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(Securities Code: 1979)  
June 7, 2017

**To Shareholders with Voting Rights:**

Toshiaki Shiba  
Representative Director, President  
Taikisha Ltd.  
8-17-1, Nishi-Shinjuku,  
Shinjuku-ku, Tokyo 160-6129,  
Japan

**NOTICE OF  
THE 72ND ANNUAL SHAREHOLDERS' MEETING**

You are cordially invited to attend the 72nd Annual Shareholders' Meeting of Taikisha Ltd. (the "Company"). If you are unable to attend the meeting, you can exercise your voting rights in writing or via the Internet. Please review the attached Reference Documents for the Shareholders' Meeting and exercise your voting rights by no later than 5:45 p.m. on Wednesday, June 28, 2017, Japan time.

- 1. Date and Time:** Thursday, June 29, 2017, at 10 a.m. Japan time
- 2. Place:** 43rd floor, "Moon Light" Keio Plaza Hotel, located at 2-2-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo, Japan
- 3. Meeting Agenda:**
- Matters for Reporting:**
1. The Business Report, the Consolidated Financial Statements for the 72nd Fiscal Year (from April 1, 2016, to March 31, 2017) and the results of audits by the Accounting Auditors and the Audit & Supervisory Board of the Consolidated Financial Statements
  2. The Non-consolidated Financial Statements for the 72nd Fiscal Year (from April 1, 2016, to March 31, 2017)
- Matters for Resolution:**
- Proposal No. 1:** Appropriation of Retained Earnings
- Proposal No. 2:** Election of Ten (10) Directors
- Proposal No. 3:** Election of Two (2) Audit & Supervisory Board Members
- Proposal No. 4:** Election of One (1) Substitute Audit & Supervisory Board Member

Notes:

- 1) Upon arrival on the date of the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk of the venue on the day of the meeting for confirmation.
- 2) Of the documents to be provided to shareholders with this NOTICE, the Notes to Consolidated Financial Statements and the Notes to Non-consolidated Financial Statements are posted on the Company's website (<http://www.taikisha.co.jp/>) pursuant to the provisions of laws and regulations, as well as Article 15 of the Company's Articles of Incorporation, and therefore are not included in the Attached Documents for the 72nd Annual Shareholders' Meeting. The Consolidated Financial Statements and the Non-consolidated Financial Statements, which are stated in said Attached Documents, form a part of the Consolidated Financial Statements and the Non-consolidated Financial Statements audited by the Company's Accounting Auditors and Corporate Auditors in preparing their Audit Reports.
- 3) If any necessary revisions are made to the Reference Documents for the Shareholders' Meeting, the Business Report, the Consolidated Financial Statements and/or the Non-consolidated Financial Statements, they will be posted on the Company's website (<http://www.taikisha.co.jp/>).

## Reference Documents for the Shareholders' Meeting

### Proposals and References

#### **Proposal No. 1: Appropriation of Retained Earnings**

The Company proposes to distribute a year-end dividend with due consideration to the operating results to reflect our appreciation of shareholders' continued support.

The annual dividend per share, therefore, would be ¥70, a year-on-year increase of ¥3 per share, including the interim dividend per share of ¥25 having already been paid.

Meanwhile, to prepare for future business development, the Company proposes to post a "Reserve for investment on information technology" of ¥200 million.

#### 1. Matters concerning year-end dividends

- (1) Type of property for dividends: Money
- (2) Matters concerning allotment of property dividends to shareholders and the total amount thereof  
The Company proposes a year-end dividend of ¥45 per share of common shares for a total of ¥1,539,277,560 to be distributed.
- (3) Effective date of distribution from surplus: June 30, 2017

#### 2. Matters concerning other retained earnings

- (1) Item and amount of surplus to be decreased  
Retained earnings brought forward: ¥200,000,000
- (2) Item and amount of surplus to be increased  
Reserve for investment on information technology: ¥200,000,000

**Proposal No. 2: Election of Ten (10) Directors**

The terms of office of all ten (10) Directors will expire at the conclusion of this Annual Shareholders' Meeting. Accordingly, the election of ten (10) Directors is proposed.

The candidates are as follows, and the two candidates for Outside Director satisfy the "Independence Criteria for Outside Director/Outside Audit & Supervisory Board Member" stipulated by the Company. Refer to page 10 for details of said criteria.

| Candidate No. |  | Name              | Positions and assignments in the Company   | Attendance at the Board of Directors Meetings (Attendance rate) |
|---------------|--|-------------------|--|---|
| 1             | [Reappointment]  | Eitaro Uenishi    | Director, Chairman   | 12/12 (100%)  |
| 2             | [Reappointment]  | Toshiaki Shiba    | Representative Director, President Corporate Officer   | 12/12 (100%)  |
| 3             | [Reappointment]  | Koji Kato         | Representative Director, Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters | 12/12 (100%)  |
| 4             | [Reappointment]  | Hiroshi Mukai     | Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division                           | 12/12 (100%)  |
| 5             | [New appointment]  | Ryoichi Uenodan   | Executive Corporate Officer, Chief General Manager, Paint Finishing System Division                                      | —   |
| 6             | [Reappointment]  | Yukinori Hamanaka | Director, Managing Corporate Officer, Vice General Manager, Paint Finishing System Division                              | 11/12 (91.7%)   |
| 7             | [New appointment]  | Kazuhide Hayakawa | Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters   | —   |
| 8             | [New appointment]  | Yasushi Nakajima  | Managing Corporate Officer, Vice General Manager, Green Technology System Division                                       | —   |
| 9             | [Reappointment]<br>[Outside Director]<br>[Independent]   | Shuichi Murakami  | Director   | 12/12 (100%)  |
| 10            | [New appointment]<br>[Outside Director]<br>[Independent] | Hirokazu Hikosaka | Audit & Supervisory Board Member   | —   |

| Candidate No. | Name<br>(Date of birth; Age)  | Career summary, positions and assignments in the Company and important positions concurrently held at other companies                    |  |
|---------------|---|--|--|
| 1             | <p><b>Eitaro Uenishi</b><br/>(January 12, 1951; 66)</p> <p>[Reappointment]</p> <p>Number of years as Director of the Company: 14 years (at the conclusion of the Meeting)</p> <p>Attendance at the Board of Directors Meetings: 12/12 (100%)</p> <p>Number of shares of the Company held: 216,400</p>   | <p>April 1974<br/>June 2003<br/>April 2005<br/>April 2007<br/>April 2008<br/>April 2009<br/>April 2010<br/>April 2013<br/>April 2016</p> | <p>Joined the Company<br/>Director<br/>General Manager, Osaka Branch Office, Green Technology System Division<br/>Director, Senior Corporate Officer, General Manager, Tokyo Branch Office 1, Green Technology System Division<br/>Director, Senior Corporate Officer, Assistant to President, in charge of Corporate Planning<br/>Director, Managing Corporate Officer, Assistant to President, in charge of Company-wide Sales Promotion<br/>Representative Director, President Corporate Officer<br/>Representative Director, Chairman Corporate Officer<br/>Director, Chairman (current position)</p>  |
|               | <p>[Reason for nominating as a candidate for Director]<br/>After having served as Representative Director, President Corporate Officer and at other positions, Eitaro Uenishi has addressed reinforcing the supervisory function of the Board of Directors as Chairman who is not an executive director since 2016. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record.</p>                                     |  |  |
| 2             | <p><b>Toshiaki Shiba</b><br/>(December 19, 1949; 67)</p> <p>[Reappointment]</p> <p>Number of years as Director of the Company: 5 years (at the conclusion of the Meeting)</p> <p>Attendance at the Board of Directors Meetings: 12/12 (100%)</p> <p>Number of shares of the Company held: 16,800</p>  | <p>April 1968<br/>April 2008<br/>April 2009<br/>April 2012<br/>June 2012<br/>April 2013<br/>April 2015<br/>April 2016<br/>April 2017</p> | <p>Joined the Company<br/>Corporate Officer, General Manager, Global Business Management Supporting Office, Green Technology System Division, and Vice Senior General Manager, Engineering Supervisory Dept., Green Technology System Division, and General Manager, Construction Purchasing Office, Green Technology System Division<br/>Senior Corporate Officer, Senior General Manager, Engineering Supervisory Dept., Green Technology System Division<br/>Managing Corporate Officer, Chief General Manager, Green Technology System Division<br/>Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division<br/>Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division<br/>Director, Executive Vice President Corporate Officer, Chief General Manager, Green Technology System Division<br/>Representative Director, Executive Vice President Corporate Officer<br/>Representative Director, President Corporate Officer (current position)</p> |
|               | <p>[Reason for nominating as a candidate for Director]<br/>Toshiaki Shiba has commanded the management of the Taikisha Group since April 2017 as Representative Director, President Corporate Officer. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record, as well as in ensuring the stable and sustainable growth of the Group and increasing corporate value by implementing the Mid-Term Business Plan.</p> |  |  |

| Candidate No. | Name<br>(Date of birth; Age)  | Career summary, positions and assignments in the Company and important positions concurrently held at other companies  |   |
|---------------|---|--|---|
| 3             | <p><b>Koji Kato</b><br/>(June 12, 1955; 62)</p> <p>[Reappointment]</p> <p>Number of years as Director of the Company: 8 years and 9 months (at the conclusion of the Meeting)</p> <p>Attendance at the Board of Directors Meetings: 12/12 (100%)</p> <p>Number of shares of the Company held: 7,800</p> | <p>April 1978</p> <p>June 2005</p> <p>April 2007</p> <p>April 2009</p> <p>April 2010</p> <p>June 2010</p> <p>April 2012</p> <p>April 2013</p> <p>April 2014</p> <p>April 2016</p> <p>April 2017</p>  | <p>Joined the Company</p> <p>Director</p> <p>Assistant to Chief General Manager, Green Technology System Division</p> <p>Corporate Officer; General Manager, Engineering Planning Dept., Green Technology System Division</p> <p>Managing Corporate Officer, Chief General Manager, Green Technology System Division, and General Manager, Engineering Planning Dept., Green Technology System Division</p> <p>Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division, and General Manager, Engineering Planning Dept., Green Technology System Division</p> <p>Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of Environment, and General Manager, Corporate Planning Office</p> <p>Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of CSR</p> <p>Director, Managing Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR</p> <p>Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR</p> <p>Representative Director, Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters (current position)</p> |
|               |   | <p>[Reason for nominating as a candidate for Director]</p> <p>Koji Kato has played a significant role as Representative Director, Executive Vice President Corporate Officer since April 2017 in promoting the enhancement of the business base of the Taikisha Group through strengthened corporate governance. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record.</p>   |   |
| 4             | <p><b>Hiroshi Mukai</b><br/>(October 10, 1953; 63)</p> <p>[Reappointment]</p> <p>Number of years as Director of the Company: 2 years (at the conclusion of the Meeting)</p> <p>Attendance at the Board of Directors Meetings: 12/12 (100%)</p> <p>Number of shares of the Company held: 5,300</p>       | <p>April 1974</p> <p>April 2012</p> <p>April 2014</p> <p>April 2015</p> <p>June 2015</p> <p>April 2016</p> <p>April 2017</p>   | <p>Joined the Company</p> <p>Corporate Officer, General Manager, Osaka Branch Office, Green Technology System Division</p> <p>Senior Corporate Officer, General Manager, Osaka Branch Office, Green Technology System Division</p> <p>Managing Corporate Officer, Vice General Manager, Green Technology System Division</p> <p>Director, Managing Corporate Officer, Vice General Manager, Green Technology System Division</p> <p>Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division</p> <p>Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division (current position)</p>  |
|               |   | <p>[Reason for nominating as a candidate for Director]</p> <p>Hiroshi Mukai has abundant business experience in the field of the green technology system business and has sufficiently fulfilled his duties as a Director, including decisions on important management matters, the execution of business and supervising the execution of duties by other Directors, since his assumption of the Director position. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record.</p> |   |

| Candidate No. | Name<br>(Date of birth; Age)  | Career summary, positions and assignments in the Company and important positions concurrently held at other companies                              |   |
|---------------|---|--|---|
| 5             | <p><b>Ryoichi Uenodan</b><br/>(July 20, 1953; 63)</p> <p>[New appointment]</p> <p>Number of years as Director of the Company:<br/>—</p> <p>Attendance at the Board of Directors Meetings:<br/>—</p> <p>Number of shares of the Company held:<br/>3,500</p>  | <p>February 1981</p> <p>April 2008</p> <p>April 2010</p> <p>April 2011</p> <p>April 2012</p> <p>April 2013</p> <p>April 2015</p> <p>April 2017</p> | <p>Joined the Company</p> <p>Corporate Officer, General Manager, Automation System Head Office, Paint Finishing System Division</p> <p>Senior Corporate Officer, General Manager, Office 3 and Automation System Head Office, Paint Finishing System Division</p> <p>Senior Corporate Officer, Vice Senior General Manager, Engineering Supervisory Dept., and General Manager, Office 3 and Automation System Head Office, Paint Finishing System Division</p> <p>Senior Corporate Officer, Vice Senior General Manager, Engineering Supervisory Dept., and General Manager, Office 3, Paint Finishing System Division</p> <p>Senior Corporate Officer, Vice General Manager and General Manager, Automation System Head Office, Paint Finishing System Division</p> <p>Managing Corporate Officer, Vice General Manager and General Manager, Automation System Head Office, Paint Finishing System Division</p> <p>Executive Corporate Officer, Chief General Manager, Paint Finishing System Division (current position)</p> |
|               | <p>[Reason for nominating as a candidate for Director]</p> <p>Ryoichi Uenodan has abundant business experience in the field of the paint finishing system business and has served as Chief General Manager, Paint Finishing System Division since April 2017. The Company newly appoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record and his expected contribution to the further development of the Taikisha Group as Director.</p>  |  |   |
| 6             | <p><b>Yukinori Hamanaka</b><br/>(December 10, 1958; 58)</p> <p>[Reappointment]</p> <p>Number of years as Director of the Company:<br/>2 years<br/>(at the conclusion of the Meeting)</p> <p>Attendance at the Board of Directors Meetings:<br/>11/12 (91.7%)</p> <p>Number of shares of the Company held:<br/>2,100</p>   | <p>April 1981</p> <p>April 2010</p> <p>April 2013</p> <p>April 2015</p> <p>June 2015</p> <p>April 2016</p>   | <p>Joined the Company</p> <p>Corporate Officer, General Manager, Office 1, Paint Finishing System Division</p> <p>Senior Corporate Officer, Senior General Manager, Engineering Dept., Paint Finishing System Division</p> <p>Senior Corporate Officer, Vice General Manager, Paint Finishing System Division, and Senior General Manager, Sales and Engineering Dept., Paint Finishing System Division</p> <p>Director, Senior Corporate Officer, Vice General Manager, Paint Finishing System Division, and Senior General Manager, Sales and Engineering Dept., Paint Finishing System Division</p> <p>Director, Managing Corporate Officer, Vice General Manager, Paint Finishing System Division (current position)</p>  |
|               | <p>[Reason for nominating as a candidate for Director]</p> <p>Yukinori Hamanaka has abundant business experience in the field of the paint finishing system business and has sufficiently fulfilled his duties as a Director, including decisions on important management matters, the execution of business and supervising the execution of duties by other Directors, since his assumption of the Director position. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record.</p> |  |   |

| Candidate No.  | Name<br>(Date of birth; Age)   | Career summary, positions and assignments in the Company and important positions concurrently held at other companies |   |
|--|--|---|---|
| 7  | <b>Kazuhide Hayakawa</b><br>(April 18, 1955; 62)<br><br>[New appointment]<br><br>Number of years as Director of the Company:<br>—<br><br>Attendance at the Board of Directors Meetings:<br>—<br><br>Number of shares of the Company held:<br>2,000   | April 1979  | Joined the Company  |
|  |  | April 2012  | Corporate Officer, Senior General Manager, Engineering Supervisory Dept., Green Technology System Division  |
|  |  | October 2013  | Corporate Officer, Senior General Manager, Sales and Marketing Dept., Green Technology System Division  |
|  |  | April 2014  | Senior Corporate Officer, Senior General Manager, Sales and Marketing Dept., Green Technology System Division   |
|  |  | April 2016  | Senior Corporate Officer, Vice General Manager in charge of sales and Senior General Manager, Sales and Marketing Dept., Green Technology System Division   |
|  |  | April 2017  | Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters (current position)   |
| [Reason for nominating as a candidate for Director]<br>Kazuhide Hayakawa has abundant business experience in the field of the green technology system business and has served as Chief Executive, Corporate Planning Headquarters since April 2017. The Company newly appoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record and his expected contribution to the further development of the Taikisha Group as Director. |  |   |   |
| 8  | <b>Yasushi Nakajima</b><br>(February 23, 1960; 57)<br><br>[New appointment]<br><br>Number of years as Director of the Company:<br>—<br><br>Attendance at the Board of Directors Meetings:<br>—<br><br>Number of shares of the Company held:<br>3,000 | April 1982  | Joined the Company  |
|  |  | April 2013  | Director, WuZhou Taikisha Engineering Co., Ltd. (current position)  |
|  |  | April 2014  | Corporate Officer, Senior General Manager, Engineering Supervisory Dept., Green Technology System Division  |
|  |  | April 2015  | Senior Corporate Officer, Senior General Manager, Engineering Supervisory Dept., Green Technology System Division and Senior General Manager, Global Business Management Dept.  |
|  |  | April 2016  | Senior Corporate Officer, Vice General Manager in charge of technology and Senior General Manager, Engineering Supervisory Dept., Green Technology System Division and Senior General Manager, Global Business Management Dept. |
|  |  | April 2017  | Managing Corporate Officer, Vice General Manager, Green Technology System Division (current position)   |
| [Reason for nominating as a candidate for Director]<br>Yasushi Nakajima has abundant business experience in the field of the green technology system business and has served as Vice General Manager, Green Technology System Division since 2016. The Company newly appoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record and his expected contribution to the further development of the Taikisha Group as Director.  |  |   |   |

| Candidate No.   | Name<br>(Date of birth; Age)   | Career summary, positions and assignments in the Company and important positions concurrently held at other companies  |
|---|--|--|
| 9   | <p><b>Shuichi Murakami</b><br/>(November 12, 1950; 66)</p> <p>[Reappointment]<br/>[Outside Director]<br/>[Independent]</p> <p>Number of years as Director of the Company:<br/>5 years<br/>(at the conclusion of the Meeting)</p> <p>Attendance at the Board of Directors Meetings:<br/>12/12 (100%)</p> <p>Number of shares of the Company held:<br/>8,100</p> | <p>April 2005     Managing Corporate Officer, General Manager, Shikoku Business, Sompo Japan Insurance Inc. (current Sompo Japan Nipponkoa Insurance Inc.)</p> <p>April 2008     Advisor, Corporate Planning Department. Sompo Japan Insurance Inc.</p> <p>June 2008     Resigned from Sompo Japan Insurance Inc.<br/>Audit &amp; Supervisory Board Member of the Company<br/>Full-time Outside Audit &amp; Supervisory Board Member, Origin Electric Co., Ltd. (Retired in June 2012)</p> <p>June 2012     Director of the Company (current position)</p> |
| <p>[Reason for nominating as a candidate for Director]</p> <p>Shuichi Murakami has abundant expertise and experience nurtured during his tenure as the person responsible for conducting business and affairs at a leading non-life insurance company and has provided precise advice and supervision on the management of the Company from an independent standpoint since his assumption of the Director position. The Company reappoints him as a candidate for Outside Director based on its judgment that he qualifies for this position from the viewpoint of ensuring transparent decision making by the Board of Directors and reinforcing the supervisory functions thereon.</p>   |  |  |
| <p>[View on independence]</p> <p>As Shuichi Murakami satisfies the “Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board Member” stipulated by the Company, the Company judges that he maintains independence from the Company. He came from Sompo Japan Nipponkoa Insurance Inc. but resigned in 2008. Although this company holds the Company’s shares, its shareholding ratio is 0.36%. Although this company and the Company had transactions such as construction contract and insurance contracts in fiscal 2016, the respective amount of the relevant transactions did not exceed the amount of payments specified in the aforementioned criteria. (The average transaction amounts between both companies for the past three fiscal years (meaning fiscal 2014 through fiscal 2016; hereinafter, the same shall apply) was less than 1% of the three-year average transaction amounts of this company’s non-consolidated ordinary income as well as the Company’s consolidated net sales of completed construction contracts for the past three fiscal years.)</p> |  |  |



| Candidate No. | Name<br>(Date of birth; Age)   | Career summary, positions and assignments in the Company and important positions concurrently held at other companies |  |
|---------------|--|---|--|
| 10            | Hirokazu Hikosaka<br>(December 2, 1960; 56)  | April 1983  | Joined Asahi Shinkin Bank (Resigned in March 1985)   |
|               |  | April 1992  | Admitted as attorney and joined Nakajima Law Office (current Nakajima Hikosaka Kubouchi Law Office) (current position) |
|               | [New appointment]  | April 1999  | Commissioner, Kanto Federation of Bar Associations   |
|               | [Outside Director]   | April 2005  | Executive Commissioner, Japan Federation of Bar Associations   |
|               | [Independent]  | June 2006   | Outside Director, Adways Inc.  |
|               | Number of years as Director of the Company:  | June 2010   | Audit & Supervisory Board Member, Adway Inc. (current position)  |
|               | —  | April 2014  | Vice President, Tokyo Bar Association  |
|               | Attendance at the Board of Directors Meetings:   | June 2015   | Audit & Supervisory Board Member of the Company (current position)   |
|               | —  |   |  |
|               | Number of shares of the Company held:  |   |  |
|               | 400  |   |  |
|               | [Reason for nominating as a candidate for Director]<br>Although Hirokazu Hikosaka has had no experience of directly engaging in corporate management, the Company considers that he would provide valuable advice and supervision on the management of the Company especially in the aspect of legal affairs from an independent and objective standpoint as he has professional expertise and abundant experience as a lawyer. The Company newly appoints him as a candidate for Outside Director based on its judgment that he qualifies for this position from the viewpoint of ensuring transparent decision making by the Board of Directors and reinforcing the supervisory functions thereon. |   |  |
|               | [View on independence]<br>As Hirokazu Hikosaka satisfies the “Independence Criteria for Outside Director/Outside Audit & Supervisory Board Member” stipulated by the Company, the Company judges that he maintains independence from the Company. There are no interests including personal, capital and transactional relationships between Nakajima Hikosaka Kubouchi Law Office, at which he works as a lawyer, and the Company.  |   |  |

