Integrated Report 2023

TAIKI-SHA

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.

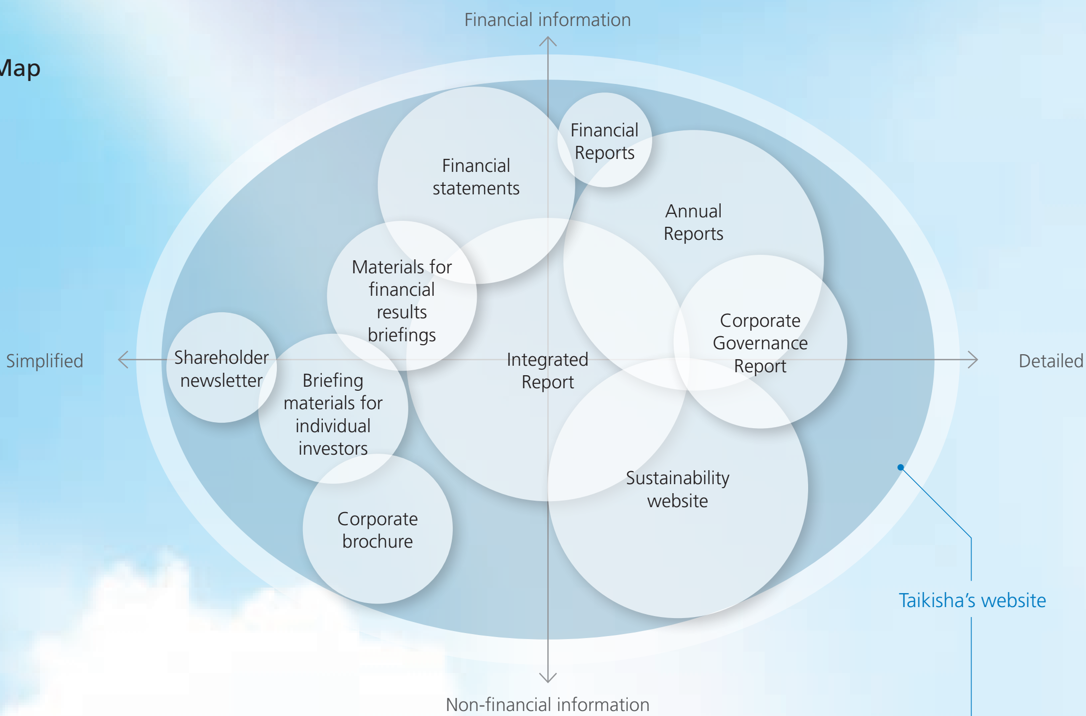
We want to make more and more places comfortable.

We cherish these thoughts every day.

Taikisha Philosophy Scheme

Stakeholder Engagement
https://www.taikisha-group.com/sustainability/taikisha/stakeholder/

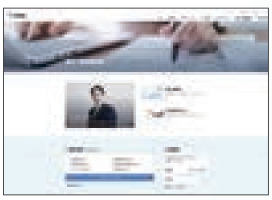
Tool Map



Website Disclosure

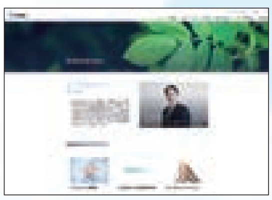
Investor Relations

https://www.taikisha-group.com/ir/



Sustainability

https://www.taikisha-group.com/sustainability/






Contents




To Our Readers

Taikisha has been issuing integrated reports since 2021 to deepen the understanding of shareholders, investors, and a wide range of other stakeholders about the Company's value creation from a medium- to long-term perspective.

Since the year 2023 is the timing when a new management structure has been established, Taikisha has put efforts to convey the steady progress of the Mid-Term Business Plan as well as the path leading to the realization of long-term vision in a way that you can feel the top management closely to resonate with what they think of. Furthermore, concerning the non-financial information including the human capital, Taikisha has strived to enhance the content so that central themes of top commitment, "enhancement of engineering capabilities" and "globalization," become apparent.

We positioned this report as a communication tool that facilitates constructive dialogue with our stakeholders. The President and Representative Director and other members of the management team actively participated in the production of this report. The officer in charge of sustainability promotion oversees the production process.

Taikisha will continue to improve and enhance the Integrated Report through dialogue with stakeholders, and will strive to contribute to society and enhance corporate value.

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 FY2022 (from April 1, 2022 to March 31, 2023) and also includes some activities carried out before or after the said period.

■ Date of issue
October 2023

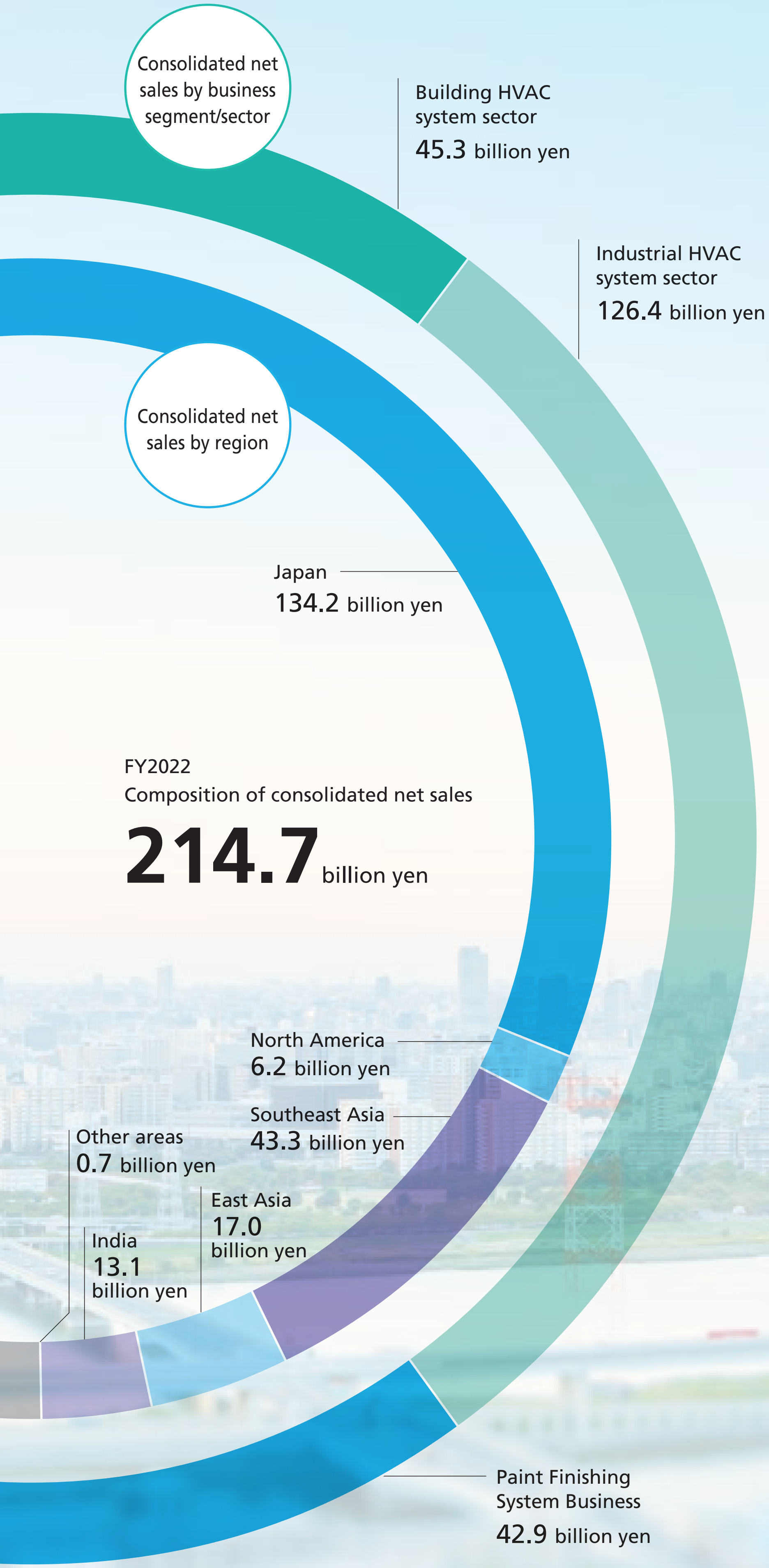
■ The scheduled issue date of the next edition
October 2024

■ Guidelines referenced
"Environmental Reporting Guidelines (Fiscal Year 2018 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
Integrated Report Editorial Committee of Taikisha Ltd.

■ Contact for inquiries
Investor Relations Section, Taikisha Ltd. TEL. 81-(0)3-5338-5052

Business Overview



Green Technology System Division

We aim to further increase orders by allocating management resources to the prioritized sectors and proactively proposing solutions to customers.

We provide the building HVAC system and industrial HVAC system services in both Japan and overseas to help improve the environmental value of clients.

In the building HVAC system sector, we design and construct air-conditioning systems for facilities that provide comfortable spaces for people and environment by conducting new construction and renovation of facilities where many people gather, such as office buildings, schools, hospitals, hotels, museums, and airport terminals.

In the industrial HVAC system sector, we undertake 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.

We also focus on providing environmental protection systems, such as VOC abatement system and antipollution systems.

Paint Finishing System Division

We aim to further increase orders by allocating management resources to the prioritized sectors and through alliances with overseas affiliates.

We design and construct automotive paint finishing plants that harmonize high coating quality with energy-saving and advanced environmental technologies based on Taikisha's core technologies cultivated in the HVAC business, such as exhaust treatment and air flow control. We also design and construct paint finishing systems for railway car and aircraft in recent years.

We have 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 boast the leading market share in the world. Our 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, we pursue increasing painting efficiency to 100% and make efforts to minimize the amount of paint used and VOC emissions. In addition, we contribute to the energy management of clients.

Technologies and services provided by Taikisha

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.

Pharmaceuticals 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.

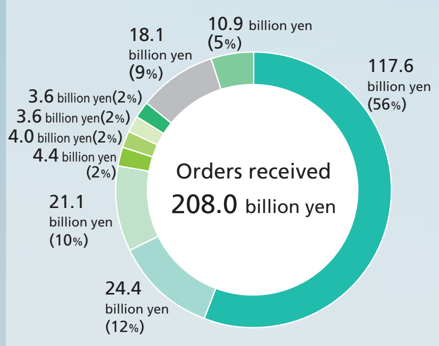
VOC treatment and odor control systems
Organic solvents and malodorous gases are treated by the regenerative thermal oxidizer with high efficiency. Taikisha proposes optimum energy-saving systems combined with hydrophobic zeolite-based concentration equipment as required.

Vege-factory
Taikisha develops 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.

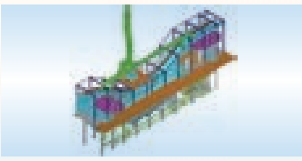
Orders received

● By market segment



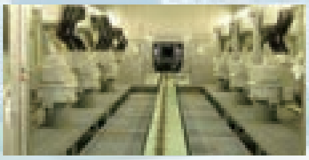
- Electrical, electronic and machinery plants
- Office building
- Chemical and pharmaceutical plants
- Food and fishery plants
- Transportation machinery plants
- Commercial facilities
- Precision machinery and medical equipment plants
- Others
- Uncategorized orders-received by small-scale affiliates

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.

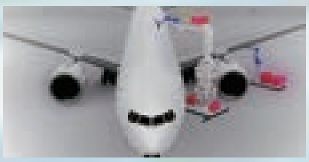
Electrodepositing system
Taikisha's counter-flow circulation system (C-FLOW Electrodepositing Circulation System) for electrodepositing tanks has been introduced in many lines. Furthermore, its multi-stage washer systems offer a high paint recovery rate using ultra filter (UF) membranes or reverse osmosis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

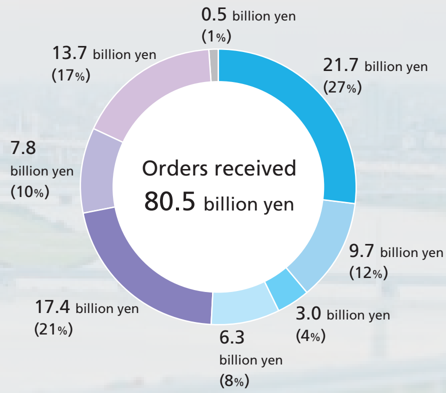
Robot paint system
Utilizing simulations with CAD, the design of a robot paint system seeks the most efficient painting procedure and determines the optimal required number and layout of robots. Furthermore, as its solution, Taikisha configures a system to meet each client's tailored needs with an optimized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

Conveyor system
Taikisha's unique systems are available with overhead conveyers for pretreatment and electrodepositing lines, as well as floor conveyers 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.

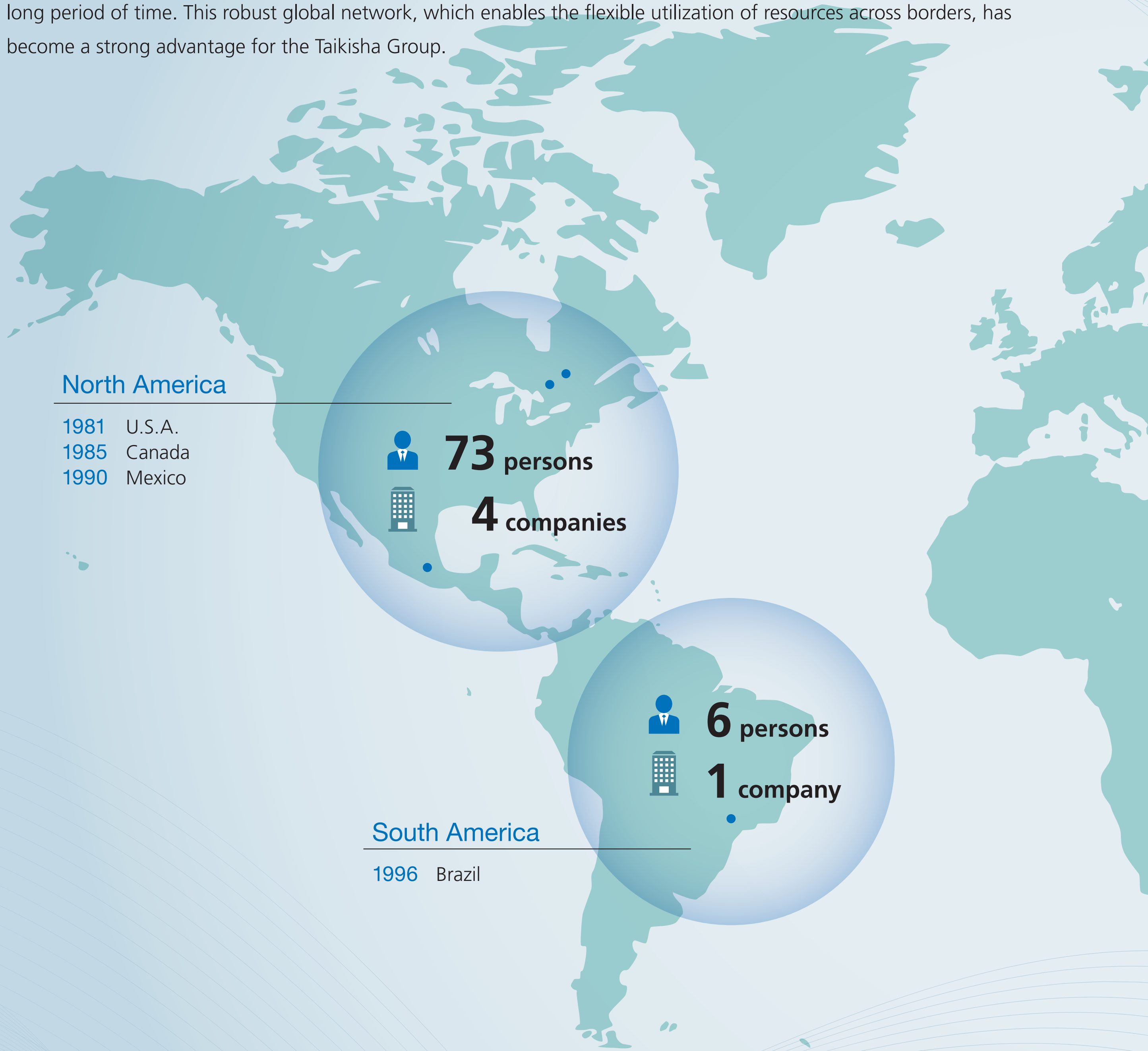
● By region



- 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.

Taikisha is conducting business globally as an environment engineering company in two core business fields: the Green Technology System Division (Building HVAC and Industrial HVAC) and the Paint Finishing System Division. Taikisha boasts the high ratio of overseas sales by far in the Japanese construction industry, with 28 overseas consolidated subsidiaries in 18 countries (as of September 30, 2023). Some consolidated subsidiaries have already received orders for many projects from non-Japanese companies because they have promoted activities rooted in the local areas for a long period of time. This robust global network, which enables the flexible utilization of resources across borders, has become a strong advantage for the Taikisha Group.

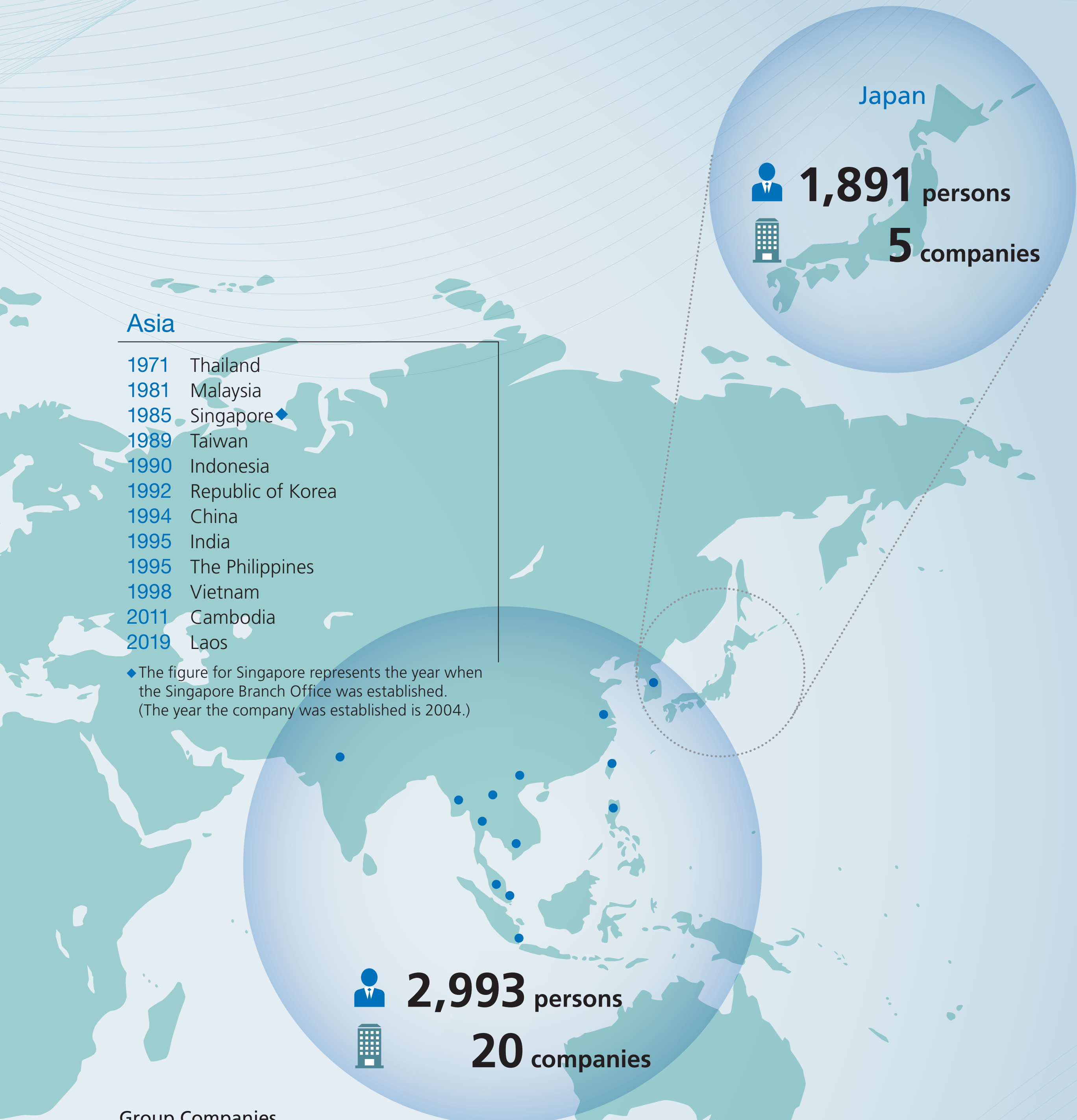


Number of employees of the group companies

4,963 persons

Number of overseas group companies

28 companies



Asia

1971 Thailand
1981 Malaysia
1985 Singapore◆
1989 Taiwan
1990 Indonesia
1992 Republic of Korea
1994 China
1995 India
1995 The Philippines
1998 Vietnam
2011 Cambodia
2019 Laos

◆The figure for Singapore represents the year when the Singapore Branch Office was established. (The year the company was established is 2004.)

Group Companies

Japan
San Esu Industry Co., Ltd.
Nippon Noise Control Ltd.
Tokyo Taikisha Service Ltd.
Vege-Factory Co., Ltd.
FreDelish Co., Ltd.

Europe
Taikisha Hungary Kft.

Asia
Wuzhou Taikisha Engineering Co., Ltd.
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.
Tianjin Taikisha Paint Finishing System Ltd.
Taikisha (Taiwan) Ltd.
Taikisha Korea Ltd.
Taikisha (Thailand) Co., Ltd.
Taikisha Trading (Thailand) Co., Ltd.
Thaiken Maintenance & Service Co., Ltd.
Token Interior & Design 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 Engineering India Private Ltd.
Nicomac Taikisha Clean Rooms Private Limited

The Americas
TKS Industrial Company
Encore Automation LLC
Taikisha Canada Inc.
Taikisha de Mexico, S.A. de C.V.
Taikisha do Brasil Ltda.

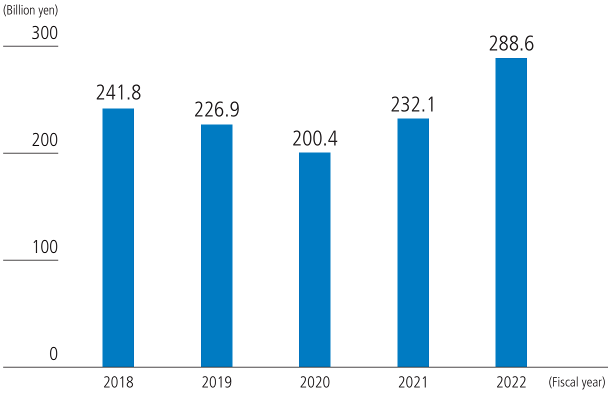
Financial and Non-Financial Highlights

Financial items

Orders received

288.6 billion yen

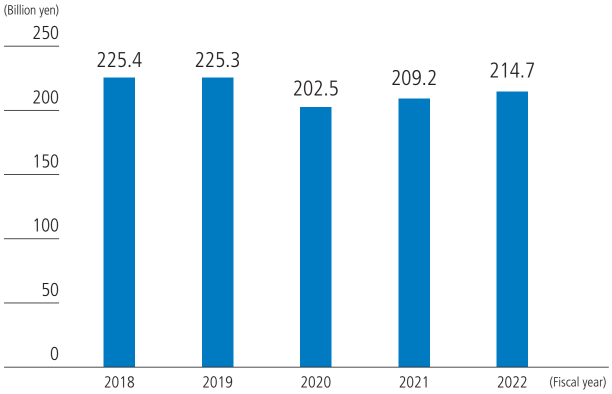
Up 24.4% YoY



Net sales

214.7 billion yen

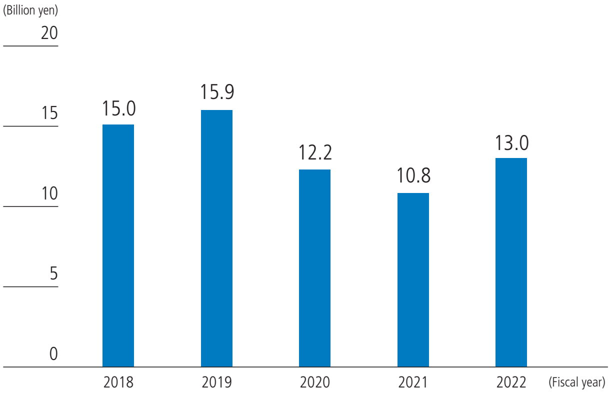
Up 2.6% YoY



Ordinary income

13.0 billion yen

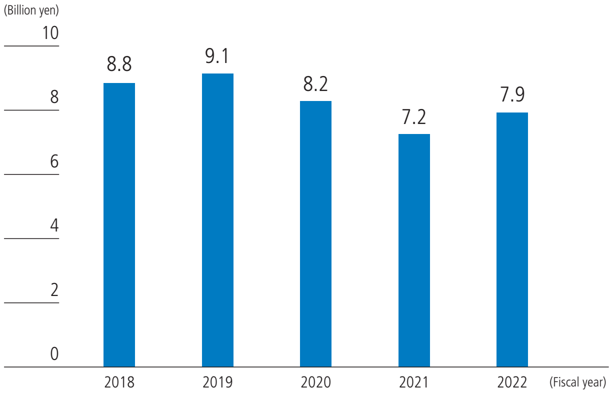
Up 20.2% YoY



Profit attributable to owners of parent

7.9 billion yen

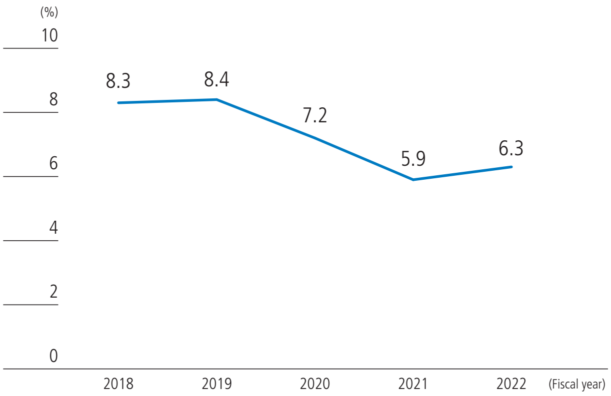
Up 9.2% YoY



ROE

6.3%

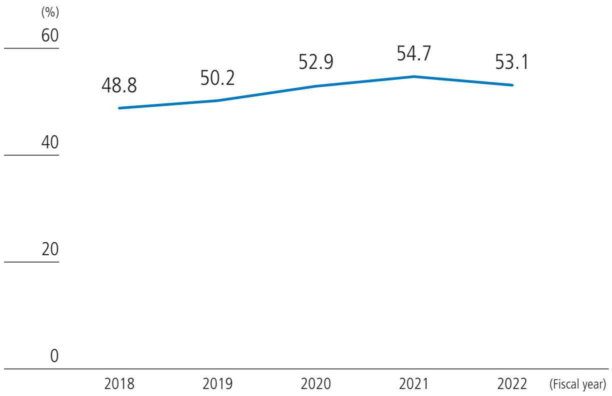
Up 0.4 points YoY



Equity ratio

53.1%

Down 1.6 points YoY

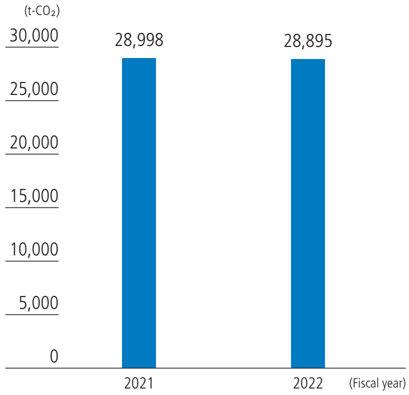


Non-financial items

Scopes 1 & 2

28,895 t-CO_2

Down 0.4% YoY

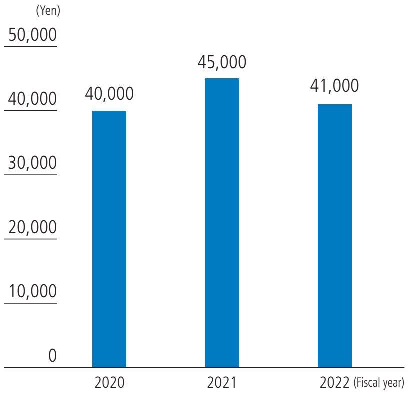


Training expenses per person

(Scope: non-consolidated)

41,000 yen

Down 8.9% YoY

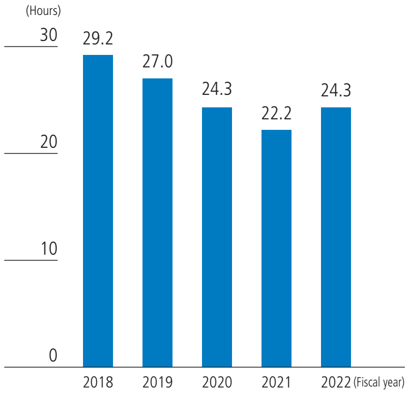


Average overtime work per month/employee

(Scope: non-consolidated)

24.3 hours

Up 9.4% YoY

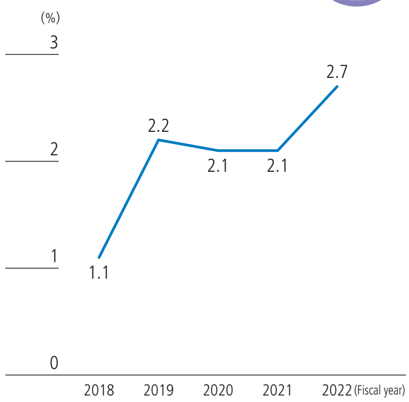


Ratio of female managers

(Scope: non-consolidated)

2.7 %

Up 0.6 points YoY

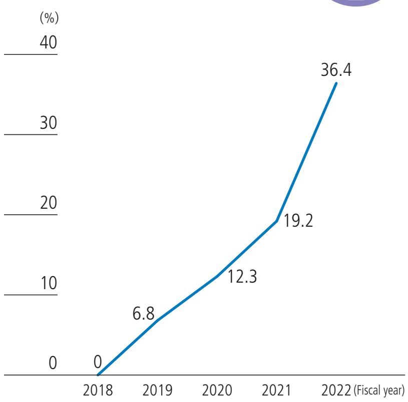


Ratio of male employees who took childcare leave

(Scope: non-consolidated)

36.4 %

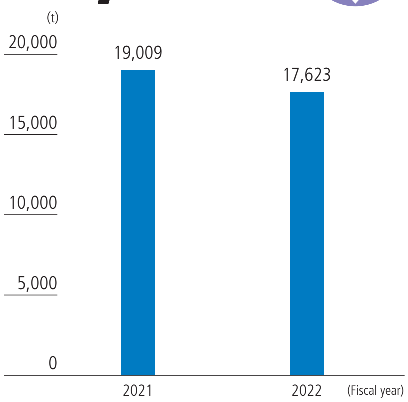
Up 17.2 points YoY



Amount of waste discharged

17,623 t

Down 7.3% YoY

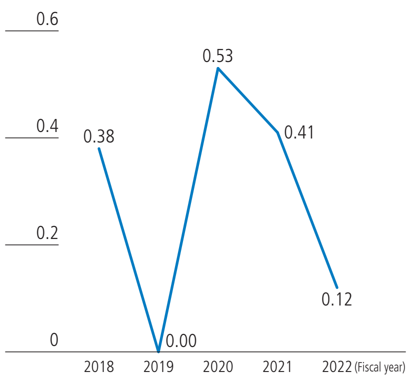


Frequency rate

(Scope: Taikisha's construction sites (non-consolidated and subcontractors))

0.12

Down 0.29 points YoY

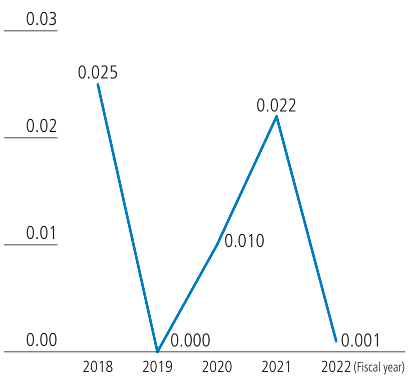


Severity rate

(Scope: Taikisha's construction sites (non-consolidated and subcontractors))

0.001

Down 0.021 points YoY



Monthly net sales per employee

(Scope: non-consolidated)

6,526 thousand yen

Research and development expenses

1,149 million yen

Number of patents held (Japan and overseas)

304 patents

We will achieve a global leap forward by instilling a spirit of challenge in our corporate culture and enhancing our engineering capabilities.

President and Representative Director

Leveraging 20 Years' Experience Overseas to Accelerate Global Growth

My name is Masashi Osada, and I am honored and humbled to serve as President and Representative Director of the Company from April 1, 2023. I am committed to the further development of the Group and to meeting the expectations of our stakeholders. I appreciate your continuous support and look forward to working with you.

Since our founding in 1913, we have actively absorbed Western technologies and developed numerous technologies related to energy, air, and water. In the 1980s and 1990s, as Japanese manufacturers expanded overseas, we increased our overseas bases, mainly contributing to the development of manufacturing industries in various countries. I was also assigned to a local subsidiary in Canada in 1986, and since then have spent a total of 20 years overseas, 17 years in North America and 3 years in Singapore, during which time I was involved in the establishment of local subsidiaries, construction of plants for automobile manufacturers, and the industrial HVAC (heating, ventilation, and air conditioning) business.

Working in our overseas operations since the 1980s, I have realized that there are *opportunities* all over the world where our technological capabilities are needed. As industries become more sophisticated, environmentally-friendly facilities are evolving day by day. Therefore there are many potential development themes exist in the field, and we can improve our engineering and design skills by confronting them. Also, by delivering on large-scale projects, we are also able to accumulate managerial competence. I therefore believe that there are a multitude of opportunities all over the world to develop our human resources through projects.

Thanks to your support, we are celebrating our 110th anniversary this year. The Group has stayed in business by providing value to the world in three business lines for many years. These are the paint finishing system business for automobile factories, the industrial HVAC system business, and the building HVAC system business for buildings and commercial facilities. I think we have been able to maintain these business lines for many years because not only do we take care of construction and installation, we also possess design and engineering capabilities. We have cultivated these competencies by meeting our customers' expectations and demands, and by making proposals that are half a step ahead of them.

As a background factor, Taikisha has developed within the structure of the Japanese construction industry. In contrast to the West, where designers and builders are separated, Japan's construction sector has developed based on construction contracts that also encompass design and engineering. This is because industrialization progressed rapidly after the war, so the construction industry needed to also provide manufacturing services. Not only at the design stage, but also during the construction process, we, as an engineering company, endeavor to provide ideal paint finishing and HVAC systems while making various proposals and performing work to the highest standards. It is this commitment to craftsmanship that has shaped the Taikisha Group of today and enhanced our aptitude in design and engineering.

Meanwhile 40 years ago, when we began to take on projects abroad, our predecessors, under the slogan of "Open Challenge & Quick Response," courageously embraced the challenge of undertaking work at challenging construction sites and projects posing a high degree of difficulty. They produced results while accumulating an enviable track record and building trust, and this led to Taikisha coming to be regarded as a company strong in overseas operations. So it could be said that our strength has been honed by taking on the challenges of various sites and projects, even ones where we ultimately experienced failure.

When I look at the current status of the Group from this perspective, I feel that our momentum is a bit weaker than it was in those days in the 1980s when we started taking on the challenge of succeeding abroad. I feel a sense of crisis that we need to take on more and more new challenges for the future.

While many companies developed a heightened sense of crisis and pursued new initiatives in the wake of past events such as the economic bubble burst and the financial crisis of Lehman Brothers, we have made few such moves ourselves, and I feel that our growth has stagnated. One reason may be that Japan has enjoyed strong construction demand, and because our axis of operations was still here in Japan, our momentum for overseas expansion lost steam.

In the first two decades of my 40 years with the Company, the Group's sales grew primarily thanks to our overseas revenues. In particular, we saw commercial opportunities in the construction of automobile plants in North America by Japanese automakers and in industrial advancement in Southeast Asia, so as Japanese companies expanded their operations abroad, we went with them. Over the next two decades, however, when compared to the growth of those overseas markets, Taikisha's global operations have not seen substantial growth. After-sales service has come to account for a greater share of our revenue, but sales growth from new projects has been sluggish. So what has been lacking? My impression is that we have failed to sufficiently maintain the enterprising spirit and challenge mindset we had back when we were setting up all those overseas bases. That spirit and mindset saw us proactively take on more challenging properties and projects in response to customers' requests, and improve our engineering, development, and management capabilities.

To get us back to that mentality, since last year I have been visiting our domestic and overseas sites, chatting candidly with employees in each region, and holding discussions on what each local subsidiary should do to become more independent and take on new challenges. As a precondition for globalization, it will be necessary to clearly define what is to be monitored by the Japanese side and what is to be delegated to each company.

We have been focusing in particular on our R&D organization, strengthening it to facilitate globalization. For example, we are expanding our existing R&D centers in India, China, and the U.S. and taking initial steps to promote the sharing of development technologies and themes among affiliates. We have also established an online connection between R&D centers in Japan and head office, and are promoting the use of the R&D Satellite, which shares information on development themes. This facility, located in the easily accessible Shinjuku area of Tokyo, is designed to serve as a "gate" through which people can pass to experience our technologies. Our hope is that it will broaden the scope of our communication, as well as lead to the fusion of internal and external solutions and to innovations for the future. Besides providing a setting for sharing development themes, the facility is also proving successful as a means of inviting customers to our head office and giving explanations to them in a way that makes them feel as though they are actually in one of our research centers. Looking ahead, we are considering establishing similar "gates" at our overseas bases, and linking them to our R&D centers in Japan.

Going forward, we intend to expand utilization by bringing young overseas engineers to our Japanese R&D centers and having them respond to overseas customers online from Japan. This will be possible not only in Japan, but also in the U.S., India, and other overseas locations, so if we can create a place where engineers can gather freely online, we should derive huge benefits. Projects have been getting larger, and reaching a scale beyond that which can be handled by the staff of a single country, so initiatives like these are also getting important for advancing our globalization and enhancing our engineering capabilities.

In recent years, companies, such as automobile manufacturers, in the Group's client industries have been focusing heavily on theme of decarbonization and consciously pursuing incredibly forward-looking initiatives. We need to be aware that we are lucky to have such

customers, keep pace with their initiatives, and seize business opportunities. Since the oil crises of the 1970s, Japanese customers have become increasingly energy-conscious and have sought solutions from us. The world has changed dramatically, and the vast majority of customers in the West and Asia are now conscious of the importance of the sustainable global environment.

Within the Group, the provision of decarbonization solutions is currently the hottest topic in our sales, development, and design departments, so it seems that our customers' enthusiasm in this area is rapidly diffusing internally. We are taking on the decarbonization theme as a solutions business and will be working alongside with our customers through *concurrent engineering*, starting with upstream processes.

Continuing the Results in the First Year of Implementation of Our Mid-Term Business Plan to Move Closer to Our Goals

In FY2022, the domestic market saw strong investment by electronic component and pharmaceutical manufacturers, and construction demand for office buildings in the Tokyo metropolitan area remained steady. Overseas markets, meanwhile, continued to recover on the back of capital investment by manufacturers. Against this backdrop, the Group, having gotten underway with execution of our new three-year Mid-Term Business Plan, received orders for construction work amounting to 288.6 billion yen, a record high, and also booked year-on-year increases in both revenues and profits. So I feel that we got off to a good start toward achieving our goals for the final year of the plan (FY2024).

Looking back at sales performance by Business segment, in the Green Technology System Business, both orders received and net sales of from completed construction contracts increased significantly due to strong performance in the industrial HVAC field. In Japan, large projects from semiconductor-related manufacturers and pharmaceutical makers contributed to the rises, and overseas, large projects from semiconductor-related manufacturers were the driver.

In the Paint Finishing System Business, orders received increased both domestically and overseas, with large projects from automobile manufacturers contributing. However, net sales of completed construction contracts decreased both domestically and overseas due to the impact of the deconsolidation of Geico S.p.A consolidation from April 2022, and also because of changes to customers' production plans.

Regarding progress on the qualitative side, in response to the issue I mentioned earlier of a lack of enthusiasm for taking on more challenging projects, thanks to the efforts and hard work of our employees, we were able to win orders for projects that will strengthen our engineering and development capabilities. I view this as an indication that we have started taking concrete action to "challenge to create new value," one of the basic policies set forth in the plan. I expect these projects to not only contribute to our business performance going forward, but also to help develop our personnel, and will therefore be keeping a close eye on our progress with them.

Another of the basic policies in the plan is to "further strengthen core businesses," and as part of our efforts in the Green Technology System Business to pursue "business development that continues to create added value," we increased our stake in our Indian subsidiary Nicomac Taikisha Clean Rooms Private Limited to 100%. With this move, we will accelerate execution of our strategy of business expansion in the clean room construction market in India. In connection with our objective for the Paint Finishing System Business of "development with an awareness of global social issues," we have been developing an energy management system (EMS) as a new function of i-Navistar, a monitoring and factor analysis system for automobile paint finishing lines. The EMS makes wasted energy visible and features a simulator function for optimal energy management. We can therefore expect demand to expand as automakers work to further decarbonize their operations.

In addition to these developments, in FY2022 we also invested in facilities and human resources. For example, we launched a frontline DX-related initiative and built core business system infrastructure for global deployment. As for technology development investment, in the Green Technology System Business as I mentioned earlier, we established R&D Satellite at head office, and in the Paint Finishing System Business we are focusing on R&D for decarbonization.

