

Mitigation of and Adaptation to Climate Change

Basic Policy

The Group believes that addressing global-scale social issues, such as climate change, is our *raison d'être* (purpose). In December 2021, we expressed our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and we have been continuously collecting, analyzing, and disclosing the necessary data in accordance with the TCFD framework. In addition, positioning the mitigation of and adaptation to climate change as one of our top management priorities (materiality), we are endeavoring to reduce environmental impacts through our core business of providing air conditioning and sanitation equipment, and painting plants with high energy-saving performance.

Disclosure of climate-related information based on TCFD's recommendations

Governance

The Company has established the Sustainable Committee, which is an advisory body of the Board of Directors, with an aim of strengthening our efforts to address social issues, including climate change, from the perspective of the realization of sustainable society and perpetual corporate growth. The Sustainable Committee is chaired by an Outside Director and consists of 9 members, namely 4 Outside Directors including the chairperson and 5 Executive Directors. The Sustainable Committee replies to questions from the Board of Directors, and makes proposals or recommendations to the Board of Directors.

In addition, the Company has established the Sustainable Promotion Committee as an executive body on the executive side that acts on the basis of resolutions, etc. of the Board of Directors. The Sustainable Promotion Committee consists of 5 Executive Directors including the Representative Director, President as chairperson, and responsible person for sales department of each business division, and which discussed and implements measures for addressing sustainability issues.

Responsibilities for evaluating and controlling climate-related risks and opportunities are assigned to the President and Representative Director, who chairs the Risk Management Committee. With regard to the linkage with incentives, non-financial indicators are introduced at a specific rate as an evaluation factor to the compensation structure of the Executive Directors, encouraging the strengthening of promotional activities.

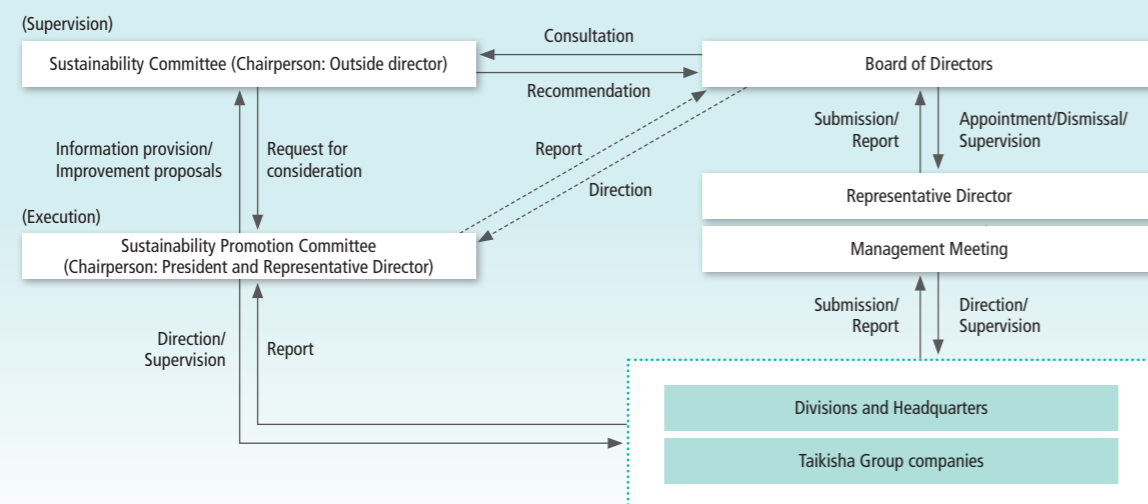
Strategies

In order to identify and evaluate climate-related risks and opportunities and to understand their impacts on our businesses, we conducted scenario analyses of the Green Technology System Division and Paint Finishing System Division through the process described below.

Specifically, we firstly identified factors of risks and opportunities having a great impact on us. Next we conducted an analysis concerning shifts in policies and market trends, and physical changes attributable to disasters, using each of a less-than-2°C scenario, which assumes that the average temperature rise of the world in 2035 will be kept below 2°C, and a 4°C scenario, which assumes that the average temperature will rise by approximately 4°C. We perceived "carbon taxes," "changes in customer behavior," and "prevalence of energy-saving and renewable energy technologies" as shift factors, and "average temperature rise" as a physical factor, and identified them as important risks and opportunities.