Notes:

- No material conflict of interest exists between the Company and any of the above candidates for Director.
- Shuichi Murakami and Hirokazu Hikosaka are candidates for Outside Director.
- Although Hirokazu Hikosaka is currently an Outside Audit & Supervisory Board Member of the Company, he will resign from the position at the conclusion of this Annual Shareholders' Meeting. The number of years he has served as Outside Audit & Supervisory Board Member will be two years at the conclusion of this Annual Shareholders' Meeting. The attendance rate of his attendance at the Board of Directors and the Audit & Supervisory Board Meetings held during the fiscal year under review was as follows:

|  |                               |
|--|-------------------------------|
| Attendance at the Board of Directors Meetings        | 12/12 (Attendance rate: 100%) |
| Attendance at the Audit & Supervisory Board Meetings | 9/9 (Attendance rate: 100%)   |
- The Company has stipulated in its Articles of Incorporation that it can conclude a limited liability agreement with each Director who is not an executive director to limit his/her liability for damages to a certain degree, and has concluded such limited liability agreements with Eitaro Uenishi and Shuichi Murakami. If their appointment is approved, the Company intends to continue the limited liability agreement with each of them. The Company has also stipulated in its Articles of Incorporation that it can conclude a limited liability agreement with each Audit & Supervisory Board Member to limit his/her liability for damages to a certain degree, and has concluded such limited liability agreement with Hirokazu Hikosaka, who is currently an Outside Audit & Supervisory Board Member of the Company. If his appointment as Director is approved at this Annual Shareholders' Meeting, the Company intends to newly conclude a similar limited liability agreement with him as Director who is not an executive director.  
The outline of the aforementioned limited liability agreement is as follows:
  - In case a Director causes damage to the Company due to his/her negligence of duty, his/her liability for the damage shall be up to the minimum liability amount provided for in law when said Director's duty is performed in good faith and with no gross negligence.
- The Company has notified Tokyo Stock Exchange of the designation of Shuichi Murakami as Independent Directors and Hirokazu Hikosaka as Independent Auditor as stipulated in the provisions of the Tokyo Stock Exchange.

6. The age of the respective candidates is indicated on a full-year basis at the conclusion of this Annual Shareholders' Meeting.

(Reference)

“Independence Criteria for Outside Director/Outside Audit & Supervisory Board Member”

In order to increase the soundness and transparency of management, the Company has established the following independence criteria for outside directors and outside audit & supervisory board members. Outside directors and outside audit & supervisory board members are considered to be independent unless any of the following criteria applies.

1. Major shareholder<sup>1</sup> of the Company or an Executive thereof;
2. Major lender<sup>2</sup> of the Company or an Executive thereof;
3. A party whose major client or supplier is the Company<sup>3</sup> or an Executive thereof;
4. Major client or supplier of the Company<sup>4</sup> or an Executive thereof;
5. Consultant, accountant or legal professional who receives ¥10 million per year in monetary consideration or other property from the Company besides compensation as a director/audit & supervisory board member (if the recipient of such property is a corporation, partnership or other entities, a person who belongs to an entity for which the total amount of money and property received from the Company exceeds 2% of its annual gross revenue);
6. Person who receives more than ¥10 million per year in donation from the Company (or Executive thereof, if the recipient of such donation is a corporation, partnership or other entities);
7. Person who fell under any of the above-listed items 1. through 6. during the past three years; or
8. Relatives within the second degree of kinship of the person (excluding significant persons) who fall under any of the following items (1) through (3).
  - (1) Person who falls under any of the above-listed items 1 through 7;
  - (2) Executive of any subsidiaries of the Company; or
  - (3) Non-Executive director of any subsidiaries of the Company.

Notes:

1. “Major shareholder” refers to a shareholder who holds 10% or more of the voting rights directly or indirectly at the end of the nearest fiscal year.
2. “Major lender” refers to a lender to whom the Company has outstanding borrowings in the amount that exceeded 2% of the consolidated total assets of the Company at the end of the nearest fiscal year.
3. “A party whose major client or supplier is the Company” refers to a party for whom the average amount of payments received from the Company for the past three fiscal years exceeds 2% of the average consolidated net sales of said party for the past three fiscal years.
4. “A major client or supplier of the Company” refers to a party for whom the average amount of payments to the Company for the past three years exceeds 2% of the average consolidated net sales of the Company for the past three fiscal years.

**Proposal No. 3: Election of Two (2) Audit & Supervisory Board Members**

The term of office of Audit & Supervisory Board Member Masaaki Saito will expire and Audit & Supervisory Board Member Hirokazu Hikosaka will resign from the position at the conclusion of this Annual Shareholders' Meeting. Accordingly, the election of two (2) Audit & Supervisory Board Members is proposed. As Kiyotaka Fuke will be elected as a substitute for Hirokazu Hikosaka, his term of office will be until the expiration of the term of office of the resigning Audit & Supervisory Board Member in accordance with the provision of the Articles of Incorporation, with the remaining period of two (2) years.

The Audit & Supervisory Board has given its prior consent to this Proposal.

The candidates are as follows, and the candidate for Outside Audit & Supervisory Board Member satisfies the "Independence Criteria for Outside Director/Outside Audit & Supervisory Board Member" stipulated by the Company. Refer to page 10 for details of said criteria.

| Candidate No.   | Name<br>(Date of birth; Age)  | Career summary and positions in the Company and important positions concurrently held at other companies |  |
|---|---|--|--|
| 1   | Tetsuya Ogawa<br>(April 25, 1953; 64)                               | April 1972   | Joined the Company   |
|   |   | April 2007   | Corporate Officer, Senior General Manager, Process Quality Dept., Paint Finishing System Division  |
|   | [New appointment]   | April 2010   | Senior Corporate Officer, Vice General Manager and Senior General Manager, Engineering Headquarters, Paint Finishing System Division             |
|   | Number of years as Audit & Supervisory Board Member of the Company: | June 2011  | Director, Senior Corporate Officer, Vice General Manager and Senior General Manager, Engineering Headquarters, Paint Finishing System Division   |
|   | —   | April 2012   | Director, Managing Corporate Officer, Vice General Manager and Senior General Manager, Engineering Headquarters, Paint Finishing System Division |
|   | Attendance at the Board of Directors Meetings:                      | April 2013   | Director, Managing Corporate Officer, Vice General Manager, Paint Finishing System Division  |
|   | —   | April 2014   | Director, Managing Corporate Officer, Chief General Manager, Paint Finishing System Division   |
|   | Attendance at the Audit & Supervisory Board Meetings:               | April 2016   | Director, Executive Corporate Officer, Chief General Manager, Paint Finishing System Division  |
| —   | April 2017  | Director (current position)  |  |
| Number of shares of the Company held:   | 7,200   |  |  |
| [Reason for nominating as a candidate for Audit & Supervisory Board Member]<br>The Company newly appoints Tetsuya Ogawa as a candidate for Audit & Supervisory Board Member based on its judgment that he qualifies for this position to supervise the execution of duties by Directors because he is well-versed in the business of the Company as he has engaged in the management of the Taikisha Group since his assumption of the Director position in 2011. |   |  |  |

| Candidate No.   | Name<br>(Date of birth; Age)   | Career summary and positions in the Company and important positions concurrently held at other companies |   |
|---|--|--|---|
| 2   | <p>Kiyotaka Fuke<br/>(April 19, 1954; 63)</p> <p>[New appointment]<br/>[Outside Audit &amp; Supervisory Board member]<br/>[Independent]</p> <p>Number of years as Audit &amp; Supervisory Board Member of the Company:<br/>—</p> <p>Attendance at the Board of Directors Meetings:<br/>—</p> <p>Attendance at the Audit &amp; Supervisory Board Meetings:<br/>—</p> <p>Number of shares of the Company held:<br/>0</p> | <p>April 2014</p> <p>July 2014</p> <p>April 2016</p> <p>June 2016</p> <p>July 2016</p>                   | <p>Deputy President, Meiji Yasuda Life Insurance Company</p> <p>Director, Deputy President, Meiji Yasuda Life Insurance Company</p> <p>Director, Meiji Yasuda Life Insurance Company (retired in July 2016)</p> <p>Outside Audit &amp; Supervisory Board Member, Mizuho Trust &amp; Banking Co., Ltd. (current position)</p> <p>Advisor, Meiji Yasuda Life Insurance Company (current position)</p> |
| <p>[Reason for nominating as a candidate for Outside Audit &amp; Supervisory Board Member]</p> <p>The Company newly appoints Kiyotaka Fuke as a candidate for Outside Audit &amp; Supervisory Board Member based on its judgment that he qualifies for this position as he has abundant expertise and experience nurtured during his tenure as a manager of a leading life insurance company and the expectation that he would appropriately perform duties from an objective standpoint to audit the execution of duties by Directors.</p>   |  |  |   |
| <p>[View on independence]</p> <p>As Kiyotaka Fuke satisfies the “Independence Criteria for Outside Director/Outside Audit &amp; Supervisory Board Member” stipulated by the Company, the Company judges that he maintains independence from the Company. Although he concurrently serves as Advisor to Meiji Yasuda Life Insurance Company and this company holds the Company’s shares, its shareholding ratio is 1.25%. Although this company and the Company had transactions such as construction contract and insurance contracts in fiscal 2016, the respective amount of the relevant transactions did not exceed the amount of payments specified in the aforementioned criteria. (The average transaction amounts between both companies for the past three fiscal years was less than 1% of the three-year average transaction amounts of this company’s ordinary income as well as the Company’s consolidated net sales of completed construction contracts for the past three fiscal years.)</p> |  |  |   |

Notes:

- No material conflict of interest exists between the Company and either of the above two (2) candidates for Audit & Supervisory Board Member.
- Kiyotaka Fuke is a candidate for Outside Audit & Supervisory Board Member.
- Although Tetsuya Ogawa is currently Director of the Company, he will resign from the position at the conclusion of this Annual Shareholders’ Meeting. The number of years the candidate has served as Director will be six years at the conclusion of this Annual Shareholders’ Meeting. The attendance rate of his attendance at the Board of Directors Meetings held during the fiscal year under review was as follows:  
Attendance at the Board of Directors Meetings 12/12 (Attendance rate: 100%)
- The Company has stipulated in its Articles of Incorporation that it can conclude a limited liability agreement with each Audit & Supervisory Board Member to limit his/her liability for damages to a certain degree. If the appointment of Tetsuya Ogawa and Kiyotaka Fuke is approved, the Company intends to conclude said agreement with each of them.  
The outline of the aforementioned limited liability agreement is as follows:
  - In case an Audit & Supervisory Board Member causes damage to the Company due to his/her negligence of duty, his/her liability for the damage shall be up to the minimum liability amount provided for in law when said Audit & Supervisory Board Member’s duty is performed in good faith and with no gross negligence.

5. If the appointment of Kiyotaka Fuke as Audit & Supervisory Board Member is approved, the Company intends to designate him as an Independent Auditor as stipulated in the provisions of the Tokyo Stock Exchange and notify the Tokyo Stock Exchange of his designation as such.
6. The age of the respective candidates is indicated on a full-year basis at the conclusion of this Annual Shareholders' Meeting.

**Proposal No. 4: Election of One (1) Substitute Audit & Supervisory Board Member**

To prepare for a possible vacancy in the number of Audit & Supervisory Board Members, which is stipulated by the relevant laws and regulations, the prior election of one (1) Substitute Audit & Supervisory Board Member is proposed.

The Audit & Supervisory Board has given its prior consent to this Proposal.

The candidate is as follows:

| Name<br>(Date of birth; Age)   | Career summary and positions in the Company<br>and important positions concurrently held at other companies                         |  |
|--|---|--|
| <p style="text-align: center;"><b>Takashi Kouno</b><br/>(February 22, 1955; 62)</p> <p>Number of shares of the<br/>Company held:<br/>0</p> | <p>April 1978</p> <p>April 1992</p> <p>January 1996</p> <p>June 1997</p> <p>February 2004</p> <p>April 2004</p> <p>October 2006</p> | <p>Joined The Long-Term Credit Bank of Japan, Limited (current Shinsei Bank, Limited) (Resigned in October 1985)</p> <p>Admitted as attorney. Joined Komatsu &amp; Koma Law Office</p> <p>Established Toranomom Daiichi Law Office</p> <p>Outside Audit &amp; Supervisory Board Member, Tamura Electric Works, Ltd. (current SAXA, Inc.)</p> <p>Outside Audit &amp; Supervisory Board Member, SAXA Holdings, Inc. (retired in June 2016)</p> <p>Outside Audit &amp; Supervisory Board Member, SAXA, Inc. (retired in June 2016)</p> <p>Established Kouno Law Office (current Kouno &amp; Sugano Law Office) (current position)</p> |

Notes:

1. No material conflict of interest exists between the Company and the candidate for Substitute Audit & Supervisory Board Member.
2. Takashi Kouno is a candidate for Substitute Outside Audit & Supervisory Board Member.
3. Although Takashi Kouno has had no experience of directly engaging in corporate management, the Company appoints him as a candidate for Substitute Outside Audit & Supervisory Board Member based on its judgment that he qualifies for this position as he has professional expertise and abundant experience as a lawyer, and the expectation that he would appropriately perform duties from an objective standpoint to supervise the execution of duties by Directors.
4. The Company has stipulated in its Articles of Incorporation that it can conclude a limited liability agreement with each Audit & Supervisory Board Member to limit his/her liability for damages to a certain degree. If Takashi Kouno assumes the position of Audit & Supervisory Board Member, the Company intends to conclude said agreement with him.  
The outline of the aforementioned limited liability agreement is as follows:
  - In case an Audit & Supervisory Board Member causes damage to the Company due to his/her negligence of duty, his/her liability for the damage shall be up to the minimum liability amount provided for in law when said Audit & Supervisory Board Member's duty is performed in good faith and with no gross negligence.
5. If Takashi Kouno assumes the position of Audit & Supervisory Board Member, the Company intends to designate him as an Independent Auditor as stipulated in the provisions of the Tokyo Stock Exchange and notify the Tokyo Stock Exchange of his designation as such.
6. The age of the candidate is indicated on a full-year basis at the conclusion of this Annual Shareholders' Meeting.

## **Business Report**

(From April 1, 2016, to March 31, 2017)

### **1. Overview of the Group**

#### **(1) Business Progress and Results**

##### **1) Overview of business**

Looking at the global economy during the fiscal year ended March 31, 2017, the U.S. economy followed a moderate, expansive undertone against a backdrop of the improvement of the employment and income environments and an increase in consumer spending, and the European economy overall continued a gradual upward momentum due to steady consumer spending. The Asian economy overall remained firm, and the Chinese economy, showed signs of economic pickup from the preceding trend of a slower growth rate. The Japanese economy continued a track to gradual recovery, reflecting rallies in exports, mining and manufacturing production and consumer spending.

Given such circumstances, the Taikisha Group's orders received totaled ¥218,323 million (a 1.6% year-on-year decrease), of which overseas orders received decreased by 8.6% year on year to ¥110,050 million, due to decreases in orders received mainly in China and Indonesia despite increases in North America and Japan.

Net sales of completed construction contracts totaled ¥200,604 million (a 5.6% year-on-year decrease), of which overseas net sales were ¥98,820 million, a 16.2% year-on-year decrease, mainly due to decreases in the sales of construction contracts in Thailand and Brazil despite increases in North America and Japan.

In terms of profits, gross profit on completed construction contracts decreased by ¥4,413 million year on year to ¥28,157 million, mainly due to a year-on-year decrease of ¥11,820 million in net sales of completed construction contracts and the deteriorated profitability of paint finishing system projects in the United States. Operating income totaled ¥8,473 million (a year-on-year decrease of ¥4,261 million) and ordinary income totaled ¥9,842 million (a year-on-year decrease of ¥2,501 million). As a result, for the fiscal year ended March 31, 2017, profit attributable to owners of parent was ¥6,305 million (a year-on-year decrease of ¥779 million) on a consolidated basis.

##### **Green Technology System Division:**

Orders received for the fiscal year under review decreased year on year, mainly due to decreases in orders received in Thailand and Indonesia despite an increase in Japan for the HVAC for buildings category. Net sales of completed construction contracts decreased year on year mainly due to a decrease in Thailand despite an increase in Japan in the industrial HVAC category.

As a result, orders received in this segment totaled ¥130,430 million (a 1.7% year-on-year decrease). Of this figure, orders for the HVAC for buildings category increased 11.5% year on year to ¥48,739 million whereas those for the Industrial HVAC category decreased 8.2% year on year to ¥81,690 million. Net sales of completed construction contracts totaled ¥124,565 million (a 7.6% year-on-year decrease). Of this figure, sales of the HVAC for buildings category increased 0.6% year on year to ¥43,857 million whereas those of the Industrial HVAC category decreased 11.5% year on year to ¥80,708 million. Segment profit (ordinary income) amounted to ¥9,981 million (a year-on-year increase of ¥1,031 million).

##### **Paint Finishing System Division:**

Orders received for the fiscal year under review decreased year on year due to overall decreases in orders received especially in China as a reaction to large-scale projects in the previous year, despite increases in North America and Russia. Net sales of completed construction contracts decreased, reflecting the decreased turnover of construction contracts in Brazil and China despite increases in North America and Japan.

