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(Securities Code: 1979)

June 6, 2018

To Shareholders:

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

NOTICE OF THE 73RD ANNUAL SHAREHOLDERS' MEETING

You are cordially invited to attend the 73rd Annual Shareholders' Meeting of Taikisha Ltd. (the "Company"). If you are unable to attend the meeting, you can exercise your voting rights in writing or via the Internet. Please review the attached Reference Documents for the Shareholders' Meeting and exercise your voting rights by no later than 5:45 p.m. on Wednesday, June 27, 2018, Japan time.

- 1. Date and Time:** Thursday, June 28, 2018, at 10 a.m. Japan time
- 2. Place:** 43rd floor, "Moon Light" Keio Plaza Hotel, located at
2-2-1, Nishi-Shinjuku, Shinjuku-ku, Tokyo, Japan
- 3. Meeting Agenda:**
- Matters for Reporting:**
- (1) The Business Report, the Consolidated Financial Statements for the 73rd Fiscal Year (from April 1, 2017, to March 31, 2018) and the results of audits by the Accounting Auditors and the Audit & Supervisory Board of the Consolidated Financial Statements
 - (2) The Non-consolidated Financial Statements for the 73rd Fiscal Year (from April 1, 2017, to March 31, 2018)
- Matters for Resolution:**
- Proposal No. 1:** Appropriation of Retained Earnings
 - Proposal No. 2:** Partial Amendment to Articles of Incorporation
 - Proposal No. 3:** Election of Ten (10) Directors
 - Proposal No. 4:** Election of One (1) Substitute Audit & Supervisory Board Member

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(Notes)

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

## Reference Documents for the Shareholders' Meeting

### Proposals and References

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

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

The annual dividend per share, therefore, would be ¥75, a year-on-year increase of ¥5 per share, including the interim dividend per share of ¥25 having already been paid.

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

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

- (1) Type of property for dividends: Money
- (2) Matters concerning allotment of property dividends to shareholders and the total amount thereof  
¥50 per share of common shares  
Total amount: ¥1,703,450,500
- (3) Effective date of distribution from surplus: June 29, 2018

#### 2. Matters concerning other retained earnings

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

**Proposal No. 2:** Partial Amendment to Articles of Incorporation

1. Reason for Amendment

In order to respond to future diversification of the Company's business, it is proposed to add the business purpose to Article 2 (Purposes) of the Articles of Incorporation.

2. Details of Amendments

(Amendments underlined.)

| Current Articles of Incorporation                                             | Proposed Amendments                                                                                                                                                                         |
|-------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Article 2 (Purposes)<br>1~8. (Omitted)<br>(Newly established)                 | Article 2 (Purposes)<br>1~8. (Unchanged)<br><u>9. Cultivation, process, research and development,</u><br><u>and sale of farm products, such as vegetables,</u><br><u>fruits and others.</u> |
| <u>9.</u> Any business incidental and related to the<br>preceding paragraphs. | <u>10.</u> (Unchanged)                                                                                                                                                                      |

**Proposal No. 3: Election of Ten (10) Directors**

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

The candidates are as follows, and the two candidates for Outside Director satisfy the "Independence Criteria for Outside Director/Outside Audit & Supervisory Board Member" stipulated by the Company. Refer to page 11 for details of said criteria.

| No |                                                        | Name              | Positions and assignments in the Company                                                                 | Attendance at the Board of Directors Meetings (Attendance rate) |
|----|--------------------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 1  | [Reappointment]                                        | Eitaro Uenishi    | Director, Chairman                                                                                       | 13/13 (100%)                                                    |
| 2  | [Reappointment]                                        | Toshiaki Shiba    | Representative Director, President Corporate Officer                                                     | 13/13 (100%)                                                    |
| 3  | [Reappointment]                                        | Koji Kato         | Representative Director, Executive Vice President Corporate Officer                                      | 13/13 (100%)                                                    |
| 4  | [Reappointment]                                        | Hiroshi Mukai     | Director, Executive Corporate Officer, Chief General Manager, Green Technology System Division           | 13/13 (100%)                                                    |
| 5  | [Reappointment]                                        | Ryoichi Uenodan   | Director, Executive Corporate Officer, Chief General Manager, Paint Finishing System Division            | 11/11 (100%)                                                    |
| 6  | [Reappointment]                                        | Kazuhide Hayakawa | Director, Managing Corporate Officer, Vice General Manager, Paint Finishing System Division              | 11/11 (100%)                                                    |
| 7  | [Reappointment]                                        | Yasushi Nakajima  | Director, Managing Corporate Officer, Vice General Manager, Green Technology System Division             | 11/11 (100%)                                                    |
| 8  | [New appointment]                                      | Masanori Nakagawa | Managing Corporate Officer, Chief Executive, Administrative Management Headquarters and in charge of CSR | —                                                               |
| 9  | [Reappointment]<br>[Outside director]<br>[Independent] | Shuichi Murakami  | Director                                                                                                 | 13/13 (100%)                                                    |
| 10 | [Reappointment]<br>[Outside director]<br>[Independent] | Hirokazu Hikosaka | Director                                                                                                 | 13/13 (100%)                                                    |

| No | Name<br>(Date of birth; Age)                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Career summary, positions and assignments in the Company<br>and important positions concurrently held at other companies  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| 1  | <b>Eitaro Uenishi</b><br>(January 12, 1951; 67)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>15 years<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>13/13 (100%)<br>Number of shares of the<br>Company held:<br>202,200                                                                                                                                                                                  | April 1974<br>June 2003<br>April 2005<br>April 2007<br>April 2008<br>April 2009<br>April 2010<br>April 2013<br>April 2016 | Joined the Company<br>Director<br>General Manager, Osaka Branch Office, Green<br>Technology System Division<br>Director, Senior Corporate Officer, General<br>Manager, Tokyo Branch Office 1, Green Technology<br>System Division<br>Director, Senior Corporate Officer, Assistant to<br>President, in charge of Corporate Planning<br>Director, Managing Corporate Officer, Assistant to<br>President, in charge of Company-wide Sales<br>Promotion<br>Representative Director, President Corporate Officer<br>Representative Director, Chairman Corporate Officer<br>Director, Chairman (current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|    | [Reason for nominating as a candidate for Director]<br>After having served as Representative Director, President Corporate Officer and at other positions, Eitaro Uenishi currently addresses reinforcing the supervisory function of the Board of Directors as Chairman who is not an executive director. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record.                 |                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2  | <b>Toshiaki Shiba</b><br>(December 19, 1949; 68)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>6 years<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>13/13 (100%)<br>Number of shares of the<br>Company held:<br>18,500                                                                                                                                                                                   | April 1968<br>April 2008<br>April 2009<br>April 2012<br>June 2012<br>April 2013<br>April 2015<br>April 2016<br>April 2017 | Joined the Company<br>Corporate Officer, General Manager, Global<br>Business Management Supporting Office, Green<br>Technology System Division, and Vice Senior<br>General Manager, Engineering Supervisory Dept.,<br>Green Technology System Division, and General<br>Manager, Construction Purchasing Office, Green<br>Technology System Division<br>Senior Corporate Officer, Senior General Manager,<br>Engineering Supervisory Dept., Green Technology<br>System Division<br>Managing Corporate Officer, Chief General<br>Manager, Green Technology System Division<br>Director, Managing Corporate Officer, Chief<br>General Manager, Green Technology System<br>Division<br>Director, Executive Corporate Officer, Chief General<br>Manager, Green Technology System Division<br>Director, Executive Vice President Corporate<br>Officer, Chief General Manager, Green Technology<br>System Division<br>Representative Director, Executive Vice President<br>Corporate Officer<br>Representative Director, President Corporate Officer<br>(current position) |
|    | [Reason for nominating as a candidate for Director]<br>Toshiaki Shiba leads the management of the Taikisha Group as Representative Director, President Corporate Officer. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record, as well as in ensuring the stable and sustainable growth of the Group and increasing corporate value by implementing the Mid-Term Business Plan. |                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

| No | Name<br>(Date of birth; Age)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Career summary, positions and assignments in the Company<br>and important positions concurrently held at other companies                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
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| 3  | <b>Koji Kato</b><br>(June 12, 1955; 63)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>9 years and 9 months<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>13/13 (100%)<br>Number of shares of the<br>Company held:<br>9,200                                                                                                                                                                                                                                                                               | April 1978<br>June 2005<br>April 2007<br>April 2009<br>April 2010<br>June 2010<br>April 2012<br>April 2013<br>April 2014<br>April 2016<br>April 2017<br>April 2018 | Joined the Company<br>Director<br>Assistant to Chief General Manager, Green<br>Technology System Division<br>Corporate Officer; General Manager, Engineering<br>Planning Dept., Green Technology System Division<br>Managing Corporate Officer, Chief General<br>Manager, Green Technology System Division, and<br>General Manager, Engineering Planning Dept.,<br>Green Technology System Division<br>Director, Managing Corporate Officer, Chief<br>General Manager, Green Technology System<br>Division, and General Manager, Engineering<br>Planning Dept., Green Technology System Division<br>Director, Managing Corporate Officer, Chief<br>Executive, Corporate Planning Headquarters and in<br>charge of Environment, and General Manager,<br>Corporate Planning Office<br>Director, Managing Corporate Officer, Chief<br>Executive, Corporate Planning Headquarters and in<br>charge of CSR<br>Director, Managing Corporate Officer, Chief<br>Executive, Administrative Management<br>Headquarters and in charge of CSR<br>Director, Executive Corporate Officer, Chief<br>Executive, Administrative Management<br>Headquarters and in charge of CSR<br>Representative Director, Executive Vice President<br>Corporate Officer, in charge of Administrative<br>Management Headquarters<br>Representative Director, Executive Vice President<br>Corporate Officer (current position) |
|    | [Reason for nominating as a candidate for Director]<br>Koji Kato plays a significant role as Representative Director, Executive Vice President Corporate Officer<br>by assisting the President Corporate Officer in promoting the enhancement of the business base of the<br>Taikisha Group. The Company reappoints him as a candidate for Director based on its judgment that he<br>qualifies for this position taking into account his good track record.                                                                                                                           |                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 4  | <b>Hiroshi Mukai</b><br>(October 10, 1953; 64)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>3 years<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>13/13 (100%)<br>Number of shares of the<br>Company held:<br>7,200                                                                                                                                                                                                                                                                                     | April 1974<br>April 2012<br>April 2014<br>April 2015<br>June 2015<br>April 2016<br>April 2017                                                                      | Joined the Company<br>Corporate Officer, General Manager, Osaka Branch<br>Office, Green Technology System Division<br>Senior Corporate Officer, General Manager, Osaka<br>Branch Office, Green Technology System Division<br>Managing Corporate Officer, Vice General Manager,<br>Green Technology System Division<br>Director, Managing Corporate Officer, Vice General<br>Manager, Green Technology System Division<br>Director, Managing Corporate Officer, Chief<br>General Manager, Green Technology System<br>Division<br>Director, Executive Corporate Officer, Chief General<br>Manager, Green Technology System Division<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|    | [Reason for nominating as a candidate for Director]<br>Hiroshi Mukai has abundant business experience in the field of the green technology system business<br>and has sufficiently fulfilled his duties as a Director, including decisions on important management<br>matters, the execution of business and supervising the execution of duties by other Directors, since his<br>assumption of the Director position. The Company reappoints him as a candidate for Director based on<br>its judgment that he qualifies for this position taking into account his good track record. |                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