With regard to the remaining basic policy in the plan, which is to "strengthen management base that supports transformation and growth," we have yet to make concrete advances either domestically or overseas, so this is still a work in progress. We will be aiming to strengthen our human capital, which is the source of the Group's strength, while expanding our digital strategy and governance, and to transform our business structure into one that can generate added value over the long term. Achieving the goals of the Mid-Term Business Plan is my number-one priority as President, and I will be steadily implementing measures to produce results over the remaining two years.

Becoming a Company That Leverages Challenge to Seize Growth Opportunities and Carve out a New Future

In FY2023, the second year of the Mid-Term Business Plan, market conditions are expected to remain favorable, but a significant increase in the amount of construction work on hand has made it necessary to adjust the volume of orders we accept. Therefore, we expect to see a decrease in orders in both the Green Technology System Business and the Paint Finishing System Business, and are forecasting orders received of 218.0 billion yen (down 24.5% from FY2022). In the Green Technology System Business, progress is being made with large domestic and overseas projects in the industrial HVAC field, and in the Paint Finishing System Business, the impact of customers' production plan changes looks likely to dissipate. As such, we are projecting year-on-year increases in net sales of completed construction contracts and profits at each level of the income statement.

During this fiscal year, we will make solid progress with projects that we received orders for in FY2022 and which will lead to our growth, and as we proceed with these projects, it will be important for us to identify new development themes from among them. We will use this as an opportunity to enhance our engineering and development capabilities and build up new strengths for the future.

Regarding our globalization efforts, we plan to increase and accelerate personnel exchanges to foster cross-cultural understanding. To that end, we will be bringing young overseas design personnel to Japan and at the same time sending young Japanese employees abroad as trainees. Personnel who can play an active role globally need to have a high level of understanding of the culture of the region in which they operate, so we must take steps to build up their knowledge and awareness. While increasing the number of such personnel, I would like to make our internal approaches and attitudes "stateless." Another important task is to globalize our head office functions. We are considering a method by which personnel evaluations and the like are left to each base, while governance-related matters are handled by global talents who are shared throughout the Group.

So what sort of development themes should we select from projects to enable us to grow in the future? Let me give you my view. The Group is an engineering entity, so we should not be looking to create something out of nothing. Rather, the themes should involve the creation of methods that will lead to bigger outcomes from things that already exist. As we take on the challenges of our customers' large-scale and difficult projects, we will be adopting new methods in design and construction, feeding them back into our skillset, and then applying them again when the next opportunity arises. Our customers' production technologies will be evolving day by day. Unless we have a firm grasp of what kind of evolution is occurring in the environment surrounding our customers and where they are trying to go from here, we will not be able to propose best practices for the equipment we provide and their production equipment on the production frontline. As we take on challenges together with our customers, I believe that it will become increasingly necessary to grasp and understand the situation surrounding production technology, including overseas trends as well as those shaping Japan.

But how can we create an internal culture of challenge? I think that one approach is to emphasize the importance of *excitement* at work, and I regularly communicate this message to our employees. Motivation to take on challenges arises when you are excited yourself and your excitement resonates with the people you are working with.

As for creating an organizational culture, I feel that a spirit of challenge is gradually emerging internally. Creating a corporate culture is a people-oriented effort, so effective methods are required to ensure that this spirit permeates throughout the Group. I will continue to discuss this with our approximately 5,000 staff in Japan and overseas, emphasizing face-to-face communication as I do so. In addition, I would like to boost our centripetal force by utilizing digital tools such as chat rooms and blogs, and by remaining conscious of the importance of casual, two-way dialogue. As we move forward with globalization, this centripetal force will play a particularly important role. It will serve as a guideline for our locally-hired overseas staff as they take independent action at their bases, and give Japanese employees working overseas the peace of mind to apply centrifugal force themselves. We also intend to pursue a variety of other ways of increasing excitement, such as organizing tours to take overseas sales and technical staff to see landmark projects.

Under the theme of sustainability, companies are now expected to contribute to society and protecting the environment, and for the past 50 years, Taikisha has been working on this theme with the desire to protect the earth's environment, even changing our company name in the process. This is where the value of our existence lies, and where we see opportunities for sustainable growth. I would like all our stakeholders to look forward to the exciting challenges that lie ahead for Taikisha, and I hope we can count on your continued support.

Long-term Vision

Amidst a drastically changing business environment, we have been discussing on the future vision of the Taikisha Group and its ideal way of value creation, from a broad perspective based on a backcasting approach, with an eye to changes in the industrial structure and social environment over the next 10 to 20 years. The long-term vision established in conjunction with our Mid-Term Business Plan formulated in 2022 reflects these discussions as well.

Innovative Engineering **Long-term Vision 1** Contribute to a Sustainable Society through Innovative Engineering of Energy, Air and Water

1) By proactively taking on the challenge of "solving social issues," 2) continue to proceed with the "enhancement of comprehensive engineering capabilities" to provide "solutions for highly specialized customer needs" appropriately and speedily, 3) thereby leading to an increase in cash flows over the long term

Demand from society and the market

Economic profit

- Sustained corporate growth
- Steady shareholder return
- Abundant human & intellectual capital

Optimum balance

Social benefit

- Corporate contribution to a long-term sustainable social system (= an Earth-friendly company)

Taikisha's long-term strategies = Differentiation strategy

Energy · Air · Water

1. **Technological innovation** (tangible aspects)
2. **Deepen and accumulate knowledge from experience** (intangible aspects)
3. **Intellectual exploration into new domains**

Enhance R&D functions — **New businesses & new customers development**

\+

Provide solutions continuously — **Further trust from existing customers**

Achieve a sustainable society and corporate growth

Our challenge to achieve carbon neutrality

Strategies of the Mid-Term Business Plan to Achieve the Long-term Vision

Review the existing business portfolio from the perspectives of "capital efficiency," "consistency with long-term strategies," and "affiliated company governance," to transform into a leaner business structure that can create added value in the long term

- Business Strategies
- Management Base
- Financial Strategies

By strategically incorporating changes in society and the environment as medium- to long-term growth opportunities, we intend to transform and grow the Taikisha Group as a whole in a dynamic manner to realize the ideal visions of society and the Company.

Diversity & Inclusion Long-term Vision 2 Become an Inclusive Global Company by Leveraging Diverse Human Resources and Knowledge

As a true global company, integrate diverse values, internal and external technologies and a network of contacts to continuously create new value for a changing society

Taikisha's corporate culture

Overseas

Flexibility to have embraced diversity ahead of all others, against the backdrop of early overseas expansion

- Success of our national staff -

+

Domestic

Corporate culture with an enterprising spirit and environment rich in highly skilled specialists

- Differentiation from others, specialized technologies -

Partnership

Strengthen partnership

- Existing customers
- Suppliers

External contacts and technologies

- Open innovation
- Academic-industrial cooperation

Diverse values and technologies
Diversity

×

Connecting and combining force
Inclusion

=

New value generated continuously
Value

Driving force of corporate competitiveness and differentiation

To achieve the world's goal of carbon neutrality in 2050, we will strive to reduce our CO_2 emissions to net zero by 2050, as well as contribute to the reduction of CO_2 emissions by our stakeholders.

- Shift the focus from an emphasis on business expansion to improving the quality of engineering and enhancing profitability and productivity
- Proactively take on challenges in unexplored business domains
- Rebalance global area strategies

- Further strengthen investments in human capital, intellectual property, R&D, and DX, as "capital = source of competitiveness"
- Leverage the diversity of Taikisha Group's human resources by further fostering a free and open corporate culture

- Further enhance total return ratio through commitment to ensuring stable dividends and purchasing treasury shares
- Disclose target values and timing of achievement of reducing cross-shareholdings

Three basic policies of the Mid-Term Business Plan

1. Further strengthen core businesses
2. Challenge to create new value
3. Strengthen management base that supports transformation and growth

Capital utilization plan

For details of the Mid-Term Business Plan, please refer to pages 35 and 36.

Value Creation History

110 years since its foundation in 1913, Taikisha Group has evolved into a global company group, employing over 5,000 people. We will keep challenging ourselves while maintaining our global nature and the "Customers First" philosophy inherited since the foundation.

1918 Tokio Marine and Fire Insurance Building

1932 Photo taken in front of the Head Office

1927 Our company building

1913 1920 1930 1940 1950 1960

1913-1948 1949-1970

1913-1948

Helps build the foundation of modern Japan

The Company was founded in 1913 as joint-stock company "Kenzaisha," an affiliated company of L. Leybold Co. GmbH, a German-based machinery importer. At the time of its establishment, Kenzaisha's principal business activities comprised sales and installation services for building materials imported from Germany. The supply of equipment such as steam heating boilers, however, also required construction work, and consequently, the Company invited a heating work engineer from Germany, seeking to introduce the latest heating technologies.

Tokio Marine and Fire Insurance Building is Japan's first modern office building completed in 1918 in Marunouchi, Tokyo. Installing the hot water forced circulation system and wastewater treatment tank for this grand architecture enabled Kenzaisha to establish a solid position in the building equipment industry.

Beginning in the 1930s, with the remarkable development of the Japanese spinning mill industry, there was a sharp increase in Kenzaisha's installation of air-conditioning systems essential to the fine spinning process and the company's business rapidly expanded. In 1935, Kenzaisha introduced a steam-jet refrigeration system "steam jet units" made in the U.S., subsequently successfully manufacturing its own version of it in Japan.

1949-1970

Expansion of business fields during the period of rapid economic growth

Japan's manufacturing industries were decimated during World War II. However, in the years after World War II, Japan experienced a flurry of plant constructions for the textile industry and for various other industries such as the camera, film, pharmaceutical and electronics industries. At these plants, HVAC systems that could maintain a high level of air purity were needed to prevent damage to products. In response to such needs, the Company strove to achieve higher technological expertise, delivering precision air-conditioning and cleanroom systems.

The Company began making a full-scale entry into the automobile paint finishing system business in 1953. In 1959, amid the advent of motorization in Japan, it received a turn-key order for the company's first integrated automobile painting line from Toyo Kogyo Co., Ltd. (now Mazda Motor Corporation). This was a major project and the Company bet its future on that success. The automobile painting business became one of the main pillars of the Company.

1971-1989

Global business development

In 1973, on the occasion of its 60th anniversary, Kenzaisha changed its corporate name to "Taikisha Ltd.," marking a new start for itself. It happened to coincide with a time when Japan began to face environmental pollution problems such as air pollution. The corporate name Taikisha encapsulates our vision to become "a group of engineers of heat and air" that proactively thinks and acts based on the thinking that "the existence and prosperity of humankind and all other animals always depend on healthy atmosphere (taiki)."

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

The Company's 60th anniversary coincided with the Yom Kippur War. With the first oil crisis resulting from crude oil supply reductions and a subsequent second oil crisis in 1979, "energy efficiency" became a common challenge for the whole industry. In the 1980s, Japanese automobile manufacturers accelerated their expansion in the U.S. Taikisha received an order for the first phase of plant construction work from Honda of America Manufacturing and an order for a robot painting system from Nissan Motor Manufacturing Corporation USA. In June 1981, the Company established an affiliate company in the U.S. While dealing with the further expansion of automobile companies into the North American markets, Taikisha also received painting plant construction work orders from America's big three auto manufacturers (General Motors, Ford Motor Company, and Chrysler).

History

1935 Steam jet units

1959 Toyo Kogyo Co., Ltd. (now Mazda Motor Corporation) F Plant

1981 New Dubai Hospital (the UAE)

1994 Petronas Twin Towers (Malaysia)

2018 Plant factory

2019 Technical Center

1970 1980 1990 2000 2010 2020

1971-1989 **1990-2001** **2002-2010** **2011-**

After the oil crisis, the Japanese construction industry experienced a period of depression where large-scale public investments were postponed or suspended. However, in the Middle East, with an abundance of oil dollars, infrastructure investments flourished. Taikisha received equipment work orders for plants and hospitals from Iran, Iraq, and the UAE.

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 electronic components industry.

During this period, the building air-conditioning system sector in Japan saw an increase in construction of telecom-related facilities as well as redevelopment and construction of high-rise buildings mainly in urban areas. Taikisha was involved in many such projects as well as proactively capturing overseas construction demand, utilizing the global network it established. The Company also engaged in air-conditioning system projects for buildings that became landmarks such as the Petronas Twin Tower in Malaysia.

2002-2010

Capitalizing on the Group's comprehensive capability

Development of information technology has reduced geographical constraints in terms of information communication and increased the speed of information processing. Driven by the progress of globalization, it has become a norm in many industries to conduct borderless investment and collaboration. The Group has seen an increase in the number of cases where projects are solved comprehensively as affiliates complement each other in purchasing operations and human resources regularly.

2011-

Looking into the future

In FY2011 (April 2011–March 2012), economic activity in the Japanese market stagnated as a result of the effect from the Great East Japan Earthquake, but orders continued to increase in overseas markets, particularly in emerging market countries. In FY2011, consolidated overseas sales reached 51.3% of the total as a result of active international development leveraging its global network, one of its strengths. It was the first time in the Company's history that overseas sales accounted for more than half of the total.

Now, the pace of globalization continues to accelerate. We seek to conduct activities with the aim of creating local ties while collaborating with other Taikisha Group companies in neighboring countries. In response to the needs of society and clients, the Group will be actively engaged in new fields such as the plant factory business.

From the time of its establishment, the Company has been conscious of foreign countries, inviting German engineers and introducing advanced Western technologies. Since its early days, the Taikisha Group has found its way into overseas markets and actively captured overseas demand. As a result, the Group has steadily fostered a culture that accepts diversity as a matter of course, has the ability to understand, cooperate, and harmonize with other cultures, and can tolerate trial and error. One representation of such idea is that many national staff are working at overseas affiliates.

For the Company, technological competitiveness and the ability to innovate are the source of corporate competitiveness and customer satisfaction, also serving as the driving force for creating new businesses. Historically, the Company's strength lies in its pursuit-based solutions cultivated by serving the high requirements from customers. As described above, we recognize that our corporate culture, which can be said to be the characteristics and strengths that have been handed down over many years, is a vital foundation for being an innovative company, a company that realizes transformation and growth, and a company that maximizes the use of diverse human resources and knowledge.

Value Creation Process

Taikisha's Mission Statement "Customers First" refers to the spirit of earning the ongoing trust of stakeholders (society in general). This guiding principle has underpinned the ceaseless efforts of Taikisha Group to grasp the change and promptly recognize the environmental and social issues, in order to contribute to the sustainable society through value creation in society, environment and economy.

Environment surrounding Taikisha

Social issues	• Climate change	• Energy/resources/water issues	• Food shortage
Social trend	• Rapid progress of digital technologies • Change in demographics	• Smartification of production lines • Changes in the concept of cities (emergence of smart cities)	• Increased health and medical consciousness • Increased demand for clean water and air and infection prevention

Utilization of management resources (input)

Financial capital	Solid financial foundation • Net assets 131.9 billion yen • Equity ratio 53.1%
Human capital	Diverse human resources to support competitiveness Development and enhancement of human resource measures • Number of employees (consolidated) 4,963 persons
Manufactured capital	• Number of business offices and factories Japan 28, Overseas 34 • Number of customer service centers Japan 89, Overseas 26 • Capital investment 2.3 billion yen
Intellectual capital	Solid technology and know-how backed by 110 years of history Strength in industrial HVAC system business (accumulated based on dedication to individual clients) Top global achievement in the industry Extensive platforms to convert tacit knowledge into formal knowledge • R&D expenses 1.1 billion yen • Number of patents held (Japan and overseas) About 304 patents
Social/ relationship capital	Global network of 17 countries and regions worldwide Trusting relationship and cooperation with stakeholders R&D framework that addresses the issues of the clients or society and leads to open innovation • Operating in 5 countries (U.S., China, Thailand, India, and Japan)
Natural capital	Efficiently utilize energy/resources Use "air," a natural resource

Business model (business activities)

Mid-Term Business Plan p. 35

Building HVAC System business sector

Utilization of environmental load reduction technology for optimal control of energy, air and water (temperature and humidity, air current, cleanliness, etc.)

Providing solutions centering

Paint Finishing System Business

Materiality p. 25

Long-term Vision

Innovative Engineering

1 Contribute to a Sustainable Society through Innovative Engineering of Energy, Air and Water

Diversity & Inclusion

2 Become an Inclusive Global Company by Leveraging Diverse Human Resources and Knowledge

Management Infrastructure p. 43

For Taikisha's specific "value creation" initiatives, please see the special features on pp. 21–24.

Value Creation Feature 1 Green Technology System Business
Value creation initiative
R&D Satellite Starts Operations
p. 21

Value Creation Feature 2 Paint Finishing System Business
Value creation initiative
Automobile Paint Finishing Systems Contributing to Carbon Neutrality
p. 23

Industrial HVAC System business sector

Ability to integrate a wide variety of equipment and applications to provide optimal systems

Unique technical capabilities characterized by the plant factory

on climate change measures

Realization of the world's best painting quality and profound knowledge and understanding regarding painting technology that make it possible

Cutting-edge automation technology and know-how to manipulate industrial robots

Mission Statement
"Customers First" p. 2

Corporate Philosophy p. 2

1. Establish a company which can continuously grow and contribute to the society
2. Establish an attractive company

Results of business activities (output)

Financial results	● Ordinary income 13.0 billion yen ● Dividend payout ratio 51.6% ● ROE 6.3% ● Cash flows from operating activities 4.8 billion yen
Energize human resources	Exhibition of creativity and energy Creation of pleasant working environment ● Recognized under the "2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)"
Enhance competitiveness	Promote innovation ● Development of energy-saving/cost reduction/environment-responsive technologies and automation technologies ● Expansion of the plant factories business, establishment of wholly owned mass production factories Abundant transactions (domestic) ● 1,647 clients ● 1,664 subcontractors
Environmental solution	[Green Technology System Business] Promote reduction of CO_2 emissions through in-house design projects [Paint Finishing System Business] Promote reduction of CO_2 emissions per unit of automobile manufactured

For realization of sustainable society

Economic value
Creation of economic added value and redistribution to stakeholders

Social value
Contribution to the realization of healthy and comfortable living, and of society with safety and comfort, development of sustainable agriculture, and smartification of factories

Environmental value
Addressing clients' environmental issues and passing on a rich global environment to the next generation

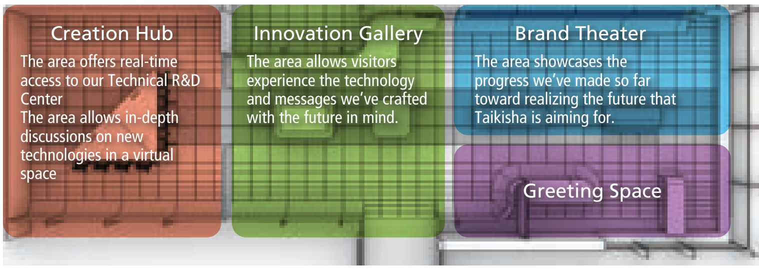
R&D Satellite Starts Operations

Toward the Further Open Innovation

To foster innovation, it is essential to not only utilize the company's existing technologies and expertise, but also to integrate solutions from outsiders such as customers.
We introduce our technologies and assess customer needs by visiting their locations and offering tours of our Technical R&D Center in Aikawamachi, Kanagawa Prefecture. However, given that customers are often situated a considerable distance from our facilities, the time required for travel had limited the opportunities for conducting tours. On the other hand, online meetings are not enough to showcase our technologies which can be experienced through conventional facilities.
As a facility to solve these issues, we opened a satellite of our Technical R&D Center named "TAIKISHA INNOVATION GATE Shinjuku" at the Head Office in April 2023. By establishing a "gate" through which people can experience our technology in the easily accessible Shinjuku area of Tokyo, we aim to broaden the scope of our communication and pave the way for the integration of internal and external solutions as well as the discovery of innovations for the future.

Introducing the concept and areas of the satellite

The concept of TAIKISHA INNOVATION GATE Shinjuku is to generate customer interest and engagement in the technology we possess by utilizing video content and mixed reality (MR) technology. Another objective is to create opportunities for open innovation at our Technical R&D Center.



Greeting Space

A space for welcoming customers

Brand Theater

We have installed a large monitor to showcase the Company's journey through video content.

Innovation Gallery

We showcase our technology using a touch panel monitor. Guests can experience our technology in MR using wearable computers and tablets.

Creation Hub

The area serves as a conference room connected up to the Technical R&D Center, offering the introduction of the interior of the Center in real-time using a 360-degree camera. You can also view video content showcasing our technologies, captured using the 360-degree camera.

Future outlook

Reconstruction of the research building within the Technical R&D Center commenced in February this year. It is being transformed into a research facility capable of proactively anticipating and addressing the needs of customers and society, through open innovation with external parties. Starting with TAIKISHA INNOVATION GATE Shinjuku, we will strengthen the ties between the Technical R&D Center and our domestic and international locations. We will accelerate open innovation through collaborative creation with external parties, including customers. Although TAIKISHA INNOVATION GATE Shinjuku currently serves as a satellite for the Green Technology System Division, we are planning to make it function as a satellite for the Paint Finishing System Division as well in the future.

Utilization Result of Taikisha Innovation Gate Shinjuku

Since its opening in April 2023, the venue has been visited by customers from various industries across the country, including manufacturers, design firms, banks, general contractors, and trading companies. As of July 2023, 15 companies have visited the facility.

Open innovation through collaboration with customers and business partners has also been gaining momentum, as illustrated by the examples below.

Feedback from customers

- *"The use of digital technology made the advanced initiatives easy to understand."*
- *"I found taking Taikisha's technologies from a higher perspective at the Innovation Gallery to be extremely useful in terms of integration with various facilities."*
- *"I think that if the touch panels can effectively demonstrate how the technology can resolve societal issues, they could really resonate with visitors."*

Comments from a customer

Hiromoto Watanabe

President
SHINWA CORPORATION

Thank you for inviting me to the TAIKISHA INNOVATION GATE Shinjuku, a facility that gathers together Taikisha's cutting-edge technologies.

The interior of the INNOVATION GATE offers a different dimension-like space unlike that of any typical office building. In the Brand Theater, I was able to learn about the journey Taikisha has taken to get here. In the Innovation Gallery, where air current was represented in 3D using VR technology, I felt the potential of the technology of the future.

The Creation Hub, the main facility, is connected to the Technical R&D Center via cameras. The wall is filled with projections of the facility's staff, creating a space that made me feel the people are actually there with us.

On this occasion, I was able to see the new technologies that Taikisha is embarking on in real-time from Shinjuku, and I am once again deeply impressed. I would be delighted if, going forward, we can collectively invigorate the industry with new technologies through our partnership with Taikisha. We look forward to working with Taikisha.

Examples of open innovation initiatives being implemented

CO_2 concentration capture

At plant factories, the CO_2 concentration is set higher than that of the outside air to promote photosynthesis in the plants. We are currently supplying CO_2 from cylinders, but we are working on developing a device that can concentrate and supply CO_2 from the outside air as a replacement for the cylinders.

Utilization of robots and IT

To improve the productivity of our operation and make it unmanned, we are carrying out a test run of measuring using robots and automating the filing of paperwork through IT. This fiscal year, we have begun trialing these initiatives at actual construction sites. We have also developed filter system leakage and integrity testing equipment for the purpose of enhancing our current operations, which we plan to trial and evaluate at construction sites going forward.

Sterilization equipment

To create an environment where people can spend their time comfortably and healthily, not only are temperature, humidity, and air current important, but so is the control of cleanliness. To provide a clean and safe environment, we are working on developing sterilization equipment that can be installed on the exterior of air conditioning units. Performance verification has already been completed, and we are proceeding with preparations for market launch.

Technologies currently in development

By focusing on understanding potential customer needs and collaborating on development and verification with customers and academic institutions, we are developing technologies that lead to the creation of new value.

green TEC

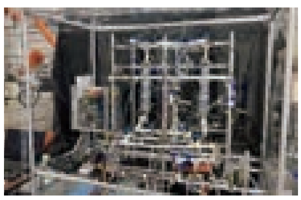
- CO_2 separation and utilization technology
- Use of natural energy
- Exhaust treatment with reduced environmental impact

smart FACTORY

- Robot control
- Room pressure control
- Test environment
- Technical verification lab
- Variable air volume control type low-dew-point room
- Air nozzle which follows the person and supplies air (product name: FOLLOAS)
- Precision temperature control

smart AGRI/HEALTH

- Sterilization equipment
- Silencing technology
- Visualization of air current as an infection prevention measure
- Direct expansion type radiation air conditioning system



Reducing environmental impact and CO_2 emissions

Use of natural energy

Automobile Paint Finishing Systems Contributing to Carbon Neutrality

Against the backdrop of a global shift to a carbon-neutral society, the automobile industry is undergoing a revolution. The Company takes on a challenge of developing and changing the technology of painting process in order to achieve carbon neutrality at paint finishing factories in consideration of CO_2 emission reduction targets of automobile manufactures. As one of these initiatives, we are working on an innovative shift in production technology from wet painting to dry decoration.

Issues to achieve carbon neutrality in the automobile industry

Automobile manufacturers include CO_2 reduction targets in their business strategies in light of the risks of climate change. They have same three major emission sources: upstream emissions from processing plants (Scope 3), direct emissions from processing plants (Scope 1 and 2), and downstream emissions from processing plants (Scope 3). Therefore, addressing these emission sources is a common issue in the automobile industry.

In particular, with regard to direct emissions from processing plants, it is important to change the painting process, in which energy usage is the highest in the automobile manufacturing process. Accordingly, the Company works with automobile manufacturers to develop and provide paint facilities that reduce CO_2 emissions to zero in order to achieve carbon neutrality in the painting process.

An example of the initiatives is an innovative shift in production technology from wet painting to dry decoration. The conventional flow of the painting process includes three layers of paints such as electrodeposition, intermediate coating, and top coating. A drying process is provided after each painting to prevent paint from mixing between coating film layers. This process requires the car body to be rapidly heated and cooled in a short section and moisture to be exhausted out of the equipment with large air volume, resulting in very high energy usage due to direct emissions from the processing plant. The Company is examining the application of film decoration (dry decoration) systems to reduce energy usage in this process.

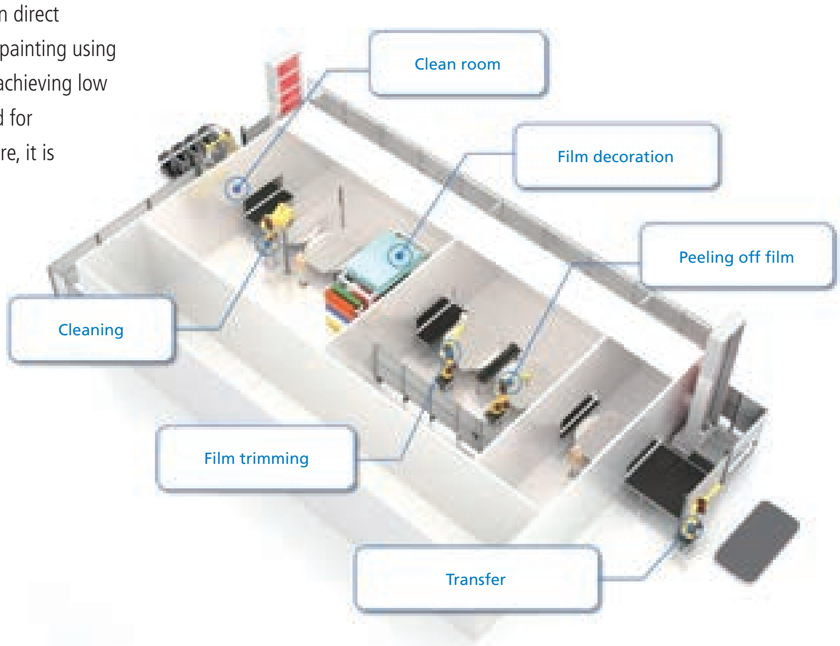
What is film decoration (dry decoration)?

Film decoration technology provides the exteriors of automobiles with film decoration (dry decoration) by applying films through vacuum suction and heating instead of the conventional spray painting (wet painting).

In contrast to wet painting, in which painting and drying are repeated in the process of recoating, high-coverage film decoration (dry decoration) can significantly reduce energy consumption in direct emission at a processing plant compared to conventional painting using paint, achieving a 50% reduction or more. In addition to achieving low carbon emissions, film decoration also eliminates the need for wastewater and exhaust treatment equipment. Furthermore, it is possible to expand the design features of decorating films such as patterns, marks, and lighting, and to add functionality (solar cells, heat shielding, etc.). In the future, we can expect further reductions in CO_2 emissions by realizing innovations in processes, such as recycling the base materials of coated objects and film substrates, in the upstream and downstream sections of processing plants.

By adopting a three-dimensional vacuum pressure thermoforming (TOM) method, the Company enables film to be used for something that has been an issue for conventional dry decoration technologies, decoration (application) on complicated solid shapes with irregularities. This method made it possible to apply films to large, complicated solid shapes with irregularities, such as integral-type bumpers for passenger cars, with low extension (film extension percentage: 100% or less).

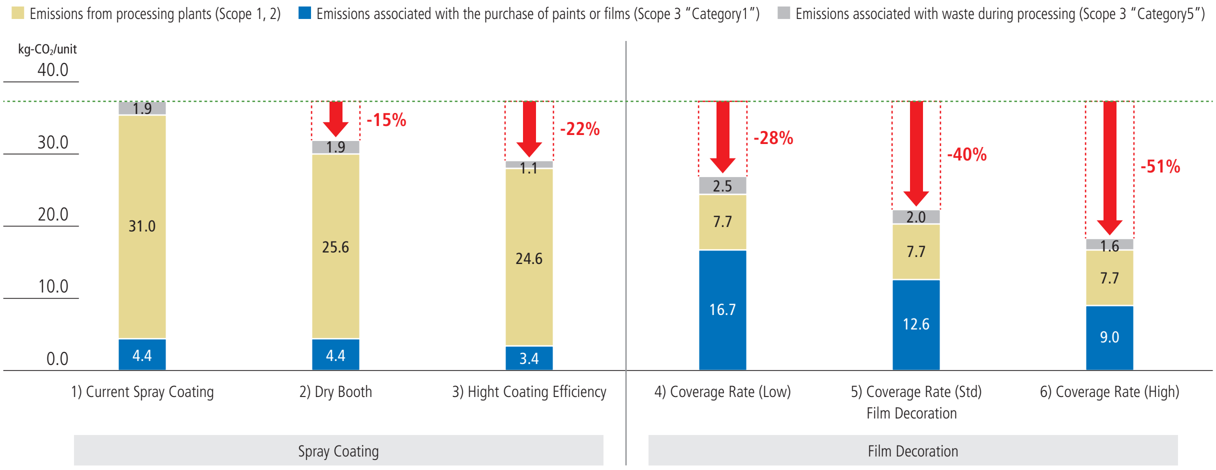
We are currently engaged in detailed discussion on paint finishing lines incorporating this dry decoration system.



A monolithic molded bumper

A split-type molded bumper

● Scope 1, 2, and 3 CO_2 emission per unit
Bumper 240,000 units/year (bumper 480,000 items/year)



Future business development

In order to establish a dry decoration process, we are currently conducting verification from various perspectives, using bumpers as a case example. We are also planning to build a demonstration line in our research facility for a dry decoration system assuming a mass production line. We are determined to promote the development of dry decoration technologies that provide higher value for automotive exteriors to continue contributing to the realization of a decarbonized society.

We have the following specific roadmap. First, in 2024, we will phase in exterior parts using the out-molded laminate (OML) film decoration process into the market. From 2026, we will aim to achieve full-scale linkage with the reduction targets of automakers toward carbon neutrality by 2030, while expanding the number of exterior parts to which film decoration is applied and adapting film decoration to large exterior parts.

A Taikisha Group Company Won the Jury's Award at SURCAR

The International Conference on Automotive Body Finishing: 6th SURCAR 2023 in Detroit, the U.S. is one of the most prestigious international conferences in the painting industry. At the conference held in June 2023, the joint presentation by TKS Industrial Company, a group company of Taikisha Ltd., and Nippon Paint Automotive Coatings Co., Ltd. received the Jury's Award, an award for the presentation with the highest evaluation by the judges.

Dry decoration has faced issues including the limited sizes of the objects to be decorated as well as application of films to objects with complicated shapes with reduced color tone changes and without wrinkles. The technology introduced in the presentation received high praise for realizing dry decoration even on integral-type bumpers with a height of 700 mm or more and a large curvature without wrinkles and with reduced color tone changes by controlling the film extension percentage to 100% or less.

Materiality

Taikisha identifies material issues as important issues that should be prioritized in its management. Taikisha determined eight material issues that leverage its strengths and DNA to build a business model that would enable the "realization of sustainable 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 five items that are indispensable for realizing them into (3) "management infrastructure." We conduct evaluation and verification based on the above, aiming to resolve social issues and achieve sustainable growth.

<Direction sought>

Build a business model that enables the "realization of sustainable value creation"

Category	Materiality	Risk and opportunity		Vision
Management and business strategy	Enhancement of technological competitiveness and ability to innovate	Risk	• As technological innovation advances, existing technologies and business models become obsolete • Loss of competitive advantage due to entry by other industries	Enhance technological competitiveness and the ability to create innovation, which are the sources of corporate competitiveness and customer satisfaction and also serve as the driving force for creating new businesses.
		Opportunity	• Differentiate us from competitors and enhancement of corporate value by providing innovative technologies and services • Expand co-creation opportunities with partner companies	
	Initiatives for global social issues	Risk	• Decreased ability to create innovation and delayed response to new markets	Strategically incorporate ESGs and other social issues as opportunities to create new businesses and enhance the business model.
		Opportunity	• Pursue sustainability and increase profits by addressing social issues as a core business • Create new businesses based on solving social issues	
	Digital innovation and productivity improvement	Risk	• Decline in corporate competitiveness due to delays in responding to digital technologies	Reform the business model and improve labor productivity through the use of digital technologies.
		Opportunity	• Create new value through digital application, etc. • Promote improved productivity and operational efficiency through DX promotion	
Environment (E)	Climate change mitigation and adaptation	Risk	• Increased costs associated with implementing and changing policies and laws and regulations, including the introduction of a carbon tax, and strategic review • Loss of business opportunities due to delays in responding to changes in customer behavior due to climate change	To address the challenges of climate change, tackle it from the two points of "mitigation," to reduce and absorb greenhouse gas emissions, and "adaptation," to prepare for damage from climate change.
		Opportunity	• Increasing business opportunities due to the growing need for low carbon and decarbonization • Create new businesses by contributing to climate change issues	
	Initiatives to prevent pollution and reduce environmental impact	Risk	• Deterioration of the natural environment and adverse effects on human health due to hazardous chemical substances, air pollution, etc.	Work to reduce and remove VOCs and other air pollutants and make them harmless by using unique exhaust treatment technology.
		Opportunity	• Respond to air pollution prevention and environmental impact reduction needs	
Social (S)	Securing and developing human resources	Risk	• Outflow of human resources due to intensifying competition for talent • Lack of human resources that can create innovation	Secure, retain and develop capable human resources that create value (innovation) and support our competitiveness.
		Opportunity	• Expand human capital by securing and developing talented human resources • Lead to the creation of new businesses and the provision of innovative services	
	Creation of pleasant working environment	Risk	• Poor response leads to loss of talent, stagnation and decrease of employee engagement, and decrease in labor productivity • Loss of business opportunities	Aim to improve diversity, work-life balance, and job/employee satisfaction, while introducing a wide range of flexible work styles.
		Opportunity	• Raise labor productivity, improve health and motivation, and enhance responsiveness to changes and business opportunities	
Governance (G)	Highly effective corporate governance	Risk	• Decline in social trust • Business continuity risks associated with corporate governance malfunctions	Prevent impairment of brand value and financial losses, steadily execute strategies for fulfilling own business model to increase corporate value in a sustained manner.
		Opportunity	• Gain trust from capital markets • Appropriately respond to changes and establish a stable growth foundation	

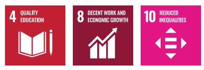
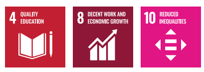
"Management infrastructure" indispensable for realization of sustainable value creation

● Compliance ● Risk management

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.

Formulation of a list of candidates (selection of issues)	→	Materiality assessment (at two levels, i.e., viewpoint of external stakeholders and viewpoint in terms of impact on business)	→	Confirmation of appropriateness and discussion	→	Determination (updating)

Connection with strategies	Major initiatives	Relevance to SDGs
[Core business] [Green Technology] Business development that continues to create added value and strengthen Taikisha, the technology company [Paint Finishing] Development with an awareness of global social issues [General] Improve business operation systems and productivity [Creating new value] Intellectual property strategy R&D/open innovation Creation of new businesses [Management base] Developing/securing human capital Digital strategies to provide new value	• Focus on the industrial HVAC field where we can demonstrate our advanced technology. Strengthen customer connectivity and actively keep pace with customers' technological innovation in their production processes. • Identify customer needs and engage in joint development by utilizing the new Research and Development Center and the R&D Satellite • Promote innovative technology development through integration with academic institutions/start-up companies • Promote the acquisition of technologies and development of products that can contribute to the transformation of customers' painting processes, such as the development of dry decoration technologies • Expand areas of automation business by utilizing robot control technology and know-how • Pursue technologies required by SDGs/Society 5.0 • Expand orders from non-Japanese customers • Diversification of technologies to meet the needs of non-Japanese companies • Business development rooted in local communities utilizing overseas networks • Establish a development structure linked to overseas bases • Digitalization and DX of business operation to improve ease of work • Implement BIM and various on-site management support tools • Remote and automated on-site operations through digitalization of business processes	
[Core business] [Green Technology] Business development that continues to create added value [Paint Finishing] Rebuilding customer portfolio, development with an awareness of global social issues [Creating new value] R&D/open innovation for the creation of new business	• Initiatives to reduce GHG emissions • Promote energy savings by mini-environmental control of HVAC equipment (small-scale environmental control) • Downsize facilities through the improvement of coating efficiency and development of energy-saving technologies to achieve carbon neutrality • Develop and examine equipment with low environmental impact, such as the introduction of hydrogen fuel burners • Conduct scenario analysis based on TCFD and respond to risks and opportunities	
	• Direct Air Capture (DAC) of CO_2 using exhaust gas treatment technology, use in plant growth, etc. • Develop new water treatment and generation technologies (such as MOF) from the viewpoint of maintenance and effective use of water resources • Reduce waste in construction sites, and manage chemicals appropriately	
[Core business] Improve business operation systems and productivity [Management base] Developing/securing human capital Digital strategies to provide new value	• Develop knowledgeable and experienced professionals • Systematically develop human resource value (management and professional human resources) • Design global educational programs • Support for career advancement and acquisition of certifications	
	• Promote health management • Promote work style reform • Create an organizational culture that fosters innovation • Improve employee engagement • Optimize human resources by reviewing the project management structure • Improve the labor environment by promoting equalization of work volume and productivity improvement	
[Management base] Strengthen the Group governance structure	• Strengthen the corporate governance structure • Business portfolio management based on capital costs • Enhance the effectiveness of the board of directors and auditing functions of affiliated companies • Digital strategies to provide new value • Build employee awareness of compliance	

Foundation that needs to be developed in view of the sustainability of the business model.

● Quality/safety ● Information security ● Contributions to community

Group Management to Realize

In April 2023, the 110th anniversary of the Company's founding, Taikisha appointed a new President, Mr. Osada. Under a new management and executive structure, the Company began its next leap forward. The three Outside Directors and the newly appointed President Osada sat down for a roundtable discussion to talk about the behind-the-scenes process of selecting the President, as well as the future direction of the Group's management and the challenges that lie ahead in achieving this goal.

President and Representative Director

Masashi Osada

Joined Taikisha Ltd. in 1983. Previously worked as Senior General Manager, Global Business Management Dept., Paint Finishing System Division; Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters; Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division. In the current position since April 2023.

Outside Director

Hirokazu Hikosaka

Mr. Hikosaka had worked as Audit & Supervisory Board Member since 2015 and was appointed as an Outside Director in 2017. He has abundant experience and a high level of insight regarding internal control and governance, etc., through his long tenure as an attorney. He chairs the Governance Committee.

Evaluation of the President selection process and expectations for the new structure

Yamauchi: Mr. Osada assumed the position of President and Representative Director in FY2023, and we renewed the structure for the executive side. First, I would like to hear from you all about what discussions took place in the Nomination Advisory Committee, which includes all Outside Directors as members, during the process of selecting a new President. Chairperson Fuke, could you please start?

Fuke: First, I would like to explain the selection process. Selection is based on the CEO succession plan, which was introduced in 2019, four years ago, under the leadership of the Nomination Advisory Committee in order to make the rules for selection more transparent. While deciding on the personnel requirements for CEO, we conducted various assessments of the executive directors of the Company ahead of time. In the selection process this time around, after confirming former President Kato's intent to retire, the Nomination Advisory Committee received the Board of Directors' request for opinion regarding the appointment of a successor, and Outside Directors conducted individual interviews with the candidates. After the interviews, each candidate was evaluated based on a designated assessment form to check how well they met the personnel requirements, while referring to the results of 360-degree evaluations

Our Long-term Vision

Outside Director

Kiyotaka Fuke

Mr. Fuke had worked as Audit & Supervisory Board Member since 2017 and was appointed as an Outside Director in 2019. He has served as a manager of a leading life insurance company for many years, and has abundant experience and a high level of insight regarding internal control, governance, human resources development, personnel and labor management, etc. Leveraging his experience as a corporate leader, he chairs the Board of Directors and the Nomination Advisory Committee.

Outside Director

Masasuke Kishi

Mr. Kishi was appointed as an Outside Director in 2021. He has years of experience as a manager of a leading business corporation, and has abundant expertise and experience regarding the information and communications sector, internal control, and governance. He chairs the Compensation Advisory Committee.

