



Integrated Report 2021

Build the Future Air

Build the future air

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

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

We hope to be at the service of as many people as possible.

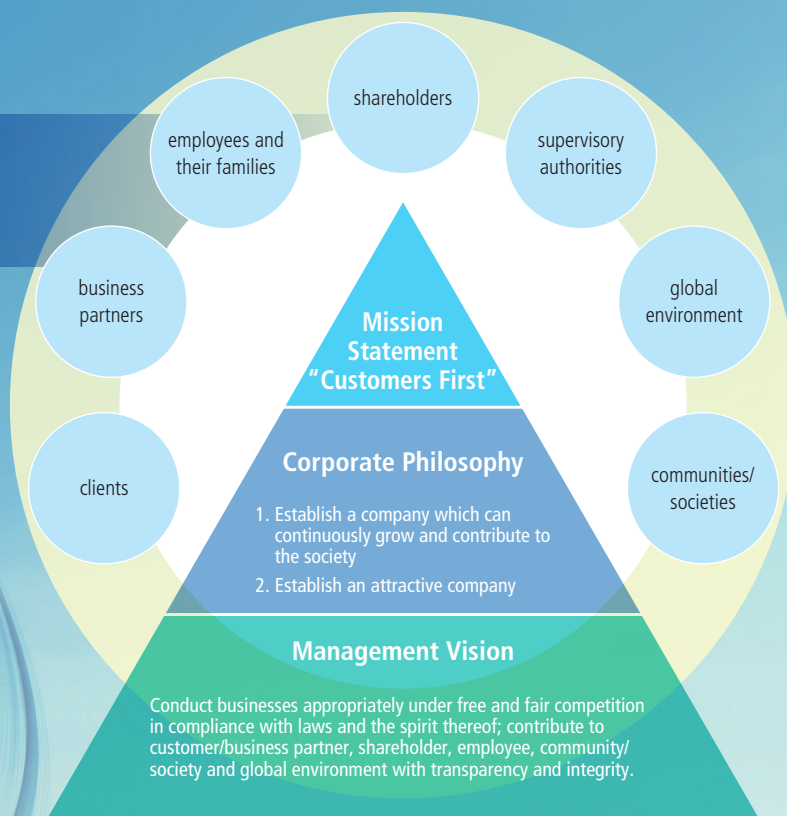
We want to make more and more places comfortable.

We cherish these thoughts every day.

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Taikisha Philosophy Scheme



Stakeholder Engagement

<https://www.taikisha-group.com/sustainability/taikisha/stakeholder/>

Tool Map



Editing Policy

- Organizations covered by this report
- Period covered in this report
- Date of issue
- The scheduled issue date of the next edition
- Guidelines referenced

- Production
- Contact for inquiries

Taikisha Ltd. and its group companies in Japan and overseas are covered by this report. This report mainly covers activities conducted during FY2020 (from April 1, 2020 to March 31, 2021) and also includes some activities carried out before or after the said period.

November 2021
November 2022

"Environmental Reporting Guidelines (Fiscal Year 2012 version)," "Environmental Accounting Guidelines 2005," and "Guidelines for Private Sector Engagement in Biodiversity (2009)" of the Ministry of the Environment, "Sustainability Reporting Standards" by Global Reporting Initiative (GRI), ISO26000, "International Integrated Reporting Framework" by the International Integrated Reporting Council (IIRC)

Integrated Report Editorial Committee of Taikisha Ltd.
Investor Relations Section, Taikisha Ltd. TEL 81-(0)3-5338-5052

tion shall be made by all the partners or by those persons whom they may appoint.

Yokohama 20th April 1913.

Julius Saenger

Y.H. Tokyo 20th April 1913

Wun Meifeng

Tokyo 20th April 1913.

J. Uyenishi



Photo taken in front of the Head Office

ユニットヒーター・クーラー
エロフィンヒーター・クーラー

東京・合資会社 建材社・大阪

History

Over the 100 years since its foundation in 1913, Taikisha Group has evolved into a global company group, employing over 5,000 people.

We will keep challenging ourselves while maintaining our global nature and the "Customers First" philosophy inherited since the foundation.



Our company building in 1927



1913

1920

1930

1940

1950

1960

1913-1948

1949-1970

1913-1948

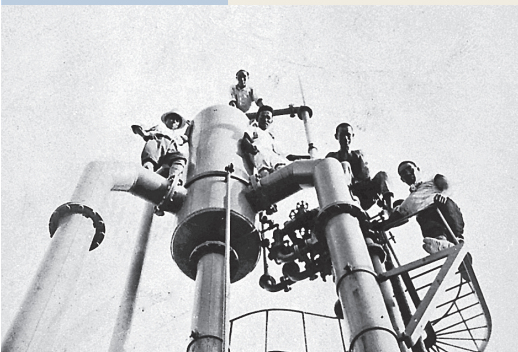
Helps build the foundation of modern Japan



Tokio Marine and Fire Insurance Building

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

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

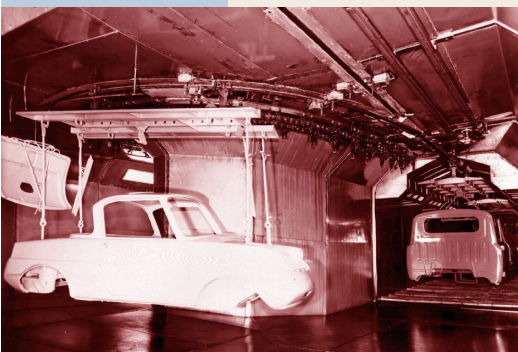


Steam jet units

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

1949-1970

Expansion of business fields during the period of rapid economic growth



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

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

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

1970

1980

1990

2000

2010

1971-1989

1990-2001

2002-2010

1971-1989

Global business development



New Dubai Hospital

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

In line with shift overseas of Japanese corporate clients, Taikisha expanded new affiliates worldwide, starting with an affiliate in Thailand. While accumulating experience in overseas work, Taikisha expanded its customer base to include not only Japanese companies but also local and Western ones. The Company's 60th anniversary coincided with the Yom Kippur War. With the first oil crisis resulting from crude oil supply reductions and a subsequent second oil crisis in 1979, "energy efficiency" became a common challenge for the whole industry. In the 1980s, Japanese automobile manufacturers accelerated their expansion in the U.S. Taikisha received an order for the first phase of plant construction work from Honda of America Manufacturing and an order for a robot painting system from Nissan Motor Manufacturing Corporation USA. In June 1981, the Company established an affiliate company in the U.S. While dealing with the further expansion of automobile companies into the North American markets, Taikisha also received painting plant construction work orders from America's big three auto manufacturers (General Motors, Ford Motor Company, Chrysler).

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

1990-2001

Advent of the IT era



Petronas Twin Towers

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

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

2002-2010

Capitalizing on the Group's comprehensive capability

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

2020

2011-

2011-

Looking into the future

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

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

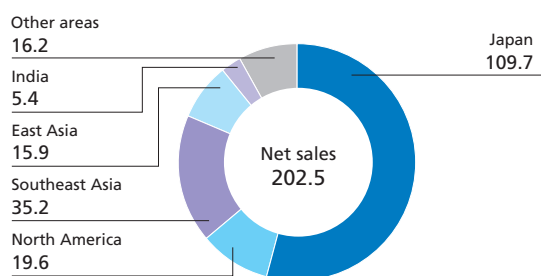


Plant factory

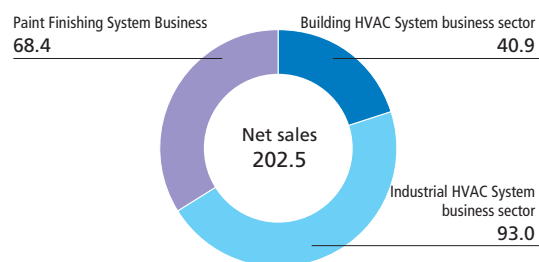


Technical Center

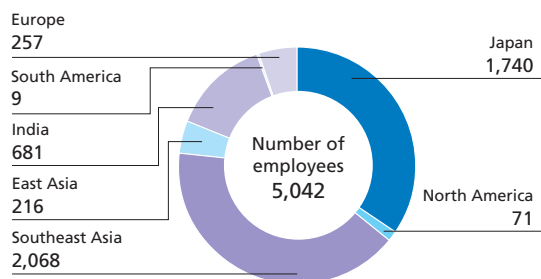
Consolidated net sales by region (billion yen) (FY2020)



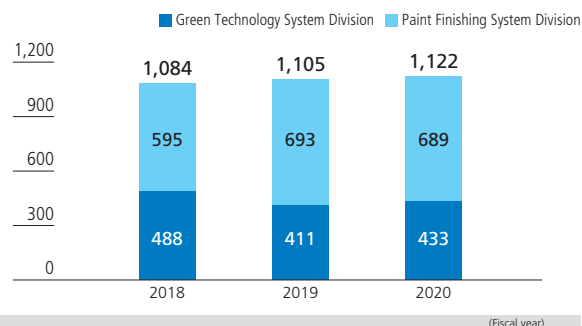
Consolidated net sales by business segment (billion yen) (FY2020)



Employee breakdown by region (persons) (FY2020)



R&D expenses (million yen)



Net sales of the automobile paint finishing system business

POINT

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



Financial and Non-Financial Highlights

Financial items

	Unit	FY2010	FY2011	FY2012	FY2013	FY2014
Orders received	Million yen	165,638	195,268	195,920	189,026	187,311
Ratio of overseas orders received	%	57.7	56.7	61.9	52.6	49.8
Net sales	Million yen	141,160	189,716	216,051	185,421	183,648
Ratio of overseas sales	%	44.4	51.3	57.4	61.6	55.2
Operating income	Million yen	5,411	8,325	9,815	8,083	8,669
Ratio of operating income to net sales	%	3.8	4.4	4.5	4.4	4.7
Ordinary income	Million yen	6,166	9,033	10,728	9,292	9,579
Ratio of ordinary income to net sales	%	4.4	4.8	5.0	5.0	5.2
Profit attributable to owners of parent	Million yen	3,703	4,372	6,200	4,155	6,084
Return on equity (ROE)	%	5.8	6.6	8.7	5.3	6.9
Total assets	Million yen	132,698	156,108	163,014	166,680	188,283
Net assets	Million yen	66,978	69,602	78,537	84,712	99,669
Equity ratio	%	48.8	42.9	46.2	48.3	50.4
Cash flows from operating activities	Million yen	5,869	1,812	10,772	7,532	1,401
Cash flows from investing activities	Million yen	(5,838)	(2,336)	(1,308)	(1,194)	(3,900)
Cash flows from financing activities	Million yen	92	(361)	(2,569)	(3,290)	1,264
Research and development expenses	Million yen	744	784	800	876	822
Depreciation	Million yen	1,122	1,239	1,211	1,290	1,257
Purchase of property, plant and equipment and intangible assets	Million yen	(783)	(1,398)	(3,130)	(1,734)	(1,247)

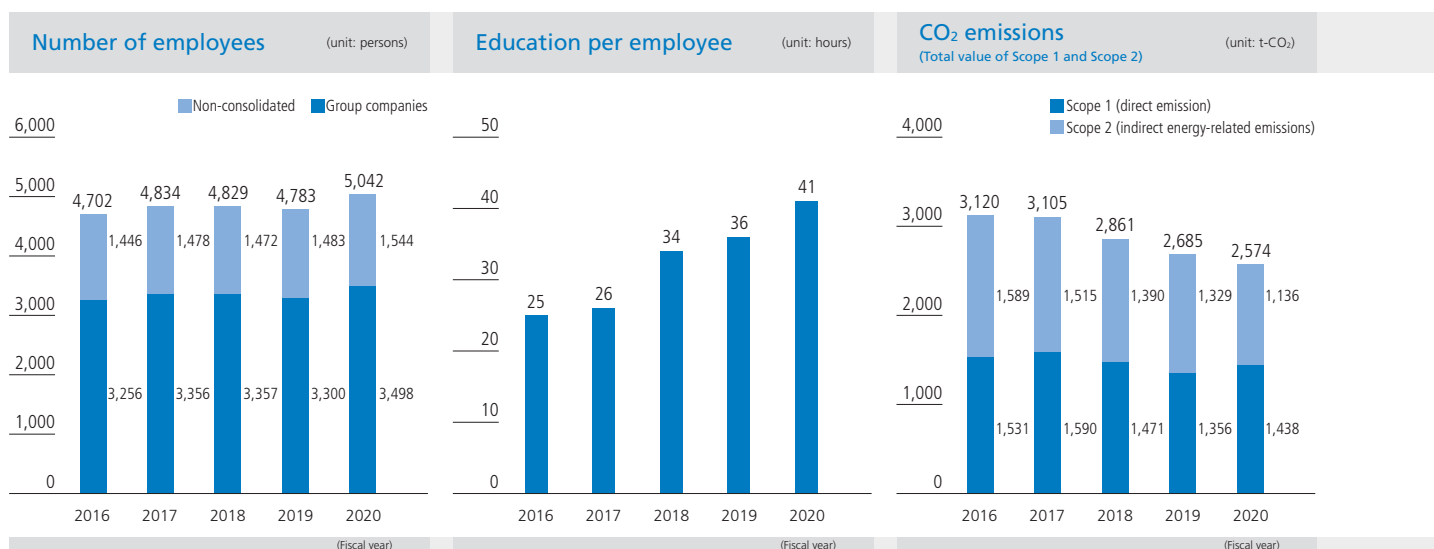
Per share data:

Profit	Yen	100.73	119.52	170.99	116.08	172.64
Net assets	Yen	1,762.28	1,834.99	2,087.16	2,282.56	2,690.76
Annual dividend	Yen	30	35	50	45	52
Dividend payout ratio	%	29.8	29.3	29.2	38.8	30.1
Total return ratio	%	29.8	40.0	44.8	80.5	30.2

* The U.S. dollar amounts are translated on the basis of nearly 103.52 yen to 1 dollar, the rate of exchange prevailing at March 31, 2021.

* As the company has been applying the Partial Amendments to Accounting Standard for Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Statement No.28, February 16, 2018) since FY2018, its consolidated financial position in FY2017 is based on indicators, etc. calculated after retrospectively applying the said accounting standard, etc.

Non-financial items



*Thousands of U.S. dollars

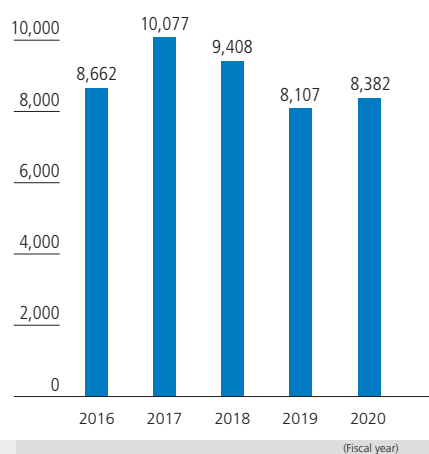
FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2020
221,764	218,323	219,844	241,889	226,909	200,469	1,810,596
54.3	50.4	46.2	46.3	45.1	44.1	44.1
212,424	200,604	231,898	225,402	225,378	202,548	1,829,379
55.5	49.3	50.1	47.1	41.3	45.8	45.8
12,734	8,473	12,180	14,035	15,439	11,690	105,586
6.0	4.2	5.3	6.2	6.9	5.8	5.8
12,343	9,842	13,082	15,085	15,991	12,287	110,981
5.8	4.9	5.6	6.7	7.1	6.1	6.1
7,084	6,305	7,254	8,841	9,132	8,279	74,779
7.6	6.8	7.2	8.3	8.4	7.2	7.2
189,566	199,024	215,392	223,080	215,389	228,855	2,066,976
95,921	100,184	110,650	113,649	112,843	126,311	1,140,817
48.0	48.1	48.8	48.8	50.2	52.9	52.9
7,301	6,679	9,337	9,159	21,386	973	8,789
(328)	(6,505)	1,390	(2,830)	(877)	(6,913)	(62,446)
(7,409)	(5,286)	(885)	2,396	(11,475)	(1,435)	(12,964)
889	946	1,024	1,084	1,105	1,122	10,142
1,348	1,290	1,398	2,030	2,167	2,362	18,829
(1,941)	(1,807)	(3,832)	(4,140)	(2,086)	(2,270)	(20,505)

*U.S. dollars

204.35	183.16	212.40	259.53	268.07	243.03	2.19
2,633.60	2,799.30	3,087.51	3,193.18	3,176.25	3,552.69	32.09
67	70	75	91	100	90	0.81
32.8	38.2	35.3	35.1	37.3	37.0	37.0
63.8	54.0	42.2	35.1	37.5	37.2	37.2

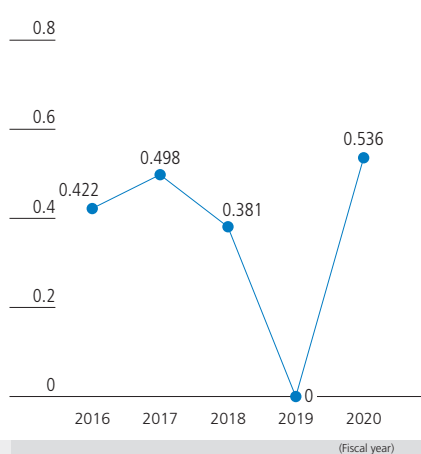
Amount of waste discharged

(unit: t)



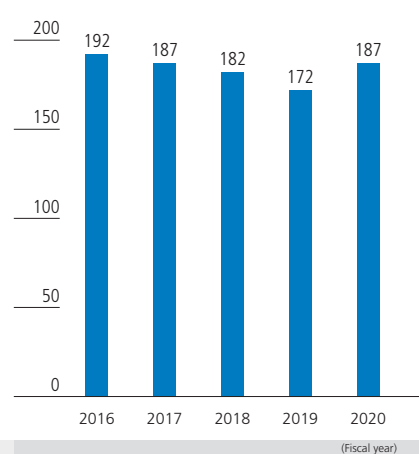
Frequency rate

(unit: %)



Number of patents obtained

(unit: patents)



We will seek growth and explore paths that can open up new possibilities by cultivating a rich, diverse foundation for management.



K. Kato

Representative Director, President

Our aspirations as we publish our first integrated report

Taikisha has published CSR reports for some time, in which we have disclosed information about our mission statement, corporate philosophy and related activities, but this is our first-ever integrated report.

We planned the content of this report carefully to help our shareholders, investors and all other stakeholders gain an overall understanding of the Taikisha Group, including our efforts to realize sustained value creation, and the alliances that exist among Group affiliates, not only within Japan, but worldwide.

In this first integrated report, we place particular emphasis on our vision for Taikisha's future.

In previous CSR reports, we were perhaps inclined to focus on past performance and the situation at the time. However, amid the recent massive wave of change that has transformed worldwide business conditions and caused societal upheaval, we took the opportunity to reflect. We redefined our concept of management, looked back over our development to date, identified and reviewed our materiality, and visualized our value creation process. We also made direct associations between non-financial information and future value, both of which are regarded as important nowadays, as we strived to cultivate thinking that would facilitate the Taikisha Group's evolution.

During this process, there was a growing sense that the time had come for us to articulate our concept for Taikisha's future, and that led us to express our aspirations for the Taikisha Group in the form of this new integrated report.

This integrated report is brimming with Taikisha's hopes and expectations for 10 or 20 years from now, in terms of the type of company we want to be, and the new endeavors we want to take on. It is still early days, but we intend to develop this publication further to serve as a communication tool that can prompt constructive dialogue with our stakeholders by clearly explaining our efforts to realize sustained value creation.

Tackling global social issues

Recent years have brought further deterioration in a range of social issues, including climate change, depletion of energy and resources, water shortages and loss of biodiversity. In fact, it would be no exaggeration to say that future generations' safety and peace of mind is under threat.

The Paris Agreement governing climate change reduction measures committed to the pursuit of efforts to limit the global average temperature rise to 1.5 degrees Celsius. This is an extremely urgent, critical problem, but the agreement indicated that the 1.5-degree target would not be easy to achieve. As this is an issue that impacts literally the whole planet, it is not only Taikisha, but all humankind, that must tackle it by racking our brains to find solutions.

As a company that operates in countries all over the world, Taikisha regards the implementation of initiatives for global social issues as a high-priority material issue. With regard to the 17 Sustainable Development Goals (SDGs), which are shared goals for all humankind, we are taking action from a variety of perspectives, prioritizing goals that are especially compatible with our core businesses, such as Goal 7: Affordable and Clean Energy, and Goal 13: Climate Action. As we are essentially part of the construction industry, there are a great many areas in which the SDGs are of relevance, so it could be described as relatively easy for us to look for the best ways to contribute.

However, when we start to think seriously and seek answers as to what Taikisha can do as a company, it is of course not that easy to find solutions. Still, I believe that, if we meet customers' needs and continue exploring within our organization, we are likely to get closer to answers of one kind or another, albeit gradually. And I want to set this process in action throughout the entire Group.

The slogan for our current Mid-Term Business Plan is "Aim to become a global corporate group that creates an optimal environment through unique engineering." Tackling climate change is precisely what our main business entails, so if we cannot tackle climate change, there is simply no point in our continuing to exist on this planet as a company.

As another example of what Taikisha can contribute, solutions to the problem of COVID-19 infection are in particular demand currently, and this enables Taikisha to offer an array of engineering solutions that leverage HVAC control technology. We are already engaged in a wide range of activities including development of a transportable air barrier unit that can reduce the risk of virus infection simply by being positioned wherever it is needed during medical examinations or PCR tests, as well as research on air-conditioning systems that can reduce infection risk.

Time spent biding our time gives us advantages

FY2021 is the final year of our Mid-Term Business Plan, but the COVID-19 pandemic has caused us some issues in terms of progress with plans, and results.

In the Japanese market, capital investment in the building HVAC system sector was impacted, largely as a result of the state of emergency declarations, but it subsequently recovered. In the industrial HVAC system sector, on the other hand, a cautious approach has continued due to the impacts of the economic downturn and increased uncertainty regarding the future outlook. In overseas markets, meanwhile, capital investment in both the industrial HVAC system sector and the automobile paint finishing sector has remained in a correction phase.

We are implementing a range of measures to minimize the impacts of the rapid changes in societal conditions, but responding to the international situation presents some difficulties. In the United States and Europe, measures to deal with COVID-19 have run their course and economies are moving toward recovery. We therefore intend to focus our energies on these regions, while at the same time also addressing Southeast Asia, where the situation remains challenging. As 2022 approaches, we can expect movement toward economic recovery to emerge somewhere in the region, so we will diversify our risk and target a recovery in business results.

Even under such conditions, we have been able to steadily implement a range of initiatives in line with the strategies targeted in our Mid-Term Business Plan.

The first such initiative, associated with our strategy of expanding new businesses, was to further expand and upgrade our plant factory business. We established a subsidiary to provide integrated solutions extending from construction of plants to production and sales of vegetables, and built our first wholly owned demonstration factory for mass production. We plan to offer a stable supply of safe, good-quality vegetables produced in plant factories to convenience stores and other vendors requiring vegetables for commercial food-preparation purposes, as an alternative to vegetables grown outdoors, which are susceptible to the effects of weather.

Although this effort to become a comprehensive agricultural company represents a new direction for Taikisha, it is already 10 years since we started exploring this field, during which time we have accumulated technical expertise. We have built up experience through slow, steady persistence, and that has given us advantages that we will draw on as we make a determined move forward to tap this new field.

The second initiative we have been implementing relates to enhancement of added value. We collaborated with TOYOTA AUTO BODY CO., LTD. to jointly develop "i-ESTA100TE," a system that uses electrostatic force for automobile paint finishing. By using only electrostatic force, rather than the air that was conventionally used, to atomize paint and coat vehicle bodies during automobile paint finishing, 100% coating efficiency can be achieved. As a result, it is also possible to reduce the environmental burden.

In another move, aimed at solidifying the Company's position in the global market—one of our basic policies under the Mid-Term Business Plan—we acquired a stake in Nicomac Clean Rooms Far East LLP, a company that manufactures and sells high-quality clean room panels in India. By combining Nicomac's panel manufacturing and installation technologies with our air-conditioning system technologies, we will strengthen our ability to respond to the market for pharmaceutical manufacturers' clean rooms, which is set to attract increasing demand in future.

I believe it is of the utmost importance to continuously develop and improve on the technologies that support Taikisha, namely those relating to plant factories, paint finishing, and air-conditioning. When we try something new, we will not always be rewarded with immediate results, but I think it is important not to give up, and to persevere regardless. I often tell our front-line employees that time spent biding our time gives us advantages; because, even if other companies try to emulate us, they cannot easily make up the time we have invested. Moreover, new endeavors are inevitably accompanied by failures, but I see no need to fear failure, because failure is a source of new observations, which lead to growth.

Fortunately, Taikisha has the underlying strength to allow time for trial and error. Our Mid-Term Business Plan covers a relatively short period of three years, but its purpose is to check progress as part of a longer process. In actual fact, I think it is important to think of the overall process as spanning at least 10 years, and to proceed one step at a time.

Becoming a company that grows with its human resources

Our business environment is becoming more uncertain than ever. To gain a competitive advantage, considering the industrial structure and social environment in 10-20 years' time, we will reinforce our current business model and draw up a masterplan for our business portfolio. In conjunction with this, the key mission of the Board of Directors at the present time is to reconsider Taikisha's mission and role within society, and the ideal form the Company should take.

In-depth consideration of these major themes requires thinking that goes beyond what internal personnel alone can provide. In the current fiscal year, therefore, we brought in two new Outside Directors, thereby enhancing the composition of the Board of Directors, ensuring its effectiveness, and further promoting its diversity and expertise.

When open discussion involving the four Outside Directors takes place in meetings of the Board of Directors, a stream of differing opinions results, and these opinions are constantly surprising. Presumably this is because the Outside Directors gained their professional experience in various different work environments. Even when discussing the same event, the way the individual Outside Directors see things, and their thought processes, are totally unlike.

Given current global trends, the Taikisha Group's very survival depends on the Company taking ESG (environmental, social and governance) considerations and the SDGs into account to pursue sustainability-oriented business management. I want our Outside Directors to point out issues that those of us inside the Company are unlikely to notice and push us to execute our strategies so that we can put our corporate philosophy into practice together. This corporate philosophy comprises two elements: (1) establish a company which can continuously grow and contribute to society, and (2) establish an attractive company.

It is precisely because we are an engineering company always pursuing new technologies that our best asset is human resources. Even if we try to aim for growth by developing new businesses, our ideas will not progress beyond the drawing board without outstanding personnel at the vanguard waving the flag.

When I think about our human resource development going forward, the key word to bear in mind is "diversity." We want the human resources we hire, develop, and send out to be as diverse as possible. We have developed some outstanding human resources among our overseas personnel as well; these people could provide feedback to Japan, and it would be a good idea to increase interaction between personnel in Japan and overseas. We expect human resources with a whole range of experiences to generate new ideas that can grow into something bigger.



Meanwhile, it is also essential to make working within the Company easier for employees. As one of our initiatives to secure human resources, we improved a telework system, achieving recognition under the “2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program” (White 500). We are focusing on four health-promoting measures—“reduction of long working hours,” “improvement of lifestyle habits,” “improvement of mental health,” and “support of work-life balance”—setting specific measures and indices, and thereby promoting efforts towards health management so that all employees can work happily and in good physical and mental health.

Turning to digital transformation, the construction industry has been relatively slow to evolve in this area, and there is still plenty of room for progress. One of our material issues is technological innovation and productivity improvement leveraging ICT, and further progress can be expected not only in the operational sphere, but also in the business sphere. If we can do this in the right way, it should help to set us apart from other companies.

In the current fiscal year, we established the Digital Strategy Committee to take a bird’s-eye view in deliberating on the masterplan for our digital strategy from two perspectives: optimal strategies in the medium- to long-term, and optimal strategies for the Group as a whole. We will address these themes in detail as we proceed with drawing up our next Mid-Term Business Plan.

Creating the air of the future

Time slips past in the blink of an eye. We are currently engaged in detailed discussions to be made public in our new Mid-Term Business Plan, while also continuing to explore medium- to long-term themes that we need to tackle in the 10 years thereafter.

In order to do so, we make predictions about the future, but we know that these are merely predictions, and we do not expect them to always be right. However, we should accept that further progress cannot be expected if we simply carry on with our existing business model. We therefore intend to set targets in a variety of business fields and ask ourselves how widely we can extend our capabilities as a means of seeking to affirm just how far we can broaden our reach.

We are currently planning the construction of a combined facility we are provisionally naming the Digital Twin Center, which will function as both a cutting-edge development center and as a hub equipped to display products and enable presentations in order to disseminate information about the Company and communicate with customers. We repeatedly asked those in charge of the planning to define precisely what they want to build, and each time they refined their concept, with the result that a genuinely astonishing facility is now being created. It seems to me that this has established another new path toward our evolution.

The home page of our corporate website states the following:

To preserve clean air for the children of the future, Taikisha must strive to reduce environmental impacts and realize a sustainable society.

We intend to take these words seriously and educate ourselves constantly to continue making progress in this regard.

Value Creation Process

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

Environment surrounding Taikisha

Social issues	<ul style="list-style-type: none"> • Climate change • Energy/resources/water issues
Social trend	<ul style="list-style-type: none"> • Rapid progress of digital technologies • Changes in the concept of cities (emergence of smart cities) • Change in demographics • Smartification of production lines • Increased risk of pandemic

Utilization of management resources (INPUT)		Strengths and characteristics of Taikisha
Financial capital	Solid financial foundation <ul style="list-style-type: none"> • Net assets 126.3 billion yen • Equity ratio 52.9% 	<p>Building HVAC System business sector</p> <p>Utilization of environmental load reduction technology for optimal control of energy, air and water (temperature and humidity, air current, cleanliness, etc.)</p> <p>Provision of solutions centering</p> <p>Paint Finishing System Business</p>
Human capital	Diverse human resources to support competitiveness Development and enhancement of human resource measures <ul style="list-style-type: none"> • Number of employees (consolidated) 5,042 people 	
Manufactured capital	<ul style="list-style-type: none"> • Number of business offices and factories Japan 27, Overseas 52 • Number of customer service centers Japan 77, Overseas 25 • Capital investment 2.4 billion yen 	
Intellectual capital	Solid technology and know-how accumulated over 108 years of history Strength in industrial HVAC System business (accumulated based on dedication to individual client) Top global achievement in the industry Extensive platforms to convert tacit knowledge into formal knowledge <ul style="list-style-type: none"> • R&D expenses 11.2 billion yen • Number of patent held (Japan and overseas) about 187 cases 	
Social/relationship capital	Global network with 23 countries worldwide Trusting relationship and cooperation with stakeholders R&D framework that addresses the issues of the clients or society and leads to open innovation <ul style="list-style-type: none"> • Operating in 6 countries (U.S., China, Thailand, India, Italy and Japan) 	
Natural capital	Efficiently utilize energy/resources Use "air," a natural resource	

- Food shortage
- Increased health and medical consciousness
- Increased demand for clean water and air and infection prevention

For realization of sustainable society

Economic value

Creation of economic added value and redistribution to stakeholders

Social value

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

Environmental value

Addressing clients' environmental issues and pass on the rich global environment to the next generation

Industrial HVAC System business sector

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

Unique technical capabilities characterized by the plant factory

on climate change measures

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

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

Results of business activities (OUTPUT)

Financial results

- Ordinary income **12.2 billion yen**
- Dividend payout ratio **37.0%**
- ROE **7.2%**
- Cash flows from operating activities **900 million yen**

Energize human resources

Exhibition of creativity and energy
Creation of pleasant working environment
 • Recognized under the "2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)"

Enhance competitiveness

Promote innovation
 • Development of energy-saving/cost reduction/environment-responsive technologies and automation technologies
 • Expansion of the plant factories business, establishment of wholly owned mass production factories

Environmental solution

Abundant transactions (domestic)
 • **1,412** clients and **1,703** subcontractors

[Air-conditioning System Business]
 Promote reduction of CO₂ emissions through in-house design projects

[Paint Finishing System Business]
 Promote reduction of CO₂ emissions per manufacturing automobile

For Taikisha's specific "value creation" initiatives, please see the special features on [pp.15-18.](#)

Value Creation Feature **1**

Realization of energy conservation at manufacturing sites

Evolving Cleanroom Technology

P15

Value Creation Feature **2**

Utilization of digital technology in automobile painting facilities

Towards Realization of Smart Factories

P17

Evolving Cleanroom Technology

Cleanroom where temperature, humidity and air pressure are controlled and dust in the air, organic compounds and microorganism are reduced. This system is widely used at various manufacturing sites, including manufacturing facilities of electronic components, precision machinery parts, chemicals and pharmaceutical goods. Recently, environmental awareness has gained increased attention and we are stepping up efforts to reduce energy consumption in cleanrooms. Taikisha has contributed to reduction of environmental load at clients' production facilities by introducing mini-cleanroom environments which can be operated on less energy.



History of Taikisha's cleanroom

In the company's early years in the 1930s, amid the growth of the Japanese textile industry and heightening demand for air conditioning systems for spinning mills, Taikisha was involved in many design and construction works for factories, refining industrial HVAC system technologies.

