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Takasago Thermal Engineering Co., Ltd.

Kazuhiro Kojima, President and Representative Director

Contact: Masatoshi Morino, General Manager of Finance & Investor Relations Department

TEL:03-6369-8212

Ticker code: 1969

<https://www.tte-net.com>

The corporate governance of Takasago Thermal Engineering (the “Company”) is described below.

I Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The basic policy of corporate governance of the Company is to secure the legality, transparency and agility of corporate management and improve the management efficiency in order to earn the trust of society and improve corporate value in the medium and long terms. For details, see [Principle 3-1 Full Disclosure] (ii) below.

[Reasons for Non-Compliance with the Principles of the Corporate Governance Code]

[Supplementary Principle 5-2-1 Basic Policy and Status of Review of Business Portfolio]

In the Group, the equipment construction business currently accounts for approximately 98% of net sales.

At the Company, the status of initiatives in the equipment construction business, such as “by region” or “by customer market,” is ascertained by profitability, and is periodically evaluated by the Company’s Board of Directors.

For example, in the domestic business, in addition to the return on capital, the Company considers the establishment of a value chain, synergies, and growth potential.

Furthermore, the Company is reviewing its international business by adding the perspective of economic (market and country specific) growth potential to its return on capital.

In “Takasago Thermal Engineering Group Long-Term Vision 2040 Create our PLANET, Create our FUTURE” announced on May 12, 2023, we decided to establish four business domains in the future. Going forward, the Company will disclose the status of the review of the business portfolio, including the rearrangement of existing businesses, as necessary, in line with the progress of the consideration of new business fields.

The details of the long-term vision are described in [Principle 3-1: Full Disclosure] (i) below.

[Disclosure Based on the Principles of the Corporate Governance Code] Update

[Principle 1-4 Cross-Shareholdings]

The Company’s basic policy is not to hold cross-shareholdings in order to achieve the sustainable enhancement of corporate value, except in cases where important strategic cooperation and the maintenance and development of business relationships are recognized. For shares that have already been held, the Company periodically and continuously judges the appropriateness of holding the same from the following viewpoints, and examines the results at meetings of the Board of Directors every year.

- Whether or not it leads to the enhancement of the Company’s corporate value over the medium to long term, such as the maintenance of smooth and favorable business relationships and business synergy.
- Whether or not it has an adverse effect on the Company’s financial soundness.
- Whether or not the return from stockholdings, including related transaction profits, dividends, etc., exceeds the cost of capital.

We will disclose the positioning of our stock holdings in terms of our management strategy, etc. and, in principle, will consider reducing stock holdings of which the significance of holding is not recognized. Regarding the exercise of voting rights, the Company makes a decision on whether each agenda contributes to improving the corporate value of an issuer and to the interests of the Company as a shareholder and properly exercises voting rights.

As a result of the above, as of the end of March 2023, the Company held stocks with a market value of 27 billion yen (including unlisted stocks), 18.4% of the consolidated net assets of 147.1 billion yen.

[Principle 1-7 Related Party Transactions]

The Company, in conducting a transaction with any officer thereof, has the following system in place so that such transaction does not harm the interests of the Company and shareholders.

- In principle, internal rules prohibit all directors and executive officers from conducting a transaction or a competing transaction for themselves or others by using their position at work.
- However, internal rules also stipulate that approvals from the Audit & Supervisory Committee and the Board of Directors is required if an adequate reason exists, and that if a transaction is actually conducted, important matters concerning such transaction should be reported to the Committee and the Board without delay.
- Internal rules require Audit & Supervisory Committee to monitor and review competing transactions, conflict-of-interest transactions, provision of property benefits with no charge by the Company (including provision of property benefits with significantly limited counter-performance) and irregular transactions with subsidiaries and shareholders to see if there is any violation of the duties of directors.
- The Company requires its officers to submit a “Letter of Confirmation” concerning related party transactions at the end of every fiscal year, and the Board of Directors monitors if such transactions are conducted. If such transaction of high importance is conducted, the Company discloses it in accordance with the Companies Act and the Financial Instruments and Exchange Act.

There is no shareholder who owns 10% or more of the Company’s voting rights. However, in conducting a transaction with such shareholder, the Company, as with any regular transaction, judges the necessity thereof based on the decision-making standards stipulated by internal rules. The Company shall obtain approval of the Audit & Supervisory Committee in addition to a prior resolution of the Board of Directors.

1. Approach to ensuring diversity in the promotion of core human resources, etc.

In our purpose, "With our revolutionary environmental innovations, we activate the Earth's future", formulated on the occasion of the 100th anniversary of our founding, the Company embraces the slogan "We will expand the circle of diversity and co-creation through harmonious relationships with others". In the "TakasagoWay", which sets forth the values of the Takasago Group's employees, the Company embraces the slogan "Trust: The connection between people is our asset." By respecting and gathering together various opinions and values of people, regardless of their gender, nationality, or other attributes, a wide range of officers and employees will share the idea of creating useful technologies, products, and services that contribute to society, as well as take a people-oriented approach to hiring and personnel evaluation, including ability and performance.

At present, the Company is actively recruiting female employees, and in the personnel system, the Company has abolished regular positions and replaced them with career-track positions, including so-called "regionally limited" positions, and taken other measures, so that almost all female employees can advance their careers to management positions.

In addition, a company-wide diversity promotion working team under the ESG Promotion Committee, chaired by the President, has been established to create a working environment in which all employees, regardless of gender, age, sexual orientation, gender identity, nationality, mid-career employment, the presence or absence of disabilities, or other matters, can fully demonstrate their abilities and play an active role with enthusiasm.

On the other hand, the Company recognizes that it currently needs to take further measures to promote human resources, which play a central role in management, especially in the promotion of female managers, compared to the average of all industries and its own industry average. In light of this situation, the Company is working to develop various measures, such as considering the expansion of fields in which women can play an active role, including construction site work, design work and research and development work, building internal networking among female and non-Japanese employees, providing role models, conducting unconscious bias training, and encouraging male employees to take maternity leave.

In order to achieve sustainable growth and enhance corporate value, the Company will continue to set and regularly monitor medium- to long-term targets for the ratio of women in management positions, based on the recognition that it is important to create management innovation and innovation by respecting and embracing diverse viewpoints and values.

In addition, the Company will also promote the recruitment, development, and promotion of mid-career employees and employees with foreign nationalities to human resources who will play a central role in the management of the Company, with a policy of increasing the ratio of management positions from the current level.

2. Voluntary and measurable targets to ensure diversity

In order to ensure diversity, the Company has set the following targets for the promotion of female managers, mid-career employees, and employees with foreign nationalities to management positions, and regularly monitors them.

(1) Female employees

As of April 2021, the ratio of female managers remains 1.5% of all employees, but this ratio is targeted to be raised to around 10% by around 2030, and then to around 15% by around 2035.

	April 2022	April 2023	Around 2030	Around 2035
Ratio of female managers	1.9%	2.3%	10%	15%

In order to steadily advance the above targets, the Company has set targets such as the ratio of female candidates for management positions as supplementary indicators and, by around 2030, aims to achieve such ratio of 30%, which is equivalent to the ratio of women to officers and employees. The Company is also working to promote the rate of male employees taking childcare leave and other measures and improve the working environment that enables female managers to play an active role.

	April 2022	April 2023	Around 2030
Ratio of female candidates for management positions (deputy section manager level)	6.3%	7.5%	30%
Ratio of women to officers and employees	17.3%	18.1%	30%
Rate of male employees taking childcare leave (1 week or more) *Results for the previous fiscal year	15.6%	65.7%	100%

(2) Mid-career employees and employees with foreign nationalities

The Company is also working to increase mid-career employees and employees with foreign nationalities from the current level, with the aim of increasing them in the ratio of officers and employees.

	April 2022	April 2023	In the future
Ratio of mid-career employees in management positions	9.5%	8.9%	Increase from the current level
Ratio of mid-career employees to officers and employees	16.5%	16.9%	Increase from the current level
Ratio of employees with foreign nationalities in management positions	0%	0%	Increase from the current level
Ratio of employees with foreign nationalities to officers and employees	1.7%	1.7%	Increase from the current level

As for employees with foreign nationalities, as of March 31, 2023, 1,584 of 1,605 employees at overseas subsidiaries of the Company were employees with foreign nationalities, and 343 employees with foreign nationalities accounted for 351 management positions.

By closely communicating at the Company alone between employees with foreign nationalities and staff with foreign nationalities at overseas subsidiaries, the Company aims to increase opportunities for employees with foreign nationalities to exercise their functions at the Company alone.

3. Human resource development policy to secure diversity, internal environmental development policy, and the status thereof

In light of the decline in the number of workers due to the declining birthrate and aging population, changes in the sense of value toward working, and other factors, the Company will continue to hire, train, and evaluate excellent human resources based on the concept of a people-oriented approach, such as ability and performance, regardless of gender, nationality, or other attributes. At the same time, the Company will continue to improve the working environment so that all employees can play an active role in all workplaces in a lively and rewarding manner.

In the fiscal year ended March 31, 2023, in addition to considering the expansion of fields in which female employees can play an active role and encouraging male employees to take maternity leave, we conducted training for all employees on topics such as unconscious bias and established internal networking among female employees. Similarly, for mid-career hires, employees with disabilities, and non-Japanese employees, we conducted training on unconscious bias and other issues, as well as initiatives to build internal networking among non-Japanese employees.

Through these initiatives, we believe that we will be able to generate ideas and innovations from diverse perspectives, leading to sustainable growth and increased corporate value.

< Training and events related to diversity promotion held during the fiscal year ended March 31, 2023 >

[Training]

- Unconscious bias training
- Consciousness training for women
- Training for Female Managers (Leadership Training)
- Training to promote understanding of people with disabilities
- Business and human rights training
- LGBTQ training

[Events]

- Dialogue between the president and representatives of female employees of the head office and each store (dialogue session)
- Dialogue between the president and representatives of non-Japanese employees of the head office and at each branch (dialogue session)
- Opinion exchange meeting between approximately 20 representatives of female employees of the head office and each branch
- Opinion exchange session among all non-Japanese employees

[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]

In operating the defined benefit corporate pension plan, the Company utilizes the knowledge of an external expert organization to conduct appropriate risk management and efficient reserve fund management so that it can fulfill the expected function as an asset owner. In addition, the Company strives to appoint personnel with expertise and qualifications in pension management in terms of personnel assignment. In addition to the establishment of such a system, the Corporate Pension Management Committee determines the management policy of the pension plan and monitors the status of management.

[Principle 3-1 Full Disclosure]

(i) Purpose, Group Long-Term Vision, Mid-Term Management Plan

In May of this year, we announced "Takasago Thermal Engineering Group Long-Term Vision 2040: Create our PLANET, Create our FUTURE". In addition to this vision, we also announced the Takasago Thermal Engineering Group's purpose: "With our revolutionary environmental innovations, we activate the Earth's future". This purpose is based on our company motto, "Contribution to society through social harmony and creative solutions," and our guidelines for everyday life: TakasagoWay (Provide value beyond expectations. Act with fairness, confidence, and pride. Build trust to create enduring relationships). It articulates and clarifies where Takasago Thermal Engineering Group's employees' hearts and souls lie, and shows which direction they should take.

Under the "Takasago Thermal Engineering Group Long-Term Vision 2040," the Group aims to become a corporate group that generates more than 40 billion yen in ordinary income in 2040 by expanding its business domain of environmental creation while keeping its existing air conditioning technology at its core, and by linking, through digital transformation, its four business domains: (1) construction business, (2) facility maintenance and management business, (3) carbon neutral business, and (4) environmental equipment manufacturing and sales business. Each and every one of our executives and employees will continue to take on challenges as environmental creators and co-create environmental value with our business partners.

The Takasago Thermal Engineering Group Long-Term Vision 2040 has three phases as planned. In the first phase (2023-2026), entitled "Mid-term Management Plan 2026: Step for the FUTURE - Four years to embark on the future," we aim to achieve ordinary income of 20 billion yen in 2026 by solidifying our earnings base through our core business (construction business) and allocating funds generated by the core business to growth investments aimed at expanding business domains. The second phase (2027-2030) is positioned as a four-year period for achieving growth, with the aim of expanding overseas business, creating new added value through digital transformation, and generating profits from carbon-neutral businesses. The third phase (2031-2040) is positioned as a decade of breakthrough and aims to establish new business segments that contribute to carbon neutrality. By steadily advancing the aforementioned three phases, we will strive to achieve sustainable growth and enhance our corporate value over the mid- to long-term.

