Forces

Taikisha ensures no anti-social forces are involved in its operations and refuses any request from anti-social forces according to the Taikisha Ltd. Code of Conduct. Taikisha also forbids the employees from having any involvement with anti-social forces. In order to clarify the exclusion of any relationship with anti-social forces from transactions with all business partners, Taikisha signs basic agreements and individual agreements with its business partners that include a clause to exclude anti-social forces. Taikisha signs transaction agreements with new business partners only after it has confirmed that they have no relation with anti-social forces.

Award of "Excellent Green Procurement Company"

Since FY2011, Taikisha has been granting an award annually to its business partners deemed as excellent companies for having made significant contributions to green procurement and engaged in environmental activities proactively of their own accord, in order to further promote green procurement activities. Upon the presentation of the award, Taikisha conducted an environmental activity survey on business partners, and selected an "Excellent Green Procurement Company" for FY2019 in consideration of the results of the environmental management system (EMS) assessment.



Global Procurement Activities

Taikisha has constructed a system for sharing procurement data of the overseas affiliates to visualize the supply chain and optimize procurement. Taikisha periodically checks the status of execution of agreements with overseas business partners to ensure timely and appropriate fulfillment of agreements.

Contributions to Community

Taikisha is conducting activities to contribute to the community as a member of society (corporate citizen).



Basic Policy

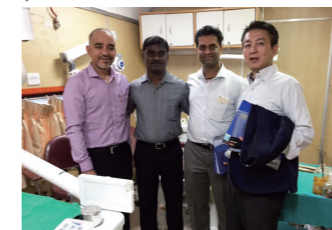
Under the Taikisha Management Vision, Taikisha positions the community and society as important stakeholders and proactively promotes activities to respect culture and customs as well as contribute to their development in addition to participation in community and social contribution activities.

Taikisha is conducting various activities toward resolution of issues faced by communities and society and their development as a member of society (corporate citizen) that builds a favorable relationship with communities and society and coexists harmoniously with society.

Social Contributions

Supporting India's Hospital Train: LIFELINE EXPRESS

Since 2017, Taikisha Engineering India Pvt. Ltd. has been supporting LIFELINE EXPRESS—a project run by non-governmental organization Impact India Foundation—as part of its social contribution efforts. The project involves visiting farming villages and other remote areas on a mobile hospital train equipped with testing equipment and surgical facilities and providing medical care to local residents free of charge. In recent years, Taikisha Engineering India has sponsored a project to run the train to Mirzapur, a northern rural district in India, to provide such services as cataract surgery, dental checkup, speech therapist's diagnoses and epilepsy examination. Taikisha Engineering India plans to continue proactively supporting the project into the future.



Inside the train

Community Contribution Activities

Bread & Baked Confectionery Sales Event Held inside Head Office

In February 2020, Taikisha hosted an in-house event for Shinjuku Hukushi Sagyouso to sell bread and baked confectionery made by its members to Taikisha's employees in its head office. Eating bread and baked confectionery made at Shinjuku Hukushi Sagyouso, which is one of the facilities for assisting the employment of disabled persons in Shinjuku Ward, contributes to job assistance at the facility.

From the viewpoint of reducing food waste, bread was sold on the basis of pre-booking. On the day of the event, baked confectionery such as rusk and muffins were made available for sale. Given that it was the first time for such an event to be held in Taikisha, a generous amount of baked confectionery had been prepared, only to be sold out in 30 minutes after the opening of the stall—as such, the bread and baked confectionery sales event ended in great success.

Having also set up a café space next to the stall during this event, employees enjoyed communicating with each other more broadly across different job ranks and departments.



(Other activities of business offices in Japan)

- Osaka Branch Office: Donation of calendars and pocketbooks to Hokkaido UNICEF Association
- Tohoku Branch Office: Participation in "Hirosegawa River 10,000 People Project" (general cleanup of the Hirosegawa River basin, etc.)
- Chubu Branch Office: Collection of PET bottle caps for ECOCAP and collection of goods for Eihokai
- Kyushu Branch Office: Collection of PET bottle caps for ECOCAP and collection of used stamps

Voice



Chiara Pasetti
Geico S.p.A.
Senior Manager, Corporate Identity

Initiatives at Geico S.p.A.