In the high economic growth period in the 1960s, Japan experienced a flurry of plant constructions in the camera, film, electronic devices and pharmaceutical industries as well as the textile industry, and the Company undertook a number of installation works of air-conditioning systems. The highly clean environment to prevent product defects was required. Facilities with highly purified air known as "cleanrooms" were rare in Japan in the 1950s. However, starting with construction at a film plant in 1954, the Company has undertaken construction of cleanrooms at factories for electronic devices and pharmaceutical goods, enhancing its technological capabilities.

In the late 1980s, with the rapid spread of information technology, the density of integration of semiconductors, the core of IT devices, increased in industrial fields. In the manufacturing process of semiconductors, a highly clean environment is vital, requiring facilities with even higher performance. This time was called "the era of super cleanrooms."

Under these circumstances, air-conditioning systems were required to maintain high levels of cleanliness and even distribution of air pressure, while achieving energy-saving, safety, space-saving, shortening of the construction period and cost reduction. Taikisha responded to these demands of the industry and carried out research and development of systems, products and installation technologies. Now, the cleanroom technology that maintains highly clean environments and precisely controlled temperature and humidity is the company's strength.

Issues and measures towards realization of a carbon neutral society

Japanese industries are accelerating their energy-saving efforts to achieve carbon neutrality by 2050.

Cleanrooms used in the manufacturing process of semiconductors and other precision devices are composed of various systems such as air-conditioning systems and heat source equipment and filters in order to maintain high cleanliness and precise control of temperature and humidity. Because they consume a lot of energy in the plant, energy-saving of cleanrooms have become our new challenge in recent years.

In order to tackle this issue, Taikisha is supporting its clients by implementing a mini-cleanroom environment, a zone within the facility that has a higher level of cleanliness, instead of making the entire area ultra-clean. By minimizing the zone, energy-saving can be achieved as well as reduction of initial cost and operating cost for facility, improving the product quality and yield. The Company also proposes energy-saving measures for the entire factory such as air-flow improvement, emission reduction, waste heat management, and installation of heat source systems utilizing outdoor cold energy.

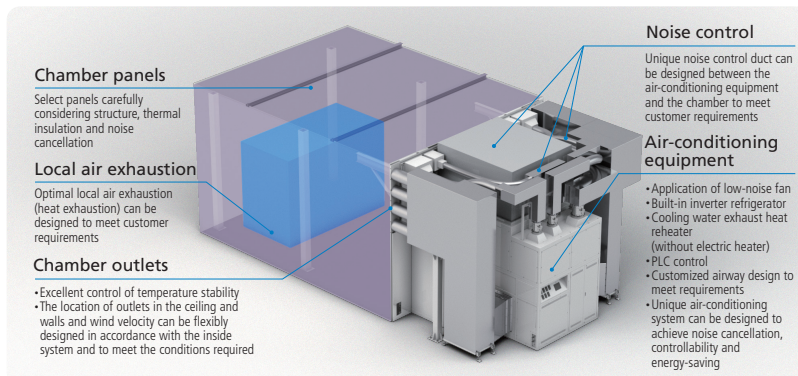
What we can do with our technology—Two ways of mini-environment

1 Production environment for precise devices and semiconductors

● Ultra-precise temperature control chamber: solutions extending beyond the construction industry and into the device manufacturing realm

The ultra-precise temperature control chamber provides a production environment for semiconductors and ultra-precise processing, measurement and testing. In addition to precise temperature control at the level of 1/100 °C, it provides high-performance noise control (vibrations control) using our unique acoustic analysis software and acoustic facility.

Responding to customer demand, Taikisha has provided uniquely designed solutions that flexibly change chamber structure, quality of materials and air-conditioning systems to meet customers' required environmental conditions such as temperature and humidity, wind velocity, and space constraints.

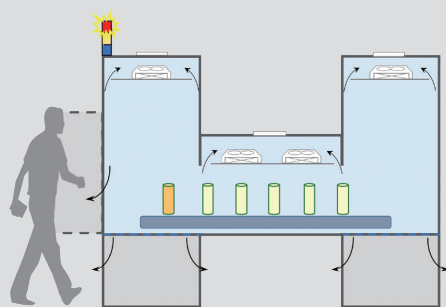


2 Production environment for lithium-ion battery

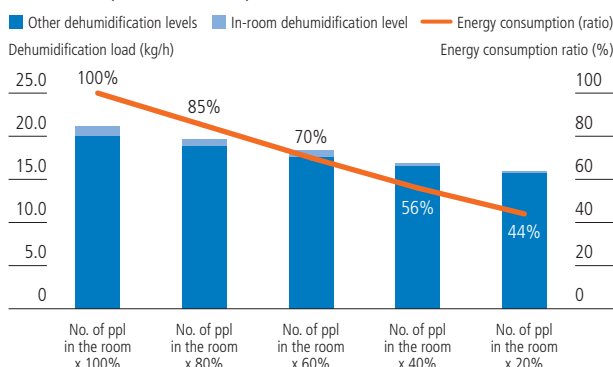
● Low-dew-point room: local low-dew-point control introduced to achieve environments with low humidity

Our low-dew-point room can maintain ultra-low humidity in the minimum required area. We aim to minimize energy consumption by developing systems to flexibly adjust to the change of loads according to the time of the day and the movements of people and goods. Beyond maintaining low dew points in localized areas, we are developing air-volume control systems for dehumidifiers so that low dew points can be maintained during maintenance while the door is open. The system can be applied for production of “all-solid-state batteries” which is expected to be in demand with the shift to electric vehicles.

Production process of lithium-ion battery (illustration)



● Energy-saving efficacy of low-dew-point room with load-following function (reference value)



Future outlook

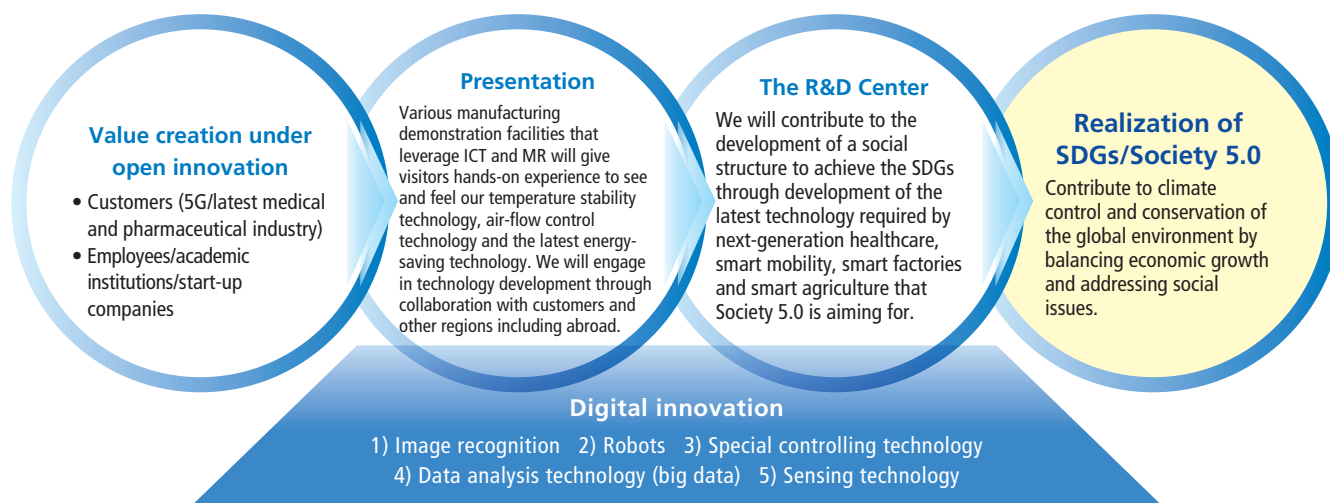
We established a testing room in our Research and Development Center for development and testing of mini-environment technology. We will be setting up this room to utilize it as a presentation room for demonstrating its capabilities, safety and energy-saving efficacy to our customers.

In addition, we are utilizing the testing room to develop technologies for the future. Even though various information can be used for air-conditioning control (energy-saving, partial application, high precision) with development of IoT technology, there is always a need for installation of measuring equipment in a room space. For that purpose, we are developing technology to assume cases where measurement is not possible (digital twin technology), and aim to contribute to a low-carbon society by implementing the technology.

Development at our new Research and Development Center to capture future needs

Taikisha is planning to open a new Research and Development Center in 2023. The new Research and Development Center will promote the development of innovative technologies, such as neural networks, by creating value through open innovation with customers, academic research institutions, and start-up companies, and will achieve development that anticipates the needs of customers and society.

Concept of the new R&D Center The Center for technology development to address future needs of customers and society



2

Towards Realization of Smart Factories

Optimization of production conditions and provision of stable product quality using IoT/AI technology

The manufacturing industry is required to address various issues including technological innovation associated with digitization, the decreasing labor force, and the shift to a carbon-neutral society. In order to address such issues, "smart factories," which improve productivity and quality utilizing IoT and AI, are gaining attention.

Smart factories collect and analyze data from production lines and, with its self-learning system, improve production line, optimize operations and improve product quality.



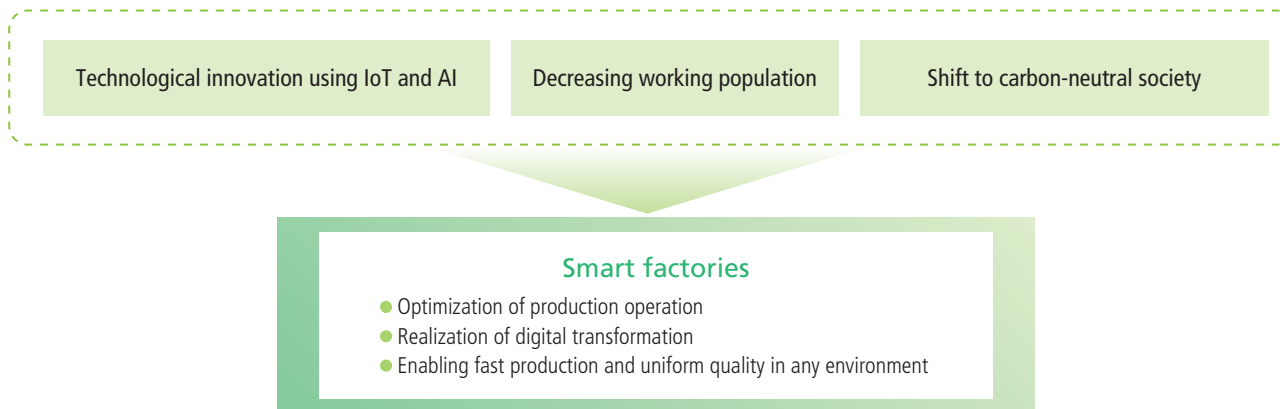
Increased demand for smart factories

Smart factories are facilities that enable improvement of the production process and streamlining of operations utilizing and analyzing data with latest technologies such as IoT and AI.

Since the German government advocated the project "Industry 4.0" aiming for transformation in manufacturing in 2011, smart factories have gained increased attention globally.

Japan was not an exception. More companies are taking initiatives in smart factories to address issues such as the decreasing population, aging population, and realization of a carbon-neutral society. Also, in recent years, as a prevention measure under the COVID-19 pandemic, companies are introducing remote communication and automation of operations utilizing digital technologies to continue operation while avoiding contact and crowding among people.

Issues in the manufacturing industry



Solving issues at production sites with development of i-Navistar

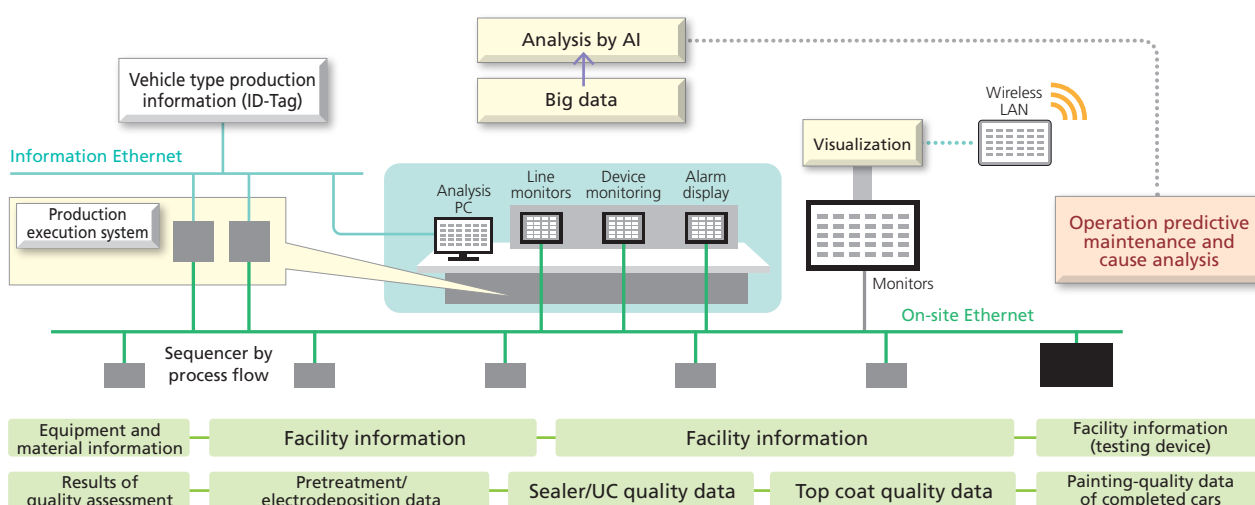
Taikisha has long been engaged in the design and installation of large-scale painting facilities for automobile manufacturers in Japan and around the world since its foray into the industry in the 1950s, and has achieved high-quality painting. Extended knowledge and know-how regarding the entire painting process gained through provision of plant engineering has become the company's strength.

"i-Navistar" is a system enabling predictive maintenance of equipment and cause analysis of quality issues based on our knowledge and know-how and by utilizing IoT and AI.

i-Navistar tracks various types of time series data, such as facility/equipment operations information and process environment conditions, for each product according to vehicle type production information on automotive paint lines, and identifies the operating status of an entire production line on a real-time basis. In addition, the system detects signs of operational anomalies and analyzes the causes of defects by linking and analyzing inspection and quality data on various products produced.

Thanks to the introduction of i-Navistar, the holistic optimization of conditions in product lines and further stabilization of product quality have been achieved efficiently and in a short time. We believe that it not only dramatically improves productivity, but will address issues regarding lack of experts at production sites.

- Overview of i-Navistar



Functions of i-Navistar

1) Operations analytics system

Automobile paint finishing lines are composed of various equipment. When equipment fails, the production line could be stopped for a long time, causing a huge loss.

Using sensing, analysis software, output tools, and network, the operations analytics system predicts the timing of these failures and give alerts before abnormality occurs.

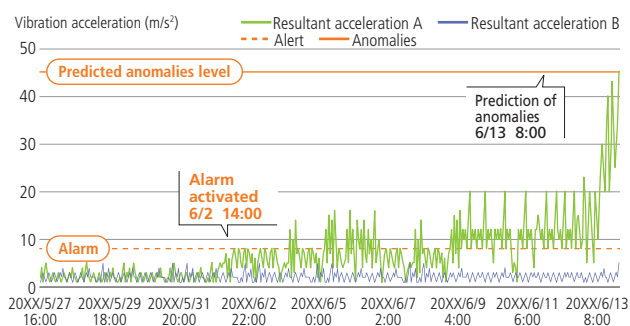
By predicting failures, the system helps prevent operational stoppages and achieve stability.

2) Quality analytics system

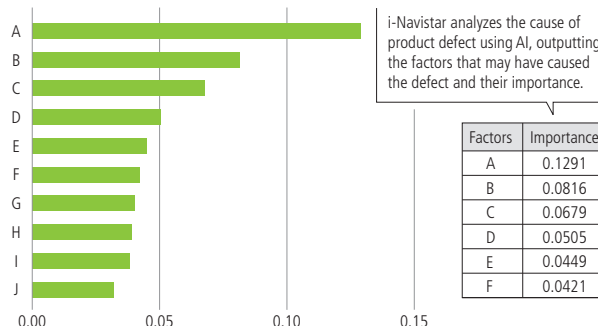
When a quality defect occurs in a product, engineers would previously analyze data and carry out repeated testing to locate the cause, which is time-consuming.

The quality analytics system enables visualization of the production history by linking vehicle type production information and painting quality at the time of production (painting material and equipment conditions) and storing the data as production history for each product painted. Furthermore, by utilizing AI, the cause of quality defects can be predicted and attributing factors are output.

- Examples of prediction of motor failure



- Example of cause analysis when a product defect occurs



Development of the system for the future

Regarding i-Navistar, the cause analysis system for equipment operation has started to be deployed domestically and internationally. In order to realize smart factories and to promote application of i-Navistar, the Company is engaged in development of an energy management system and digital twin application.

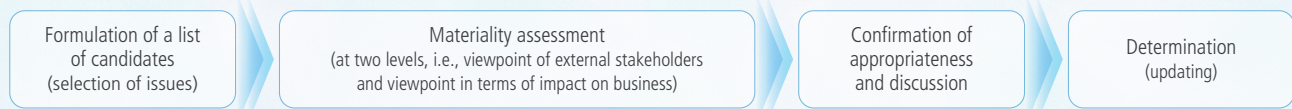
In particular, we are aiming to build a system that can monitor and manage operation status and quality information in a virtual space by applying digital twin technology. This system will collect product information from factories, linking it to the virtual space, and virtually simulating the factory facilities.

The features of this system not only improve management accuracy by enabling real-time monitoring of production status, but also enable detection of signs of abnormalities before they occur using information from sensors, management of abnormalities when they occur, and simulation of changes in production status.

The system can be used to supervise operations from remote locations and improve production operations.

Materiality determination process

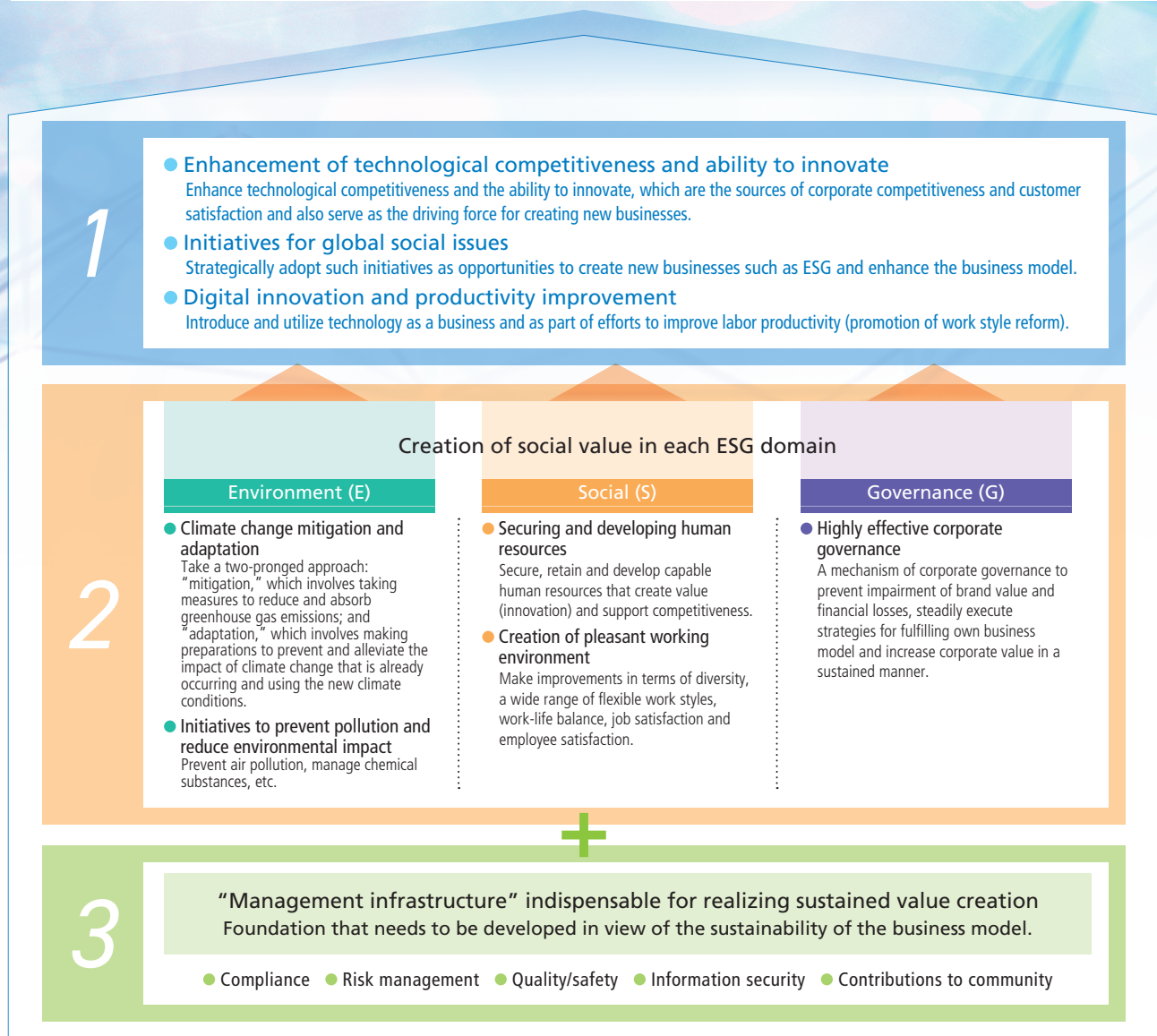
Taikisha specified the candidate material issues by broadly taking into consideration the International Integrated Reporting Framework, the viewpoint of Socially Responsible Investment (SRI), global risks, Sustainable Development Goals (SDGs) and other new issues surrounding sustainability, in addition to various conventional frameworks and guidelines related to social responsibility from an all-encompassing viewpoint. Taikisha quantified and visualized weighting from its clients' perspectives based on the materiality to its major clients, in addition to weighting as recognized by society in general based on external frameworks and guidelines in terms of weighting evaluation by external standards. Last year, the Company implemented a CEO succession plan as well as prepared a Directors' skill matrix, and the process was carried out by applying the materiality concept that was reviewed last year.



Materiality scheme

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

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



Towards realization of sustained value creation



With the ever-changing business environment, the Company recognizes that extending the current business model is not sufficient to respond to the changes in demand and to gain a competitive advantage, considering the industrial structure and social environment in 10-20 years. It also recognizes the necessity to reinforce the business model, strategically taking into consideration external trends and to enhance the value of the business portfolio as a whole. With these considerations, the Board of Directors has been discussing long-term strategies since FY2019. In FY2021, the first open discussion was held on July 10, 2021.

The Company further promoted diversity and expertise within the Board of Directors by appointing two new Outside Directors. Taking advantage of the

expertise and knowledge of each board member, the Board of Directors discussed various topics including climate change, energy issues, natural resources, health and medical issues, food issues, space, digital innovation, ESG and SGDs, as well as future prospects and the market, etc.








The board is planning to have a second discussion in the fall. The Company is aiming to communicate a consistent message by linking its long-term vision and long-term strategy with next Mid-Term Business Plan to promote sustained growth and increase corporate value in the medium to long term.

Initiatives for global social issues—initiatives for SDGs (Sustainable Development Goals)

Main SDGs to which the Taikisha Group contributes through its businesses

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

● Examples of Taikisha's initiative to contribute to SDGs

	Impact on society	Taikisha's initiatives
Goal 2	Sustainable Food and Agriculture 	<ul style="list-style-type: none"> Contributing to the promotion of sustainable agriculture through our plant factory business to stably produce and supply food (Stable planned cultivation for 365 days regardless of the weather / Pesticide-free cultivation in a clean environment)
Goal 3	Ensuring Healthy Lives and Promote Well-being for All at All Ages 	<ul style="list-style-type: none"> Contributing to achieve the optimal environment for the process of pharmaceutical manufacturing, by leveraging our unique and advanced room pressure control technology as well as our past experiences and know-how Contributing to the prevention of COVID-19 infections using HVAC control technology Taikisha has developed "Air Infection Block Plus" (AIB+), a transportable high-performance air barrier unit for healthcare workers that can reduce the risk of virus infection Taikisha has developed "Barrier Cube," an emergency shelter that can reduce the risk of virus infection Contributing to reducing air pollution by using exhaust aftertreatment technology to neutralize VOCs
Goal 7	Securing Access to Clean Energy 	<ul style="list-style-type: none"> Developing and promoting energy efficient technologies Installing renewable energy, e.g., solar power, wind power, hydro power, geothermal, solar thermal and biomass Adopting next-generation energy such as hydrogen Promoting the development of technology such as lower temperature of waste heat recovery, downsizing and lower baking oven temperature in automotive paint finishing facilities.
Goal 9	Promoting Sustainable Industrialization 	<ul style="list-style-type: none"> Promoting the development of new solutions using IoT and AI Developing HVAC systems to control circulating air based on the data of production unit operating condition, manpower and indoor environment with integration of innovative ICT technologies for smart factories and smart buildings Developing and commercializing systems using IoT and AI to analyze the cause of defect occurrence and shutdown in paint finishing factories Applying robot technology in the automobile paint finishing system to the automation of various processes Developing and commercializing paint finishing systems with high coating efficiency (Aiming for 100% coating efficiency)
Goal 11	Realizing Sustainable Cities and Human Settlements 	<ul style="list-style-type: none"> Constructing sustainable and robust building utilities for healthy and comfortable living for people Contributing to increase the longevity of buildings
Goal 12	Securing Sustainable Consumption and Production Patterns 	<ul style="list-style-type: none"> Reducing construction waste in construction sites, and managing chemicals appropriately Reducing the release of pollutants into the air, water and soil Proposing and supplying building utilities with low environmental impact, and promoting green procurement Reducing food loss by producing long-life vegetables at plant factories
Goal 13	Specific Measures for Climate Change and Its Impacts 	<ul style="list-style-type: none"> Contributing to a carbon-neutral society by aggressively reducing CO₂ emissions during the operational phase of our building utilities under our long-term CO₂ reduction target [Green Technology System Business] Setting 2013 as a base year, we set our goal to cut CO₂ emissions by 25% by 2030 and 80% by 2050 [Paint Finishing System Business] Achieving net-zero CO₂ emissions per one automobile by 2050. (Based on our own energy estimation models of automotive painting lines) Promoting our plant factory business as part of resilience to climate change and natural disasters

Taikisha Group's Mid-Term Business Plan (from FY2019 to FY2021)

Philosophy Scheme

Mission Statement "Customers First"

We refer "Customers" to society in general. Our mission statement "Customers First" refers to the spirit of earning the ongoing trust of "Customers." In order to achieve this, we as a company and as individuals act in a way to generate benefits and happiness for all our customers, and on our conscience, we are committed to do our best in every aspect.

Corporate Philosophy

1 Establish a company which can continuously grow and contribute to society

- 1) We strive to grow continuously by enhancing our added values; thereby, bringing prosperity to our customers and business partners as well as to our employees.
- 2) We strive to create rich environment and evolve the industrial society through our engineering expertise that meets the needs of the society, in order to achieve our ultimate objective to contribute to the society.

2 Establish an attractive company

- 1) We aim to be a motivation-oriented company where the employees can demonstrate creativity and vitality through their work responsibilities.
- 2) We aim to be a company having the corporate culture in which all employees work in close cooperation to achieve the goals of the company, with the spirits of mutual trust, collaboration and rationality.
- 3) Through the expansion of our expertise in "Energy, Air, and Water," we aim to become a unique company in all aspects of corporate management, including engineering, marketing, and human resource development.

Mid-term Business Plan—Basic Policy, Direction and Strategies

Basic Policy	Direction	Strategies
<p>Solidify the Company's position in the global market</p> <p>Increase competitiveness and profitability and aim to solidify the Company's position in the Japanese and overseas building equipment industries.</p>	<p>Reinforce business base</p> <p>Enhance competitiveness</p> <p>Improve profitability</p>	<ul style="list-style-type: none"> ● Build a well-balanced business portfolio: Respond to changes in the environment and economic fluctuations ● Enhance added value: Energy-saving-, cost-saving- and environment-responsive technology and automation technology, etc. ● Upgrade and utilize laboratories: Reinforce technological development capabilities and strengthen proposal capabilities through the visualization of technology ● Make priority allocations of management resources into the growth markets. ● Enhance productivity: Improve and propagate onsite construction methods and business processes and utilize IT, etc.
<p>Strengthen initiatives for the future</p> <p>Look ahead to future changes in the market environment and promote the development of systems and structures that will turn those changes into business opportunities.</p>	<p>Expand business domains</p> <p>Environment response</p>	<ul style="list-style-type: none"> ● Deepen existing major business domains ● Expand new businesses: The plant factory business, the automatic painting business for large vehicles other than automobiles and other businesses ● Reinforce capabilities to solve clients' environmental issues: Reduction of greenhouse gas emissions and environmentally hazardous substances by leveraging the technological expertise cultivated in the HVAC business
<p>Build an attractive company and establish a solid management base</p> <p>Reinforce human resource strategies that will make the Company more attractive and the corporate governance structure which will increase society's trust in the Company.</p>	<p>Human resource strategies</p> <p>Governance</p>	<ul style="list-style-type: none"> ● Secure human resources: Measures to make the Company more attractive including the enhancement of systems to enable flexible work styles, improvement of benefits and reduction of working hours ● Firmly establish the Career Planning Scheme: Raise the capabilities and enhance the motivation of employees ● Reinforce corporate governance: Reinforcement of the management oversight functions of the Board of Directors and capital cost-conscious management ● Reinforce the internal control systems both in Japan and overseas

Long-term Vision

“Aim to become a global corporate group that creates an optimal environment through unique engineering”

Technology

Aim to become an engineering group that meets the diverse needs of clients through energy-, air- and water-based technology.

Environment

Solve clients' environmental issues with innovative solution technology and contribute to passing on the rich global environment to future generations.

Human Resources

Respect individual creativity and diversity, and value the corporate culture which allows employees to experience one's growth and the joy of working.

Results of the Fiscal Year Ended March 2021 (examples)

- Secure stable suppliers and business partners
- Maintain a sound financial base

- Utilize IoT/AI: Promote the development of new solutions
- Enhance the company's presence through stepped-up PR

- Reinforce the project management structure

- Expand business areas into new countries
- Promote alliance with overseas group companies: Reinforce capabilities to respond to the needs of overseas clients

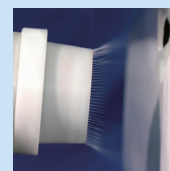
- Respond to social needs such as SDGs- and ESG-related needs through business operations: Pursue these areas as new business opportunities

- Reinforce human capital and organizational capabilities through the utilization of diverse human resources
- Secure employees in line with the situation of each overseas group company

- Improve the global risk management system: Legal risks, information security, compliance, etc.

1. Realization of automatic paint system designed to achieve a 100% coating efficiency

The Company jointly developed “i-ESTA100TE” with TOYOTA AUTO BODY CO., LTD. “i-ESTA100TE” is an electrostatic automatic painting system that uses electrostatic force to atomize the paint. The painting system achieved difficult-to-achieve 100% transfer efficiency, enabling simplification of the paint booth, saving energy and reducing environmental burden.



2. Further expansion of the plant factory business and construction of our first mass production factory.

In September 2021, the Company shipped the first load of lettuce from its own mass production factory. The Company aims to build a new brand as a comprehensive agricultural company engaged in construction of plants to production and sales of vegetables.



3. Adoption of telework system and recognition under the “2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program” (White 500)

➡ Telework P.55 ➡ Health Management P.56

We will continuously promote these measures to make the Company more attractive including the enhancement of the systems to enable flexible work styles, as well as the improvement of benefits and reduction of working hours.



Numerical Targets

Targets for the fiscal year ending March 2022

Orders received	Net sales of completed construction contracts	Ordinary income	Profit attributable to owners of parent	Return on equity (ROE)	Investment plan
265 billion yen	260 billion yen	16 billion yen	10 billion yen	8% or higher	20 billion yen

We will aim for return on equity (ROE) exceeding capital costs and strive to increase corporate value.

Orders received

135.5
billion yen

Composition ratio
67.6%

Green Technology System Division

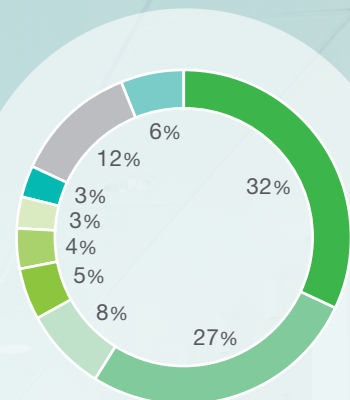
We aim to further increase orders by allocating management resources to the prioritized sectors and proactively proposing solutions to customers.