As a result, orders received in this segment totaled ¥87,893 million (a 1.3% year-on-year decrease). Net sales of completed construction contracts totaled ¥76,085 million (a 2.1% year-on-year decrease).

Segment loss (ordinary loss) amounted to ¥115 million (compared with segment profit (ordinary income) of ¥3,524 million for the previous fiscal year).

**Orders received, net sales of completed construction contracts and construction carried forward by business segment**

(Millions of yen)

|                                  | Category                | Construction brought forward | Orders received during the fiscal year under review | Total             | Net sales of completed construction contracts during the fiscal year under review | Construction carried forward |
|----------------------------------|-------------------------|------------------------------|---|-------------------|---|------------------------------|
| Green Technology System Division | HVAC for buildings      | 49,590                       | 48,739  | 98,329            | 43,857  | 54,472                       |
|                                  | Industrial HVAC         | 39,117                       | 81,690  | 120,808           | 80,704  | 40,103                       |
|                                  | Subtotal [overseas]     | 88,707 [20,083]              | 130,430 [35,441]                                    | 219,137 [55,525]  | 124,561 [36,635]  | 94,575 [18,890]              |
| Paint Finishing System Division  | Paint finishing systems | 63,067 [55,881]              | 87,893 [74,608]                                     | 150,961 [130,490] | 76,043 [62,185]   | 74,918 [68,304]              |
| Total [overseas]                 |                         | 151,775 [75,965]             | 218,323 [110,050]                                   | 370,099 [186,016] | 200,604 [98,820]  | 169,494 [87,195]             |

Note: The conversion for “Construction brought forward” regarding overseas consolidated subsidiaries is adjusted for increases/decreases due to exchange rate fluctuations during the fiscal year under review.

As for the non-consolidated performance of the Company, orders received totaled ¥112,222 million (a 0.4% year-on-year increase) whereas net sales of completed construction contracts totaled ¥105,378 million (a 1.8% year-on-year decrease). Profit of the Company was ¥7,251 million (a year-on-year increase of ¥2,302 million).

**2) Capital expenditures**

There is nothing of significance to mention for the fiscal year under review.

**3) Financing**

There is nothing of significance to mention for the fiscal year under review.

**(2) Transfer of Business, Absorption-Type Company Split and Incorporation-Type Company Split**

Not applicable.

**(3) Business Assigned from Other Companies**

Not applicable.

**(4) Succession of Rights and Obligations regarding Other Entities' Business due to Absorption-Type or Incorporation-Type Company Split**

Not applicable.

**(5) Acquisition or Disposition of Shares and Other Equity Interests or Share Subscription Rights of Other Companies**

Not applicable.

**(6) Changes in Assets and Income****1) Changes in operating results**

(Millions of yen)

|   | Year ended March<br>31, 2013<br>(68th term) | Year ended March<br>31, 2014<br>(69th term) | Year ended March<br>31, 2015<br>(70th term) | Year ended March<br>31, 2016<br>(71st term) | Year ended March<br>31, 2017<br>(72nd term)<br>Fiscal year under<br>review |
|---|---|---|---|---|--|
| Orders received                               | 195,920                                     | 189,026                                     | 187,311                                     | 221,764                                     | 218,323  |
| Net sales of completed construction contracts | 216,051                                     | 185,421                                     | 183,648                                     | 212,424                                     | 200,604  |
| Ordinary income                               | 10,728                                      | 9,292                                       | 9,579                                       | 12,343                                      | 9,842  |
| Profit attributable to owners of parent       | 6,200                                       | 4,155                                       | 6,084                                       | 7,084                                       | 6,305  |
| Basic earnings per share (Yen)                | 170.99                                      | 116.08                                      | 172.64                                      | 204.35                                      | 183.16   |
| Total assets                                  | 163,014                                     | 166,680                                     | 188,283                                     | 189,566                                     | 199,024  |
| Net assets                                    | 78,537                                      | 84,712                                      | 99,669                                      | 95,921                                      | 100,184  |
| Net assets per share (Yen)                    | 2,087.16                                    | 2,282.56                                    | 2,690.76                                    | 2,633.60                                    | 2,799.30   |

Note: “Basic earnings per share” is calculated based on the average number of shares outstanding during the year after subtracting treasury shares. “Net assets per share” is calculated based on the total number of issued shares at the end of the year after subtracting treasury shares. The number of treasury shares do not include the number of the Company’s shares held by Trust & Custody Services Bank, Ltd. (Trust E Account), because of the introduction of ESOP (Employee Stock Ownership Plan).

**2) Changes in net sales of completed construction contracts by business segment**

(Millions of yen)

|   |                         | Year ended<br>March 31,<br>2013<br>(68th term) | Year ended<br>March 31,<br>2014<br>(69th term) | Year ended<br>March 31,<br>2015<br>(70th term) | Year ended<br>March 31,<br>2016<br>(71st term) | Year ended<br>March 31,<br>2017<br>(72nd term)<br>Fiscal year<br>under review |
|---|-------------------------|--|--|--|--|---|
| Green<br>Technology<br>System<br>Division | HVAC for buildings      | 46,573   | 36,455   | 40,827   | 43,608   | 43,857  |
|   | Industrial HVAC         | 90,641   | 78,989   | 75,307   | 91,214   | 80,704  |
|   | Subtotal                | 137,214  | 115,444  | 116,134  | 134,822  | 124,561   |
| Paint Finishing System Division           | Paint finishing systems | 78,837   | 69,976   | 67,513   | 77,602   | 76,043  |
| Total [overseas]                          |                         | 216,051 [124,097]                              | 185,421 [114,214]                              | 183,648 [101,344]                              | 212,424 [117,881]                              | 200,604 [98,820]  |



## (7) Issues to Be Addressed

### Basic management policy

The Company and its subsidiaries will globally expand their business areas and pursue stable and sustainable growth in compliance with the “Customer first” spirit as Taikisha’s mission statement, and based on environmentally compliant technologies through our expertise in “Energy, Air, and Water” represented by the company name “*Taikisha*.” To this end, we will further create an attractive company for all stakeholders and contribute to society.

### 1) Reinforcing management base

To flexibly and swiftly respond to social needs and environmental changes in markets, and practice the basic management policy stated above, the Company intends to reinforce its management base with the following proactive initiatives: (a) enhance and streamline corporate governance, (b) reinforce the global compliance system, (c) develop capabilities of human resources, and (d) carry out strategic investments to fortify its business base.

Specific action plans, which serve to help realize these initiatives, are incorporated in the annual action policies at the respective departments, and each department in charge continues its own activities to this end while getting back to the basics of these initiatives.

The outline and the progress of the Mid-Term Business Plan (from the fiscal year ended March 2017 through the fiscal year ending March 2019), which was released on May 16, 2016, are as follows:

(Billions of yen)

|   | Actual performance for the fiscal year ended March 2017 | Targets for the fiscal year ending March 2018 | Targets for the fiscal year ending March 2019 |
|---|---|---|---|
| Orders received                               | 218.3   | 208.5   | 213.0   |
| Net sales of completed construction contracts | 200.6   | 202.5   | 208.1   |
| Operating income                              | 8.47  | 11.6  | 12.3  |
| Ordinary income                               | 9.84  | 12.3  | 13.0  |
| Profit attributable to owners of parent       | 6.30  | 7.1   | 7.5   |

### 2) Business development with an emphasis on high-growth markets and fields

The Company has two mainstay business divisions: the Green Technology System Division, which encompasses relevant businesses ranging from the design and construction of HVAC equipment for buildings to the engineering of production facilities, and the Paint Finishing System Division, which engages in engineering mainly for automobile paint plants.

The Green Technology System Division intends to continue expanding business operations not only in Japan but also in overseas markets. Its priority is on developing environmental businesses, including plant designs that minimize environmental impact to meet the needs of a low-carbon society, innovative engineering for the renovation of existing equipment/facilities and to raise production efficiency, sales of high-efficiency exhaust gas treatment systems and exploitation of new business fields such as the plant factory system. Moreover, more stringent cost controls will be pursued to strengthen earnings capacity.

The Paint Finishing System Division intends to develop the total engineering-oriented business that aims to improve painting and coating efficiency for automobiles, as well as reduce the energy impact of the whole paint plant. For the paint plants that will be newly established and renovated in India, China, the United States and Europe, the Company will work to rack up profits by increasing orders received not only from Japanese car manufacturers but also locally capitalized counterparts. Moreover, business expansion will be pursued in peripheral fields including the business for paint finishing systems other than automobiles such as aircraft, painting technology commensurate with new materials and conveyor systems.

### 3) Compliance-based management

In accordance with the aforementioned basic management policy, the Company formulated the Management Vision: To conduct transactions through free and fair competition by abiding by the laws and their spirit, and to contribute to our customers, partners, shareholders, employees, community, society and global environment through transparency and high ethical standards.

The Management Vision expresses the Company's resolution of creating value for all stakeholders surrounding the Company and fulfilling its corporate social responsibility on the basis of legal compliance. Specific measures are carried out for enhanced compliance, including the holding of compliance-based training sessions for executives and employees; the streamlining and disseminating of internal reporting systems; and the verification of compliance status at the monthly meetings of the Corporate Compliance Committee.

The Company will strive to continue promoting management supported by compliance-based, transparent and highly ethical management values.

**(8) Significant Subsidiaries**

| Company name   | Capital             | Percentage of voting rights held by the Company | Principal business   |
|--|---------------------|---|--|
| San Esu Industry Co., Ltd.                           | ¥100 million        | 87.75%  | Pipework, sheet metal work and can manufacturing work, as well as manufacture and sales of machinery and equipment |
| Nippon Noise Control Ltd.                            | ¥30 million         | 100.00%   | Design, manufacture, sales and installation of silencer and vibration-proof equipment                              |
| Tokyo Taikisha Service Ltd.                          | ¥20 million         | 100.00%   | Design and installation of HVAC systems  |
| TKS Industrial Company                               | USD 10 thousand     | 100.00%   | Design and installation of paint finishing and HVAC systems  |
| Encore Automation LLC <sup>1,3</sup>                 | —                   | 51.00%  | Design and installation of paint systems and plants for automobile industry and aviation industry                  |
| Taikisha Canada Inc. <sup>1</sup>                    | CAD 442 thousand    | 100.00%   | Design and installation of paint finishing and HVAC systems  |
| Taikisha de Mexico, S.A. de C.V. <sup>1</sup>        | MXN 11,729 thousand | 100.00%   | Design and installation of paint finishing and HVAC systems  |
| Taikisha Mexicana Service S.A. de C.V. <sup>1</sup>  | MXN 100 thousand    | 100.00%   | Design and installation of paint finishing and HVAC systems, as well as temporary staffing services                |
| Taikisha do Brasil Ltda. <sup>1</sup>                | BRL 8,107 thousand  | 100.00%   | Design and installation of paint finishing and HVAC systems  |
| Taikisha (Singapore) Pte. Ltd.                       | SGD 20 million      | 100.00%   | Design and installation of HVAC and paint finishing systems  |
| Taikisha (Thailand) Co., Ltd. <sup>1</sup>           | THB 40 million      | 85.65%  | Design and installation of HVAC and paint finishing systems  |
| Taikisha Trading (Thailand) Co., Ltd. <sup>1</sup>   | THB 5 million       | 98.60%  | Exports and imports of HVAC and paint finishing systems and other products for plants                              |
| Thaiken Maintenance & Service Co., Ltd. <sup>1</sup> | THB 5 million       | 100.00%   | Maintenance services and small-scale works, etc.   |
| Token Interior & Design Co., Ltd. <sup>1</sup>       | THB 20 million      | 83.40%  | Manufacture and sales of interior goods and materials  |
| TKA Co., Ltd. <sup>1</sup>                           | THB 5 million       | 96.00%  | Manufacture and sales of precision machinery parts   |
| Token Myanmar Co., Ltd. <sup>1</sup>                 | USD 200 thousand    | 90.00%  | Interior decoration-related design and installation  |

| Company name  | Capital            | Percentage of voting rights held by the Company | Principal business  |
|---|--------------------|---|---|
| Taikisha Engineering (M) Sdn. Bhd.                        | MYR 750 thousand   | 100.00%   | Design and installation of HVAC and paint finishing systems   |
| P.T. Taikisha Indonesia Engineering                       | IDR 982 million    | 99.98%  | Design and installation of HVAC and paint finishing systems   |
| P.T. Taikisha Manufacturing Indonesia                     | IDR 87,531 million | 99.98%  | Painting of automobile parts  |
| Taikisha Philippines Inc. <sup>2</sup>                    | PHP 22 million     | 40.00%  | Design and installation of HVAC and paint finishing systems   |
| Taikisha Vietnam Engineering Inc.                         | VND 3,895 million  | 100.00%   | Design and installation of HVAC and paint finishing systems   |
| Taikisha (Cambodia) Co., Ltd.                             | USD 300 thousand   | 100.00%   | Design and installation of HVAC and paint finishing systems   |
| Taikisha Myanmar Co., Ltd. <sup>1</sup>                   | USD 2 million      | 100.00%   | Design, installation and maintenance of HVAC and paint finishing systems  |
| Wuzhou Taikisha Engineering Co., Ltd.                     | CNY 51 million     | 70.00%  | Design and installation of HVAC and paint finishing systems   |
| Beijing Wuzhou Taikisha Equipment Co., Ltd. <sup>1</sup>  | CNY 800 thousand   | 100.00%   | Manufacture, installation, adjustment and repair of paint finishing, HVAC and pollution control systems, as well as sales of machinery, equipment and electronic products |
| Tianjin Taikisha Paint Finishing System Ltd. <sup>1</sup> | CNY 73 million     | 90.00%  | Research, development, manufacture, sales and maintenance of paint systems  |
| Taikisha Hong Kong Limited                                | HKD 2 million      | 100.00%   | Design and installation of HVAC and paint finishing systems   |
| Taikisha (Taiwan) Ltd.                                    | TWD 230 million    | 100.00%   | Design and installation of HVAC and paint finishing systems   |
| Taikisha Korea Ltd. <sup>1</sup>                          | KRW 700 million    | 80.00%  | Design and installation of paint finishing and HVAC systems   |
| Taikisha Engineering India Private Ltd.                   | INR 6 million      | 55.00%  | Design and installation of paint finishing and HVAC systems   |
| Geico S.p.A.  | EUR 3 million      | 51.00%  | Design and installation of paint systems and plants for automobile industry   |

| Company name  | Capital            | Percentage of voting rights held by the Company | Principal business  |
|---|--------------------|---|---|
| J-CO America Corporation <sup>1,4</sup>               | USD 300 thousand   | 100.00%   | Design and installation of paint systems and plants for automobile industry |
| Geico Taikisha Europe Ltd. <sup>1</sup>               | EUR 4 million      | 100.00%   | Design and installation of paint finishing and HVAC systems                 |
| J-CO Mexico, S. de R.L. de C.V. <sup>1</sup>          | MXN 272 thousand   | 100.00%   | Design and installation of paint systems and plants for automobile industry |
| Geico Brasil Ltda. <sup>1</sup>                       | BRL 5,500 thousand | 100.00%   | Design and installation of paint systems and plants for automobile industry |
| Geico Paint Shop India Private Limited <sup>1</sup>   | INR 3 million      | 100.00%   | Design and installation of paint systems and plants for automobile industry |
| Geico Painting System (Suzhou) Co., Ltd. <sup>1</sup> | CNY 25 million     | 100.00%   | Design and installation of paint systems and plants for automobile industry |
| “Geico Russia” LLC <sup>1</sup>                       | RUB 6 million      | 100.00%   | Design and installation of paint systems and plants for automobile industry |

Notes:

1. For the companies marked with “1,” the percentage of voting rights held by the Company includes the equity investment by the Company’s subsidiaries.
2. Although the Company’s equity in the company marked with “2” is 50% or less, this company is included in the category of “consolidated subsidiaries” as the Company substantially controls it.
3. The company marked with “3” is a “limited liability company” under U.S. laws; the “Capital” is not stated in the table because the concept precisely falling under such “capital” does not exist.
4. The company marked with “4” is included in the category of “consolidated subsidiaries” as it was newly established during the fiscal year under review.

### (9) Principal Business

The Taikisha Group is mainly engaged in the design, supervision and installation of HVAC systems and paint finishing systems in Japan and overseas, as well as in the manufacture and sales of related equipment and materials. Major markets and client fields for each business segment are as follows:

|                                  |  |
|----------------------------------|--|
| Green Technology System Division | <ul style="list-style-type: none"> <li>• General-purpose HVAC systems for offices, hotels, stores, schools, research institutes, theaters, halls, residences, hospitals, computer centers and so forth</li> <li>• Industrial HVAC systems, including clean rooms, for factories and plants of semiconductors, electronic parts/components, precision machinery, pharmaceuticals, foods and so forth</li> </ul> |
| Paint Finishing System Division  | <ul style="list-style-type: none"> <li>• Paint finishing systems in factories not only for automobile parts/components such as chassis and bumpers slated for automobile industry but also for construction vehicles, rolling stock, aircraft and the like</li> </ul>  |

## (10) Principal Business Locations

### 1) The Company

|                     |  |
|---------------------|--|
| Head Office         | 8-17-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo   |
| Branch              | Sapporo Office, Tohoku Branch Office (Sendai-shi), Kanto Office (Saitama-shi), Tokyo Branch Office (Nakano-ku, Tokyo), Chubu Branch Office (Nagoya-shi), Osaka Branch Office, Chugoku Office (Hiroshima-shi), Kyushu Branch Office (Fukuoka-shi), International Operations Center (Shinjuku-ku, Tokyo), East Japan Office (Shinjuku-ku, Tokyo), West Japan Office (Nagoya-shi), Automation Office (Zama-shi, Kanagawa) |
| Sales Office        | Ibaraki (Tsukuba-shi), Hokuriku (Kanazawa-shi), Nagano, Kyoto, Kobe, Shikoku (Takamatsu-shi), Kagoshima, Okinawa (Naha-shi)  |
| Research Laboratory | Zama Technical Center (Zama-shi, Kanagawa), Research and Development Center (Aikawa-cho, Aiko-gun, Kanagawa), Paint Finishing System Division Research and Development Department (Hirakata-shi, Osaka)  |

### 2) Subsidiaries

|          |  |                     |
|----------|--|---------------------|
| Japan    | San Esu Industry Co., Ltd.                   | Hirakata-shi, Osaka |
|          | Nippon Noise Control Ltd.                    | Nakano-ku, Tokyo    |
|          | Tokyo Taikisha Service Ltd.                  | Nakano-ku, Tokyo    |
| Overseas | TKS Industrial Company                       | U.S.A.              |
|          | Encore Automation LLC                        | U.S.A.              |
|          | Taikisha Canada Inc.                         | Canada              |
|          | Taikisha de Mexico, S.A. de C.V.             | Mexico              |
|          | Taikisha Mexicana Service S.A. de C.V.       | Mexico              |
|          | Taikisha do Brasil Ltda.                     | Brazil              |
|          | Taikisha (Singapore) Pte. Ltd.               | Singapore           |
|          | Taikisha (Thailand) Co., Ltd.                | Thailand            |
|          | Taikisha Trading (Thailand) Co., Ltd.        | Thailand            |
|          | Thaiken Maintenance & Service Co., Ltd.      | Thailand            |
|          | Token Interior & Design Co., Ltd.            | Thailand            |
|          | TKA Co., Ltd.                                | Thailand            |
|          | Token Myanmar Co., Ltd.                      | Myanmar             |
|          | Taikisha Engineering (M) Sdn. Bhd.           | Malaysia            |
|          | P.T. Taikisha Indonesia Engineering          | Indonesia           |
|          | P.T. Taikisha Manufacturing Indonesia        | Indonesia           |
|          | Taikisha Philippines Inc.                    | The Philippines     |
|          | Taikisha Vietnam Engineering Inc.            | Vietnam             |
|          | Taikisha (Cambodia) Co., Ltd.                | Cambodia            |
|          | Taikisha Myanmar Co., Ltd.                   | Myanmar             |
|          | WuZhou Taikisha Engineering Co., Ltd.        | China               |
|          | Beijing Wuzhou Taikisha Equipment Co., Ltd.  | China               |
|          | Tianjin Taikisha Paint Finishing System Ltd. | China               |
|          | Taikisha Hong Kong Limited                   | China               |
|          | Taikisha (Taiwan) Ltd.                       | Taiwan              |
|          | Taikisha Korea Ltd.                          | South Korea         |
|          | Taikisha Engineering India Private Ltd.      | India               |
|          | Geico S.p.A.                                 | Italy               |
|          | J-CO America Corporation                     | U.S.A.              |
|          | Geico Taikisha Europe Ltd.                   | U.K.                |
|          | J-CO Mexico, S. de R.L. de C.V.              | Mexico              |
|          | Geico Brasil Ltda.                           | Brazil              |
|          | Geico Paint Shop India Private Limited       | India               |
|          | Geico Painting System (Suzhou) Co., Ltd.     | China               |
|          | “Geico Russia” LLC                           | Russia              |