(Facilitator)
Deloitte Touche Tohmatsu LLC
Partner CPA

Tatsuo Yamauchi

After joining Deloitte Touche Tohmatsu LLC, he was engaged in auditing and IPO support, and from 2012 he worked for the Economic and Industrial Policy Bureau of the Ministry of Economy, Trade and Industry, where he was involved in the revision of the Act on Strengthening Industrial Competitiveness and corporate governance policies. Currently, he is engaged in consulting services regarding development of business management structures utilizing non-financial information such as corporate governance, development of risk management structure, business strategies, and business risks.

For details, please see the Management Structure section on P.41 and P.42. ● Management Structure

Round table discussion held: August 10, 2023

conducted on the executive side by their superiors, colleagues, and subordinates. That was the overall selection process.

However, not much time had passed since the introduction of the succession plan, so we did not yet have a sufficient pool of talents. In order to ensure the suitability of the candidates and the comprehensiveness of the selection process, the committee decided to select two additional promising candidates besides those who had been referred and conducted interviews and evaluations. The Outside Directors first deliberated on the evaluation results among themselves, and then discussion was opened up to all members of the Nomination Advisory Committee at that time, which included former President Kato. The committee then submitted their recommendation to the Board of Directors regarding the presidential candidate they deemed most suitable. At a later date, we had an outside consultant perform third-party verification of this selection process and received the results of verification that the process was conducted in an appropriate and fair manner.

In order for the Group to advance to the next growth stage, the new President will be required to play a role in creating a new business model and fostering innovation. In this regard, we selected the new President while keeping in mind the long-term vision that had been discussed by the Board of Directors and focusing on both the careers and personalities of candidates.

The newly appointed President Osada has served in both the Green Technology System Division and the Paint Finishing System Division in positions ranging from customer relations to site manager and division head. In addition, he has also worked in the corporate departments of the Head Office, and most importantly, he has many years of overseas experience. We found that this career background made him well-suited to take charge of the future management of the Company, which is faced with the challenge of reforming its business portfolio. In terms of personality, in addition to the impressions we received through exchanging opinions at Board meetings and various other meetings, as well as the opinions of those around him, we determined through the interview that we can expect bold and quick decision-making from him, as well as leadership to drive new changes that depart from the status quo.

Hikosaka: While building on the work of Taikisha's past Presidents and taking over the efforts of the most recent President, Mr. Kato, we have to not only carry on their work but also advance the Company even further. Taking into account the will of the former President regarding this transition, we have listened to presentations from all the candidates on their perspectives, held discussions among the members of the Nomination Advisory Committee, and selected the presidential candidate the committee deemed most suitable.

In terms of management, we must continue to strengthen governance and improve the Board effectiveness. In our future business development, we must proceed with a long-term and global perspective. Mr. Osada was chosen as the most suitable leader in this regard.

Holding onto the conviction that only top management can handle a disruptive change, I will strive to provide leadership that meets your expectations.

Kishi: We feel that Taikisha has been blessed with a business environment that will allow it to grow even more. In the course of our conversations with Mr. Osada and the other candidates, they said that they would make the Company grow further. Mr. Osada, in particular, went a step further to touch on the need to promote globalization and further enhance design capabilities in order to sustainably grow the Company and increase corporate value. I completely agree with his view on promoting globalization and improving design capabilities, and I sensed his fervent desire to make the Company grow further and increase corporate value. For these reasons, I thought Mr. Osada would be our best choice for President. I am confident that he will meet our expectations.

Yamauchi: President Osada, how do you feel hearing these hopes and expectations?

Osada: As Mr. Fuke mentioned, I have gained a lot of experience since joining the Company. In fact, I feel that I almost know too much about the Company, which has made it difficult for me to take a leadership role in handling a disruptive change, including innovation. However, when I was a department head, I often said to my subordinate site managers, "Only top management can make decisions for disruptive growth, so keep your aspiration high." And that is what I have continued to tell myself. I will hold onto that sentiment and strive to expand our corporate value in order to meet your expectations.

Strengths and challenges that open up opportunities for further growth

Yamauchi: Now that we have marked the 110th anniversary of Taikisha's founding, what strengths should we develop and how should we expand our business in the future? What are your thoughts on this, and what challenges are we facing?

Osada: Over its long 110-year history, the Company has experienced various fluctuations in society, including wars. I appreciate the great impact and significance of the managers and employees of each era who worked together to overcome unimaginable changes in the business environment. In the 40 years since I joined the Company, we have always faced difficult circumstances. However, if we look at the external environment in recent years, the world has undergone more fundamental changes recently than it did in the past 40 years.

One such change is the energy revolution, driven by the trend

I hope that by redefining the Company's purpose, we can create a group culture that takes on the challenge of growth.

toward decarbonization. Since the Group handles energy, air, and water, and we are an engineering company, this is an area that we are heavily involved in. Another recent change is the digital revolution, which is the result of the evolution of information and communication technology and AI technology. These two revolutions are happening at the same time, and while it is an opportunity for us, it is also a risk so great that if we miss the boat on this transformation, we may never regain our growth. That is how I view the current situation.

On the other hand, over the past 40 years, the Group has been blessed with many customers, mainly Japanese automobile manufacturers, and we have developed our business globally in response to their needs. However, I feel that we have not made enough progress toward proactively promoting globalization of our own volition. Through the process of globalization that we have undertaken alongside our customers, we have established a significant amount of local workforce in many countries and regions and have continued our business activities for many years. I believe that there is an opportunity for further growth as a group, including overseas national staff.

My desire is to create a group culture in which each site becomes more independent and aims to expand business by itself. To this end, we will further strengthen our engineering capabilities, increase customer satisfaction, and expand the circle of support for the Group. These are the areas we need to work on.

Kishi: To this end, I think we should consider redefining the Company's purpose. Taikisha's Mission Statement is "Customers First," but I question if this truly represents its purpose in contributing to a sustainable society as our long-term vision. With "Innovative Engineering" and "Diversity & Inclusion" as the means to fulfill its purpose, the Company should disseminate themes with a stronger social impact, such as solving global environmental problems, to the world. I believe this will cause others to rally around the President and help overseas subsidiaries and sites gain a renewed and profound understanding of the purpose, which will spark excitement across the entire Group.

If a company cannot see its destination or isn't sure if it is on the right path, this uncertainty will negatively affect employee engagement. I would like the Company to clarify its purpose in order to create a group culture that makes employees "hungry for further growth."

Osada: You're absolutely right. Incidentally, I visited various domestic and overseas sites last year, and many executives are struggling with "what we should do" rather than "why we should do it", specifically, figuring out which markets to target. I think that the noble cause behind "what we should do", or what is often called "purpose" in recent years, was something we didn't communicate strongly enough in the past. Employees in each country are very serious about how they can grow this Company, so we will strengthen our communication with them to ignite that spark.

Fuke: Nowadays, any company aims to solve environmental and social issues, and although they may have different core competencies, they all share a common direction. It is also true that many of our competitors are expressing their intentions to seek growth opportunities in overseas markets in the future, so in a sense, growth themes are being narrowed and becoming in-depth. In this context, I believe that differentiation in business models will become all the more important.

Taikisha has historically been a step or two ahead in terms of its business domains and experience, and I think its employees are proud of that. But what about from now on? It would be helpful if you, as the President, could indicate in your own words what kind of differentiation we are aiming for, and in order to convey your strong commitment to the employees, it may be necessary to continue to express your thoughts in more specific terms.

In particular, customers choose Taikisha for its engineering capabilities and continue to choose it for its customer service. I expect these two aspects will be major pillars of differentiation. I believe that

The Governance Committee will engage in discussions to support the initiatives set forth by the President and help make them successful.

we, as Outside Directors, must more effectively monitor management based on the President's thoughts about how the management side will differentiate the Company, and on what timeline.

Osada: Thank you for pointing that out. When it comes to engineering capabilities and customer service, there are two elements that are crucial to the technology we provide, which are drawings and employees. The necessity of improving the overall quality of drawings goes without saying, but at the same time, the competence of our employees is equally important. It is our employees that maintain relationships with customers, and their ability to think about matters and dig deeper will help enhance our engineering capabilities. Taikisha has long excelled at this kind of in-depth exploration, which has earned the trust of its customers. From now on, however, we will increase the number of employees who can proactively provide proposals in anticipation of customers' needs to set us apart from the competition. Admittedly, this is a somewhat difficult task to envision.

Hikosaka: I believe that the current business environment is an opportunity for Taikisha to leverage its strengths, including the differentiation tactics you mentioned. We can expect further growth by systematically implementing human resource initiatives over the next few years, enhancing our engineering capabilities, and instilling a culture of taking on challenges throughout the Group. I believe that engineering and challenge will be the keywords for the future.

Requirements for improving engineering capabilities

Yamauchi: When it comes to strengthening engineering capabilities, what specific areas do you have in mind?

Osada: In the Paint Finishing System Business, the key point to consider is how our customers in the automotive industry view carbon neutrality. So, the development themes and challenges depend entirely on their view. If they decide to go all-electric, carbon neutrality is, in a sense, guaranteed. However, if they go even further and change the manufacture process of their products, we will need to capture those needs and make proactive proposals.

The Green Technology System Business, especially in the industrial HVAC field, is expanding on an extremely large scale, and it is about time for us to make a decision on the range of customers to target as our customers. The direction of our engineering will change depending on where we land on the spectrum between high-end market and mass market. When thinking globally, target customers do vary by region. Some sites may aim for the high-end market, while others may believe they can offer no value unless they operate in the mass market. For this reason, I am actually still wrestling with whether or not we should decide on the scope of things like the market, products, and engineering.

However, a global challenge we are facing in the industrial HVAC field is gaining more technical access to the U.S. and European markets, without which we will be unable to increase our target options. I recognize that efforts in this direction will be necessary.

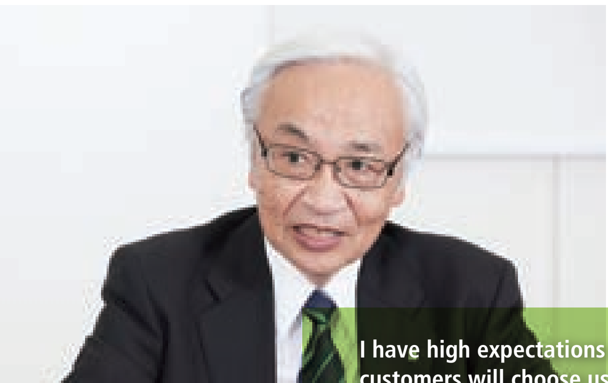
Yamauchi: Next, I would like to hear your opinions on how we should proceed with the people-related aspects of our efforts to enhance engineering capabilities.

Kishi: In the future, Taikisha will require global talents who are not limited to one particular country but can also work in neighboring countries as well as in Japan. What is important in that case would be to set specific KPI targets, such as how many globally competent engineers we should secure in how many years across the entire Company, and work towards them while sharing the progress throughout the whole Group. Additionally, setting goals for each overseas subsidiary and site and aligning them with top-down goals to ensure consistency as a whole would be the best approach. If there are discrepancies, internal discussions should be held to determine the necessary course of action to solidify the Company's purpose. Through such discussions, messages from the top management will be conveyed to the overseas national staff, and the KPI will be shared as priorities of the Company.

Osada: When it comes to initiatives based on these KPIs, one thing we must be careful about is not spending too much time defining criteria, such as what kind of person is the global talent. Rather, we should adopt relatively lenient requirements to rapidly secure the necessary workforce. In addition, in order to secure talented human resources, it is essential to introduce an employment system based on job type, which will facilitate overseas recruitment. Securing and developing global talents and introducing an employment system based on job type are two sides of the same coin, so to speak, and we would like to proceed with both at the same pace.

Another idea is to promote borderless exchange of human resources within the Group. In other words, promoting increased movement of personnel between domestic and overseas sites. For instance, if there is a shortage of personnel in charge of design in Japan, we can have them come from overseas. The projects we are involved in are increasingly beyond the scale of what can be handled in a single country. To deal with such projects, group companies need to help each other. This is precisely one of the strengths of the Group, and global talents are becoming increasingly important for these collaborations. Through this exchange, we can also think about the next steps for our talent development.

I have heard that there aren't many young talents willing to go abroad, so we first need to lower the hurdle for them to go. Those who have never visited foreign countries will find it more and more difficult to take the first step after major life events, so I think it would be a good idea to send them abroad as trainees more frequently to reduce their reluctance. Moreover, I hope that they will have the common sense that what young people once learned in Japan, they will now learn overseas.



I have high expectations that customers will choose us for our engineering and customer service capabilities, which will be major pillars of differentiation to drive growth.

Fuke: With the recent trend of placing more emphasis on human capital, it is important to be able to explain externally what kind of human resources Taikisha needs for future growth and what kind of initiatives it is currently undertaking, as this will help investors and analysts evaluate the Company's global and future growth potential. From this perspective, visualizing the desired talent profile and the current initiatives is absolutely vital. Additionally, I believe that as Outside Directors, we should be responsible for regularly monitoring the gap between "As is" (current status) and "To be" (ideals) based on the plan's progress against the prescribed action plan and timeline.

Such visualization of the human resources strategy may bring about a change in group culture for employees, deepening their trust in the Company's commitment and the President's determination. That is my perspective.

Osada: You are absolutely right. On the other hand, from my point of view, we unfortunately do not have information about which young talents are interested in gaining international experience or what their ambitions are, so we need to start with the visualization of these aspects. In fact, one problem is that there are people in the Company who want to take on the challenge of going overseas but haven't been given the opportunity.

Yamauchi: As Taikisha expands its global operations, I believe that there are companies that will join the Group through M&A. How do you think we should apply governance effectively when dealing with people who have different corporate cultures and values?

Osada: About 15 years ago, at the suggestion of the President at the time, I was personally involved in an attempt to initiate projects by connecting peers of the same generation horizontally within the Company. At that time, after analyzing the situation, I realized that Taikisha had a strong inclination towards homogeneity and was resistant to accepting cultural differences. Since then, along with changes in society, the Company's preference for homogeneity has diminished. The people who have joined the Company from the outside have consistently added value, and no significant issues have arisen as a result of M&A.

As for governance, we believe that it is only natural to properly explain the structure of the Group and monitor our responses. In fact, as many of our M&A targets are private companies, they do not always have a robust governance structure in place, so we need to proceed with caution. With such companies, we first seek sufficient understanding from their top management, and then we work together with them. Otherwise, we may have risks ending up limiting their growth potential.

Hikosaka: Improving the governance of our overseas sites has been a challenge for some time, and there are ways of doing this intensively. However, unless overseas local staff understand and implement the initiatives, it will be impossible to raise the overall level of governance. That's why we should delegate authority to them while promoting the initiatives.

Now that video conferencing systems are being utilized both in Japan and overseas, it may be possible to create a borderless communication environment through such a system. In addition to disseminating messages from top management and implementing educational initiatives, it could also be used to promote governance improvement. As Outside Directors, we would also like to be involved in strengthening governance through various efforts.

Kishi: Last year, I visited a subsidiary in India and got the impression that they have made various improvements in terms of the general working environment, especially in the area of digitalization, which is quite advanced. Not only India, but also other major sites in various countries have R&D systems in place. I wondered if we can bring them together we would be able to achieve even greater results.

Fuke: I inspected a subsidiary in Thailand. They had their own Paint Finishing System Division and Green Technology System Division, but even taking into account the differing nature of their respective work, I felt there was not much mutual communication between the two divisions. The lack of collaboration between the two seemed like a missed opportunity, as it would be a chance to achieve differentiation in responding to market needs.

Osada: The same can be said for Japan. The old mindsets about efficiency led to vertical divisions between business divisions with little mutual interaction and that model has brought directly transferred to our overseas sites, and operations are still being carried out in that way. We need to work on improvement in this regard, starting from Japan.

Kishi: I would like to see those who are serving as directors of overseas subsidiaries from Japan, either in the form of secondment or concurrently, play an even more active role. President Osada's opportunities to visit overseas sites and the scope of his visits are inevitably limited, so I would like the directors of overseas subsidiaries to confirm at their respective board meetings whether

the growth strategy and policies of the Japanese side are correctly delivered, and conversely, that the local situation is appropriately communicated to the Japanese side. I believe their role will become very important in the future.

Osada: I think so, too. That is another aspect I would like to work on. Starting from this year, we are implementing a specific rule that we have individuals with experience in the corporate departments serve as directors at our overseas subsidiaries. Based on that rule, we will ensure that corporate personnel are always on the board of directors of overseas affiliates.

Enhancing the achievability of transformation

Yamauchi: Can you share your thoughts about what kind of discussions the Board of Directors and its committee should have so as to make it more likely that the future transformation we discussed today will become a reality?

Fuke: The lesson we have learned is that, above all, it is necessary to keep having discussions like the one we had today in order to thoroughly grasp the President's point of view and come to a shared understanding of the challenges we face. In the Board operations as well, we need to focus on improving the effectiveness of monitoring in line with the ideas and issue awareness of President Osada, our new leader.

I would also like to add a final word on the message of "excitement" that President Osada has repeatedly expressed. When looking ahead to the future of Taikisha, it is of utmost importance that our customers and shareholders can be excited, and also that our employees be excited to work and create value. I believe this is a wonderful message and symbol for our management to aim for. I would like to keep this sense of excitement in the Board of Director's meetings and committee meetings as we continue to have lively discussions.

Hikosaka: As for the Governance Committee, which I chair, I believe that it should be a committee that supports the initiatives set forth by the President, and its role is to help the Company advance with confidence. For example, when considering the possibility of M&A, instead of deciding not to proceed because of the risks involved, we should create a way to proceed safely despite the potential risks. In this way, I would like to continue discussions this year to encourage the President to take on challenges.

Kishi: Strengthening of engineering capabilities and globalization, which were at the center of today's discussion, can be considered the very essence of human capital management. I regret that we have not had much discussion on human resource strategies until now, so I think we need to work on this issue in the future. Going forward, if we do not advance our human resource strategy at a speed similar to that of top-down decision-making, five or ten years will fly when we notice it. If we do not incorporate our human resource strategy into the fabric of the Company, it will never become part of our corporate culture. I would like to continue our discussions at Board meetings from a medium- to long-term perspective, with a focus on monitoring.

Osada: In terms of human resource strategies, the Nomination Advisory Committee's succession plan led by Mr. Fuke has started to take shape. I would like to further expand our discussions in the future. Until now, the Group tends to leave the balance sheet aspect of human resources for the individual business divisions to handle, but I hope that the Board of Directors will take up the discussion of how to develop a certain level of human resources in the future. I appreciate all your support.

Yamauchi: Thank you all for taking the time today to provide us with your opinions and views.

Review and Overview of the Mid-Term Business Plan

We will focus on achieving the goals of the Mid-Term Business Plan by steadily implementing measures in line with its basic policies.

Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of Sustainability Promotion

Masanori Nakagawa

In this fiscal year, orders received reached a record high and far exceeded the initial forecast against the backdrop of robust market environment at home and abroad. Profit attributable to owners of parent fell below the target due to the recording of extraordinary losses which had not been expected at the beginning of the fiscal year. Net sales of completed construction contracts and ordinary income exceeded the targets.

Speaking of key measures of each business, the Company has dedicated its efforts to forward-looking measures that will provide a future foundation for its sustainable growth. Specifically, we have made Nicomac Clean Rooms Far East LLP (currently Nicomac Taikisha Clean Rooms Private Limited) a wholly owned subsidiary to expand our business in India, where resilient economic growth is expected in the future, established R&D Satellite at the head office in Tokyo, and developed technologies and collaborated with other companies in the field of carbon neutrality.

In non-financial areas, we made preparation for the disclosure of climate-related information based on TCFD's recommendations. (disclosed in April 2023.) We also focused on the development and enhancement of our sustainability promotion system by incorporating non-financial indicators to some degree into evaluation items in the compensation structure of the executive directors.

In terms of shareholder returns, we maintained high total return ratio driven by the purchase of treasury shares and stable dividends intended to achieve a consolidated dividend on equity ratio (DOE) of 3.2%.

As described above, we generally made a good start both in terms of performance and measures in FY2022, the first year of the new Mid-Term Business Plan.

Despite the continued recovery, the outlook for the domestic and overseas economy is expected to remain uncertain for a while due to impacts of price increases, sharp fluctuations in exchange rate, and monetary tightening in some countries. We will continue to do our utmost to achieve financial and non-financial targets by steadily implementing measures based on the three basic policies while keeping watch over the situation.

Positioning of the Mid-Term Business Plan

The Mid-Term Business Plan is positioned as a milestone for the coming three years to realize the long-term vision of where we want to be in 10 years from now.

Financial targets

(billion yen)

	2023.3		2024.3		2025.3
	Target*	Result	Target*	Forecast	Target*
Orders received	215.0	288.6	223.0	218.0	236.0
Net sales of completed construction contracts	212.5	214.7	223.5	255.0	238.0
Ordinary income	12.0	13.0	13.5	14.0	15.0
Profit attributable to owners of parent	8.6	7.9	9.1	9.3	9.6
Return on equity (ROE)	6.8%	6.3%	7.0%	7.3%	7.2%

*The targets above are the numerical targets under the Mid-Term Business Plan disclosed on May 16, 2022.

Non-financial targets

CO_2 emissions from business activities (Scope 1 and 2) → **46% reduction by 2030** (compared with FY2015 results) (Numerical targets are under review due to the expansion of boundaries and other factors.)

Investment plan (3.9 billion yen was invested in the fiscal year ended March 31, 2023.)

Growth investment 20.0 billion yen

Purchase of treasury shares (Purchased treasury shares worth of 3.0 billion yen in the fiscal year ended March 31, 2023)

We will flexibly purchase and retire treasury shares in order to improve capital efficiency and promptly implement financial policies. (Aim for roughly 2.0 billion yen per year.)

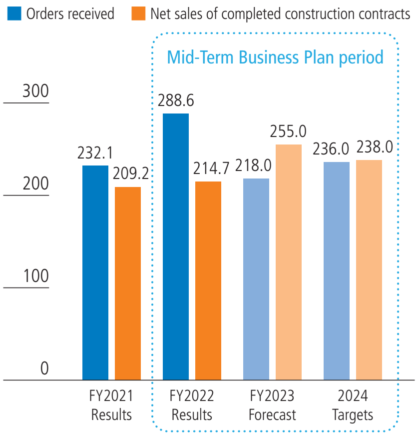
Dividend policy (DOE was 3.25% for the fiscal year ended March 31, 2023.)

We will implement steady dividends targeting a consolidated dividend on equity ratio (DOE) of 3.2%.

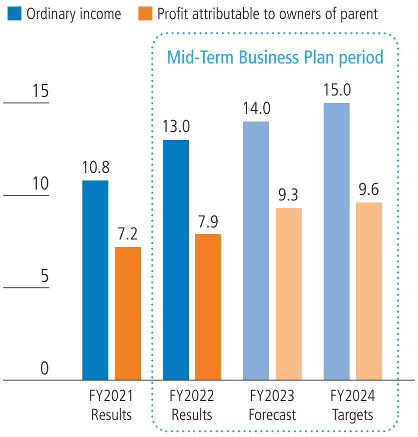
Cross-shareholdings (21.8% as of March 31, 2023)

Reduce cross-shareholdings including deemed holdings to less than 20% of net assets by the second year of the Mid-Term Business Plan

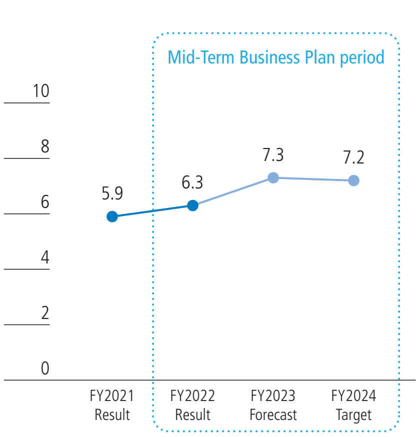
Orders received and net sales of completed construction contracts (billion yen)



Ordinary income and profit attributable to owners of parent (billion yen)



Return on equity (ROE) (%)



Basic policies and direction of the Mid-Term Business Plan and major initiatives for the fiscal year ended March 31, 2023

Basic Policy	Direction		Major Initiatives for the Fiscal Year Ended March 31, 2023 (● = under way)
1. Further strengthen core businesses —Continuously create added value through pursuit-based problem solving, which is one of our strengths	Green Technology System Business	Business development that continues to create added value	● Raise our stake in Nicomac Taikisha Clean Rooms Private Limited
		Strengthen Taikisha, the Technology Company	● Enhance the Design Dept. and promote the development of global human resources ● Establish a company structure to promote an energy management system (EMS)
		Improve business operation systems and productivity	● Check the operation of onsite DX, including BIM, and reorganize business management systems
	Paint Finishing System Business	Establish a firm position at home and abroad	● Conduct sales activities to Japanese and non-Japanese customers and reach out to new customers outside the automotive market ● Develop unique technologies to meet the needs of customers
		Development with an awareness of global social issues	● Promote collaboration with customers such as technological development on carbon neutrality, technological personnel dispatching, and technology exchange ● Globally expand domestic and overseas development centers, labs, and showrooms and enhance collaboration among them
		Improve business operation systems and productivity	● Roll out the use of 3D drawings and BIM ● Raise the level of design by educating local staff through on e-learning
2. Challenge to create new value —Create innovation and expand business domains by integrating our own technologies with external knowledge	Plan and promote intellectual property strategies		● Educate staff on intellectual property business operations within the Company and prepare rules on intellectual property ● Promote application for patents on new businesses and acquisition of the patents
	Development from the customers' perspective		● Establish the R&D satellite facility Taikisha Innovation Gate Shinjuku at the Head Office
	Open innovation		● Plan to build a new R&D Center (scheduled to be completed in May 2024)
	Horizontal deployment of technologies that are our strength		● (Green equipment business) Promote activities to win orders of ultra-precise temperature control chambers ● (Automation business) Leverage exhibitions to acquire new customers ● (Plant factory business) Continue demonstration experiments at our plants
	Develop new businesses		● Conduct joint research with universities, research institutions, and private companies
3. Strengthen management base that supports transformation and growth —Undertake initiatives with a focus on human capital, digital strategies, and governance to transform our business structure	Develop and secure human capital		● Securing highly motivated and competent human capital that match the progress of our business development ● Maintenance and operation of training program for the systematically development of senior-level personnel in long-term and honoring system for professional personnel
	Digital strategies to provide new value		● Start out activities by joining the Facilities BIM Research Liaison Committee to normalize, spread, and promote the facilities BIM ● Consider measures for the enhancement of development of digital human resource
	Strengthen the Group governance structure		● Management index that measures the return on capital by each division is under consideration. ● Begin applying the Business Investment Guidelines

Green Technology System Business

In the Green Technology System Business, we use environmental control technology that comprehensively controls energy, air, and water to create an environment that makes people comfortable and design and install air-conditioning systems that is optimal for manufacturing.

The Company will contribute to the realization of a sustainable society by increasing the added value of the entire business through improved technological capabilities and the promotion of globalization.

Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division

Tadashi Sobue

Business environment (risks and opportunities)

- Increasing demand for low-carbon buildings and the growing need to develop advanced energy-saving technologies
- Accelerating capital investment to realize a sustainable society (carbon neutrality, smart factories, etc.)
- Increasing capital investment by manufacturing companies, faced with a global shortage of semiconductors and competition in the development of electric and fuel-cell vehicles
- Accelerating smartification of factories and other facilities, with increasing need for labor-saving and automation against the backdrop of advances in digital technology and decline in the working population in Japan
- Expected increase of renovation of aging buildings and infrastructure and renewal of carbon-neutral buildings through ultra-large-scale redevelopment projects planned mainly in the Tokyo metropolitan area and other projects
- Lack of future workers in the construction industry and smartification of construction sites through DX

Strengths

- Pursuit-based problem solving cultivated by fulfilling high requirements from customers
- Ability to respond to high-spec projects and extensive construction experience
- Providing customer-oriented solutions
- Our broad global network mainly in Asia

Business environment surrounding Green Technology System Division in light of risks and opportunities

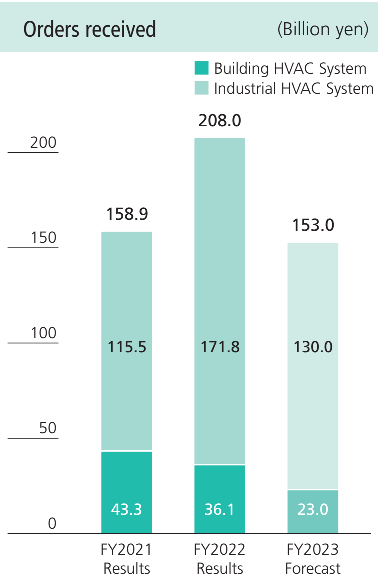
The business of the Green Technology System Division remains sturdy currently backed by strong capital investment and other factors. In order to strive for further growth in the future, the Company intends to make greater efforts to improve technological capabilities by enhancing development of human resources and to promote globalization.

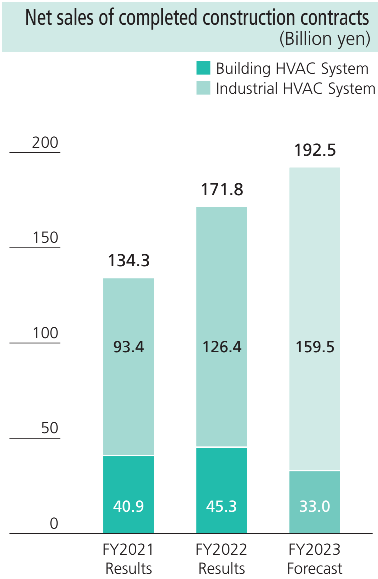
This division has relatively fewer mid-level employees than older employees and young employees. Therefore, the Company recognizes that raising the level of young employee’s capabilities as soon as possible through human resource development is an urgent issue. To address such an issue, the Company will proactively work on challenging design and construction projects and improve both the quality and quantity of human resources to increase the number of specialists with technological capabilities. Through these efforts, we will aim to differentiate ourselves from other companies by securing human resources with high technical skills and enhancing the added value of the entire business.

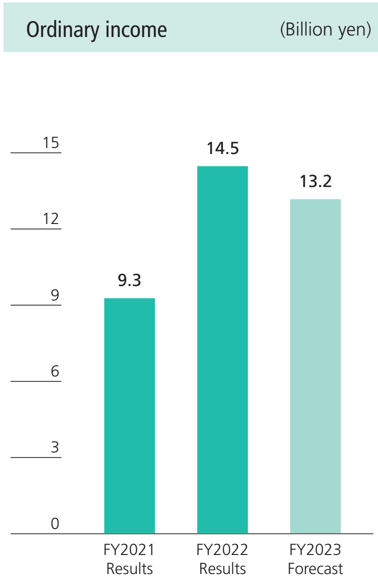
With regard to promoting globalization, current overseas sales ratio in this division is approximately 30% and the Company will continue to increase the ratio. Especially, the Company will aim to expand its market share in India by taking advantage of the strength of Nicomac Taikisha Clean Rooms Private Limited which became its wholly-owned subsidiary.

The Company will also focus on developing global human resources indispensable for promoting globalization. We will develop human resources that will play an active role in the global arena by sending employees who want to gain experience abroad on international assignments while they are young and giving them more opportunities to take on challenges overseas. As for national staff, we will optimize the use of human resources on a group basis by giving them executive education programs and promoting the exchange of workers between Japan and overseas.

Amid growing awareness of decarbonization, the Company believes we are able to seize business opportunities depending on how quickly it can respond to customers’ moves. We will endeavor to provide solutions that meet the needs of our customers to realize our long-term vision of “Contribute to a Sustainable Society through Innovative Engineering of Energy, Air and Water.”







Key strategies	Direction of Mid-Term Business Plan
■ Expand orders from non-Japanese customers by utilizing our overseas networks. ■ Train professionals with abundant knowledge and experience to enhance construction quality. ■ Create opportunities for national staff at overseas affiliates.	**Business development that continues to create added value** ■ Further expand our overseas business. ■ Enhance engineering capabilities that are the lifeblood of the Company. ■ Aim to become a Group where all employees can work lively regardless of country, region or race, and contribute to the economic development and technological improvement of countries where we operate.
■ Focus on areas where we can demonstrate our advanced technological capabilities. Strengthen ties with customers and actively follow their technological innovations. ■ Develop specialists through cutting-edge technology projects and build an organization with mobility. ■ Uncover potential customer needs by utilizing Research and Development Center and R&D Satellite.	**Strengthen Taikisha, the Technology Company** ■ Further strengthen technological capabilities. ■ Promote accumulation and transmission of technology. ■ Respond flexibly to the technical needs of customers and projects. ■ Create opportunities to create new value.
■ Actively promote the introduction of digital devices and on-site work support tools. ■ Use BIM in construction drawing work.	**Improve business operation systems and productivity** ■ Respond to a decline in the working population and a shortage of workers in the construction industry in Japan. ■ Reduce working hours and improve the ease of working and work-life balance of employees.

Effective utilization of human resources across the Taikisha Group

The Company established its subsidiary, Taikisha Myanmar Co., Ltd., in Myanmar in December 2013 and has developed businesses focusing on installation work and electric work associated with plant constructions. The Company has a long history with Myanmar. We have engaged in air-conditioning system projects in the medical, transportation, and agricultural fields since the 1980s before the establishment of our subsidiary and grown with the economic development of Myanmar.

However, political and economic conditions in Myanmar have been changing drastically since the 2021 coup. While responding flexibly to changes in the business environment, the Company is working to transfer staff hired in Myanmar who wish to do so to other bases in Asia or to accept them at our Head Office in Japan as part of efforts to efficiently utilize superior human resources across the entire Taikisha Group.

Through these initiatives, the Taikisha Group will contribute to the realization of an inclusive society without prejudice against any nationality, gender, or other characteristics.

A Myanmar employees, working in Head Office, the Green Technology System Division

Paint Finishing System Business

In the Paint Finishing System Business, we design and construct automotive paint finishing plants that achieve high coating quality, energy saving, and environmental consciousness. In addition to the paint booth, which is the workspace used for painting, the Company currently boasts No. 1 market share in Japan and No. 2 in the world by predominance as a total engineering company, including pretreatment, electrodepositing lines painting robots, conveyor systems, and paint feeding systems necessary for paint finishing plants.

We will pursue sustainable growth of the Paint Finishing System Business by developing new technologies that stay ahead of changing times and transforming medium- to long-term business portfolio.

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

Yukinori Hamanaka

Business environment (risks and opportunities)

- In addition to increasing production volume in the four-wheel automobile market, increasing trend in new investments for EVs and additional investments for carbon neutrality
- Increasing opportunities for joint development, technical exchanges and proposals for realization of carbon neutrality
- Increasing need for automation and accelerating smartification of manufacturing lines
- Increasing need for alternative automobile painting technologies and technological innovation in the paint finishing process
- Changes in customers in line with their shift to EVs
- Increasing need for automation in manual work field due to the aging of skilled workers

Strengths

- Technological capabilities to achieve the world's highest-level painting quality, and rich experience as well as profound knowledge and understanding regarding painting technologies
- Advantages of long relationships of mutual trust with customers, mainly Japanese automobile manufacturers, as well as know-how on automotive paint finishing facilities and familiarity with the specifications of each automobile manufacturer
- System integration technology and know-how for industrial robots cultivated from automobile painting processes
- High market share mainly in the Asian market
- One of the few companies in the world that can provide full turnkey support in the construction of paint finishing factories

Business environment surrounding Paint Finishing System Division in light of risks and opportunities

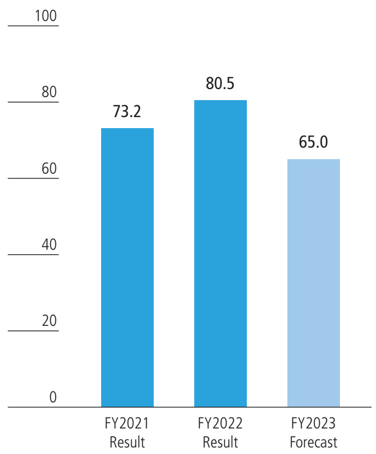
The four-wheel automobile market, a core business of the Paint Finishing System Division, is said to be undergoing a once-in-a-century revolution. Thus, the market faces a turning point in an era where various changes can occur drastically. As we enter the era of EVs toward carbon neutrality, OEMs specializing in EV manufacturing are beginning to adopt production technologies based on completely new ideas.

New production technologies change production methods, resulting in fundamental changes in how automobile painting should be. For example, if the production of automobiles by block becomes mainstream, the current way of painting the whole car body may be replaced by the way of painting by part. Even if the traditional painting by parts continues, paint-free "alternative painting" may become a new production technology, instead of the conventional wet painting method of spraying liquid paint.

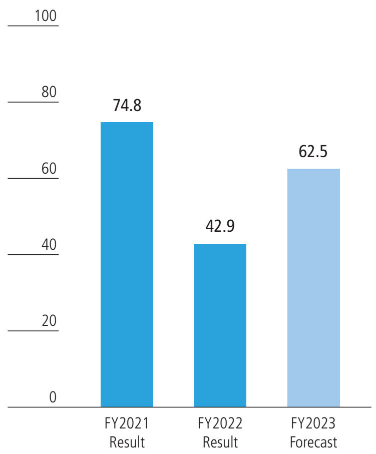
We believe that dry decoration technology applying films, an alternative painting technology, is compatible with a new way of manufacturing cars and can be a game changer contributing to carbon neutrality, thereby we rush to develop this technology. We want to be elected as long-term business partners and help conserve the global environment with our customers by always staying a step ahead in dealing with these changes in the times and solving issues of customers with new technologies.

Through these efforts, we will cherish our existing customers and raise the share of non-Japanese companies and customers outside the automotive market. To this end, we will strive for sustainable growth, promoting the transformation of medium- to long-term portfolio.

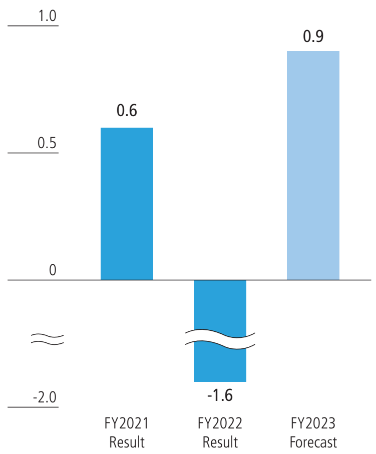
Orders received (billion yen)



Net sales of completed construction contracts (billion yen)



Ordinary income (billion yen)



Key strategies

- Expand our automation business by utilizing our robot control technology and know-how
- Work with partner companies to approach new customers outside the automotive market
- Formulate and implement regional business strategies

- Improve coating efficiency and promote the development of energy-saving technologies
- Develop and verify equipment with low environmental impact, such as hydrogen fuel burners
- Promote the development of dry decoration technologies

- Utilize DX
- Enhance global education programs, including those for national staff

Direction of the Mid-Term Business Plan

Establish a firm position at home and abroad

- Make our business domains and customer portfolio well-balanced one
- Develop non-automotive markets
- Further attract non-Japanese customers

Development with an awareness of global social issues

- Contribute to the realization of carbon-neutrality

Improve business operation systems and productivity

- Contribute to early visualization of customer factories as well as installation of concurrent engineering and smart factories
- Improve engineering capabilities of the entire Taikisha Group

Taikisha delivered i-Dry Scrubber to the plant of Toyota Motor Manufacturing de Guanajuato (TMMGT)

In December 2022, Taikisha delivered i-Dry Scrubber (a cardboard filter-type booth) that does not use water to a plant in Mexico of TMMGT, an automobile manufacturing subsidiary of Toyota Motor Corporation. This is a dry scrubber system to collect paint mist that is splashed in the booth when painting car bodies through cardboard filters. Installation of this system has contributed to energy saving and reduction of environmental burden.

Governance

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

Management Structure

Number of years as Director of the Company Number of shares of the Company actually held Number of dilutive shares of the Company held
Attendance at the Board of Directors Meetings

Directors

Representative Director, President Corporate Officer

Masashi Osada

6 years 3,100 1,788 17/17

Joined the Company in 1983. Previously worked as Senior General Manager, Global Business Management Dept., Paint Finishing System Division; Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters; Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division. In the current position since April 2023.

Representative Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters

Yasushi Nakajima

6 years 12,000 10,347 17/17

Joined the Company in 1982. Previously worked as Director, Managing Corporate Officer, Vice General Manager, Green Technology System Division; Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division; Chief Executive, Administrative Management Headquarters. In the current position since April 2023.

Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of Sustainability Promotion

Masanori Nakagawa

5 years 11,337 8,810 17/17

Joined the Company in 2012 after serving as General Manager, Strategic Investment Department, Business Administration Division of a leading bank. Previously worked as Director, Managing Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR; Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters, in charge of CSR. In the current position since April 2023.

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

Yukinori Hamanaka

– (3 years in total) 3,073 – –/–

Joined the Company in 1981. Director, Managing Corporate Officer, Vice Chief General Manager, Paint Finishing System Division, and President, TKS Industrial Company. In the current position since April 2023.

Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division

Tadashi Sobue

– 2,600 – –/–

Joined the Company in 1987. Previously worked as Director, Taikisha (Thailand) Co., Ltd.; Senior General Manager, Engineering Supervisory Dept., Osaka Branch Office, Green Technology System Division; Corporate Officer, Senior General Manager, Engineering Supervisory Dept. and Senior General Manager, Global Engineering Supervisory Dept., Green Technology System Division. In the current position since April 2023.

Directors' specialized knowledge and experience

Name	Masashi Osada	Yasushi Nakajima	Masanori Nakagawa
Position	Representative Director, President Corporate Officer	Representative Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters	Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of Sustainability Promotion
Corporate management	●	●	●
Technological development, IT strategies		●	
Global business	●	●	●
Industrial insights, market awareness	●	●	
Human resources development, personnel and labor management		●	●
Internal control, governance	●	●	●
Laws, finance and accounting			●
Nomination Advisory Committee	●	●	
Compensation Advisory Committee	●	●	
Governance Committee	●	●	●

(Notes) 1. The table above does not represent all the knowledge and experience possessed by the candidates. 2. ○ represents chairperson.