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

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

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

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



- Electrical, electronic and audio machinery manufacturing plants
- Business and government offices
- Chemical and pharmaceutical plants
- Technical research facilities and space development facilities
- Food, fishery, and livestock product plants
- Other plants
- Precision machinery and medical equipment plants
- Others
- Uncategorized orders-received by small-scale affiliates

By market segment

Orders received

By region

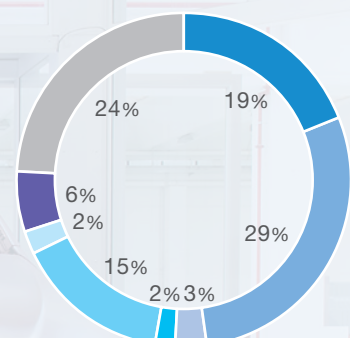
Paint Finishing System Division

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

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

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

In recent years, we pursue increasing painting efficiency to 100% and are making efforts to minimize the amount of paint used and VOC emissions. In addition, we contribute to the energy management of clients.



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

Major countries or regions

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

64.9
billion yen

Composition ratio
32.4%



Energy-saving air-conditioning system

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



Cleanroom

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



Pharmaceutical manufacturing-related

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



VOC treatment and odor control systems

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



Vege-factory

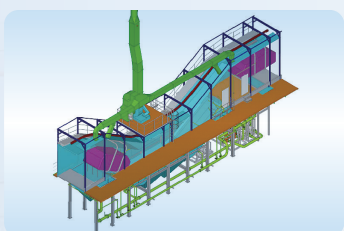
A fully artificial hydroponic plant factory which ensures cultivation with the optimal biological environment for the plant by precisely controlling the lighting, temperature, humidity, nutrient solution and other elements. It is the world's only facility that can produce crisphead lettuce in a large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



Facility renewal

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

Technologies and services provided by Taikisha



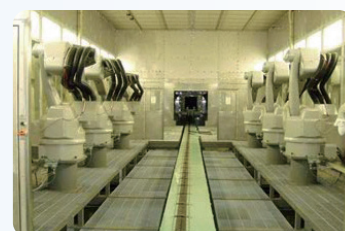
Pretreatment system

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



Electrodepositing system

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



Paint booth

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



Robot paint system

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



Conveyor system

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



Aircraft and railway car painting

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



From the left, Koji Kato, Masasuke Kishi, Kiyotaka Fuke, Hirokazu Hikosaka, Nobuko Mizumoto and Tatsuo Yamauchi

Corporate Governance and New Value Creation

Taikisha aims to create new value to respond to the demands of society to achieve long-term growth. At the same time, the Company is making ongoing efforts to improve the effectiveness of corporate governance and build a management structure that contributes to the enhancement of corporate value. President Kato held a round table discussion with four Outside Directors including two newly appointed Outside Directors, and talked about the future direction of the Company.

<Attendees>

Representative Director,
President Corporate Officer

Koji Kato

Joined Taikisha Ltd. in 1978. Previously worked as Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division, and General Manager, Engineering Planning Dept., Green Technology System Division; Chief Executive, Corporate Planning Headquarters; Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR; Representative Director, and Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters. In the current position since April 2019.

Outside Director

Hirokazu Hikosaka

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

Outside Director

Kiyotaka Fuke

Mr. Fuke had worked as Audit & Supervisory Board Member since 2017 and was appointed as an Outside Director in 2019. He has served as a manager of a leading life insurance company for many years, and has abundant experience and a high level of insight regarding internal control, governance, human resources development, personnel and labor management, etc. Leveraging his experience as a corporate leader, he chairs the Board of Directors and the Nomination Advisory Committee since 2020.

<Facilitator>

Deloitte Touche Tohmatsu LLC
Partner CPA

Tatsuo Yamauchi

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

Outside Director

Masasuke Kishi

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

Outside Director

Nobuko Mizumoto

She joined a leading business corporation as a technical employee and worked as a researcher. In 2018, she became its first female director. She has abundant expertise and experience regarding the DX sector, operational reforms, human resources development, etc. In June 2021, she was appointed as an Outside Director of Taikisha Ltd. She also serves as a member of the Advisory Committee for Natural Resources and Energy at the Ministry of Economy, Trade and Industry.



Please see the pages given in the right column for details.

● Management Structure/Careers of Directors

P.33-34

Round table discussion held: August 10, 2021

New Outside Directors' Impression of Taikisha

Yamauchi: Today, we would like to talk about initiatives for corporate governance. Also, I would like to hear your thoughts on how Taikisha will create value from a long-term perspective.

To begin, I would like to ask you, Director Mizumoto and Director Kishi, the newly appointed Outside Directors. Director Mizumoto, you are the first female director of the Company. I would like to ask your honest impression of Taikisha, including diversity and inclusion.

Mizumoto: I don't think much about being a woman, but in the construction industry, I have the impression that Taikisha is a company that has an intention to change, and I believe my appointment as an outside director is a reflection of the company's such determination. Although I have only spoken to a limited number of female employees in the Company, I would like to contribute to the change the Company is willing to make, leveraging my experience working in a male-dominant industry for a long time.

Yamauchi: Director Kishi, how about you?

Kishi: Previously, I was working in the telecommunications and IT industry, which is very competitive. Various businesses and technologies are constantly emerging and companies are required to keep pace. Now that I am part of Taikisha, I feel the Company has a tailwind of growth behind it. The Company deals with energy, air and water that are directly related to the global trend of ESG/SDGs. I was also inspired by the fact that all Directors and Audit & Supervisory Board Members have been continuously engaged in discussion to seek future business opportunities. I was impressed by the Company's logical and straightforward way of doing business.

Yamauchi: Thank you. When it comes to considering business in response to the expectations of society, the Company actively seeks opinions from the Outside Directors, and that gives you the impression that the Company is striving to change. Director Mizumoto, could you share some advice on new business development and operational reforms based on your experience?

Mizumoto: Mr. Kishi mentioned the trend of ESG/SDGs. For companies to have longevity, they must keep changing, and when there is change in the trends of society, these present opportunities for companies to grow. I would like to support the reforms the Company is working on under President Kato's leadership, by giving advice and suggestions from my own experience.



Revitalization of the Board of Directors and Establishment of Advisory Committees

Yamauchi: Since the Corporate Governance Code was introduced in 2015, Taikisha's governance has changed significantly. President Kato, what do you think of the changes the Company has made?

Kato: In 2015, I took part in the implementation of the Corporate Governance Code as Chief Executive of the Administrative Management Headquarters. The Company's initiatives started before the implementation, which began with us asking, "What exactly is corporate governance?" Until then, the construction industry was a relatively stable industry with little change, and we started to feel sense of urgency that if we stayed as we were, we would be left out in society. As part of the initiatives for enhancement of governance, we increased the number of Outside Directors. Since then, the Company has been supervised and received advice from an external point of view, which I expected would stimulate and change our awareness in the Company. I feel the Company's awareness of social movements has been elevated in accordance with the enhancement of governance in the last six years.

Yamauchi: Director Fuke, as Outside Director, you have chaired the Board of Directors since the previous fiscal year. In what ways do you think governance at Taikisha has changed?

Fuke: Since last year, I have tried to revitalize the Board of Directors by encouraging the attendees to have open discussions. Compared with four years ago when I was appointed as Outside Director, Executive Directors are now discussing more freely how they think the Company should be, irrespective of their positions as representatives of divisions and headquarters. On the other hand, Outside Directors are required to support "protective" governance for risk avoidance as well as governance



that supports new initiatives to enhance corporate value. I believe active discussions among Directors and Audit & Supervisory Board Members, both internal and external, have created synergy. Now in the second year, we have experienced new movements with the change in industry and the impact of the COVID-19 pandemic, as well as ESG/SDGs movements. Under such circumstances, having Mr. Kishi and Ms. Mizumoto as new Outside Directors is reassuring, as they have expertise in technology development and IT fields. President Kato and other Executive Directors are all open-minded and listen to us Outside Directors. I find it rewarding but feel responsible at the same time.

Yamauchi: As the Chairman of the Board of Directors, is there something you aim to do or any particular challenges you would like to address?

Fuke: In order to have constructive discussions at meetings of the Board of Directors, as the Chairman, I try to deepen my understanding on the agendas by attending Management Meetings and listening to the explanations from the department in charge. In addition, I think it is important to exchange opinions on the agendas and share the understanding of the discussion points with Outside Directors and Audit & Supervisory Board Members beforehand. Also, I make sure that the agendas were thoroughly discussed in the advisory committees, which mainly consist of the Outside Directors, and other related committees, so the meetings of the Board of Directors will be the place to finalize the discussions.

Yamauchi: Director Hikosaka, you were appointed as Outside Director in 2017 and have the longest tenure. What do you think is rewarding or difficult as Outside Director?

Hikosaka: I have been working as an attorney for a long time, and our main job as attorneys is to resolve disputes. But recently, we are required to solve problems as well. Similarly, our important role as Outside

Directors is to solve the issues the Company is facing. If this was tennis, we would need to make a decision whether to return the ball straight to the middle of the court, or to take a risk and aim at just inside of the line, depending on the situation. I give advice and hold discussions to help management with such decision making to solve issues, based on my experience as an attorney. I find it rewarding and difficult. In accordance with the changes in the world, laws, too, change. Regulations can be tightened or eased. I would like to accurately capture these changes to enhance my problem-solving skills.

Yamauchi: Director Fuke mentioned the advisory committees. Could you, the chairmen of the three committees, explain the initiatives of each committee that were established as the advisory board to the Board of Directors?

Hikosaka: The Governance Committee was newly established this year as an advisory committee to enhance governance as President Kato talked about. We will respond to inquiries from the Board of Directors in terms of optimization of internal control. We also give advice to the Board of Directors. I would like to transform the Company to have the most advanced governance in the construction industry.

Fuke: The Nomination Advisory Committee took part in the establishment of the Company's CEO succession plan and discussed the structure and requirements for the candidates. Next, we are going to determine the selection process of the candidates and evaluation criteria, but in order for us Outside Directors to garner support from within the Company regarding our decision making, it is necessary to create opportunities for us to get to know the candidates as well as warranting the system. The requirements for the CEO also mean the ideal qualities the Company is looking for, so that comes down to the evaluation of employees. In that regard, I would like to see how that would be reflected in the Company's personnel system and human resource



management. Last year, as part of the routine work of the committee, we discussed the candidate selection process for Director and the evaluation of the Executive Directors based on the advice from the Board of Directors. We also assessed the validity of the rotation to fulfill personnel requirements.

Kishi: The Compensation Advisory Committee discusses the matters that directly affect the motivation of the Directors, so that needs to be determined in collaboration with the Nomination Advisory Committee and the Governance Committee. Compensation also changes partly in accordance with changes in society, so we need to pay close attention to these trends and incorporate them into the compensation system. Going forward, the main focus of our discussion will be setting of KPIs to be used for evaluation of each Director. To begin, in order to implement the Company's strategy and achieve its goals, we would like to confirm what sort of compensation is appropriate and how much should be paid.

Discussion regarding Climate Change and Energy Problems

Yamauchi: I would like to ask you about value creation from a long-term perspective. On July 10, "Officers Open Discussion" was held. The members of the Board of Directors gathered and talked about long-term visions, future portfolio, allocation of management resources and so on. Taikisha has had these discussion sessions since 2019 in order for the Directors and Audit & Supervisory Board Members to actively exchange opinions. Looking back on the discussion in July, could you share with us your thoughts?

Kato: Taikisha Group has been good at solving problems raised by customers. The Company is more than capable of dealing with specific issues that are brought to our attention, but it is difficult for us to come up with new ideas and determine what we should aim for in response to changes in society and the environment. Outside Directors have given us advice in that regard from various perspectives, and that has inspired the Company. My intention is to apply the matters that have been discussed to "What (What we should do)" for the future of the Group, and put them into "How (How we realize it)" at the executive level.

Yamauchi: In the Officers Open Discussion, Directors and Audit & Supervisory Board Members discussed a wide range of topics, but the main topics were climate change and energy problems. What sort of impact do you think these issues have on the business of Taikisha?

Kato: There are three aspects to energy problems; "generation," "storage" and "consumption." Taikisha Group makes technical contributions to the "consumption" aspect of the energy problem, and I think our future business will also be developed around it. The business of energy generation requires a large amount of capital, and it would be difficult to pursue on our own. However, regarding the business in energy storage, if we could come up with a great idea, we would like to give it a try, and even with the business of energy generation, we will keep an eye on opportunities for collaboration with other companies. It would be ideal if we could realize a well-balanced growth strategy.

Kishi: As I mentioned earlier, the Company has a tailwind of growth behind it, and climate change and energy problems are the examples. Having said that, competition in these fields will intensify going forward, so we will need to embark on new ideas as early as possible, not focusing on one particular area, but in several areas. I believe the Company is capable of doing this. We can try first and make adjustments as we see things more clearly as we go.



Kato: I can't agree more with Mr. Kishi. It is very important to try first, otherwise we will never find a solution. I would like to share this view with the executive side and with the whole company, and quickly act on our ideas. The development department is now required to challenge creation of value, instead of waiting for customers to raise issues. It will be necessary to think ahead of potential customers and sow the seeds for the future in new fields. It is vital for the Company's survival to make serious efforts in technology innovation, technology investment and R&D. In that sense, I have high hopes for the trends of the times, but I also feel a sense of urgency.



Mizumoto: R&D has two main roles. A role as a doctor and a nurse to the existing business, and a role to perform research to find and create new technologies that can be the pillars for new businesses that would support the Company in its quest to survive 100 years. They have two different time axes, but without balancing these two roles, it would be difficult for the Company to survive. In the Officers Open Discussion in July, we talked about a wide range of topics, but I also wondered what the Company is actually aiming for. Although the business of the Company is changing, the Company has a persistent goal in regard to what Taikisha should do as a company, and I believe Taikisha is the company which can provide solutions to issues related to climate change. As President Kato pointed out, for the Company to change its passive attitude of solving issues raised by consumers, I think climate change could be a big opportunity. Many companies have realized the necessity to tackle this issue in order to survive and started taking initiatives. On the other hand, it is still unclear how society will be in ten years. Therefore, companies need to assume different scenarios, and not rely on optimism. I believe Taikisha can focus its energy on the issue by questioning what the Company should do to tackle the problems related to climate change.

Kato: When asked what the Company should do to tackle the problems of climate change, I, as a person who has been working in the Company for many years, find it difficult to find a clear answer. The Officers Open Discussion is an opportunity to hear opinions from Outside Directors, and I hope that it will help us realize or become aware of various issues we didn't notice before. I hope that will ultimately change our way of thinking, leading to new actions by the company as a whole and a leap



forward. With that in mind, we would like to expand the topics to be discussed at the next Officers Open Discussion.

Business Development to Create New Value

Yamauchi: At the first Officers Open Discussion held in July, questionnaires filled out by participants and documents shared before the meeting were just as extensive and well-organized as the meeting itself. In the discussion we brought up various topics including natural resources, health and medical care, food, digital innovation on top of climate change and energy-related problems. Director Hikosaka and Director Fuke, what were your thoughts?

Hikosaka: The open discussion was a great opportunity to hear many interesting viewpoints. I mainly talked about streamlining operations including ZEB* and large-scale 3D printers as well as implementation of remote-controlled robots at sites. It was my second time participating in an open discussion since last year. I found that in the first open discussion we discussed more practical topics whereas in the last discussion in July we talked more about our dreams and possibilities, but it also gave us some sense of urgency that we need to start now. It was a constructive discussion.

Fuke: As a moderator, I asked everyone to talk freely and expand upon topics and not to be fixated on the immediate issues. However, my presentation was about initiatives for new generations such as demonstration and development of the plant factory and development of air-conditioning systems to respond to the pandemic. The reason for this

*ZEB stands for Net Zero Energy Buildings. Buildings designed to achieve annual primary energy consumption of net zero, while realizing comfortable in-room environments.



was because I believe it is more strategically rational in the current business environment to expand our business in relation to “air” which is the Company’s core competence. However, it is also true that we must break free from the conventional business model to find an answer. Accordingly, I think it is necessary to discuss product and technology strategies or market strategies after solidifying the business models for upcoming generations over the next 10 to 20 years.

Kishi: I think even if the Company is going to expand the business into a different field, the reason for the entrance would be something related to the Company’s strengths: energy, air and water. In that regard, the Company can expand its business from the plant factory that Mr. Fuke talked about to smart cities or even space development, as long as the Group can survive and garner understanding from society. In addition, progressive initiatives like space development would not lead to increased profit right away, but the technology or the business itself could be applied in other areas of the current businesses and that will contribute to future performance. Regarding smart cities, the Company will be dealing with local society as a whole, not just buildings, so the entire business model will change, including who the Company will partner with and how the model will be monetized.

Yamauchi: In the discussion in July, we’ve heard thoughts, ideas and dreams from non-executive perspectives. The next Officers Open Discussion will be held in October, and that is going to be an opportunity for the executives to give explanations. Director Mizumoto, what do you expect from the next discussion?

Mizumoto: Personally I feel connected to the Company because my major at university was “*taiki-ranryu* (atmosphere turbulence).” I think



the business has a huge potential because it can be extended and linked to diverse business realms. Taikisha Group’s strength is in its possibility and ability to expand business. I am looking forward to listening to the business direction and how to leverage the Company’s strengths not only from the executives but also from those in charge of operations. It is going to be a prospective discussion looking into the future, not just the immediate issues.

Decision Making and Initiatives for Challenges

Yamauchi: In order for Taikisha to expand its business to create new value, the management will be required to make decisions on how to leverage its strengths and in which areas to allocate its management resources. Starting a new business, regardless of how determined you are, would take a long time before it becomes profitable. I would like to hear your thoughts from you, Outside Directors, on the difficulties in decision making regarding starting a new business, and how to overcome such difficulties, based on your experiences.

Kishi: Taikisha Group is making prospective efforts, looking 10 years or more from now. However, it is difficult to know how things will be a decade on. It will prepare multiple plans and gradually implement them. Starting small and setting milestones like one or three years from now, then evaluating the achievements, it will make decisions on whether to continue or withdraw, or to transform it into other purposes. It is preferred that these initiatives are driven by young or mid-level employees who will carry the Company in 10 to 20 years, rather than by executives



or other officers, and that different divisions work together cross-functionally to propel the efforts.

Hikosaka: From the perspective of risk supervision as a role of the Board of Directors, we need to make decisions considering both the risks of starting a new business and the risks of not starting the business. In terms of our agenda such as SDGs, climate change, carbon-free society, the risk of not taking action as Taikisha Group would be higher, so we will need to continuously discuss with the executives and respond to risk. As Mr. Kishi just mentioned, we will need to communicate with young and mid-level employees in those sorts of discussions.

Kato: What I am focusing on is raising awareness among the Executive Directors and the Corporate Officers, including myself, of the rapidly changing world, and raising the sense of urgency that if we don't act fast, we will be left out. In a corporate organization, employees follow their superiors, and a sense of urgency will only penetrate in the company if top managers have such awareness. I would like to advance transformation to raise this awareness among young and mid-level employees who will carry the Company into the future.

Fuke: It may sound extreme, but it is true that the Company may not be able to survive unless it takes risks to embark on new business opportunities. Final decisions will be made by the top management, but we non-executive Outside Directors are required to explain the validity of the new business as measures to enhance corporate value or how we think of the cost and loss that the Company would incur. Outside Directors also need to play a supervisory role with regard to rules on investments and monitoring of recovery, based on discussion at the Governance Committee. In addition to our risk management role, I think we will be able to power up the engine that supports the dynamism of management by adequately carrying out our duties.

Mizumoto: It might be hard for employees to have that sense of urgency that President Kato is talking about when there is no sign of the Company going bankrupt and they are doing their job properly. For that reason, it could be more effective to spread a growth mindset within the Company such that Taikisha is able to do this and that to tackle climate change and create a system where employees can challenge themselves to address the issues. And it would be ideal if, while implementing strategies approved by President under the risk management and governance by the Board of Directors, the company could naturally change from within.

Expectations for Taikisha's Long-term Growth

Yamauchi: Now, in developing a growth strategy to create corporate value in the long run, tell us your thoughts on what Taikisha should focus on and how it should leverage its technology or other strengths.

Kishi: The raison d'être of a company is, of course, to solve social problems and provide social value, and I believe that Taikisha Group's technologies are the means to achieve this. For technologies that we don't have internally, we can secure them through external partnerships or investments, for example, while assessing the risks. On the other hand, technologies that the Company has developed or is developing can contribute especially to the achievement of SDGs, so our long-term growth strategy should be developed around SDGs, thereby meeting the expectations of society. For a technology-oriented company like Taikisha, it may sound paradoxical, but it is important to focus on sales and marketing so as not to fall into complacency of self-satisfying technological development.

Fuke: I think considering business alliances would be important in developing the future growth strategy. When moving forward with business development in new fields, M&As and other strategic alliances will undoubtedly be one of the major options. Overseas expansion advanced by Taikisha Group has focused mainly on regional marketing strategy. In terms of technical collaboration or cross-regional collaboration with a view to create synergy, I think it has been insufficient. To start a business in a new field, we will need to consider business investments in technology.

Hikosaka: Investments in venture capital will be effective to gather information on advanced technologies. I believe Taikisha would attract a

lot of opportunities. Investing in venture capital could be a way to get tips on business and technology, or to keep our eyes open for new opportunities.

Kato: I recognize the importance of technology investments and investments in venture capital. The plant factory also started from investment in venture capital in 2010, and the project has continued for over 10 years. We are considering how to select partners from among thousands of venture capital businesses and how we can integrate our investments into our business and developing the methodology as part of our long-term growth strategy.

Yamauchi: Lastly, could you tell us what you expect for Taikisha's long-term growth?

Mizumoto: Taikisha is a company that can address social issues and requirements and solve customers' problems. I expect the Company to grow to be more proactive in finding customers who are seeking solutions to various issues, not just dealing with existing customers.

Kishi: With the low birthrate, aging population and declining labor force, the construction industry will be in a more difficult position in 10 to 20 years' time. The race to boost labor productivity through automation technology will become increasingly prevalent going forward, which will result in industry restructuring or entrance from different industries. While preparing for these changes, I expect the Company to grow over the long term by providing value to customers in new markets, leveraging its strengths and the tailwind of growth.

Hikosaka: As the Company name "Taikisha" suggests, the business of providing clean air to society will continue expanding not only to the extent of growing demand for air-conditioning systems for buildings but



also to a wide range of areas. I hope the Company will continue to grow and support a prosperous future by providing such value to society.

Fuke: Since its foundation, Taikisha group has followed the mission statement "Customers First." However, in the current social environment, I think the concept of "Customers First" shared by previous generations has changed and is interpreted differently by the younger generations. As Ms. Mizumoto mentioned earlier, the concept of "customers" may need to be redefined to include new customers. I believe the Company will be able to further grow its business by clarifying the concept of "Customers First" and sharing it among the President and all employees and working as one to achieve that goal.

Kato: On top of the Officers Open Discussion in July, we had a constructive discussion today and I was able to hear diverse opinions. The matters we discussed today will not only be used for my future reference but also be included in internal and external communications.

Yamauchi: Thank you all for your time.



Governance

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

Management Structure

Directors

Representative Director,
President Corporate Officer

Koji Kato



April 1978 Joined the Company
June 2005 Director
April 2007 Assistant to Chief General Manager, Green Technology System Division
April 2009 Corporate Officer; General Manager, Engineering Planning Dept., Green Technology System Division
April 2010 Managing Corporate Officer, Chief General Manager, Green Technology System Division, and General Manager, Engineering Planning Dept., Green Technology System Division
June 2010 Director, Managing Corporate Officer, Chief General Manager, Green Technology System Division, and General Manager, Engineering Planning Dept., Green Technology System Division
April 2012 Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of Environment, and General Manager, Corporate Planning Office
April 2013 Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters and in charge of CSR
April 2014 Director, Managing Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR
April 2016 Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR
April 2017 Representative Director, Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters
April 2018 Representative Director, Executive Vice President Corporate Officer
April 2019 Representative Director, President Corporate Officer (current position)

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

Kazuhide Hayakawa



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
June 2017 Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters
April 2018 Director, Managing Corporate Officer, Vice General Manager, Paint Finishing System Division
April 2019 Director, Executive Corporate Officer, Chief General Manager, Paint Finishing System Division (current position)

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

Yasushi Nakajima



April 1982 Joined the Company
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
June 2017 Director, Managing Corporate Officer, Vice General Manager, Green Technology System Division
April 2019 Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division
April 2021 Director, Executive Corporate Officer, Chief Executive, Administrative Management Headquarters (current position)

Director, Executive Corporate Officer /
Chief Executive,
Corporate Planning Headquarters,
in charge of CSR

Masanori Nakagawa



April 2009 General Manager, Strategic Investment Department, Headquarters Business Administration Division of Mizuho Corporate Bank, Ltd. (current Mizuho Bank, Ltd.)
October 2012 Joined the Company
April 2013 General Manager, Corporate Planning Office, Corporate Planning Headquarters
April 2014 Vice Executive, Administrative Management Headquarters
April 2017 Managing Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR
June 2018 Director, Managing Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR
April 2021 Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters, in charge of CSR and General Manager, Global Strategy Dept.
October 2021 Director, Executive Corporate Officer, Chief Executive, Corporate Planning Headquarters, in charge of CSR (current position)

Director, Executive Corporate Officer /
Chief General Manager,
Green Technology System Division

Masashi Osada



April 1983 Joined the Company
April 2007 Corporate Officer, General Manager, Planning Office, Green Technology System Division
April 2009 Managing Corporate Officer, Chief Executive, Planning Headquarters and in charge of Environment, and General Manager, Corporate Planning Office
June 2009 Director, Managing Corporate Officer, Chief Executive, Planning Headquarters and in charge of Environment, and General Manager, Corporate Planning Office
April 2012 Director, Managing Corporate Officer, General Manager, Chubu Branch Office, Green Technology System Division
April 2015 President, Taikisha (Singapore) Pte. Ltd.
April 2019 Assistant Director, Senior General Manager, Global Business Management Dept., Paint Finishing System Division
April 2020 Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters
April 2021 Executive Corporate Officer, Chief General Manager, Green Technology System Division
June 2021 Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division (current position)

Outside Director

Hirokazu Hikosaka



April 1983 Joined Asahi Shinkin Bank (resigned in March 1985)
April 1992 Admitted as attorney and joined Nakajima Law Office (current Akanekusa Law Office) (current position)
April 1999 Commissioner, Kanto Federation of Bar Associations
April 2005 Executive Commissioner, Japan Federation of Bar Associations
June 2006 Outside Director, Adways Inc.
June 2010 Audit & Supervisory Board Member, Adways Inc. (current position)
April 2014 Vice President, Tokyo Bar Association
June 2015 Audit & Supervisory Board Member of the Company
June 2017 Director of the Company (current position)
April 2019 Vice President, Kanto Federation of Bar Associations (retired in March 2020)

Outside Director
Chairman of the Board of Directors

Kiyotaka Fuke



April 2014 Deputy President, Executive Officer, Meiji Yasuda Life Insurance Company
July 2014 Director, Deputy President, Executive Officer, Meiji Yasuda Life Insurance Company
April 2016 Director, Meiji Yasuda Life Insurance Company (retired in July 2016)
June 2016 Outside Audit & Supervisory Board Member, Mizuho Trust & Banking Co., Ltd.
July 2016 Advisor, Meiji Yasuda Life Insurance Company (retired in June 2019)
June 2017 Member of the Board of Directors (Outside Director and Audit & Supervisory Committee Member), Mizuho Trust & Banking Co., Ltd. (retired in June 2020)
Audit & Supervisory Board Member of the Company
June 2019 Director of the Company (current position)

Outside Director

Masasuke Kishi



April 1980 Joined Oki Electric Industry Co., Ltd.
April 1995 Manager, Multimedia Systems Development Dept., Multimedia Systems Development Center, Information Systems Business Division, Oki Electric Industry Co., Ltd.
April 2004 Vice President, Silicon Solutions Company and General Manager, Design Division, Oki Electric Industry Co., Ltd.
April 2006 Executive Officer, Oki Electric Industry Co., Ltd.
April 2008 Senior Vice President, Oki Electric Industry Co., Ltd.
October 2008 Representative Director and President, OKI Networks Co., Ltd. (retired in March 2010)
June 2010 Director, Oki Electric Industry Co., Ltd. (retired in June 2012) Director, Oki Electric Cable Co., Ltd.
June 2012 Representative Director and President, Oki Electric Cable Co., Ltd. (retired in March 2018)
April 2018 Executive Vice President and General Manager, Electronics, Manufacturing Services Division, Oki Electric Industry Co., Ltd.
April 2020 Executive Vice President, and General Manager, Components & Platforms Business Group, and General Manager, Development Division, Components & Platforms Business Group, Oki Electric Industry Co., Ltd. (retired in March 2021)
June 2021 Director of the Company (current position)

Outside Director

Nobuko Mizumoto



April 1982 Joined Ishikawajima-Harima Heavy Industries Co., Ltd. (current IHI Corporation)
July 2004 General Manager, TX Preparation Division, IHI Corporation
April 2006 General Manager, New Business Creation Group, Corporate Planning Division, IHI Corporation
October 2008 General Manager, Recruitment Group, Human Resources Division, IHI Corporation
April 2012 General Manager, CSR Promotion Division, IHI Corporation
April 2014 Executive Officer, General Manager, Group Business Process Platform Control Division, IHI Corporation
April 2016 Executive Officer, General Manager, Procurement Strategy Planning, IHI Corporation
April 2017 Managing Executive Officer, General Manager, Procurement Strategy Planning, IHI Corporation
April 2018 Managing Executive Officer, General Manager, Intelligent Information Management Headquarters, IHI Corporation
June 2018 Director, Managing Executive Officer, General Manager, Intelligent Information Management Headquarters, IHI Corporation
April 2020 Director, IHI Corporation
June 2020 Advisor, IHI Corporation (current position)
June 2021 Director of the Company (current position)

Audit & Supervisory Board Members

Outside Full-time Audit &
Supervisory Board Member

Toshiyuki Hanazawa

Full-time Audit &
Supervisory Board Member

Makoto Wakida

Full-time Audit &
Supervisory Board Member

Hiroyuki Matsunaga

Outside Audit &
Supervisory Board Member

Shigeo Kobayashi

Outside Audit &
Supervisory Board Member

Nobuyuki Soda

Name	Number of years as Director	Specialized knowledge and experience that candidates for Director have							Nomination Advisory Committee	Compensation Advisory Committee	Governance Committee
		Corporate management	Technological development, IT strategies	Global business	Industrial insights, market awareness	Human resources development, personnel and labor management	Internal control, governance	Laws, finance and accounting			
Koji Kato	12 years 9 months	●	●		●	●	●		●	●	●
Kazuhide Hayakawa	4 years	●	●		●						
Yasushi Nakajima	4 years	●	●	●	●						●
Masanori Nakagawa	3 years	●		●		●	●	●			●
Masashi Osada	-	●		●	●						
Hirokazu Hikosaka (Outside Director)	4 years						●	●	●	●	○
Kiyotaka Fuke (Outside Director)	2 years	●				●	●		○	●	●
Masasuke Kishi (Outside Director)	-	●	●				●		●	○	●
Nobuko Mizumoto (Outside Director)	-	●	●			●			●	●	●

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

Corporate Governance

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

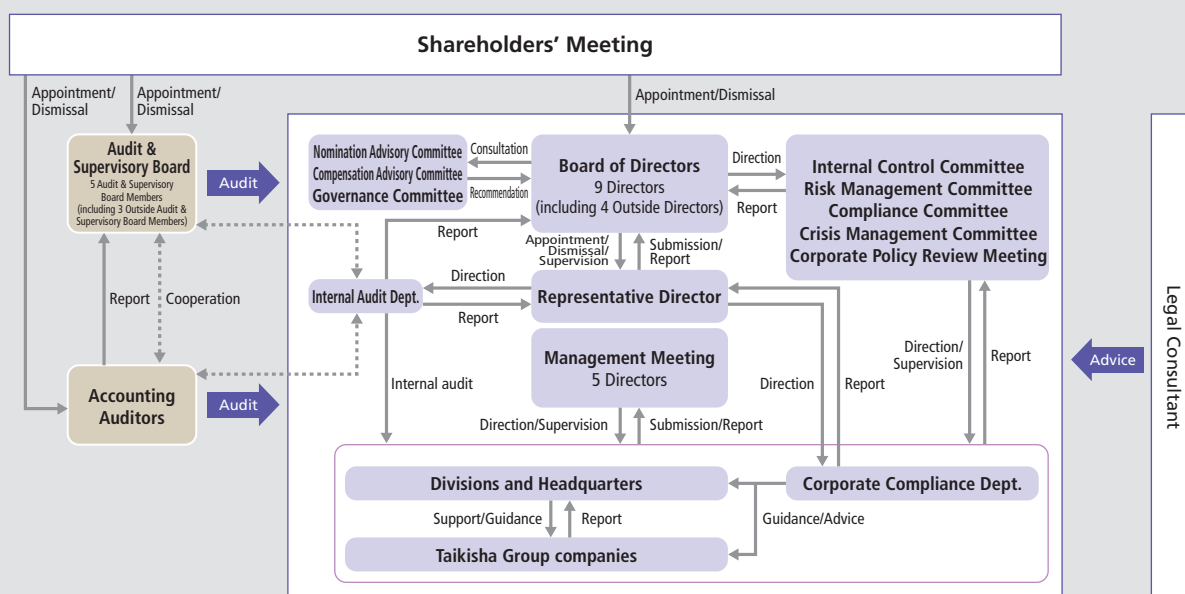
Basic Policy

Taikisha has established a basic policy of corporate governance to gain the trust of all stakeholders and aims to become a corporate group that grows and develops in a healthy manner by thoroughly incorporating

compliance awareness and realizing fair and highly transparent management. The aim is to achieve its Corporate Philosophy and management vision in accordance with Taikisha's Mission Statement: "Customers First."*

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

● Pattern Diagram of Corporate Governance (as of June 30, 2021)



Corporate Governance System

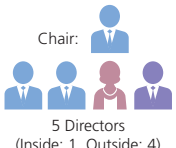
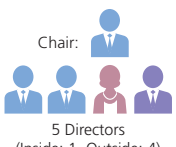

In conformity with the basic policy and based on the organizational structure of a company with an audit & supervisory board, Taikisha is continuously working to strengthen the Taikisha Group's governance and

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

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

	Composition	Content	Frequency of meetings
Board of Directors	<p>Chair: </p> <p>9 Directors (Inside: 5, Outside: 4)</p>	The Board of Directors makes decisions regarding the Taikisha Group's management policy, items stipulated in laws and regulations and the Articles of Incorporation, and important management matters, as well as monitors and supervises the execution of duties by each Director and Corporate Officer.	Once a month Additional meetings as required
Audit & Supervisory Board	<p>5 Audit & Supervisory Board Members (Inside: 2, Outside: 3)</p>	The Audit & Supervisory Board mainly deliberates the audit plan, exchanges opinions on audit result reports, etc., and considers matters related to the appointment, dismissal, or non-reappointment of an accounting auditor and matters that require the resolution of the Audit & Supervisory Board, such as consent regarding the compensation to be paid to the accounting auditor.	Once a month in principle

 Inside Director
  Outside Director
  Outside Audit & Supervisory Board Member

	Composition	Content	Frequency of meetings
Nomination Advisory Committee	 <p>Chair: 5 Directors (Inside: 1, Outside: 4)</p>	The Nomination Advisory Committee was established as an advisory body for the Board of Directors, with the aim of enhancing the independence and objectivity of functions and the accountability of the Board of Directors regarding nomination of CEO and Directors. The Committee also deliberates succession plans for the CEO in addition to selection of director candidates.	As required (FY2020: 11 times)
Compensation Advisory Committee	 <p>Chair: 5 Directors (Inside: 1, Outside: 4)</p>	The Compensation Advisory Committee was established as an advisory body for the Board of Directors, with the aim of enhancing the independence and objectivity of functions and the accountability of the Board of Directors regarding compensation of Directors. The Compensation Advisory Committee deliberates on the performance-linked stock-based compensation system for Executive Directors introduced in August 2019, with the aim to enhance its effectiveness and transparency.	As required (FY2020: 5 times)
Governance Committee	 <p>Chair: 7 Directors (Inside 3, Outside: 4) 1 Auditor (Outside: 1)</p>	The Governance Committee was established as an advisory body for the Board of Directors concerning internal control, with the aim of improving the governance system of the entire Taikisha Group. The Governance Committee replies to questions from the Board of Directors about the optimization of the Taikisha Group's internal control, and makes proposals or recommendations to the Board of Directors.	Twice a year or more Additional meetings as required

Initiatives that Support Corporate Governance

As initiatives to support its corporate governance, Taikisha has set up meeting bodies and committees including: 1) Management Meeting; 2) Internal Control Committee; 3) Risk Management Committee; 4) Compliance Committee; 5) Corporate Policy Review Meeting with the aim to reinforce its governance system through independent activities of and collaboration among them.

