Integrated Report 2022

TAIKI-SHA

Build the Future Air

Build the future air

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

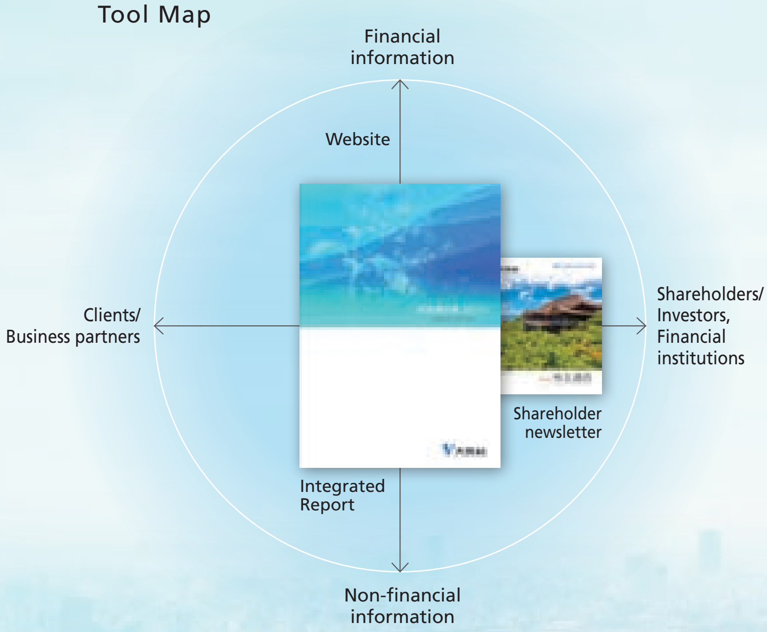
Taikisha plays an active role in all kinds of places, wherever people are, wherever air exists.

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

We want to make more and more places comfortable.

We cherish these thoughts every day.

Tool Map



To Our Readers

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

In 2022, our long-term vision was reviewed in conjunction with the formulation of the new Mid-Term Business Plan, and the contents of this report were designed with the two major themes of the new Mid-Term Business Plan and the long-term vision. In preparing the report, we aimed to provide a better understanding of our Company's efforts to create value through our past, present, and future. In addition, risks, opportunities, and specific initiatives are also described, regarding materiality.

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

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

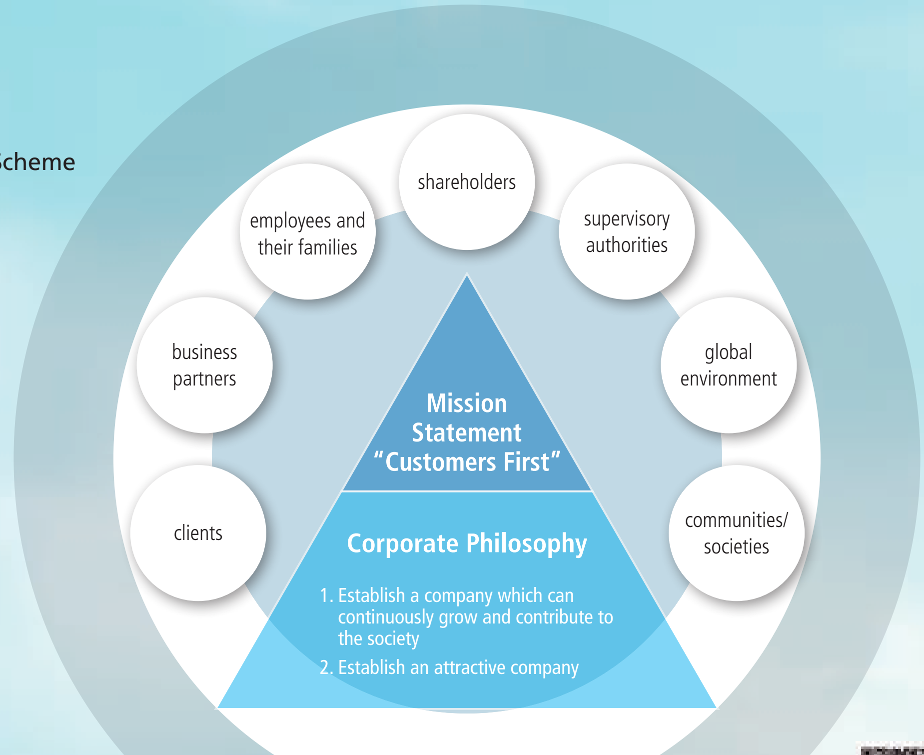
United Nations Global Compact
Since 2020, the Company has been committed to the UN Global Compact corporate responsibility initiative and its principles in the fields of human rights, labor, environment, and anti-corruption.

Task Force on Climate-related Financial Disclosures (TCFD)
In December 2021, Taikisha declared its support for the TCFD recommendations. We plan to disclose information in accordance with the TCFD framework by April 2023.

Editing Policy

■ Organizations covered by this report	Taikisha Ltd. and its group companies in Japan and overseas are covered by this report.
■ Period covered in this report	This report mainly covers activities conducted during FY2021 (from April 1, 2021 to March 31, 2022) and also includes some activities carried out before or after the said period.
■ Date of issue	October 2022
■ The scheduled issue date of the next edition	October 2023
■ Guidelines referenced	"Environmental Reporting Guidelines (Fiscal Year 2018 version)," "Environmental Accounting Guidelines 2005," and "Guidelines for Private Sector Engagement in Biodiversity (2009)" of the Ministry of the Environment, "Sustainability Reporting Standards" by Global Reporting Initiative (GRI), ISO26000, "International Integrated Reporting Framework" by the International Integrated Reporting Council (IIRC)
■ Production	Integrated Report Editorial Committee of Taikisha Ltd.
■ Contact for inquiries	Investor Relations Section, Taikisha Ltd. TEL. 81-(0)3-5338-5052

Taikisha Philosophy Scheme



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

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Taking on the challenge of carbon neutrality, we will work to simultaneously achieve a sustainable society and our own sustainable growth.

Aspirations of the Taikisha Group amid social change

The social situation that surrounds us has been marked by the prolonged impact of the COVID-19 pandemic, and, entering 2022, rising resource and energy prices and a supply-and-demand crunch for agricultural products caused by the worsening situation between Russia and Ukraine. These many problems have grown in severity and caused an increasing degree of disruption.

Companies are having to work to address these changing conditions and take measures against climate change in connection with the sustainability of the environment and society, and they are conducting initiatives in this regard to achieve carbon neutrality. At the same time, the rapid advance of DX is significantly transforming industry, and utilizing digital technologies is now an essential prerequisite for corporate growth.

As a result, while we did not achieve our earnings target because of delays in adapting to changing market conditions and other factors, we made progress in solidifying our position in the global market by establishing a testing room in our Research and Development Center and expanding business in Southeast Asia through the establishment of a subsidiary in Laos. We conducted further initiatives for the future, entering the Indian market through investment in Nicomac of India and expanding the automation business by additional capital investment in Encore of the U.S. With regard to building an attractive company and establishing a solid management base, we successfully carried out initiatives to promote diverse work styles, which included digitizing expense reports and introducing a telework scheme.

With social change increasing in intensity and the business environment becoming difficult to predict, for us to survive as a sustainable company, it will be essential that we do not follow after change but engage in change on our own initiative and tie this to further growth. Thus far the Group has delivered growth and development by meeting customer needs and aligning our progress with growth industries, primarily through delving further into our core business. We have been working to standardize technologies and improve quality and service. Even during economic downturns, we restored earnings performance through cost-cutting and other measures that proved successful.

However, simply extending existing initiatives will not be enough to enable us to adapt when the business environment is changing as rapidly as it is now; we will lose out to the competition and put our sustainable growth at risk. Changes in the business environment are a risk but also an opportunity for medium- to long-term growth, so we must strategically take on the challenge by capitalizing on these opportunities.

We had many discussions, primarily involving the members of the Board of Directors, on a future vision for the Group and on the nature of its value creation, from broad and diverse standpoints using the backcasting approach, which anticipates market changes and the structure of society and industry in 10 to 20 years. The revisions to our long-term vision, which I will go over below, came out of these discussions.

Revising the long-term vision and defining a future ideal

In formulating a new three-year Mid-Term Business Plan, which begins in FY2022, we revised our existing long-term vision and set forth two guiding principles that encapsulate our future ideal: Innovative Engineering and Diversity & Inclusion.

For Innovative Engineering, we aim to demonstrate pursuit-based problem solving cultivated in meeting the challenging requirements of customers and to work toward innovative engineering of energy, air, and water, both by deepening and accumulating knowledge from experience ("deepening") and through intellectual exploration of new domains ("exploring"). This innovativeness is oriented to the creation of new value in a way not limited to simply increasing added value and includes not only technological innovation but creative ingenuity more generally. Differentiation will be a keyword as we evolve into a company that does not just meet customer expectations but makes proposals that surpass them.

For Diversity & Inclusion, we will combine diverse sets of values and internal and external technologies and personal networks to transform into a global company and achieve growth. The Group was originally created out of the business of a German trading company and has captured demand by

K. Kato President and Representative Director

entering overseas markets early. Experiencing the many difficulties and risks of directly engaging with business cultures that differ from Japan’s, we have cultivated the strength to accept diversity and to cooperate and harmonize while understanding one another and have fostered a corporate culture that tolerates trial and error. The fact that large numbers of overseas local staff play an active role at the Group’s overseas sites is a testament to this corporate culture.

Innovative Engineering and Diversity & Inclusion do not exist separately; we see them as being connected with one another. Diversity & Inclusion is a means to becoming an innovative company and also is the foundation for Innovative Engineering. Going forward, particularly with respect to technology, it will be important to have the perspective of creating new things based on Diversity & Inclusion with customers, suppliers, and other external resources.

Start of new Mid-Term Business Plan looking three years into the future

We created a new Mid-Term Business Plan (from FY2022 to FY2024) with a view to realizing our long-term vision. Backcasting from a future ideal, we considered what would be necessary for the Group to accomplish over the next three years and what axes businesses would need to be developed. The plan puts forth three pillars as its basic policies: “Further strengthen core businesses,” “Challenge to create new value,” and “Strengthen management base that supports transformation and growth.”

This is something shared by the first two pillars, but we have made the challenge of carbon neutrality a central theme. In light of the trend in society toward decarbonization and carbon neutrality, we will harness this trend to simultaneously realize a sustainable society and the sustainable growth of the Group.

The Group’s customers are strongly committed to achieving a decarbonized society, having set high-level environmental targets, and are engaged in efforts to achieve carbon neutrality. We intend to stay closely aligned with our customers and all other stakeholders to create and provide innovations that anticipate entire facility lifecycles while drawing on the unique strengths and positioning of the Group—this is the mission we have given ourselves. By steadily carrying out the plan, we will fulfill this mission and establish a foothold for realizing our long-term vision.

As an example of a current initiative, in the industrial HVAC system sector, we are actively following the lead of customers by promoting mini-cleanroom environments for air conditioning system installation to accommodate the technological innovations required by their production processes. In the Paint Finishing System Business, we continue to develop and test facilities with lower environmental impact, improving coating efficiency, utilizing energy-saving technologies to make systems more compact, and deploying hydrogen burners, for example, as we take on the challenge of acquiring technologies and developing products to contribute to transforming the paint finishing process.

To clarify its stance on climate change measures in management going forward and proactively convey this stance internally and externally, in December 2021 we expressed our support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and joined the TCFD Consortium. We have set a target of making disclosures in line with the TCFD framework starting in spring 2023 and are currently collecting and organizing information from the perspective of management resilience on the impact of climate change on our business based on multiple future scenarios. These data will help us toughen up the Group's business plans themselves and formulate business and growth strategies from a long-term perspective.

Exploring new domains

For another of the plan's basic policies, "Challenge to create new value," we will work to create new businesses that will be future pillars and take on the challenge of as-yet-undeveloped business domains. In striving to survive as a sustainable company, if we only depend on business development by way of deepening existing domains and do not explore new ones, our sustenance will be depleted in 10 or 20 years and our growth potential will inevitably slow. Recently, in order to strengthen business creation efforts, we have approached departments in universities involved in industry-academia-government partnerships, allied with companies with divisions considering new businesses, utilized business promoters, used public programs, and expanded into upstream supply chains utilizing connections with customers. We are looking ahead to adopting plant cultivation using DAC technology that directly captures carbon dioxide out of the air and to building advanced businesses using new water treatment and production technologies. We also began joint research with the Japan Aerospace Exploration Agency (JAXA).

Along with such exploration, we will horizontally develop the technologies that are our strengths and promote initiatives to tie them to business creation. As an example, in the automation business, we will focus on robot control technologies and work to develop nonautomotive markets such as automatic sanding systems. In addition, in the Marketing and Development Department, we are aiming to create businesses in niche fields that integrate the HVAC business with the manufacturing industry, and through delivering manufacturing systems we will capture customer needs that had not been previously recognized in conventional system installation alone and provide solutions for them. This is an initiative to realize a high-level manufacturing environment by combining HVAC engineering for cleanrooms, a core business, with precision temperature control technologies for manufacturing equipment, which is a specialty of the Marketing and Development Department.

In terms of technology, the Research and Development Center, which will embody the realization of Innovative Engineering and Diversity & Inclusion, will expand contact points with customers by establishing R&D satellites and seek to function as a place that inspires high expectations with respect to the Group for possessing new technologies, being able to solve problems, and being able to take on challenges with customers, and also to function as a place for making progress on developing new, as-yet-unseen technologies. We will obtain insights through communication with customers, grasp issues, and tie them to new development themes. We also hope to integrate solutions possessed by customers with solutions possessed by the Group to further accelerate innovation through co-creation.

Human capital and a digital strategy for value creation

Regarding "Strengthen management base that supports transformation and growth," we are putting particular emphasis on human capital initiatives. The most important asset of a company is its people, and the establishment of a stable work environment where each individual employee can balance their work and private lives and maintain their health, both mental and physical, raises job motivation, improves engagement with the company, and facilitates superior

performance. From this standpoint, the Group has put forth "Creation of pleasant working environment" as one of its materiality issues, and for each goal—"reduction of long working hours," "improvement of lifestyle habits," "improvement of mental health," and "support of work-life balance"—we have established specific measures and indices as part of our health-promoting measures for employees. Achieving recognition for these efforts, we were certified for the second consecutive year, in 2021 and 2022, under the "2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program" (White 500) in the large enterprise category. Going forward, we will continue conducting health-promoting measures along with initiatives that make us a company where employees truly enjoy working.

In strengthening the management base, we are also focused on digital strategy. Considering the impact (risks and opportunities) on the Group of changes in society and changes in the competitive environment resulting from digital technology, we are promoting a digital strategy for providing new value, led primarily by the Digital Strategy Committee, which I chair. We are digitizing and shifting to remote operations for all sorts of business processes, including design, installation management, and safety management, in order to both improve productivity and revamp employee work styles, while also carrying out initiatives underpinned by DX to pass down technologies internally, which is a source of value creation.

Under the plan, we will also start using capital costs as a business management method. As a part of this, we are moving to establish internal rules related to business investment to serve as standards for investment decision-making and post-investment PMI monitoring. Through the implementation of these rules, we will objectively assess capital costs in not only new businesses but existing businesses as well to review our business portfolio. Regarding financial targets, we will continue using ROE and strive for a level that exceeds capital costs.

Sharing prosperity with stakeholders

We will steadily execute our growth strategy based on the long-term vision and new Mid-Term Business Plan, as I have discussed thus far, and tie this strategy to earnings growth in order to thereby raise corporate value and achieve sustainable growth. In addition, this prosperity will be shared with all stakeholders, who support value creation by the Group, as we help build a rich and sustainable future.

In the process of preparing this year's Integrated Report, a round table discussion was held with Outside Directors and its contents have been included in these pages (pp. 27-34). This included some serious criticisms of our management. In line with feedback we have received from shareholders and investors, we will overcome each and every challenge as we strive for further growth and development.

I thank you for your continuing support over the long term.

Value Creation Process

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

Environment surrounding Taikisha

Social issues	• Climate change	• Energy/resources/water issues
Social trend	• Rapid progress of digital technologies • Change in demographics • Smartification of production lines	• Changes in the concept of cities (emergence of smart cities) • Increased risk of pandemic

Utilization of management resources (INPUT)

Financial capital	Solid financial foundation • Net assets **130.7 billion yen** • Equity ratio **54.7%**
Human capital	Diverse human resources to support competitiveness Development and enhancement of human resource measures • Number of employees (consolidated) **5,079 people**
Manufactured capital	• Number of business offices and factories Japan **28**, Overseas **51** • Number of customer service centers Japan **78**, Overseas **24** • Capital investment **2.3 billion yen**
Intellectual capital	Solid technology and know-how accumulated over 109 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 • R&D expenses **11.0 billion yen** • Number of patent held (Japan and overseas) **about 181 cases**
Social/ relationship capital	Global network with 17 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 • Operating in 5 countries (U.S., China, Thailand, India, and Japan)
Natural capital	Efficiently utilize energy/resources Use "air," a natural resource

Strengths and characteristics of Taikisha

Long-term Vision

Innovative Engineering

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

- Food shortage

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

For realization of sustainable society

Economic value	Social value	Environmental value
Creation of economic added value and redistribution to stakeholders	Contribution to realization of healthy and comfortable living, and society with safety and comfort, development of sustainable agriculture, and smartification of factories	Addressing clients' environmental issues and pass on the rich global environment to the next generation

Results of business activities (OUTPUT)

Financial results	• Ordinary income 10.8 billion yen • Dividend payout ratio 47.0% • ROE 5.9% • Cash flows from operating activities (8.5) billion yen
Energize human resources	Exhibition of creativity and energy Creation of pleasant working environment • Recognized under the "2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)"
Enhance competitiveness	Promote innovation • Development of energy-saving/cost reduction/environment-responsive technologies and automation technologies • Expansion of the plant factories business, establishment of wholly owned mass production factories Abundant transactions (domestic) • 1,412 clients and 1,704 subcontractors
Environmental solution	[Air-conditioning System Business] Promote reduction of CO_2 emissions through in-house design projects [Paint Finishing System Business] Promote reduction of CO_2 emissions per manufacturing automobile

Innovative Engineering

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

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

For Taikisha's specific "value creation" initiatives, please see the special features on pp.9-12.

Value Creation Feature 1 — Value creation initiative
R&D Satellite Plan
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Value Creation Feature 2 — Value creation initiative
Evolution and Challenges in the Field of Automobile Paint Finishing Systems
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Value Creation Feature 1

Green Technology System Business

R&D Satellite Plan

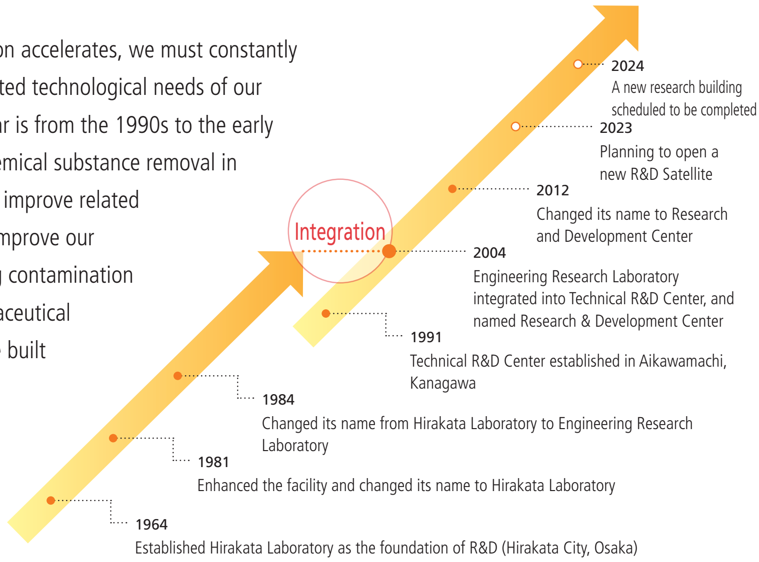
Opportunity for innovation in central Tokyo

At the Company, the Research and Development Center plays an important role as a place that greatly contributes to the realization of the long-term vision (see pages 21 and 22) newly set in 2022 as our ideal state for 10 years from now, and the realization of "Strengthen Taikisha, the Technology Company".
With the aim of widening the contact point for value co-creation with customers and other external parties, we are moving ahead with plans to establish some of its functions in central Tokyo (Shinjuku-ku, Tokyo), where it is accessible. We aim to provide visitors with a place that inspires them to learn more about Taikisha's technology, to collaborate with Taikisha, and to actually experience our technology.

History of Taikisha Research and Development Center

Since establishing the Hirakata Laboratory (later, changed its name to Engineering Research Laboratory) in Osaka Prefecture in 1964, the Company has continued to conduct R&D on air conditioning, painting, and pollution control equipment, and has produced many original products. In consideration of the balance between the market and research facilities, it became necessary to establish a large research institute in the Kanto region. Therefore, in 1991, we established Technical R&D Center in Kanagawa Prefecture, and later, we integrated the Engineering Research Laboratory and the Technical R&D Center.

As the speed of social change and technological innovation accelerates, we must constantly improve our technologies to meet the increasingly sophisticated technological needs of our customers. One example of the progress we have made so far is from the 1990s to the early 2000s. In response to the demand for ultra-clean air and chemical substance removal in cleanrooms for semiconductor manufacturing, we worked to improve related technologies. In addition, we have been working to further improve our technology for preventing contamination, such as alternating contamination between rooms, and related technologies required in pharmaceutical cleanrooms. As a place to share these technologies, we have built a showroom in our R&D facilities, which we use to solve technical problems in customers' equipment, predict design results, verify various systems, and so on, to earn customers' trust and assure quality.



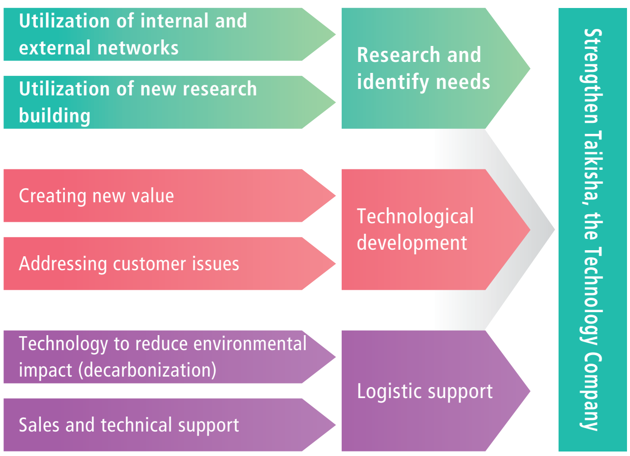
Functions of the Research and Development Center

The Company's R&D facilities have three functions.

1) Research and identify needs
Research and identify customer needs through internal and external networks, utilization of the Research and Development Center, collaboration with academic institutions and customers, etc.

2) Technological development
Addressing issues of the clients, providing new value to society, and creating new value through open innovation

3) Logistic support
Support for the realization of decarbonization through the provision of technologies to reduce environmental impact, and sales support utilizing the Research and Development Center and IoT



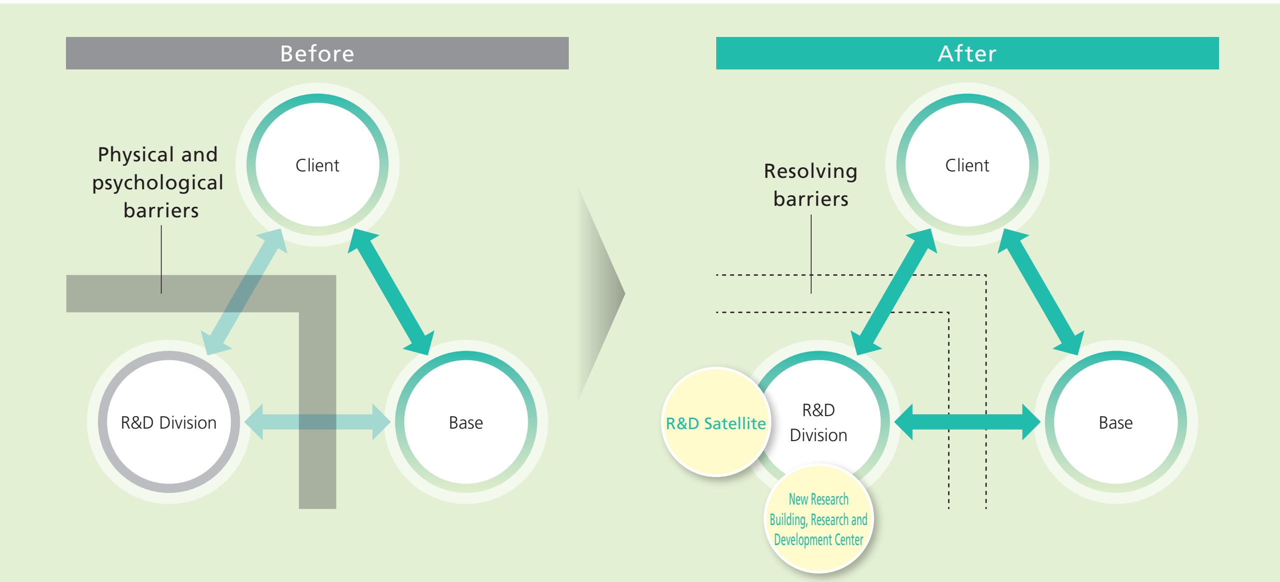
Background and objectives of establishing R&D Satellite

In addition to "Further strengthen core businesses," the Company's new Mid-Term Business Plan sets forth "Challenge to create new value" as its basic policy. In order to create innovation and expand business domains, it is essential to integrate our existing technologies and know-how with external knowledge.

The Company has been making direct visits to customers to introduce its technologies, but the fact is that customers' bases and the Company's bases are often far from each other, limiting opportunities for introduction. In addition, although it is desirable to connect a customer's base with the Company's Research and Development Center and exchange opinions while actually seeing our proposed technology, we found it difficult to develop a sense of unity with customers due to the inconvenience of the existing facilities. As a facility to solve these issues, we are currently establishing an R&D Satellite (tentative name: TAIKISHA INNOVATION GATE Shinjuku, scheduled to open in January 2023).

The R&D Satellite, located in central Tokyo, has the advantage of being more accessible to customers and other outsiders compared to the Research and Development Center. We hope that the R&D Satellite will serve as a place for people to gain a better understanding of the Company and its technologies and to create opportunities for innovation.

Vision of R&D Satellite



A place open to everyone, removing physical and psychological barriers

A place connected to various bases in the Company, including the Research and Development Center (entrance)

- Realize new insights through casual communication with customers, understand customer issues, and link them to new development themes
- Pursue the next round of innovation by integrating solutions held by customers and those held by the Company (accelerate innovation through collaborative creation)

Image of R&D Satellite

Value Creation Feature 2

Paint Finishing System Business

Evolution and Challenges in the Field of Automobile Paint Finishing Systems

Toward the realization of a carbon-neutral society

Against the backdrop of the shift to a carbon-neutral society on a global scale, the automobile industry is undergoing a once-in-a-century revolution. The Company is promoting the proposal of CO_2 reduction technologies, such as automobile paint finishing systems, and it is concentrating its development efforts on technological innovations such as significant upgrades to existing technologies, technological proposals to respond to changes in primary energy, and changes in production technologies, thereby contributing to the resolution of social issues.

Toward carbon neutrality in automobile painting processes

In response to the growing demand for a carbon-neutral society around the world, each country announced specific targets for greenhouse gas (GHG) reduction at the Leaders Summit on Climate in 2021. In the automotive industry, which is one of the industries that will be most significantly affected by this, automakers have expressed support for the Task Force on Climate-related Financial Disclosures (TCFD). They emphasize the inclusion of reduction targets in their business strategies in light of risks and opportunities from climate change.

Against this backdrop, the Company believes that its mission is to work with automobile manufacturers to develop and provide paint facilities that reduce CO_2 emissions to zero in order to achieve carbon neutrality in the automobile manufacturing process, particularly at paint finishing factories.

● Trends in each country

Japan revised its target upward from 26% to 46% reduction in CO_2 emissions from FY2013.

	Target rate of CO_2 reductions (%)		
	Base year	2030	2050
U.K.	1990	-68% or more	Net zero
EU	1990	-55% or more	
U.S.	2005	-50% to 52%	
Japan	2013	-26% → -46%	

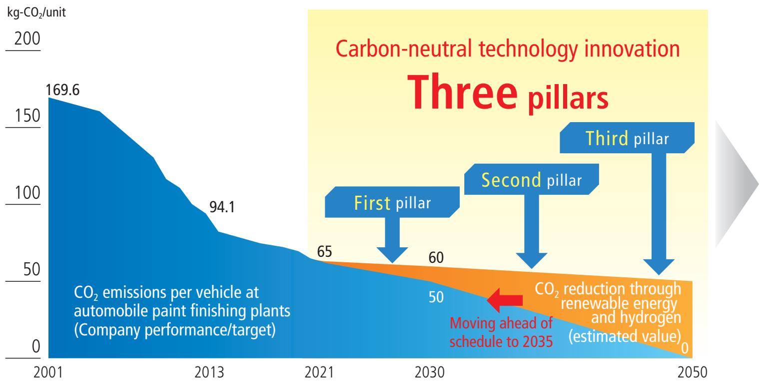
Reference	
Reduction rate from 1990 to 2018	
U.K.	-42%
EU	-25%
U.S.	-4%
Japan	-2%

The Company's carbon neutrality strategy and future policy

In alignment with high environmental targets set by automobile manufacturers around the world, the Company was early to examine and deploy technologies to reduce CO_2 emissions (see page 54). We are in a position to take great advantage of being able to receive direct input from customers from diverse automobile manufacturers regarding their technological needs and points for improvement and, when necessary, even engage in collaborative development while developing and proposing CO_2 reduction technology.