Geico S.p.A. ("Geico"), which is in alliance with Taikisha, believes that it has a significant role to play in not only making an economic contribution but also fulfilling its social responsibility as a member of the region and the community.

Geico has held events for locals, established Italy's first corporate library and taken other such measures to collaborate with the local community. It aims to create a virtuous cycle for the community and society, by being an "open company" to the region and society.

Geico also strives to support the activities of non-profit organizations on an ongoing basis. For the second consecutive year, its employees engaged in single-day volunteer activities called "Wish Challenge" in cooperation with Make-A-Wish International, a global volunteer organization whose mission is to fulfill the wishes of children struggling with intractable diseases. Employees who participated in the program conducted activities to fulfill the wishes of seriously-ill children, bringing smiles to their faces.



Wish Challenge event

Involvement with Shareholders and Investors

Taikisha discloses financial data and management information to its shareholders and investors as a company with higher level of transparency.



Information Disclosure Policy

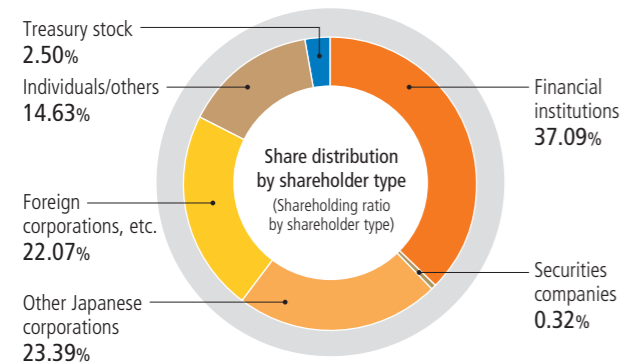
Taikisha promptly discloses important information regarding Taikisha based on the transparency, fairness and consistency stated in the Taikisha Management Vision: "Conduct businesses appropriately under free and fair competition in compliance with laws and the spirit thereof; contribute to customers/business partners, shareholders, employees, communities/society and the global environment with transparency and integrity."

Basic Policy for Shareholder Returns

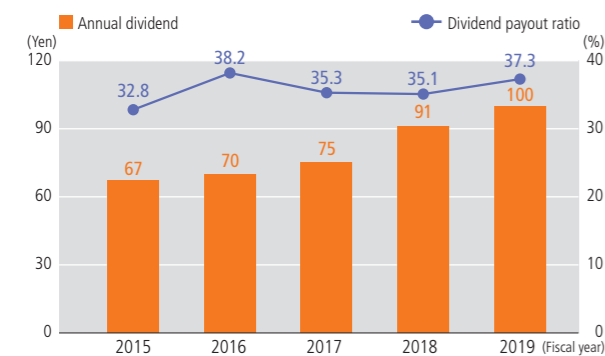
Taikisha considers providing shareholder return through dividend payouts to be one of the top-priority measures, and strives to pay stable dividends and target a consolidated dividend payout ratio of 35%.

Stock information (as of March 31, 2020)

Number of shares authorized: 100 million (100,000,000)
 Number of shares issued: 35,082,009
 Number of shareholders: 3,169



Transition in annual dividend and dividend payout ratio



Dialogue Status

In addition to the Annual Shareholders' Meeting in June, year-end and half-year financial results briefings are held in May and November. Also, company information sessions take place irregularly but several times a year for individual investors.

In FY2019, Taikisha held financial results briefings for 19 companies (24 participants) in May and for 14 companies (16 participants) in November. In addition, Taikisha participated in the "Company Briefing Session for Individual Investors" in September and "NOMURA IR FAIR 2019" in December, hosted by Nomura Investor Relations Co., Ltd.

Information Tools

Taikisha produces the following publications and distributes them to its shareholders and investors: Shareholder newsletters (issued in June and November) and Annual Reports (issued in August).

On Taikisha's website, PDF files of the publications are made available to the public, as well as items disclosed at the Tokyo Stock Exchange such as earnings releases, annual securities reports, quarterly securities reports, mid-term business plans, materials for financial results briefings, and a Fact Book.

External Evaluation

Information given via Taikisha's website is highly acclaimed by external organizations. Taikisha received the Best Corporate Website Award in the "All Japanese Listed Companies' Website Ranking 2019" by Nikko Investor Relations Co., Ltd.