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

Evaluation of the Effectiveness of the Board of Directors

Evaluation method

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

Taikisha has conducted analysis and evaluation of the effectiveness of the Board of Directors since FY2015. Every year, the Board of Directors deliberates on issues and policies to address them based on the evaluation results. The Company has since further augmented the supervisory function of the Board of Directors through a review of the roles and operation method of each meeting body, a review of matters to be reported to the Board of Directors, the expansion of discussions about the risk management system of the Taikisha Group, meetings for the Outside Directors and the Outside Audit & Supervisory Board Members to exchange opinions, and the establishment of the Nomination Advisory Committee and the Compensation Advisory Committee. From FY2019, the members of the Board of Directors have held discussions about long-term strategy, envisaging the industrial structure, changes in the social environment, and future vision in the coming 10 to 20 years based on the results of the effectiveness analysis and evaluation. They had constructive discussions including an off-site session in FY2020.

Considering these factors, in the analysis and evaluation of the effectiveness of the Board of Directors in FY2020, which targeted the Board of Directors as a whole under the direction of the Chairman of the Board of Directors, all of the Directors and the Audit & Supervisory Board Members replied to a questionnaire for the purpose of collecting their opinions about matters on the conventional "roles to be played by the Board of Directors" and "matters that should be considered by the Board of Directors in order to fulfill its roles" as well as other matters that should be preferentially discussed to further improve the effectiveness of the Board of Directors in view of the business environment surrounding Taikisha. In addition, based on the results of an objective analysis by an external advisor, deliberations were held on the sharing of issues recognized by the Board of Directors and policies to address such issues and other matters.

Results of evaluation

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

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

Initiatives to address the issues raised

With regard to the matters identified as issues in the effectiveness analysis and evaluation conducted in the preceding fiscal year, Taikisha has been improving such matters in order of precedence. With regard to a long-term strategy, during off-site opportunities, the members of the Board of Directors have actively discussed themes such as the strengthening of technological competitiveness and innovation, which will form the core of value creation toward the future of the Company, the integration of global-scale social issues into strategies, and digital

innovation and improvement in productivity, considering the responses to preliminary questionnaires. In connection with the risk management and internal control systems of the Taikisha Group, the Company enhanced the supervisory function of the Board of Directors by, for example, having an opportunity to discuss governance related to M&A. The Company also deliberated the planning of the successor to the President, as well as the process of electing Executive Director candidates and Audit & Supervisory Board Member candidates in a meeting of the Nomination Advisory Committee with the aim of improving the effectiveness and transparency of the process. In order to address the risk of COVID-19 infection, the Board of Directors extended management's assistance for business operations through reports, etc. from the Crisis Management Committee and continued to focus efforts on the supervision of the status of management.

On the other hand, the Company recognized the necessity of tackling the matters described below as issues to resolve in order to further improve effectiveness. The Company is determined to further increase opportunities for off-site discussions about the long-term strategy, set more multifaceted themes in light of the responses to and opinions on the questionnaire for this fiscal year, and continue activities that contribute to the development of a policy for "an ideal image of the business portfolio for the future." In addition, the Company will identify a skill matrix for the members of the Board of Directors in order to achieve improved diversity, which lists the knowledge, experience, capabilities, etc. they should accumulate in view of the business strategies. Regarding digital transformation, the Company will supervise the progress of the promotion thereof by the Digital Strategy Committee newly established by the executive side. To realize a global-scale risk management system, the Company will contemplate supervision focusing on both growth and effectiveness under the initiative of the Governance Committee newly established as an advisory committee to the Board of Directors, maintaining close cooperation with the executive side Internal Control Committee. The Company will also supervise the progress of activities for promoting the "development of global human resources based on individuality and diversity" which looks ahead to medium- and long-term business models.

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

Internal Audit

The Internal Audit Department, a department directly under the President and Representative Director, conducts audits on business execution departments and reports the findings to the Representative Director, the Board of Directors, Audit & Supervisory Board and Accounting Auditor. The Internal Audit Department also gives guidance and advice on points to be improved to business execution departments and follows up on the status of improvement.

In FY2020, from perspectives of "effectiveness and efficiency of operations," "reliability of financial reporting," "compliance with laws and regulations," and "asset protection," the audit was conducted at offices in Japan and overseas to evaluate the status of compliance with laws and ordinances that are closely related to Taikisha's operations including the Construction Business Act, the Antimonopoly Act, and the Competition Act, the status of construction project contract management, and appropriateness of construction activities.

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

Appointment and Development of Directors and Audit & Supervisory Board Members

In light of the business environment surrounding Taikisha Ltd., it maintains the diversity and the appropriate number of Board members to ensure that the decision-making and management supervisory function of the Board of Directors will work most effectively and efficiently. Independent Outside Directors are appointed in order to revitalize deliberation and ensure the transparency of decision-making processes in the Board of Directors, and to reinforce the supervisory function of the Board of Directors over Directors and Corporate Officers.

The Audit & Supervisory Board appoints one or more Audit & Supervisory Board Members who have sufficient expertise in finance and accounting in light of its roles and responsibilities of auditing the execution of duties by the Board of Directors and execution of the authority relative to the appointment and dismissal of external Accounting Auditors and audit fee. Each Audit & Supervisory Board Member conducts audits in accordance with the audit standard stipulated by the Audit & Supervisory Board and the assignment given to him, and requests Directors and Corporate Officers, etc. to report on the execution of duties as needed in order to keep track of important decision-making processes and the progress of the execution of duties. The Audit & Supervisory Board Members also review important documents, including internal approval documents, attend major meetings, including meetings of the Board of Directors and the Management Meeting, and collect necessary information about the current progress of the process of considering important matters and making decisions on the same from the Internal Audit Department, the Corporate Compliance Dept., and other related departments and sections and make proposals for the improvement of operations as needed.

Appointment criteria for Directors and Audit & Supervisory Board Members

Directors and the Audit & Supervisory Board Members	<ul style="list-style-type: none"> Persons who have a good personality, deep insights and a strong sense of ethics and compliance Persons who are free of health concerns in executing their duties
Inside Director	<ul style="list-style-type: none"> Selected in view of their expertise and performance from each business area in a balanced manner Persons who have an adequate understanding of Taikisha's Mission Statement and Corporate Philosophy and an excellent ability for corporate governance Persons who have adequate knowledge, experience and ability for the businesses and operations as well as an ability for realizing future development Persons who have an excellent ability for analyzing and making decisions objectively and promptly from the viewpoint of supervising the company-wide management
Outside Director	<ul style="list-style-type: none"> Persons who have deep insights and experiences in various business areas Persons who can appropriately reflect opinions in Board of Directors' meetings from objective and independent standpoints
Inside Audit & Supervisory Board Member	<ul style="list-style-type: none"> Persons who are considered to have the abilities necessary for performing their duties set forth in the Rules for Audit by Audit & Supervisory Board Members Persons who are well versed in the Company's operations and have sufficient knowledge, experience and ability

Outside Audit & Supervisory Board Member	<ul style="list-style-type: none"> Persons who are considered to have the abilities necessary for performing their duties set forth in the Rules for Audit by Audit & Supervisory Board Members Persons who have extensive knowledge and experience in areas of specialization, such as company management, finance, accounting and legal affairs, etc. and can allocate sufficient time and energy necessary for fulfilling their roles
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The Company constantly provides training, etc. with an aim to support acquisition of necessary knowledge regarding the Company's management issues, finance and legal compliance and other matters to Directors and Audit & Supervisory Board Members, including Outside Directors and Outside Audit & Supervisory Board Members, to enable them to fulfill their management supervisory function and audit function adequately. In addition, the Company arranges opportunities for external education and training when necessary at its expense. In addition to the above, the Company provides training to Outside Directors and Outside Audit & Supervisory Board Members aimed to deepen their understanding about Taikisha Group's Corporate Philosophy, corporate management, business activities and organization, etc. The Company also provides information related to the abovementioned matters when necessary.

Compensation to Directors and Audit & Supervisory Board Members

Policy

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

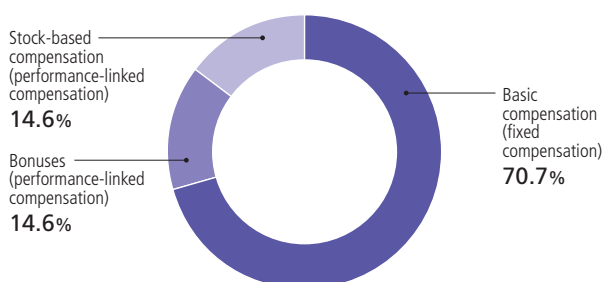
(1) Basic views on the system of compensation

The compensation to Executive Directors (Directors who concurrently serve as Corporate Officers) is composed of basic compensation, which is fixed compensation, and bonus and stock-based compensation, which are performance-linked compensation. The amount of bonus and stock-based compensation fluctuates in close correlation with the company's consolidated ordinary income to serve as an incentive for achieving their performance goals. Compensation to Non-Executive Directors (Outside Directors and Directors who are not concurrently serving as Corporate Officers) and Audit & Supervisory Board Members is limited to basic compensation and no bonus and stock-based compensation shall be paid.

(2) Compensation structure

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

● Ratio of Executive Directors' compensation (FY2020)



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

(3) Performance-linked compensation scheme

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

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

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

(4) Level of compensation

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

Methods for decisions on compensation

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

Methods for decisions on policy

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



Corporate Governance Report

<https://www.taikisha-group.com/corporate/governance/pdf/pdf-index-01.pdf>

Risk Management

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

Basic Policy

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

Risk Management System

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

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

During FY2020, the Risk Management Committee formulated a policy and visualized the changes in significance of impact from each risk and the level of its management, thereby enabling more detailed assessment. Additionally, based on the recognition that the COVID-19 pandemic that has been continuing since FY2019 is one of the most significant risks having a major impact on management, the Committee launched a task force and has been tackling COVID-19 on a group-wide scale.

Risk Management Structure



Major Risks and Remedial Measures

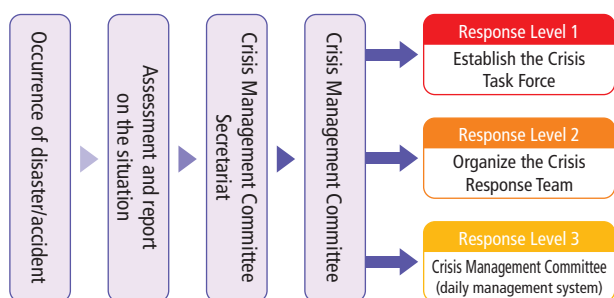
Risk	Content	Remedial Policy and Measures
Risk of fluctuations in private-sector capital investment	Decrease in orders received due to deterioration of environment for receiving orders, fall in capital investment by clients and change in investment fields	<ul style="list-style-type: none"> • Broaden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

Crisis Management System

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

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

● Diagram of Crisis Management System



Overseas Crisis Management System

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

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

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

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

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

Business Continuity Plan (BCP)

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

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



A disaster prevention drill



AED and first-aid rescue training session

Information Security

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

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

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

Compliance

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

Basic Policy

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

Compliance System

To raise the awareness of corporate ethics and compliance among all officers and employees and to enhance compliance management, Taikisha has established the Compliance Committee and the Corporate Compliance Department. Taikisha has also assigned Compliance Officers and established a Whistle-blowing Contact Window. The Corporate Policy Review Meeting is held to examine the annual policy and plan for compliance activities and to validate the implementation status thereof.

The Compliance Committee is chaired by the President and Representative Director, and holds monthly meetings. The Compliance Committee examines and responds to issues regarding compliance in the overall business operations of the Company and validates the status of compliance with laws and regulations. In the event of signs of a significant event, the Corporate Compliance Committee consisting of all officers shall be convened in order to deal with such event.

The Corporate Compliance Department, an independent department under the direct control of the President and Representative Director, prepares and distributes compliance manuals, disseminates information via the corporate intranet, makes the Whistle-blowing System well known, implements compliance education, monitors status of compliance

with laws and regulations, and provides guidance on improvement on an ongoing basis based on the annual policy and plan for compliance activities. In addition, the department reports on the status of its activities to the Compliance Committee.

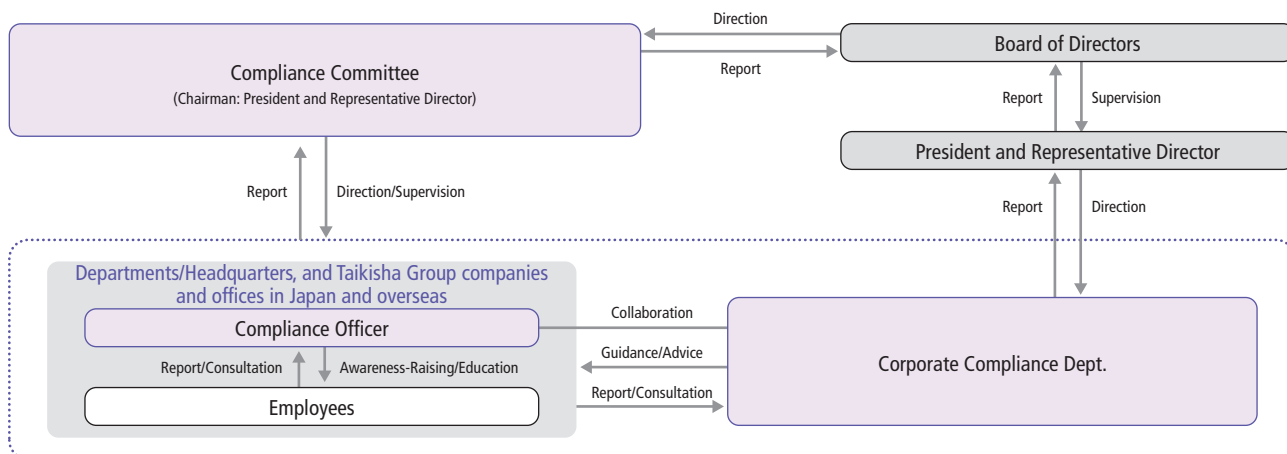
Compliance Officers, who engage in activities in collaboration with the Corporate Compliance Department, are assigned to each division/headquarters in the Head Office and each branch/affiliate in Japan and overseas. Compliance Officers at overseas affiliates share information regarding applicable local laws and regulations with the Corporate Compliance Department, disseminate information regarding compliance and carry out education/enlightenment activities. Taikisha works to enhance tax compliance and properly pays taxes in accordance with applicable tax-related laws and regulations of each country and region and international rules.

Monitoring of Compliance Risk

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

In the monitoring in Japan, the Corporate Compliance Department broadly checks and validates the status of compliance with and application of laws and regulations, including the Antimonopoly Act, and internal rules, as well as the status of dissemination of its Corporate Philosophy and the Whistle-blowing System, and issues such as work environments. In addition, the Corporate Compliance Department validates the conditions and contents of contracts with the business partners and ensures that there is no inappropriate activities by the employees of the Company regarding the business partners, and disseminates its Whistle-blowing System among business partners.

● Diagram of Taikisha's Compliance System



In the monitoring of overseas affiliates, the Corporate Compliance Department checks and validates risks specific to each affiliate based on the conditions of the country and region, the status of development and operation of the management system for the purpose of complying with laws and regulations related to bribery, bid rigging, cartels, etc., and the status of dissemination of the Whistle-blowing System.

● Compliance Risk Grading in Monitoring

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

Efforts to Firmly Establish Compliance

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

As part of efforts to instill its Corporate Philosophy and Taikisha's Code of Conduct as well as to implement compliance education, Taikisha conducts e-learning targeting all employees. E-learning covers matters that employees should understand, including Construction Business Act and the Antimonopoly Act, improper handling of construction cost, prevention of harassment, and information security, and the Company plans the timing, methods, etc. to improve its effectiveness.

● Awareness-raising posters



For offices in Japan



For offices overseas

Implementation of Compliance Training

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

In FY2020, the Company held training sessions in Japan that mainly focused on prevention of harassment and information security. Overseas, the themes of the training

sessions included the Corporate Philosophy, case studies of fraud, the Whistle-blowing System, and laws and regulations related to bribery, bid-rigging and cartels.

● Compliance Manual



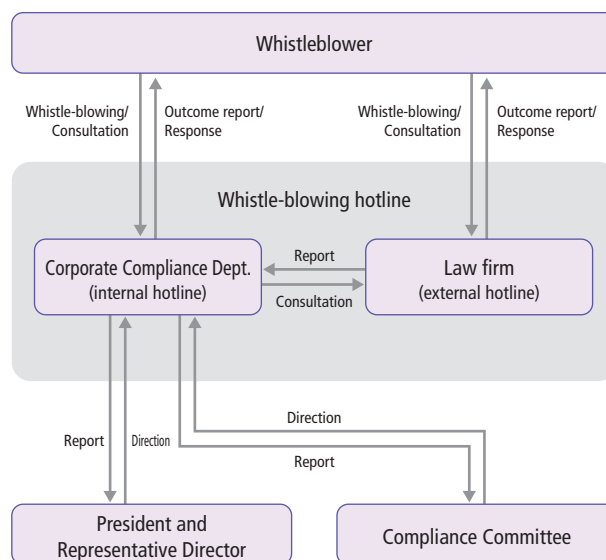
Whistle-blowing System

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

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

In FY2020, the Company's and major affiliates' Whistle-blowing Contact Window received 24 cases and took appropriate actions upon prompt investigation of each of these cases.

● Whistle-blowing Flow Chart



Communication with Shareholders and Investors

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

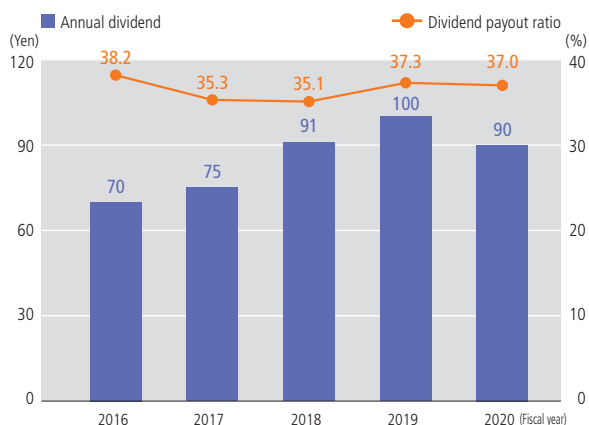
Information Disclosure Policy

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

Basic Policy for Shareholder Returns

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

● Transition in annual dividend and dividend payout ratio



Dialogue Status

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

In FY2020, the Company held a financial results briefing session in November with 29 people from 22 companies, then in October published the company profile video on its website in place of the briefing session for individual investors.

Information Tools

Taikisha produces and distributes shareholder newsletters (issued in June and November) to its shareholders and investors.

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

External Evaluation

Taikisha received the "AA Website" grade in the "All Japanese Listed Companies' Website Ranking 2020" by Nikko Investor Relations Co., Ltd.

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



2021



Somo Sustainability Index

Environment

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

Environmental Management

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

Environmental Management Vision

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

1. Improving Environmental Management

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

Continuously apply environmental management system and reduce environmental risks.

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

2. Promoting Environmental Business

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

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

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

3. Developing Environmental Conservation Activities

Check and minimize energy consumption in its offices and laboratories.

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

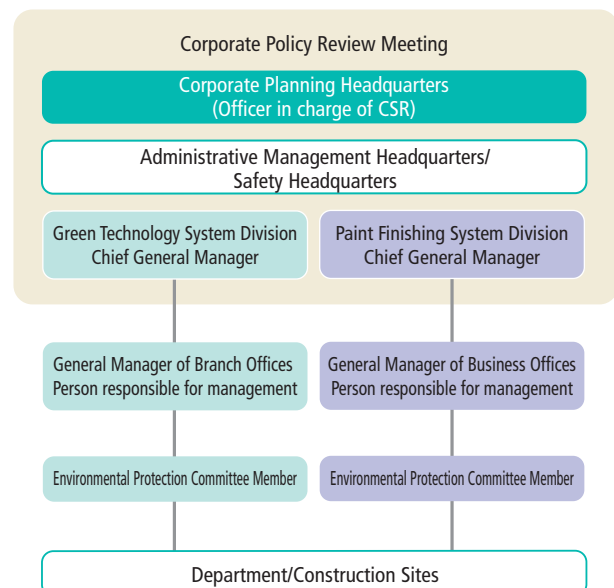
Promote green procurement.

Operation and Promotion System

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

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

Environmental Management System Operation and Promotion System Chart



Environmental Management Activities

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

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

Deployment of the Environmental Management Activities



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

Taikisha stores information in an internal database about revisions to environment-related laws and regulations that need to be taken into account in conducting business operations and information on ordinances of prefectures and designated cities to disseminate the information to all employees. In addition, Taikisha puts information on laws and regulations relevant to each business process in the Quality Assurance System Diagram to further ensure compliance with such laws and regulations. Taikisha records complaints regarding environmental issues that come up in Taikisha, including information on causes of complaints, remedial measures and preventive measures, in the internal database to share information within the group.

There were no major complaints regarding environmental issues in FY2020. Taikisha conducts employee education in all business offices to prevent the recurrence of complaints that occurred in the past, and provides guidance and education through on-site patrols and other measures.

Status of Acquisition of ISO Certification

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

Taikisha Group's Status of Acquisition of ISO Certification

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

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

Environmental Accounting

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

Environmental protection cost	Amount of cost	Main activities
The cost within the business area	1,780 million yen	Waste disposal cost, introduction of eco-friendly cars
Management activities cost	12 million yen	In-house environmental management system operation cost, environmental education
Research and development cost	313 million yen	Research and development cost for eco-friendly products and services
Social activity cost	1 million yen	Donation to environment conservation groups
Total	2,106 million yen	

Economic effects of environmental protection measures	Amount of cost	Main activities
Revenue amount	6 million yen	Proceeds from the sales of valuables through waste recycling
Cost reduction	4 million yen	Cost reduction effect of introduction of eco-friendly cars
Total	10 million yen	

Environmental Education (for New Employees)

Taikisha provides introductory education on the Vision and System of Environmental Management and education on the environmental management operations of each department to new employees every year. They also attend "skill training courses for operation chief of specified chemical substances and tetra-alkyl lead, etc.," "skill training courses for operation chief of organic solvent" and "skill training courses for operation chief of oxygen deficient/hydrogen sulfide," and obtain related certifications. This system ensures that new employees learn the necessary knowledge to handle chemical substances and hazardous substances from their first year.

[Taikisha Group] Efforts for Realizing a Low Carbon Society

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

Risks and Opportunities of Climate Change

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

Taikisha recognizes climate change risks such as the potential disturbance of the continuity of business due to typhoons, heavy rain and other natural disasters, business development being affected by the tightening of environmental regulations, and inadequate environmental efforts resulting in loss of business opportunities and clients.

On the other hand, Taikisha expects that climate change could expand customer needs for environmental measures and create opportunities for many clients to utilize Taikisha's environmental technologies.

Specifically, in accordance with the progress of technology innovation in power generation and heat supply facilities using natural energy (solar power, wind power, hydropower and geothermal power), the Company expects to see demand rise for installation work of energy-related facilities, including rebuilding of existing heat source supply system and

construction of new plants, as well as for energy conversion facilities such as for renewable energy generation and exhaust recycling of hydrogen fuel cells.

By capturing such opportunities accurately, Taikisha will promote "zero-carbon emissions" through its business operations.

Energy- and Resource-Saving Achievements

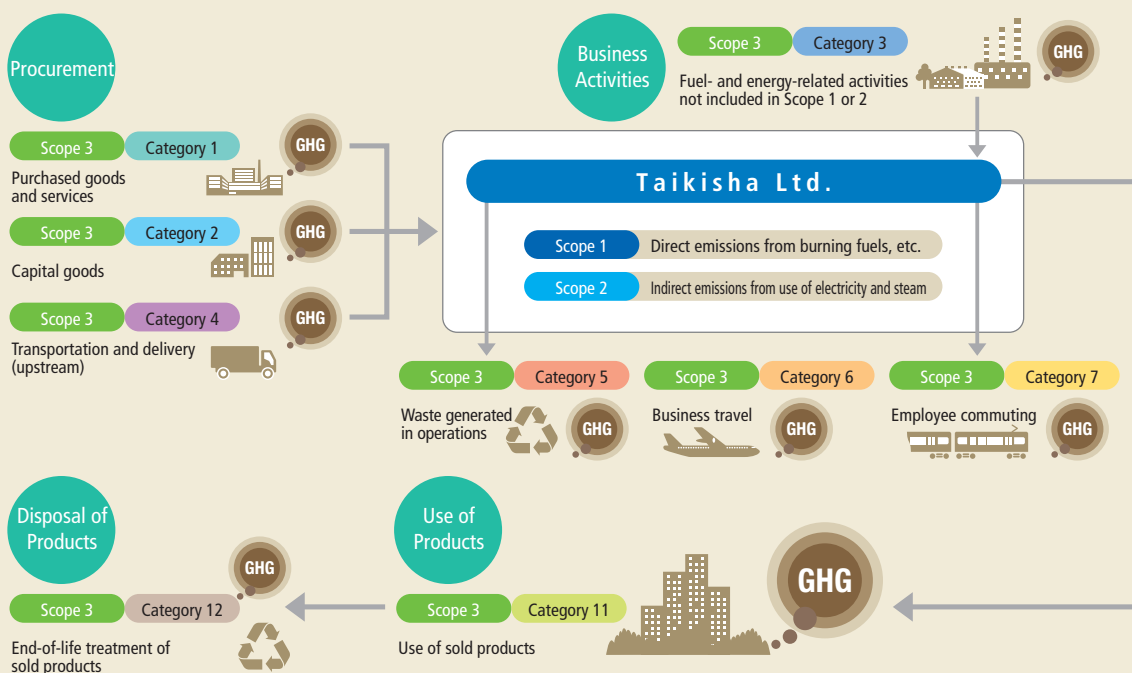
Taikisha's power usage in all offices (Japanese offices) in FY2020 was 137 kWh/m². Taikisha will continue to conduct energy-saving and consumption-reduction activities by raising the awareness of each employee to ensure the implementation of energy-saving measures, such as observing Cool Biz and setting air conditioners at energy-efficient temperatures.

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

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

Looking at Taikisha's GHG emissions in FY2020, Scope 1 emissions, which are direct emissions from combustion of fuels, etc., were 1,438 t-CO₂, and Scope 2 emissions, which are indirect emissions from use of electricity, etc., were 1,136 t-CO₂. Taikisha will continue to work on saving energy at construction sites and offices.

Conceptual Diagram of GHG Emissions Control in the Entire Supply Chain



Breakdown of Scope 3 Emissions

Looking at Taikisha's GHG emissions in the supply chain for FY2020, Scope 3 emissions were 3,870,868 t-CO₂, of which emissions from Category 11 (use of sold products) accounted for the largest portion at 92.93%. Considering that GHG emissions from the operation phase of the facilities Taikisha provides are largest across its supply chain, Taikisha will make greater efforts than ever to provide facilities and systems with high energy-saving capabilities.

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

Initiatives in the Green Technology System Business

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

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

Initiatives in the Paint Finishing System Business

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

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



Please see the pages below for details

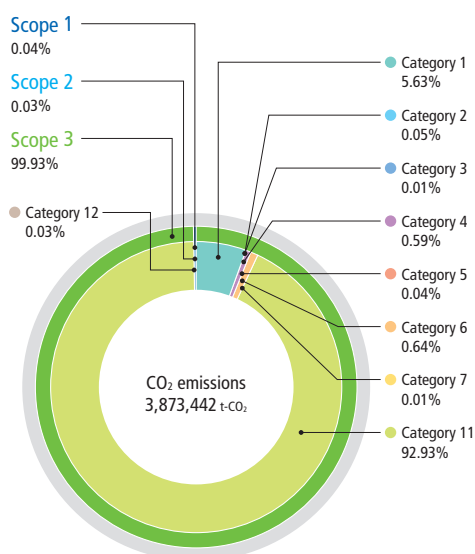
- Eco-friendly design and energy-saving proposal activities **P.49**
- Development of energy-saving technologies **The Company's sustainability webpage**



Please see the pages below for details.

