

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.



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.



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.

Audit & Supervisory Board Members

Full-time Audit & Supervisory Board Member	Full-time Audit & Supervisory Board Member	Outside Full-time Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member
Makoto Wakida	Hiroyuki Matsunaga	Junichi Sakurai	Shigeo Kobayashi	Nobuyuki Soda

Directors' specialized knowledge and experience

Name	Masashi Osada	Yasushi Nakajima	Masanori Nakagawa	Yukinori Hamanaka	Tadashi Sobue	Hirokazu Hikosaka	Kiyotaka Fuke	Masasuke Kishi
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	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 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.

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.

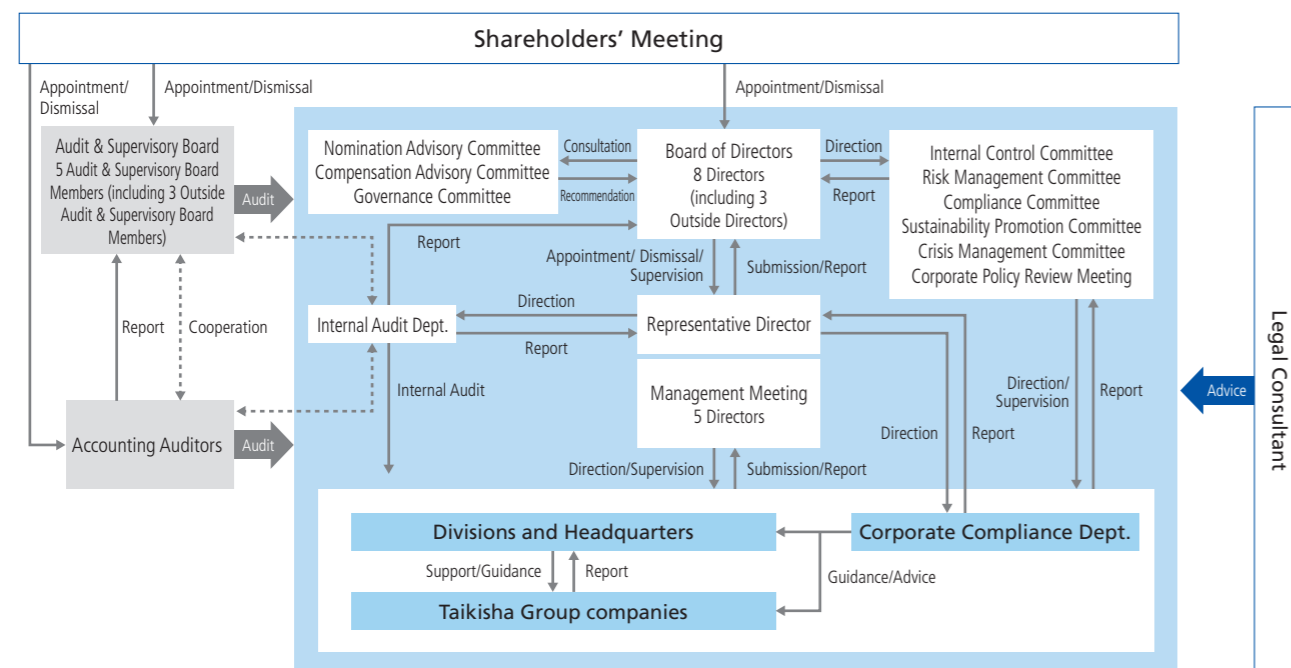
Initiatives that Support Corporate Governance

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)



	Composition	Content	Frequency of meetings
Board of Directors	<p>Chair: </p> <p>8 Directors (Inside: 5, Outside: 3)</p>	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	<p>5 Audit & Supervisory Board Members (Inside: 2, Outside: 3)</p>	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	<p>Chair: </p> <p>5 Directors (Inside: 2, Outside: 3)</p>	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	<p>Chair: </p> <p>5 Directors (Inside: 2, Outside: 3)</p>	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 assessment system for Directors and Audit & Supervisory Board Members, the appropriateness of the assessment results and the amounts of fixed compensation and performance-linked compensation.	As required (FY2022: 10 times)
Governance Committee	<p>Chair: </p> <p>6 Directors (Inside: 3, Outside: 3) 1 Audit & Supervisory Board Member</p>	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

Appointment criteria for Directors and Audit & Supervisory Board Members

Directors and the Audit & Supervisory Board Members	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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

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.