(ii) Basic Views on Corporate Governance and Basic Policy Based on the Principles of the Code

We recognize as ESG our corporate activities carried out based on our purpose: "With our revolutionary environmental innovations, we activate the Earth's future". Through the promotion of ESG management, we will strive to contribute to solving issues faced by our stakeholders such as shareholders, customers, business partners, cooperating companies, local communities, and employees, and to secure the trust of society.

The Company also considers strengthening of corporate governance as one of the important management issues and works to achieve sustainable growth and medium- and long-term improvement of corporate value through enforcing effective corporate governance.

1. Securing the Rights and Equal Treatment of Shareholders (Securing the Rights of Shareholders)

The Company recognizes that shareholders are important stakeholders and develops an environment where they can fairly exercise their rights. The Company also works to secure the equality of minority shareholders and foreign shareholders and ensure that they can properly exercise their rights as well.

(Capital & Financial Strategy)

We will emphasize a balance between capital efficiency and financial soundness to build a financial foundation that supports sustainable growth, and appropriately allocate generated cash to investment for growth in order to enhance corporate value, and shareholder returns. With regard to capital efficiency, we will pursue return on capital with an awareness of the cost of capital and aim to improve return on equity (ROE).

Our basic profit distribution policy is to return profits to shareholders through dividends. Starting with the interim and year-end dividends for the fiscal year ended March 31, 2022, we will not reduce dividends during the period covered by the previous medium-term management plan (April 1, 2020 to March 31, 2024), and thereafter the Company will adopt a progressive dividend policy of increasing dividends in line with sustained profit growth, aiming for a payout ratio of 40%. In addition, we plan to pay a commemorative dividend in fiscal 2023, the 100th anniversary of the company's founding.

For the sustainable growth of the Group and medium- and long-term improvement of corporate value, the Company uses internal reserves as funds to develop technology and reinforce the financial standing to strengthen its competitiveness and for business and capital alliances to expand its business domains and other purposes.

From the viewpoint of increasing shareholder value over the medium and long-term, the Company intends to flexibly implement share repurchases, taking into consideration performance trends, opportunities for growth investment, capital efficiency, and other factors.

2. Appropriate Cooperation with Stakeholders Other Than Shareholders

(Purpose)

In our purpose, "With our revolutionary environmental innovations, we activate the Earth's future," we state that we will "Contribute to society through social harmony and creative solutions." While keeping our existing air conditioning technology at our core, we will expand our business domain of environmental creation, and each of our executives and employees, as environmental creators, will continue to take on new challenges while working with diverse human resources both inside and outside the company to co-create environmental value with our business partners.

(Sustainability)

Given the recent growing awareness of social and environmental issues on a global level, the Company bears social responsibilities while striving to enhance its corporate value, engaging in ESG-oriented management in an effort to contribute to the realization of a sustainable society.

Starting with thorough corporate ethics, we will promote fair and highly transparent management, as well as activities that contribute to the future of the global environment, such as decarbonization and climate change initiatives, development of unique technologies based on customer needs, and activities that contribute to the social implementation and provision of the highest quality, along with improving employee engagement, activities that contribute to the creation of a corporate culture full of diversity, in which diverse values are embraced and diverse employees of the Takasago Group play an active role, and activities to build a system for all employees to grow as environmental creators.

3. Ensuring Appropriate Information Disclosure and Transparency (Full Disclosure)

Regardless of whether required by law or not, the Company works to maintain timely and proper information disclosure from the perspective of protecting investors and earning the trust of the capital market.

In disclosing information, the Company works to be accurate and easy to understand so that it can have constructive dialogue with its shareholders.

(Accounting Auditors)

Accounting auditors, in collaboration with the Audit & Supervisory Committee and relevant departments such as Accounting & Finance and Internal Audit, work to secure an audit plan and a system and conduct a proper audit.

The Company promptly reports any event which affects accounting to the auditing firm and consults with and notifies it of an accounting policy. Accounting auditors work to understand accurate background information and the facts of such event to form an opinion.

4. Responsibilities of the Board

(Roles and Responsibilities of the Board)

The Company develops and uses a system including an optional committee so that the Board of Directors can fully perform its main roles and responsibilities: "Presentation of directions such as corporate strategy," "Development of environment which supports risk taking" and "Highly effective supervision of the management and directors."

The Board of Directors makes important decisions for business execution and supervises performance of duties by directors to improve the efficiency of business management and secure the legality and validity of business execution.

(Use of Independent Outside Directors)

The Company utilizes judgments of outside directors independent from the management to promote "Segregation of supervision and execution of management" and secure the independence and objectivity of the Board of Directors in supervising business management.

The Company believes that independent outside directors can have discussions which contribute to the sustainable growth of the Company and medium- and long-term improvement of corporate value by offering useful advice and opinions on a management policy and improvement of business management from an independent perspective based on their expertise, abundant experience and knowledge. At the General Meeting of Shareholders held in June 2023, the Company raised the ratio of independent outside directors from 54.5% (six of the 11 directors are independent outside directors) to 58.3% (seven of the 12 directors are independent outside directors).

(Evaluation of Effectiveness of the Board)

The Company checks whether the entire Board of Directors properly functions or not, so that it can effectively perform its roles and responsibilities. While regularly analyzing and evaluating the effectiveness of the entire Board of Directors based on self-assessment of the respective director and Audit & Supervisory Committee members, the Company directly obtains advice and opinions on this analysis and evaluation from outside directors and outside Audit & Supervisory Committee members, and takes proper measures to solve issues, if any.

The Company uses the results of analysis of this evaluation to improve the Board of Directors' decision-making/supervisory function. For details, see [Supplementary Principle 4-11-3 Analysis/Evaluation of Effectiveness of the Board, Disclosure of Summary of Results Thereof] below.

5. Dialogue with Shareholders (Dialogue with Shareholders)

The Company believes listening to shareholders and taking proper measures lead to the sustainable growth and medium- and long-term improvement of corporate value. Thus, the Company commits to building a constructive relationship with shareholders through dialogue with shareholders and disclosure of materials. For details, see [Principle 5-1 Policy for Constructive Dialogue with Shareholders] below.

(i) Policy and Procedures for the Board of Directors to Determine Remuneration of Executives and Directors

With regard to the individual remuneration, etc. of the Company's directors (except for Directors who are Audit & Supervisory Committee members), for the purpose of growing its business over the medium to long term and continuously and sustainably improving its corporate value and the common interests of its shareholders, the Company has decided, by resolution of the Board of Directors, to adopt a policy of having a remuneration system that functions as one of the sound incentives (motivation) in consideration of trends in corporate governance, survey data from external specialist organizations, the remuneration levels of other companies, and other factors. In addition, with regard to individual remuneration, etc. for Directors who are Audit & Supervisory Committee members are determined through discussion by Directors who are Audit & Supervisory Committee Members within the maximum amount of the total remuneration, etc. of Directors who are Audit & Supervisory Committee Members determined by a resolution of the General Meeting of Shareholders.

The following is a summary of the policy for determining the content of individual remuneration for officers of the Company.

The Company determines, based on a resolution of a shareholder meeting, the maximum limit of total remuneration of each of Directors (except for Directors who are Audit & Supervisory Committee members) and Directors who are Audit & Supervisory Committee members.

To enhance the independence, objectivity and transparency of officer remuneration, the Company established, as an optional advisory body, the Governance, Nomination and Remuneration Committee. After discussions at a meeting of the Committee, the Company determines, based on a resolution of the Board of Directors, the remuneration of Directors (except for Directors who are Audit & Supervisory Committee members). The majority of the Committee consists of independent outside directors, and in the most recent fiscal year, the Nomination and Remuneration Committee consisted of eight members, six of whom were independent outside directors. As of the filing of this report, the Governance, Nomination and Remuneration Committee consists of five members, four of whom are independent outside directors.

The remuneration of Directors (except for Directors who are Audit & Supervisory Committee members and independent outside directors) consists of base compensation, a bonus as short-term (annual) incentives, and a stock compensation plan (Directors' Compensation BIP Trust) as a medium to long-term incentive, and the proportion of each component is set by considering the Company's policy for determining the content of compensation for each individual director. The Company's policy is to reduce the proportion of basic remuneration and increase the proportion of bonuses and a stock compensation plan (Directors' Compensation BIP Trust) as the rank increases. The proportion of basic remuneration, bonuses, and a stock compensation plan (Directors' Compensation BIP Trust) on the basis of the Representative Director's standard payment ratio is 60%: 20%: 20%.

The Company only pays basic remuneration to independent outside directors and pays no bonus or stock compensation plan (Directors' Compensation BIP Trust) to them.

Basic remuneration is fixed remuneration determined according to one's title and a certain amount is paid monthly.

For bonuses, from April 1, 2019, for the purpose of boosting the motivation to achieve a single-year performance goal, etc., the Company introduced a system where bonuses fluctuate between 50% to 150% depending on the base amount by position, according to the previous year's earnings (profit attributable to owners of parent from the viewpoint of sharing performance with shareholders, ratio of net income to consolidated sales from the viewpoint of profitability, and consolidated sales from the viewpoint of the sustainable growth of the Group) as well as qualitative evaluation of each officer (degree of achievement of individual goal, training of successors, improvement of corporate value, efforts toward SDGs, vitalization of the Board of Directors and compliance). Bonuses are paid at a certain time each year. In addition, the purpose of the stock compensation plan (Directors' Compensation BIP Trust) is to further motivate them to contribute to higher profits and improve corporate value in the medium and long terms. In June of each year, points are granted based on base points that are predetermined according to one's position and multiplied by a performance-linked coefficient that varies according to the degree of achievement against the target values of the performance indicators for the fiscal year ending on the last day of March of the same year. Shares of the Company equivalent to the cumulative points are delivered at the time of retirement. The performance-linked coefficient is designed to vary within the range of 0% to 150%, depending on the degree of achievement of targets, etc. for financial indicators

(consolidated sales, consolidated ordinary income, consolidated ROE, etc.) and non-financial indicators (CO2 emissions, etc.) for each fiscal year.

Number of points granted = Base amount of stock compensation by position / Average acquisition price of shares of the Company (*1) × Performance-linked coefficient of financial indicators (*2) × Performance-linked coefficient of non-financial indicators (*3)

- *1. Average acquisition unit price of shares of the Company through a trust. If the trust period is extended, the average acquisition price of shares of the Company acquired through the trust after the extension.
- *2. Performance-linked coefficient of financial indicators = Consolidated sales coefficient × 30% + Consolidated ordinary income coefficient × 60% + Consolidated ROE coefficient × 10%
- *3. CO2 emissions are used as a non-financial indicator.

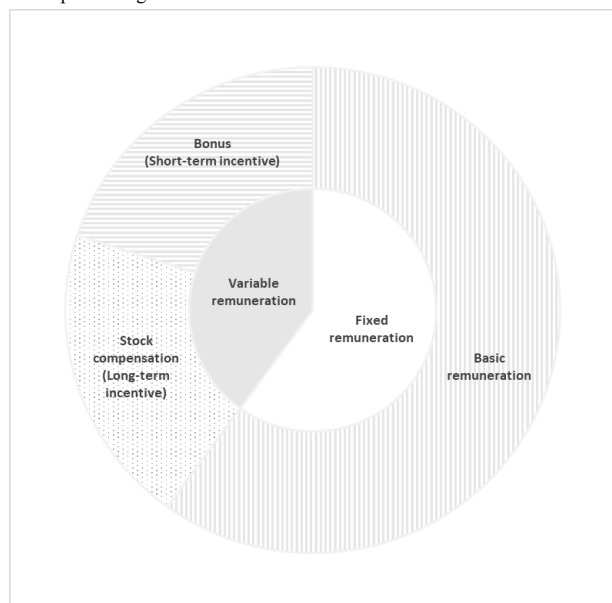
As with directors (except for Directors who are Audit & Supervisory Committee members and independent outside directors), remuneration of executive officers consists of basic remuneration, bonus as a short-term (annual) incentive and stock compensation plan (Directors' Compensation BIP Trust) as a medium- and long-term incentive, and is determined based on a resolution of the Board of Directors after discussion by the Governance, Nomination and Remuneration Committee.

Each director (except for Directors who are Audit & Supervisory Committee members and independent outside directors) and executive officer endeavor to acquire shares of the Company by way of optional contribution through the director shareholding association.

The remuneration of Directors who are Audit & Supervisory Committee members only consists of basic remuneration whose amount is determined through discussions by Directors who are Audit & Supervisory Committee members by considering the details, volume and difficulty of the duties of each director who are Audit & Supervisory Committee members and the extent of responsibilities in a comprehensive manner. No bonus or stock-related remuneration such as a stock compensation plan (Directors' Compensation BIP Trust) is paid to Directors who are Audit & Supervisory Committee members in light of their duties.