- Activities to reduce CO₂ emissions from the paint finishing process **P.50**
- Development of new mid-term plan to achieve carbon neutrality

● Breakdown of Scope/Category



*Emission factor is calculated based on the Emission Factor Database on Accounting for Greenhouse Gas Emissions throughout the Supply Chain (ver.3.1) of the Ministry of the Environment and LCI Database IDEAv2 (for calculating greenhouse gas emissions in supply chain) of The National Institute of Advanced Industrial Science and Technology, Research Institute of Science for Safety and Sustainability, Advanced LCA Research Group, Sustainable Management Promotion Organization

Scope/Category	Accounting methods*	Emission amount (t-CO ₂)
Scope 1	—	1,438
Scope 2	—	1,136
Scope 3		3,870,868
Category 1 Purchased goods and services	Calculated from (raw) materials procurement amount (in value terms)	218,253
Category 2 Capital goods	Calculated from amount of capital investment	1,773
Category 3 Fuel- and energy-related activities not included in Scope 1 or 2	Calculated from purchased amount of electricity and fuels	388
Category 4 Transportation and delivery (upstream)	Calculated from transportation costs accompanying procurement of (raw) materials	22,998
Category 5 Waste generated in operations	Calculated from amount of waste discharged by type	1,417
Category 6 Business travel	Calculated from travel expenses paid by mode of transportation	24,817
Category 7 Employee commuting	Calculated from transportation expenses paid to employees	369
Category 8 Leased assets (upstream)	Included in Scope 1 and 2 emission calculation	—
Category 9 Transportation and delivery (downstream)	No relevant activities	—
Category 10 Processing of sold products	There are some products that are relevant, but calculations are ignored because their ratios in sales are extremely small.	—
Category 11 Use of sold products	Calculated from emissions from operation of facilities Taikisha provided, HFC leakage from equipment Taikisha provided, and estimated useful lives	3,599,767
Category 12 End-of-life treatment of sold products	Calculated from weight of main equipment by type	1,086
Category 13 Leased assets (downstream)	No relevant activities	—
Category 14 Franchises	No relevant activities	—
Category 15 Investments	Calculations are ignored because the validity of the category 15 estimates is low as a result of many portfolio companies not disclosing Scope 1 and 2 emissions and the impact of the category 15 estimates on the entire supply chain is small.	—
Total of Scope 1, 2 and 3		3,873,442

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

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

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

Eco-Friendly Design

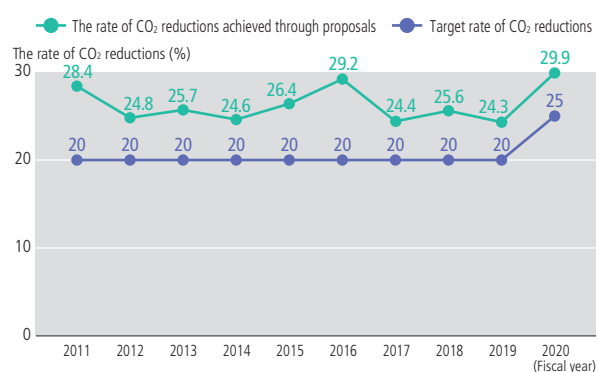
The Green Technology System Business, as part of promoting eco-friendly designs, makes proposals for improving the energy efficiency (reducing environmental impacts) of facilities owned by clients. In energy-saving proposal activities, the Division repeats the cycle of energy-saving diagnosis to grasp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

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

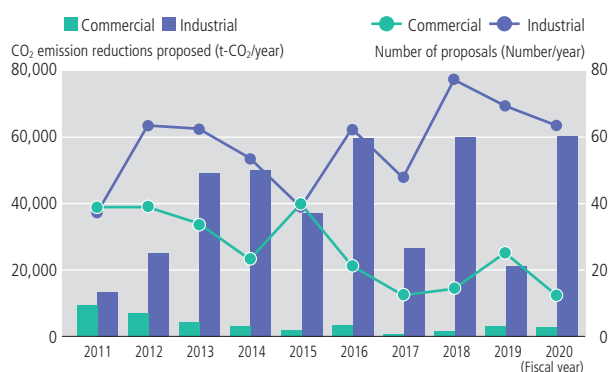
Taikisha is also working on the development of energy-saving technologies of clean room systems that control the circulating air volume by tracking the operation status of production equipment, staffing and indoor environment as well as room pressure control systems, by incorporating the technological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

Taikisha defines the rate of CO₂ emissions reduced from facilities owned by clients due to Taikisha's proposals as the rate of CO₂ reductions. The transition in the rate of CO₂ reductions for the past 10 years is shown in Figure 1. In FY2020, Taikisha conducted activities by setting a target for the rate of CO₂ reductions of a weighted average of 25% or higher in in-house design projects, and Taikisha exceeded the target at 29.9%. (The rate of CO₂ reductions achieved through proposals for each fiscal year is based on the most recent result of each proposal.) The number of proposals and the proposed amount of CO₂ emission reductions are classified by commercial client (for offices and hospitals, etc.) and industrial client (plants, etc.) and their transitions are shown in Figure 2. The amount of proposed CO₂ emission reductions that corresponds to Category 11 under Scope 3 was about 948,000 t-CO₂ (the effect of 15 years of operation).

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



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

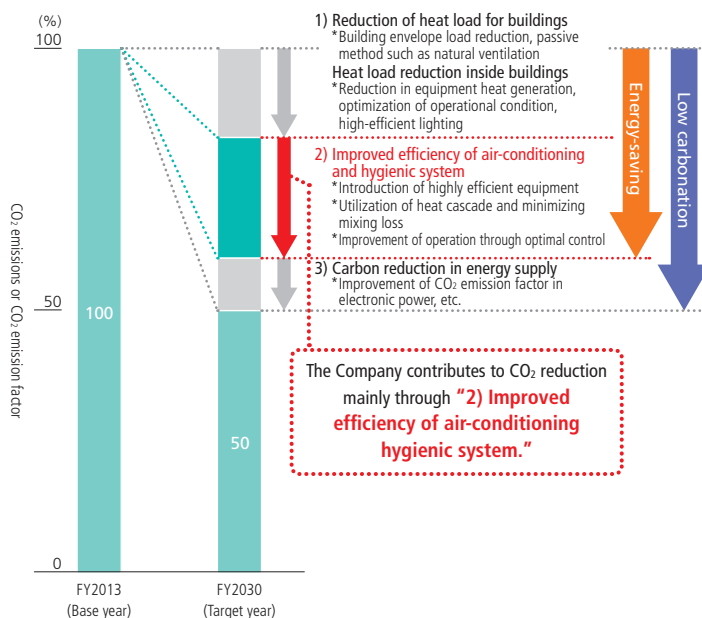


Formulation of New Medium-Term Plan for 2020 and Beyond

In light of the social goal of substantially reducing CO₂ emissions by 2030, Taikisha has set a new medium-term plan target for 2020 and beyond to reduce its CO₂ emission factor in designing and construction by 25% by 2030 (as compared with the 2013 emissions level, estimated based on net sales of completed construction contracts).

In order to achieve the medium-term plan, Taikisha will utilize energy-saving technologies in its current portfolio as well as new energy-saving technologies currently being developed such as production device tracking control.

● Roadmap for reduction of CO₂ emissions (illustration)



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

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

Activities in the Field of Automobile Paint Finishing Systems

Activities to Reduce CO₂ Emissions from the Paint Finishing Process

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

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

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

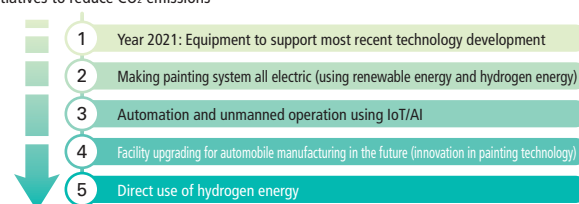
In 2020, the Company introduced new technologies including dry booth using cardboard filter and compact air-conditioner using energy-saving mist moisturizing system, and achieved the third medium-term target set in 2015 at 70 kg-CO₂/unit.

Development of New Medium-Term Plan to Achieve Carbon Neutrality

As of 2021, in the light of the situation of greenhouse gas emission in countries across the world, governments as well as automobile manufacturers, who form our clientele, are increasingly setting targets and deliberate measures to achieve carbon neutrality. Under these circumstances, the Paint Finishing System Division will set a new medium-to long-term CO₂ reduction target in automobile painting process in FY2021, in view of long-term low-carbon targets of automobile manufacturers. Specifically, Taikisha is considering the following initiatives to contribute to the realization of carbon neutrality and conservation of the global environment in collaboration with automobile manufacturers and other related companies.

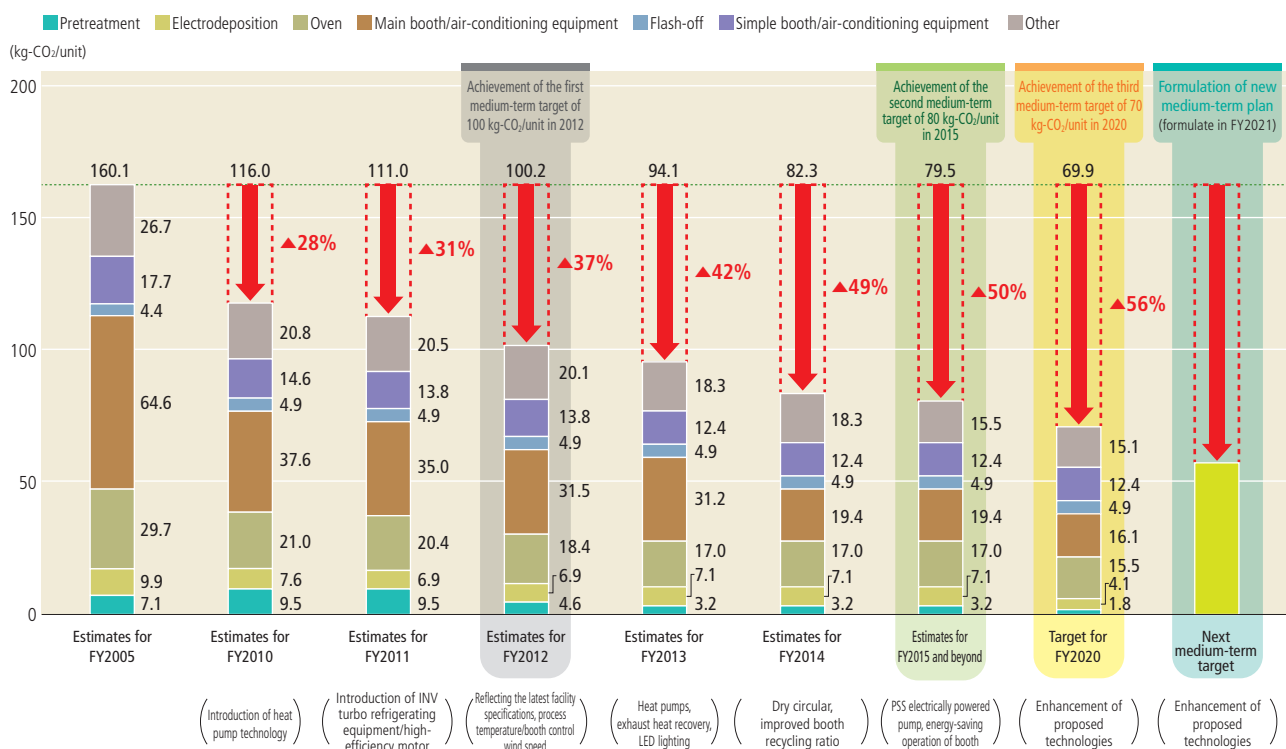
● Proposal for CO₂ reduction in automobile painting process

Initiatives to reduce CO₂ emissions



Target zero CO₂ emissions

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



Human Resources

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

Initiatives for Industrial Health and Safety

Based on the annual Corporate Health & Safety Policy announced by the President, Taikisha aims to build a more comfortable working environment by placing the utmost priority on safety.

Basic Principles of Industrial Health and Safety

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



Corporate Health & Safety Policy

Basic Principles

Based on an understanding of the importance of human life as its basic principle, Taikisha thoroughly implements safety-first planning and construction and fulfills its social responsibilities as a company in the construction industry out of respect for the law. Taikisha aims to protect the health and lives of employees and workers and makes efforts to build a more comfortable working environment. Taikisha also aims to establish the business foundation where trusted sustainable business activities can be carried out through contributions to the society.

FY2021 Policy

- 1 Critical/public disaster prevention
 - 1) Increased disaster prevention activities through risk assessment and implementation of health and safety plan formulated based on the past disasters
 - 2) Prevention of critical/public disaster through organizational health and safety management activities
- 2 Development of a comfortable working environment
 - 1) Prevention of occupational disease and health disorders, and improvement and maintenance of mental and physical health
 - 2) Appropriate placement of elderly, minors, female workers, unskilled workers
- 3 Improvement of the level of industrial health and safety management
 - 1) Provide employees with safety education and guidance to improve health and safety management capabilities through education programs
 - 2) Provide and enhance health and safety management education and guidance to the owner and the staff of the business partners
 - 3) Raise awareness on general management in every construction work
- 4 Improvement of level of industrial health and safety management at overseas group companies
 - 1) Conduct audit and give guidance on conformity to occupational health and safety management systems
 - 2) Strengthen education for national staff on prevention of similar accidents by using safety information

April 1, 2021
President and Representative Director, Taikisha Ltd.

Koji Kato

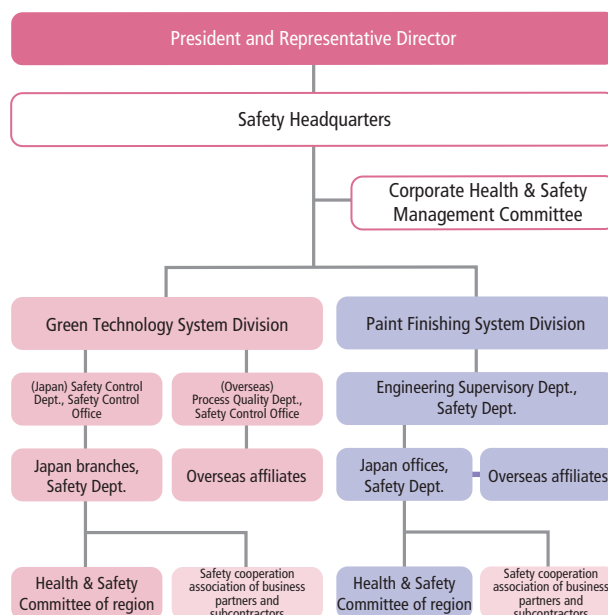
Health and Safety Management System and Activities

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

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



Diagram of the System for Health & Safety Management



Monitoring of Safety Activity Results

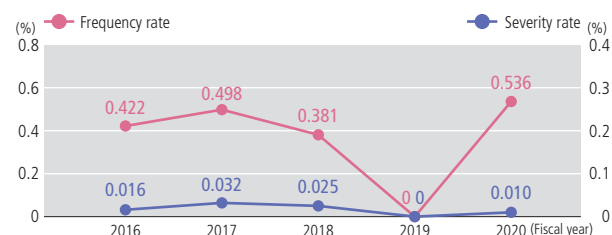
Taikisha measures and monitors the effects of safety activities by using a frequency rate that indicates the frequency of industrial accidents and a severity rate that indicates the severity of accidents as safety indicators. The transition of these indicators is as follows.

Frequency rate: This indicates the frequency of occurrence of industrial accidents, which is calculated based on the number of deaths and injuries due to industrial accidents (accidents involving at least four days of lost work time according to the criteria of the Ministry of Health, Labour and Welfare) per 1,000,000 cumulative hours worked.

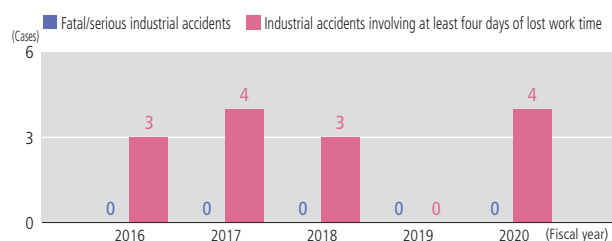
Severity rate: This indicates the degree of seriousness of the accident, which is calculated based on the number of work-days lost per 1,000 cumulative hours worked.

Scope: Taikisha's construction sites (employees on a non-consolidated basis and subcontractors)

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



Number of industrial accidents occurred



Efforts for Improvement of Industrial Health and Safety Management at Overseas Affiliates

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



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

Conferences and Safety Training by Inviting Overseas Local Staff

On an annual basis, engineering and safety staff of overseas affiliates are assembled in Japan to be provided with safety education in an effort to improve their safety management skills. In FY2020, the training was provided online.

(Safety education items for staff members of overseas affiliates)

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



Development of Human Resources for Industrial Safety and Health

Taikisha implements the following initiatives with the aim to develop safety staff in Japan and overseas.

- **Establishment of information-sharing website for all the safety staff.**
An information-sharing website was launched for all the safety staff including overseas staff. Safety information and manuals are available in Japanese, English and Chinese.
- **Staff training on safety**
E-learning is provided twice a year for 1,000 eligible staff in Japan. The Company plans to introduce similar e-learning for about 500 eligible national staff overseas from FY2021.
- **Implementation of general training including safety**
The Company set a rule that requires each office, etc. to provide education to its staff and partners about the systems and other matters in accordance with the "education manual for employee preparatory training, business partner training, staff preparatory training and site staff training," and planned or conducted about 15 different safety trainings at various offices including Safety Headquarters. The Safety Headquarters also conducts training for new staff and new managers once a year.

Voice



Taikisha (Thailand) Co., Ltd.
General Manager, Construction Unit,
Paint Finishing Div.

Chayan Piyawat

Safety Initiatives at Taikisha (Thailand) Co., Ltd.

At Taikisha (Thailand) Co., Ltd., a leading company of installation of paint finishing systems, the Paint Finishing System Division provides a safe and sound working environment to all employees, employees of business partners and other related personnel at the facilities in accordance with the following policy.

1. Comply with national and local laws and regulations related to occupational health and safety.
2. Occupational health and safety in the workplace is addressed as a top priority for employees and those under the company's control.
3. Promote awareness on and off-site for industrial health and safety among employees and those under the company's control.
4. Treat Incident and Accident Reports as the company's important and irreplaceable asset.
5. Respect opinions from all the workers and employees as well as proposals for working condition improvement, and reflect them in operations.
6. Support and promote the targets set by the management team and provide appropriate resources, information and training to achieve them.
7. Carry out regular performance assessments aimed at improving operations and continuously achieving zero accidents and zero occupational injuries, and make ceaseless efforts to upgrade the process and the quality of such assessments.

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

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

Basic Policy on Human Rights

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

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

Taikisha Ltd. Code of Conduct (abstract)

I. Principles of behavior

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

II. Standards of ethical conduct

1. Respect for basic human rights and maintenance of sound workplace environment
- (1) We respect basic human rights in corporate activities and do not discriminate against any employee based on her/his race, religion, creed, origin, sex, disability, physical characteristics, age or other attributes that are not related to the business of our company.
- (2) At the workplace, we prohibit sexual and other harassment using hierarchical relationships or superiority of position, regardless of whether such harassment is intentional or not.

Corporate Culture Committee

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

Employee data (scope: non-consolidated)

Item			FY2018	FY2019	FY2020
Number of employees (as of March 31)	Non-consolidated	Male	1,297	1,302	1,356
		Female	175	181	188
		Total	1,472	1,483	1,544
	Consolidated	Domestic	1,669	1,685	1,740
		Overseas	3,160	3,098	3,302
		Total	4,829	4,783	5,042
Average length of service (years)			18.1	17.8	17.4
Number of nonregular employees (as of March 31)	Fixed-time employees		89	84	85
	Ratio of fixed-time employees (%)		6.0	5.7	5.5
	Contract employees		92	89	75
	Ratio of contract employees (%)		6.3	6.0	4.9
	Total		181	173	160
Number of newly employed employees (from April 1 of the previous year to March 31 of the relevant year)	New graduates	Male	47	60	92
		Female	7	6	9
		Total	54	66	101
	Mid-career employment	Male	17	13	7
		Female	6	5	6
		Total	23	18	13
Number of new graduates retained			44 (newly employed in 2016)	54 (newly employed in 2017)	54 (newly employed in 2018)
			40 (as of 2019)	48 (as of 2020)	48 (as of 2021)
Retention rate of new graduates (%)			90.9	88.9	88.9
Number of employees who left their job (from April 1 of the previous year to March 31 of the relevant year)	Mandatory retirement		27	23	32
	Left for personal reasons		38	29	22
	Total		65	52	54
Rate of turnover (%)			4.4	3.5	3.5
Number of re-employed employees after mandatory retirement			88	82	82
Rate of re-employment after mandatory retirement (%)			91.3	89.5	95
Employment rate of persons with disabilities (%)			2.14	2.27	2.26

Harassment Prevention

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

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

In training, Taikisha also engages in enlightenment activities to make its employees aware of the need for dialogue, the significance of prevention and resolution of issues, etc.

Basic Policy for Human Resource Development

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

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

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

Human Development Vision

1. Develop human resources with high morals

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

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

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

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

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

Support for Career Advancement and Acquisition of Certifications

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

Just and Fair Assessment

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

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

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

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

Global Human Resources System

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

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

The global human resource system has been introduced step by step since FY2014 and is operational in India, Indonesia, and Thailand as of April 2021.

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

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

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

Basic Policy for Achievement of Diversity

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

Taikisha's overseas affiliates have 3,302 employees of various nationalities, while its domestic organization also has 20 foreign employees from eight countries including China and South Korea as of April 1, 2021.

In the recruitment of new graduates in April 2021, 87 newly hired employees included 16 female employees and one foreign employee. Going forward, Taikisha will continue to engage in hiring activities without prejudice against any nationality, gender, or disability.

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

Promoting Women's Career Advancement

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

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

Taikisha also appointed a female director in the current fiscal year. Taikisha is committed to reinforcing the support system for women's career advancement and motivating them by sharing experience and knowledge in the Company and reflecting them in the systems.

Re-employment after Mandatory Retirement

Taikisha is working on the active participation of diverse human resources also in terms of age, having introduced a post-retirement re-employment system. In FY2020, 19 out of 20 persons who reached mandatory retirement age opted for re-employment. Work and personnel treatment plans tailored to their life cycles are made available to them at Taikisha.

Basic Policy for Improvement of the Work-Life Balance

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

To improve work-life balance, Taikisha introduced a telework scheme, work-interval scheme and hourly paid leave. The Company will promote the use of various systems to realize flexible and diverse work styles.

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

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

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

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

● Childcare/Nursing Care Support System

Item	Taikisha Ltd.	Laws and regulations
Childcare leave	Up to 2 weeks of use of expired paid leave	The employee may receive no pay
Short-working-hours system for childcare	Until the child finishes the third grade of elementary school (until March 31 of the applicable year)	Until the child reaches three years old
Time off for sick/injured childcare	Until the child finishes the third grade of elementary school (until March 31 of the applicable year) Use of expired paid leave	Until the child enrolls in elementary school The employee may receive no pay
Leave due to spouse giving birth	Up to three days of paid leave	—
Nursing care leave	Payment of nursing care leave benefits (approx. 67% of salary) plus approx. 13% of salary	Nursing care leave benefits (approx. 67% of salary)
Time off for nursing care	Up to two days per week for a maximum of one year (approx. 104 days on a single-year basis) Use of expired paid leave	Up to five days per year The employee may receive no pay

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

Item	FY2017	FY2018	FY2019	FY2020
Number of employees on maternity leave	2	3	4	2
Number of employees on childcare leave	4 (including 2 male employees)	4 (including 0 male employees)	10 (including 3 male employees)	15 (including 7 male employees)
Ratio of employees who returned to work after childcare leave (%)	100	100	100	100
Retention rate 12 months after returning to work (%)	100	100	100	100
Number of employees who are using the short-working-hours system	22	23	21	22
Average paid leave taken by all employees (days)	7.0	9.1	10.3	9.8

Health Management

Taikisha considers employees who support the company's growth as one of the most important management resources. The Company therefore recognizes maintenance and improvement of mental and physical health of employees as one of the most important management issues and announced "Health Management Declaration" in 2020 to achieve the corporate philosophy of "Establish a company which can continuously grow and contribute to the society" and "Establish an attractive company."

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

Taikisha has set up the Taikisha Group Health Insurance Association and opened an online physical and mental health counseling service called Health Counseling Dial 24. It provides speedy and appropriate support to help employees and their family members eliminate any concerns and worries about physical and mental health. This is done through counseling given by specialized counseling staff who are experienced doctors, health nurses, nurses, registered dietitians, etc., 24 hours a day, 365 days a year.

From FY2021, in collaboration with the Taikisha Group Health Insurance Association, Taikisha has taken measures to address life-style diseases of employees with support from registered nurses from the Taikisha Group Health Insurance Association and the Personnel Administration Section. On top of the stress check system, the Company is planning to conduct "mental health examinations" for employees and interview those who took part in the examination, through which consultations with a mental health clinical physician, etc. will be provided to prevent long-term leave or employees leaving the company due to mental health problems.

Concurrently with the introduction of the stress check system in accordance with the revised Industrial Safety and Health Act, Taikisha has established a mechanism that can provide employees with the opportunity to monitor their mental state and cope with stresses and support employees in doing so. Taikisha will continue to create a working environment based on the results of group analysis.

Regarding the Group Long Term Disability (GLTD) insurance scheme which the Company introduced, bearing the cost of insurance premiums in full, the Company extended the eligibility to include contract employees in FY2020. Under the scheme, full-time employees and contract employees below the age of 60 who take long-term leave to undergo medical treatment are entitled to income protection covering 80% of the

standard monthly remuneration amount. Taikisha supports employees' early reinstatement to work by developing an environment in which employees can concentrate on their recovery while securing income similar to the level of take-home pay received when they were working.

Taikisha was recognized under the "2021 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)" by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. The Company believes that maintaining a sound mind and body for employees is in line with its corporate philosophy, and will continue to work on health measures for employees.



● Mental Health Support

Prevention 1

Activities to protect employees from mentally unwell conditions.

Internal training, etc. to raise awareness of employees.

Prevention 2

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

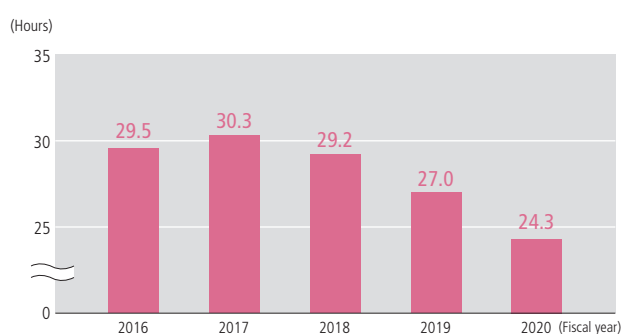
Appropriate advice and instructions are given upon consultation or communication with the supervisors or the division leader of the person who is unwell. If needed, consultation is available for employees.

Prevention 3

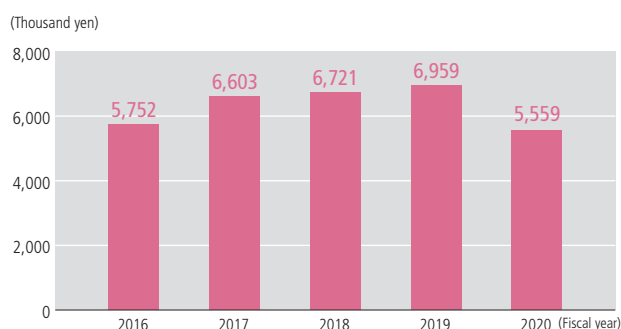
Measures to precisely learn and manage symptoms in order to prevent them from becoming worse.

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

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



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



Procurement

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

Basic Policy for Procurement

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

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

Business Partner Selection System

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

Management of Confidential Information

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

Coordination with Business Partners

In order to maintain and continue favorable relationships with business partners, Taikisha holds a liaison workshop with business partners. There, participants study to learn about revisions of laws and regulations related to business transactions, check points to keep in mind, and deepen mutual understanding about a workflow that accommodates changes in society. In FY2019, Taikisha held nine liaison workshops in total targeting approximately 300 companies consisting of equipment contractors in Tokyo, Osaka, Chubu, Sapporo, Tohoku, Kyushu, and Hiroshima. In FY2020, the Company suspended the workshop due to the COVID-19 pandemic.

Exclusion of Anti-Social Forces

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

Award of "Excellent Green Procurement Company"

Since FY2011, Taikisha has been granting an award annually to its business partners deemed as excellent companies for having made significant contributions to green procurement and engaged in environmental activities proactively of their own accord, in order to further promote green procurement activities. Upon the presentation of the award, Taikisha conducted an environmental activity survey on business partners, and selected an "Excellent Green Procurement Company" for FY2020 in consideration of the results of the environmental management system (EMS) assessment.



Online award ceremony

Global Procurement Activities

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

Initiatives for Quality Improvement

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

Basic Policy

The Green Technology System Division implements guiding principles for each operational process in accordance with its quality policy: "We will provide reliable building equipment and services that will satisfy customers by maintaining high levels of quality, continuously improving quality and promoting standardization."

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

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

Design and Construction Quality Improvement Activities

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

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

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

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

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

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

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

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

Introduction of Online Training

In regard to the trainings conventionally held at each branch/affiliate in Japan for young employees to improve their technical capabilities, Taikisha introduced online trainings utilizing online meeting system from FY2020 as part of infection prevention measures under the COVID-19 pandemic.

The introduction of online trainings was well received by the employees as it reduces the burden of commuting and allows them to participate in training at other offices. The Company will continue its initiatives geared towards improving the technical skills of young employees through upskilling training centering on online training.



RESULTS OF OPERATIONS (OVERVIEW)

The results for the fiscal year ended March 31, 2021

Accounting estimates and underlying assumptions

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

Please refer to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 2. Summary of significant accounting policies, (13) Significant accounting estimates" for important items of accounting estimates and underlying assumptions.

In addition, please refer to "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, 2. Summary of significant accounting policies, (16) Additional information" for the effects of the spread of COVID-19.

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

Earnings Overview

For the fiscal year, the global economy fell into an economic recession due to the impact of the COVID-19 pandemic. For the first quarter, the governments of each country implemented restrictions on economic activities as emergency response measures, including lockdowns, the suspension of business operations, and travel restrictions. As a result, the global economy deteriorated significantly. From the second quarter, signs of recovery were visible as economic activities resumed. Subsequently, owing to widespread COVID-19 vaccine rollouts, financial support provided by each country's government and so on, economies worldwide are on a recovery track.

Among the market environments of the Taikisha Group, in the domestic market, while the building HVAC sector saw the impact on capital investments due to the state of emergency declaration in the first quarter, it subsequently moved towards recovery. Meanwhile, in the industrial HVAC sector, due to the impact of economic deterioration and growing uncertainty over the future outlook, each manufacturer continued to move with caution with regard to capital investments. Overseas, both in the industrial HVAC sector and the automobile paint finishing sector, manufacturers continued to stay in the correction phase regarding capital investments.

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

Firstly, as an initiative aimed at expanding our overseas business domain through capital alliances, on July 30, 2020, the Company invested in Nicomac Clean Rooms Far East LLP (currently Nicomac Taikisha Clean Rooms Private Limited, hereinafter "Nicomac") and made it a consolidated subsidiary. Nicomac is an India-based company that manufactures and sells panels for clean rooms. In the Indian market, for which medium- to long-term growth can be expected, the Company aims to strengthen our responsiveness towards India's clean room construction market centering on

environments for manufacturing medical equipment where high-performance HVAC systems are required, by integrating Nicomac's high-quality panel manufacturing and installation technologies with the Company's HVAC system technologies.

The business results of Nicomac for the first and second quarters are not included in the Consolidated Statement of Income and the Consolidated Statement of Comprehensive Income for the fiscal year because the deemed acquisition date of Nicomac was September 30, 2020.

Secondly, as part of our efforts to expand the business domain based on our core business, the Company established a wholly-owned subsidiary Vege-factory Co., Ltd., to provide one-stop solutions from construction of the plant to the production and sales of vegetables, with the aim of further expanding and enhancing our domain in the plant factory business. With the establishment of this subsidiary, the Taikisha Group aims to build a new brand as a comprehensive agricultural business operator that handles even the production and sales of vegetables.

In addition, as an initiative aimed at enhancing the Company's added value, in the paint finishing sector, the Company jointly developed the automobile paint finishing system "i-ESTA100TE," which realizes a "100% coating efficiency", with TOYOTA AUTO BODY CO., LTD.

Compared to an about 70% coating efficiency of traditional coaters, which atomize the paint with aerodynamics, the new electrostatic atomizing paint finishing system does not use air. Instead, it only uses the power of static electricity to coat the atomized paint and paint particles onto the automobile body. As a result, it realizes a 100% coating efficiency, which has traditionally been deemed difficult, simplifies the equipment and reduces the energy used, thereby enabling a reduction of the environmental burden.

Given such circumstances, consolidated orders received decreased 11.7% year-on-year to ¥200,469 million, due to decreased orders both in Japan and overseas. This includes orders received overseas, which decreased 13.7% year-on-year to ¥88,328 million.

Consolidated net sales of completed construction contracts decreased 10.1% year-on-year to ¥202,548 million, due to the decrease in sales both in Japan and overseas. This includes consolidated net sales of completed construction contracts overseas, which decreased 0.3% year-on-year to ¥92,791 million.

In regard to profits, gross profit on completed construction contracts decreased ¥3,666 million year-on-year to ¥34,027 million, operating income decreased ¥3,749 million year-on-year to ¥11,690 million, ordinary income decreased ¥3,703 million year-on-year to ¥12,287 million, and profit attributable to owners of parent decreased ¥853 million year-on-year to ¥8,279 million.

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

Green Technology System

Consolidated orders received decreased compared to the previous year, mainly due to decreases overseas, such as in Southeast Asia

including Thailand, and the impact of the industrial HVAC sector in Japan experiencing a reactionary drop from a large-scale construction contract that was received in the previous year. The consolidated net sales of completed construction contracts decreased compared to the previous year, mainly due to decreases both in the building HVAC sector and the industrial HVAC sector in Japan, and decreases overseas in Southeast Asia including Thailand.

As a result, consolidated orders received decreased 15.6% year-on-year to ¥135,518 million. The breakdown is orders received for building HVAC of ¥45,910 million which decreased 3.9% year-on-year and orders received for industrial HVAC of ¥89,607 million which decreased 20.5% year-on-year. Consolidated net sales of completed construction contracts decreased 14.8% year-on-year to ¥134,058 million. The breakdown is sales for building HVAC of ¥40,952 million which decreased 25.5% year-on-year and sales for industrial HVAC of ¥93,106 million which decreased 9.1% year-on-year. Segment profit (ordinary income) decreased ¥2,701 million year-on-year to ¥11,192 million.