Outside Director

Hirokazu Hikosaka

6 years 2,000 – 17/17

Mr. Hikosaka had worked as Audit & Supervisory Board Member since 2015 and was appointed as an Outside Director in 2017. He has abundant experience and a high level of insight regarding internal control and governance, etc., through his long tenure as an attorney. He chairs the Governance Committee.

Outside Director

Kiyotaka Fuke

4 years 2,600 – 17/17

Mr. Fuke had worked as Audit & Supervisory Board Member since 2017 and was appointed as an Outside Director in 2019. He has served as a manager of a leading life insurance company for many years, and has abundant experience and a high level of insight regarding internal control, governance, human resources development, personnel and labor management, etc. Leveraging his experience as a corporate leader, he chairs the Board of Directors and the Nomination Advisory Committee.

Outside Director

Masasuke Kishi

2 years 1,000 – 17/17

Mr. Kishi was appointed as an Outside Director in 2021. He has years of experience as a manager of a leading business corporation, and has abundant expertise and experience regarding the information and communications sector, internal control, and governance. He chairs the Compensation Advisory Committee.

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member
Makoto Wakida

Full-time Audit & Supervisory Board Member
Hiroyuki Matsunaga

Outside Full-time Audit & Supervisory Board Member
Junichi Sakurai

Outside Audit & Supervisory Board Member
Shigeo Kobayashi

Outside Audit & Supervisory Board Member
Nobuyuki Soda

	Yukinori Hamanaka	Tadashi Sobue	Hirokazu Hikosaka	Kiyotaka Fuke	Masasuke Kishi
	Director, Managing Corporate Officer, Chief General Manager, Paint Finishing System Division	Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division	Outside Director	Outside Director	Outside Director
	●			●	●
	●	●			●
	●	●			
	●	●			
				●	
			●	●	●
			●		
			●	○	●
			●	●	○
			○	●	●

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."*

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

Corporate Governance System

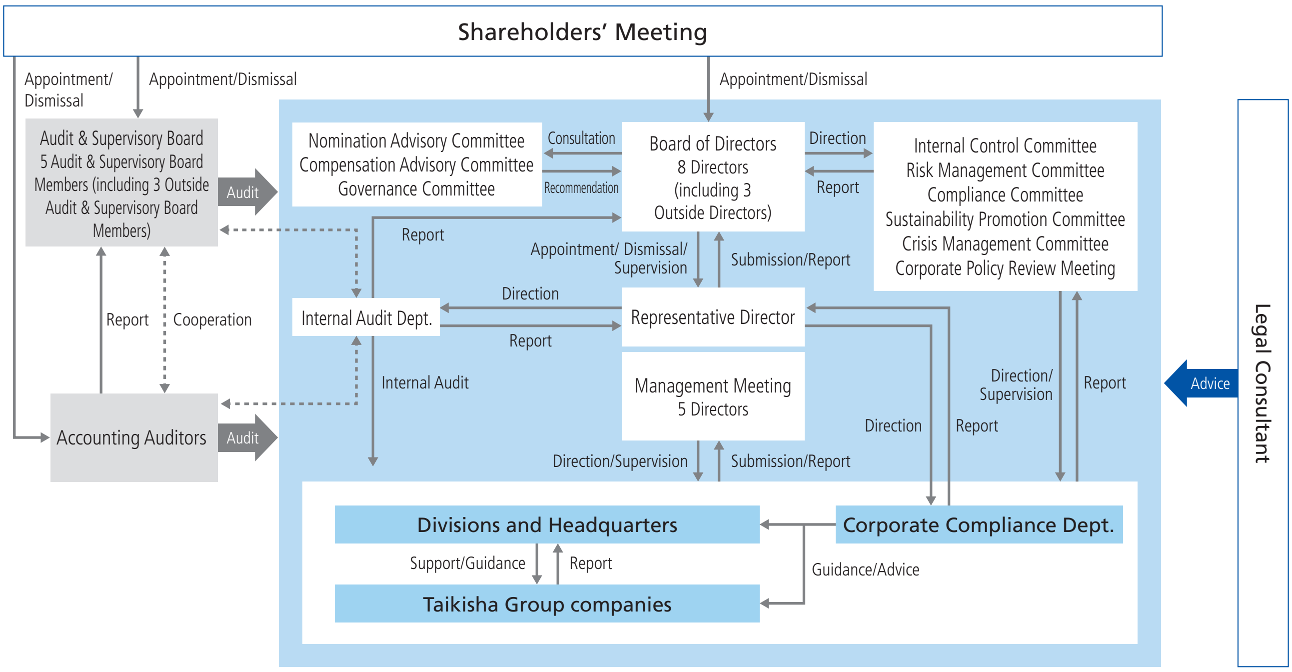
In conformity with the basic policy and based on the organizational structure of a Company with an Audit & Supervisory Board, Taikisha is continuously working to strengthen the Taikisha Group's governance and reform its management by reinforcing the supervisory function of the Board of Directors through 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.

Initiatives that Support Corporate Governance

As initiatives to support its corporate governance, Taikisha has set up meeting bodies and committees under the Board of Directors, including the Management Meeting, the Internal Control Committee, the Risk Management Committee, the Compliance Committee, the Sustainability Promotion Committee, the Crisis Management Committee, and the Corporate Policy Review Meeting with the aim to reinforce its governance through independent activities of and collaboration among them. In addition, the Company established the Nomination Advisory Committee, the Compensation Advisory Committee, and the Governance Committee, which are voluntary advisory bodies to the Board of Directors and mainly consist of Outside Directors, to improve the effectiveness and transparency of decision making and other matters of the Board of Directors.

Taikisha monitors the initiatives periodically, and conducts reviews on an ongoing basis.

● Pattern Diagram of Corporate Governance (as of June 30, 2023)



Inside Director | Outside Director | Inside Audit & Supervisory Board Member | Outside Audit & Supervisory Board Member

	Composition	Content	Frequency of meetings
Board of Directors	Chair: 8 Directors (Inside: 5, Outside: 3)	The Board of Directors makes decisions regarding the Taikisha Group's management policy, items stipulated in laws and regulations 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.	Once a month Additional meetings as required
Audit & Supervisory Board	5 Audit & Supervisory Board Members (Inside: 2, Outside: 3)	The Audit & Supervisory Board mainly deliberates the audit plan, exchanges opinions on audit result reports, etc., and considers 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 regarding the compensation to be paid to the accounting auditor.	Once a month in principle
Nomination Advisory Committee	Chair: 5 Directors (Inside: 2, Outside: 3)	The Nomination Advisory Committee was established as an advisory body 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 of CEO and Directors. Based on consultation from the Board of Directors, the Committee carries out deliberations on the process of electing Director candidates and Audit & Supervisory Board Member candidates as well as the planning of the successor to the president.	As required (FY2022: 11 times)
Compensation Advisory Committee	Chair: 5 Directors (Inside: 2, Outside: 3)	The Compensation Advisory Committee was established as an advisory body 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 compensation of Directors. The Compensation Advisory Committee deliberates on the establishment and revision of compensation and assessmemt system for Directors and Audit & Supervisory Board Members, the appropriateness of the assessment results and the amounts of fixed compensation and performancelinked compensation.	As required (FY2022: 10 times)
Governance Committee	Chair: 6 Directors (Inside: 3, Outside: 3) 1 Audit & Supervisory Board Member	The Governance Committee was established as an advisory body for the Board of Directors concerning internal control, with the aim of improving the governance system of the entire Taikisha Group. The Governance Committee replies to questions from the Board of Directors about the optimization of the Taikisha Group's internal control, and makes proposals or recommendations to the Board of Directors.	Twice a year or more As required (FY2022: 11 times)

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.

Since fiscal 2015, the Company has conducted analysis and evaluation of the effectiveness of the Board of Directors, and the Board of Directors deliberates issues identified through the results of the evaluation and policies for dealing with the same, every year. Thus far, the Board of Directors has been making efforts to further enhance the supervisory function of the Board of Directors by implementing various initiatives, such as creating a skills matrix and enhancing the diversity of the members of the Board of Directors. From FY2019, the members of the Board of Directors have discussed a long-term strategy, envisaging changes in the industrial structure and the social environment as well as future visions in 10 or 20 years, based on the results of the past analyses and evaluations of effectiveness. Furthermore, in FY2022, the Company held intensive discussions, including off-site discussions themed on the outlook of the business environment and changes in business models in view of the year 2050. In FY2022, to appoint the President and Representative Director, the Nomination Advisory Committee fostered a common understanding about personnel requirements for desirable candidates for CEO as well as background to the personnel appointments of executives, etc. The Committee subsequently selected candidates, reviewed documents, held meetings with those candidates, and deliberated on their qualifications from a wide range of viewpoints, including consistency with the long-term vision and skills matrix. The Committee reported the results of these deliberations to the Board of Directors for decision-making. Also, the Board of Directors decided to incorporate the non-financial factors (long-term strategy and reinforcement of governance) into the performance-linked compensation to Executive Directors after the deliberation at the Compensation Advisory Committee. Considering these factors, in the analysis and evaluation of the effectiveness of the Board of Directors in FY2022, 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 questionnaire for the purpose of collecting their opinions about matters on "responses to the issues identified in the previous fiscal year's analysis and evaluation," "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." The results were reported and deliberated at the Board of Directors, based on the results of objective analysis by an external advisor. In addition, in a questionnaire survey for all Directors and Audit & Supervisory Board Members, the respondents were asked to state reasons and make specific proposals about the matters that they expect to be further improved in order to improve the corporate value of the Company as well as issues that they think need to be improved immediately in view of the situation of the Company. Opinions were also collected on priorities for the improvements of issues.

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.

1) To further deepen the long-term strategy, off-site discussions by the members of the Board of Directors and the senior management of business divisions were held twice, backcasting for business strategy (business model reform), global regional strategy, initiatives for new business development and more, with the year 2050 in mind. The overview of the discussion is available on our corporate website. 2) Regarding digital transformation (DX), the Board of Directors received a report from the Digital Strategy Committee on issues related to the promotion of the development of core systems including those at overseas sites, and the further promotion of the "digital strategies to provide new value." 3) Taikisha strengthened the monitoring system of the Board of Directors regarding the risks and opportunities associated with climate change, and established indicators and targets for measuring and managing the climate change risks and opportunities, etc. (In April 2023, the Company disclosed its sustainability information in line with the framework of TCFD.) 4) For Executive Directors, the Compensation Advisory Committee deliberated on the purpose of introducing ESG-linked compensation system, assessment items, and calculation methods, with the aim of conducting objective and transparent assessments, such as revising performance-linked compensation in order to promote the medium- to long-term growth of company with non-financial targets such as ESG as assessment factors. 5) The Governance Committee, an advisory body to the Board of Directors, deliberated the initiatives for strengthening the group governance system including the formulation of business investment guidelines (including monitoring KPIs, M&A/PMI guidelines, etc.) and clarifying the roles and responsibilities of Directors and Audit & Supervisory Board Members of affiliated companies, etc.

On the other hand, the Company recognized the necessity of tackling the matters described below as issues to resolve in order to further improve effectiveness.

1) Toward the realization of the long-term vision set forth in the new Mid-Term Business Plan (from FY2022 to FY2024), the Company will consider future business models in 10 years and 20 years, and continue to hold discussion on its philosophy, purpose, and the Taikisha brand. Also, the Company will discuss the clarification of the definition of human capital as well as human capital investment to realize its long-term vision.

2) The Digital Strategy Committee will deepen the discussions on "Digital integration for R&D and new business creation" and "Improving productivity through onsite digitalization and DX" to enhance the supervision by the Board of Directors. 3) The Company will continue to consider matters including the supervision of the implementation status of operation of M&A guideline established in the previous fiscal year and the ideal way of governance in accordance with the status of overseas affiliates.

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 as well as continuously examine measures to improve the effectiveness of the Board of Directors.

Internal Audit

The Internal Audit Department (with 12 members), an independent department directly under the President and Representative Director, conducts audits in accordance with the Internal Audit Rules.

The Internal Audit Department audits the effectiveness and efficiency of the Group's overall business activities and reports the audit results to the President and Representative Director and also directly to the Board of Directors, the Audit & Supervisory Board, and the Accounting Auditor.

In addition, matters that need to be improved are communicated to the audited departments and follow-up audits are conducted.

The Internal Audit Department also evaluates the internal control over the Group's financial reporting.

Audit by Audit & Supervisory Board Members

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/her, and requests Directors and Corporate Officers, etc. to report on the execution of duties as needed in order to keep track of important decision-making processes and the progress of the execution of duties at 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 Department, the Corporate Compliance Dept., and other related departments and sections and make proposals for the improvement of operations as needed.

Appointment and Development of Directors and Audit & Supervisory Board Members

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

The candidates for Directors are selected from among persons who satisfy all of the selection criteria listed in the table below.

With regard to the composition of the Audit & Supervisory Board, one or more Audit & Supervisory Board Members who have expertise in finance and accounting shall be appointed 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.

The candidates for Audit & Supervisory Board Members are selected from among persons who are considered to have the abilities necessary for performing their duties set forth in the Standards for Audit by Audit & Supervisory Board Members and satisfy all of the selection criteria listed in the table above.

For Directors and Audit & Supervisory Board Members including Outside Directors and Outside Audit & Supervisory Board Members to fully perform their management supervision and auditing functions, the Company continuously provides trainings, etc. aimed at helping them acquire the necessary knowledge about the Company's management issues, finance, compliance with laws and regulations, etc. In addition, the Company will help them find external education and training, as necessary, and bear the costs.

In addition to the above, the Company provides training (including visits to each facility, construction sites, affiliated companies, etc.) aimed at deepening the understanding of the Group's Corporate Philosophy, corporate management, business activities, organization, etc. to Outside Directors and Outside Audit & Supervisory Board Members and also provides information about these, as necessary.

● Appointment criteria for Directors and Audit & Supervisory Board Members

Directors and the Audit & Supervisory Board Members	● Persons who have a good personality, deep insights and a strong sense of ethics and compliance ● Persons who are free of health concerns in executing their duties
Inside Directors	● Persons who have an adequate understanding of Company's Mission Statement and Corporate Philosophy and an excellent ability for corporate governance ● Persons who have adequate knowledge, experience and ability for the Company's businesses and operations as well as an ability for realizing future corporate development ● Persons who have an excellent ability for analyzing and making decisions objectively and promptly from the viewpoint of supervising the company-wide management
Outside Directors	● Persons who are able to appropriately reflect opinions in accordance with Taikisha's Mission Statement and Corporate Philosophy at the meeting of the Board of Directors, from an objective and independent perspective of external stakeholders ● Persons who have extensive knowledge and experience in corporate management and business execution necessary for giving advice and supervising the management of the Company ● Persons who are able to secure the time and labor necessary to appropriately fulfill their roles and responsibilities
Inside Audit & Supervisory Board Members	● Persons who are considered to have the abilities necessary for performing their duties set forth in the Standards for Audit by Audit & Supervisory Board Members ● Persons who are well versed in the Company's operations and have sufficient knowledge, experience and ability
Outside Audit & Supervisory Board Members	● Persons who are considered to have the abilities necessary for performing their duties set forth in the Standards for Audit by Audit & Supervisory Board Members ● Persons who have extensive knowledge and experience in areas of specialization, such as company management, finance, accounting and legal affairs, etc. and can allocate sufficient time and energy necessary for fulfilling their roles

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 evaluation of financial indicators (company's consolidated ordinary income) and non-financial indicators (initiatives for long-term strategy, including sustainability and investments in human capital and intellectual property and others, and enhancement of governance) to serve as an incentive for achieving their performance goals. Compensation to Non-Executive Directors (Outside Directors and Directors who are not concurrently serving as Corporate Officers) and Audit & Supervisory Board Members is limited to basic compensation and no bonus and stock-based compensation shall be paid.

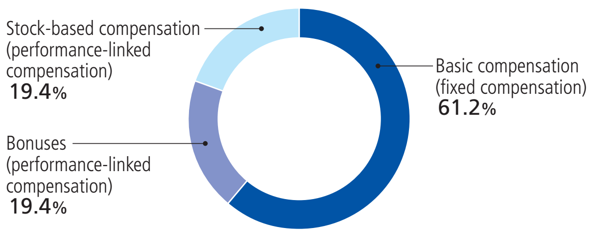
(2) Compensation structure

(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 reflects the content of the "(3) Performance-linked compensation scheme" below.

● Ratio of Executive Directors' compensation (FY2022)



(3) Performance-linked compensation scheme

Performance-linked compensation is composed of bonus and stock-based compensation with an amount equal to 50% of the base payment amount paid each as bonus and stock-based compensation. For the performance-linked compensation, evaluation is made based on financial indicators (company's consolidated ordinary income) and non-financial indicators (initiatives for long-term strategy, including sustainability, investments in human capital and intellectual property, etc., and enhancement of governance). The evaluation ratio is 70% for financial indicator and 30% for non-financial indicators. In addition, as for non-financial indicators, actual payment ratio fluctuates between 70% and 130% according to the target achievement level.

Consolidated ordinary income is one of the key KPIs in the company's Mid-Term Business Plan, and is thus selected as a financial 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. Moreover, 30% of the evaluation ratio is for non-financial indicators with an expectation to serve as an incentive for sustainability as a long-term strategy, investments in human capital and intellectual property, and further enhancement of governance.

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 at the time of the retirement of Executive Directors in the form of the company's shares or cash equivalent to the fair value thereof, in principle.

(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 President and 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 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.

Corporate Governance Report
https://www.taikisha-group.com/corporate/governance/pdf/pdf-index-01.pdf

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 after discussing the matter at the Internal Control Committee.

In FY2022, the Risk Management Committee clarified the persons and divisions in charge and their roles and responsibilities concerning risks to be addressed across the company and discussed remedial policies on a company-wide basis in a comprehensive manner. Also, based on the recognition that the COVID-19 pandemic that had been continuing since FY2020 is one of the most significant risks having a major impact on management, the Committee launched a task force and had tackled COVID-19 on a group-wide scale until February 2023.

● Risk Management Structure

Internal Control Committee

Direction ↓ ↑ Report

Risk Management Committee

Chairman	President and Representative Director
Members	Persons responsible for risk management (every Chief General Manager, every Chief Executive, General Manager of the Corporate Compliance Dept.) and others appointed by the President
Purpose	Integrated identification and management of risks borne by the Taikisha Group
Roles	The Committee shall address the following items to implement risk management effectively and efficiently. 1. Formulation of a basic policy for risk management 2. Accountability and operations of risk management 3. Promotion of risk management 4. Establishment of a risk management system 5. Other matters regarding risk management as necessary
Frequency of meetings	Twice a year in principle with additional meetings as required.
Secretariat	Corporate Planning Headquarters

Direction/Supervision ↓ ↑ Report

Entities subject to risk management (Business offices, departments, group companies in Japan and overseas)

● Major Risks and countermeasures

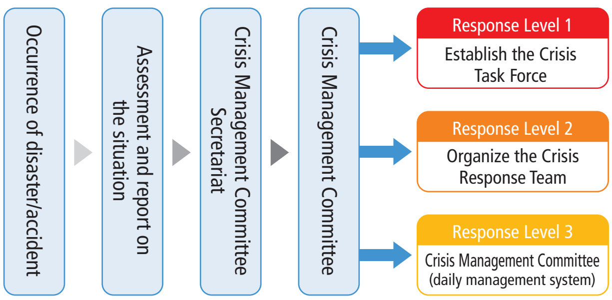
Risk	Content	Remedial Policy and countermeasures
Risk of fluctuations in private-sector capital investment	Decrease in orders received due to deterioration of environment for receiving orders, fall in capital investment by clients and change in investment fields	● Broaden the client base by enhancing sales system ● Accelerate the development of technologies that will change customers' production facilities ● Tap new markets and new clients in painting field based on automation technology
Risk associated with large-scale natural disasters	Losses, direct physical and human damage, and impact on customers' business activities and economic conditions caused by natural disasters such as earthquakes, tsunamis, storms and flooding, and global epidemics of infectious diseases, etc.	● Establish basic policies for crisis management and develop a crisis management system ● In the event of a crisis, implement crisis response measures according to the level of impact (classified into three levels)
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 and risk of uncollectibility of receivables attributable to unexpected amendment of local laws and regulations, political instability, etc.	● Proactively collect information on political, economic, legal and regulatory information at overseas sites ● Reduce risks through hedging based on forward exchange contracts, etc. ● Strengthen credit management through screening before accepting orders ● Make overseas affiliates' governance system more sophisticated
Risk concerning technological development	Inability to differentiate from other companies in terms of technology, resulting in loss of sales opportunities and a decline in customer confidence and corporate reputation	● Solve social issues through the development and demonstration of environmental impact reduction and automation technologies ● Expand the breadth of communication by opening the R&D satellite facility ● Strengthen Group-wide activities through the use of digital technologies ● Promotion of innovative technology development through integration with academic institutions/start-up companies
Human resource-related risks in project execution	Delays in the development of engineers, shortage of skilled and experienced engineers, and decrease in the total working hours of engineering employees due to the application of regulations for upper limits on overtime work in the construction industry effective from April 2024	● 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 ● Clearly indicate the health management promotion system to maintain and promote mental and physical health of employees, and plan and implement health measures
Risk concerning legal compliance	Violation of Antimonopoly Act, violation of Construction Business Act, violation of Labor Standards Act, etc.	● 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.	● Enhance safety management system ● Conduct a review on construction management system and promote application of IT ● Strengthen the system to ensure technological quality for the Group as a whole.
Risk of fluctuations in material prices and unit labor costs	Rising procurement prices for construction materials and rising unit labor costs due to low birthrate, aging population, and shortage of workers	● Reflect appropriate costs by region into the contract amount at the time of receiving an order ● Hedge risk against price fluctuations in contracts
Risk of confidential information leakage	Leakage of confidential information such as personal information and customer information through cyberattacks and data exfiltration	● Identify vulnerabilities through IT security assessment and strengthen IT security accordingly ● Establish internal rules and thoroughly educate employees
Risk concerning climate change	Loss of customers due to inability to adapt to customer needs, a decline in competitiveness due to delays in the development of technologies, cost increases due to the introduction of carbon taxes, lower labor productivity due to a rise in average temperature, etc.	● Develop low-carbon construction technologies and systems ● Expand the construction of energy saving-equipment ● Promote mechanization and automation

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 implements 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 methods, routes and accommodation facilities before determining whether to permit the business travel. To eliminate concerns 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.

Information Security

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

In addition, to address the cyber security threats that are becoming more diversified and sophisticated on a daily basis, Taikisha reviews the information security risks and conducts various initiatives aimed at risk mitigation.

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	Revision of regulations and guidebook
	Provision of Information Security education to employees
Measures to prevent information abuse	Encrypting stored data in information equipment
	Access management through multifactor authentication
	Security measures for entrance and exit control
	Measures to prevent erroneous transmissions of e-mail
Measures to protect against malware and other external threats	Anti-virus and anti-malware measures
	Automatic application of patches
	Website filtering
	Measures to block spam
	Monitoring of misconducts on the company network

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 BCP 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 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. With regard to the safety of employees, Taikisha has organized a company-wide self-defense firefighter team and conducts training activities. In addition to 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.

In addition, the Company formulated the "Pandemic preparedness business plan" based on its experience in responding to COVID-19. It is intended to respond accurately and promptly in order to take the utmost care for respecting human life and continue our business while placing the highest priority on securing safety even in the event of pandemic.

A disaster prevention drill

AED and first-aid rescue training session

Compliance

Taikisha is working to prevent compliance violations by raising awareness of compliance through a variety of activities

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 prevention of compliance violations.

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 Committee and the Corporate Compliance Department. Taikisha has also assigned Compliance Officers and established a Whistle-blowing Contact Window. The Corporate Policy Review Meeting is held to examine the annual policy and plan for compliance activities and to validate the implementation status thereof.

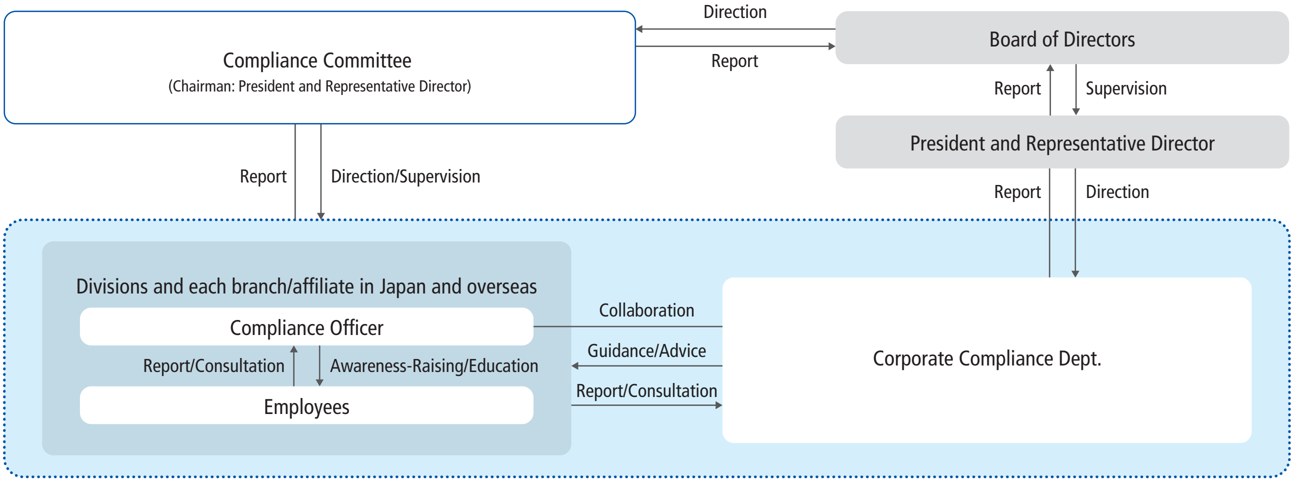
The Compliance Committee is composed of Executive Directors, the General Manager of the Corporate Compliance Department, and the General Manager of the Internal Audit Department, chaired by the President and Representative Director, and holds monthly meetings. The Compliance Committee examines and responds to issues regarding compliance in the overall business operations of the Company and validates the status of compliance with laws and regulations. In the event of significant compliance events or signs of possible occurrence, the Company shall convene the Compliance Committee, attended by all officers, to deal with the events.

The Corporate Compliance Department, an independent department under the direct control of the President and Representative Director, implements compliance education, monitors status of compliance with laws and regulations, provides guidance on improvement, disseminates information via the corporate intranet, and makes the Whistle-blowing System well known on an ongoing basis based on the annual policy and plan for compliance activities. In addition, the department reports on the status of its activities to the Compliance Committee.

Compliance Officers, who engage in activities in collaboration with the Corporate Compliance Department, are assigned to each division and each branch/affiliate in Japan and overseas. The Corporate Compliance Department monitors the status of compliance with laws and regulations at the Group, and provides a feedback on the result to the Officers. The Officers implement necessary improvement measures within their respective organizations based on the feedback, and the Corporate Compliance Department follows up on the implementation status to build a system for the entire Group to continuously make improvements.

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

● Diagram of Taikisha's Compliance System



Efforts to Spread and Firmly Establish Compliance Awareness

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, asking employees to sign a pledge, 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, respectively, in the form of awareness-raising posters in the corporate offices and on-site offices. As part of efforts to instill its Corporate Philosophy and Taikisha's Code of Conduct as well as to implement compliance education, Taikisha conducts e-learning targeting all employees. In the e-learning program, themes are selected from items that Company employees should understand, such as prevention of bid rigging, prevention of improper handling of construction costs, prevention of harassment, proper management of overtime hours, proper management of information, and the Whistle-blowing System. Efforts are made to improve the learning effect of the program, such as using video content.

The Company conducts 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. In FY2022, training sessions were conducted in Japan on prevention of bid rigging (for sales staff). In overseas, training sessions were held on Corporate Philosophy, prevention of improper handling of construction costs, prevention of power harassment, proper management of information, and the Whistle-blowing System.

● Overview of e-learning

Date	Number of participants	Question theme
First session: May 2022	1,673 (100% attendance)	Proper management of overtime hours, prevention of abuse of authority
Second session: August 2022	1,675 (100% attendance)	Proper management of overtime hours, whistle-blowing system
Third session: November 2022	1,662 (100% attendance)	Proper management of overtime hours, prevention of abuse of authority
Fourth session: February 2023	1,667 (100% attendance)	Bid rigging, whistle-blowing system

Compliance Awareness Survey

In FY2022, we conducted a compliance awareness survey with local employees of major overseas affiliates to confirm the degree of compliance awareness. The results of the survey are fed back to each business division and affiliate, and efforts to raise the degree of awareness will continue to be made by improving the workplace environment and reflecting the results in compliance activities.

● Overview of compliance awareness survey

Period	June 8 to July 1, 2022
Number of employees	2,282 (local employees of 16 overseas affiliates)
Number of respondents	2,098 (response rate 91.9%)

Monitoring of Compliance Risk

The Corporate Compliance Department regularly monitors the status of compliance of laws and regulations at the Group through the Compliance Awareness Survey, interviews, field visit, etc. Through compliance activities, the Corporate Compliance Department works to continuously improve the issues identified through the monitoring.

In Japan, the Corporate Compliance Department broadly checks and validates the status of compliance with internal rules related to bid rigging and prevention of improper handling of construction costs as well as the status of dissemination of the Whistle-blowing System and issues such as work environments. In addition, the Corporate Compliance Department investigates business partners to ensure that there is no inappropriate activities by the employees of the Company, and makes its Whistle-blowing Contact Window thoroughly known to business partners.

In overseas, the Corporate Compliance Department checks and validates the status of compliance with laws and regulations related to bribery, bid rigging, cartels, etc., as well as prevention of improper handling of construction costs, the status of dissemination of the Whistle-blowing System, and issues to improve the working environment.

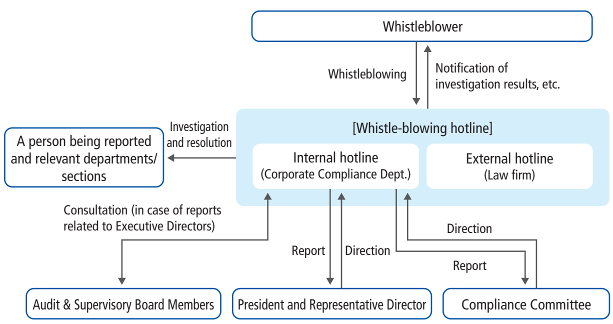
Whistle-blowing System

Taikisha has the Whistle-blowing System in place to identify at an early stage and resolve compliance violations, and has a Whistle-blowing Contact Window in the Corporate Compliance Department and a law firm. The hotline is also available to the employees and officers of affiliates and business partners as well as to the employees and officers of the Company. In case of receiving the reports related to or suspected to be related to the Company's Executive Directors, Taikisha addresses the case in consultation with the Audit & Supervisory Board Members. This process ensures that we can respond to the issue independently of executives.

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

In FY2022, the Company's and major affiliates' Whistle-blowing Contact Window received 16 cases and took appropriate actions upon prompt investigation of each of these cases.

● Whistle-blowing Flow Chart



Communication with Shareholders and Investors

Taikisha is working for the proactive dialogue with shareholders to contribute to the improvement of corporate value as well as the appropriate information disclosure.

Basic Policy

Taikisha promptly discloses important information regarding Taikisha based on the transparency, fairness and consistency stated in the Taikisha Management Vision: “Conduct businesses under free and fair competition in compliance with laws and the spirit thereof; contribute to customer/ business partner, shareholder, employee, community/ society and global environment with transparency and integrity.” Based on such disclosed information, Taikisha holds constructive dialogues with shareholders, which contribute to sustainable growth and the medium- to long-term improvement of corporate value.

Basic Policy for Shareholder Returns

Based on the basic policy, Taikisha is working to improve corporate value through enhancement of shareholder return by changing dividend policy and purchasing treasury shares as stated in the Mid-Term Business Plan released in May 2022.

We continuously work to enhance the shareholder return based on the following policy.

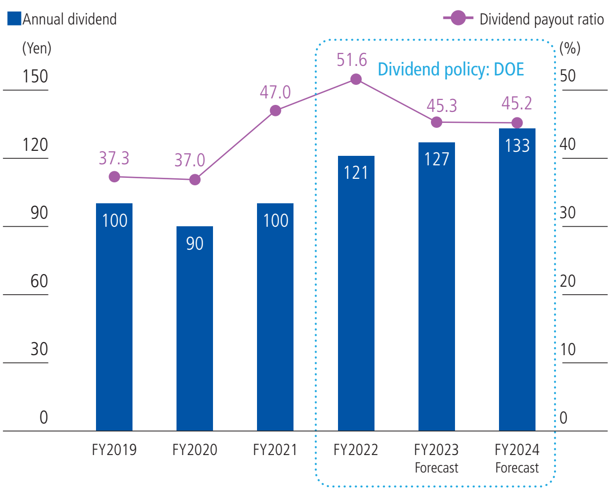
Dividend policy

- We consider the return of profits to shareholders through dividends to be one of our highest priorities, and aim to achieve a dividend on equity ratio (DOE) of 3.2% and stable dividends.
- Basic concept
  DOE 3.2% = Aimed ROE level 8.0%×dividend payout ratio 40%

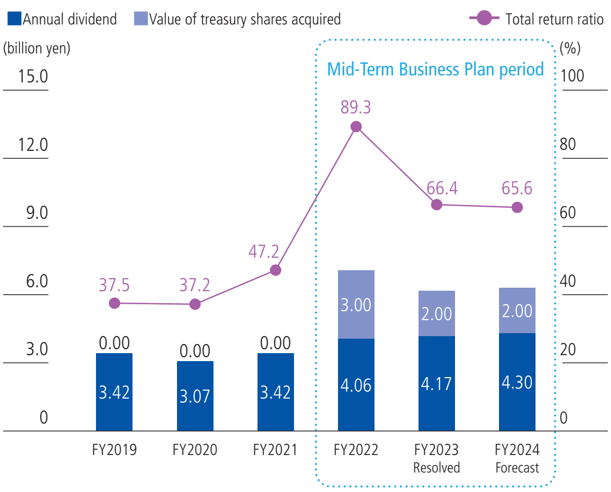
Purchase of treasury shares

- We will flexibly purchase and retire treasury shares in order to improve capital efficiency and promptly implement financial policies.
  (Aim for roughly 2.0 billion yen’s worth per year)

● Transition in annual dividend and dividend total payout ratio

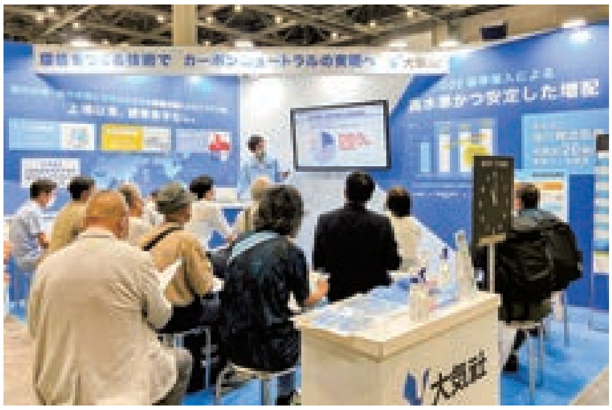


● Transition in the total shareholder return and total shareholder return ratio



Stakeholder engagement

With regard to the status of dialogue with investors in FY2022, Taikisha held dialogues with a wide range of institutional investors in Japan and overseas, mainly with portfolio managers and analysts from major investment funds. The Company assigned the Director in charge of Corporate Planning Headquarters to control dialogue with investors. In addition to the individual interviews held by departments in charge of IR, the Company held biannual financial results briefing sessions by the Company's management team. Major interests of investors in these dialogues include the overview of operating performance as well as the construction demands in metropolitan area, trend of capital investments related to semiconductors and by automobile manufacturers, carbon neutrality-related technological development and growth strategy, progress of Mid-Term Business Plan, and views on capital policy and shareholder return. Interests and opinions of investors obtained through dialogue were fed back to the management team in a timely manner by department in charge of IR through reporting and distribution of report at the Management Meeting and the meeting of the Board of Directors to promote sharing and use of information in the Company. In addition to the dialogues with institutional investors, Taikisha held briefing sessions for individual investors led by the Chief Executive of Corporate Planning Headquarters several times to have opportunities to explain overview and strategy of each business of the Company and views on capital policy and shareholder return. These efforts serve as promoting active dialogue with individual investors.


The Nikkei IR Individual Investor Fair 2022

External Evaluation

Taikisha' website was selected as the "AAA Website" grade in the "All Japanese Listed Companies' Website Ranking 2022" by Nikko Investor Relations Co., Ltd.

Selection for the ESG investment index

Taikisha has been selected as a constituent of the following ESG investment indices. Taikisha's addition to the constituents of these indices, which place importance on ESG (environment, social and governance) evaluation by research firms, reflects its continuous engagement in ESG efforts.

ESG investment index	Overview of evaluation
MSCI Japan ESG Select Leaders Index	Adopted by GPIF. Index designed to select companies with high evaluation in ESG among the various industries in Japan. Selected for the second consecutive year since 2022.
FTSE Blossom Japan Sector Relative Index	Adopted by GPIF. Index that reflects the performance of Japanese companies that are well prepared for ESG issues. Selected for the second consecutive year since 2022.
S&P/JPX Carbon Efficient Index	Adopted by GPIF. Index that determines the weights of compositions by focusing on the carbon efficiency of companies. Selected for the third consecutive year since 2021.
Sompo Sustainability Index	Investment product managed by Sompo Asset Management Co., Ltd. The index invests in a wide range of businesses that had been highly evaluated in terms of ESG. Selected for the sixth consecutive year since 2018.

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.

Disclosure of climate-related information based on TCFD's recommendations

In December 2021, Taikisha expressed its support for the recommendations of the "Task Force on Climate-related Financial Disclosures (TCFD)" and joined the "TCFD Consortium." The mitigation of and adaptation to climate change is one of our top management priorities (materiality or material issues), and we are endeavoring to reduce environmental impacts through our core business of providing air conditioning and sanitation equipment, and painting plants with high energy-saving performance.
In addition, in order to identify and evaluate climaterelated risks and opportunities and to understand the medium- to long-term impacts of climate-related issues on our businesses, we conducted scenario analyses of two businesses, the Green Technology System Division and Paint Finishing System Division. Based on the results of these analyses, we disclose climaterelated information in line with TCFD's recommendations.

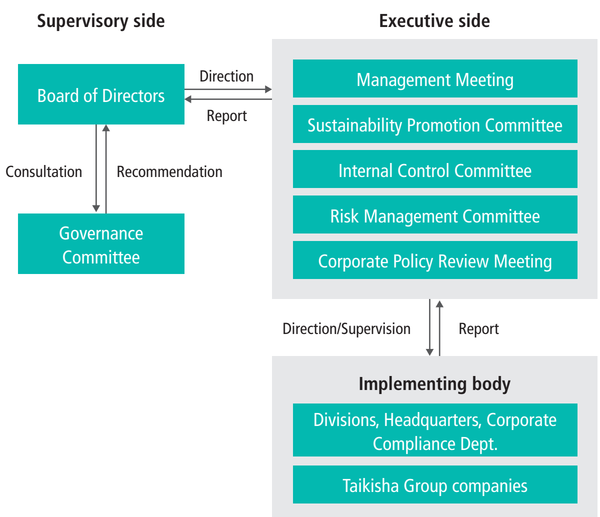
Governance

Regarding that addressing global-scale social issues, such as climate change, is our raison d'être (purpose), the Management Meeting is aware of and perceives risks and opportunities as business opportunities and incorporates them into management strategies. The Management Meeting formulates a company-wide action plan for environmental conservation activities, which will be referred to the Board of Directors for final approval.

In addition, the Corporate Policy Review Meeting keeps track of and evaluates the status of environmental conservation activities based on the plan, reviews goals, and reports the results to the Board of Directors at least twice a year.

Upon the receipt of these reports, the Board of Directors supervises climate-related risks and opportunities and monitors goals and progress.

Responsibilities for evaluating and controlling climate-related risks and opportunities are assigned to the President and Representative Director, who chairs the Risk Management Committee. With regard to the linkage with incentives, non-financial indicators are introduced, from the perspective of complying with the CG Code, at a specific rate to the compensation structure of the executive directors, and we review them with a view to encouraging the strengthening of promotional activities.



Strategies

In order to identify and evaluate climate-related risks and opportunities and to understand their impacts on our businesses, we conducted scenario analyses of the Green Technology System Division and Paint Finishing System Division through the process described below.

Specifically, we firstly identified factors of risks and opportunities having a great impact on us. Next we conducted an analysis concerning shifts in policies and market trends, and physical changes attributable to

● Analysis process

1. **Evaluation of the degree of the priority of each risk**
   Identify the risks and opportunities of climate change that Taikisha Group is currently confronted with and is expected to be confronted with in the future in the Green Technology System Division and Paint Finishing System Division, and evaluate their degree of importance on our future businesses.
2. **Definition of scenarios**
   Select multiple scenarios, and then obtain objective future information on parameters related to risk and opportunity items. Based on this information, categorize global movements around us, including the behavior of future stakeholders in each of the scenarios.
3. **Evaluation of impacts on businesses**
   Based on global movements in each scenario, consider what strategic options we should take, clarify the gap between existing management, business strategies, and plans and them. Then estimate their impacts on businesses.
4. **Definition of countermeasures**
   Based on each scenario and our actions, scrutinize applicable and realistic countermeasures to address the identified risks and opportunities.

disasters, using each of a less-than-2°C scenario, which assumes that the average temperature rise of the world in 2035 will be kept below 2°C, and a 4°C scenario, which assumes that the average temperature will rise by approximately 4°C. We perceived “carbon taxes,” “changes in customer behavior,” and “prevalence of energy-saving and renewable energy technologies” as shift factors, and “average temperature rise” as a physical factor, and identified them as important risks and opportunities.