The details of individual director compensation for the most recent fiscal year were determined by resolution of the Board of Directors. In making such a determination, the Nomination and Remuneration Committee deliberated on the adequacy of director compensation and the design of the system, and a report on the draft proposal prepared by the Board of Directors was made to the Board of Directors after reviewing the draft from various perspectives, including consistency with the Company's decision-making policy regarding the details of individual director compensation, and the Board of Directors respected such report and made its determination. Therefore, the Board of Directors has determined that the details of individual director compensation for the most recent fiscal year are in line with the decision policy.

Conceptual image of director's remuneration



< Date of resolution by shareholders' meeting and details thereof concerning officers' remuneration >

1) Directors (Except for Directors who are Audit & Supervisory Committee members)

Type of remuneration	Date of resolution	Eligible person	Amount	Number of members at the time of resolution
Basic remuneration and bonus	June 23, 2023	Directors (Except for Directors who are Audit & Supervisory Committee members)	¥550 million or less (in one fiscal year)	8
Stock compensation	June 23, 2023	Directors (Except for Directors who are Audit & Supervisory Committee members and Outside Directors) and Executive Officers	¥769 million or less (in three fiscal years) 158,200 shares or less (in one fiscal year)	4 directors and 23 executive officers who do not concurrently serve as a director

2) Directors who are Audit & Supervisory Committee members

Type of remuneration	Date of resolution	Eligible person	Amount	Number of members at the time of resolution
Basic remuneration	June 23, 2023	Directors who are Audit & Supervisory Committee members	¥120 million or less in a year	4

<Methods of determination of performance-linked compensation in the most recent fiscal years>

The Company determines the bonus paid to each director (except for Directors who are Audit & Supervisory Committee members) based on his/her performance, duties, degree of contribution, etc. in a comprehensive manner. For the purpose of boosting the motivation to achieve a single-year performance goal, etc., performance indicators for the recent fiscal year are composed of the results for the previous year's earnings (profit attributable to owners of parent from the viewpoint of sharing performance with shareholders, ratio of net income to consolidated sales from the viewpoint of profitability, and consolidated sales from the viewpoint of sustainable growth of the Group) as well as qualitative evaluation of each director (degree of achievement of individual goal, training of successors, improvement of corporate value, efforts toward SDGs, vitalization of the Board of Directors and compliance). The actual results related to indicators for the most recent fiscal year are as follows:

Indicator	Actual results (compared with published achievement ratio)
Profit attributable to owners of parent	12,227 million yen (113%)
Ratio of net income to consolidated sales	3.6% (102%)
Consolidated sales	338,831 million yen (108%)

< Name(s) of those with decision-making authority >

The Board of Directors determines the amount of remuneration of directors (except for Directors who are Audit & Supervisory Committee members) after discussions at the Governance, Nomination and Remuneration Committee. For an overview of the Committee, see "2. Matters on Functions of Business Execution, Auditing/Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)."

< Content of Authority and Scope of Discretion >

The Company determines the amount of each type of remuneration within the limit stipulated by shareholders' meetings.

As basic remuneration is determined based on the amount by position stipulated by resolutions of the Board of Directors, there is no room for discretion of Representative Directors or the Governance, Nomination and Remuneration Committee in principle. Bonus is calculated by the formula by position stipulated by resolutions of the Board of Directors. The Board approves its amount after the Governance, Nomination and Remuneration Committee verifies the appropriateness. Stock compensation is determined based on the formula by position stipulated by resolutions of the Board of Directors.

The scope of employees discussed by the Governance, Nomination and Remuneration Committee concerning remuneration includes directors (except for Directors who are Audit & Supervisory Committee members and outside directors) and executive officers.

< Overview of procedures performed by the Committee involved in policy determination >

The Governance, Nomination and Remuneration Committee will establish an office and convene meetings and provide prior explanation in accordance with the "Rules for the Governance, Nomination and Remuneration Committee". What is discussed in those meetings is reported to the Board of Directors at the discretion of the chairperson.

< Activities of the Board of Directors and the Committee >

The Nomination and Remuneration Committee held twelve meetings during the most recent fiscal year and discussed validity of the remuneration to each director proposed by the Company given the level of fulfillment of one's function while discussing the method of calculating performance-linked compensation. The Board of Directors received reports on discussions at the Committee. In addition to the remuneration of directors, the Nomination and Remuneration Committee deliberated on matters related to the appointment and dismissal of executives and reported the results to the Board of Directors. All directors who are members of the Committee attended all twelve meetings of the Committee.

(ii) Policy and Procedures for the Board of Directors to Appoint/Dismiss Executives and Nominate Candidates for Directors and Audit & Supervisory Committee Members

To enhance the objectivity and transparency of appointment/dismissal of executives as well as nomination of candidates for directors and audit & supervisory board members, the Company, as an optional advisory body, established the Governance, Nomination and Remuneration Committee which consists of a majority of independent outside directors and is chaired by an independent outside director. After discussions at the Committee, candidates are submitted to the Board of Directors for further deliberation. However, for Directors who are Audit & Supervisory Committee members, approval of the Audit & Supervisory Committee is obtained when submitting candidates to the Board of Directors for deliberation. As of the submission of this Report, four out of five members of the Committee are independent outside directors.

The criteria for appointment of directors (who are Audit & Supervisory Committee members) include knowledge of business operation with excellent foresight, insight and objective judgment, ability to exercise leadership for sustainable growth of the Group and improvement of corporate value, ability to make an active and positive contribution to development of the next-generation executives, great character with popularity, high ethical standards and courage, ability to perform one's duty with no physical or mental problem and freedom from any problem such as having a vested interest. In addition to the above criteria, for directors who are not outside directors, sufficient experience and knowledge to manage the area he or she is in charge of and a sense of balance as well as leadership to execute business from the perspective of total optimization are required. For outside directors, an ability to supervise and check business management from an independent perspective by using abundant experience and knowledge of the area of expertise and corporate management is required. For the standards to secure the independence of independent outside directors, see [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

The criteria for appointment of Directors who are Audit & Supervisory Committee members include quality to fulfill responsibilities of Directors who are Audit & Supervisory Committee members with high ethical standards, physical and mental fitness and freedom from any problem such as having a vested interest. In addition to the above criteria, for Audit & Supervisory Committee members who are not outside Audit & Supervisory Committee members, sufficient experience and knowledge of the Company's businesses and ability to conduct a proper audit are required. For outside Audit & Supervisory Committee members, an ability to conduct a proper audit from an independent perspective by using abundant experience and knowledge of the area of expertise and corporate management is required. For the standards to secure the independence of independent outside directors, see [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

The criteria for appointment of executive officers include an ability to perform important management in terms of corporate strategy supported by a high level of professionalism and track record, ability to exercise leadership for sustainable growth of the Group and improvement of corporate value, ability to make an active and positive contribution to development of the next-generation executives, great character with popularity, high ethical standards and courage, ability to perform one's duty with no physical or mental problem and freedom from any problem such as having a vested interest.

When executives are considered to lack aptitude in light of the above-mentioned standards, the Governance, Nomination and Remuneration Committee may discuss dismissal of such executives.

(iii) Explanation of Each Appointment/Dismissal and Nomination When the Board Appoints/Dismisses Executives and Nominates Candidates for Directors and Audit & Supervisory Committee Members Based on (ii) Above

The Company, in nominating candidates for directors and Audit & Supervisory Committee members, specifies the reason for selecting each candidate in a notice of a general shareholder meeting. The explanations for nomination of current directors and Audit & Supervisory Committee members as candidates therefor are shown below.

Kazuhito Kojima: Representative Director, President and Executive Officer

Through the execution of the air conditioning equipment business, Kazuhito Kojima has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities through the development of the Group's medium-term/annual business plans and through structural reforms and ESG/SDG-conscious corporate planning operations. We believe that, as President, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Tadashi Kamiya: Director, Managing Executive Officer, Chief Executive Officer of Technical Engineering Headquarters, in charge of Affiliated Companies, and in charge of Business Strategy Management Division

Through the execution of the air conditioning equipment business, Tadashi Kamiya has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities through business management and productivity improvement in the air conditioning equipment business. We believe that, as the person in charge of core business management and business strategy, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Toshikazu Yokote: Director, CDXO, Managing Executive Officer, in charge of Risk and Compliance, in charge of Corporate Division and in charge of DX Division

Through the execution of the air conditioning equipment business, Toshikazu Yokote has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities through the enhancement of the management foundation, as Officer in charge of human resources, general affairs, accounting and finance, legal-related operations and DX management. We believe that, as Director in Charge of Compliance including overall corporate management, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Hiroshi Kubota: Director and Managing Executive Officer; Chief Executive Officer of Sales & Marketing Headquarters; In Charge of Sales & Marketing Headquarters

Hiroshi Kubota has been involved in the Sales Department for many years and currently serves as the Chief Executive Officer of the Sales & Marketing Headquarters, overseeing sales of the air conditioning equipment business. With such a background, he has excellent capabilities and insight. We believe that he can be expected to contribute to the sustainable growth of the Group and the enhancement of its corporate value over the medium to long term, as well as to invigorate and strengthen the functions of the Board of Directors, based on his abundant experience.

Shuma Uchino, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Atsushi Takagi, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Yoko seki, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Hideka Morimoto, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Masato Nakamura, Director (Audit & Supervisory Committee Member)

Mr. Masato Nakamura has extensive experience and knowledge in finance, accounting, and international business from his work at financial institutions. Since joining the Company, in addition to his work experience in the division overseeing international business, he has fulfilled his responsibilities as an executive officer through the formulation of the Group's medium-term and annual management plans, structural reforms, and ESG/SDG-conscious corporate planning. We have determined that by leveraging these factors, he will be able to appropriately perform his duties as a director who is Audit & Supervisory Committee member by supervising and checking management.

Kazuo Sakakibara, Director (Audit & Supervisory Committee Member)

An explanation is shown below in "Reasons for Appointment" of the said Director (Audit & Supervisory Committee Member)

Hiroyuki Hioka, Director (Audit & Supervisory Committee Member)

An explanation is shown below in "Reasons for Appointment" of the said Director (Audit & Supervisory Committee Member)

Hiroyuki Wakamatsu, Director (Audit & Supervisory Committee Member)

An explanation is shown below in "Reasons for Appointment" of the said Director (Audit & Supervisory Committee Member)

[Supplementary Principle 3-1-3 Initiatives for Sustainability]

The Group positions ESG as the cornerstone of its management, and its basic stance is to contribute to the realization of a sustainable society. Under the Basic Principles of Sustainability*, the Group recognizes ESG issues as sustainability issues and promotes initiatives to address them.

Each year, as part of our management strategy (management plan), we set the content of initiatives and KPIs, etc. in each ESG area and continuously work to resolve issues through the PDCA cycle.

< Basic Sustainability Principles >

1. We will incorporate initiatives to resolve sustainability issues (including ESG issues) into our business activities as part of our operations.
2. We will strive to respond appropriately to risks related to sustainability issues and capture profit opportunities.
3. We will consult and work with all stakeholders, including those in the supply chain.
4. We, as environmental creators, strive to provide environmentally friendly technologies and services.
5. We understand our customers' needs and always strive to provide quality that exceeds their expectations.
6. We will strive to improve employee engagement by creating a work environment that is easy to work in and conducive to motivation, including fair and equitable treatment, diversity, and promotion of health management.
7. We will promote fair and transparent management, including strict adherence to corporate ethics.
8. Top management will lead by example, and all executives and employees will work with enthusiasm and a strong sense of purpose.

(1) Governance

We have established an ESG Promotion Committee, chaired by the President, to deliberate on policies for addressing sustainability issues, and to submit reports to the Board of Directors.

The ESG Promotion Committee has set sustainability issues (ESG issues) and target levels consistent with the Group's management strategy, and formulated a promotion plan that reflects these issues.

The ESG Promotion Committee checks the progress of these issues on a quarterly basis, and establishes working teams within the committee to address the highly important sustainability issues of "contribution to CO2 reduction," "promotion of diversity," and "improvement of employee engagement," which are strongly related to our business activities.

We believe that "contributing to CO2 reduction" is strongly related to "addressing climate change," which is an important issue for society as a whole, and "promotion of diversity" and "improvement of employee engagement" are strongly related to "strengthening human capital," which is also an important issue for society as a whole.

In addition to quarterly progress checks, the ESG Promotion Committee has established a working team to address these important issues, and also checks reports on the status of initiatives by the working team and submits them to the Board of Directors on a quarterly basis.