Paint Finishing System

Consolidated orders received decreased compared to the previous year, due to a decrease in orders received in regions such as North America. The consolidated net sales of completed construction contracts increased compared to the previous year, mainly due to an increase overseas in regions such as North America and Europe, though sales in Japan decreased.

As a result, consolidated orders received decreased 2.2% year-on-year to ¥64,951 million and consolidated net sales of completed construction contracts increased 0.7% year-on-year to ¥68,497 million. Segment profit (ordinary income) decreased ¥1,903 million year-on-year to ¥911 million.

Financial Condition

Assets

As of March 31, 2021, current assets decreased 2.1% year-on-year to ¥165,387 million. This is mainly due to decrease in cash and deposits of ¥5,566 million, securities of ¥1,500 million and costs on uncompleted construction contracts of 1,281 million despite increase in notes receivable, accounts receivable from completed construction contracts and other of ¥4,686 million.

Non-current assets increased 36.7% year-on-year to ¥63,468 million. This is mainly due to increase in investment securities of ¥8,288 million, net defined benefit asset of ¥3,930 million and goodwill of ¥3,328 million.

As a result, total assets increased 6.3% year-on-year to ¥228,855 million.

Assets by reportable segment are as follows.

Green Technology System

As of March 31, 2021, current assets increased 7.0% year-on-year to ¥77,770 million. This is mainly due to increase in cash and deposits of 2,786 million and notes receivables, accounts receivable from completed construction contracts and other of ¥1,565 million.

Non-current assets increased 50.7% year-on-year to ¥32,837 million. This is mainly due to increase in investment securities of ¥5,910 million, goodwill of ¥3,419 million and customer-related assets of ¥1,389 million.

As a result, total assets increased 17.1% year-on-year to ¥110,608 million.

Paint Finishing System

As of March 31, 2021, current assets increased 2.0% year-on-year to ¥51,644 million. This is mainly due to increase in notes receivable, accounts receivable from completed construction contracts and other of ¥3,455 million and costs on uncompleted construction contracts of ¥1,250 million

Non-current assets increased 17.2% year-on-year to ¥16,340 million. This is mainly due to increase in investment securities of ¥2,066 million and deferred tax assets of ¥456 million.

As a result, total assets increased 5.2% year-on-year to ¥67,985 million.

Liabilities

As of March 31, 2021, current liabilities decreased 7.5% year-on-year to ¥86,919 million. This is mainly due to decrease in notes payable, accounts payable for construction contracts and other of ¥5,573 million and provision for warranties for completed construction of ¥361 million.

Non-current liabilities increased 81.2% year-on-year to ¥15,625 million. This is mainly due to increase in deferred tax liabilities of ¥4,324 million and long-term loans payable of ¥2,816 million.

As a result, total liabilities decreased 0.0% year-on-year to ¥102,544 million.

Net assets

As of March 31, 2021, total net assets increased 11.9% year-on-year to ¥126,311 million. This is mainly due to increase in valuation difference on available-for-sale securities of ¥5,860 million, retained earnings of ¥4,859 million and accumulated remeasurements of defined benefit plans of ¥2,718 million despite decrease in foreign currency translation adjustment of ¥610 million.

Cash flows

Cash and cash equivalents (collectively, "Cash") as of March 31, 2020 and 2021 were ¥58,846 million and ¥50,670 million respectively. Compared to the previous year, it decreased ¥8,175 million.

Cash flows from operating activities

Cash provided by operating activities for the years ended March 31, 2020 and 2021 totaled ¥21,386 million and ¥973 million respectively. Cash increased mainly due to the recording of profit before income taxes and a decrease in inventories and so on which more than offset outflows such as account payable-trade paid.

Cash flows from investing activities

Cash used in investing activities for the year ended March 31, 2020 and 2021 totaled ¥877 million and ¥6,913 million respectively. Cash decreased mainly due to purchase of investment in capital of subsidiaries resulting in change in scope of consolidation and purchase of property, plant and equipment and intangible assets outweighed proceeds from sales of property, plant and equipment and intangible assets, although increased due to proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Cash used by financing activities for the year ended March 31, 2020 and 2021 totaled ¥11,475 million and ¥1,435 million respectively. Cash decreased mainly due to decrease in cash dividends paid and cash dividends paid to non-controlling interests, although increased due to proceeds from long-term loans payable outweighed repayments of long-term loans payable.

Business and Other Risks

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

Forward-looking statements in this section are based on judgments made by the Taikisha Group as of March 31, 2021.

Risk of Changes in Private Capital Investment

Changes in the environment for orders received may significantly affect sales and profit in the Taikisha Group's businesses. In the Green Technology System Division, this may be caused by delays in redevelopment projects in Japan, decreases in capital investment in the manufacturing industry, or a reduction in investment by Japanese companies overseas. In the Paint Finishing System Division, this may be caused by decreases in capital investment due to continued shrinkage of domestic manufacturing by Japanese automobile manufacturers or a downturn in automobile sales around the world, or changes to investment fields due to the spread of CASE (Connected, Autonomous/Automated, Shared, Electric). The Taikisha Group's business performance and other results may be affected by a decrease in the amount of orders received due to these factors.

In response, Green Technology System Division will work to further strengthen cost-competitiveness in Japan, by expanding its customer base and promoting cost reduction initiatives, while overseas it will work to strengthen its sales structure targeting local as well as European and US companies, and promote initiatives to increase orders from Japanese manufacturers in collaboration with sales team in Japan. Paint Finishing System Division will leverage automation technology to expand from the 4-wheel and 2-wheel vehicle markets into other industries, aiming to expand its automation business.

Risk Associated with Large-Scale Disasters

The Taikisha Group's business performance and other results may be

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

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

Risk Associated with the Spread of COVID-19

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

Crisis countermeasures of the highest level have been implemented in response to COVID-19, a crisis task force has been established headed by the President and composed of Chief General Managers and Chief Executives, and measures are carried out to respond to the crisis for the entire Taikisha Group, such as recommendation of work at home, staggered working hours, allowing commute by cars which lowers risk while commuting, reconsideration of company events and business activities in order to prevent infections, and correspondence for infected people.

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

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

In response, the Taikisha Group collects information on political, economic and statutory changes in the overseas regions in which it operates, and strives to control country risks and overseas legal and regulatory risks. The Taikisha Group implements forward exchange

contracts and other instruments to hedge currency risks arising from payments and collections for foreign currency construction contracts, in order to avoid risk as much as possible. It will also enhance the governance structure of its overseas subsidiaries and associates.

Risk Associated with Technological Development

Should the Taikisha Group experience delays in the development of systems to meet increasing customer needs, such as energy saving, enhanced environmental measures and automation, its technological competitiveness will be reduced. Then, its business performance and other results may be affected by the resulting loss of opportunities to receive orders, as well as deterioration in customer trust and corporate reputation.

In response, the Taikisha Group endeavors to solve social issues through the development and demonstration of technologies aimed at reducing environmental impact, as well as automation technologies. To this end, the Taikisha Group will engage in themes that anticipate social needs, by leveraging information and communication technologies and strengthening initiatives across the Group.

Risk Associated with Human Resources

Construction and equipment installation work, the Taikisha Group's business field, is heavily reliant on human resources. In Japan, the Taikisha Group's business results may be affected by inability to build the operational structures required to achieve medium- to long-term plans, with the shortage in skilled and experienced engineers due to the aging population and delays in personnel development. Overseas, long-term business development may also be affected if the core human resources necessary to guide the localization of the Taikisha Group's businesses cannot be secured, due to factors such as delays in the development of local staff and employee turnover.

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

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

Legal and Regulatory Compliance Risk

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

In response, the Taikisha Group will endeavor to create a corporate culture and mechanisms to prevent rule violations. It will

engage in continuing implementation and follow-up of its compliance education program, in order to maintain and increase employee awareness of legal and regulatory compliance.

Risk of Serious Accidents and Quality Defects

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

In response, the Taikisha Group is improving safety awareness and level by utilizing IT technology such as digital signage, and instructing partner companies to create detailed work procedure diagrams at work procedure study meetings. Plus, Taikisha Group strives to strengthen the management system and takes all possible measures for safety and health management at construction sites. In addition, Taikisha Group is working to prevent quality defects by reviewing the construction management system and promoting the introduction of IT in construction management.

Risk of Changes in Material Prices and Unit Labor Costs

Sharp rises in material prices and unit labor costs could affect the Taikisha Group's business performance and other results if the Taikisha Group is unable to reflect them to contract prices.

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

Risk Associated with the Leakage of Confidential Information

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

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

Subsidiaries and associates

Taikisha Group consists of Taikisha Ltd., 44 subsidiaries, and 4 associates. Taikisha Ltd., 4 subsidiaries and 1 associate are domiciled in Japan, and 40 subsidiaries and 3 associates are domiciled overseas.

CONSOLIDATED BALANCE SHEETS

Taikisha Ltd. and its Consolidated Subsidiaries
As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
Assets	2020	2021	2021
Current assets:			
Cash and deposits (Notes 3, 7 and 9)	¥57,626	¥52,059	\$470,195
Notes receivable, accounts receivable from completed construction contracts and other (Notes 3 and 9)	96,726	101,413	915,943
Securities (Notes 7, 9 and 10)	3,500	2,000	18,063
Costs on uncompleted construction contracts (Note 3)	3,097	1,816	16,402
Raw materials and supplies	358	679	6,134
Other	7,979	8,068	72,878
Allowance for doubtful accounts (Note 9)	(329)	(649)	(5,870)
Total current assets	168,958	165,387	1,493,745
Non-current assets:			
Property, plant and equipment			
Buildings and structures	8,632	8,035	72,578
Machinery, vehicles, tools, furniture and fixtures (Notes 3 and 8)	11,002	11,720	105,855
Land	2,038	1,772	16,011
Other	703	553	4,998
Accumulated depreciation.	(11,884)	(11,931)	(107,763)
Total property, plant and equipment	10,493	10,150	91,679
Intangible assets			
Goodwill (Note 14 and 18)	755	4,084	36,889
Customer-related assets (Note 14)	—	1,389	12,552
Other	2,824	2,976	26,885
Total intangible assets	3,580	8,450	76,326
Investments and other assets			
Investment securities (Notes 3, 9 and 10)	24,388	32,677	295,135
Deferred tax assets (Note 13)	655	1,026	9,267
Net defined benefit asset (Note 12)	5,181	9,111	82,296
Other	2,187	2,100	18,967
Allowance for doubtful accounts	(55)	(48)	(439)
Total investments and other assets	32,357	44,866	405,226
Total non-current assets	46,430	63,468	573,231
Total assets	¥215,389	¥228,855	\$2,066,976

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Liabilities and Net assets			
Current liabilities:			
Notes payable, accounts payable for construction contracts and other (Notes 3 and 9)	¥57,623	¥52,050	\$470,110
Short-term loans payable (Notes 9 and 21)	6,460	6,588	59,510
Income taxes payable (Note 9)	1,481	1,607	14,519
Advances received on uncompleted construction contracts	14,342	14,200	128,257
Provision for warranties for completed construction	836	475	4,296
Provision for loss on construction contracts (Note 3)	289	403	3,642
Provision for directors' bonuses	116	63	575
Other (Note 21)	12,772	11,528	104,126
Total current liabilities	93,924	86,919	785,035
Non-current liabilities:			
Long-term loans payable (Notes 9 and 21)	1,952	4,769	43,078
Deferred tax liabilities (Note 13)	4,497	8,821	79,675
Provision for directors' retirement benefits	51	40	370
Provision for share-based remuneration for directors	109	171	1,544
Net defined benefit liability (Note 12)	1,706	1,507	13,611
Other (Note 21)	305	315	2,846
Total non-current liabilities	8,622	15,625	141,124
Total liabilities	¥102,546	¥102,544	\$926,159
Net assets:			
Shareholders' equity			
Capital stock			
Authorized: 100,000,000 shares			
Issued: 35,082,009 shares as of March 31, 2020			
35,082,009 shares as of March 31, 2021	¥6,455	¥6,455	\$58,302
Capital surplus	5,058	5,058	45,687
Retained earnings	90,842	95,701	864,361
Treasury shares, at cost — 1,013,573 shares as of March 31, 2020	(2,593)	—	—
1,013,823 shares as of March 31, 2021	—	(2,594)	(23,435)
Total shareholders' equity	99,762	104,620	944,915
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	8,376	14,237	128,590
Deferred gains or losses on hedges (Note 11)	(0)	(3)	(29)
Foreign currency translation adjustment	372	(237)	(2,149)
Accumulated remeasurements of defined benefit plans	(302)	2,416	21,826
Total accumulated other comprehensive income	8,447	16,412	148,238
Non-controlling interests	4,633	5,277	47,664
Total net assets	112,843	126,311	1,140,817
Total liabilities and net assets	¥215,389	¥228,855	\$2,066,976

Per share data :

	Yen	U.S. dollars
Net assets	¥3,176.25	\$32.09

	Millions of yen		Thousands of U.S. dollars
Basis of calculation			
Total net assets	¥112,843	¥126,311	\$1,140,817
Amounts to be deducted from net assets (Non-controlling interests)	(4,633)	(5,277)	(47,664)
Net assets applicable to common shares	108,209	121,033	1,093,153
Number of common shares as of the year-end (thousands of shares)	34,068	34,068	34,068

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

CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Consolidated Statements of Income			
Net sales of completed construction contracts	¥225,378	¥202,548	\$1,829,379
Cost of sales of completed construction contracts (Note 4)	187,683	168,521	1,522,050
Gross profit on completed construction contracts	37,694	34,027	307,329
Selling, general and administrative expenses:			
Directors' compensations	894	870	7,863
Employees' salaries and allowances	8,911	8,538	77,120
Provision for directors' bonuses	116	63	575
Retirement benefit expenses (Note 12)	534	560	5,059
Provision for directors' retirement benefits	15	12	117
Provision for share-based remuneration for directors	109	61	556
Correspondence and transportation expenses	1,227	823	7,438
Provision of allowance for doubtful accounts	(62)	201	1,816
Rents	1,539	1,603	14,483
Depreciation	1,947	2,084	18,829
Amortization of goodwill (Note 4)	92	638	5,764
Other	6,928	6,878	62,123
Total selling, general and administrative expenses (Note 4)	22,254	22,336	201,743
Operating income	15,439	11,690	105,586
Non-operating income:			
Interest income	358	291	2,630
Dividend income	635	593	5,356
Dividend income of insurance	124	145	1,310
Real estate rent	109	100	909
Other	221	483	4,370
Total non-operating income	1,450	1,613	14,575
Non-operating expenses:			
Interest expenses	174	173	1,569
Sales discounts	160	101	921
Rent expenses on real estates	23	27	246
Foreign exchange losses	385	330	2,981
Provision of allowance for doubtful accounts	4	213	1,932
Share of loss of entities accounted for using equity method	74	65	587
Other	75	104	944
Total non-operating expenses	898	1,016	9,180
Ordinary income	15,991	12,287	110,981
Extraordinary income:			
Gain on disposal of non-current assets (Note 4)	58	618	5,589
Gain on sales of investment securities (Note 10)	447	—	—
Gain on step acquisitions	—	61	559
Total extraordinary income	506	680	6,148
Extraordinary losses:			
Loss on disposal of non-current assets (Note 4)	83	425	3,839
Impairment loss (Note 17)	97	359	3,246
Loss on sales of investment securities (Note 10)	0	—	—
Loss on valuation of investment securities (Note 10)	0	0	0
Amortization of goodwill (Note 4)	455	—	—
Total extraordinary losses	637	784	7,085
Profit before income taxes	15,860	12,184	110,044
Income taxes-current	4,636	3,755	33,918
Income taxes-deferred	1,560	(243)	(2,197)
Total income taxes	6,197	3,512	31,721
Profit	9,663	8,671	78,323
Profit attributable to non-controlling interests	530	392	3,544
Profit attributable to owners of parent	¥9,132	¥8,279	\$74,779

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Consolidated Statements of Comprehensive Income			
Profit	¥9,663	¥8,671	\$78,323
Other comprehensive income:			
Valuation difference on available-for-sale securities	(3,465)	5,860	52,932
Deferred gains or losses on hedges	0	(3)	(29)
Foreign currency translation adjustment	147	(546)	(4,932)
Remeasurements of defined benefit plans	(891)	2,758	24,912
Share of other comprehensive income of entities accounted for using equity method	(16)	6	62
Total other comprehensive income (Note 5)	(4,225)	8,076	72,945
Comprehensive income	¥5,437	¥16,748	\$151,268
Comprehensive income attributable to :			
Owners of parent	¥5,001	¥16,245	\$146,723
Non-controlling interests	436	503	4,545

	Yen	U.S. dollars
Per share data:		
Profit attributable to owners of parent	¥268.07	\$2.19
Cash dividends	¥100.00	\$0.81

	Millions of yen	Thousands of U.S. dollars
Basis of calculation		
Profit attributable to owners of parent	¥9,132	\$74,779
Profit attributable to owners of parent for common shares	9,132	74,779
Average number of common shares (thousands of shares)	34,068	34,068

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Taikisha Ltd. and its Consolidated Subsidiaries

For the year ended March 31, 2020

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥6,455	¥7,244	¥84,984	¥(2,476)	¥96,208	¥11,842	¥(0)	¥164	¥572	¥12,578	¥4,862	¥113,649
Changes of items during the period												
Dividends of surplus (Note 6)			(3,274)		(3,274)							(3,274)
Profit attributable to owners of parent			9,132		9,132							9,132
Purchase of treasury shares (Note 6)				(450)	(450)							(450)
Disposal of treasury shares (Note 6)		116		333	449							449
Purchase of shares of consolidated subsidiaries		(2,303)			(2,303)							(2,303)
Net changes of items other than shareholders' equity						(3,465)	0	208	(874)	(4,131)	(229)	(4,360)
Total changes of items during the period	—	(2,186)	5,858	(117)	3,553	(3,465)	0	208	(874)	(4,131)	(229)	(806)
Balance at the end of current period	¥6,455	¥5,058	¥90,842	¥(2,593)	¥99,762	¥8,376	¥(0)	¥372	¥(302)	¥8,447	¥4,633	¥112,843

For the year ended March 31, 2021

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	¥6,455	¥5,058	¥90,842	¥(2,593)	¥99,762	¥8,376	¥(0)	¥372	¥(302)	¥8,447	¥4,633	¥112,843
Changes of items during the period												
Dividends of surplus (Note 6)			(3,420)		(3,420)							(3,420)
Profit attributable to owners of parent			8,279		8,279							8,279
Purchase of treasury shares (Note 6)				(0)	(0)							(0)
Net changes of items other than shareholders' equity						5,860	(3)	(610)	2,718	7,965	644	8,609
Total changes of items during the period	—	—	4,859	(0)	4,858	5,860	(3)	(610)	2,718	7,965	644	13,468
Balance at the end of current period	¥6,455	¥5,058	¥95,701	¥(2,594)	¥104,620	¥14,237	¥(3)	¥(237)	¥2,416	¥16,412	¥5,277	¥126,311

For the year ended March 31, 2021

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of current period	\$58,302	\$45,687	\$820,475	\$(23,428)	\$901,036	\$75,658	\$(1)	\$3,365	\$(2,728)	\$76,294	\$41,846	\$1,019,176
Changes of items during the period												
Dividends of surplus (Note 6)			(30,893)		(30,893)							(30,893)
Profit attributable to owners of parent			74,779		74,779							74,779
Purchase of treasury shares (Note 6)				(7)	(7)							(7)
Net changes of items other than shareholders' equity						52,932	(28)	(5,514)	24,554	71,944	5,818	77,762
Total changes of items during the period	—	—	43,886	(7)	43,879	52,932	(28)	(5,514)	24,554	71,944	5,818	121,641
Balance at the end of current period	\$58,302	\$45,687	\$864,361	\$(23,435)	\$944,915	\$128,590	\$(29)	\$(2,149)	\$21,826	\$148,238	\$47,664	\$1,140,817

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Taikisha Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash flows from operating activities:			
Profit before income taxes	¥15,860	¥12,184	\$110,044
Depreciation and amortization	2,167	2,362	21,341
Amortization of goodwill	548	638	5,764
Increase (decrease) in allowance for doubtful accounts	(100)	304	2,749
Increase (decrease) in provision for warranties for completed construction	50	(400)	(3,618)
Increase (decrease) in provision for loss on construction contracts	(112)	114	1,035
Increase (decrease) in provision for directors' retirement benefits	(11)	(10)	(94)
Increase (decrease) in provision for share-based remuneration for directors	109	61	556
Increase (decrease) in net defined benefit liability	(242)	(97)	(879)
Interest and dividend income	(993)	(884)	(7,986)
Interest expenses	174	173	1,569
Gain on step acquisitions	—	(61)	(559)
Share of (profit) loss of entities accounted for using equity method	74	65	587
Loss (gain) on disposal of non-current assets	24	(193)	(1,750)
Loss (gain) on sales of investment securities	(447)	—	—
Loss on valuation of investment securities	0	0	0
Decrease (increase) in notes and accounts receivable-trade	7,852	(4,096)	(37,001)
Decrease (increase) in inventories	(311)	1,050	9,486
Decrease (increase) in accounts receivable-other	205	(16)	(151)
Increase (decrease) in notes and accounts payable-trade	2,054	(6,558)	(59,238)
Increase (decrease) in advances received on uncompleted construction contracts	(193)	(209)	(1,893)
Increase (decrease) in accrued consumption taxes	748	423	3,824
Increase (decrease) in deposits received	452	(550)	(4,969)
Increase (decrease) in accrued expenses	(104)	(29)	(269)
Other, net	(1,251)	(622)	(5,626)
Subtotal	26,555	3,645	32,922
Interest and dividend income received	993	884	7,986
Interest expenses paid	(170)	(173)	(1,572)
Income taxes paid	(5,992)	(3,382)	(30,547)
Net cash provided by (used in) operating activities	21,386	973	8,789
Cash flows from investing activities:			
Payments into time deposits	(3,199)	(4,071)	(36,775)
Proceeds from withdrawal of time deposits	4,067	3,023	27,308
Purchase of property, plant and equipment and intangible assets	(2,086)	(2,270)	(20,505)
Proceeds from sales of property, plant and equipment and intangible assets	44	824	7,442
Purchase of investment securities	(5)	(14)	(133)
Proceeds from sales of investment securities	499	—	—
Proceeds from redemption of investment securities	0	0	6
Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation (Note 7)	—	(4,290)	(38,754)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 7)	—	311	2,815
Contingent consideration payments for shares of subsidiaries	(131)	—	—
Payments of long-term loans receivable	(61)	(54)	(494)
Collection of long-term loans receivable	50	49	444
Purchase of insurance funds	(0)	(0)	(3)
Proceeds from maturity of insurance funds	—	1	10
Purchase of long-term prepaid expenses	(19)	(20)	(189)
Other, net	(37)	(400)	(3,618)
Net cash provided by (used in) investing activities	(877)	(6,913)	(62,446)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(4,959)	565	5,109
Proceeds from long-term loans payable	1,378	4,601	41,558
Repayments of long-term loans payable	(1,569)	(2,814)	(25,424)
Repayments of lease obligations	(62)	(100)	(906)
Repayments to non-controlling shareholders	(133)	—	—
Net decrease (increase) in treasury shares	(0)	(0)	(7)
Cash dividends paid	(3,273)	(3,418)	(30,876)
Cash dividends paid to non-controlling interests	(536)	(267)	(2,418)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,316)	—	—
Net cash provided by (used in) financing activities	(11,475)	(1,435)	(12,964)
Effect of exchange rate change on cash and cash equivalents	(48)	(799)	(7,222)
Net increase (decrease) in cash and cash equivalents	8,985	(8,175)	(73,843)
Cash and cash equivalents at beginning of period	49,861	58,846	531,487
Cash and cash equivalents at end of period (Note 7)	¥58,846	¥50,670	\$457,644

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Taikisha Ltd. and its Consolidated Subsidiaries

For the years ended March 31, 2020 and 2021

1. Basis of presenting consolidated financial statements

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

The accounts of the consolidated financial statements presented herein are expressed in Japanese yen by rounding down to the nearest million. The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto are translated from the original Japanese yen into U.S. dollars on the basis of ¥110.72 to US\$1, the rate of exchange prevailing at March 31, 2021, and are then rounded to the nearest thousand. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts are or can be converted, realized or settled in U.S. dollars at this or any other rate.

2. Summary of significant accounting policies

(1) Scope of consolidation

During the consolidated fiscal year ended March 31, 2021, Nicomac Clean Rooms Far East LLP (hereinafter "Nicomac") has been included in the scope of consolidation because the Company acquired the equity of Nicomac and made it a subsidiary of the Company. After becoming a subsidiary of the Company, Nicomac changed its form of organization from a Limited Liability Partnership (LLP) to an incorporated company, and its company name to Nicomac Taikisha Clean Rooms Private Limited.

During the consolidated fiscal year ended March 31, 2021, Geico S.p.A., a consolidated subsidiary of the Company, acquired additional shares of its associate subject to the equity method J-PM Systems GmbH and made it a subsidiary. Furthermore, J-PM Systems GmbH acquired shares of Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and Software Automation Concepts d.o.o., and made them subsidiaries. Therefore, the above companies have been included in the scope of consolidation. In addition, J-PM Systems GmbH has changed its company name to Geico Taikisha GmbH, and Software Automation Concepts d.o.o. has changed its company name to Geico Taikisha Controls d.o.o.

During the consolidated fiscal year ended March 31, 2021, Vege-factory Co., Ltd., a newly established company, has been included in the scope of consolidation.

During the consolidated fiscal year ended March 31, 2021, Beijing Wuzhou Taikisha Equipment Co., Ltd., a consolidated subsidiary of the Company, has been excluded from the scope of consolidation because it was absorbed in an absorption-type merger by another consolidated subsidiary of the Company, WuZhou Taikisha Engineering Co., Ltd.

The consolidated financial statements include the accounts of the Company and all significant subsidiaries listed below as of March 31, 2021:

Domestic subsidiaries

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

Overseas subsidiaries

TKS Industrial Company	Taikisha Myanmar Co., Ltd.
Encore Automation LLC (subsidiary of TKS Industrial Company)	Taikisha Lao Co., Ltd.
Taikisha Canada Inc. (subsidiary of TKS Industrial Company)	Wuzhou Taikisha Engineering Co., Ltd.
Taikisha de Mexico, S.A. de C.V. (subsidiary of TKS Industrial Company)	Tianjin Taikisha Paint Finishing System Ltd.
Taikisha Mexicana Service S.A. de C.V. (subsidiary of Taikisha de Mexico, S.A. de C.V.)	Taikisha Hong Kong Limited
Taikisha do Brasil Ltda.	Taikisha (Taiwan) Ltd.
Taikisha (Singapore) Pte. Ltd.	Taikisha Korea Ltd.
Taikisha (Thailand) Co., Ltd.	Taikisha Engineering India Private Ltd.
Taikisha Trading (Thailand) Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)	Nicomac Taikisha Clean Rooms Private Limited
Thaiken Maintenance & Service Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)	Geico S.p.A.
Token Interior & Design Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)	J-CO America Corporation (subsidiary of Geico S.p.A.)
TKA Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)	J-CO Mexico, S. de R.L. de C.V. (subsidiary of Geico S.p.A.)
BTE Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)	Geico Brasil Ltda. (subsidiary of Geico S.p.A.)
Token Myanmar Co., Ltd. (subsidiary of Taikisha (Thailand) Co., Ltd.)	Geico Paint Shop India Private Limited (subsidiary of Geico S.p.A.)
Taikisha Engineering (M) Sdn. Bhd.	Geico Painting System (Suzhou) Co., Ltd. (subsidiary of Geico S.p.A.)
P.T. Taikisha Indonesia Engineering	"Geico Russia" LLC (subsidiary of Geico S.p.A.)
P.T. Taikisha Manufacturing Indonesia	Geico Taikisha GmbH (subsidiary of Geico S.p.A.)
Taikisha Philippines Inc.	Process Solution Partner GmbH (subsidiary of Geico Taikisha GmbH)
Taikisha Vietnam Engineering Inc.	Process Solution Partner Rus LLC (subsidiary of Process Solution Partner GmbH)
Taikisha (Cambodia) Co., Ltd.	Geico Taikisha Controls d.o.o. (subsidiary of Geico Taikisha GmbH)

(2) Application of the equity method

Name of associates subject to the equity method

During the consolidated fiscal year ended March 31, 2021, FreDelish Co., Ltd., a new company established through a joint capital investment, has been included in the scope of application of the equity method.

As stated in "(1) Scope of consolidation", during the consolidated fiscal year ended March 31, 2021, J-PM Systems GmbH has been excluded from the scope of application of the equity method because it has become a consolidated subsidiary.

FreDelish Co., Ltd.

Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd.

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

Name of associates not subject to the equity method

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

Makiansia Engineering (M) Sdn. Bhd.

(3) Fiscal year for consolidated subsidiaries

The balance sheet date of all domestic consolidated subsidiaries as well as Taikisha Engineering India Private Ltd., Nicomac Taikisha Clean Rooms Private Limited and Geico Paint Shop India Private Limited is March 31, which is the same as that of the Company. The balance sheet date of Taikisha Myanmar Co., Ltd. and Token Myanmar Co., Ltd is September 30. The balance sheet date of the other overseas consolidated subsidiaries is December 31.

In preparing the consolidated financial statements, for consolidated subsidiaries whose balance sheet date is December 31, the Company uses each subsidiary's financial statements as of December 31. For Taikisha Myanmar Co., Ltd., the Company uses provisional financial results as of March 31, for Token Myanmar Co., Ltd. and Geico Paint Shop India Private Limited., the Company uses provisional financial results as of December 31, which is the balance sheet date of their parent companies, Taikisha (Thailand) Co., Ltd. and Geico S.p.A., respectively.

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

(4) Valuation of significant assets

Held-to-maturity debt securities

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

Shares of associates

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

Available-for-sale securities

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

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

Derivatives

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

Inventories

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

(5) Depreciation method for principal depreciable assets

Property, plant and equipment (excluding leased assets)

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

Intangible assets (excluding leased assets)

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

Leased assets

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

(6) Standards of accounting for principal allowance and provisions

Allowance for doubtful accounts

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

Provision for warranties for completed construction

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

Provision for loss on construction contracts

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

Provision for directors' bonuses

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

Provision for directors' retirement benefits

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

Provision for share-based remuneration for directors

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

(7) Retirement and pension plans

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

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

(Actuarial differences)

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

(Prior service costs)

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

(Simplified method for small companies)

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

(8) Sales and cost recognition

Sales of completed construction contracts and cost of sales of completed construction contracts

The percentage-of-completion method is applied for construction work for which the completion of a certain percentage of the entire work is reliably recognizable by the fiscal year end (percentage of completion is estimated by the cost-to-cost method). The completed-contract method is applied for the other construction contracts.

(9) Hedge accounting

Method of hedge accounting

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

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

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

Hedging instruments and hedged items

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

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

Hedging policy

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

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

Assessment of hedge effectiveness

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

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

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

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

(11) Amortization method and period for goodwill

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

(12) Accounting for consumption taxes

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

(13) Significant accounting estimates**Estimates of construction progress based on percentage of completion method**

(1) Amounts recorded in the consolidated financial statements

	Millions of yen	Thousands of U.S. dollars
Net sales of completed construction contracts	¥172,277	\$1,555,974

(2) Contents of the significant accounting estimates

In the Taikisha Group, of the construction contracts as of the consolidated fiscal year end, revenue is recorded based on the percentage of completion method if the construction progress can be reasonably estimated for specific construction contracts and so on that satisfy certain requirements.

The construction progress is measured by comparing the cost incurred as of the fiscal year end with the total estimated cost based on the working budget for the construction contract until its completion.

Regarding the total estimated cost for the construction contract until its completion, the Taikisha Group shall review the estimates and assumptions continuously because they may change in line with the progress.

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

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

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

Valuation of goodwill and intangible assets

(1) Amounts recorded in the consolidated financial statements

	Millions of yen	Thousands of U.S. dollars
Goodwill	¥4,084	\$36,889
Customer-related assets	¥1,389	\$12,552

(2) Contents of the significant accounting estimates

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

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

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

(14) Accounting standards issued but not yet adopted

"Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No. 29, March 31, 2020)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Guidance No. 30, March 26, 2021)

(Overview)

The Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published these accounting standards based on IFRS 15 "Revenue from Contracts with Customers" published in May 2014.

From a standpoint of comparability between financial statements which is one of the benefits of ensuring consistency with IFRS 15, the basic policy of the ASBJ in developing accounting standards for revenue recognition is incorporating the basic principles of IFRS 15 as a starting point. Also, these standards regulate to add alternative accounting treatments not to lose comparability if there is a matter which is necessary to consider the business practice which have been conducted in Japan.

(Application date)

The accounting standard and the guidance are expected to be applied from the beginning of the fiscal year starting on or after April 1, 2021.