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

● The Company's carbon neutrality goals and basic policy



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

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

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

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

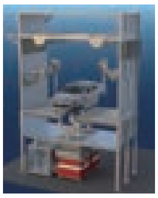
First pillar CO_2 reduction activities based on improvement through the upgrade of our technologies

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

Equipment products of paint booth

i-LAVB (low air volume booth)

By creating airflow for each function, the air volume of the booth will be largely reduced.
CO_2 emissions: reduced by approximately 30%



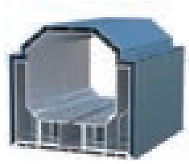
Equipment products of paint oven

i-VACH (indirect furnace with VOC treatment function)

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

i-HEB high-efficiency block oven

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



System products of paint finishing system

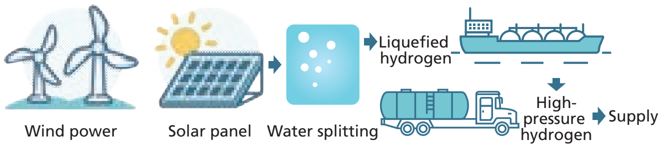
i-Navistar (AI/IoT system for paint finishing factories)

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

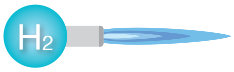
Second pillar Energy management and CO_2 reduction activities in response to primary energy innovation such as electrification and hydrogen utilization

Trends in primary energy CO_2 reduction

In light of the moves of automobile manufacturers that have expressed their intention of considering introducing hydrogen and electrification, we will also consider putting into practice CO_2 reduction technology that incorporates hydrogen and electrification. In the future, we will also promote technological proposals that can be applied in a timely manner for the spread of synthetic methane and various types of energy.



Hybrid energy system



A hydrogen burner and a ceramic electric heater will be installed in the dryer test equipment in the Company's Technical Center to propose a system capable of handling various types of energy such as hydrogen, gas, and electricity. Depending on the primery energy utility situation, it is possible to choose either single combustion of hydrogen and gas or mixed combustion. In addition, we consider proposing a hybrid system in accordance with the application and situation of operation at each stage from heat up and steady operation, by utilizing IT technologies.

Fully electrified facilities

Based on the assumption that it will be possible to supply carbon-free power sources in the future, the company is considering to fully electrifying its paint finishing factories, by the use of a Heat pump of hot water or hot air heat source type, and aiming to reduce electricity consumption by combining this with its energy-saving technology.

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

Automobile manufacturers' efforts to achieve carbon neutrality

Automobile manufacturers and emerging EV manufacturers in Japan and overseas are exploring an alternative painting method to conventional spray painting in order to make the painting process carbon neutral. As an example, they are examining various decorating systems.

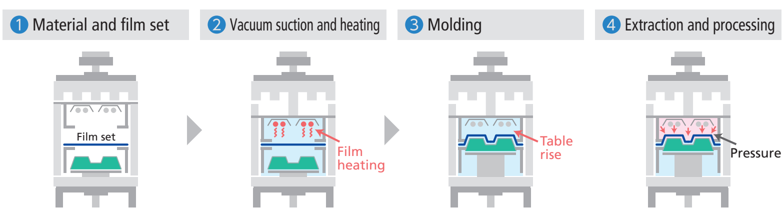
Toward the practical application of film decoration systems for automobile exteriors

The use of film OMD (Out Mold Decoration) eliminates the spray coating process, resulting in low carbon emissions, and eliminates the need for wastewater and exhaust treatment equipment, which is expected to have environmental benefits.

In addition, it is technically possible to expand the design features of decorating films such as patterns, marks, and lighting, and to add functionality (solar cells, heat shielding, etc.).

The Company is promoting the development of dry decorating technology that will provide added value to the exterior of automobiles.

Decorating film vacuum molding system



Dry decoration technology using high-performance film can be applied not only to automobile exterior, but also to all fields of exterior decoration and exterior multifunction.

Materiality

Taikisha identifies material issues as important issues that should be prioritized in its management. Taikisha determined eight material issues that leverage its strengths and DNA to build a business model that would enable the "realization of sustainable value creation" by dividing them into: (1) items directly related to management and business strategies; and (2) items that create social value. Additionally, Taikisha sorted five items that are indispensable for realizing them into (3) "management infrastructure." We conduct evaluation and verification based on the above, aiming to resolve social issues and achieve sustainable growth.

<Direction sought>

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

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

"Management infrastructure" indispensable for "realization of sustainable value creation"

● Compliance ● Risk management

Materiality determination process

Taikisha specified the candidate material issues by broadly taking into consideration the International Integrated Reporting Framework, the viewpoint of Socially Responsible Investment (SRI), global risks, Sustainable Development Goals (SDGs) and other new issues surrounding sustainability, in addition to various conventional frameworks and guidelines related to social responsibility from an all-encompassing viewpoint. Taikisha quantified and visualized weighting from its clients' perspectives based on the materiality to its major clients, in addition to weighting as recognized by society in general based on external frameworks and guidelines in terms of weighting evaluation by external standards.

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

Connection with strategies	Major initiatives	Relevance to SDGs
[Core business] [Green Technology] Business development that continues to create added value and strengthen Taikisha, the technology company [Paint Finishing] Development with an awareness of global social issues [General] Improve business operation systems and productivity **[Creating new value]** Intellectual property strategy R&D/open innovation Creation of new businesses **[Management base]** Developing/securing human capital Digital strategies to provide new value	• Focus on the industrial HVAC field where we can demonstrate our advanced technology. Strengthen customer connectivity and actively keep pace with customers' technological innovation in their production processes. • Identify customer needs and engage in joint development by utilizing the new Research and Development Center and the R&D Satellite • Promote innovative technology development through integration with academic institutions/start-up companies • Promote the acquisition of technologies and development of products that can contribute to the transformation of customers' painting processes, such as the development of dry decoration technologies • Expand areas of automation business by utilizing robot control technology and know-how	2, 3, 7, 9, 11, 12, 13, 17
	• Pursue technologies required by SDGs/Society 5.0 • Expand orders from non-Japanese customers • Diversification of technologies to meet the needs of non-Japanese companies • Business development rooted in local communities utilizing overseas networks • Establish a development structure linked to overseas bases	
	• Digitization and DX of business operation to improve ease of work • Implement BIM and various on-site management support tools • Remote and automated on-site operations through digitization of business processes	
[Core business] [Green Technology] Business development that continues to create added value [Paint Finishing] Rebuilding customer portfolio, development with an awareness of global social issues **[Creating new value]** R&D/open innovation for the creation of new business	• Initiatives to reduce GHG emissions • Promote energy savings by mini-environmental control of HVAC equipment (small-scale environmental control) • Downsize facilities through the improvement of coating efficiency and development of energy-saving technologies to achieve carbon neutrality • Develop and examine equipment with low environmental impact, such as the introduction of hydrogen fuel burners • Conduct scenario analysis based on TCFD and respond to risks and opportunities	7, 9, 11, 13, 17
	• Direct Air Capture (DAC) of CO_2 using exhaust gas treatment technology, use in plant growth, etc. • Develop new water treatment and generation technologies (such as MOF) from the viewpoint of maintenance and effective use of water resources • Reduce waste in construction sites, and manage chemicals appropriately	3, 7, 9, 12, 17
[Core business] Improve business operation systems and productivity **[Management base]** Developing/securing human capital Digital strategies to provide new value	• Develop knowledgeable and experienced professionals • Systematically develop human resource value (management and professional human resources) • Design global educational programs • Support for career advancement and acquisition of certifications	4, 8, 10
	• Promote health management • Promote work style reform • Create an organizational culture that fosters innovation • Improve employee engagement • Optimize human resources by reviewing the project management structure • Improve the labor environment by promoting equalization of work volume and productivity improvement	4, 8, 10
[Management base] Strengthen the Group governance structure	• Strengthen the corporate governance structure • Business portfolio management based on capital costs • Enhance the effectiveness of the board of directors and auditing functions of affiliated companies • Digital strategies to provide new value • Building employee awareness of compliance	16, 17

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

● Quality/safety ● Information security ● Contributions to community

FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

Financial items

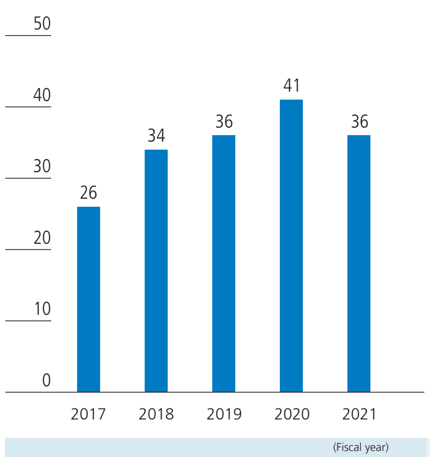
	Unit	FY2011	FY2012	FY2013	FY2014	FY2015
Orders received	Million yen	195,268	195,920	189,026	187,311	221,764
Ratio of overseas orders received	%	56.7	61.9	52.6	49.8	54.3
Net sales	Million yen	189,716	216,051	185,421	183,648	212,424
Ratio of overseas sales	%	51.3	57.4	61.6	55.2	55.5
Operating income	Million yen	8,325	9,815	8,083	8,669	12,734
Ratio of operating income to net sales	%	4.4	4.5	4.4	4.7	6.0
Ordinary income	Million yen	9,033	10,728	9,292	9,579	12,343
Ratio of ordinary income to net sales	%	4.8	5.0	5.0	5.2	5.8
Profit attributable to owners of parent	Million yen	4,372	6,200	4,155	6,084	7,084
Return on equity (ROE)	%	6.6	8.7	5.3	6.9	7.6
Total assets	Million yen	156,108	163,014	166,680	188,283	189,566
Net assets	Million yen	69,602	78,537	84,712	99,669	95,921
Equity ratio	%	42.9	46.2	48.3	50.4	48.0
Cash flows from operating activities	Million yen	1,812	10,772	7,532	1,401	7,301
Cash flows from investing activities	Million yen	(2,336)	(1,308)	(1,194)	(3,900)	(328)
Cash flows from financing activities	Million yen	(361)	(2,569)	(3,290)	1,264	(7,409)
Research and development expenses	Million yen	784	800	876	822	889
Depreciation	Million yen	1,239	1,211	1,290	1,257	1,348
Purchase of property, plant and equipment and intangible assets	Million yen	(1,398)	(3,130)	(1,734)	(1,247)	(1,941)

Per share data:						
Profit	Yen	119.52	170.99	116.08	172.64	204.35
Net assets	Yen	1,834.99	2,087.16	2,282.56	2,690.76	2,633.60
Annual dividend	Yen	35	50	45	52	67
Dividend payout ratio	%	29.3	29.2	38.8	30.1	32.8
Total return ratio	%	40.0	44.8	80.5	30.2	63.8

* The U.S. dollar amounts are translated on the basis of nearly 122.41 yen to 1 dollar, the rate of exchange prevailing at March 31, 2022.
* 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.

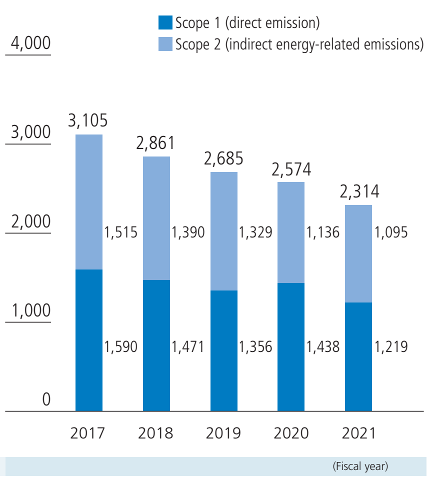
Non-financial items

Education per employee (unit: hours)

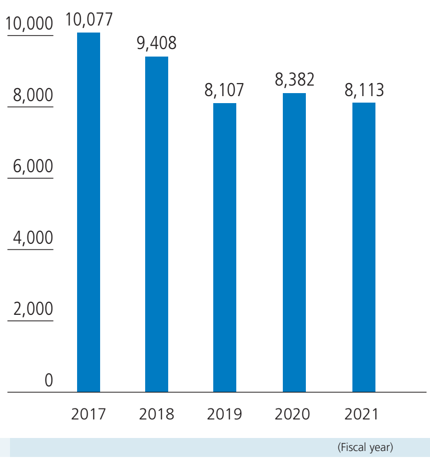


CO_2 emissions (unit: t-CO_2)

(Total value of Scope 1 and Scope 2)



Amount of waste discharged (unit: t)



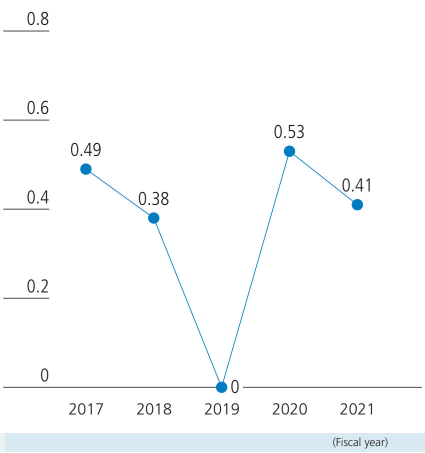
*Thousands of U.S. dollars

FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2021
218,323	219,844	241,889	226,909	200,469	**232,120**	**1,896,253**
50.4	46.2	46.3	45.1	44.1	**38.2**	**38.2**
200,604	231,898	225,402	225,378	202,548	**209,261**	**1,709,513**
49.3	50.1	47.1	41.3	45.8	**48.5**	**48.5**
8,473	12,180	14,035	15,439	11,690	**9,428**	**77,026**
4.2	5.3	6.2	6.9	5.8	**4.5**	**4.5**
9,842	13,082	15,085	15,991	12,287	**10,818**	**88,381**
4.9	5.6	6.7	7.1	6.1	**5.2**	**5.2**
6,305	7,254	8,841	9,132	8,279	**7,248**	**59,214**
6.8	7.2	8.3	8.4	7.2	**5.9**	**5.9**
199,024	215,392	223,080	215,389	228,855	**228,159**	**1,863,898**
100,184	110,650	113,649	112,843	126,311	**130,788**	**1,068,443**
48.1	48.8	48.8	50.2	52.9	**54.7**	**54.7**
6,679	9,337	9,159	21,386	973	**(8,544)**	**(69,803)**
(6,505)	1,390	(2,830)	(877)	(6,913)	**(1,071)**	**(8,756)**
(5,286)	(885)	2,396	(11,475)	(1,435)	**6,000**	**49,018**
946	1,024	1,084	1,105	1,122	**1,106**	**9,042**
1,290	1,398	2,030	2,167	2,362	**2,496**	**20,394**
(1,807)	(3,832)	(4,140)	(2,086)	(2,270)	**(2,314)**	**(18,907)**

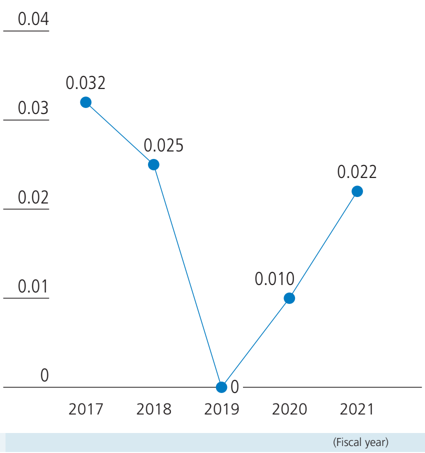
*U.S. dollars

183.16	212.40	259.53	268.07	243.03	**212.69**	**1.74**
2,799.30	3,087.51	3,193.18	3,176.25	3,552.69	**3,658.54**	**29.89**
70	75	91	100	90	**100**	**0.82**
38.2	35.3	35.1	37.3	37.0	**47.0**	**47.0**
54.0	42.2	35.1	37.5	37.2	**47.2**	**47.2**

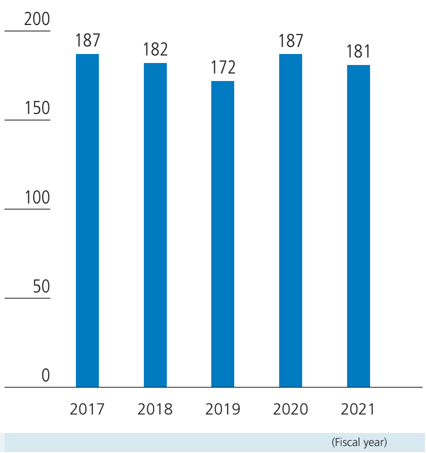
Frequency rate (unit: %)



Severity rate (unit: %)



Number of patents obtained (unit: patents)



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.

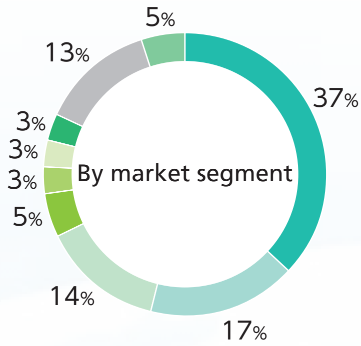
Technologies and services provided by Taikisha

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

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.

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.

Orders received



- Electrical, electronic and audio machinery manufacturing plants
- Business and government offices
- Chemical and pharmaceutical plants
- Technical research facilities and space development facilities
- Commercial facilities
- Other plants
- General machinery and equipment manufacturing plants
- Others
- Uncategorized orders-received by small-scale affiliates

Paint Finishing System Division

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

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

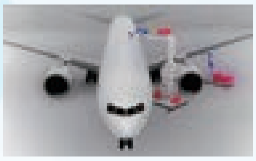
We have received orders for the automobile paint finishing systems of automakers not only in Japan but also globally, including in the U.S.A., Europe, South Korea, China, and India, and currently boasts the top-level of market share in the world. Our services range from painting robots, conveyor systems,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

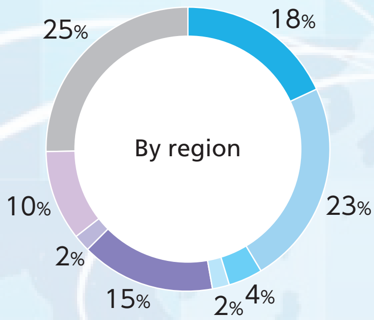
Technologies and services provided by Taikisha

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.



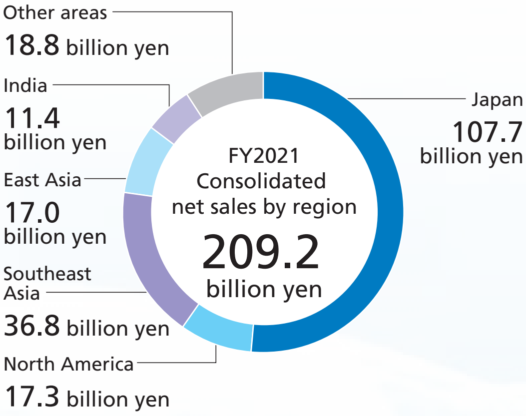
Aircraft and railway car painting
Taikisha delivers automated aircraft painting systems aimed at enhancing productivity and quality, decreasing material requirements and reducing hazardous work by applying know-how cultivated in the automotive painting business. Taikisha can accommodate a wide variety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



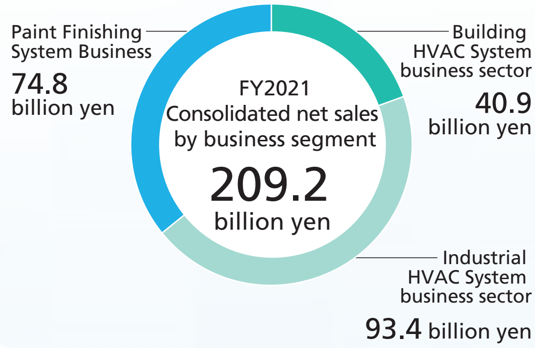
- Japan
- North America
- Thailand
- Other Southeast Asia
- China
- Other East Asia
- India
- Other areas

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

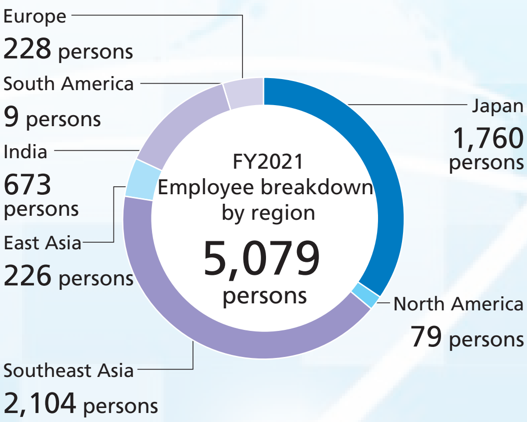
Consolidated net sales by region



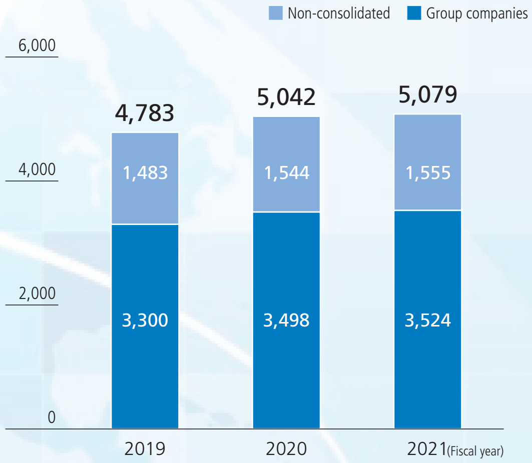
Consolidated net sales by business segment



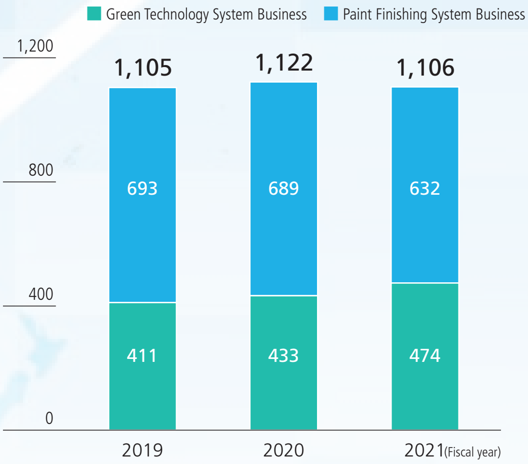
Employee breakdown by region



Number of employees (persons)



R&D expenses (million yen)



Point

Net sales of the automobile paint finishing system business

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.

Value Creation 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.

1913 1920 1930 1940 1950 1960

1913-1948 1949-1970

1913-1948

Helps build the foundation of modern Japan

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

Tokio Marine and Fire Insurance Building is Japan's first modern office building completed in 1918 in Marunouchi. 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.

Tokio Marine and Fire Insurance Building

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.

Steam jet units

1949-1970

Expansion of business fields during the period of rapid economic growth

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

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

1971-1989

Global business development

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

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

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

New Dubai Hospital

History

1970 1980 1990 2000 2010 2020

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

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

1990-2001

Advent of the IT era

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

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

Petronas Twin Towers

2002-2010

Capitalizing on the Group's comprehensive capability

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

2011-

Looking into the future

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

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

Plant factory

Technical Center

From the time of its establishment, the Company invited German engineers and introduced advanced Western technologies, and has been conscious of foreign countries. Since its early days, the Taikisha Group has found its way into overseas markets and actively captured overseas demand. As a result, the Group has steadily fostered a culture that accepts diversity as a matter of course, has the ability to understand, cooperate, and harmonize with other cultures, and can tolerate trial and error. One representation of such idea is that many national staff are working at overseas affiliates. For the Company, technological competitiveness and the ability to innovate are the source of corporate competitiveness and customer satisfaction, and also serve as the driving force for creating new businesses. Historically, the Company's strength lies in its pursuit-based solutions cultivated by serving the high requirements from customers.

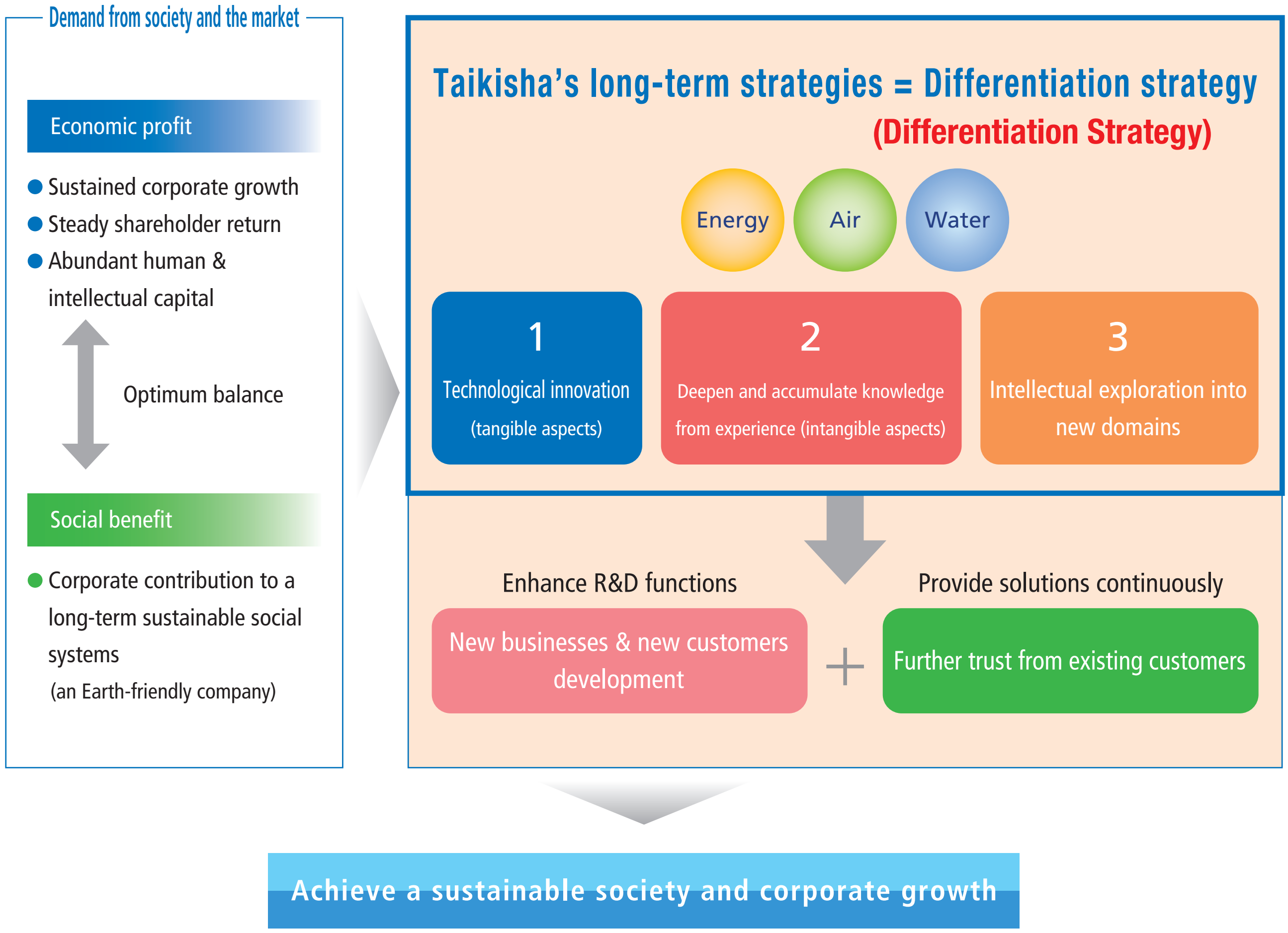
As described above, we recognize that our corporate culture, which can be said to be the characteristics and strengths that have been handed down over many years, is a vital foundation for being an innovative company, a company that realizes transformation and growth, and a company that maximizes the use of diverse human resources and knowledge.

Long-term Vision

With the ever-changing business environment, the Company has engaged in wide-ranging discussions on the future vision of the Taikisha Group and the ideal way to create value, based on the concept of backcasting, in anticipation of changes in the industrial structure and social environment in the coming 10 to 20 years. The long-term vision established in conjunction with our new Mid-Term Business Plan reflects these discussions. By strategically incorporating changes in society and the environment as medium- to long-term growth opportunities, we intend to transform and grow the Taikisha Group as a whole in a dynamic manner to realize the ideal visions of society and the Company.

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

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



Our challenge to achieve carbon neutrality

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

Diversity & Inclusion

Long-term Vision 2

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

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

Taikisha's corporate culture

Overseas

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

- Success of our national staff -

+

Domestic

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

- Differentiation from others, specialized technologies -

Partnership

Strengthen partnership

- Existing customers
- Suppliers

External contacts and technologies

- Open innovation
- Academic-industrial cooperation

Diverse values and technologies **Diversity** × Connecting and combining force **Inclusion** = **New value generated continuously** **Value**

Driving force of corporate competitiveness and differentiation

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

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

Business Strategies

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

Management Base

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

Financial Strategies

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

Three basic policies of the Mid-Term Business Plan

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

Capital utilization plan

For details of the Mid-Term Business Plan, please refer to pages 24 through 26.