**(11) Employees****1) Taikisha Group**

| Type of business            | Number of employees | Increase/Decrease from previous fiscal year-end |
|-----------------------------|---------------------|---|
| Equipment installation work | 4,702               | (190)   |

**2) The Company**

| Number of employees at fiscal year-end | Increase/Decrease from previous fiscal year-end | Average age | Average years of service |
|--|---|-------------|--------------------------|
| 1,446                                  | (38)  | 43.8        | 18.3                     |

**(12) Major Lenders**

| Lenders                                | Balance of borrowings |
|--|-----------------------|
| Mizuho Bank, Ltd                       | ¥1,712 million        |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | ¥1,084 million        |

## 2. Status of Shares

- (1) Total Number of Authorized Shares 100,000,000 shares
- (2) Total Number of Issued Shares 34,206,168 shares  
(excluding 2,575,841 treasury shares)
- (3) Number of Shareholders 3,235 persons  
(a year-on-year decrease of 169 persons)

### (4) Major Shareholders (top 10)

| Name of shareholders                                       | Number of shares held<br>(in thousands) | Percentage of shares held<br>to the total number of<br>issued shares (%) |
|--|---|--|
| The Master Trust Bank of Japan, Ltd. (Trust Account)       | 2,859                                   | 8.4  |
| Ichigo Trust Pte. Ltd.                                     | 2,262                                   | 6.6  |
| Kenzaisha Ltd.   | 1,730                                   | 5.1  |
| Japan Trustee Services Bank, Ltd. (Trust Account 9)        | 1,569                                   | 4.6  |
| Japan Trustee Services Bank, Ltd. (Trust Account)          | 1,415                                   | 4.1  |
| THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800 | 1,077                                   | 3.2  |
| Taikisha Business Partners Shareholding Association        | 1,034                                   | 3.0  |
| Dai ni Kenzaisha Ltd.                                      | 1,000                                   | 2.9  |
| Taikisha Employees Shareholding Association                | 872                                     | 2.6  |
| Nippon Life Insurance Company                              | 866                                     | 2.5  |

Notes:

1. The Company holds 2,575,841 treasury shares but excludes these shares from the list of major shareholders above. The above treasury shares do not include 161,200 shares of the Company's shares held by Trust & Custody Services Bank, Ltd. (Trust E Account), because of the introduction of the ESOP (Employee Stock Ownership Plan).
2. The "Percentage of shares held to the total number of issued shares" is calculated by subtracting treasury shares from all issued shares.

### (5) Other Share-Related Significant Matters

#### 1) Acquisition of treasury shares

The Company, at its Board of Directors meeting held on November 11, 2016, resolved to acquire treasury shares pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the terms pursuant to the provisions of Article 165, Paragraph 3, of said Act, and acquired said shares as follows.

- a) Type of shares acquired: Common shares of the Company
- b) Total number of shares acquired: 356,500 shares
- c) Total amount of acquisition price: ¥999,982,500 (¥2,805 per share)
- d) Date of acquisition: November 25, 2016
- e) Reason for acquisition: To increase capital efficiency, as well as to enable the Company to implement a flexible capital strategy in response to changes in the business environment.

#### 2) ESOP (Employee Stock Ownership Plan)

The Company introduced an ESOP (Employee Stock Ownership Plan) (the "Plan"), an incentive program to incentivize employees to improve stock prices and financial results by awarding shares of the Company to its employees.

The Plan has a scheme in which shares of the Company are awarded to its eligible employees who have satisfied certain requirements in accordance with the share awarding regulations set forth in advance by



the Company. Said Company's shares are acquired with money initially contributed to a trust, including future portions, and separately managed as a trust estate.

### 3. Share Subscription Rights (*Shinkabu Yoyakuken*) of the Company, etc.

Not applicable.

### 4. Company Officers

#### (1) Directors and Audit & Supervisory Board Members

| Position                                    | Name              | Assignments in the Company and important positions con-currently held at other companies                  |
|---|-------------------|---|
| Director                                    | Eitaro Uenishi    | Chairman  |
| Representative Director                     | Satoru Kamiyama   | President Corporate Officer   |
| Representative Director                     | Toshiaki Shiba    | Executive Vice President Corporate Officer  |
| Director                                    | Kiyoshi Hashimoto | Executive Vice President Corporate Officer, Chief Executive, Corporate Planning Headquarters              |
| Director                                    | Koji Kato         | Executive Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR |
| Director                                    | Tetsuya Ogawa     | Executive Corporate Officer, Chief General Manager, Paint Finishing System Division                       |
| Director                                    | Hiroshi Mukai     | Managing Corporate Officer, Chief General Manager, Green Technology System Division                       |
| Director                                    | Yukinori Hamanaka | Managing Corporate Officer, Vice General Manager, Paint Finishing System Division                         |
| Director                                    | Shuichi Murakami  |   |
| ○Director                                   | Kazumasa Suezawa  | Outside Director, Kamakura Shinsho, Ltd. Outside Audit & Supervisory Board Member, Tobu Trading Co., Ltd. |
| Full-time Audit & Supervisory Board Member  | Masaaki Saito     |   |
| ○Full-time Audit & Supervisory Board Member | Toshiya Furukatsu |   |
| Audit & Supervisory Board Member            | Junichi Noro      | Representative Director, President, NLI Research Institute  |
| Audit & Supervisory Board Member            | Hirokazu Hikosaka | Lawyer Audit & Supervisory Board Member, Adways Inc.  |

Notes:

1. A Director and an Audit & Supervisory Board Member marked with ○ were newly elected as Director and Audit & Supervisory Board Member at the 71st Annual Shareholders' Meeting held on June 29, 2016, and assumed their respective positions.
2. Mitsuru Sano retired from the position of Audit & Supervisory Board Member due to expiry of the term of office at the conclusion of the 71st Annual Shareholders' Meeting held on June 29, 2016.
3. Directors Shuichi Murakami and Kazumasa Suezawa are Outside Directors.
4. Audit & Supervisory Board Members Junichi Noro and Hirokazu Hikosaka are Outside Audit & Supervisory Board Members.
5. Audit & Supervisory Board Member Toshiya Furukatsu has long experience in accounting and finance business affairs, and therefore has abundant knowledge regarding finance and accounting affairs.
6. The Company has notified Tokyo Stock Exchange of the designation of Directors Shuichi Murakami and Kazumasa Suezawa, as well as Audit & Supervisory Board Members Junichi Noro and Hirokazu Hikosaka, as Independent Directors/Auditors as stipulated in the provisions of the Tokyo Stock Exchange.

7. The following assignments in the Company were transferred as of April 1, 2017.

| Name              | After the transfer   | Before the transfer   |
|-------------------|--|---|
| Toshiaki Shiba    | Representative Director, President<br>Corporate Officer  | Representative Director,<br>Executive Vice President<br>Corporate Officer   |
| Koji Kato         | Representative Director,<br>Executive Vice President<br>Corporate Officer, in charge of<br>Administrative Management<br>Headquarters | Director, Executive Corporate<br>Officer, Chief Executive,<br>Administrative Management<br>Headquarters and in charge of<br>CSR |
| Hiroshi Mukai     | Director, Executive Corporate<br>Officer, Chief General Manager,<br>Green Technology System<br>Division                              | Director, Managing Corporate<br>Officer, Chief General Manager,<br>Green Technology System<br>Division                          |
| Satoru Kamiyama   | Director   | Representative Director, President<br>Corporate Officer   |
| Kiyoshi Hashimoto | Director   | Director, Executive Vice<br>President Corporate Officer, Chief<br>Executive, Corporate Planning<br>Headquarters                 |
| Tetsuya Ogawa     | Director   | Director, Executive Corporate<br>Officer, Chief General Manager,<br>Paint Finishing System Division                             |

### (2) Outline of limited liability agreement

The Company has concluded limited liability agreements respectively with all Directors who are not executive directors and all Audit & Supervisory Board Members to limit their liability for damages under Article 423, Paragraph 1 of the Companies Act, in accordance to the provision of Article 427, Paragraph 1 of the Act.

The liability for damages both for such Directors and Audit & Supervisory Board Members pursuant to the agreements is up to the minimum liability amount provided for in law.

### (3) Compensation to Directors and Audit & Supervisory Board Members

| Category                          | Number of persons | Amount of compensation, etc. | Remarks   |
|-----------------------------------|-------------------|------------------------------|---|
| Directors                         | 10                | ¥428 million                 | 2 Outside Directors included therein<br>¥16 million                         |
| Audit & Supervisory Board Members | 5                 | ¥60 million                  | 2 Outside Audit & Supervisory Board Members included therein<br>¥15 million |
| Total                             | 15                | ¥489 million                 |   |

Notes:

- The above "Number of persons" includes one (1) Audit & Supervisory Board Member who retired from office at the conclusion of the 71st Annual Shareholders' Meeting held on June 29, 2016.
- The "Amount of compensation, etc.," to Directors includes ¥93 million in directors' bonuses expected to be paid relating to the fiscal year under review.
- At the 71st Annual Shareholders' Meeting held on June 29, 2016, a resolution was adopted to set an upper limit on compensation to Directors to be within ¥540 million per year (of which that for Outside Directors to be within ¥20 million per year) without including the portions of their salaries for Directors who concurrently serve as employees.
- At the 59th Annual Shareholders' Meeting held on June 29, 2004, a resolution was adopted to set an upper limit on compensation to Audit & Supervisory Board Members to be within ¥85 million per year.

#### (4) Outside Officers

##### 1) Relationship between other companies where important positions are concurrently held by our outside officers and the Company

The important positions that are concurrently held by each of the outside officers of the Company are as stated in “(1) Directors and Audit & Supervisory Board Members” above. There are no special interests between each company where each outside officer concurrently serves and the Company.

##### 2) Major activities during the year

a) Attendance at the meetings of the Board of Directors and the Audit & Supervisory Board, and opinions made thereat

| Position                         | Name              | Main activities at the meetings   |
|----------------------------------|-------------------|---|
| Director                         | Shuichi Murakami  | Attended all 12 meetings (attendance rate: 100%) of the Board of Directors held during the fiscal year ended March 31, 2017, and timely made remarks based on his knowledge and experience nurtured during his services rendered at a leading non-life insurance company.   |
| Director                         | Kazumasa Suezawa  | Attended all 10 meetings (attendance rate: 100%) of the Board of Directors held, after his assumption of office, and timely made remarks based on his knowledge and experience nurtured during his tenure as a manager.   |
| Audit & Supervisory Board Member | Junichi Noro      | Attended all 12 meetings (attendance rate: 100%) of the Board of Directors and all nine meetings (attendance rate: 100%) of the Audit & Supervisory Board held during the fiscal year ended March 31, 2017, and made remarks to ensure the legality of decision making by the Board of Directors.   |
| Audit & Supervisory Board Member | Hirokazu Hikosaka | Attended all 12 meetings (attendance rate: 100%) of the Board of Directors and all nine meetings (attendance rate: 100%) of the Audit & Supervisory Board held during the fiscal year ended March 31, 2017, and made remarks to ensure the legality of decision making by the Board of Directors from a professional viewpoint as a lawyer. |

## 5. Accounting Auditors

### (1) Designation of the Accounting Auditors

A&A Partners

### (2) Accounting Auditors' Compensation, etc., Pertaining to the Fiscal Year Ended March 31, 2017

|              |   |             |
|--------------|---|-------------|
| A&A Partners | Amount of compensation, etc.  | ¥75 million |
|              | Cash and other profits payable by the Company and its subsidiaries to the Accounting Auditors | ¥75 million |

Notes:

1. The Audit & Supervisory Board of the Company examined the status of executed duties for the preceding fiscal years, the grounds for calculating the estimated compensation and other factors with required materials and reports, which were obtained and/or heard from the Directors, relevant in-house departments/sections and the Accounting Auditors. As a result, judging that the compensation amounts above are fair and reasonable, the Audit & Supervisory Board has given its consent, as set forth in Article 399, Paragraph 1, of the Companies Act, with regard to compensation, etc., to the Accounting Auditors.
2. Under the audit agreement between the Company and the Accounting Auditors, compensation to audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not strictly separated and otherwise cannot be substantially distinguished from each other. Consequently, the above amount reflects total compensation.
3. The Company's overseas subsidiaries are audited by Certified Public Accountants or audit corporations (including those with comparable qualifications abroad) other than the Company's Accounting Auditors.

### (3) Non-Audit Services

The non-audit services for which the Company pays compensation to the Accounting Auditors include examination of financial figures for the inspection on management matters.

### (4) Policy regarding Determination of Dismissal or Non-Reappointment of Accounting Auditors

In the event that the Audit & Supervisory Board judges it necessary to do so, including the cases where the Accounting Auditors are deemed to have violated or interfered with any of the relevant laws and/or regulations such as the Companies Act and the Certified Public Accountant Law, or where the Accounting Auditors have committed an outrage against public decency, the Audit & Supervisory Board shall, in accordance with the Audit & Supervisory Board Rules, decide the content of the proposal regarding the dismissal or non-reappointment of said Accounting Auditors whereas the Board of Directors shall submit said proposal to a shareholders' meeting.

## **6. The Company's Systems to Ensure Proper Execution of Business, as well as Operational Status of Said Systems**

### **[1] Systems to Ensure Proper Execution of Business**

The Board of Directors of the Company has determined its basic policy for the internal control system, which is set forth in the Companies Act and the Ordinance for Enforcement of the Companies Act, as follows:

#### **[Objectives]**

This resolution shall stipulate the outline regarding the establishment and operation of the Company's internal control system, pursuant to the Companies Act and the Ordinance for Enforcement of the Companies Act, in order to recognize the fact that the biggest current managerial risk is violation of the laws and ordinances, and to familiarize and thoroughly carry out execution of observance of the laws and ordinances. The internal control system, in accordance with this resolution, shall be thoroughly established and operated, and shall be improved by constant review with the purpose of ensuring an efficient and proper company structure.

#### **1. The System to Ensure that Directors and Employees of the Company Conformance to Laws and Articles of Incorporation**

(1) According to the Company's philosophy and policy, the Company shall consider its management vision—to conduct transactions through free and fair competition by abiding by the laws and their spirit, and to contribute to our customers, partners, shareholders, employees, community, society and global environment through transparency and high ethical standards—and Taikisha's Code of Conduct as performance guidelines for directors and employees, and shall remind all persons involved about these standards.

(2) The Corporate Compliance Committee headed by the Representative Director as chairperson and consisting of directors, the General Manager of the Corporate Compliance Department and the General Manager of the Internal Audit Office shall meet in principle monthly in order to examine and respond to issues regarding compliance in the overall business operations of the Company from a management standpoint and to validate the status of compliance with laws and ordinances as well as the Articles of Incorporation. In addition, audit & supervisory board members shall attend the Corporate Compliance Committee with an independent stance to assure the effectiveness of management monitoring.

(3) The Company shall, in Taikisha's Code of Conduct, implement a basic policy for Anti-Social Forces of refusing any involvement of Anti-Social Forces in our business, rejecting any requirement from Anti-Social Forces and prohibiting all directors and employees of the Company to have any relationship with Anti-Social Forces. In addition, the Company shall constantly conduct educational and dissemination activities related to compliance in order to familiarize all directors and employees of the Company, shall make every effort to prevent any violation of the policy, and shall gather information related to Anti-Social Forces from the outside of the Company regularly. If the Company receives undue demands from Anti-Social Forces, the Company is committed to confront Anti-Social Forces systematically in cooperation with outside experts.

(4) The Corporate Compliance Department, which is under the direct control of the Representative Director, shall constantly conduct educational and dissemination activities related to compliance in order to familiarize all directors and employees of the Company with the management vision and Taikisha's Code of Conduct, and shall make every effort to prevent any violations of the law in cooperation with other compliance-related departments of business divisions, and shall report all relevant activities to the Corporate Compliance Committee.

(5) For instances where a director or employee finds a violation of laws or Articles of Incorporation, an internal reporting system informing to the Corporate Compliance Department shall be developed and an external reporting system informing to independent outside attorneys shall be established. The Corporate Compliance Department shall remind all persons involved, both inside and outside the Company, of the reporting system so that those contacts are effectively utilized, and shall monitor and supervise the situation in accordance with the internal reporting rules so that a person who made a report pursuant to the preceding paragraph is not treated in a disadvantageous manner because he or she made such report.

(6) In the event of a compliance violation, the offenders concerned shall be severely disciplined according to internal rules and regulations.

## 2. The System regarding the Storage and Management of Information Related to the Execution of Duties by Directors of the Company

Information and materials related to the directors' execution of duties shall be handled pursuant to internal rules and regulations, especially the Information Security Rules and Document Management Rules, and shall be appropriately stored, managed and disposed of. If necessary, operational status shall be examined and internal rules and regulations shall be reviewed.

## 3. Rules regarding Risk Management of Loss of the Company and Other Systems

(1) The Company shall, in accordance with the Risk Management Rules, establish the Risk Management Committee to identify risks of Taikisha Group in an integrated fashion and to implement effective and efficient risk management. The Committee shall establish basic policies, responsibility systems, operations and other necessary measures for risk management of Taikisha Group, and shall keep all persons involved informed about the establishment and implementation.

(2) Regarding risks associated with operations, such as quality control, safety control and compliance, assigned to each department, each department shall identify and prioritize the risks, draft specific measures against the risks and report to the Risk Management Committee. Each department shall implement internal rules and regulations, and shall keep all persons involved informed about the details of the implementation.

(3) On the assumption of situations in which measures should be taken to respond to exposed potential major risks (hereinafter referred to as crisis), the Company shall establish the Crisis Management Committee for the purpose of crisis response and daily crisis management. In the event that crisis breaks out, the Crisis Management Committee shall organize the crisis management team or establish the crisis task force to respond to the crisis under the supervision of the Crisis Management Committee. On the assumption of the outbreak of the crisis, the Company shall establish a business continuity plan to restore the damage caused by the crisis.

(4) The Internal Audit Office, which is under the direct control of the Representative Director, shall conduct internal audits in accordance with the Internal Audit Rules. The effectiveness of internal audits shall be ensured by the appointment of the General Manager of the Internal Audit Office chosen from employees at the level of Corporate Officer or higher, and by the placement of other necessary personnel. Furthermore, the Internal Audit Office shall examine audit methods and items to be audited, and shall amend the audit procedures as needed.

## 4. The System to Ensure the Efficient Execution of Duties by Directors of the Company

(1) By adopting a corporate officer system, responsibilities and authorities of corporate management and duty execution shall be clarified, aiming for revitalization of the Board of Directors, promotion of rapid decision-making, and advancement of management reforms.

(2) Based on the Board of Directors Rules, Rules for Managerial Approval, and other internal rules, the matters applicable for submission to the Board shall be submitted to the Board of Directors. In this regard, the appropriate materials concerning the agendas shall be distributed to all directors in advance and the Board of Directors shall pass a resolution after a full discussion based on such materials.