| No | Name<br>(Date of birth; Age)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Career summary, positions and assignments in the Company<br>and important positions concurrently held at other companies     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
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| 5  | <b>Ryoichi Uenodan</b><br>(July 20, 1953; 64)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>1 year<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>11/11 (100%)<br>Number of shares of the<br>Company held:<br>4,478                                                                                                                                                                                                                                                                               | February 1981<br>April 2008<br>April 2010<br>April 2011<br>April 2012<br>April 2013<br>April 2015<br>April 2017<br>June 2017 | Joined the Company<br>Corporate Officer, General Manager, Automation<br>System Head Office, Paint Finishing System<br>Division<br>Senior Corporate Officer, General Manager, Office 3<br>and Automation System Head Office, Paint<br>Finishing System Division<br>Senior Corporate Officer, Vice Senior General<br>Manager, Engineering Supervisory Dept., and<br>General Manager, Office 3 and Automation System<br>Head Office, Paint Finishing System Division<br>Senior Corporate Officer, Vice Senior General<br>Manager, Engineering Supervisory Dept., and<br>General Manager, Office 3, Paint Finishing System<br>Division<br>Senior Corporate Officer, Vice General Manager and<br>General Manager, Automation System Head Office,<br>Paint Finishing System Division<br>Managing Corporate Officer, Vice General Manager<br>and General Manager, Automation System Head<br>Office, Paint Finishing System Division<br>Executive Corporate Officer, Chief General<br>Manager, Paint Finishing System Division<br>Director, Executive Corporate Officer, Chief General<br>Manager, Paint Finishing System Division (current<br>position) |
|    | [Reason for nominating as a candidate for Director]<br>Ryoichi Uenodan has abundant business experience in the field of the paint finishing system business and has sufficiently fulfilled his duties as a Director, including decisions on important management matters, the execution of business and supervising the execution of duties by other Directors, since his assumption of the Director position. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record.    |                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 6  | <b>Kazuhide Hayakawa</b><br>(April 18, 1955; 63)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>1 year<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>11/11 (100%)<br>Number of shares of the<br>Company held:<br>5,700                                                                                                                                                                                                                                                                            | April 1979<br>April 2012<br>October 2013<br>April 2014<br>April 2016<br>April 2017<br>June 2017<br>April 2018                | Joined the Company<br>Corporate Officer, Senior General Manager,<br>Engineering Supervisory Dept., Green Technology<br>System Division<br>Corporate Officer, Senior General Manager, Sales<br>and Marketing Dept., Green Technology System<br>Division<br>Senior Corporate Officer, Senior General Manager,<br>Sales and Marketing Dept., Green Technology<br>System Division<br>Senior Corporate Officer, Vice General Manager in<br>charge of sales and Senior General Manager, Sales<br>and Marketing Dept., Green Technology System<br>Division<br>Managing Corporate Officer, Chief Executive,<br>Corporate Planning Headquarters<br>Director, Managing Corporate Officer, Chief<br>Executive, Corporate Planning Headquarters<br>Director, Managing Corporate Officer, Vice General<br>Manager, Paint Finishing System Division (current<br>position)                                                                                                                                                                                                                                                                                      |
|    | [Reason for nominating as a candidate for Director]<br>Kazuhide Hayakawa has abundant business experience in the field of the green technology system business and has sufficiently fulfilled his duties as a Director, including decisions on important management matters, the execution of business and supervising the execution of duties by other Directors, since his assumption of the Director position. The Company reappoints him as a candidate for Director based on its judgment that he qualifies for this position taking into account his good track record. |                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| No | Name<br>(Date of birth; Age)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Career summary, positions and assignments in the Company<br>and important positions concurrently held at other companies |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| 7  | <b>Yasushi Nakajima</b><br>(February 23, 1960; 58)<br>[Reappointment]<br>Number of years as Director<br>of the Company:<br>1 year<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>11/11 (100%)<br>Number of shares of the<br>Company held:<br>4,100                                                                                                                                                                                                                                                                                                            | April 1982<br>April 2014<br>April 2015<br>April 2016<br>April 2017<br>June 2017                                          | Joined the Company<br>Corporate Officer, Senior General Manager,<br>Engineering Supervisory Dept., Green Technology<br>System Division<br>Senior Corporate Officer, Senior General Manager,<br>Engineering Supervisory Dept., Green Technology<br>System Division and Senior General Manager,<br>Global Business Management Dept.<br>Senior Corporate Officer, Vice General Manager in<br>charge of technology and Senior General Manager,<br>Engineering Supervisory Dept., Green Technology<br>System Division and Senior General Manager,<br>Global Business Management Dept.<br>Managing Corporate Officer, Vice General Manager,<br>Green Technology System Division<br>Director, Managing Corporate Officer, Vice General<br>Manager, Green Technology System Division<br>(current position) |
|    | [Reason for nominating as a candidate for Director]<br>Yasushi Nakajima has abundant business experience in the field of the green technology system business<br>and has sufficiently fulfilled his duties as a Director, including decisions on important management<br>matters, the execution of business and supervising the execution of duties by other Directors, since his<br>assumption of the Director position. The Company reappoints him as a candidate for Director based on<br>its judgment that he qualifies for this position taking into account his good track record.                        |                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 8  | <b>Masanori Nakagawa</b><br>(December 30, 1959; 58)<br>[New appointment]<br>Number of years as Director<br>of the Company:<br>—<br>(at the conclusion of the<br>Meeting)<br>Attendance at the Board of<br>Directors Meetings:<br>—<br>Number of shares of the<br>Company held:<br>4,200                                                                                                                                                                                                                                                                                                                         | April 2009<br>April 2009<br>April 2013<br>April 2014<br>April 2017                                                       | General Manager, Strategic Investment Department,<br>Headquarters Business Administration Division of<br>Mizuho Corporate Bank, Ltd. (currently Mizuho<br>Bank, Ltd.)<br>Joined the Company<br>General Manager, Corporate Planning Office,<br>Corporate Planning Headquarters<br>Vice Executive, Administrative Management<br>Headquarters<br>Managing Corporate Officer, Chief Executive,<br>Administrative Management Headquarters and in<br>charge of CSR (current position)                                                                                                                                                                                                                                                                                                                    |
|    | [Reason for nominating as a candidate for Director]<br>In addition to his abundant business experience at a large city bank, Masanori Nakagawa engaged in the<br>field of corporate planning and business administration after joining the Company and has served as<br>Chief Executive, Administrative Management Headquarters since 2017. The Company newly appoints<br>him as a candidate for Director based on its judgment that he qualifies for this position taking into<br>account his good track record and his expected contribution to the further development of the Taikisha<br>Group as Director. |                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |



| No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Name<br>(Date of birth; Age)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Career summary, positions and assignments in the Company<br>and important positions concurrently held at other companies |                                                                                                                                                                                                              |
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| 9                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>Shuichi Murakami</b><br><br>(November 12, 1950; 67)<br><br>[Reappointment]<br>[Outside Director]<br>[Independent]<br><br>Number of years as Director<br>of the Company:<br>6 years<br>(at the conclusion of the<br>Meeting)<br><br>Attendance at the Board of<br>Directors Meetings:<br>13/13 (100%)<br><br>Number of shares of the<br>Company held:<br>3,700                                                                                                                                                                                                                                                                                                                                                       | April 2005                                                                                                               | Managing Corporate Officer, General Manager,<br>Shikoku Business, Sompo Japan Insurance Inc.<br>(current Sompo Japan Nipponkoa Insurance Inc.)                                                               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | April 2008                                                                                                               | Advisor, Corporate Planning Department, Sompo<br>Japan Insurance Inc.                                                                                                                                        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | June 2008                                                                                                                | Resigned from Sompo Japan Insurance Inc.<br>Audit & Supervisory Board Member of the<br>Company<br>Full-time Outside Audit & Supervisory Board<br>Member, Origin Electric Co., Ltd. (Retired in June<br>2012) |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | June 2012                                                                                                                | Director of the Company (current position)                                                                                                                                                                   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | [Reason for nominating as a candidate for Outside Director]<br>Shuichi Murakami has abundant expertise and experience nurtured during his tenure as the person<br>responsible for conducting business and affairs at a leading non-life insurance company and has<br>provided precise advice and supervision on the management of the Company from an independent and<br>objective standpoint since his assumption of the Director position. The Company reappoints him as a<br>candidate for Outside Director based on its judgment that he qualifies for this position from the<br>viewpoint of ensuring transparent decision making by the Board of Directors and reinforcing the<br>supervisory functions thereon. |                                                                                                                          |                                                                                                                                                                                                              |
| [View on independence]<br>As Shuichi Murakami satisfies the “Independence Criteria for Outside Director/Outside Audit &<br>Supervisory Board Member” stipulated by the Company, the Company judges that he maintains<br>independence from the Company. He came from Sompo Japan Nipponkoa Insurance Inc. but resigned in<br>2008. Although this company holds the Company’s shares, its shareholding ratio is 0.39% (calculated<br>after subtracting treasury shares). Although this company and the Company had transactions such as<br>construction contract and insurance contracts in fiscal 2017, the respective amount of the relevant<br>transactions did not exceed the amount of payments specified in the aforementioned criteria. (The<br>average transaction amounts between both companies for the past three fiscal years (meaning fiscal 2015<br>through fiscal 2017; hereinafter, the same shall apply) was less than 1% of the three-year average<br>transaction amounts of this company’s non-consolidated ordinary income as well as the Company’s<br>consolidated net sales of completed construction contracts for the past three fiscal years.) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                          |                                                                                                                                                                                                              |

| No                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Name<br>(Date of birth; Age)                                                                      | Career summary, positions and assignments in the Company<br>and important positions concurrently held at other companies |                                                                                                                     |
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| 10                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Hirokazu Hikosaka</b><br>(December 2, 1960; 57)                                                | April 1983                                                                                                               | Joined Asahi Shinkin Bank (Resigned in March 1985)                                                                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                   | April 1992                                                                                                               | Admitted as attorney. Joined Nakajima Law Office (current Nakajima Hikosaka Kubouchi Law Office) (current position) |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | [Reappointment]<br>[Outside Director]<br>[Independent]                                            | April 1999                                                                                                               | Commissioner, Kanto Federation of Bar Associations                                                                  |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                   | April 2005                                                                                                               | Executive Commissioner, Japan Federation of Bar Associations                                                        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Number of years as Director<br>of the Company:<br>1 year<br>(at the conclusion of the<br>Meeting) | June 2006<br>June 2010                                                                                                   | Outside Director, Adways Inc.<br>Audit & Supervisory Board Member, Adways Inc.<br>(current position)                |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Attendance at the Board of<br>Directors Meetings:<br>13/13 (100%)                                 | April 2014<br>June 2015                                                                                                  | Vice President, Tokyo Bar Association<br>Audit & Supervisory Board Member of the<br>Company                         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Number of shares of the<br>Company held:<br>600                                                   | June 2017                                                                                                                | Director of the Company (current position)                                                                          |
| [Reason for nominating as a candidate for Outside Director]<br>Although Hirokazu Hikosaka has had no experience of directly engaging in corporate management, he has provided valuable advice and supervision on the management of the Company especially in the aspect of legal affairs from an independent and objective standpoint as he has professional expertise and abundant experience as a lawyer. The Company reappoints him as a candidate for Outside Director based on its judgment that he qualifies for this position from the viewpoint of ensuring transparent decision making by the Board of Directors and reinforcing the supervisory functions thereon. |                                                                                                   |                                                                                                                          |                                                                                                                     |
| [View on independence]<br>As Hirokazu Hikosaka satisfies the “Independence Criteria for Outside Director/Outside Audit & Supervisory Board Member” stipulated by the Company, the Company judges that he maintains independence from the Company. There are no interests including personal, capital and transactional relationships between Nakajima Hikosaka Kubouchi Law Office, at which he works as a lawyer, and the Company.                                                                                                                                                                                                                                          |                                                                                                   |                                                                                                                          |                                                                                                                     |

(Notes)

- No material conflict of interest exists between the Company and any of the above candidates for Director.
- Shuichi Murakami and Hirokazu Hikosaka are candidates for Outside Director.
- For Ryoichi Uenodan, Kazuhide Hayakawa and Yasushi Nakajima, their attendance at the Board of Directors meetings is stated for the meetings during fiscal 2017 held after their assumption of office in June 2017. For Hirokazu Hikosaka, the attendance rate is stated for his attendance at the Board of Directors meetings held during his service as the Outside Audit & Supervisory Board Member and at the Board of Directors meetings during fiscal 2017 held after his assumption of office in June 2017.
- The Company has stipulated in its Articles of Incorporation that it can conclude a limited liability agreement with each Director who is not an executive director to limit his/her liability for damages to a certain degree, and has concluded such limited liability agreements with Eitaro Uenishi, Shuichi Murakami and Hirokazu Hikosaka. If their appointment is approved, the Company intends to continue the limited liability agreement with each of them.  
The outline of the aforementioned limited liability agreement is as follows:
  - In case a Director causes damage to the Company due to his/her negligence of duty, his/her liability for the damage shall be up to the minimum liability amount provided for in law when said Director's duty is performed in good faith and with no gross negligence.
- The Company has notified Tokyo Stock Exchange of the designation of Shuichi Murakami and Hirokazu Hikosaka as Independent Directors as stipulated in the provisions of the Tokyo Stock Exchange.
- The age of the respective candidates is indicated on a full-year basis at the conclusion of this Annual Shareholders' Meeting.