(Impact of the application of the accounting standards)

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

"Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Statement No. 30, July 4, 2019)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Guidance No. 31, July 4, 2019)

"Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9, July 4, 2019)

"Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan Statement No. 10, July 4, 2019)

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (Accounting Standards Board of Japan Guidance No. 19, March 31, 2020)

(Overview)

In order to improve comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as "Accounting Standard for Fair Value Measurement etc.") have been developed and guidance regarding how to calculate fair value is stipulated. "Accounting Standard for Fair Value Measurement etc." is applied on the following fair value.

Financial Instruments in "Accounting Standard for Financial Instruments"

Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised and note items such as breakdown by fair value level of financial instruments have been stipulated.

(Application date)

The accounting standards and the guidance are expected to be applied from the beginning of the fiscal year starting on or after April 1, 2021.

(Impact of the application of the accounting standards)

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

(15) Changes in presentations

(Application of "Accounting Standard for Disclosure of Accounting Estimates")

"Accounting Standard for Disclosure of Accounting Estimates" (Accounting Standards Board of Japan Statement No. 31, March 31, 2020) has been applied from the consolidated fiscal year ended March 31, 2021 and notes of significant accounting estimates are stated in the consolidated financial statements.

However, notes of significant accounting estimates for the previous fiscal year are not stated in accordance with the transitional treatment stipulated in the supplementary provision of paragraph 11 of the accounting standard.

(16) Additional information**Application of "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts"**

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

(Overview of transaction)

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

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

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

The book value of the Company's own shares held by the trust was ¥256 million for the previous fiscal year, and ¥245 million (US\$2,217 thousand) for the fiscal year. The Company's own shares held by the trust are not reported as treasury shares under shareholders' equity.

The number of shares held at the end of fiscal year-end was 137 thousand for the previous fiscal year and 132 thousand for the fiscal year.

The average number of shares held during the year was 139 thousand for the previous fiscal year and 132 thousand for the fiscal year. The number of shares held at the end of fiscal year and the average number of shares held during the year are not included in the number of treasury shares to be deducted in calculating per-share information.

Introduction of the Board Benefit Trust (BBT)

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

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

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

(1) Overview of transactions

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

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

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

The Company recognizes its own shares remaining in the Trust as treasury shares under the category of net assets, using the carrying amount in the Trust (excluding the amount of ancillary expenses). The carrying amount of such treasury shares is ¥449 million for the previous fiscal year and ¥449 million (US\$4,064 thousand) for the fiscal year, and the number of such shares is 136,400 for the previous fiscal year and 136,400 for the fiscal year.

(Effects of the spread of COVID-19)

The future outlook of the world economy and of the Taikisha Group's market environment are on a recovery trend due to widespread vaccine rollouts, financial support provided by each country and such, though they remain uncertain because it is difficult to estimate when the COVID-19 pandemic will end and how large its impact on domestic and foreign economies will be.

Under these circumstances, accounting estimates for the valuation of fixed assets including goodwill and so on are performed based on the assumption that capital investment will recover compared to the fiscal year ended March 2021 mainly in North America, Europe and China where overseas affiliates are located.

3. Notes of consolidated balance sheets

(1) The information of associates

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Investment securities	¥545	¥531	\$4,798

(2) Pledged assets

Assets pledged as collateral for loans payable of subsidiaries and associates

As of March 31, 2020	Millions of yen		Thousands of U.S. dollars	
	Book value	Liabilities covered by pledged assets	Book value	Liabilities covered by pledged assets
Pledged assets				
Cash and deposits	¥185		\$185	\$283
Machinery, vehicles, tools, furniture and fixtures	¥9		\$9	\$15

As of March 31, 2021	Millions of yen		Thousands of U.S. dollars	
	Book value	Liabilities covered by pledged assets	Book value	Liabilities covered by pledged assets
Pledged assets				
Cash and deposits	¥177	¥264	\$1,603	\$2,386
Machinery, vehicles, tools, furniture and fixtures	¥11	¥5	\$101	\$49

Assets pledged as collateral for security deposits at subsidiaries and associates

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥57	¥57	\$522

Assets pledged as collateral for overdraft facilities of subsidiaries and associates

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥18	¥17	\$155

(3) Guarantee obligations

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.	265	177	1,603

(4) Commitment lines

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

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Total amount of lending commitment	¥5,000	¥5,000	\$45,159
Borrowing execution balance	—	—	—
Net	¥5,000	¥5,000	\$45,159

(5) Endorsed notes

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Endorsed notes	¥22	¥26	\$242

(6) Provision for loss on construction contracts

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

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Provision for loss on construction contracts	¥4	¥—	\$—

4. Notes of consolidated statements of income**(1) Research and development expenses**

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

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
General and administrative expenses	¥1,105	¥1,122	\$10,142

(2) Gain on disposal of non-current assets

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥0	¥166	\$1,500
Machinery, vehicles, tools, furniture and fixtures	54	17	157
Land	3	435	3,932
Total	¥58	¥618	\$5,589

(3) Loss on disposal of non-current assets

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Buildings and structures	¥54	¥355	\$3,212
Machinery, vehicles, tools, furniture and fixtures	12	5	54
Software	16	62	568
Long-term deposits	0	0	5
Total	¥83	¥425	\$3,839

(4) Provision for loss on construction contracts

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

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Provision for loss on construction contracts	¥228	¥353	\$3,194

(5) Amortization of goodwill

For the year ended March 31, 2020

One-time amortization of goodwill is recorded based on the provisions of Paragraph 32 of "Practical Guidelines on Capital Consolidation Procedures in Consolidated Financial Statements" (Accounting Systems Committee Report No. 7, Final Amendment of November 28, 2014, The Japanese Institute of Certified Public Accountants).

For the year ended March 31, 2021

Not applicable.

5. Notes of consolidated statements of comprehensive income

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

For the years ended March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Valuation difference on available-for-sale securities			
Net gains (losses) arising during the period	¥(4,402)	¥8,302	\$74,982
Reclassification adjustments	(447)	—	—
Before tax effects	(4,850)	8,302	74,982
Tax effects	1,384	(2,441)	(22,050)
Valuation difference on available-for-sale securities	(3,465)	5,860	52,932
Deferred gains or losses on hedges			
Net gains (losses) arising during the period	0	(4)	(41)
Reclassification adjustments	—	—	—
Before tax effects	0	(4)	(41)
Tax effects	(0)	1	12
Deferred gains or losses on hedges	0	(3)	(29)
Foreign currency translation adjustment			
Net gains (losses) arising during the period	147	(546)	(4,932)
Foreign currency translation adjustment	147	(546)	(4,932)
Remeasurements of defined benefit plans			
Net gains (losses) arising during the period	(1,105)	3,913	35,347
Reclassification adjustments	(151)	55	501
Before tax effects	(1,256)	3,969	35,848
Tax effects	365	(1,210)	(10,936)
Remeasurements of defined benefit plans	(891)	2,758	24,912
Share of other comprehensive income of entities accounted for using equity method			
Net gains (losses) arising during the period	(16)	6	62
Other comprehensive income	¥(4,225)	¥8,076	\$72,945

6. Notes of consolidated statements of changes in net assets

(1) The number of issued shares

For the year ended March 31, 2020	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	35,082,009	—	—	35,082,009

For the year ended March 31, 2021	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	35,082,009	—	—	35,082,009

(2) The number of treasury shares

For the year ended March 31, 2020	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	1,013,293	136,680	136,400	1,013,573

(Note1) The number of treasury shares increased by 280 shares because of purchase of shares less than one unit (*) and increased by 136,400 because of an acquisition by Custody Bank of Japan, Ltd. (Trust E account) for the purpose of Board Benefit Trust (BBT). The number of treasury shares decreased by 136,400 because of a disposal to Custody Bank of Japan, Ltd. (Trust E account).

(Note2) The number of treasury shares as of the fiscal year end includes 136,400 shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets of the Board Benefit Trust (BBT).

(*) The unit share is a specified number of shares which are treated as one purchasing lot and entitled to one voting right. One unit share consists of 100 shares.

For the year ended March 31, 2021	Beginning Balance	Increase	Decrease	Ending Balance
Common shares	1,013,573	250	—	1,013,823

(Note1) The number of treasury shares increased by 250 shares because of purchase of shares less than one unit (*).

(Note2) The number of treasury shares as of the fiscal year end includes 136,400 shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets of the Board Benefit Trust (BBT).

(*) The unit share is a specified number of shares which are treated as one purchasing lot and entitled to one voting right. One unit share consists of 100 shares.

(3) Dividends**Dividends paid**

For the year ended March 31, 2020

Resolution approved by	Type of shares	Amount	Amount per share	Shareholders' cut-off date	Effective date
		Millions of yen	Yen		
Annual general meeting of shareholders (June 27, 2019)	Common shares	¥2,248	¥66.00	March 31, 2019	June 28, 2019
Board of directors (November 11, 2019)	Common shares	¥1,026	¥30.00	September 30, 2019	November 29, 2019

(Note) Dividends on November 29, 2019 includes dividends of ¥4 million (US\$38 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

For the year ended March 31, 2021

Resolution approved by	Type of shares	Amount		Amount per share		Shareholders' cut-off date	Effective date
		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual general meeting of shareholders (June 26, 2020)	Common shares	¥2,394	\$22,001	¥70.00	\$0.64	March 31, 2020	June 29, 2020
Board of directors (November 10, 2020)	Common shares	¥1,026	\$9,268	¥30.00	\$0.27	September 30, 2020	November 27, 2020

(Note1) Dividends on June 29, 2020 includes dividends of ¥9 million (US\$88 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).
 (Note2) Dividends on November 27, 2020 includes dividends of ¥4 million (US\$37 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

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

For the year ended March 31, 2020

Resolution approved by	Type of shares	Paid from	Amount	Amount per share	Shareholders' cut-off date	Effective date
			Millions of yen	Yen		
Annual general meeting of shareholders (June 26, 2020)	Common shares	Retained earnings	¥2,394	¥70.00	March 31, 2020	June 29, 2020

(Note) Dividends total includes dividends of ¥9 million (US\$88 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

For the year ended March 31, 2021

Resolution approved by	Type of shares	Paid from	Amount		Amount per share		Shareholders' cut-off date	Effective date
			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Annual general meeting of shareholders (June 29, 2021)	Common shares	Retained earnings	¥2,052	\$18,536	¥60.00	\$0.54	March 31, 2021	June 30, 2021

(Note) Dividends total includes dividends of ¥8 million (US\$74 thousand) for treasury shares owned by Custody Bank of Japan, Ltd. (Trust E account) as trust assets for Board Benefit Trust (BBT).

7. Notes of consolidated statements of cash flows**(1) Cash and cash equivalents**

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

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥57,626	¥52,059	\$470,195
Securities	3,500	2,000	18,063
Sub total	61,126	54,059	488,258
Time deposits over three months	(2,280)	(3,389)	(30,614)
Cash and cash equivalents	¥58,846	¥50,670	\$457,644

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

For the year ended March 31, 2020
Not applicable.

For the year ended March 31, 2021

Details of assets and liabilities at time of consolidation commencement of Nicomac Clean Rooms Far East LLP (hereinafter "Nicomac") which is included in the scope of consolidation because of acquisition of equity as well as the relation between the acquisition cost of equity and the expenditures (net) are as follows. After becoming a subsidiary, Nicomac changed its form of organization from a Limited Liability Partnership (LLP) to an incorporated company, and its company name to Nicomac Taikisha Clean Rooms Private Limited.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥755	\$6,821
Non-current assets	1,608	14,531
Goodwill	3,432	31,000
Current liabilities	(297)	(2,689)
Non-current liabilities	(498)	(4,501)
Non-controlling interests	(407)	(3,682)
Foreign currency translation adjustment	(92)	(835)
Acquisition cost of equity	4,500	40,645
Cash and cash equivalents	(209)	(1,891)
Net : Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation	¥(4,290)	\$(38,754)

Geico S.p.A., a consolidated subsidiary of the Company, acquired additional shares of its associate subject to the equity method J-PM Systems GmbH and made it a subsidiary. Furthermore, J-PM Systems GmbH acquired shares of Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and Software Automation Concepts d.o.o., and made them subsidiaries.

Details of assets and liabilities at time of consolidation commencement of J-PM Systems GmbH, Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and Software Automation Concepts d.o.o. as well as the relation between the acquisition cost of shares and the expenditures (net) are as follows. In addition, J-PM Systems GmbH has changed its company name to Geico Taikisha GmbH, and Software Automation Concepts d.o.o. has changed its company name to Geico Taikisha Controls d.o.o.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,533	\$13,853
Non-current assets	249	2,253
Goodwill	424	3,833
Current liabilities	(1,569)	(14,173)
Non-current liabilities	(215)	(1,948)
Shareholdings before the acquisition	31	286
Non-controlling interests	(15)	(143)
Foreign currency translation adjustment	5	50
Gain on step acquisitions	(62)	(569)
Acquisition cost of shares	381	3,442
Cash and cash equivalents	(444)	(4,014)
Third-party allotment	(248)	(2,243)
Net : Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	¥311	\$2,815

(3) Details of major non-cash transactions

Not applicable.

8. Lease transaction

(1) Finance lease transaction

As lessee

Details of leased assets

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

Depreciation method

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

Impairment loss

There is no impairment loss allocated to the leased assets.

(2) Operating lease transaction

As lessee

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

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Due within one year	¥292	¥283	\$2,563
Due over one year	712	650	5,871
Total	¥1,004	¥933	\$8,434

9. Financial instruments

(1) Status of financial instruments

Policies on financial instruments

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

Description of financial instruments, related risks and risk management system

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

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

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

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

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

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

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

Supplementary explanation of fair values of financial instruments

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

(2) Fair value of financial instruments

The following table shows the book values and fair values of financial instruments and any differences. Certain financial instruments for which it is extremely difficult to determine the fair value are not included (see Note 2 below).

As of March 31, 2020

	Millions of yen		
	Book value	Fair value	Difference
Cash and deposits	¥57,626	¥57,626	¥—
Notes receivable, accounts receivable from completed construction contracts and other	96,726		
Allowance for doubtful accounts (*1)	(301)		
	96,424	96,399	(24)
Securities and Investment securities (*2)	26,907	26,907	—
Total Assets	180,958	180,933	(24)
Notes payable, accounts payable for construction contracts and other	57,623	57,598	(24)
Short-term loans payable	6,460	6,460	—
Income taxes payable	1,481	1,481	—
Long-term loans payable	1,952	1,951	(0)
Total Liabilities	67,519	67,493	(25)
Derivatives	¥9	¥9	¥—

(*1) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.

(*2) "Securities and Investment securities" for which it is deemed extremely difficult to determine the fair value are not included in the table above.

As of March 31, 2021

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Cash and deposits	¥52,059	¥52,059	¥—	\$470,195	\$470,195	\$—
Notes receivable, accounts receivable from completed construction contracts and other	101,413			915,943		
Allowance for doubtful accounts (*1)	(436)			(3,939)		
	100,977	100,963	(13)	912,004	911,883	(121)
Securities and Investment securities (*2)	33,710	33,710	—	304,468	304,468	—
Total Assets	186,747	186,734	(13)	1,686,667	1,686,546	(121)
Notes payable, accounts payable for construction contracts and other	52,050	52,042	(8)	470,110	470,036	(74)
Short-term loans payable	6,588	6,588	—	59,510	59,510	—
Income taxes payable	1,607	1,607	—	14,519	14,519	—
Long-term loans payable	4,769	4,795	26	43,078	43,313	235
Total Liabilities	65,016	65,034	17	587,217	587,378	161
Derivatives	¥(5)	¥(5)	¥—	\$(47)	\$(47)	\$—

(*1) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.

(*2) "Securities and Investment securities" for which it is deemed extremely difficult to determine the fair value are not included in the table above.

(Note 1) Method to determine the fair value of financial instruments and securities and derivative transactions

Assets

Cash and deposits

Since deposits are settled within a short period of time, the book value approximates the fair value. Therefore, the book value is used as the fair value.

Notes receivable, accounts receivable from completed construction contracts and other

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

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 present value calculated by applying discount rates, which take into account the remaining period prior to maturity, the yield of government bonds and other.

See 10. "Securities" for note on securities by purpose of holding.

Liabilities

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

The fair value of these liabilities is determined based on the present value calculated by applying 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.

Income taxes payable

As these liabilities are settled within a short period of time, the book value approximates the fair value. Therefore, the book value is used as the fair value.

Long-term loans payable

With regard to floating rate loans, the book value approximates the fair value because the market interest rate is reflected in the interest rate within a short period of time and the credit risk did not fluctuate significantly after borrowing. Therefore, the book value is used as the fair value. With regard to fixed rate loans, the fair value is determined based on the present value of the total principal and interest discounted by an interest rate to be applied to similar new loans.

Derivative transactions

See 11 "Derivative transactions"

(Note 2) Book value of financial instruments for which it is extremely difficult to determine the fair value

As of March 31, 2020 and 2021	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Available-for-sale securities			
Non-listed stocks	¥975	¥961	\$8,687
Non-listed foreign bonds	¥5	¥4	\$44

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 "Securities and investment securities" above.

(Note 3) Redemption schedule for monetary receivables and securities with maturities

As of March 31, 2020	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥57,626	¥—	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	86,081	10,639	5	—
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	3,500	—	—	—
Available-for-sale securities with maturity date (Non-listed foreign bonds)	—	5	—	—
Total	¥147,207	¥10,644	¥5	¥—

As of March 31, 2021

	Millions of yen			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	¥52,059	¥—	¥—	¥—
Notes receivable, accounts receivable from completed construction contracts and other	89,681	11,714	17	—
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	2,000	—	—	—
Available-for-sale securities with maturity date (Non-listed foreign bonds)	—	4	—	—
Total	¥143,741	¥11,719	¥17	¥—

As of March 31, 2021

	Thousands of U.S. dollars			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	\$470,195	\$—	\$—	\$—
Notes receivable, accounts receivable from completed construction contracts and other	809,986	105,802	155	—
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	18,063	—	—	—
Available-for-sale securities with maturity date (Non-listed foreign bonds)	—	44	—	—
Total	\$1,298,244	\$105,846	\$155	\$—

(Note 4) Redemption schedule for long-term loans payable, lease obligations and other interest-bearing debts

As of March 31, 2020

	Millions of yen					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥4,075	¥—	¥—	¥—	¥—	¥—
Long-term loans payable	2,384	1,523	402	25	0	—
Lease obligations	50	37	27	21	14	10
Total	¥6,511	¥1,561	¥429	¥46	¥14	¥10

As of March 31, 2021

	Millions of yen					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥4,787	¥—	¥—	¥—	¥—	¥—
Long-term loans payable	1,801	1,568	1,145	820	743	492
Lease obligations	77	63	28	21	9	3
Total	¥6,666	¥1,631	¥1,174	¥841	¥753	¥495

As of March 31, 2021

	Thousands of U.S. dollars					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	\$43,236	\$—	\$—	\$—	\$—	\$—
Long-term loans payable	16,274	14,166	10,346	7,408	6,713	4,445
Lease obligations	702	573	259	196	90	31
Total	\$60,212	\$14,739	\$10,605	\$7,604	\$6,803	\$4,476

10. Securities

(1) Held-to-maturity debt securities

As of March 31, 2020
Not applicable.

As of March 31, 2021
Not applicable.

(2) Available-for-sale securities

As of March 31, 2020

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥21,030	¥8,560	¥12,469
Securities whose book value does not exceed their acquisition cost			
Money trusts	1,000	1,000	—
Stocks	2,377	2,778	(401)
Bonds			
Other	2,500	2,500	—
Total	¥26,907	¥14,839	¥12,067

As of March 31, 2021

	Millions of yen		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	¥31,686	¥11,306	¥20,379
Securities whose book value does not exceed their acquisition cost			
Money trusts	1,000	1,000	—
Stocks	24	34	(9)
Bonds			
Other	1,000	1,000	—
Total	¥33,710	¥13,340	¥20,369

As of March 31, 2021

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	\$286,182	\$102,118	\$184,064
Securities whose book value does not exceed their acquisition cost			
Money trusts	9,032	9,032	—
Stocks	222	308	(86)
Bonds			
Other	9,032	9,032	—
Total	\$304,468	\$120,490	\$183,978

(3) Available-for-sale securities sold

For the year ended March 31, 2020

	Millions of yen		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	¥499	¥447	¥0
Total	¥499	¥447	¥0

For the year ended March 31, 2021
Not applicable.

(4) Securities with impairment loss

For the years ended March 31, 2020

The "acquisition cost" in the tables above is the book value after deducting impairment losses. Impairment loss of ¥0 million is recognized on Available-for-sales of securities with fair value in the fiscal year. The Companies recognize an impairment loss when the fair value of stocks falls 50% or more compared with the acquisition cost and there is no evidence to indicate that the fair value will recover to the book value within one year. When the fair value falls by 30% or more but less than 50% compared with the acquisition cost, the Companies recognize a necessary amount of impairment loss after considering the market prices in the past year and the possibility of recovery.

For the years ended March 31, 2021

The "acquisition cost" in the tables above is the book value after deducting impairment losses. The Companies recognize an impairment loss when the fair value of stocks falls 50% or more compared with the acquisition cost and there is no evidence to indicate that the fair value will recover to the book value within one year. When the fair value falls by 30% or more but less than 50% compared with the acquisition cost, the Companies recognize a necessary amount of impairment loss after considering the market prices in the past year and the possibility of recovery.

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

As of March 31, 2020

Category	Transaction type	Millions of yen			
		Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥139	¥—	¥(3)	¥(3)
	U.S. dollars	26	—	(0)	(0)
	Euros	27	—	(0)	(0)
	Sell				
	Yen	64	—	1	1
	U.S. dollars	323	—	12	11
Total		¥582	¥—	¥9	¥9

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

As of March 31, 2021

Category	Transaction type	Millions of yen			
		Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	¥232	¥—	¥(10)	¥(10)
	U.S. dollars	15	—	(0)	(0)
	Euros	10	—	(0)	(0)
	Chinese Yuan	127	—	6	6
	Sell				
	U.S. dollars	64	—	3	3
Total		¥451	¥—	¥(0)	¥(0)

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

As of March 31, 2021

Category	Transaction type	Thousands of U.S. dollars			
		Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	\$2,101	\$—	\$(93)	\$(93)
	U.S. dollars	141	—	(6)	(6)
	Euros	99	—	(0)	(0)
	Chinese Yuan	1,152	—	62	62
	Sell				
	U.S. dollars	584	—	30	30
Total		\$4,077	\$—	\$(7)	\$(7)

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

Currency-related transactions

As of March 31, 2020

As of March 31, 2020			Millions of yen		
Hedging method	Transaction type	Main hedged items	Contract amount	Over one year	Fair value
Method in principle	Forward exchange contracts				
	Sell				
	U.S. dollars	Accounts receivable from completed construction contracts (forecast)	¥127	¥24	¥(0)
	Euros	Accounts receivable from completed construction contracts (forecast)	231	—	2
	Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	162	—	(1)
		Total	¥520	¥24	¥(0)

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

As of March 31, 2021

As of March 31, 2021			Millions of yen		
Hedging method	Transaction type	Main hedged items	Contract amount	Over one year	Fair value
Method in principle	Forward exchange contracts				
	Buy				
	Baht	Accounts payable for construction contracts (forecast)	¥555	¥26	¥26
	Sell				
	U.S. dollars	Accounts receivable from completed construction contracts (forecast)	281	—	(18)
	Euros	Accounts receivable from completed construction contracts (forecast)	156	—	(9)
	Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	209	—	(3)
Total			¥1,202	¥26	¥(4)

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

As of March 31, 2021

As of March 31, 2021			Thousands of U.S. dollars		
Hedging method	Transaction type	Main hedged items	Contract amount	Over one year	Fair value
Method in principle	Forward exchange contracts				
	Buy				
	Baht	Accounts payable for construction contracts (forecast)	\$5,014	\$238	\$243
	Sell				
	U.S. dollars	Accounts receivable from completed construction contracts (forecast)	2,544	—	(170)
	Euros	Accounts receivable from completed construction contracts (forecast)	1,410	—	(85)
	Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	1,891	—	(28)
	Total		\$10,859	\$238	\$(40)

Interest-related transactions

As of March 31, 2020			Millions of yen		
Hedging method	Transaction type	Main hedged items	Contract amount	Over one year	Fair value
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	¥338	¥215	(Note)

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

As of March 31, 2021			Millions of yen		
Hedging method	Transaction type	Main hedged items	Contract amount	Over one year	Fair value
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	¥2,763	¥2,524	(Note)

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

As of March 31, 2021			Thousands of U.S. dollars		
Hedging method	Transaction type	Main hedged items	Contract amount	Over one year	Fair value
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	\$24,961	\$22,804	

12. Retirement and pension plans

(1) Overview

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

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

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

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

(2) Defined benefit plan (except simplified method)

Reconciliation of beginning and ending balances for projected benefit obligations

For the years ended March 31, 2020 and 2021		Millions of yen		Thousands of U.S. dollars
		2020	2021	2021
Projected benefit obligations at the beginning of current period		¥18,071	¥18,133	\$163,782
Service costs		1,252	1,258	11,365
Interest costs		48	57	518
Actuarial differences accrued in the current period		(176)	(989)	(8,940)
Benefits paid		(1,298)	(948)	(8,568)
Past service costs accrued in the current period		172	—	—
Foreign currency translation		63	(69)	(631)
Projected benefit obligations at the end of current period		¥18,133	¥17,441	\$157,526

Reconciliation of beginning and ending balances for pension assets

For the years ended March 31, 2020 and 2021		Millions of yen		Thousands of U.S. dollars
		2020	2021	2021
Pension assets at the beginning of current period		¥22,841	¥21,830	\$197,165
Expected return on pension assets		502	467	4,224
Actuarial differences accrued in the current period		(1,155)	2,928	26,452
Contributions from employers		832	859	7,761
Benefits paid		(1,193)	(843)	(7,622)
Foreign currency translation		1	0	4
Pension assets at the end of current period		¥21,830	¥25,242	\$227,984

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

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded projected benefit obligations	¥16,817	¥16,177	\$146,116
Pension assets	(21,830)	(25,242)	(227,983)
Sub total	(5,012)	(9,064)	(81,867)
Unfunded projected benefit obligations	1,316	1,263	11,409
Net amount of liabilities and assets in the consolidated balance sheets	(3,696)	(7,801)	(70,458)
Net defined benefit liability	1,484	1,310	11,838
Net defined benefit asset	5,181	9,111	82,296
Net amount of liabilities and assets in the consolidated balance sheets	¥(3,696)	¥(7,801)	\$(70,458)

Retirement benefit expenses

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service costs	¥1,252	¥1,258	\$11,366
Interest costs	48	57	518
Expected return on pension assets	(502)	(467)	(4,224)
Amortization of actuarial differences	(145)	32	289
Amortization of past service costs	41	12	113
Retirement benefit expenses of defined benefit plans	¥693	¥892	\$8,062

Remeasurements of defined benefit plans

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

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Past service costs	¥(135)	¥19	\$178
Actuarial differences	(1,121)	3,949	35,670
Total	¥(1,256)	¥3,969	\$35,848

Accumulated remeasurements of defined benefit plans

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

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized past service costs	¥(135)	¥(115)	\$(1,046)
Unrecognized actuarial differences	(349)	3,600	32,517
Total	¥(484)	¥3,484	\$31,471

Pension assets

Composition ratio of pension assets is as follows.

As of March 31, 2020 and 2021

	2020	2021
Debt securities	32%	27%
Stocks	28	34
Cash and deposits	4	3
General account of life insurance	31	27
Other	5	9
Total	100%	100%

(Note) For the previous fiscal year, 13% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan. For this fiscal year, 16% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan.

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

Assumptions and policies used to calculate projected benefit obligations

As of March 31, 2020 and 2021

	2020	2021
Discount rates (weighted average)	0.3%	0.3%
Expected long-term return rates on pension assets (weighted average)	2.5%	2.5%

(3) Defined benefit plan calculated by simplified method

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

For the years ended March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net defined benefit liability at the beginning of current period	¥229	¥221	\$2,000
Retirement benefit expenses	19	17	157
Benefits paid	(12)	(37)	(340)
Contributions to the plan	(9)	(9)	(86)
Foreign currency translation	(6)	2	25
Other	2	1	17
Net defined benefit liability at the end of current period	¥221	¥196	\$1,773

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

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Funded projected benefit obligations	¥81	¥71	\$650
Pension assets	(68)	(59)	(539)
Sub total	13	12	111
Unfunded projected benefit obligations	208	183	1,662
Net amount of liabilities and assets in the consolidated balance sheets	221	196	1,773
Net defined benefit liability	221	196	1,773
Net amount of liabilities and assets in the consolidated balance sheets	¥221	¥196	\$1,773

Retirement benefit expenses

Retirement benefit expenses calculated by the simplified method are ¥19 million for the previous fiscal year and ¥17 million (US\$157 thousand) for this fiscal year.

(4) Defined contribution plans

Required contribution amount for defined contribution plans is ¥318 million for the previous fiscal year and ¥317 million (US\$2,866 thousand) for this fiscal year.

13. Tax effect accounting

(1) Significant components of deferred tax assets and liabilities

As of March 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax assets			
Allowance for doubtful accounts	¥53	¥123	\$1,112
Provision for warranties for completed construction	196	133	1,205
Provision for loss on construction contracts	75	89	812
Net defined benefit liability	337	231	2,093
Employees' pension trust, investment securities	310	322	2,917
Provision for directors' retirement benefits	22	14	128
Accrued enterprise tax etc.	122	104	940
Accrued bonuses	2,214	1,724	15,573
Loss on valuation of investment securities	121	121	1,095
Loss on valuation of golf club membership	56	56	509
Valuation difference on available-for-sale securities	123	2	26
Foreign tax credit carried forward	173	164	1,482
Tax loss carried forward (Note2)	1,564	1,138	10,283
Other	887	1,555	14,049
Sub total	6,261	5,782	52,224
Valuation allowance for tax loss carried forward (Note2)	(1,461)	(889)	(8,030)
Valuation allowance for total of deductible temporary differences, etc.	(785)	(997)	(9,005)
Sub total (Note1)	(2,247)	(1,886)	(17,035)
Total deferred tax assets	4,013	3,896	35,189
Deferred tax liabilities			
Net defined benefit assets	(1,661)	(2,790)	(25,206)
Valuation difference on available-for-sale securities	(3,814)	(6,135)	(55,415)
Retained earnings of consolidated overseas subsidiaries	(2,040)	(2,039)	(18,418)
Other	(338)	(726)	(6,558)
Total deferred tax liabilities	(7,855)	(11,691)	(105,597)
Net deferred tax assets liabilities	¥(3,841)	¥(7,795)	\$(70,408)

(Note1) Valuation allowance decreased by ¥361 million. This decrease is mainly due to decrease in valuation allowances for tax loss carryforwards of ¥402 million in TKS Industrial Company which is consolidated subsidiary of the Company.

(Note2) Total of tax loss carried forward and its deferred tax assets, by carryforward expiration date.

As of March 31, 2020

	Millions of yen						Total
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	
Tax loss carried forward (a)	¥0	¥14	¥0	¥1	¥3	¥1,544	¥1,564
Valuation allowance	(0)	(14)	(0)	(1)	(1)	(1,444)	(1,461)
Deferred tax assets	¥—	¥—	¥—	¥0	¥2	¥99	(b) ¥102

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.

(b) With regard to the ¥1,564 million tax loss carried forward (the result of multiplication by the effective statutory tax rate for each tax-paying entity), ¥102 million in deferred tax assets have been recorded. This total of ¥102 million in deferred tax assets relates mainly to tax loss carried forward at consolidated subsidiaries TKS Industrial Company of ¥99 million. At TKS Industrial Company, the tax loss carried forward arose from the recording of a loss before income taxes for the period ended December 31, 2017. Deferred tax assets relating to the tax loss carried forward are deemed recoverable based on likely future taxable income.

As of March 31, 2021

	Millions of yen						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (a)	¥69	¥9	¥9	¥1	¥3	¥1,046	¥1,138
Valuation allowance	(7)	(9)	(9)	(1)	(1)	(860)	(889)
Deferred tax assets	¥62	¥—	¥—	¥—	¥1	¥185	(b) ¥249

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.

(b) With regard to the ¥1,138 million (US\$10,283 thousand) tax loss carried forward (the result of multiplication by the effective statutory tax rate for each tax-paying entity), ¥249 million (US\$2,253 thousand) in deferred tax assets have been recorded. This total of ¥249 million (US\$2,253 thousand) in deferred tax assets relates mainly to tax loss carried forward at consolidated subsidiaries TKS Industrial Company of ¥185 million (US\$1,677 thousand). At TKS Industrial Company, the tax loss carried forward arose from the recording of a loss before income taxes for the period ended December 31, 2017. Deferred tax assets relating to the tax loss carried forward are deemed recoverable based on likely future taxable income.