Review of the Previous Mid-Term Business Plan (from FY2019 to FY2021)

The Taikisha Group has entered the final year of its Mid-Term Business Plan (from FY2019 to FY2021) with three basic policies: (1) solidify the Company's position in the global market, (2) strengthen initiatives for the future, and (3) build an attractive company and establish a solid management base. During the period, the following initiatives were implemented with the aim of achieving medium- to long-term growth.

Basic Policy

1. Solidify the Company's position in the global market
2. Strengthen initiatives for the future
3. Build an attractive company and establish a solid management base

Major Initiatives

- Made Research and Development Center into Demonstration Center
- Expanded Southeast Asia business through establishment of Taikisha Lao Co., Ltd.
- Expanded business domains in the Indian market by investing in Nicomac Clean Rooms Far East LLP
- Expanded automation business through additional investment in Encore Automation LLC
- Expanded plant factory business domain and established our own mass production factory
- Shifted to electronic expense reimbursement
- Formulated and introduced a telework system

We implemented measures to improve our competitiveness and expand business domains
Through our "establishing an attractive company" initiative, we have been recognized as a Certified Health & Productivity Management Outstanding Organization for two consecutive years

As compared with the investment plan of 20.0 billion yen in the previous Mid-Term Business Plan, investment results were 13.7 billion yen in total for the three years.

Review

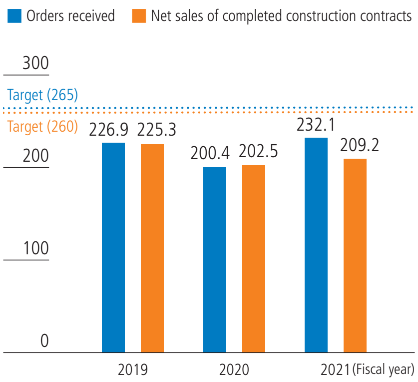
Green Technology System Business

In the building HVAC system business sector, although there was a temporary movement to postpone investment due to the impact of the COVID-19 pandemic, demands for office buildings remained strong, mainly in large-scale redevelopment projects in the Tokyo metropolitan area. With regard to industrial HVAC system business sector, capital investment continued to be in an adjustment phase due to the economic downturn caused by the COVID-19 pandemic. However, in Japan, investments by electrical and electronic component manufacturers and chemical and pharmaceutical manufacturers accelerated. On the other hand, overseas markets continued be cautious due to uncertainty of the future. Under these circumstances, orders received for the fiscal year ended March 2022, the final year of the previous Mid-Term Business Plan, totaled 158.9 billion yen and net sales were 134.3 billion yen.

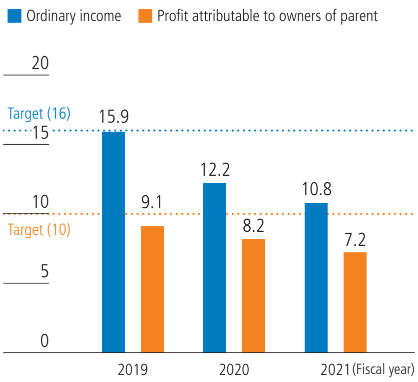
Paint Finishing System Business

As in the Green Technology System Business, the outbreak of COVID-19 not only caused a continuous adjustment phase in capital investment by automobile manufacturers, but also caused delays in construction schedules for properties that had already begun construction, and postponements in order receipt. Under these circumstances, orders received for the fiscal year ended March 2022, the final year of the previous Mid-Term Business Plan, totaled 73.2 billion yen and net sales were 74.8 billion yen.

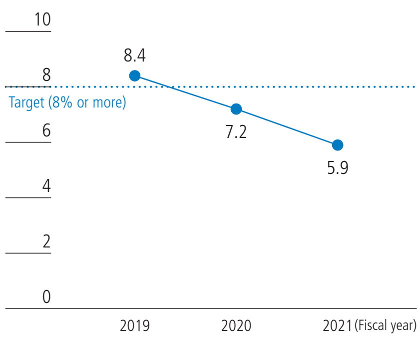
Orders received and net sales of completed construction contracts (billion yen)



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

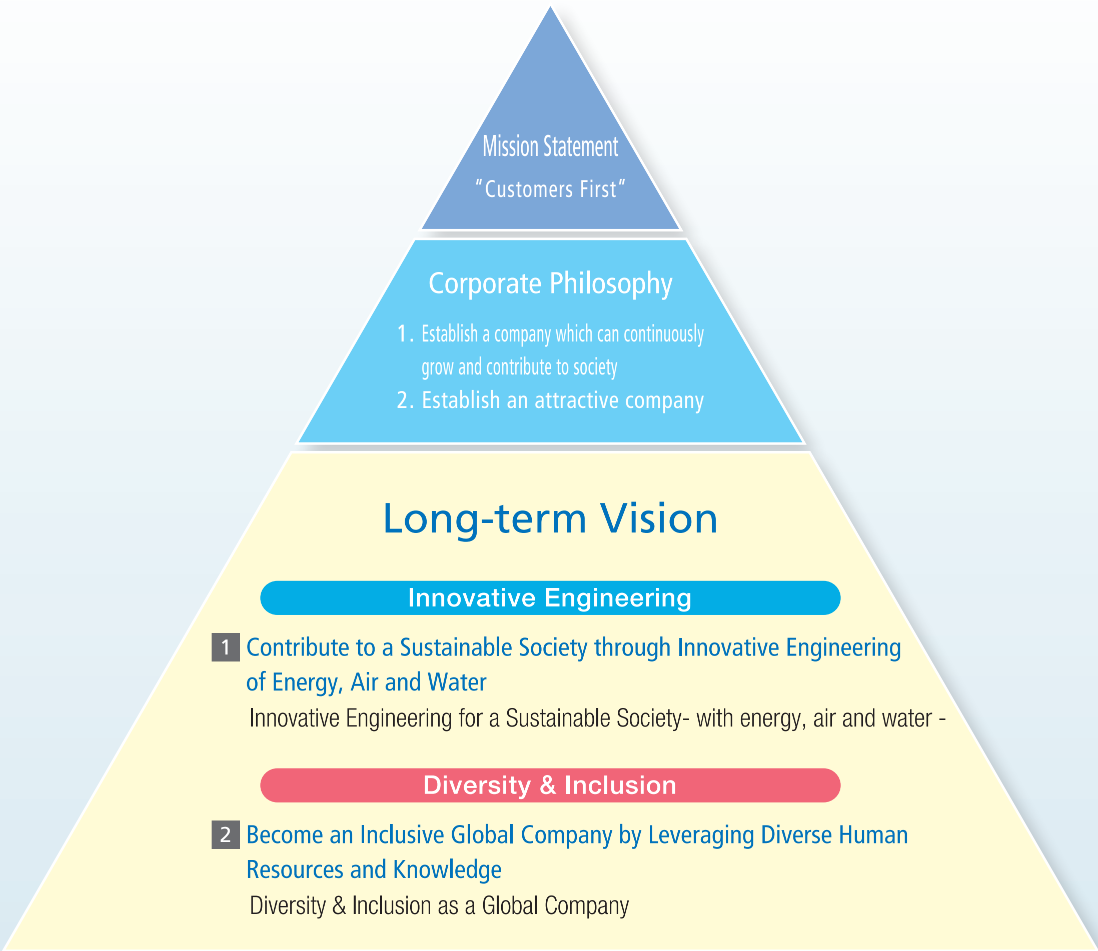


Return on equity (ROE) (%)



Overview of the New Mid-Term Business Plan (from FY2022 to FY2024)

The New Mid-Term Business Plan is positioned as a milestone for the coming three years to realize the long-term vision of where we want to be in 10 years from now. In formulating this plan, we first reviewed our long-term vision. In order to realize our Corporate Philosophy of "Establish a company which can continuously grow and contribute to society" and "Establish an attractive company," we have set forth two visions.



Basic policies and direction of the Mid-term Business Plan

In order to realize our long-term vision, we will review the existing business portfolio from the perspectives of "capital efficiency," "consistency with long-term strategies," and "affiliated company governance," to transform into a leaner business structure that can create added value in the long term.

During the period of the previous Mid-Term Business Plan (from FY2019 to FY2021), we continued to work on initiatives for the future, and we expect our core businesses to remain strong given the current market environment. However, we believe that further transformation and growth are necessary to realize our long-term vision.

Accordingly, the New Mid-Term Business Plan sets forth three basic policies: (1) Further strengthen core businesses, (2) Challenge to create new value, and (3) Strengthen management base that supports transformation and growth.

1 Further strengthen core businesses
Continuously create added value through pursuit-based problem solving, which is one of our strengths

2 Challenge to create new value
Create innovation and expand business domains by integrating our own technologies with external knowledge

3 Strengthen management base that supports transformation and growth
Undertake initiatives with a focus on human capital, digital strategies, and governance to transform our business structure

Overview of the New Mid-Term Business Plan (from FY2022 to FY2024)

Direction and major initiatives

Basic Policy	Direction	
1 Further strengthen core businesses	Green Technology System Business	Business development that continues to create added value
		Strengthen Taikisha, the Technology Company
		Improve business operation systems and productivity
	Paint Finishing System Business	Establish a firm position at home and abroad
		Development with an awareness of global social issues
		Improve business operation systems and productivity
2 Challenge to create new value	Plan and promote intellectual property strategies	
	Development from the customers' perspective	
	Open innovation	
	Horizontal deployment of technologies that are our strength	
	Develop new businesses	
3 Strengthen management base that supports transformation and growth	Develop and secure human capital	
	Digital strategies to provide new value	
	Strengthen the Group governance structure	

Numerical Targets

● Financial targets

Mid-Term Business Plan period / What Taikisha Group is aiming for in 5 years

Item	2023.3	2024.3	2025.3	2027.3
Orders received	215.0	223.0	236.0	270.0
Net sales of completed construction contracts	212.5	223.5	238.0	265.0
Ordinary income	12.0	13.5	15.0	16.5
Profit attributable to owners of parent	8.6	9.1	9.6	
Return on equity (ROE)	6.8%	7.0%	7.2%	

● Non-financial targets

CO_2 emissions from business activities (Scope 1 and 2) → 46% reduction by 2030 (compared with FY2015 results)

Other indicators and targets related to climate change will be set as part of the TCFD response (during FY2023)

Initiatives

- Decarbonizing business initiatives to achieve carbon neutrality
- Structure that continues to meet the technical needs of customers and projects, and developing professionals

- Identifying customer needs and joint development by utilizing new Research and Development Center and R&D Satellite
- Proactively making technology proposals to customers and uncovering seeds through collaboration between sales and development divisions

- Digitalization and DX of business operations to improve ease of work
- Business process reform to eliminate forcing, waste, and inconsistency
- Create a system where we can strengthen the relationships and grow together with suppliers

- Diversification of technologies to meet the needs of non-Japanese customers
- Reaching out to new customers outside the automotive market through collaboration with partners
- Business development rooted in the local communities by utilizing overseas networks

- Contributing to the transformation of customers' production technologies through technological development to achieve carbon neutrality
- Establishing a development structure linked to overseas bases

- Remote and automated on-site operations through digitalization of business processes
- Designing global educational programs
- Optimizing human resources by reviewing the project management structure

- Promote management strategies that leverage our own intellectual property and intangible assets

- Establish R&D Satellites with easy access to promote proactive identification of customer needs

- Open a new R&D Center to promote the development of innovative technologies through integration with academic institutions and startups

Green equipment business	Automation business	Plant factory business
Create a business in a niche field by integrating HVAC business with manufacturing industry	Focus on robot control technology to develop non-automotive markets such as automated sanding equipment	Establish a brand through plant construction and aggressive market development for production and sales of factory vegetables

- Pursue new businesses by utilizing intellectual property and integrating with external knowledge through R&D

- Creating an organizational culture that fosters innovation
- Improve employee engagement
- Systematic development of human resource value

- Improving productivity through onsite digitalization and DX
- Establishing a global IT and DX structure
- Digital integration for R&D and new business creation

- Business portfolio management in light of capital costs
- Enhancing the effectiveness of the board of directors and auditing functions of affiliated companies

Investment plan

Growth investment in the Mid-Term Business Plan period: 20.0 billion yen

Business-related investments

- Regional strategies for core businesses
- Expansion of business domains
  (M&A, capital and business alliance, establishment of subsidiaries)

Capital and human resources investments

- Productivity-enhancing IT investments
- Education and training
- Appointment of specialized personnel

Technology development investments

- New R&D Center
- Joint development with external organizations

Capital dividend policy

Dividend policy

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

[Basic concept]

DOE 3.2% = Aimed ROE level 8.0%×dividend payout ratio 40%

Purchase of treasury shares

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

Plan to reduce cross-shareholdings

Reduce cross-shareholdings to less than 20% of net assets by the second year of the Mid-Term Business Plan (Note)

(Note) Holdings including deemed holdings

Involvement in Strategy and Increasing the Effectiveness of Governance

The effective use of advice and opinions provided by Outside Directors from an outside perspective is an important aspect of corporate governance that helps raise corporate value over the medium to long term. When formulating the long-term vision and Mid-Term Business Plan, Taikisha requested that Outside Directors be even more directly involved than before. A round table discussion was held between President Kato and four Outside Directors, and the talk covered the lead-up to the plan's creation and challenges going forward.

Representative Director, President Corporate Officer
Koji Kato

Outside Director
Hirokazu Hikosaka

Outside Director
Kiyotaka Fuke

Outside Director
Masasuke Kishi

Outside Director
Nobuko Mizumoto

Facilitator
Deloitte Touche Tohmatsu LLC Partner CPA
Tatsuo Yamauchi

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.

Hirokazu Hikosaka

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

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.

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 last year.

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.

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.

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

● Management Structure/Careers of Directors P.39-40

Round table discussion held: August 10, 2022

Plan created through open discussion among all officers

Yamauchi: Today, I would like to hear from everyone on the new Mid-Term Business Plan and updated long-term vision, specifically, the discussions that led up to its announcement, the issues involved in achieving the goals set by the vision and plan, and the measures that will be taken going forward to address them.

The first question is for Director Fuke and Director Hikosaka. If you compare the process to create the new Mid-Term Business Plan with the process three years ago to create the previous plan, do you feel that there were any differences? What is your view on this?

Fuke: What I was most aware of in connection with creation of the new Mid-Term Business Plan was that compared to the previous plan, which was created, in a certain sense, on the assumption of trend-based business development, how the new plan required weight to be placed on change and innovation because the current situation calls for companies to be involved in innovation. I also think the new plan was created with an awareness of the question of how the Company should commit, through its Mid-Term Business Plan, to the initial three years of initiatives for realizing its new long-term vision and how these initiatives should be communicated to the public.

Based on this general positioning, the project started with considerations based on repeated deliberations through open discussions among all the officers, including Outside Directors. I think other Outside Directors would feel the same about this, but we were provided with an enormous volume of documents related to issue conditions and were required to make presentations related to our own awareness and sense of direction with respect to a vision for ten years into the future, so, at first, discussions took place in a bold form that was somewhat confusing.

As a result, with regard to the Group's future vision, it wasn't the normal process of listening to a presentation and having a Q&A; rather, we had the chance to discuss the vision in a form that made clear our own standing. And, being able to clarify one's own values with respect to social issues and market needs through this process proved meaningful in subsequent discussions as well. Of course, ideas that come from a non-executive standpoint alone are not able to adequately take into account technological inevitability and competitive market advantages that pertain to the Group, but in the next phase, presentations were made by the executive side, and they were satisfactory to me personally.

Hikosaka: When the previous Mid-Term Business Plan was created, it was a process of looking from the present situation toward the next set of goals, but this time, goals were set while envisioning the Group in the future; to put it another way, the plan was formulated using backcasting to calculate back from a point in the future, so that was a difference. So, even in the open discussion portion, we first spoke about our dreams for the future, without considering their feasibility, etc. Then, after each officer presented their thoughts and hopes with respect to the Group, the Mid-Term Business Plan was discussed.

On this point, the process this time differed from the previous planning process in which we considered the plan proposal made by the executive side after the fact. This time, the process was truly in the present-continuous tense, with the plan being created starting from its initial parts, where we as Outside Directors were able to participate. Many exchanges of opinion took place even on the detailed parts of the plan, so it can certainly be said that the contents were formulated with everyone working together.

Kato: In the open discussions at the initial stage, all the Outside Directors were asked to give their candid opinions on the direction they thought Taikisha should be heading, and many ideas were put forth that would not have come from people who had spent their careers at Taikisha which was quite stimulating. In addition, at the stage when the plan proposal was fairly well fleshed out, a variety of comments and opinions were received and the process proceeded with this feedback being incorporated into the plan as much as possible.

The contents were consolidated and the final form for disclosure was finalized, but, naturally, creating the long-term vision and Mid-Term Business Plan is not the end; in executing them going forward as well, our stance is to take in constructive advice and opinions from an outside perspective and continue to utilize them. With the involvement of the Outside Directors, this mindset infiltrated the Company internally as well, so I think this creation process for the new plan has great significance.

Yamauchi: This was the first year as Outside Directors here for Director Kishi and Director Mizumoto, but having been involved in creating the Mid-Term Business Plan, how did you feel about the process?

Kishi: I will first talk about how my own awareness and thinking have changed during the year since I became an Outside Director at Taikisha, which was on the assumption that I would be involved in creating the plan. At the round table discussion with Outside Directors one year ago, I sensed that the SDGs/ESG management trend in society was a tailwind for the Group's business, and I expressed my opinion that it should be capitalized on and made comments on new businesses as well based on my own experience. My recognition on these things has not changed.

Regarding ESG in particular, increasing numbers of companies are declaring their support for the TCFD recommendations, and Taikisha has increasing opportunities to propose specific businesses to customers. Also, in the area of new business, seeds are being sewn for the future through the leadership of the business divisions and Corporate Planning Headquarters, and progress is being made in the respective phases.

On the other hand, I now have a stronger view on the fact that since overseas sales account for around half of Taikisha's total and over half of its employees are overseas, in order for the Group to grow further, management vectors need to be aligned worldwide and governance effectively utilized. This past year I once again became aware of the importance of this.

Mizumoto: My awareness was most strongly focused on the problem of how Taikisha should contribute to society toward the realization of carbon neutrality in 2050. In this regard, I thought it was wonderful how backcasting from the future was used to look carefully at the Company's medium- to long-term growth and that discussions were held on this basis, but the idea of talking about our dreams and ideals felt too vague and caused some confusion from the standpoint of an engineer.

Even so, in order to convey to shareholders and investors that Taikisha is a company with future potential, I felt it was absolutely essential that the Company's stance toward the realization of carbon neutrality in 2050 be presented sufficiently, and from this standpoint I give the Company high marks for the fact that "Contribute to a Sustainable Society through Innovative Engineering of Energy, Air and Water" was clarified in the long-term vision as the Company's ideal.

In addition, in individual businesses, in hearing various things over this past year, I came to the understanding that the current Taikisha is not necessarily facing what could be called adverse circumstances managerially, but because of this there is also the sense that the company is not taking decisive steps forward with regard to the future. This can't be a bottom-up process from the frontlines only; in my view, top management needs to have strong intentions and it needs to convey them, and unless they do so, the Company may not be able to make changes for the future.

Kato: Just as you both have said, the question is what we as a company need to be doing having recognized the trend in society toward ESG/SDGs management and carbon neutrality. I think we were able to hammer out a direction for this in our long-term vision and Mid-Term Business Plan, and, with regard to this, I think thus far we have received a generally positive evaluation from stakeholders, starting with shareholders and investors. We recognize that going forward it will be necessary to visualize initiatives based on this direction and work to ensure that realizing the vision is not put off.

Pioneering the future through innovation of energy, air, and water

Yamauchi: In the pillar of the long-term vision, "Innovative Engineering," it says "Contribute to a Sustainable Society through Innovative Engineering of Energy, Air and Water." What was the thinking behind this?

Kato: What approach should be emphasized in order for the Group to continue to exist in a sustainable manner and continue to grow by contributing to society? In providing value through the Green Technology System Business and Paint Finishing System Business, we are already following a path that differs from other manufacturing and installation company. I'm referring to the three elements of energy, air, and water, and we understand this to be a major theme that will differentiate us substantially as we increase the sustainability of society through innovation. Specifically, we will carry out a long-term differentiation strategy based on technological innovation (tangible aspects), deepening and accumulating knowledge from experience (intangible aspects), and intellectual exploration into new domains.

The Innovative Engineering pillar of the long-term vision is based on these thinking, so it expresses our intention to pioneer the future through providing unique value rooted in energy, air, and water.

Kishi: I would like to give my opinion on the priority theme of "New businesses & new customers development" in connection with Innovative Engineering in the new long-term vision. This is because substantial weight has been put on these initiatives. The Mid-Term Business Plan cites the green equipment business, automation business, and plant factory business in connection with "Horizontal deployment of technologies that are our strength," and given as examples of "Develop new businesses" are recover and utilize CO_2, maintain and effectively use water resources, enrich eating and make eating healthy, and solve labor shortages.

However, before such new business development through technological capability can get on track, the difficult stretch called "death valley" that exists between the development and commercialization stages must be overcome. There is a mountain of obstacles to be cleared, including considerations of customer value in the first place, marketing, QCD management, access to new customers, development of sales channels, and maintenance service measures. In order to overcome these challenges and raise the hit rate for commercialization, mechanisms need to be established for efficiently launching new businesses as a company, which is to say, educational activities, the creation of rules and organizational structures, and progress management and support, and through such measures, the Company needs to provide robust support for tackling the challenge of commercialization.

As an Outside Director I plan to focus on whether such mechanisms will be created and support provided with exactitude in initiatives going forward, and I myself intend to contribute to these efforts by drawing on my knowledge and experience.

Mizumoto: I have great sympathy for what Mr. Kishi has just said. To close the gap between "As is" and "To be" requires nothing less than a transformation. It is not enough to simply improve processes; the power of digital must be utilized to reform businesses and the awareness of employees must also be changed at the same time. Establishing mechanisms to accomplish this is the role of corporate management.

What kind of value Taikisha will be able to provide customers through DX will differentiate it from competitors, and this means not only listening to customers and providing what they require but making proposals for carbon neutrality methods, for example, that customers have not yet considered. Employees no doubt will need to think in these terms.

Kato: Honestly speaking, such measures are still to come, and we will probingly find our way forward through extensive trial and error in various areas. Proposing things that customers have yet to consider, as Ms. Mizumoto points out, is extremely important, and it is an essential condition for us to provide value in the way we aspire to going forward. Regarding initiatives for new businesses as well, such proposals will likely be the key to whether commercialization succeeds.

Currently, it is my sense that most of the Group's customers have an extremely high awareness related to realizing carbon neutrality and addressing climate change. The question is how we are to address societal demands and the expectations and requests of customers. The gaps in value creation must be filled by promoting business reforms and employee awareness-raising through transformation. I see this as the responsibility of the management team.

Mizumoto: Taikisha's customers include many companies with a particularly progressive awareness, and their sensitivity with respect to social and environmental issues is extremely high, I think. Promoting initiatives to tackle climate change and carbon neutrality together with such customers is to stand at the forefront of society, which is likely to be a major strength for Taikisha. This is a strength that the Company will demonstrate.

HR management for competitiveness and differentiation

Yamauchi: Diversity & Inclusion, the other pillar of the long-term vision, has the words, "Become an Inclusive Global Company by Leveraging Diverse Human Resources and Knowledge." What initiatives, specifically, does this refer to?

Kato: I have felt that the Group's investment in human resources up to this point has not necessarily been sufficient. We recognize that it is currently truly the time to secure diversity through proactive HR-related investment for the future of Taikisha, and we intend to carry this out on a continuing basis.

This was mentioned by Mr. Kishi, but of the Group's approximately 5,000 employees, around 3,500 are overseas local staff, and in this sense we already have diversity on a global basis, but I don't think such employees have been effectively or fully utilized up to this point. In order to be a corporate group that continually generates new value for a changing society, we intend to pool the strengths of our employees, who have diverse perspectives, and carry out initiatives to bring out their active participation.

Hikosaka: The theme of Diversity & Inclusion, in the way it has generally come to be used in society, has a somewhat narrow range, being interpreted as measures to address the issues of women's active participation and career advancement or employment of people with disabilities, however for Taikisha, along with these more commonplace measures, there is a need to understand diversity in a broader sense and tie it to value creation. With the carbon neutrality movement as an opportunity for taking further leaps forward, securing specialized personnel by training them in-house will certainly take time, so going forward it will no doubt be necessary to bring in people with the necessary knowledge and skills from the outside and have them spearhead initiatives.

Personnel from outside are already heavily involved in initiatives related to internal control, and securing diversity using the same method would surely be effective for engineers as well. It is part of the history of Taikisha that at its founding it invited in technical instructors from Germany to introduce heating technologies, so with regard to carbon neutrality as well, by drawing on talent overseas, which is ahead in this area, one could expect business development to be at the global cutting-edge.

Fuke: It is the Company's personnel that will realize its medium- and long-term vision, so their development is an urgent task for the Group.

There is no doubt that the Company is at the initial starting line of its growth strategy. Business portfolio reform, which is emphasized in the Group's growth strategy, is in other words, the transformation of the HR portfolio as well. Who should be assigned to what businesses? HR management, I think, will need to be a focus going forward.

Previously, HR development had taken place in organizational silos, and corporate-level judgments that take a bird's-eye view of the overall Group had not always functioned adequately. To have people with diverse careers and abilities assigned horizontally throughout the organization and play active roles would certainly be an engine that would bolster the Group's competitiveness and drive its differentiation.

Currently, even in the Corporate Governance Code, systems are being developed that will require human capital disclosures. What Taikisha needs to be aware of on this point is the transparency of its HR management. In its growth strategy, how many people will be needed to fulfill which requirements? How is your current HR portfolio structured, and what hiring and training should take place to bring it closer to the ideal? Fundamentally, this is a matter that should be managed by the executive team, but the PDCA cycle for HR management needs to be made visible for monitoring by the Board of Directors as well.

Kato: Growth strategy and HR management are like two sides of the same coin. Strengthening the PDCA cycle and making it transparent are essential—I keenly perceive this as a management issue on a daily basis. Diversity & Inclusion and Innovative Engineering are related to one another, and for the Group in particular, ensuring diversity with additional focus on outside engineering resources is important to generating innovation. To promote this, we will move forward quickly in creating mechanisms for HR management.

Overcoming challenges in growth strategies in each business

Yamauchi: I want to ask next about each divisions. What are the challenges in each of them for achieving the goals of the Mid-Term Business Plan? How do you see the issues in the Green Technology System division?

Kishi: What I have understood upon listening to discussions on the Green Technology System Business for the past year is that although there is still much room to increase market share, the problem of the shortage of human resources prevents adequate measures from being taken. This is the current situation; which is to say, bolstering construction capacity is the biggest issue in this business.

So, the question is how to raise construction capacity. Initiatives to level up employees through HR-related policies, as we have just discussed, will naturally be an emphasis, but I think it will also be effective to move forward with automation and labor-saving measures through the introduction of technologies like robots and AI. The construction industry seems to be behind other industries in taking such measures, but Taikisha Group, in the Paint Finishing System Business, is already utilizing remote operations and automation for onsite processes, and deployment of equivalent technologies should be accelerated in the Green Technology System Business as well. Moreover, digitalization and DX are going to be needed going forward, too, in part to increase the efficiency of administrative processes and interface with other companies.

Raising sales and proposal-making capabilities through these initiatives will also be a key for growing the building HVAC system sector, and I think this could serve as the foundation for efforts to improve profitability while one-stop services with high added value are provided as required by customers.

Mizumoto: Major construction companies, which are Taikisha's customers, are very aware of the work style reforms taking place through DX in recent years, and they have been trying to rein in long working hours and holiday work, which had become normalized. With respect to mechanisms on the customer side aimed at work style reforms, Taikisha should not be on the receiver of any burden-shifting that may arise out of such mechanisms; rather, it should utilize the mechanisms itself and work to change alongside its customers.

Hikosaka: In the construction industry, deployment of BIM*, where Europe is in the lead, is spreading in Japan as well and will eventually be the mainstream, but if BIM is going to be utilized by Taikisha, it will be necessary to tie it to the Company's competitive advantage and

differentiation, and I have heard that information is already being collected to this end. BIM should not only be introduced in response to the requirements of major construction companies and architectural firms; a theme going forward for Taikisha will no doubt be how to utilize BIM to the maximum extent in order to co-create value with customers.

Fuke: I have expectations for the building HVAC system sector against the backdrop of firm construction demand in the sense that it will help stabilize the Green Technology System Business. For the Group to gain a competitive advantage and establish differentiation factors in this sector with a relatively low barrier to entry, it goes without saying that it will be essential to raise construction capacity, carry out digitalization and DX, and utilize BIM, as others have mentioned.

However, when considering specifically what will lead to competitive differentiation, the reason for choosing Taikisha among many others in this industry is not entirely clear to me. I think the Company needs to have a strategy for better clarifying what aspects will be the clinching factor for being chosen by customers and for investing on a priority basis in those areas.