(Reference)

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

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

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

(Notes)

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

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

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

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

The candidate is as follows:

| Name<br>(Date of birth; Age)                                                                          | Career summary and positions in the Company<br>and important positions concurrently held at other companies |                                                                                                               |
|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| <b>Takashi Kouno</b><br><br>(February 22, 1955; 63)<br><br>Number of shares of the Company held:<br>0 | April 1978                                                                                                  | Joined The Long-Term Credit Bank of Japan, Limited (current Shinsei Bank, Limited) (Resigned in October 1985) |
|                                                                                                       | April 1992                                                                                                  | Admitted as attorney. Joined Komatsu & Koma Law Office                                                        |
|                                                                                                       | January 1996                                                                                                | Established Toranomom Daiichi Law Office                                                                      |
|                                                                                                       | June 1997                                                                                                   | Outside Audit & Supervisory Board Member, Tamura Electric Works, Ltd. (current SAXA, Inc.)                    |
|                                                                                                       | February 2004                                                                                               | Outside Audit & Supervisory Board Member, SAXA Holdings, Inc. (retired in June 2016)                          |
|                                                                                                       | April 2004                                                                                                  | Outside Audit & Supervisory Board Member, SAXA, Inc. (retired in June 2016)                                   |
|                                                                                                       | October 2006                                                                                                | Established Kouno Law Office (current position)                                                               |

(Notes)

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

## **Business Report**

(From April 1, 2017, to March 31, 2018)

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

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

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

Looking at the global economy during the fiscal year ended March 31, 2018, the U.S. economy followed a moderate, expansive undertone against a backdrop of an increase in consumer spending and the improvement of corporate performance and employment conditions, and the European economy overall continued a gradual upward momentum, supported by increased consumer spending and exports. The Chinese economy remained steady partly due to governmental economic policies, and the respective economies also remained steady in other Asian regions. The Japanese economy continued a track to gradual recovery with signs of an economic pickup in consumer spending against a backdrop of improved corporate performance, as well as upticks in the employment and income environments.

Given such circumstances, the Taikisha Group's orders received increased 0.7% year-on-year to ¥219,844 million, of which overseas orders received decreased 7.7% year on year to ¥101,577 million, due to an increase in orders received in Japan despite a decrease overseas.

Net sales of completed construction contracts increased 15.6% year-on-year to ¥231,898 million, of which overseas net sales increased 17.6% year-on-year to ¥116,170 million, due to increases in Japan and overseas.

In terms of profits, due to favorable performance of the green technology system business, year-on-year increase was seen in all the following account items. Gross profit on completed construction contracts increased ¥4,622 million year-on-year to ¥32,779 million, operating income increased ¥3,707 million year-on-year to ¥12,180, ordinary income increased ¥3,240 million year-on-year to ¥13,082 million and profit attributable to owners of parent increased ¥949 million year-on-year to ¥7,254 million.

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

##### **[Green Technology System Division]**

Orders received for the fiscal year under review increased year on year, mainly due to increases in orders received in Japan in the industrial HVAC category and in China despite a decrease in Japan in the Building HVAC category. Net sales of completed construction contracts increased year on year mainly due to increases in Japan in the industrial HVAC category and the Building HVAC category.

As a result, orders received in this segment increased 13.1% year-on-year to ¥147,511 million. Of this figure, orders for the Building HVAC category decreased 10.5% year-on-year to ¥43,612 million whereas those for the Industrial HVAC category increased 27.2% year-on-year to ¥103,898 million. Net sales of completed construction contracts increased 12.3% year-on-year to ¥139,948 million. Of this figure, sales of the Building HVAC category increased 4.5% year-on-year to ¥45,845 million and those of the Industrial HVAC category increased 16.6% year-on-year to ¥94,103 million. Segment profit (ordinary income) increased ¥1,904 million year-on-year to ¥11,885 million.

##### **[Paint Finishing System Division]**

Orders received for the fiscal year under review decreased year-on-year mainly due to a decrease in orders received in North America as a reaction to large-scale capital investments by automobile manufacturers in the previous year, despite increases in China and Southeast Asia. Net sales of completed construction contracts increased due to the increased turnover of construction contracts in North America despite a decrease in China.

As a result, orders received in this segment decreased 17.7% year-on-year to ¥72,333 million. Net sales of completed construction contracts increased 21.0% year-on-year to ¥92,029 million. Segment profit (ordinary income) amounted to ¥1,160 million (compared with a segment loss (ordinary loss) of ¥115 million for the previous fiscal year).

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

(Millions of yen)

| Category                         |                                    | Construction brought forward | Orders received   | Total             | Net sales of completed construction contracts | Construction carried forward |
|----------------------------------|------------------------------------|------------------------------|-------------------|-------------------|-----------------------------------------------|------------------------------|
| Green Technology System Division | Building HVAC                      | 54,472                       | 43,612            | 98,084            | 45,845                                        | 52,239                       |
|                                  | Industrial HVAC                    | 40,915                       | 103,898           | 144,814           | 94,093                                        | 50,720                       |
|                                  | Subtotal [overseas]                | 95,387 [19,702]              | 147,511 [40,543]  | 242,898 [60,246]  | 139,938 [37,192]                              | 102,960 [23,053]             |
| Paint Finishing System Division  | Paint finishing systems [overseas] | 75,908 [69,294]              | 72,333 [61,033]   | 148,242 [130,328] | 91,960 [78,977]                               | 56,281 [51,351]              |
| Total [overseas]                 |                                    | 171,296 [88,997]             | 219,844 [101,577] | 391,141 [190,575] | 231,898 [116,170]                             | 159,242 [74,404]             |

(Note)

Regarding foreign exchange translation of contracts brought forward from previous year in foreign subsidiaries, fluctuation amount because of foreign exchange is adjusted in the beginning balance of construction contracts brought forward. In this consolidated fiscal year, construction contracts of BTE Co., Ltd. is included in the beginning balance of construction contracts because this company is included in the scope of consolidation.

As for the non-consolidated performance of the Company, orders received totaled ¥125,703 million (a 12.0% year-on-year increase) and net sales of completed construction contracts totaled ¥123,584 million (a 17.3% year-on-year increase). Profit of the Company was ¥7,899 million (a year-on-year increase of ¥648 million).

**2) Capital expenditures**

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

**3) Financing**

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

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

Not applicable.

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

Not applicable.

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

Not applicable.

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

Not applicable.

## (6) Changes in Assets and Income

### 1) Changes in operating results

(Millions of yen)

|                                                        | Year ended<br>March 31, 2014<br>(69th term) | Year ended<br>March 31, 2015<br>(70th term) | Year ended<br>March 31, 2016<br>(71st term) | Year ended<br>March 31, 2017<br>(72nd term) | Year ended<br>March 31, 2018<br>(73rd term)<br>This consolidated<br>fiscal year |
|--------------------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------|---------------------------------------------------------------------------------|
| Orders received                                        | 189,026                                     | 187,311                                     | 221,764                                     | 218,323                                     | 219,844                                                                         |
| Net sales of<br>completed<br>construction<br>contracts | 185,421                                     | 183,648                                     | 212,424                                     | 200,604                                     | 231,898                                                                         |
| Ordinary income                                        | 9,292                                       | 9,579                                       | 12,343                                      | 9,842                                       | 13,082                                                                          |
| Profit<br>attributable to<br>owners of parent          | 4,155                                       | 6,084                                       | 7,084                                       | 6,305                                       | 7,254                                                                           |
| Basic earnings<br>per share (Yen)                      | 116.08                                      | 172.64                                      | 204.35                                      | 183.16                                      | 212.40                                                                          |
| Total assets                                           | 166,680                                     | 188,283                                     | 189,566                                     | 199,024                                     | 216,980                                                                         |
| Net assets                                             | 84,712                                      | 99,669                                      | 95,921                                      | 100,184                                     | 110,650                                                                         |
| Net assets per<br>share (Yen)                          | 2,282.56                                    | 2,690.76                                    | 2,633.60                                    | 2,799.30                                    | 3,087.51                                                                        |

(Note)

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

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

(Millions of yen)

|                                           |                               | Year ended<br>March 31,<br>2014<br>(69th term) | Year ended<br>March 31,<br>2015<br>(70th term) | Year ended<br>March 31,<br>2016<br>(71st term) | Year ended<br>March 31,<br>2017<br>(72nd term) | Year ended<br>March 31,<br>2018<br>(73rd term)<br>This<br>consolidated<br>fiscal year |
|-------------------------------------------|-------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------|
| Green<br>Technology<br>System<br>Division | Building<br>HVAC              | 36,455                                         | 40,827                                         | 43,608                                         | 43,857                                         | 45,845                                                                                |
|                                           | Industrial<br>HVAC            | 78,989                                         | 75,307                                         | 91,214                                         | 80,704                                         | 94,093                                                                                |
|                                           | Subtotal                      | 115,444                                        | 116,134                                        | 134,822                                        | 124,561                                        | 139,938                                                                               |
| Paint<br>Finishing<br>System<br>Division  | Paint<br>finishing<br>systems | 69,976                                         | 67,513                                         | 77,602                                         | 76,043                                         | 91,960                                                                                |
| Total<br>[overseas]                       |                               | 185,421<br>[114,214]                           | 183,648<br>[101,344]                           | 212,424<br>[117,881]                           | 200,604<br>[98,820]                            | 231,898<br>[116,170]                                                                  |

## (7) Issues to Be Addressed

### [Basic management policy]

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

### 1) Reinforcing management base

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

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

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

(Billions of yen)

|                                                  | Actual performance for<br>the consolidated fiscal<br>year ended March 2017 | Actual performance for<br>the consolidated fiscal<br>year ended March 2018 | Targets for the<br>consolidated fiscal year<br>ending March 2019 |
|--------------------------------------------------|----------------------------------------------------------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------|
| Orders received                                  | 218.3                                                                      | 219.8                                                                      | 213.0                                                            |
| Net sales of completed<br>construction contracts | 200.6                                                                      | 231.8                                                                      | 208.1                                                            |
| Operating income                                 | 8.47                                                                       | 12.18                                                                      | 12.3                                                             |
| Ordinary income                                  | 9.84                                                                       | 13.08                                                                      | 13.0                                                             |
| Profit attributable to<br>owners of parent       | 6.30                                                                       | 7.25                                                                       | 7.5                                                              |

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

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

The Green Technology System Division intends to continue expanding business operations not only in Japan but also in overseas markets. Its priority is on developing environmental businesses, including plant designs that minimize environmental impact to meet the needs of a low-carbon society, innovative engineering for the renovation of existing equipment/facilities and to raise production efficiency, sales of high-efficiency exhaust gas treatment systems and exploitation of new business fields such as the plant factory system. Moreover, more stringent cost controls will be pursued to strengthen earnings capacity. The Paint Finishing System Division intends to develop the total engineering-oriented business that aims to improve painting and coating efficiency for automobiles, as well as reduce the energy impact of the whole paint plant. For the paint plants that will be newly established and renovated in India, China, the United States and Europe, the Company will work to rack up profits by increasing orders received not only from Japanese automobile manufacturers but also locally capitalized counterparts. Moreover, business expansion will be pursued in peripheral fields including the business for paint finishing systems other than automobiles such as aircraft, painting technology commensurate with new materials and conveyor systems.