During the fiscal year ended March 31, 2023, the ESG Promotion Committee met a total of six times to discuss the content of the Task Force on Climate-related Financial Disclosures (TCFD) and to pass resolutions on the ESG promotion plan for fiscal year 2023.

In order to share initiatives among group companies, the Group CSR Promotion Committee (chaired by General Manager of the Corporate Planning Division of the Company), whose members consist of the general managers of the departments in charge of domestic subsidiaries and affiliates, met three times. In addition, we shared the details of the ESG Promotion Committee's discussion with the general managers of our overseas subsidiaries, and exchanged opinions with them on two occasions.

(2) Risk Management

Recognizing that climate-related risks are an important issue, the ESG Promotion Committee and the Risk Management Committee, which is responsible for appropriately reducing and controlling company-wide risks that affect corporate activities, work together to study countermeasures, and an integrated management system is in place to report to the Board of Directors on risks that are deemed important.

In the fiscal year ended March 31, 2023, each risk identified in the sustainability agenda was identified and evaluated as part of the overall risks of our business activities, and measures to mitigate them were formulated. The status of these measures was monitored quarterly by the Risk Management Committee and Internal Control Committee and reported to the Board of Directors.

(3) Strategies, Indicators and Targets

The status of initiatives (strategies, indicators, and targets) for "addressing climate change" and "strengthening human capital," which are recognized as important social issues, are shown below.

i) Addressing Climate Change Challenges

(Strategy)

With regard to our efforts to address climate change issues, we have analyzed 1.5°C and 4°C scenarios as assumptions for our impact calculations, after identifying climate-related risks and opportunities for our company in accordance with the disclosure framework of the TCFD recommendations (the latest version as of the submission of this report is that announced on September 29, 2023).

Under the 1.5°C scenario, it is expected that competition based on CO₂ emissions reduction and net-zero emissions will intensify, with strong demand for companies to respond to climate change through systemization and smart construction. Therefore, it is believed that there will be high transition risks such as loss of customers and loss of reputation due to insufficient or inadequate response to customer needs.

On the other hand, under the 4°C scenario, environmental policies and regulations will not be tightened, and there will be relatively low transition risks, such as costs associated with the introduction of a carbon pricing system, for example. However, it is expected that there will be considerably higher physical risks, such as process delays at construction sites due to more severe natural disasters and extreme weather events.

In both scenarios, the need for air conditioning in indoor living environments is expected to increase without abating. Thus, it is necessary to deepen consideration of the transition to a carbon neutral society, including new decarbonization-related technologies and services such as air conditioning services with lowered energy consumption and efficient energy management. In addition, construction workers are essential for the implementation of such technologies. Therefore, various measures are needed to improve environments for project execution, including working environments. To improve working environments, we will expand work off-site through T-Base* and other means, and improve productivity through the use of digital transformation (DX) and other measures to improve workplaces.

We believe that addressing climate-related issues is also a business growth opportunity for our company. In order to capture these opportunities, in addition to the above-mentioned measures, we will strive to develop and implement new technologies through dialogue with customers, suppliers, and other stakeholders, and will actively implement various proposals to promote carbon neutrality.

- * Project to change the manner of construction from "construction management" on site to "production management" by platform.

(Indicators and Goals)

We have raised our annual greenhouse gas emission reduction target level from -2.5% to -4.2% for Scope 1 and 2, and have set a target of -16.8% for FY2026 (vs. FY2022) in our Medium-term Management Plan. In the fiscal year ended March 31, 2023, we reduced our emissions by approximately 33% compared to the fiscal year ended March 31, 2019, through the use of electricity from renewable energy sources and other measures. We have raised our reduction target, including for companies belonging to the consolidated group, from the SBT's well-below 2°C reduction target to the 1.5°C reduction target, and will accelerate our efforts to achieve the goal of net-zero emissions in 2050.

ii) Strengthening Human Capital

(Strategy)

Since its founding, the Group has contributed to the development of society by combining the strengths of each and every employee to create new value under our company motto, "Contribute to society through human harmony and creativity", believing that people are our greatest asset. This philosophy is underpinned by the notion that the company is supported by each and every employee, and that the company grows further through the autonomous growth of its employees.

From this perspective, we have established the "Basic Human Resource Management Policy" as our policy on human resource development, including ensuring diversity of human resources, and the development of the company's internal environment.

* <Human Resources Management Basic Policy > *

Based on our philosophy that "people are our greatest asset," we conduct human resource management based on the development of human assets and respect for people.

In order to contribute to society by constantly creating new value through our corporate activities, we must be a company that continues to grow day by day, and we believe that such growth is supported by our human resources and their growth; therefore, we will develop human resources who have character and high ethical standards, are autonomous, and who constantly take on challenges.

We will also foster a corporate culture that recognizes and respects each other's diversity, regardless of gender, sexual orientation, gender identity, nationality, disability, or other attributes, and create a work environment where individuals are healthy, vibrant and able to maximize their abilities.

Based on the above policy, our group is working to create a work environment in which each employee can function as an environmental creator, and is working to create an environment that strengthens human capital, including the promotion of diversity.

The details of our diversity promotion efforts, including the progress of indicators and targets, are described above in [Supplemental Principle 2-4-1: Ensuring diversity in the appointment of core human resources, etc.].

In addition to diversity promotion, the following efforts are being made to strengthen human capital.

- Strengthening recruitment activities based on merit, regardless of gender, nationality, career, etc.
- Fostering environmental creators who will create a carbon-neutral society and a future for Earth
- Promotion of work style reforms such as expansion of remote working, thorough implementation of no-overtime days, staggered work hours, etc.
- Business and Human Rights Issues - We have begun to identify potential risks of human rights violations in the course of our business activities and to examine measures to address them.
- Promotion of Employee Health Management - Recognized as a Healthy Corporation in the Large Corporation Sector in 2023 (White 500)*.

* The Japan Council on Health (JCHR) certifies corporations that practice particularly excellent health management based on the evaluation criteria established by the Health Investment Working Group of the Council for New Health and Medical Care Industries as Superior Health Corporations (White 500).

- Rebuilding the system to support employees' skill development and growth

With regard to investments in intellectual property, the Company annually invests in research and development to create new business pillars and improve the productivity in design, procurement, and construction. The Company works to accumulate intangible assets related to design, procurement, and construction, and the Intellectual Property Strategy Office strives to maintain and acquire intellectual property rights for new technologies and products and services to be introduced to the market. The Company has secured a competitive advantage in the market through the accumulation of intangible assets through such investments in research and development and the number of intellectual property cases at the top level in the industry. At the same time, the Company has established a system to prevent patent infringement.

In addition, in recent years, as the Company works to disseminate and expand the Group's technologies in collaboration with value chains, the Company's intellectual property revenues have also been steadily increasing.

As we aim to expand into the four business domains in our long-term vision, we believe it is essential to develop strategies utilizing intellectual property, and we will continue to position intangible assets and intellectual property rights as important management resources to enhance our management strategies.

[Supplementary Principle 4-1-1 Scope of Delegation to Management]

The "Rules for the Board of Directors" and the "Regulations for the Management Council" stipulate matters to be discussed by the Board and the Management Council.

The Board of Directors supervises performance of duties by Representative Directors and other directors, improves the efficiency of business management and secures the legality and validity of business execution while making a decision on matters stipulated by laws and the Articles of Incorporation, the basic policy for business management and other important matters for business execution. For matters to be resolved by the Board of Directors, clear procedures are in place by developing certain quantitative criteria for disposal/transfer of important assets and large borrowings.

The Management Council consists of directors excluding outside directors (except for Directors who are Audit & Supervisory Committee members), working to have full discussions on important matters for business management and expedite decision-making on allocation of management resources. After the Management Council discusses important matters for business management, they are submitted to the Board of Directors for further discussion. For matters concerning allocation of management resources, they are reported to the Board after being discussed by the Management Council. Also, for these matters, clear procedures are in place by developing quantitative decision-making standards for each item such as acquisition of property, plant and equipment.

[Supplementary Principle 4-1-3 Plan for Successor to President and Representative Director]

To secure the transparency and objectivity of the President and Representative Director's succession to a successor, in a plan for successor to President and Representative Director, a policy and a plan to develop a successor and the progress thereof shall be reported to the Governance, Nomination and Remuneration Committee which in turn discusses these matters. President and Representative Director proposes the most qualified person as a candidate for successor when appointing a new director and CEO. The Committee deliberates on the candidate and reports its results to the Board of Directors.

[Principle 4-8 Effective Use of Independent Outside Directors]

The Company appointed seven out of 12 directors as independent outside directors.

Independent outside directors fulfill their management oversight and checking functions from an independent perspective at the meetings of the Board of Directors or the Governance, Nomination and Remuneration Committee, by drawing on their abundant experience and deep insight in their fields of expertise or corporate management.

[Principle 4-9 Independence Standards and Qualification for Independent Outside Directors]

The Independence Standards for Outside Officers of the Company are shown below.

Standards for Independence of Outside Officers

1. He or she is not a party whose major client or supplier (Note) is the Company or an executive thereof

(Note) A party whose major client or supplier is the Company is a business entity whose transactions with the Company in each target fiscal year (previous fiscal year and last three fiscal years) account for 2% or more of its net sales in principle.

2. He or she is not a major client or supplier (Note) of the Company or an executive thereof

(Note) A major client or supplier of the Company is a business entity whose transactions with the Company in each target fiscal year (previous fiscal year and last three fiscal years) account for 2% or more of the net sales of the Company in principle.

3. He or she is not a consultant, an accountant or a legal professional who receives a large amount of monetary consideration or other property (Note) from the Company besides compensation as a director/Audit & Supervisory Committee member (when a party that receives such property is an organization such as a corporation or an association, a person who belongs to such organization)

(Note) A large amount of monetary consideration or other property is defined as those whose total value is 10 million yen or more in a given fiscal year in principle.

4. He or she was not recently applicable to any of (1) through (3) below

(1) A party set forth in 1, 2 or 3

(2) Executive or a non-executive director of the parent company of the Company

(3) Executive of a fellow subsidiary company of the Company

5. He or she is not a close relative (Note) of a party applicable to any of (1) through (6) below (except for a party who is not important (Note)).

(1) A party set forth in 1 through 4 above

(2) Executive of a subsidiary of the Company

(3) Non-executive director of a subsidiary of the Company

(4) Executive or a non-executive director of the parent company of the Company

(5) Executive of a fellow subsidiary company of the Company

(6) A party that recently served as (2), (3) above or executive of a listed company

(Note) An "important" party is an officer or a manager of each company/supplier in the case of the executive in 1. Or 2. And a certified public accountant affiliated with each auditing firm or a lawyer affiliated with each law firm (including so-called associate) in the case of a person who belongs to an organization in 3. Close relative means relatives within the second degree of kinship.

[Supplementary Principle 4-10-1 Establishment of Governance, Nomination and Remuneration Committee]

With the aim of establishing a fair corporate governance system and ensuring management transparency, the Company has established the Nomination and Remuneration Committee, consisting of four independent outside directors (one of whom is a female) and one internal director. The Committee deliberates on the following matters regarding the nomination, remuneration, etc. of directors, Audit & Supervisory Committee members, and executive officers, and presents and reports them to the Board of Directors.

- Policy on the election and dismissal of directors*, representative directors, and executive officers

- * Consent of the Audit & Supervisory Committee is required for Directors who are Audit & Supervisory Committee members.

- Proposals for the election and dismissal of directors and Audit & Supervisory Committee members to be submitted to the General Meeting of Shareholders

- Succession plans for the President and directors

- Policy for the remuneration of directors (except for Directors who are Audit & Supervisory Committee members) and executive officers and the calculating method draft

- Other important management matters deemed necessary by the Board of Directors

At present, the Governance, Nomination and Remuneration Committee consists of a majority of independent outside directors in order to ensure independence and objectivity, and the chairperson is elected from among the committee members, including independent outside directors, by resolution of the committee from among the independent outside directors. The Company considers ways to further enhance independence and objectivity.

The standards for ensuring the independence of independent outside directors are described in [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

[Supplementary Principle 4-11-1 Views of the Board as a whole on Balance of Knowledge/Experience/Capability, Diversity and Size]

The Board of Directors of the Company works to improve the efficiency of business management and secure the legality and adequacy of business execution by making important decisions for business execution and supervising the performance of duties by executive directors. To do that, the Company believes the Board of Directors consisting of an appropriate number of diverse personnel is required to have active discussions and perform swift decision-making. Executive directors should have abundant experience and knowledge of their respective field of expertise and have a sense of balance as well as leadership to execute business from the perspective of total optimization. On the other hand, we believe that outside directors can contribute to the Company's sustainable growth and medium- to long-term improvement of corporate value by providing useful suggestions and opinions from an independent standpoint, drawing on their professional perspectives and wealth of experience and knowledge in management.

