

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

Aspirations of the Taikisha Group amid social change

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

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

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

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

performance through cost-cutting and other measures that proved successful.

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

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

Revising the long-term vision and defining a future ideal

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

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

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



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

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

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

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

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

The Group's customers are strongly committed to achieving a decarbonized society, having set high-level environmental targets, and are engaged in efforts to achieve carbon neutrality. We intend to stay closely aligned with our customers

and all other stakeholders to create and provide innovations that anticipate entire facility lifecycles while drawing on the unique strengths and positioning of the Group—this is the mission we have given ourselves. By steadily carrying out the plan, we will fulfill this mission and establish a foothold for realizing our long-term vision.

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

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

Exploring new domains

For another of the plan's basic policies, "Challenge to create new value," we will work to create new businesses that will be future pillars and take on the challenge of as-yet-undeveloped business domains. In striving to survive as a sustainable company, if we only depend on business development by way of deepening existing domains and do not explore new ones, our sustenance will be depleted in 10 or 20 years and our growth potential will inevitably slow. Recently, in order to strengthen business creation efforts, we have approached departments in universities involved in industry-academia-government partnerships, allied with companies with divisions considering new businesses, utilized business promoters, used public programs, and expanded into upstream supply chains utilizing connections with customers. We are looking ahead to

adopting plant cultivation using DAC technology that directly captures carbon dioxide out of the air and to building advanced businesses using new water treatment and production technologies. We also began joint research with the Japan Aerospace Exploration Agency (JAXA).

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

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

Human capital and a digital strategy for value creation

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



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

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

Under the plan, we will also start using capital costs as a business management method. As a part of this, we are

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

Sharing prosperity with stakeholders

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

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

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