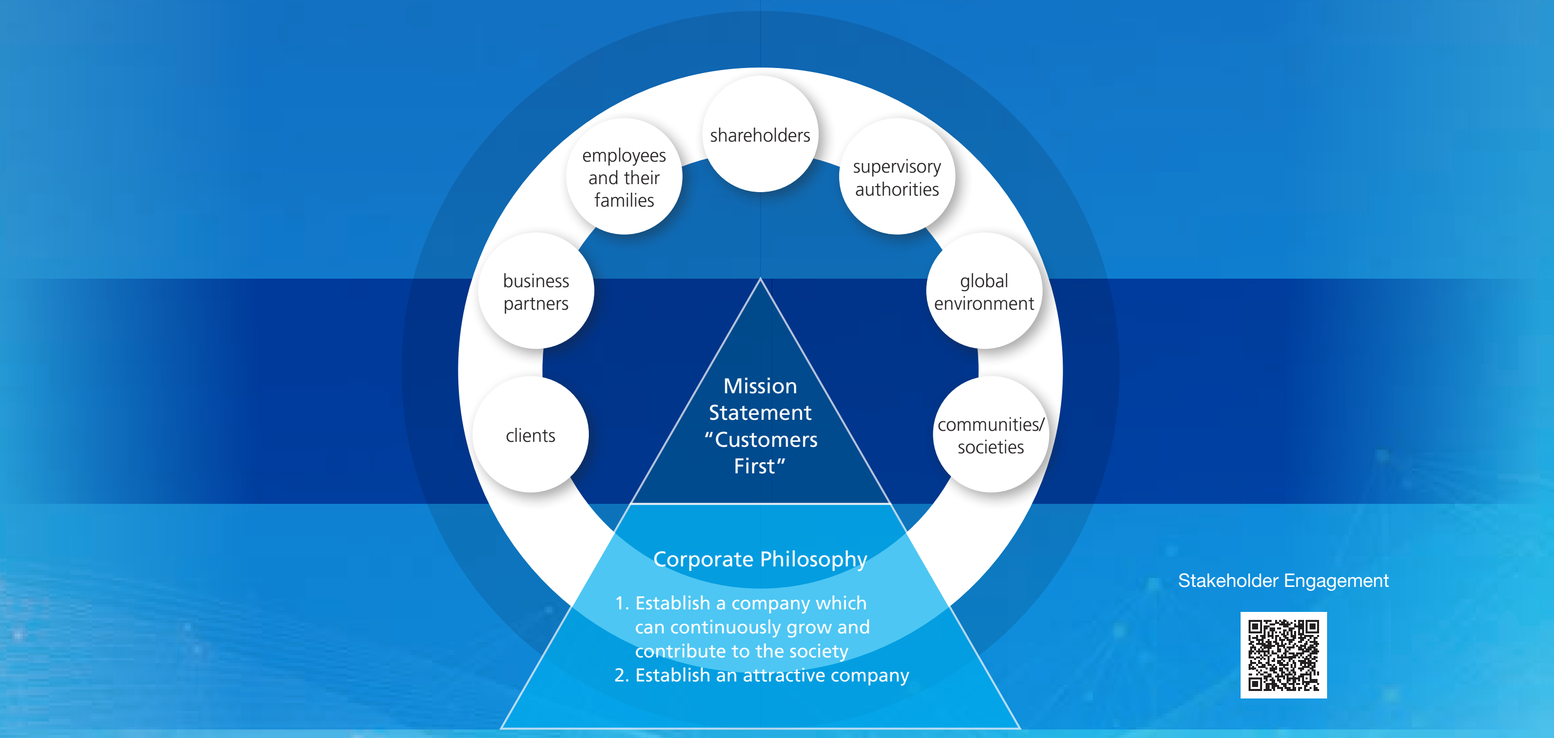
Integrated Report 2024

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



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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 2024 marked one year after the launch of our new management structure, Taikisha has made efforts to convey the steady progress of its long-term strategy and initiatives in the medium-term plan toward its realization in a way that allows you to closely feel the presence of both the top management and employees, resonating with their thoughts. 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 FY2023 (from April 1, 2023 to March 31, 2024) and also includes some activities carried out before or after the said period.

■ Date of issue
October 2024

■ The scheduled issue date of the next edition
October 2025

■ Guidelines referenced
"Environmental Reporting Guidelines (Fiscal Year 2018 version)," "Environmental Accounting Guidelines 2005," and "Guidelines for Private Sector Engagement in Biodiversity (2023)" 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.
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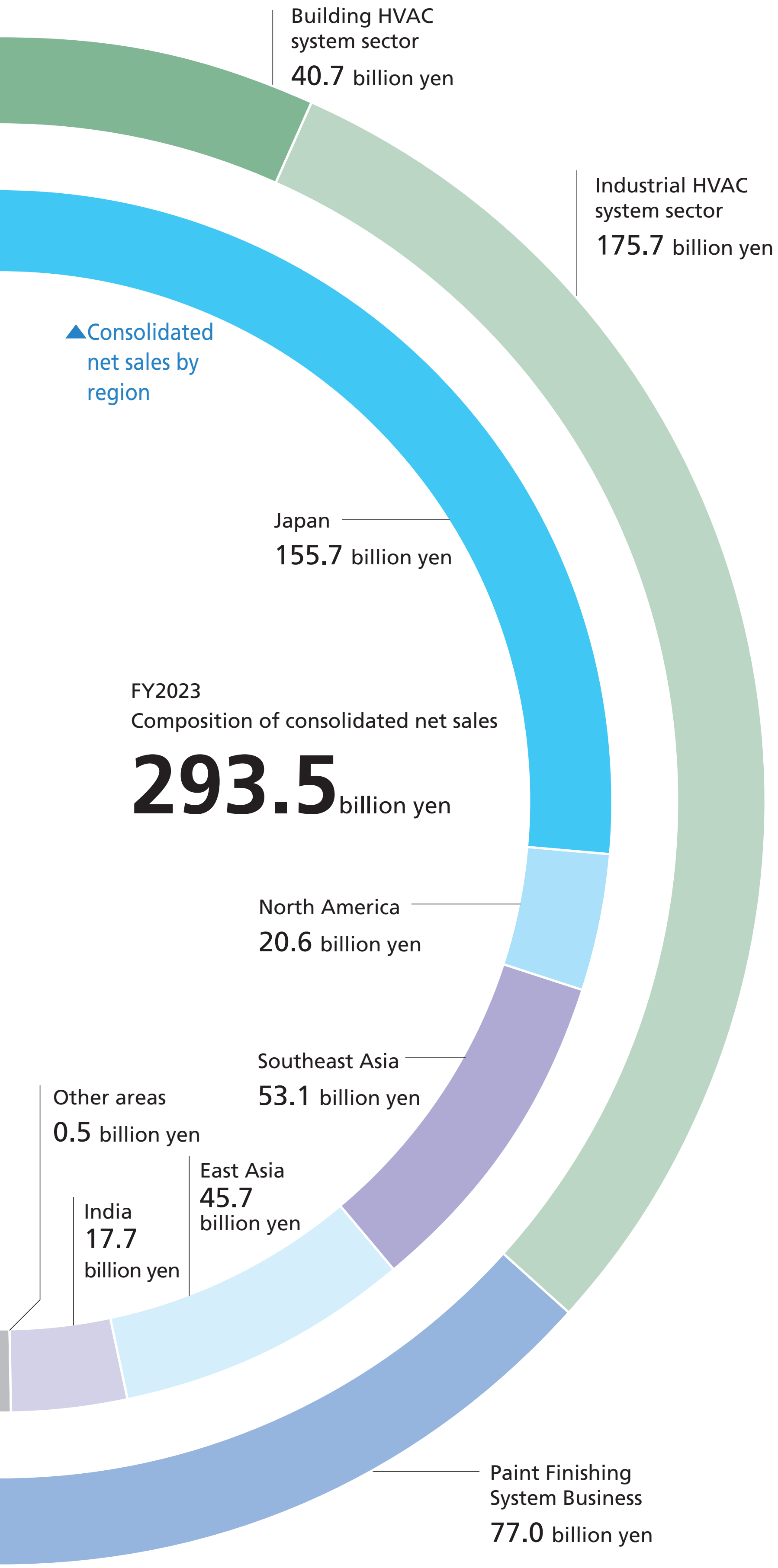
▼Consolidated net sales by business segment/sector



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.

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.

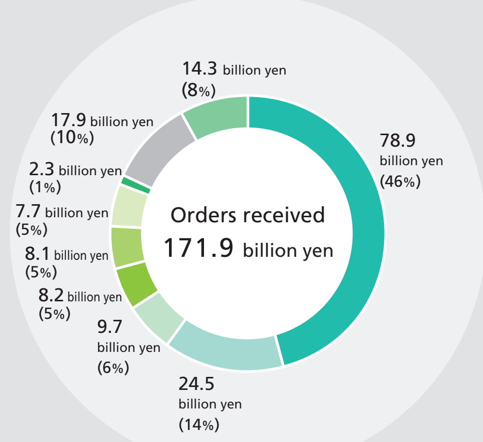
VOC treatment and odor control systems
Organic solvents and malodorous gases are treated by the regenerative thermal oxidizer with high efficiency. Taikisha proposes optimum energy-saving systems combined with hydrophobic zeolite-based concentration equipment as required.

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
- Technical research facility
- Transportation machinery
- Chemical and pharmaceutical plants
- Food and fishery plants
- Commercial facilities
- Others
- Uncategorized orders-received by small-scale affiliates

Paint Finishing System Division

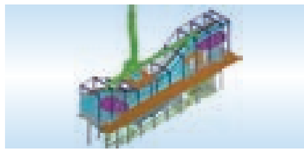
We aim to further increase orders by allocating management resources to the prioritized sectors and through alliances with overseas affiliates.

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



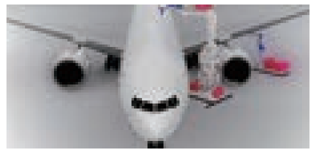
Pretreatment system
Taikisha offers its paint finishing systems for pretreatment that are designed to improve processing quality and to conserve energy. Its unique lineup includes the iron powder removal system, high-performance washing system, counter-flow circulation tank in the degrease process, and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

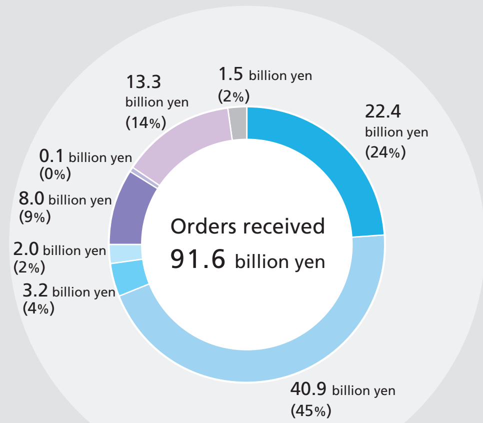
Robot paint system
Utilizing simulations with CAD, the design of a robot paint system seeks the most efficient painting procedure and determines the optimal required number and layout of robots. Furthermore, as its solution, Taikisha configures a system to meet each client's tailored needs with an optimized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

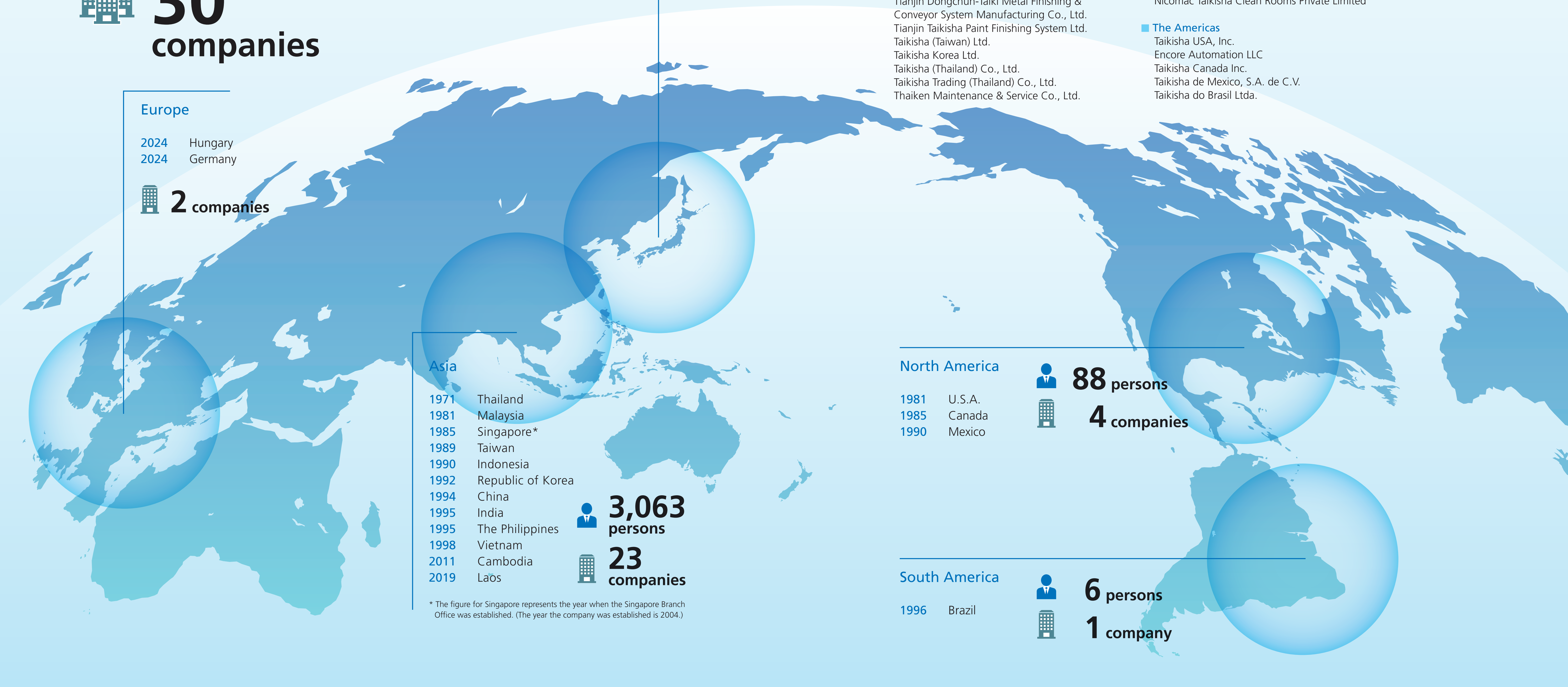
Taikisha is conducting business globally as an environment engineering company in two core business fields: the Green Technology System Division (Building HVAC and Industrial HVAC) and the Paint Finishing System Division. Taikisha boasts the high ratio of overseas sales by far in the Japanese construction industry, with 28 overseas consolidated subsidiaries in 19 countries (as of June 30, 2024). 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

5,142 persons

Number of overseas group companies

30 companies



Japan

1,985 persons

5 companies

Europe

2024	Hungary
2024	Germany

2 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

3,063 persons

23 companies

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

North America

1981	U.S.A.
1985	Canada
1990	Mexico

88 persons

4 companies

South America

1996	Brazil

6 persons

1 company

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 Deutschland GmbH
- 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.
- TKA 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

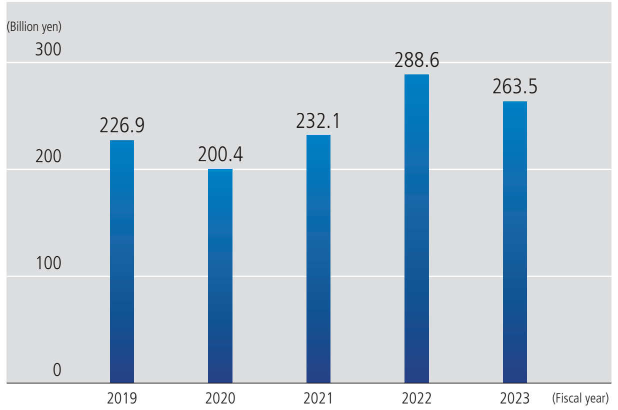
The Americas
- Taikisha USA, Inc.
- Encore Automation LLC
- Taikisha Canada Inc.
- Taikisha de Mexico, S.A. de C.V.
- Taikisha do Brasil Ltda.

Financial items

Orders received

263.5 billion yen

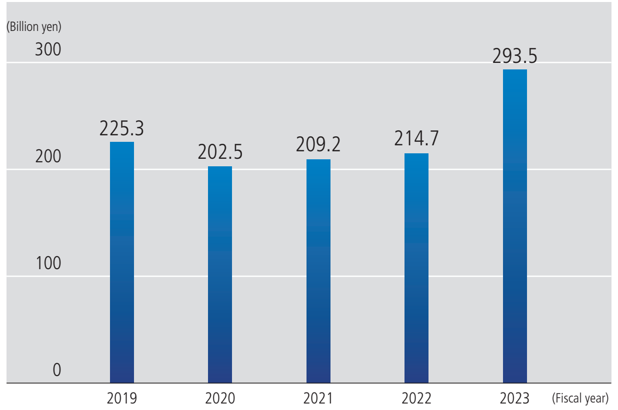
Down 8.7% YoY



Net sales

293.5 billion yen

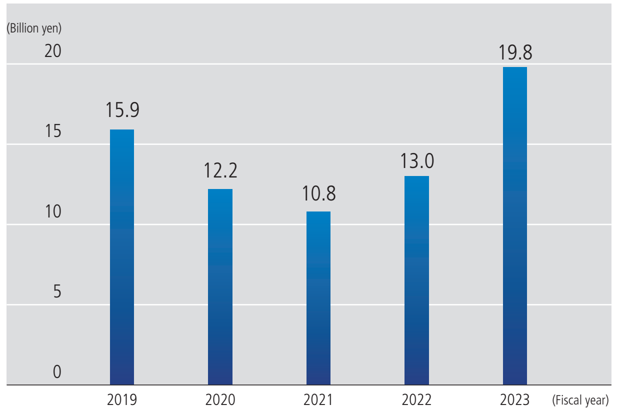
Up 36.7% YoY



Ordinary income

19.8 billion yen

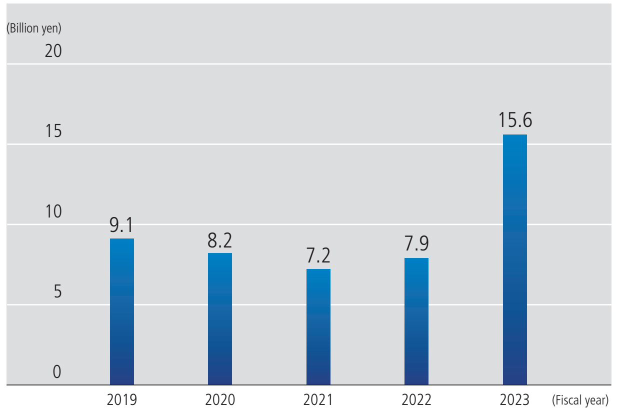
Up 52.7% YoY



Profit attributable to owners of parent

15.6 billion yen

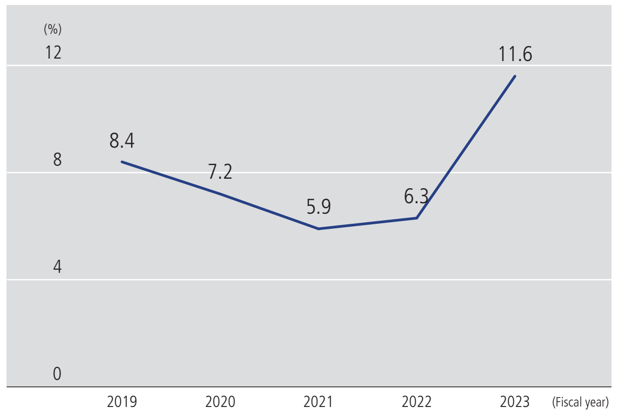
Up 97.1% YoY



ROE

11.6%

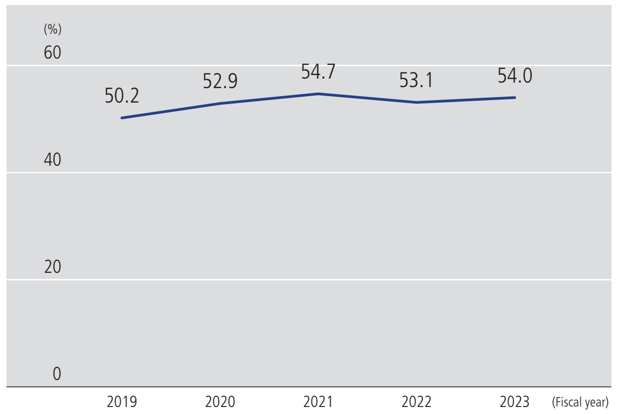
Up 5.3 points YoY



Equity ratio

54.0%

Up 0.9 points YoY

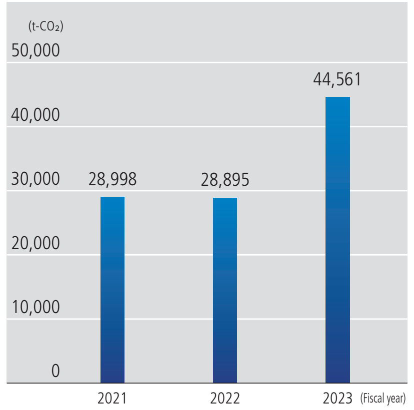


Non-financial items

Scopes 1 & 2

44,561 t-CO_2

Up 54.2% YoY

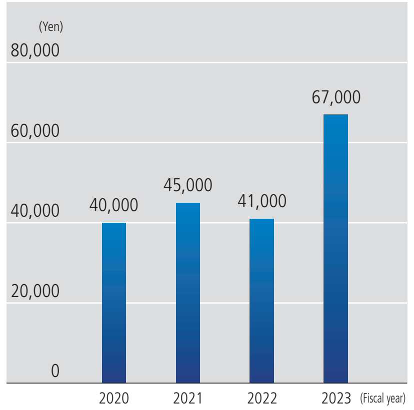


Training expenses per person

67,000 yen

Up 63.4% YoY

(Scope: non-consolidated)

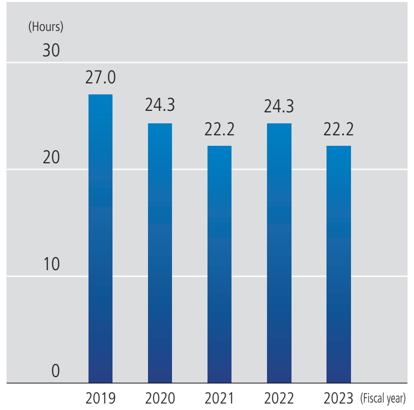


Average overtime work per month/employee

22.2 hours

Down 8.6% YoY

(Scope: non-consolidated)

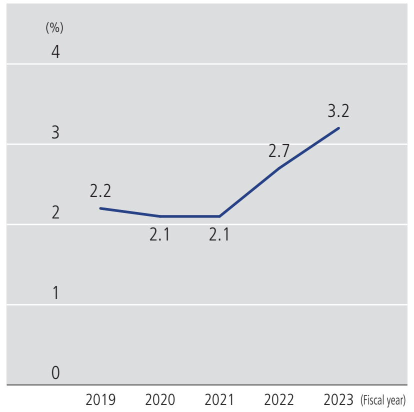


Ratio of female managers

3.2%

Up 0.5 points YoY

(Scope: non-consolidated)

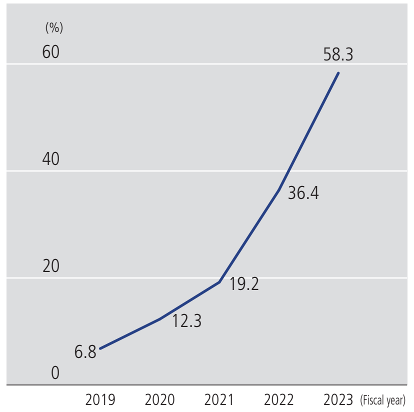


Ratio of male employees who took childcare leave

58.3%

Up 21.9 points YoY

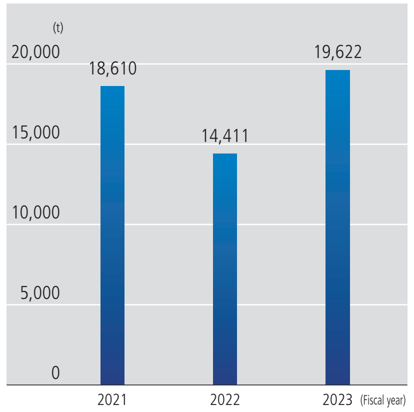
(Scope: non-consolidated)



Amount of waste discharged

19,622 t

Up 36.1% YoY



Frequency rate

0.42

Up 0.3 points YoY

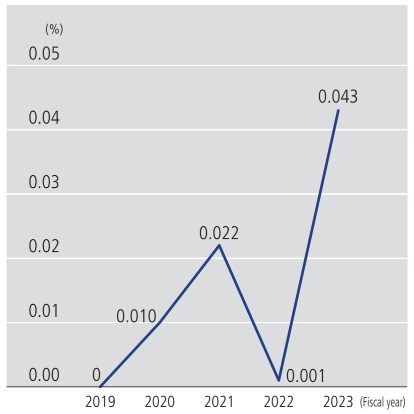
(Scope: non-consolidated)

Severity rate

0.043

Up 0.039 points YoY

(Scope: non-consolidated)



Monthly net sales per employee

7,988 thousand yen

(Scope: non-consolidated)

Research and development expenses

1,166 million yen

Number of patents held (Japan and overseas)

334 patents

111 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.

History

1935 Steam jet units

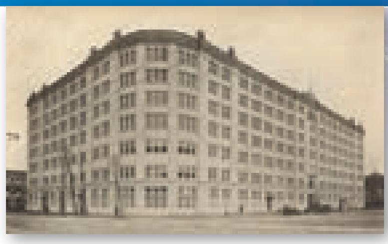
1959 Toyo Kogyo Co., Ltd. (now Mazda Motor Corporation) F Plant

1981 New Dubai Hospital (the UAE)

1994 Petronas Twin Towers (Malaysia)

1913 1920 1930 1940 1950 1960 1970 1980 1990 2000 2010 2020

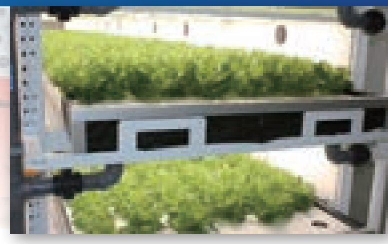
1913-1948 **1949-1970** **1971-1989** **1990-2001** **2002-2010** **2011-**



1918 Tokio Marine and Fire Insurance Building

1932 Photo taken in front of the Head Office

1927 Our company building



2018 Plant factory

2019 Technical Center

2024 TAIKISHA INNOVATION SITE Alkawa

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).

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.

Global Communication as Our Goal

I am humbled and honored to begin my second year as President and Representative Director of the Company. Since taking on this role, I have visited and spoken with many customers, including those overseas. I have also prioritized direct dialogue with our Group employees and have been able to visit almost all of our sites in Japan and overseas.

I still strive to communicate closely with our employees through various means, including town hall meetings, internal electronic publications, and internal social media. I intend to continue these steady efforts to communicate the expectations and needs of our customers to our employees, improve the level of our technological proposals and engineering capabilities, and increase the unity and motivation of our 5,000 Group employees.

Through 28 consolidated subsidiaries established in 19 regions around the world (as of June 2024), the Group currently has construction experience in over 50 countries, and a ratio of overseas sales is close to 50%. In recent years, there has been an increasing number of orders received from foreign customers who have established production bases in Japan and are making capital investments.

Taikisha Group's global operations have grown in terms of size and area in response to the overseas expansion of our customers. In the process of developing activities rooted in each country and region, each site has gradually established a culture of "self-reliance" in which they seek their own growth. To give an example, the national staff at one of our overseas sites held discussions on how to tackle the high-end market and mass market on their own, having a deep understanding of the Group's sales strategy based on the characteristics of the market in that country. At times, national staff have made requests or voiced their expectations for technology to be transferred from Japan. We respond to such requests by providing support from Japan and sending over engineers.

With the "self-reliance" of our overseas offices and the expansion of new growth opportunities, we feel that our global operations are now in the midst of further development.

What Customers Expect From Taikisha's Environmental Technologies

Tracing the evolution of environmental technology, technological innovations for environmental conservation and energy saving gained momentum in Japan in the 1950s and beyond against the backdrop of pollution problems and oil crises. This trend continued into the 1980s but began to stagnate in the 1990s as many innovations were simply applications of existing technologies with added words such as "control," "high efficiency," or "simulation." Recently, however,

We intend to continue global expansion while enhancing the value of engineering to realize our long-term vision.

Masashi Osada
President and Representative Director

technologies supporting the green energy revolution and digital revolution have developed rapidly and dramatically, and the Group's control and painting technologies have also evolved significantly. Technological innovation is spreading in all aspects, including changes in our customers' manufacturing processes. At the same time, the need for environmental technologies is greater than ever in response to society's demand for decarbonization.

In my visits to customers and through conversations with them, I have once again become aware of their high expectations for the Group's technological proposals for carbon neutrality. The proposals required vary from customer to customer, ranging from cost solutions to support for proactive new initiatives, but there is no doubt that providing value by strengthening environmental technologies will become increasingly important for the Group in the future.

In light of these changes in environmental technologies, we are expanding the functions of our two R&D facilities in Kanagawa Prefecture as part of our efforts to catch up with technological evolution and pioneer new innovations. One of these facilities, which handles R&D for the Green Technology System Business, has completed renovations and began operations as the new Research and Development Center in July 2024.