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.

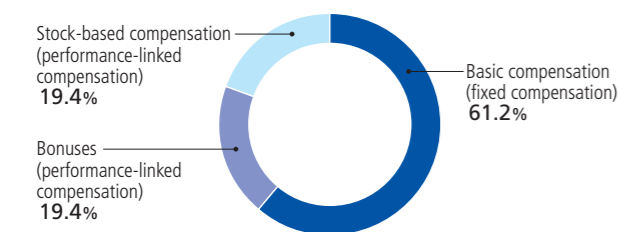
(2) Compensation structure

(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).

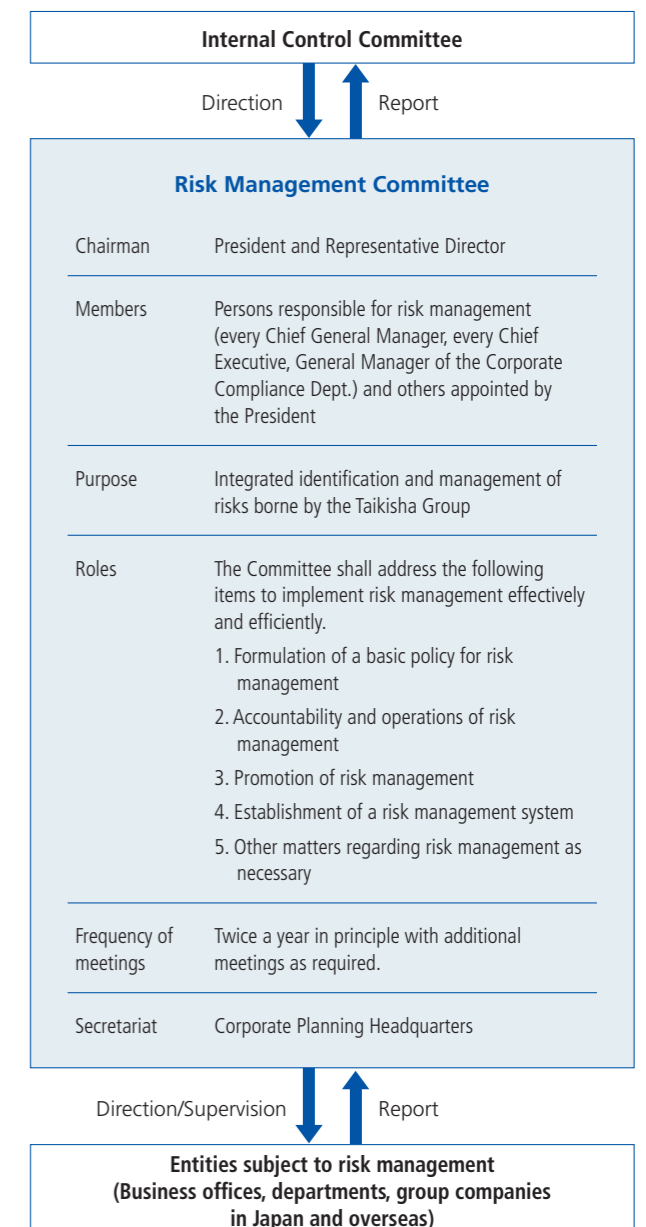
Risk Management System

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



● Major Risks and countermeasures

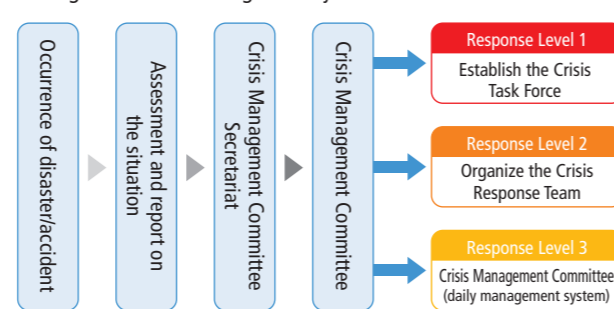
Risk	Content	Remedial Policy and countermeasures
Risk of fluctuations in private-sector capital investment	Decrease in orders received due to deterioration of environment for receiving orders, fall in capital investment by clients and change in investment fields	<ul style="list-style-type: none"> ● Broaden 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.	<ul style="list-style-type: none"> ● 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.	<ul style="list-style-type: none"> ● Proactively collect information on political, economic, legal and regulatory information at overseas sites ● Reduce risks through hedging based on forward exchange contracts, etc. ● 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	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● Improve basic technological capabilities through training and promote on-site practical education ● Create an appealing workplace and secure human resources by