In order to realize the Group's medium- to long-term management strategy, the Company has identified the following as particularly important areas: (i) corporate management and management strategy, (ii) technology, innovation, and DX, (iii) environment, (iv) global, (v) sales strategy and marketing, (vi) finance and accounting, (vii) legal and risk management, and (viii) human resources development and labor.

The skills of the current members of the Company's Board of Directors are not excessive or inadequate and are appropriately assigned, and the list is as follows:

<Director's knowledge, experience, and ability>

	Corporate management and management strategy	Technology, innovation, and DX	Environment	Global	Sales strategy and marketing	Finance and accounting	Legal and risk management	Human resources development and diversity
Kazuhito Kojima	●	●	●		●			
Tadashi Kamiya		●	●		●			
Toshikazu Yokote		●					●	●
Hiroshi Kubota					●			
Shuma Uchino	●					●	●	
Atsushi Takagi	●			●		●		
Yoko Seki						●	●	
Hideka Morimoto			●				●	●
Masato Nakamura	●			●		●	●	
Kazuo Sakakibara							●	
Hiroyuki Hioka	●		●	●			●	●
Hiroyuki Wakamatsu						●	●	

[Supplementary Principle 4-11-2 Status of Concurrent Posts Held by Directors and Audit & Supervisory Committee Members]

When outside directors or outside Audit & Supervisory Committee members serve as an officer of any other listed company, the Company ensures that they would spend the time and energy required to fulfill their roles and responsibilities the Company expects them to perform. The Company checks and adjusts in advance a schedule of meetings of the Board of Directors and the Audit & Supervisory Committee to increase the attendance rate. The Company discloses the status of important concurrent posts in its business report, reference documents for shareholders meetings and securities reports. No internal Director holds any important concurrent post.

[Supplementary Principle 4-11-3 Analysis/Evaluation of Effectiveness of the Board, Disclosure of Summary of Results Thereof]

The Company evaluates the effectiveness of the Board of Directors annually based on the self-evaluation of each director and Audit & Supervisory Committee member to secure the efficacy and effectiveness of the Board.

Each director and Audit & Supervisory Committee member performs a self-evaluation based on the "Self-Evaluation Sheet," and the results are analyzed and evaluated by the Board of Directors after being discussed by Representative Directors and outside officers.

The summary results of this analysis and evaluation for FY2022 are shown below, and we believe the efficacy and effectiveness of the entire Board of Directors is secured. Given the results, the Company will work to further improve the supervisory and decision-making function of the Board.

- As a result of promoting more in-depth discussions at the meetings of the Management Council and the Internal Control Committee, which are organized under the Board of Directors and the ESG Promotion Committee, as well as enhanced internal controls, it was confirmed that the appropriate development of highly effective oversight and risk management systems, which is one of the responsibilities of the Board of Directors, has been conducted on a continuous basis.
- It was confirmed that active, wide-ranging and constructive discussions and full and multifaceted reviews were conducted at the Board of Directors, showing that the Board was vitalized. The Board of Directors also agreed that the transfer of authority to the Executive Committee should be further promoted, and that the Board of Directors should strengthen its monitoring function of the status of execution while concentrating on the agenda items related to the medium- to long-term direction of management, succession planning, and internal control systems to further enhance multifaceted discussions.
- In addition, the outside directors' attendance at meetings and visits to branch offices have increased opportunities for dialogue with employees, and the opinion was expressed that opportunities and occasions for information sharing between internal and outside directors should be further expanded in the future to further stimulate the mutual exchange of views and opinions.

[Supplementary Principle 4-14-2 Policy for Training of Directors and Audit & Supervisory Committee Members]

The Company believes that the knowledge required of directors and Audit & Supervisory Committee members mainly consists of knowledge unique to the Company such as knowledge of the businesses, finance and organization of the Company and general knowledge such as the roles required of directors and Audit & Supervisory Committee members and responsibilities including legal ones.

Executive directors, through discussions at the Management Issue Review Committee, work to gain a better understanding of general matters such as the businesses, finance and organization of the Company every year. Executive directors and internal Directors who are Audit & Supervisory Committee members work to understand the roles and responsibilities required of directors and Directors who are Audit & Supervisory Committee members by participating in training by outside experts.

The Company provides an explanation of matters such as the businesses, finance and organization of the Company to outside directors and outside Audit & Supervisory Committee members when they assume their posts and as required, to facilitate acquisition of knowledge required of the Company's outside directors and outside Audit & Supervisory Committee members. As such, the Company develops an environment for them to fulfill their roles.

The Company provides opportunities and services and pays necessary expenses to acquire and properly update the knowledge required of each director and Audit & Supervisory Committee member. The Board of Directors regularly checks the progress of training for executive directors and internal directors who are Audit & Supervisory Committee members.

[Principle 5-1 Policy for Constructive Dialogue with Shareholders]

The Company works to secure an opportunity to give explanations to the stock market and have constructive dialogue with shareholders to facilitate understanding of the Company's management. The Company continues to share information obtained through such dialogue within the Company and reflect it as required.

(i) Appointment of Management and Directors Who Supervise Matters to Be Included in (ii) Through (v) Below for Overall Dialogue with Shareholders and Ensure Constructive Dialogue Is Held

The President and Executive Officer supervises the dialogue with shareholders, and CFO or the Manager supervising IR serves as the person in charge of handling information. The Manager of the Corporate Communication Division serves as the person in charge of timely information disclosure while the Manager of the Accounting Division serves as the person in charge of securities report, etc. (see the "Schematic Diagram of the Overview of System for Timely Disclosure" at the end of the Report).

(ii) Measures for Organic Collaboration of Departments in Charge of IR, Corporate Planning, General Affairs, Finance, Accounting and Legal That Assist Dialogue

All of the above departments belong to the Corporate Planning, Corporate, and Finance & Investor Relations Departments, and share information and issues on a daily basis at regular meetings and on other occasions, and work together to take appropriate actions.

(iii) Initiatives for Strengthening of Means of Dialogue Other Than Individual Interview (e.g., Investor briefings and IR activities)

In addition to a financial results briefing held twice a year, the Company plans and holds dialogue such as investor briefings as appropriate. The Company also participates in an external event for investors.

(iv) Measures for Proper and Effective Feedback of Opinions and Concerns of Shareholders Collected from Dialogue to Management and the Board of Directors

Directors and executives directly obtain information by attending investor briefings and circulating analyst reports and also receive reports from departments in charge on a regular basis and as required.

(v) Measures for Management of Insider Information for Dialogue

The Company, from the perspective of preventing insider trading, ensures full compliance with the "Rules for Management of Insider Trading" which stipulate matters concerning the Financial Instruments and Exchange Act and other laws and management of internal information. In having dialogue, the Company carefully manages information so that others will not suspect it of communicating insider information, and discloses information in a non-selective and fair manner. The Company designates the period from the day following the last day of an accounting period (quarterly/full year) to the date of announcement of financial results as a "quiet period." The Company provides training to acquire and update knowledge of prevention of insider trading.

[Measures to Realize Management With Awareness of Cost of Capital and Stock Price]

In order to continuously increase corporate value, the Company has set ROE of approximately 10% as one of the key goal indicators (KGIs) by FY2026 in our 2026 Medium-Term Management Plan, and will pursue improvement of profitability on capital with an awareness of the cost of capital. We are also striving to expand constructive dialogue with shareholders and investors through efforts for shareholder returns as well as SR and IR activities.

Our current analysis, targets, and initiatives to realize management with awareness of cost of capital and stock price are disclosed in our 2026 Medium-Term Management Plan: Step for the FUTURE posted on our website, as well as in our financial results presentation for the second quarter of fiscal year 2023.

(Reference) For details, please refer to the Company's website (URL below).

2026 Medium-Term Management Plan: Step for the FUTURE -Four years to embark for the future-, p. 2, 10-11

(URL: https://www.tte-net.com/ir/plan/pdf/medium_term_plan_2023_note.pdf)

(URL: https://www.tte-net.com/english/ir/plan/pdf/medium_term_plan_2023_note_en.pdf)

Financial results for the second quarter of fiscal year 2023, p. 16

(URL: https://ssl4.eir-parts.net/doc/1969/ir_material_for_fiscal_ym/145028/00.pdf)

2. Capital Structure

Foreign Shareholding Ratio

From 10% to less than 20%

[Status of Major Shareholders]

Name/Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,566,600	9.76
Nippon Life Insurance Company	4,560,540	6.78
The Dai-ichi Life Insurance Company, Limited	4,231,587	6.29
Takasago Thermal Engineering Employee Shareholding Association	3,485,494	5.18
Takasago Kyoaikai	2,949,971	4.38
Custody Bank of Japan, Ltd. (Trust Account)	2,476,700	3.68
MUFG Bank, Ltd.	1,439,246	2.14
Mizuho Bank, Ltd.	1,210,092	1.79
GOVERNMENT OF NORWAY	1,184,557	1.76
STATE STREET BANK AND TRUST COMPANY 505001	1,171,967	1.74

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation

(Note) The shareholding ratio is calculated net of treasury stock (2,985,703 shares).
Treasury stock does not include the Company's shares (472,820 shares) held by the Directors' Compensation BIP Trust.
Treasury stock does not include the Company's shares (282,500 shares) held by the Stock Benefit Trust (J-ESOP).

3. Corporate Profile

Listed Stock Market and Market Section	Tokyo Prime
Fiscal Year-End	March
Type of Business	Construction
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

5. Other Special Circumstances Which May Have Material Impact on Corporate Governance

II Business Management Organization and Other Corporate Governance Systems Regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Committee
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	17
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Outside Director
Number of Directors	12
Appointment of Outside Directors	Appointed
Number of Outside Directors	7
Number of Outside Directors appointed as Independent Officers	7

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Shuma Uchino	From another company									△			○
Atsushi Takagi	From another company									△			
Yoko Seki	Lawyer												○
Hideka Morimoto	Other												○
Kazuo Sakakibara	Lawyer												○
Hiroyuki Hioka	From another company												○
Hiroyuki Wakamatsu	Certified Public Accountant												○

* Categories for "Relationship with the Company"

* ○: the director presently falls or has recently fallen under the category, □: the director fell under the category in the past.

* ●: a close relative of the director presently falls or has recently fallen under the category, ▲: a close relative of the director fell under the category in the past.

- Executive of the Company or its subsidiaries
- Non-executive director or executive of a parent company of the Company
- Executive of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive thereof
- Major client or supplier of the Company or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/an audit & supervisory board member
- Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- Executive of a company for which outside directors/audit & supervisory board members of the Company are appointed (the director himself/herself only)
- Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- Other

Outside Directors' Relationship with the Company (2)

Name	Audit & Supervisory Committee Member	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Shuma Uchino		○ ○	Outside Director Shuma Uchino is from Mitsubishi Corporation, and the Company maintains a regular business relationship with the said company, such as contracts for receiving orders for construction work and purchasing equipment. As the ratio of these transactions to the Company's sales is 0.03% (rounded off to the nearest hundredth) and due to other factors, and because their effect on the judgment of shareholders and investors is considered to be insignificant, the Company has determined that he has independence as an outside director.	Outside Director Shuma Uchino has abundant experience and knowledge as a representative director and CFO of a general trading company, and we expect that he will be able to supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and adequately perform his duties as outside director given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. <Reason for Appointing as Independent Officer> As stated on the left, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.