Strengthening Value Provision through Global Training

Our business is based on delivering the best quality equipment to our customers operating in each region. Although we are expanding operations globally, we provide services tailored to each customer's individual circumstances, such as the characteristics of the country or region in which they are located, so we are more like a conglomerate of local operations.

The Group has developed its business from this perspective, based on the premise that each site will respond to customers' needs from start to finish. However, given the current pace of rapid technological innovation, there are cases in which a single site may not be able to provide the required advanced value by itself. In addition, more and more customers are in need of the latest technologies in every region, rather than appropriate technologies adapted specifically to local conditions. Therefore, this trend is only to be expected, especially for initiatives aimed at decarbonization as it is a global issue. I mentioned previously that our customers have high expectations for the Group's technological proposals for carbon neutrality. This includes the expectation that we can provide value by leveraging our global network.

In order to share the latest technology globally and provide high-value-added engineering to customers in each region while also aiming for the "self-reliance" of overseas sites, the Group has established a system to strengthen collaboration by connecting domestic and overseas sites and R&D facilities online.

Recently, we have revitalized communication between sites and created a cooperative structure to handle large-scale projects. In particular, experienced overseas site managers who have returned to Japan are taking the initiative in stimulating interaction among human resources. In FY2023, we started "global training" aimed at shifting mindsets. This is a training program for the top five national staff members, the top five Japanese employees on overseas secondment, and the top five candidates for the next department management positions in Japan. These 15 participants go through approximately eight months of training in which they share knowledge and engage in discussions. We will continue this initiative and convey it to employees in other countries, thereby fostering awareness of our global network among all 5,000 members of the Group.

FY2023 Achievements and Progress in R&D

In FY2023, we were able to achieve record highs in net sales of completed construction contracts and profits at each level of the income statement. Orders received exceeded our initial forecast as capital investment by manufacturers in both domestic and overseas markets was solid. Despite the reactionary decrease in orders received due to large orders in the previous fiscal year, we made steady progress in construction work carried forward, resulting in an increase in both revenues and profits.

Particularly in Japan, net sales of completed construction contracts have been boosted by our efforts to carry out the construction work

carried forward while adhering to the regulations on upper limits for overtime work, which took effect in April 2024. This achievement is highly commendable. The efforts of our entire Group, including subcontractors, have helped increase productivity and raise the value-added ratio.

One of our significant achievements this year was participating as a supplier in a plant construction project in Japan for Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC), the world's largest semiconductor contract manufacturing company, where we were responsible for major facility construction work. This project not only contributed to boosting our business performance but also provided an opportunity to grasp the latest trends in the semiconductor industry and enhance our skills. We will continue to focus on highly challenging properties and projects, proactively taking them on to further improve our engineering capabilities.

We have also made remarkable progress in R&D this year. As I mentioned earlier, in the Green Technology System Business, the ADVANCED PLAZA (research building) was completed in May 2024 within the Research and Development Center in Aikawa-cho, Aiko-gun, Kanagawa Prefecture. It started operation in July 2024 along with the SOLUTION LAB (production technology building) and TECHNICAL LAB (acoustics building), together making up the new Research and Development Center TAIKISHA INNOVATION SITE AIkawa (TISA). TISA will be linked to the R&D satellite at our head office, which opened in April 2023, and in the future, we will accelerate collaborative creation with customers and other partners by establishing satellite facilities that will serve as gates to "TISA" from various locations in Japan and overseas.

Meanwhile, the R&D facility for the Paint Finishing System Business is in the process of installing a demonstration line at the Technical Center in Zama City, Kanagawa Prefecture, aimed at the practical application of dry decoration technology, which reduces environmental impact while achieving high-quality painting. The demonstration line is scheduled for completion in the fall of 2024. At SURCAR, the International Conference on Automotive Body Finishing held in Detroit in the U.S. in June 2023, our dry decoration technology won the "Jury's Award," which is granted to the presentation that receives the highest evaluation from the judges. The technology has attracted a great deal of attention as a new-generation coating method. With such new technologies, the Group intends to keep pace with production innovations in the automotive industry and take on the challenge of creative engineering.

Realizing Taikisha's Vision

We have established our "Management Objectives" as a Corporate Philosophy to embody our Mission Statement of "Customers First." One of these Management Objectives outlines the action philosophy: "We aim to be a motivation-oriented company where the employees can demonstrate creativity and vitality through their work." I feel that this way of thinking is gradually taking root throughout the Group as we become more unified in this mindset. The "Management Objectives" represent our ideal of becoming a company that contributes to society by taking on and enthusiastically engaging in a wide range of challenges that will be useful to society. We will continue to pursue this corporate ideal as "Taikisha's vision."

The business environment surrounding the Group is in the midst of rapid change due to production technology innovations in the automotive industry, the green energy revolution, and the digital revolution. In addition, construction investment is expected to continue while the labor force in Japan declines, and this imbalance will be a major risk. Although we intend to continue investing in human resources, we believe that these are issues that we cannot solve on our own.

To survive amidst such changes in the business environment, we need to discuss the Company's management with a long-term perspective and think about our vision for the future as the basis for these discussions. Internally, we launched the "Long-Term Strategy Development Project: Next 100th" in July 2023. The core members of this project are mid-career employees in their 30s and 40s who will lead the next generation. The project aims to train young human resources to have a long-term management perspective and will also be operated as part of the succession plan.

In considering the future, our proactive efforts to pursue globalization will answer the question of what is necessary for the Group's sustainable growth. In this regard, it will be important for us to become more perceptive of trends, as this is a crucial trait for engineering companies. If we can leverage this strength to identify and adapt to changes in our customers' production technologies and market needs, we will be able to thrive in a globally competitive environment.

Going forward, we will enhance our perceptiveness, establish systems to share the observations throughout the Group, and create mechanisms to realize them.

Initiatives in the Final Year of the Mid-Term Business Plan

In FY2023, the second year of our three-year Mid-Term Business Plan (which is now in its final year), we achieved our financial targets ahead of schedule. In FY2024, we will continue to aim for earnings growth and maintain and increase momentum in anticipation of the next Mid-Term Business Plan, which will start in FY2025.

As part of this effort, we established the Business Development Headquarters, chaired by myself concurrently, on April 1, 2024, to optimize Group management for global business growth.

The Business Development Headquarters will lead our business expansion to countries and regions with growth potential and the cultivation of new business fields, with a view to growth investment such as M&A and capital/business alliance. We will establish the marketing functions necessary for these initiatives as well as communication functions with partner companies within the Business Development Headquarters. At the same time, we will strengthen and review the Group's management system both domestically and overseas , as well as optimize the capital structure.

In the Paint Finishing System Business, we plan to enter the European market by establishing a local site in FY2024 and have set up the European Operations Preparation Office to facilitate this initiative. By focusing on deals with local OEM manufacturers, we are committed to achieving success through brand-new approaches.

In the Green Technology System Business, we will continue to focus on the semiconductor industry following the highly successful TSMC plant construction project in Japan. The semiconductor market is expected to remain vibrant until around 2040. While this is a great opportunity for us, we must also anticipate oversupply and other risks as we go forward.

In the future, leveraging digital technologies will be the key to improving productivity, so we will not only promote on-site digitalization using 3D/4D-CAD and BIM but also introduce RPA to streamline routine tasks and shared functions as a Group.

We believe that the Group's medium-term profit growth and improvement of profit margin will be supported by portfolio transformation and diversification in the Paint Finishing System Business, cost reductions and productivity improvements in the Green Technology System Business, and the establishment of a price indexation clause. However, in order to increase the value-added ratio, it is necessary to radically enhance procurement capabilities. To this end, it would be effective to establish a system for direct procurement by utilizing the Group's network. In that case, we would also be required to handle post-procurement follow-up, but we believe that this is also an area that we should take on. Improving production efficiency through construction technology and reducing installation work through prefabrication will also help increase the value-added ratio.

We will continue striving to further expand our earnings and increase our value-added ratio by promoting these initiatives to meet the expectations of our shareholders and investors.

Commitment to Expanding Corporate Value

We have started developing and discussing the next Mid-Term Business Plan, which will begin in FY2025. The Plan will not be merely an extension of the previous one.

It will be an ambitious plan which will be a backcast from our long-term vision, setting discontinuous goals that are both quantitatively and qualitatively different from the past. In terms of globalization, the approach will not be an extension of the strategies that each business division has been pursuing up to now, but rather will reflect the future course of direction from a company-wide perspective.

When setting future goals, I put high value on linking them to the value of our existence as an engineering company. In orders received, for example, rather than simply aiming to achieve numerical targets, we will pay attention to the details of the order and ask ourselves whether or not it will improve our engineering capabilities and how it will be beneficial to the development of our employees. Employees will care about orders and approach projects with awareness that the construction work they are doing is worthwhile and will contribute to their growth. As a result, this will lead to an increase in net sales of completed construction contracts. If we can share these sentiments throughout the Group and increase engagement among all employees, it will contribute to profitability over the medium to long term.

During the overseas visits I mentioned at the beginning of my message, many national staff members openly expressed their fondness for Taikisha. The fact that the operations they manage help their local communities seems to strengthen their sense of belonging to the Group and increase their motivation for work. They are also interested in the future direction the Group will take. To meet their expectations, I intend to make Taikisha a more dynamic and engaging company. By expanding our corporate value and contributing further to society, we aim to meet the expectations of all our stakeholders.

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

For Taikisha's specific "value creation" initiatives, please see the special features on pp. 37–42

1 Value Creation Feature Green Technology System Business
Value creation initiative
Established the new Research and Development Center, TAIKISHA INNOVATION SITE Aikawa
P.37

2 Value Creation Feature Paint Finishing System Business
Value creation initiative
Digital Strategies in the Paint Finishing System Business
P.41

Utilization of management resources (input)

Financial capital	Solid financial foundation • Net assets 151.5 billion yen • Equity ratio 54.0%
Human capital	Diverse human resources to support competitiveness Development and enhancement of human resource measures • Number of employees (consolidated) 5,031 persons
Manufactured capital	• Number of business offices and factories Japan 26, Overseas 33 • Number of customer service centers Japan 97, Overseas 32 • Capital investment 4.3 billion yen
Intellectual capital	Solid technology and know-how backed by 111 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 334 patents
Social/ relationship capital	Global network of 19 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.33

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.)

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

Providing solutions centering on climate change measures

Paint Finishing System Business
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

Materiality P.23

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

Mission Statement "Customers First" P.2

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

Management Infrastructure P.61

Results of business activities (output)

Financial results	• Ordinary income 19.8 billion yen • Dividend payout ratio 27.8% • ROE 11.6% • Cash flows from operating activities 20.7 billion yen
Energize human resources	Exhibition of creativity and energy Creation of pleasant working environment • Recognized under the "2024 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) • 1,535 clients • 1,717 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

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.

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.

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

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Provide solutions continuously — Further trust from existing customers

Achieve a sustainable society and corporate growth

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 -

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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

Our challenge to achieve carbon neutrality

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.

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
- 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

Management Base
- 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

Financial Strategies
- 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

→ Capital utilization plan

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

For details of the Mid-Term Business Plan, please refer to pages 33 and 34.

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.

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)

<Direction sought>

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

Category	Materiality	Risk and opportunity		Vision	Connection with strategies	Major initiatives	Relevance to SDGs
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.	[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	2 ZERO HUNGER 3 GOOD HEALTH AND WELL-BEING 7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION 17 PARTNERSHIPS FOR THE GOALS
		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.		• 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	
		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.		• 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	
		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.	[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	7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION 17 PARTNERSHIPS FOR THE GOALS
		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.		• 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	3 GOOD HEALTH AND WELL-BEING 7 AFFORDABLE AND CLEAN ENERGY 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 17 PARTNERSHIPS FOR THE GOALS
		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.	[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	4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
		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.		• 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	4 QUALITY EDUCATION 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES
		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.	[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	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 17 PARTNERSHIPS FOR THE GOALS
		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

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

● Quality/safety ● Information security ● Contributions to community

Pursuing Global Growth Through Free and Open Communication

Taikisha is focusing on advancing global strategies and strengthening its engineering capabilities, and it is implementing growth strategies created by backcasting from the Long-term Vision.
Four Outside Directors and the President sat down for a roundtable discussion to talk about how the Company is putting the spotlight on communication as the key to advancing initiatives, as well as its future direction and challenges it is facing.

Masashi Osada

President and Representative Director

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 his current position since April 2023. Served concurrently as Chief Executive of the Business Development Headquarters since April 2024.

Hirokazu Hikosaka

Outside Director

Mr. Hikosaka had worked as an 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.

Masasuke Kishi

Outside Director

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 Board of Directors and the Compensation Advisory Committee.

Nobuyuki Soda

Outside Director

Mr. Soda had worked as an Audit & Supervisory Board Member since 2020 and was appointed as an Outside Director in 2024. He has served as a manager of a leading life insurance company and other organizations for many years, and has abundant knowledge and experience regarding human capital, group governance, and finance and accounting, etc.
He chairs the Nomination Advisory Committee.

Suga Soejima

Outside Director

Ms. Soejima was appointed as an Outside Director in 2024. She has abundant experience of auditing the operations of multinational corporations during her tenure at major auditing firms, as well as specialized knowledge regarding finance and accounting, internal control, and governance, etc. She chairs the Sustainability Committee.

(Facilitator)

Tatsuo Yamauchi

Partner CPA
Deloitte Touche Tohmatsu LLC

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. 59–60.

Round table discussion held: August 9, 2024

Priority themes for realizing the Long-term Vision

Yamauchi: Today our main theme is "how we should be communicating to support the realization of the Long-term Vision," and I look forward to hearing your opinions. In last year's roundtable, we talked a lot about promoting globalization and strengthening engineering capabilities. President Osada, it has been a year since you were appointed as President, so what have you been focusing on to realize the Long-term Vision?
Osada: One thing has been communication. Over the past year, I have been focusing on direct dialogue. This has included visiting each branch and construction site in Japan multiple times as well as almost all of our overseas group companies and creating time to speak with employees and clients.

Through this, I felt a sense of expectation regarding our efforts to strengthen engineering capabilities, so last year, we established a satellite facility within our Head Office that is directly linked to our Research and Development Center. This is being operated with a focus on creating mechanisms for enhancing engineering capabilities, such as performing functions as a hub for mutual cooperation between each business location in Japan and overseas. The Group is usually active at 200 to 300 construction sites throughout Japan at any one time, and when you take overseas sites into account, this number roughly doubles. When trying to strengthen engineering capabilities at this kind of scale, there are limits to the effort you can demand from individuals working at each site. Therefore, we thought we needed to improve communication between business locations, such as sharing information about cutting-edge technologies, while also creating mechanisms that enhance input and leverage proposals from the sites. By establishing the satellite facility, we are aiming to connect and operate these sites together in a way that will lead to the strengthening of engineering capabilities on a Group-wide level.

Looking back to 1970, when we formulated our mission statement of "customers first" and set out our corporate philosophy, records of the founder talking about this process contained the following statement. "Employees need to understand the spirit of our mission statement and the purpose and direction of the Company's management so that they can realize what they should do and apply themselves fully to their daily work. The means for doing this can be summed up in a single word: communication." This reaffirmed that 54 years ago, we already understood the importance of communication.

Yamauchi: I would like to ask the Outside Directors what themes they think should be a priority for realizing the Long-term Vision, based on the initiatives advanced by President Osada over the last year.
Hikosaka: I think President Osada's efforts to actively engage in direct dialogue and to improve communication within the Group have had a considerable effect, including making each branch more autonomous and independent, and deepening global mindsets.

Last year, I went to India to observe two subsidiaries and I got a real feeling of dynamism from the employees working onsite. At Nicomac Taikisha Clean Rooms Private Limited, despite only a few years having passed since it became a subsidiary in 2020, I was particularly impressed by the strong desire among employees to grow as members of the Taikisha Group.

Thinking about growth in the medium to long term, we will probably need to carry out M&As in India and North America. The Governance Committee, which I chair, has formulated M&A guidelines and we will need to focus on actively investing in M&A from a global strategy perspective by formulating plans that properly incorporate these guidelines and putting them into action. It will be important to communicate with M&A targets through discussions at the negotiation stage, including confirming whether we can realize synergies, and for management and employees to communicate after the M&A with the aim of establishing communication channels and sharing a sense of direction.

Kishi: I think important themes for realizing the Long-term Vision are to continue advancing a global strategy and strengthening engineering capabilities, and I recognize that communication will play a big role in both of these efforts.

In regard to global strategy, the overall Taikisha Group cannot grow unless each overseas Group company grows, so this growth is an essential condition for raising corporate value through the Long-term Vision. Also, environmental technologies, such as those related to decarbonization, and automation and labor-saving technologies, are becoming increasingly important for future growth on a worldwide and long-term basis, and the key to achieving these will be plus-alpha engineering capabilities that provide added value. I think we should aim to leverage these as a strength to advance global development.

Soda: I served as an Outside Audit & Supervisory Board Member for four years up to this June, and over this period, I saw the Company establish a framework for active business development that balances aggressive and defensive approaches, including establishing the Governance Committee and then the Business Development Headquarters last April. I think we have now finally arrived at an important period for realizing the Long-term Vision, which will require the frameworks and infrastructure that have been established to function effectively in conjunction with efforts to optimize the allocation of business resources and assemble specific strategies.

This reaffirmed that 54 years ago, we already understood the importance of communication.

As everyone has been saying, getting the Company on a trajectory toward the next stage of growth centered on globalization and engineering will require consideration of three points. The first is business portfolio transformation as a Group-wide strategy. The second is the expansion and enhancement of human capital to develop personnel who can lead the implementation of all strategies. The third is the improvement of corporate value from a sustainability perspective. Furthermore, the crucial element for each of these points will be to optimize implementation as a Group through free and open communication that transcends the boundaries between each headquarters and division.

Yamauchi: Ms. Soejima, what is your perspective as a newly appointed Outside Director?

Soejima: When I first started working, it was before the Equal Employment Opportunity Act was formulated and there were very few women who continued to work while raising children. However, I received understanding and support from the people around me which enabled me to continue working with a sense of fulfillment. I want to energize communication to make Taikisha into an organization where anyone can continue to work actively, regardless of gender or nationality.

I have recently been appointed to the chair of the Sustainability Committee. As a global company, it is clearly our responsibility to address and tackle the challenges the world faces, such as climate change and human rights issues, in order to realize a sustainable society.

It is also an important theme that will be essential for enhancing corporate value, as Mr. Soda mentioned. I want to use the experience I have gained through involvement with a variety of global companies in my previous work to contribute to the sustainability of the Group.

Requirements for new business creation

Yamauchi: From here on, I would like to explore specific themes by asking your opinions on them. First of all, in regard to overall strategy, the Company is currently formulating the new Mid-Term Business Plan which will be implemented from FY2025. The Company's mid-term business plans are positioned as milestones within a longer-term plan formulated by backcasting from a long-term vision, so when you are discussing the growth strategies that will form the backbone of the plan, what are the important points you focus on?

Kishi: Generally, in regard to growth strategy, people expect a lot from new businesses. The Company's new business efforts to date have included collaborations and technological partnerships with external partners. On the executive side, it has established the Business Investment Committee, which has made discussion at the officer level more dynamic and free. I am also impressed with the Company-wide new business initiatives that continued to be advanced this year, including the establishment of the Business Development Headquarters.

One challenge will be to consider the business portfolio based on long-term management plans and then clarify the positioning and purpose of new businesses. I think there is also a need to advance development as cross-organizational projects. New businesses take time to establish, so it will be important to take a long-term perspective and establish human resources development mechanisms and support structures that will help them become viable.

Osada: We are advancing various new business initiatives, including collaborations and technological partnerships as Mr. Kishi mentioned. Furthermore, we are feeling a sense of urgency due to the great innovation that is accompanying the rapid evolution of technology, so there is a rising feeling within the Company that we need to actively incorporate new ideas including technological partnerships and M&A, and expand into new markets, such as North America and India.

Under this atmosphere, we established the Business Development Headquarters to kickstart movement of activities that we were unable to implement before. This includes carrying out our own market research, deepening opportunities for leveraging the Group's technology to develop businesses, approaching customers in industries and business categories we have not worked in yet, and engineering new technologies.

Soda: As Mr. Kishi spoke about consideration based on the long-term management plan, I think this starts with creating a specific vision, with as much quantitative detail as possible, of what kind of company Taikisha wants to be and what it will be doing, based on the outlook for how society will be in 10 or 20 years time. Then, if you are not able to draw a clear path for existing businesses into this vision, you should be working to expand business wings and create new businesses from a cross-organizational or Group-wide perspective.

One point I would like to focus on concerning new businesses is the approach of envisioning the future you would like to realize and then backcasting, rather than forecasting from existing technology. I think what President Osada mentioned at the start of this conversation, about having various discussions with employees directly, is becoming extremely important in this regard.

Another point is about making the governance structure more advanced. New business development naturally comes with completely new risks, so it is essential to practice "defensive governance," which involves accurately assessing various risks and then taking measures to prevent them or minimize damage when they occur. At the same time, this needs to be balanced with "aggressive governance" which aims to generate profit through appropriate risk-taking. This kind of control needs to be thoroughly monitored, which is our role as Outside Directors.

Hikosaka: The Governance Committee is currently developing standards to ensure the risk-taking and hedging against new business risks that you are talking about is carried out appropriately. The M&A guidelines mentioned earlier are part of this. We will work to achieve balance so that aggressive action can be taken proactively while defensive action is properly protective. The Governance Committee is responsible for decisions regarding this.

It is important to hold discussions with the management of the M&A target to confirm checkpoints for post-merger business development and deepen mutual understanding.

Communication in global development

Yamauchi: I would like to hear your opinions on global development, particularly about points to be careful of regarding overseas M&A and about communication with the management of overseas affiliates.

Hikosaka: Overseas M&A require a strategy to be properly formulated in accordance with the guidelines. I also think it is important to hold thorough discussions with the management of the M&A target to confirm checkpoints for post-merger business development and deepen mutual understanding, including with employees.

Soejima: The overseas locations of companies that have realized successful global development have two points in common. The first is that they have a clear shared philosophy and direction for the Group and these are thoroughly understood at each location, so that there are no deviations caused by being in different countries or environments. The second is that these overseas locations, which have the best understanding of the local market, are granted autonomy and independence to a certain extent. And they are authorized to allocate business resource in the way they think is the most appropriate. I feel that the "self-reliance" management style advocated by President Osada makes sense in this regard. Creating this kind of global organization requires each business location to be a psychologically safe environment. I expect that the measures to realize more dynamic communication being advanced by the Group and the implementation of global training will be effective on this front.

Osada: I agree. We are trying to make communication more lively at each location, not only overseas but also in Japan, and I am also trying to make myself a more familiar presence so I can properly communicate things like my management direction.

At domestic branches, we use social media-style tools to share messages about two or three times a month. I want to develop the same kind of initiative for our overseas locations. Our current infrastructure situation is that we send emails translated into English or Chinese to the person responsible at each overseas location, who then shares the content with the other employees. When I visited these locations to interact with the employees directly, instead of holding seminar-style briefings where I just lecture them on our policies and thoughts, I tried to have two-way communication through a round-table format which allows me to listen to their opinions. I think that if I can get my management style and the operational style of each location closer together so that each

The overall Taikisha Group cannot grow unless each overseas Group company grows, so this growth is an essential condition for raising corporate value.

individual employee can feel how they relate, then it will create psychologically safe environments and improve engagement.

Kishi: I feel that this kind of action by the President has produced some extremely good outcomes over the past year. These include the deepening of communication with overseas affiliate companies in the Green Technology System Division and Paint Finishing System Division, and movement toward collaboration between business locations.

Going forward, I think there is a need to ensure that the vectors of each overseas affiliate and Head Office are in alignment, so that each affiliate can take advantage of its familiarity with its local area to formulate and implement its own individual growth strategy that takes into account regional characteristics and the market environment. Then the next step will be to build a framework in which, rather than having the President or Head Office provide directions to each overseas affiliate, it is the norm to discuss growth strategy in a way that considers what is optimal for the entire Group. I expect to see communication between overseas affiliates become closer and the framework for collaboration evolve and become more advanced.

This undertaking requires a transformation in the corporate cultures of the overseas affiliates, so it will probably take a considerable amount of time. In order for each company to formulate its own independent growth strategy, it will need to build up its marketing capabilities and ability to make proposals, so there is a lot of work to do. I would like you to advance this initiative steadily, step by step, based on the long-term management plan.

Engineering as a way to deliver solutions

Yamauchi: What kind of initiatives do you think are needed to strengthen engineering capabilities?

Kishi: There has been movement toward strengthening engineering capabilities on the research and development side, including the establishment of the satellite facility linking Head Office and the Research and Development Center in April 2023, and the launch of operations at the new Research and Development Center this July. Free discussion between technical committees and officers within the Company has also become more active, and my view is that things are flowing in an extremely positive direction.

Regarding the strengthening of engineering capabilities from a global strategy perspective, speaking from my viewpoint as someone who worked in manufacturing, when manufacturing companies expand overseas, there are two patterns. They either develop a business focused on products or a business focused on solutions. Basically, product businesses develop similar factory and sales networks in each country for delivering the same products, while solutions businesses are more labor-intensive, as they need to cater to different needs due to the differences in culture and ways of thinking between countries. This is why many businesses acquire local subsidiaries through M&As.

The Group's global development is closer to the solutions business pattern, and my understanding is that engineering activities are provided as solutions. The point is, as a Group, it is searching for ways to deliver solutions more efficiently. As the Group has already established overseas affiliate companies in major countries and regions around the world, if it shares the strengths of each company on a Group-wide basis and then advances the mutual usage of this broad array of strengths through coordination and collaboration, including with R&D organizations in Japan, then I think it will lead to more efficient delivery of solutions. There are many areas where our technologies can be used on a worldwide basis, particularly in regard to reducing environmental impact, utilizing digital technology, and automation.

Leveraging these strengths will probably require free discussion between directors and officers on engineering and technological capabilities, as well as the building of a consensus on direction through communication between overseas affiliates and efforts to apply a framework for mutual usage.

Osada: When working out which market to aim for at our overseas locations, simply put, we are deciding between high-end or volume. In the high-end market, we mainly target Japanese-owned subsidiaries while in the volume market, we mainly target local companies that are not Japanese-owned. However, in the volume zone, there is almost always an intermediary, such as an architecture firm or a construction consultant, to deal with and unless our technology is incorporated into customers' specifications, we are forced to compete in the volume market without their endorsement. When it comes to technology that is supposed to be incorporated into their specifications, our domestic locations still have an advantage, so going forward, we will link together satellite facilities in Japan and overseas to introduce consultants to the latest technologies from Japan and showcase our ability to ensure technologies are within specifications. By making the presence of these technological capabilities supported by engineering more tangible, we will raise the motivation of local engineers, and by connecting engineers to a knowledge pool through the linking of satellite facilities, we will change the way operations are developed.

Hikosaka: Last year when I went on an observation tour of Indian subsidiaries I honestly felt that there was still much room for improvement in coordination with the engineers on the Japanese side, so I think that enabling communication through satellite facilities is a big development toward being able to deliver solutions. I expect to see this initiative expanded going forward through steps such as the linking together of satellite facilities at each overseas location to hold meetings between engineers all over the world. Shortening the distance between employees in Japan and overseas will not only foster a feeling of Group coordination, but will also create various synergistic effects. Engineers and sales teams will be able to engage in discussions together, and it will also provide a venue where engineers from customer companies can attend, advancing discussions in a way that leads to the discovery of hints for innovation.

Human capital management and addressing sustainability

Yamauchi: Next, I would like to ask about your opinions on the Group's human capital initiatives. One of the themes of the Long-term Vision is "Become an inclusive global company by leveraging diverse human resources and knowledge," so what are your views of developments in this area?

Soda: It has been four years since my involvement with Taikisha started, and I have experienced for myself how it has a corporate culture that values employees. Furthermore, the past year has seen the acceleration of investment in human capital, including the advancement of various initiatives to develop people, such as the launch of global human resources development programs.

Within this, one thing that will be important going forward is to properly confirm that this investment in people is resulting in employee growth, and to ensure that the employees themselves really feel that they are growing. I feel that many of the current generation of employees consider it important that they are able to grow together with the Company through their work. Also, if they feel that what they are doing is contributing to society, it leads to further happiness and generates a sense of pride in their work. In other words, it is important that they really feel that their work and the Company conform to the values of self-growth and social contribution. I think this is a major source of employee motivation and engagement.

Another thing that is becoming more important is career design. To strengthen human capital, it is essential that a diverse workforce is able to demonstrate, improve, and ultimately combine their individual capabilities. This will lead to greater growth potential for the overall Company. An effective way to achieve this is, as company, to deepen dialogue with all employees and ensure the career design of each individual is sufficiently taken into account. I think the sense

To strengthen human capital, it is essential that the diverse workforce is able to combine their individual capabilities. This will lead to greater growth potential for the overall Company.

of understanding and shared purpose produced by this will generate job satisfaction and energy, giving the Company a psychologically safe environment where people will want to work for a long time. The Company will need to make this kind of effort in the future to realize energetic human capital that can drive the enhancement of corporate value.

Soejima: How can we utilize the 3,150 Group employees working in countries other than Japan? I think that will be the true key to the long-term success of the Group. There is a need to foster a sense of unity that comes from being a Taikisha employee through initiatives such as a brand strategy that showcases the Group's purpose, internal promotion and sharing of the Group's philosophy and mission using IT tools, encouragement of exchange between business locations in Japan and overseas, and the holding of global training. This is something I would like to see strengthened throughout the Group.