	Thousands of U.S. dollars						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward	\$629	\$84	\$82	\$9	\$30	\$9,449	\$10,283
Valuation allowance	(69)	(84)	(82)	(9)	(14)	(7,772)	(8,030)
Deferred tax assets	\$560	\$—	\$—	\$—	\$16	\$1,677	\$2,253

(2) The reconciliation between the effective statutory tax rate and the actual tax rate after the application of tax effect accounting

As of March 31, 2020 and 2021

	2020	2021
Effective statutory tax rate	30.62%	30.62%
Adjustment		
Expenses not deductible permanently	1.57	1.90
Income not taxable permanently	(0.88)	(1.88)
Inhabitant tax on per capita basis, etc.	0.50	0.67
Increase (Decrease) in valuation allowance	7.13	(2.34)
Difference in effective statutory tax rate between the Company and consolidated subsidiaries	(2.57)	(3.18)
Special tax deductions	(0.87)	(1.27)
Retained earnings of consolidated overseas subsidiaries	2.14	(0.01)
Withholding tax on dividends from overseas related companies	0.53	1.32
Amortization of goodwill	0.83	1.60
Other	0.07	1.40
Actual tax rate after the application of tax effect accounting	39.07%	28.83%

Change in presentation methods

"Withholding tax on dividends from overseas related companies", included in "Other" in the previous fiscal year, has become material and is therefore reclassified and presented as a separate line item in the current fiscal year. To reflect this change in presentation, some items above in the previous fiscal year are reclassified.

As a result, 0.6% presented as "Other" in the previous fiscal year is reclassified to "Withholding tax on dividends from overseas related companies" of 0.53% and to "Other" of 0.07%.

14. Business combination

(1) Business combination by acquisition

The Board of Directors of the Company resolved on July 22, 2020 that Nicomac Clean Rooms Far East LLP (India, hereinafter "Nicomac") to become a subsidiary of the Company by way of contribution, concluded an investment contract on the same date. Then the Company made Nicomac a consolidated subsidiary of the Company when acquired the equity on July 30, 2020. Nicomac has changed its form of organization from a Limited Liability Partnership (LLP) to an incorporated company on January 23, 2021 as the effective date.

Overview of business combination

Name and business description of acquired company

Name Nicomac Clean Rooms Far East LLP

Business description Manufacturing, installation and design for Cleanroom

(Main reason of the business combination)

Nicomac is a manufacturer and marketer of clean room panels and manufactures and sells high quality panels to Indian pharmaceutical manufacturers as its main customers.

Under the basic policy of the Mid-Term Business Plan, "solidify the Company's position in the global market", and the direction of the plan, "expand business domains", in the Indian market, which is expected to grow economically in the medium to long term, the Company aims to strengthen its ability to respond to the Indian clean room construction market, by combining Nicomac's panel manufacturing and installation technologies with air conditioning system technologies of the Company, mainly in the pharmaceutical manufacturing environment, which requires high performance air conditioning systems.

(Date of business combination)

July 30, 2020 (Deemed acquisition date is September 30, 2020.)

(Legal form of business combination)

Acquisition of equity with considerations paid by cash

(Acquired company's name after acquisition)

Nicomac has changed its name to Nicomac Taikisha Clean Rooms Private Limited on February 17, 2021.

(Ratio of acquired voting rights)

74%

(Main reason for determination of the acquirer)

The Company acquired the equity with considerations paid by cash.

Period in which the acquired company's business performance is recognized in the consolidated financial statements

From October 1, 2020 to March 31, 2021

Breakdown of the acquisition cost

		Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash	¥4,500	\$40,645
Acquisition cost		¥4,500	\$40,645

Details and amount of major acquisition-related cost

Advisory fee and so on ¥266 million (US\$ 2,404 thousand)

Amount of goodwill, reason for recognition and amortization method and amortization period

(Amount of goodwill)

¥3,432 million (US\$ 31,000 thousand)

(Reason for recognition)

It is recognized mainly due to prospective earning power expected from future business development.

(Amortization method and period)

Straight-line method over 10 years

Amounts and major breakdown of assets acquired and liabilities assumed at the date of acquisition

	Millions of yen	Thousands of U.S. dollars
Current assets	¥755	\$6,821
Non-current assets	1,608	14,531
Total assets	2,364	21,352
Current liabilities	297	2,689
Non-current liabilities	498	4,501
Total liabilities	¥796	\$7,190

Amounts and amortization period of the acquisition cost allocated to intangible assets other than goodwill

Customer-related assets ¥1,395 million (US\$ 12,601 thousand)

Amortization period 10 years

Estimated amount of impact on the consolidated statement of income for the fiscal year and its calculation method, assuming that the business combination was completed at the beginning of the fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales	¥751	\$6,792
Operating income	(194)	(1,758)
Ordinary income	(173)	(1,567)
Profit before income taxes	(160)	(1,452)
Profit attributable to owners of parent	¥(152)	\$(1,381)

(Calculation method of the estimate amount)

The estimate amount of the impact indicates the difference between net sales as well as income information calculated on the assumption that the business combination was completed at the beginning of the fiscal year and net sales as well as income information on the consolidated statement of income of the fiscal year of the acquirer. In addition, the estimate amount of impact takes into account the amortization amount of goodwill and intangible assets other than goodwill deemed to have been generated on the beginning date of the fiscal year.

Furthermore, no audit certificate has been given to these notes.

(2) Business combination by acquisition

The Board of Directors of the Company resolved on September 8, 2020 that Geico S.p.A., a consolidated subsidiary of the Company, additionally acquires 26% of shares of its associate subject to the equity method J-PM Systems GmbH and make it a subsidiary. Plus, Geico S.p.A. acquires 19% of shares by underwriting a capital increase through third-party allotment. As a result, ratio of shareholdings of J-PM Systems GmbH by Geico S.p.A. is risen to 70%. Furthermore, J-PM Systems GmbH acquires 100% of shares of Process Solution Partner GmbH (including Process Solution Partner Rus LLC, a subsidiary of Process Solution Partner GmbH) and 70% shares of Software Automation Concepts d.o.o., and make them subsidiaries. The above companies have been included in the scope of consolidation because these share acquisition was completed on September 16, 2020.

Overview of business combination

Name and business description of acquired company

Name J-PM Systems GmbH(Germany)

Business description Sales in painting equipment, construction management, engineering, and consulting

Name Process Solution Partner GmbH(Germany)

Business description Sales in electrical control devices (including programming), construction, engineering and consulting

Name Process Solution Partner Rus LLC(Russia)

Business description Sales in electrical control devices (including programming), construction, engineering and consulting

Name Software Automation Concepts d.o.o.(Croatia)

Business description Sales in electrical control devices (including programming), construction, engineering and consulting

(Main reason of the business combination)

To promote business expansion in the European market, especially in the German customer market where investment is expected in the medium to long term, the Company decided to make J-PM Systems GmbH, an equity-method affiliate of our consolidated subsidiary Geico S.p.A., headquartered in Germany, an automobile painting equipment engineering company, a subsidiary. Furthermore, by investing in three companies, Process Solution Partner GmbH, Process Solution Partner Rus LLC, and Software Automation Concepts d.o.o., which are engaged in the electrical control design business, the Company aims to expand the scope of our business through collaborated with other group companies and aims to strengthen our business development capabilities by leveraging our strengths.

(Date of acquisition)

September 16, 2020 (Deemed acquisition date is September 30, 2020.)

(Legal form of business combination)

Acquisition of shares with considerations paid by cash and acquisition of shares by underwriting a capital increase through third-party allotment

(Acquired company's name after acquisition)

J-PM Systems GmbH

J-PM Systems GmbH has changed its name to Geico Taikisha GmbH on September 16, 2020.

Software Automation Concepts d.o.o.

Software Automation Concepts d.o.o. has changed its name to Geico Taikisha Controls d.o.o. on September 16, 2020.

Only the above two companies have changed their names.

(Ratio of acquired voting rights)

Geico Taikisha GmbH		
Percentage of shares held before the business combination		25%
Percentage of shares additionally purchased on the business combination date		26%
Percentage of shares by underwriting a capital increase through third-party allotment		19%
Percentage of shares held after the business combination		70%
Process Solution Partner GmbH		
Percentage of shares held before the business combination		–%
Percentage of shares additionally purchased on the business combination date		100%
Percentage of shares held after the business combination		100%
Process Solution Partner Rus LLC		
Percentage of shares held before the business combination		–%
Percentage of shares additionally purchased on the business combination date		100%
Percentage of shares held after the business combination		100%
Geico Taikisha Controls d.o.o.		
Percentage of shares held before the business combination		–%
Percentage of shares additionally purchased on the business combination date		70%
Percentage of shares held after the business combination		70%

(Main reason for determination of the acquirer)

The Company acquired the shares with considerations paid by cash and acquired the shares by underwriting a capital increase through third-party allotment.

Period in which the acquired company's business performance is recognized in the consolidated financial statements

The acquired company's business performance from October 1st to December 31, 2020 is recognized in the consolidated financial statements because the deemed acquisition date of the acquired company is September 30, 2020 and the difference between the consolidated balance sheet date and balance sheet date of the acquired company does not exceed 3 months.

Breakdown of the acquisition cost

	Millions of yen	Thousands of U.S. dollars
Fair value of shares held immediately before the business combination on the acquisition date	¥31	\$283
Consideration for additional acquisition Cash	375	3,392
Acquisition cost	¥406	\$3,675

The difference between acquisition cost of the acquired company and the total cost of shares acquisition transactions

Gain on step acquisitions ¥61 million (US\$ 556 thousand)

Details and amount of major acquisition-related cost

Advisory fee and so on ¥28 million (US\$ 259 thousand)

Amount of goodwill, reason for recognition and amortization method and amortization period

(Amount of goodwill)

¥424 million (US\$ 3,833 thousand)

(Reason for recognition)

Since the acquisition cost exceeded the net amount allocated to the assets acquired and the liabilities assumed, the excess amount is recorded as goodwill.

(Amortization method and period)

It is amortized in a lump sum when accrued because the amount is immaterial.

Amounts and major breakdown of assets acquired and liabilities assumed at the date of acquisition

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,533	\$13,853
Non-current assets	249	2,253
Total assets	1,783	16,106
Current liabilities	1,569	14,173
Non-current liabilities	215	1,948
Total liabilities	¥1,784	\$16,121

Estimated amount of impact on the consolidated statement of income for the fiscal year and its calculation method, assuming that the business combination was completed on the beginning of the fiscal year

The estimated amount of impact is omitted because the amount is immaterial.

14. Asset retirement obligations

The Companies are under the term of rental agreements for head offices etc. and have obligations for restitution on their leaving. The obligations are recognized by way of decreasing deposits.

15. Segment information

(1) Overview of reportable segment

The reportable segment of the Companies is components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies establish their divisions for types of construction equipment and each division plans the comprehensive domestic and foreign strategies and do business based on the strategies. Therefore, the Companies are composed of segment for types of construction equipment based on the divisions. The Companies have two reportable segments "Green Technology System Division" and "Paint Finishing System Division".

"Green Technology System Division" mainly designs, manages and constructs building HVAC for office buildings, and industrial HVAC for manufacturing facilities and laboratories. This division also produces and sells related equipment.

"Paint Finishing System Division" mainly designs, manages and constructs automobile paint plants and sells related equipment.

(2) Calculation method of sales and profits or losses, assets or liabilities and others

The accounting treatment of reportable segment is almost the same as the one disclosed in "2. Summary of significant accounting policies".

The profit of reportable segment is the amount on the basis of ordinary income. Internal profits and transfer amounts between the segments are calculated based on the market price.

(3) Sales and profits or losses, assets or liabilities and others by reportable segment

For the year ended March 31, 2020

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥157,374	¥68,003	¥225,378	¥—	¥225,378
Intersegment	3	3	6	(6)	—
Total	157,378	68,006	225,384	(6)	225,378
Segment profit	13,893	2,814	16,708	(716)	15,991
Segment assets	94,453	64,595	159,048	56,341	215,389
Other items					
Depreciation and amortization	739	1,447	2,187	(19)	2,167
Amortization of goodwill	—	548	548	—	548
Interest income	175	187	363	(5)	358
Interest expenses	1	155	157	17	174
Share of profit (loss) of entities accounted for using equity method	—	(74)	(74)	—	(74)
Investments in associates accounted for using equity method	—	545	545	—	545
Increase in property, plant and equipment, intangible assets	¥510	¥1,038	¥1,548	¥701	¥2,250

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

Adjustments of Segment profit of minus ¥716 million include non-allocatable common profits of minus ¥720 million and other adjustment of ¥3 million. Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.

Adjustments of Segment assets of ¥56,341 million are elimination of receivable and payable etc., of minus ¥2,742 million and non-allocatable common assets which are not allocated to any reportable segments of ¥59,083 million. Non-allocatable common assets are mainly cash and deposits, securities, property, plant and equipment, intangible assets, and net defined benefit asset, etc., which are not attributed to any reportable segment.

Adjustments of Increase in property, plant and equipment, intangible assets of ¥701 million are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and software, etc., which are not attributed to any reportable segment.

The allocation method of assets for reportable segment is different from that of related income and expenses.

(Note 2) Segment profit is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2021

Millions of yen

	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥134,051	¥68,497	¥202,548	¥—	¥202,548
Intersegment	6	0	7	(7)	—
Total	134,058	68,497	202,555	(7)	202,548
Segment profit	11,192	911	12,103	183	12,287
Segment assets	110,608	67,985	178,593	50,261	228,855
Other items					
Depreciation and amortization	863	1,508	2,371	(8)	2,362
Amortization of goodwill	170	467	638	—	638
Interest income	147	147	295	(4)	291
Interest expenses	3	161	165	8	173
Share of profit (loss) of entities accounted for using equity method	(0)	(64)	(65)	—	(65)
Investments in associates accounted for using equity method	13	517	531	—	531
Increase in property, plant and equipment, intangible assets	¥5,483	¥1,693	¥7,176	¥383	¥7,560

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

Adjustments of Segment profit of ¥183 million (US\$1,662 thousand) include non-allocatable common profits of ¥184 million (US\$1,662 thousand) and other adjustment of minus ¥0 million (minus US\$0 thousand). Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.

Adjustments of Segment assets of ¥50,261 million (US\$453,955 thousand) are elimination of receivable and payable etc., of minus ¥2,797 million (minus US\$25,268 thousand) and non-allocatable common assets which are not allocated to any reportable segments of ¥53,059 million (US\$479,223 thousand). Non-allocatable common assets are mainly cash and deposits, securities, property, plant and equipment, intangible assets, and net defined benefit asset, etc., which are not attributed to any reportable segment.

Adjustments of Increase in property, plant and equipment, intangible assets of ¥383 million (US\$3,461 thousand) are buildings and structures, machinery, equipment and vehicles, tools, furniture and fixtures and software, etc., which are not attributed to any reportable segment.

The allocation method of assets for reportable segment is different from that of related income and expenses.

(Note 2) Segment profit is adjusted to the ordinary income of the consolidated statement of income.

For the year ended March 31, 2021

Thousands of U.S. dollars

	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	\$1,210,727	\$618,652	\$1,829,379	\$—	\$1,829,379
Intersegment	59	5	64	(64)	—
Total	1,210,786	618,657	1,829,443	(64)	1,829,379
Segment profit	101,085	8,235	109,320	1,662	110,981
Segment assets	998,993	614,028	1,613,021	453,955	2,066,976
Other items					
Depreciation and amortization	7,796	13,624	21,420	(79)	21,341
Amortization of goodwill	1,539	4,225	5,764	—	5,764
Interest income	1,335	1,337	2,671	(42)	2,630
Interest expenses	34	1,461	1,495	74	1,569
Share of profit (loss) of entities accounted for using equity method	(1)	(586)	(587)	—	(587)
Investments in associates accounted for using equity method	120	4,678	4,798	—	4,798
Increase in property, plant and equipment, intangible assets	\$49,527	\$15,294	\$64,820	\$3,461	\$68,281

16. Related information in regard to segment information

(1) Information by product and service

For the year ended March 31, 2020

This item is omitted because similar information is disclosed in "15. Segment information"

For the year ended March 31, 2021

This item is omitted because similar information is disclosed in "15. Segment information"

(2) Sales by region

For the year ended March 31, 2020

Millions of yen								
Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥132,348	¥14,707	¥19,619	¥21,727	¥12,252	¥1,759	¥8,698	¥14,263	¥225,378

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

For the year ended March 31, 2021

Millions of yen								
Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥109,757	¥19,697	¥16,267	¥19,072	¥13,319	¥2,649	¥5,488	¥16,296	¥202,548

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

For the year ended March 31, 2021

Thousands of U.S. dollars								
Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
\$991,308	\$177,903	\$146,924	\$172,256	\$120,299	\$23,925	\$49,575	\$147,189	\$1,829,379

(3) Property, plant and equipment by region

For the year ended March 31, 2020

Millions of yen							
Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥5,047	¥484	¥216	¥577	¥1,560	¥2,114	¥491	¥10,493

For the year ended March 31, 2021

Millions of yen							
Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥4,758	¥515	¥208	¥506	¥1,794	¥1,818	¥548	¥10,150

For the year ended March 31, 2021

Thousands of U.S. dollars							
Japan	Thailand	Indonesia	China	India	Italy	Other	Total
\$42,974	\$4,655	\$1,887	\$4,578	\$16,206	\$16,426	\$4,953	\$91,679

(4) Sales information by main customer

For the year ended March 31, 2020

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

For the year ended March 31, 2021

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

17. Impairment loss by reportable segment

Impairment loss of the non-current assets by reportable segment

For the year ended March 31, 2020

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/Corporate (Note)	Total
Impairment loss	¥0	¥97	¥97	¥0	¥97

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2021

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/Corporate (Note)	Total
Impairment loss	¥156	¥—	¥156	¥202	¥359

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2021

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/Corporate	Total
Impairment loss	\$1,414	\$—	\$1,414	\$1,832	\$3,246

18. Amortization and balance of goodwill

(1) Amortization and balance of goodwill by reportable segment

For the year ended March 31, 2020

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/Corporate	Total
Balance of goodwill	¥—	¥755	¥755	¥—	¥755

(Note) Amortization of goodwill is omitted because it is already disclosed in the "15. Segment information".

For the year ended March 31, 2021

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/Corporate	Total
Balance of goodwill	¥3,419	¥665	¥4,084	¥—	¥4,084

(Note) Amortization of goodwill is omitted because it is already disclosed in the "15. Segment information".

For the year ended March 31, 2021

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/Corporate	Total
Balance of goodwill	\$30,882	\$6,007	\$36,889	\$—	\$36,889

(2) Gain on negative goodwill by reportable segment

For the year ended March 31, 2020
Not applicable.

For the year ended March 31, 2021
Not applicable.

19. Related party transactions

For the year ended March 31, 2020
Not applicable.

For the year ended March 31, 2021
Not applicable.

20. Details of bonds

No applicable.

21. Details of loans

As of March 31, 2021

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Beginning balance	Ending balance	Ending balance		
Short-term loans payable	¥4,075	¥4,787	\$43,236	1.995	—
Current portion of long-term loans payable	2,384	1,801	16,274	1.075	—
Current portion of lease obligations	50	77	702	—	—
Long-term loans payable (excluding current portion)	1,952	4,769	43,078	1.257	December 2022 to May 2030
Lease obligations (excluding current portion)	110	127	1,148	—	July 2022 to July 2026
Total	¥8,574	¥11,563	\$104,438	—	—

(Note 1) The "Average interest rate" is the weighted average interest rate for the ending balance of loans etc.

(Note 2) The average interest rates on lease obligations are not presented because interest equivalents in the total lease obligation are allocated to expenses every year by the straight-line method.

(Note 3) The annual repayment schedules of long-term loans payable and lease obligations (excluding current portion) subsequent to March 31, 2021 are as follows.

	Millions of yen			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	¥1,568	¥1,145	¥820	¥743
Lease obligations	¥63	¥28	¥21	¥9

	Thousands of U.S. dollars			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	\$14,166	\$10,346	\$7,408	\$6,713
Lease obligations	\$573	\$259	\$196	\$90

22. Details of asset retirement obligations

This item is omitted because asset retirement obligations represented less than 1% of total assets at the beginning of this fiscal year and at the end of this fiscal year, respectively.

23. Significant subsequent events

Not applicable.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Taikisha Ltd.,

Opinion

We have audited the consolidated financial statements of Taikisha Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese Yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Reasonableness of estimates of total costs for construction contracts in applying percentage of completion method	
Description of Key Audit Matter	Auditor's Response
The main businesses of Taikisha Group (hereinafter referred to as "the Group") are the "Green Technology System Business" and "Paint Finishing System Business". In "Green Technology System Business" the Group mainly designs, manages and constructs building HVAC for office buildings, and industrial HVAC for manufacturing facilities and laboratories. It also produces and sells peripheral equipment. In "Paint Finishing System Business" the group mainly designs, manages and constructs automobile paint plants and sells related equipment. As described in "Estimates of construction progress based on percentage of completion	<p>We performed the following audit procedures principally to evaluate the reasonableness of estimate of total costs of construction, which is a premise for revenue from construction contracts based on the percentage of completion method.</p> <ul style="list-style-type: none"> We evaluated the design and operational effectiveness of internal controls over estimates of total construction costs. We identified the contracts in which the uncertainty of the working budget is relatively high by analyzing the correlation between the order amount and the working budget, as well as the profit margin related with contract.

method” in (13) “Summary of significant accounting estimates” under Note 2. “Summary of significant accounting policies”, in the Group, of the construction contracts as of the consolidated fiscal year end, revenue is recorded based on the percentage of completion method if construction progress can be reasonably estimated for construction contracts that meet certain conditions. Construction progress is measured by dividing the cumulative cost of construction incurred as of the fiscal year end with the total estimated cost of construction until completion. The Group recorded net revenue of ¥ 172,277 million based on the percentage of completion method on a consolidated basis for the fiscal year.

Though the total estimated cost is based on the working budget for each construction contract, there is a possibility that costs, such as material and labor costs, may fluctuate after the start of construction depending upon condition of the construction site and price negotiation with the main contractors. Therefore, as estimates of total costs are considered highly uncertain, we determined this matter as a key audit matter.

- For the identified construction contracts, we examined the reasonableness of estimates of the working budget by comparing the latest estimate of working budget close to the end of the fiscal year with the original estimates of the working budget and investigating the reason of fluctuation.
- We examined whether there was any over or underrun of the working budget by confirming the latest purchase order for the contract before acceptance.
- We communicated with the auditors of the significant components and reviewed the interoffice audit deliverables prepared by them.

2. Consolidation of Nicomac Clean Rooms Far East LLP through the acquisition of its equity	
Description of Key Audit Matter	Auditor's Response
<p>As described in Notes 14. “Business combination” to the consolidated financial statements, on July 30, 2020, the Group acquired a 74% of equity in Nicomac Clean Rooms Far East LLP (India, hereinafter referred to as “Nicomac”) with consideration of ¥4,500 million paid in cash, resulting in Nicomac becoming a consolidated subsidiary. As a result of this business combination transaction, the Group recognized goodwill of ¥3,432 million and customer-related intangible assets of ¥1,395 million in the consolidated financial statements.</p> <p>Since the Group has expanded its business overseas extensively, the valuation of intangible assets arising from the acquisition of foreign companies is important for investors to understand the consolidated financial statements. Therefore, with respect to the acquisition of Nicomac to make it a consolidated subsidiary, we determined it</p>	<p>We performed the following audit procedures principally to consider whether the accounting treatment for the acquisition of equity and the consolidation of Nicomac were properly reflected in the consolidated financial statements.</p> <ul style="list-style-type: none"> • We obtained an understanding of the transaction overview by reviewing the minutes and other documents of the board meeting, principal contracts and other relevant documents. • We examined that the significant data and assumptions used in the valuation of the customer-related assets as of the date of the business combination were reasonable by comparing the customer attrition rate and EBIT (earnings before interest and taxes) with the results of Nicomac's historical sales data.

necessary to ensure that the accounting treatment for the acquisition of the equity is appropriate. Specifically, we determined that a particularly significant audit area was the appropriateness of the amount of the customer-related assets, which the Group valued using the results of an external expert's valuation, and the appropriateness of Nicomac's balance sheet as of the date of the business combination, which affected the amount of goodwill. As described above, we determined this matter to be a key audit matter.

- We communicated with the auditor of Nicomac and reviewed the interoffice audit deliverables prepared by them.

Responsibilities of Management and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, including whether the use of the disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit & supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit & supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit & supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

The engagement partners on the audit resulting in this independent auditor's report are Hiroaki Kagami, Kenji Oka and Daisuke Miyahara.

A & A Partners

June 29, 2021

Taikisha is conducting business globally as an environment engineering company in two core business fields: the Green Technology System Business (Building HVAC and Industrial HVAC) and the Paint Finishing System Business. Taikisha boasts the high ratio of overseas sales by far in the Japanese construction industry, with 40 affiliates in 21 countries (as of September 30, 2021). By adapting to the shift of Japanese companies overseas, Taikisha's global network of group companies contributes considerably to attracting orders for overseas projects (the ratio of overseas sales was 45.8% for FY2020).

Global Network (the figures represent years when group companies were established)

Europe

2009 Russia
2011 Italy ♦¹
2020 Germany ♦²
Croatia ♦²

♦1. The figure for Italy represents the year when Taikisha formed a business and capital alliance with Geico S.p.A. in Italy.

♦2. The figure for Germany and Croatia represents the year when the companies in Germany and Croatia became consolidated subsidiaries through acquisition of shares.

Asia

1971 Thailand
1981 Malaysia
1985 Singapore ♦³
1989 Taiwan
1990 Indonesia
1992 Republic of Korea
1994 China
1995 India
1995 The Philippines
1998 Vietnam
2011 Cambodia
2013 Myanmar
2019 Laos

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

North America

1981 U.S.A.
1985 Canada
1990 Mexico

South America

1996 Brazil

Group companies

Japan

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

Europe

Geico S.p.A.
Geico Russia LLC
Geico Taikisha GmbH
Geico Taikisha Controls d.o.o.

Asia

Wuzhou Taikisha Engineering Co., Ltd. (Head Office)
Geico Painting System (Suzhou) Co., Ltd.
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.
Tianjin Taikisha Paint Finishing System Ltd.
Taikisha Hong Kong Ltd.
Taikisha (Taiwan) Ltd.
Taikisha Korea Ltd.
Taikisha (Thailand) Co., Ltd.
Taikisha Trading (Thailand) Co., Ltd.
Token Interior & Design Co., Ltd.
Taiken Maintenance & Service Co., Ltd.
TKA Co., Ltd.

BTE Co., Ltd.
Taikisha Vietnam Engineering Inc.
Taikisha Lao Co., Ltd.
Taikisha (Cambodia) Co., Ltd.
Taikisha Philippines Inc.
Taikisha (Singapore) Pte. Ltd.
Taikisha Engineering (M) Sdn. Bhd.
Makiansia Engineering (M) Sdn. Bhd.
P.T. Taikisha Indonesia Engineering
P.T. Taikisha Manufacturing Indonesia
Taikisha Myanmar Co., Ltd.
Token Myanmar Co., Ltd.
Taikisha Engineering India Private Ltd.
Geico Paint Shop India Private Ltd.
Nicomac Taikisha Clean Rooms Private Limited

The Americas

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

Corporate Information

Corporate name: Taikisha Ltd.
 Founded: April 10, 1913
 Established: July 7, 1949
 Capital stock: 6,455 million yen
 Number of employees: 1,544 (non-consolidated),
 5,042 (consolidated)

For information on the Directors, Audit & Supervisory Board Members and stock information, please visit our website.

[Directors and Audit & Supervisory Board Members]

<https://www.taikisha-group.com/corporate/information/officer/>

Top page > Corporate Information > About Taikisha
 > [Board of Directors](#)

[Stock Information]

<https://www.taikisha-group.com/ir/stock/info/>

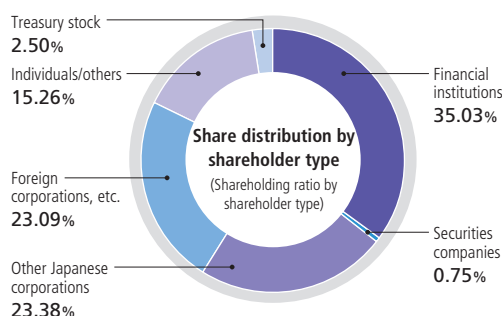
Top page > Investor Relations > Stock Overview
 > [Stock Information](#)

Shareholders' Information

Securities code: 1979
 Financial year: From April 1 of every year to March 31 of the following year.
 Annual Shareholders' Meeting: June every year
 Record date: Annual Shareholders' Meeting/Year-end dividend March 31
 Interim dividend September 30
 When necessary, information other than the above will be announced by public notice in advance.
 One unit of shares: 100
 Administrator of Shareholder Registry: 1-3-3, Marunouchi, Chiyoda-ku, Tokyo
 Specified account management institution: Mizuho Trust & Banking Co., Ltd.
 Administration office: 1-3-3, Marunouchi, Chiyoda-ku, Tokyo
 Stock Transfer Agency Department, Head office
 Mizuho Trust & Banking Co., Ltd.
 Mailing address: 2-8-4, Izumi, Suginami-ku, Tokyo 168-8507 Japan
 Stock Transfer Agency Department
 Mizuho Trust & Banking Co., Ltd.
 Tel: 0120-288-324 (Toll-free in Japan only)
 Method of public notice: Electronic public notice (Posted on the Company website)
 In case electronic posting of public notice is not possible, public notice is posted on Nihon Keizai Shimbun.

Status of Shares

Number of shares authorized: 100 million (100,000,000)
 Number of shares issued: 35,082,009
 Number of shareholders: 3,421



Major shareholders (Top 10 shareholders by number of shares held)

Name of Shareholders	Number of shares held (in thousands)	Ratio of shareholding voting rights (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,306	9.67
Kenzaisha Ltd.	1,730	5.06
Custody Bank of Japan, Ltd. (Trust Account 9)	1,690	4.94
Custody Bank of Japan, Ltd. (Trust Account)	1,134	3.32
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	1,054	3.08
Taikisha Business Partners Shareholding Association	1,053	3.08
Taikisha Employees Shareholding Association	1,020	2.98
Dai ni Kenzaisha Ltd.	1,000	2.92
Sumitomo Realty & Development Co., Ltd.	981	2.87
Nippon Life Insurance Company	866	2.53

(Note) 1. TAIKISHA retains 877,423 shares as treasury shares, which is excluded from the above list of major shareholders.

2. The percentage of total shares is calculated without this treasury shares.

3. Number of shares held less than 1,000 is rounded down.



Mr. Keisuke Takegahara

Executive Fellow, Research Center on
Financial Economics
Development Bank of Japan Inc.

As a person who had opportunities to witness the development of the company's sustainable management in recent years, such as formulation of materiality analysis and a value creation model, as well as discussions within each layer in the company on such topics, I am honored to be witnessing the transition to an integrated report that "talks about the vision in the future," which the Top Management's Message emphasizes.

This report has various changes from the previous reports, including addition of explanations for the Mid-Term Business Plan. What particularly draws attention is extensive information on corporate governance. Discussion with the President and the Outside Directors is an accurate reproduction of the discussion between the top management and Outside Directors who have various expertise, on the main topic of value creation from a long-term perspective. This report is structured in a way to emphasize the integration of management strategies and sustainability, and with the newly disclosed skill matrix of the Directors, the contents of the report fulfill the purpose of the revision of the corporate governance code.

It specifically shows the management attitude towards value creation through business operations. In this report, pages featuring value creation introduce the clean room technology of the Green Technology System Division and initiatives towards smart factories by the Paint Finishing System Division. Both initiatives are impressive in that they can make an impact on mitigation of climate change through energy conservation and improved productivity of users. However, the information is more persuasive when being read in conjunction with information on environmental issues disclosed in the latter part. Specifically, this means Taikisha's efforts on reducing GHG emissions in the entire supply chain. After showing the overall picture of GHG management, it reveals the analytical result that indicates that Scope 3 (emission in use of the products) accounts for the majority of total emissions. Generally, it is considered difficult to control greenhouse gas emissions in that category, but when you read it with the featuring page, the company implies the possibility of business opportunities for partners using the company's engineering capabilities. The report is skillfully composed to deliver the message that is suited for the integrated report; the response to climate change creates opportunities and defines the company's mid- to long-term business model.

In addition, the "Contributions to Society" topic is replaced by "Human Resources," implying the change in which the focus of the disclosure of social issues shifts to human capital as the source of value creation.

This report contains materials for the next steps in various parts, but unless reading it with a certain level of awareness, it cannot be read as a series of stories, and that could be a challenge to be addressed in the future. It is necessary to convey the message in a way readers can easily understand how factors such as the long-term vision, Mid-Term Business Plan and materiality are connected to each other, how they constitute the value creation process, and what sort of value the outcome delivers. As each content is well written, by organically integrating them and listing them as a value creation process, the relation between Taikisha's sustainability strategy and its business will be further clarified. I expect further development of the contents in the next Mid-Term Business Plan.

In Response to the Third-Party Opinion



Masanori Nakagawa in charge of CSR Director, Executive Corporate Officer

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

For the first issue of the integrated report, the Taikisha Group endeavored to show the continuous growth of corporate value in a new coherent form by connecting non-financial information with management strategy and business strategy. It has just started and is still in the stage of growth, however, we will aim for further improvement as pointed out earlier, such as clear storyline centering around the long-term vision and organic integration of contents. We hope sharing these process with all stakeholders will help them understand the company.

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



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