### 3) Compliance-based management

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



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

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

#### (8) Significant Subsidiaries

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

| Company name                                              | Capital            | Percentage of voting rights held by the Company | Principal business                                                                                                                                                        |
|-----------------------------------------------------------|--------------------|-------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| BTE Co., Ltd. <sup>1,2,4</sup>                            | THB 20 million     | 50.00%                                          | Assembly and installation of switchboards and control panels                                                                                                              |
| Token Myanmar Co., Ltd. <sup>1</sup>                      | USD 200 thousand   | 90.00%                                          | Interior decoration-related design and installation                                                                                                                       |
| Taikisha Engineering (M) Sdn. Bhd.                        | MYR 750 thousand   | 100.00%                                         | Design and installation of HVAC and paint finishing systems                                                                                                               |
| P.T. Taikisha Indonesia Engineering                       | IDR 982 million    | 98.91%                                          | Design and installation of HVAC and paint finishing systems                                                                                                               |
| P.T. Taikisha Manufacturing Indonesia                     | IDR 87,531 million | 99.98%                                          | Painting of automobile parts                                                                                                                                              |
| Taikisha Philippines Inc. <sup>2</sup>                    | PHP 22 million     | 40.00%                                          | Design and installation of HVAC and paint finishing systems                                                                                                               |
| Taikisha Vietnam Engineering Inc.                         | VND 3,895 million  | 100.00%                                         | Design and installation of HVAC and paint finishing systems                                                                                                               |
| Taikisha (Cambodia) Co., Ltd.                             | USD 300 thousand   | 100.00%                                         | Design and installation of HVAC and paint finishing systems                                                                                                               |
| Taikisha Myanmar Co., Ltd. <sup>1</sup>                   | USD 2 million      | 100.00%                                         | Design, installation and maintenance of HVAC and paint finishing systems                                                                                                  |
| WuZhou Taikisha Engineering Co., Ltd.                     | CNY 51 million     | 70.00%                                          | Design and installation of HVAC and paint finishing systems                                                                                                               |
| Beijing Wuzhou Taikisha Equipment Co., Ltd. <sup>1</sup>  | CNY 800 thousand   | 100.00%                                         | Manufacture, installation, adjustment and repair of paint finishing, HVAC and pollution control systems, as well as sales of machinery, equipment and electronic products |
| Tianjin Taikisha Paint Finishing System Ltd. <sup>1</sup> | CNY 73 million     | 90.00%                                          | Research, development, manufacture, sales and maintenance of paint systems                                                                                                |
| Taikisha Hong Kong Limited                                | HKD 2 million      | 100.00%                                         | Design and installation of HVAC and paint finishing systems                                                                                                               |
| Taikisha (Taiwan) Ltd.                                    | TWD 230 million    | 100.00%                                         | Design and installation of HVAC and paint finishing systems                                                                                                               |
| Taikisha Korea Ltd.                                       | KRW 700 million    | 80.00%                                          | Design and installation of paint finishing and HVAC systems                                                                                                               |
| Taikisha Engineering India Private Ltd.                   | INR 6 million      | 55.00%                                          | Design and installation of paint finishing and HVAC systems                                                                                                               |
| Geico S.p.A.                                              | EUR 3 million      | 51.00%                                          | Design and installation of paint systems and plants for automobile industry                                                                                               |

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

(Notes)

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

#### (9) Principal Business

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

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

## (10) Principal Business Locations

### 1) The Company

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

### 2) Subsidiaries

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

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

| Type of business            | Number of employees | Increase/Decrease from previous fiscal year-end |
|-----------------------------|---------------------|-------------------------------------------------|
| Equipment installation work | 4,834               | + 132                                           |

**2) The Company**

| Number of employees at fiscal year-end | Increase/Decrease from previous fiscal year-end | Average age | Average years of service |
|----------------------------------------|-------------------------------------------------|-------------|--------------------------|
| 1,478                                  | + 32                                            | 43.8        | 18.1                     |

**(12) Major Lenders**

(Millions of yen)

| Lenders                         | Balance of borrowings |
|---------------------------------|-----------------------|
| Banca Popolare di Milano S.p.A. | 1,484                 |
| UniCredit S.p.A.                | 1,316                 |
| Intesa Sanpaolo S.p.A.          | 1,055                 |
| Mizuho Bank, Ltd.               | 1,044                 |

## 2. States or Shares

- (1) Total Number of Authorized Shares 100,000,000 shares
- (2) Total Number of Issued Shares 34,069,010 shares  
(excluding 1,012,999 treasury shares)
- (3) Number of Shareholders 3,016 persons  
(a year-on-year decrease of 219 persons)

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

| Name of shareholders                                       | Number of shares held (in thousands) | Percentage of shares held to the total number of issued shares (%) |
|------------------------------------------------------------|--------------------------------------|--------------------------------------------------------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account)       | 2,730                                | 8.02                                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account 9)        | 2,103                                | 6.17                                                               |
| Kenzaisha Ltd.                                             | 1,730                                | 5.08                                                               |
| Japan Trustee Services Bank, Ltd. (Trust Account)          | 1,298                                | 3.81                                                               |
| Taikisha Business Partners Shareholding Association        | 1,023                                | 3.00                                                               |
| Dai ni Kenzaisha Ltd.                                      | 1,000                                | 2.94                                                               |
| Ichigo Trust Pte. Ltd.                                     | 992                                  | 2.91                                                               |
| THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800 | 942                                  | 2.77                                                               |
| Sumitomo Realty & Development Co., Ltd.                    | 899                                  | 2.64                                                               |
| Taikisha Employees Shareholding Association                | 873                                  | 2.56                                                               |

(Notes)

1. The Company holds 1,012,999 treasury shares but is excluded from the list of major shareholders above. The above treasury shares do not include 154,400 shares of the Company's shares held by Trust & Custody Services Bank, Ltd. (Trust E Account), because of the introduction of the ESOP (Employee Stock Ownership Plan).
2. The "Percentage of shares held to the total number of issued shares" is calculated by subtracting treasury shares from all issued shares.

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

#### 1) Acquisition of treasury shares

The Company acquired treasury shares as follows pursuant to a resolution at its Board of Directors meeting held on November 13, 2017.

- a) Total number of shares acquired: 136,800 shares
- b) Total amount of acquisition price: ¥499,903,500
- c) Date of acquisition: From November 14, 2017, to December 4, 2017
- d) Reason for acquisition: To increase capital efficiency, as well as to enable the Company to implement a flexible capital strategy in response to changes in the business environment.

#### 2) Retirement of treasury shares

The Company retired its 1,700,000 treasury shares as of February 28, 2018, pursuant to a resolution at its Board of Directors meeting held on February 9, 2018.

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

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

The Plan has a scheme in which shares of the Company are awarded to its eligible employees who have satisfied certain requirements in accordance with the share awarding regulations set forth in advance by the Company. Said Company's shares are acquired with money initially contributed to a trust, including future portions, and separately managed as a trust estate.

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

Not applicable.

### 4. Company Officers

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

| Position                                     | Name              | Assignments in the Company and important positions con-currently held at other companies                                                                                       |
|----------------------------------------------|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Director                                     | Eitaro Uenishi    | Chairman                                                                                                                                                                       |
| Representative Director                      | Toshiaki Shiba    | President Corporate Officer                                                                                                                                                    |
| Representative Director                      | Koji Kato         | Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters                                                                                |
| Director                                     | Hiroshi Mukai     | Executive Corporate Officer, Chief General Manager, Green Technology System Division                                                                                           |
| ○ Director                                   | Ryoichi Uenodan   | Executive Corporate Officer, Chief General Manager, Paint Finishing System Division                                                                                            |
| Director                                     | Yukinori Hamanaka | Managing Corporate Officer, Vice General Manager, Paint Finishing System Division                                                                                              |
| ○ Director                                   | Kazuhide Hayakawa | Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters                                                                                                   |
| ○ Director                                   | Yasushi Nakajima  | Managing Corporate Officer, Vice General Manager, Green Technology System Division                                                                                             |
| Director                                     | Shuichi Murakami  |                                                                                                                                                                                |
| ○ Director                                   | Hirokazu Hikosaka | Lawyer<br>Audit & Supervisory Board Member, Adways Inc.                                                                                                                        |
| ○ Full-time Audit & Supervisory Board Member | Tetsuya Ogawa     |                                                                                                                                                                                |
| Full-time Audit & Supervisory Board Member   | Toshiya Furukatsu |                                                                                                                                                                                |
| Audit & Supervisory Board Member             | Junichi Noro      | Representative Director, President, NLI Research Institute                                                                                                                     |
| ○ Audit & Supervisory Board Member           | Kiyotaka Fuke     | Member of the Board of Directors (Outside Director and Audit & Supervisory Committee Member), Mizuho Trust & Banking Co., Ltd.<br>Advisor, Meiji Yasuda Life Insurance Company |

(Notes)

1. Directors and Audit & Supervisory Board Members marked with “○” were newly elected as Directors and Audit & Supervisory Board Members at the 72nd Annual Shareholders’ Meeting held on June 29, 2017, and assumed their respective positions.
2. Director Hirokazu Hikosaka was appointed and assumed the position of Director after having resigned the position of Audit & Supervisory Board Member at the 72nd Annual Shareholders’ Meeting held on June 29, 2017. Audit & Supervisory Board Member Tetsuya Ogawa was appointed and assumed the position of Audit & Supervisory Board Member after having retired from the position of Director due to expiry of the term of office at the 72nd Annual Shareholders’ Meeting held on June 29, 2017.
3. Satoru Kamiyama, Kiyoshi Hashimoto and Kazumasa Suezawa retired from the position of Director and Masaaki Saito retired from the position of Audit & Supervisory Board Member due to expiry of their term of office at the conclusion of the 72nd Annual Shareholders’ Meeting held on June 29, 2017.
4. Directors Shuichi Murakami and Hirokazu Hikosaka are Outside Directors.
5. Audit & Supervisory Board Members Junichi Noro and Kiyotaka Fuke are Outside Audit & Supervisory Board Members.
6. Audit & Supervisory Board Member Toshiya Furukatsu has long experience in accounting and finance business affairs, and therefore has abundant knowledge regarding finance and accounting affairs.

7. The Company has notified Tokyo Stock Exchange of the designation of Directors Shuichi Murakami and Hirokazu Hikosaka, as well as Audit & Supervisory Board Members Junichi Noro and Kiyotaka Fuke, as Independent Directors/Auditors as stipulated in the provisions of the Tokyo Stock Exchange.
8. The following assignments in the Company were transferred as of April 1, 2018.

| Name              | After the transfer                                                                          | Before the transfer                                                                                                      |
|-------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|
| Koji Kato         | Representative Director, Executive Vice President Corporate Officer                         | Representative Director, Executive Vice President Corporate Officer, in charge of Administrative Management Headquarters |
| Kazuhide Hayakawa | Director, Managing Corporate Officer, Vice General Manager, Paint Finishing System Division | Director, Managing Corporate Officer, Chief Executive, Corporate Planning Headquarters                                   |

9. Audit & Supervisory Board Member Junichi Noro assumed the position of Chairman & CEO of the NLI Research Institute as of April 1, 2018.