Developing human resources who can perform globally at each location will considerably improve employee motivation, and I expect that broadening the diversity of

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the Company will contribute to greater growth potential and enhanced corporate value. It will also give the Company a big advantage by enabling it to respond to the risk of personnel shortages that is threatening Japan.

Osada: We are advancing a global human resources development initiative for young Japanese employees who want to work overseas, but I feel that first, we need to raise their ability to understand different cultures. Unlike in countries such as Canada and Singapore, where people tend to have a good understanding of other cultures, I feel this kind of understanding is a little lacking in Japan. In particular, I think Japanese people need to properly recognize how they are viewed. While this also applies to the understanding of diversity, we need to first develop the communication skills that are crucial for understanding different cultures.

Yamauchi: It is being said that addressing sustainability with the aim of solving environmental and social issues has become a theme that is essential to the survival of companies. Reducing environmental impact, such as providing solutions that contribute to decarbonization, is directly linked to the Group's business, so what do you think it should be doing in the long term. I would like to direct this question to Ms. Soejima, who has assumed the role of Chair of the Sustainability Committee starting this fiscal year.

Soejima: I recognize that as the internal framework for promoting sustainability has only just been established, we are still standing at the starting line. Unfortunately, in Japan, the contributions to sustainability made by companies are not as highly appreciated as they are in Europe, North America, and other Asian countries. However, sustainability is a theme that transcends national borders, and the trend toward sustainability is not going to change any time soon. Stakeholders are paying more attention to the topic than ever. As a group of companies that engages in global business, the Group needs to ensure that an awareness of sustainability is being promoted and incorporated into activities at workplaces in each division, based on a vision and strategies that are in alignment with the perspectives of the most environmentally and socially aware markets.

The Group has many overseas locations and sales from overseas account for a high proportion of overall sales, so there are considerable hurdles to overcome in order to address issues such as GHG emissions reduction, respect for human rights, and sustainable procurement across the entire supply chain, including overseas. However, these efforts should be tied to the sustainable enhancement of corporate value and to medium- to long-term business strategies, and ultimately, we have to tackle these themes on a consolidated basis.

Soda: I think that if promoting sustainability is not viewed as a core management priority, then the value of a company's existence comes into question. However, it is important to consider that sustainability management is only recognized if society perceives the undertaking as having value. If the Group's efforts are to gain credibility and sympathy from wider society, then it will be crucial to show external stakeholders that it is steadily advancing sustainability initiatives in accordance with a roadmap based on a long-term vision that takes into account the future of the global environment and markets.

The Group needs to ensure that sustainability is being addressed in a way that aligns with the perspectives of the most environmentally and socially aware markets.

I chair the Nomination Advisory Committee, and one of the requirements we have for Director candidates under the CEO succession plan is that they are focused on engaging sustainability through long-term strategy.

Kishi: I chair the Compensation Advisory Committee and we provide feedback on compensations systems for executive officers. For executive directors, the Company has introduced performance-linked stock-based compensation system, and non-financial targets, including targets under the sustainability theme, have been set as part of the evaluation criteria. Recently, we have launched a stock trust compensation system for executive officers that conforms to the above system, and the evaluation axis is also linked to personnel requirements in succession plans.

Osada: At the start of this discussion, I talked about the founder reflecting on the formulation of our corporate philosophy in 1970, and the Management Objectives created at that time already contained the phrase "We strive to create rich environment and evolve the industrial society through our engineering expertise that meets the needs of the society, in order to achieve our ultimate objective to contribute to the society." It also describes "engineering expertise that meets the needs of the society" in the parts that mention "Through the expansion of our expertise in 'Energy, Air, and Water,' we aim to become a unique company in all aspects of corporate management, including engineering, marketing, and human resource development," and "We strive to grow continuously by enhancing our added values; thereby, bringing prosperity to our customers and business partners as well as to our employees." This shows that the founder's words were truly on the same vector as sustainability management. This has reaffirmed to me that the Group does not need to change its nature, as it is already engaged in business that pursues social sustainability. My job is to communicate this to our 5,000 Group employees.

Expectations of Taikisha as it aims for further growth

Yamauchi: Finally, I would like to hear about the sense of expectation held by the Outside Directors regarding Taikisha, as it aims for further growth.

Hikosaka: In addition to free and open discussions at meetings of the Board of Directors, we also hold free discussion events for officers twice a year, during which we discuss a variety of topics over the course of a day. Communication with employees is also growing deeper. Looking back over the past few years, I feel that communication has become more active in this way, steady progress has been made on plans formulated by backcasting from the Long-term Vision, and foundations for new growth have been laid. Therefore, I greatly expect that the Company will take a leap forward under the next mid-term business plan.

Soda: Since his appointment, President Osada has often emphasized the importance of creating a sense of excitement, and from my perspective as an outside officer, I feel that the atmosphere within the Company has certainly changed. I have considerable expectations regarding how, within this atmosphere, Taikisha will work to further expand and develop its business in a way that makes people's live better and protects the global environment. Over the past year or two, there has been strong progress made in a remarkable variety of areas, and I am extremely looking forward to seeing steady advancement in a way that overlaps the dreams of the Company with the dreams of employees through the new mid-term and long-term plans that are currently being formulated.

Soejima: Taikisha is a global company with a diverse workforce. I think that if it can build structures and technological capabilities that take full advantage of this strength, while also making communication more dynamic, then it will become a fulfilling company where individuals can express individual creativity and gain energy through their work. I truly hope the Company realizes the future it has envisioned for itself in the Long-term Vision.

Kishi: Since becoming an Outside Director three years ago to the present day, I have felt that Taikisha possesses extremely high potential for growth. However, at present I get the impression that not enough is being done to fully draw out this potential. Fully realizing the Company's growth potential will be a long-term undertaking, requiring thorough discussion based on the themes we have talked about today, namely global strategy, engineering capabilities, and human capital. I also think that the Board of Directors have a huge responsibility to ensure that initiatives are continued over this long timespan. I would like to see the Company set high targets through long-term planning and then work steadily to achieve these through backcasting.

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

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

Masanori Nakagawa

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

In FY2023, the market environment remained robust both domestically and internationally. Although there was a reactionary decrease in orders received due to large orders in the previous fiscal year, we achieved record highs in net sales of completed construction contracts and profits at each level of the income statement.

As for our measures based on the strategies of the Mid-Term Business Plan, we have actively worked toward sustainable growth by developing a dry decoration system in the Paint Finishing System Business and participating in a joint R&D initiative with Tokyo Metropolitan University.

In non-financial areas, we established the "Sustainability Committee" as an advisory body of the Board of Directors to increase the objective opinions of outside officers and further promote sustainability management. We have also applied to obtain Science Based Targets (SBT) accreditation, an international initiative for GHG emission reduction.

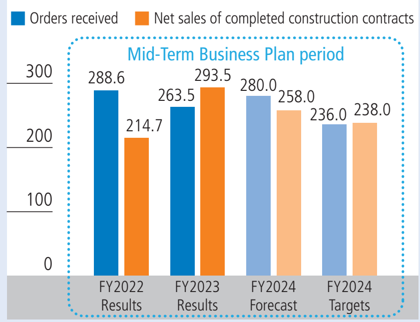
FY2024 is the final year of our Mid-Term Business Plan. We will continue to steadily implement each of the measures set forth in our Mid-Term Business Plan and strive to achieve our goals.

Positioning of the Mid-Term Business Plan

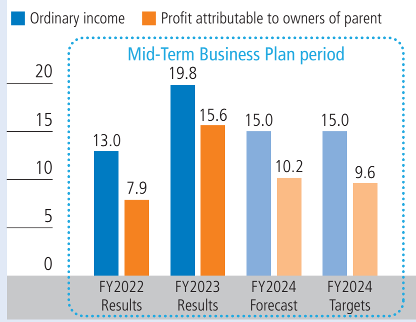
The Mid-Term Business Plan is positioned as a milestone for the coming three years to realize the long-term vision of where we want to be in 10 years from now.

Financial targets

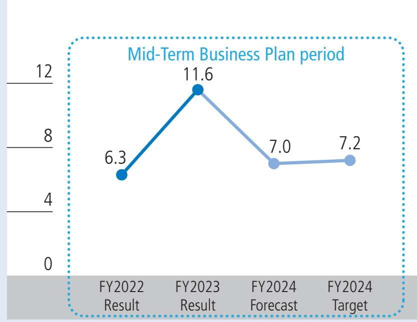
Orders received and net sales of completed construction contracts (billion yen)



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



Return on equity (ROE) (%)



Non-financial targets

CO_2 emissions from business activities (Scope 1-3) → Scope 1 and 2: 42% reduction by 2030 (vs FY2022 levels)
Scope 3: 25% reduction by 2030 (vs FY2022 levels)

Investment plan

(3.9 billion yen was invested as of March 31, 2023.)
(5.2 billion yen was invested as of March 31, 2024.)

Growth investment 20.0 billion yen

Purchase of treasury shares

(Purchased treasury shares worth of 3.0 billion yen as of March 31, 2023)
(Purchased treasury shares worth of 2.0 billion yen as of March 31, 2024)

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% as of March 31, 2023.)
(DOE was 3.21% as of March 31, 2024.)

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)
(22.0% as of March 31, 2024)

Our target of reducing cross-shareholdings including deemed holdings to less than 20% of net assets by the second year of the Mid-Term Business Plan has remained unmet due to high stock prices. We aim to achieve this target by the final year of the Mid-Term Business Plan.

Basic policies and direction of the Mid-Term Business Plan and major initiatives for the fiscal year ended March 31, 2024

Basic Policy		Direction	Major Initiatives for the Fiscal Year Ended March 31, 2024
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	● Promote relationship-building with customers in growth industries such as semiconductors, EV batteries, and pharmaceuticals, and develop specialists who can meet the high requirements of customers through projects
		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) and develop a system with proprietary control technology added on
		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 a global branding strategy
		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	● Collaborate globally on 3D construction drawing and design work using BIM cloud services
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	● Verify the effectiveness of our intellectual property ● Formulate and promote intellectual property strategies in cooperation with the Green Technology System Business and Paint Finishing System Business
		Development from the customers' perspective	● Establish the R&D satellite facility, Taikisha Innovation Gate Shinjuku, at the Head Office
		Open innovation	● Established the new Research and Development Center, TAIKISHA INNOVATION SITE Aikawa ● Participate in a joint R&D initiative on direct air capture which Tokyo Metropolitan University is developing to directly capture CO_2 from the atmosphere
		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 that contributes to new businesses, considering business models for social implementation in collaboration 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 ● Introduce an internal recruiting system and an overseas trainee system
		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 ● Promote the establishment of a global management base for unified management of group-wide business information, enabling forecasting and simulations
		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 and implement base monitoring

Measures to Realize Management That is Conscious of Capital Costs and Stock Prices

Based on the Mid-Term Business Plan, the Group promotes measures and investments toward a sustainable society and corporate growth. We will continue and strengthen these initiatives in the future.

Also, we will improve market valuation through the enhancement of information disclosure regarding efforts to achieve carbon neutrality and initiatives related to human capital, etc., and active engagement in dialogue with investors and other stakeholders, in addition to clarifying growth strategies in our businesses. In terms of shareholder returns, we maintain a 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%, while also balancing growth investments.

In order to realize management that is conscious of cost of capital and stock prices, the Board of Directors appropriately grasps return on equity (ROE) and return on invested capital (ROIC) for each business as indicators of capital efficiency, along with our cost of capital. For individual business investment projects, we have introduced a mechanism for decision-making on acceptability that takes cost of capital into account through the Business Investment Committee, etc., which is an executive organization.

Currently, we are considering policies and targets for improving capital efficiency, such as business portfolio review and optimal allocation of management resources (cash flow allocation), and plan to disclose these through the formulation of the next Mid-Term Business Plan.

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.

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

Tadashi Sobue

As an engineering company, we 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.

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
- Lack of future workers in the construction industry and smartification of construction sites through DX
- Increasing improvements in the working environment due to the application of the revised Labor Standards Act
- Search for new and stronger partnerships with subcontractors, aiming to grow together

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 other categories of employees, so training and raising the level of young employees' capabilities as soon as possible is an urgent issue. To address this issue, the Company will 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.

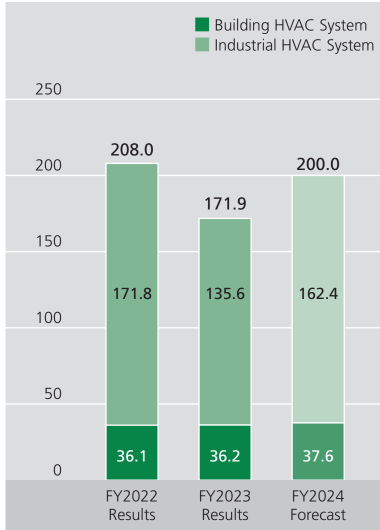
With regard to promoting globalization, the current overseas sales ratio in this division is approximately 30% and the Company will continue to increase the ratio. Especially, the Company will aim to expand its business in India, centering its efforts on Nicomac Taikisha Clean Rooms Private Limited.

The Company will also focus on developing global human resources indispensable for promoting globalization. We will optimize the use of human resources on a group basis by sending employees abroad on international assignments and giving them more opportunities to take on challenges overseas, as well as giving national staff executive education programs and promoting the exchange of workers between Japan and overseas.

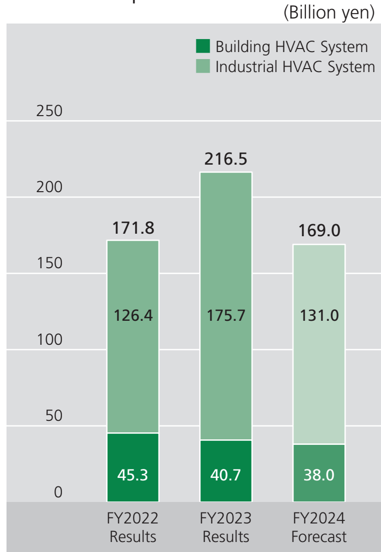
This fiscal year, we will actively utilize the new Research and Development Center TAIKISHA INNOVATION SITE Aikawa, which opened in July this year, in order to anticipate social needs and link them to new business opportunities amid growing awareness of the need for decarbonization. In addition, we will promote compliance with the industry regulations for upper limits on overtime work and aim to improve productivity by newly establishing the "Product Management Dept." that will facilitate front-loading to help reduce on-site workload.

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."

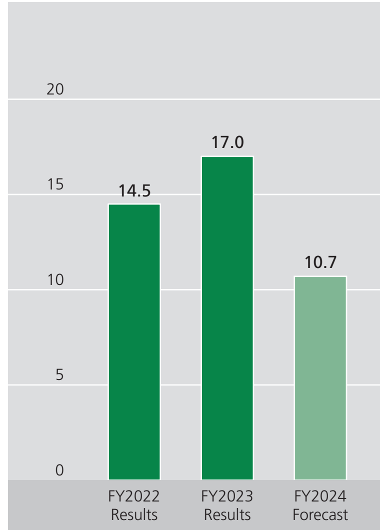
Orders received (Billion yen)



Net sales of completed construction contracts (Billion yen)



Ordinary income (Billion yen)



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.

Taiwan Semiconductor Manufacturing Company, Ltd. (TSMC) Completes Plant Construction Project in Japan

In February 2024, TSMC, the largest semiconductor contract manufacturing company in the world, completed the construction of its first production base in Japan in Kumamoto Prefecture. The company's expected production capacity is 55,000 300mm wafers per month. Participating in this unparalleled large-scale and short-term construction project as a supplier and successfully completing the construction work of the main equipment, including the clean room and production exhaust gas treatment system, has expanded our potential and instilled confidence in each of our employees. With this experience, we will continue to take on challenges on a global scale, aiming for even greater heights in the future.

Established the new Research and Development Center, TAIKISHA INNOVATION SITE AIkawa

A Base for Creating New Value Ahead of Societal Needs

Background of the opening

In the Mid-Term Business Plan (from the fiscal year ended March 31, 2023 to the fiscal year ending March 31, 2025) announced in May 2022, the Company has declared the "challenge to create new value" as one of its basic policies. To create new value, it is essential to integrate solutions from external parties, including our customers, and utilize the company's existing technologies and know-how of our own.

Our Research and Development Center, established in Aikawa, Kanagawa Prefecture, in 1991, has been involved in a wide range of activities from basic research to demonstration experiments for over 30 years. The Center has long been used by customers to solve their equipment problems, verify various systems, and other purposes. Since 2019, we have renovated the premises of the Center in phases in order to establish a place for creating new development themes through the fusion of customers' issues and solutions with our technologies and thereby achieving innovation through collaborative creation. With the completion of ADVANCED PLAZA, it will launch as a new research facility, combining with the previously completed SOLUTION LAB and TECHNICAL LAB.

About TAIKISHA INNOVATION SITE AIkawa

TAIKISHA INNOVATION SITE AIkawa (TISA) is based on the concept of "bringing people, information, and technology together." Under this concept, TISA promotes the development of pioneering technologies, including AI technology, through open innovation and anticipates and meets the future value-creation needs of customers and society.

TAIKISHA INNOVATION SITE AIkawa features the following three buildings.

ADVANCED PLAZA
A place where people, technology, and information meet, gather, and collaborate to create Taikisha's future technologies

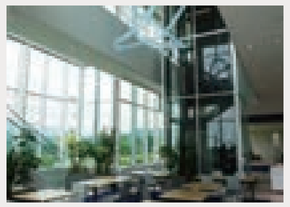
SOLUTION LAB
A place to verify technologies on a real scale and solve problems

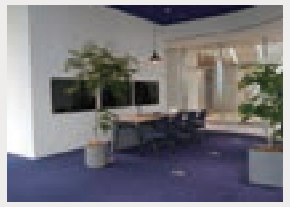
TECHNICAL LAB
A place to verify technologies in a specialized environment equipped with a reverberation room, a clean room, etc.

ADVANCED PLAZA, a place to create future technologies

Central to the Research and Development Center, this building accommodates four communication areas for creating open innovation with customers, academic and research institutions, startup companies, etc.

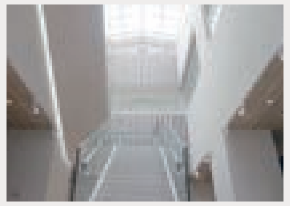
(1) Virtual Showroom
The Virtual Showroom is the core area of TAIKISHA INNOVATION SITE AIkawa, equipped with functions for introducing and disseminating technologies. The area includes a studio space that can be connected to other locations for two-way communication and a presentation space that can host large audiences, making it possible for Taikisha to disseminate information globally and interact with customers.





(2) Work Concentration Area
The Work Caoncentration Area is for performing intensive work requiring a stable work environment, such as IoT and AI image development.

(3) Co-working Area
The Co-working Area is the place where internal and external co-developers create synergy through active communication. In addition to the free-address co-working space, this area is equipped with a natural ventilation system that uses natural lighting and atriums to ensure a comfortable environment for users.



(4) Incubation Area
The Incubation Area is the place where open innovation is created. It ensures project independence and security and allows collaboration with partner companies. The area is equipped with an 11-meter-high development room, capable of conducting large-scale, spatial experiments.

Symbol Mark of TAIKISHA INNOVATION SITE AIkawa

TAIKISHA INNOVATION SITE AIkawa

The symbol, featuring vibrant birds in flight, expresses the idea that many technologies will be developed and take off from this center. The four-ringed birds symbolize the three buildings and humans, representing a lively space where a virtuous cycle of technology is born through the fusion of the inside and outside and where diverse communication is in harmony.

Initiatives toward carbon neutrality

At ADVANCED PLAZA, as part of our efforts to achieve net zero CO_2 emissions, we employ solar heat collectors, natural ventilation and outside air cooling switching control, and our own unique direct expansion type radiation air conditioning system to reduce energy consumption. At the same time, by generating energy through solar power and other means, the building has achieved the Net Zero Energy Building (ZEB) standard by keeping the building's energy consumption net zero or below. It has also acquired a six-star rating, which is the highest rating of the Building-Housing Energy-efficiency Labeling System (BELS). In addition to being environmentally friendly, the building is granted a five-star rating, the highest rating of the Comprehensive Assessment System for Built Environment Efficiency (CASBEE) Wellness Office system, which comprehensively evaluates the quality of buildings, including indoor comfort and consideration for the surrounding landscape.

Going forward, we will continue to actively introduce new systems and integrate products and services developed in-house into the building. We also plan to fully utilize the Research and Development Center as a site for field testing—for example, by conducting multifaceted verification of how effective and how easy they are to use, incorporating the user's perspective.

<One of our proprietary technologies>
Establishment of proprietary technologies utilizing solar energy
- A tracking concentrator solar power generation system (a system that can use both electricity and heat)
- Development of a heat collection system: A system that makes effective use of waste heat from power-generating element cooling
- A refrigerant liquid pump system that can be controlled to a temperature suitable for heat utilization

What is a tracking concentrator solar power generation system?
A tracking concentrator solar power generation system is a parabolic concentrator that collects sunlight to generate power and then extracts heat by recovering the cooling heat of the power-generating elements. Currently, the system operates at an outlet temperature of 80°C or higher, a power generation efficiency of 20%, a heat extraction efficiency of 29%, and an overall efficiency of 49%.

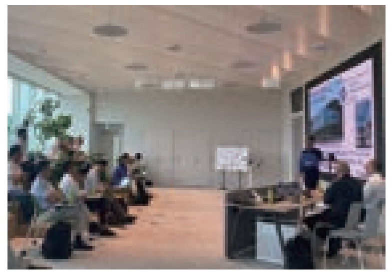
Tracking concentrator solar power generation system

Future outlook

In April last year, prior to the completion of the "TAIKISHA INNOVATION SITE AIkawa (TISA)," we opened a satellite facility, "TAIKISHA INNOVATION GATE Shinjuku (TIGS)," in Shinjuku, Tokyo, which is highly convenient for the Tokyo metropolitan area.

Based on the concept of "bringing people, information, and technology together," TIGS is used for multi-site conferences connecting our domestic and overseas bases. We are also considering collaborating with the Technical Center of the Paint Finishing System Division (Zama City, Kanagawa Prefecture).

We hope that the open activities at TISA will foster revolutionary and advanced innovations by not only collaborating with our customers and other partners but also by revitalizing communication and information sharing across divisions and countries.



Paint Finishing System Business

Our Paint Finishing System Business has over 50 years of track record in the automotive industry, where the highest level of painting quality is required. In addition to process businesses such as pretreatment, electrodeposition, booths, and ovens, we provide automation technologies for painting, inspection, and polishing, as well as conveyance technologies for transporting products, and environmental technologies for exhaust and wastewater treatment. As a full turnkey supplier, we operate globally and hold No. 1 market share in Japan and No. 2 in the world.

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

Yukinori Hamanaka

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.

Business environment (risks and opportunities)

- In the four-wheel automobile market, investment appetite is robust in all regions, driven by the strong trend toward investing in production capacity expansion in India, Europe, and the U.S., along with domestic trends such as renewal of aging facilities, the shift to EVs, and demand for carbon neutrality
- New technologies to realize carbon neutrality will spread not only throughout the automotive industry but also to all industries that require paint finishing
- Demand for automotive batteries in conjunction with the increased production of BEVs and HEVs is rapidly increasing to the extent that each automobile plant is building its own battery plant
- With the advent of EVs, which have fewer parts, car manufacturing is undergoing a once-in-a-century revolution. The industry is beginning to consider massive overhauls to the process of painting and outfitting the assembled body by shifting to unboxed assembly methods
- Declining workforce due to low birthrate and aging population, increasing need for automation due to decrease in skilled workers, and active incorporation of digital transformation (DX) technology into production sites due to the evolution of generative AI

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
- Global capabilities to grasp the latest technological trends from the developed regions of Japan, the U.S., and Europe, as well as the unique regional demands of China and India, through a global network of sites, and to develop and deploy region-specific business strategies that match the needs of each region
- System integration technology that applies automation technology cultivated through the automation of automotive paint finishing to fields outside the automotive industry
- High market share mainly in the Asian market
- Ability to provide specialized air conditioning technology not available from other companies in the industry, made possible through the sharing of advanced air conditioning technology from the Green Technology System Business

Strategic direction for the future

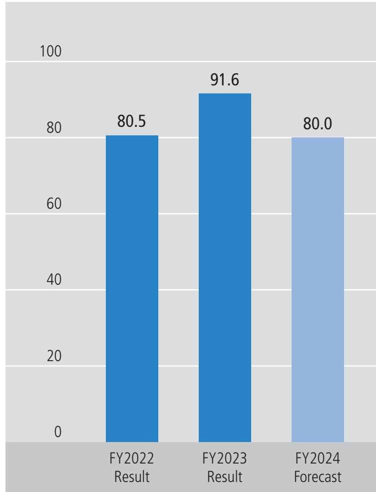
We vigorously promote the "five pillars and four supporting arrows" as our new growth strategy, aiming to reform our portfolio from one focused primarily on four-wheel vehicle painting to a more balanced and diversified portfolio.

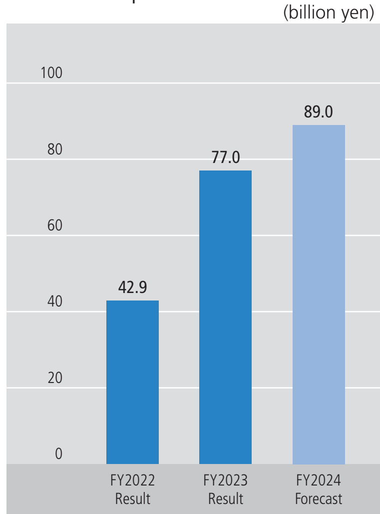
Basic strategy—What we aim to achieve in 10 years—
Reform the narrow portfolio currently focused on four-wheel vehicles and primarily Japanese clients

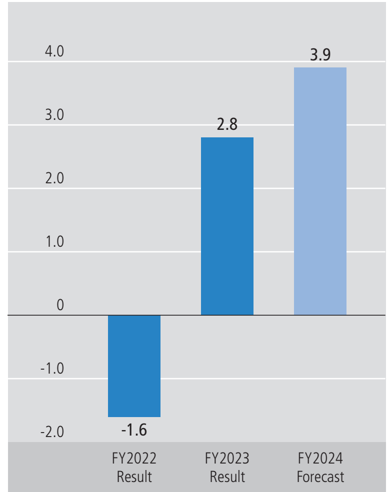
Our five pillars
(1) The painting process equipment business, our conventional core business
(2) The automation business, focusing on painting automation
(3) The battery business, contributing to the production process of automotive batteries
(4) The dry decoration system business, an alternative technology to conventional painting
(5) The line build business, providing comprehensive services from upstream to downstream in non-four-wheel sectors

Our four arrows to support the five pillars
(1) Plant design capabilities cultivated in the painting process equipment business
(2) Automation technologies developed through painting automation
(3) Advanced air conditioning and environmental control technologies from the Green Technology System Business
(4) Digital transformation (DX) technologies such as simulation and digital twin

The automotive industry serves as a key industry in every country and region. However, if our business portfolio becomes too heavily reliant on the automotive industry, it will become more susceptible to the economic conditions and market trends of various countries and regions, making stable business operations difficult to maintain. Based on our past achievements, we will steadily advance reforms to our portfolio to ensure stable and sustainable growth moving forward.







Key strategies	Direction of the Mid-Term Business Plan
■ 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	**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
■ 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	**Development with an awareness of global social issues** ■ Contribute to the realization of carbon-neutrality
■ Utilize DX ■ Enhance global education programs, including those for national staff	**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

Development of a Dry Decoration System: Demonstration Line Aimed at Mass Production to Be Completed in the Fall of 2024

Against the backdrop of a global shift to a carbon-neutral society and changing production technologies associated with the conversion to EVs, the automobile industry is undergoing a revolution. We are developing a dry decoration system in consideration of CO_2 emission reduction targets of automobile manufacturers and in response to changes in production technology.

What is dry decoration technology?

Film decoration technology provides the exteriors and other parts of automobiles with film decoration (dry decoration) by applying films through vacuum-pressure molding technology instead of the conventional spray painting (wet painting) that uses paint. Dry decoration is capable of applying films on large three-dimensional exterior parts such as bumpers in a continuous line, and is compatible with resin and metal substrate parts.

In addition, since large facilities such as paint booths and drying furnaces required for conventional wet painting are not necessary, dry decoration not only saves space, but also significantly reduces CO_2 emissions and energy consumption. Another major feature of dry decoration technology is the design and functionality of the film, which cannot be found in conventional painting technologies.

Future business development

In 2023, our Group companies' joint research on dry decoration was evaluated* by an external organization, and interest in our technology is steadily increasing. In addition, this fall, we will complete building a demonstration line for a dry decoration system, designed with a mass production line in mind, at our research facility. By having automobile manufacturers see the system firsthand, we aim for early adoption on our customers' production lines.

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.

*In June 2023, at SURCAR, the International Conference on Automotive Body Finishing, we received the Jury's Award, which is granted to the presentation that receives the highest evaluation from the judges.

We created a promotion video about dry decoration. You can watch the video here. ▶

Digital Strategies in the Paint Finishing System Business

In the Paint Finishing System Business, we are advancing digital strategies centered on BIM*. Looking to the future over the ten years of the upcoming Mid-Term Business Plan and the one that follows, we are taking specific initiatives from a backcasting perspective.