In the industrial HVAC system sector, the Group's strength is its fine-tuned handling of the customer's needs, which I understand to be a differentiating factor for it. However, in the building HVAC system sector, the major construction company or architectural firm is in between the Group and the building owner, the end client, so at it stands, it is difficult to take advantage of the Group's strength in providing a highly exacting response to needs. However, with building HVAC needs also becoming more individualized and specialized, it would be preferable if the Company could approach building owners directly in some form, demonstrate its responsiveness, and acquire a competitive advantage in this way.

Yamauchi: Continuing on, with regard to the challenges in the Paint Finishing System Business, President Kato, what are your views?

Kato: In the Paint Finishing System Business, for the past three or four years we have probingly carried out various initiatives in order to hammer

*Abbreviation of building information modeling. A method for constructing buildings in 3D space on a computer and integrating and utilizing data related to planning, design, construction, and maintenance and management.

out a new direction for our growth strategy, but recently we have finally shifted our awareness and a concrete direction has taken form. I truly feel the times are such that we must convert to a business based fundamentally on energy, air, and water, and that we need to further broaden our scope and generate new ideas so that the Paint Finishing System Business extricates itself from conventional business.

Mizumoto: I feel there has been a big change in the Paint Finishing System Business from the traditional emphasis on stability to a greater awareness of a long-term time horizon. Under the new Mid-Term Business Plan as well, for the sake of future sustainability, Taikisha will promote technological development to realize carbon neutrality, and, in line with the thinking of TCFD, it is aware of an approach that begins with behavioral changes in customers. I think very highly of this as a policy. At present, customers themselves do not necessarily have the clear answers, either, and they are tackling sustainability through trial and error, so the Paint Finishing System Business, as a supporting role, should develop solutions that will be largely accepted and proactively propose them.

Kishi: Robot technologies and the like that automate painting I think could be applied to other businesses as well. I feel there is more than likely enormous potential in horizontally developing out technological capabilities cultivated in the Paint Finishing System Business in adjoining, not detached, domains. In order to actually make this happen, marketing functions and sales teams will need to be enhanced to cover new markets and customer development. If this hurdle can be cleared, I think the future will open up.

New technologies like a dry decoration that reduces environmental impact could be applied to businesses outside of existing domains. Such expansion into new businesses of course cannot be done in one’s spare time; it requires establishing specialty teams, but I really count on this.

Fuke: A few days ago, Outside Directors and Outside Audit & Supervisory Board Members visited the Technical Center in Zama, Kanagawa Prefecture and toured the latest technologies of the Paint Finishing System Business. The automated sanding technology that automates the sanding process for coated surfaces was explained to us as a highly outstanding system that provides high-quality finishing, but I was concerned about in the fact that it is handled as a product that is sold off to major manufacturers. At the same time, it was explained to us that the Company is engaged in development in the role of an integrator that designs and builds systems on the core of such new products and technologies and provides them in an integrated manner. If Taikisha can shift in this way from a seller of individual goods to a provider of service of technical knowledge through systemization, I think it would contribute to business and earnings stability.

Hikosaka: This is certainly true of the automobile industry, which is the main customer of the Paint Finishing System Business, but when society changes, it changes incredibly quickly. The times today require technology to be developed without falling behind, business to be developed without falling behind. Keeping up though cannot be done without a considerable amount of focus and effort; it must be continually discussed by the Board of Directors as a company-wide issue, and not only by individual business divisions.

Kato: Regarding the fit of our two major businesses, authority is delegated to the business divisions and for the most part operations are left up to them, but just as Mr. Hikosaka says, efforts are needed to ensure we do not fall behind the times, and they need to be made on a company-wide basis as we revise our approach. Also, in parallel with recent technology development, simultaneously moving forward on technology development aimed at the future will translate into business development to lead the market, so we intend to reinforce related structures and functions going forward.

I would ask that our Outside Directors continue providing your candid opinions and advice in this regard.

Corporate governance that helps increase corporate value

Yamauchi: Based on the issues that have been brought up thus far in the discussion, going forward, how do you as Outside Directors intend to contribute, and what are your thoughts on your role?

Hikosaka: “Strengthening the Group governance structure” is cited as a theme in the Mid-Term Business Plan. I serve as the chair of the Governance Committee, so speaking from that perspective, this year, counting from January, we have already convened the meeting a dozen or so times, and held very active discussions each time. Before the committee was established, the executive team would organize various issues and then matters on which a conclusion had been reached to a certain extent would be approved by the Board of Directors—this was the general tendency, but now, while coordinating with the Internal Control Committee on the executive side, the Governance Committee fully deliberates on issues when they are still “live,” so to speak, which represents a change of format.

This change has helped deepen the understanding of the Outside Directors with regard to the details of the Company’s business and enabled us to give opinions from a broader standpoint at meetings of the Board of Directors. I intend to continue to fulfill the role of helping to increase corporate value while further raising the effectiveness of governance.

Fuke: With the business environment changing greatly, proactive business investment is needed to increase corporate value over the medium to long term, and accelerating growth by raising capital efficiency is an increasingly important management issue. Going forward, in terms of the Board of Directors, I recognize there is a need to promote development while monitoring initiatives for capital cost-conscious management.

In the Mid-Term Business Plan, ROE is the indicator used for measuring company-wide capital efficiency. At the stage of business portfolio reform that is upcoming, through target/result management tied to the medium/long-term vision and individual strategies, the validity of portfolio reforms needs to be verified and the time horizon of medium-to-long term growth needs to be monitored. I again think it is necessary to set an indicator that would make such management possible while fostering capital cost awareness on the frontlines and to restructure how it operates.

In addition, the Capital Dividend Policy established in the Mid-Term Business Plan, efforts to set investment management rules being considered by the Governance Committee and Internal Control Committee, and other such initiatives are also important themes related to capital efficiency. As an Outside Director in the position of representing stakeholders, I intend to firmly maintain accountability with respect to these matters.

Mizumoto: I will check that strong mechanisms are in place to make Taikisha a company with future potential through DX and an attractive company for employees and that functions are fulfilled through implementation of PDCA cycles, and I will provide advice on this from an outside perspective.

Kishi: I think that business growth is essential to increasing corporate value and I have expressed my opinions from this standpoint during this round table discussion as well. Amid the exchange of opinions, the matter of Diversity & Inclusion was observed to be reaffirming the corporate culture of Taikisha, and in the Paint Finishing System Business, it was again recognized that there is a need to reform the business model from one-time-purchase model to recurring revenue model for the future, as Mr. Fuke has said. Going forward, I will draw on my own experience in management at a manufacturer to contribute by way of providing advice related to technology, business development, and organizational management.

Kato: We have had a very meaningful discussion today from multiple angles, and it has produced novel ideas and observations, proposals for future reference, and also some criticisms that are somewhat difficult to hear for top management. I think this round table discussion has had a great deal of depth. Our responsibility on the executive side is to faithfully carry out a growth strategy based on the opinions we have received.

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

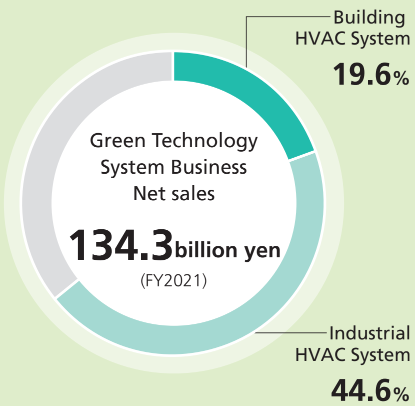
Green Technology System Division

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

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

Masashi Osada

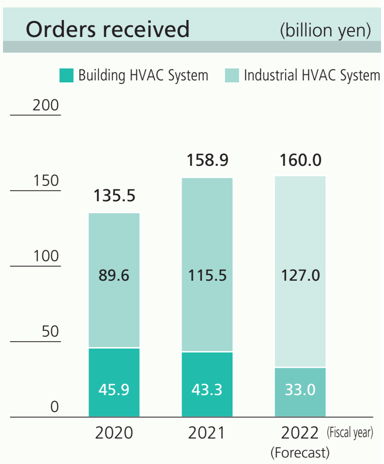
● Ratio of consolidated net sales by business segment

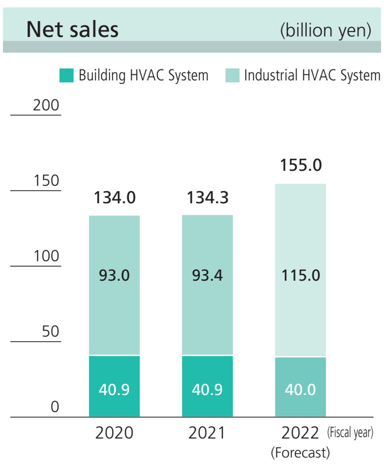


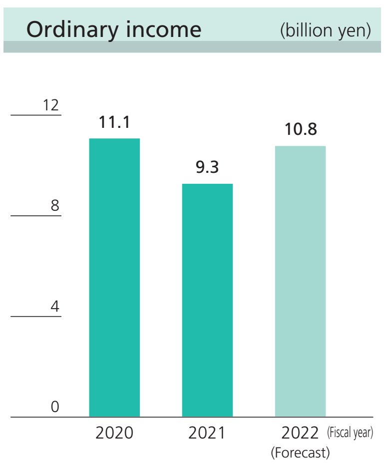
In the 1930s, when the Japanese spinning mill industry grew rapidly, the Company strengthened its air-conditioning technologies, such as temperature and humidity control and air flow control, which are important in the fine spinning process. The Company's business rapidly expanded as it undertook a number of installation works of air-conditioning systems for spinning mills. During the period of rapid economic growth in the 1960s, plants were being constructed in a variety of fields. 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 has been involved in many HVAC systems in factories that require high levels of air purity and strict temperature and humidity control, such as in electrical and electronic parts fields, chemicals and pharmaceutical fields, and medical equipment fields. As can be seen from the fact that Kenzaisha (Taikisha) became closely identified with industrial HVAC systems, Taikisha is particularly talented in the field of industrial air conditioning.

Taikisha has a long history of global development, and its first overseas construction project dates back to 1940. We have been actively promoting overseas business since early on, mainly by following the overseas expansion of Japanese companies, who were our customers. To date, we have installed our systems in more than 50 countries and regions. A reliable customer support system with local bases and cost competitiveness through increased localization are our major strengths.

As climate change is recognized as one of the world's most important issues today, the Taikisha Group has positioned the challenge of carbon neutrality as a central theme for realizing sustainable society and corporate growth. The Company believes it is our mission to create innovation that takes into account the entire life cycle of facilities. To carry out the mission, we work closely with customers in Japan and overseas who have set high goals and are engaged in decarbonization and low carbonization, and leveraging its ability to respond globally as well as to integrate a wide variety of equipment and applications to provide optimal systems.







Strengths

- Pursuit-based problem solving cultivated by serving high requirements from customers
- Ability to respond to high-spec projects and extensive construction experience
- Providing customer-oriented solutions (initiatives at customer service centers and technical proposals to help solve customer issues)
- Strengths of the global network

Business environment

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

Key strategies

1) Strengthen Taikisha, the Technology Company

- We will focus on areas where we can demonstrate our advanced technological capabilities, such as electrical and electronic parts, chemicals and pharmaceuticals, and medical equipment, and refine our capabilities. We will also strengthen ties with customers and actively follow their technological innovations.
- Develop specialists through experience in cutting-edge technology projects, and promote accumulation and transmission of technology. At the same time, we will build an organization with mobility and respond flexibly to the technical needs of customers and projects.
- We will contribute to the realization of a recycling-oriented society by expanding orders for large-scale redevelopment and building renewal works.
- The newly rebuilt Research and Development Center and R&D Satellite will showcase the Company's technology and uncover potential customer needs. We aim to create new value by creating opportunities for joint development.

2) Improve business operation systems and productivity

- Amid inevitable decline in the working population and a shortage of workers in the construction industry in Japan, we will strive to improve productivity by utilizing the latest technologies and systems.
- Actively promote the introduction of digital devices and on-site work support tools, and promote the digitalization and DX of work that has traditionally been done manually. We will use BIM to promote efficiency in construction drawing work.
- These measures are aimed at reducing working hours and improving the ease of working and work-life balance of employees.

3) Expanding orders from non-Japanese customers

- In light of the recent decline in foreign direct investment from Japan, we will further expand our overseas business by increasing orders from customers other than Japanese companies through our overseas networks.

4) Human resource development

- Recognizing that engineering is the lifeblood of the Company, we will train professionals with abundant knowledge and experience to enhance construction quality.
- We aim to become a Group where all employees can work lively regardless of country, region or race, and contribute to the economic development and technological improvement of countries where we operate. Create opportunities for national staff at overseas affiliates.

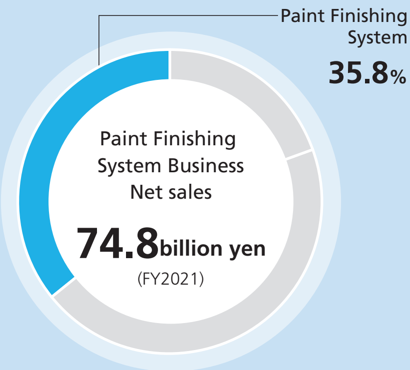
Paint Finishing System Division

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

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

Kazuhide Hayakawa

● Ratio of consolidated net sales by business segment

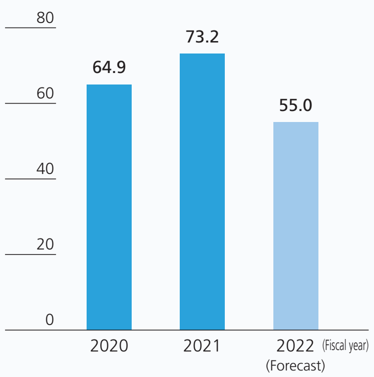


The Company has been involved in automobile body drying rooms as part of its industrial HVAC system business since the 1930s, but it was in 1953 that the Company received an order from an automobile manufacturer for construction of spray booths and ovens that led to a full-scale entry into the paint finishing system business. In 1959, amid the advent of motorization in Japan, the Company received an order for an integrated automobile painting line, which was a major project and we bet our future on its success, fully committed in handling the order. Following the construction of a new painting facility in Chile in 1963, which was the first overseas paint finishing system project, the Company began constructing local assembly plants in countries in Central and South America, such as Mexico and Peru, and in Southeast Asia from around 1965, expanding its overseas business. In the 1980s, Japanese automobile manufacturers actively expanded their business overseas, and the Company also rapidly expanded its business not only in Southeast Asia but also in North America, Central and South America, Europe, and China. In 1983, the Company experienced international biddings for the construction of a new painting facility for a joint venture company established by the Indian government, and we were able to be known as an international company both in name and reality.

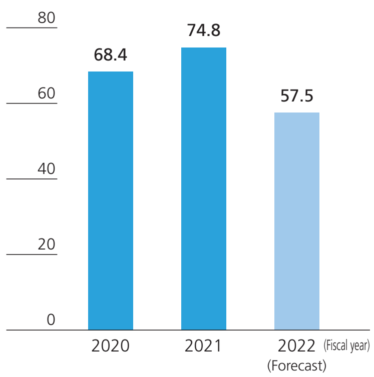
In response to the global expansion of the automotive industry, the Company has been focusing on alliances with overseas companies from early on. Since the 1990s, in anticipation of future increases in domestic demand for automobiles in China and India, which have large populations, the Company has entered into joint venture agreements with local companies and actively developed businesses in these countries. In recent years, the Company has signed a business and capital agreement with a North American robot application system engineering company to strengthen our automation business in the North American market.

Today, the automobile industry is undergoing a once-in-a-century revolution. In order to achieve carbon neutrality, there are many issues that are difficult to solve if we simply carry on with our existing business model. However, we will continue to take on the challenges of the new era by developing not only paint finishing machines with high coating efficiency, but also a paint-free decoration such as dry decoration that emits less CO_2 than the conventional wet painting methods upon looking ahead of which direction our customers will take.

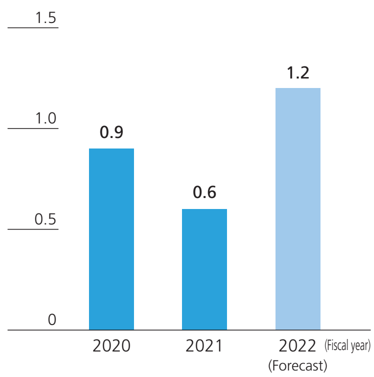
Orders received (billion yen)



Net sales (billion yen)



Ordinary income (billion yen)



Strengths

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

Business environment

- Increasing production volume in the four-wheel automobile market as a whole, increases in new investments for EVs and additional investments for carbon neutrality
- Increasing opportunities for joint development, technical exchanges and proposals towards realization of carbon neutrality
- Increasing need for automation in line with advances in digital technology, accelerating smartification of manufacturing lines (expanding opportunities in the use of automation technologies and growing use of BIM and IoT product lineup)
- Increasing need for alternative automobile painting technologies and technological innovation in the paint finishing process
- Changes in customers in line with their shift to EVs (rise of EV start-up companies)
- Increasing need for automation in manual work field due to aging of skilled workers (aircraft and railway car fields)

Key strategies

1) Building a business portfolio that supports sustainable growth

- We will further strengthen our existing relationships with customers, mainly Japanese automobile manufacturers, and thoroughly respond to the demand for new automobile paint finishing lines and constructions to increase production capacity. At the same time, from a long-term perspective, we will transform our Paint Finishing System Business domain and customer portfolio into a well-balanced one in order to prepare for future changes.
- We plan to expand our automation business domains and develop non-automotive markets such as automated sanding equipment and other products, by utilizing our robot control technology and know-how cultivated through our long experience of handling automotive paint finishing plants. We will also work with partner companies to approach new customers outside the automotive market.
- From the perspective of regional portfolios, we will formulate and implement regional business strategies in consideration of market trends and competitive environments in each country and region. By utilizing our overseas networks, we aim to develop business that will be rooted in local markets and further attract non-Japanese customers.

2) Development of products differentiated from others

- With the goal of achieving carbon neutrality as a keyword, we will work to downsize our facilities through improving coating efficiency and developing energy-saving technologies.
- We will develop and verify equipment with low environmental impact, such as hydrogen fuel burners.
- By promoting the development of a paint-free decoration that emits less CO_2 than the conventional wet coating methods, we will promote the acquisition of technologies and development of products that can contribute to the transformation of customers' painting processes.

3) Improvement of engineering capabilities

- Utilize DX to contribute to early visualization of customer factory plans as well as installation of concurrent engineering and smart factories.
- Enhance global education programs, including those for national staff, and improve engineering capabilities of the entire Taikisha Group.

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 Chief 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 Chief Exective, 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 (current position)

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	13 years 9 months	●	●		●	●	●		●	●	●
Kazuhide Hayakawa	5 years	●	●		●						
Yasushi Nakajima	5 years	●	●	●	●						●
Masanori Nakagawa	4 years	●		●		●	●	●			●
Masashi Osada	5 years	●		●	●						

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)

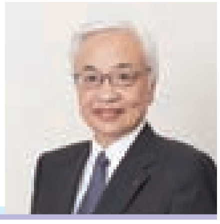
Outside Director

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 (External Director and Audit & Supervisory Committee Member), Tokuyama Corporation (current position)
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			
Hirokazu Hikosaka (Outside Director)	5 years						●	●	●	●	○
Kiyotaka Fuke (Outside Director)	3 years	●				●	●		○	●	●
Masasuke Kishi (Outside Director)	1 year	●	●				●		●	○	●
Nobuko Mizumoto (Outside Director)	1 year	●	●			●			●	●	●

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

Corporate Governance

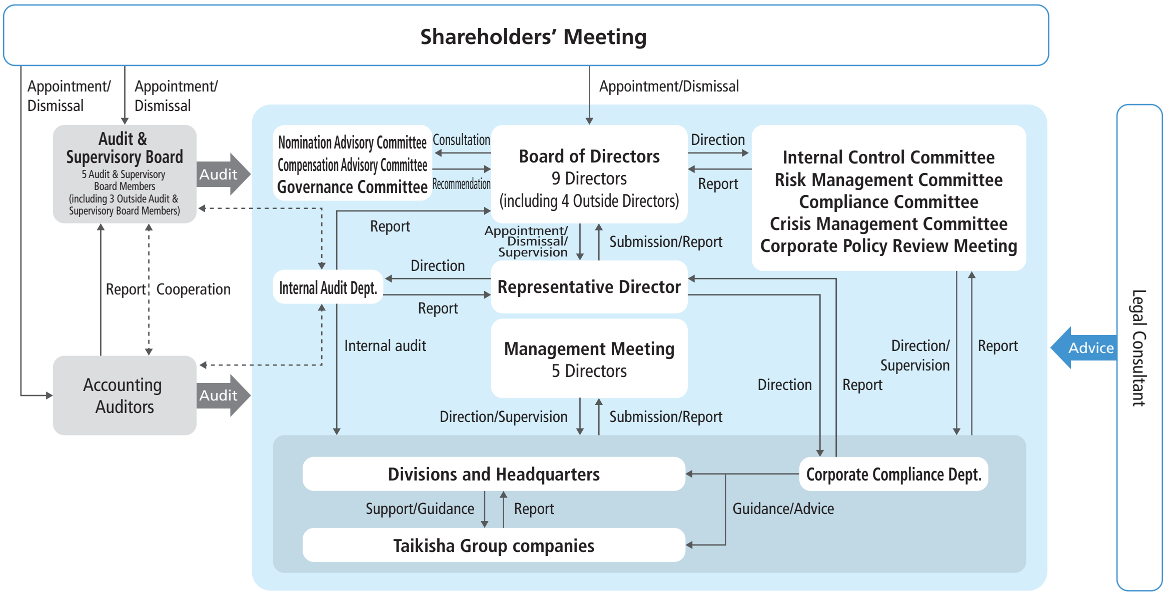
Taikisha has established a corporate governance system and structure that wins trust from all stakeholders.

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, 2022)



Corporate Governance System

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

Initiatives that Support Corporate Governance

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

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

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

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

	Composition	Content	Frequency of meetings
Board of Directors	Chair: 9 Directors (Inside: 5, Outside: 4)	The Board of Directors makes decisions regarding the Taikisha Group's management policy, items stipulated in laws and regulations and the Articles of Incorporation, and important management matters, as well as monitors and supervises the execution of duties by each Director and Corporate Officer.	Once a month Additional meetings as required
Audit & Supervisory Board	5 Audit & Supervisory Board Members (Inside: 2, Outside: 3)	The Audit & Supervisory Board mainly deliberates the audit plan, exchanges opinions on audit result reports, etc., and considers matters related to the appointment, dismissal, or non-reappointment of an accounting auditor and matters that require the resolution of the Audit & Supervisory Board, such as consent regarding the compensation to be paid to the accounting auditor.	Once a month in principle
Nomination Advisory Committee	Chair: 5 Directors (Inside: 1, Outside: 4)	The Nomination Advisory Committee was established as an advisory body for the Board of Directors, with the aim of enhancing the independence and objectivity of functions and the accountability of the Board of Directors regarding nomination of CEO and Directors. The Committee also deliberates succession plans for the CEO in addition to selection of director candidates.	As required (FY2021: 9 times)
Compensation Advisory Committee	Chair: 5 Directors (Inside: 1, Outside: 4)	The Compensation Advisory Committee was established as an advisory body for the Board of Directors, with the aim of enhancing the independence and objectivity of functions and the accountability of the Board of Directors regarding compensation of Directors. The Compensation Advisory Committee deliberates on the performance-linked stock-based compensation system for Executive Directors introduced in August 2019, with the aim to enhance its effectiveness and transparency.	As required (FY2021: 4 times)
Governance Committee	Chair: 7 Directors (Inside: 3, Outside: 4) 1 Audit & Supervisory Board Member (Outside: 1)	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

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, the establishment of the Nomination Advisory Committee and the Compensation Advisory Committee, and the establishment of the Governance Committee and the Internal Control 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 FY2021 as in FY2020. Considering these factors, in the analysis and evaluation of the effectiveness of the Board of Directors in FY2021, which targeted the Board of Directors as a whole under the direction of the Chairman of the Board of Directors, all of the Directors and the Audit & Supervisory Board Members replied to a questionnaire for the purpose of collecting their opinions about matters on "responses to the issues identified in the previous fiscal year's analysis and evaluation," "roles to be played by the Board of Directors," and "matters that should be considered by the Board of Directors in order to fulfill its roles." The results were reported and deliberated at the Board of Directors, based on the results of objective analysis by an external advisor. In addition, in a questionnaire survey for all Directors and Audit & Supervisory Board Members, opinions were collected on "methods for proceeding discussions on long-term strategy and the new Mid-Term Business Plan" and "enhancement of discussions."

Results of evaluation

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

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

Initiatives to address the issues raised

With regard to the matters identified as issues in the effectiveness analysis and evaluation conducted in the preceding fiscal year, Taikisha has been improving such matters in order of precedence.

1) With regard to the long-term strategy, the members of the Board of Directors collected and analyzed opinions on this matter in advance, and

held off-site discussions two times on, among other topics, "what kind of added value the Company can create from a long-term perspective such as its commitment to carbon neutrality," and "business areas the Company should strengthen in the future, utilization of management resources and development of global human resources." The overview of the discussion is available on our corporate website. 2) Regarding the composition of the Board of Directors, the Company has identified a skill matrix that lists the knowledge, experience, and abilities that the members of the Board of Directors should have in light of the management strategy, and from the 76th Annual Shareholders' Meeting (held on June 29, 2021), the Company has decreased the number of Inside Directors to five (down two) and increased the number of Outside Directors to four (up two) to achieve improved diversity. As a result, there were more opportunities at the meetings of the Board of Directors and other occasions to speak and give advice based on the knowledge of technological development, IT strategy, human resource development, etc., and discussions became more active. 3) As for digital transformation, the Board of Directors received reports and discussed the content of matters deliberated by the newly established Digital Strategy Committee, including the relationship between the Company's mid- to long-term business strategy and digital transformation strategy. 4) The Governance Committee, which is an advisory body to the Board of Directors, deepened deliberations on the Group's global risk management system.

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

1) In order to realize the long-term vision set forth in the new Mid-Term Business Plan (from FY2022 to FY2024), the Board of Directors will continue discussions to further enrich our long-term strategy. 2) The Board of Directors will supervise the execution of the three basic policies of the Mid-term Business Plan: "Further strengthen core businesses," "Challenge to create new value," and "Strengthen management base that supports transformation and growth," in order to strongly push them forward. In particular, the Company will strengthen the supervisory function of the Board of Directors on digital strategies and the Group governance system to "strengthen management base that supports transformation and growth." 3) Taikisha will strengthen the monitoring system of the Board of Directors regarding the risks and opportunities associated with climate change.

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

Internal Audit

The Internal Audit Department (with 13 members), an independent department directly under the President and Representative Director, conducts audits in accordance with the Internal Audit Rules.

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

In FY2021, 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, the Competition Act, and the Labor Law, the appropriateness of project management, and the adequacy of information security measures.

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

Audit by Audit & Supervisory Board Members

Each Audit & Supervisory Board Member conducts audits in accordance with the audit standard stipulated by the Audit & Supervisory Board and the assignment given to him, 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 and Development of Directors and Audit & Supervisory Board Members

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

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

Appointment criteria for Directors and Audit & Supervisory Board Members

Directors and the Audit & Supervisory Board Members	• Persons who have a good personality, deep insights and a strong sense of ethics and compliance • Persons who are free of health concerns in executing their duties
Inside Director	• 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 of the Company as well as an ability for realizing future company 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	• Persons who are able to appropriately reflect opinions in accordance with Taikisha's Mission Statement and Corporate Philosophy at the Board of Directors, in an objective and independent manner from the perspective of external stakeholders • Persons who have extensive knowledge and experience in corporate management and business execution necessary for giving advice and supervising the management of the Company • Persons who are able to secure the time and labor necessary to appropriately fulfill their roles and responsibilities

Inside Audit &Supervisory Board Member	● Persons who are considered to have the abilities necessary for performing their duties set forth in the Standards for Audit by Audit & Supervisory Board Members ● Persons who are well versed in the Company's operations and have sufficient knowledge, experience and ability
Outside Audit & Supervisory Board Member	● Persons who are considered to have the abilities necessary for performing their duties set forth in the Standards for Audit by Audit & Supervisory Board Members ● Persons who have extensive knowledge and experience in areas of specialization, such as company management, finance, accounting and legal affairs, etc. and can allocate sufficient time and energy necessary for fulfilling their roles

With regard to the composition of the Audit & Supervisory Board, one or more Audit & Supervisory Board Members who have expertise in finance and accounting shall be appointed in light of its roles and responsibilities of auditing the execution of duties by Directors and execution of the authority relative to the appointment and dismissal of external Accounting Auditors and audit fee.

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

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.