(3) With the Company's philosophy as a foundation, each departmental headquarters and business divisions, after a policy review meeting, shall establish an appropriate annual policies and annual target, and shall work in order to achieve those targets.

(4) The Management Meeting, mainly consisting of directors at the level of Managing Corporate Officer or higher, shall be established to conduct deliberations regarding Taikisha Group's important management issues to be addressed pursuant to the Rules for Management Approval, and shall make prompt decisions on these issues. In addition, the Management Meeting shall examine the progress toward annual target by monthly reviewing operating reports.

5. The System to Ensure the Appropriateness of Operations conducted by the Corporate Group Consisting of the Company and its Subsidiaries (including Affiliated Companies, the same hereinafter)

(1) Directors and employees of the subsidiaries of the Company who execute the business shall report the matters pertaining to the execution of duties to a responsible department and the responsible department shall manage subsidiaries based on the Affiliate Management Rules to enhance management efficiency of Taikisha Group.

(2) The Company shall conduct regular audits mainly by the Internal Audit Office to audit whether any risk exists in subsidiaries in accordance with the Internal Audit Rules and other related internal rules. In addition, the Company shall immediately report a risk of loss in subsidiaries, detected in subsidiaries as a result of audit, to directors, audit & supervisory board members and other departments in charge.

(3) Regarding a system to ensure the adequacy of materials concerning the finances and accounting of Taikisha Group, and to ensure the adequacy of other related information pursuant to the Financial Instruments and Exchange Act, the Company shall, under the instructions of the Representative Director and President, establish the Basic Rules for Internal Control in compliance with the "Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" and "Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" issued by the Financial Services Agency. In addition, the Company shall, in accordance with the Basic Rules, conduct improvement and operational status assessments of internal control procedures carried out by Taikisha Group.

(4) To ensure that directors and employees of the subsidiaries execute their duties in compliance with laws and ordinances as well as their articles of association, the Internal Audit Office shall play a central role in regular audits and the Corporate Compliance Department shall conduct regular investigations in accordance with the Internal Audit Rules and other related internal rules. In addition, the Corporate Compliance Department shall remind all persons involved of the system so that the internal reporting systems of the Company are effectively utilized.

6. Matters regarding Employees in Cases where Audit & Supervisory Board Members Request to Hire the Employees to Assist in their Audits, and Matters regarding the Independence of the Employees from Directors, and Matters regarding the Ensuring of Effective Instructions to such Employees

The Company shall establish the Audit & Supervisory Board Members Office under the audit & supervisory board members and appoint employees who shall assist with the audit & supervisory board members' duties. Consent from audit & supervisory board members shall be required for appointment, dismissal and transfer of the employees from positions and personnel evaluation and the Company shall ensure that the employees are independent of directors and instructions to the employees are effective.

7. The System for Reporting Information Received from Directors and Employees of the Company and Directors, Statutory Auditors and Employees of Subsidiaries to the Audit & Supervisory Board Members and Other Systems relating to Reporting to the Audit & Supervisory Board Members

(1) Directors and employees shall be obligated to report the following matters to audit & supervisory board members, and shall also provide the necessary reports and information upon request from each audit & supervisory board member pursuant to the Audit & Supervisory Board Rules and the Rules for Audit by Audit & Supervisory Board Members;

- Matters resolved and reported by the Management Meeting
- Matters discussed at the Corporate Compliance Committee, Risk Management Committee and Crisis Management Committee
- Matters which may cause serious harm to the Company and its subsidiaries
- Violation of laws and ordinances or the Articles of Incorporation by directors and employees or facts that may lead to such violations
- Results of internal audits by the Internal Audit Office
- Request forms for internal managerial decisions and proceedings of meetings requested by audit & supervisory board members

(2) The manager of the responsible department of the Company who received a report from a director, statutory auditor or employee of the subsidiaries shall make a report to the audit & supervisory board members of the Company at a meeting at which the audit & supervisory board members are present or periodically as necessary in accordance with the Affiliate Management Rules.

8. The System for Ensuring a Person who made a Report pursuant to the preceding Paragraph is not treated in a Disadvantageous Manner because He or She made Such Report

At the request of the Audit & Supervisory Board, the Company shall ensure that a person who made a report pursuant to the preceding paragraph is not treated in a disadvantageous manner because he or she made such report. In addition, the Corporate Compliance Department shall monitor and supervise the situation so that the person who made such report is not treated in a disadvantageous manner.

9. Matters regarding the Policy for Procedures for Advance Payment or Reimbursement of Expenses incurred with Respect to the Execution of Duties of Audit & Supervisory Board Members and Handling of Other Expenses or Obligations incurred with Respect to the Execution of Such Duties

Audit & supervisory board members may request that any expenses incurred with respect to the execution of duties be paid in advance or reimbursed in accordance with the provisions of the rules of the Audit & Supervisory Board.

10. System to Ensure the Effective Implementation of Audits by Audit & Supervisory Board Members

(1) The Representative Director, the Chief Executive of the Administrative Management Headquarters and the General Manager of the Internal Audit Office shall arrange meetings and consultations in order to thoroughly discuss and examine the improvement of the environments for audits conducted by audit & supervisory board members, and shall ensure the effectiveness of such audits.

(2) Audit & supervisory board members may make requests for improvement of the audit system and other related matters in order to ensure the effectiveness of audits conducted by them.

## **[2] Summary of operational status of the Systems to Ensure Proper Execution of Business**

- (1) Compliance-related initiatives

During the fiscal year under review, 12 Corporate Compliance Committee meetings were held to examine and discuss the compliance-related issues of the Taikisha Group and verify the status of compliance with laws and regulations.

To raise the awareness of compliance among officers and employees, the Company took several measures such as transmitting information via its intranet, posting posters for enlightenment, holding workshops to explain compliance manuals and training officers and employees (e.g., e-learning and dispatching of staff from the Corporate Compliance Department). The Corporate Compliance Department disseminated regularly the internal reporting systems via its intranet and posters.

- (2) Risk management-related initiatives

2 Risk Management Committee meetings were held to examine and discuss basic policies on the risk management of the Taikisha Group. Regarding risks associated with departmental operations, pursuant to the basic policy on risk management, each department identified and prioritized risks, drafted specific measures against the risks and reported such circumstances to the Risk Management Committee.

- (3) Initiatives to ensure the appropriateness and the efficiency of the execution of duties by Directors

12 Board of Directors meetings were held for decision making of the Taikisha Group's management policies and important management issues, as well as for monitoring the execution of duties by Directors with reference to reports on their business execution.

16 Management Meetings were held to deliberate and make decisions on important execution of business entrusted by the Board of Directors and the matters to be submitted to the Board of Directors.

- (4) Initiatives to ensure the appropriateness of operations conducted by the Taikisha Group

Regarding the important matters stipulated in the Affiliate Management Rules, we received reports from subsidiaries. In addition, we regularly checked compliance with the Affiliate Management Rules by subsidiaries.



(5) Initiatives to ensure the effectiveness of reporting to audit & supervisory board members and the audits by audit & supervisory board members

The Audit & Supervisory Board Members attended the meetings of the Board of Directors, the Management Meeting and other important meetings to understand the execution of duties by directors, and collected information and received reports from the Directors, employees and other relevant personnel regarding performance of their duties.

The Internal Audit Office timely reported the results of its internal audits within the Group to the Board of Directors and reported the executed status of the audit plan and internal audits, the results of audits and other related matters to the Audit & Supervisory Board Members.

## **7. Basic Policy regarding the Control of the Company**

### **(1) Basic policy regarding persons who control the Company's decisions on financial matters and business policies**

The Company believes that the trading of the Company shares should be left to the market, and believes that the shareholders should make the final decision as to whether to sell the Company's shares by accepting the request by the Large-Scale Purchaser who conducts the Large-Scale Purchase of the Company's share certificates or other securities. Furthermore, the involvement in the management by the Large-Scale Purchaser will not necessarily damage the corporate value, and if it leads to the expansion of the Company's corporate value, the Company will not deny such involvement.

However, the Company believes that, among the Large-Scale Purchasers who conduct those Large-Scale Purchases, in view of the purpose of the Large-Scale Purchase, in some cases, an inadequate Large-Scale Purchase is made by such Large-Scale Purchaser, such as the case where such purpose is likely to damage the corporate value of the Company, and consequently, the common interests of shareholders, or the case where a Large-Scale Purchase by the Large-Scale Purchaser would virtually force the shareholders to sell the Company shares.

When such inadequate Large-Scale Purchase is made that goes against the corporate value of the Company, and consequently, the common interests of shareholders, the Company believes that it is necessary to secure the sufficient information and time that are necessary to make a decision as to whether the shareholders will accept the request to purchase by the Large-Scale Purchaser and for the Company to secure the opportunity to negotiate with the Large-Scale Purchaser.

In addition, in order to achieve the goal of securing and enhancing the corporate value, and consequently, the common interests of shareholders that maintain the continuity, it is necessary to fully understand the position and the role of each business corporation within the Company group, and strive for a stable management by eyeing the future prospects from a more medium to long-term perspective.

Thus, the Company believes that, in order to secure and enhance the corporate value of the Company, and consequently, the common interests of shareholders, it is essential for the shareholders to secure sufficient information and time necessary for deciding whether to accept that Large-Scale Purchase in light of the special qualities of the Company and the Company group, and for the Company to secure the opportunity to negotiate with the Large-Scale Purchaser, where a Large-Scale Purchase of the Company's share certificates or other securities is made by a Large-Scale Purchaser.

### **(2) Initiatives to help realize the Basic Policy**

The Company has focused on the following as its corporate philosophy: "Establishing a company that can perpetually grow and contribute to the society" and "Creating an attractive company". In order to realize this corporate philosophy, the Company strives for the prosperity of stakeholders through an increase of the value-added, a creation of the productive environment and the development of the industrial society through technologies, personal fulfillment of employees through work, building of an organizational climate that has mutual trust, cooperation and rationality, and other matters. In other words, the following is its management vision that expresses what the Company aims at: "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."

Under the aforementioned philosophy and vision of the Company and based on the Mid-Term Business Plan for three years from the fiscal year ending March 2017 through the fiscal year ending March 2019, the Company aims at achieving sustainable development of the Company's business that is focused on the green technology system business and the paint finishing system business, and at the same time strives to secure and enhance the corporate value and the common interests of shareholders.

The Company is acutely aware that the biggest management risk that will damage the corporate value is a breach of laws and regulations, and therefore it has given top priority to enhance the corporate value through the implementation of compliance, and further expand corporate governance to widely receive recognition from society. Through activities of organizations such as the Board of Directors, the Audit & Supervisory Board, the Management Meeting, the Corporate Compliance Committee and the Internal Audit Office, and also through establishment of an internal control system, the Company strives to comply with relevant laws and regulations such as the Construction Business Act and the Financial Instruments and Exchange Act.

**(3) Initiatives to prevent the Company’s decisions on financial matters and business policies from being controlled by a person deemed as inappropriate pursuant to the Basic Policy**

The Company resolved to introduce the “Countermeasures against Large-Scale Purchases of the Company’s Share Certificates or Other Securities (Takeover Defense Measures)” at the Board of Directors meeting held on January 31, 2008, to counter against purchases of the Company’s share certificates or other securities, in which the ratio of voting rights of specified shareholders, etc. of the Company’s share certificates or other securities is 20% or more, or purchases of the Company’s share certificates or other securities that result in the ratio of voting rights of the specified shareholders, etc. is 20% or more (“Large-Scale Purchase”; and a person conducting a Large-Scale Purchase shall be referred to as the “Large-Scale Purchaser”) with the aim of securing and enhancing the Company’s corporate value, and consequently, the common interests of shareholders.

Subsequently, the partial amendments to and continuation of the aforementioned countermeasures (takeover defense measures) were approved by the shareholders at the 63rd Annual Shareholders’ Meeting held on June 27, 2008, at the 65th Annual Shareholders’ Meeting held on June 29, 2010, at the 68th Annual Shareholders’ Meeting held on June 27, 2013, and at the 71st Annual Shareholders’ Meeting held on June 29, 2016 (the currently effective plan shall be referred to as the “Plan”).

The Plan stipulates the procedures for the Board of Directors to require a Large-Scale Purchaser to provide information on a large-scale purchase in advance to evaluate and examine the Large-Scale Purchase, negotiate with the Large-Scale Purchaser regarding terms and other matters of the purchase, and to propose an alternative plan to shareholders and other matters to shareholders, in order to secure sufficient information and time necessary for shareholders to appropriately decide whether to accept the Large-Scale Purchase upon a Large-Scale Purchase of the Company’s share certificates or other securities, and also stipulates the procedures for the Board of Directors to, while, as a general rule, following the recommendations of the Independent Committee, to be appointed from outside directors, outside audit & supervisory board members and outside advisors who have no specific interest with the Company and are highly independent from the Board of Directors, or exercise other countermeasures against a Large-Scale Purchaser that are deemed reasonable at the point in time against a Large-Scale Purchase (“Large-Scale Purchase Rules”).

Where the Large-Scale Purchaser fails to observe the Large-Scale Purchase Rules, or even where the Large-Scale Purchaser observes the Large-Scale Purchase Rules, however, if, the Large-Scale Purchase is deemed obvious to be an act that will inflict upon the Company any damage that is difficult to recover from, for example, only when the Large-Scale Purchase falls under any of the objective requirements stipulated reasonably and in detail, the Board of Directors will, as a general rule, resolve to exercise countermeasures, and will exercise such countermeasures, in accordance with the recommendations of the Independent Committee.

As specific countermeasures, appropriate countermeasures will be selected, depending on the situation at different times, out of those accepted as being within the authority of the Board of Directors in relation to a gratis allotment of share subscription rights, other laws and regulations, and the Company’s Articles of Incorporation.

For details of the Plan, refer to the description posted on the Company’s website below.

([http://www.taikisha.co.jp/corporate/news/20160516\\_1.pdf](http://www.taikisha.co.jp/corporate/news/20160516_1.pdf))

**(4) Above initiatives comply with the Basic Policy and do not impair the common interests of the Company’s shareholders or aim to protect the positions of any of the company officers of the Company**

1) Initiatives stated in 2.

The initiatives in “2. Initiatives to help realize the Basic Policy” above have been stipulated with the aim of continuously and sustainably securing and enhancing the Company’s corporate value, and consequently, the common interests of shareholders, and therefore contribute to the realization of the Basic Policy.

Consequently, such initiatives comply with the Basic Policy and do not impair the common interests of the Company’s shareholders or aim to protect the positions of any of the company officers.

2) Initiatives stated in 3.

The Company believes, for the following reasons, that the initiatives in “3. Initiatives to prevent the Company’s decisions on financial matters and business policies from being controlled by a person deemed as inappropriate pursuant to the Basic Policy” above comply with the Basic Policy, and they do not impair the common interests of the Company’s shareholders or aim to protect the positions of any of the company officers.

a) Fully Satisfying the Three Principles Set Out in the Guidelines Regarding the Takeover Defense Measures

The Plan fully satisfies the three principles ((i) Protection and Enhancement of Corporate Value and Shareholders' Common Interests, (ii) Prior Disclosure and Shareholders' Intent and (iii) Ensuring the Necessity and Reasonableness) set out in the "Guidelines Regarding Takeover Defense for the Purposes of Ensuring and Enhancing Corporate Value and Shareholders' Common Interests" released by the Ministry of Economy, Trade and Industry and the Ministry of Justice as of May 27, 2005.

b) Reflecting the spirit of the Takeover Defense Measures released by the Corporate Value Study Group

The contents of the Plan reflect the spirit of "Takeover Defense Measures in Light of Recent Environmental Changes" released on June 30, 2008 by the Corporate Value Study Group established by the Ministry of Economy, Trade and Industry.

c) Emphasis on the Intent of the Shareholders and Information Disclosure

The effective period of the Plan shall expire as of the conclusion of the annual shareholders' meeting pertaining to the last fiscal year ending within three years after the completion of the 71st Annual Shareholders' Meeting (74th Annual Shareholders' Meeting scheduled to be held during June 2019). However, even before the expiration of the effective period of the Plan, if the shareholders' meeting resolves to abolish the Plan, then the Plan will be abolished as of the time of such resolution, and for this point, the continuation and abolition of the Plan will be conducted in a manner that respects the intent of the shareholders.

Moreover, a shareholders' meeting (the "Shareholders' Meeting for Confirming the Intent of Shareholders") can be held in order to have an opportunity to confirm the intent of shareholders regarding the advantages and disadvantages of exercising a countermeasure and it will be possible to clarify that countermeasures are exercised by respecting the intent of shareholders.

Furthermore, in order to enable the shareholders to appropriately make decisions such as decisions on the abolition or other matters, the decision as to whether to sell shares of the Company by accepting the Large-Scale Purchase, and other matters of the Plan, the Board of Directors will disclose to shareholders the Large-Scale Purchase Relevant Information and other information provided by the Large-Scale Purchaser at the time and in a method the Board of Directors deems appropriate.

d) Scheme to Eliminate Arbitrary Decisions by the Board of Directors

In introducing and continuing the Plan, the Company established the Independent Committee to eliminate arbitrary decisions by the Board of Directors.

If a Large-Scale Purchase is made against the Company, the Independent Committee will make a recommendation to the Board of Directors upon discussing and examining whether to exercise countermeasures against the Large-Scale Purchase, and other matters, and the Board of Directors will, as a general rule, make a resolution following the recommendation of the Independent Committee and a scheme to eliminate the exercise of countermeasures based on arbitrary decisions by the Board of Directors is thereby secured.

Furthermore, the Plan will be exercised only when the Large-Scale Purchaser fails to observe formal Large-Scale Purchase Rules set out in the Plan, or when the Large-Scale Purchase satisfies objective requirements stipulated reasonably and in detail where the Large-Scale Purchaser considerably damages the Company's corporate value, and the Shareholders' Meeting for Confirming the Intent of Shareholders is held in certain cases and countermeasures are exercised only when the approval of the majority of the shareholders is obtained, and also on these points, a scheme to eliminate the exercise of arbitrary countermeasures by the Board of Directors will be in place.

e) No Dead-Handed or Slow-Handed Defense Measures

The Plan may be abolished by the Board of Directors, and therefore the Plan is not a dead-handed takeover defense measure (a takeover defense measure in which even if a majority of the constituent members of the Board of Directors are replaced, the exercise of the measures cannot be prevented). In addition, because the Company does not adopt a fixed-term system based on time differences with respect to the term of directors, the Plan is not a slow-handed takeover defense measure (a takeover defense measure that requires time to prevent the exercise because constituent members of the Board of Directors may not be replaced at one time).

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Amounts and numbers of shares in this Business Report are rounded down to the nearest unit, while ratios and other figures are rounded off to the nearest unit.

## Consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

| Account title   | Amount         | Account title  | Amount         |
|---|----------------|--|----------------|
| <b>(Assets)</b>   |                | <b>(Liabilities)</b>   |                |
| <b>Current assets</b>   | <b>152,907</b> | <b>Current liabilities</b>   | <b>88,608</b>  |
| Cash and deposits   | 42,263         | Notes payable, accounts payable for construction contracts and other | 55,287         |
| Notes receivable, accounts receivable from completed construction contracts and other | 100,983        | Short-term loans payable   | 4,015          |
| Securities  | 10             | Income taxes payable   | 1,462          |
| Costs on uncompleted construction contracts   | 1,951          | Deferred tax liabilities   | 17             |
| Raw materials and supplies  | 265            | Advances received on uncompleted construction contracts              | 15,543         |
| Deferred tax assets   | 1,702          | Provision for warranties for completed construction                  | 973            |
| Other   | 6,191          | Provision for loss on construction contracts                         | 790            |
| Allowance for doubtful accounts   | (461)          | Provision for directors' bonuses                                     | 101            |
| <b>Non-current assets</b>   | <b>46,116</b>  | Other  | 10,416         |
| <b>Property, plant and equipment</b>  | <b>7,633</b>   | <b>Non-current liabilities</b>                                       | <b>10,231</b>  |
| Buildings and structures  | 7,448          | Long-term loans payable  | 986            |
| Machinery, vehicles, tools, furniture and fixtures                                    | 8,373          | Deferred tax liabilities   | 7,285          |
| Land  | 2,073          | Provision for directors' retirement benefits                         | 50             |
| Other   | 322            | Net defined benefit liability  | 1,492          |
| Accumulated depreciation  | (10,584)       | Other  | 416            |
| <b>Intangible assets</b>  | <b>5,103</b>   | <b>Total liabilities</b>   | <b>98,839</b>  |
| Goodwill  | 2,668          | <b>(Net assets)</b>  |                |
| Other   | 2,434          | <b>Shareholders' equity</b>  | <b>85,577</b>  |
| <b>Investments and other assets</b>   | <b>33,380</b>  | Capital stock  | 6,455          |
| Investment securities   | 25,629         | Capital surplus  | 7,305          |
| Deferred tax assets   | 872            | Retained earnings  | 77,945         |
| Net defined benefit asset   | 4,984          | Treasury shares  | (6,128)        |
| Other   | 1,906          | <b>Accumulated other comprehensive income</b>                        | <b>10,175</b>  |
| Allowance for doubtful accounts   | (13)           | Valuation difference on available-for-sale securities                | 9,969          |
|   |                | Deferred gains or losses on hedges                                   | (111)          |
|   |                | Foreign currency translation adjustment                              | 349            |
|   |                | Remeasurement of defined benefit plans                               | (31)           |
|   |                | <b>Non-controlling interests</b>                                     | <b>4,431</b>   |
|   |                | <b>Total net assets</b>  | <b>100,184</b> |
| <b>Total assets</b>   | <b>199,024</b> | <b>Total liabilities and net assets</b>                              | <b>199,024</b> |

Note: Stated amounts are rounded down to the nearest million yen.

## Consolidated Income Statement

(From April 1, 2016, to March 31, 2017)

(Millions of yen)

| Account title  | Amount |               |
|--|--------|---------------|
| Net sales of completed construction contracts                          |        | 200,604       |
| Cost of sales of completed construction contracts                      |        | 172,447       |
| <b>Gross profit on completed construction contracts</b>                |        | <b>28,157</b> |
| Selling, general and administrative expenses                           |        | 19,683        |
| <b>Operating income</b>  |        | <b>8,473</b>  |
| Non-operating income   |        |               |
| Interest and dividends income  | 1,018  |               |
| Foreign exchange gains   | 199    |               |
| Other  | 531    | 1,750         |
| Non-operating expenses   |        |               |
| Interest expenses  | 175    |               |
| Other  | 205    | 381           |
| <b>Ordinary income</b>   |        | <b>9,842</b>  |
| Extraordinary income   |        |               |
| Gains on disposal of non-current assets                                | 20     |               |
| Gain on sales of investment securities                                 | 25     |               |
| Reversal of reserve for loss on dissolution of employees' pension fund | 9      |               |
| Surrender value of insurance   | 3      | 59            |
| Extraordinary losses   |        |               |
| Loss on disposal of non-current assets                                 | 18     |               |
| Impairment loss  | 2      |               |
| Loss on sales of investment securities                                 | 141    |               |
| Loss on valuation of investment securities                             | 19     |               |
| Loss on insurance cancellation   | 16     | 199           |
| <b>Income before income taxes</b>                                      |        | <b>9,702</b>  |
| Income taxes—current   | 3,078  |               |
| Income taxes—deferred  | (45)   | 3,032         |
| <b>Profit</b>  |        | <b>6,669</b>  |
| Profit attributable to non-controlling interests                       |        | 364           |
| <b>Profit attributable to owners of parent</b>                         |        | <b>6,305</b>  |

Note: Stated amounts are rounded down to the nearest million yen.

## Consolidated Statement of Comprehensive Income

(From April 1, 2016, to March 31, 2017)

(Millions of yen)

| Account title   | Amount,      |
|---|--------------|
| <b>Profit</b>   | <b>6,669</b> |
| <b>Other comprehensive income</b>   |              |
| Valuation difference on available-for-sale securities                             | 2,060        |
| Deferred gains or losses on hedges  | (225)        |
| Foreign currency translation adjustment   | (1,289)      |
| Remeasurements of defined benefit plans   | 1,021        |
| Share of other comprehensive income of entities accounted for using equity method | (62)         |
| <b>Total other comprehensive income</b>   | <b>1,504</b> |
| <b>Comprehensive income</b>   | <b>8,174</b> |
| Comprehensive income attributable to owners of the parent                         | 8,071        |
| Comprehensive income attributable to non-controlling interests                    | 102          |

Notes: 1. Stated amounts are rounded down to the nearest million yen.  
 2. The amounts in this statement are not subject to the audit by the Accounting Auditors.



## Consolidated Statement of Changes in Net Assets

(From April 1, 2016, to March 31, 2017)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                 |                            |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at the beginning of current period           | 6,455                | 7,344           | 73,943            | (5,127)         | 82,615                     |
| Cumulative effects of changes in accounting policies |                      |                 | 11                |                 | 11                         |
| Restated balance                                     | 6,455                | 7,344           | 73,955            | (5,127)         | 82,627                     |
| Changes of items during the period                   |                      |                 |                   |                 |                            |
| Dividends of surplus                                 |                      |                 | (2,315)           |                 | (2,315)                    |
| Profit attributable to owners of parent              |                      |                 | 6,305             |                 | 6,305                      |
| Purchase of treasury shares                          |                      |                 |                   | (1,000)         | (1,000)                    |
| Purchase of shares of consolidated subsidiaries      |                      | (39)            |                   |                 | (39)                       |
| Sales of shares of consolidated subsidiaries         |                      | (0)             |                   |                 | (0)                        |
| Net changes of items other than shareholders' equity |                      |                 |                   |                 |                            |
| Total changes of items during the period             | -                    | (39)            | 3,989             | (1,000)         | 2,949                      |
| Balance at the end of current period                 | 6,455                | 7,305           | 77,945            | (6,128)         | 85,577                     |

(Millions of yen)

|  | Accumulated other comprehensive income                |                                    |   |   |  | Non-controlling interests | Total net assets |
|--|---|------------------------------------|---|---|--|---------------------------|------------------|
|  | 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 |                           |                  |
| Balance at the beginning of current period           | 7,908   | 7                                  | 1,528                                   | (1,036)                                 | 8,409  | 4,896                     | 95,921           |
| Cumulative effects of changes in accounting policies |   |                                    |   |   |  | 0                         | 12               |
| Restated balance                                     | 7,908   | 7                                  | 1,528                                   | (1,036)                                 | 8,409  | 4,897                     | 95,934           |
| Changes of items during the period                   |   |                                    |   |   |  |                           |                  |
| Dividends of surplus                                 |   |                                    |   |   |  |                           | (2,315)          |
| Profit attributable to owners of parent              |   |                                    |   |   |  |                           | 6,305            |
| Purchase of treasury shares                          |   |                                    |   |   |  |                           | (1,000)          |
| Purchase of shares of consolidated subsidiaries      |   |                                    |   |   |  |                           | (39)             |
| Sales of shares of consolidated subsidiaries         |   |                                    |   |   |  |                           | (0)              |
| Net changes of items other than shareholders' equity | 2,060   | (119)                              | (1,179)                                 | 1,005                                   | 1,766  | (466)                     | 1,300            |
| Total changes of items during the period             | 2,060   | (119)                              | (1,179)                                 | 1,005                                   | 1,766  | (466)                     | 4,250            |
| Balance at the end of current period                 | 9,969   | (111)                              | 349                                     | (31)                                    | 10,175                                       | 4,431                     | 100,184          |

Note: Stated amounts are rounded down to the nearest million yen.

**Non-consolidated Balance Sheet**  
(As of March 31, 2017)

(Millions of yen)

| Account title  | Amount         | Account title  | Amount         |
|--|----------------|--|----------------|
| <b>(Assets)</b>  |                | <b>(Liabilities)</b>   |                |
| <b>Current assets</b>  | <b>82,711</b>  | <b>Current liabilities</b>                                   | <b>43,892</b>  |
| Cash and deposits  | 13,076         | Notes payable-trade  | 6,291          |
| Notes receivable-trade   | 814            | Electronically recorded obligations - operating              | 11,879         |
| Electronically recorded monetary claims                                    | 3,236          | Accounts payable for construction contracts                  | 13,489         |
| Accounts receivable from completed construction contracts                  | 61,526         | Short-term loans payable                                     | 2,398          |
| Costs on uncompleted construction contracts                                | 364            | Lease obligations  | 2              |
| Raw materials and supplies   | 122            | Accounts payable - other                                     | 4,123          |
| Deferred tax assets  | 1,179          | Income taxes payable   | 910            |
| Other  | 2,392          | Advances received on uncompleted construction contracts      | 1,804          |
| <b>Non-current assets</b>  | <b>45,995</b>  | Deposits received  | 233            |
| <b>Property, plant and equipment</b>                                       | <b>2,860</b>   | Provision for warranties for completed construction          | 395            |
| Buildings  | 1,155          | Provision for loss on construction contracts                 | 146            |
| Structures   | 13             | Provision for directors' bonuses                             | 93             |
| Machinery and equipment  | 35             | Other  | 2,125          |
| Vehicles   | 0              | <b>Non-current liabilities</b>                               | <b>5,716</b>   |
| Tools, furniture and fixtures  | 173            | Long-term loans payable                                      | 96             |
| Land   | 1,437          | Deferred tax liabilities                                     | 5,378          |
| Leased assets  | 3              | Provision for retirement benefits                            | 130            |
| Construction in progress   | 41             | Other  | 112            |
| <b>Intangible assets</b>   | <b>2,111</b>   | <b>Total liabilities</b>                                     | <b>49,609</b>  |
| Software   | 2,110          | <b>(Net assets)</b>  |                |
| Other  | 1              | <b>Shareholders' equity</b>                                  | <b>69,126</b>  |
| <b>Investments and other assets</b>  | <b>41,023</b>  | <b>Capital stock</b>   | <b>6,455</b>   |
| Investment securities  | 24,900         | <b>Capital surplus</b>                                       | <b>7,344</b>   |
| Shares of subsidiaries and associates                                      | 9,928          | Legal capital surplus  | 7,297          |
| Long-term loans receivable   | 4              | Other capital surplus  | 47             |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 2              | <b>Retained earnings</b>                                     | <b>61,455</b>  |
| Long-term prepaid expenses   | 141            | Legal retained earnings                                      | 1,613          |
| Prepaid pension cost   | 4,787          | Other retained earnings                                      | 59,841         |
| Lease and guarantee deposits   | 1,263          | Reserve for reduction entry                                  | 0              |
| Other  | 3              | Reserve for investment on information technology             | 2,200          |
| Allowance for doubtful accounts  | (8)            | General reserve  | 35,720         |
|  |                | Retained earnings brought forward                            | 21,921         |
|  |                | <b>Treasury shares</b>                                       | <b>(6,128)</b> |
|  |                | <b>Valuation and translation adjustments</b>                 | <b>9,972</b>   |
|  |                | <b>Valuation difference on available-for-sale securities</b> | <b>9,969</b>   |
|  |                | <b>Deferred gains or losses on hedges</b>                    | <b>3</b>       |
| <b>Total assets</b>  | <b>128,707</b> | <b>Total net assets</b>                                      | <b>79,098</b>  |
|  |                | <b>Total liabilities and net assets</b>                      | <b>128,707</b> |

Note: Stated amounts are rounded down to the nearest million yen.

## Non-consolidated Income Statement

(From April 1, 2016, to March 31, 2017)

(Millions of yen)

| Account title  | Amount |               |
|--|--------|---------------|
| Net sales of completed construction contracts                          |        | 105,378       |
| Cost of sales of completed construction contracts                      |        | 86,894        |
| <b>Gross profit on completed construction contracts</b>                |        | <b>18,483</b> |
| Selling, general and administrative expenses                           |        | 11,786        |
| <b>Operating income</b>  |        | <b>6,697</b>  |
| Non-operating income   |        |               |
| Interest income and dividends income                                   | 1,771  |               |
| Dividends income of insurance  | 133    |               |
| Real estate rent   | 169    |               |
| Technical advisory fee   | 1,540  |               |
| Reversal of allowance for doubtful accounts                            | 2      |               |
| Other  | 43     | 3,661         |
| Non-operating expenses   |        |               |
| Interest expenses  | 21     |               |
| Sales discounts  | 62     |               |
| Rent expenses on real estate   | 48     |               |
| Foreign exchange losses  | 208    |               |
| Other  | 24     | 365           |
| <b>Ordinary income</b>   |        | <b>9,993</b>  |
| Extraordinary income   |        |               |
| Gain on sales of investment securities                                 | 19     |               |
| Reversal of reserve for loss on dissolution of employees' pension fund | 9      |               |
| Surrender value of insurance   | 3      | 32            |
| Extraordinary losses   |        |               |
| Loss on disposal of non-current assets                                 | 8      |               |
| Impairment loss  | 2      |               |
| Loss on sales of investment securities                                 | 141    |               |
| Loss on valuation of investment securities                             | 19     |               |
| Loss on valuation of shares of subsidiaries and associates             | 0      |               |
| Loss on insurance cancellation   | 16     | 188           |
| <b>Income before income taxes</b>                                      |        | <b>9,837</b>  |
| Income taxes—current   | 2,086  |               |
| Income taxes—deferred  | 500    | 2,586         |
| <b>Profit</b>  |        | <b>7,251</b>  |

Note: Stated amounts are rounded down to the nearest million yen.

## Non-consolidated Statement of Changes in Net Assets

(From April 1, 2016, to March 31, 2017)

(Millions of yen)

|  | Shareholders' equity |                       |                       |                       |                         |                             |  |                 |                                   |                         |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|--|-----------------|-----------------------------------|-------------------------|
|  | Capital stock        | Capital surplus       |                       |                       | Legal retained earnings | Retained earnings           |  |                 |                                   | Total retained earnings |
|  |                      | Legal capital surplus | Other capital surplus | Total capital surplus |                         | Other retained earnings     |  |                 |                                   |                         |
|  |                      |                       |                       |                       |                         | Reserve for reduction entry | Reserve for investment on information technology | General reserve | Retained earnings brought forward |                         |
| Balance at the beginning of current period           | 6,455                | 7,297                 | 47                    | 7,344                 | 1,613                   | 0                           | 2,000  | 35,720          | 17,186                            | 56,519                  |
| Changes of items during the period                   |                      |                       |                       |                       |                         |                             |  |                 |                                   |                         |
| Reserve for investment on information technology     |                      |                       |                       |                       |                         |                             | 200  |                 | (200)                             | —                       |
| Dividends of surplus                                 |                      |                       |                       |                       |                         |                             |  |                 | (2,315)                           | (2,315)                 |
| Profit   |                      |                       |                       |                       |                         |                             |  |                 | 7,251                             | 7,251                   |
| Purchase of treasury shares                          |                      |                       |                       |                       |                         |                             |  |                 |                                   |                         |
| Net changes of items other than shareholders' equity |                      |                       |                       |                       |                         |                             |  |                 |                                   |                         |
| Total changes of items during the period             | —                    | —                     | —                     | —                     | —                       | —                           | 200  | —               | 4,735                             | 4,935                   |
| Balance at the end of current period                 | 6,455                | 7,297                 | 47                    | 7,344                 | 1,613                   | 0                           | 2,200  | 35,720          | 21,921                            | 61,455                  |

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |                                    |   | Total net assets |
|--|----------------------|----------------------------|---|------------------------------------|---|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total valuation and translation adjustments |                  |
| Balance at the beginning of current period           | (5,127)              | 65,191                     | 7,908   | 1                                  | 7,910                                       | 73,102           |
| Changes of items during the period                   |                      |                            |   |                                    |   |                  |
| Reserve for investment on information technology     |                      | —                          |   |                                    |   | —                |
| Dividends of surplus                                 |                      | (2,315)                    |   |                                    |   | (2,315)          |
| Profit   |                      | 7,251                      |   |                                    |   | 7,251            |
| Purchase of treasury shares                          | (1,000)              | (1,000)                    |   |                                    |   | (1,000)          |
| Net changes of items other than shareholders' equity |                      |                            | 2,060   | 1                                  | 2,061                                       | 2,061            |
| Total changes of items during the period             | (1,000)              | 3,934                      | 2,060   | 1                                  | 2,061                                       | 5,996            |
| Balance at the end of current period                 | (6,128)              | 69,126                     | 9,969   | 3                                  | 9,972                                       | 79,098           |

Note: Stated amounts are rounded down to the nearest million yen.

Independent Auditors' Report  
(English Translation)

May 11, 2017

To the Board of Directors  
Taikisha Ltd.

A&A Partners

Hiroko Sakamoto (seal)  
Certified Public Accountant  
Designated and Engagement Partner

Satoshi Terada (seal)  
Certified Public Accountant  
Designated and Engagement Partner

We have audited, pursuant to Article 444, Paragraph 4 of the Companies Act of Japan, the Consolidated Financial Statements, which consist of the Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Net Assets and Notes to Consolidated Financial Statements of Taikisha Ltd. (hereinafter referred to as the "Company") for the fiscal year from April 1, 2016, to March 31, 2017.

**Management's Responsibility for Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with accounting principles generally accepted in Japan. This responsibility includes designing and operating internal control, which management considers necessary for the preparation and fair presentation of the Consolidated Financial Statements that are free from material misstatements, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the Consolidated Financial Statements based on our audit, from an independent viewpoint. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit according to such plan to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. Although the purpose of the audit is not to express an opinion on the effectiveness of the entity's internal control, in making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate for the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of Company and its consolidated subsidiaries as of March 31, 2017, and the consolidated result of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Interest**

We do not have any interest in the Company which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Independent Auditors' Report  
(English Translation)

May 11, 2017

To the Board of Directors  
Taikisha Ltd.

A&A Partners

Hiroko Sakamoto (seal)  
Certified Public Accountant  
Designated and Engagement Partner

Satoshi Terada (seal)  
Certified Public Accountant  
Designated and Engagement Partner

We have audited, pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act of Japan, the Non-consolidated Financial Statements, which consist of the Non-consolidated Balance Sheet, Non-consolidated Income Statement, Non-consolidated Statement of Changes in Net Assets and Notes to Non-consolidated Financial Statements, and the accompanying supplementary schedules thereof of Taikisha Ltd. (hereinafter referred to as the "Company") for the 72nd fiscal year from April 1, 2016, to March 31, 2017.

**Management's Responsibility for Non-consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the Non-consolidated Financial Statements and the accompanying supplementary schedules in accordance with accounting principles generally accepted in Japan. This responsibility includes designing and operating internal control, which management considers necessary for the preparation and fair presentation of the Non-consolidated Financial Statements and the accompanying supplementary schedules that are free from material misstatements, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on the Non-consolidated Financial Statements and the accompanying supplementary schedules from an independent viewpoint, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit according to such plan to obtain reasonable assurance about whether the Non-consolidated Financial Statements and the accompanying supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Non-consolidated Financial Statements and the accompanying supplementary schedules. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Non-consolidated Financial Statements and the accompanying supplementary schedules, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Non-consolidated Financial Statements and the accompanying supplementary schedules in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Non-consolidated Financial Statements and the accompanying supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Audit Opinion

In our opinion, the Non-consolidated financial statements and the accompanying supplementary schedules thereof referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2017, and the result of its operation for the year then ended in conformity with accounting principles generally accepted in Japan.

#### Interest

We do not have any interests in the Company which are required to be disclosed pursuant to the provisions of the Certified Public Accountant Act of Japan.