Name	Audit & Supervisory Committee Member	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Atsushi Takagi		○	<p>Outside Director Atsushi Takagi served as part-time adviser from April 2021 to June 2022, when he was appointed as outside director of the Company at an ordinary general meeting of shareholders, on the condition that he would serve as outside director of the Company. His duty as adviser was to offer advice as an independent outsider and his fee was not substantial (less than 10 million yen). Hence, the effect on the judgment of shareholders and investors is considered to be insignificant, so the Company has determined that he has independence as an outside director.</p>	<p>Outside Director Atsushi Takagi has work experience as an analyst at a securities company, high knowledge of finance and deep insight in the construction section, and we expect that he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and can adequately perform his duties as outside director given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company.</p> <p><Reason for Appointing as Independent Officer> As stated on the left, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.</p>
Yoko Seki		○	-----	<p>Outside Director Yoko Seki has abundant experience and knowledge as a lawyer and certified public accountant, and we expect that she can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge. While she was not involved in corporate management by any other method than serving as outside officer, we believe she can adequately perform her duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company.</p> <p><Reason for Appointing as Independent Officer> Outside Director Yoko Seki is not from the Company's parent company, fellow subsidiary, major shareholder, or major business partner, and there are no particular problems in terms of her independence, and there is no risk of a conflict of interest arising with general shareholders. Therefore, we appointed her as an independent director.</p>
Hideka Morimoto		○	-----	<p>Outside Director Hideka Morimoto has abundant experience and knowledge of public administration and the environment, and we expect that he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge. While he was not involved in corporate management by any method other than serving as outside officer, we believe he can adequately perform his duties as outside director given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company.</p> <p><Reason for Appointing as Independent Officer> Outside Director Hideka Morimoto is not from the Company's parent company, fellow subsidiary, major shareholder, or major business partner, and there are no particular problems in terms of his independence, and there is no risk of a conflict of interest arising with general shareholders. Therefore, we appointed him designated as an independent director.</p>

Name	Audit & Supervisory Committee Member	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Kazuo Sakakibara	○	○	-----	<p>Outside Director who is Audit & Supervisory Committee member Kazuo Sakakibara has abundant experience and knowledge as a prosecutor and lawyer for many years, and we believe he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and can adequately perform his duties as Outside Director who is Outside Audit & Supervisory Committee Member given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. While he was not involved in corporate management by any other method than serving as outside officer, we believe he is qualified as an Outside Director who is Audit & Supervisory Committee member for the above reasons.</p> <p><Reason for Appointing as Independent Officer></p> <p>Outside Director who is Audit & Supervisory Committee member Kazuo Sakakibara is not from the Company's parent company, fellow subsidiary, major shareholder, or major business partner, and there are no particular problems in terms of his independence, and there is no risk of a conflict of interest arising with general shareholders. Therefore, we appointed him as an independent director.</p>
Hiroyuki Hioka	○	○	-----	<p>Outside Director who is an Audit & Supervisory Committee Member Hiroyuki Hioka, has abundant experience and knowledge as a representative director of a listed company, in addition to his experience in promoting compliance, handling corporate risks, and supervising general affairs at an airline company, which he will utilize to supervise and check management from an independent standpoint and provide useful suggestions and opinions for the Company's management. We have determined that he will be able to appropriately perform his duties as an outside director who is an Audit & Supervisory Committee member.</p> <p><Reason for Appointing as Independent Officer></p> <p>Outside Director who is an Audit & Supervisory Committee Member Hiroyuki Hioka is not from the Company's parent company, fellow subsidiary, major shareholder, or major business partner, and there are no particular problems in terms of his independence, and there is no risk of a conflict of interest arising with general shareholders. Therefore, we appointed him as an independent director..</p>
Hiroyuki Wakamatsu	○	○	-----	<p>Outside Director who is an Audit & Supervisory Committee Member Hiroyuki Wakamatsu has not only professional knowledge in accounting but also a wide range of professional knowledge and experience in corporate auditing through his experience as a certified public accountant at a major audit firm and as an outside corporate auditor at a listed company, which he will utilize to supervise and check management from an independent standpoint and provide useful suggestions and opinions for the Company's management. We have determined that he will be able to appropriately perform his duties as an outside director who is an Audit & Supervisory Committee member.</p> <p><Reason for Appointing as Independent Officer></p> <p>Outside Director who is an Audit & Supervisory Committee Member Hiroyuki Wakamatsu is not from the Company's parent company, fellow subsidiary, major shareholder, or major business partner, and there are no particular problems in terms of his independence, and there is no risk of a conflict of interest arising with general shareholders. Therefore, we appointed him as an independent director.,</p>

Audit & Supervisory Committee

Composition of Committee Members and Attributes of the Chairperson

	All committee members	Full-time members	Inside directors	Outside directors	Chairperson
Audit & Supervisory Committee	4	1	1	3	Inside director

Presence of directors and employees to assist the Audit & Supervisory Committee in the performance of its duties

Present

Matters concerning the independence of such directors and employees from the executive directors

To support the Audit & Supervisory Committee, the Audit & Supervisory Committee Office, which reports directly to the Audit & Supervisory Committee and consists of one staff member, has been established as an organization to assist the Audit & Supervisory Committee members in the performance of their duties. Staff members of the Audit & Supervisory Committee Office are not subject to the directions and orders of any directors who are not Audit & Supervisory Committee members in performing their duties to assist the Audit & Supervisory Committee, but are subject to the directions and orders of the Audit & Supervisory Committee, and their personnel transfer, evaluation, disciplinary actions, etc., are carried out by respecting the opinions of the Audit & Supervisory Committee, thereby ensuring independence from executive departments and the effectiveness of the instructions given by the Audit & Supervisory Committee to the staff of the Audit & Supervisory Committee Office.

Cooperation among Audit & Supervisory Committee, Accounting Auditors and Internal Audit Departments

Audit & Supervisory Committee members discuss an audit system/plan at the beginning of a year, regularly receive a report from KPMG AZSA LLC (accounting auditor) on the status and results of audits and observe an audit conducted by accounting auditors as required. By collaborating with accounting auditors by exchanging information and opinions, Audit & Supervisory Committee members improve the effectiveness of audits. They facilitate mutual collaboration through sharing of information and improve the effectiveness of audits while receiving a report from the Internal Audit Office on the status and results of audits regularly and as appropriate.

Optional Committees

Establishment of an optional committee corresponding to a nominating committee or compensation committee

Established

Status of establishment of committee(s), composition of members, and attributes of the chairperson (chair).

	Committee Name	All committee members	Full-time members	Inside directors	Outside directors	Outside experts	Other	Chair person (Chair)
Optional committee corresponding to a nominating committee	Governance, Nomination and Remuneration Committee	5	0	1	4	0	0	Outside Director
Optional committee corresponding to a compensation committee	Governance, Nomination and Remuneration Committee	5	0	1	4	0	0	Outside Director

Supplementary Explanation

The Company has established the Governance, Nomination and Remuneration Committee, which is composed of a majority of independent outside directors and chaired by an independent outside director, as an optional advisory body for nomination of and remuneration for officers, including those of subsidiaries. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, nomination of candidates for directors and remuneration of directors (except for Directors who are Audit & Supervisory Committee members and outside directors). The committee is chaired by an independent outside director. Independent outside directors who are members of the Committee are expected to provide useful advice and opinions from an independent perspective and enhance the objectivity and transparency. The Committee holds at least one meeting in a fiscal year.

[Independent Officers]

Number of Independent Officers	7
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Matters relating to Independent Officers

The Company appoints all outside directors and outside Audit & Supervisory Committee members who satisfy the requirements for independent officers as such.

For standards and a policy for independence from the Company in appointing outside directors and outside Audit & Supervisory Committee members, the Company refers to the standard for judgment of the independence of independent officers as stipulated by the guideline on listing management of TSE. The criteria for determining the independence of such outside directors and outside Audit & Supervisory Committee members are described in [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] above.

[Incentives]

Incentive Policies for Directors	Other
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Supplementary Explanation for Applicable Item

For the purpose of clarifying the link between directors' remuneration and the financial performance/stock value of the Company and further motivating directors to contribute to the medium- and long-term improvement of performance and corporate value, the Company introduced a stock compensation plan (Directors' Compensation BIP Trust) for directors except for outside directors and Audit & Supervisory Committee members.

The new compensation covers three consecutive fiscal years and directors of the Company (except for outside directors and Directors who are Audit & Supervisory Committee members), executive officers the Company signed an engagement agreement with (except for expats), deputy executive officers the Company signed an engagement agreement with (except for expats) and directors of three consolidated subsidiaries of the Company (except for outside directors and expats). The Company contributes up to 769 million yen for the three fiscal years to directors. Points are granted to each director/officer based on their title and the degree of achievement against the target values of the performance indicators, and the Company's stock will be granted to them according to their cumulative points when retiring.

Recipients of Stock Options	
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Supplementary Explanation for Applicable Item

[Director Remuneration]

Disclosure (of Individual Directors' Remuneration)	No Individual Disclosure
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Supplementary Explanation for Applicable Item

FY2022: From April 1, 2022 to March 31, 2023

Total remuneration by officer category, total amount of each type of remuneration and number of eligible officers

Category	Total remuneration (million yen)	Total amount of each type of remuneration (million yen)			Number of eligible officers
		Basic remuneration	Performance-linked compensation, etc.	Non-monetary compensation, etc. (stock compensation)	
Director (except for outside director)	306	191	56	58	6
Outside director	70	70	-	-	7
Audit & supervisory board member (except for outside audit & supervisory board member)	54	54	-	-	3
Outside audit & supervisory board member	39	39	-	-	4
Total	471	355	56	58	20

(Notes)

- 1 The stock compensation is the amount recorded as a provision of allowance for share-based remuneration during the most recent fiscal year under review under the BIP (Board Incentive Plan) trust.
- 2 The Directors' Compensation BIP Trust is separately established from the maximum amount of remuneration for directors (except for Directors who are Audit & Supervisory Committee members) of 550 million yen determined by the resolution of the 143th ordinary general meeting of shareholders.

Policy on Determining Remuneration Amounts and Calculation Methods

Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Disclosure of policy on determining remuneration amounts and calculation methods

The Company determines, based on a resolution of a shareholder meeting, the maximum limit of total remuneration of each director and Audit & Supervisory Committee member.

The Company has established the Governance, Nomination and Remuneration Committee as an optional advisory body to the Board of Directors, which is composed of a majority of independent outside directors and is chaired by an independent outside director. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, remuneration of directors.

Remuneration of directors (except for Directors who are Audit & Supervisory Committee members and outside directors) of the Company consists of basic remuneration, bonus and stock compensation (Directors' Compensation BIP Trust).

Remuneration of Directors who are Audit & Supervisory Committee members only consists of basic remuneration whose amount is determined through discussions by audit & supervisory board members by considering the details, volume and difficulty of duties of each Audit & Supervisory Committee Member and the extent of responsibilities in a comprehensive manner. No bonus or stock-related remuneration such as stock compensation (Directors' Compensation BIP Trust) is paid to Directors who are Audit & Supervisory Committee members in light of their duties. For details, see [Principle 3-1 Full Disclosure] (iii) "Policy and Procedures for Board of Directors to Determine Remuneration of Executives and Directors" above.

[Supporting System for Outside Directors and/or Audit & Supervisory Committee Members]

Outside directors receive information as appropriate mainly from the persons in charge at the Global Business Planning Headquarters or at the Corporate Operations Headquarters, and are briefed in advance on agendas when a board meeting is held. In addition, outside Directors who are Audit & Supervisory Committee members receive information directly from a person in charge of each department and are also briefed in advance on agendas mainly by internal directors who are Audit & Supervisory Board members when a meeting of the Audit & Supervisory Committee is held (usually held prior to a board meeting).

[Status of Person(s) Who Retired from the Position of President and Representative Director]

Total Number of Senior Advisers or Advisers Who Are Former President and Representative Director, etc.

1

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

The Company has a "Board of Directors" and an "Audit & Supervisory Committee." The Company also has a system of executive officers in place to clarify the function of making a decision and supervising business management and the function of executing business, and to promote agile and efficient business management while keeping an adequate number of directors and shortening their term of office.

The Board of Directors currently consists of 12 members (of those, seven are outside directors) and holds a meeting each month in principle and as required. The Board of Directors passes a resolution for important matters based on the Rules for the Board of Directors as well as matters stipulated by laws and the Articles of Incorporation, and supervises the directors' performance of their duties.

Outside directors strive to fulfill their expected roles by providing useful suggestions and opinions at meetings of the Board of Directors and other meetings from an objective standpoint and professional perspective independent of the execution of business operations.

The Board of Directors improves the efficiency of business management and secures the legality and validity of business execution by making important decisions on business execution and supervising the performance of duties by directors. The Company signed a limited liability agreement for liability stipulated by Paragraph 1, Article 423 of the Companies Act with seven outside directors which limits liability for damages to the total amount stipulated by each item of Paragraph 1, Article 425 of the Act when they perform their duties in good faith and free of gross negligence.

The Audit & Supervisory Committee currently consists of four members (or those, three are outside directors) and meets once a month, in principle, and on an ad hoc basis. The Audit & Supervisory Committee supervises the directors' performance of their duties, including reporting audit results to the Board of Directors.

