Materiality determination process

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

Formulation of a list of candidates (selection of issues) Materiality assessment
(at two levels, i.e., viewpoint of external stakeholders
and viewpoint in terms of impact on business)

Confirmation of appropriateness and discussion

Determination (updating)

Materiality scheme

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

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

1

- Enhancement of technological competitiveness and ability to innovate
 Enhance technological competitiveness and the ability to innovate, which are the sources of corporate competitiveness and customer satisfaction and also serve as the driving force for creating new businesses.
- Initiatives for global social issues
 Strategically adopt such initiatives as opportunities to create new businesses such as ESG and enhance the business model.
- Digital innovation and productivity improvement
 Introduce and utilize technology as a business and as part of efforts to improve labor productivity (promotion of work style reform).

Creation of social value in each ESG domain

2

Environment (E)

- Climate change mitigation and adaptation
- Take a two-pronged approach:
 "mitigation," which involves taking
 measures to reduce and absorb
 greenhouse gas emissions; and
 "adaptation," which involves making
 preparations to prevent and alleviate the
 impact of climate change that is already
 occurring and using the new climate
 conditions.
- Initiatives to prevent pollution and reduce environmental impact Prevent air pollution, manage chemical substances, etc.

Social (S)

- Securing and developing human resources
- Secure, retain and develop capable human resources that create value (innovation) and support competitiveness.
- Creation of pleasant working environment
- Make improvements in terms of diversity, a wide range of flexible work styles, work-life balance, job satisfaction and employee satisfaction.

Governance (G)

- Highly effective corporate governance
 - A mechanism of corporate governance to prevent impairment of brand value and financial losses, steadily execute strategies for fulfilling own business model and increase corporate value in a sustained manner.

3

- "Management infrastructure" indispensable for realizing sustained value creation Foundation that needs to be developed in view of the sustainability of the business model.
- Compliance
 Risk management
 Quality/safety
 Information security
 Contributions to community

Towards realization of sustained value creation



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

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

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

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

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

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

Examples of Taikisha's initiative to contribute to SDGs

	Impact on society	Taikisha's initiatives
Goal 2	Sustainable Food and Agriculture	Contributing to the promotion of sustainable agriculture through our plant factory business to stably produce and supply food (Stable planned cultivation for 365 days regardless of the weather / Pesticide-free cultivation in a clean environment)
Goal 3	Ensuring Healthy Lives and Promote Well-being for All at All Ages	 Contributing to achieve the optimal environment for the process of pharmaceutical manufacturing, by leveraging our unique and advanced room pressure control technology as well as our past experiences and know-how Contributing to the prevention of COVID-19 infections using HVAC control technology Taikisha has developed "Air Infection Block Plus" (AIB+), a transportable high-performance air barrier unit for healthcare workers that can reduce the risk of virus infection Taikisha has developed "Barrier Cube," an emergency shelter that can reduce the risk of virus infection Contributing to reducing air pollution by using exhaust aftertreatment technology to neutralize VOCs
Goal 7	Securing Access to Clean Energy	 Developing and promoting energy efficient technologies Installing renewable energy, e.g., solar power, wind power, hydro power, geothermal, solar thermal and biomass Adopting next-generation energy such as hydrogen Promoting the development of technology such as lower temperature of waste heat recovery, downsizing and lower baking oven temperature in automotive paint finishing facilities.
Goal 9	Promoting Sustainable Industrialization	 Promoting the development of new solutions using IoT and AI Developing HVAC systems to control circulating air based on the data of production unit operating condition, manpower and indoor environment with integration of innovative ICT technologies for smart factories and smart buildings Developing and commercializing systems using IoT and AI to analyze the cause of defect occurrence and shutdown in paint finishing factories Applying robot technology in the automobile paint finishing system to the automation of various processes Developing and commercializing paint finishing systems with high coating efficiency (Aiming for 100% coating efficiency)
Goal 11	Realizing Sustainable Cities and Human Settlements	Constructing sustainable and robust building utilities for healthy and comfortable living for people Contributing to increase the longevity of buildings
Goal 12	Securing Sustainable Consumption and Production Patterns	 Reducing construction waste in construction sites, and managing chemicals appropriately Reducing the release of pollutants into the air, water and soil Proposing and supplying building utilities with low environmental impact, and promoting green procurement Reducing food loss by producing long-life vegetables at plant factories
Goal 13	Specific Measures for Climate Change and Its Impacts	 Contributing to a carbon-neutral society by aggressively reducing CO₂ emissions during the operational phase of our building utilities under our long-term CO₂ reduction target [Green Technology System Business] Setting 2013 as a base year, we set our goal to cut CO₂ emissions by 25% by 2030 and 80% by 2050 [Paint Finishing System Business] Achieving net-zero CO₂ emissions per one automobile by 2050. (Based on our own energy estimation models of automotive painting lines) Promoting our plant factory business as part of resilience to climate change and natural disasters