The degrees of the financial impacts on the businesses verified in each scenario are indicated in units of one billion yen using arrows, and a countermeasure against each of the impacts is also described.

Selected climate change scenarios

With reference to the climate change scenarios published by the International Energy Agency (IEA) and other organizations, we selected the less-than-2°C scenario (transition to low carbon) and the 4°C scenario (no further significant policy measures are taken). With awareness that the impacts of climate change have the nature of becoming apparent over the medium-to-long period, we analyzed the impacts of climate change in 2035 as the reference timeline.

4°C scenario
If more powerful countermeasures than the ongoing ones are not taken against global warming, land surface temperature will rise by 2.7 to 5.4°C from the level in the period of the Industrial Revolution.

Less-than-2°C scenario
If strict countermeasures are taken against global warming, land surface temperature will rise by 0.9 to 2.3°C from the level in the period of the Industrial Revolution.

Results of scenario analyses

As a result of the scenario analyses, the material climate-related risks that will affect our businesses, opportunities, and the financial impacts as of 2035 are as follows:

+ 1 billion yen or more ⬆ + less than 1 billion yen ↗ ± less than 0.1 billion yen ➡ − less than 1 billion yen ↘ − 1 billion yen or more ⬇

Items of material risks and opportunities			Risk	Opportunity	Financial impact in each scenario		Assumed countermeasure
					4°C	Less-than-2°C	
Transition risk, opportunities	Policy/ Regulation	Carbon tax	Introduction of carbon taxes (Due to the rises in carbon prices and material costs, the cost will increase by about 300 million yen in the 4°C scenario and by about 9 billion yen in the less-than-2°C scenario.)	Growth of demand for low-carbon buildings (increase in sales) Growth of demand for low-carbon painting plants (increase in sales)	↘	⬇	• Setting of GHG emission reduction targets • Keeping track of the total amount of GHG emissions, improvement in analysis efficiency • Improvement in energy efficiency and introduction of renewable energy by the company • Development of low-carbon installation work technologies and systems • Participation in the renewable energy industry • Development of air conditioning equipment and technologies compatible with environmental countermeasures, policies, and measures taken by each country
	Industry/ Technology/ Market	Changes in customer behavior, prevalence of energy-saving and renewable energy technologies	Response to requests from customers (rise of operating costs and inadequate responses → decrease in sales), deterioration of competitiveness in the development of energy-saving and renewable energy technologies (decline in sales)	Increase of about 1.1 billion yen in sales in the 4°C scenario and of about 2.2 billion yen in the less-than-2°C scenario as a result of integrating customers’ needs for low-carbon buildings and fluctuations in demand for construction works of growing Net Zero Energy Buildings (ZEBs), development of advanced energy-saving and renewable energy technologies (increase in sales)	⬆	⬆	• Expansion of installation works of energy-saving equipment, such as the transformation of plants into ZEBs • Construction of energy circulation systems • Provision of energy-saving solutions, such as energy management • Development of low-carbon installation work technologies and systems • Miniaturization and energy saving of equipment • Acquisition of skills that will contribute to the reform of painting processes, and promotion of product development • Improvement in high coating efficiency, development of energy-saving technologies • Development of CO_2 recovery and recycling technologies, etc., creation of businesses • New water treatment, maintenance and effective use of water resources, and generation technologies (MOF, etc.) • Digital fusion for research and development and the creation of new businesses • Development of automatic work robots and construction work support robots at construction sites • Development and verification of equipment that will not produce CO_2, and equipment capable of recycling CO_2
Physical risks and opportunities	Chronic	Average temperature rise	Deterioration of labor productivity due to an average temperature rise and suspension of construction works due to the increase of extremely hot days (increase of about 400 million yen in operating costs in the 4°C scenario and of about 370 million yen in the less-than-2°C scenario) Revision of labor laws and regulations (decrease in sales)	Growth of demand for air conditioning system technologies (increase in sales) Promotion of the mechanization and automation of installation works (increase in sales) Growth of demand for plant factories (increase in sales)	↘	↘	• Diversified expansion of the plant factory business, energy recycling of plant factories • Promotion of the mechanization and automation of installation works • Improvement of the working environment, such as good air conditioning and enough rest areas • Promotion of countermeasures against heatstroke

Risk Management

The Taikisha Group is endeavoring to reduce material risks, including climate change, and minimize risks that will become apparent. The Risk Management Committee assesses the level of each risk, selects risks we should deal with, and formulates and implements policies, for reducing risks from the overall perspective of the group.

Specifically, we have established the Risk Management Rules and organized the Risk Management Committee based on the rules to conduct centralized, effective, and efficient management of the group's risks. The Committee, chaired by the President and Representative Director, is held twice a year and whenever necessary, and establishes and thoroughly disseminates basic policies, responsibility systems, and operation for company-wide risk management.

When it comes to material risks, including climate change, each of the departments in charge identifies items and determines the "degree of risk (degree of importance)" with three levels—High, Medium, and Low—taking into account the "impact on management" and the "frequency of occurrence."

Among them, High items that have a significant impact on our strategies or financial status are selected as risks that should be preferentially dealt with and reported to the Risk Management Committee after formulating priority management policies and targets.

The Risk Management Committee assesses the degree of each risk and discusses the priority management policies and targets from a company-wide, comprehensive perspective, and formulates basic policies. Then, each department in charge monitors the progress of its activity plan and reports the results to the Risk Management Committee.

The Chairperson (President and Representative Director) of the Risk Management Committee scrutinizes the status of company-wide risk management and reports it to the Board of Directors twice a year after discussion by the Internal Control Committee.

In addition, the Management Meeting, which determines important management matters on the whole, discusses the risks and opportunities of climate change, reviews climate change scenarios, and reflects them in long-term strategies. The Management Meeting reports related issues, including the risks of climate change, to the Board of Directors alongside of the reporting from the Risk Management Committee.

In order to strengthen risk assessments from a company-wide, comprehensive perspective, the members of the Internal Control Committee conduct additional company-wide assessments and formulate policies.

Meeting body organization	Overview of organization	Overview of activities
Board of Directors	Organized by each director	● Held once each month ● Risks of climate change ● Supervising the risks and opportunities of climate change (monitoring targets and their progress)
Governance Committee	Chairperson: Outside director	● Held at least four times a year ● Replying to questions from the Board of Directors about the risk management system and the status of risk management, and advancing proposals to the Board of Directors
Management Meeting	Chairperson: President and Representative Director	● Reviewing climate change scenarios and reflecting them in long-term strategies ● Discussing the risks and opportunities of climate change ● Considering if the climate-related issues should be reported to the Board of Directors
Internal Control Committee	Chairperson: President and Representative Director	● Held as needed ● Discussing the risk management system and the status of risk management
Risk Management Committee	Chairperson: President and Representative Director	● Held twice a year ● Perceiving and assessing the risks of climate change and confirms the direction of actions against important risks
Corporate Policy Review Meeting	Chairperson: President and Representative Director	● Held twice a year ● The Corporate Policy Review Meeting considers countermeasures against important risks of climate change and reflects them in company-wide policies and each department.
Sustainability Promotion Committee	Chairperson: President and Representative Director	● Held four times a year ● Responding to external initiatives related to climate change, such as TCFD and CDP, keeping track of GHG emissions, and monitoring the degrees of achievement of target values ● Sustainability-related matters in a broader sense are addressed by the Management Meeting and the Risk Management Committee.

Reduction target

We contribute to realizing a decarbonized society by actively endeavoring to reduce CO_2 emissions of equipment designed and constructed by us during the operation stage, under long-term reduction targets.

https://www.taikisha-group.com/sustainability/taikisha/tcfd/

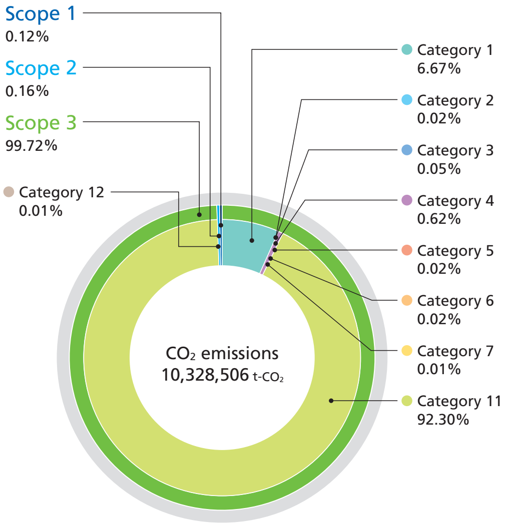
Business	Reduction target for 2050	Milestone for 2030	Commitments in FY 2022 (achievements)
Green Technology System Division	CO_2 emissions reduced by 80% (from FY 2013 level)	CO_2 emissions reduced by 25% (from FY 2013 level)	We proposed a system capable of controlling energy used throughout a building's lifecycle, and provided technologies for "low carbon" and "reducing environmental burdens."
Paint Finishing System Division	We reduce CO_2 emissions of automobiles to virtually 0kg-CO_2/unit with the technologies that envisages future energy reform.	We reduce CO_2 emissions of automobiles to 60kg-CO_2/unit with the current heat source configuration for paint finishing processes.	Using an energy estimation model for a paint finishing line, we have improved efficiency and downsized equipment, and introduced renewable energy and low-temperature waste heat recovery systems.

Indicators and Targets

Indicators used to manage and assess climate-related risks and opportunities

In order to manage climate-related risks and opportunities, various measures are implemented by setting indicators not only for GHG emissions but also for energy consumption, water usage, and waste emissions.

● 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.3.3) of the Ministry of the Environment and LCI Database IDEAv2 (for calculating greenhouse gas emissions in supply chain) of The National Institute of Advanced Industrial Science and Technology, Research Institute of Science for Safety and Sustainability, Advanced LCA Research Group, Sustainable Management Promotion Organization.

Scope/Category		Accounting methods*	Emission amount (t-CO_2)
Scope 1		—	12,689
Scope 2		—	16,206
Scope 3			10,299,611
Category 1	Purchased goods and services	Calculated from (raw) materials procurement amount (in value terms)	688,465
Category 2	Capital goods	Calculated from amount of capital investment	1,841
Category 3	Fuel- and energy-related activities not included in Scope 1 or 2	Calculated from purchased amount of electricity and fuels	4,981
Category 4	Transportation and delivery (upstream)	Calculated from transportation costs accompanying procurement of (raw) materials	63,905
Category 5	Waste generated in operations	Calculated from amount of waste discharged by type	1,999
Category 6	Business travel	Calculated from travel expenses paid by mode of transportation	2,303
Category 7	Employee commuting	Calculated from transportation expenses paid to employees	1,799
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	Calculated from emissions from operation of facilities Taikisha provided, HFC leakage from equipment Taikisha provided, and estimated useful lives	9,532,735
Category 12	End-of-life treatment of sold products	Calculated from weight of main equipment by type	1,584
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			10,328,506

[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.

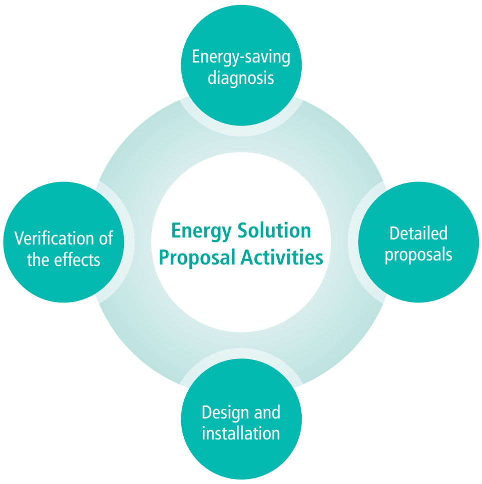
Activities in the Field of Air-Conditioning System for Buildings and Factories

Eco-Friendly Design

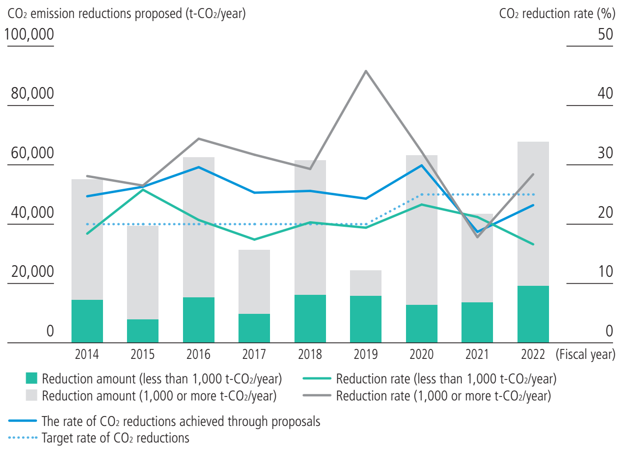
The Green Technology System Division, as part of promoting eco-friendly designs, makes proposals for improving the energy efficiency (reducing environmental impacts) of facilities owned by clients. In energy-saving proposal activities, the Division repeats the cycle of energy-saving diagnosis to grasp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

To contribute to the target reduction in energy-originated CO_2 emissions by FY2030 (45.0% reduction compared with FY2013) under the Plan for Global Warming Countermeasures, an additional Cabinet decision made in October 2021, 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 CO_2 emissions and running costs. Taikisha is also working on the development of energy-saving technologies of clean room systems that control the air conditioning by tracking the operation status of production equipment, staffing and indoor environment as well as room pressure control systems and dehumidification (dry room) systems, by incorporating the advanced technologies such as AI and IoT into air-conditioning systems for factories and buildings. In overseas projects, which are our specialty, the scope of design and installation often includes electrical equipment, and we proactively propose energy-creating solutions such as photovoltaic power generation.

Taikisha defines the rate of CO_2 emissions reduced from facilities owned by clients due to Taikisha's proposals as the rate of CO_2 reductions. The transition in the rate of CO_2 reductions for the past 9 years is shown in the figure on the right. In FY2022, we set a CO_2 reduction rate target of 25.0% or more on a weighted average for in-house design projects and achieved 23.2% (for CO_2 reduction rates by each fiscal year, the most recent results of the proposals are used as a basis for comparison.). In FY2022, both the number of proposals and the amount of proposed CO_2 emission reductions were the highest in the past 9 years. The amount of proposed CO_2 emission reductions that corresponds to Category 11 under Scope 3 was about 1,020,000 t-CO_2 (the effect of 15 years of operation). (Including consolidated companies in Japan and overseas affiliates)



● Transition in the amount of proposed CO_2 emission reductions and the rate of CO_2 reductions (by proposal size)



● Breakdown of the amount of proposed CO_2 emission reductions

		Amount of proposed CO_2 emission reductions		
		< 1,000 t/year	≥ 1,000 t/year	Total
Standard amount of generation	< 5,000 t/year	13,065	6,557	19,622
		24.4%	59.1%	30.4%
	≥ 5,000 t/year	2,013	26,082	28,095
		5.4%	25.1%	19.9%
	Not specified	4,105	15,949	20,054
	Total	19,183	48,588	67,771

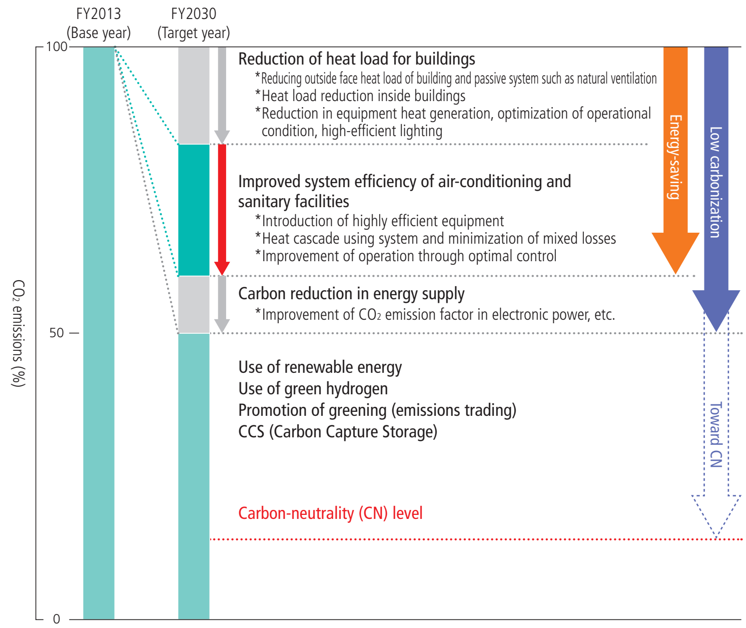
Toward the Targets of the Medium-Term and Long-Term Plans

In order to achieve the Medium-Term plan target for 2030, Taikisha will utilize a variety of energy-saving technologies as well as new energy-saving technologies currently being developed.

From 2030 onward, drastic measures will be required to achieve carbon neutrality by 2050. Accordingly, Taikisha will work not only to reduce the air-conditioning load and introduce energy-saving technologies, but also to use electricity derived from renewable energy sources and/or to switch from combustion energy sources.

In February 2022, the reconstruction of a research building was started at our Research and Development Center. Once completed, the facility will be a research facility that will allow us to verify experiments as well as utilize simulation technology to achieve more efficient development. Additionally, the facility building itself aims to be a ZEB (Net Zero Energy Building), as well as obtain certifications as ☆☆☆☆☆ of BELS (Building-Housing Energy-efficiency Labelling System) and Rank S of Wellness Office.

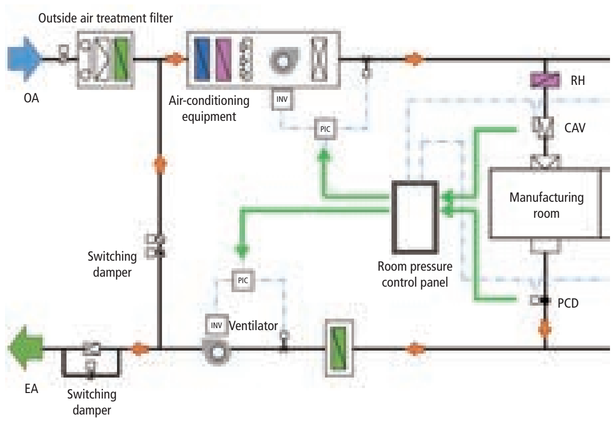
● Roadmap for reduction of CO_2 emissions (illustration)



Development of new room pressure control system

Taikisha will develop a new room pressure control system that enables reduction of air-conditioning conveyance power in pharmaceutical manufacturing plants, contributing to reduction of air-conditioning energy and running costs during non-work mode operation along with reduction of CO_2 emissions.

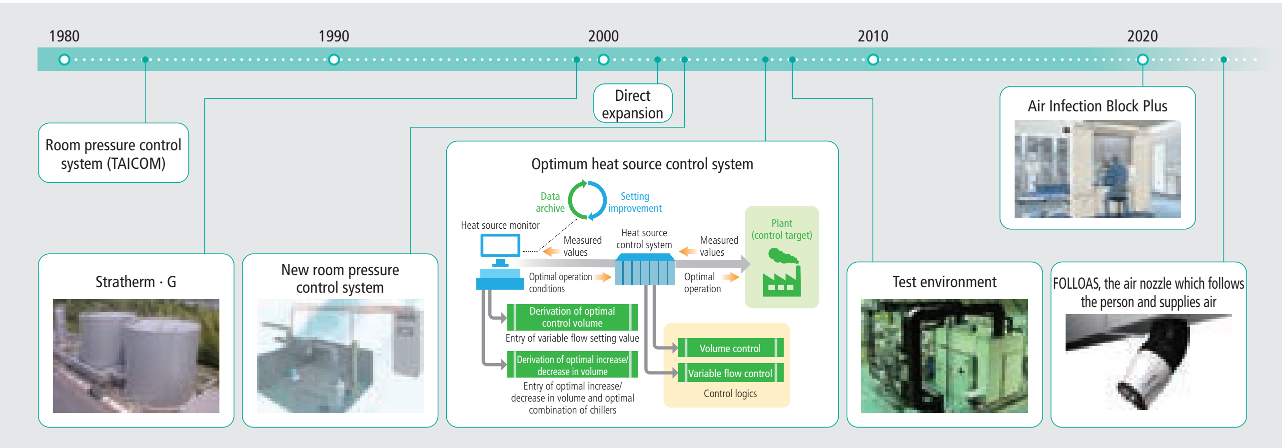
● New room pressure control system (overview of control)



Development of CO_2 separation and utilization technology

While we are working to achieve carbon neutrality by 2050 through such means as energy saving and the use of facilities with low environmental impact, it is essential to introduce CCU (Carbon dioxide Capture and Utilization), a technology for CO_2 separation and utilization, for areas where decarbonization is not viable. As such, Taikisha is developing DAC (Direct Air Capture) targeting CO_2 in the atmosphere, utilizing adsorption and desorption technology to develop a CO_2 concentration capture and supply system.

● History of development of energy-saving and environmental conservation technologies



[Paint Finishing System Division]
Efforts for Realizing a Low Carbonization

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

Activities in the Field of Automobile Paint Finishing Systems

Toward carbon neutrality in automobile painting processes

In response to the growing demand for a carbon-neutral society around the world, each country announced specific targets for greenhouse gas (GHG) reduction at the 2021 Leaders Summit on Climate. In the automotive industry, which is one of the industries that will be most significantly affected by this, automakers have expressed support for the Task Force on Climate-related Financial Disclosures (TCFD). They emphasize the inclusion of reduction targets in their business strategies in light of risks and opportunities from climate change. Against this backdrop, the Company believes that its mission is to work with automobile manufacturers to develop and provide paint facilities that reduce CO_2 emissions to zero in order to achieve carbon neutrality in the automobile manufacturing process, particularly at paint finishing factories.

● Trends in each country

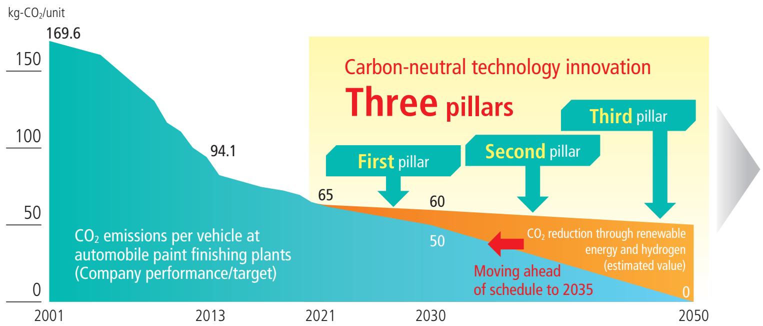
	Target rate of CO_2 reductions (the COP26 announcement)		
	Base year	2030	2050
Japan	2013	46% (50% if feasible)	Net zero emissions
U.K.	1990	68% or more	Net zero emissions
EU	1990	55% or more	Net zero emissions
U.S.	2005	50-52% or more	Net zero emissions
China	2005	No calculation available	Extended the deadline to 2060

The Company's carbon neutrality strategy and future policy

In alignment with high environmental targets set by automobile manufacturers around the world, the Company started examining and deploying technologies to reduce CO_2 emissions early on. We are in a position to take great advantage of being able to receive direct input from customers from diverse automobile manufacturers regarding their technological needs and points for improvement and, when necessary, even engage in collaborative development while developing and proposing CO_2 reduction technology.

As for our future carbon neutrality strategy, we are going to keep in step with the basic strategies of automobile manufactures. We plan to refine our current low CO_2 production technologies until 2030, and then reduce emissions by using renewable energy and hydrogen energy by 2050. At the same time, we will work to develop technological innovations such as changing production technologies. Specifically, we have established the following three pillars.

● The Company's carbon neutrality goals and basic policy



First pillar
CO_2 reduction activities based on improvement through the upgrade of our technologies

Second pillar
Energy management and CO_2 reduction activities in response to primary energy reforms such as usage of electrification and hydrogen utility

Third pillar
CO_2 reduction activities through an innovative shift in production technology from wet painting to dry decoration

Vision and image of Taikisha's three pillars of carbon-neutral technology

First pillar CO_2 reduction activities based on improvement through the upgrade of our technologies

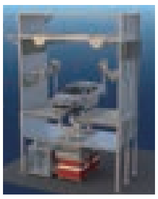
In the conventional painting process, we are developing and expanding a product lineup called the "i-series" that will reduce CO_2 emissions by significantly upgrading basic items.

Equipment products of paint booth

i-LAVB (low air volume booth)

By creating airflow for each function, the air volume of the booth will be largely reduced.

CO_2 emissions: reduced by approximately 30%



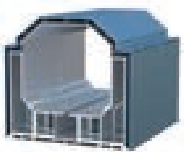
Equipment products of paint oven

i-VACH
(indirect furnace with VOC treatment function)

A new heat source system that eliminates the need for VOC after-treatment equipment.
CO_2 emissions: reduced by approximately 20%

i-HEB (high-efficiency block oven)

An oven with a compact module structure capable of efficiently raising the baking temperature in the oven.



System products of paint finishing system

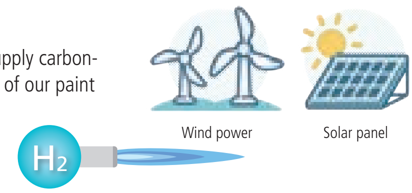
i-Navistar
(AI/IoT system for paint finishing factories)

A system that manages the entire painting process from a bird's-eye view by utilizing AI and IoT.

Second pillar Energy management and CO_2 reduction activities in response to primary energy reforms such as usage of electrification and hydrogen utility

Fully electrified facilities

Based on the premise that it will become possible to supply carbon-free power sources, we propose the total electrification of our paint finishing factories through the use of heat pumps and innovative electric heaters as an energy-saving system.

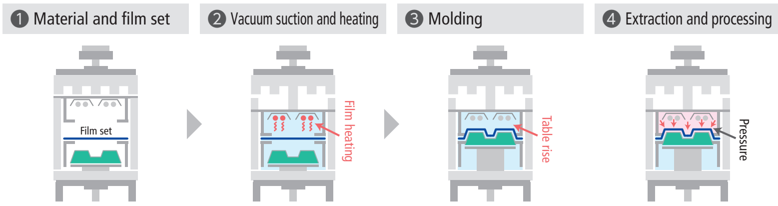


Hydrogen heat source

We propose and realize hydrogen heat source for high-temperature equipment in paint finishing systems, such as hydrogen burners and mixed combustion burners of hydrogen and conventional combustion gases.

Third pillar CO_2 reduction activities through an innovative shift in production technology from wet painting to dry decoration

Against the backdrop of automakers' search for next-generation production technologies to achieve carbon neutrality, we are examining various decorating systems as an example. If the film OMD (Out Mold Decoration) for automobile exteriors is put to practical use, the spray coating process will be eliminated, resulting in significant environmental benefits, such as low carbon emissions and reduced wastewater and exhaust emissions. In addition, since decorating films may add design features with patterns and functionality (solar cells, heat shielding, etc.), the Company is promoting the development of dry decorating technology and automated systems for decorating lines.



OMD (Out Mold Decoration) dry decorating film vacuum molding

Achievements of the Company's carbon neutrality initiatives and future targets

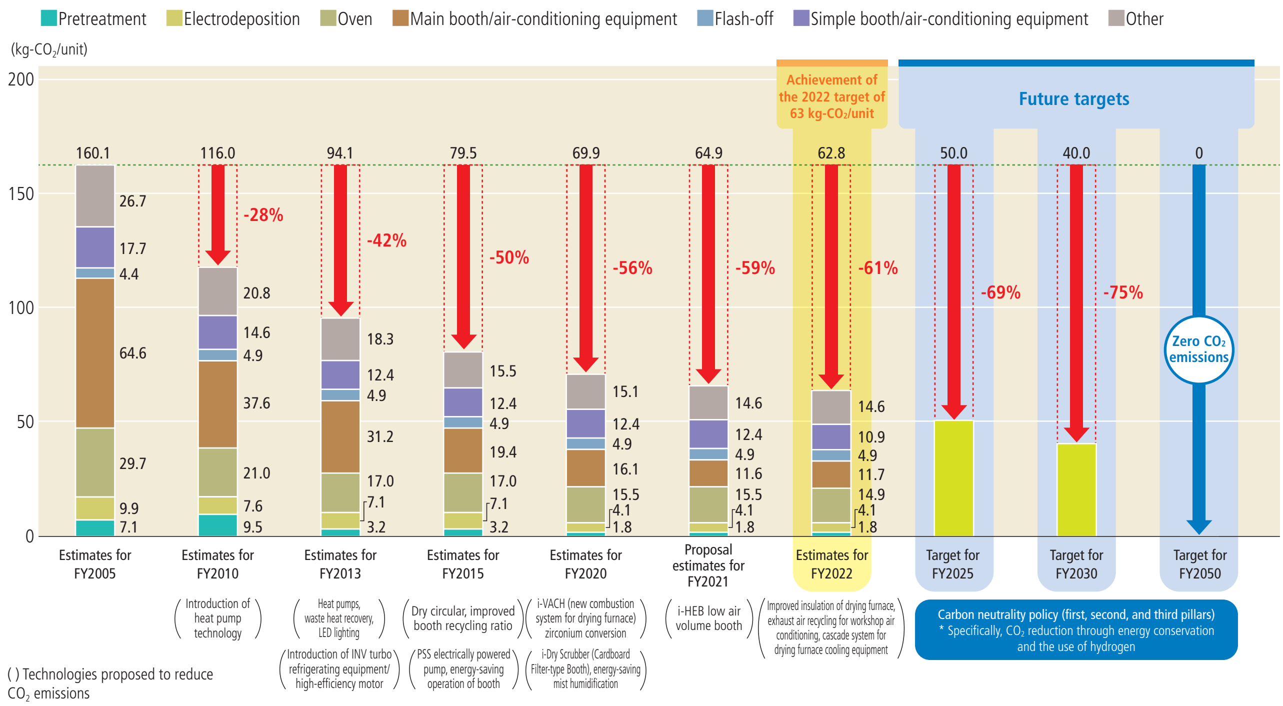
In order to visualize the effects of the CO_2 emission reduction technologies that we have proposed, we have been calculating CO_2 emissions in automobile paint per unit since 2000, based on the energy estimation model for automobile paint finishing lines, and have been objectively evaluating and proposing CO_2 emission reduction technologies.

CO_2 emissions were estimated in 2005 at 160.1 kg-CO_2/unit. By 2020, however, we began introducing heat pump technology and high-efficiency equipment as well as proposing dry-type paint booths and other CO_2 reduction technologies. Since 2020, we have proposed our products based on improvement through the upgrade of our technologies, which is the first pillar of our carbon neutrality policy, such as i-LAVB (low air volume booth) and i-VACH (indirect furnace with VOC treatment function), resulting in 64.9 kg-CO_2/unit of CO_2 emissions in 2021.

In FY2022, we further reviewed our existing technologies and succeeded in making technological proposals to reduce CO_2 emissions for the entire painting plant to 63 kg-CO_2/unit by measures such as improving the thermal insulation performance of drying furnaces in the painting process, improving exhaust air recycling for workplace air conditioning, and proposing a cascade system for drying furnace cooling equipment.

We will promote our technological proposals to reduce CO_2 emissions in line with the three pillars of our carbon neutrality policy, including the use of electricity from renewable energy sources for painting facilities (all-electric facilities), the use of hydrogen energy, and proposals for film decorating systems. As for emission targets, we will strive to achieve 50 kg-CO_2/unit by 2025, 40 kg-CO_2/unit by 2030, and ultimately net zero CO_2 emissions sooner than the targeted year of 2050.

● CO_2 emissions estimates at automobile paint finishing plants: Transition in CO_2 emission reductions proposed and future target
— Transition in CO_2 emission reductions proposed and future target —



Human Resources

Through development and utilization of human resources, Taikisha Group exploits the capabilities of each employee as an individual for the Group's sustainable growth.

Promoting human capital management that supports transformation and growth, we will evolve into a company that creates new value.

Representative Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters

Yasushi Nakajima

Supporting the growth and skill development of each employee

Recently, investment in human capital has been widely discussed, and people are increasingly aware that intangible assets, especially human capital, are the driving force behind sustained corporate value enhancement. Under one of the basic policies in our Mid-Term Business Plan (from FY2022 to FY2024) to strengthen management base that supports transformation and growth, we are working to create an organizational culture that fosters innovation, improve employee engagement, and systematically develop human resource value by developing and securing human resources to achieve our management strategies from a long-term perspective, promoting diversity and inclusion (D&I), and developing the internal environment that goes along with these initiatives.

We aim to be a company which can continuously grow and contribute to the society, as stated in our corporate philosophy, by enhancing not only each and every employee's expertise but also their communication skills with customers, business partners, supervisors, colleagues, and team members; improving employee engagement; ensuring health and safety; and fostering and instilling compliance awareness through training programs.

In order to achieve this corporate philosophy, we believe that the human resources we seek to develop are: 1. employees with high moral awareness, 2. employees highly motivated to communicate, 3. employees with a desire for challenge, 4. employees with high operational skills, 5. employees with a broad viewpoint, and 6. employees with management ability. Thus, we work to develop human resources who can act autonomously to achieve goals starting from the year they joined the Company.

Taikisha has introduced a medium- to long-term career-planning scheme as a framework to assist employees in pursuing their growth and upskilling. Under this system, all employees create career plans to develop their skills autonomously and systematically work on them, for example, by visualizing the skills and abilities they need to achieve their goals through periodic 1-on-1 meetings with their supervisors. In addition, for mid-career employees, we have prepared a new program not only to enhance specialized skills but also to increase management knowledge and develop a sense of management. Starting in FY2023, we have been implementing a curriculum tailored to each employee's achievement level.

Introducing the highly specialized human resources certification system

Thus far the Taikisha Group has developed by meeting customer needs and aligning our progress with growth industries, primarily through delving further into our core business. We have been working to standardize technologies and improve quality and service. By pursuing productivity even during economic downturns, we succeeded in building up a 110-year history.

However, simply extending existing initiatives will not be enough when the society and business environment are changing as rapidly as they are. We need to differentiate ourselves from our competitors, build on our strengths in specialized technologies, and evolve into a company that not only meets customer expectations but creates new value that exceeds those expectations.

It is the professional human resources with advanced technical skills and expertise that support this evolution. We define such human resources as "highly specialized human resources." This fiscal year we certified 12 employees who demonstrated outstanding ability in specific jobs and produced practical results in their work area. This system positions the certification as part of an attractive career path and embodies our career development policy: "Each employee should be professional and have high market value."

We will continue our efforts to create a corporate culture in which such "highly specialized human resources" with advanced technical skills and expertise can fulfill their capabilities.

[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 respect for human rights through internal audits and the whistleblowing 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.

Harassment Prevention

Taikisha has a specialized consultation counter for workplace harassment (i.e., sexual, maternity, power and other types of harassment) at the Administrative Management Headquarters.

Consulters are protected under Taikisha's Harassment Prevention Rules, and as soon as a consultation is received, a prompt response is taken to resolve the issue. Furthermore, Taikisha has a Whistleblowing Contact Window in the Corporate Compliance Department and a law firm. When harassment matter is reported, Taikisha takes appropriate measures under the Whistleblowing Rules.

As part of our efforts to prevent harassment, Taikisha has created a video based on the reports received at the Whistleblowing Contact Window to raise awareness of the importance of recognizing behavior that can be harassment, consulting and reporting. 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. Securing and developing human resources is positioned as one of the most important management challenges.

In addition to enhancing the expertise of each and every employee, Taikisha provides curriculums that aim to improve project and team management skills and communication skills with customers, business partners, supervisors, colleagues, and team members. We also provide training that helps employees acquire the necessary knowledge and skills.

In the future, we will continue to strive to create a system that enables people to achieve their potential to grow, with the aim of creating workplaces where people are encouraged to take on challenges, enhancing career development systems with which employees appreciate growth, promoting health management, and systematically developing managerial and professional personnel.

We will define the skills, abilities, and competencies (behavioral characteristics) necessary to achieve our strategic objectives and strive to create activities and systems that promote and support the process of employees' autonomous learning to acquire these skills, abilities, and competencies.

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

Support for Career Advancement and Acquisition of Certifications

Taikisha has introduced a career-planning scheme as a framework to assist employees in pursuing medium- to long-term growth and upskilling. Based on our Corporate Philosophy of "aiming to be a motivation-oriented company where employees can demonstrate creativity and vitality through their work responsibilities," Taikisha will encourage employees to set medium- and long-term growth goals and 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 the performance-based system. Evaluations take into account how much employees have contributed to the creation of added value that Taikisha has generated for society.

Taikisha also considers factors such as how much they have boosted their capabilities relative to their individual long-term growth targets, as well as how much effort and creativity they demonstrated in tackling matters beyond their knowledge as a challenger with enthusiasm while getting others involved.

Global Human Resources System

In overseas markets, to balance economic development with environmental conservation and to maintain and develop sustainable societies, we will see globalization, in which innovative technologies are rapidly disseminated, and localization, in which local capital with its own unique characteristics leads the way in various countries.

Under such circumstances, to respond to the increasingly sophisticated global needs of each industry and to the specific needs of each country and region, Taikisha will further enhance the efficiency of organizational management and governance by defining the functions and roles of its group companies located in 17 countries overseas, as well as by ensuring prompt and accurate decision-making.

Taikisha will reform its organizational functions to utilize its human resources in a cross-functional and flexible manner. This will enable its human resources to demonstrate their financial, sales, and procurement capabilities, as well as to improve their engineering skills such as development, design, and project management of environmental technologies developed in the fields of medical, food, electronics, transportation, and infrastructure facilities, among others.

Furthermore, beside hiring local employees, Taikisha will also review the roles and abilities required for employees who want to work overseas, and focus on enlightenment and training activities to enhance the motivation and abilities of each individual.

Basic Policy for Achievement of Diversity & Inclusion

For corporations, making efforts for diversity and inclusion has become more important. In April 2023, we established the Diversity & Inclusion Promotion Section, aiming for diversity management that is unique to us, utilizing the individuality and identity of our employees, such as their work experience, skills, and values, on top of their gender, age, nationality, and disabilities.

Taikisha’s overseas affiliates have about 3,500 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, 2023. In the recruitment of new graduates in April 2023, 75 newly hired employees included seven female employees and three foreign employees. Taikisha will continue to engage in hiring activities independent of attributes.

For the employment of persons with disability, Taikisha has been working on remote employment in collaboration with an Operator of a Designated Welfare Service Business for Persons with Disabilities in Kofu City, Yamanashi Prefecture, in addition to employment at our main offices in Japan. Persons with disability 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 and inclusion help secure superior human resources and increase its employees’ motivation to work.

Basic Policy on Improving Employee Engagement

Taikisha believes that improving employee engagement is important to create a workplace where each and every employee can work in a healthy, proactive, and rewarding manner, and grow through a sense of accomplishment in their work and contribution to society.

To this end, Taikisha will work on reforms in work styles, such as reducing long working hours and promoting work-life balance, as well as properly operating the personnel evaluation system and advancing a career development system that allows employees to gain a sense of growth. Furthermore, Taikisha will aim to foster a culture that encourages employees to try without fear of failure by providing opportunities to take on challenges through the introduction of an open competition system and other measures.

Introduction of Extended Retirement Age and Optional Retirement System

Taikisha promotes the active participation of diverse human resources regardless of age. In April 2023, we extended the retirement age from 60 to 65 and introduced an optional retirement system that allows employees to set their retirement age between 60 and 64.

By offering a system that allows employees to choose their own retirement age according to their personal life plans and health conditions, Taikisha is creating a rewarding and secure working environment.

Promoting Women’s Career Advancement

As part of Taikisha’s efforts for promoting diversity and inclusion at the workplace, Taikisha is working hard for career advancement for its female employees.

Taikisha revised its action plan for general employers under the Act on the Promotion of Female Participation and Career Advancement in the Workplace in April 2022. Taikisha has set a target for the ratio of female workers in managerial positions to at 3% or more, using the average value in the construction industry in 2021 as a benchmark, and has achieved 3.3% as of April 2023.

In the future, we will actively recruit and train women, and work to create an environment in which all employees can play an active role and fully demonstrate their individuality and abilities, in order to create an attractive company for employees.

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. It has a number of systems in place that offer more than what is required by law, such as the provision of nursing care leave compensation insurance entirely at its expense and the provision of income protection covering approximately 80% of the salary of employees who take nursing care leave.

Furthermore, Taikisha has formulated a general employer action plan relating to employees' work and child-raising pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children, and the percentage of male employees taking childcare leave has increased from 19.2% in FY2021 to 36.4% in FY2022.

Going forward, Taikisha will work on creating a system where everyone can work actively and comfortably 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	Up to 2 weeks of use of expired paid leave	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
	Use of expired paid leave	The employee may receive no pay
Leave due to spouse giving birth	Up to three days as special 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)
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
	Use of expired paid leave	The employee may receive no pay

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

Item	FY2019	FY2020	FY2021	FY2022
Number of employees on maternity leave	4	2	3	3
Number of employees on childcare leave (number of new leave takers)	Male: 3 Female: 4	Male: 7 Female: 2	Male: 9 Female: 2	Male: 16 Female: 4
Ratio of employees who returned to work after childcare leave (%)	100	100	100	100
Number of employees who are using the short-working-hours system	21	22	20	16
Average paid leave taken by all employees (days)	10.3	9.8	10.3	11.1

Health Management

Taikisha considers employees who support the company's growth as one of the most important management resources. The Company therefore recognizes maintenance and improvement of mental and physical health of employees as one of the most important management issues and announced "Health Management Declaration" in 2020.

To maintain and improve the mental and physical health of employees, in the light of the nature of the business and employees' working patterns, the Company specifically focuses on four health-promoting measures—"reduction of long working hours," "improvement of lifestyle habits," "improvement of mental health," and "support of work-life balance"—and promote efforts towards health management.