In addition, to have full discussions on important matters for business management and expedite decision-making on allocation of management resources, the Company has established the Management Council which consists of directors and Chief Executive Officers of Headquarters excluding outside directors. In addition, in order to promote the development and operation of the internal control system of the Company and its corporate group across the board, the "Internal Control Committee," chaired by the President and Representative Director and composed of directors, excluding outside directors, was established. The committee deliberates on the revision or abolition of basic policies regarding the internal control system, based on the development and status of the Group's internal control system, submits proposals to the Board of Directors, adopts resolutions regarding the management system for promoting compliance and risk management of the Internal Control Committee and the Group, the revision or abolition of rules regarding the Company's compliance and risk management, and annual activity policies regarding the Company's compliance and risk management, and makes reports to the Board of Directors. Furthermore, from the viewpoint of strengthening our response to ESG issues, we have established the "ESG Promotion Committee," chaired by the President and Representative Director and composed of directors, excluding outside directors, and it deliberates and resolves policies on sustainability issues and submits and reports on them to the Board of Directors.

The Governance, Nomination and Remuneration Committee has been established as an optional advisory body to the Board of Directors, and it consists of a majority of independent outside directors and is chaired by an independent outside director. The committee deliberates on the appointment, reappointment, dismissal, and recommendation to the Board of Directors of the Company's directors and executive officers, as well as the representative directors and audit & supervisory board members of its affiliates (except for affiliates of minor importance to the Company), recommendations to the Board of Directors (however, the consent of the Company's Audit & Supervisory Committee is required for the appointment or reappointment of Directors who are Audit & Supervisory Committee members) and remuneration of directors (except for Directors who are Audit & Supervisory Committee members) and executive officers of the Company as well as the representative directors of its affiliates. In addition, the Company analyzes and evaluates the effectiveness of the Board of Directors and confirms the policies and progress of the succession plan for the President and Representative Director formulated by the President and Representative Director.

Names of the members of the organizations above are listed in the following table.

Title	Name	Board of Directors	Management Council	Audit & Supervisory Committee	Governance, Nomination and Remuneration Committee	Internal Control Committee	ESG Promotion Committee
President and Representative Director COO	Kazuhito Kojima	○	◎		○	◎	◎
Director and Managing Executive Officer	Tadashi Kamiya	○	○			○	○
Director and Managing Executive Officer	Toshikazu Yokote	○	○			○	○
Director and Managing Executive Officer	Hiroshi Kubota	○	○			○	○
Outside Director	Shuma Uchino	◎			○		
Outside Director	Atsushi Takagi	○			◎○		
Outside Director	Yoko Seki	○			○		
Outside Director	Hideka Morimoto	○			○		
Director (Audit & Supervisory Committee Member)	Masato Nakamura	○		◎			
Director (Audit & Supervisory Committee Member)	Kazuo Sakakibara	○		○			
Director (Audit & Supervisory Committee Member)	Hiroyuki Hioka	○		○			
Director (Audit & Supervisory Committee Member)	Hiroyuki Wakamatsu	○		○			

○ : Member of the organization, ◎: Head of the organization * The head is elected by mutual vote

In addition, Audit & Supervisory Committee members, accounting auditors and the Internal Audit Office work together to enhance corporate governance by conducting an effective audit.

(1) Audit & Supervisory Committee

There are currently four Directors who are Audit & Supervisory Committee members at the Company (of those, three are outside audit & supervisory board members). They monitor the status of corporate governance, attend board meetings and other important meetings, review important requests for approval and visit offices according to an audit policy/plan determined by the Audit & Supervisory Committee. They also collaborate with accounting auditors and the Internal Audit Department to audit the performance of duties by directors in an effective audit. For subsidiaries, they exchange information and cooperate with directors and Audit & Supervisory Committee members thereof at a meeting of the Group Management Council and the Group Audit & Supervisory Committee. Outside Directors who are Audit & Supervisory Committee members including one lawyer and one certified public accountant obtain and provide information and work to monitor operations from an independent perspective. On the other hand, the Director who is full-time Audit & Supervisory Committee member monitors operations based on his abundant knowledge and experience at the Company and enhance the effectiveness of audits from his respective position.

The Company signed a limited liability agreement for liability stipulated by Paragraph 1, Article 423 of the Companies Act with three outside Audit & Supervisory Committee members which limits liability for damages to the total amount stipulated by each item of Paragraph 1, Article 425 of the Act when they perform duties in good faith and free of gross negligence.

(2) Internal Audit

For internal audits, the Company established the Internal Audit Office (10 staff) under direct control of the President and it conducts an operational audit on the adequacy and efficiency of business operations based on a plan from an independent perspective according to the Rules for Internal Audit. For subsidiaries, the Office exchanges information as required. The Internal Audit Office checks the status of required measures and improvements while reporting audit results to President and Representative Director. The Office evaluates the status of internal control over financial reporting of the Company and important consolidated subsidiaries. The Office also works with Directors who are Audit & Supervisory Committee members and accounting auditors to ensure an effective internal audit is conducted.

(3) Accounting Auditors

The certified public accountants who executed accounting audit work of the Company in FY2022 are Mr. Atsushi Nagata and Mr. Junichi Kimura, and they are affiliated with KPMG AZSA LLC. The number of years of continuous auditing amount to two years for Mr. Nagata and seven years for Mr. Kimura. In addition, they have seven certified public accountants as their assistants plus 16 other assistants.

In selecting an audit firm, the Company considers a quality management system, independence and expertise as an accounting auditor in a comprehensive manner.

When it is considered difficult for the accounting auditor to conduct a proper audit, the Audit & Supervisory Committee shall submit a proposal for dismissal or reappointment of the accounting auditor to a shareholders' meeting. When any of the reasons described in each item of Paragraph 1, Article 340 of the Companies Act applies to the accounting auditor, the Audit & Supervisory Committee shall dismiss the accounting auditor with the consent of all Audit & Supervisory Committee members.

Furthermore, as part of the procedures to reappoint the accounting auditor, the Audit & Supervisory Committee receives reports from KPMG AZSA LLC on its quality management system, audit plan and overview of audit status and interviews a department in charge on its assessment of the auditor to ensure that the firm properly conducts an audit.

3. Reasons for Adoption of Current Corporate Governance System

To further enhance the speed of management decision-making while ensuring rationality, as well as to further enrich discussions at Board of Directors meetings and strengthen the supervisory function of management, on June 23, 2023, the Company transitioned to a company with the audit & supervisory committee, which allows the Board of Directors to delegate a significant portion of the decision-making on important business execution to the executive directors.

Currently, seven out of 12 directors are outside directors (all seven are independent directors). We believe that the effectiveness of this system will be further enhanced by having these outside directors perform function of offering advice and supervising business management appropriately independent from business execution and from an objective and outside perspective based on their abundant experience and knowledge.

III Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Ensure Smooth Exercise of Voting Rights

	Supplementary Explanation
Early Notification of General Shareholder Meeting	The Company tries to send a notice of a general shareholder meeting by four weeks prior to the date of such meeting or by the end of May.
Exercise of Voting Rights by Electromagnetic Means	The Company has adopted an electronic voting system.
Participation in the Platform for Electronic Exercise of Voting Rights and Other Efforts to Improve the Environment for Institutional Investors to Exercise Voting Rights	The Company uses a platform for the exercise of voting rights by Institutional investors.
Provision of Convocation Notice (Summary) in English	Some content is translated into English and provided.
Other	<p>Before sending a notice of a general shareholder meeting, the Company discloses such notice (including an English translation of a part thereof) and a notification of independent officers to the Tokyo Stock Exchange, and posts them on the Company website.</p> <p>May 30, 2023: Disclosed a notice of a general shareholder meeting (including an English translation of a part thereof) and a notification of independent officers to the Tokyo Stock Exchange and posted them on the Company website.</p> <p>May 30, 2023: Sent out a notice of a general shareholder meeting.</p> <p>June 23, 2023: Held a general shareholder meeting.</p>

2. IR Activities

	Supplementary Explanation	Explanation by Representative
Preparation and Publication of Disclosure Policy	The Company discloses the “Disclosure Policy (Rules for Information Disclosure)” on its website.	
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds a briefing on financial highlights, the status of a management plan and future outlook twice a year (May and November). About 60 securities analysts and fund managers attend this briefing.	Established
Posting of IR Materials on Website	The Company posts information such as a settlement of accounts, a securities report, timely disclosed materials, reference data on financial results and a medium-term management plan.	
Establishment of Department and/or Person in Charge of IR	Corporate Communication Division (Contact: Manager of Corporate Communication Division)	
Other	The Company participates in an IR event for individual investors twice a year or so.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Company has the Basic Principles of Sustainability in place.
Implementation of Environmental Activities and CSR Activities etc.	As part of promotion of CSR management, the Company developed the “CSR Activity Plan” in April 2012 based on the basic approach to CSR: “Position CSR management at the core of business management as part of business activities and work to improve corporate value and realize sustainable society while fulfilling social responsibility as a good corporate citizen.” Furthermore, in December 2021, the Company newly developed the Basic Principles of Sustainability to strengthen its efforts to address today's ESG issues, while following its existing approach. These activities are summarized in the Integrated Report and released on the Company website.

Development of Policies on Information Provision to Stakeholders	The Company discloses information while trying to secure timeliness, legality, accuracy and fairness according to the standard stipulated in the rules for listing of Tokyo Stock Exchange, Inc. The Company also proactively discloses information not covered by the standard if it is considered to help investors make a judgment.
Other	Currently, 12 directors of the Company consist of 11 men and one woman. The Company will consider employing candidates regardless of their sex when they have appropriate qualities as director.

IV Matters Related to the Internal Control System Basic Views on Internal Control System and the Progress of System Development

(1) System to Ensure That Duties of Directors and Employees Are Performed in Compliance with Laws and the Articles of Incorporation

- i) The Company establishes the Compliance Office, an organization dedicated to promotion of compliance, and properly manages the whistle-blower system, including a hotline for consultation and reporting, while appointing an Officer in Charge of Compliance. For important themes to promote, the Company develops compliance programs and performs PDCA management at the Compliance Committee under the Internal Control Committee. As such, the Company works to secure a system contributes to enforcement and improvement of compliance.
- ii) The Company has established the Group Action Guidelines, which specify basic rules of conduct for Group officers and employees, and distributes the same to all of them via the internal network. Additionally, the Company enforces full compliance through continuous training on compliance for all directors and employees depending on their level and duties.
- iii) The Company elects outside directors who have abundant experience and knowledge in areas outside the Company's realm of expertise and strengthens the guidance on and supervision of the execution of duties from diverse perspectives.

(2) System on Storage and Management of Information on Performance of Duties by Directors

The Company records data of important meetings such as board meetings, requests for approval and other information on performance of duties by directors in writing or in an electromagnetic medium, and stores and manages it in accordance with the internal rules for document management. In addition to the Information Security Policy and the Information Control Regulations, the Company worked on the thorough implementation of measures to prevent information leaks by establishing and disseminating information control regulations.

(3) Rules and Other System for Management of the Risk of Loss

- i) The Company establishes the cross-sectional Risk Management Committee under the Internal Control Committee, including administration, sales and technology divisions to formulate the Risk Management Rules and promote company-wide risk management, as well as appoint Risk Officer. The Company also promotes activities to prevent and mitigate risks through identification/assessment of risks including major affiliated companies and implementation of measures to deal with material risks.
- ii) The Company develops a system to accurately handle an unforeseen contingency by formulating Rules for Crisis Management and calling/holding a company-wide crisis management meeting which swiftly and properly handles material risks when they surface.
- iii) The Company improves its capability to continue business in the event of unforeseen circumstances by developing a business continuity plan in case of a wide-scale disaster and other events and reviewing and enhancing the effectiveness of the plan through a regular drill.
- iv) For risks by function such as quality, safety, environment, compliance, information and profit/loss, the Company develops a proper risk management system by appointing departments in charge in identifying/assessing the risks mentioned above.

(4) System to Ensure that Duties of Directors Are Performed Effectively

- i) The Company clarifies the function to make a decision and supervise business management and the function to execute business, and promotes agile and efficient business management by placing the Management Council under the Board of Directors with the President and Representative Director as a chairperson and introducing a system of executive officers.
- ii) The Company develops and reviews, as required, Rules for Administrative Authority, Rules for Segregation of Duties, Rules for Decision-Making, and other rules to expedite decision-making and improve the efficiency of business management such as the performance of duties.