Toward formulating Mid- to Long-Term Business Plan

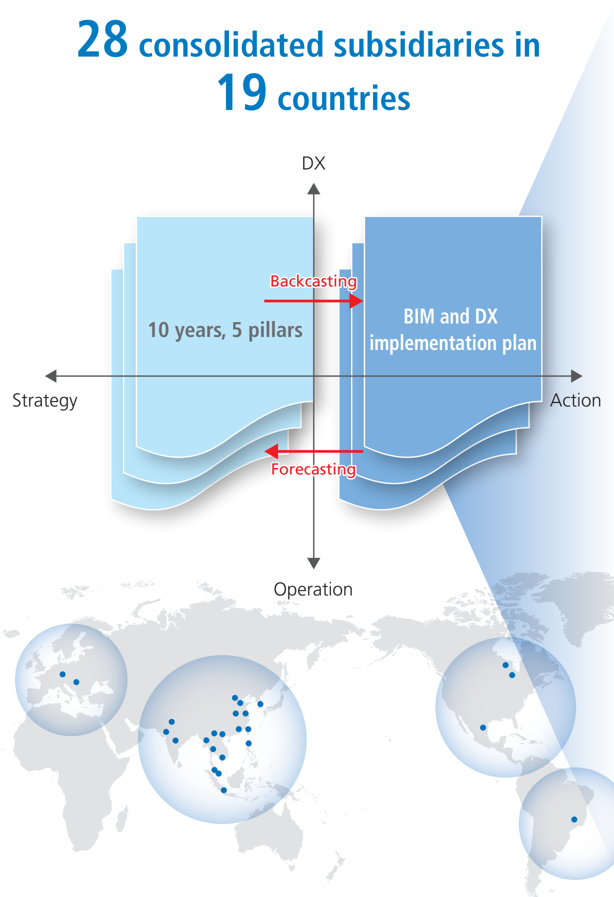
We are currently working on a project to formulate the next Mid-Term Business Plan, including the long-term plan. As a result of the discussions we have had within the company, we have come up with the concept of "five pillars and four supporting arrows" as a growth strategy for the Paint Finishing System Business (see Business Strategies, Paint Finishing System Business on p. 39). Of the four arrows supporting the pillar, digital transformation (DX), in particular, requires further strengthening of activities. We are accelerating the implementation of initiatives centered on the use of BIM by asking ourselves: "what should we do now," "how can we incorporate it into the field," and "how do we embark on practical implementation."

We expect this DX initiative to have a wide range of ripple effects, extending beyond the Paint Finishing System Business. For this reason, the corporate Digital Strategy Committee is addressing this issue to enhance operational efficiency, quality, and competitive strength through DX.

The future of the Paint Finishing System achieved through DX

In the Paint Finishing System Business, we have incorporated DX into the strategies and specific implementation details for each stage, considering the assumed stages of BIM and megatrends from a medium- to long-term perspective.

By integrating various functions into existing systems, we will expand the stage of BIM utilization. Taikisha's platform infrastructure will be completed at the 5D stage, which is within the timeframe of the next Mid-Term Business Plan. From the 6D stage, we will develop the system in a unique direction that aligns with our own goals and ultimately aim for the complete automation of physical tasks using robots.



Current | Next Mid-Term Business Plan | Subsequent Mid-Term Business Plan | 2035

	BIM stage	Main implementation details
2035	**9D** Space and Ocean Businesses	Completely automating physical tasks by connecting robots with information from 2D to 8D
2030	**8D** Facility Management	Delivering the optimal maintenance management system for paint finishing factories to manage the life cycle of the factory
	7D Co-creation with Customers	Optimizing production and maintenance with digital twins to achieve customer satisfaction
	6D Sustainability	Providing construction solutions that achieve a low-carbon society through BIM x energy management
2027	**5D** Cost	Optimizing global cost management with BIM x cost
	4D Time	Creating an optimal decision-making environment by visualizing operation processes and work progress Managing personnel with real-time updates on their status
2025	**3D** CDE AI	Developing a new business model through business optimization using BIM and AI Promoting global communication using CDE
2024	**2D/3D** Operational reform	Accelerating the streamlining of designing and construction with BIM and DX Starting advanced human resources development for BIM and DX

*Building Information Modeling, a system that creates building information models by superimposing attribute data of the building, such as specifications and performance of each part, names, uses, and finishes of rooms, and cost information, on the computer-generated 3D building shape data. It is a solution for using information in all processes, from architectural designing and construction to maintenance and management, and it is becoming the mainstream tool used in the construction industry.

Recent initiatives in each operation domain

Below are some examples of initiatives currently underway that make use of BIM.

■ 4D designing and on-site progress management

We run simulations using 4D BIM, which integrates schedule and time information into 3D models (4D designing). We then visualize the progress of the work by extracting design imagery and actual on-site photos from the same angle.

■ Use of point cloud data

We create a point cloud data set by 3D scanning an existing factory. By digitally converging this data with new equipment data, you can check for interference with the equipment and design with high accuracy in advance when renovating.

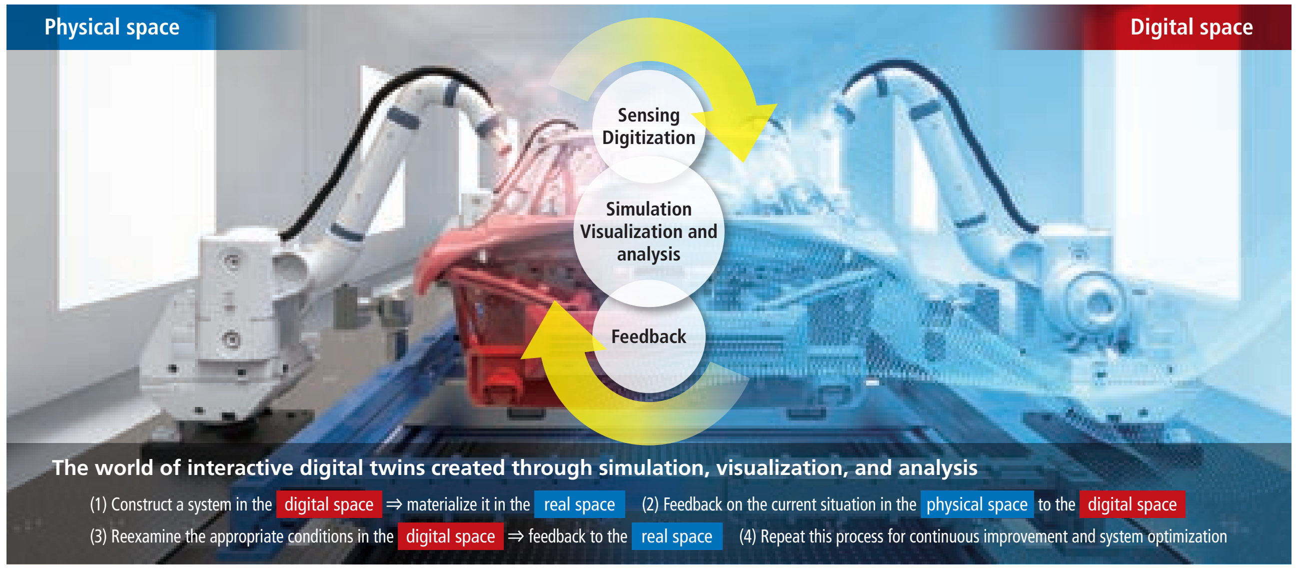
■ Digital twins

We use digital designing to simulate the thickness of water-based paint finishing in both real and digital spaces. This enables the hull or chassis to be fitted with the real motors and various interior and exterior equipment. In addition, even with dry film decoration, you can check the quality in advance by simulating the film's stretchability before the adhesion test.

■ Delivering business support information by AI

Using AI technology, we identify and analyze points of caution based on past loss costs and new project specifications. Based on the vast amount of data that has been accumulated to date, it timely and automatically distributes business support information according to business processes.

● Conceptual image of digital twins



Global cooperation and work-sharing powered by DX

We are currently developing technology to automatically generate design drawings using 3D data held at each base and business office. This will reduce data management time by automatically integrating 3D parameters, various estimates, and ordering materials. In addition, we are working to build a system that actively utilizes the design center in Thailand, smoothing out the workload at bases and business offices.

The expected ripple effect of DX

We will first use 2D/3D BIM to improve operational efficiency and quality, but moving forward, we expect to see the following effects along with the expansion of the BIM stage.

Although translating these ideas into actual practices will take time, we will strive to deepen our understanding by actually using BIM and actively develop it. We will transform ourselves into a borderless company, by building a global system that includes our overseas bases.

- Accelerating R&D and open innovation through the introduction of next-generation technologies and functions
- Improving productivity by digitizing employees' experience and skills to be passed on (making tacit knowledge into explicit knowledge)
- Accumulating data related to customers' production lines, including factory data, and enabling appropriate proposals at all stages of manufacturing, from planning and consulting to operations
- Addressing the labor shortage by fully automating physical work and avoiding tasks in harsh environments (ensuring safety)
- Developing a new business model using BIM

Mitigation of and Adaptation to Climate Change

Basic Policy

The Group believes that addressing global-scale social issues, such as climate change, is our raison d'être (purpose). In December 2021, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we have been continuously collecting, analyzing, and disclosing the necessary data in accordance with the TCFD framework.
In addition, positioning the mitigation of and adaptation to climate change as one of our top management priorities (materiality), 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.

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

Governance

The Company has established the Sustainable Committee, which is an advisory body of the Board of Directors, with an aim of strengthening our efforts to address social issues, including climate change, from the perspective of the realization of sustainable society and perpetual corporate growth. The Sustainable Committee is chaired by an Outside Director and consists of 9 members, namely 4 Outside Directors including the chairperson and 5 Executive Directors. The Sustainable Committee replies to questions from the Board of Directors, and makes proposals or recommendations to the Board of Directors.

In addition, the Company has established the Sustainable Promotion Committee as an executive body on the executive side that acts on the basis of resolutions, etc. of the Board of Directors. The Sustainable Promotion Committee consists of 5 Executive Directors including the Representative Director, President as chairperson, and responsible person for sales department of each business division, and which discussed and implements measures for addressing sustainability issues.

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 at a specific rate as an evaluation factor to the compensation structure of the Executive Directors, encouraging the strengthening of promotional activities.

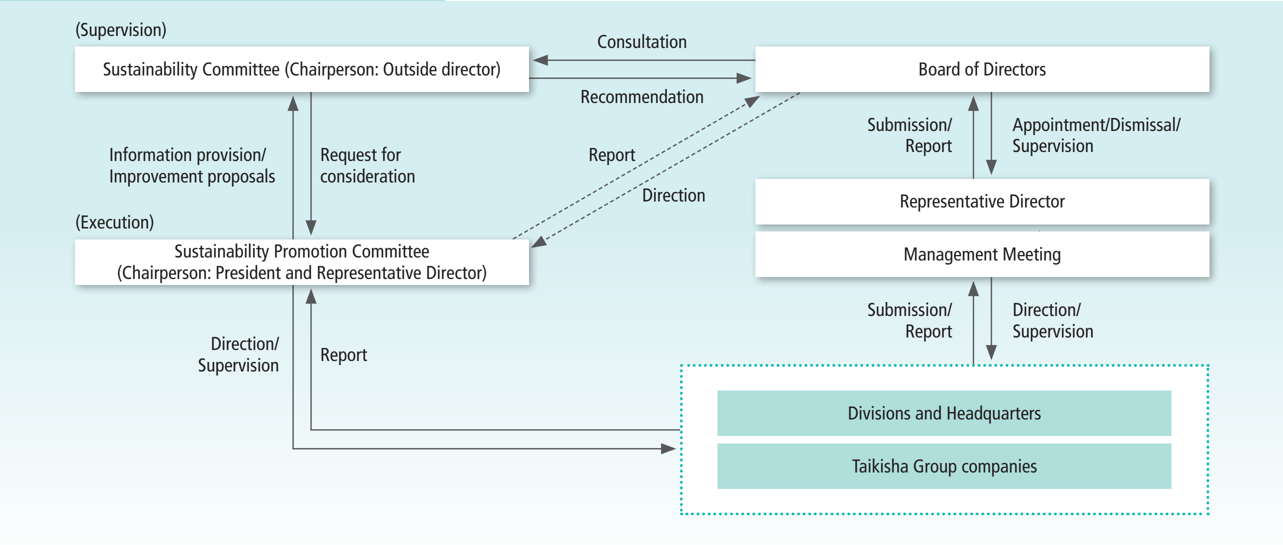
Strategies

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 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.

Sustainability Promotion System Diagram



● Results of scenario analyses

+ 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.

Indicators and Targets

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.

Reduction target

In order to evaluate and manage the impact of climate change on its operations, the Group has set a GHG emissions reduction target in its Mid-Term Business Plan, utilizing CO_2 emissions in business activities as a key indicator. Additionally, in 2024, the Group reset its target with a view toward obtaining SBT* accreditation, aiming for further reduction in GHG emissions going forward.

*Stands for Science-Based Targets, which refers to GHG emissions reduction targets that are aligned with the levels required by the Paris Agreement.

CO_2 emissions in the business activities

Scope 1 and 2: **42%** reduction by 2030 (vs FY2022 levels)
Scope 3: **25%** reduction by 2030 (vs FY2022 levels)

SBT accreditation

The Group submitted a commitment letter to the Science Based Targets initiative (SBTi) in March 2024, and is currently undergoing the process to obtain accreditation. From this point forward, we will develop technologies and proactively promote proposals to our customers to help reduce CO_2 emissions during the operation stage of equipment designed and constructed by our Group. Additionally, we will contribute to the realization of a decarbonized society by introducing renewable energy-based electricity at our domestic and international sites.

● GHG emissions

Scope/Category		Accounting methods	Emission amount (t-CO_2) FY2022	Emission amount (t-CO_2) FY2023
Scope 1		—	12,689	26,867
Scope 2		—	16,206	17,694
Scope 3			10,299,611	10,813,778
Category 1	Purchased goods and services	Calculated from (raw) materials procurement amount (in value terms)	688,465	638,480
Category 2	Capital goods	Calculated from amount of capital investment	1,841	12,228
Category 3	Fuel- and energy-related activities not included in Scope 1 or 2	Calculated from purchased amount of electricity and fuels	4,981	8,211
Category 4	Transportation and delivery (upstream)	Calculated from transportation costs accompanying procurement of (raw) materials	63,905	60,718
Category 5	Waste generated in operations	Calculated from amount of waste discharged by type	1,999	2,773
Category 6	Business travel	Calculated from travel expenses paid by mode of transportation	2,303	2,999
Category 7	Employee commuting	Calculated from transportation expenses paid to employees	1,799	1,852
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	10,085,014
Category 12	End-of-life treatment of sold products	Calculated from weight of main equipment by type	1,584	1,504
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	10,858,340

Efforts for Realizing a Low Carbon Society

Basic Policy

The Group promotes research and development that contributes to GHG emissions reduction, as well as proposals to our customers, since GHG emissions during the operation stage of the air conditioning and sanitation equipment, and painting plants provided by our Group (Category 11 of Scope 3) account for more than 90% of GHG emissions across the Group's entire supply chain.

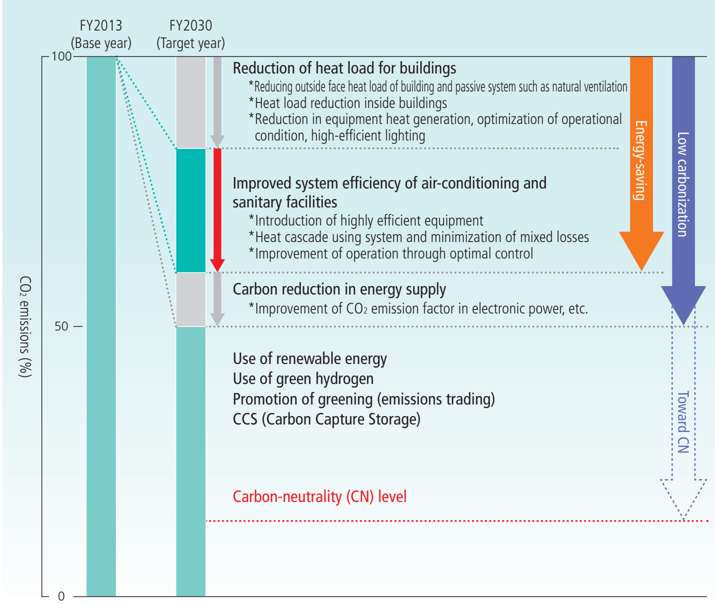
Toward the Targets of the Medium-Term and Long-Term Plans[Green Technology System Division]

The Green Technology System Business aims to reduce the CO_2 emission factor during the operation stage of projects designed and constructed by us by 25% by FY2030, compared with FY2013. We are promoting CO_2 emissions reduction by proactively proposing both our existing energy saving technologies and those currently under development to our customers.

We believe that drastic measures are required to realize carbon neutrality by 2050. In addition to reducing air conditioning loads and utilizing electricity from renewable energy sources, we are working on the development of CO_2 separation and capture technologies, as well as technologies for energy transition to hydrogen, etc.

In July 2024, we began operations at the TAIKISHA INNOVATION SITE Alkawa, renewing the Research and Development Center located in Aikawa-cho, Aiko-gun, Kanagawa Prefecture. We will promote research and development, validation experiments, and simulations that contribute to carbon reduction.

Roadmap for reduction of CO_2 emissions (illustration)



Toward the Targets of the Medium-Term and Long-Term Plans[Paint Finishing System Division]

The Paint Finishing System Business aims to achieve 40.0 kg-CO_2/unit by 2030, estimating CO_2 emissions per unit of automobile painted, based on the energy estimation model for automobile paint finishing lines. Toward the realization of carbon neutrality in automobile painting processes, we are advancing technology development in collaboration with customers from various automobile manufacturers, having established three pillars of technological innovation.

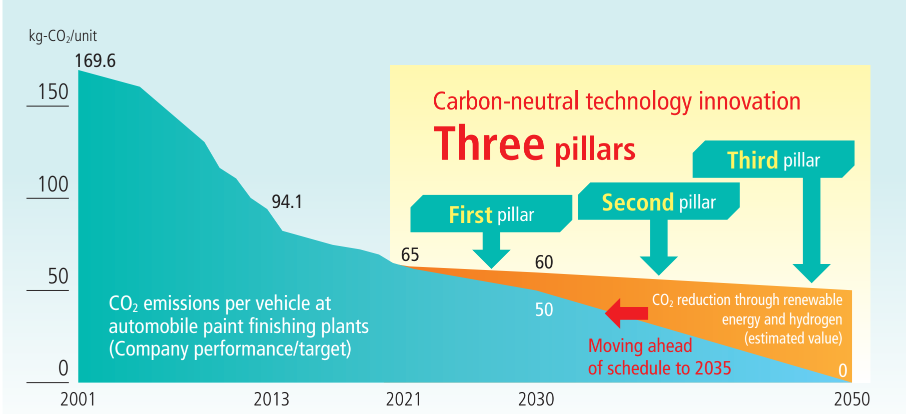
To provide our developed technologies to customers in a timely manner, we are strengthening global collaboration and utilizing Computer Aided Engineering (CAE) from an efficiency standpoint.

First pillar
Streamlining painting process by implementing energy-saving measures

Second pillar
Response to energy transition

Third pillar
Development of alternative painting technologies

The Company's carbon neutrality goals and basic policy



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Initiatives in Each Business

Green Technology System Division

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 GHG emissions by FY2030 (46.0% 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 reduction 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.

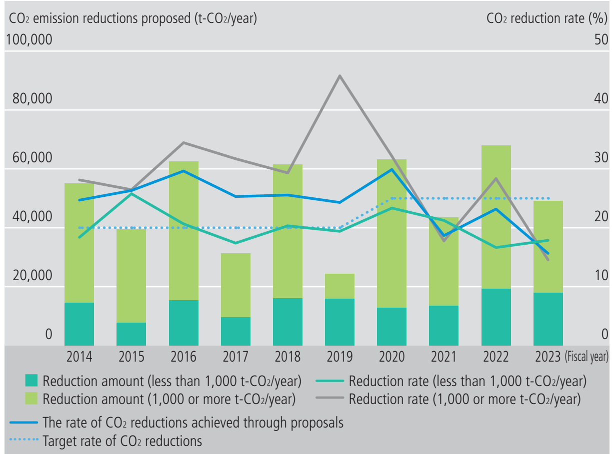
Taikisha is also working on the development of energy-saving technologies of clean room systems that control the air conditioning by tracking the operation status of production equipment, staffing and indoor environment as well as room pressure control systems and low-dew point systems, by incorporating technological advancements such as AI and IoT into air-conditioning systems.

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.

In FY2023, the number of energy-saving proposals was 134. The CO_2 reduction amounted to 48,946 t-CO_2/year, and the CO_2 reduction amount equivalent to Category 11 of Scope 3 was approximately 730,000 t-CO_2 on a consolidated basis.

Target	The CO_2 reduction rate for in-house design projects (the reduction rate of CO_2 emissions from customer-owned facilities enabled by our proposals): 25.0% or more on a weighted average
Result	15.6%

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



Development of Direct Air Capture

Adopting the "challenge to create new value" as one of our basic policies of the Mid-Term Business Plan from FY2022 to FY2024, we have examined the collection and utilization of CO_2 as a new business area.

In order to achieve carbon neutrality, negative emission technologies are required to eliminate CO_2 that cannot be addressed through energy saving and the utilization of renewable energy. Direct Air Capture (DAC), the technology to directly capture and separate CO_2 from the air, is one of the negative emission technologies gaining attention.

Currently, we are examining the application of DAC to air conditioning equipment. This allows for addressing the difficulty of increasing ventilation in existing buildings in response to the rising CO_2 concentration in recent years, and gaining energy-saving benefits from reducing the amount of outdoor air intake. Additionally, by reducing the amount of CO_2 generated during energy consumption in the capture process and utilizing the captured CO_2, carbon neutrality can be achieved while maintaining the indoor environment.

Performance evaluations have been completed, and moving forward, we plan to conduct verification for practical application with the cooperation of Mikasa City, Hokkaido.

Paint Finishing System Division

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

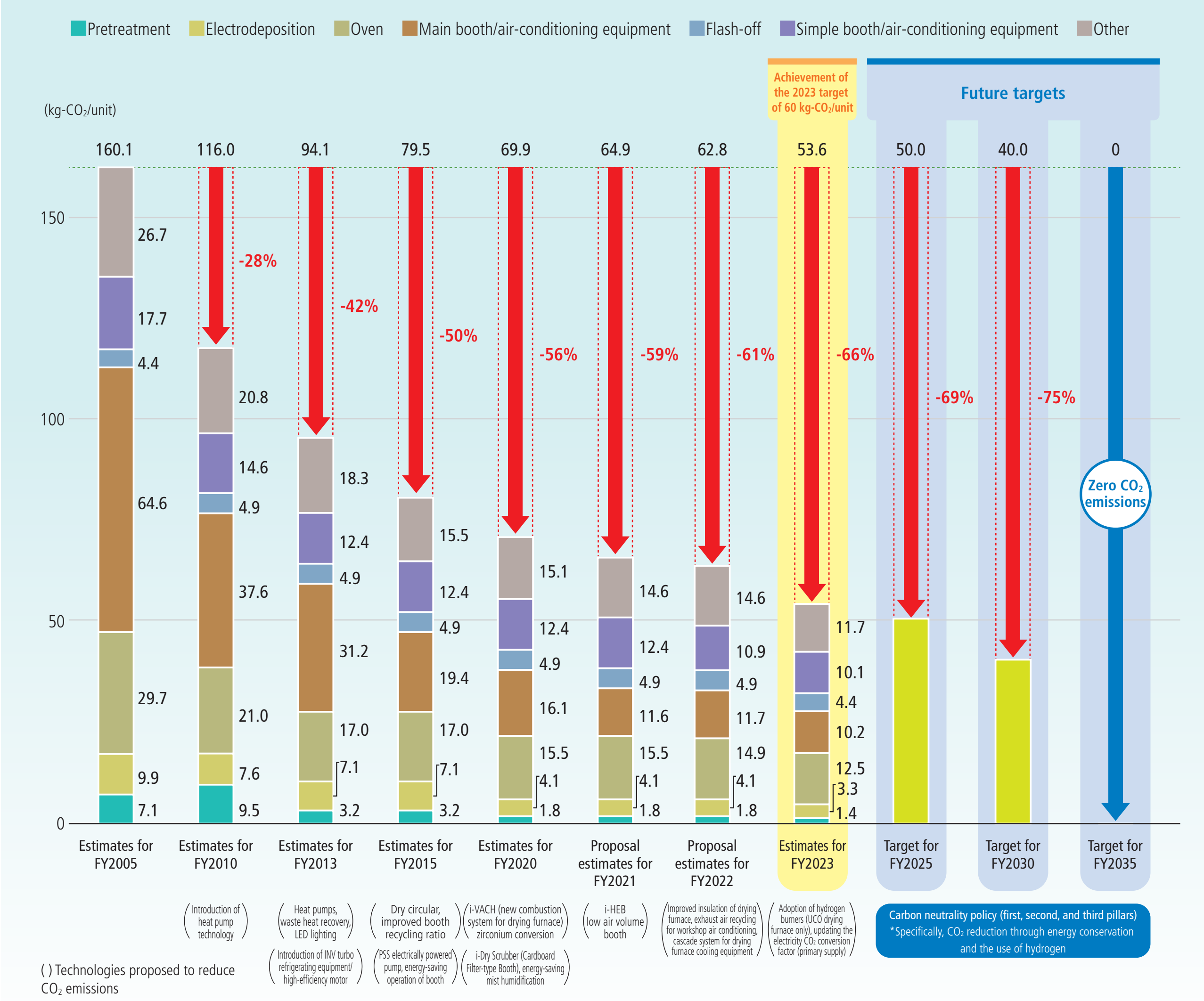
In order to visualize the CO_2 emission reduction effects by the technologies we have proposed, we have been calculating and objectively evaluating CO_2 emissions in automobile paint per unit since 2000, based on the energy estimation model for automobile paint finishing lines.

CO_2 emissions in the 2005 model were estimated at 160.1kg-CO_2/unit, and we have since made various technology proposals to help reduce CO_2, including the introduction of heat pump technology and high-efficiency equipment, and dry-type paint booths. Since 2020, we have proposed the development and improvement of low air volume booths, and indirect furnaces with VOC treatment functions, as products in line with the first pillar of our technology innovation (p.46). In recent years, we have been promoting further CO_2 emission reductions by utilizing AI technology in production visualization systems and production analysis systems.

As a result of these initiatives, the FY2023 model achieved 60kg-CO_2/unit. Moving forward, we will promote initiatives along the three pillars, including the use of electricity from renewable energy sources in painting facilities (all-electric facilities), the use of hydrogen energy, and technological proposals for film decorating systems.

Additionally, while our previous goal was to achieve net zero CO_2 emissions by 2050, we have moved the target date forward and now aim to achieve net zero CO_2 emissions by 2035. The conditions necessary to achieve net zero by 2035 include the transition to renewable energy sources for power supply. Looking back from the 2035 target, we have set interim goals of achieving 50kg-CO_2/unit by 2025 and 40kg-CO_2/unit by 2030.

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



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Human Capital

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

Towards a More Comprehensive Human Resource Strategy and Stronger Human Capital

The greatest asset of an engineering company such as Taikisha is people. 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.

Despite numerous challenges, such as the application of overtime work restrictions in the construction industry starting from April 2024, and chronic labor shortages, we will accelerate our promotion of "securing innovative talent and global talent" and "developing engineering capabilities," which are directly linked to our corporate strategy. We will also disclose KPIs on leveraging investment in human capital to enhance corporate value.

Looking Back on the Mid-Term Business Plan

As part of our commitment to "developing and securing human capital" described in the Mid-Term Business Plan, we are working to maximize the potential of our human resources by prioritizing the construction of a foundation based on an human resource strategy and a system for visualizing human capital.

Specifically, we have broken down our talent requirements (business administration, global perspective, engineering) and, as one of the measures for our HR strategy, launched a management candidate development program that enhances candidates' management knowledge and sharpens their management instincts. We will use this opportunity to refine our highly specialized human resources certification system to constantly produce professional talent.

Furthermore, to support individual autonomy, we started an internal recruiting system and an overseas trainee system. Going forward, we will enhance our reskilling programs, including those for language, DX, and IT training. Although Taikisha's human capital management is still in its early stages, the culture of embracing challenges seems to be gradually taking root.

Energizing Global Communication

The Company has handled overseas projects for over 70 years, and has approximately 3,150 employees in various countries outside Japan. With this background, in order to rapidly develop talent capable of expanding our global business, we have introduced an overseas trainee program and are dispatching young employees to our overseas sites.

This fiscal year, we also established the Global HR Strategy Office directly under the Administrative Management Headquarters. To enable our overseas affiliates to operate more autonomously and effectively, we will support them in building human resource strategies and the developing talent. We will also improve our human resource training programs, human resource systems, and training for successors who will undertake management roles to further promote globalization.

Promoting D&I to Foster a Culture that Embraces Challenges

Last fiscal year, we established the Diversity & Inclusion Promotion Section, and are intensifying our efforts to improve workplace environments and leverage our unique diversity based on the president's message of "promoting D&I to become an organization that fosters innovation by embracing challenges." We aim to cultivate an organizational culture where diverse talents can fully realize their individual capabilities. To this end, we are working to enhance work-life balance and company environments through initiatives such as improving ease of work for female employees, increasing motivation for managerial appointments, providing support for childcare and nursing care, promoting employment of people with disabilities, and boosting morale among senior employees. As part of our initiatives to encourage taking on challenges, we will provide opportunities for employee growth by further enhancing systems that enable employees to actively pursue their own career development. We also aim to improve our employee engagement by taking employees' voices into account and advancing initiatives together.

Going forward, Taikisha will continue to embrace challenges without fear of change as we work to "establish a company which can continuously grow and contribute to the society" and "establish an attractive company."