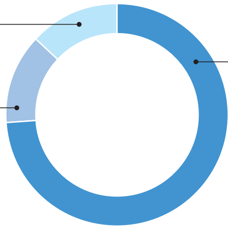
(2) Compensation structure

(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:

- Executive Directors: Basic compensation, bonuses, stock-based compensation
- Non-Executive Directors: Basic compensation
- Audit & Supervisory Board Members: Basic compensation

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

● Ratio of Executive Directors' compensation (FY2021)



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

Methods for decisions on policy

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

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

Risk Management

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

Basic Policy

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

Risk Management System

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

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

In FY2021, based on the recognition of issues discussed by the Governance Committee, the Internal Control Committee identified risks to be addressed over the long term, such as "risks related to M&A" and "risks related to the roles and education of Directors and Audit & Supervisory Board Members of affiliated companies," and the Risk Management Committee began comprehensive discussions. To strengthen risk assessment from a company-wide and integrated perspective, Internal Control Committee members conducted an additional company-wide assessment to formulate policies. Also, based on the recognition that the COVID-19 pandemic that has been continuing since FY2020 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

Internal Control Committee

Direction ↓ ↑ Report

Risk Management Committee

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

Direction, Supervision ↓ ↑ Report

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

Major Risks and Remedial Measures

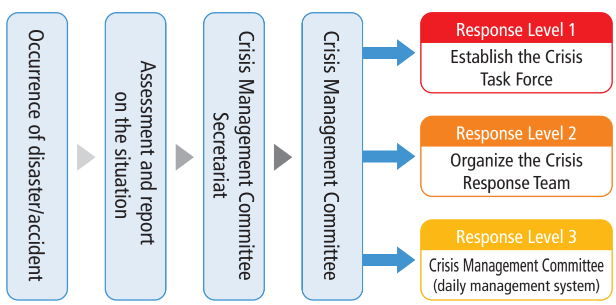
Risk	Content	Remedial Policy and Measures
Risk of fluctuations in private-sector capital investment	Decrease in orders received due to deterioration of environment for receiving orders, fall in capital investment by clients and change in investment fields	● Broaden the client base by enhancing sales system ● Accelerate the development of technologies that will change customers' production facilities ● Tap new markets and new clients in painting field based on automation technology
Risk associated with large-scale natural disasters	Losses, direct physical and human damage, and impact on customers' business activities and economic conditions caused by natural disasters such as earthquakes, tsunamis, storms and flooding, and global epidemics of infectious diseases, etc.	● Establish basic policies for crisis management and develop a crisis management system ● In the event of a crisis, implement crisis response measures according to the level of impact (classified into three levels)
Risk related to COVID-19 pandemic	Health hazard to employees, delays in procurement of construction materials, suspension of construction process, etc. due to COVID-19 pandemic	● 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 and risk of uncollectibility of receivables attributable to unexpected amendment of local laws and regulations, political instability, etc.	● Proactively collect information on political, economic, legal and regulatory information at overseas sites ● Reduce risks through hedging based on forward exchange contracts, etc. ● Strengthen credit management through screening before accepting orders ● Make overseas affiliates' governance system more sophisticated
Risk concerning technological development	Inability to differentiate from other companies in terms of technology, resulting in loss of sales opportunities and a decline in customer confidence and corporate reputation	● Solve social issues through the development and demonstration of environmental impact reduction and automation technologies ● Strengthen Group-wide activities through the use of digital technologies ● Promotion of innovative technology development through integration with academic institutions/start-up companies
Risk concerning human resources	Delays in engineers' growth, shortage of skilled and experienced engineers	● Improve basic technological capabilities through training and promote on-site practical education ● Create an appealing workplace and secure human resources by conducting work style reform and taking measures against long working hours ● Introduce global human resource system, secure and train key human resources and promote localization at overseas sites ● Clearly indicate the health management promotion system to maintain and promote mental and physical health of employees
Risk concerning legal compliance	Violation of Antimonopoly Act, violation of Construction Business Act, violation of Labor Standards Act, etc.	● Conduct compliance education programs on an ongoing basis as well as follow-up activities ● Develop a culture and mechanism that prevent rules from being violated
Risk of serious accident or defects, etc. due to poor quality	Serious accident in construction stage, material defects due to poor quality, etc.	● Enhance safety management system ● Conduct a review on construction management system and promote application of IT ● Strengthen the system to ensure technological quality for the Group as a whole.
Risk of fluctuations in material prices and unit labor costs	Rising procurement prices for construction materials and rising unit labor costs due to low birthrate, aging population, and shortage of workers	● Reflect appropriate costs by region into the contract amount at the time of receiving an order ● Hedge risk against price fluctuations in contracts
Risk of confidential information leakage	Leakage of confidential information such as personal information and customer information through cyber-attacks and data exfiltration	● Identify vulnerabilities through IT security assessment and strengthen IT security accordingly ● Establish internal rules and thoroughly educate employees

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 conducts training, such as training on wireless phone communication, taking inventories and checking expiration dates on emergency food stocks. In addition, Taikisha carries out training on how to handle the safety confirmation system. With regard to the safety of employees, Taikisha has organized a company-wide self-defense firefighter team and conducts training activities. In addition to evacuation drills and training sessions provided by the self-defense firefighter team, Taikisha holds training sessions on AED and first-aid rescue to train employees so that they can respond to emergencies not only inside but also outside the company. Furthermore, Taikisha 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
	Automatic encryption of email attachments
Measures to protect against malware and other external threats	Anti-virus measures
	Automatic application of patches
	Website filtering
	Measures to block spam
	Monitoring of unauthorized communication on the company network

Compliance

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

Basic Policy

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

Compliance System

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

The Compliance Committee is 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.

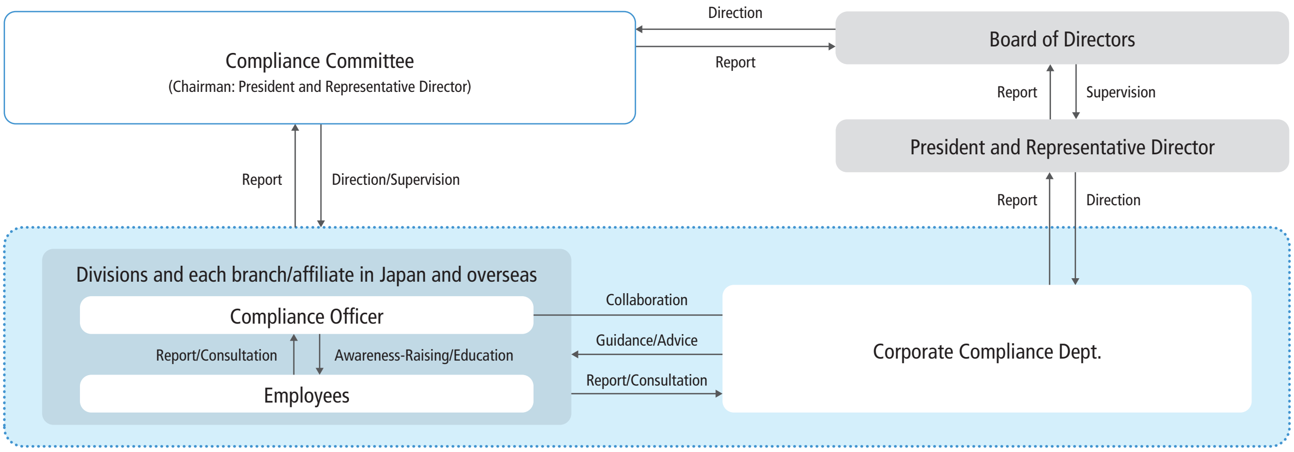
Compliance Officers, who engage in activities in collaboration with the Corporate Compliance Department, are assigned to each division in the Head Office and each branch/affiliate in Japan and overseas. The Corporate Compliance Department monitors the status of compliance with laws and regulations at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

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.

Efforts to Firmly Establish Compliance Awareness

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

● Diagram of Taikisha's Compliance System



and overseas, respectively, in the form of awareness-raising posters in the corporate offices and on-site offices.

As part of efforts to instill its Corporate Philosophy and Taikisha's Code of Conduct as well as to implement compliance education, Taikisha conducts e-learning targeting all employees. In the e-learning program, questions are given from items that Company employees should understand, such as the Construction Business Act, the Antimonopoly Act, prevention of improper handling of construction costs, prevention of harassment, and information leakage. Efforts are made to improve the effectiveness of the program, such as using video contents.

The Company conducts training targeting employees in Japan and overseas in order to reduce the risk of compliance violations by familiarizing them with important laws, regulations and internal rules that are deemed to have a huge impact if violated. In FY2021, training sessions were conducted in Japan on prevention of improper handling of construction costs (for technical staff) and prevention of bid rigging (for sales staff). At overseas, training sessions were held on Corporate Philosophy, prevention of improper handling of construction costs, prevention of power harassment, information leakage, and Whistle-blowing System.

● Overview of e-learning

Date	Number of participants	Question theme
First session: October 2021	1,617 (100% attendance)	Kickback, abuse of authority
Second session: December 2021	1,614 (100% attendance)	Transfer of costs, abuse of authority
Third session: February 2022	1,611 (100% attendance)	Abuse of authority

Compliance Awareness Survey

In FY2021, we conducted a compliance awareness survey to all employees of the Company to confirm the degree of compliance awareness. The results of the survey are fed back to each business division and each branch in Japan, and efforts to raise the degree of awareness continue to be made by improving the workplace environment and reflecting the results in compliance activities.

● Overview of compliance awareness survey

Period	September 21 to October 22, 2021
Number of employees	1,658
Number of respondents	1,539 (response rate 92.8%)

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 the results of monitoring a three-point-grading of A, B, and C, and provides guidance on recognition of issues and improvement.

In the monitoring of branches 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 Taikisha's Code of Conduct 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 in Japan and ensures that there is no inappropriate activities by the employees of the Company regarding the business partners, and disseminates its Whistle-blowing Contact Window among business partners.

In the monitoring of overseas affiliates, the Corporate Compliance Department checks and validates the status of operation for complying with laws and regulations related to bribery, bid rigging, cartels, etc., the status of dissemination of the Whistle-blowing System, and issues to improve the working environment.

● 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.

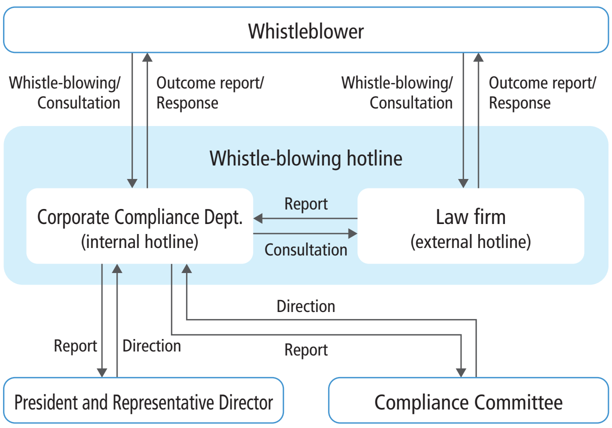
Whistle-blowing System

Taikisha has the Whistle-blowing System in place to identify at an early stage and resolve violation of laws, regulations and internal rules, and has a Whistle-blowing Contact Window in the Corporate Compliance Department and a law firm. The hotline is also available to employees of the affiliates as well as 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 FY2021, the Company's and major affiliates' Whistle-blowing Contact Window received 23 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

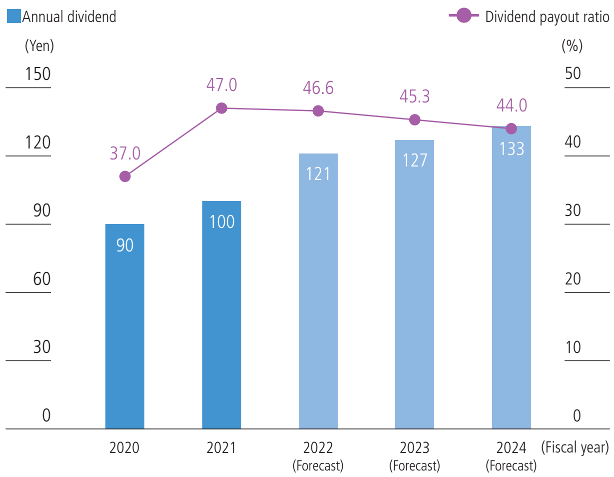
Taikisha promptly discloses important information regarding Taikisha based on the transparency, fairness and consistency stated in the Taikisha Management Vision: "Conduct businesses appropriately under free and fair competition in compliance with laws and the spirit thereof; contribute to customers/business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

Basic Policy for Shareholder Returns

Taikisha considers the return of profits through dividend payouts to be one of the top-priority measures, and strives to pay stable dividends with the aim of achieving a consolidated dividend on equity (DOE) ratio of 3.2%.

Basic Policy
DOE 3.2% = Aimed ROE level 8.0%×dividend payout ratio 40%

● 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 FY2021, the Company held financial results briefing sessions in May and November with 50 people from 43 companies.

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

The provision of information on Taikisha's website has received high external evaluation, and its website was selected as the "AAA Website" grade in the "All Japanese Listed Companies' Website Ranking 2021" by Nikko Investor Relations Co., Ltd., and Taikisha won a bronze medal for Best IR Website in the "Gomez IR Site Ranking 2021" by BroadBand Security, Inc.

In addition, Taikisha was adopted as a constituent of the Sompo Sustainability Index managed by Sompo Asset Management Co., Ltd. for the fifth consecutive year and also selected as a constituent of the FTSE Blossom Japan Sector Relative Index. The FTSE Blossom Japan Sector Relative Index, built by global index provider FTSE Russell, is designed to be sector neutral and reflects the performance of Japanese companies that are well prepared for environmental, social and governance (ESG) issues relative to their respective sectors. In order to promote the transition to a low-carbon economy, the index includes only the companies whose efforts to improve themselves are evaluated by the TPI Management Quality scores, particularly for the companies with high greenhouse gas emissions. Taikisha's addition to these index constituents, which places importance on ESG (environment, social and governance) evaluation by research firms, reflects its continuous engagement in ESG efforts.

企業ホームページ
最優秀サイト
2021
日興アイ・アール
総合ランキング

2022
Sompo Sustainability Index

FTSE Blossom
Japan Sector
Relative 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.

[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.

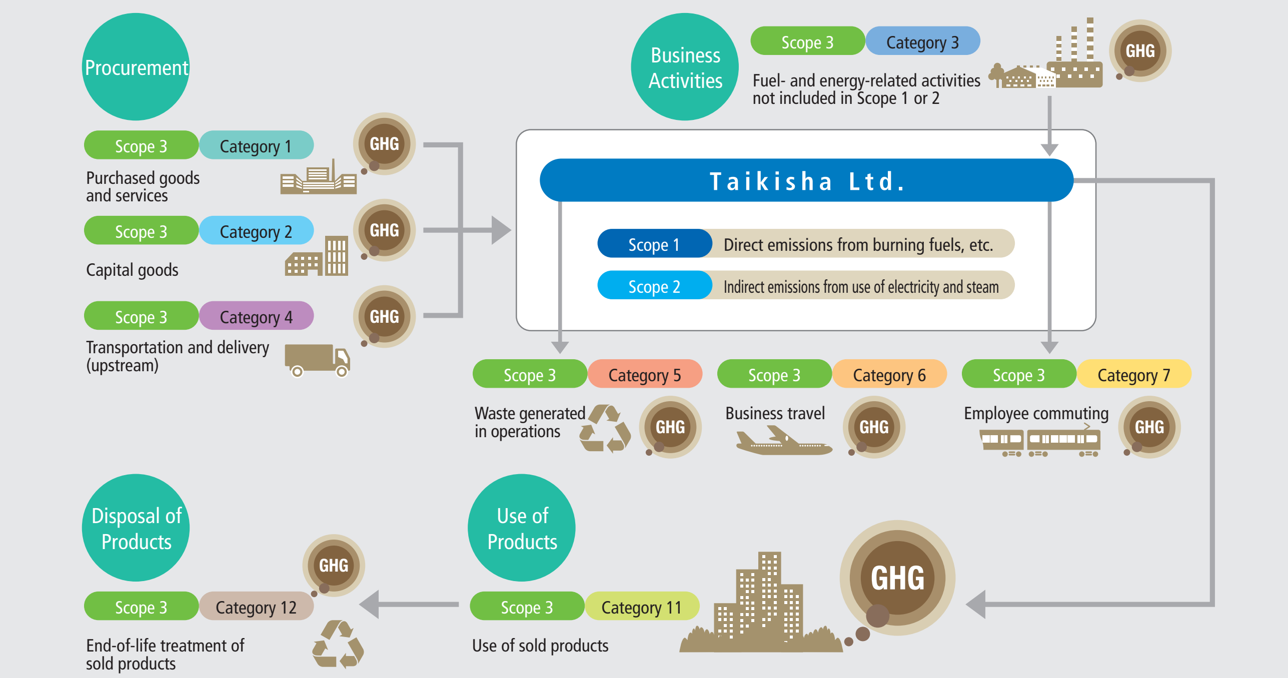
Taikisha recognizes climate change risks such as the potential disturbance of the continuity of business due to typhoons, heavy rain and other natural disasters, business development being affected by the tightening of environmental regulations, and inadequate environmental efforts resulting in loss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

● Conceptual Diagram of GHG Emissions Control in the Entire Supply Chain



Grasping the Level of Scope 1 and 2 Emissions to Reduce CO_2 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 FY2021, Scope 1 emissions, which are direct emissions from combustion of fuels, etc., were 1,219 t-CO_2, and Scope 2 emissions, which are indirect emissions from use of electricity, etc., were 1,095 t-CO_2. Taikisha will continue to work on saving energy at construction sites and offices.

Breakdown of Scope 3 Emissions

Looking at Taikisha's GHG emissions in the supply chain for FY2021, Scope 3 emissions were 3,268,524 t-CO_2, of which emissions from Category 11 (use of sold products) accounted for the largest portion at 90.93%. 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 byproducts 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.

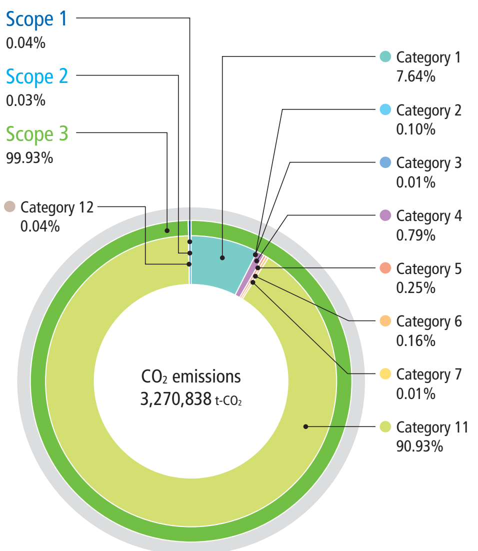
Taikisha is engaged in the design and construction of air- conditioning and sanitary facilities for clients in broad areas, such as factories, office buildings and hospitals in Japan and overseas. The volumes of CO_2 emissions from the operation of those facilities over many years significantly exceed the CO_2 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 CO_2 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 CO_2 emissions by introducing renewable energy and a system to recover waste heat from lower temperature sources.

● Breakdown of Scope/Category



Scope/Category		Accounting methods*	Emission amount (t-CO_2)
Scope 1		-	1,219
Scope 2		-	1,095
Scope 3			3,268,524
Category 1	Purchased goods and services	Calculated from (raw) materials procurement amount (in value terms)	249,913
Category 2	Capital goods	Calculated from amount of capital investment	3,126
Category 3	Fuel- and energy-related activities not included in Scope 1 or 2	Calculated from purchased amount of electricity and fuels	448
Category 4	Transportation and delivery (upstream)	Calculated from transportation costs accompanying procurement of (raw) materials	25,845
Category 5	Waste generated in operations	Calculated from amount of waste discharged by type	8,302
Category 6	Business travel	Calculated from travel expenses paid by mode of transportation	5,262
Category 7	Employee commuting	Calculated from transportation expenses paid to employees	366
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	2,974,023
Category 12	End-of-life treatment of sold products	Calculated from weight of main equipment by type	1,239
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			3,270,838

*Emission factor is calculated based on the Emission Factor Database on Accounting for Greenhouse Gas Emissions throughout the Supply Chain (ver.3.2) 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

[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 based on energy-saving proposals, and verify the effects in the operation phase.

To contribute to the target reduction in energy-originated CO_2 emissions by FY2030 (46.0% reduction compared with FY2013) under the Plan for Global Warming Countermeasures, an additional Cabinet decision made in October 2021, Taikisha has developed a proprietary simulation-based Energy Plant Optimal Control System, which maximizes the amount of energy saved by heat source systems through optimal operation control according to external conditions that change from hour to hour and thus helps reduce CO_2 emissions and running costs.

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

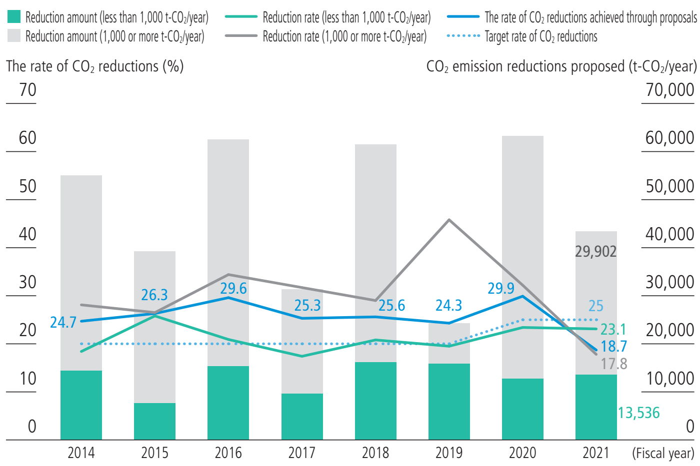
Taikisha defines the rate of CO_2 emissions reduced from facilities owned by clients due to Taikisha's proposals as the rate of CO_2 reductions. The transition in the rate of CO_2 reductions for the past 8 years is shown in the figure on the right.

In FY2021, we set a CO_2 reduction rate target of 25% or more on a weighted average for in-house design projects. However, our performance in FY2021 was 18.7% (for CO_2 reduction rates by each fiscal year, the most recent results of the proposals are used as a basis for comparison).

The CO_2 reduction proposal rate (weighted average value) fluctuates due to the high contribution of the reduction amount and the reduction rate of large-scale proposals, but the reduction rate of projects with a CO_2 reduction rate of less than 1,000 t-CO_2/year, which accounts for the majority of the proposals, remains steady.

The amount of proposed CO_2 emission reductions that corresponds to Category 11 under Scope 3 was about 651,000 t-CO_2 (the effect of 15 years of operation).

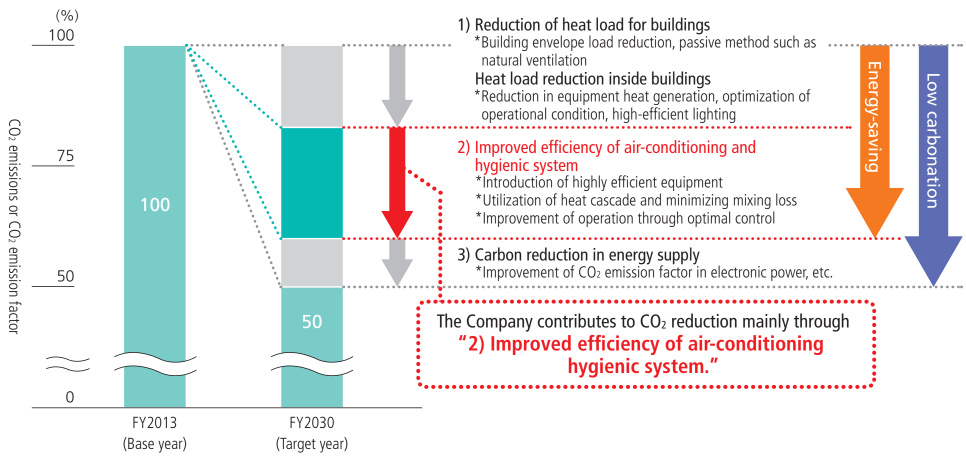
● Transition in the rate of CO_2 reductions through Taikisha's proposals



Toward the targets of the Medium-Term Plan

In order to achieve the medium-term plan target for 2030, Taikisha will utilize a variety of energy-saving technologies in the design proposals for its current portfolio and other companies' projects, as well as new energy-saving technologies currently being developed.

● Roadmap for reduction of CO_2 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 CO_2 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 continuously proposed plans to reduce CO_2 emissions from paint facilities.

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

The estimation model for CO_2 emissions in 2005 was 160.1 kg-CO_2/unit, and we subsequently set mid-term targets for 2012, 2015, and 2020. The introduction of heat pump technology and high efficient equipment, and technical proposals such as Dry Paint Booths enabled us to make technical proposals up to 70 kg-CO_2/unit in 2020. In 2021, a Low Air Volume Booth was developed, which enabled a 30% reduction in energy consumption in the paint booth and led us to make another technical proposal to achieve 65 kg-CO_2/unit of total CO_2 emissions from paint finishing factories.

Toward realization of carbon neutrality　Next medium-term target for 2030 and future measures

In light of TCFD disclosure and other information provided by automobile manufacturers, the Company intends to be in line with their basic strategies in setting mid- and long-term targets. For 2030, we set a target of 60 kg-CO_2/unit of CO_2 emissions with the current heat source configuration for the paint finishing process. From then on, we set a target of 50 kg-CO_2/unit of CO_2 emissions on the basis of technologies that incorporate innovations in the energy supply side, such as renewable energy and Heat Source of Hydrogen.

In anticipation of energy reforms and the evolution of painting processes toward 2030 through 2050, we are examining the introduction of painting equipment using hydrogen fuel and the all-electrification of painting equipment.

The Company will continue to cooperate with automakers and related companies to achieve carbon neutrality and contribute to global environmental protection.

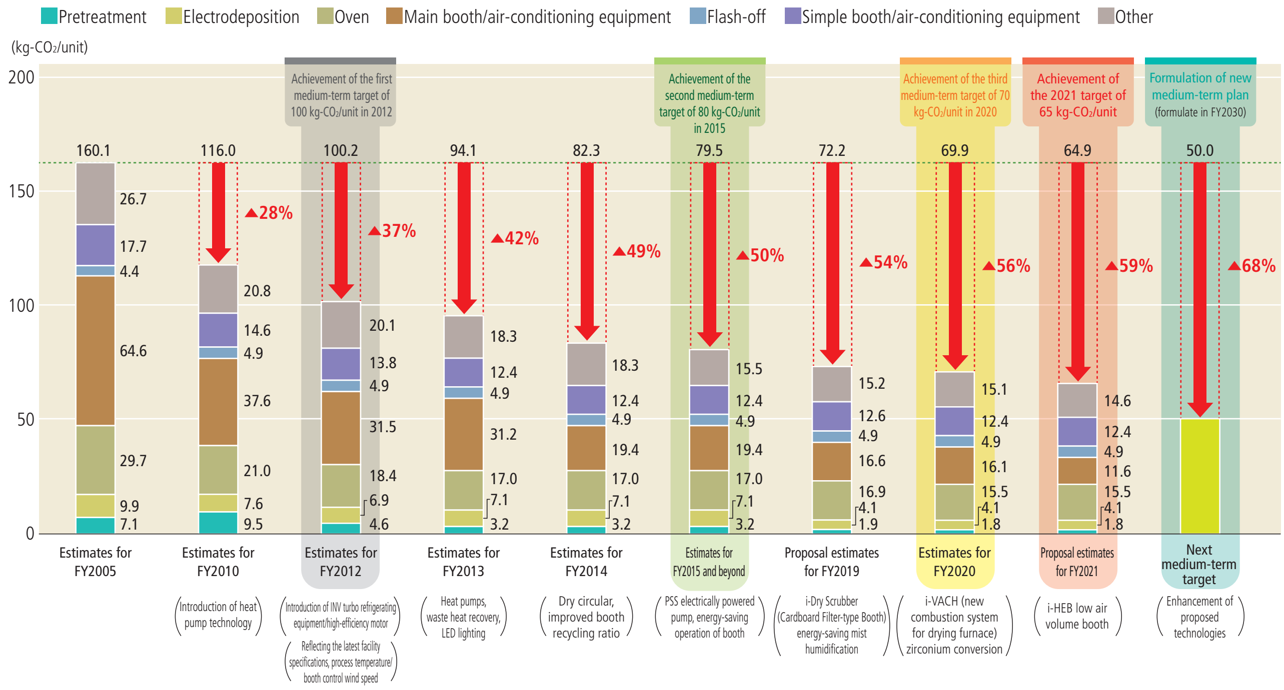
● Proposal for CO_2 reduction in automobile painting process

Initiatives to reduce CO_2 emissions

1. Year 2021: Equipment to support most recent technology development
2. Making painting system all electric (using renewable energy and hydrogen energy)
3. Automation and unmanned operation using IoT/AI
4. Facility upgrading for automobile manufacturing in the future (innovation in painting technology)
5. Direct use of hydrogen energy

Target zero CO_2 emissions

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



Introduction
Taikisha's vision (provisional)
Strategy for sustainable growth
ESG management supporting growth
Corporate and financial information

Social

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

[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			FY2019	FY2020	FY2021
Number of employees (persons) (as of March 31)	Non-consolidated	Male	1,302	1,356	1,350
		Female	181	188	205
		Total	1,483	1,544	1,555
	Consolidated	Domestic	1,685	1,740	1,760
		Overseas	3,098	3,302	3,319
		Total	4,783	5,042	5,079
Average length of service (years)			17.8	17.4	16.3
Number of nonregular employees (as of March 31)	Fixed-time employees		84	85	79
	Ratio of fixed-time employees (%)		5.7	5.5	5.1
	Contract employees		89	75	70
	Ratio of contract employees (%)		6.0	4.9	4.5
	Total		173	160	149
Number of newly employed employees (from April 1 of the previous year to March 31 of the relevant year)	New graduates	Male	60	92	71
		Female	6	9	16
		Total	66	101	87
	Mid-career employment	Male	13	7	11
		Female	5	6	3
		Total	18	13	14
Number of new graduates retained			54 (newly employed in 2017)	54 (newly employed in 2018)	66 (newly employed in 2019)
			48 (as of 2020)	48 (as of 2021)	54 (as of 2022)
Retention rate of new graduates (%)			88.9	88.9	86.4
Number of employees who left their job (from April 1 of the previous year to March 31 of the relevant year)	Mandatory retirement		23	32	22
	Left for personal reasons		29	22	45
	Total		52	54	67
Rate of turnover (%)			3.5	3.5	4.3
Number of re-employed employees after mandatory retirement			82	82	78
Rate of re-employment after mandatory retirement (%)			89.5	95	100
Employment rate of persons with disabilities (%)			2.27	2.26	2.31

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. Securing and developing human resource is positioned as one of the most important management challenges.