### (2) Outline of limited liability agreement

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

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

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

| Category                          | Number of persons | Amount of compensation, etc. | Remarks                                                                       |
|-----------------------------------|-------------------|------------------------------|-------------------------------------------------------------------------------|
| Directors                         | 14                | ¥444 million                 | 3 Outside Directors included therein      ¥18 million                         |
| Audit & Supervisory Board Members | 6                 | ¥60 million                  | 3 Outside Audit & Supervisory Board Members included therein      ¥15 million |
| Total                             | 20                | ¥504 million                 |                                                                               |

(Notes)

1. The above “Number of persons” includes four (4) Directors and one (1) Audit & Supervisory Board Member who retired from office, as well as one (1) Audit & Supervisory Board Member who resigned at the conclusion of the 72nd Annual Shareholders’ Meeting held on June 29, 2017.  
Of the eligible persons, as Director Hirokazu Hikosaka assumed the position of Director after having resigned the position of Audit & Supervisory Board Member at the 72nd Annual Shareholders’ Meeting held on June 29, 2017, he is included in the “number of persons” and “amount of compensations, etc.” columns as an Audit & Supervisory Board Member for the period he served as an Audit & Supervisory Board Member, and as a Director for the period he served as a Director. Also, as Audit & Supervisory Board Member Tetsuya Ogawa assumed the position of Audit and Supervisory Board Member after having resigned the position of Director at the 72nd Annual Shareholders’ Meeting held on June 29, 2017, he is included in the “number of persons” and “amount of compensations, etc.” columns as a Director for the period he served as a Director, and as an Audit & Supervisory Board Member for the period he served as an Audit & Supervisory Board Member.
2. The “Amount of compensation, etc.,” to Directors includes ¥112 million in directors’ bonuses expected to be paid relating to the fiscal year under review.
3. At the 71st Annual Shareholders’ Meeting held on June 29, 2016, a resolution was adopted to set an upper limit on compensation to Directors to be within ¥540 million per year (of which that for Outside Directors to be within ¥20 million per year) without including the portions of their salaries for Directors who concurrently serve as employees.
4. At the 59th Annual Shareholders’ Meeting held on June 29, 2004, a resolution was adopted to set an upper limit on compensation to Audit & Supervisory Board Members to be within ¥85 million per year.



**(4) Outside Officers****1) Relationship between other companies where important positions are concurrently held by our outside officers and the Company**

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

**2) Major activities during the year**

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

| Position                         | Name              | Main activities at the meetings                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Director                         | Shuichi Murakami  | Attended all 13 meetings (attendance rate: 100%) of the Board of Directors held during the fiscal year ended March 31, 2018, and timely made remarks based on his knowledge and experience nurtured during his services rendered at a leading non-life insurance company.                                                                                                                                   |
| Director                         | Hirokazu Hikosaka | Attended all 13 meetings (twice at the meetings held during his term of office as Outside Audit & Supervisory Board Member and 11 times at the meetings held after his assumption of office as Outside Director; attendance rate: 100%) of the Board of Directors held during the fiscal year ended March 31, 2018, and timely made remarks based on his professional expertise and experience as a lawyer. |
| Audit & Supervisory Board Member | Junichi Noro      | Attended all 13 meetings (attendance rate: 100%) of the Board of Directors and 8 out of 9 meetings (attendance rate: 88.9%) of the Audit & Supervisory Board held during the fiscal year ended March 31, 2018, and made remarks to ensure the legality of decision making by the Board of Directors.                                                                                                        |
| Audit & Supervisory Board Member | Kiyotaka Fuke     | Attended all 11 meetings (attendance rate: 100%) of the Board of Directors and 6 out of 7 meetings (attendance rate: 85.7%) of the Audit & Supervisory Board held after his assumption of office as Audit & Supervisory Board Member, and made remarks to ensure the legality of decision making by the Board of Directors.                                                                                 |

## 5. Accounting Auditors

### (1) Designation of the Accounting Auditors

A&A Partners

### (2) Accounting Auditors' Compensation, etc., Pertaining to the Fiscal Year Ended March 31, 2018

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

(Notes)

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

### (3) Non-Audit Services

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

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

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

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

### **(1) Systems to Ensure Proper Execution of Business**

The Board of Directors of the Company has determined its basic policy for the systems to ensure proper execution of business (the internal control system), which is set forth in the Companies Act and the Ordinance for Enforcement of the Companies Act, as follows:

#### **[Objectives]**

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

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

- a) According to the Company's philosophy and policy, the Company shall consider its management vision—to conduct transactions through free and fair competition by abiding by the laws and their spirit, and to contribute to our customers, partners, shareholders, employees, community, society and global environment through transparency and high ethical standards—and Taikisha's Code of Conduct as performance guidelines for directors and employees, and shall remind all persons involved about these standards.
- b) The Compliance Committee headed by the Representative Director as chairperson and consisting of members of the Management Meeting, the General Manager of the Corporate Compliance Department, the General Manager of the Internal Audit Office, and the General Manager of the Corporate Planning Department shall in principle meet monthly in order to examine and respond to issues regarding compliance in the overall business operations of the Company from a management standpoint and to validate the status of compliance with laws and ordinances as well as the Articles of Incorporation. Two of the meetings of the Compliance Committee shall be held as Compliance Policy Review Meetings attended by all officers. Compliance Policy Review Meetings shall examine and validate the annual compliance policy, the annual compliance plan, and the compliance measures, in addition to validating the above-mentioned matters, and report the overview of the results thereof to the Board of Directors. In the event of signs of a significant event, the Corporate Compliance Committee consisting of all officers, the General Manager of the Corporate Compliance Department, the General Manager of the Internal Audit Office, and the General Manager of the Corporate Planning Department shall be convened promptly in order to deal with such event.
- c) The Company shall, in Taikisha's Code of Conduct, implement a basic policy for Anti-Social Forces of refusing any involvement of Anti-Social Forces in our business, rejecting any requirement from Anti-Social Forces and prohibiting all directors and employees of the Company to have any relationship with Anti-Social Forces. In addition, the Company shall constantly conduct educational and dissemination activities related to compliance in order to familiarize all directors and employees of the Company, shall make every effort to prevent any violation of the policy, and shall gather information related to Anti-Social Forces from the outside of the Company regularly. If the Company receives undue demands from Anti-Social Forces, the Company is committed to confront Anti-Social Forces systematically in cooperation with outside experts.
- d) The Corporate Compliance Department, which is under the direct control of the Representative Director, shall constantly conduct educational and dissemination activities related to compliance in order to familiarize all directors and employees of the Company with the management vision and Taikisha's Code of Conduct, and shall make every effort to prevent any violations of the law in cooperation with other compliance-related departments of business divisions, and shall report all relevant activities to the Compliance Committee.
- e) For instances where a director or employee finds a violation of laws or Articles of Incorporation, an internal reporting system informing to the Corporate Compliance Department shall be developed and an external reporting system informing to independent outside attorneys shall be established. The Corporate Compliance Department shall remind all persons involved, both inside and outside the Company, of the reporting system so that those contacts are effectively utilized, and shall monitor and supervise the situation in accordance with the internal reporting rules so that a person who made a report pursuant to

- the preceding paragraph is not treated in a disadvantageous manner because he or she made such report.
- f) In the event of a compliance violation, the offenders concerned shall be severely disciplined according to internal rules and regulations.

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

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

**3) Rules regarding Risk Management of Loss of the Company and Other Systems**

- a) The Company shall, in accordance with the Risk Management Rules, establish the Risk Management Committee to identify risks of Taikisha Group in an integrated fashion and to implement effective and efficient risk management. The Committee shall establish basic policies, responsibility systems, operations and other necessary measures for risk management of Taikisha Group, and shall keep all persons involved informed about the establishment and implementation.
- b) Regarding risks associated with operations, such as quality control, safety control and compliance, assigned to each department, each department shall identify and prioritize the risks, draft specific measures against the risks and report to the Risk Management Committee. Each department shall implement internal rules and regulations, and shall keep all persons involved informed about the details of the implementation.
- c) On the assumption of situations in which measures should be taken to respond to exposed potential major risks (hereinafter referred to as crisis), the Company shall establish the Crisis Management Committee for the purpose of crisis response and daily crisis management. In the event that crisis breaks out, the Crisis Management Committee shall organize the crisis management team or establish the crisis task force to respond to the crisis under the supervision of the Crisis Management Committee. On the assumption of the outbreak of the crisis, the Company shall establish a business continuity plan to restore the damage caused by the crisis.
- d) The Internal Audit Office, which is under the direct control of the Representative Director, shall conduct internal audits in accordance with the Internal Audit Rules. The effectiveness of internal audits shall be ensured by the appointment of the General Manager of the Internal Audit Office chosen from employees at the level of Corporate Officer or higher, and by the placement of other necessary personnel. Furthermore, the Internal Audit Office shall examine audit methods and items to be audited, and shall amend the audit procedures as needed.

**4) The System to Ensure the Efficient Execution of Duties by Directors of the Company**

- a) By adopting a corporate officer system, responsibilities and authorities of corporate management and duty execution shall be clarified, aiming for revitalization of the Board of Directors, promotion of rapid decision-making, and advancement of management reforms.
- b) Based on the Board of Directors Rules, Rules for Managerial Approval, and other internal rules, the matters applicable for submission to the Board shall be submitted to the Board of Directors. In this regard, the appropriate materials concerning the agendas shall be distributed to all directors in advance and the Board of Directors shall pass a resolution after a full discussion based on such materials.
- c) With the Company's philosophy as a foundation, each departmental headquarters and business divisions, after the Policy Review Meeting, shall establish an appropriate annual policy and annual target, and shall work in order to achieve those targets.
- d) The Management Meeting, mainly consisting of directors at the level of Managing Corporate Officer or higher, shall be established to conduct deliberations regarding Taikisha Group's important management issues to be addressed pursuant to the Rules for Management Approval, and shall make prompt decisions on these issues. In addition, the Management Meeting shall examine the progress toward annual target by monthly reviewing operating reports.

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

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

of Taikisha Group.

- b) The Company shall conduct regular audits mainly by the Internal Audit Office to audit whether any risk exists in subsidiaries in accordance with the Internal Audit Rules and other related internal rules. In addition, the Company shall immediately report a risk of loss in subsidiaries, detected in subsidiaries as a result of audit, to directors, audit & supervisory board members and other departments in charge.
- c) Regarding a system to ensure the adequacy of materials concerning the finances and accounting of Taikisha Group, and to ensure the adequacy of other related information pursuant to the Financial Instruments and Exchange Act, the Company shall, under the instructions of the Representative Director and President, establish the Basic Rules for Internal Control in compliance with the "Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" and "Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting" issued by the Financial Services Agency. In addition, the Company shall, in accordance with the Basic Rules, conduct improvement and operational status assessments of internal control procedures carried out by Taikisha Group.
- d) To ensure that directors and employees of the subsidiaries execute their duties in compliance with laws and ordinances as well as their articles of association, the Internal Audit Office shall play a central role in regular audits and the Corporate Compliance Department shall conduct regular investigations in accordance with the Internal Audit Rules and other related internal rules. In addition, the Corporate Compliance Department shall remind all persons involved of the system so that the internal reporting systems of the Company are effectively utilized.

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

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

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

- a) Directors and employees shall be obligated to report the following matters to audit & supervisory board members, and shall also provide the necessary reports and information upon request from each audit & supervisory board member pursuant to the Audit & Supervisory Board Rules and the Rules for Audit by Audit & Supervisory Board Members;
  - Matters resolved and reported by the Management Meeting
  - Matters discussed at the Compliance Committee, Risk Management Committee and Crisis Management Committee
  - Matters which may cause serious harm to the Company and its subsidiaries
  - Violation of laws and ordinances or the Articles of Incorporation by directors and employees or facts that may lead to such violations
  - Results of internal audits by the Internal Audit Office
  - Request forms for internal managerial decisions and proceedings of meetings requested by audit & supervisory board members
- b) The manager of the responsible department of the Company who received a report from a director, statutory auditor or employee of the subsidiaries shall make a report to the audit & supervisory board members of the Company at a meeting at which the audit & supervisory board members are present or periodically as necessary in accordance with the Affiliate Management Rules.

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

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

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

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

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

- a) The Representative Director, the Chief Executive of the Administrative Management Headquarters and the General Manager of the Internal Audit Office shall arrange meetings and consultations in order to thoroughly discuss and examine the improvement of the environments for audits conducted by audit & supervisory board members, and shall ensure the effectiveness of such audits.
- b) Audit & supervisory board members may make requests for improvement of the audit system and other related matters in order to ensure the effectiveness of audits conducted by them.

**(2) Summary of operational status of the Systems to Ensure Proper Execution of Business**

The operational status of the internal control system for the fiscal year ended March 31, 2018, was as follows:

The Company, in principle, conducts establishment and operational status assessments of the internal control system once per year and reviews the matters for which the Company recognizes it necessary to make improvements. During the fiscal year under review, it was determined by the Board of Directors meeting held on March 28, 2018, that the operating method of the Corporate Compliance Committee be reviewed, and partial revisions to the basic policy for the internal control system were resolved thereby. (The revised basic policy for the internal control system will be implemented effective from April 2, 2018.)