Outline (Plan) and Roadmap for Achieving Goals

Below are shown our main strategies and measures for maximizing human capital, along with their relationship to the KPIs we have set.

Materiality	Main strategies	Main initiatives	KPI
Securing and developing human resources	Strengthen human capital at overseas businesses (global human resource development)	● Overseas trainee system ● Overseas OJT system ● Overseas trainee development	● Training expenses per person ● Number of overseas trainee system users ● Diversity awareness ● Ratio of male employees who took 14 or more days of childcare leave ● Work engagement rate ● Employee engagement rate etc.
	D&I	● Utilize employees that are female, senior, mid-career, foreign or have disabilities ● Increase ratio of female managers ● Support participation of male employees in childcare	
Creation of pleasant working environment	Improve employee engagement	● Implement pulse surveys ● Introduce highly specialized human resources certification system ● Employee health management ● Next 100th project	

Maximization of human capital → Mid-Term Business Plan → Long-term Vision → Enhancement of corporate value

Create an organizational culture that fosters innovation

Mid-Term Business Plan
Strengthen management base that supports transformation and growth
Develop and secure human capital

Indicators and Targets for Human Capital Management

Indicators				
Item		Unit	FY2024 KPI	FY2023 Results
I. Development				
Training expenses per person		Thousand yen	200	67
Career plan creation		%	100	100
Number of overseas trainee system users		People	3	—
Career development*1		%	47.5	41.6
Feedback on work*1		%	65.0	62.0
II. Engagement				
Work engagement		%	65.0	62.0
(1) Curiosity and excitement about work*1		%	55.0	50.2
(2) Culture of courageously embracing challenges*1		%	75.0	73.7
Employee engagement		%	65.0	64.4
III. Flexibility				
Number of new graduates hired		People	97	90
Ratio of mid-career hires		%	29.0	22.7
Employee turnover rate excluding retirees		%	2.2	2.2
Turnover rate of new graduates in 3rd year of employment		%	14.0	14.9
IV. Diversity				
Diversity awareness*1		%	70.0	68.0
Female employees	Ratio of employees who took childcare leave	%	100	100
	Ratio of employees who returned to work after childcare leave		100	100
Male employees	Ratio of employees who took 14 or more days of childcare leave	%	50.0	35.4
	Ratio of employees who returned to work after childcare leave		100	100
Ratio of employees who took paid annual leave		%	70.0	68.3
Ratio of female managers in managerial positions		%	3.2	3.2
Ratio of employees with disability		%	2.70	2.68
Number of employees employed under overseas company presidents		People	4	3
V. Health and Safety				
Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)		Obtained	Obtained	Obtained
Stress check examination rate		%	100	97.4
Performance exhibition rate*2		%	75.0	74.5
Occupational accident rate	Frequency rate	—	0.23	0.42
	Severity rate	—	0.005	0.043
VI. Compliance				
E-learning attendance rate		%	100	100
Pledge submission rate		%	100	100

*1. Calculated based on the percentage of affirmative responses to the relevant factors in the engagement survey conducted by the Company.
*2. Self-evaluation for the past four weeks, with performance rated as 100% when not ill or injured.

Basic Policy for Human Resource Development

As-is: One of our top priorities is "securing and developing human capital." To this end, we are focusing on developing management leaders and professional talent. In our management candidate development program, we aim to improve candidates' practical decision-making skills by cultivate the management knowledge and strategic thinking that the next generation of leaders require. Moreover, we utilize our highly specialized human resources certification system to promote the development of high-level human resources with specialized knowledge and skills.

To-be: In working to realize our Long-term Vision, we position human capital as a crucial element in our competitive advantage, and we aim to further leverage the diversity of our human resources going forward by fostering a free and open corporate culture. We will enhance workplaces that encourage tackling challenges, promote systems that make growth palpable, and systematically develop management leaders and professional talent. Additionally, we will establish mechanisms that support autonomous learning and growth and thereby increase our corporate value.

Global Human Resource Development

Taikisha currently has 28 overseas consolidated subsidiaries in 19 countries and regions. As of June 30, 2024, the number of non-consolidated domestic employees stands at 1,985, which is dwarfed by our non-consolidated international workforce of 3,157 employees. In line with this trend towards globalization, we are working to enhance the management and technical skills of our national staff, aiming to establish an integrated system that can locally handle all operations, from sales activities to design, procurement, construction activities, and customer service.

Additionally, we are gradually transitioning to localized management structures, having appointed national officers as the presidents of our subsidiaries in the U.S. in 2021, and in Indonesia in 2024. Building on their existing expertise and operational knowledge and skills, our national staff aim to management their organization based on business strategies they devise themselves. To ensure appropriate decision-making and practical results, we will continue to promote long-term and strategic training.

Moreover, to ensure reliable profits from our overseas operations and ensure sustainable corporate management, it is necessary to improve the functions and efficiency of the internal systems and operations involved in our international business. Going forward, we will progressively develop human resources at various levels and, by promoting exchanges between subsidiaries, transform activities that have traditionally been limited to "points" and "lines" into broader "area"-wide activities across regions, in order to raise employee awareness and improve the efficiency of organizational operations.

Furthermore, we will review the roles and abilities required for not only national staff but also Japanese employees, and focus on enlightenment and training activities to enhance the motivation and abilities of each individual.

Global Management Training

Taikisha conducts training programs aimed at developing management personnel who can demonstrate leadership and practical skills from a global perspective.

In FY2023, we conducted an approximately eight-month-long training program with a total of 15 members, consisting of 10 individuals from overseas sites (including 5 national staff) and 5 from Japan. The trainees covered a wide range of topics, including management concepts for the future, designing business systems that create new value, and research on the direction of the national economy and industries. An active exchange of ideas took place.

Overseas Trainee Development

At our overseas sites, we aim to enable local national staff to directly mentor team members. To this end, we invite management executive candidates to Taikisha headquarters for a two-year training program.

The training includes not only language skills but also classroom learning, practical CAD training, and on-site training.

Comment from a Trainee

Attapol Nakkul
Taikisha (Thailand)

At our facility in Thailand, we provide support for various aspects for work, including calculating the capacity of air conditioning and ventilation systems, and creating drawings for piping and ductwork. In Thailand, where the weather is hot all year round, cooling capacity is the most important aspect of air conditioning. However, in Japan, we must also calculate heating capacity. I'm keen to gain as much knowledge on these topics as I can.

In daily life, I struggle with the Japanese language, but my studies are interesting, and everyone helps me when I get stuck, which makes every day enjoyable. In my training, I aim to gain a mastery of specialized knowledge in air conditioning systems for cleanrooms that handle pharmaceuticals and other products, so that I can design them in Thailand.

Overseas Trainee System

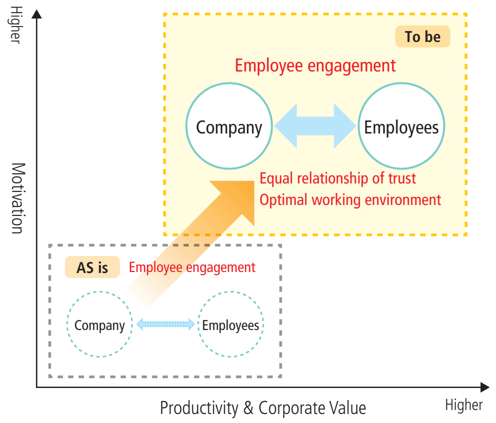
In FY2024, we introduced our overseas trainee system. Under this system, junior employees are dispatched to overseas sites in order to rapidly develop talent capable of expanding our global business. This system is linked to our effort to "develop and secure human capital" described in the Mid-Term Business Plan, and aims to encourage employees to take up challenges, and to invigorate personnel and organization dynamics. In the first term, two participants have been dispatched on a training program that will last about seven months.

Participants felt reluctant to return to Japan after spending such a fulfilling time in India.

Basic Policy on Improving Engagement

As-is: To create a workplace environment where each employee is healthy and finds fulfilment in their work, we will continue to make use of the pulse surveys introduced this fiscal year. In doing so, we aim to deepen mutual trust among employees and promote the creation of a workplace where each employee can exhibit their full potential. Additionally, as part of our effort to create an organizational culture that fosters innovation, we are implementing a career development system that promotes work-life balance while allowing employees to get a sense of their own growth.

To-be: Due to the diversification of human resources and changes in values, the relationship between companies and employees is shifting from a mutually binding model (binding and being bound) to a mutually selective model (choosing and being chosen). Consequently, companies must continue to be chosen and fully harness their employees' capabilities. At Taikisha, we are committed to respecting the individuality and values of each employee and creating workplace environments that foster motivation to take on new challenges. By doing so, we aim to further increase employee engagement and thereby improve overall corporate productivity.



Implementing Pulse Surveys

We introduced monthly pulse surveys in 2024 with the aim of improving employee engagement. Previously, we had conducted engagement surveys in the form of stress checks, and shared group analysis results with management to improve workplace environments. However, the new pulse surveys dive deeper into factors specifically related to engagement. This will help to effect more concrete management changes, and aid in planning and implementing HR initiatives. Company-wide results will be published internally after each pulse survey, helping to invigorate internal communication.

The response rate of surveys exceeds 90% every time. Overall, the results for aspects such as "how time is spent after work," "consulting with supervisors," "pleasant workplace," "work environment," and "motivation for work" have been favorable. However, it was evident that there may be employees who have concerns about career management for the future.

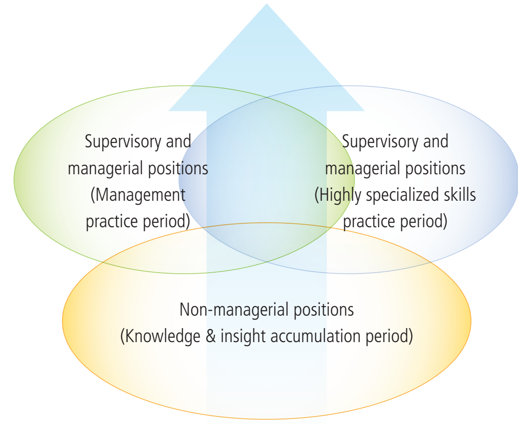
In light of these results, we will intensify our efforts to implement career development initiatives that are satisfactory to employees.

Certification of Highly Specialized Human Resources

Amid the rapidly changing business environment, Taikisha believes that it is necessary to differentiate from others by leveraging specialized technologies as strengths and evolving into an enterprise that creates new value. Consequently, we have introduced our "highly specialized human resources certification system," a framework designed to ensure the perpetual succession of "Taikisha, the Technology Company."

This system aims to realize our career development policy, which is that "Each employee should be professional and have high market value." Certification will be tied into employee motivation initiatives to position it as an attractive career milestone.

● Positioning of Highly Specialized Human Resources



In conjunction with our management candidate development program, the system certifies professionals who possess high technical skills and specialized knowledge. We will continue our efforts to foster a corporate culture in which such "highly specialized human resources" can fulfill their capabilities.

Health Management

As human resources supporting the Company's growth, employees 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. Accordingly the Company announced a Health Management Declaration in 2020, and been selected under the Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500) for four fiscal years in a row since FY2021. To maintain and promote healthy minds and bodies among employees, Taikisha is proceeding under a system in which the Chief Executive of the Administrative Management Headquarters is responsible for promoting health management measures, and the Diversity & Inclusion Promotion Section plays a central role. To improve employees' lifestyle habits and health awareness, Taikisha also works to plan, implement, evaluate, and improve various initiatives such as smoking cessation support programs, walking events, and health seminars.

2024
健康経営優良法人
Health and productivity
ホワイト500

Promotion of Health Management

Basic Policy for Diversity & Inclusion

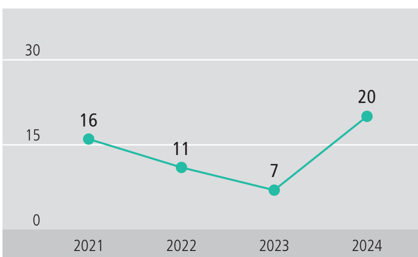
As-is: Under the president's message of "promoting D&I to become an organization that fosters innovation by embracing challenges," we are working to improve our workplace environment while leveraging the unique diversity we have cultivated over 70 years of global operations. In addition, we are undertaking initiatives to improve ease of work and motivation to work by supporting work-life balance through the promotion of active roles for female and senior employees, promoting employment of people with disabilities, and providing support for balancing work with childcare and nursing care.

To-be: Looking ahead to the next 100 years, we believe that promoting D&I is essential. In addition to age, gender, nationality, and disability, we respect and acknowledge deep-level diversity attributes that cannot be identified by appearance, such as career, skills, values, and lifestyles. We strongly promote initiatives that leverage the strengths of each individual, aiming to create a culture that fosters innovation and generates new value.

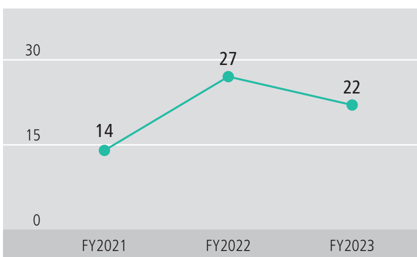
Securing Human Resources and Improving the Internal Environment

Taikisha creates recruitment plans based on a long-term business plan and forecasts of employee age demographics, and actively engages in recruitment activities. To minimize talent outflow, we identify and analyze former employees' working conditions and reasons for leaving, and implement measures to improve the internal environment. To strengthen the response of our domestic organizations to globalization, we facilitate exchanges such as assignments and short-term deployments from overseas sites to Japan, in addition to hiring new graduates and mid-career professionals with a focus on international students in Japan.

Number of New Female Graduates Hired

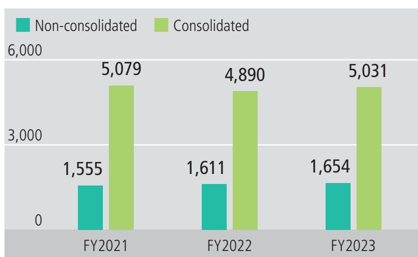


Number of Mid-Career Hires



*Figures as of March 31 for each fiscal year

Number of Taikisha Group Employees



*Figures as of March 31 for each fiscal year

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. To ensure the appointment of female managers, the Company plans to conduct training for female managerial candidates, targeting not only female employees but also their supervisors, to create an internal and external environment conducive to pursuing managerial positions.

In terms of female executives, two women were appointed as an Outside Director and an Outside Audit & Supervisory Board Member at the FY2023 Shareholders' Meeting. By facilitating interactions and support with female executives, we aim to further enhance the motivation of female employees, increase the proportion of women in management positions, and ultimately produce female directors from within the Company.

Systems to Support Work-Nursing Care Balance

Taikisha has introduced various systems to help employees strike a balance between work and nursing care. The Company has put in place systems that exceed legal requirements, including a system for compensating approximately 80% of salary of employees taking nursing care leave covered by the nursing care leave compensation insurance whose premium is fully paid by the Company, and a system that allows employees taking nursing care leave to use accrued paid leave from the last ten years for nursing care leave within the limits set by law. In addition, company-wide awareness activities are conducted through training sessions that emphasize the importance of preparing in advance for future caregiving needs and provide key points for balancing work with caregiving.

Systems to Support Work-Childcare Balance

As part of Taikisha's action plan to create a work environment where all employees can balance work and childcare and exhibit their full capabilities, the Company promotes the uptake of childcare leave among not only female but also male employees. In terms of childcare benefits for men, Taikisha goes beyond legal requirement and has introduced its own system that allows the use of accrued paid leave from the last ten years for both childbirth leave and childcare leave for men. Regarding the duration of leave, we aim for 14 days or more in order to foster good relationships with partners and improve family well-being.

Workplace Changes and Male Participation in Childcare

In FY2023, Taikisha's male paternity leave uptake rate was 77.1% for childbirth leave and 58.3% for childcare leave, significantly higher than the previous year, achieving the government's target of a 50% male parental leave uptake rate by 2025 ahead of schedule. We view these results as an indication of a deeper understanding among employees about taking leave or childcare leave. Going forward, we will work to create and enrich environments where all employees can participate in childcare, while also building workplaces that are easy to work in.

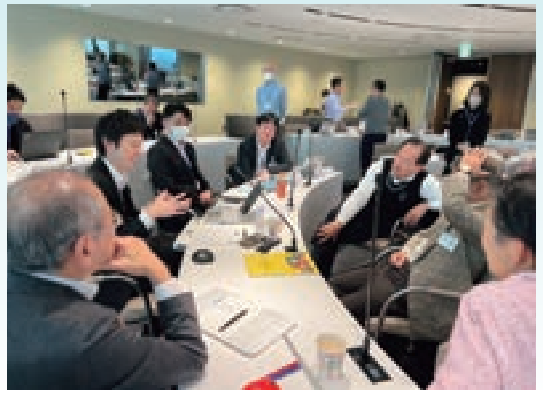
Long-Term Strategy Development Project: Next 100th

Led by the president, the long-term strategy development project "Next 100th" was launched to envision how Taikisha should be in 2040 in order to survive for next 100 years. With 2040 as reference point, we began working in 2023 to envision the ideal state of the Company and formulate the necessary long-term plans.

While Taikisha has a management succession plan in place, we believe that it is necessary to plan one generation ahead in developing human resources capable of viewing the Company with a long-term management perspective. Therefore, mid-career employees in their 30s and 40s, who are likely to be the next generation of major company leaders, are participating in this project.

In discussing long-term strategy, our aim is not only to involve executives but also to incorporate ideas from the next generation. We seek to engage employees who have traditionally not been involved in management to consider from a management perspective what kind of company they want to create.

In the FY2023 project, mid-career employees presented at a free discussion session for executives, where all participants exchanged opinions. The results of the project are expected to be reflected in the next Mid-Term Business Plan.



Respect for Human Rights

Taikisha is promoting initiatives toward the respect for human rights of all stakeholders involved in its business activities.

Basic Policy

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 promotes 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.

Human Rights Policy

In May 2024, we established the Taikisha Group's Human Rights Policy, which applies to all officers and employees of the Group (all employees engaged in the Group's operations including contracted, temporary, and seconded employees).

● Structure of human rights policy

1. Scope of application
2. Respect for international norms on human rights
3. Compliance with laws and regulations
4. Our priorities for human rights
1. Prohibition of discrimination and harassment
2. Prohibition of child labor and compulsory labor
3. Industrial health and safety
4. Respect for the rights of workers
5. Protection of personal information
6. Prohibition of abuse of the dominant bargaining position
7. Consideration for local residents
5. Implementation of human rights due diligence
6. Implementation of corrections and remedies
7. Development of awareness of human rights in officers and employees
8. Communication and consultation with stakeholders
9. Disclosing the status of commitments to human rights

The Group has adopted the Corporate Philosophy of "establishing a company which can continuously grow and contribute to the society" and "establishing an attractive company." Through our business activities, we aim to contribute to society and create a rewarding work place for our employees by fostering the prosperity of our customers and subcontractors, while enriching the lives of our employees.

In realizing our Corporate Philosophy, we recognize that respecting the human rights of all individuals involved in the business activities of the Group is essential. This policy has been established as a standard for addressing human rights in our business activities, enabling the Group to continue fulfilling its responsibility to respect human rights moving forward.

This policy has been deliberated by the Sustainability Committee, an advisory body, and resolved by the Board of Directors. It will be reviewed as necessary in response to changes in social conditions or business activities.

Moving forward, we will promote awareness of human rights among our officers and employees, while establishing a system for conducting human rights due diligence. We will actively engage in addressing human rights expected of companies, in accordance with international norms.

Human Rights Policy

Steps Toward the Response to Human Rights

Step (1) Formulation of human rights policy	● Announce commitment to human rights within and outside the company ● At the same time, incorporate human rights provisions into various internal policies.
Step (2) Human Rights Impact Assessment	● Based on the issues specific to each industry, the countries and regions where the companies operate, and the scope of their supply chains, etc., identify and assess potential human rights risks that may arise in their business activities, and pinpoint critical human rights risks. ● For the identified human rights risks, clarify the response policy on how each company should establish a management system and address these issues internally.
Step (3) Implementation of human rights due diligence	● Examine possible response methods (corrective actions) for each of the human rights risks identified in Step (2). ● Check whether any human rights violations are occurring not only within the Group but also throughout the entire supply chain, including our customers and business partners.
Step (4) Establishment of grievance mechanism	● Alongside the implementation of human rights due diligence, establish a grievance mechanism. ● With regard to both internal contact points and those required from a human rights perspective, build an effective grievance mechanism by considering internationally required standards and the best practices of domestic and international companies.

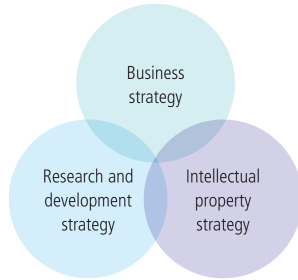
Intellectual Property

We protect inventions and other creations generated through our business and research and development activities as intellectual property, and aim to utilize them in our business.

Basic Policy

We aim to integrate business strategy, research and development strategy, and intellectual property strategy, promoting intellectual property activities across the entire Group that are directly connected to business management. This will enable us to share the latest technologies globally and provide them to our customers in each region as high-value-added engineering.

Intellectual Property Activities



We have adopted a differentiation strategy as our long-term strategy, under our long-term vision of "Contribute to a Sustainable Society through Innovative Engineering of Energy, Air and Water."

Additionally, we have adopted "further strengthening core businesses" and "challenge to create new value" as the basic policies of the Mid-Term Business Plan.

To realize our long-term strategy and basic policies, we need to integrate our business strategy, research and development strategy, and intellectual property strategy.

In order for research and development, as well as intellectual property activities, to contribute to the profits of core businesses and the expansion of business areas, we secure our competitive advantage over other companies by ensuring that the outcomes of research and development are protected as intellectual property rights. We promote intellectual property activities that are directly linked to business management, so that by connecting these outcomes to our business, we can ensure profitability.

Protection and Utilization of Intellectual Property

In April 2023, we established the Intellectual Property Dept. as an independent department. With the department at the core of our activities, we recognize our unique intellectual assets—such as "intellectual property rights" related to inventions, designs, and patents; "intellectual property" including brands, trade secrets, and know-how; and "intellectual capital" including human capital, business principles, customer networks, and skills— thereby aiming at effectively combining and utilizing these assets to generate profits.

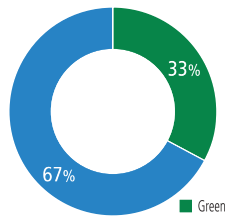
Inventions related to our proprietary technologies are incorporated into a patent portfolio as patent to protect our business and are utilized to secure our competitive advantages.

Inventions created through co-creation with third parties through open innovation are incorporated into a jointly developed patent portfolio with those third parties, supporting the creation of new businesses.

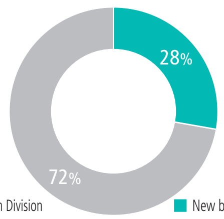
Inventions that are difficult to verify are safeguarded as know-how, keeping them confidential to prevent others from following suit and to secure a competitive advantage.

We respect intellectual property of others and strive to reduce intellectual property risks, while preempting infringement and disputes. To achieve this, we monitor and evaluate the intellectual property of others.

● Patent portfolio



● New patent application in 2023



Initiatives Toward the Creation of Innovation

Employee invention rules and award system

We revised our employee invention rules in 2022, significantly updating the provisions for paying rewards at the time of patent application, rights confirmation, and implementation. Furthermore, we aim to foster employees' creative motivation by presenting rewards to inventors and awarding certificates from the President during our annual foundation anniversary ceremony.

Implementation of intellectual property education

We implement intellectual property education for all employees to raise awareness and help them acquire knowledge of intellectual property and patents.

Handing Down Technology Project

We believe that passing on the technologies and skills developed by veteran employees to next generation, particularly in areas such as fabrication and installation methods, as well as safe construction methods and procedures at construction sites, will help differentiate us from competitors and enhance our corporate value. With this in mind, we launched the Handing Down Technology Project in 2023.

In the first step of the project during FY2023, as a method of improving quality and safety, and reducing workload at sites through front-loading, we compiled the technologies used at these sites into video formats. By converting the know-how (tacit knowledge) utilized by veteran employees into explicit knowledge and enhancing our technology platform, we aim to deepen our intellectual property activities.

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.

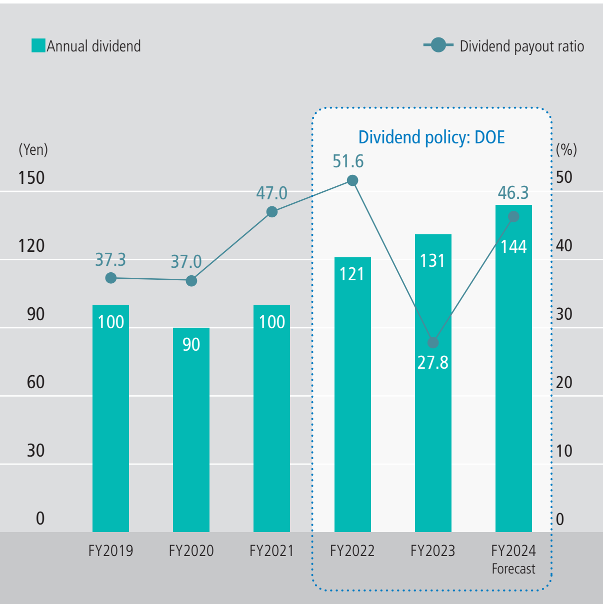
Dividend policy

- 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%

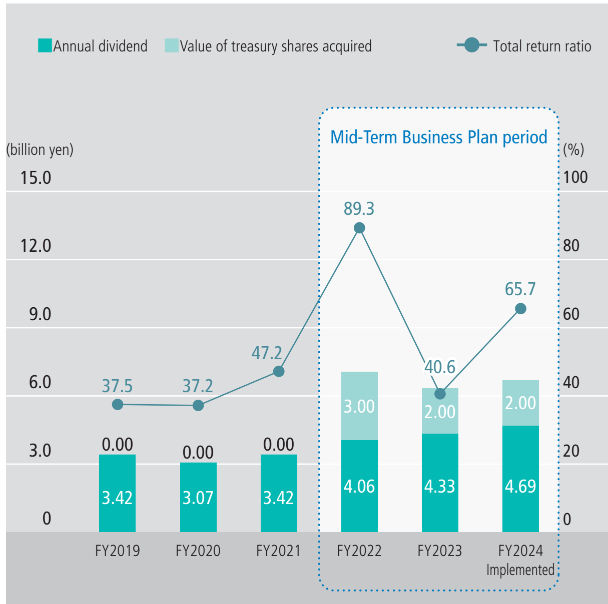
Purchase of treasury shares

- 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

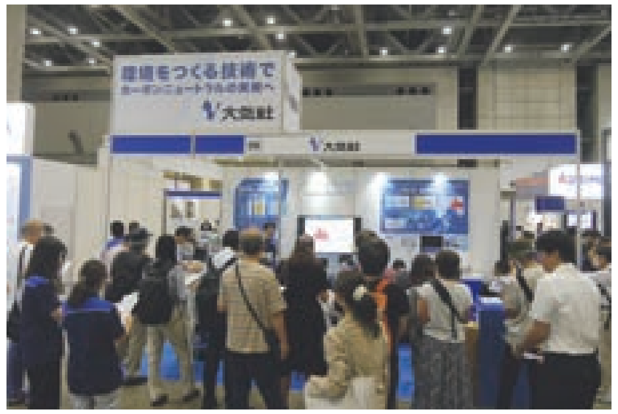


● Transition in the total shareholder return and total shareholder return ratio



Stakeholder engagement

With regard to the status of dialogue with investors in FY2023, 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 2024

External Evaluation

Taikisha' website was selected as the "AAA Website" grade in the "All Japanese Listed Companies' Website Ranking 2023" by Nikko Investor Relations Co., Ltd.

AA Corporate Websites
2023
Nikko Investor Relations Co.,Ltd
All Markets Ranking in Japan

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	2024 CONSTITUENT MSCI NIHONKABU 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 third consecutive year since 2022.
FTSE Blossom Japan Sector Relative Index	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 third consecutive year since 2022.
S&P/JPX Carbon Efficient Index	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 forth consecutive year since 2021.
Sompo Sustainability Index	2024 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 seventh consecutive year since 2018.

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

● 7 years ○ 4,500 ◌ 5,758 ◎ 14/14

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. Served concurrently as Chief Executive of the Business Development Headquarters since April 2024.

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

Yasushi Nakajima

● 7 years ○ 13,300 ◌ 14,287 ◎ 14/14

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

● 6 years ○ 12,237 ◌ 12,629 ◎ 14/14

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

● 4 years ○ 3,373 ◌ 0 ◎ 12/12

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

● 1 year ○ 3,700 ◌ 0 ◎ 12/12

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.

Outside Director

Hirokazu Hikosaka

● 7 years ○ 2,200 ◌ 0 ◎ 14/14

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

Masasuke Kishi

● 3 years ○ 2,100 ◌ 0 ◎ 14/14

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. he chairs the Board of Directors and Compensation Advisory Committee.

Outside Director

Nobuyuki Soda

● — ○ 600 ◌ 0 ◎ —

Mr. Soda had worked as Audit & Supervisory Board Member since 2020 and was appointed as an Outside Director in 2024. He has served as a manager of a leading life insurance company and other organizations for many years, and has abundant knowledge and experience regarding human capital, group governance, and finance and accounting, etc. He chairs the Nomination Advisory Committee.