Audit Report  
(English Translation)

Regarding the performance of duties by the Directors for the 72nd fiscal year from April 1, 2016, to March 31, 2017, the Audit & Supervisory Board hereby submits its Audit Report, which has been prepared upon careful consideration based on the audit report prepared by each Audit & Supervisory Board Member.

1. Summary of Auditing Methods by the Audit & Supervisory Board Members and Audit & Supervisory Board

- (1) The Audit & Supervisory Board established auditing policies, allocation of duties, and other relevant matters for the fiscal year ended March 31, 2016, and received reports from each Audit & Supervisory Board Member regarding his or her audits and results thereof, as well as received reports from the Directors, other relevant personnel and the Accounting Auditors regarding performance of their duties, and requested explanations as necessary.
- (2) Each Audit & Supervisory Board Member complied with the auditing regulations stipulated by the Audit & Supervisory Board, followed the auditing policies, allocation of duties and other relevant matters for the fiscal year under review, communicated with the Directors, the Internal Audit Office, other employees and any other relevant personnel, and made efforts to prepare the environment for information collection and audits, and conducted his/her audit in the following manner.

- 1) Each Audit & Supervisory Board Member attended the meetings of the Board of Directors and other important meetings, received reports from the Directors, employees and other relevant personnel regarding performance of their duties, requested explanations as necessary, examined important authorized documents and associated information, and conducted audit visits to study the operations and financial positions of the head office, as well as of principal branch offices, branches and business offices.

With respect to subsidiaries, each Audit & Supervisory Board Member communicated and exchanged information with Directors, Statutory Auditors and other relevant personnel of several major subsidiaries, and conducted audit visits to major subsidiaries including those overseas to study the operations and financial positions thereof.

- 2) With respect to the contents of resolutions of the Board of Directors regarding the improvement of the system stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act, which is considered necessary pursuant to the System to Ensure that Directors and Employees of the Company Conform to Laws and the Articles of Incorporation and the System to Ensure the Appropriateness of Operations conducted by the Corporate Group Consisting of the Company and its Subsidiaries in the Business Report, as well as to the systems (internal control system) that have been improved based on such resolutions, each Audit & Supervisory Board Member received regular reports from Directors, employees and other relevant personnel with regard to the improvement and operational status of said systems, requested explanations as necessary and expressed opinions, in accordance with the “Audit Standards for Audit & Supervisory Board Members Regarding the Internal Control System” and the “Checklist for the Internal Control System Audit,” which were stipulated through consultations among all the Audit & Supervisory Board Members.
- 3) With respect to the Basic Policy pursuant to Article 118, Item 3 (a), and the respective initiatives pursuant to Article 118, Item 3 (b), of the Ordinance for Enforcement of the Companies Act and described in the Business Report, each Audit & Supervisory Board Member examined the content thereof after taking into account deliberations at the Board of Directors and other relevant internal organs.
- 4) Each Audit & Supervisory Board Member monitored and verified whether the Accounting Auditors maintained their independence and implemented appropriate audits, as well as received reports from the Accounting Auditors regarding the performance of their duties and requested explanations as necessary. In addition, each Audit & Supervisory Board Member received notice from the Accounting Auditors that the “system for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) had been prepared in accordance with the “Product Quality Management Standards Regarding Audits” (issued by the

Business Accounting Council on October 28, 2005) and other relevant standards, and requested explanations as necessary.

Based on the above methods, we examined the Business Report and the accompanying supplementary schedules, Non-consolidated Financial Statements (Non-consolidated Balance Sheet, Non-consolidated Income Statement, Non-consolidated Statement of Changes in Net Assets, and Notes to Non-consolidated Financial Statements) and the accompanying supplementary schedules, as well as the Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Net Assets and Notes to Consolidated Financial Statements), all of which pertain to the fiscal year under review.

## 2. Results of Audit

### (1) Results of Audit of Business Report and Other Relevant Documents

- 1) In our opinion, the Business Report and the accompanying supplementary schedules are in accordance with the related laws, regulations and the Articles of Incorporation, and fairly present the Company's condition.
- 2) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Directors.
- 3) In our opinion, the contents of the resolutions of the Board of Directors related to the internal control system are fair and reasonable. In addition, we have found no matters on which to remark regarding the description in the Business Report and the performance of duties by the Directors related to such internal control system.
- 4) We have found no matters to point out with respect to the basic policy regarding persons who control the Company's decisions on financial matters and business policies as described in the Business Report. In our opinion, the respective initiatives pursuant to Article 118, Item 3 (b), of the Ordinance for Enforcement of the Companies Act set forth in the Business Report comply with said basic policy and do not impair the common interests of the Company's shareholders or aim to protect the positions of any of the company officers.

### (2) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by A&A Partners are fair and reasonable.

### (3) Results of Audit of Non-consolidated Financial Statements and the Accompanying Supplementary Schedules

In our opinion, the methods and results employed and rendered by A&A Partners are fair and reasonable.

May 12, 2017

#### Audit & Supervisory Board, Taikisha Ltd.

|   |                          |
|---|--------------------------|
| Full-time Audit & Supervisory Board Member                                  | Masaaki Saito (seal)     |
| Full-time Audit & Supervisory Board Member                                  | Toshiya Furukatsu (seal) |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Junichi Noro (seal)      |
| Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) | Hirokazu Hikosaka (seal) |

**Items Disclosed on Internet Concerning  
Notice of the 72nd Annual Shareholders' Meeting**

**Notes to Consolidated Financial Statements**

**Notes to Non-consolidated Financial Statements**

(From April 1, 2016, to March 31, 2017)

**Taikisha Ltd.**

The Company provides its shareholders with the above documents by posting them on the Company's website (<http://www.taikisha.co.jp/>) in accordance with the provisions of the relevant laws and regulations and Article 15 of the Articles of Incorporation.

## Notes to Consolidated Financial Statements

### [Notes to the Basis for Preparation of Consolidated Financial Statements]

#### 1. Scope of consolidation

|                                     |    |   |
|-------------------------------------|----|---|
| Number of consolidated subsidiaries | 38 |   |
| Names of significant subsidiaries   |    | San Esu Industry Co., Ltd.<br>TKS Industrial Company<br>Taikisha (Thailand) Co., Ltd.<br>WuZhou Taikisha Engineering Co., Ltd.<br>The newly established J-CO America Corporation is included in the scope of consolidation effective from the fiscal year under review. |

#### 2. Application of the equity method

##### (1) Number and name of the associates subject to the equity method

|                          |   |   |
|--------------------------|---|---|
| Number of the associates | 2 |   |
| Name of the associates   |   | Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd.<br>Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd. |

##### (2) Name of associates not subject to the equity method

|   |  |  |
|---|--|--|
| Name of the associates                    |  | Makiansia Engineering (M) Sdn. Bhd.<br>J-PM Systems GmbH   |
| Reason for not applying the equity method |  | The associates not subject to the equity method are excluded from application of the equity method because the impact of their profit or loss (amount corresponding to the Company's equity in this company), retained earnings (amount corresponding to the Company's equity in these companies), etc., for the consolidated fiscal year under review is negligible even if they are excluded from the scope of application of the equity method. |

#### 3. Accounting policies

##### (1) Standards and methods for valuation of significant assets

- Securities
  - Held-to-maturity debt securities
    - Amortized cost method (straight-line method)
  - Shares of associates
    - Stated at cost using the moving average method
  - Available-for-sale securities
    - Securities with fair value
      - Stated at fair value based on the market price, etc., on the balance sheet date (Valuation difference is reported as a component of net assets. The cost of sales is calculated using the moving-average method.)
    - Securities without fair value
      - Stated at cost using the moving-average method
- Derivatives
  - Stated at fair value
- Inventories
  - Costs on uncompleted construction contracts
    - Stated at cost using the specific identification method
  - Raw materials and supplies

Stated at cost using the moving-average method (The amounts stated in the consolidated balance sheet have been calculated by writing down the book value based on decline in profitability.)

(2) Depreciation method for principal depreciable assets

● Property, plant and equipment (excluding leased assets)

The declining-balance method is mainly applied. However, the straight-line method is applied for buildings (except for accompanying facilities), which have been acquired on or after April 1, 1998, as well as for accompanying facilities and structures that have been acquired on or after April 1, 2016. The straight-line method is applied by several overseas consolidated subsidiaries. The useful lives and the residual value comply with the similar standards as stipulated in the Corporation Tax Act.

(Change in accounting policies)

(Application of the “Practical Solution on a change in depreciation method due to Tax Reform 2016”)

In line with the revisions to the Corporation Tax Act of Japan, the Practical Solution on a change in depreciation method due to Tax Reform 2016 (Practical Issues Task Force (PITF) No. 32, June 17, 2016) is applied from the fiscal year ended March 31, 2017. Accordingly, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The effect of this change on operating income, ordinary income and income before income taxes for the fiscal year under review is immaterial.

● Intangible assets (excluding leased assets)

The straight-line method is applied. However, computer software for internal use is amortized by the straight-line method over the estimated internal useful life (five years).

● Leased assets (Finance leases that are not deemed to transfer the ownership of the leased assets to the lessee)

The straight-line method with no residual value is applied, regarding the lease term as the useful life.

(3) Standards of accounting for principal allowance and provisions

● Allowance for doubtful accounts

The allowance for doubtful accounts is provided at the estimated amount of irrecoverable debt to prepare for bad debt losses on receivables such as accounts receivable from completed construction contracts based on the historical write-off rate for ordinary receivables and on the estimated recoverability of each doubtful account for specific doubtful receivables.

● Provision for warranties for completed construction

The provision for warranties for completed construction is provided to prepare for losses from repairs of completed construction contracts based on the past warranty experience rate.

● Provision for loss on construction contracts

The provision for loss on construction contracts is provided at the estimated amount to prepare for losses from orders received for construction contracts in stock, which involve a high probability of generating losses and where the loss amount can be reasonably estimated.

● Provision for directors' bonuses

The provision for directors' bonuses is provided at the estimated amount of payment corresponding to the fiscal year under review to prepare for the possible disbursement of bonuses to directors.

● Reserve for loss on dissolution of employees' pension fund

The reserve for loss on dissolution of employees' pension fund is provided at the estimated amount to prepare for losses from the dissolution of the employees' pension fund.

(Additional information)

Nishinonreitoukuutyoku Employees' Pension Fund (general-type), with which the Company and its domestic consolidated subsidiaries are affiliated, resolved to dissolve the fund under special provisions at a meeting of its board of representatives held on September 18, 2013.

As the dissolution procedure under special provisions was completed in February 2017 and the amount corresponding to the liability reserve due to the dissolution was determined, the Company reversed ¥247 million in reserve for loss on dissolution of employees' pension fund and executed the payment procedure thereof.

The difference between the delivered ¥237 million and the remaining amount of reserve for loss on dissolution of employees' pension fund is recorded as “Reversal of reserve for loss on dissolution

of employees' pension fund" of ¥9 million under extraordinary income in the consolidated income statement.

- Provision for directors' retirement benefits

The provision for directors' retirement benefits of domestic consolidated subsidiaries is provided at the full required amount based on their relevant in-house regulations to prepare for the possible disbursement of retirement benefits to directors.

- (4) Other important matters as the basis of presenting the Consolidated Financial Statements
- Accounting standards for net sales of completed construction contracts and cost of sales of completed construction contracts
    - (i) The percentage-of-completion method is applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the balance sheet date for the year under review (percentage of completion is estimated by the cost-to-cost method).
    - (ii) The completed-contract method is applied for other construction contracts.
  
  - Important methods of hedge accounting
    - (i) Method of hedge accounting
 

Deferred hedge accounting is applied.

With regard to forward exchange contracts that meet the requirements for deferral hedge accounting, deferral hedge accounting is applied.

With regard to interest-rate swaps and interest-rate caps that meet the requirements for exceptional accounting, exceptional accounting is applied.
    - (ii) Hedging instruments and hedged items
 

|                     |  |
|---------------------|--|
| Hedging instruments | Forward exchange contracts, spot exchange forward agreements (non-deliverable forward: NDF), and interest-rate swaps and interest-rate caps  |
| Hedged items        | Foreign currency receivables, foreign currency payables, future transactions in foreign currency and interest-rate trading for loans payable |
    - (iii) Hedging policy
 

The Company's policy of hedging activities for forward exchange contracts is to reduce exchange-rate fluctuation risks when contracts are concluded and not to conduct speculative trading. The Company's policy of interest-rate swaps and interest-rate caps is to reduce interest-rate fluctuation risks for loans payable and not to conduct speculative trading.
    - (iv) Method of evaluation of effectiveness of hedging
 

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, evaluating the effectiveness of hedging activities is omitted.

For interest-rate swaps and interest-rate caps, the judgment on whether to apply exceptional accounting is used instead of an evaluation of the effectiveness of hedging.
  
  - Accounting procedure for retirement benefits
    - (i) Period allocation of projected retirement benefits
 

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 under review.
    - (ii) Amortization method for actuarial gains/losses and prior service cost
 

Actuarial gains or losses are amortized for the pro-rata amount computed by the straight-line method over a certain period (10 years) within the average remaining service years of employees at the time of recognition, commencing from the following fiscal year of recognition.

The prior service cost is amortized by the straight-line method over a certain period (10 years) within the average remaining service years of employees at the time of recognition.
  
  - Amortization method and period for goodwill
 

Goodwill is equally amortized using the straight-line method over a period of twenty (20) years.

- Accounting for consumption taxes

At the Company and its domestic consolidated subsidiaries, transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

(Change in accounting policies)

(Application of the Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016, hereinafter the “Implementation Guidance”) from the fiscal year under review, and revised part of the accounting for the recoverability of deferred tax assets accordingly.

The Implementation Guidance was applied following the transitional treatment provided in Paragraph 49 (4) of the same Guidance. Accordingly, the difference between the amounts of deferred tax assets at the beginning of the fiscal year under review assuming the application of the provisions under Paragraph 49(3), (i) to (iii) of the Implementation Guidance, and the amounts of deferred tax assets at the end of the previous fiscal year, was added to retained earnings and non-controlling interests at the beginning of the fiscal year under review.

As a result, deferred tax assets (investments and other assets) increased by ¥12 million, retained earnings increased by ¥11 million and non-controlling interests increased by ¥0 million at the beginning of the fiscal year under review.



**[Notes to Consolidated Balance Sheet]**

## 1. Pledged assets

- (1) The following assets are pledged as collateral for security deposits at subsidiaries and associates  
Cash and deposits ¥36 million
- (2) The following assets are pledged as collateral for loans payable at investees.  
Investment securities ¥2 million
- (3) The following assets are pledged as collateral for loans payable at associates.

(Millions of yen)

| Asset pledged as collateral                        | Year-end balance on account books | Secured obligations corresponding to the asset at left |
|--|-----------------------------------|--|
| Cash and deposits                                  | 332                               | 227  |
| Machinery, vehicles, tools, furniture and fixtures | 28                                | 12   |

## 2. Guarantee obligations

The Taikisha Group guarantees loans payable, etc., made by its employees and affiliated companies under agreements concluded with financial institutions.

|  |              |
|--|--------------|
| Employees  | ¥3 million   |
| Tianjin Dongchun-Taiki Metal Finishing Conveyor System Manufacturing Co., Ltd. | ¥312 million |

## 3. Endorsed notes

¥40 million

**[Note to Consolidated Income Statement]**

Provision for loss on construction contracts included in the cost of sales of completed construction contracts was ¥756 million.

**[Notes to Consolidated Statement of Changes in Net Assets]**

1. Type and total number of issued shares as of the consolidated balance sheet date

Common shares 36,782,009 shares

2. Dividends

(1) Dividend amount

| Resolution                                      | Type of shares | Total dividends<br>(Millions of<br>yen) | Dividend per<br>share (Yen) | Record date        | Effective date    |
|---|----------------|---|-----------------------------|--------------------|-------------------|
| Annual Shareholders' Meeting on June 29, 2016   | Common shares  | 1,451                                   | 42.00                       | March 31, 2016     | June 30, 2016     |
| Board of Directors Meeting on November 11, 2016 | Common shares  | 864                                     | 25.00                       | September 30, 2016 | November 30, 2016 |

(2) Dividends whose record date is during the fiscal year under review, but whose effective date is after the end of the fiscal year under review

The following matters concerning the dividends of common shares are proposed in a proposal at the Annual Shareholders' Meeting to be held on June 29, 2017.

- (i) Total dividends ¥1,539 million
- (ii) Dividend per share ¥45.00
- (iii) Record date March 31, 2017
- (iv) Effective date June 30, 2017

Retained earnings are planned to be used as the source of dividends.

## [Notes to Financial Instruments]

### 1. Status of Financial Instruments

#### (1) Policies on financial instruments

The Taikisha Group invests its temporary surplus funds in financial assets that are highly secure and procures its short-term working capital in the form of borrowings from banks. The Group utilizes derivatives only to hedge their exposure to the risks as described below but does not enter into such transactions for speculative purposes.

#### (2) 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 Group's management system allows us to monitor the credit standing of major customers at any time 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 Group has business relations and are continuously monitored through regular checks of the current market value and financial positions of the issuers.

Notes payable, accounts payable for construction contracts and other, which are trade payables, generally entail the due date for payments, which typically mature within one year. Some of them are those denominated in foreign currencies due to the imports of materials and raw materials, etc., and are exposed to the risk of exchange rate fluctuations but are always within the limit of 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 respective Group companies for the fiscal year under review, 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 payables, which are procured at fixed interest rates, in principle, can avoid being exposed to 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. Forward exchange contracts and NDFs are executed and managed in accordance with the relevant notice regarding foreign exchange control issued by the Chief Executive of the Administrative Management Headquarters. This notice clearly stipulates regulations for the management policies on derivative transactions, the regulating division and department in charge of risk management, use purposes, scope of utilization, reporting system and the like.. Derivative transactions are executed only with financial institutions of a high rating caliber to reduce the credit risk.

Although trade payables and loans payable are exposed to liquidity risk, the Group strives to control the liquidity risk with measures such as the preparation of a monthly cash management plan by each Group company.

#### (3) Supplementary explanation on market value of financial instruments, etc.

The contractual amounts, etc., with regard to derivative transactions in "2. Market Value of Financial Instruments" below only indicate nominal contractual or notional principal amounts in derivative transactions, and they are not a direct measure of the Group's risk exposure in connection with the corresponding derivative transactions.

### 2. Fair Value of Financial Instruments

The following table indicates the book value in the consolidated balance sheet, the fair value and the differences thereof as of March 31, 2017. Financial instruments for which it is deemed extremely difficult to measure the fair value are not included in the table below. (Refer to Note 2.)

(Millions of yen)

|   | Book value in the consolidated balance sheet | Fair value | Difference |
|---|--|------------|------------|
| (1) Cash and deposits   | 42,263                                       | 42,263     | —          |
| (2) Notes receivable, accounts receivable from completed construction contracts and other | 100,983                                      |            |            |
| Allowance for doubtful accounts* <sup>1</sup>   | (402)  |            |            |
|   | 100,581                                      | 100,578    | (2)        |
| (3) Securities and investment securities* <sup>2</sup>                                    | 24,319                                       | 24,319     | —          |
| Total assets  | 167,164                                      | 167,161    | (2)        |
| (4) Notes payable, accounts payable for construction contracts and other                  | 55,287                                       | 55,286     | (0)        |
| (5) Short-term loans payable  | 4,015  | 4,015      | —          |
| (6) Income taxes payable  | 1,462  | 1,462      | —          |
| (7) Long-term loans payable   | 986  | 937        | (48)       |
| Total liabilities   | 61,751                                       | 61,701     | (49)       |
| (8) Derivative transactions   | (398)  | (398)      | —          |

\*1. “Allowance for doubtful accounts” amounts separately included in “notes receivable, accounts receivable from completed construction contracts and other” are deducted.

\*2. “Securities and investment securities” for which it is deemed extremely difficult to measure the market value are not included in the table above.