**1) Compliance-related initiatives**

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

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

**2) Risk management-related initiatives**

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

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

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

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

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

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

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

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

regarding performance of their duties.

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

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

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

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

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

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

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

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

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

The Company has focused on the following as its corporate philosophy: "Establish a company which can continuously grow and contribute to the society" and "Establish an attractive company". In order to realize this corporate philosophy, the Company strives for the prosperity of stakeholders through an increase of the value-added, a creation of the productive environment and the development of the industrial society through technologies, personal fulfillment of employees through work, building of an organizational climate that has mutual trust, cooperation and rationality, and other matters. In other words, the following is its management vision that expresses what the Company aims at: "Conduct businesses under free and fair competition in compliance with laws and the spirit thereof; contribute to customer/business partner, shareholder, employee, community/society and global environment with transparency and integrity."

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

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

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

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

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

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

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

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

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

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

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

**1) Initiatives stated in 2.**

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

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

**2) Initiatives stated in 3.**

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(Note)

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

Consolidated Balance Sheet

(As of March 31, 2018)

(Millions of yen)

Account title	Amount	Account title	Amount
(Assets)		(Liabilities)	
Current assets	161,174	Current liabilities	93,744
Cash and deposits	47,147	Notes payable, accounts payable for construction contracts and other	60,590
Notes receivable, accounts receivable from completed construction contracts and other	101,947	Short-term loans payable	6,730
Costs on uncompleted construction contracts	2,120	Income taxes payable	3,859
Raw materials and supplies	348	Deferred tax liabilities	2
Deferred tax assets	2,159	Advances received on uncompleted construction contracts	11,870
Other	7,990	Provision for warranties for completed construction	690
Allowance for doubtful accounts	(539)	Provision for loss on construction contracts	469
		Provision for directors' bonuses	122
Non-current assets	55,806	Other	9,409
Property, plant and equipment	9,414	Non-current liabilities	12,586
Buildings and structures	7,634	Long-term loans payable	1,606
Machinery, vehicles, tools, furniture and fixtures	9,161	Deferred tax liabilities	9,028
Land	2,101	Provision for directors' retirement benefits	64
Other	2,034	Net defined benefit liability	1,563
Accumulated depreciation	(11,517)	Other	322
Intangible assets	6,126	Total liabilities	106,330
Goodwill	2,762	(Net assets)	
Other	3,364	Shareholders' equity	89,936
Investments and other assets	40,265	Capital stock	6,455
Investment securities	30,724	Capital surplus	7,258
Deferred tax assets	1,463	Retained earnings	78,698
Net defined benefit asset	6,311	Treasury shares	(2,475)
Other	1,780	Accumulated other comprehensive income	15,252
Allowance for doubtful accounts	(14)	Valuation difference on available-for-sale securities	13,242
		Deferred gains or losses on hedges	3
		Foreign currency translation adjustment	1,141
		Accumulated remeasurements of defined benefit plans	864
		Non-controlling interests	5,461
		Total net assets	110,650
Total assets	216,980	Total liabilities and net assets	216,980

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

Consolidated Statement of Income

(From April 1, 2017, to March 31, 2018)

(Millions of yen)

Account title	Amount	
Net sales of completed construction contracts		231,898
Cost of sales of completed construction contracts		199,118
Gross profit on completed construction contracts		32,779
Selling, general and administrative expenses		20,599
Operating income		12,180
Non-operating income		
Interest and dividends income	906	
Other	685	1,591
Non-operating expenses		
Interest expenses	221	
Foreign exchange losses	247	
Other	221	689
Ordinary income		13,082
Extraordinary income		
Gains on disposal of non-current assets	59	59
Extraordinary losses		
Loss on disposal of non-current assets	65	
Impairment loss	26	91
Income before income taxes and non-controlling interests		13,050
Income taxes-current	5,298	
Income taxes-deferred	(1,104)	4,193
Profit		8,856
Profit attributable to non-controlling interests		1,602
Profit attributable to owners of parent		7,254

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

Consolidated Statement of Comprehensive Income

(From April 1, 2017, to March 31, 2018)

(Millions of yen)

Account title	Amount
Profit	8,856
Other comprehensive income	
Valuation difference on available-for-sale securities	3,273
Deferred gains or losses on hedges	219
Foreign currency translation adjustment	840
Remeasurements of defined benefit plans	888
Share of other comprehensive income of entities accounted for using equity method	20
Total other comprehensive income	5,241
Comprehensive income	14,098
Comprehensive income	
Comprehensive income attributable to owners of parent	12,326
Comprehensive income attributable to non-controlling interests	1,772

(Notes)

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

Consolidated Statement of Changes in Net Assets

(From April 1, 2017, to March 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	6,455	7,305	77,945	(6,128)	85,577
Changes of items during the period					
Dividends of surplus			(2,394)		(2,394)
Profit attributable to owners of parent			7,254		7,254
Purchase of treasury shares				(501)	(501)
Retirement of treasury shares		(47)	(4,106)	4,154	—
Purchase of shares of consolidated subsidiaries		3			3
Sales of shares of consolidated subsidiaries		(3)			(3)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(47)	752	3,653	4,358
Balance at the end of current period	6,455	7,258	78,698	(2,475)	89,936

(Millions of yen)

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	9,969	(111)	349	(31)	10,175	4,431	100,184
Changes of items during the period							
Dividends of surplus							(2,394)
Profit attributable to owners of parent							7,254
Purchase of treasury shares							(501)
Retirement of treasury shares							—
Purchase of shares of consolidated subsidiaries							3
Sales of shares of consolidated subsidiaries							(3)
Net changes of items other than shareholders' equity	3,273	114	792	896	5,076	1,030	6,106
Total changes of items during the period	3,273	114	792	896	5,076	1,030	10,465
Balance at the end of current period	13,242	3	1,141	864	15,252	5,461	110,650

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

Non-consolidated Balance Sheet

(As of March 31, 2018)

(Millions of yen)

Account title	Amount	Account title	Amount
(Assets)		(Liabilities)	
Current assets	95,433	Current liabilities	52,500
Cash and deposits	16,010	Notes payable-trade	7,353
Notes receivable-trade	414	Electronically recorded obligations-operating	17,202
Electronically recorded monetary claims	3,363	Accounts payable for construction contracts	15,158
Accounts receivable from completed construction contracts	70,840	Short-term loans payable	2,726
Costs on uncompleted construction contracts	342	Accounts payable-other	4,929
Raw materials and supplies	148	Income taxes payable	2,889
Deferred tax assets	1,504	Advances received on uncompleted construction contracts	907
Other	2,808	Deposits received	223
Non-current assets	51,465	Provision for warranties for completed construction	183
Property, plant and equipment	3,219	Provision for loss on construction contracts	178
Buildings	1,238	Provision for directors' bonuses	112
Structures	11	Other	635
Machinery and equipment	74	Non-current liabilities	7,022
Vehicles	0	Long-term loans payable	140
Tools, furniture and fixtures	157	Deferred tax liabilities	6,760
Land	1,437	Provision for retirement benefits	107
Leased assets	0	Other	14
Construction in progress	299	Total liabilities	59,522
Intangible assets	2,838	(Net Assets)	
Software	2,836	Shareholders' equity	74,129
Other	1	Capital stock	6,455
Investments and other assets	45,407	Capital surplus	7,297
Investment securities	29,988	Legal capital surplus	7,297
Shares of subsidiaries and associates	9,228	Retained earnings	62,852
Long-term loans receivable	6	Legal retained earnings	1,613
Claims provable in bankruptcy, claims provable in rehabilitation and other	1	Other retained earnings	61,239
Long-term prepaid expenses	84	Reserve for reduction entry	0
Prepaid pension cost	4,857	Reserve for investment on information technology	2,400
Lease and guarantee deposits	1,244	General reserve	35,720
Other	3	Retained earnings brought forward	23,119
Allowance for doubtful accounts	(7)	Treasury shares	(2,475)
		Valuation and translation adjustments	13,247
		Valuation difference on available-for-sale securities	13,242
		Deferred gains or losses on hedges	4
		Total net assets	87,377
Total assets	146,899	Total liabilities and net assets	146,899

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

Non-consolidated Statement of Income

(From April 1, 2017, to March 31, 2018)

(Millions of yen)

Account title	Amount	
Net sales of completed construction contracts		123,584
Cost of sales of completed construction contracts		102,143
Gross profit on completed construction contracts		21,441
Selling, general and administrative expenses		12,273
Operating income		9,168
Non-operating income		
Interest income and dividends income	1,638	
Dividend income of insurance	176	
Real estate rent	170	
Technical advisory fee	1,345	
Reversal of allowance for doubtful accounts	1	
Other	29	3,362
Non-operating expenses		
Interest expenses	17	
Sales discounts	75	
Rent expenses on real estate	47	
Foreign exchange losses	38	
Other	37	215
Ordinary income		12,315
Extraordinary income		
Gain on disposal of non-current assets	7	
Gain on sales of shares of subsidiaries and associates	6	13
Extraordinary losses		
Loss on disposal of non-current assets	40	
Impairment loss	26	
Loss on valuation of shares of subsidiaries and associates	754	821
Income before income taxes		11,507
Income taxes-current	3,919	
Income taxes-deferred	(310)	3,608
Profit		7,899

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

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2017, to March 31, 2018)

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings					
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
						Reserve for reduction entry	Reserve for investment on information technology	General reserve	Retained earnings brought forward	
Balance at the beginning of current period	6,455	7,297	47	7,344	1,613	0	2,200	35,720	21,921	61,455
Changes of items during the period										
Reserve for investment on information technology							200		(200)	—
Dividends of surplus									(2,394)	(2,394)
Profit									7,899	7,899
Purchase of treasury shares										
Retirement of treasury shares			(47)	(47)					(4,106)	(4,106)
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	(47)	(47)	—	—	200	—	1,197	1,397
Balance at the end of current period	6,455	7,297	—	7,297	1,613	0	2,400	35,720	23,119	62,852

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at the beginning of current period	(6,128)	69,126	9,969	3	9,972	79,098
Changes of items during the period						
Reserve for investment on information technology		—				—
Dividends of surplus		(2,394)				(2,394)
Profit		7,899				7,899
Purchase of treasury shares	(501)	(501)				(501)
Retirement of treasury shares	4,154	—				—
Net changes of items other than shareholders' equity			3,273	1	3,275	3,275
Total changes of items during the period	3,653	5,003	3,273	1	3,275	8,278
Balance at the end of current period	(2,475)	74,129	13,242	4	13,247	87,377

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

Independent Auditors' Report

(English Translation)

May 11, 2018

To the Board of Directors
Taikisha Ltd.

A&A Partners

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

Daisuke Miyanohara (seal)
Certified Public Accountant
Designated and Engagement Partner

We have audited, pursuant to Article 444, Paragraph 4 of the Companies Act of Japan, the Consolidated Financial Statements, which consist of the Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Net Assets and Notes to Consolidated Financial Statements of Taikisha Ltd. (hereinafter referred to as the "Company") for the fiscal year from April 1, 2017, to March 31, 2018.

Management's Responsibility for Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Audit Opinion

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position of Company and its consolidated subsidiaries as of March 31, 2018, and the consolidated result of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Interest

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

Independent Auditors' Report

(English Translation)

May 11, 2018

To the Board of Directors
Taikisha Ltd.

A&A Partners

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

Daisuke Miyanohara (seal)
Certified Public Accountant
Designated and Engagement Partner

We have audited, pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act of Japan, the Non-consolidated Financial Statements, which consist of the Non-consolidated Balance Sheet, Non-consolidated Income Statement, Non-consolidated Statement of Changes in Net Assets and Notes to Non-consolidated Financial Statements, and the accompanying supplementary schedules thereof of Taikisha Ltd. (hereinafter referred to as the "Company") for the 73rd fiscal year from April 1, 2017, to March 31, 2018.

Management's Responsibility for Non-consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audit Opinion

In our opinion, the Non-consolidated financial statements and the accompanying supplementary schedules thereof referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2018, and the result of its operation for the year then ended in conformity with accounting principles generally accepted in Japan.