Outside Director

Suga Soejima

● — ○ 0 ◌ 0 ◎ —

Ms. Soejima was appointed as an Outside Director in 2024. She has abundant experience of auditing the operations of multinational corporations during her tenure at major auditing firms, as well as specialized knowledge regarding finance and accounting, internal control, and governance, etc. She chairs the Sustainability 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
Koichi Nagao

Outside Audit & Supervisory Board Member
Shoko Yamashita

● Directors' specialized knowledge and experience

Name	Position	Directors' specialized knowledge and experience							Nomination Advisory Committee	Compensation Advisory Committee	Governance Committee	Sustainability Committee
		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				
Masashi Osada	Representative Director, President Corporate Officer	●		●	●		●		●	●	●	●
Yasushi Nakajima	Representative Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters	●	●	●	●	●	●		●	●	●	●
Masanori Nakagawa	Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of Sustainability Promotion	●		●		●	●	●			●	●
Yukinori Hamanaka	Director, Managing Corporate Officer, Chief General Manager, Paint Finishing System Division	●	●	●	●							●
Tadashi Sobue	Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division		●	●	●							●
Hirokazu Hikosaka	Outside Director						●	●	●	●	○	●
Masasuke Kishi	Outside Director	●	●				●		●	○	●	●
Nobuyuki Soda	Outside Director	●				●		●	○	●	●	●
Suga Soejima	Outside Director						●	●	●	●	●	○

(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."*

In conformity with the basic policy and based on the organizational structure of a Company with an Audit & Supervisory Board, Taikisha is continuously working to strengthen the Taikisha Group's governance and reform its management by reinforcing the supervisory function of the Board of Directors through the utilization of Outside Directors and speeding up the decision-making of the Board of Directors through the adoption of the corporate officer system, aiming to further enhance and reinforce the corporate governance of Taikisha.

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

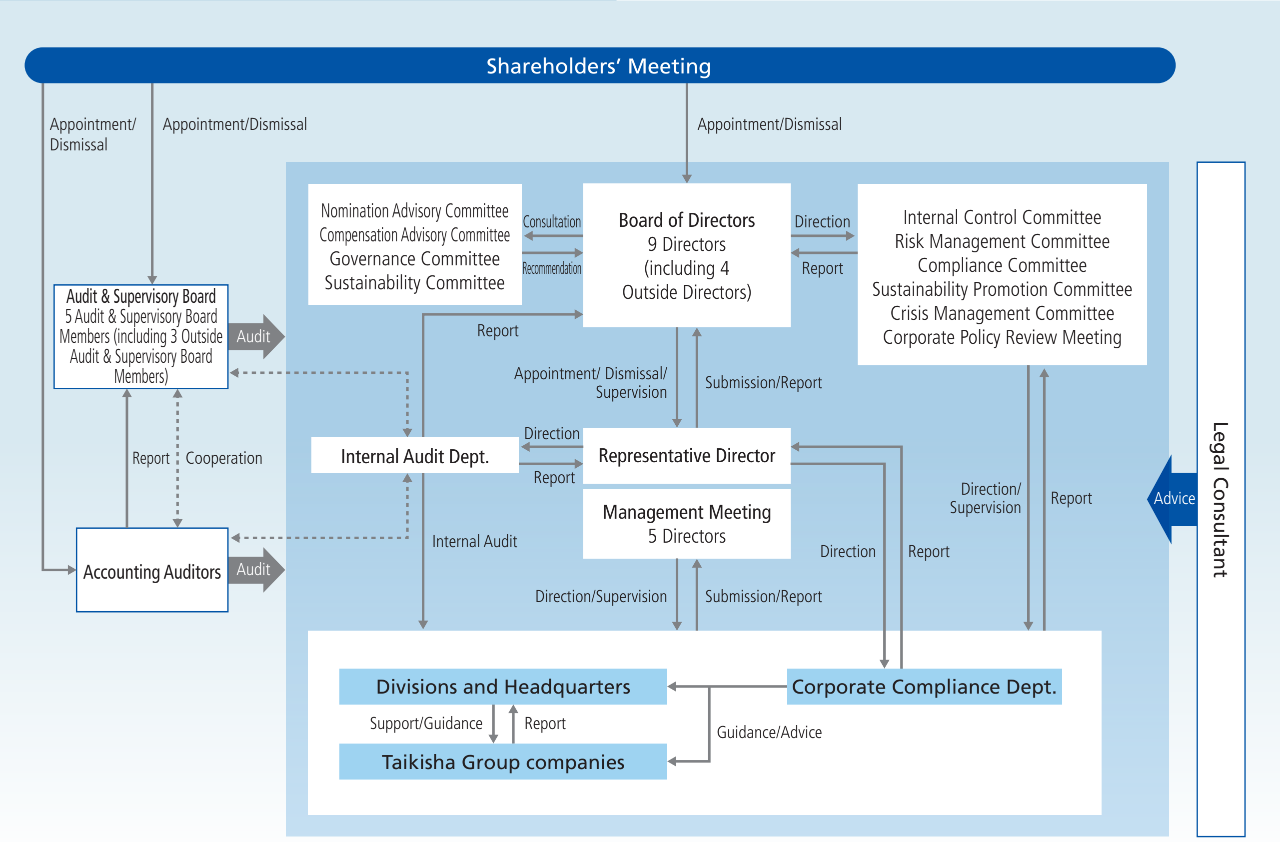
Initiatives that Support Corporate Governance

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.

Corporate Governance Report

Pattern Diagram of Corporate Governance (as of June 30, 2024)



	Chair	Composition	Content	FY2023: Frequency of meetings
Board of Directors	Outside Director	9 Directors (Inside: 5, Outside: 4) (Male: 8, Female: 1)	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.	14 times
Audit & Supervisory Board	Audit & Supervisory Board Member	5 Audit & Supervisory Board Members (Inside: 2, Outside: 3) (Male: 4, Female: 1)	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.	14 times

	Chair	Composition	Content	FY2023: Frequency of meetings
Nomination Advisory Committee	Outside Director	6 Directors (Inside: 2, Outside: 4)	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.	16 times
Compensation Advisory Committee	Outside Director	6 Directors (Inside: 2, Outside: 4)	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 performancelinked compensation.	7 times
Governance Committee	Outside Director	7 Directors (Inside: 3, Outside: 4) 1 Audit & Supervisory Board Member (Inside)	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.	11 times
Sustainability Committee	Outside Director	9 Directors (Inside: 5, Outside: 4)	The Sustainability Committee was established as an advisory body for the Board of Directors, with the aim of enhancing initiatives related to social issues, from the perspective of realizing a sustainable society and achieving long-term growth for the company. The Sustainability Committee replies to questions from the Board of Directors about the Group's response to sustainability issues, and makes proposals or recommendations to the Board of Directors.	once

Evaluation of the Effectiveness of the Board of Directors

Taikisha conducts an analysis and evaluation of the effectiveness of the Board of Directors 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.

Evaluation period and scope	Meetings of the Board of Directors held from April 2023 to March 2024 (including the Nomination Advisory Committee, Compensation Advisory Committee, Governance Committee, and Sustainability Committee)
Evaluation items	● The Board of Directors' response to issues in FY2022 ● Roles the Board of Directors should fulfil, and the items to be considered in fulfilling those roles

● Evaluation process

External experts conduct surveys with the evaluation targets. → External experts perform analysis and evaluation based on the results of the surveys. → The evaluation results are shared and discussed by the Board of Directors → Issues for the next fiscal year are considered and addressed.

Overview of the Results of Analysis and Evaluation for FY2023

Led by the Chairman of the Board of Directors, issues recognized by the Board of Directors were shared and response policies, etc. were discussed. In the effectiveness analysis and evaluation for FY2023, feedback was collected from all Directors and Audit & Supervisory Board Members in preparation for the formulation of the new Mid-Term Business Plan starting in FY2025.

Additionally, in FY2023, all Directors and Audit & Supervisory Board Members were asked to state reasons and make specific proposals about the matters they expect to further improve in order to enhance the Company's corporate value, as well as issues they believe require immediate improvement in light of the Company's current situation. Opinions were also gathered on prioritizing these improvements.

As a result, the Board of Directors of Taikisha was determined to be sufficiently effective.

● Issues and improvement measures in FY2022

(1) Realization of long-term vision
- In September 2023, an offsite discussion on the overseas business expansion strategy was held by the members of the Board of Directors.
- In February 2024, to install long-term strategic thinking among employees, an offsite discussion was held by the members of the Board of Directors and employees who will lead the next generation, focusing on what the Company should look like in 2040.

(2) Enhancement of the supervision of the Digital Strategy Committee by the Board of Directors
- While continuing to monitor the utilization of digital technologies through reports from the Digital Strategy Committee, the Board of Directors also oversees the introduction of core systems for affiliated companies aimed at management control, as well as the status of information security measures, including responses to cyber threats.

(3) Supervision of the implementation status of the M&A guidelines
- To enhance the governance of overseas affiliates, the Board of Directors reviews the Business Investment Committee's operation based on the M&A guidelines and confirms the status of deliberations on individual cases.

(4) Governance tailored to the situation of affiliated companies
- A discussion was held on the autonomy of affiliated companies, rules for affiliated companies were developed, and the roles of Directors in affiliated companies were clarified.

(5) Other matters
- Under the leadership of the Nomination Advisory Committee and the Compensation Advisory Committee, a "performance-linked stock-based compensation plan" was newly introduced into the compensation system for Corporate Officers, and an incentive system linked to stock value was established, with the aim of fostering a sense of responsibility for enhancing the Company's medium- to long-term corporate value.

● Issues for further enhancing effectiveness

- Establishment of a free discussion forum aimed at formulating the Long-Term Business Plan, along with discussions on management resource allocation for the realization of business portfolio management, including the development of new businesses
- Deepening discussions on global strategy, in line with the new Long-Term Business Plan, and the concretization of an action plan in the formulation of the new Mid-Term Business Plan
- Supervision of activities by the execution side, such as "calculation and reduction of greenhouse gas (GHG) emissions," "responses to human rights due diligence," and "further enhancement of human capital" by the Sustainability Committee
- Monitoring the introduction of digital tools for enhancing global communication, human resource initiatives for creating opportunities for national staff, and the formulation of diversity and inclusion (D&I) initiatives
- Continued supervision by the Board of Directors on discussions within the Digital Strategy Committee regarding the promotion of digital technology usage to improve productivity and reform work style, considering the application of overtime regulations in the construction industry
- Revisiting the roadmap concerning the significance of cross-shareholdings

Going forward, in order to further enhance and strengthen corporate governance, we will address the identified issues in order of priority, and 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.

Supporting System for Outside Directors and Audit & Supervisory Board Members

For Outside Directors, the Legal Dept., Administrative Management Headquarters and the Corporate Planning Dept., Corporate Planning Headquarters mainly support as an executive office of the Board of Directors by distributing materials for the Board of Directors in advance, explaining the main issues of the bills in advance, and providing various relevant information as and when needed.

For Outside Audit & Supervisory Board Members, the Corporate Auditor Office, established as a secretariat for the Audit & Supervisory Board, supports by distributing materials for the Audit & Supervisory Board and the Board of Directors in advance, explaining the main issues of the bills in advance, and providing various relevant information as and when needed.

Appointment of Directors and Audit & Supervisory Board Members

In light of the business environment surrounding Taikisha, the Company 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.

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 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.

Training for Directors and Audit & Supervisory Board Members

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.

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Compensation to Directors and Audit & Supervisory Board Members

(1) Basic views on the system of compensation

The compensation to Executive Directors 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 and enhancement of governance) to serve as an incentive for achieving their performance goals. Compensation to Non-Executive Directors and Audit & Supervisory Board Members is limited to basic compensation.

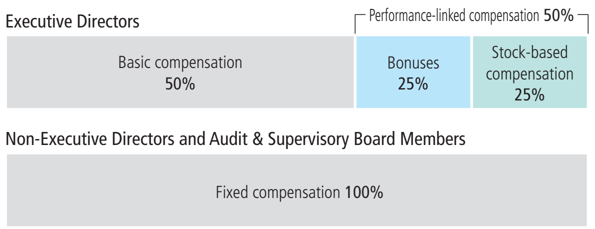
(2) Compensation structure

Classification	Contents of compensation
Executive Directors	Basic compensation (fixed compensation), and bonus and stock-based compensation (performance-linked compensation) ● The ratio of basic compensation to performance-linked compensation is approximately 5:5 on a standard payment basis, and it fluctuates according to the "(3) Performance-linked compensation scheme." ● 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 in the form of the company's shares or cash equivalent to the fair value thereof, in principle.)
Non-Executive Directors and Audit & Supervisory Board Members	Basic compensation

(3) Performance-linked compensation scheme

Performance-linked compensation is composed of bonus and stock-based compensation, with an amount equal to 50% of the total amount paid as bonus and the remaining 50% as stock-based compensation. For performance-linked compensation, evaluation is made based on financial indicators and non-financial indicators. The evaluation ratio is 70% for financial indicators and 30% for non-financial indicators. In addition, as for the 30% portion related to non-financial indicators, the actual payment ratio fluctuates between 70% and 130%, depending on the target achievement level.

● Ratio of basic compensation to performance-linked compensation



(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 and policy

・Compensation

Delegated by the Board of Directors, the President and Representative Director newly determines the compensation upon consultation with the Compensation Advisory Committee. 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.

・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.

● Total amount of compensation, etc. to Directors and Audit & Supervisory Board Members

Classification	Total amount of compensation, etc.	Total amount of compensation, etc. by type			Number of persons
		Fixed compensation	Performance-linked compensation		
		Basic compensation	Bonuses	Stock-based compensation	
Directors (excluding Outside Directors)	554 million yen	210 million yen	171 million yen	171 million yen	7
Outside Directors	48 million yen	48 million yen	—	—	4
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	45 million yen	45 million yen	—	—	2
Outside Audit & Supervisory Board Members	38 million yen	38 million yen	—	—	4

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).

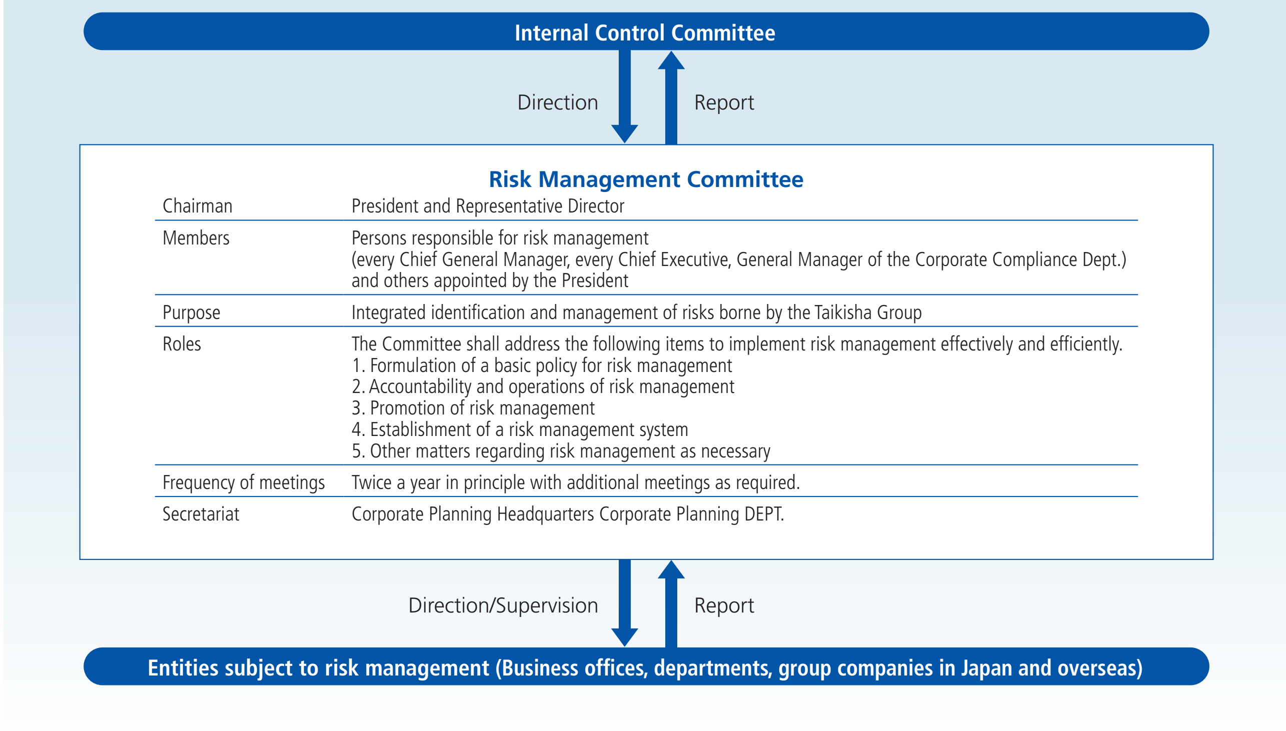
Risk Management System

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 FY2023, 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.

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	● 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 utilizing the Research and Development Center and 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	● Streamline on-site work and level the workload by promoting front-loading of on-site operations ● 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 ● Establish the Company-wide Review Meeting to strengthen systems and activities ensuring technical and quality standards across the company
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	● Develop and implement a roadmap for risk mitigation measures based on the results of IT security diagnostics ● Establish a response system for IT incidents (Taikisha's version of Computer Security Incident Response Team, or CSIRT) and promote employee education
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
Risk concerning human rights	Additional costs arising for corrective measures and remedies, a decline in social credibility, and the resulting stagnation in business activities, in cases where negative impacts on human rights occur in business activities, or situations that promote such impacts	● Establish the Taikisha Group's Human Rights Policy as a standard for human rights ● Implement human rights due diligence ● Conduct educational and awareness-raising activities for officers and employees

Information Security

In order to protect customer, business partner, and personal information from leaks and other risks, we are strengthening the information management system across the entire Taikisha Group, by establishing the Information Security Rules, which include detailed rules for all employees and persons in charge of IT system/facility development respectively, as well as rules based on the privacy policy.

To minimize the spread of damages in the event of an IT incident, we have formulated the IT Incident Response Policy, and established an response system in the event of an IT incident (Taikisha's version of CSIRT).

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

- Introduce specific countermeasures through the Information Security Guidebook
- Implement e-learning programs on IT security
- Conduct training against targeted phishing email attack

This fiscal year, based on the results of IT security diagnostics for the Group, we developed a roadmap for risk mitigation measures and implemented these measures across the Group companies.

● Other initiatives

Type of measures	Measures
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

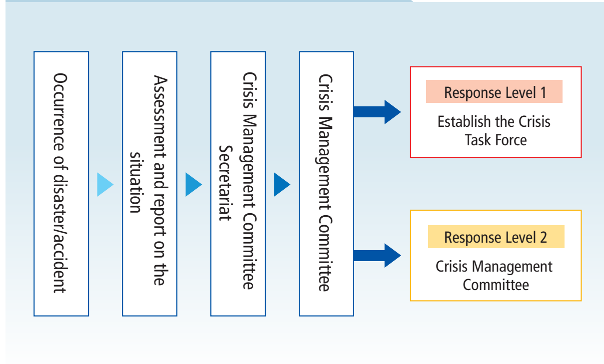
Crisis Management System

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.

For employees deployed overseas and those on overseas business travel to be able to engage in business activities without concern, we have 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.

Diagram of Crisis Management System



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.

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.

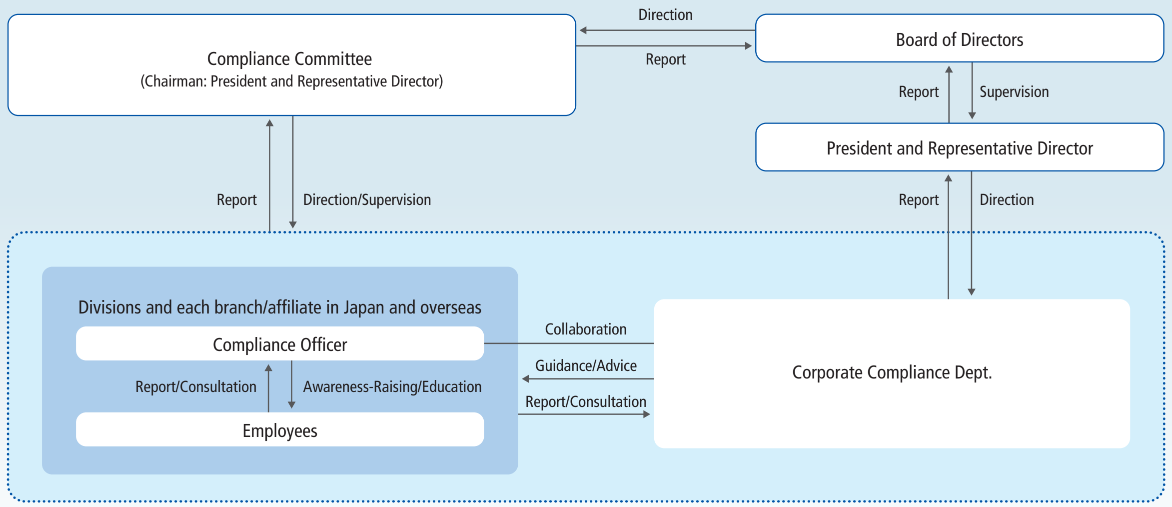
The Compliance Committee is composed of Executive Directors, the General Manager of the Corporate Compliance Department, and the General Manager of the Internal Audit Department, chaired by the President and Representative Director, and holds monthly meetings. The Compliance Committee examines and responds 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, we conduct e-learning, targeting all employees of the Group. In the e-learning program, themes are selected from items that all Group employees should understand, such as prevention of bid rigging, prevention of improper handling of construction costs, prevention of harassment, proper management of overtime hours, and the Whistle-blowing System. Additionally, we conduct training programs aimed at reducing the risk of compliance violations by familiarizing employees with important laws, regulations, and internal rules that are deemed to have a huge impact if violated.

● Overview of e-learning

Taikisha

Date	Number of participants	Question theme
First session: May 2023	1,718 (100% attendance)	Whistle-blowing system, prevention of abuse of authority
Second session: August 2023	1,717 (100% attendance)	Prevention of improper handling of construction costs, prevention of abuse of authority, proper management of overtime hours
Third session: November 2023	1,707 (100% attendance)	Prevention of abuse of authority, proper management of overtime hours, prevention of Insider Trading

[Affiliated companies]

Date	Number of participants	Question theme
First session: June 2023	2,285 (89.2% attendance)	Compliance of the Taikisha Group Whistle-blowing system
Second session: September 2023	2,658 (97.6% attendance)	The Taikisha Group's goal of "establishing an attractive company" Proper utilization of company assets

Compliance Awareness Survey

To confirm the degree of compliance awareness, we regularly conduct compliance awareness surveys targeting all Group employees. The survey results are shared with Compliance Officers and utilized to improve the workplace environment and enhance compliance activities, thereby continuing efforts to deepen awareness.

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.

Additionally, we conduct surveys with subcontractors in Japan to confirm whether they have experienced any inappropriate requests from our employees. We also work to raise awareness about our Whistle-blowing Contact Window.

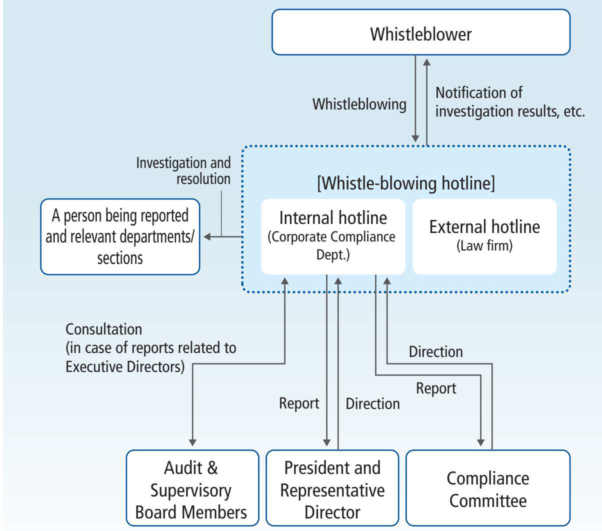
Whistle-blowing System

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 FY2023, the Company's and major affiliates' Whistle-blowing Contact Window received 2 cases and took appropriate actions upon prompt investigation of each of these cases.

Whistle-blowing Flow Chart



Financial Data for 11 Years

Financial items

	Unit	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	*Thousands of U.S. dollars FY2023
Orders received	Million yen	189,026	187,311	221,764	218,323	219,844	241,889	226,909	200,469	232,120	288,670	**263,549**	**1,740,749**
Ratio of overseas orders received	%	52.6	49.8	54.3	50.4	46.2	46.3	45.1	44.1	38.2	47.1	**43.7**	**43.7**
Net sales	Million yen	185,421	183,648	212,424	200,604	231,898	225,402	225,378	202,548	209,261	214,793	**293,556**	**1,938,947**
Green Technology System	Million yen	115,447	116,150	134,824	124,565	139,948	149,164	157,378	134,058	134,399	171,868	**216,535**	**1,430,220**
Paint Finishing System	Million yen	70,046	67,614	77,735	76,085	92,029	76,245	68,006	68,497	74,882	42,960	**77,041**	**508,862**
Ratio of overseas sales	%	61.6	55.2	55.5	49.3	50.1	47.1	41.3	45.8	48.5	37.5	**46.9**	**46.9**
Operating income	Million yen	8,083	8,669	12,734	8,473	12,180	14,035	15,439	11,690	9,428	11,556	**18,270**	**120,679**
Ratio of operating income to net sales	%	4.4	4.7	6.0	4.2	5.3	6.2	6.9	5.8	4.5	5.4	**6.2**	**6.2**
Ordinary income	Million yen	9,292	9,579	12,343	9,842	13,082	15,085	15,991	12,287	10,818	13,001	**19,852**	**131,126**
Segment profit: Green Technology System	Million yen	4,449	5,991	8,950	9,981	11,885	13,567	13,893	11,192	9,302	14,599	**17,027**	**112,470**
Segment profit: Paint Finishing System	Million yen	4,506	3,260	3,524	(115)	1,160	1,676	2,814	911	667	(1,606)	**2,804**	**18,526**
Ratio of ordinary income to net sales	%	5.0	5.2	5.8	4.9	5.6	6.7	7.1	6.1	5.2	6.1	**6.8**	**6.8**
Profit attributable to owners of parent	Million yen	4,155	6,084	7,084	6,305	7,254	8,841	9,132	8,279	7,248	7,917	**15,602**	**103,055**
Return on equity (ROE)	%	5.3	6.9	7.6	6.8	7.2	8.3	8.4	7.2	5.9	6.3	**11.6**	**11.6**
Total assets	Million yen	166,680	188,283	189,566	199,024	215,392	223,080	215,389	228,855	228,159	237,105	**266,494**	**1,760,199**
Net assets	Million yen	84,712	99,669	95,921	100,184	110,650	113,649	112,843	126,311	130,788	131,992	**151,562**	**1,001,070**
Equity ratio	%	48.3	50.4	48.0	48.1	48.8	48.8	50.2	52.9	54.7	53.1	**54.0**	**54.0**
Cash flows from operating activities	Million yen	7,532	1,401	7,301	6,679	9,337	9,159	21,386	973	(8,544)	4,806	**20,738**	**136,979**
Cash flows from investing activities	Million yen	(1,194)	(3,900)	(328)	(6,505)	1,390	(2,830)	(877)	(6,913)	(1,071)	(1,748)	**2,148**	**14,193**
Cash flows from financing activities	Million yen	(3,290)	1,264	(7,409)	(5,286)	(885)	2,396	(11,475)	(1,435)	6,000	(9,822)	**(5,545)**	**(36,628)**
Research and development expenses	Million yen	876	822	889	946	1,024	1,084	1,105	1,122	1,106	1,149	**1,166**	**7,703**
Depreciation	Million yen	1,290	1,257	1,348	1,290	1,398	2,030	2,167	2,362	2,496	2,000	**1,469**	**9,706**
Purchase of property, plant and equipment and intangible assets	Million yen	(1,734)	(1,247)	(1,941)	(1,807)	(3,832)	(4,140)	(2,086)	(2,270)	(2,314)	(2,176)	**(3,885)**	**(25,664)**

Per share data:

	Unit	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	*U.S. dollars FY2023
Profit attributable to owners of parent	Yen	116.08	172.64	204.35	183.16	212.40	259.53	268.07	243.03	212.69	234.62	**471.94**	**3.12**
Net assets	Yen	2,282.56	2,690.76	2,633.60	2,799.30	3,087.51	3,193.18	3,176.25	3,552.69	3,658.54	3,788.75	**4,388.08**	**28.98**
Annual dividend	Yen	45	52	67	70	75	91	100	90	100	121	**131**	**0.87**
Dividend payout ratio	%	38.8	30.1	32.8	38.2	35.3	35.1	37.3	37.0	47.0	51.6	**27.8**	**27.8**
Total return ratio	%	80.5	30.2	63.8	54.0	42.2	35.1	37.5	37.2	47.2	89.3	**40.6**	**40.6**

* The U.S. dollar amounts are translated on the basis of nearly 151.40 yen to 1 dollar, the rate of exchange prevailing at March 31, 2024.
* 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.

RESULTS OF OPERATIONS (OVERVIEW)

The results for the fiscal year ended March 31, 2024

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.

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

Earnings Overview

In this fiscal year, the global economy remained unstable due to increasing geopolitical risks in regions including Eastern Europe and the Middle East, as well as continuous inflation. In the U.S., despite concerns of an economic recession against a backdrop of prolonged inflation and high interest rates, personal consumption and employment conditions remained favorable, and the economy remained strong. In China, the economy slowed down due to sluggish domestic and foreign demand, particularly in the real estate market. In Southeast Asia, although there was a recovery in domestic demand due to improvements in employment and public investment, the pace of growth decelerated due to the slowdown of overseas economies. Although the Japanese economy normalized to a degree due to improvements in employment and income conditions, the outlook remains uncertain due to financial policies and geopolitical risks overseas.