(5) System to Ensure the Adequacy of Operations of the Corporate Group Consisting of the Company and Subsidiaries Thereof [Overview of the System]

- i) With respect to the management of subsidiaries, while respecting their autonomy, the Company will establish a management control system by placing a department in charge of management control within the Company and by stipulating rules for discussion and reporting of important matters in the Affiliated Company Management Regulations. For certain important matters of subsidiaries, the Company approves them based on a prior discussion with subsidiaries. The Company also requires subsidiaries to report operating results, financial conditions and other important information. Furthermore, meetings are regularly held with the attendance of the Company's management and presidents of subsidiaries to ensure the appropriateness of business operations. When risks surface, the Company requests subsidiaries to promptly report them to the contact department of the Company.
- ii) The Company operates a compliance system appropriately including a risk management system, a crisis management system and a whistle-blower system as a corporate group to share a basic view with the Company by formulating the Group Action Guidelines which specify basic rules of conduct and developing internal rules for the respective subsidiary.
- iii) The Internal Audit Office shall conduct audits of the Company and its subsidiaries and report the results directly to the Board of Directors and the Audit & Supervisory Committee as necessary. In addition, the Internal Audit Office monitors the proper execution of business by the subsidiaries by dispatching directors, etc. from the Company as necessary.
- iv) The Audit & Supervisory Committee regularly audits the status of performance of duty of subsidiaries.
- v) The Company develops an internal control system required to secure the adequacy and credibility of financial reporting.

(6) Matters Concerning Employees Who Assist Audit & Supervisory Committee, Matters Concerning the Independence of Such Employees From Directors (excluding Directors who are Audit & Supervisory Committee members) and Matters Concerning Securing of the Effectiveness of Instructions to Such Employees

The Company establishes the Audit & Supervisory Committee Office which consists of dedicated employees independent from the function of performance of duty and assists duties of audit & supervisory board members. Audit & Supervisory Committee retains the right to lead and issue orders to employees engaged in duties of the Audit & Supervisory Committee Office.

Therefore, the Company manages HR matters for these employees including performance review, transfer and disciplinary action in accordance with the Company's rules and after consultation with Directors who are Audit & Supervisory Committee members.

(7) System for Directors and Employees to Report to the Audit & Supervisory Committee, and Other System on Reporting to the Audit & Supervisory Committee

For matters to be reported to audit & supervisory board members by directors and employees, the Company formulates the Rules to Develop an Audit Environment for Audit & Supervisory Committee and develops a system to report any event which causes significant damage, material misconduct such as an internal scandal or legal violation, results of an internal audit and status of whistle-blowing in addition to statutory matters at the Company and its subsidiaries.

The Company develops a system which secures rights of Directors who are Audit & Supervisory Committee members to attend important meetings such as meetings of the Board of Directors and thus allows them to keep track of the status of execution of duty.

(8) System to Ensure That Anyone Who Reported to the Audit & Supervisory Committee Is Not Treated Unfairly on the Grounds of Such Reporting

The Company clarifies a system in the Rules to Develop an Audit Environment for Audit & Supervisory Committee to ensure that a person who made the report mentioned above to Audit & Supervisory Committee is not treated unfairly on the grounds of such reporting.

(9) Expenses Incurred for Performance of Duties of Directors who are Audit & Supervisory Committee members or Matters Concerning Policy for Settlement of Debts

When Directors who are Audit & Supervisory Committee members claim certain expenses and fulfillment of obligations in performing their duties, the Company pays them except when such expenses or obligations are considered not necessary for the duties of these Directors who are Audit & Supervisory Committee members. The Company also secures a budget for various expenses of audits to ensure their effectiveness.

(10) Other System to Ensure Effective Audit Is Conducted by Audit & Supervisory Committee

i) Outside directors account for the majority of the Audit & Supervisory Committee.

ii) Directors who are Audit & Supervisory Committee members, based on an audit policy/plan determined by the Audit & Supervisory Committee, monitor the status of governance, attend meetings of the Board/Management Council and other important meetings, review important requests for approval and visit offices.

Directors who are Audit & Supervisory Committee members also had communication with the President and Representative Director by regularly holding meetings and exchanging opinions.

iii) Directors who are Audit & Supervisory Committee members, the Internal Audit Office and accounting auditors regularly discuss the status of audits, share information, and collaborate with one another conduct an effective and efficient audit.

2. Basic Views on Elimination of Anti-Social Forces and the Progress of System Development

[Overview of the System]

To cut off relations with anti-social forces and organizations, the Group Action Guidelines stipulate that we deal with anti-social forces and organizations in a resolute manner and have no relations with them. The Company also develops an internal system capable of conducting practical solutions such as making the Guidelines well known through education/training and cooperation with an external specialized agency.

Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	None
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Supplementary Explanation for Applicable Item

The following is a description of the Company's basic policies regarding the nature of the persons who control its financial and business policy decisions.

The Company has endeavored to secure and improve its corporate value and the common interests of its shareholders since its foundation by providing safe and high-quality services based on its corporate mission of "Contribution to society through personal harmony and creativity" and its management philosophy of "Creating the Best Product Quality, Developing Distinctive Technology, and Nurturing Talent."

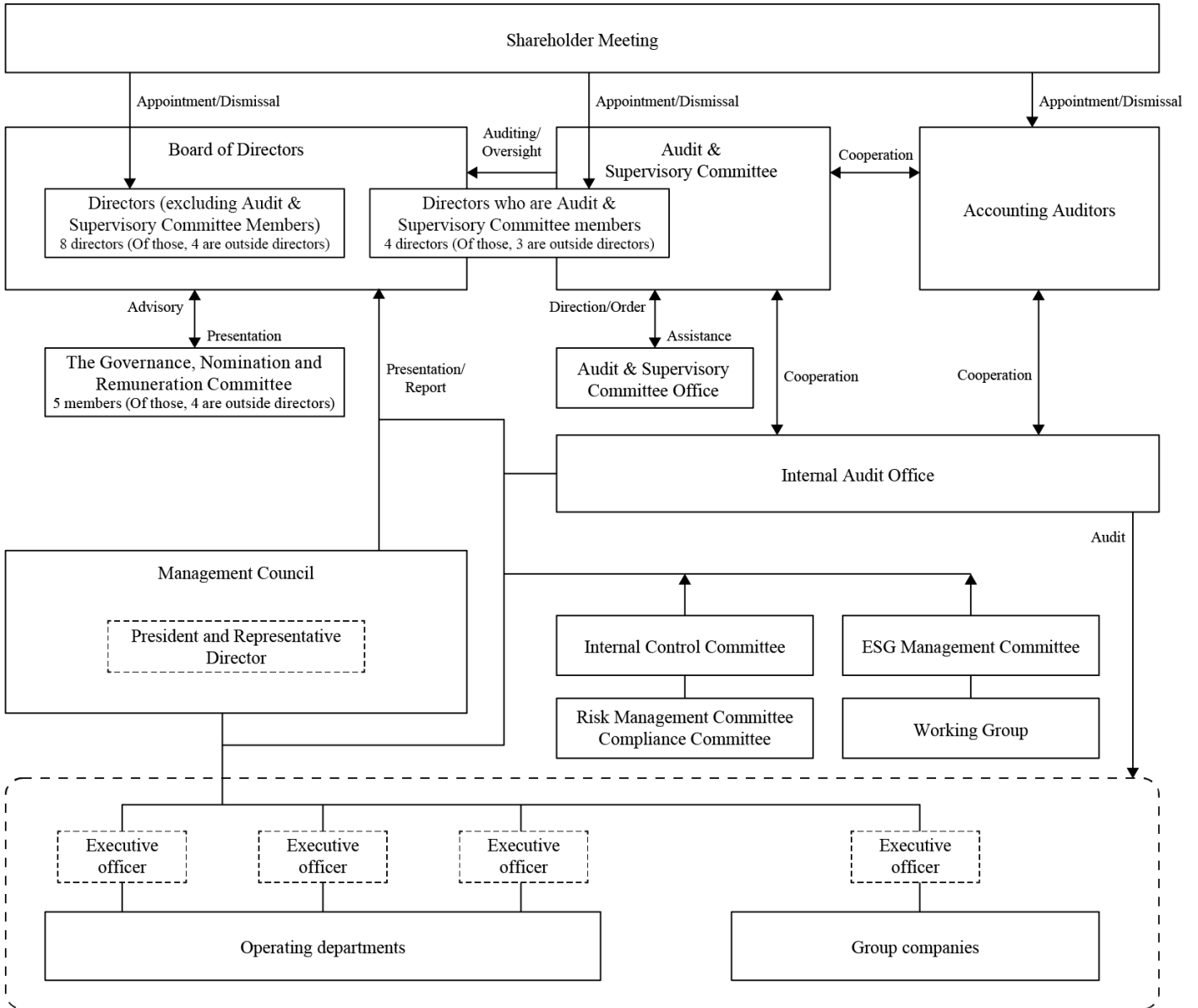
Going forward, under the Group's purpose: "With our revolutionary environmental innovations, we activate the Earth's future," the Company will continue to formulate and steadily implement its medium-term management plan based on the group long-term vision and strive to strengthen corporate governance in order to secure and improve its corporate value and common interests of shareholders continuously and sustainably.

In addition, for those who intend to make large-scale purchases of shares of the Company, the Company will take appropriate measures in accordance with the Financial Instruments and Exchange Act, the Companies Act and other relevant laws and regulations, such as seeking to provide shareholders with necessary and sufficient information to properly determine the appropriateness of large-scale purchases, disclosing the opinions, etc. of the Board of Directors, and endeavoring to ensure time and information for shareholders to consider them.

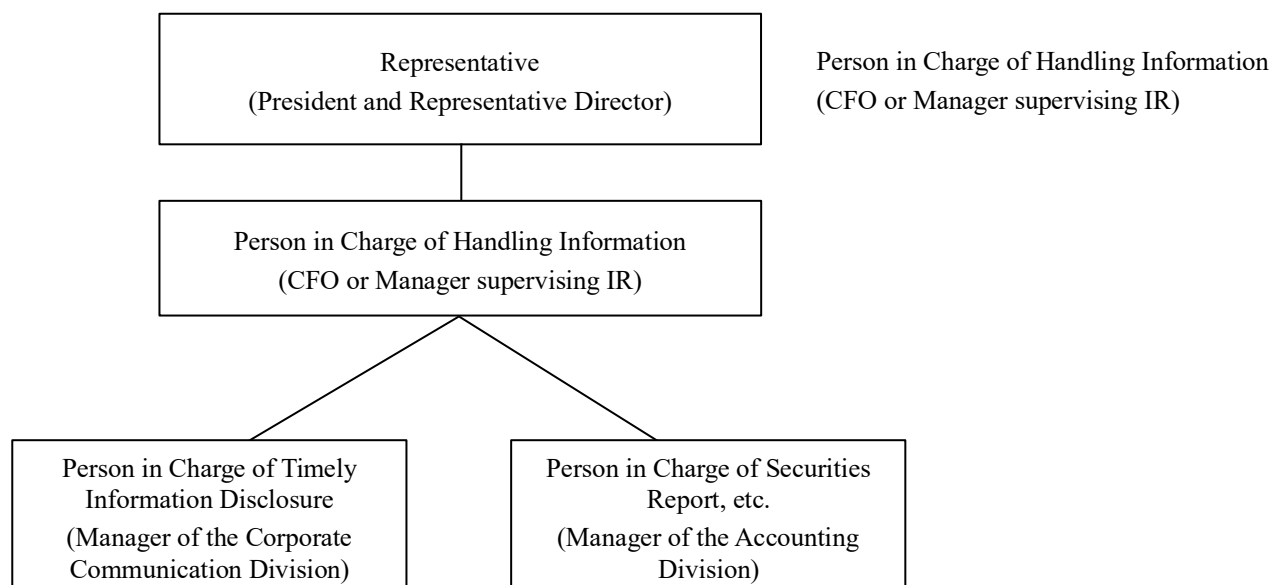
2. Other Matters Concerning Corporate Governance System

A schematic diagram of the corporate governance system and a schematic diagram of an overview of the system for timely disclosure are shown below.

[Schematic Diagram]



[Schematic Diagram of an Overview of System for Timely Disclosure]



Overview of the System for Timely Disclosure

The status of the internal system for timely disclosure of corporate information on the Company is shown below.

- (1) The representative and the person in charge of handling information to ensure the timeliness, legality, accuracy and fairness of information to be disclosed. These matters are discussed at and reported to the Management Council and the Board of Directors as appropriate.
- (2) The person in charge of timely information disclosure not only complies with the rules for timely disclosure and relevant laws and regulations but collects information from related departments in a swift and comprehensive manner to carry out his/her task. He or she also works on preparing proper disclosure materials and full disclosure by referring to other companies' examples of disclosure.
- (3) The Company regularly receives advice and guidance from directors who are Audit & Supervisory Committee members and accounting auditors. The Company also obtains opinions of third party experts as required.
- (4) While the Company has the "Rules for Management of Insider Trading," the "Disclosure Policy (Rules for Information Disclosure)" and the "Group Corporate Code of Ethics" that stipulates strict adherence thereto, it works on preventing insider trading including at our affiliates and compliance with the Fair Disclosure Rule.