In addition, Taikisha was adopted as a constituent of the Somo Sustainability Index managed by Somo Asset Management Co., Ltd. for the third consecutive year. Taikisha's addition to this index, which places importance on the ESG (environment, social and governance) evaluation by research firms, reflects its continuous engagement in ESG efforts.



Third-Party Opinion



Mr. Keisuke Takegahara
 Executive Officer
 Deputy Chief Research Officer
 Development Bank of Japan Inc.

CSR Report 2020 is distinctive in that Taikisha refined the new initiatives that it had adopted in conjunction with the new Mid-Term Business Plan in the previous fiscal year and made the connection between management strategies and CSR activities even stronger.

What comes to our attention first is the enrichment of the "Top Management's Message" at the beginning of the CSR Report. In consideration of the novel coronavirus (COVID-19) pandemic, Taikisha has substantially increased the volume of this section, describing not only the impact of COVID-19 on its business performance but also the outlook for the "Living-with-COVID-19/ Post-COVID-19" era, including management tailored to new work styles as well as a vision for a new business model adapted to digitization. It clearly shows Taikisha's stance on exploring a growth strategy towards an uncertain future.

The next section, titled "Dialogue between Chief and Vice General Managers" of the Paint Finishing System Division, provides a detailed account of the Division's operational characteristics that are different from those of the Green Technology System Division featured in last year's CSR Report. The conclusion that "Taikisha's engineering is about providing clients with facilities that can contribute to society by further increasing added value through higher-than-ever energy-saving performance" derived in the course of meeting customers' needs for ensuring quality and reducing costs at the same time by directly dealing with end customers face to face is highly convincing. It was impressive in content for having emphasized the fact that Taikisha has a solid long-term perspective while tackling fluctuations in orders received due to the COVID-19 pandemic of late, as reflected in the comments on ultra-long-term risks of the paint finishing business becoming unnecessary in the context of dramatic changes in the users' industries such as CASE (Connected, Autonomous/Automated, Shared & Electric), while also discussing innovation capabilities that would serve as differentiating factors in the future and human resources that support them, among others.

This section was followed by the presentation of the "Value Creation Process" based on such a specific message by the management. It is brilliantly structured, making concepts that tend to become abstract highly persuasive. The feature articles that highlight environmentally conscious technology (RTO: Regenerative Thermal Oxidizer) and the global network play a role in effectively materializing Taikisha's value creation by adding the perspective of outsiders, namely, clients and business partners.

The value creation scenario up to this point adequately shows that this CSR Report is intended to become integrated with management strategies beyond the bounds of past CSR reports, as reflected most clearly in the section titled "Taikisha's Materiality." As announced beforehand in the previous fiscal year, materiality has been reviewed and is presented together with the process. During a meeting I had with Taikisha's editorial staff before writing this Opinion, I was told that in this process, the management had held intensive discussions on various issues, including the congruity between long-term visions and short-term business results. Taikisha's editorial staff has given us a glimpse of such discussions in the form of "Comments by Directors and Audit & Supervisory Board Members (excerpt)." It is a great example showing that the management is highly conscious of the long-term sustainability of the business model based on non-financial value.

In terms of challenges for the next CSR report, it is regrettable that despite having clearly stated the long-term perspectives, there was no clear indication of a timeline. Considering the transition to a carbon-free society and the importance of innovation in the process of such transition in Taikisha's value creation scenario, I hope Taikisha will present a timeline in a manner consistent with the discussions on climate change risks. At the same time, it will also be worthwhile for Taikisha to look into key performance indicators (KPI) that are congruent with new materiality. I look forward to seeing the further evolution of your CSR reports.

In Response to the Third-Party Opinion



Masanori Nakagawa In Charge of CSR Director, Managing Corporate Officer

I would like to express my sincere gratitude to Mr. Takegahara for always giving us warm words of encouragement.

During this fiscal year, Taikisha conducted a review of "materiality" for the first time in three years. As the COVID-19 pandemic is having a massive impact on society as a whole, we deliberately set the axis for the "realization of value creation" from a long-term perspective to turn it into our driving force going forward. Although we are still at the starting point and have not yet drawn a roadmap according to any timeline, we hope that the disclosure of the process of our initiative in this manner will help our stakeholders gain a better understanding of Taikisha.

We would like to ask to continue giving us candid advice and opinions.



Taikisha Ltd.

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