Among the market environments of the Taikisha Group, in overseas markets, capital investment by various manufacturers remained strong, despite concerns about a slowdown in the global economy.

On the other hand, in the domestic market, investments by semiconductor-related and automobile manufacturers continued, and the demand for redevelopment in urban areas remained strong.

Under such circumstances, in order to achieve medium- to long-term growth, the Taikisha Group promotes the following initiatives.

Firstly, as an initiative for "horizontal deployment of strength of technology" which is stated in the Mid-Term Business Plan, the Company developed the target-guided airflow system "FOLLOAS." It is an air-outlet system that can follow the movement of people by utilizing image recognition technology. It is expected to improve workers' comfort and reduce energy consumption and CO_2 emissions by reducing the overall air supply volume.

Individual air conditioning systems with fixed air outlets have been installed in conventional factories, although they do not cover the entire range of worker movements, making factory operations in the summer times difficult.

The Company has been developing ICT-based technology, focusing especially on applying image recognition technology to existing technologies. The Company has developed a product that changes the direction of air supply following the subject by combining the air conditioning control technology that the Company had been developing over many years with image recognition technology to create personal air conditioning.

Currently, the Company has already been introducing these systems to customers who consider improving the working environment, prepare for the heat, and saving energy of the entire factory. The Company has started mass production based on the results of trial installations and durability verification in several factories.

Secondly, through the initiative in PF System Division "development with an awareness of global issues", the Taikisha Group subsidiary TKS Industrial Company (currently Taikisha USA, Inc.) gave a presentation jointly with Nippon Paint Automotive Coatings Co., Ltd on dry decoration at the International Automotive Body Finishing Conference, "SURCAR 6th AMERICAN CONGRESS" in Detroit, USA, one of the most prestigious international conferences in the automotive coating industry, in June 2023. As a result, they received the Jury's Award, which is granted to the presentation that receives the highest evaluation from the judges. Dry decoration has had issues related to the size and shape of the coated object that can be decorated. This presentation was highly praised 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.

In order to establish the process line of dry decoration, the Company is planning to construct the demo-line in our R&D facility by fall 2024 to prepare for mass production.

The Company will contribute to the realization of decarbonized society through the technological development of dry decoration as a value-added technology for automobile exteriors.

Given such circumstances, due to reactionary decline from large orders received in the previous fiscal year, consolidated orders received decreased 8.7% year-on-year to ¥263,549 million, decreasing both in Japan and overseas. This includes orders received overseas, which decreased 15.3% year-on-year to ¥115,142 million.

Consolidated net sales of completed construction contracts increased 36.7% year-on-year to ¥293,556 million, increasing both in Japan and overseas. This includes net sales of completed construction contracts overseas, which increased 71.0% year-on-year to ¥137,792 million.

In regard to profits, gross profit on completed construction contracts increased ¥10,240 million year-on-year to ¥43,312 million, operating income increased ¥6,714 million year-on-year to ¥18,270 million, ordinary income increased ¥6,850 million year-on-year to ¥19,852 million, and profit attributable to owners of parent increased ¥7,685 million year-on-year to ¥15,602 million.

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

Green Technology System

Consolidated orders received decreased compared to the previous fiscal year, as orders decreased in Japan, China, Taiwan, and other countries, mainly due to a reactionary decline from the large orders received in the previous fiscal year in the industrial HVAC sector. The consolidated net sales of completed construction contacts increased compared to the previous fiscal year, due to increases in Japan, Taiwan, and other countries.

As a result, consolidated orders received decreased 17.4% year-on-year to ¥171,902 million. The breakdown is orders received for building HVAC of ¥36,205 million which increased 0.0% year-on-year and orders received for industrial HVAC of ¥135,697 million which decreased 21.1% year-on-year. Consolidated net sales of completed construction contracts increased 26.0% year-on-year to ¥216,535 million. The breakdown is sales for building HVAC of ¥40,756 million which decreased 10.1% year-on-year and sales for industrial HVAC of ¥175,778 million which increased 38.9% year-on-year. Segment profit (ordinary income) increased ¥2,428 million year-on-year to ¥17,027 million.

Paint Finishing System

Consolidated orders received increased compared to the previous fiscal year, due to increases in North America and other regions. The consolidated net sales of completed construction contracts increased compared to the previous fiscal year, due to increases in regions such as North America and Korea.

As a result, consolidated orders received increased 13.7% year-on-year to ¥91,646 million and consolidated net sales of completed construction contracts increased 79.3% year-on-year to ¥77,041 million. Segment profit (ordinary income) was ¥2,804 million (segment loss of ¥1,606 million in the previous fiscal year).

Financial Condition

Assets

As of March 31, 2024, current assets increased 10.2% year-on-year to ¥203,374 million. This is mainly due to increase in securities of ¥9,000 million and cash and deposits of ¥8,474 million.

Non-current assets increased 19.9% year-on-year to ¥63,119 million. This is mainly due to increase in investment securities of ¥4,392 million and net defined benefit asset of ¥2,986 million.

As a result, total assets increased 12.4% year-on-year to ¥266,494 million.

Assets by reportable segment are as follows.

Green Technology System

As of March 31, 2024, current assets decreased 9.6% year-on-year to ¥105,759 million. This is mainly due to decrease in notes receivables, accounts receivable from completed construction contracts and other of ¥8,514 million and cash and deposits of ¥2,886 million.

Non-current assets increased 30.2% year-on-year to ¥37,267 million. This is mainly due to increase in construction in process of ¥2,684 which is included in "other" of property, plant and equipment, and investment securities of ¥5,691 million.

As a result, total assets decreased 1.7% year-on-year to ¥143,027 million.

Paint Finishing System

As of March 31, 2024, current assets increased 58.4% year-on-year to ¥58,826 million. This is mainly due to increase in notes receivable, accounts receivable from completed construction contracts and other of ¥16,532 million and cash and deposits of ¥4,281 million.

Non-current assets decreased 12.4% year-on-year to ¥10,648 million. This is mainly due to decrease in investment securities of ¥1,299 million.

As a result, total assets increased 40.9% year-on-year to ¥69,474 million.

Liabilities

As of March 31, 2024, current liabilities increased 7.9% year-on-year to ¥103,504 million. This is mainly due to increase in notes payable, accounts payable for construction contracts and other of ¥9,395 million and income taxes payable of ¥2,699 million despite decrease in advances received on uncompleted construction contracts of ¥9,407 million.

Non-current liabilities increased 24.6% year-on-year to ¥11,427 million. This is mainly due to increase in deferred tax liabilities of ¥2,019 million.

As a result, total liabilities increased 9.3% year-on-year to ¥114,932 million.

Net assets

As of March 31, 2024, total net assets increased 14.8% year-on-year to ¥151,562 million. This is mainly due to increase in retained earnings of ¥11,572 million, valuation difference on available-for-sale securities of ¥3,837 million, and foreign currency translation adjustment of ¥2,977 million, despite decrease in purchase and disposal of treasury shares of ¥1,810 million.

Cash flows

Cash and cash equivalents (collectively, "Cash") as of March 31, 2023 and 2024 were ¥43,946 million and ¥63,265 million respectively. Compared to the previous year, it increased ¥19,319 million.

Cash flows from operating activities

Cash provided by operating activities for the year ended March 31, 2023 and 2024 totaled ¥4,806 million and ¥20,738 million respectively. Cash increased mainly due to recording of profit before income taxes and increase in notes payable, accounts payable for construction contracts and other, although decreased mainly due to decrease in advances received on uncompleted construction contracts.

Cash flows from investing activities

Cash used in investing activities for the year ended March 31, 2023 was ¥1,748 million, and cash provided by investing activities for the year ended March 31, 2024 was ¥2,148 million. Cash increased mainly due to proceeds from withdrawal of time deposits and proceeds from sales of investment securities, although decreased mainly due to payments into time deposits and purchase of property, plant and equipment and intangible assets.

Cash flows from financing activities

Cash used in financing activities for the year ended March 31, 2023 and 2024 totaled ¥9,822 million and ¥5,545 million respectively. Cash decreased mainly due to cash dividends paid, net increase in treasury shares, and cash dividends paid to non-controlling interests.

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, 2024.

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, or reduction in new capital investment due to sluggish worldwide car sales. 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 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 will utilize the Technology Development Center and R&D satellite facility "TAIKISHA INNOVATION GATE Shinjuku" 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 operational 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 has been 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, and clarified health management promotion system with President and Representative Director to become the supervisor of health control.

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 critical contract nonconformity due to such as critical 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, Taikisha Group's business performance and other results might be affected should the costs exceed the balance of the provision.

In response, the Taikisha Group strives to strengthen the management system and takes all possible measures for safety and health management at construction sites through improving safety awareness and level by promoting the use of safety-related ICT and DX, reducing on-site construction risks by adopting factory-processed products, and instructing as well as checking partner companies to create detailed work procedure diagrams. In addition, the Taikisha Group is enforcing the structure of assuring the technical quality on a company-wide basis by reviewing the construction management system, promoting the introduction of digital technology in construction management, sharing of information regarding quality, and working to prevent quality defects by establishing a company-wide committee.

Risk of Changes in Material Prices and Unit Labor Costs

Sharp rises in material prices due to 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 will formulate a roadmap for risk mitigation measures, which will be implemented at each Group company based on the results of the Group's IT security assessment. In addition, in the effort to prevent the leakage of confidential information, the Company has established an IT incident response system (Taikisha version of CSIRT) and has been promoting education for all employees, such as IT security e-learning, targeted attack e-mail training and so on.

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.

Risk Associated with the Human Rights

If the Taikisha Group's business activities cause or encourage negative impacts on human rights, the Taikisha Group's operating results may be affected by additional costs related to corrective or remedial measures, or stagnation of business activities due to a loss of public trust.

As a company with global operations, the Taikisha Group recognizes respect for human rights as one of the most important matters, and has established the Taikisha Group Human Rights Policy as a code of conduct for human rights in the Taikisha Group's business activities. Under the policy, the Group is committed to reducing and preventing human rights risks by promoting initiatives to respect human rights, including compliance with governance, implementation of human rights due diligence throughout the supply chain, and education and awareness-raising activities for officers and employees.

Subsidiaries and associates

Taikisha Group consists of Taikisha Ltd., 32 subsidiaries, and 3 associates. Taikisha Ltd., 4 subsidiaries and 1 associate are domiciled in Japan, and 28 subsidiaries and 2 associates are domiciled overseas.

CONSOLIDATED BALANCE SHEETS

Taikisha Ltd. and its Consolidated Subsidiaries
As of March 31, 2023 and 2024

Assets	Millions of yen 2023	Millions of yen 2024	Thousands of U.S. dollars 2024
Current assets:			
Cash and deposits (Note 3(3))	¥46,988	¥55,462	$366,333
Notes receivable, accounts receivable from completed construction contracts and other (Note 3(1) (7))	124,236	125,357	827,990
Securities	–	9,000	59,445
Costs on uncompleted construction contracts	2,346	2,274	15,026
Raw materials and supplies	843	1,092	7,217
Other	10,721	11,209	74,038
Allowance for doubtful accounts	(668)	(1,023)	(6,758)
Total current assets	184,467	203,374	1,343,291
Non-current assets:			
Property, plant and equipment			
Buildings and structures	8,043	8,636	57,044
Machinery, vehicles, tools, furniture and fixtures (Note 3(3))	7,852	8,562	56,556
Land	1,705	1,782	11,770
Other	1,163	3,996	26,395
Accumulated depreciation	(10,207)	(11,282)	(74,524)
Total property, plant and equipment	8,557	11,694	77,241
Intangible assets			
Goodwill	3,640	3,528	23,305
Customer-related assets	1,184	1,146	7,570
Other	1,104	1,275	8,424
Total intangible assets	5,929	5,949	39,299
Investments and other assets			
Investment securities (Note 3(2))	26,487	30,879	203,961
Deferred tax assets	582	846	5,594
Net defined benefit asset	8,595	11,582	76,501
Other	2,993	2,875	18,992
Allowance for doubtful accounts	(507)	(708)	(4,680)
Total investments and other assets	38,152	45,475	300,368
Total non-current assets	52,638	63,119	416,908
Total assets	¥237,105	¥266,494	$1,760,199

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

Liabilities and Net assets	Millions of yen 2023	Millions of yen 2024	Thousands of U.S. dollars 2024
Current liabilities:			
Notes payable, accounts payable for construction contracts and other (Note 3(7))	¥55,472	¥64,867	$428,452
Short-term loans payable	2,942	3,747	24,754
Income taxes payable	1,772	4,472	29,538
Advances received on uncompleted construction contracts	23,306	13,899	91,803
Provision for warranties for completed construction	614	698	4,611
Provision for loss on construction contracts	300	364	2,410
Provision for directors' bonuses	71	173	1,149
Other	11,460	15,281	100,932
Total current liabilities	95,940	103,504	683,649
Non-current liabilities:			
Long-term loans payable	98	143	948
Deferred tax liabilities	7,034	9,053	59,798
Provision for directors' retirement benefits	56	39	262
Provision for share awards	–	30	202
Provision for share awards for directors	212	270	1,790
Net defined benefit liability	1,343	1,377	9,101
Other	427	511	3,379
Total non-current liabilities	9,172	11,427	75,480
Total liabilities	¥105,112	¥114,932	$759,129
Net assets:			
Shareholders' equity			
Capital stock			
Authorized: 100,000,000 shares			
Issued: 33,582,009 shares as of March 31, 2023; 33,582,009 shares as of March 31, 2024	¥6,455	¥6,455	$42,637
Capital surplus	3,540	3,620	23,911
Retained earnings	100,296	111,869	738,898
Treasury shares, at cost — 380,689 shares as of March 31,2023	(1,158)	–	–
759,124 shares as of March 31,2024	–	(2,969)	(19,614)
Total shareholders' equity	109,133	118,974	785,832
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	10,535	14,373	94,935
Deferred gains or losses on hedges	(63)	(57)	(382)
Foreign currency translation adjustment	4,779	7,757	51,237
Accumulated remeasurements of defined benefit plans	1,405	2,981	19,696
Total accumulated other comprehensive income	16,657	25,054	165,486
Non-controlling interests	6,201	7,532	49,752
Total net assets	131,992	151,562	1,001,070
Total liabilities and net assets	¥237,105	¥266,494	$1,760,199

Per share data :	Yen 2023	Yen 2024	U.S. dollars 2024
Net assets	¥3,788.75	¥4,388.08	$28.98

Basis of calculation	Millions of yen 2023	Millions of yen 2024	Thousands of U.S. dollars 2024
Total net assets	¥131,992	¥151,562	$1,001,070
Amounts to be deducted from net assets (Non-controlling interests)	(6,201)	(7,532)	(49,752)
Net assets applicable to common shares	125,791	144,029	951,318
Number of common shares as of the year-end (thousands of shares)	33,201	32,822	32,822

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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Consolidated Statements of Income			
Net sales of completed construction contracts (Note 4(1))	¥214,793	¥293,556	$1,938,947
Cost of sales of completed construction contracts (Note 4(7))	181,721	250,244	1,652,869
Gross profit on completed construction contracts	33,071	43,312	286,078
Selling, general and administrative expenses:			
Directors' compensations	915	886	5,858
Employees' salaries and allowances	8,157	10,449	69,018
Provision for directors' bonuses	71	173	1,149
Retirement benefit expenses	330	294	1,944
Provision for directors' retirement benefits	11	10	70
Provision for share awards for directors	67	171	1,134
Provision for share awards	–	30	202
Correspondence and transportation expenses	1,091	1,375	9,083
Provision of allowance for doubtful accounts	332	587	3,880
Rents	1,322	1,289	8,518
Depreciation	1,578	1,098	7,253
Amortization of goodwill	462	484	3,197
Other	7,172	8,189	54,093
Total selling, general and administrative expenses (Note 4(2))	21,515	25,041	165,399
Operating income	11,556	18,270	120,679
Non-operating income:			
Interest income	324	897	5,927
Dividend income	698	681	4,499
Dividend income of insurance	178	188	1,248
Real estate rent	112	113	748
Foreign exchange gains	78	–	–
Reversal of allowance for doubtful accounts	0	–	–
Share of profit of entities accounted for using equity method	–	22	145
Other	372	283	1,872
Total non-operating income	1,766	2,186	14,439
Non-operating expenses:			
Interest expenses	152	240	1,590
Rent expenses on real estates	15	15	105
Foreign exchange losses	–	274	1,816
Provision of allowance for doubtful accounts	–	0	1
Share of loss of entities accounted for using equity method	3	–	–
Other	149	72	480
Total non-operating expenses	320	604	3,992
Ordinary income	13,001	19,852	131,126
Extraordinary income:			
Gain on disposal of non-current assets (Note 4(3))	18	13	88
Gain on sales of investment securities	1,844	3,167	20,919
Gain on sale of shares of subsidiaries and associates	881	–	–
Total extraordinary income	2,744	3,180	21,007
Extraordinary losses:			
Loss on disposal of non-current assets (Note 4(4))	57	31	208
Impairment loss (Note 4(5))	642	0	0
Loss on sale of investment securities	0	–	–
Loss on valuation of investment securities	21	0	0
Loss on sale of shares of subsidiaries and associates	3	–	–
Business restructuring expenses (Note 4(6))	2,461	–	–
Total extraordinary losses	3,188	31	208
Profit before income taxes	12,557	23,001	151,925
Income taxes-current	4,002	6,733	44,474
Income taxes-deferred	(286)	(491)	(3,244)
Total income taxes	3,716	6,242	41,230
Profit	8,841	16,759	110,695
Profit attributable to non-controlling interests	924	1,156	7,640
Profit attributable to owners of parent	¥7,917	¥15,602	$103,055

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Consolidated Statements of Comprehensive Income			
Profit	¥8,841	¥16,759	$110,695
Other comprehensive income:			
Valuation difference on available-for-sale securities	(1,372)	3,837	25,346
Deferred gains or losses on hedges	(38)	5	37
Foreign currency translation adjustment	2,664	3,382	22,345
Remeasurements of defined benefit plans	(516)	1,583	10,459
Share of other comprehensive income of entities accounted for using equity method	29	28	190
Total other comprehensive income (Note 5(1))	765	8,838	58,377
Comprehensive income	¥9,607	¥25,597	$169,072
Comprehensive income attributable to :			
Owners of parent	¥8,467	¥23,999	$158,518
Non-controlling interests	1,139	1,597	10,554

	Yen		U.S. dollars
Per share data:			
Profit attributable to owners of parent	¥234.62	¥471.94	$3.12
Cash dividends	¥121.00	¥131.00	$0.87

	Millions of yen		Thousands of U.S. dollars
Basis of calculation			
Profit attributable to owners of parent	¥7,917	¥15,602	$103,055
Profit attributable to owners of parent for common shares	7,917	15,602	103,055
Average number of common shares (thousands of shares)	33,744	33,060	33,060

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, 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
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, 2024 — 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	¥3,540	¥100,296	¥(1,158)	¥109,133	¥10,535	¥(63)	¥4,779	¥1,405	¥16,657	¥6,201	¥131,992
Changes of items during the period												
Dividends of surplus			(4,029)		(4,029)							(4,029)
Profit attributable to owners of parent			15,602		15,602							15,602
Purchase of treasury shares				(2,201)	(2,201)							(2,201)
Disposal of treasury shares		79		390	470							470
Cancellation of treasury shares					–							–
Purchase of shares of consolidated subsidiaries					–							–
Sale of shares of consolidated subsidiaries					–							–
Net changes of items other than shareholders' equity						3,837	5	2,977	1,576	8,397	1,330	9,727
Total changes of items during the period	–	79	11,572	(1,810)	9,841	3,837	5	2,977	1,576	8,397	1,330	19,569
Balance at the end of current period	¥6,455	¥3,620	¥111,869	¥(2,969)	¥118,974	¥14,373	¥(57)	¥7,757	¥2,981	¥25,054	¥7,532	¥151,562

For the year ended March 31, 2024 — 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	$42,637	$23,386	$662,462	$(7,653)	$720,832	$69,589	$(419)	$31,569	$9,284	$110,023	$40,961	$871,816
Changes of items during the period												
Dividends of surplus			(26,618)		(26,618)							(26,618)
Profit attributable to owners of parent			103,055		103,055							103,055
Purchase of treasury shares				(14,542)	(14,542)							(14,542)
Disposal of treasury shares		525		2,581	3,106							3,106
Cancellation of treasury shares					–							–
Purchase of shares of consolidated subsidiaries					–							–
Sale of shares of consolidated subsidiaries					–							–
Net changes of items other than shareholders' equity						25,346	37	19,668	10,412	55,463	8,791	64,254
Total changes of items during the period	–	525	76,437	(11,961)	65,001	25,346	37	19,668	10,412	55,463	8,791	129,255
Balance at the end of current period	$42,637	$23,911	$738,899	$(19,614)	$785,833	$94,935	$(382)	$51,237	$19,696	$165,486	$49,752	$1,001,071

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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash flows from operating activities:			
Profit before income taxes	¥12,557	¥23,001	$151,924
Depreciation and amortization	2,000	1,469	9,706
Amortization of goodwill	462	484	3,197
Increase (decrease) in allowance for doubtful accounts	315	484	3,199
Increase (decrease) in provision for warranties for completed construction	(81)	49	330
Increase (decrease) in provision for loss on construction contracts	(103)	55	370
Increase (decrease) in provision for directors' retirement benefits	11	(16)	(112)
Increase (decrease) in provision for share awards	–	30	202
Increase (decrease) in provision for share awards for directors	67	58	385
Increase (decrease) in net defined benefit liability	(597)	(782)	(5,166)
Interest and dividend income	(1,022)	(1,578)	(10,426)
Interest expenses	152	240	1,590
Share of (profit) loss of entities accounted for using equity method	3	(22)	(145)
Loss (gain) on disposal of non-current assets	39	18	120
Loss (gain) on sales of investment securities	(1,843)	(3,167)	(20,919)
Loss (gain) on valuation of investment securities	21	0	0
Loss (gain) on sale of shares of subsidiaries and associates	(878)	–	–
Business restructuring expenses	2,461	–	–
Decrease (increase) in notes and accounts receivable-trade	(31,405)	1,159	7,659
Decrease (increase) in inventories	(356)	(10)	(67)
Decrease (increase) in accounts receivable-other	(17)	181	1,198
Increase (decrease) in notes and accounts payable-trade	10,670	8,182	54,047
Increase (decrease) in advances received on uncompleted construction contracts	17,466	(10,381)	(68,567)
Increase (decrease) in accrued consumption taxes	443	(437)	(2,891)
Increase (decrease) in deposits received	529	(485)	(3,210)
Increase (decrease) in accrued expenses	(84)	767	5,071
Other, net	(310)	4,039	26,682
Subtotal	10,502	23,342	154,177
Interest and dividend income received	1,017	1,578	10,426
Interest expenses paid	(152)	(240)	(1,590)
Income taxes paid	(4,099)	(3,941)	(26,034)
Payments for business restructuring expenses	(2,461)	–	–
Net cash provided by (used in) operating activities	4,806	20,738	136,979
Cash flows from investing activities:			
Payments into time deposits	(4,056)	(7,956)	(52,556)
Proceeds from withdrawal of time deposits	4,293	9,996	66,024
Purchase of securities	–	(3,000)	(19,815)
Proceeds from redemption of securities	–	3,000	19,815
Purchase of property, plant and equipment and intangible assets	(2,176)	(3,885)	(25,664)
Proceeds from sales of property, plant and equipment and intangible assets	52	24	165
Purchase of investment securities	(44)	(1)	(8)
Proceeds from sales of investment securities	3,145	4,224	27,904
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation (Note 7(2))	(2,270)	–	–
Payments of long-term loans receivable	(183)	(74)	(490)
Collection of long-term loans receivable	50	195	1,292
Purchase of insurance funds	(0)	(0)	(3)
Proceeds from maturity of insurance funds	–	1	9
Purchase of long-term prepaid expenses	(228)	(474)	(3,131)
Other, net	(329)	98	651
Net cash provided by (used in) investing activities	(1,748)	2,148	14,193
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(134)	532	3,519
Proceeds from long-term loans payable	101	205	1,356
Repayments of long-term loans payable	(201)	(139)	(918)
Repayments of lease obligations	(102)	(117)	(777)
Net decrease (increase) in treasury shares	(3,001)	(1,731)	(11,437)
Cash dividends paid	(4,090)	(4,030)	(26,623)
Cash dividends paid to non-controlling interests	(304)	(264)	(1,748)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,087)	–	–
Net cash provided by (used in) financing activities	(9,822)	(5,545)	(36,628)
Effect of exchange rate change on cash and cash equivalents	1,919	1,977	13,064
Net increase (decrease) in cash and cash equivalents	(4,845)	19,319	127,608
Cash and cash equivalents at beginning of period	48,791	43,946	290,265
Cash and cash equivalents at end of period (Note 7(1))	¥43,946	¥63,265	$417,873

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, 2023 and 2024

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 ¥151.40 to US$1, the rate of exchange prevailing at March 31, 2024, 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 consolidation fiscal year ended March 31, 2024, Taikisha Hungary Kft. has been included in the scope of consolidation because it is newly established.

The consolidated financial statements include the accounts of the Company and all significant subsidiaries listed below as of March 31, 2024:

Domestic subsidiaries

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

Overseas subsidiaries

TKS Industrial Company (the company name changed to Taikisha USA, Inc. in April 2024)
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
Taikisha Hungary Kft.

(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 awards

In order to prepare for shared-based remuneration to corporate officers upon their retirements, the estimated amount of provision for share-based obligation as of the fiscal year end is provided based on the Corporate Officer Stock Benefit Rules.

Provision for share awards 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.

Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts, non-deliverable forwards (NDF),
Hedged items: Foreign currency receivables, foreign currency payables, future transactions in foreign currency

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.

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.

(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
	2023	2024	2024
Net sales of completed construction contracts	¥189,094	¥271,781	$1,795,123

(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
	2023	2024	2024
Goodwill	¥3,640	¥3,528	$23,305
Customer-related assets	¥1,184	¥1,146	$7,570

(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) Additional 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 (excluding Outside Board Members) (hereinafter referred to as the "Board Members"), starting from the second quarter, 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 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 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 ¥511 million (US$3,377 thousand) for the fiscal year, and the number of such shares is 120,700 for the previous fiscal year and 149,500 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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Notes receivable - trade	¥9,672	¥5,518	$36,449
Accounts receivable from completed construction contracts	48,339	60,243	397,908
Contract assets	¥66,224	¥59,596	$393,633

(2) The information of associates

As of March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Investment securities	¥594	¥645	$4,262

(3) Pledged assets

Assets pledged as collateral for loans payable of subsidiaries and associates

As of March 31, 2023	Millions of yen	
Pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥280	¥189
Machinery, vehicles, tools, furniture and fixtures	¥6	¥4

As of March 31, 2024	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	¥329	¥225	$2,176	$1,492
Machinery, vehicles, tools, furniture and fixtures	¥12	¥7	$85	$49

Assets pledged as collateral for security deposits at subsidiaries and associates

As of March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and deposits	¥60	¥65	$435

Assets pledged as collateral for overdraft facilities of subsidiaries and associates

As of March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and deposits	¥19	¥20	$136

(4) Guarantee obligations

As of March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.	¥484	¥305	$2,018

(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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Total amount of lending commitment	¥5,000	¥5,000	$33,025
Borrowing execution balance	–	–	–
Net	¥5,000	¥5,000	$33,025

(6) Endorsed notes

As of March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Endorsed notes	¥20	¥0	$4

(7) Outstanding notes receivable and notes payable which maturity dates are same date as balance sheet date

Notes receivable and notes payable are settled as of the date of bank clearing. However, as the balance sheet date of this fiscal year was a bank holiday, the following notes are included in the balance as of this fiscal year end.

For the years ended March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Notes receivable-trade	¥–	¥17	$113
Electronically recorded monetary claims-operating	–	183	1,215
Notes payable-trade	–	797	5,269
Electronically recorded obligations-operating	¥–	¥4,909	$32,430

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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
General and administrative expenses	¥1,149	¥1,166	$7,703

(3) Gain on disposal of non-current assets

For the years ended March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Buildings and structures	¥0	¥–	$–
Machinery, vehicles, tools, furniture and fixtures	17	13	88
Leasehold and guarantee deposits	0	–	–
Total	¥18	¥13	$88

(4) Loss on disposal of non-current assets

For the years ended March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Buildings and structures	¥24	¥4	$30
Machinery, vehicles, tools, furniture and fixtures	17	26	177
Land	15	–	–
Software	0	0	1
Other	0	–	–
Total	¥57	¥31	$208

(5) Impairment loss

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

Location	Usage	Classification of asset	Millions of yen Impairment loss
Sugito Factory	Business Asset	Buildings and Machineries	588
Itabashi R&D Center	Common Asset	Buildings and Machineries	52
Head Office	Common Asset	Tools, Furniture and Fixtures	2

(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 for buildings and structures and ¥279 million 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%.

For the year ended March 31, 2024

Not applicable.

(6) Business restructuring expenses

For the year ended March 31, 2023

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

For the year ended March 31, 2024

Not applicable.