conducting work style reform and taking measures against long working hours ● Introduce global human resource system, secure and train key human resources and promote localization at overseas sites ● 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.	<ul style="list-style-type: none"> ● Conduct compliance education programs on an ongoing basis as well as follow-up activities ● Develop a culture and mechanism that prevent rules from being violated
Risk of serious accident or defects, etc. due to poor quality	Serious accident in construction stage, material defects due to poor quality, etc.	<ul style="list-style-type: none"> ● Enhance safety management system ● 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	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● 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.	<ul style="list-style-type: none"> ● 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

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

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.

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.

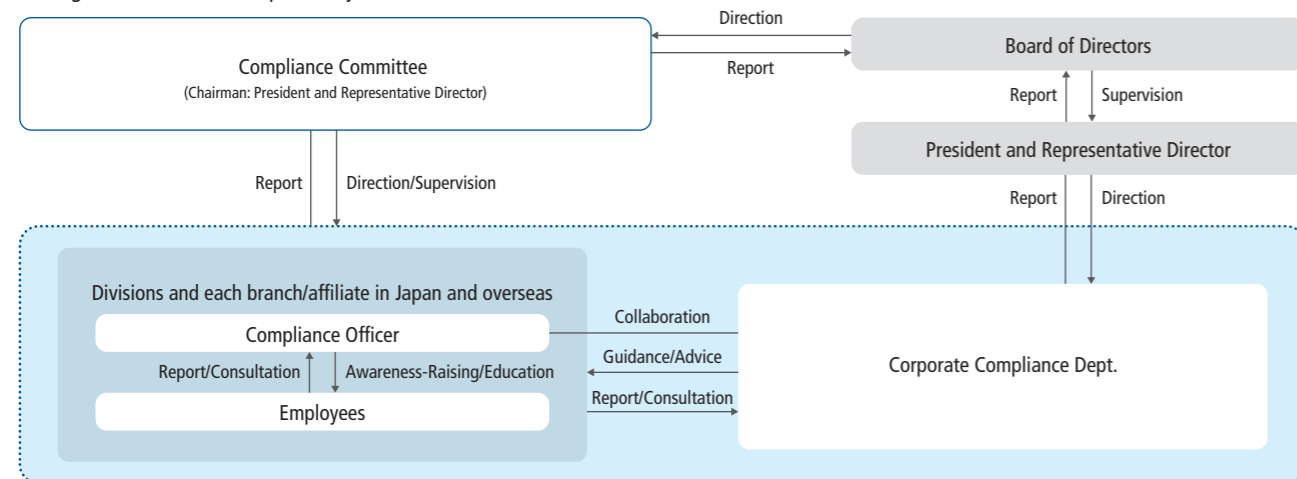
The Corporate Compliance Department, an independent department under the direct control of the President and Representative Director,

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.