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

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

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 2022.

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 3,319 employees of various nationalities, while its domestic organization also has 18 foreign employees from six countries including China and South Korea as of April 1, 2022.

In the recruitment of new graduates in April 2022, 84 newly hired employees included 11 female employees and three foreign employees. Going forward, Taikisha will continue to engage in hiring activities without prejudice against any nationality, gender, or disability.

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

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.

Re-employment after Mandatory Retirement

Taikisha promotes the active participation of diverse human resources regardless of age and has introduced a post-retirement re-employment system. Across the Group, there are 80 employees in total who were re-employed after mandatory retirement.

In FY2021, all of the 16 persons who reached mandatory retirement age opted for re-employment. Work and personnel treatment plans tailored to the individual employees' life cycles are made available to them at Taikisha.

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. Last year, a woman was appointed as our outside director.

The plan for general employers under the Act on the Promotion of Female Participation and Career Advancement in the Workplace was revised with its action plan renewed in April 2022, and a target was set for the ratio of female workers in managerial positions, using the average value in the construction industry as a benchmark.

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

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

Taikisha has introduced various systems to help employees strike a balance between work and childcare/nursing care. 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)	Until the child enrolls in elementary school
	Use of expired paid leave	The employee may receive no pay
Leave due to spouse giving birth	Up to three days 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)	Up to five days per year
	Use of expired paid leave	The employee may receive no pay

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

Item	FY2018	FY2019	FY2020	FY2021
Number of employees on maternity leave	3	4	2	3
Number of employees on childcare leave	4 (including 0 male employees)	10 (including 3 male employees)	15 (including 7 male employees)	16 (including 10 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	23	21	22	20
Average paid leave taken by all employees (days)	9.1	10.3	9.8	10.1

Health Management

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

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

Promotion System

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

Efforts to Promote Health Management

● Collaboration with the Taikisha Group Health Insurance Association

The registered nurses from the Taikisha Group Health Insurance Association and the Personnel Administration Department of the Company jointly plan and take measures to address life-style diseases of employees

● Mental Health Survey

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

● Group Long Term Disability (GLTD) System

The Company will cover the full cost of insurance premiums and compensate regular employees and contract employees under the age of 60 who take long-term leaves of absence for treatment of illness or injury for their income in order to create an environment in which they can concentrate on their recovery and support their early return to work.

● Establishing Various Consultation Services Free of Charge

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

Taikisha was recognized under the "2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program (White 500)" by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi for two consecutive years. The Company believes that maintaining a sound mind and body for employees is in line with its Corporate Philosophy of "Establish a company which can continuously grow and contribute to society," and "Establish an attractive company," and will continue to work on health measures for employees.

2022 健康経営優良法人 Health and productivity ホワイト500

● Mental Health Support

Prevention 1	Activities to protect employees from mentally unwell conditions.

Internal training, etc. to raise awareness of employees.

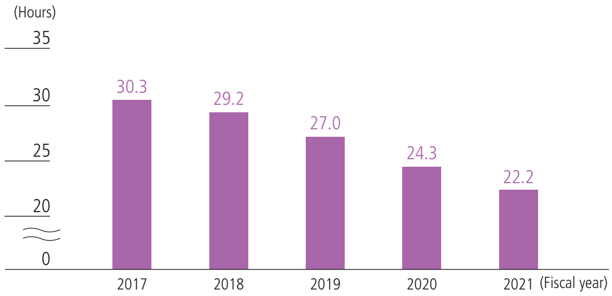
Prevention 2	Measures to find problems at an early stage and take prompt and appropriate actions.

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.

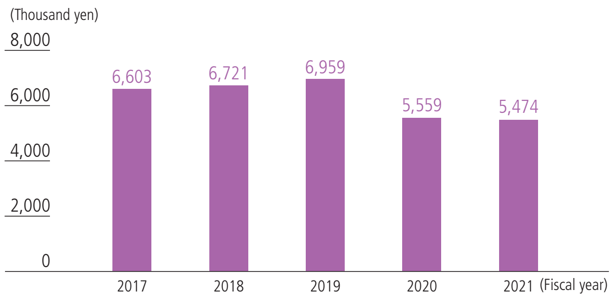
Prevention 3	Measures to precisely learn and manage symptoms in order to prevent them from becoming worse.

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)



Financial Sections

RESULTS OF OPERATIONS (OVERVIEW)

The results for the fiscal year ended March 31, 2022

Accounting estimates and underlying assumptions

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

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

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 vary from these estimates.

Earnings Overview

In this fiscal year, despite certain restrictions on economic activities due to the global spread of COVID-19, the global economy maintained a recovery trend with widespread vaccine rollouts, especially in developed countries. On the other hand, the economy was affected by prolonged trade friction between the U.S. and China, rising resource prices, and shortages in the supply of semiconductors and other materials, and the situation remained unstable.

In the U.S., despite some concerns such as rising inflation and accelerated monetary tightening, the economy continued to recover due to large-scale economic measures and other factors. In Europe, restrictions on economic activities were eased in many countries and the economy began to recover. However, the current situation in Ukraine is becoming increasingly tense and energy prices are soaring, which are causing concern about a slowdown in the economy. In China, the pace of economic recovery slowed down due to COVID-19 and government regulations such as power restrictions, as well as soaring resource prices. In Southeast Asia, the pace of recovery was moderate, although the region emerged from the rapid resurgence of COVID-19. The Japanese economy continued to pick up even after the lifting of the emergency declaration due to COVID-19, although the outlook remains uncertain due to the outbreak of new mutant strains and soaring resource prices.

Among the market environments of the Taikisha Group, in the domestic market, investment by manufacturers of electronic components, pharmaceuticals, automobiles, and other products was strong, and demand for construction of office buildings in the Tokyo metropolitan area remained steady. On the other hand, uncertainty still persisted in overseas markets due to the impact of COVID-19, and manufacturers maintained their cautious stance toward capital investments.

Under such circumstances, the Taikisha Group has entered the final year of its Mid-Term Business Plan (for the fiscal year ended March 2020 through the fiscal year ended March 2022), which has three basic policies: 1. "Solidify the Company's position in the global market," 2. "Strengthen initiatives for the future," and 3. "Build an attractive company and establish a solid management base." During the period, in order to achieve medium- to long-term growth, the Taikisha Group has been promoting the following initiatives.

Firstly, with regard to "Solidify the Company's position in the global market," the Taikisha Group made the Research and Development Center into the Demonstration Center and expanded the Southeast Asia business through establishment of Taikisha Lao Co., Ltd.

Secondly, with regard to "Strengthen initiatives for the future," the Taikisha Group implemented measures to improve our competitiveness and expand business domains by enhancing response to the Indian market by investing in Nicomac Clean Rooms Far East LLP (currently Nicomac Taikisha Clean Rooms Private Limited), expanding the automation business through additional investment in Encore Automation LLC, and expanding the plant factory business domain and establishing our own mass production factory.

Finally, with regard to "Build an attractive company and establish a solid management base," the Taikisha Group made efforts to achieve various work styles by shifting to electronic expense reimbursement and introducing a telework system. In addition, as a company that considers employee health management from a managerial perspective and strategically addresses the issue, the Taikisha Group has been recognized as a Certified Health & Productivity Management Outstanding Organization for two consecutive years.

Given such circumstances, consolidated orders received increased 15.8% year-on-year to ¥232,120 million, due to increased orders both in Japan and overseas. This includes orders received overseas, which increased 0.4% year-on-year to ¥88,650 million.

Consolidated net sales of completed construction contracts increased 3.3% year-on-year to ¥209,261 million, due to an increase overseas, despite a decrease in Japan. This includes consolidated net sales of completed construction contracts overseas, which increased 9.4% year-on-year to ¥101,552 million.

In regard to profits, gross profit on completed construction contracts decreased ¥2,412 million year-on-year to ¥31,614 million, operating income decreased ¥2,261 million year-on-year to ¥9,428 million, ordinary income decreased ¥1,469 million year-on-year to ¥10,818 million, and profit attributable to owners of parent decreased ¥1,031 million year-on-year to ¥7,248 million.

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

Green Technology System

Consolidated orders received in the overall green technology system business increased compared to the previous year, due to increases in the industrial HVAC sector in Japan, though sales decreased overseas as in the previous year the Taikisha Group recorded sales from a large-scale construction contract in Thailand. The consolidated net sales of completed construction contacts in the overall green technology system business increased compared to the previous year, due to increases in countries such as the Philippines and India, though sales decreased in the industrial HVAC sector in Japan and in countries such as Vietnam.

As a result, consolidated orders received increased 17.3% year-on-year to ¥158,917 million. The breakdown is orders received for building HVAC of ¥43,329 million which decreased 5.6% year-on-year and orders received for industrial HVAC of ¥115,588 million which increased 29.0% year-on-year. Consolidated net sales of completed construction contracts increased 0.3% year-on-year to ¥134,399 million. The breakdown is sales for building HVAC of ¥40,978 million which increased 0.1% year-on-year and sales for industrial HVAC of ¥93,420 million which increased 0.3% year-on-year. Segment profit (ordinary income) decreased ¥1,890 million year-on-year to ¥9,302 million.

Paint Finishing System

Consolidated orders received increased compared to the previous year, due to increases in Japan and Malaysia, though sales decreased in North America as in the previous year the Taikisha Group received orders from a large-scale construction contract. The consolidated net sales of completed construction contracts increased compared to the previous year, due to increases in regions such as India and Europe.

As a result, consolidated orders received increased 12.7% year-on-year to ¥73,202 million and consolidated net sales of completed construction contracts increased 9.3% year-on-year to ¥74,882 million. Segment profit (ordinary income) decreased ¥244 million year-on-year to ¥667 million.

Financial Condition

Assets

As of March 31, 2022, current assets increased 1.7% year-on-year to ¥168,190 million. This is mainly due to increase in notes receivable, accounts receivable from completed construction contracts and other of ¥3,543 million, securities of ¥1,000 million and costs on uncompleted construction contracts of ¥328 million despite decrease in cash and deposits of ¥2,974 million.

Non-current assets decreased 5.5% year-on-year to ¥59,969 million. This is mainly due to increase in machinery, vehicles, tools, furniture and fixtures of ¥2,036 million, buildings and structures of ¥353 million despite decrease in investment securities of ¥3,072 million and deferred tax assets of ¥505 million.

As a result, total assets decreased 0.3% year-on-year to ¥228,159 million.

Assets by reportable segment are as follows.

Green Technology System

As of March 31, 2022, current assets increased 0.4% year-on-year to ¥78,052 million. This is mainly due to increase in notes receivables, accounts receivable from completed construction contracts and other of ¥664 million.

Non-current assets decreased 4.5% year-on-year to ¥31,367 million. This is mainly due to decrease in investment securities of ¥2,343 million despite increase in machinery, vehicles, tools, furniture and fixtures of ¥511 million and buildings and structures of ¥377 million.

As a result, total assets decreased 1.1% year-on-year to ¥109,420 million.

Paint Finishing System

As of March 31, 2022, current assets increased 5.9% year-on-year to ¥54,673 million. This is mainly due to increase in notes receivable, accounts receivable from completed construction contracts and other of ¥2,719 million and so on.

Non-current assets decreased 1.8% year-on-year to ¥16,045 million. This is mainly due to decrease in Software of ¥451 million and deferred tax assets of ¥390 million despite increase in machinery, vehicles, tools, furniture and fixtures of ¥385 million.

As a result, total assets increased 4.0% year-on-year to ¥70,719 million.

Liabilities

As of March 31, 2022, current liabilities decreased 5.8% year-on-year to ¥81,886 million. This is mainly due to decrease in advances received on uncompleted construction contracts of ¥7,298 million and notes payable, accounts payable for construction contracts and other of ¥4,947 million despite increases in short-term loans payable of ¥8,946 million and provision for warranties for completed construction of ¥238 million.

Non-current liabilities decreased 0.9% year-on-year to ¥15,484 million. This is mainly due to decrease in deferred tax liabilities of ¥944 million despite increase in long-term loans payable of ¥835 million.

As a result, total liabilities decreased 5.0% year-on-year to ¥97,371 million.

Net assets

As of March 31, 2022, total net assets increased 3.5% year-on-year to ¥130,788 million. This is mainly due to increase in retained earnings of ¥4,191 million and foreign currency translation adjustment of ¥2,255 million despite decrease in valuation difference on available-for-sale securities of ¥2,329 million and accumulated remeasurements of defined benefit plans of ¥484 million.

Cash flows

Cash and cash equivalents (collectively, "Cash") as of March 31, 2021 and 2022 were ¥50,670 million and ¥48,791 million respectively. Compared to the previous year, it decreased ¥1,878 million.

Cash flows from operating activities

Cash provided by operating activities for the year ended March 31, 2021 was ¥973 million, and cash used in operating activities for the year ended March 31, 2022 was ¥8,544 million. Cash decreased mainly due to decrease in advances received on uncompleted construction contracts, decrease in notes and accounts payable-trade and other, although increased mainly due to recording of profit before income taxes.

Cash flows from investing activities

Cash used in investing activities for the year ended March 31, 2021 and 2022 totaled ¥6,913 million and ¥1,071 million respectively. Cash decreased mainly due to payments into time deposits and purchase of property, plant and equipment and intangible assets, although increased mainly due to increase in proceeds from withdrawal of time deposits and purchase of investment securities.

Cash flows from financing activities

Cash used in financing activities for the year ended March 31, 2021 was ¥1,435 million, and cash provided by financing activities for the year ended March 31, 2022 was ¥6,000 million. Cash increased mainly due to proceeds from short-term loans payable outweighed repayment of short-term loans payable, although decreased mainly due to cash dividends paid and cash dividends paid to non-controlling interests.

Business and Other Risks

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

Forward-looking statements in this section are based on judgments made by the Taikisha Group as of March 31, 2022.

Risk of Changes in Private Capital Investment

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

In response, Green Technology System Division will work overseas to strengthen its sales structure targeting local companies, and promote initiatives to increase orders from Japanese manufacturers in collaboration with sales team in Japan. Paint Finishing System Division will accelerate the development of the Company's technology that changes the production facility of customers aiming at attaining carbon neutrality, and will leverage automation technology to enlarge the field from the conventional 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 Representative Director, and composed of Chief General Managers and Chief Executives, and measures are carried out to respond to the crisis for the entire Taikisha Group, such as recommendation of work at home, staggered working hours, introduction of commute by cars which lowers risk while commuting, reconsideration of company events and business activities in order to prevent infections, and appropriate 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 bad debt because of bankruptcy of customers, the occurrence of problems that could not be predicted, or for which risk countermeasures that could not be implemented and so on.

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

Risk Associated with Technological Development

Should the Taikisha Group experience delays in the development of systems to meet increasing customer needs, such as carbon neutrality, energy saving, enhanced environmental measures and automation, its technological differentiation from competitors cannot be generated.

This may result in the loss of opportunities to receive orders, as well as deterioration in customer trust and corporate reputation, and its business performance and other results may be affected.

In response, the Taikisha Group endeavors to solve social issues through the development and demonstration of technologies aimed at reducing environmental impact to deal with decarbonization business in order to realize carbon neutrality, as well as automation technologies which is the strength of the Company. To this end, the Taikisha Group will engage in themes that anticipate social needs, by leveraging digital technologies, strengthening initiatives across the Group, and promoting development of innovative technologies by collaborating with academic institutions and start-up companies.

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 lack of ability to build the operational structures required to achieve medium- to long-term plans, with the concern of shortage in skilled and experienced engineers due to the aging population and delays in personnel development. Overseas, long-term business development may also be affected if the core human resources necessary to guide the localization of the Taikisha Group's businesses cannot be secured, due to factors such as delays in the development of local staff and employee turnover.

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

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

In addition, in order to sustain and promote employees' healthy mind and body, the Company announced "Health management declaration" in 2020, and clarified health management promotion system with President and Representative Director to become the supervisor of health control.

Legal and Regulatory Compliance Risk

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

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

Risk of Serious Accidents and Quality Defects

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

In response, the Taikisha Group is improving safety awareness and level by utilizing 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, and to enforce the system of assuring the technical quality on a company-wide basis.

Risk of Changes in Material Prices and Unit Labor Costs

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

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

Risk Associated with the Leakage of Confidential Information

Cyber-attacks are getting 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. Should the incident occur, it may lead to loss of credit and liability for compensation payments.

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

Subsidiaries and associates

Taikisha Group consists of Taikisha Ltd., 42 subsidiaries, and 3 associates. Taikisha Ltd., 4 subsidiaries and 1 associate are domiciled in Japan, and 38 subsidiaries and 2 associates are domiciled overseas.

CONSOLIDATED BALANCE SHEETS

Taikisha Ltd. and its Consolidated Subsidiaries
As of March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
Assets	2021	2022	2022
Current assets:			
Cash and deposits (Notes 3, 7 and 9)	¥52,059	¥49,085	$400,993
Notes receivable, accounts receivable from completed construction contracts and other (Notes 3 and 9)	101,413	104,956	857,417
Securities (Notes 7, 9 and 10)	2,000	3,000	24,508
Costs on uncompleted construction contracts (Note 3)	1,816	1,775	14,503
Raw materials and supplies	679	1,007	8,231
Other	8,068	9,084	74,210
Allowance for doubtful accounts (Note 9)	(649)	(718)	(5,872)
Total current assets	165,387	168,190	1,373,990
Non-current assets:			
Property, plant and equipment			
Buildings and structures	8,035	8,389	68,533
Machinery, vehicles, tools, furniture and fixtures (Notes 3 and 8)	11,720	13,756	112,379
Land	1,772	1,737	14,191
Other	553	639	5,228
Accumulated depreciation.	(11,931)	(13,279)	(108,481)
Total property, plant and equipment	10,150	11,243	91,850
Intangible assets			
Goodwill (Note 14 and 18)	4,084	3,966	32,403
Customer-related assets (Note 14)	1,389	1,334	10,898
Other	2,976	2,081	17,002
Total intangible assets	8,450	7,381	60,303
Investments and other assets			
Investment securities (Notes 3, 9 and 10)	32,677	29,605	241,853
Deferred tax assets (Note 13)	1,026	520	4,249
Net defined benefit asset (Note 12)	9,111	8,909	72,785
Other	2,100	2,710	22,145
Allowance for doubtful accounts	(48)	(401)	(3,277)
Total investments and other assets	44,866	41,344	337,755
Total non-current assets	63,468	59,969	489,908
Total assets	¥228,855	¥228,159	$1,863,898

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

Liabilities and Net assets	Millions of yen 2021	Millions of yen 2022	Thousands of U.S. dollars 2022
Current liabilities:			
Notes payable, accounts payable for construction contracts and other (Notes 3 and 9)	¥52,050	¥47,102	$384,794
Short-term loans payable (Notes 9 and 21)	6,588	15,535	126,917
Income taxes payable (Note 9)	1,607	1,672	13,663
Advances received on uncompleted construction contracts	14,200	6,901	56,381
Provision for warranties for completed construction	475	714	5,833
Provision for loss on construction contracts (Note 3)	403	392	3,204
Provision for directors' bonuses	63	43	358
Other (Note 21)	11,528	9,524	77,805
Total current liabilities	86,919	81,886	668,955
Non-current liabilities:			
Long-term loans payable (Notes 9 and 21)	4,769	5,605	45,793
Deferred tax liabilities (Note 13)	8,821	7,877	64,351
Provision for directors' retirement benefits	40	44	367
Provision for share-based remuneration for directors	171	145	1,186
Net defined benefit liability (Note 12)	1,507	1,462	11,945
Other (Note 21)	315	349	2,858
Total non-current liabilities	15,625	15,484	126,500
Total liabilities	¥102,544	¥97,371	$795,455
Net assets:			
Shareholders' equity			
Capital stock			
Authorized: 100,000,000 shares			
Issued: 35,082,009 shares as of March 31, 2021 35,082,009 shares as of March 31, 2022	¥6,455	¥6,455	$52,734
Capital surplus	5,058	5,058	41,324
Retained earnings	95,701	99,893	816,056
Treasury shares, at cost — 1,013,823 shares as of March 31,2021	(2,594)	–	–
998,559 shares as of March 31,2022	–	(2,544)	(20,785)
Total shareholders' equity	104,620	108,862	889,329
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	14,237	11,908	97,282
Deferred gains or losses on hedges (Note 11)	(3)	(25)	(205)
Foreign currency translation adjustment	(237)	2,017	16,484
Accumulated remeasurements of defined benefit plans	2,416	1,932	15,784
Total accumulated other comprehensive income	16,412	15,833	129,345
Non-controlling interests	5,277	6,092	49,769
Total net assets	126,311	130,788	1,068,443
Total liabilities and net assets	¥228,855	¥228,159	$1,863,898

Per share data :	Yen		U.S. dollars
Net assets	¥3,552.69	¥3,658.54	$29.89

Basis of calculation	Millions of yen		Thousands of U.S. dollars
Total net assets	¥126,311	¥130,788	$1,068,443
Amounts to be deducted from net assets (Non-controlling interests)	(5,277)	(6,092)	(49,769)
Net assets applicable to common shares	121,033	124,695	1,018,673
Number of common shares as of the year-end (thousands of shares)	34,068	34,083	34,083

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, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Consolidated Statements of Income			
Net sales of completed construction contracts	¥202,548	¥209,261	$1,709,513
Cost of sales of completed construction contracts (Note 4)	168,521	177,646	1,451,243
Gross profit on completed construction contracts	34,027	31,614	258,270
Selling, general and administrative expenses:			
Directors' compensations	870	931	7,612
Employees' salaries and allowances	8,538	8,159	66,656
Provision for directors' bonuses	63	43	358
Retirement benefit expenses (Note 12)	560	390	3,191
Provision for directors' retirement benefits	12	11	96
Provision for share-based remuneration for directors	61	40	327
Correspondence and transportation expenses	823	902	7,371
Provision of allowance for doubtful accounts	201	468	3,826
Rents	1,603	1,642	13,416
Depreciation	2,084	2,146	17,535
Amortization of goodwill (Note 4)	638	414	3,387
Other	6,878	7,034	57,470
Total selling, general and administrative expenses (Note 4)	22,336	22,186	181,245
Operating income	11,690	9,428	77,026
Non-operating income:			
Interest income	291	259	2,116
Dividend income	593	657	5,370
Dividend income of insurance	145	159	1,301
Real estate rent	100	126	1,032
Foreign exchange gains	–	317	2,593
Other	483	322	2,632
Total non-operating income	1,613	1,841	15,044
Non-operating expenses:			
Interest expenses	173	303	2,480
Sales discounts	101	–	–
Rent expenses on real estates	27	16	132
Foreign exchange losses	330	–	–
Provision of allowance for doubtful accounts	213	0	1
Share of loss of entities accounted for using equity method	65	32	262
Other	104	99	814
Total non-operating expenses	1,016	451	3,689
Ordinary income	12,287	10,818	88,381
Extraordinary income:			
Gain on disposal of non-current assets (Note 4)	618	50	411
Gain on sales of investment securities (Note 10)	–	1,177	9,623
Gain on step acquisitions	61	–	–
Total extraordinary income	680	1,228	10,034
Extraordinary losses:			
Loss on disposal of non-current assets (Note 4)	425	45	372
Impairment loss (Note 17)	359	0	0
Loss on valuation of investment securities (Note 10)	0	–	–
Total extraordinary losses	784	45	372
Profit before income taxes	12,184	12,001	98,043
Income taxes-current	3,755	3,179	25,971
Income taxes-deferred	(243)	753	6,157
Total income taxes	3,512	3,932	32,128
Profit	8,671	8,068	65,914
Profit attributable to non-controlling interests	392	820	6,700
Profit attributable to owners of parent	¥8,279	¥7,248	$59,214

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit	¥8,671	¥8,068	$65,914
Other comprehensive income:			
Valuation difference on available-for-sale securities	5,860	(2,329)	(19,028)
Deferred gains or losses on hedges	(3)	(22)	(181)
Foreign currency translation adjustment	(546)	2,547	20,813
Remeasurements of defined benefit plans	2,758	(455)	(3,724)
Share of other comprehensive income of entities accounted for using equity method	6	69	565
Total other comprehensive income (Note 5)	8,076	(190)	(1,554)
Comprehensive income	¥16,748	¥7,878	$64,360
Comprehensive income attributable to :			
Owners of parent	¥16,245	¥6,669	$54,487
Non-controlling interests	503	1,208	9,873

	Yen		U.S. dollars
Per share data:			
Profit attributable to owners of parent	¥243.03	¥212.69	$1.74
Cash dividends	¥90.00	¥100.00	$0.82

	Millions of yen		Thousands of U.S. dollars
Basis of calculation			
Profit attributable to owners of parent	¥8,279	¥7,248	$59,214
Profit attributable to owners of parent for common shares	8,279	7,248	59,214
Average number of common shares (thousands of shares)	34,068	34,078	34,078

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Taisha Ltd. and its Consolidated Subsidiaries

For the year ended March 31, 2021 — Millions of yen

	Shareholders' equity: Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Accumulated other comprehensive income: 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
Cumulative effects of changes in accounting policies					–							–
Restated balance	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)
Disposal of treasury shares (Note 6)					–							–
Purchase of shares of consolidated subsidiaries					–							–
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, 2022 — Millions of yen

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

For the year ended March 31, 2022 — Thousands of U.S. dollars

	Shareholders' equity: Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Accumulated other comprehensive income: 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	$52,734	$41,324	$781,815	$(21,197)	$854,676	$116,310	$(26)	$(1,944)	$19,742	$134,082	$43,112	$1,031,870
Cumulative effects of changes in accounting policies			175		175			(10)		(10)	(129)	36
Restated balance	52,734	41,324	781,990	(21,197)	854,851	116,310	(26)	(1,954)	19,742	134,072	42,983	1,031,906
Changes of items during the period												
Dividends of surplus (Note 6)			(25,148)		(25,148)							(25,148)
Profit attributable to owners of parent			59,214		59,214							59,214
Purchase of treasury shares (Note 6)				(11)	(11)							(11)
Disposal of treasury shares (Note 6)				423	423							423
Purchase of shares of consolidated subsidiaries		0			0				(0)	(0)		0
Net changes of items other than shareholders' equity						(19,028)	(179)	18,438	(3,958)	(4,727)	6,786	2,059
Total changes of items during the period	–	0	34,066	412	34,478	(19,028)	(179)	18,438	(3,958)	(4,727)	6,786	36,537
Balance at the end of current period	$52,734	$41,324	$816,056	$(20,785)	$889,329	$97,282	$(205)	$16,484	$15,784	$129,345	$49,769	$1,068,443

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, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash flows from operating activities:			
Profit before income taxes	¥12,184	¥12,001	$98,043
Depreciation and amortization	2,362	2,496	20,394
Amortization of goodwill	638	414	3,387
Increase (decrease) in allowance for doubtful accounts	304	385	3,151
Increase (decrease) in provision for warranties for completed construction	(400)	210	1,720
Increase (decrease) in provision for loss on construction contracts	114	(16)	(137)
Increase (decrease) in provision for directors' retirement benefits	(10)	4	33
Increase (decrease) in provision for share-based remuneration for directors	61	(25)	(211)
Increase (decrease) in net defined benefit liability	(97)	(572)	(4,676)
Interest and dividend income	(884)	(916)	(7,487)
Interest expenses	173	303	2,480
Gain on step acquisitions	(61)	–	–
Share of (profit) loss of entities accounted for using equity method	65	32	262
Loss (gain) on disposal of non-current assets	(193)	(4)	(39)
Loss (gain) on sales of investment securities	–	(1,177)	(9,623)
Loss on valuation of investment securities	0	–	–
Decrease (increase) in notes and accounts receivable-trade	(4,096)	(846)	(6,913)
Decrease (increase) in inventories	1,050	(655)	(5,351)
Decrease (increase) in accounts receivable-other	(16)	(238)	(1,950)
Increase (decrease) in notes and accounts payable-trade	(6,558)	(6,473)	(52,881)
Increase (decrease) in advances received on uncompleted construction contracts	(209)	(8,014)	(65,476)
Increase (decrease) in accrued consumption taxes	423	(423)	(3,459)
Increase (decrease) in deposits received	(550)	(69)	(570)
Increase (decrease) in accrued expenses	(29)	(196)	(1,604)
Other, net	(622)	(2,398)	(19,590)
Subtotal	3,645	(6,181)	(50,497)
Interest and dividend income received	884	916	7,487
Interest expenses paid	(173)	(303)	(2,478)
Income taxes paid	(3,382)	(2,976)	(24,315)
Net cash provided by (used in) operating activities	973	(8,544)	(69,803)
Cash flows from investing activities:			
Payments into time deposits	(4,071)	(4,327)	(35,353)
Proceeds from withdrawal of time deposits	3,023	4,433	36,220
Purchase of property, plant and equipment and intangible assets	(2,270)	(2,314)	(18,907)
Proceeds from sales of property, plant and equipment and intangible assets	824	151	1,234
Purchase of investment securities	(14)	(501)	(4,094)
Proceeds from sales of investment securities	–	1,455	11,893
Proceeds from redemption of investment securities	0	0	4
Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation (Note 7)	(4,290)	–	–
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 7)	311	–	–
Payments of long-term loans receivable	(54)	(35)	(291)
Collection of long-term loans receivable	49	56	464
Purchase of insurance funds	(0)	(0)	(3)
Proceeds from maturity of insurance funds	1	–	–
Purchase of long-term prepaid expenses	(20)	(9)	(78)
Other, net	(400)	18	155
Net cash provided by (used in) investing activities	(6,913)	(1,071)	(8,756)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	565	8,389	68,538
Proceeds from long-term loans payable	4,601	3,438	28,089
Repayments of long-term loans payable	(2,814)	(2,460)	(20,097)
Repayments of lease obligations	(100)	(95)	(777)
Net decrease (increase) in treasury shares	(0)	50	411
Cash dividends paid	(3,418)	(3,078)	(25,151)
Cash dividends paid to non-controlling interests	(267)	(239)	(1,955)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(4)	(40)
Net cash provided by (used in) financing activities	(1,435)	6,000	49,018
Effect of exchange rate change on cash and cash equivalents	(799)	1,737	14,192
Net increase (decrease) in cash and cash equivalents	(8,175)	(1,878)	(15,349)
Cash and cash equivalents at beginning of period	58,846	50,670	413,940
Cash and cash equivalents at end of period (Note 7)	¥50,670	¥48,791	$398,591

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, 2021 and 2022

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 ¥122.41 to US$1, the rate of exchange prevailing at March 31, 2022, 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, 2022, Taikisha de Mexico, S.A. de C.V., and Taikisha Mexicana Service, S.A. de C.V., a consolidated subsidiary of Taikisha de Mexico, S.A. de C.V., conducted an absorption-type merger, in which Taikisha de Mexico, S.A. de C.V. was the surviving company and Taikisha Mexicana Service, S.A. de C.V. was the dissolving company. Due to its dissolution, Taikisha Mexicana Service, S.A. de C.V. has been excluded from the scope of consolidation.