(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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Provision for loss on construction contracts	¥151	¥314	$2,076

5. Notes of consolidated statements of comprehensive income

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

For the years ended March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Valuation difference on available-for-sale securities			
Net gains (losses) arising during the period	¥(26)	¥8,563	$56,565
Reclassification adjustments	(1,843)	(3,167)	(20,919)
Before tax effects	(1,870)	5,396	35,646
Tax effects	497	(1,559)	(10,300)
Valuation difference on available-for-sale securities	(1,372)	3,837	25,346
Deferred gains or losses on hedges			
Net gains (losses) arising during the period	(55)	8	53
Reclassification adjustments	–	–	–
Before tax effects	(55)	8	53
Tax effects	17	(2)	(16)
Deferred gains or losses on hedges	(38)	5	37
Foreign currency translation adjustment			
Net gains (losses) arising during the period	2,664	3,382	22,345
Foreign currency translation adjustment	2,664	3,382	22,345
Remeasurements of defined benefit plans			
Net gains (losses) arising during the period	(466)	2,704	17,864
Reclassification adjustments	(320)	(421)	(2,785)
Before tax effects	(787)	2,282	15,079
Tax effects	270	(699)	(4,620)
Remeasurements of defined benefit plans	(516)	1,583	10,459
Share of other comprehensive income of entities accounted for using equity method			
Net gains (losses) arising during the period	29	28	190
Other comprehensive income	¥765	¥8,838	$58,377

6. Notes of consolidated statements of changes in net assets

(1) The number of issued shares

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.

For the year ended March 31, 2024	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	33,582,009	–	–	33,582,009

(2) The number of treasury 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 (*).
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.

For the year ended March 31, 2024	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	380,689	507,735	129,300	759,124

(Note1) The number of treasury shares increased by 453,100 shares because of the approval of Board of directors, by 435 shares because of purchase of shares less than one unit (*), and by 54,200 shares acquired by Custody Bank of Japan, Ltd. (Trust E account) for Board Benefit Trust (BBT).
The number decreased by 103,900 shares because of disposal of treasury shares for Custody Bank of Japan, Ltd. (Trust E account) and by 25,400 shares because of benefit for Board Benefit Trust (BBT).
(Note2) The number of treasury shares as of the fiscal year end includes 149,500 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, 2023

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, 2022)	Common shares	¥2,394	¥70.00	March 31, 2022	June 30, 2022
Board of directors (November 10, 2022)	Common shares	¥1,699	¥50.00	September 30, 2022	November 30, 2022

(Note1) Dividends on June 29, 2022 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 10, 2022 includes dividends of ¥6 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, 2024

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, 2023)	Common shares	¥2,365	$15,627	¥71.00	$0.47	March 31, 2023	June 30, 2023
Board of directors (November 13, 2023)	Common shares	¥1,664	$10,991	¥50.00	$0.33	September 30, 2023	November 30, 2023

(Note1) Dividends on June 29, 2023 includes dividends of ¥8 million (US$57 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 13, 2023 includes dividends of ¥7 million (US$49 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, 2023

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

(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, 2024

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 27, 2024)	Common shares	Retained earnings	¥2,670	$17,640	¥81.00	$0.54	March 31, 2024	June 28, 2024

(Note) Dividends total includes dividends of ¥12 million (US$80 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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and deposits	¥46,988	¥55,462	$366,333
Securities	–	9,000	59,445
Sub total	46,988	64,462	425,778
Time deposits over three months	(3,042)	(1,196)	(7,905)
Cash and cash equivalents	¥43,946	¥63,265	$417,873

(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, 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
Current assets	¥18,575
Non-current assets	3,812
Total assets	22,388
Current liabilities	18,605
Non-current liabilities	5,690
Total liabilities	¥24,295

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".

For the year ended March 31, 2024

Not applicable.

(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 titles which the Companies use are "Buildings and Structures" and "Machinery, vehicles, tools, furniture and fixtures" respectively.

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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Due within one year	¥355	¥438	$2,893
Due over one year	960	984	6,500
Total	¥1,315	¥1,422	$9,393

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 banks. 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.

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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, 2023

	Millions of yen		
	Book value	Fair value	Difference
Notes receivable, accounts receivable from completed construction contracts and other	¥124,236		
Allowance for doubtful accounts (*2)	(205)		
	124,030	123,966	(63)
Investment securities (*3)	25,436	25,436	–
Total Assets	149,466	149,402	(63)
Notes payable, accounts payable for construction contracts and other	55,472	55,458	(14)
Short-term loans payable	2,942	2,942	–
Long-term loans payable	98	98	(0)
Total Liabilities	58,513	58,498	(14)
Derivatives	¥(95)	¥(95)	¥–

(*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, 2024

	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	¥125,357			$827,990		
Allowance for doubtful accounts (*2)	(770)			(5,092)		
	124,586	124,414	(172)	822,898	821,761	(1,137)
Investment securities (*3)	38,776	38,776	–	256,122	256,122	–
Total Assets	163,363	163,191	(172)	1,079,020	1,077,883	(1,137)
Notes payable, accounts payable for construction contracts and other	64,867	64,841	(26)	428,452	428,277	(175)
Short-term loans payable	3,747	3,747	–	24,754	24,754	–
Long-term loans payable	143	143	(0)	948	948	(0)
Total Liabilities	68,758	68,732	(26)	454,154	453,979	(175)
Derivatives	¥(90)	¥(90)	¥–	$(598)	$(598)	$–

(*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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Available-for-sale securities			
Non-listed stocks	¥1,046	¥1,097	$7,249
Non-listed foreign bonds	¥4	¥5	$35

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

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	–
Investment securities				
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	4	–	–
Total	¥159,675	¥11,507	¥46	¥–

As of March 31, 2024

	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥55,462	¥–	¥–	¥–
Notes receivable, accounts receivable from completed construction contracts and other	115,597	9,618	141	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	9,000	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	5	–	–
Total	¥180,060	¥9,624	¥141	¥–

As of March 31, 2024

	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	$366,333	$–	$–	$–
Notes receivable, accounts receivable from completed construction contracts and other	763,525	63,533	932	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	59,445	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	35	–	–
Total	$1,189,303	$63,568	$932	$–

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

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, 2024

	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	¥3,619	¥–	¥–	¥–	¥–	¥–
Long-term loans payable	127	101	41	0	–	–
Lease obligations	100	75	36	26	9	0
Total	¥3,848	¥177	¥78	¥27	¥9	¥0

As of March 31, 2024

	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	$23,909	$–	$–	$–	$–	$–
Long-term loans payable	845	672	276	0	–	–
Lease obligations	666	498	241	178	63	3
Total	$25,420	$1,170	$517	$178	$63	$3

(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, 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, 2024

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	¥29,776	¥–	¥–	¥29,776
Total Assets	29,776	–	–	29,776
Derivative transactions	¥–	¥(90)	¥–	¥(90)

As of March 31, 2024

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	$196,677	$–	$–	$196,677
Total Assets	196,677	–	–	196,677
Derivative transactions	$–	$(598)	$–	$(598)

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

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, 2024

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other	¥–	¥124,414	¥–	¥124,414
Securities and Investment securities				
Money trusts	–	9,000	–	9,000
Total Assets	–	133,414	–	133,414
Notes payable, accounts payable for construction contracts and other	–	64,841	–	64,841
Short-term loans payable	–	3,747	–	3,747
Long-term loans payable	–	143	–	143
Total Liabilities	¥–	¥68,732	¥–	¥68,732

As of March 31, 2024

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other	$–	$821,761	$–	$821,761
Securities and Investment securities				
Money trusts	–	59,445	–	59,445
Total Assets	–	881,206	–	881,206
Notes payable, accounts payable for construction contracts and other	–	428,277	–	428,277
Short-term loans payable	–	24,754	–	24,754
Long-term loans payable	–	948	–	948
Total Liabilities	$–	$453,979	$–	$453,979

(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. In addition, money trusts are classified into level 2 because they are settled in a short period of time and their fair value approximates their book value.

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.

10. Securities

(1) Held-to-maturity debt securities

As of March 31, 2023
Not applicable.

As of March 31, 2024
Not applicable.

(2) Available-for-sale securities

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, 2024

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥29,776	¥9,206	¥20,570
Securities whose book value does not exceed their acquisition cost			
Money trusts	9,000	9,000	–
Total	¥38,776	¥18,206	¥20,570

As of March 31, 2024

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	$196,677	$60,808	$135,869
Securities whose book value does not exceed their acquisition cost			
Money trusts	59,445	59,445	–
Total	$256,122	$120,253	$135,869

(3) Available-for-sale securities sold

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, 2024

	Millions of yen		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	¥4,224	¥3,167	¥–
Total	¥4,224	¥3,167	¥–

For the year ended March 31, 2024

	Thousands of U.S. dollars		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	$27,904	$20,919	$–
Total	$27,904	$20,919	$–

(4) Securities with impairment loss

For the years ended March 31, 2023

Impairment loss of ¥21 million 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.

For the years ended March 31, 2024

Impairment loss of ¥0 million (US$0 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, 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, 2024

		Millions of yen			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥138	¥–	¥(5)	¥(5)
	U.S. dollars	18	–	(0)	(0)
	Chinese Yuan	108	–	(2)	(1)
	Sell				
	U.S. dollars	31	–	0	0
	Total	¥297	¥–	¥(7)	¥(7)

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

As of March 31, 2024

		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	$916	$–	$(39)	$(38)
	U.S. dollars	125	–	(1)	(1)
	Chinese Yuan	714	–	(13)	(13)
	Sell				
	U.S. dollars	209	–	5	5
	Total	$1,964	$–	$(48)	$(47)

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

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, 2024

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					
		Chinese Yuan	Accounts payable for construction contracts (forecast)	¥584	¥–	¥8
	Sell					
		Euros	Accounts receivable from completed construction contracts (forecast)	474	236	(16)
		Malaysia ringgit	Accounts receivable from completed construction contracts (forecast)	381	114	(58)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	415	59	(16)
			Total	¥1,855	¥410	¥(83)

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

As of March 31, 2024

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					
		Chinese Yuan	Accounts payable for construction contracts (forecast)	$3,859	$–	$58
	Sell					
		Euros	Accounts receivable from completed construction contracts (forecast)	3,132	1,565	(108)
		Malaysia ringgit	Accounts receivable from completed construction contracts (forecast)	2,518	754	(390)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	2,745	394	(110)
			Total	$12,254	$2,713	$(550)

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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Projected benefit obligations at the beginning of current period	¥17,847	¥18,003	$118,911
Service costs	1,232	1,251	8,268
Interest costs	60	94	622
Actuarial differences accrued in the current period	(258)	(917)	(6,061)
Benefits paid	(977)	(1,096)	(7,245)
Past service costs accrued in the current period	(1)	(124)	(822)
Foreign currency translation	118	109	721
Decrease due to exclusion of consolidation	(18)	–	–
Projected benefit obligations at the end of current period	¥18,003	¥17,319	$114,394

Reconciliation of beginning and ending balances for pension assets

For the years ended March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Pension assets at the beginning of current period	¥25,495	¥25,339	$167,369
Expected return on pension assets	539	538	3,555
Actuarial differences accrued in the current period	(732)	1,662	10,978
Contributions from employers	891	1,051	6,947
Benefits paid	(869)	(992)	(6,555)
Foreign currency translation	15	20	136
Pension assets at the end of current period	¥25,339	¥27,619	$182,430

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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Funded projected benefit obligations	¥16,745	¥16,284	$107,562
Pension assets	(25,339)	(27,619)	(182,430)
Sub total	(8,594)	(11,334)	(74,868)
Unfunded projected benefit obligations	1,258	1,034	6,832
Net amount of liabilities and assets in the consolidated balance sheets	(7,336)	(10,300)	(68,036)
Net defined benefit liability	1,258	1,277	8,441
Net defined benefit asset	8,594	11,578	76,477
Net amount of liabilities and assets in the consolidated balance sheets	¥(7,336)	¥(10,300)	$(68,036)

Retirement benefit expenses

For the years ended March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Service costs	¥1,232	¥1,251	$8,267
Interest costs	60	94	622
Expected return on pension assets	(539)	(538)	(3,555)
Amortization of actuarial differences	(329)	(443)	(2,931)
Amortization of past service costs	2	(0)	(5)
Retirement benefit expenses of defined benefit plans	¥426	¥363	$2,398

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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Past service costs	¥(5)	¥118	$780
Actuarial differences	(781)	2,164	14,299
Total	¥(787)	¥2,282	$15,079

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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Unrecognized past service costs	¥(73)	¥44	$297
Unrecognized actuarial differences	2,082	4,247	28,056
Total	¥2,009	¥4,292	$28,353

Pension assets

Composition ratio of pension assets is as follows.

As of March 31, 2023 and 2024	2023	2024
Debt securities	25%	24%
Stocks	37	42
Cash and deposits	5	4
General account of life insurance	23	21
Other	10	9
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, 14% 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, 2023 and 2024	2023	2024
Discount rates (weighted average)	0.5%	1.1%
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, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Net defined benefit liability at the beginning of current period	¥200	¥83	$553
Retirement benefit expenses	20	23	156
Benefits paid	(2)	–	–
Contributions to the plan	(24)	(14)	(95)
Foreign currency translation	9	3	22
Decrease due to exclusion of consolidation	(120)	–	–
Net defined benefit liability at the end of current period	¥83	¥96	$636

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

As of March 31, 2023 and 2024	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Funded projected benefit obligations	¥84	¥104	$688
Pension assets	(86)	(107)	(712)
Sub total	(1)	(3)	(24)
Unfunded projected benefit obligations	85	99	660
Net amount of liabilities and assets in the consolidated balance sheets	83	96	636
Net defined benefit liability	83	96	636
Net amount of liabilities and assets in the consolidated balance sheets	¥83	¥96	$636

Retirement benefit expenses

Retirement benefit expenses calculated by the simplified method are ¥20 million for the previous fiscal year and ¥23 million (US$156 thousand) for this fiscal year.

(4) Defined contribution plans

Required contribution amount for defined contribution plans is ¥270 million for the previous fiscal year and ¥292 million (US$1,931 thousand) for this fiscal year.

13. Tax effect accounting

(1) Significant components of deferred tax assets and liabilities

As of March 31, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Deferred tax assets			
Allowance for doubtful accounts	¥241	¥301	$1,989
Provision for warranties for completed construction	123	150	991
Provision for loss on construction contracts	97	119	787
Net defined benefit liability	213	224	1,484
Employees' pension trust, investment securities	352	368	2,435
Provision for directors' retirement benefits	19	13	91
Accrued enterprise tax etc.	129	268	1,771
Accrued bonuses	1,540	2,435	16,089
Loss on valuation of investment securities	365	110	730
Loss on valuation of golf club membership	56	56	373
Valuation difference on available-for-sale securities	42	–	–
Foreign tax credit carried forward	210	224	1,485
Tax loss carried forward (Note2)	899	686	4,535
Other	1,217	1,469	9,704
Subtotal	5,510	6,429	42,464
Valuation allowance for tax loss carried forward (Note2)	(856)	(667)	(4,406)
Valuation allowance for total of deductible temporary differences, etc.	(1,083)	(1,051)	(6,948)
Subtotal (Note1)	(1,939)	(1,719)	(11,354)
Total deferred tax assets	3,570	4,710	31,110
Deferred tax liabilities			
Net defined benefit assets	(2,618)	(3,528)	(23,306)
Valuation difference on available-for-sale securities	(4,680)	(6,197)	(40,934)
Retained earnings of consolidated overseas subsidiaries	(2,141)	(2,479)	(16,377)
Other	(580)	(711)	(4,697)
Total deferred tax liabilities	(10,021)	(12,916)	(85,314)
Net deferred tax assets liabilities	¥(6,451)	¥(8,206)	$(54,204)

(Note1) Valuation allowance decreased by ¥220 million (US$1,459 thousand). This decreased is mainly due to ¥225 million (US$1,492 thousand) decrease in the valuation allowance for tax loss carried forward at consolidated subsidiary TKS Industrial Company.
(Note2) Total of tax loss carried forward and its deferred tax assets, by carryforward expiration date.

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.

As of March 31, 2024

	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)	¥9	¥12	¥–	¥–	¥–	¥664	¥686
Valuation allowance	(7)	(5)	–	–	–	(654)	(667)
Deferred tax assets	¥2	¥6	¥–	¥–	¥–	¥10	¥19

(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	$66	$80	$–	$–	$–	$4,388	$4,534
Valuation allowance	(51)	(35)	–	–	–	(4,320)	(4,406)
Deferred tax assets	$15	$45	$–	$–	$–	$68	$128

(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, 2023 and 2024

	2023	2024
Effective statutory tax rate	–%	30.62%
Adjustment		
Expenses not deductible permanently	–	1.20
Income not taxable permanently	–	(0.73)
Inhabitant tax on per capita basis, etc.	–	0.36
Increase (Decrease) in valuation allowance	–	(1.35)
Difference in effective statutory tax rate between the Company and consolidated subsidiaries	–	(2.38)
Special tax deductions	–	(3.84)
Retained earnings of consolidated overseas subsidiaries	–	1.47
Withholding tax on dividends from overseas related companies	–	0.89
Amortization of goodwill	–	0.64
Other	–	0.26
Actual tax rate after the application of tax effect accounting	–%	27.14%

(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 last fiscal year.

14. Business combination

Not applicable.

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, 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, 2024

	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥142,494	¥13,270	¥155,764
Overseas	74,025	63,766	137,792
Revenues from contracts with customers	216,519	77,036	293,556
Other revenues	–	–	–
Revenues to external customers	¥216,519	¥77,036	¥293,556

For the year ended March 31, 2024

	Thousands of U.S. dollars		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	$941,177	$87,649	$1,028,826
Overseas	488,939	421,181	910,120
Revenues from contracts with customers	1,430,116	508,830	1,938,946
Other revenues	–	–	–
Revenues to external customers	$1,430,116	$508,830	$1,938,946

(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, 2023 and 2024

	Millions of yen		Thousands of U.S. dollars
	2023	2024	2024
Receivables arising from contracts with customers (Beginning balance)	¥79,781	¥48,339	$319,284
Receivables arising from contracts with customers (Ending balance)	¥48,339	¥60,243	$397,908
Contract assets (Beginning balance)	¥22,266	¥66,224	$437,412
Contract assets (Ending balance)	¥66,224	¥59,596	$393,633
Contract liabilities (Beginning balance)	¥6,901	¥23,306	$153,937
Contract liabilities (Ending balance)	¥23,306	¥13,899	$91,803

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 ¥5,577 million for the previous fiscal year and ¥23,657 million (US$156,260 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, 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, 2024

	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥100,830	¥35,687	¥136,517
Overseas	40,573	56,476	97,049
Total	¥141,403	¥92,163	¥233,567

For the year ended March 31, 2024

	Thousands of U.S. dollars		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	$665,985	$235,718	$901,703
Overseas	267,987	373,027	641,014
Total	$933,972	$608,745	$1,542,717

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, 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	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 include non-allocatable common profits of ¥9 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 ¥42,236 million are elimination of receivable and payable etc., of minus ¥2,917 million and non-allocatable common assets which are not allocated to any reportable segments of ¥45,154 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 ¥204 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.

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For the year ended March 31, 2024

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥216,519	¥77,036	¥293,556	¥–	¥293,556
Intersegment	15	4	20	(20)	–
Total	216,535	77,041	293,577	(20)	293,556
Segment profit	17,027	2,804	19,832	19	19,852
Segment assets	143,027	69,474	212,501	53,992	266,494
Other items					
Depreciation and amortization	914	737	1,651	(181)	1,469
Amortization of goodwill	417	66	484	–	484
Interest income	352	541	894	2	897
Interest expenses	5	213	219	21	240
Share of profit (loss) of entities accounted for using equity method	–	22	22	–	22
Investments in associates accounted for using equity method	–	642	642	–	642
Increase in property, plant and equipment, intangible assets	¥3,339	¥583	¥3,923	¥351	¥4,274

(Note 1) The amounts of Adjustments are as follows.

Adjustments of Segment profit of ¥19 million (US$130 thousand) include non-allocatable common profits of ¥20 million (US$137 thousand) and other adjustment of minus ¥1 million (minus US$7 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 ¥53,992 million (US$356,621 thousand) are elimination of receivable and payable etc., of minus ¥4,265 million (minus US$28,175 thousand) and non-allocatable common assets which are not allocated to any reportable segments of ¥58,258 million (US$384,796 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 ¥351 million (US$2,323 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 is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2024

	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	$1,430,117	$508,830	$1,938,947	$–	$1,938,947
Intersegment	103	32	135	(135)	–
Total	1,430,220	508,862	1,939,082	(135)	1,938,947
Segment profit	112,470	18,526	130,996	130	131,126
Segment assets	944,698	458,880	1,403,578	356,621	1,760,199
Other items					
Depreciation and amortization	6,039	4,868	10,907	(1,201)	9,706
Amortization of goodwill	2,755	442	3,197	–	3,197
Interest income	2,331	3,580	5,911	16	5,927
Interest expenses	39	1,411	1,450	140	1,590
Share of profit (loss) of entities accounted for using equity method	–	145	145	–	145
Investments in associates accounted for using equity method	–	4,244	4,244	–	4,244
Increase in property, plant and equipment, intangible assets	$22,057	$3,855	$25,912	$2,322	$28,234

18. Related information in regard to segment information

(1) Information by product and service

For the year ended March 31, 2023

This item is omitted because similar information is disclosed in "16. Segment information"

For the year ended March 31, 2024

This item is omitted because similar information is disclosed in "16. Segment information"

(2) Sales by region

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, 2024

Millions of yen								
Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥155,764	¥20,613	¥20,596	¥32,515	¥27,415	¥18,293	¥17,779	¥578	¥293,556

(Note) Sales are classified to the countries or regions based on their customers' location.

For the year ended March 31, 2024

Thousands of U.S. dollars								
Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
$1,028,826	$136,152	$136,043	$214,766	$181,078	$120,827	$117,436	$3,819	$1,938,947

(3) Property, plant and equipment by region

For the year ended March 31, 2023

Millions of yen						
Japan	Thailand	Indonesia	China	India	Other	Total
¥4,724	¥381	¥198	¥588	¥2,148	¥515	¥8,557

For the year ended March 31, 2024

Millions of yen						
Japan	Thailand	Indonesia	China	India	Other	Total
¥6,594	¥386	¥245	¥645	¥3,233	¥588	¥11,694

For the year ended March 31, 2024

Thousands of U.S. dollars						
Japan	Thailand	Indonesia	China	India	Other	Total
$43,557	$2,550	$1,623	$4,266	$21,355	$3,890	$77,241

(4) Sales information by main customer

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.

For the year ended March 31, 2024

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, 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 generated from elimination of unrealized profits and impairment loss of idle assets.

For the year ended March 31, 2024	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate (Note)	Total
Impairment loss	¥–	¥–	¥–	¥0	¥0

(Note) Eliminations/Corporate is generated from impairment loss of idle assets.

For the year ended March 31, 2024	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Impairment loss	$–	$–	$–	$0	$0

20. Amortization and balance of goodwill

(1) Amortization and balance of goodwill by reportable segment

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 "16. Segment information".

For the year ended March 31, 2024	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	¥2,819	¥708	¥3,528	¥–	¥3,528

(Note) Amortization of goodwill is omitted because it is already disclosed in the "16. Segment information".

For the year ended March 31, 2024	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	$18,624	$4,681	$23,305	$–	$23,305

(2) Gain on negative goodwill by reportable segment

For the year ended March 31, 2023
Not applicable.

For the year ended March 31, 2024
Not applicable.

21. Related party transactions

For the year ended March 31, 2023
Not applicable.

For the year ended March 31, 2024
Not applicable.

22. Details of bonds

No applicable.

23. Details of loans

As of March 31, 2024	Millions of yen		Thousands of U.S. dollars		
	Beginning balance	Ending balance	Ending balance	Average interest rate (%)	Maturity
Short-term loans payable	¥2,836	¥3,619	$23,909	6.171	–
Current portion of long-term loans payable	106	127	845	0.798	–
Current portion of lease obligations	69	100	666	–	–
Long-term loans payable (excluding current portion)	98	143	948	0.944	August 2026 to June 2031
Lease obligations (excluding current portion)	98	148	983	–	March 2025 to November 2028
Total	¥3,208	¥4,140	$27,351	–	–

(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, 2024 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	¥101	¥41	¥0	¥–
Lease obligations	¥75	¥36	¥26	¥9

	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	$672	$276	$0	$–
Lease obligations	$498	$241	$178	$63

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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1-16-11, Nihonbashi, Chuo-ku
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Tel. +81-3-5200-1636
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URL:https://www.aap.or.jp

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, 2024, 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, 2024, 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-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 ¥271,781 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.	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 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 compared the latest estimates of working budgets as of the fiscal year end with the original ones. For material fluctuations, we examined the reasonableness of management's point estimates of the working budget through inquiries of construction managers and inspection of relevant documents such as quotations and purchase orders. • 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.

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 2, 2024

Corporate Information

Corporate name: Taikisha Ltd.
Founded: April 10, 1913
Established: July 7, 1949
Capital stock: 6,455 million yen
Number of employees: 1,654 (non-consolidated)
5,031 (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

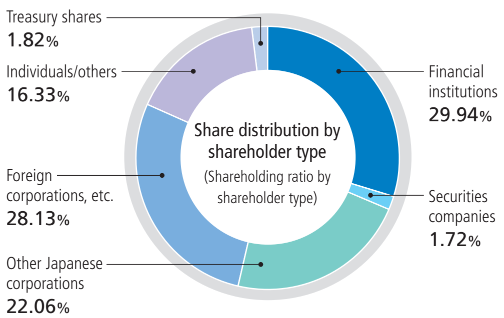
[Stock Information]
https://www.taikisha-group.com/ir/stock/info/
Top page > Investor Relations > Stock Overview> Stock Information

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:	33,582,009
Number of shareholders:	4,328



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)	4,839	14.68
Kenzaisha Ltd.	1,730	5.25
Custody Bank of Japan, Ltd. (Trust Account)	1,250	3.79
Taikisha Employees Shareholding Association	1,184	3.59
Sumitomo Realty & Development Co., Ltd.	1,134	3.44
Dai ni Kenzaisha Ltd.	1,000	3.03
Taikisha Business Partners Shareholding Association	940	2.85
Nippon Life Insurance Company	866	2.63
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	719	2.18
Mizuho Bank, Ltd.	659	2.00

(Notes) 1. "Ratio of shareholding voting rights" is calculated by deducting treasury shares.
2. "Number of shares held" is presented by rounding down to the nearest 1,000 shares.

Keisuke Takegahara,
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Upon reviewing the Integrated Report 2024, what struck me was the clear articulation of the value creation story, which skillfully combined various strategic moves aimed at the next Mid-Term Plan with steady progress in line with the Long-term Vision. In order to convey a sense of progress toward future goals, while in the midst of formulating the next plan—when working out a new sense of direction is difficult—it is essential to present a strong, consistent message along with scrupulous structural adjustments that seamlessly integrate tangible current achievements with future outlooks.

President Osada's top message presents these things in a straightforward manner. This time, the main themes are dialogue and communication. President Osada discusses the multifaceted role of communication in the growth strategy, including promoting the sharing of advanced technical knowledge, and increasing the cohesion and motivation of group employees, while addressing the advanced and diversified environmental technology needs of customers working towards decarbonization, and leveraging the autonomy of overseas bases cultivated as a global company. The Round Table Discussion with Outside Directors expands on the top message, further delving into the topic of communication. Incorporating diverse perspectives from outside directors, it was a substantial discussion that highlighted the essential issues faced in "creating mechanisms to enhance engineering capabilities."

As one reads through the report, one notes that communication remains the overarching theme, which is masterfully linked into various forthcoming developments to be featured in the next mid-term business plan. In the previous year's top message, President Osada focused on the group's strengths in "design and engineering capabilities and "global expansion," emphasizing the importance of intangible assets such as human and intellectual capital in strengthening these areas over the long term. This time, the theme can be seen as the concretization of strategies to leverage intangible assets. This consistency can be said to be characteristic of Taikisha's reports.

The consistent message also helps to weave the various achievements presented in the latter part of the activity report into a single narrative, rather than treating them as separate topics. Achievements such as managing major equipment for the construction of semiconductor giant TSMC's Japanese factory, leading to the operation of the new Research and Development Center for the Green Technology System Business and collaboration with the headquarters R&D satellite, are interesting topics on their own. So are feats such as establishing systems for the practical application of dry decoration technology in the painting systems business. However, in the context of communication aimed at strengthening "design and engineering capabilities" and "global expansion," these initiatives are interconnected, enhancing the clarity and depth of Taikisha's value creation story.

Moreover, this series of achievements is linked to the groundwork for the future, indicating the direction of the upcoming mid-term plan. Such developments that raise expectations are commendable. The establishment of the new Business Development Headquarters, focused on global business growth; the expansion of the Green Technology System Business into the semiconductor sector, incorporating experience from TSMC; the advanced technical R&D of the painting division, which employs dry decoration technology; and the utilization of digital technologies across all businesses—all these represent steady progress aligned with the Company's long-term vision while strongly signaling future developments. I look forward to seeing further developments in this report when it is complete.

In Response to the Third-Party Opinion

Masanori Nakagawa, Director, Executive Corporate Officer in charge of Sustainability Promotion

I am deeply grateful to Mr. Takegahara for the insightful opinions and warm encouragement he offers each time.

This fourth issue of the Integrated Report, marking the second year of the president's tenure and the development of the next Mid-Term Business Plan, focuses on conveying our efforts and intentions to stretch further and find additional growth potential while steadily progressing toward the realization of our Long-term Vision. We believe that in order to have a clear vision of how we want Taikisha Group to be, and work as a unified whole to achieve it, it is essential to engage in deep dialogue to align our efforts. To this end, we also strive to foster open and unrestricted global communication to integrate diversity.

Going forward, we aim to further refine this approach to create a medium through which value creation stories emerge from specific initiatives on the ground.

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

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