Interest

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

Audit Report (English Translation)

Regarding the performance of duties by the Directors for the 73rd fiscal year from April 1, 2017, to March 31, 2018, the Audit & Supervisory Board hereby submits its Audit Report, which has been prepared upon careful consideration based on the audit report prepared by each Audit & Supervisory Board Member.

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

(1) The Audit & Supervisory Board established auditing policies, allocation of duties, and other relevant matters for the fiscal year ended March 31, 2018, and received reports from each Audit & Supervisory Board Member regarding his or her audits and results thereof, as well as received reports from the Directors, other relevant personnel and the Accounting Auditors regarding performance of their duties, and requested explanations as necessary.

(2) Each Audit & Supervisory Board Member complied with the auditing regulations stipulated by the Audit & Supervisory Board, followed the auditing policies, allocation of duties and other relevant matters for the fiscal year under review, communicated with the Directors, the Internal Audit Office, other employees and any other relevant personnel, and made efforts to prepare the environment for information collection and audits, and conducted his/her audit in the following manner.

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

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

2) With respect to the contents of resolutions of the Board of Directors regarding the improvement of the system stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act, which is considered necessary pursuant to the System to Ensure that Directors and Employees of the Company Conform to Laws and the Articles of Incorporation and the System to Ensure the Appropriateness of Operations conducted by the Corporate Group Consisting of the Company and its Subsidiaries in the Business Report, as well as to the systems (internal control system) that have been improved based on such resolutions, each Audit & Supervisory Board Member received regular reports from Directors, employees and other relevant personnel with regard to the improvement and operational status of said systems, requested explanations as necessary and expressed opinions, in accordance with the “Audit Standards for Audit & Supervisory Board Members Regarding the Internal Control System” and the “Checklist for the Internal Control System Audit,” which were stipulated through consultations among all the Audit & Supervisory Board Members.

3) With respect to the Basic Policy pursuant to Article 118, Item 3 (a), and the respective initiatives pursuant to Article 118, Item 3 (b), of the Ordinance for Enforcement of the Companies Act and described in the Business Report, each Audit & Supervisory Board Member examined the content thereof after taking into account deliberations at the Board of Directors and other relevant internal organs.

4) Each Audit & Supervisory Board Member monitored and verified whether the Accounting Auditors maintained their independence and implemented appropriate audits, as well as received reports from the Accounting Auditors regarding the performance of their duties and requested explanations as necessary. In addition, each Audit & Supervisory Board Member received notice from the Accounting Auditors that the “system for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) had been prepared in accordance with the “Product Quality Management Standards Regarding Audits” (issued by the Business Accounting Council on October 28, 2005) and other relevant standards, and requested explanations as necessary.

Based on the above methods, we examined the Business Report and the accompanying supplementary schedules, Non-consolidated Financial Statements (Non-consolidated Balance Sheet, Non-consolidated Income Statement, Non-consolidated Statement of Changes in Net Assets, and Notes to Non-consolidated

Financial Statements) and the accompanying supplementary schedules, as well as the Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Net Assets and Notes to Consolidated Financial Statements), all of which pertain to the fiscal year under review.

2. Results of Audit

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

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

(2) Results of Audit of Consolidated Financial Statements

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

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

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

May 14, 2018

Audit & Supervisory Board, Taikisha Ltd.

Full-time Audit & Supervisory Board Member	Tetsuya Ogawa (seal)
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Full-time Audit & Supervisory Board Member	Toshiya Furukatsu (seal)
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Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)	Junichi Noro (seal)
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Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)	Kiyotaka Fuke (seal)
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Items Disclosed on Internet Concerning
Notice of the 73rd Annual Shareholders' Meeting

Notes to Consolidated Financial Statements

Notes to Non-consolidated Financial Statements

(From April 1, 2017, to March 31, 2018)

Taikisha Ltd.

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

Notes to Consolidated Financial Statements

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

1. Scope of consolidation

Number of consolidated subsidiaries

39

Names of significant subsidiaries

San Esu Industry Co., Ltd.

TKS Industrial Company

Taikisha (Thailand) Co., Ltd.

WuZhou Taikisha Engineering Co., Ltd.

In this consolidated fiscal year, BTE Co., Ltd. is included in the scope of consolidation because Taikisha (Thailand) Co., Ltd. and Taikisha Trading (Thailand) Co., Ltd., which are consolidated subsidiaries of the Company, acquired a total of fifty percent of its shares.

2. Application of the equity method

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

Number of the associates

3

Name of the associates

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

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

J-PM Systems GmbH

In this consolidated fiscal year, J-PM Systems GmbH is included in the scope of application of the equity method because its materiality increased.

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

Name of the associates

Makiansia Engineering (M) Sdn. Bhd.

Reason for not applying the equity method

The associates not subject to the equity method are excluded from application of the equity method because the impact of their profit or loss (amount corresponding to the Company's equity in this company), retained earnings (amount corresponding to the Company's equity in these companies), etc., for the consolidated fiscal year under review is negligible even if they are excluded from the scope of application of the equity method.

3. Accounting policies

(1) Standards and methods for valuation of significant assets

Securities

Held-to-maturity debt securities

Amortized cost method (straight-line method)

Shares of associates

Stated at cost using the moving average method

Available-for-sale securities

Available-for-sale securities with fair value

Stated at fair value based on the market price, etc., on the balance sheet date (Valuation difference is reported as a component of net assets. The cost of sales is calculated using the moving-average method.)

Available-for-sale securities without fair value

Stated at cost using the moving-average method

Derivatives

Stated at fair value

Inventories

Costs on uncompleted construction contracts

Stated at cost using the specific identification method

Raw materials and supplies

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

(2) Depreciation method for principal depreciable assets

Property, plant and equipment
(excluding leased assets)

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

Intangible assets
(excluding leased assets)

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

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

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

(3) Standards of accounting for principal allowance and provisions

Allowance for doubtful accounts

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

Provision for warranties for completed construction

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

Provision for loss on construction contracts

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

Provision for directors' bonuses

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

Provision for directors' retirement benefits

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

(4) Other important matters as the basis of presenting the Consolidated Financial Statements

Accounting standards for net sales of completed construction contracts and cost of sales of completed construction contracts

1) The percentage-of-completion method is applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the balance sheet date for the year under review (percentage of completion is estimated by the cost-to-cost method).

2) The completed-contract method is applied for other construction contracts.

Important methods of hedge accounting

1) Method of hedge accounting

Deferred hedge accounting is applied.

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

	With regard to interest-rate swaps and interest-rate caps that meet the requirements for exceptional accounting, exceptional accounting is applied.				
	2) Hedging instruments and hedged items				
	<table> <tr> <td>Hedging instruments</td><td>Forward exchange contracts, spot exchange forward agreements (non-deliverable forward: NDF), and interest-rate swaps and interest-rate caps</td></tr> <tr> <td>Hedged items</td><td>Foreign currency receivables, foreign currency payables, future transactions in foreign currency and interest-rate trading for loans payable</td></tr> </table>	Hedging instruments	Forward exchange contracts, spot exchange forward agreements (non-deliverable forward: NDF), and interest-rate swaps and interest-rate caps	Hedged items	Foreign currency receivables, foreign currency payables, future transactions in foreign currency and interest-rate trading for loans payable
Hedging instruments	Forward exchange contracts, spot exchange forward agreements (non-deliverable forward: NDF), and interest-rate swaps and interest-rate caps				
Hedged items	Foreign currency receivables, foreign currency payables, future transactions in foreign currency and interest-rate trading for loans payable				
	3) Hedging policy				
	The Company's policy of hedging activities for forward exchange contracts is to reduce exchange-rate fluctuation risks when contracts are concluded and not to conduct speculative trading. The Company's policy of interest-rate swaps and interest-rate caps is to reduce interest-rate fluctuation risks for loans payable and not to conduct speculative trading.				
	4) Method of evaluation of effectiveness of hedging				
	As forward exchange contracts in the same currency are used for forward exchange transactions, the correlation to subsequent exchange rate fluctuations is completely ensured. Accordingly, evaluating the effectiveness of hedging activities is omitted.				
	For interest-rate swaps and interest-rate caps, the judgment on whether to apply exceptional accounting is used instead of an evaluation of the effectiveness of hedging.				
Accounting procedure for retirement benefits	1) Period allocation of projected retirement benefits In calculating the retirement benefit obligations, the benefit formula basis is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year under review. 2) Amortization method for actuarial gains/losses and prior service cost Actuarial gains or losses are amortized for the pro-rata amount computed by the straight-line method over a certain period (10 years) within the average remaining service years of employees at the time of recognition, commencing from the following fiscal year of recognition. The prior service cost is amortized by the straight-line method over a certain period (10 years) within the average remaining service years of employees at the time of recognition.				
Amortization method and period for goodwill	Goodwill is amortized by the straight-line method over a period of twenty (20) years. However, the goodwill is recognized as expenses in the consolidated fiscal year of accrual if the amount is immaterial.				
Accounting for consumption taxes	At the Company and its domestic consolidated subsidiaries, transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.				

[Notes to Consolidated Balance Sheet]

1. Pledged assets

(1) The following assets are pledged as collateral for security deposits at subsidiaries and associates.

Cash and deposits ¥57 million

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

Investment securities ¥2 million

(3) The following assets are pledged as collateral for loans payable at associates.

(Millions of yen)

Asset pledged as collateral	Year-end balance on account books	Secured obligations corresponding to the asset at left
Cash and deposits	299	213
Machinery, vehicles, tools, furniture and fixtures	12	8

(4) The following assets are pledged as collateral for overdraft contracts at subsidiaries and associates.

Cash and deposits ¥17 million

2. Guarantee obligations

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

Employees ¥2 million

Tianjin Dongchun-Taiki Metal Finishing Conveyor System Manufacturing Co., Ltd. ¥276 million

3. Endorsed notes

¥38 million

4. Provision for loss on construction contracts

The costs on uncompleted construction contracts regarding the construction contracts for which losses are expected are reported after they are offset by the corresponding provision for loss on construction contracts of ¥0 million.

[Note to Consolidated Statement of Income]

Provision for loss on construction contracts included in the cost of sales of completed construction contracts was ¥347 million.

[Notes to Consolidated Statement of Changes in Net Assets]

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

Common shares 35,082,009 shares

2. Dividends

(1) Dividend amount

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting on June 29, 2017	Common shares	1,539	45.00	March 31, 2017	June 30, 2017
Board of Directors Meeting on November 13, 2017	Common shares	855	25.00	September 30, 2017	November 30, 2017

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

The following matters concerning the dividends of common shares are proposed in a proposal at the Annual

Shareholders' Meeting to be held on June 28, 2018.

1) Total dividends	¥1,703 million
2) Dividend per share	¥50.00
3) Record date	March 31, 2018
4) Effective date	June 29, 2018
Retained earnings are planned to be used as the source of dividends.	

[Notes to Financial Instruments]

1. Status of Financial Instruments

(1) Policies on financial instruments

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

(2) Description of financial instruments, related risks and risk management system

Notes receivable, accounts receivable from completed construction contracts and other, which are trade receivables, are exposed to the credit risk of the respective customers. As for the credit risk of customers, the Group's management system allows us to monitor the credit standing of major customers at any time on a timely basis based on the maturity and balance control by customer. Meanwhile, trade receivables denominated in foreign currencies, which originate from global business operations, are exposed to the risk of exchange rate fluctuations and are partly hedged by utilizing forward exchange contracts. Although being exposed to the risk of fluctuations in market price, stocks included in the category of investment securities are those of companies with which the Group has business relations and are continuously monitored through regular checks of the current market value and financial positions of the issuers.

Notes payable, accounts payable for construction contracts and other, which are trade payables, generally entail the due date for payments, which typically mature within one year. Some of them are those denominated in foreign currencies due to the imports of materials and raw materials, etc., and are exposed to the risk of exchange rate fluctuations but are always within the limit of the balance of accounts receivable from completed construction contracts, which are similarly denominated in foreign currencies.

Income taxes payable are imposed on the taxable income of the respective Group companies for the fiscal year under review, and they all mature within one year.