The President is responsible for health management and the Chief Executive of the Administrative Management Headquarters is responsible for promoting health management measures. The Personnel Administration Department of the Company plays a central role. In cooperation with occupational physicians, public health nurses, each district health committee, the Taikisha Group Health Insurance Association, and the Corporate Culture Committee, the Company formulates and implements various health management measures to maintain the sound mind and body of employees and to enhance their motivation, and verifies the effects of such measures and makes continuous improvements.

Mental Health Survey

The Company is working to prevent long-term leaves of absence and turnover due to mental illness through interviews with employees who responded to the survey, interviews with industrial physicians specializing in mental health, etc.

Group Long Term Disability (GLTD) System

The Company will cover the full cost of insurance premiums and compensate regular employees and contract employees with no fixed-term contract under the age of 65 who take long-term leaves of absence for treatment of illness or injury for their income in order to create an environment in which they can concentrate on their recovery and support their early return to work.

Establishing Various Consultation Services Free of Charge

A number of free counseling services by professional counseling staff have been offered to help employees and their families deal with their mental and physical anxieties and concerns, such as the Mental and Physical Health Counseling Services established by the Taikisha Group Health Insurance Association and the Free Counseling Service outsourced to outside companies. These support services are available 24 hours a day, 7 days a week.

● Mental Health Support

Prevention 1	Activities to protect employees from mentally unwell conditions

Internal training, etc. to raise awareness of 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 employees.

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.

Financial Data for 10 Years

Financial items

		Unit	FY2012	FY2013	FY2014	FY2015	FY2016
Orders received		Million yen	195,920	189,026	187,311	221,764	218,323
Ratio of overseas orders received		%	61.9	52.6	49.8	54.3	50.4
Net sales		Million yen	216,051	185,421	183,648	212,424	200,604
	Green Technology System	Million yen	137,222	115,447	116,150	134,824	124,565
	Paint Finishing System	Million yen	78,916	70,046	67,614	77,735	76,085
Ratio of overseas sales		%	57.4	61.6	55.2	55.5	49.3
Operating income		Million yen	9,815	8,083	8,669	12,734	8,473
Ratio of operating income to net sales		%	4.5	4.4	4.7	6.0	4.2
Ordinary income		Million yen	10,728	9,292	9,579	12,343	9,842
Segment profit	Green Technology System	Million yen	5,045	4,449	5,991	8,950	9,981
	Paint Finishing System	Million yen	5,543	4,506	3,260	3,524	(115)
Ratio of ordinary income to net sales		%	5.0	5.0	5.2	5.8	4.9
Profit attributable to owners of parent		Million yen	6,200	4,155	6,084	7,084	6,305
Return on equity (ROE)		%	8.7	5.3	6.9	7.6	6.8
Total assets		Million yen	163,014	166,680	188,283	189,566	199,024
Net assets		Million yen	78,537	84,712	99,669	95,921	100,184
Equity ratio		%	46.2	48.3	50.4	48.0	48.1
Cash flows from operating activities		Million yen	10,772	7,532	1,401	7,301	6,679
Cash flows from investing activities		Million yen	(1,308)	(1,194)	(3,900)	(328)	(6,505)
Cash flows from financing activities		Million yen	(2,569)	(3,290)	1,264	(7,409)	(5,286)
Research and development expenses		Million yen	800	876	822	889	946
Depreciation		Million yen	1,211	1,290	1,257	1,348	1,290
Purchase of property, plant and equipment and intangible assets		Million yen	(3,130)	(1,734)	(1,247)	(1,941)	(1,807)

Per share data:	Unit	FY2012	FY2013	FY2014	FY2015	FY2016
Profit attributable to owners of parent	Yen	170.99	116.08	172.64	204.35	183.16
Net assets	Yen	2,087.16	2,282.56	2,690.76	2,633.60	2,799.30
Annual dividend	Yen	50	45	52	67	70
Dividend payout ratio	%	29.2	38.8	30.1	32.8	38.2
Total return ratio	%	44.8	80.5	30.2	63.8	54.0

* The U.S. dollar amounts are translated on the basis of nearly 133.54 yen to 1 dollar, the rate of exchange prevailing at March 31, 2023.
* 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, the consolidated financial position of FY2017 is calculated after retrospectively applying the said accounting standard, etc. Therefore, the indicators and others for FY2017 reflect those retrospective adjustments.

FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2022 (*Thousands of U.S. dollars)
219,844	241,889	226,909	200,469	232,120	**288,670**	**2,161,676**
46.2	46.3	45.1	44.1	38.2	**47.1**	**47.1**
231,898	225,402	225,378	202,548	209,261	**214,793**	**1,608,456**
139,948	149,164	157,378	134,058	134,399	**171,868**	**1,287,017**
92,029	76,245	68,006	68,497	74,882	**42,960**	**321,709**
50.1	47.1	41.3	45.8	48.5	**37.5**	**37.5**
12,180	14,035	15,439	11,690	9,428	**11,556**	**86,538**
5.3	6.2	6.9	5.8	4.5	**5.4**	**5.4**
13,082	15,085	15,991	12,287	10,818	**13,001**	**97,364**
11,885	13,567	13,893	11,192	9,302	**14,599**	**109,324**
1,160	1,676	2,814	911	667	**(1,606)**	**(12,032)**
5.6	6.7	7.1	6.1	5.2	**6.1**	**6.1**
7,254	8,841	9,132	8,279	7,248	**7,917**	**59,286**
7.2	8.3	8.4	7.2	5.9	**6.3**	**6.3**
215,392	223,080	215,389	228,855	228,159	**237,105**	**1,775,542**
110,650	113,649	112,843	126,311	130,788	**131,992**	**988,415**
48.8	48.8	50.2	52.9	54.7	**53.1**	**53.1**
9,337	9,159	21,386	973	(8,544)	**4,806**	**35,991**
1,390	(2,830)	(877)	(6,913)	(1,071)	**(1,748)**	**(13,096)**
(885)	2,396	(11,475)	(1,435)	6,000	**(9,822)**	**(73,557)**
1,024	1,084	1,105	1,122	1,106	**1,149**	**8,606**
1,398	2,030	2,167	2,362	2,496	**2,000**	**14,982**
(3,832)	(4,140)	(2,086)	(2,270)	(2,314)	**(2,176)**	**(16,301)**

						*U.S. dollars
212.40	259.53	268.07	243.03	212.69	**234.62**	**1.76**
3,087.51	3,193.18	3,176.25	3,552.69	3,658.54	**3,788.75**	**28.37**
75	91	100	90	100	**121**	**0.91**
35.3	35.1	37.3	37.0	47.0	**51.6**	**51.6**
42.2	35.1	37.5	37.2	47.2	**89.3**	**89.3**

RESULTS OF OPERATIONS (OVERVIEW)

The results for the fiscal year ended March 31, 2023

Accounting estimates and underlying assumptions

The consolidated financial statements of the Taikisha Group are prepared in accordance with accounting standards generally accepted in Japan. In preparing the consolidated financial statements, some accounting estimates that affect the amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period are made in accordance with the accounting standards.

Please refer to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 2. Summary of significant accounting policies, (12) Significant accounting estimates" for important items of accounting estimates and underlying assumptions.

Due to the uncertain nature of estimates, actual results may change from these estimates.

Earnings Overview

In this fiscal year, despite progress in balancing quarantines against COVID-19 with economic activities, the global economy outlook remained uncertain due to such factors as soaring resource prices associated with the prolonged Ukraine crisis, higher policy interest rates in the U.S. and Europe in response to accelerating inflation, and heightened tensions between the U.S. and China.

In the U.S., despite firm employment-related conditions, there were growing concerns of an economic recession against a backdrop of rising inflation and monetary tightening. In Europe, although the economy was on a recovery trend due to the easing of restrictions on activities, soaring energy prices and restrictions on energy imports from Russia constrained economic activity. In China, growth slowed down due to the zero-COVID policy until December 2022. In Southeast Asia, the COVID-19 situation calmed down and the economy continued to recover. The Japanese economy continued to recover moderately due to the normalization of economic activities as a result of the easing of restrictions on activities, despite exchange rate fluctuations and soaring energy prices.

Among the market environments of the Taikisha Group, in overseas markets, capital investment by various manufacturers made continuous recovery, despite uncertainties due to the impact of COVID-19 and soaring resource prices.

On the other hand, in the domestic market, investments by manufacturers of electronic components, pharmaceuticals and such were strong, and demand for construction of office buildings in the Tokyo metropolitan area and investment by automobile manufacturers remained steady.

Under such circumstances, the Taikisha Group has been promoting the following initiatives to achieve medium- to long-term growth.

In the Green Technology System Business, as part of the business development that continues to create added value, the Taikisha Group increased investment in Nicomac Taikisha Clean Rooms Private Limited, a consolidated subsidiary in India (made it a subsidiary in July 2020 to integrate panel manufacturing and installation technology and air conditioning installation technology), from 74% to 100%. The said company's main customers are Indian pharmaceutical manufacturers, and it provides integrated services from manufacturing to installation of clean panels, etc. In recent years, it has not limited its sales to the Indian market, but also exports to neighboring countries, the U.S., and other countries.

The Indian economy is expected to continue to grow at a steady pace against a backdrop of population growth, urbanization development, economic reforms, etc. Currently, the clean room market in India is mostly for pharmaceutical plants, but demand is also expected to grow for manufacturing facilities for semiconductors and lithium-ion batteries, etc. due to the Indian government's policy of attracting and fostering industries. Taking this opportunity of increasing investment rate, the Taikisha Group will further promote the business expansion strategy in the high-value-added clean room construction market in India by combining the high brand power of the said company to major pharmaceutical manufacturers with the Company's abundant knowledge and experience in the field of pharmaceutical plants in Japan.

In the Paint Finishing System Business, as part of development with an awareness of global social issues, the Taikisha Group has been developing a new energy management system (EMS) function for "i-Navistar," a system that uses IoT and AI to monitor and analyze factors on automobile coating lines.

A wide variety of equipment are installed in automotive coating lines, and at the production site, data analysis and verification are repeated over a long period of time based on the knowledge of skilled technicians, and in many cases, the identification of the causes of defects is also done manually. In order to solve these productivity and quality issues, the Company has been focusing on the development of "i-Navistar", which utilizes IoT and AI to analyze the causes of operational outages and quality defects. In order to contribute to the decarbonization efforts of automakers, the Company is now developing "energy management system (EMS)" functions for paint factories that aim to "visualize the wasted energy and have optimized energy management using a simulator function," and many automakers are already showing a high level of interest in the system.

As decarbonization efforts accelerate around the world, the need for EMS functions is expected to increase. The Taikisha Group will continue efforts to advance the sophistication of such developed products to solve social issues and meet the demand arising from climate change.

Given such circumstances, consolidated orders received increased 24.4% year-on-year to ¥288,670 million increased both in Japan and overseas. This includes orders received overseas, which increased 53.4% year-on-year to ¥135,956 million.

Consolidated net sales of completed construction contracts increased 2.6% year-on-year to ¥214,793 million, due to an increase in Japan, despite a decrease overseas. This includes net sales of completed construction contracts overseas, which decreased 20.7% year-on-year to ¥80,556 million.

In regard to profits, gross profit on completed construction contracts increased ¥1,456 million year-on-year to ¥33,071 million, operating income increased ¥2,127 million year-on-year to ¥11,556 million, ordinary income increased ¥2,183 million year-on-year to ¥13,001 million, and profit attributable to owners of parent increased ¥668 million year-on-year to ¥7,917 million.

Earnings by reportable segment (including intersegment transactions) are as follows.

Green Technology System

Consolidated orders received increased compared to the previous fiscal year, due to increases in the industrial HVAC sector in Japan and in China, Taiwan, and other markets. The consolidated net sales of completed construction contacts increased compared to the previous fiscal year, due to increases in the industrial HVAC sector in Japan and in Thailand, etc.

As a result, consolidated orders received increased 30.9% year-on-year to ¥208,078 million. The breakdown is orders received for building HVAC of ¥36,188 million which decreased 16.5% year-on-year and orders received for industrial HVAC of ¥171,889 million which increased 48.7% year-on-year. Consolidated net sales of completed construction contracts increased 27.9% year-on-year to ¥171,868 million. The breakdown is sales for building HVAC of ¥45,355 million which increased 10.7% year-on-year and sales for industrial HVAC of ¥126,512 million which increased 35.4% year-on-year. Segment profit (ordinary income) increased ¥5,296 million year-on-year to ¥14,599 million.

Paint Finishing System

Consolidated orders received increased compared to the previous fiscal year, due to increases in China, India, Korea, etc., though orders decreased in Europe. The consolidated net sales of completed construction contracts decreased compared to the previous fiscal year, due to decreases in regions such as Japan, Europe, North America, China, etc.

As a result, consolidated orders received increased 10.1% year-on-year to ¥80,591 million and consolidated net sales of completed construction contracts decreased 42.6% year-on-year to ¥42,960 million. Segment loss (ordinary loss) was ¥1,606 million (segment profit of ¥667 million for the previous fiscal year).

Financial Condition

Assets

As of March 31, 2023, current assets increased 9.7% year-on-year to ¥184,467 million. This is mainly due to increase in notes receivable, accounts receivable from completed construction contracts and other of ¥19,279 million despite decrease in securities of ¥3,000 million.

Non-current assets decreased 12.2% year-on-year to ¥52,638 million. This is mainly due to decrease in machinery, vehicles, tools, furniture and fixtures of ¥5,903 million, investment securities of ¥3,117 million and buildings and structures of ¥345 million respectively.

As a result, total assets increased 3.9% year-on-year to ¥237,105 million.

Assets by reportable segment are as follows.

Green Technology System

As of March 31, 2023, current assets increased 49.8% year-on-year to ¥116,952 million. This is mainly due to increase in notes receivables, accounts receivable from completed construction contracts and other of ¥30,664 million and cash and deposits of ¥6,787 million respectively.

Non-current assets decreased 8.8% year-on-year to ¥28,613 million. This is mainly due to decrease in investment securities of ¥2,194 million, goodwill of ¥368 million, buildings and structures of ¥325 million, and machinery, vehicles, tools, furniture and fixtures of ¥320 million respectively.

As a result, total assets increased 33.0% year-on-year to ¥145,565 million.

Paint Finishing System

As of March 31, 2023, current assets decreased 32.1% year-on-year to ¥37,141 million. This is mainly due to decrease in notes receivable, accounts receivable from completed construction contracts and other of ¥17,446 million and so on.

Non-current assets decreased 24.2% year-on-year to ¥12,161 million. This is mainly due to decrease in machinery, vehicles, tools, furniture and fixtures of ¥2,497 million and investment securities of ¥923 million respectively.

As a result, total assets decreased 30.3% year-on-year to ¥49,303 million.

Liabilities

As of March 31, 2023, current liabilities increased 17.2% year-on-year to ¥95,940 million. This is mainly due to increase in advances received on uncompleted construction contracts of ¥16,404 million and notes payable, accounts payable for construction contracts and other of ¥8,369 million respectively despite decrease in short-term loans payable of ¥12,593 million.

Non-current liabilities decreased 40.8% year-on-year to ¥9,172 million. This is mainly due to decrease in long-term loans payable of ¥5,507 million and deferred tax liabilities of ¥842 million respectively.

As a result, total liabilities increased 8.0% year-on-year to ¥105,112 million.

Net assets

As of March 31, 2023, total net assets increased 0.9% year-on-year to ¥131,992 million. This is mainly due to increase in foreign currency translation adjustment of ¥2,761 million and purchase and cancellation of treasury shares of ¥1,385 million and retained earnings of ¥403 million respectively despite decrease in capital surplus of ¥1,517 million, valuation difference on available-for-sale securities of ¥1,372 million and accumulated remeasurements of defined benefit plans of ¥526 million respectively.

Cash flows

Cash and cash equivalents (collectively, "Cash") as of March 31, 2022 and 2023 were ¥48,791 million and ¥43,946 million respectively. Compared to the previous year, it decreased ¥4,845 million.

Cash flows from operating activities

Cash used in operating activities for the year ended March 31, 2022 was ¥8,544 million, and cash provided by operating activities for the year ended March 31 2023 was ¥4,806 million. Cash increased mainly due to the recording of profit before income taxes, increase in notes payable, accounts payable for construction contracts, and increase in advances received on uncompleted construction contracts, although decreased mainly due to increase in sales receivables.

Cash flows from investing activities

Cash used in investing activities for the year ended March 31, 2022 and 2023 was ¥1,071 million and ¥1,748 million respectively. Cash decreased mainly due to purchase of property, plant and equipment and intangible assets and payments for sale of shares of subsidiaries resulting in change in scope of consolidation, although increased mainly due to increase in proceeds from sale of investment securities.

Cash flows from financing activities

Cash provided by financing activities for the year ended March 31, 2022 was ¥6,000 million, and cash used in financing activities for the year ended March 31, 2023 was ¥9,822 million. Cash decreased mainly due to payments for net increase in treasury shares, cash dividends paid, and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation.

Business and Other Risks

Major risk factors that may significantly affect the financial condition, business performance and cash flows of the Taikisha Group, as recognized by senior management, are noted below.

Forward-looking statements in this section are based on judgments made by the Taikisha Group as of March 31, 2023.

Risk of Changes in Private Capital Investment

Changes in the environment for orders may significantly affect sales and profit in the Taikisha Group's businesses. In the Green Technology System Division, this may be caused by reduction in overseas investment by Japanese companies. In the Paint Finishing System Division, this may be caused by continued shrinkage of domestic manufacturing by Japanese automobile manufacturers, shrinkage of economic activities due to the prolonged Ukraine crisis, or reduction in new capital investment due to worldwide shortage of semiconductors. The Taikisha Group's business performance and other results may be affected by a decrease in the amount of orders received due to these factors. In addition, if the Taikisha Group fails to keep up with the change of production facility of automobile manufacturers that contributes to realization of carbon neutrality, the Taikisha Group may lose customers and the business performance and other results may also be affected.

In response, Green Technology System Division will work overseas to strengthen its sales structure targeting local companies, and promote initiatives to increase orders from Japanese manufacturers in collaboration with sales team in Japan. Paint Finishing System Division will accelerate the development of the Company's technology that introduces change the production facility of customers that contributes to realization of carbon neutrality, and will aim to expand automation business from the conventional 4-wheel and 2-wheel vehicle markets to other industries by the Company's automation technology.

Risk Associated with Large-Scale Disasters

The Taikisha Group's business performance and other results may be affected by losses sustained due to natural disasters, such as earthquakes, tsunamis, wind or water damage, or a global spread of infections and other diseases in regions where the Taikisha Group does business. Furthermore, in the case of large-scale, widespread natural disasters, the Taikisha Group's business performance and other results may be affected not only by the direct damage to property and people, but also by the long-term impact on customers' business activities and the larger economic climate.

In order to prepare for the possible occurrence of unforeseen disasters, accidents or events in Japan or overseas, the Taikisha Group has established a basic policy for crisis management and constructed a crisis management system. Should a crisis occur, it will be classified into one of three levels depending on its impact on personal safety and business continuity. Crisis countermeasures will be implemented based on these levels.

Risk Associated with the Spread of COVID-19

There is a risk that the Taikisha Group's business performance and other results may be affected by the impact of damages to employees, as well as delays in the procurement of construction materials and stoppages to construction works due to the spread of COVID-19 that first became apparent in early 2020.

Crisis countermeasures of the highest level have been implemented in response to COVID-19, a crisis task force has been established headed by the President and Representative Director, and composed of Chief General Managers and Chief Executives, and measures are carried out to respond to the crisis for the entire Taikisha Group, such as recommendation of work at home and staggered working hours that lower risk while commuting, reconsideration of company events and business activities in order to prevent infections, and appropriate correspondence for infected people. The Taikisha Group will timely correspond to the situation of the spread of infection.

Risk Associated with Overseas Business and the Management and Control of Overseas Subsidiaries and Associates

Unforeseen changes in laws and regulations, political instability and other factors in the overseas regions where the Taikisha Group operates could affect its business results. The Taikisha Group may sustain losses due to fluctuations in exchange rates pertaining to the payments and collections for foreign currency construction contracts. In addition, exchange rates could affect the Taikisha Group's business performance and other results because the financial statements of overseas subsidiaries and associates are translated into Japanese yen in preparing the consolidated financial statements. Furthermore, the Taikisha Group's business performance and other results may be affected by a deterioration in the results of overseas subsidiaries and associates, such as the failure to achieve business plan targets, due to bad debt because of bankruptcy of customers, the occurrence of problems that could not be predicted, or for which risk countermeasures that could not be implemented and so on.

In response, the Taikisha Group collects information on political, economic and statutory changes in the overseas regions in which it operates, and strives to control country risks and overseas legal and regulatory risks. The Taikisha Group implements forward exchange contracts and other instruments to hedge currency risks arising from payments and collections for foreign currency construction contracts, strengthens credit control before receiving orders to reduce the risk of receivables to become uncollectible, and avoids such kinds of risks as much as possible. It will also continue to enhance the governance structure of its overseas subsidiaries and associates.

Risk Associated with Technological Development

Should the Taikisha Group experience delays in the development of systems to meet increasing customer needs, such as carbon neutrality, energy saving, enhanced environmental measures and automation, its technological differentiation with competitors cannot be generated, and its business performance and other results may be affected by the resulting loss of opportunities to receive orders, as well as deterioration in customer trust and corporate reputation.

In response, the Taikisha Group endeavors to solve social issues through the development and demonstration of technologies aimed at reducing environmental impact to deal with decarbonization business in order to realize carbon neutrality, as well as automation technologies which is the strength technology of the Company. To this end, the Company established R&D satellite facility "TAIKISHA INNOVATION GATE Shinjuku" in April 2023 at the head office of Shinjuku, so that it expands communication, integrates solution inside and outside the company, and excavates innovation, and at the same time, by leveraging digital technologies, strengthening initiatives across the Group, and promoting development of innovative technologies by collaborating with academic institutions and start-up companies, the Taikisha Group will engage in themes that anticipate social needs.

Risk Associated with Human Resources to Execute Projects
Construction and equipment installation work, the Taikisha Group's business field, is heavily reliant on human resources. In Japan, the Taikisha Group's business results may be affected by inability to build the design and construction structures required to achieve medium- to long-term plans, with the concern of shortage in skilled and experienced engineers due to the aging population and delays in personnel development, as well as reduction of total working hours of engineering employees are expected due to the limitation of overtime work which will be applied also in construction industry from April 2024. Overseas, long-term business development may also be affected if the core human resources necessary to guide the localization of the Taikisha Group's businesses cannot be secured, due to factors such as delays in the development of local staff and employee turnover.

In response, the Taikisha Group will work to enhance employees' technical skills and develop human resources, by improving their basic technical capabilities through training, as well as on-site practical instruction. At the same time, it will endeavor to secure human resources, leveraging digital technology to increase productivity, promote work style reforms, and create attractive workplaces.

Overseas, the Taikisha Group will strive to secure and develop core human resources, and promote localization, through the introduction of a global personnel system.

In addition, in order to sustain and promote employees' healthy mind and body, the Company announced "Health management declaration" in 2020, clarified health management promotion system with President and Representative Director to become the supervisor of health control, and will verify the effectiveness and improve continuously along with planning and implementing health measures for various employees.

Legal and Regulatory Compliance Risk
The Taikisha Group's business fields are subject to a range of legal restrictions, including the Construction Business Act, the Antimonopoly Act, and the Labor Standards Act. The Taikisha Group's business performance and other results may be affected by restrictions placed upon its business activities, if any of these laws and regulations are violated by the actions of its officers or employees.

In response, the Taikisha Group will endeavor to create a corporate culture and mechanisms to prevent rule violations. It will engage in continuing implementation and follow-up of its compliance education program such as e-learning, as well as conducting survey of compliance attitude which leads to inspect the effectiveness of compliance activities and reflect to improvement process, in order to maintain and increase employee awareness of legal and regulatory compliance.

Risk of Serious Accidents and Quality Defects
In the event of serious accidents during construction, or serious contract nonconformity due to such as quality defects, the Taikisha Group's social credit would be damaged, and its business results may be affected. The Taikisha Group takes contract conformity responsibility with customers guaranteeing construction against defects for fixed period of time after completion of construction. The Taikisha Group allocates a provision for warranties for completed construction to cover repair costs based on previous warranty experience. However, these costs still could potentially exceed the balance of the provision, affecting the Taikisha Group's business performance and other results

In response, the Taikisha Group is improving safety awareness and level by utilizing digital technology such as digital signage, and instructing partner companies to create detailed work procedure diagrams at work procedure study meetings. Plus, the Taikisha Group strives to strengthen the management system and takes all possible measures for safety and health management at construction sites. In addition, the Taikisha Group is working to prevent quality defects by reviewing the construction management system, promoting the introduction of digital technology in construction management and company-wide sharing of information regarding quality, and the Group is enforcing the structure of assuring the technical quality on a company-wide basis.

Risk of Changes in Material Prices and Unit Labor Costs
Sharp rises in material prices due to the shortage of semiconductors and the rise of fuel prices and so on, and sharp rises in unit labor costs due to declining birthrate and aging population as well as lack of successors, could affect the Taikisha Group's business performance and other results if the Taikisha Group is unable to reflect them to contract prices.

In response, the Taikisha Group endeavors to control the risk of changes in material prices and unit labor costs through measures such as identifying reasonable costs for each region when it receives orders, and hedging the risk of price fluctuations in contracts.

Risk Associated with the Leakage of Confidential Information
Cyber-attacks are becoming increasingly sophisticated, diverse, and devious each year. If confidential information, such as personal information or customer information, is leaked through these cyber-attacks, the intentional, dishonest actions of an employee, or other means, the Taikisha Group's business performance and other results may be affected by the results of this leak, such as loss of credit and liability for compensation payments.

In response, the Taikisha Group is working to prevent the leakage of confidential information by strengthening IT security after grasping vulnerability using an IT security diagnosis, by enhancing internal rules, and by conducting thorough employee education.

Risk Associated with the Climate Change
In the transition of society toward decarbonization, policies, laws, technologies, and markets change, and these may affect companies' finance and reputation in various ways. Also for the Taikisha Group, there are risks that its earnings, etc. may be affected by transitional and physical risks, such as loss of customers due to failing to adapt successfully to customers' climate change correspondence, deterioration of competitiveness due to the delay of development of carbon neutral correspondence technologies, cost increase due to introduction of carbon tax, decline in labor productivity due to the rise in the average temperature, and project cancellation due to the increase of heat days, etc.

In response, the Taikisha Group will work on development of low carbon construction technology and system such as downsizing of facilities and saving energy, expanding construction of saving energy facilities such as net zero energy building of factories, promoting mechanization and automating constructions, and so on.

Subsidiaries and associates
Taikisha Group consists of Taikisha Ltd., 31 subsidiaries, and 3 associates. Taikisha Ltd., 4 subsidiaries and 1 associate are domiciled in Japan, and 27 subsidiaries and 2 associates are domiciled overseas.

CONSOLIDATED BALANCE SHEETS

Taikisha Ltd. and its Consolidated Subsidiaries
As of March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
Assets	2022	2023	2023
Current assets:			
Cash and deposits (Note 3(3))	¥49,085	¥46,988	$351,866
Notes receivable, accounts receivable from completed construction contracts and other (Note 3(1))	104,956	124,236	930,330
Securities	3,000	–	–
Costs on uncompleted construction contracts (Note 3(7))	1,775	2,346	17,571
Raw materials and supplies	1,007	843	6,317
Other	9,084	10,721	80,285
Allowance for doubtful accounts	(718)	(668)	(5,007)
Total current assets	168,190	184,467	1,381,362
Non-current assets:			
Property, plant and equipment			
Buildings and structures	8,389	8,043	60,232
Machinery, vehicles, tools, furniture and fixtures (Note 3(3))	13,756	7,852	58,802
Land	1,737	1,705	12,772
Other	639	1,163	8,714
Accumulated depreciation	(13,279)	(10,207)	(76,441)
Total property, plant and equipment	11,243	8,557	64,079
Intangible assets			
Goodwill	3,966	3,640	27,259
Customer-related assets	1,334	1,184	8,869
Other	2,081	1,104	8,271
Total intangible assets	7,381	5,929	44,399
Investments and other assets			
Investment securities (Note 3(2))	29,605	26,487	198,349
Deferred tax assets	520	582	4,365
Net defined benefit asset	8,909	8,595	64,370
Other	2,710	2,993	22,418
Allowance for doubtful accounts	(401)	(507)	(3,800)
Total investments and other assets	41,344	38,152	285,702
Total non-current assets	59,969	52,638	394,180
Total assets	¥228,159	¥237,105	$1,775,542

The accompanying notes are an integral part of these financial statements.

Liabilities and Net assets	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Current liabilities:			
Notes payable, accounts payable for construction contracts and other	¥47,102	¥55,472	$415,399
Short-term loans payable	15,535	2,942	22,035
Income taxes payable	1,672	1,772	13,275
Advances received on uncompleted construction contracts	6,901	23,306	174,525
Provision for warranties for completed construction	714	614	4,601
Provision for loss on construction contracts	392	300	2,251
Provision for directors' bonuses	43	71	532
Other	9,524	11,460	85,825
Total current liabilities	81,886	95,940	718,443
Non-current liabilities:			
Long-term loans payable	5,605	98	735
Deferred tax liabilities	7,877	7,034	52,675
Provision for directors' retirement benefits	44	56	424
Provision for share-based remuneration for directors	145	212	1,592
Net defined benefit liability	1,462	1,343	10,057
Other	349	427	3,201
Total non-current liabilities	15,484	9,172	68,684
Total liabilities	¥97,371	¥105,112	$787,127
Net assets:			
Shareholders' equity			
Capital stock			
Authorized: 100,000,000 shares			
Issued: 35,082,009 shares as of March 31, 2022 33,582,009 shares as of March 31, 2023	¥6,455	¥6,455	$48,339
Capital surplus	5,058	3,540	26,514
Retained earnings	99,893	100,296	751,061
Treasury shares, at cost — 998,559 shares as of March 31,2022	(2,544)	–	–
380,689 shares as of March 31,2023	–	(1,158)	(8,676)
Total shareholders' equity	108,862	109,133	817,238
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	11,908	10,535	78,897
Deferred gains or losses on hedges	(25)	(63)	(475)
Foreign currency translation adjustment	2,017	4,779	35,791
Accumulated remeasurements of defined benefit plans	1,932	1,405	10,525
Total accumulated other comprehensive income	15,833	16,657	124,738
Non-controlling interests	6,092	6,201	46,439
Total net assets	130,788	131,992	988,415
Total liabilities and net assets	¥228,159	¥237,105	$1,775,542

Per share data :	Yen 2022	Yen 2023	U.S. dollars 2023
Net assets	¥3,658.54	¥3,788.75	$28.37

Basis of calculation	Millions of yen 2022	Millions of yen 2023	Thousands of U.S. dollars 2023
Total net assets	¥130,788	¥131,992	$988,415
Amounts to be deducted from net assets (Non-controlling interests)	(6,092)	(6,201)	(46,439)
Net assets applicable to common shares	124,695	125,791	941,976
Number of common shares as of the year-end (thousands of shares)	34,083	33,201	33,201

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Consolidated Statements of Income			
Net sales of completed construction contracts (Note 4(1))	¥209,261	¥214,793	$1,608,456
Cost of sales of completed construction contracts (Note 4(7))	177,646	181,721	1,360,805
Gross profit on completed construction contracts	31,614	33,071	247,651
Selling, general and administrative expenses:			
Directors' compensations	931	915	6,853
Employees' salaries and allowances	8,159	8,157	61,090
Provision for directors' bonuses	43	71	532
Retirement benefit expenses	390	330	2,474
Provision for directors' retirement benefits	11	11	88
Provision for share-based remuneration for directors	40	67	505
Correspondence and transportation expenses	902	1,091	8,175
Provision of allowance for doubtful accounts	468	332	2,493
Rents	1,642	1,322	9,907
Depreciation	2,146	1,578	11,822
Amortization of goodwill	414	462	3,465
Other	7,034	7,172	53,709
Total selling, general and administrative expenses (Note 4(2))	22,186	21,515	161,113
Operating income	9,428	11,556	86,538
Non-operating income:			
Interest income	259	324	2,432
Dividend income	657	698	5,227
Dividend income of insurance	159	178	1,336
Real estate rent	126	112	846
Foreign exchange gains	317	78	590
Reversal of allowance for doubtful accounts	–	0	2
Other	322	372	2,792
Total non-operating income	1,841	1,766	13,225
Non-operating expenses:			
Interest expenses	303	152	1,139
Rent expenses on real estates	16	15	116
Provision of allowance for doubtful accounts	0	–	–
Share of loss of entities accounted for using equity method	32	3	25
Other	99	149	1,119
Total non-operating expenses	451	320	2,399
Ordinary income	10,818	13,001	97,364
Extraordinary income:			
Gain on disposal of non-current assets (Note 4(3))	50	18	140
Gain on sales of investment securities	1,177	1,844	13,810
Gain on sale of shares of subsidiaries and associates	–	881	6,605
Total extraordinary income	1,228	2,744	20,555
Extraordinary losses:			
Loss on disposal of non-current assets (Note 4(4))	45	57	433
Impairment loss (Note 4(5))	0	642	4,813
Loss on sale of investment securities	–	0	7
Loss on valuation of investment securities	–	21	165
Loss on sale of shares of subsidiaries and associates	–	3	27
Business restructuring expenses (Note 4(6))	–	2,461	18,436
Total extraordinary losses	45	3,188	23,881
Profit before income taxes	12,001	12,557	94,038
Income taxes-current	3,179	4,002	29,972
Income taxes-deferred	753	(286)	(2,143)
Total income taxes	3,932	3,716	27,829
Profit	8,068	8,841	66,209
Profit attributable to non-controlling interests	820	924	6,923
Profit attributable to owners of parent	¥7,248	¥7,917	$59,286

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Consolidated Statements of Comprehensive Income			
Profit	¥8,068	¥8,841	$66,209
Other comprehensive income:			
Valuation difference on available-for-sale securities	(2,329)	(1,372)	(10,277)
Deferred gains or losses on hedges	(22)	(38)	(289)
Foreign currency translation adjustment	2,547	2,664	19,950
Remeasurements of defined benefit plans	(455)	(516)	(3,870)
Share of other comprehensive income of entities accounted for using equity method	69	29	220
Total other comprehensive income (Note 5(1))	(190)	765	5,734
Comprehensive income	¥7,878	¥9,607	$71,943
Comprehensive income attributable to :			
Owners of parent	¥6,669	¥8,467	$63,407
Non-controlling interests	1,208	1,139	8,536

	Yen		U.S. dollars
Per share data:			
Profit attributable to owners of parent	¥212.69	¥234.62	$1.76
Cash dividends	¥100.00	¥121.00	$0.91

	Millions of yen		Thousands of U.S. dollars
Basis of calculation			
Profit attributable to owners of parent	¥7,248	¥7,917	$59,286
Profit attributable to owners of parent for common shares	7,248	7,917	59,286
Average number of common shares (thousands of shares)	34,078	33,744	33,744

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Taikisha Ltd. and its Consolidated Subsidiaries

For the year ended March 31, 2022 — Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥6,455	¥5,058	¥95,701	¥(2,594)	¥104,620	¥14,237	¥(3)	¥(237)	¥2,416	¥16,412	¥5,277	¥126,311
Cumulative effects of changes in accounting policies			21		21			(1)		(1)	(15)	4
Restated balance	6,455	5,058	95,723	(2,594)	104,642	14,237	(3)	(239)	2,416	16,411	5,261	126,315
Changes of items during the period												
Dividends of surplus			(3,078)		(3,078)							(3,078)
Profit attributable to owners of parent			7,248		7,248							7,248
Purchase of treasury shares				(1)	(1)							(1)
Disposal of treasury shares				51	51							51
Cancellation of treasury shares					–							–
Purchase of shares of consolidated subsidiaries		(0)			(0)				(0)	(0)		(0)
Sale of shares of consolidated subsidiaries					–							–
Net changes of items other than shareholders' equity						(2,329)	(21)	2,256	(484)	(578)	830	251
Total changes of items during the period	–	(0)	4,169	50	4,220	(2,329)	(21)	2,256	(484)	(578)	830	4,472
Balance at the end of current period	¥6,455	¥5,058	¥99,893	¥(2,544)	¥108,862	¥11,908	¥(25)	¥2,017	¥1,932	¥15,833	¥6,092	¥130,788

For the year ended March 31, 2023 — Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥6,455	¥5,058	¥99,893	¥(2,544)	¥108,862	¥11,908	¥(25)	¥2,017	¥1,932	¥15,833	¥6,092	¥130,788
Cumulative effects of changes in accounting policies					–							–
Restated balance	6,455	5,058	99,893	(2,544)	108,862	11,908	(25)	2,017	1,932	15,833	6,092	130,788
Changes of items during the period												
Dividends of surplus			(4,093)		(4,093)							(4,093)
Profit attributable to owners of parent			7,917		7,917							7,917
Purchase of treasury shares				(3,001)	(3,001)							(3,001)
Disposal of treasury shares					–							–
Cancellation of treasury shares		(116)	(4,270)	4,386	–							–
Purchase of shares of consolidated subsidiaries		(1,401)			(1,401)							(1,401)
Sale of shares of consolidated subsidiaries			850		850							850
Net changes of items other than shareholders' equity						(1,372)	(38)	2,761	(526)	824	109	933
Total changes of items during the period	–	(1,517)	403	1,385	271	(1,372)	(38)	2,761	(526)	824	109	1,204
Balance at the end of current period	¥6,455	¥3,540	¥100,296	¥(1,158)	¥109,133	¥10,535	¥(63)	¥4,779	¥1,405	¥16,657	¥6,201	¥131,992

For the year ended March 31, 2023 — Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	$48,339	$37,879	$748,041	$(19,053)	$815,206	$89,174	$(188)	$15,110	$14,468	$118,564	$45,621	$979,391
Cumulative effects of changes in accounting policies					–							–
Restated balance	48,339	37,879	748,041	(19,053)	815,206	89,174	(188)	15,110	14,468	118,564	45,621	979,391
Changes of items during the period												
Dividends of surplus			(30,655)		(30,655)							(30,655)
Profit attributable to owners of parent			59,286		59,286							59,286
Purchase of treasury shares				(22,473)	(22,473)							(22,473)
Disposal of treasury shares				–	–							–
Cancellation of treasury shares		(873)	(31,977)	32,850	–							–
Purchase of shares of consolidated subsidiaries		(10,492)			(10,492)							(10,492)
Sale of shares of consolidated subsidiaries			6,366		6,366							6,366
Net changes of items other than shareholders' equity						(10,277)	(287)	20,681	(3,943)	6,174	818	6,992
Total changes of items during the period	–	(11,365)	3,020	10,377	2,032	(10,277)	(287)	20,681	(3,943)	6,174	818	9,024
Balance at the end of current period	$48,339	$26,514	$751,061	$(8,676)	$817,238	$78,897	$(475)	$35,791	$10,525	$124,738	$46,439	$988,415

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash flows from operating activities:			
Profit before income taxes	¥12,001	¥12,557	$94,038
Depreciation and amortization	2,496	2,000	14,982
Amortization of goodwill	414	462	3,465
Increase (decrease) in allowance for doubtful accounts	385	315	2,363
Increase (decrease) in provision for warranties for completed construction	210	(81)	(613)
Increase (decrease) in provision for loss on construction contracts	(16)	(103)	(779)
Increase (decrease) in provision for directors' retirement benefits	4	11	88
Increase (decrease) in provision for share-based remuneration for directors	(25)	67	505
Increase (decrease) in net defined benefit liability	(572)	(597)	(4,477)
Interest and dividend income	(916)	(1,022)	(7,660)
Interest expenses	303	152	1,139
Share of (profit) loss of entities accounted for using equity method	32	3	25
Loss (gain) on disposal of non-current assets	(4)	39	293
Loss (gain) on sales of investment securities	(1,177)	(1,843)	(13,803)
Loss (gain) on valuation of investment securities	–	21	165
Loss (gain) on sale of shares of subsidiaries and associates	–	(878)	(6,578)
Business restructuring expenses	–	2,461	18,436
Decrease (increase) in notes and accounts receivable-trade	(846)	(31,405)	(235,175)
Decrease (increase) in inventories	(655)	(356)	(2,668)
Decrease (increase) in accounts receivable-other	(238)	(17)	(132)
Increase (decrease) in notes and accounts payable-trade	(6,473)	10,670	79,903
Increase (decrease) in advances received on uncompleted construction contracts	(8,014)	17,466	130,796
Increase (decrease) in accrued consumption taxes	(423)	443	3,325
Increase (decrease) in deposits received	(69)	529	3,962
Increase (decrease) in accrued expenses	(196)	(84)	(633)
Other, net	(2,398)	(310)	(2,322)
Subtotal	(6,181)	10,502	78,645
Interest and dividend income received	916	1,017	7,620
Interest expenses paid	(303)	(152)	(1,139)
Income taxes paid	(2,976)	(4,099)	(30,699)
Payments for business restructuring expenses	–	(2,461)	(18,436)
Net cash provided by (used in) operating activities	(8,544)	4,806	35,991
Cash flows from investing activities:			
Payments into time deposits	(4,327)	(4,056)	(30,378)
Proceeds from withdrawal of time deposits	4,433	4,293	32,151
Purchase of property, plant and equipment and intangible assets	(2,314)	(2,176)	(16,301)
Proceeds from sales of property, plant and equipment and intangible assets	151	52	391
Purchase of investment securities	(501)	(44)	(332)
Proceeds from sales of investment securities	1,455	3,145	23,556
Proceeds from redemption of investment securities	0	–	–
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation (Note 7(2))	–	(2,270)	(17,001)
Payments of long-term loans receivable	(35)	(183)	(1,376)
Collection of long-term loans receivable	56	50	379
Purchase of insurance funds	(0)	(0)	(3)
Purchase of long-term prepaid expenses	(9)	(228)	(1,711)
Other, net	18	(329)	(2,471)
Net cash provided by (used in) investing activities	(1,071)	(1,748)	(13,096)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	8,389	(134)	(1,010)
Proceeds from long-term loans payable	3,438	101	760
Repayments of long-term loans payable	(2,460)	(201)	(1,513)
Repayments of lease obligations	(95)	(102)	(771)
Net decrease (increase) in treasury shares	50	(3,001)	(22,474)
Cash dividends paid	(3,078)	(4,090)	(30,631)
Cash dividends paid to non-controlling interests	(239)	(304)	(2,284)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4)	(2,087)	(15,634)
Net cash provided by (used in) financing activities	6,000	(9,822)	(73,557)
Effect of exchange rate change on cash and cash equivalents	1,737	1,919	14,378
Net increase (decrease) in cash and cash equivalents	(1,878)	(4,845)	(36,284)
Cash and cash equivalents at beginning of period	50,670	48,791	365,370
Cash and cash equivalents at end of period (Note 7(1))	¥48,791	¥43,946	$329,086

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2022 and 2023

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements are prepared based on the accounts maintained by Taikisha Ltd. (the "Company") and its consolidated subsidiaries (collectively, the "Companies") in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan. Certain amounts in the prior fiscal year's financial statements are reclassified to conform to the changes made for the latest fiscal year.