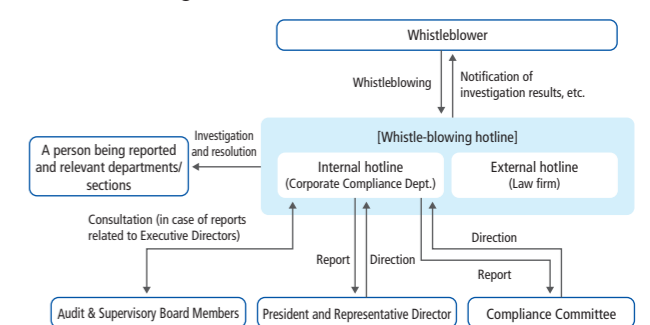
Whistle-blowing System

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.

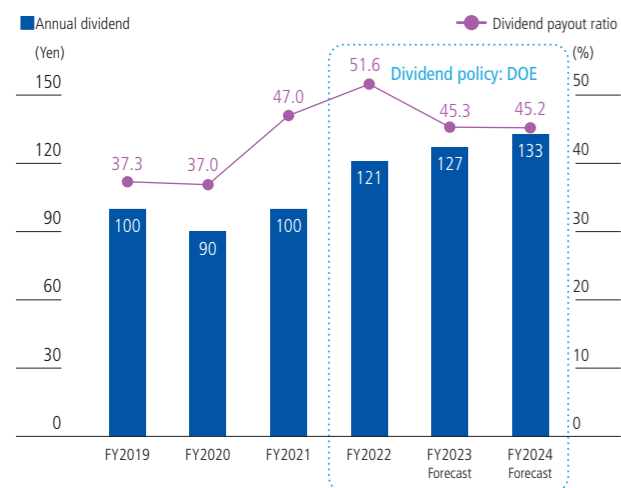
Dividend policy

- 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%

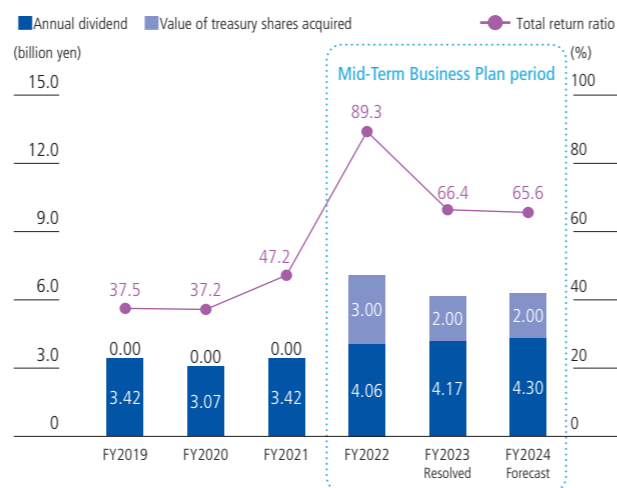
Purchase of treasury shares

- 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

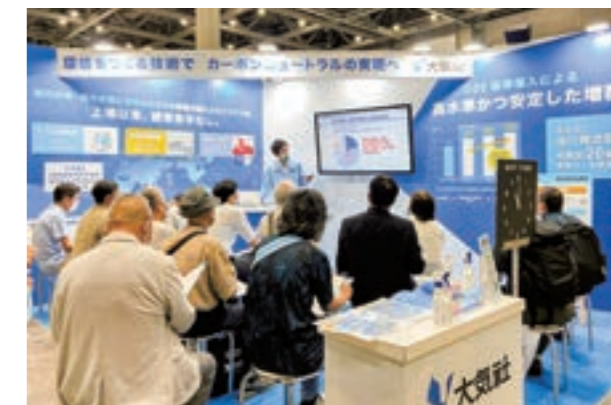


Transition in the total shareholder return and total shareholder return ratio



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's 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	 <p>2023 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX</p> <p>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.</p>
FTSE Blossom Japan Sector Relative Index	 <p>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.</p>
S&P/JPX Carbon Efficient Index	 <p>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.</p>
Sompo Sustainability Index	 <p>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.</p>

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