During the consolidated fiscal year ended March 31, 2022, Geico Taikisha GmbH, and Process Solution Partner GmbH, a consolidated subsidiary of Geico Taikisha GmbH, conducted an absorption-type merger, in which Geico Taikisha GmbH was the surviving company and Process Solution Partner GmbH was the dissolving company. Due to its dissolution, Process Solution Partner GmbH has been excluded from the scope of consolidation.

The consolidated financial statements include the accounts of the Company and all significant subsidiaries listed below as of March 31, 2022:

Domestic subsidiaries

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

Overseas subsidiaries

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

(2) Application of the equity method

Name of associates subject to the equity method

Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd., and Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd., an application of equity method of the Company, conducted an absorption-type merger, in which Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd. was the surviving company and Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd. was the dissolving company. Due to its dissolution, Shanghai Dongbo-Taiki Conveyor System Manufacturing Co., Ltd. has been excluded from the scope of equity method.

FreDelish Co., Ltd.

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

Name of associates not subject to the equity method

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

Makiansia Engineering (M) Sdn. Bhd.

(3) Fiscal year for consolidated subsidiaries

The balance sheet date of all domestic consolidated subsidiaries as well as Taikisha Engineering India Private Ltd., Nicomac Taikisha Clean Rooms Private Limited 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) Revenue and cost recognition

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

Construction contracts, and so on

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

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

Sales of equipment and materials

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

(9) Hedge accounting

Method of hedge accounting

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

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

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

Hedging instruments and hedged items

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

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

Hedging policy

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

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

Assessment of hedge effectiveness

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

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

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

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

(11) Amortization method and period for goodwill

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

(12) Significant accounting estimates

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

(1) Amounts recorded in the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net sales of completed construction contracts	¥172,277	**¥187,745**	**$1,533,745**

(2) Contents of the significant accounting estimates

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

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

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

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

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

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

Valuation of goodwill and intangible assets

(1) Amounts recorded in the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Goodwill	¥4,084	**¥3,966**	**$32,403**
Customer-related assets	¥1,389	**¥1,334**	**$10,898**

(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.

(13) Change in accounting policy

Application of Accounting Standard for Revenue Recognition, etc.

The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No. 29, March 31, 2020, hereinafter referred to as "Revenue Recognition Accounting Standard"), etc. have been applied from the beginning of the fiscal year. In accordance with the Revenue Recognition Accounting Standard etc., revenue is recognized at the amount expected to be received in exchange for the promised goods or services when the control of the goods or services is transferred to the customer. Regarding construction contracts and so on, as a result of examining the identification of performance obligations and the timing of its satisfaction, revenue recognition method has been changed to recognize revenue over time after the application of the Revenue Recognition Accounting Standard etc., though previously the percentage-of-completion method had been applied for construction contracts for which the completion of a certain percentage of the entire work is reliably recognizable and the completed-contract method had been applied for the other construction contracts.

Regarding maintenance contracts and so on, as a result of examining the identification of performance obligations and the timing of its satisfaction, revenue recognition method has been changed to recognize revenue over time, though previously revenue had been recognized when service was completely rendered.

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

In addition, the sales discount recorded as non-operating expenses in the previous fiscal year is deducted from the net sales of completed construction contracts from this fiscal year.

The application of the Revenue Recognition Accounting Standard etc. is pursuant to the transitional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect when applying the Revenue Recognition Accounting Standard etc. retrospectively from before the beginning of the fiscal year is added to or subtracted from the retained earnings at the beginning of the fiscal year, and thus the Revenue Recognition Accounting Standard etc. have been applied from the beginning balance.

As a result, net sales of completed construction contracts increased by ¥208 million (US$1,702 thousand), cost of sales of completed construction contracts increased by ¥200 million (US$1,636 thousand), gross profit on completed construction contracts and operating income increased by ¥8 million (US$66 thousand), ordinary income and profit before income taxes increased by ¥21 million (US$177 thousand) respectively. Also, beginning balance of retained earnings increased by ¥21 million (US$177 thousand), net assets per share increased by 0.77 yen and net income per share increased by 0.63 yen respectively.

In accordance with the transitional treatment stipulated in the Paragraph 89-3 of Revenue Recognition Accounting Standard, notes of "Revenue recognition" in the previous consolidated fiscal year are not stated.

Application of Accounting Standard for Fair Value Measurement, etc.

The "Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Statement No. 30, July 4, 2019, hereinafter referred to as "Fair Value Measurement Accounting Standard") etc., have been applied from the beginning of the fiscal year. In accordance with the transitional treatment stipulated in the Paragraph 19 of Fair Value Measurement Accounting Standard and stipulated in the Paragraph 44-2 of "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Fair Value Measurement Accounting Standard, etc. are applied prospectively. These applications have no impact on the financial statements.

In addition, in the notes to "Fair value of Financial Instruments", breakdown of the fair value of financial instruments by level, etc. are stated. However, in accordance with the transitional treatment stipulated in Paragraph 7-4 of the "Guidance on Disclosures about Fair Value of Financial Instruments" (Accounting Standards Board of Japan Guidance No. 19, July 4, 2019), notes related to the previous consolidated fiscal year are not stated.

(14) Accounting standards issued but not yet adopted

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan Guidance No. 31, June 17, 2021)

(Overview)

The guidance is stipulated for the calculation of the fair value of money trusts and notes to the fair value of investments in limited partnerships and other partnerships in which the net amount of equity interest is recorded on the balance sheet.

(Application date)

The guidance is expected to be applied from the beginning of the fiscal year starting on or after April 1, 2022.

(Impact of the application of the accounting standards)

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

(15) Additional information

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

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

(Overview of transaction)

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

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

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

The book value of the Company's own shares held by the trust was ¥245 million for the previous fiscal year, and ¥227 million (US$1,860 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 132 thousand for the previous fiscal year and 122 thousand for the fiscal year. The average number of shares held during the year was 132 thousand for the previous fiscal year and 124 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 ¥398 million (US$3,253 thousand) for the fiscal year, and the number of such shares is 136,400 for the previous fiscal year and 120,700 for the fiscal year.

(Effects of the spread of COVID-19)

The future outlook of the world economy and market environment in our group are on a recovery trend due to vaccine rollouts and so on, though they remain highly uncertain because the effects of the COVID-19 still continue due to widespread of new variant of the COVID-19 and so on.

Under these circumstances, accounting estimates for the valuation of fixed assets including goodwill and so on in the consolidated fiscal year are performed based on the assumption that capital investment will recover mainly in North America, Japan, China, India and so on in the future.

3. Notes of consolidated balance sheets

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

As of March 31, 2022	Millions of yen	Thousands of U.S. dollars
	2022	2022
Notes receivable - trade	¥2,908	$23,761
Accounts receivable from completed construction contracts	¥79,781	$651,757
Contract assets	¥22,266	$181,899

(2) The information of associates

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Investment securities	¥531	¥562	$4,592

(3) Pledged assets

Assets pledged as collateral for loans payable of subsidiaries and associates

As of March 31, 2021	Millions of yen	
Pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥177	¥264
Machinery, vehicles, tools, furniture and fixtures	¥11	¥5

As of March 31, 2022	Millions of yen		Thousands of U.S. dollars	
Pledged assets	Book value	Liabilities covered by pledged assets	Book value	Liabilities covered by pledged assets
Cash and deposits	¥302	¥202	$2,469	$1,654
Machinery, vehicles, tools, furniture and fixtures	¥12	¥7	$104	$59

Assets pledged as collateral for security deposits at subsidiaries and associates

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash and deposits	¥57	¥57	$469

Assets pledged as collateral for overdraft facilities of subsidiaries and associates

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash and deposits	¥17	¥17	$140

(4) Guarantee obligations

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.	¥177	¥449	$3,668

(5) Commitment lines

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

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Total amount of lending commitment	¥5,000	¥5,000	$40,846
Borrowing execution balance	–	–	–
Net	¥5,000	¥5,000	$40,846

(6) Endorsed notes

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Endorsed notes	¥26	¥41	$335

(7) Provision for loss on construction contracts

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

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Provision for loss on construction contracts	¥–	¥1	$16

4. Notes of consolidated statements of income

(1) Revenue from contracts with customers

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

(2) Research and development expenses

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

For the years ended March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
General and administrative expenses	¥1,122	¥1,106	$9,042

(3) Gain on disposal of non-current assets

For the years ended March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Buildings and structures	¥166	¥33	$277
Machinery, vehicles, tools, furniture and fixtures	17	15	126
Land	435	–	–
Leasehold and guarantee deposits	–	0	8
Total	¥618	¥50	$411

(4) Loss on disposal of non-current assets

For the years ended March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Buildings and structures	¥355	¥34	$285
Machinery, vehicles, tools, furniture and fixtures	5	4	34
Land	–	6	53
Software	62	–	–
Long-term deposits	0	–	–
Total	¥425	¥45	$372

(5) 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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Provision for loss on construction contracts	¥353	¥207	$1,699

5. Notes of consolidated statements of comprehensive income

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

For the years ended March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Valuation difference on available-for-sale securities			
Net gains (losses) arising during the period	¥8,302	¥(2,148)	$(17,550)
Reclassification adjustments	–	(1,177)	(9,623)
Before tax effects	8,302	(3,326)	(27,173)
Tax effects	(2,441)	997	8,145
Valuation difference on available-for-sale securities	5,860	(2,329)	(19,028)
Deferred gains or losses on hedges			
Net gains (losses) arising during the period	(4)	(31)	(260)
Reclassification adjustments	–	–	–
Before tax effects	(4)	(31)	(260)
Tax effects	1	9	79
Deferred gains or losses on hedges	(3)	(22)	(181)
Foreign currency translation adjustment			
Net gains (losses) arising during the period	(546)	2,547	20,813
Foreign currency translation adjustment	(546)	2,547	20,813
Remeasurements of defined benefit plans			
Net gains (losses) arising during the period	3,913	(356)	(2,916)
Reclassification adjustments	55	(330)	(2,702)
Before tax effects	3,969	(687)	(5,618)
Tax effects	(1,210)	231	1,894
Remeasurements of defined benefit plans	2,758	(455)	(3,724)
Share of other comprehensive income of entities accounted for using equity method			
Net gains (losses) arising during the period	6	69	565
Other comprehensive income	¥8,076	¥(190)	$(1,554)

6. Notes of consolidated statements of changes in net assets

(1) The number of issued shares

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

For the year ended March 31, 2022	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, 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.

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

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

(3) Dividends

Dividends paid

For the year ended March 31, 2021

Resolution approved by	Type of shares	Amount Millions of yen	Amount per share Yen	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders (June 26, 2020)	Common shares	¥2,394	¥70.00	March 31, 2020	June 29, 2020
Board of directors (November 10, 2020)	Common shares	¥1,026	¥30.00	September 30, 2020	November 27, 2020

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

For the year ended March 31, 2022

Resolution approved by	Type of shares	Amount Millions of yen	Amount Thousands of U.S. dollars	Amount per share Yen	Amount per share U.S. dollars	Shareholders' cut-off date	Effective date
Annual general meeting of shareholders (June 29, 2021)	Common shares	¥2,052	$16,766	¥60.00	$0.49	March 31, 2021	June 30, 2021
Board of directors (November 10, 2021)	Common shares	¥1,026	$8,383	¥30.00	$0.25	September 30, 2021	November 30, 2021

(Note1) Dividends on June 30, 2021 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).
(Note2) Dividends on November 30, 2021 includes dividends of ¥3 million (US$29 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, 2021

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

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

For the year ended March 31, 2022

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, 2022)	Common shares	Retained earnings	¥2,394	$19,560	¥70.00	$0.57	March 31, 2022	June 30, 2022

(Note) Dividends total includes dividends of ¥8 million (US$69 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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash and deposits	¥52,059	¥49,085	$400,993
Securities	2,000	3,000	24,508
Sub total	54,059	52,085	425,501
Time deposits over three months	(3,389)	(3,294)	(26,910)
Cash and cash equivalents	¥50,670	¥48,791	$398,591

(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, 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
Current assets	¥755
Non-current assets	1,608
Goodwill	3,432
Current liabilities	(297)
Non-current liabilities	(498)
Non-controlling interests	(407)
Foreign currency translation adjustment	(92)
Acquisition cost of equity	4,500
Cash and cash equivalents	(209)
Net : Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation	¥(4,290)

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
Current assets	¥1,533
Non-current assets	249
Goodwill	424
Current liabilities	(1,569)
Non-current liabilities	(215)
Shareholdings before the acquisition	31
Non-controlling interests	(15)
Foreign currency translation adjustment	5
Gain on step acquisitions	(62)
Acquisition cost of shares	381
Cash and cash equivalents	(444)
Third-party allotment	(248)
Net : Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	¥311

For the year ended March 31, 2022

Not applicable.

(3) Details of major non-cash transactions

Not applicable.

8. Lease transaction

(1) Finance lease transaction

As lessee

Details of leased assets

The leased assets are mainly 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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Due within one year	¥283	¥262	$2,145
Due over one year	650	633	5,179
Total	¥933	¥896	$7,324

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 the difference between those values.

As of March 31, 2021	Millions of yen		
	Book value	Fair value	Difference
Notes receivable, accounts receivable from completed construction contracts and other	¥101,413		
Allowance for doubtful accounts (*2)	(436)		
	100,977	100,963	(13)
Securities and Investment securities (*3)	33,710	33,710	–
Total Assets	134,687	134,674	(13)
Notes payable, accounts payable for construction contracts and other	52,050	52,042	(8)
Short-term loans payable	6,588	6,588	–
Long-term loans payable	4,769	4,795	26
Total Liabilities	63,409	63,426	17
Derivatives	¥(5)	¥(5)	¥–

(*1) Cash and deposits and income taxes payable are not stated because they are settled in a short period of time and their fair value approximates their book values.
(*2) "Allowance for doubtful accounts" separately included in "notes receivable, accounts receivable from completed construction contracts and other" is deducted.
(*3) Certain financial instruments for which it is extremely difficult to determine the fair value are not included (see Note 1 below).

As of March 31, 2022

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Notes receivable, accounts receivable from completed construction contracts and other	¥104,956			$857,417		
Allowance for doubtful accounts (*2)	(499)			(4,081)		
	104,456	104,400	(55)	853,336	852,879	(457)
Securities and Investment securities (*3)	31,607	31,607	–	258,211	258,211	–
Total Assets	136,064	136,008	(55)	1,111,547	1,111,090	(457)
Notes payable, accounts payable for construction contracts and other	47,102	47,066	(36)	384,794	384,497	(297)
Short-term loans payable	15,535	15,535	–	126,917	126,917	–
Long-term loans payable	5,605	5,624	19	45,793	45,950	157
Total Liabilities	68,244	68,226	(17)	557,504	557,364	(140)
Derivatives	¥(43)	¥(43)	¥–	$(352)	$(352)	$–

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

(Note 1)

As of March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Available-for-sale securities			
Non-listed stocks	¥961	¥992	$8,111
Non-listed foreign bonds	¥4	¥4	$38

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

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, 2022

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

As of March 31, 2022

	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	$400,993	$–	$–	$–
Notes receivable, accounts receivable from completed construction contracts and other	775,953	81,080	383	–
Securities and Investment securities				
Available-for-sale securities with maturity date (Money trusts, etc.)	24,508	–	–	–
Available-for-sale securities with maturity date (Non-listed foreign bonds)	–	38	–	–
Total	$1,201,454	$81,118	$383	$–

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

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, 2022

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

As of March 31, 2022

	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	$109,581	$–	$–	$–	$–	$–
Long-term loans payable	17,336	17,691	12,126	9,941	4,960	1,073
Lease obligations	678	358	202	88	23	–
Total	$127,595	$18,049	$12,328	$10,029	$4,983	$1,073

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

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

Level 1: Fair values measured using quoted prices in active markets with respect to identical assets or liabilities

Level 2: Fair values measured using inputs other than those included within Level 1 that are observable

Level 3: Fair values measured using inputs that are unobservable

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

Financial instruments recorded on the consolidated balance sheet at fair value

As of March 31, 2022

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

As of March 31, 2022

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Securities and Investment securities				
Available-for-sale securities				
Stocks	$233,704	$–	$–	$233,704
Total Assets	233,704	–	–	233,704
Derivative transactions	$–	$(352)	$–	$(352)

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

As of March 31, 2022

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

As of March 31, 2022

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Notes receivable, accounts receivable from completed construction contracts and other	$–	$852,879	$–	$852,879
Securities and Investment securities				
Money trusts	–	16,339	–	16,339
Bonds				
Other	–	8,169	–	8,169
Total Assets	–	877,387	–	877,387
Notes payable, accounts payable for construction contracts and other	–	384,497	–	384,497
Short-term loans payable	–	126,917	–	126,917
Long-term loans payable	–	45,950	–	45,950
Total Liabilities	$–	$557,364	$–	$557,364

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

Assets

Notes receivable, accounts receivable from completed construction contracts and other

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

Securities and investment securities

These fair values of listed stocks are evaluated using quoted market prices. These fair values are classified into level 1 because the listed stocks are traded in active markets. Bonds are classified into level 2 because these present values are cash flows discounted by the rate based on the yield of government bonds with the closer redemption period.

Liabilities

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

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

Long-term loans payable

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

Derivative transactions

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

10. Securities

(1) Held-to-maturity debt securities

As of March 31, 2021
Not applicable.

As of March 31, 2022
Not applicable.

(2) Available-for-sale securities

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, 2022

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

As of March 31, 2022

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	$232,344	$92,977	$139,367
Securities whose book value does not exceed their acquisition cost			
Money trusts	16,339	16,339	–
Stocks	1,359	1,492	(133)
Bonds			
Other	8,170	8,170	–
Total	$258,212	$118,978	$139,234

(3) Available-for-sale securities sold

For the year ended March 31, 2021
Not applicable.

For the year ended March 31, 2022

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

For the year ended March 31, 2022

	Thousands of U.S. dollars		
	Sales amount	Total gain on sales	Total loss on sales
Stocks	$11,893	$9,623	$–
Total	$11,893	$9,623	$–

(4) Securities with impairment loss

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.

For the years ended March 31, 2022

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

11. Derivative transactions

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

As of March 31, 2021

		Millions of yen			
Category	Transaction type	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, 2022

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

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

As of March 31, 2022

		Thousands of U.S. dollars			
Category	Transaction type	Contract amount	Over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts:				
	Buy				
	Yen	$1,287	$–	$(30)	$(30)
	U.S. dollars	181	–	4	4
	Chinese Yuan	759	–	(11)	(11)
	Sell				
	Yen	11	–	0	0
	Total	$2,238	$–	$(37)	$(37)

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

Currency-related transactions

As of March 31, 2021

Hedging method	Transaction type		Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	¥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, 2022

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

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

As of March 31, 2022

Hedging method	Transaction type		Main hedged items	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Method in principle	Forward exchange contracts					
	Buy					
		Baht	Accounts payable for construction contracts (forecast)	$90	$–	$5
		Chinese Yuan	Accounts payable for construction contracts (forecast)	106	–	(1)
	Sell					
		U.S. dollars	Accounts receivable from completed construction contracts (forecast)	969	–	(25)
		Euros	Accounts receivable from completed construction contracts (forecast)	1,269	1,269	(72)
		Chinese Yuan	Accounts receivable from completed construction contracts (forecast)	5,304	2,960	(223)
			Total	$7,738	$4,229	$(316)

Interest-related transactions

As of March 31, 2021

Hedging method	Transaction type	Main hedged items	Contract amount (Millions of yen)	Over one year (Millions of yen)	Fair value (Millions of yen)
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	¥2,763	¥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, 2022

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

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

As of March 31, 2022

Hedging method	Transaction type	Main hedged items	Contract amount (Thousands of U.S. dollars)	Over one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Special treatment	Interest rate swap				
	Pay fixed/Receive floating	Long-term loans payable	$21,866	$16,660	

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, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Projected benefit obligations at the beginning of current period	¥18,133	¥17,441	$142,482
Service costs	1,258	1,229	10,045
Interest costs	57	38	313
Actuarial differences accrued in the current period	(989)	137	1,126
Benefits paid	(948)	(1,001)	(8,180)
Past service costs accrued in the current period	–	(39)	(324)
Foreign currency translation	(69)	41	338
Projected benefit obligations at the end of current period	¥17,441	¥17,847	$145,800

Reconciliation of beginning and ending balances for pension assets

For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Pension assets at the beginning of current period	¥21,830	¥25,242	$206,212
Expected return on pension assets	467	524	4,282
Actuarial differences accrued in the current period	2,928	(249)	(2,039)
Contributions from employers	859	885	7,236
Benefits paid	(843)	(915)	(7,482)
Foreign currency translation	0	8	70
Pension assets at the end of current period	¥25,242	¥25,495	$208,279

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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Funded projected benefit obligations	¥16,177	¥16,586	$135,502
Pension assets	(25,242)	(25,495)	(208,279)
Sub total	(9,064)	(8,908)	(72,777)
Unfunded projected benefit obligations	1,263	1,260	10,298
Net amount of liabilities and assets in the consolidated balance sheets	(7,801)	(7,648)	(62,479)
Net defined benefit liability	1,310	1,261	10,306
Net defined benefit asset	9,111	8,909	72,785
Net amount of liabilities and assets in the consolidated balance sheets	¥(7,801)	¥(7,648)	$(62,479)

Retirement benefit expenses

For the years ended March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Service costs	¥1,258	¥1,229	$10,045
Interest costs	57	38	313
Expected return on pension assets	(467)	(524)	(4,282)
Amortization of actuarial differences	32	(344)	(2,812)
Amortization of past service costs	12	6	51
Retirement benefit expenses of defined benefit plans	¥892	¥405	$3,315

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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Past service costs	¥19	¥47	$391
Actuarial differences	3,949	(735)	(6,009)
Total	¥3,969	¥(687)	$(5,618)

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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Unrecognized past service costs	¥(115)	¥(67)	$(555)
Unrecognized actuarial differences	3,600	2,864	23,402
Total	¥3,484	¥2,796	$22,847

Pension assets

Composition ratio of pension assets is as follows.

As of March 31, 2021 and 2022	2021	2022
Debt securities	27%	30%
Stocks	34	31
Cash and deposits	3	4
General account of life insurance	27	22
Other	9	13
Total	100%	100%

(Note) For the previous fiscal year, 16% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan. For this fiscal year, 15% of total pension assets are attributed to the employee retirement benefit trust for benefit pension plan.

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

Assumptions and policies used to calculate projected benefit obligations

As of March 31, 2021 and 2022

	2021	2022
Discount rates (weighted average)	0.3%	0.4%
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, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net defined benefit liability at the beginning of current period	¥221	¥196	$1,604
Retirement benefit expenses	17	22	185
Benefits paid	(37)	(35)	(286)
Contributions to the plan	(9)	(4)	(40)
Foreign currency translation	2	11	98
Other	1	9	78
Net defined benefit liability at the end of current period	¥196	¥200	$1,639

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

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Funded projected benefit obligations	¥71	¥76	$626
Pension assets	(59)	(65)	(539)
Sub total	12	10	87
Unfunded projected benefit obligations	183	189	1,552
Net amount of liabilities and assets in the consolidated balance sheets	196	200	1,639
Net defined benefit liability	196	200	1,639
Net amount of liabilities and assets in the consolidated balance sheets	¥196	¥200	¥1,639

Retirement benefit expenses

Retirement benefit expenses calculated by the simplified method are ¥17 million for the previous fiscal year and ¥22 million (US$185 thousand) for this fiscal year.

(4) Defined contribution plans

Required contribution amount for defined contribution plans is ¥317 million for the previous fiscal year and ¥321 million (US$2,623 thousand) for this fiscal year.

13. Tax effect accounting

(1) Significant components of deferred tax assets and liabilities

As of March 31, 2021 and 2022	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax assets			
Allowance for doubtful accounts	¥123	¥222	$1,815
Provision for warranties for completed construction	133	172	1,413
Provision for loss on construction contracts	89	114	934
Net defined benefit liability	231	213	1,747
Employees' pension trust, investment securities	322	336	2,750
Provision for directors' retirement benefits	14	15	127
Accrued enterprise tax etc.	104	125	1,025
Accrued bonuses	1,724	1,226	10,016
Loss on valuation of investment securities	121	116	951
Loss on valuation of golf club membership	56	56	460
Valuation difference on available-for-sale securities	2	4	41
Foreign tax credit carried forward	164	182	1,489
Tax loss carried forward (Note2)	1,138	1,670	13,643
Other	1,555	1,528	12,485
Subtotal	5,782	5,985	48,896
Valuation allowance for tax loss carried forward (Note2)	(889)	(1,662)	(13,582)
Valuation allowance for total of deductible temporary differences, etc.	(997)	(906)	(7,402)
Subtotal (Note1)	(1,886)	(2,568)	(20,984)
Total deferred tax assets	3,896	3,416	27,912
Deferred tax liabilities			
Net defined benefit assets	(2,790)	(2,719)	(22,212)
Valuation difference on available-for-sale securities	(6,135)	(5,140)	(41,994)
Retained earnings of consolidated overseas subsidiaries	(2,039)	(1,921)	(15,700)
Other	(726)	(992)	(8,108)
Total deferred tax liabilities	(11,691)	(10,773)	(88,014)
Net deferred tax assets liabilities	¥(7,795)	¥(7,357)	$(60,102)

(Note1) Valuation allowance increased by ¥682 million (US$ 5,576 thousand). This increase is mainly due to increase in valuation allowances for tax loss carryforwards of ¥595 million (US$ 4,868 thousand) in Geico S.p.A. and its subsidiaries which are 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, 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 tax loss carried forward (the result of multiplication by the effective statutory tax rate for each tax-paying entity), ¥249 million in deferred tax assets have been recorded. This total of ¥249 million in deferred tax assets relates mainly to tax loss carried forward at consolidated subsidiaries TKS Industrial Company of ¥185 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, 2022

	Millions of yen						
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carried forward (a)	¥13	¥8	¥7	¥1	¥1	¥1,637	¥1,670
Valuation allowance	(10)	(8)	(7)	(1)	(1)	(1,632)	(1,662)
Deferred tax assets	¥2	¥–	¥–	¥–	¥–	¥4	¥7

(a) The sum for tax loss carried forward is the result of multiplication by the effective statutory tax rate for each tax-paying entity.