The accounts of the consolidated financial statements presented herein are expressed in Japanese yen by rounding down to the nearest million. The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto are translated from the original Japanese yen into U.S. dollars on the basis of ¥133.54 to US$1, the rate of exchange prevailing at March 31, 2023, and are then rounded to the nearest thousand. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts are or can be converted, realized or settled in U.S. dollars at this or any other rate.

2. Summary of significant accounting policies

(1) Scope of consolidation

During the consolidated fiscal year ended March 31, 2023, the Company entered into a contract to transfer a portion of its shares in Geico S.p.A. ("Geico") and the transfer has been completed.

With this share transfer, Geico and its consolidated subsidiaries, J-CO America Corporation, J-CO Mexico, S. de R.L. de C.V., Geico Brasil Ltda., Geico Paint Shop India Private Limited, Geico Painting System (Suzhou) Co., Ltd., "Geico Russia" LLC, Geico Taikisha GmbH, Geico Taikisha Controls d.o.o. and Process Solution Partner Rus LLC have been excluded from the scope of consolidation.

During the consolidated fiscal year ended March 31, 2023, Taikisha group transferred all of its shares of BTE Co., Ltd. ("BTE"), and BTE has been excluded from the scope of consolidation.

The consolidated financial statements include the accounts of the Company and all significant subsidiaries listed below as of March 31, 2023:

Domestic subsidiaries

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

Overseas subsidiaries

TKS Industrial Company
Encore Automation LLC (subsidiary of TKS Industrial Company)
Taikisha Canada Inc. (subsidiary of TKS Industrial Company)
Taikisha de Mexico, S.A. de C.V. (subsidiary of TKS Industrial Company)
Taikisha do Brasil Ltda.
Taikisha (Singapore) Pte. Ltd.
Taikisha (Thailand) Co., Ltd.
Taikisha Trading (Thailand) Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Thaiken Maintenance & Service Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Token Interior & Design Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
TKA Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Token Myanmar Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)
Taikisha Engineering (M) Sdn. Bhd.
P.T. Taikisha Indonesia Engineering
P.T. Taikisha Manufacturing Indonesia
Taikisha Philippines Inc.
Taikisha Vietnam Engineering Inc.
Taikisha (Cambodia) Co., Ltd.
Taikisha Myanmar Co., Ltd.
Taikisha Lao Co., Ltd.
Wuzhou Taikisha Engineering Co., Ltd.
Tianjin Taikisha Paint Finishing System Ltd.
Taikisha Hong Kong Limited
Taikisha (Taiwan) Ltd.
Taikisha Korea Ltd.
Taikisha Engineering India Private Ltd.
Nicomac Taikisha Clean Rooms Private Limited

(2) Application of the equity method

Name of associates subject to the equity method

FreDelish Co., Ltd.

Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.

Name of associates not subject to the equity method

The associate not subject to the equity method is excluded from the scope of application of the equity method because even if it is excluded from the scope of application of the equity method, it has minor impact on net income (proportionate to equity holdings), retained earnings (proportionate to equity holdings), etc., in the consolidated financial statements.

Makiansia Engineering (M) Sdn. Bhd.

(3) Fiscal year for consolidated subsidiaries

The balance sheet date of all domestic consolidated subsidiaries as well as Taikisha Engineering India Private Ltd., Nicomac Taikisha Clean Rooms Private Limited, Taikisha Myanmar Co., Ltd., and Token Myanmar Co., Ltd. is March 31, which is the same as that of the Company. The balance sheet date of the other overseas consolidated subsidiaries is December 31.

In preparing the consolidated financial statements, for consolidated subsidiaries whose balance sheet date is December 31, the Company uses each subsidiary's financial statements as of December 31. For Token Myanmar Co., Ltd., the Company uses provisional financial results as of December 31, which is the balance sheet date of its parent company, Taikisha (Thailand) Co., Ltd.

For the subsidiaries with the balance sheet date of December 31, certain adjustments are made, where appropriate, in preparing the consolidated financial statements to reflect material transactions during the period from their fiscal year end to March 31.

(4) Valuation of significant assets

Held-to-maturity debt securities

Held-to-maturity debt securities are determined by the amortized cost method. Discounts and premiums are amortized by the straight-line method.

Shares of associates

Shares of associates are stated at cost, determined by the moving average method.

Available-for-sale securities

Available-for-sale securities with fair value are stated at fair value based on the market prices at the end of fiscal year. Valuation difference is reported as a separate item in net assets at net-of-tax amount. The cost of securities sold is stated at cost, determined by the moving average method.

Available-for-sale securities without fair value are stated at cost using the moving average method.

Derivatives

Derivative instruments are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

Inventories

Costs on uncompleted construction contracts are stated at cost using specific identification method. Raw materials and supplies are stated at cost determined by the moving average method. The cost method (the amounts stated in the balance sheets are calculated by writing down the book value based on the decline in profitability) is used as a valuation standard.

(5) Depreciation method for principal depreciable assets

Property, plant and equipment (excluding leased assets)

The Companies mainly calculate depreciation by the declining-balance method, while the straight-line method is applied to buildings, excluding facilities attached to buildings, acquired on or after April 1, 1998, and is applied to facilities attached to buildings and structures, acquired on or after April 1, 2016. Certain overseas consolidated subsidiaries apply the straight-line method. The useful lives and residual values of depreciable assets are estimated in accordance with the Corporate Tax Act.

Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method. However, computer software for internal use is amortized by the straight-line method over the estimated useful life of 5 years. Customer-related assets are amortized by the straight-line method over the effective period of 10 years.

Leased assets

Leased assets under finance leases that do not transfer ownership of the leased assets to the lessee are depreciated by the straight-line method over the lease period with a residual value of zero.

(6) Standards of accounting for principal allowance and provisions

Allowance for doubtful accounts

In order to prepare for losses due to bad debts such as accounts receivable from completed construction contracts and other, the allowance for doubtful accounts is provided at the estimated amount of uncollectable debt. For receivables classified as “normal”, it is provided based on a historical default ratio. For receivables classified as “doubtful” etc., it is provided based on individual assessment on the probability of collection.

Provision for warranties for completed construction

In order to prepare for the costs of repairs for damages related to completed construction work for which the Companies are responsible, the provision is provided based on past warranty experience.

Provision for loss on construction contracts

In order to prepare for future losses related to the construction contracts in process, the provision is provided based on estimated amount which will probably be incurred and which can be reasonably estimated.

Provision for directors’ bonuses

In order to prepare for directors’ bonuses, the provision is provided based on the estimated payment of the fiscal year.

Provision for directors’ retirement benefits

In order to prepare for directors’ retirement benefits, domestic consolidated subsidiaries recognize the provision for accrued retirement benefits to directors at 100 percent of the amount required by their internal policies for retirement benefits.

Provision for share-based remuneration for directors

In order to prepare for share-based remuneration to executive directors upon their retirements, the estimated amount of provision for share-based obligation as of the fiscal year end is provided based on the regulation of share-based remuneration for directors.

(7) Retirement and pension plans

(Method of attributing the projected benefit obligations to periods of service)

In calculating the retirement benefit obligations, the benefit formula basis is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year.

(Actuarial differences)

Actuarial differences are amortized using the straight-line method over a certain period of time (10 years) within the average remaining service period of employees from the following fiscal year of accrual.

(Prior service costs)

Prior service costs are amortized using the straight-line method over a certain period of time (10 years) within the average remaining service period of employees from the fiscal year of accrual.

(Simplified method for small companies)

Certain overseas consolidated subsidiaries apply the simplified method to calculate net defined benefit liability and retirement benefit expenses, where retirement benefit obligations are assumed to be equal to the benefits payable of the fiscal year.

(8) Revenue and cost recognition

The details of the main performance obligations in the major businesses related to revenue from contracts with the Taikisha Group’s customers and the timing at which the Company typically satisfies these performance obligations (when it typically recognizes revenue) are as follows.

Construction contracts, and so on

In the Green Technology System business and the Paint Finishing System business, performance obligations for construction contracts, etc. mainly involving design, supervision, and installation are deemed to be satisfied over time, and revenue is recognized based on progress toward complete satisfaction of a performance obligation.

The progress of satisfaction of performance obligations in revenue recognition over time is measured by the ratio of incurred costs to estimated total costs (input methods). In addition, revenue is recognized by cost recovery method in case incurred costs are expected to be recoverable though the progress of satisfaction of performance obligations cannot be reasonably measured.

Sales of equipment and materials

In the Green Technology System business and the Paint Finishing system business, performance obligations for sales of equipment and materials are deemed to be satisfied at a point in time, and revenue is recognized when products are delivered.

(9) Hedge accounting

Method of hedge accounting

Hedging instruments are valued at fair value and accounted for using the deferral method of accounting.

As permitted under the accounting principles generally accepted in Japan, when forward foreign exchange contracts meet certain conditions for hedge accounting, accounts receivable and payable covered by these contracts are translated using the contract rates of these forward foreign exchange contracts. The unrealized gains or losses on the accounts receivable and payable resulting from the difference between the spot foreign exchange rate and contract rate are deferred and amortized over the term of the contract.

With regard to interest rate swaps and interest rate caps which meet certain requirements, the Companies use the special treatment. The special treatment is net amounts to be paid or received under the interest rate swap contracts and interest rate cap contracts added to or deducted from the interest on liabilities for which the contracts are executed.

Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts, non-deliverable forwards (NDF), interest rate swaps and interest rate caps

Hedged items: Foreign currency receivables, foreign currency payables, future transactions in foreign currency and interest-rate trading for loans payable

Hedging policy

The Companies use forward exchange contracts not for the purpose of speculation but for hedging future risks of fluctuation of foreign currency exchange rates.

The Companies use interest rate swaps and interest rate caps not for the purpose of speculation but for hedging future risks of fluctuation of interest rates.

Assessment of hedge effectiveness

As forward exchange contracts in the same currency are used for forward exchange transactions, the correlation to subsequent exchange rate fluctuations is completely ensured. Accordingly, evaluation of hedge effectiveness is omitted.

For interest rate swaps and interest rate caps, the judgment on whether to apply special treatment is used instead of an evaluation of the effectiveness of hedging.

(10) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which are easily convertible into cash and represent a minor risk of fluctuation in value.

(11) Amortization method and period for goodwill

Goodwill is amortized by the straight-line method over the effective period within 20 years. However, an immaterial goodwill is recognized as expenses in the fiscal year of accrual.

(12) Significant accounting estimates

Estimates of percentage of completion in construction contracts, etc. in which revenue is recognized over time

(1) Amounts recorded in the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net sales of completed construction contracts	¥187,745	**¥189,094**	**$1,416,012**

(2) Contents of the significant accounting estimates

In the Taikisha Group, of the construction contracts as of the consolidated fiscal year-end, if the percentage of completion can be reasonably estimated for specific construction contracts, etc. in which revenue is recognized over time, revenue is recorded according to the said percentage of completion.

The percentage of completion is measured by the ratio of cost incurred as of the fiscal year-end to estimated total costs based on the working budget for the construction contract (input methods).

Regarding the total estimated cost for the construction contract until its completion, as changes may occur in line with the progress, etc. of the construction contract, the Taikisha Group shall continuously review the said estimates and assumptions.

The total estimated cost is calculated based on various types of information, including the details of the said construction contract, etc., the specifications, and the actual cost incurred in similar contracts in the past, for each contract. In particular, regarding projects undertaken by the Taikisha Group, specifications of the contract and details of the work are determined based on the customer's requests, and the details of each contract differ greatly from other contracts. If hindrances to the project's progress that were not foreseen at the initial stage of the contract occur, additional assessments and estimates may be required regarding the altered conditions and the extent of each component in the emergency response.

In addition, the total estimated cost may increase due to factors such as soaring prices of equipment and materials as a result of global circumstances.

As the predictions of such assumptions come with a high level of uncertainty depending on changes in each individual project's conditions, if there is an impact on the total estimated cost and as a result the actual figure differs greatly from the estimate, there may be a material impact on the amount of future income on the consolidated financial statements.

Valuation of goodwill and intangible assets

(1) Amounts recorded in the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Goodwill	¥3,966	**¥3,640**	**$27,259**
Customer-related assets	¥1,334	**¥1,184**	**$8,869**

(2) Contents of the significant accounting estimates

The Taikisha Group judges the necessity of the recognition and measurement of an impairment regarding goodwill and customer-related assets as of the consolidated fiscal year-end by verifying whether there is indication of the impairment or not.

For performing the recognition and measurement of impairment, assumptions are set and implemented regarding future cash flows and discount rate based on the business plan.

These assumptions are determined at the discretion of management based on the best estimates. However, as they may be affected by the results of fluctuations of uncertain economic conditions in the future and so on, if they are necessary to be reviewed, there may be a material impact on the consolidated financial statements.

(13) Change in accounting policy

The "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter referred to as the "Implementation Guidance on Accounting Standard for Fair Value Measurement ") has been applied from the beginning of the current consolidated fiscal year.

In accordance with the transitional treatment prescribed in Paragraph 27-2 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement", the Company has decided to apply the new accounting policies set forth by the "Implementation Guidance on Accounting Standard for Fair Value Measurement" from the beginning of the current consolidated fiscal year to the future.

This change has no impact on the Company's consolidated financial statements.

(14) Accounting standards issued but not yet adopted

"Accounting Standard for Current Income Taxes" (Accounting Standards Board of Japan Statement No. 27, October 28, 2022)
"Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan Statement No. 25, October 28, 2022)
"Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan Guidance No. 28, October 28, 2022)

(Overview)

The accounting standards and the guidance stipulate the classification of corporate tax, etc. when taxed on other comprehensive income and the treatment of the tax effect on the sale of shares of subsidiaries, etc. when the group taxation regime is applied.

(Application date)

The accounting standards and the guidance are expected to be applied from the beginning of the fiscal year starting on or after April 1, 2024.

(Impact of the application of the accounting standards)

The impact of the application of the accounting standards and the guidance are in process of assessment at the time when the consolidated financial statements are prepared.

(15) Additional information

Application of "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts"

At the occasion of the 100th anniversary since its foundation, the Company introduced an ESOP (Employee Stock Ownership Plan) (the "Plan"), an incentive program granting the stocks of the Company to its employees to motivate them toward improving the Company's stock prices and financial results by enhancing the linkage of stock prices and financial results and sharing economic effects with shareholders.

(Overview of transaction)

The Plan has a scheme according to which shares of the Company are awarded for each period to the eligible employees in accordance with the Stock Granting Regulations set forth in advance by the Company. The Company grants predetermined points to employees and later awards the Company's shares, which corresponds to the total number of accumulated points granted, after the lapse of a predetermined period. The Company's shares to be awarded to the employees shall be acquired by a trust bank from the Company through an allocation to a third party using funds that have been contributed to the trust and separately managed as a trust estate.

Although "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts" (Practical Issues Task Force No. 30, March 26, 2015) has been applied, the previously applied method is continued for accounting.

(Matters regarding the Company's own shares held by the trust)

The book value of the Company's own shares held by the trust was ¥227 million for the previous fiscal year, and ¥218 million (US$1,637 thousand) for the fiscal year. The Company's own shares held by the trust are not reported as treasury shares under shareholders' equity.

The number of shares held at the end of fiscal year-end was 122 thousand for the previous fiscal year and 117 thousand for the fiscal year. The average number of shares held during the year was 124 thousand for the previous fiscal year and 118 thousand for the fiscal year. The number of shares held at the end of fiscal year and the average number of shares held during the year are not included in the number of treasury shares to be deducted in calculating per-share information.

Introduction of the Board Benefit Trust (BBT)

The Company has introduced the "Board Benefit Trust (BBT)" as its performance-linked and share-based compensation plan (hereinafter referred to as the "Plan") for the Company's Board Members, pursuant to the resolution of the 74th Ordinary General Shareholders' Meeting held on June 27, 2019.

The Company, at its Board of Directors Meeting held on March 30, 2023, made a resolution to include its Corporate Officers (excluding domestic non-residents, hereinafter referred to as "Board Members, etc.") to stock benefit eligibility of the Plan by establishing "Share Benefit Regulations for Corporate Officers" set April 1, 2023 as its issue date.

The purpose of the Plan is to promote the motivation of Board Members, etc. in contributing to the improvement of business performance and corporate value over the medium to long term by making the linkage between their compensation and the Company's business performance and shareholder value even clearer and having Board Members, etc. share not only the benefits from higher stock prices, but also the risk of a drop in stock prices, with shareholders.

The gross method has been used for the accounting treatment under the Plan in accordance with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts" (Practical Issues Task Force No. 30 of March 26, 2015).

(1) Overview of transactions

The Plan is a scheme whereby money contributed by the Company is used as financial resources to acquire the Company's shares through a trust (the trust established under the Plan shall be hereinafter referred to as the "Trust"), and the Company's shares and money in the amount of monetary equivalence of the Company's shares measured at fair value (hereinafter referred to as "the Company's Shares, etc.") are provided to Board Members, etc. through the Trust in accordance with the "Share Benefit Regulations for Directors" and "Share Benefit Regulations for Corporate Officers" stipulated by the Company.

The time when the Company's Shares, etc. are provided to Board Members, etc. shall be, in principle, the date of the retirement from the Company.

(2) The Company's own shares remaining in the Trust

The Company recognizes its own shares remaining in the Trust as treasury shares under the category of net assets, using the carrying amount in the Trust (excluding the amount of ancillary expenses). The carrying amount of such treasury shares is ¥398 million for the previous fiscal year and ¥398 million (US$2,982 thousand) for the fiscal year, and the number of such shares is 120,700 for the previous fiscal year and 120,700 for the fiscal year.

3. Notes of consolidated balance sheets

(1) Notes receivable, accounts receivable from completed construction contracts and other, arising from contracts with customers, such as accounts receivable and contract assets are as follows.

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Notes receivable - trade	¥2,908	¥9,672	$72,432
Accounts receivable from completed construction contracts	¥79,781	¥48,339	$361,985
Contract assets	¥22,266	¥66,224	$495,913

(2) The information of associates

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Investment securities	¥562	¥594	$4,452

(3) Pledged assets

Assets pledged as collateral for loans payable of subsidiaries and associates

As of March 31, 2022	Millions of yen	
Pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥302	¥202
Machinery, vehicles, tools, furniture and fixtures	¥12	¥7

As of March 31, 2023	Millions of yen		Thousands of U.S. dollars	
Pledged assets	Book value	Liabilities covered by pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥280	¥189	$2,104	$1,421
Machinery, vehicles, tools, furniture and fixtures	¥6	¥4	$51	$34

Assets pledged as collateral for security deposits at subsidiaries and associates

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash and deposits	¥57	¥60	$455

Assets pledged as collateral for overdraft facilities of subsidiaries and associates

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash and deposits	¥17	¥19	$143

(4) Guarantee obligations

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.	449	484	3,625

(5) Commitment lines

For efficient procurement of the operating funds, the Company has lending commitment contracts with four dealing banks. Lending commitment amounts are as follows:

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Total amount of lending commitment	¥5,000	¥5,000	$37,442
Borrowing execution balance	–	–	–
Net	¥5,000	¥5,000	$37,442

(6) Endorsed notes

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Endorsed notes	¥41	¥20	$156

(7) Provision for loss on construction contracts

Following amounts of provision for loss on construction contracts are offset from the amounts of costs on uncompleted construction contracts.

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Provision for loss on construction contracts	¥1	¥–	$–

4. Notes of consolidated statements of income

(1) Revenue from contracts with customers

Revenue from completed construction contracts is not separately stated from revenue from contracts with customers and other revenue. The amount of revenue from contracts with customers is stated in "Notes to Consolidated Financial Statements (Revenue Recognition) (1) Breakdown of revenue from contracts with customers".

(2) Research and development expenses

Research and development expenses included in selling, general and administrative expenses are as follows.

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
General and administrative expenses	¥1,106	¥1,149	$8,606

(3) Gain on disposal of non-current assets

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Buildings and structures	¥33	¥0	$4
Machinery, vehicles, tools, furniture and fixtures	15	17	134
Leasehold and guarantee deposits	0	0	2
Total	¥50	¥18	$140

(4) Loss on disposal of non-current assets

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Buildings and structures	¥34	¥24	$186
Machinery, vehicles, tools, furniture and fixtures	4	17	129
Land	6	15	115
Software	–	0	1
Other	–	0	2
Total	¥45	¥57	$433

(5) Impairment loss

For the year ended March 31, 2022

This item is omitted because it is immaterial.

For the year ended March 31, 2023

In the consolidated fiscal year, the Group recognized impairment loss for the following asset groups.

(1) Overview of the asset of which recognized impairment loss

			Millions of yen	Thousands of U.S. dollars
Location	Usage	Classification of asset	Impairment loss	Impairment loss
Sugito Factory	Business Asset	Buildings and Machineries	588	4,404
Itabashi R&D Center	Common Asset	Buildings and Machineries	52	393
Head Office	Common Asset	Tools, Furniture and Fixtures	2	16

(2) Method and background of grouping of asset

The Group principally groups assets in the unit of companies or businesses. In addition, idle assets that are not expected to be used in future are grouped in the unit of individual asset. The book value of fixed assets in Vege-factory Co., Ltd., which is the consolidated subsidiary, has been written-down to the recoverable amount because the company no longer expects to generate the anticipated earnings due to continuous negative earnings from operating activities, and the recoverability has declined, and this decline is recognized as impairment loss in extraordinary losses.

(3) Details of impairment loss

Impairment loss consists of ¥363 million (US$2,723 thousand) for buildings and structures and ¥279 million (US$2,089 thousand) for machinery, vehicles, and tools, furniture and fixtures.

(4) Calculation method of recoverable amount

The recoverable amount in measuring impairment loss is measured by value in use, which is calculated by discounting future cash flows at 5.53%.

(6) Business restructuring expenses

For the year ended March 31, 2022

Not applicable.

For the year ended March 31, 2023

Expenses incurred for business structure improvements in Europe are recognized as business restructuring expenses in extraordinary losses.

(7) Provision for loss on construction contracts

Provision for loss on construction contracts included in cost of sales of completed construction contracts are as follows.

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Provision for loss on construction contracts	¥207	¥151	$1,133

5. Notes of consolidated statements of comprehensive income

(1) Reclassification adjustments and tax effects for other comprehensive income

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Valuation difference on available-for-sale securities			
Net gains (losses) arising during the period	¥(2,148)	¥(26)	$(200)
Reclassification adjustments	(1,177)	(1,843)	(13,803)
Before tax effects	(3,326)	(1,870)	(14,003)
Tax effects	997	497	3,726
Valuation difference on available-for-sale securities	(2,329)	(1,372)	(10,277)
Deferred gains or losses on hedges			
Net gains (losses) arising during the period	(31)	(55)	(417)
Reclassification adjustments	–	–	–
Before tax effects	(31)	(55)	(417)
Tax effects	9	17	128
Deferred gains or losses on hedges	(22)	(38)	(289)
Foreign currency translation adjustment			
Net gains (losses) arising during the period	2,547	2,664	19,950
Foreign currency translation adjustment	2,547	2,664	19,950
Remeasurements of defined benefit plans			
Net gains (losses) arising during the period	(356)	(466)	(3,493)
Reclassification adjustments	(330)	(320)	(2,400)
Before tax effects	(687)	(787)	(5,893)
Tax effects	231	270	2,023
Remeasurements of defined benefit plans	(455)	(516)	(3,870)
Share of other comprehensive income of entities accounted for using equity method			
Net gains (losses) arising during the period	69	29	220
Other comprehensive income	¥(190)	¥765	$5,734

6. Notes of consolidated statements of changes in net assets

(1) The number of issued shares

For the year ended March 31, 2022	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	35,082,009	–	–	35,082,009

For the year ended March 31, 2023	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	35,082,009	–	1,500,000	33,582,009

(Note)The decrease was due to cancellation of 1,500,000 shares of treasury shares.

(2) The number of treasury shares

For the year ended March 31, 2022	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	1,013,823	436	15,700	998,559

(Note1) The number of treasury shares increased by 436 shares because of purchase of shares less than one unit (*). Also, the number of treasury shares decreased by 15,700 shares because of provision to Board Members from the Board Benefit Trust (BBT).
(Note2) The number of treasury shares as of the fiscal year end includes 120,700 shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets of the Board Benefit Trust (BBT).
(*) The unit share is a specified number of shares which are treated as one purchasing lot and entitled to one voting right. One unit share consists of 100 shares.

For the year ended March 31, 2023	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	998,559	882,130	1,500,000	380,689

(Note1) The number of treasury shares increased by 881,700 shares because of the approval of Board of directors and by 430 shares because of purchase of shares less than one unit (*). Also, the number decreased by 1,500,000 shares because of cancellation of treasury shares.
(Note2) The number of treasury shares as of the fiscal year end includes 120,700 shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets of the Board Benefit Trust (BBT).
(*) The unit share is a specified number of shares which are treated as one purchasing lot and entitled to one voting right. One unit share consists of 100 shares.

(3) Dividends

Dividends paid

For the year ended March 31, 2022

Resolution approved by	Type of shares	Amount Millions of yen	Amount per share Yen	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders (June 29, 2021)	Common shares	¥2,052	¥60.00	March 31, 2021	June 30, 2021
Board of directors (November 10, 2021)	Common shares	¥1,026	¥30.00	September 30, 2021	November30, 2021

(Note1) Dividends on June 30, 2021 includes dividends of ¥8 million for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).
(Note2) Dividends on November 30, 2021 includes dividends of ¥3 million for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

For the year ended March 31, 2023

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual general meeting of shareholders (June 29, 2022)	Common shares	¥2,394	$17,929	¥70.00	$0.52	March 31, 2022	June 30, 2022
Board of directors (November 10, 2022)	Common shares	¥1,699	$12,725	¥50.00	$0.37	September 30, 2022	November 30, 2022

(Note1) Dividends on June 29, 2022 includes dividends of ¥8 million (US$63 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).
(Note2) Dividends on November 10, 2022 includes dividends of ¥6 million (US$45 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

Dividends with a shareholders' cut-off date during the fiscal year but an effective date subsequent to the fiscal year

For the year ended March 31, 2022

Resolution approved by	Type of shares	Paid from	Amount	Amount per share	Shareholders' cut-off date	Effective date
			Millions of yen	Yen		
Annual general meeting of shareholders (June 29, 2022)	Common shares	Retained earnings	¥2,394	¥70.00	March 31, 2022	June 30, 2022

(Note) Dividends total includes dividends of ¥8 million for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

For the year ended March 31, 2023

Resolution approved by	Type of shares	Paid from	Amount		Amount per share		Shareholders' cut-off date	Effective date
			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual general meeting of shareholders (June 29, 2023)	Common shares	Retained earnings	¥2,365	$17,717	¥71.00	$0.53	March 31, 2023	June 30, 2023

(Note) Dividends total includes dividends of ¥8 million (US$64 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

7. Notes of consolidated statements of cash flows

(1) Cash and cash equivalents

The reconciliation between amounts of cash and cash equivalents reported in the consolidated statement of cash flows and amounts of cash and deposits reported in the consolidated balance sheet are as follows:

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash and deposits	¥49,085	¥46,988	$351,866
Securities	3,000	–	–
Sub total	52,085	46,988	351,866
Time deposits over three months	(3,294)	(3,042)	(22,780)
Cash and cash equivalents	¥48,791	¥43,946	$329,086

(2) Details of assets and liabilities of the company which is included in the scope of consolidation because of sale of shares

For the year ended March 31, 2022
Not applicable.

For the year ended March 31, 2023
Assets and liabilities at the time of the sale of shares of Geico S.p.A., which was excluded from the scope of consolidation are as follows.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥18,575	$139,102
Non-current assets	3,812	28,550
Total assets	22,388	167,652
Current liabilities	18,605	139,324
Non-current liabilities	5,690	42,612
Total liabilities	¥24,295	$181,936

In addition, minus 2,248 million yen, which is calculated by cash and cash equivalents acquired through the sale subtracted by cash and cash equivalents included in the above current assets, are included in "Payments for sale of shares of subsidiaries resulting in change in scope of consolidation".

(3) Details of major non-cash transactions

Not applicable.

8. Lease transaction

(1) Finance lease transaction

As lessee

Details of leased assets

The leased assets are mainly production equipment and vehicles in Japan and office, office equipment and vehicles overseas. The account title which the Companies use is "Buildings and Structures, Machinery, vehicles, tools, furniture and fixtures".

Depreciation method

Depreciation is calculated by the straight-line method over the lease period with a residual value of zero.

Impairment loss

There is no impairment loss allocated to the leased assets.

(2) Operating lease transaction

As lessee

The amounts of outstanding future lease payments under non-cancelable operating leases are as follows:

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Due within one year	¥262	¥355	$2,662
Due over one year	633	960	7,191
Total	¥896	¥1,315	$9,853

9. Financial instruments

(1) Status of financial instruments

Policies on financial instruments

The Companies invest its temporary surplus funds in financial assets that are highly secure and procure its short-term working capital in the form of borrowings from financial institutions. The Companies utilize derivatives only to hedge their exposure to the risks as described below and do not enter into such transactions for speculative purposes.

Description of financial instruments, related risks and risk management system

Notes receivable, accounts receivable from completed construction contracts and other, which are trade receivables, are exposed to the credit risk of the respective customers. As for the credit risk of customers, the Companies' management system allows us to monitor the credit standing of major customers on a timely basis based on the maturity and balance control by customer. Meanwhile, trade receivables denominated in foreign currencies, which originate from global business operations, are exposed to the risk of exchange rate fluctuations and are partly hedged by utilizing forward exchange contracts.

Although being exposed to the risk of fluctuations in market price, stocks included in the category of investment securities are those of companies with which the Companies have business relations and are continuously monitored through regular checks of their fair value and financial positions of the issuers.

Notes payable, accounts payable for construction contracts and other, which are trade payables, generally mature within one year. While some of them are denominated in foreign currencies for the purpose of importing equipment and raw materials, etc. and are exposed to the risk of exchange rate fluctuations, the amounts of those items are invariably less than the balance of accounts receivable from completed construction contracts, which are similarly denominated in foreign currencies.

Income taxes payable are imposed on the taxable income of the Companies for the fiscal year, and they all mature within one year.

Both short-term and long-term loans payable are fund-raising means associated with business transactions. Short-term loans payable with variable interest rates are exposed to the risk of interest-rate fluctuations. However, long-term loans payable, which are procured at fixed interest rates, in principle, are hedged against interest-rate fluctuation risk.

Derivative transactions consist of forward exchange contracts and NDFs aimed at hedging the risk of fluctuations in exchange rates for exports and imports in the course of ordinary business operations, as well as interest rate swaps aimed at hedging the risk of fluctuations in the interest rates for loans payable. Forward exchange contracts and NDFs are executed and managed in accordance with the relevant guideline regarding foreign exchange control issued by the Chief Executive of the Administrative Management Headquarters. This guideline clearly stipulates regulations for the management policies on derivative transactions, the regulating division and department in charge of risk management, purposes of use, scope of utilization and reporting system. As for interest rate swaps, only those that meet the requirements for the application of special treatment are executed. Derivative transactions are executed only with financial institutions with high credit ratings to reduce the credit risk.

Although trade payables and loans payable are exposed to liquidity risk, the Companies strive to control the liquidity risk such as by having each Group company prepare a monthly cash management plan.

Supplementary explanation of fair values of financial instruments

Derivative transactions in "(2) Fair value of financial instruments" below are not indicative of the actual market risk involved in derivative transactions but nominal contract amounts or estimated amounts based on certain assumptions.

(2) Fair value of financial instruments

The following table shows the book values and fair values of financial instruments and any differences.

As of March 31, 2022	Millions of yen		
	Book value	Fair value	Difference
Notes receivable, accounts receivable from completed construction contracts and other	¥104,956		
Allowance for doubtful accounts (*2)	(499)		
	104,456	104,400	(55)
Securities and Investment securities (*3)	31,607	31,607	–
Total Assets	136,064	136,008	(55)
Notes payable, accounts payable for construction contracts and other	47,102	47,066	(36)
Short-term loans payable	15,535	15,535	–
Long-term loans payable	5,605	5,624	19
Total Liabilities	68,244	68,226	(17)
Derivatives	¥(43)	¥(43)	¥–

(*1) Cash and deposits and income taxes payable are not stated because they are settled in a short period of time and their fair value approximates their book value.
(*2) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.
(*3) Stocks and other securities without market prices are not included (see Note 1 below).

As of March 31, 2023	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Notes receivable, accounts receivable from completed construction contracts and other	¥124,236			$930,330		
Allowance for doubtful accounts (*2)	(205)			(1,541)		
	124,030	123,966	(63)	928,789	928,310	(479)
Investment securities (*3)	25,436	25,436	–	190,478	190,478	–
Total Assets	149,466	149,402	(63)	1,119,267	1,118,788	(479)
Notes payable, accounts payable for construction contracts and other	55,472	55,458	(14)	415,399	415,293	(106)
Short-term loans payable	2,942	2,942	–	22,035	22,035	–
Long-term loans payable	98	98	(0)	735	735	(0)
Total Liabilities	58,513	58,498	(14)	438,169	438,063	(106)
Derivatives	¥(95)	¥(95)	¥–	$(711)	$(711)	$–

(*1) Cash and deposits and income taxes payable are not stated because they are settled in a short period of time and their fair value approximates their book value.
(*2) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.
(*3) Stocks and other securities without market prices are not included (see Note 1 below).

(Note 1)

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Available-for-sale securities			
Non-listed stocks	¥992	¥1,046	$7,836
Non-listed foreign bonds	¥4	¥4	$35

(Note 2) Redemption schedule for monetary receivables and securities with maturities

As of March 31, 2022

	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥49,085	¥–	¥–	¥–
Notes receivable, accounts receivable from completed construction contracts and other	94,984	9,924	46	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	3,000	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	4	–	–
Total	¥147,070	¥9,929	¥46	¥–

As of March 31, 2023

	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥46,988	¥–	¥–	¥–
Notes receivable, accounts receivable from completed construction contracts and other	112,686	11,503	46	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	4	–	–
Total	¥159,675	¥11,507	¥46	¥–

As of March 31, 2023

	Thousands of U.S. dollars			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	$351,866	$–	$–	$–
Notes receivable, accounts receivable from completed construction contracts and other	843,844	86,140	346	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	35	–	–
Total	$1,195,710	$86,175	$346	$–

(Note 3) Redemption schedule for long-term loans payable, lease obligations and other interest-bearing debts

As of March 31, 2022

	Millions of yen					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥13,413	¥–	¥–	¥–	¥–	¥–
Long-term loans payable	2,122	2,165	1,484	1,216	607	131
Lease obligations	83	43	24	10	2	–
Total	¥15,618	¥2,209	¥1,509	¥1,227	¥609	¥131

As of March 31, 2023

	Millions of yen					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥2,836	¥–	¥–	¥–	¥–	¥–
Long-term loans payable	106	62	36	–	–	–
Lease obligations	69	55	22	10	7	1
Total	¥3,012	¥117	¥58	¥10	¥7	¥1

As of March 31, 2023

	Thousands of U.S. dollars					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	$21,238	$–	$–	$–	$–	$–
Long-term loans payable	797	465	270	–	–	–
Lease obligations	524	416	170	81	55	13
Total	$22,559	$881	$440	$81	$55	$13

(3) Breakdown of the fair value of financial instruments by level, and so on

The fair values of financial instruments are classified into the following three levels based on the observability and materiality of the inputs used to measure fair value.

Level 1: Fair values measured using quoted prices in active markets with respect to identical assets or liabilities
Level 2: Fair values measured using inputs other than quoted prices that are observable, either directly or indirectly
Level 3: Fair values measured using inputs not based on observable market data

If multiple inputs that have significant impacts on the measurement of fair value are used, fair values are classified to the level with the lowest priority in the measurement of fair value among the levels to which each of those inputs belongs.

Financial instruments recorded on the consolidated balance sheet at fair value

As of March 31, 2022	Millions of yen			
	Level 1	Level 2	Level 3	Total
Securities and Investment securities				
Available-for-sale securities				
Stocks	¥28,607	¥–	¥–	¥28,607
Total Assets	28,607	–	–	28,607
Derivative transactions	¥–	¥(43)	¥–	¥(43)

As of March 31, 2023	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	¥25,436	¥–	¥–	¥25,436
Total Assets	25,436	–	–	25,436
Derivative transactions	¥–	¥(95)	¥–	¥(95)

As of March 31, 2023	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	$190,478	$–	$–	$190,478
Total Assets	190,478	–	–	190,478
Derivative transactions	$–	$(711)	$–	$(711)

Financial instruments other than financial instruments recorded on the consolidated balance sheet at fair value

As of March 31, 2022

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other	¥–	¥104,400	¥–	¥104,400
Securities and Investment securities				
Money trusts	–	2,000	–	2,000
Bonds				
Other	–	1,000	–	1,000
Total Assets	–	107,400	–	107,400
Notes payable, accounts payable for construction contracts and other	–	47,066	–	47,066
Short-term loans payable	–	15,535	–	15,535
Long-term loans payable	–	5,624	–	5,624
Total Liabilities	¥–	¥68,226	¥–	¥68,226

As of March 31, 2023

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other	¥–	¥123,966	¥–	¥123,966
Total Assets	–	123,966	–	123,966
Notes payable, accounts payable for construction contracts and other	–	55,458	–	55,458
Short-term loans payable	–	2,942	–	2,942
Long-term loans payable	–	98	–	98
Total Liabilities	¥–	¥58,498	¥–	¥58,498

As of March 31, 2023

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other	$–	$928,310	$–	$928,310
Total Assets	–	928,310	–	928,310
Notes payable, accounts payable for construction contracts and other	–	415,293	–	415,293
Short-term loans payable	–	22,035	–	22,035
Long-term loans payable	–	735	–	735
Total Liabilities	$–	$438,063	$–	$438,063

(Note) Explanation of valuation method used in the measurement of fair value and inputs related to the measurement of fair value

Assets

Notes receivable, accounts receivable from completed construction contracts and other

These fair values are classified into level 2 because these fair values are calculated based on the discount rate that takes into account the period until these maturities and credit risks for each receivables classified by a certain period of time.

Securities and investment securities

These fair values of these listed stocks are evaluated using quoted market prices. These fair values are classified into level 1 because these listed stocks are treated in active markets. Also, bonds are classified into level 2 because these fair values are calculated by discounting the bonds by the period to these maturities and the yield on government bonds.

Liabilities

Notes payable, accounts payable for construction contracts and other and short-term loans payable

These fair values of these payables or loans are classified into level 2 because these fair values are calculated by discounting by the discount rate that takes into account the period until these payment or repayment and interest rate that takes credit risk into account.

Long-term loans payable

Fair values of long-term loans with floating interest rates are classified into level 2 because these fair values are deemed to approximate the book values and the floating interest rates reflect the market interest rates and these credit statuses are not significantly different from those when the loans are executed. Fair values of long-term loans with fixed interest rates are classified into level 2 because the total amount of principal and interest of the long-term loans divided by a certain period of time are calculated fair value by discounting by the interest rate assumed when a new similar loans are executed.

Derivative transactions

These fair values are classified into level 2 because these fair values are based on the prices provided by the financial institutions with which the Company has transactions. In addition, the special treatments of interest rate swaps are included in the fair values of relevant long-term loans payable because they are treated together with long-term loans to be hedged.

10. Securities

(1) Held-to-maturity debt securities

As of March 31, 2022
Not applicable.

As of March 31, 2023
Not applicable.

(2) Available-for-sale securities

As of March 31, 2022

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥28,441	¥11,381	¥17,059
Securities whose book value does not exceed their acquisition cost			
Money trusts	2,000	2,000	–
Stocks	166	182	(16)
Bonds			
Other	1,000	1,000	–
Total	¥31,607	¥14,563	¥17,043

As of March 31, 2023

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥22,541	¥7,227	¥15,313
Securities whose book value does not exceed their acquisition cost			
Stocks	2,894	3,034	(140)
Total	¥25,436	¥10,262	¥15,173

As of March 31, 2023

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	$168,802	$54,126	$114,676
Securities whose book value does not exceed their acquisition cost			
Stocks	21,676	22,725	(1,049)
Total	$190,478	$76,851	$113,627

(3) Available-for-sale securities sold

For the year ended March 31, 2022

	Millions of yen		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	¥1,455	¥1,177	¥–
Total	¥1,455	¥1,177	¥–

For the year ended March 31, 2023

	Millions of yen		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	¥3,145	¥1,844	¥0
Total	¥3,145	¥1,844	¥0

For the year ended March 31, 2023

	Thousands of U.S. dollars		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	$23,556	$13,810	$7
Total	$23,556	$13,810	$7

(4) Securities with impairment loss

For the years ended March 31, 2022

Not applicable. The Companies recognize an impairment loss when the fair value of stocks falls 50% or more compared with the acquisition cost and there is no evidence to indicate that the fair value will recover to the book value within one year. When the fair value falls by 30% or more but less than 50% compared with the acquisition cost, the Companies recognize a necessary amount of impairment loss after considering the market prices in the past year and the possibility of recovery.