Notes:

1. Calculation method of the fair value of financial instruments and securities and derivative transactions

Assets

(1) Cash and deposits:

As cash is settled within a short time, the fair value thereof is almost equal to the book value. Therefore, the calculation of the fair value of these assets is based on the book value concerned.

(2) Notes receivable, accounts receivable from completed construction contracts and other:

The calculation of the fair value of these assets is based on the present value to be achieved by discounting using discount rates, which take into account the remaining period prior to maturity and the credit risk, for receivables individually segmented by certain duration.

(3) Securities and investment securities:

As for the calculation of the fair value of these assets, stocks are based on the prices traded at the stock exchange, whereas bonds are based on the prices proposed by the correspondent financial institution.

The securities and investment securities are held in the form of “other securities.”

(i) The differences between the book value in the consolidated balance sheet and acquisition cost are as follows

Other securities with fair value (as of March 31, 2017)

(Millions of yen)

|  | Book value in the consolidated balance sheet | Acquisition cost | Difference |
|--|--|------------------|------------|
| Those of which book value exceeds their acquisition cost         |  |                  |            |
| Stocks   | 24,286                                       | 9,996            | 14,290     |
| Those of which book value does not exceed their acquisition cost |  |                  |            |
| Stocks   | 32   | 32               | —          |
| Total  | 24,319                                       | 10,028           | 14,290     |

(ii) The sales amount for other securities for the fiscal year under review was ¥234 million. The total gain on sales was ¥25 million, whereas the total loss on sales was ¥141 million.

(iii) The “Acquisition cost” in the table above is the book value after an impairment loss is deducted. In posting the impairment loss for the corresponding stocks, an impairment loss was reported for each stock whose market value had fallen more than 50% compared with the acquisition value without reasonable evidence that the market value would rally to the book value within one year. For each stock whose market value had fallen more than 30% but less than 50%, an impairment loss was similarly reported for an amount deemed necessary in the light of past trends in the market price for one prior year and the probability of recovery in its market value.

Liabilities

(4) Notes payable, accounts payable for construction contracts and other, and (5) Short-term loans payable

The calculation of the fair value of these liabilities is based on the present value to be achieved by discounting using discount rates, which take into account the remaining period prior to maturity or repayment and the credit risk, for payables individually segmented by certain duration.

(6) Income taxes payable

As these liabilities are settled within a short time, the fair value thereof is almost equal to the book value. Therefore, the calculation of the fair value of these assets is based on the book value concerned.

(7) Long-term loans payable

The calculation of the fair value of these liabilities is based on the book value concerned for long-term loans payable with variable interest rates because these liabilities sufficiently reflect the market interest rate within a short time and the credit standing does not change much, thereby making the fair value similar to the book value. For long-term loans payable with fixed interest rates, the fair value is calculated based on the present value estimated by discounting the total principal and interest for said long-term loans payable individually segmented by certain duration, using discount rates that would be applicable for similar new borrowings.

(8) Derivative transactions

(i) Derivative transactions not subject to hedge accounting

For derivative transactions to which hedge accounting is not applied, contractual amounts or the notional principal amounts specified in the derivative contracts, market value and gain (loss) on valuation as of the consolidated balance sheet date by type of target transaction, as well as the calculation method of said fair value, are as follows:

Currency-related

(Millions of yen)

| Classification          | Type                                | Contract amount | Portion due after one year included herein | Fair value | Gain/loss on valuation |
|-------------------------|-------------------------------------|-----------------|--|------------|------------------------|
| Non-market transactions | Forward foreign exchange contracts: |                 |  |            |                        |
|                         | Buy:                                |                 |  |            |                        |
|                         | JPY                                 | 76              | —  | (4)        | (4)                    |
|                         | USD                                 | 17              | —  | 0          | 0                      |
|                         | SGD                                 | 7               | —  | (0)        | (0)                    |
|                         | Sell:                               |                 |  |            |                        |
|                         | USD                                 | 502             | —  | (18)       | (18)                   |
| EUR                     | 27                                  | —               | 0  | 0          |                        |
| CNY                     | 838                                 | —               | (90)                                       | (90)       |                        |
|                         | Total                               | —               | —  | (112)      | (112)                  |

Note: Calculation method of the fair value: Based on the prices and other data submitted by the financial institutions with which business transactions exist.

(ii) Derivative transactions subject to hedge accounting  
 For derivative transactions to which hedge accounting is applied, contractual amounts or the notional principal amounts specified in the derivative contracts as of the consolidated balance sheet date by type of hedge accounting method are as follows:

Currency-related

(Millions of yen)

| Hedge accounting method                  | Type of derivative transaction      | Main hedged item  | Contract amount | Portion due after one year included herein | Fair value |
|--|-------------------------------------|---|-----------------|--|------------|
| Accounting based on the principal method | Forward foreign exchange contracts: |   |                 |  |            |
|  | Buy:                                |   |                 |  |            |
|  | JPY                                 | Accounts payable for construction contracts (forecasts)               | 156             | 17   | (6)        |
|  | THB                                 | Accounts payable for construction contracts (forecasts)               | 136             | —  | 3          |
|  | Sell:                               |   |                 |  |            |
|  | USD                                 | Accounts receivable from completed construction contracts (forecasts) | 7,449           | 516  | (294)      |
|  | GBP                                 | Accounts receivable from completed construction contracts (forecasts) | 152             | —  | 9          |
|  | EUR                                 | Accounts receivable from completed construction contracts (forecasts) | 35              | —  | 0          |
|  | CNY                                 | Accounts receivable from completed construction contracts (forecasts) | 8               | —  | 0          |
|  | Total                               |   | —               | —  | (286)      |

Note: Calculation method of the market value: Based on the prices and other data submitted by the financial institutions with which business transactions exist.

2. Financial instruments for which it is deemed difficult to measure the fair value

(Millions of yen)

| Classification         | Carrying value in the consolidated balance sheet |
|------------------------|--|
| Other securities       |  |
| Unlisted stocks        | 1,310  |
| Unlisted foreign bonds | 10   |

Securities classified under this category have no market prices and estimating future cash flows would likely necessitate enormous costs. Accordingly, it is deemed extremely difficult to measure the fair value, and they are not included in “(3) Securities and investment securities.”

3. Redemption schedule for monetary receivables and securities with maturity dates after the consolidated balance sheet date (March 31, 2017)

(Millions of yen)

|  | Due within | Due after one | Due after | Due after 10 |
|--|------------|---------------|-----------|--------------|
|  |            |               |           |              |

|  | one year | year but<br>within five<br>years | five years but<br>within 10<br>years | years |
|--|----------|----------------------------------|--------------------------------------|-------|
| Cash and deposits  | 42,263   | —                                | —                                    | —     |
| Notes receivable, accounts receivable from<br>completed construction contracts and other | 95,409   | 5,280                            | 292                                  | —     |
| Investment securities  |          |                                  |                                      |       |
| Other securities with maturity dates<br>(unlisted foreign bonds)                         | 10       | —                                | —                                    | —     |
| Total  | 137,683  | 5,280                            | 292                                  | —     |

**[Notes to per-Share Information]**

1. Net assets per share                   ¥2,799.30
2. Basic earnings per share           ¥183.16

**[Note to Significant Subsequent Events]**

Not applicable.



## **[Other Notes]**

(Note regarding Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts)  
At the occasion of the 100th anniversary since its foundation, the Company introduced an ESOP (Employee Stock Ownership Plan) (the "Plan"), an incentive program for awarding shares of the Company to its employees so as to incentivize employees to improve stock prices and financial results by enhancing the linkage of stock prices and financial results and sharing economic effects with shareholders.

### 1. Outline of the transactions

The Plan has a scheme according to which shares of the Company are awarded for each period to the eligible employees in accordance with the share awarding regulations set forth in advance by the Company. The Company grants predetermined points to employees and later awards the Company's shares, which corresponds to the total number of accumulated points granted, after the lapse of a predetermined period.

The Company's shares to be awarded to the employees shall be acquired by a trust bank from the Company through an allocation to a third party using funds that have been contributed to the trust and separately managed as a trust estate.

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

### 3. Matters regarding the Company's own shares held by the trust

- 1) The book value of the trust estate for the fiscal year under review was ¥299 million. The Company's own shares held by the trust are not reported as treasury shares under shareholders' equity.
- 2) The number of shares held at the fiscal year-end was 161 thousand, and the average number of shares outstanding during the year was 162 thousand. The number of shares at the fiscal year-end and the average number of shares outstanding during the year are not included in the number of treasury shares to be deducted in calculating per-share information.

## Notes to Non-consolidated Financial Statements

### [Notes to Significant Accounting Policies]

#### Accounting Standards

##### (1) Standards and methods of valuation of assets

- Securities
  - Held-to-maturity debt securities
    - Amortized cost method (straight-line method)
  - Shares of subsidiaries and associates
    - Stated at cost using the moving-average method
  - Available-for-sale securities
    - Securities with fair value
      - Stated at fair value based on the market price, etc., on the balance sheet date (Valuation difference is reported as a component of net assets. The cost of sales is calculated using the moving-average method.)
    - Securities without fair value
      - Stated at cost using the moving-average method
- Derivatives
  - Stated at fair value
- Inventories
  - Costs on uncompleted construction contracts
    - Stated at cost using the specific identification method
  - Raw materials and supplies
    - Stated at cost using the moving-average method (The figures shown in the non-consolidated balance sheet have been calculated by writing down the book value based on the decline in profitability.)

##### (2) Depreciation method for non-current assets

- Property, plant and equipment (excluding leased assets)
  - The declining-balance method is applied. However, the straight-line method is applied for buildings (except for accompanying facilities), which have been acquired on or after April 1, 1998 as well as for accompanying facilities and structures which have been acquired on or after April 1, 2016. The useful lives and the residual value comply with the similar standards as stipulated in the Corporation Tax Act.
  - (Change in accounting policies)
  - (Application of the “Practical Solution on a change in depreciation method due to Tax Reform 2016”)
  - In line with the revisions to the Corporation Tax Act of Japan, the Practical Solution on a change in depreciation method due to Tax Reform 2016 (Practical Issues Task Force (PITF) No. 32, June 17, 2016) is applied from the fiscal year ended March 31, 2017. Accordingly, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.
  - The impact of this change on operating income, ordinary income and income before income taxes for the fiscal year under review is immaterial.
- Intangible assets (excluding leased assets)
  - The straight-line method is applied. However, computer software for internal use is amortized by the straight-line method over the estimated internal useful life (5 years).
- Leased assets (Finance leases that are not deemed to transfer the ownership of the leased assets to the lessee)
  - The straight-line method with no residual value is applied, regarding the lease term as the useful life.

##### (3) Standards of accounting for allowance and provisions

- Allowance for doubtful accounts
  - The allowance for doubtful accounts is provided at the estimated amount of irrecoverable debt to prepare for bad debt losses on receivables such as accounts receivable from completed construction contracts based on the historical write-off rate for ordinary receivables and on the estimated recoverability of each doubtful account for specific doubtful receivables.

- Provision for warranties for completed construction  
The provision for warranties for completed construction is provided to prepare for losses from repairs of completed construction contracts based on the past warranty experience rate.
  - Provision for loss on construction contracts  
The provision for loss on construction contracts is provided at the estimated amount to prepare for losses from orders received for construction contracts in stock, which involve a high probability of generating losses and where the loss amount can be reasonably estimated.
  - Provision for directors' bonuses  
The provision for directors' bonuses is provided at the estimated amount of payment corresponding to the fiscal year under review to prepare for the possible disbursement of bonuses to Directors.
  - Reserve for loss on dissolution of employees' pension fund  
The reserve for loss on dissolution of employees' pension fund is provided at the estimated amount to prepare for losses from the dissolution of the employees' pension fund.  
(Additional information)  
Nishinohonreitokuutyoku Employees' Pension Fund (general-type), with which the Company is affiliated, resolved to dissolve the fund under special provisions at a meeting of its board of representatives held on September 18, 2013.  
As the dissolution procedure under special provisions was completed in February 2017 and the amount corresponding to the liability reserve due to the dissolution was determined, the Company reversed ¥224 million in reserve for loss on dissolution of employees' pension fund and executed the payment procedure thereof.  
The difference between the delivered ¥215 million and the remaining amount of reserve for loss on dissolution of employees' pension fund is recorded as "Reversal of reserve for loss on dissolution of employees' pension fund" of ¥9 million under extraordinary income in the non-consolidated income statement.
  - Provision for retirement benefits  
The provision for retirement benefits is provided based on projected benefit obligations and the fair value of plan assets at the balance sheet date.
    - (i) Period allocation of projected retirement benefits  
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 under review.
    - (ii) Amortization method for actuarial gains/losses and prior service cost  
Actuarial gains or losses are amortized for the pro-rata amount computed by the straight-line method over a certain period (10 years) within the average remaining service years of employees at the time of recognition, commencing from the following fiscal year of recognition.  
The prior service cost is amortized by the straight-line method over a certain period (10 years) within the average remaining service years of employees at the time of recognition.
- (4) Accounting standards for net sales of completed construction contracts and Cost of sales of completed construction contracts
- (i) The percentage-of-completion method is applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the balance sheet date for the year under review (percentage of completion is estimated by the cost-to-cost method).
  - (ii) The completed-contract method is applied for other construction contracts.
- (5) Other important matters as the basis of presenting the Non-consolidated Financial Statements
- Methods of hedge accounting
    - (i) Method of hedge accounting  
Deferred hedge accounting is applied.  
With regard to forward exchange contracts that meet the requirements for deferral hedge accounting, deferral hedge accounting is applied.
    - (ii) Hedging instruments and hedged items

|                     |   |
|---------------------|---|
| Hedging instruments | Forward exchange contracts and spot exchange forward agreements (non-deliverable forward: NDF)      |
| Hedged items        | Foreign currency receivables, foreign currency payables and future transactions in foreign currency |

(iii) Hedging policy

The Company's policy of hedging activities for forward exchange contracts is to reduce exchange-rate fluctuation risks when contracts are concluded and not to conduct speculative trading.

(iv) Method of evaluation of effectiveness of hedging

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, evaluating the effectiveness of hedging activities is omitted.

- Accounting procedure for retirement benefits

Accounting procedures for unrecognized actuarial gains or losses and unrecognized prior service cost relative to retirement benefits differ from those applied in the consolidated financial statements.

- Accounting for consumption taxes

Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

**[Notes to Change in Presentation Method]**

“Electronically recorded monetary claims,” which were previously included in “Notes receivable (¥860 million in the previous fiscal year)” on the balance sheet, have been separately presented as electronically recorded monetary claims (¥3,236 million) due to increased importance.

**[Notes to Non-consolidated Balance Sheet]**

## 1. Pledged assets

The following assets are pledged as collateral for loans payable at investees.

|  |                |
|--|----------------|
| Investment securities  | ¥2 million     |
| 2. Accumulated depreciation of property, plant and equipment | ¥4,932 million |

## 3. Guarantee obligations

The Company guarantees loans payable, etc., made by its employees, subsidiaries and associates under agreements concluded with financial institutions.

|  |                   |
|--|-------------------|
|  | (Millions of yen) |
| Employees  | 3                 |
| Taikisha de Mexico, S.A. de C.V.   | 183               |
| Taikisha (Singapore) Pte. Ltd.   | 189               |
| Taikisha (Thailand) Co., Ltd.  | 1,006             |
| <br>   |                   |
| P.T. Taikisha Indonesia Engineering  | 83                |
| Taikisha Vietnam Engineering Inc.  | 234               |
| WuZhou Taikisha Engineering Co., Ltd.  | 452               |
| Tianjin Taikisha Paint Finishing System Ltd.                                     | 39                |
| Taikisha (Taiwan) Ltd.   | 1                 |
| Taikisha Korea Ltd.  | 22                |
| Taikisha Engineering India Private Ltd.  | 2,331             |
| Geico Taikisha Europe Ltd.   | 30                |
| Tianjin Dongchum-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd. | <u>312</u>        |
| Total  | <u>4,890</u>      |

## 4. Monetary receivables from and payables to subsidiaries and associates

|                                 |                |
|---------------------------------|----------------|
| Short-term monetary receivables | ¥3,599 million |
| Short-term monetary payables    | ¥2,625 million |

**[Notes to Non-consolidated Income Statement]**

## 1. Transactions with associates

|   |                   |
|---|-------------------|
|   | (Millions of yen) |
| Net sales of completed construction contracts                 | 3,446             |
| Purchase of goods   | 5,125             |
| Transactions other than operating transactions (for revenue)  | 2,911             |
| Transactions other than operating transactions (for expenses) | 57                |

2. Provision for loss on construction contracts included in the cost of sales of completed construction contracts was ¥142 million.

**[Note to Non-consolidated Statement of Changes in Net Assets]**

Type and number of treasury shares as of the balance sheet date

|               |                  |
|---------------|------------------|
| Common shares | 2,575,841 shares |
|---------------|------------------|

**[Note to Tax Effect Accounting]**

Breakdown by cause of deferred tax assets and liabilities

(Millions of yen)

## Deferred tax assets:

|  |       |
|--|-------|
| Allowance for doubtful accounts                            | 2     |
| Provision for warranties for completed construction        | 122   |
| Provision for loss on construction contracts               | 45    |
| Provision for retirement benefits                          | 39    |
| Employee pension trust, investment securities              | 276   |
| Accrued enterprise taxes                                   | 98    |
| Accrued bonuses  | 944   |
| Loss on valuation of investment securities                 | 123   |
| Loss on valuation of shares of subsidiaries and associates | 445   |
| Loss on valuation of golf club membership                  | 59    |
| Others   | 207   |
| Subtotal   | 2,366 |
| Valuation allowance  | (726) |
| Total deferred tax assets                                  | 1,639 |

## Deferred tax liabilities:

|   |         |
|---|---------|
| Prepaid pension cost                                  | (1,466) |
| Valuation difference on available-for-sale securities | (4,321) |
| Others  | (51)    |
| Total deferred tax liabilities                        | (5,838) |
| Net deferred tax liabilities                          | (4,199) |

**[Notes to Transactions with Related Parties]**

Subsidiaries and Associates

(Millions of yen)

| Type       | Name of company, etc.                        | Percentage of voting rights, etc., held (or held of the Company) | Relationship with related party  | Transaction details                          | Transaction amount <sup>4</sup> | Account title   | Fiscal year-end balance |
|------------|--|--|--|--|---------------------------------|---|-------------------------|
| Subsidiary | Taikisha Engineering India Private Ltd.      | Direct holding (55.00%)  | Con-currently held Officers' posts; Financial support; Ordering to the Company for part of construction work | Guarantee of debt <sup>1</sup>               | 2,331                           | —   | —                       |
|            | Tianjin Taikisha Paint Finishing System Ltd. | Direct holding (72.14%)<br>Indirectly holding (17.86%)           | Con-currently held Officers' posts; Financial support; Ordering to the Company for part of construction work | Acceptance of construction cost <sup>2</sup> | 1,695                           | Accounts receivable from completed construction contracts | 1,642                   |

Transaction conditions and decision policy thereof:

Notes:

1. Consists of the guarantee for loans payable at said subsidiary and the guarantee for work to the customers of said subsidiary.
2. Entered into under general terms and conditions similar to those under arm's length transactions.
3. The transaction amount above does not include consumption taxes.

**[Notes to per-Share Information]**

- |                             |           |
|-----------------------------|-----------|
| 1. Net assets per share     | ¥2,312.41 |
| 2. Basic earnings per share | ¥210.63   |

**[Note to Significant Subsequent Events]**

Not applicable.

**[Other Notes]**

(Note regarding Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts)  
With regard to "Note regarding Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts", it is omitted since the same content is stated in "Other Notes" under Notes to Consolidated Financial Statements.

(Additional information)

The Company applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016, hereinafter the "Implementation Guidance") from the fiscal year under review.