	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	$108	$72	$64	$14	$9	$13,376	$13,643
Valuation allowance	(87)	(72)	(64)	(14)	(9)	(13,337)	(13,583)
Deferred tax assets	$21	$–	$–	$–	$–	$39	$60

(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, 2021 and 2022

	2021	2022
Effective statutory tax rate	30.62%	30.62%
Adjustment		
Expenses not deductible permanently	1.90	2.54
Income not taxable permanently	(1.88)	(1.78)
Inhabitant tax on per capita basis, etc.	0.67	0.69
Increase (Decrease) in valuation allowance	(2.34)	4.80
Difference in effective statutory tax rate between the Company and consolidated subsidiaries	(3.18)	(0.32)
Special tax deductions	(1.27)	(0.63)
Retained earnings of consolidated overseas subsidiaries	(0.01)	(6.99)
Withholding tax on dividends from overseas related companies	1.32	1.90
Amortization of goodwill	1.60	1.06
Other	1.40	0.88
Actual tax rate after the application of tax effect accounting	28.83%	32.77%

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. Revenue recognition

(1) Disaggregation of revenues from contracts with customers

For the year ended March 31, 2022	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥94,137	¥13,570	¥107,708
Overseas	40,255	61,297	101,552
Revenues from contracts with customers	134,393	74,867	209,261
Other revenues	–	–	–
Revenues from external customers	¥134,393	¥74,867	¥209,261

For the year ended March 31, 2022	Thousands of U.S. dollars		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	$769,038	$110,862	$879,900
Overseas	328,859	500,754	829,613
Revenues from contracts with customers	1,097,897	611,616	1,709,513
Other revenues	–	–	–
Revenues from external customers	$1,097,897	$611,616	$1,709,513

(2) Information that is the basis for understanding the revenues from contracts with customers

Taikisha Group is engaged in construction contracts and so on and sales of equipment and materials for design, supervision, and construction work in the Green Technology System business and Paint Finishing System business.

Construction contracts and so on

Taikisha Group's performances of construction contracts or other contracts results in arising or increasing in value of an assets, along with these assets increase, the Company considers that it has transferred control of the assets to the customers over a certain period of time. Therefore, revenue is recognized based on progress toward complete satisfaction of performance obligations as of the closing date.

Progress is measured as the ratio of the costs incurred to the total estimated costs (input method), because it is possible to make reasonable estimates of the total estimated costs based on the budgets. In addition, revenue is recognized by cost recovery method in case incurred costs are expected to be recoverable though the progress of satisfaction of performance obligations cannot be reasonably measured.

Sales of equipment and materials

Regarding Taikisha Group's sales of equipment and materials, as a result of consideration of indicators related to the transfer of control, such as physical possession of the equipment and materials, significant risks associated with ownership and the transfer of economic value to the customer, Taikisha Group has determined that control over the equipment and materials are transferred to the customers and the performance of obligation is satisfied at the time of delivery of equipment and materials. In this reason, revenue is recognized when equipment and materials are delivered.

For these performance obligations, Taikisha Group provides guarantees such as free repair for contractual non-conformities that occur within a certain period of time after handover or delivery. It provides assurance to the customer that the products will function as intended and in accordance with the specifications agreed upon with the customers. Expected future expenditures are estimated based on historical warranty rates and are recognized as a provision for warranties for completed construction.

Also, these terms of payments for these performance obligations are common and do not include significant financial elements.

(3) Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current consolidated fiscal year and are expected to be recognized in the following consolidated fiscal year or later

Balances of contract assets and liabilities

As of March 31, 2022	Millions of yen 2022	Thousands of U.S. dollars 2022
Receivables arising from contracts with customers (Beginning balance)	¥80,179	$655,010
Receivables arising from contracts with customers (Ending balance)	¥79,781	$651,757
Contract assets (Beginning balance)	¥17,473	$142,749
Contract assets (Ending balance)	¥22,266	$181,899
Contract liabilities (Beginning balance)	¥14,200	$116,009
Contract liabilities (Ending balance)	¥6,901	$56,381

In the consolidated balance sheets, accounts receivable for completed construction contracts and contract assets arising from contracts with customers are included in notes receivable, accounts receivable from completed construction contracts and other while contract liabilities are presented as advances received on uncompleted construction contracts.

The amounts of revenue recognized in the current fiscal year that was included in the balance of contract liabilities at the beginning of the current period are ¥13,697 million (US$111,900 thousand). The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied (or partially satisfied) in the previous fiscal year are not material.

Transaction price allocated to the remaining performance obligations

The aggregate transaction prices allocated to unsatisfied performance obligations and the period over which revenues are expected to be recognized are as follows.

For the year ended March 31, 2022	Millions of yen		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	¥109,493	¥15,904	¥125,398
Overseas	33,672	39,218	72,891
Total	¥143,166	¥55,123	¥198,289

For the year ended March 31, 2022	Thousands of U.S. dollars		
	Green Technology System Division	Paint Finishing System Division	Total
By region			
Japan	$894,482	$129,930	$1,024,412
Overseas	275,082	320,390	595,471
Total	$1,169,564	$450,320	$1,619,883

The transaction prices allocated to unsatisfied performance obligations in the “Green Technology System business” and “Paint Finishing System business” are expected to be recognized as construction revenue within two years, primarily based on the progress of construction.

16. 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.

(Application of Accounting Standard for Revenue Recognition, etc.)

As stated under "Change in accounting policy", the Revenue Recognition Accounting Standard, etc. have been applied from the beginning of the consolidated fiscal year. As a result of a change in the method of accounting treatment for revenue recognition, the method of measuring profit or loss in each reportable segment has also been changed accordingly.

Due to this change, compared with previous method, net sales of completed construction contracts in Green Technology System increased by ¥92 million (US$757 thousand) and segment profit in Green Technology System decreased by ¥13 million (US$114 thousand) respectively. Also, net sales of completed construction contracts in Paint Finishing System increased by ¥115 million (US$945 thousand) and segment profit in Paint Finishing System increased by ¥35 million (US$291 thousand) respectively.

(3) Sales and profits or losses, assets or liabilities and others by reportable segment

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 include non-allocatable common profits of ¥184 million and other adjustment of minus ¥0 million. Non-allocatable common profits are mainly general and administrative expenses, dividend income, etc., which are not attributed to any reportable segment.

Adjustments of Segment assets of ¥50,261 million are elimination of receivable and payable etc., of minus ¥2,797 million and non-allocatable common assets which are not allocated to any reportable segments of ¥53,059 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 ¥383 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, 2022

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Adjustments	Amount recorded in the consolidated financial statements
Sales					
Sales to customers	¥134,393	¥74,867	¥209,261	¥–	¥209,261
Intersegment	6	14	20	(20)	–
Total	134,399	74,882	209,282	(20)	209,261
Segment profit	9,302	667	9,969	849	10,818
Segment assets	109,420	70,719	180,139	48,019	228,159
Other items					
Depreciation and amortization	1,052	1,461	2,513	(17)	2,496
Amortization of goodwill	362	52	414	–	414
Interest income	108	154	263	(4)	259
Interest expenses	3	294	298	5	303
Share of profit (loss) of entities accounted for using equity method	(7)	(25)	(32)	–	(32)
Investments in associates accounted for using equity method	–	559	559	–	559
Increase in property, plant and equipment, intangible assets	¥1,210	¥900	¥2,111	¥212	¥2,324

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

Adjustments of Segment profit of ¥849 million (US$6,938 thousand) include non-allocatable common profits of ¥849 million (US$6,936 thousand) and other adjustment of ¥0 million (US$2 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 ¥48,019 million (US$392,287 thousand) are elimination of receivable and payable etc., of minus ¥3,312 million (minus US$27,062 thousand) and non-allocatable common assets which are not allocated to any reportable segments of ¥51,332 million (US$419,349 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 ¥212 million (US$1,740 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, 2022

	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	$1,097,897	$611,616	$1,709,513	$–	$1,709,513
Intersegment	50	120	170	(170)	–
Total	1,097,947	611,736	1,709,683	(170)	1,709,513
Segment profit	75,992	5,451	81,443	6,938	88,381
Segment assets	893,887	577,724	1,471,611	392,287	1,863,898
Other items					
Depreciation and amortization	8,598	11,937	20,535	(141)	20,394
Amortization of goodwill	2,960	427	3,387	–	3,387
Interest income	889	1,262	2,151	(35)	2,116
Interest expenses	32	2,406	2,438	42	2,480
Share of profit (loss) of entities accounted for using equity method	(58)	(204)	(262)	–	(262)
Investments in associates accounted for using equity method	–	4,569	4,569	–	4,569
Increase in property, plant and equipment, intangible assets	$9,886	$7,360	$17,246	$1,740	$18,986

17. Related information in regard to segment information

(1) Information by product and service

For the year ended March 31, 2021

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

For the year ended March 31, 2022

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

(2) Sales by region

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, 2022

Millions of yen

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
¥107,708	¥17,347	¥17,106	¥19,765	¥14,416	¥2,605	¥11,456	¥18,855	¥209,261

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

For the year ended March 31, 2022

Thousands of U.S. dollars

Japan	North America	Southeast Asia		East Asia		India	Other	Total
		Thailand	Other Southeast Asia	China	Other East Asia			
$879,900	$141,718	$139,745	$161,467	$117,775	$21,281	$93,595	$154,032	$1,709,513

(3) Property, plant and equipment by region

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, 2022

Millions of yen

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
¥5,249	¥490	¥205	¥491	¥1,994	¥2,300	¥512	¥11,243

For the year ended March 31, 2022

Thousands of U.S. dollars

Japan	Thailand	Indonesia	China	India	Italy	Other	Total
$42,884	$4,006	$1,677	$4,014	$16,292	$18,790	$4,187	$91,850

(4) Sales information by main customer

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.

For the year ended March 31, 2022

The item is omitted because there are no sales to external customers which represented 10% or more of sales of the consolidated statement of income.

18. Impairment loss by reportable segment

Impairment loss of the non-current assets by reportable segment

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, 2022

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate (Note)	Total
Impairment loss	¥–	¥–	¥–	¥0	¥0

(Note) Eliminations/Corporate is due to the impairment on the idle asset.

For the year ended March 31, 2022

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Impairment loss	$–	$–	$–	$0	$0

19. Amortization and balance of goodwill

(1) Amortization and balance of goodwill by reportable segment

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 “16. Segment information”.

For the year ended March 31, 2022

	Millions of yen				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	¥3,282	¥684	¥3,966	¥–	¥3,966

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

For the year ended March 31, 2022

	Thousands of U.S. dollars				
	Green Technology System Division	Paint Finishing System Division	Total	Eliminations/ Corporate	Total
Balance of goodwill	$26,813	$5,590	$32,403	$–	$32,403

(2) Gain on negative goodwill by reportable segment

For the year ended March 31, 2021

Not applicable.

For the year ended March 31, 2022

Not applicable.

20. Related party transactions

For the year ended March 31, 2021

Not applicable.

For the year ended March 31, 2022

Not applicable.

21. Details of bonds

Not applicable.

22. Details of loans

As of March 31, 2022	Millions of yen		Thousands of U.S. dollars		
	Beginning balance	Ending balance	Ending balance	Average interest rate (%)	Maturity
Short-term loans payable	¥4,787	¥13,413	$109,581	1.114	–
Current portion of long-term loans payable	1,801	2,122	17,336	1.178	–
Current portion of lease obligations	77	83	678	–	–
Long-term loans payable (excluding current portion)	4,769	5,605	45,793	1.172	October 2024 to September 2031
Lease obligations (excluding current portion)	127	82	670	–	May 2023 to March 2027
Total	¥11,563	¥21,306	$174,058	–	–

(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, 2022 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	¥2,165	¥1,484	¥1,216	¥607
Lease obligations	¥43	¥24	¥10	¥2

	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	$17,691	$12,126	$9,941	$4,960
Lease obligations	$358	$202	$88	$23

23. 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.

24. Significant subsequent events

(Change in Consolidated Subsidiaries)
On April 19, 2022, the Company entered into a contract to transfer a portion of its shares in Geico.S.p.A. ("Geico") and the transfer has been completed on April 20, 2022.

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

1. Reasons for the Share transfer

Since 2011, the Company has acquired 51.0% of Geico's outstanding shares and has been working to complement and strengthen the technological and market strengths of the two companies through the capital alliance with Geico.

Because of the continuing pandemic situation caused by the COVID-19 and the conflict between Russia and Ukraine which is expected to affect the capital investment of European automakers and cause a sharp rise in price of resource, materials and equipment, the Paint Finishing System business of the Company focuses on the automobile market in regions other than Europe in external collaboration with Geico and expands automation business areas other than the automobile market in order to improve medium- to long-term business value.

Given the above background and in accordance with the purpose of the Corporate Governance Code, the Company has decided to reduce the shareholding ratio in Geico from 51.0% to 14.5% from the view of focusing on capital efficiency.

2. Overview of consolidated subsidiary to be changed

(1) Company name	Geico S.p.A.
(2) Location	Cinisello Balsamo, Milan, Italy
(3) Representative & title	Daryush Arabnia, President and Chairman
(4) Description of business	Design and construction of paint finishing systems and plants for the automotive industry
(5) Capita	EUR 3,627,000 (JPY 423 million)
(6) Date of establishment	December 1963
(7) Major shareholders & ratio of shareholding	Taikisha Ltd. 51% Gecofin S.p.A. 49%

3. Overview of the counterparty of the Share Transfer

(1) Company name	Gecofin S.p.A.
(2) Location	Cinisello Balsamo, Milan, Italy

4. Schedule of the Share Transfer

(1) Date of Board of Directors resolution	April 19, 2022
(2) Contract date	April 19, 2022

5. Future outlook

As the result of this share transfer, though the Geico Group is to be excluded from the scope of consolidation, the Company will maintain its global business Alliance with Geico and continue to collaborate on a project basis.

¥881 million of gain on sale of shares of subsidiaries and associates is expected as extraordinary income.

Report of Independent Auditors

A&A Partners
D square., 2nd Floor
1-16-11, Nihonbashi, Chuo-ku
Tokyo, 103-0027, JAPAN
Tel. +81-3-6200-1636
Fax. +81-3-6200-3230
URL:https://www.aap.or.jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Taikisha Ltd.,

Opinion
We have audited the consolidated financial statements of Taikisha Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, 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, 2022, 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.	
Description of Key Audit Matter	Auditor's Response
As described in the notes 2. Summary of significant accounting policies, (8) Revenue and cost recognition, in the Green Technology System business and the Paint Finishing System business, performance obligations for construction contracts, etc. mainly involving design, supervision, and installation are deemed to be satisfied over time, and revenue is recognized based on progress toward complete satisfaction of a performance obligation. As stated in the notes "Estimates of percentage of completion in construction contracts, etc. in which revenue is recognized over time" under(12) Significant accounting estimates, The percentage of completion is measured by	As revenue arise from construction contracts in which revenue is recognized over time is calculated by the progress measured based on total costs of construction, we performed following audit procedures to evaluate the reasonableness of estimate of total costs of construction. Main procedures are as follows. • We evaluated the design and operational effectiveness of internal controls over estimates of total construction costs. Specifically we focused on the controls over making working budgets and updating the budgets to reflect the situation changed after the construction has commenced. • We identified the contracts in which the uncertainty of the working budget is relatively high by analyzing the correlation

the ratio of costs incurred as of the fiscal year-end to estimated total costs based on the working budget for the construction contract (input methods). The Group recorded net sales of completed construction contracts ¥ 187,745 million on a consolidated basis for the fiscal year by the method. The estimated total cost is calculated by making working budgets for each construction, and the budgets have high uncertainty as the construction cost such as material prices, labor costs and so on could change by the construction site conditions and price negotiation with main contractors after launching the constructions. Therefore we determined this matter as a key audit matter.	between the order amount and the working budget, as well as the profit margin of each construction contract. • For the identified construction contracts, we examined the reasonableness of estimates of the working budget made by the management by comparing the latest estimate of working budget as of the fiscal year end with the original ones and investigating the reason of fluctuation. • For the construction contracts which has not completed its delivery we examined whether there was any over or underrun in the working budget by confirming the latest purchase order. • We communicated with the auditors of significant components and reviewed the interoffice audit deliverables prepared by them.

2. Judgement on impairment on goodwill and Customer-related assets	
Description of Key Audit Matter	Auditor's Response
As described in the notes 2. Summary of significant accounting policies, (12) Significant accounting estimates, Valuation of goodwill and intangible assets, the company recorded ¥3,966million of Goodwill and ¥1,334 million of Customer-related assets. Those include ¥3,282 million of Goodwill and ¥1,334 million of Customer-related assets arising from the company's acquisition of Nicomac Taikisha Clean Rooms Private Limited (hereinafter "Nicomac") as a consolidated subsidiary in the year ended March 31, 2021. Nicomac produces and sells panels for clean rooms for pharmaceuticals in India, and some orders were postponed due to COVID-19 and the prices of raw materials surged. Given this situation, it resulted in lower performance than the business plan made at the acquisition and there were signs of necessity of impairment regarding goodwill and Customer-related assets. Therefore, the management assessed them for impairment and they concluded that no impairment loss was required to be record in this fiscal year as estimated undiscounted future net cash flow was enough to cover the book values of Goodwill and Customer-related assets.	Main audit procedures for the judgement regarding impairment loss regarding Goodwill and Customer-related assets of Nicomac Taikisha Clean Rooms Private Limited we performed were as follows. • We evaluated the design and operational effectiveness of internal controls over the recognition and measurement of an impairment regarding fixed assets including goodwill and customer-related assets. Specifically we focused on the controls over the development of the business plan on which the future cash flow before discounting was estimated. • We obtained an understanding of the main assumption of the business plan forming the basis for the future cash flow by inquiries of management. • We tested the consistency between the future cash flow before discounting and its underlying business plan approved by management. • To evaluate the sales quantity, which is one of the significant assumptions, we verified the consistency with available external data regarding demand forecasts in medical supplies market and

The undiscounted cash flow is based on the business plan, which was made with management's assumptions. Specifically sales quantity and raw materials cost considering market growth rate were considered to be significant assumptions. In case of selecting inappropriate assumptions for estimating undiscounted future cash flow, there lies the risk of not recognizing impairment losses as the management's subjective decisions affect those significant assumptions. As described above, we determined this matter to be a key audit matter.	the internal plans regarding expanding manufacturing capabilities of the plants. • To test the reasonableness of the forecast raw material costs, which is the other significant assumption, we made trend analysis of raw material cost ratio in previous years.

Emphasis of Matter
We draw attention to Change in Consolidated Subsidiaries in Note 24. Significant subsequent events of the financial statements which describes the share transfer of Geico.S.p.A. The company concluded a share transfer agreement on April 19, 2022 and the share transfer was completed on April 20, 2022. Our opinion is not modified in respect of this matter.

Other Information
The other information comprises the information included in the integrated report, but does not include the consolidated financial statements and our auditor's report hereon. Management is responsible for the other information. In addition, those charged with governance are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, including whether the use of the disclosing, as applicable, matters related to going concern and using the going concern basis of accounting

unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Audit & Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists.
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit & supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the audit & supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit & supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan
Our firm and its designated engagement partners do not have any interest in the Company and its consolidated subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation
The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Hiroaki Kagami

Hiroaki Kagami
Designated Engagement Partner
Certified Public Accountant

Kenji Oka

Kenji Oka
Designated Engagement Partner
Certified Public Accountant

Daisuke Miyanohara

Daisuke Miyanohara
Designated Engagement Partner
Certified Public Accountant

A&A Partners
Tokyo, Japan
December 6, 2022

Corporate and Stock Information (as of March 31, 2022)

Corporate Information

Corporate name:	Taikisha Ltd.
Founded:	April 10, 1913
Established:	July 7, 1949
Capital stock:	6,455 million yen
Number of employees	1,555 (non-consolidated), 5,079 (consolidated)

For information on the Directors, Audit & Supervisory Board Members and stock information, please visit our website.
https://www.taikisha-group.com/

[Group Companies]
https://www.taikisha-group.com/corporate/information/group/
Top page > Corporate Information > Group Companies

[Directors and Audit & Supervisory Board Members]
https://www.taikisha-group.com/corporate/information/officer/
Top page > Corporate Information > About Taikisha> Board of Directors

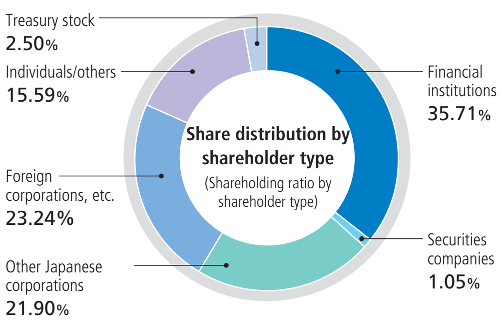
[Stock Information]
https://www.taikisha-group.com/ir/stock/info/
Top page > Investor Relations > Stock Overview> Stock Information

Shareholders' Information

Securities code:	1979
Financial year:	From April 1 of every year to March 31 of the following year.
Annual Shareholders' Meeting:	June every year
Record date:	Annual Shareholders' Meeting/Year-end dividend March 31 Interim dividend September 30 When necessary, information other than the above will be announced by public notice in advance.
One unit of shares:	100
Administrator of Shareholder Registry:	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 Mizuho Trust & Banking Co., Ltd. Stock Transfer Agency Department, Head office
Mailing address:	2-8-4, Izumi, Suginami-ku, Tokyo, Japan 168-8507 Mizuho Trust & Banking Co., Ltd. Stock Transfer Agency Department
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:	3,408



Major shareholders (Top 10 shareholders by number of shares held)

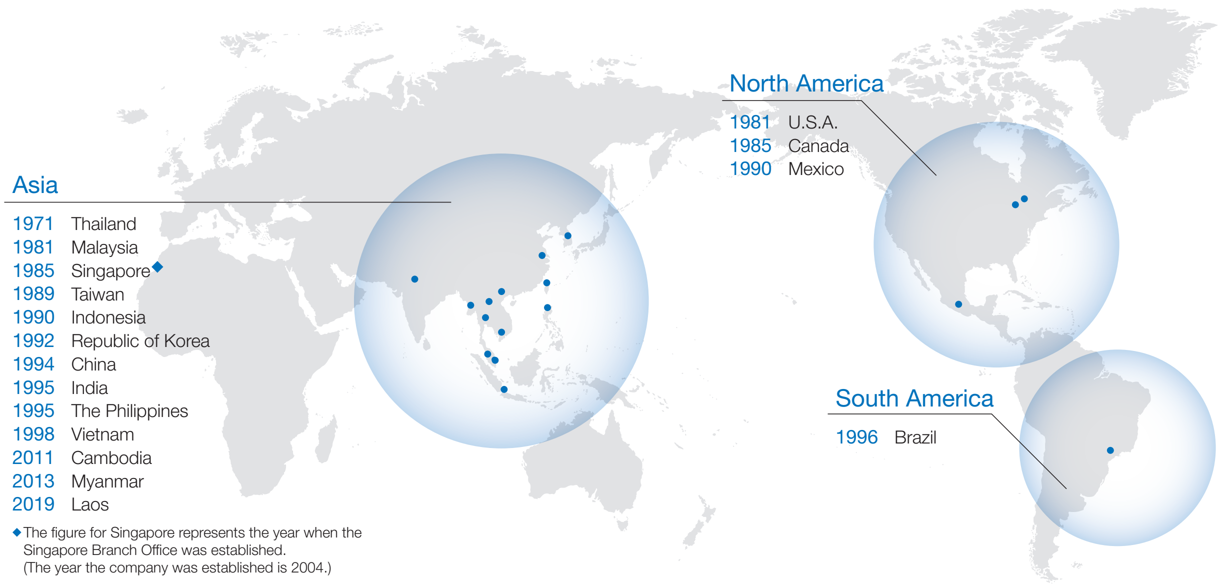
Name of Shareholders	Number of shares held (in thousands)	Ratio of shareholding voting rights (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,040	20.58
Kenzaisha Ltd.	1,730	5.06
Custody Bank of Japan, Ltd. (Trust Account)	1,362	3.98
Taikisha Employees Shareholding Association	1,096	3.20
Taikisha Business Partners Shareholding Association	1,077	3.15
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	1,047	3.06
Dai ni Kenzaisha Ltd.	1,000	2.92
Sumitomo Realty & Development Co., Ltd.	981	2.87
Nippon Life Insurance Company	866	2.53
Mizuho Bank, Ltd.	659	1.93

(Notes) 1. Taikisha retains 877,859 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.

Global Network

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 27 affiliates in 17 countries (as of September 30, 2022). 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 48.5% for FY2021).

Global Network (the figures represent years when group companies were established)



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

Group Companies

Japan

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

Asia

Wuzhou Taikisha Engineering Co., Ltd. (Head Office)
Tianjin Dongchun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.
Tianjin Taikisha Paint Finishing System Ltd.
Taikisha (Taiwan) Ltd.
Taikisha Korea Ltd.
Taikisha (Thailand) Co., Ltd.
Taikisha Trading (Thailand) Co., Ltd.
Thaiken Maintenance & Service Co., Ltd.
Token Interior & Design Co., Ltd.
Taikisha Vietnam Engineering Inc.
Taikisha Lao Co., Ltd.
Taikisha (Cambodia) Co., Ltd.
Taikisha Philippines Inc.
Taikisha (Singapore) Pte. Ltd.
Taikisha Engineering (M) Sdn. Bhd.
Makiansia Engineering (M) Sdn. Bhd.
P.T. Taikisha Indonesia Engineering
P.T. Taikisha Manufacturing Indonesia
Taikisha Myanmar Co., Ltd.
Token Myanmar Co., Ltd.
Taikisha Engineering India Private Ltd.
Nicomac Taikisha Clean Rooms Private Limited

The Americas

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

Third-Party Opinion

Mr. Keisuke Takegahara

Executive Fellow, Research Center on Financial Economics
Development Bank of Japan Inc.

This Integrated Report 2022, the second to be issued after the transition from the CSR Report, does not significantly change the structure of the report, but it is evolving in content in line with the launch of the new Mid-Term Business Plan (from FY2022 to FY2024). In short, the integration of management strategy and sustainability has become even more advanced. In other words, the intention to synchronize the resolution of social issues with growth strategy has become clearer than ever.

In this issue, this message will be developed in each part of the long-term vision consisted of "Innovative Engineering" and "Diversity & Inclusion." First, the Top Management's Message explains the implications in detail. The former indicates a broad direction to pursue value creation through creative engineering in energy, air, and water by deepening existing strengths and exploring new fields, and as its foundation, the latter indicates the value of the corporate culture which has been fostered through global business development from the early stage. This is what Taikisha is aiming for over the long term, and at the same time, I feel that these two are an inseparable set that expresses what Taikisha is like, serving as a kind of basso continuo, an underlying philosophy. This long-term vision is then embodied through the three pillars of the basic policy of the new Mid-Term Business Plan. In response to the urgent task of transitioning to become carbon neutral, this report has a clear structure in which it presents Taikisha's approaches from both their core businesses and the creation of new value, as well as initiatives on human capital, which will serve as the foundation, in conjunction with the digital strategy.

In the next Feature article, it is presented that efforts to explore new areas are already steadily progressing through the "R&D Satellite Plan," and the transition strategy and technology roadmap for the paint finishing systems toward carbon neutrality are presented in a way that connects further strengthening of the core business and innovation through the "Evolution and Challenges in the Field of Automobile Paint Finishing Systems," and this provides readers with a more concrete picture of the implications for the long-term vision.

The enhancement of the explanation of materiality analysis was also a success, and this report has smoothly developed the story of value creation. Moreover, the best part of this issue is to stop this flow and move on to the round table discussion with Outside Directors who are responsible for examinations and verifications from an external perspective. Stories of the Company's value creation is discussed from objective and diverse perspectives of Outside Directors, and the background to the long-term vision is clarified through frank exchanges of views with top management. By placing this article in this order, I found that it had the effect of ensuring a certain degree of objectivity in the subsequent pages about the recognition of strengths by business divisions and the description of business strategies.

On the other hand, to make the best use of the story for value creation developed throughout the report based on the long-term vision, we expect further elaboration of the "Value Creation Process" at the beginning of this report. In particular, I was concerned that the final outcome as an impact was limited to a description of general value and was not well linked to the long-term vision. In addition, I hope that the human capital, which is the foundation of value creation, will further express the characteristics of your company, including KPI. In this regard, it was not what I had expected that the disclosure item focused on "Human Resources" in the last issue was taken a step back and returned to "Social" this year. I am looking forward to further evolvement in the future.

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 his valuable and thought-provoking opinions and warm encouragement.

In this second issue of the Integrated Report, we focused on the newly formulated Mid-Term Business Plan and long-term vision and endeavored to convey in a satisfactory manner the connection between the Company's unique strengths and consistent orientation that have been cultivated over the course of its history from the past to the present, and its management and business strategies for the future. In the future, in accordance with the advice from Mr. Takegahara, we will aim to improve the Integrated Report taking into account the positioning of our long-term vision in the "Value Creation Process" and the disclosure of our policy on human capital, which is the foundation of value creation, in a well-conceived manner.

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

TAIKI-SHA

Taikisha Ltd.

Sumitomo Fudosan Shinjuku Grand Tower, 8-17-1,
Nishi-Shinjuku, Shinjuku-ku, Tokyo
160-6129, Japan

[Contact for Inquiries] Investor Relations Section
TEL. 81-(0)3-5338-5052 FAX. 81-(0)3-5338-5195
https://www.taikisha-group.com

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