For the years ended March 31, 2023

Impairment loss of ¥21 million (US$165 thousand) is recognized on Investment securities (Available-for-sale of securities) in the fiscal year. The Companies recognize an impairment loss when the fair value of stocks falls 50% or more compared with the acquisition cost and there is no evidence to indicate that the fair value will recover to the book value within one year. When the fair value falls by 30% or more but less than 50% compared with the acquisition cost, the Companies recognize a necessary amount of impairment loss after considering the market prices in the past year and the possibility of recovery.

11. Derivative transactions

(1) Derivative transactions to which the hedge accounting method is not applied
Currency-related transactions

As of March 31, 2022

		Millions of yen			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥157	¥–	¥(3)	¥(3)
	U.S. dollars	22	–	0	0
	Chinese Yuan	92	–	(1)	(1)
	Sell				
	Yen	1	–	0	0
	Total	¥273	¥–	¥(4)	¥(4)

(Note) Estimated fair value is provided by financial institutions.

As of March 31, 2023

		Millions of yen			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥149	¥–	¥(3)	¥(3)
	U.S. dollars	1	–	(0)	(0)
	Chinese Yuan	1	–	(0)	(0)
	Sell				
	Yen	9	–	(0)	(0)
	U.S. dollars	12	–	(0)	(0)
	Total	¥173	¥–	¥(3)	¥(3)

(Note) Estimated fair value is provided by financial institutions.

As of March 31, 2023

		Thousands of U.S. dollars			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	$1,119	$–	$(24)	$(23)
	U.S. dollars	9	–	(0)	(0)
	Chinese Yuan	10	–	(0)	(0)
	Sell				
	Yen	72	–	(2)	(2)
	U.S. dollars	91	–	(2)	(2)
	Total	$1,301	$–	$(28)	$(27)

(2) Derivative transactions to which the hedge accounting method is applied
Currency-related transactions

As of March 31, 2022

Hedging method	Transaction type		Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	¥10	¥–	¥0
		Chinese Yuan	Accounts payable for construction contracts (forecast)	13	–	(0)
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	118	–	(3)
		Euros	Accounts receivable from completed construction contracts (forecast)	155	155	(8)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	649	362	(27)
			Total	¥947	¥517	¥(38)

(Note) Calculation method of the fair value: Based on the prices and other data submitted by counterparty financial institutions.

As of March 31, 2023

Hedging method	Transaction type		Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	¥86	¥–	¥2
		Euros	Accounts payable for construction contracts (forecast)	182	–	5
		Chinese Yuan	Accounts payable for construction contracts (forecast)	30	–	(0)
		Taiwan dollars	Accounts payable for construction contracts (forecast)	150	–	(7)
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	67	–	(2)
		Euros	Accounts receivable from completed construction contracts (forecast)	70	–	(7)
		Malaysia ringgit	Accounts receivable from completed construction contracts (forecast)	1,539	114	(73)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	504	176	(3)
		Indian rupee	Accounts receivable from completed construction contracts (forecast)	60	–	(2)
			Total	¥2,691	¥290	¥(91)

(Note) Calculation method of the fair value: Based on the prices and other data submitted by counterparty financial institutions.

As of March 31, 2023

Hedging method	Transaction type		Main hedged items	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	$646	$–	$15
		Euros	Accounts payable for construction contracts (forecast)	1,364	–	40
		Chinese Yuan	Accounts payable for construction contracts (forecast)	230	–	(6)
		Taiwan dollars	Accounts payable for construction contracts (forecast)	1,127	–	(57)
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	504	–	(20)
		Euros	Accounts receivable from completed construction contracts (forecast)	529	–	(57)
		Malaysia ringgit	Accounts receivable from completed construction contracts (forecast)	11,527	855	(553)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	3,775	1,320	(28)
		Indian rupee	Accounts receivable from completed construction contracts (forecast)	454	–	(18)
			Total	$20,156	$2,175	$(684)

Interest-related transactions

As of March 31, 2022

Hedging method	Transaction type	Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	¥2,676	¥2,039	(Note)

(Note) Because interest rate swaps qualified for the special treatment are accounted for as part of hedged long-term loans payable, the fair value thereof is included in the fair value of the corresponding long-term loans payable.

As of March 31, 2023
There is nothing applicable.

12. Retirement and pension plans

(1) Overview

The Company and its domestic consolidated subsidiaries apply defined benefit plans and defined contribution plans.

The overseas consolidated subsidiaries, which apply retirement benefit plan, apply defined benefit or defined contribution plans.

The defined benefit plans consist of outside funded defined benefit pension plans and lump-sum retirement payment plans. A retirement benefit trust is set up in certain outside funded defined benefit pension plan.

Certain overseas consolidated subsidiaries, which apply lump-sum retirement payment plans, apply simplified method for calculating projected benefit obligations.

(2) Defined benefit plan (except simplified method)

Reconciliation of beginning and ending balances for projected benefit obligations

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Projected benefit obligations at the beginning of current period	¥17,441	¥17,847	$133,648
Service costs	1,229	1,232	9,227
Interest costs	38	60	456
Actuarial differences accrued in the current period	137	(258)	(1,938)
Benefits paid	(1,001)	(977)	(7,322)
Past service costs accrued in the current period	(39)	(1)	(10)
Foreign currency translation	41	118	889
Decrease due to exclusion from consolidation	–	(18)	(135)
Projected benefit obligations at the end of current period	¥17,847	¥18,003	$134,815

Reconciliation of beginning and ending balances for pension assets

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Pension assets at the beginning of current period	¥25,242	¥25,495	$190,920
Expected return on pension assets	524	539	4,038
Actuarial differences accrued in the current period	(249)	(732)	(5,484)
Contributions from employers	885	891	6,678
Benefits paid	(915)	(869)	(6,513)
Foreign currency translation	8	15	115
Pension assets at the end of current period	¥25,495	¥25,339	$189,754

Reconciliation of projected benefit obligations, pension assets, net defined benefit liability, and net defined benefit asset in the consolidated balance sheets

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Funded projected benefit obligations	¥16,586	¥16,745	$125,394
Pension assets	(25,495)	(25,339)	(189,754)
Sub total	(8,908)	(8,594)	(64,360)
Unfunded projected benefit obligations	1,260	1,258	9,421
Net amount of liabilities and assets in the consolidated balance sheets	(7,648)	(7,336)	(54,939)
Net defined benefit liability	1,261	1,258	9,421
Net defined benefit asset	8,909	8,594	64,360
Net amount of liabilities and assets in the consolidated balance sheets	¥(7,648)	¥(7,336)	$(54,939)

Retirement benefit expenses

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Service costs	¥1,229	¥1,232	$9,227
Interest costs	38	60	456
Expected return on pension assets	(524)	(539)	(4,038)
Amortization of actuarial differences	(344)	(329)	(2,470)
Amortization of past service costs	6	2	20
Retirement benefit expenses of defined benefit plans	¥405	¥426	$3,195

Remeasurements of defined benefit plans

Details of remeasurements of defined benefit plans before tax effect adjustments are as follows.

For the years ended March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Past service costs	¥47	¥(5)	$(39)
Actuarial differences	(735)	(781)	(5,854)
Total	¥(687)	¥(787)	$(5,893)

Accumulated remeasurements of defined benefit plans

Details of accumulated remeasurements of defined benefit plans before tax effect adjustments are as follows.

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Unrecognized past service costs	¥(67)	¥(73)	$(548)
Unrecognized actuarial differences	2,864	2,082	15,598
Total	¥2,796	¥2,009	$15,050

Pension assets

Composition ratio of pension assets is as follows.

As of March 31, 2022 and 2023	2022	2023
Debt securities	30%	25%
Stocks	31	37
Cash and deposits	4	5
General account of life insurance	22	23
Other	13	10
Total	100%	100%

(Note) For the previous fiscal year, 15% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan. For this fiscal year, 15% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan.

Expected long-term return rate on pension asset is determined by considering current and anticipated future portfolio of pension assets, and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

Assumptions and policies used to calculate projected benefit obligations

As of March 31, 2022 and 2023

	2022	2023
Discount rates (weighted average)	0.4%	0.5%
Expected long-term return rates on pension assets (weighted average)	2.5%	2.5%

(3) Defined benefit plan calculated by simplified method

Reconciliation of beginning and ending balances for net defined benefit liability by the simplified method

For the years ended March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net defined benefit liability at the beginning of current period	¥196	¥200	$1,503
Retirement benefit expenses	22	20	153
Benefits paid	(35)	(2)	(19)
Contributions to the plan	(4)	(24)	(181)
Foreign currency translation	11	9	73
Decrease due to exclusion from consolidation	–	(120)	(902)
Other	9	–	–
Net defined benefit liability at the end of current period	¥200	¥83	$627

Reconciliation of projected benefit obligations, pension assets and net defined benefit liability in the consolidated balance sheets

As of March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Funded projected benefit obligations	¥76	¥84	$635
Pension assets	(65)	(86)	(644)
Sub total	10	(1)	(9)
Unfunded projected benefit obligations	189	85	636
Net amount of liabilities and assets in the consolidated balance sheets	200	83	627
Net defined benefit liability	200	83	627
Net amount of liabilities and assets in the consolidated balance sheets	¥200	¥83	$627

Retirement benefit expenses

Retirement benefit expenses calculated by the simplified method are ¥22 million for the previous fiscal year and ¥20 million (US$153 thousand) for this fiscal year.

(4) Defined contribution plans

Required contribution amount for defined contribution plans is ¥321 million for the previous fiscal year and ¥270 million (US$2,027 thousand) for this fiscal year.

13. Tax effect accounting

(1) Significant components of deferred tax assets and liabilities

As of March 31, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Deferred tax assets			
Allowance for doubtful accounts	¥222	¥241	$1,808
Provision for warranties for completed construction	172	123	922
Provision for loss on construction contracts	114	97	728
Net defined benefit liability	213	213	1,596
Employees' pension trust, investment securities	336	352	2,639
Provision for directors' retirement benefits	15	19	147
Accrued enterprise tax etc.	125	129	973
Accrued bonuses	1,226	1,540	11,533
Loss on valuation of investment securities	116	365	2,740
Loss on valuation of golf club membership	56	56	422
Valuation difference on available-for-sale securities	4	42	321
Foreign tax credit carried forward	182	210	1,575
Tax loss carried forward (Note2)	1,670	899	6,739
Other	1,528	1,217	9,118
Subtotal	5,985	5,510	41,261
Valuation allowance for tax loss carried forward (Note2)	(1,662)	(856)	(6,415)
Valuation allowance for total of deductible temporary differences, etc.	(906)	(1,083)	(8,112)
Subtotal (Note1)	(2,568)	(1,939)	(14,527)
Total deferred tax assets	3,416	3,570	26,734
Deferred tax liabilities			
Net defined benefit assets	(2,719)	(2,618)	(19,608)
Valuation difference on available-for-sale securities	(5,140)	(4,680)	(35,052)
Retained earnings of consolidated overseas subsidiaries	(1,921)	(2,141)	(16,037)
Other	(992)	(580)	(4,347)
Total deferred tax liabilities	(10,773)	(10,021)	(75,044)
Net deferred tax assets liabilities	¥(7,357)	¥(6,451)	$(48,310)

(Note1) Valuation allowance decreased by ¥628 million (US$4,708 thousand). This decreased is mainly due to the exclusion from the scope of consolidation of Geico S.p.A. and its subsidiaries since the Company transferred a portion of its shares in Geico S.p.A

(Note2) Total of tax loss carried forward and its deferred tax assets, by carryforward expiration date.

As of March 31, 2022

	Millions of yen						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (a)	¥13	¥8	¥7	¥1	¥1	¥1,637	¥1,670
Valuation allowance	(10)	(8)	(7)	(1)	(1)	(1,632)	(1,662)
Deferred tax assets	¥2	¥–	¥–	¥–	¥–	¥4	¥7

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.

As of March 31, 2023

	Millions of yen						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (a)	¥32	¥8	¥4	¥–	¥–	¥854	¥899
Valuation allowance	(9)	(7)	(4)	–	–	(835)	(856)
Deferred tax assets	¥23	¥1	¥–	¥–	¥–	¥18	¥43

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.

	Thousands of U.S. dollars						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward	$245	$64	$35	$–	$–	$6,395	$6,739
Valuation allowance	(72)	(54)	(35)	–	–	(6,254)	(6,415)
Deferred tax assets	$173	$10	$–	$–	$–	$141	$324

(2) The reconciliation between the effective statutory tax rate and the actual tax rate after the application of tax effect accounting

As of March 31, 2022 and 2023

	2022	2023
Effective statutory tax rate	30.62%	–%
Adjustment		
Expenses not deductible permanently	2.54	–
Income not taxable permanently	(1.78)	–
Inhabitant tax on per capita basis, etc.	0.69	–
Increase (Decrease) in valuation allowance	4.80	–
Difference in effective statutory tax rate between the Company and consolidated subsidiaries	(0.32)	–
Special tax deductions	(0.63)	–
Retained earnings of consolidated overseas subsidiaries	(6.99)	–
Withholding tax on dividends from overseas related companies	1.90	–
Amortization of goodwill	1.06	–
Other	0.88	–
Actual tax rate after the application of tax effect accounting	32.77%	–%

(Note) The note is omitted because the difference between effective statutory tax rate and actual effective tax rate after adoption of tax effect accounting is less than 5% of effective statutory tax rate for this fiscal year.

14. Business combination

(1) Transfer of subsidiary shares

On April 19, 2022, the Company entered into a contract to transfer a portion of its shares in Geico S.p.A. ("Geico") and the transfer has been completed on April 20, 2022. With this share transfer, Geico and its consolidated subsidiaries, J-CO America Corporation, J-CO Mexico, S. de R.L. de C.V., Geico Brasil Ltda., Geico Paint Shop India Private Limited, Geico Painting System (Suzhou) Co., Ltd., "Geico Russia" LLC, Geico Taikisha GmbH, Geico Taikisha Controls d.o.o. and Process Solution Partner Rus LLC have been excluded from the scope of consolidation.

Overview of share transfer

(Name of the company to which the shares were transferred)
Gecofin S.p.A.

(Name and business description of the company whose shares were transferred)
Name Geico S.p.A.
Business description Design and construction of paint finishing systems and plants for the automotive industry

(Reason for the share transfer)
Since 2011, the Company has acquired 51.0% of Geico's outstanding shares and has been working to complement and strengthen the technological and market strengths of the two companies through the capital alliance with Geico.
Because of the continuing pandemic situation caused by the COVID-19 and the conflict between Russia and Ukraine which is expected to affect the capital investment of European automakers and cause a sharp rise in price of resources, materials and equipment, the Paint Finishing System business of the Company has decided to focus on the automobile market in regions other than Europe in external collaboration with Geico and to expand automation business areas other than the automobile market in order to improve medium- to long-term business value.
Given the above background and in accordance with the purpose of the Corporate Governance Code, the Company has decided to reduce the shareholding ratio in Geico from 51.0% to 14.5% from the view of focusing on capital efficiency.

(Date of share transfer)
April 20, 2022

(Overview of other transactions including legal form)
Share transfer in exchange for cash etc. only

Overview of accounting treatment that was carried out

(Profit (Loss) of share transfer)
Gain on sale of shares of subsidiaries and associates ¥881 million (US$ 6,605 thousand)

(Appropriate book value and major breakdown of assets and liabilities of the company that was transferred)

	Millions of yen	Thousands of U.S. dollars
Current assets	¥18,575	$139,102
Non-current assets	3,812	28,550
Total assets	22,388	167,652
Current liabilities	18,605	139,324
Non-current liabilities	5,690	42,612
Total liabilities	¥24,295	$181,936

(Accounting treatment)
The difference between the consolidated book value of the transferred shares and the selling price is recognized as "Gain on sale of shares of subsidiaries and associates" in extraordinary income.

Reportable segment in which the subsidiary was included

Paint Finishing System Division

Estimated amount of profit (loss) that relates to the transferred subsidiary which is recognized in consolidated statements of income in the current fiscal year

Profit(Loss) that relates to the transferred subsidiary is not included in consolidated statements of income in the current fiscal year, since the subsidiary is excluded from the scope of consolidation by regarding the beginning of the current fiscal year as deemed transfer date.

(2) Transactions under common control

Additional acquisition of subsidiary shares

Overview of the transaction

(Name and business description of combined company)

Name	Nicomac Taikisha Clean Rooms Private Limited
Business description	Manufacturing, installation and design for Cleanroom

(Date of business combination)
December 7, 2022 (Deemed acquisition date is December 31, 2022.)

(Legal form of business combination)
Acquisition of shares from non-controlling interests

(Combined company's name after acquisition)
There is no change.

(Overview of other transactions)
Voting rights ratio of the additionally acquired shares is 26%, and the voting rights ratio of the Group has become 100% due to the transaction.

Overview of accounting treatment that was carried out

The transaction is treated as transaction under common control, specifically transaction with non-controlling interests in accordance with the Accounting Standard for Business Combinations and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

Consideration for additional acquisition of subsidiary shares

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash	¥2,087	$15,634
Acquisition cost		¥2,087	$15,634

Change in equity of the Company by the transaction with non-controlling interests

(Main reason of the fluctuation of capital surplus)
Additional acquisition of subsidiary shares

(The amount of decrease of capital surplus by the transaction with non-controlling interests)
¥1,401 million (US$ 10,492 thousand)

15. Asset retirement obligations

The Companies are under the term of rental agreements for head offices etc. and have obligations for restitution on their leaving. The obligations are recognized by way of decreasing deposits.

16. Revenue recognition

(1) Disaggregation of revenues from contracts with customers

For the year ended March 31, 2022

	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥94,137	¥13,570	¥107,708
Overseas	40,255	61,297	101,552
Revenues from contracts with customers	134,393	74,867	209,261
Other revenues	–	–	–
Revenues to external customers	¥134,393	¥74,867	¥209,261

For the year ended March 31, 2023

	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥123,081	¥11,154	¥134,236
Overseas	48,762	31,793	80,556
Revenues from contracts with customers	171,844	42,948	214,793
Other revenues	–	–	–
Revenues to external customers	¥171,844	¥42,948	¥214,793

For the year ended March 31, 2023

	Thousands of U.S. dollars		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	$921,683	$83,533	$1,005,216
Overseas	365,155	238,085	603,240
Revenues from contracts with customers	1,286,838	321,618	1,608,456
Other revenues	–	–	–
Revenues to external customers	$1,286,838	$321,618	$1,608,456

(2) Information that is the basis for understanding the revenues from contracts with customers

Taikisha Group is engaged in construction contracts and so on and sales of equipment and materials for design, supervision, and construction work in the Green Technology System business and Paint Finishing System business.

Construction contracts and so on

Taikisha Group's performances of construction contracts or other contracts results in arising or increasing in value of an assets, along with these assets increase, the Company considers that it has transferred control of the assets to the customers over a certain period of time. Therefore, revenue is recognized based on progress toward complete satisfaction of performance obligations as of the closing date.

Progress is measured as the ratio of the costs incurred to the total estimated costs (input method), because it is possible to make reasonable estimates of the total estimated costs based on the budgets. In addition, revenue is recognized by cost recovery method in case incurred costs are expected to be recoverable though the progress of satisfaction of performance obligations cannot be reasonably measured.

Sales of equipment and materials

Regarding Taikisha Group's sales of equipment and materials, as a result of consideration of indicators related to the transfer of control, such as physical possession of the equipment and materials, significant risks associated with ownership and the transfer of economic value to the customer, Taikisha Group has determined that control over the equipment and materials are transferred to the customers and the performance of obligation is satisfied at the time of delivery of equipment and materials. In this reason, revenue is recognized when equipment and materials are delivered.

For these performance obligations, Taikisha Group provides guarantees such as free repair for contractual non-conformities that occur within a certain period of time after handover or delivery. It provides assurance to the customer that the products will function as intended and in accordance with the specifications agreed upon with the customers. Expected future expenditures are estimated by taking into account historical warranty rates and are recognized as a provision for warranties for completed construction.

Also, these terms of payments for these performance obligations are common and do not include significant financial elements.

(3) Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current consolidated fiscal year and are expected to be recognized in the following consolidated fiscal year or later

Balances of contract assets and liabilities

As of March 31, 2022 and 2023	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Receivables arising from contracts with customers (Beginning balance)	¥80,179	¥79,781	$597,435
Receivables arising from contracts with customers (Ending balance)	¥79,781	¥48,339	$361,985
Contract assets (Beginning balance)	¥17,473	¥22,266	$166,739
Contract assets (Ending balance)	¥22,266	¥66,224	$495,913
Contract liabilities (Beginning balance)	¥14,200	¥6,901	$51,682
Contract liabilities (Ending balance)	¥6,901	¥23,306	$174,525

In the consolidated balance sheets, accounts receivable for completed construction contracts and contract assets arising from contracts with customers are included in notes receivable, accounts receivable from completed construction contracts and other while contract liabilities are presented as advances received on uncompleted construction contracts.

The amounts of revenue recognized in the previous fiscal year and the current fiscal year that were included in the balance of contract liabilities at the beginning of each period are ¥13,697 million for the previous fiscal year and ¥5,577 million (US$41,763 thousand) for the current fiscal year. The amount of revenue recognized in the previous fiscal year and the current fiscal year from performance obligations that were satisfied (or partially satisfied) in the previous fiscal years are not material.

Transaction price allocated to the remaining performance obligations

The aggregate transaction prices allocated to unsatisfied performance obligations and the period over which revenues are expected to be recognized are as follows.

For the year ended March 31, 2022	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥109,493	¥15,904	¥125,398
Overseas	33,672	39,218	72,891
Total	¥143,166	¥55,123	¥198,289

For the year ended March 31, 2023	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥117,331	¥26,543	¥143,875
Overseas	65,561	48,862	114,423
Total	¥182,892	¥75,406	¥258,299

For the year ended March 31, 2023	Thousands of U.S. dollars		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	$878,625	$198,770	$1,077,395
Overseas	490,948	365,904	856,852
Total	$1,369,573	$564,674	$1,934,247

The transaction prices allocated to unsatisfied performance obligations in the "Green Technology System business" and "Paint Finishing System business" are expected to be recognized as construction revenue within two years, primarily based on the progress of construction.

17. Segment information

(1) Overview of reportable segment

The reportable segment of the Companies is components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies establish their divisions for types of construction equipment and each division plans the comprehensive domestic and foreign strategies and do business based on the strategies. Therefore, the Companies are composed of segment for types of construction equipment based on the divisions. The Companies have two reportable segments "Green Technology System Division" and "Paint Finishing System Division".

"Green Technology System Division" mainly designs, manages and constructs building HVAC for office buildings, and industrial HVAC for manufacturing facilities and laboratories. This division also produces and sells related equipment.

"Paint Finishing System Division" mainly designs, manages and constructs automobile paint plants and sells related equipment.

(2) Calculation method of sales and profits or losses, assets or liabilities and others

The accounting treatment of reportable segment is almost the same as the one disclosed in "2. Summary of significant accounting policies".

The profit of reportable segment is the amount on the basis of ordinary income. Internal profits and transfer amounts between the segments are calculated based on the market price.

(3) Sales and profits or losses, assets or liabilities and others by reportable segment

For the year ended March 31, 2022

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥134,393	¥74,867	¥209,261	¥–	¥209,261
Intersegment	6	14	20	(20)	–
Total	134,399	74,882	209,282	(20)	209,261
Segment profit	9,302	667	9,969	849	10,818
Segment assets	109,420	70,719	180,139	48,019	228,159
Other items					
Depreciation and amortization	1,052	1,461	2,513	(17)	2,496
Amortization of goodwill	362	52	414	–	414
Interest income	108	154	263	(4)	259
Interest expenses	3	294	298	5	303
Share of profit (loss) of entities accounted for using equity method	(7)	(25)	(32)	–	(32)
Investments in associates accounted for using equity method	–	559	559	–	559
Increase in property, plant and equipment, intangible assets	¥1,210	¥900	¥2,111	¥212	¥2,324

(Note 1) The amounts of Adjustments are as follows.

Adjustments of Segment profit of ¥849 million include non-allocatable common profits of ¥849 million and other adjustment of ¥0 million. Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.

Adjustments of Segment assets of ¥48,019 million are elimination of receivable and payable etc., of minus ¥3,312 million and non-allocatable common assets which are not allocated to any reportable segments of ¥51,332 million. Non-allocatable common assets are mainly cash and deposits, securities, property, plant and equipment, intangible assets, and net defined benefit asset, etc., which are not attributed to any reportable segment.

Adjustments of Increase in property, plant and equipment, intangible assets of ¥212 million are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and software, etc., which are not attributed to any reportable segment.

The allocation method of assets for reportable segment is different from that of related income and expenses.

(Note 2) Segment profit is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2023

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥171,844	¥42,948	¥214,793	¥–	¥214,793
Intersegment	23	12	36	(36)	–
Total	171,868	42,960	214,829	(36)	214,793
Segment profit (loss)	14,599	(1,606)	12,992	9	13,001
Segment assets	145,565	49,303	194,869	42,236	237,105
Other items					
Depreciation and amortization	1,167	837	2,005	(5)	2,000
Amortization of goodwill	400	62	462	–	462
Interest income	159	166	325	(1)	324
Interest expenses	5	134	139	12	152
Share of profit (loss) of entities accounted for using equity method	(6)	3	(3)	–	(3)
Investments in associates accounted for using equity method	–	591	591	–	591
Increase in property, plant and equipment, intangible assets	¥1,139	¥1,046	¥2,185	¥204	¥2,390

(Note 1) The amounts of Adjustments are as follows.

Adjustments of Segment profit of ¥9 million (US$72 thousand) include non-allocatable common profits of ¥9 million (US$68 thousand) and other adjustment of ¥0 million (US$4 thousand). Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.

Adjustments of Segment assets of ¥42,236 million (US$316,286 thousand) are elimination of receivable and payable etc., of minus ¥2,917 million (minus US$21,847 thousand) and non-allocatable common assets which are not allocated to any reportable segments of ¥45,154 million (US$338,132 thousand). Non-allocatable common assets are mainly cash and deposits, securities, property, plant and equipment, intangible assets, and net defined benefit asset, etc., which are not attributed to any reportable segment.

Adjustments of Increase in property, plant and equipment, intangible assets of ¥204 million (US$1,534 thousand) are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and software, etc., which are not attributed to any reportable segment.

The allocation method of assets for reportable segment is different from that of related income and expenses.

(Note 2) Segment profit (loss) is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2023

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	$1,286,838	$321,618	$1,608,456	$–	$1,608,456
Intersegment	179	91	270	(270)	–
Total	1,287,017	321,709	1,608,726	(270)	1,608,456
Segment profit (loss)	109,324	(12,032)	97,292	72	97,364
Segment assets	1,090,052	369,204	1,459,256	316,286	1,775,542
Other items					
Depreciation and amortization	8,746	6,275	15,021	(39)	14,982
Amortization of goodwill	2,999	466	3,465	–	3,465
Interest income	1,194	1,247	2,441	(9)	2,432
Interest expenses	40	1,005	1,045	94	1,139
Share of profit (loss) of entities accounted for using equity method	(48)	23	(25)	–	(25)
Investments in associates accounted for using equity method	–	4,431	4,431	–	4,431
Increase in property, plant and equipment, intangible assets	$8,532	$7,834	$16,366	$1,534	$17,900

18. Related information in regard to segment information

(1) Information by product and service

For the year ended March 31, 2022

This item is omitted because similar information is disclosed in "17. Segment information"

For the year ended March 31, 2023

This item is omitted because similar information is disclosed in "17. Segment information"

(2) Sales by region

For the year ended March 31, 2022

Millions of yen

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥107,708	¥17,347	¥17,106	¥19,765	¥14,416	¥2,605	¥11,456	¥18,855	¥209,261

(Note) Sales are classified to the countries or regions based on their customers' location.

For the year ended March 31, 2023

Millions of yen

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥134,236	¥6,203	¥19,719	¥23,648	¥13,982	¥3,058	¥13,173	¥770	¥214,793

(Note) Sales are classified to the countries or regions based on their customers' location.

For the year ended March 31, 2023

Thousands of U.S. dollars

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
$1,005,216	$46,456	$147,668	$177,090	$104,703	$22,904	$98,647	$5,772	$1,608,456

(3) Property, plant and equipment by region

For the year ended March 31, 2022

Millions of yen

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥5,249	¥490	¥205	¥491	¥1,994	¥2,300	¥512	¥11,243

For the year ended March 31, 2023

Millions of yen

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥4,724	¥381	¥198	¥588	¥2,148	¥–	¥515	¥8,557

For the year ended March 31, 2023

Thousands of U.S. dollars

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
$35,377	$2,854	$1,485	$4,410	$16,091	$–	$3,862	$64,079

(4) Sales information by main customer

For the year ended March 31, 2022

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

For the year ended March 31, 2023

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

19. Impairment loss by reportable segment

Impairment loss of the non-current assets by reportable segment

For the year ended March 31, 2022

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate (Note)	Total
Impairment loss	¥–	¥–	¥–	¥0	¥0

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2023

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate (Note)	Total
Impairment loss	¥643	¥–	¥643	¥(0)	¥642

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2023

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Impairment loss	$4,816	$–	$4,816	$(3)	$4,813

20. Amortization and balance of goodwill

(1) Amortization and balance of goodwill by reportable segment

For the year ended March 31, 2022

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	¥3,282	¥684	¥3,966	¥–	¥3,966

(Note) Amortization of goodwill is omitted because it is already disclosed in the "17. Segment information".

For the year ended March 31, 2023

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	¥2,913	¥726	¥3,640	¥–	¥3,640

(Note) Amortization of goodwill is omitted because it is already disclosed in the "17. Segment information".

For the year ended March 31, 2023

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	$21,820	$5,439	$27,259	$–	$27,259

(2) Gain on negative goodwill by reportable segment

For the year ended March 31, 2022
Not applicable.

For the year ended March 31, 2023
Not applicable.

21. Related party transactions

For the year ended March 31, 2022
Not applicable.

For the year ended March 31, 2023
Not applicable.

22. Details of bonds

Not applicable.

23. Details of loans

As of March 31, 2023	Millions of yen		Thousands of U.S. dollars		
	Beginning balance	Ending balance	Ending balance	Average interest rate (%)	Maturity
Short-term loans payable	¥13,413	¥2,836	$21,238	5.262	–
Current portion of long-term loans payable	2,122	106	797	0.715	–
Current portion of lease obligations	83	69	524	–	–
Long-term loans payable (excluding current portion)	5,605	98	735	0.687	May 2025 to June 2031
Lease obligations (excluding current portion)	82	98	734	–	May 2024 to October 2027
Total	¥21,306	¥3,208	$24,028	–	–

(Note 1) The "Average interest rate" is the weighted average interest rate for the ending balance of loans etc.

(Note 2) The average interest rates on lease obligations are not presented because interest equivalents in the total lease obligation are allocated to expenses every year by the straight-line method.

(Note 3) The annual repayment schedules of long-term loans payable and lease obligations (excluding current portion) subsequent to March 31, 2023 are as follows.

	Millions of yen			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	¥62	¥36	¥–	¥–
Lease obligations	¥55	¥22	¥10	¥7

	Thousands of U.S. dollars			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	$465	$270	$–	$–
Lease obligations	$416	$170	$81	$55

24. Details of asset retirement obligations

This item is omitted because asset retirement obligations represented less than 1% of total assets at the beginning of this fiscal year and at the end of this fiscal year, respectively.

25. Significant subsequent events

Not applicable.

Report of Independent Auditors

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Taikisha Ltd.,

Opinion

We have audited the consolidated financial statements of Taikisha Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese Yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Reasonableness of estimates regarding the completion percentage of construction contracts for which revenue is recognized over time.	
Description of Key Audit Matter	Auditor's Response
As described in the note 2. Summary of significant accounting policies, (8) Revenue and cost recognition, in the Green Technology System business and the Paint Finishing System business, performance obligations for construction contracts, etc. mainly involving design, supervision, and installation are deemed to be satisfied over time, and revenue is recognized based on progress toward complete satisfaction of a performance obligation. As stated in the notes "Estimates of percentage of completion in construction contracts, etc. in which revenue is recognized over time" under(12) Significant accounting estimates, The percentage of completion is measured by the ratio of costs incurred as of the fiscal year-	As revenue arise from construction contracts in which revenue is recognized over time is calculated by the progress measured based on total costs of construction, we performed following audit procedures to evaluate the reasonableness of estimation on the progress of constructions. Main procedures are as follows. ・ We evaluated the design and operational effectiveness of internal controls over estimates of total construction costs. Specifically we focused on the controls over developing working budgets, updating the budgets to reflect the changes after the construction has commenced, and allocating incurred costs to appropriate contracts. ・ We identified the contracts in which the uncertainty of the working budget is

end to estimated total costs based on the working budget for the construction contract (input methods). The Group recorded net sales of completed construction contracts ¥ 189,094 million on a consolidated basis for the fiscal year by the method. The estimated total cost is calculated by making working budgets for each construction, and the budgets have high uncertainty as the construction cost could change by the construction site conditions, changes in the content of the work and price negotiation with contractors after launching the constructions. Also, the accuracy of cost aggregation to each contract has significant effect on the estimation of the progress . Therefore, we determined estimates regarding the completion percentage of construction contracts for which revenue is recognized over time as a key audit matter.	relatively high by analyzing the correlation between the order amount and the working budget, as well as the profit margin of each construction contract. • For the identified construction contracts, we examined the reasonableness of estimates of the working budget made by the management by comparing the latest estimate of working budget as of the fiscal year end with the original ones and investigating the reason of fluctuation. • For the construction projects in process we examined whether there was any over or underrun in the working budget by obtaining documents related to the latest purchase order. • For the construction on which we determined that deliberate judgement is required by the size, profit rate, and the progress at the end of the fiscal year, we performed vouching on the incurred costs by related documents such as invoice etc., enquiry to construction managers, reviewing related documents such as construction schedules and planned cost lists, and furthermore we visited the construction site to evaluate the consistency of the progress between the record and the situation of the site when necessary. • We instructed the auditors of significant components to perform audit procedures and evaluated the sufficiency and appropriateness of their work and audit evidence obtained through communicating with them and reviewing their interoffice audit deliverables etc.

Other Information

The other information comprises the information included in the integrated report, but does not include the consolidated financial statements and our auditor's report hereon. Management is responsible for the other information. In addition, those charged with governance are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, including whether the use of the disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial

statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit & supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit & supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit & supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Hiroaki Kagami

Hiroaki Kagami
Designated Engagement Partner
Certified Public Accountant

Kenji Oka

Kenji Oka
Designated Engagement Partner
Certified Public Accountant

Daisuke Miyanohara

Daisuke Miyanohara
Designated Engagement Partner
Certified Public Accountant

A&A Partners
Tokyo, Japan
December 4, 2023

Corporate and Stock Information (as of March 31, 2023)

Corporate Information

Corporate name:	Taikisha Ltd.
Founded:	April 10, 1913
Established:	July 7, 1949
Capital stock:	6,455 million yen
Number of employees:	1,611 (non-consolidated) 4,890 (consolidated)

For information on the Directors, Audit & Supervisory Board Members and stock information, please visit our website.
https://www.taikisha-group.com/

[Group Companies]
https://www.taikisha-group.com/corporate/information/group/
Top page > Corporate Information > Group Companies

[Directors and Audit & Supervisory Board Members]
https://www.taikisha-group.com/corporate/information/officer/
Top page > Corporate Information > About Taikisha > Board of Directors

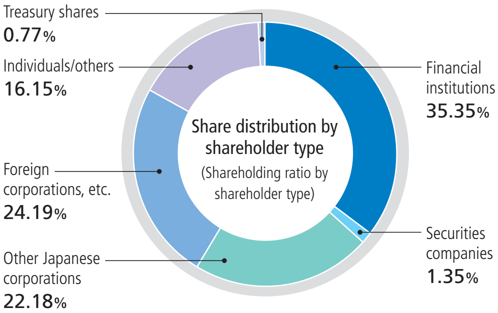
[Stock Information]
https://www.taikisha-group.com/ir/stock/info/
Top page > Investor Relations > Stock Overview> Stock Information

Shareholders' Information

Securities code:	1979
Financial year:	From April 1 of every year to March 31 of the following year
Annual Shareholders' Meeting:	June every year
Record date:	Annual Shareholders' Meeting/Year-end dividend March 31 Interim dividend September 30 When necessary, information other than the above will be announced by public notice in advance.
One unit of shares:	100
Administrator of shareholder registry/ specified account management institution:	Mizuho Trust & Banking Co., Ltd. 1-3-3, Marunouchi, Chiyoda-ku, Tokyo
Administration office:	Mizuho Trust & Banking Co., Ltd. Stock Transfer Agency Department, Head office 1-3-3, Marunouchi, Chiyoda-ku, Tokyo
Mailing address:	Mizuho Trust & Banking Co., Ltd. Stock Transfer Agency Department 2-8-4, Izumi, Suginami-ku, Tokyo, Japan 168-8507
Tel:	0120-288-324 (Toll-free in Japan only)
Method of public notice:	Electronic public notice (Posted on the Company website) In case electronic posting of public notice is not possible, public notice is posted on Nihon Keizai Shimbun.

Status of Shares

Number of shares authorized:	100 million (100,000,000)
Number of shares issued:	33,322,020
Number of shareholders:	3,386



Major shareholders (Top 10 shareholders by number of shares held)

Name of Shareholders	Number of shares held (in thousands)	Ratio of shareholding voting rights (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,488	19.47
Kenzaisha Ltd.	1,730	5.19
Taikisha Employees Shareholding Association	1,175	3.53
Custody Bank of Japan, Ltd. (Trust Account)	1,174	3.52
Sumitomo Realty & Development Co., Ltd.	1,134	3.41
Taikisha Business Partners Shareholding Association	1,066	3.20
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	1,041	3.12
Dai ni Kenzaisha Ltd.	1,000	3.00
Nippon Life Insurance Company	866	2.60
Mizuho Bank, Ltd.	659	1.98

(Notes) 1. Taikisha retains 259,989 shares as treasury shares, which is excluded from the above list of major shareholders.
2. "Ratio of shareholding voting rights" is calculated by deducting these treasury shares.
3. "Number of shares held" is presented by rounding down to the nearest 1,000 shares.

Third-Party Opinion

Mr. Keisuke Takegahara

Executive Director
Research Institute of Capital Formation
Development Bank of Japan Inc.

Congratulations on the 110th anniversary of the Company's founding. Year 2023 also marks the 50th anniversary of the Company's name change from Kenzaisha to Taikisha. In the era of industrial pollution, changing the Company's name from the products you offered to the societal issue you were addressing (healthy atmosphere) can be seen as a precursor to the "value creation story" that many companies aspire to today. Such foresight is truly astonishing.

The Integrated Report 2023 is the third that you have produced, and is a fitting tribute to such a milestone. It builds upon the success of the ongoing integration of management strategies and sustainability. In line with the transition to the new management team, various measures have been put in place to more clearly define your vision for the future.

The essence of these is encapsulated in the Message from President Osada. A focus on Taikisha's strengths while reflecting on its history, such as "design and engineering capabilities" and "global expansion," comes through vividly in the message. At the same time, the palpable sense of urgency over stagnant growth and the emphasis on valuing intangible assets, including human capital, to overcome this issue is also conveyed with a sense of realism. This theme is further developed in the business strategies section through the messages from the Division Heads. However, the highlight of this report is the round table discussion between the President and the Outside Directors, which aims to connect this President's Message with the specific strategies. This exchange provides a detailed look at the Board of Directors' involvement in shaping the new organizational structure, highlighting the emphasis on effective governance. Additionally, the frequent use of keywords that capture the kind of value creation you are aiming for stands out, adding a compelling layer to the messaging. Take, for instance, the discussions surrounding the noble cause of globally promoting themes with strong societal impact, which are related to one's reason for existence or purpose. Or the insightful observation that the key to having engineering expertise chosen by customers, and being responsive to customers, lies in both blueprints and people. Or the idea that the "perfection of blueprints" is the "perfection of people." All of these succinctly sum up your perspective on sustainability management. Regarding the Green Technology System Business, you clearly understand that the orientation of engineering changes depending on whether the target is high-end or mass market, so strategies must be specific to each region. This demonstrates the depth of your global strategy.

Through the President's Message and the round table discussions, it's obvious that the enhancement of engineering expertise and globalization, which are strengths of Taikisha, have resulted from a focus on human capital, and that this will continue further into the future. The special feature on value creation introducing two themes—the full-scale launch of the R&D Satellite announced last year, and the specific technological innovations to reduce CO_2 emissions in the automobile manufacturing process (dry decoration)—also contributes to the consistency of this theme by focusing on intangible assets.

I feel the messaging around value creation has been further strengthened through, for instance, enhancing the content on human resources and talent. Now, what we expect Taikisha to do is how they can present their progress and results better in the report. I look forward to seeing further innovative thinking in the selection of data to demonstrate your strengths and connectivity, including within the financial and non-financial highlights at the beginning.

In Response to the Third-Party Opinion

Masanori Nakagawa Director, Executive Corporate Officer in charge of Sustainability Promotion

I would like to express my sincere gratitude to Mr. Takegahara for the insightful guidance and warm encouragement he provides to us on a yearly basis.

This, being our third integrated report, is also the first report covering our differentiation strategy based on our long-term vision set out last year, as well as our medium-term plan for achieving it. At the same time, given that this also coincides with the inauguration of our new management structure, we have made efforts to convey the vision and the path toward achieving it in a manner in which top management's presence is felt and their voice is reflected as much as possible. As our next step, we will aim to further refine our approach while being mindful of how we present the progress and results that align with our messaging around value creation as you've highlighted.

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

Taikisha Ltd.

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160-6129, Japan

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