Both short-term and long-term loans payable are fund-raising means associated with business transactions. Short-term loans payable with variable interest rates are exposed to the risk of interest-rate fluctuations.

However, long-term loans payables, which are procured at fixed interest rates, in principle, can avoid being exposed to interest-rate fluctuation risk.

Derivative transactions consist of forward exchange contracts and NDFs aimed at hedging the risk of fluctuations in exchange rates for exports and imports in the course of ordinary business operations, 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 notice regarding foreign exchange control issued by the Chief Executive of the Administrative Management Headquarters. This notice clearly stipulates regulations for the management policies on derivative transactions, the regulating division and department in charge of risk management, use purposes, scope of utilization, reporting system and the like. As to interest-rate swaps, only those that meet the requirements for the application of exceptional accounting are used. Derivative transactions are executed only with financial institutions of a high rating caliber to reduce the credit risk.

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

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

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

2. Fair Value of Financial Instruments

The following table indicates the book value in the consolidated balance sheet, the fair value and the differences thereof as of March 31, 2018. Financial instruments for which it is deemed extremely difficult to measure the fair value are not included in the table below. (Refer to Note 2)

(Millions of yen)

	Book value in the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	47,147	47,147	—
(2) Notes receivable, accounts receivable from completed construction contracts and other	101,947		
Allowance for doubtful accounts *1	(501)		
	101,445	101,418	(27)
(3) Investment securities *2	29,457	29,457	—
Total assets	178,050	178,023	(27)
(4) Notes payable, accounts payable for construction contracts and other	60,590	60,586	(4)
(5) Short-term loans payable	6,730	6,730	—
(6) Income taxes payable	3,859	3,859	—
(7) Long-term loans payable	1,606	1,562	(43)
Total liabilities	72,786	72,739	(47)
(8) Derivative transactions	5	5	—

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

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

(Note 1)

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

Assets

(1) Cash and deposits:

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

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

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

(3) Investment securities:

As for the calculation of the fair value of these assets, stocks are based on the prices traded at the stock exchange, whereas bonds are based on the prices proposed by the correspondent financial institution. [bonds are based on the present value to be achieved by discounting using discount rates, which take into account the remaining period prior to maturity, the yield of government bonds and other.]

The investment securities are held in the form of “available-for-sale securities”.

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

Available-for-sale securities with fair value (as of March 31, 2018)

(Millions of yen)

Category	Book value in the consolidated balance sheet	Acquisition cost	Difference
Securities whose book value exceeds their acquisition cost			
Stocks	29,441	10,507	18,934
Securities whose book value does not exceed their acquisition cost			
Stocks	15	20	(4)
Total	29,457	10,527	18,929

2) The sales amount for available-for-sale securities for the fiscal year under review was ¥50 million.

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

Liabilities

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

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

(6) Income taxes payable

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

(7) Long-term loans payable

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

(8) Derivative transactions

1) Derivative transactions not subject to hedge accounting

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

Currency-related

(Millions of yen)

Classification	Type	Contract amount	Portion due after one year included herein	Fair value	Gain/loss on valuation
Non-market transactions	Forward foreign exchange contracts:				
	Buy:				
	JPY	64	—	(0)	(0)
	USD	28	—	(0)	(0)
Total		92	—	(1)	(1)

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

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

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

Currency-related

(Millions of yen)

Hedge method	Type of derivative transaction	Main hedged item	Contract amount	Portion due after one year included herein	Fair value
Method In principle	Forward foreign exchange contracts:				
	Buy:				
	USD	Accounts payable for construction contracts (forecasts)	0	—	(0)
	THB	Accounts payable for construction contracts (forecasts)	2	—	(0)
	Sell:				
	USD	Accounts receivable from completed construction contracts (forecasts)	286	28	9
	THB	Accounts receivable from completed construction contracts (forecasts)	1	—	(0)
	CNY	Accounts receivable from completed construction contracts (forecasts)	114	—	(1)
Total			405	28	7

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

Interest-related

(Millions of yen)

Hedge method	Type of derivative transaction	Main hedged item	Contract amount	Portion due after one year included herein	Fair value
Exceptional accounting	Interest-rate swaps: Pay fixed /Receive floating	Long-term loans payable	641	507	(Note)

(Note) Because interest-rate swaps qualified for the exceptional accounting method 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.

(Note 2)

Book value of financial instruments for which it is extremely difficult to determine the fair value

(Millions of yen)

Category	Carrying value in the consolidated balance sheet
Available-for-sale securities	
Non-listed stocks	1,260
Non-listed foreign bonds	6

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

(Note 3)

Redemption schedule for monetary receivables and securities with maturities

(Millions of yen)

Category	Within one year	Over one year within five years	Over five years within 10 years	Over 10 years
Cash and deposits	47,147	—	—	—
Notes receivable, accounts receivable from completed construction contracts and other	92,824	9,123	—	—
Investment securities				
Available-for-sale securities with maturity dates (non-listed foreign bonds)	—	6	—	—
Total	139,971	9,130	—	—

[Notes to per-Share Information]

1. Net assets per share	¥3,087.51
2. Profit attributable to owners of parent per share	¥212.40

[Note to Significant Subsequent Events]

Not applicable.

[Other Notes]

(Note regarding Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts)

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

(1) Outline of the transactions

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

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

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

- 1) The book value of the trust estate for the fiscal year under review was ¥287 million. The Company's own shares held by the trust are not reported as treasury shares under shareholders' equity.
- 2) The number of shares held at the fiscal year-end was 154 thousand, and the average number of shares outstanding during the year was 155 thousand. The number of shares at the fiscal year-end and the average number of shares outstanding during the year are not included in the number of treasury shares to be deducted in calculating per-share information.

(Additional information)

In accordance with enactment of "The Tax Cuts and Jobs Act of 2017" in December 2017 in the United States, federal corporate income tax rate in the United States was reduced from 35% to 21% from the fiscal year commencing on January 1, 2018. As a result of the reduction of the tax rate, deferred tax assets (the amount after deducting deferred tax liabilities) has been decreased by ¥581 million, foreign currency translation adjustment has been decreased by ¥6 million and income taxes-deferred has been increased by ¥574 million.

Notes to Non-consolidated Financial Statements

[Notes to Significant Accounting Policies]

Accounting Standards

(1) Standards and methods of valuation of assets

Securities

Held-to-maturity debt securities

Amortized cost method (straight-line method)

Shares of subsidiaries and associates

Stated at cost using the moving-average method

Available-for-sale securities

Securities with fair value

Stated at fair value based on the market price, etc., on the balance sheet date (Valuation difference is reported as a component of net assets. The cost of sales is calculated using the moving-average method.)

Securities without fair value

Stated at cost using the moving-average method

Derivatives

Stated at fair value

Inventories

Costs on uncompleted construction contracts

Stated at cost using the specific identification method

Raw materials and supplies

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

(2) Depreciation method for non-current assets

Property, plant and equipment (excluding leased assets)

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

Intangible assets (excluding leased assets)

The straight-line method is applied. However, computer software for internal use is amortized by the straight-line method over the estimated internal useful life (5 years).

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

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

(3) Standards of accounting for allowance and provisions

Allowance for doubtful accounts

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

Provision for warranties for completed construction

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

Provision for loss on construction contracts

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

Provision for directors' bonuses

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

Provision for retirement benefits

of bonuses to Directors.

The provision for retirement benefits is provided based on projected benefit obligations and the fair value of plan assets at the balance sheet date.

1) Period allocation of projected retirement benefits

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

2) Amortization method for actuarial gains/losses and prior service cost

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

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

(4) Accounting standards for net sales of completed construction contracts and Cost of sales of completed construction contracts

1) The percentage-of-completion method is applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the balance sheet date for the year under review (percentage of completion is estimated by the cost-to-cost method).

2) The completed-contract method is applied for other construction contracts.

(5) Other important matters as the basis of presenting the Non-consolidated Financial Statements

Methods of hedge accounting

1) Method of hedge accounting

Deferred hedge accounting is applied.

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

2) Hedging instruments and hedged items

Hedging instruments Forward exchange contracts and spot exchange forward agreements (non-deliverable forward: NDF)

Hedged items Foreign currency receivables, foreign currency payables and future transactions in foreign currency

3) Hedging policy

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

4) Method of evaluation of effectiveness of hedging

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

Accounting procedure for retirement benefits	Accounting procedures for unrecognized actuarial gains or losses and unrecognized prior service cost relative to retirement benefits differ from those applied in the consolidated financial statements.
Accounting for consumption taxes	Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

[Notes to Non-consolidated Balance Sheet]

1. Pledged assets

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

Investment securities ¥2 million

2. Accumulated depreciation

Property, plant and equipment ¥4,976 million

3. Guarantee obligations

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

	(Millions of yen)
Employees	2
Taikisha de Mexico, S.A. de C.V.	201
Taikisha (Singapore) Pte. Ltd.	83
Taikisha (Thailand) Co., Ltd.	969
Taikisha Engineering (M) Sdn. Bhd.	6
P.T. Taikisha Indonesia Engineering	22
Taikisha Vietnam Engineering Inc.	144
WuZhou Taikisha Engineering Co., Ltd.	210
Tianjin Taikisha Paint Finishing System Ltd.	75
Taikisha (Taiwan) Ltd.	1
Taikisha Korea Ltd.	26
Taikisha Engineering India Private Ltd.	2,754
Tianjin Dongchum-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd.	276
Total	<u>4,775</u>

4. Monetary receivables from and payables to subsidiaries and associates

Short-term monetary receivables ¥4,203 million

Short-term monetary payables ¥3,070 million

5. Provision for loss on construction contracts

The costs on uncompleted construction contracts regarding the construction contracts for which losses are expected are reported after they are offset by the corresponding provision for loss on construction contracts of ¥0 million.

[Notes to Non-consolidated Statement of Income]

1. Transactions with associates

	(Millions of yen)
Net sales of completed construction contracts	3,502
Cost of sales of completed construction contracts	5,015
Transactions other than operating transactions (for revenue)	2,534
Transactions other than operating transactions (for expenses)	107

2. Provision for loss on construction contracts included in the cost of sales of completed construction contracts was ¥116 million.

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

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

Common shares 1,012,999 shares

[Note to Tax Effect Accounting]

Breakdown by cause of deferred tax assets and liabilities

(Millions of yen)

Deferred tax assets:

Allowance for doubtful accounts	2
Provision for warranties for completed construction	56
Provision for loss on construction contracts	54
Provision for retirement benefits	32
Employee pension trust, investment securities	287
Accrued enterprise taxes	180
Accrued bonuses	1,223
Loss on valuation of investment securities	123
Loss on valuation of shares of subsidiaries and associates	676
Loss on valuation of golf club membership	56
Others	225
Subtotal	2,920
Valuation allowance	(967)
Total deferred tax assets	1,952

Deferred tax liabilities:

Prepaid pension cost	(1,487)
Valuation difference on available-for-sale securities	(5,688)
Others	(32)
Total deferred tax liabilities	(7,207)
Net deferred tax liabilities	(5,255)

[Notes to Transactions with Related Parties]

Subsidiaries and Associates

(Millions of yen)

Category	Name of company, etc.	Percentage of voting rights, etc., held (or held of the Company)	Relationship with related party	Transaction details	Transaction amount ³	Account title	Fiscal year-end balance
Subsidiary	Taikisha Engineering India Private Ltd.	Direct holding (55.00%)	Con-currently held Officers' posts; Financial support; Ordering to the Company for part of construction work	Guarantee of debt ¹	2,754	—	—
	Tianjin Taikisha Paint Finishing System Ltd.	Direct holding (72.14%) Indirectly holding (17.86%)	Con-currently held Officers' posts; Financial support; Ordering to the Company for part of construction work	Acceptance of construction cost ²	1,967	Accounts receivable from completed construction contracts	2,193

Transaction conditions and decision policy thereof:

(Notes)

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

[Notes to per-Share Information]

1. Net assets per share	¥2,564.71
2. Basic earnings per share	¥231.27

[Note to Significant Subsequent Events]

Not applicable.

[Other Notes]

(Note regarding Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts)

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