The degrees of the financial impacts on the businesses verified in each scenario are indicated in units of one billion yen using arrows, and a countermeasure against each of the impacts is also described.

Sustainability Promotion System Diagram



Results of scenario analyses

+ 1 billion yen or more (up arrow) + less than 1 billion yen (right arrow) ± less than 0.1 billion yen (right arrow) - less than 1 billion yen (down arrow) - 1 billion yen or more (down arrow)

Items of material risks and opportunities	Risk	Opportunity	Financial impact in each scenario		Assumed countermeasure
			4°C	Less-than-2°C	
Transition risk, opportunities	Policy/Regulation Carbon tax	Introduction of carbon taxes (Due to the rises in carbon prices and material costs, the cost will increase by about 300 million yen in the 4°C scenario and by about 9 billion yen in the less-than-2°C scenario.)	↓	↓	<ul style="list-style-type: none"> Setting of GHG emission reduction targets Keeping track of the total amount of GHG emissions, improvement in analysis efficiency Improvement in energy efficiency and introduction of renewable energy by the company Development of low-carbon installation work technologies and systems Participation in the renewable energy industry Development of air conditioning equipment and technologies compatible with environmental countermeasures, policies, and measures taken by each country
	Industry/Technology/Market Changes in customer behavior, prevalence of energy-saving and renewable energy technologies	Response to requests from customers (rise of operating costs and inadequate responses → decrease in sales), deterioration of competitiveness in the development of energy-saving and renewable energy technologies (decline in sales)	↑	↑	<ul style="list-style-type: none"> Expansion of installation works of energy-saving equipment, such as the transformation of plants into ZEBs Construction of energy circulation systems Provision of energy-saving solutions, such as energy management Development of low-carbon installation work technologies and systems Miniaturization and energy saving of equipment Acquisition of skills that will contribute to the reform of painting processes, and promotion of product development Improvement in high coating efficiency, development of energy-saving technologies Development of CO₂ recovery and recycling technologies, etc., creation of businesses New water treatment, maintenance and effective use of water resources, and generation technologies (MOF, etc.) Digital fusion for research and development and the creation of new businesses Development of automatic work robots and construction work support robots at construction sites Development and verification of equipment that will not produce CO₂, and equipment capable of recycling CO₂
Physical risks and opportunities	Chronic Average temperature rise	Deterioration of labor productivity due to an average temperature rise and suspension of construction works due to the increase of extremely hot days (increase of about 400 million yen in operating costs in the 4°C scenario and of about 370 million yen in the less-than-2°C scenario) Revision of labor laws and regulations (decrease in sales)	↓	↓	<ul style="list-style-type: none"> Diversified expansion of the plant factory business, energy recycling of plant factories Promotion of the mechanization and automation of installation works Improvement of the working environment, such as good air conditioning and enough rest areas Promotion of countermeasures against heatstroke

Risk Management

The Taikisha Group is endeavoring to reduce material risks, including climate change, and minimize risks that will become apparent. The Risk Management Committee assesses the level of each risk, selects risks we should deal with, and formulates and implements policies, for reducing risks from the overall perspective of the group.

Specifically, we have established the Risk Management Rules and organized the Risk Management Committee based on the rules to conduct centralized, effective, and efficient management of the group's risks. The Committee, chaired by the President and Representative Director, is held twice a year and whenever necessary, and establishes and thoroughly disseminates basic policies, responsibility systems, and operation for company-wide risk management.

When it comes to material risks, including climate change, each of the departments in charge identifies items and determines the "degree of risk (degree of importance)" with three levels—High, Medium, and Low—taking into account the "impact on management" and the "frequency of occurrence."

Among them, High items that have a significant impact on our strategies or financial status are selected as risks that should be preferentially dealt with and reported to the Risk Management Committee after formulating priority management policies and targets.

The Risk Management Committee assesses the degree of each risk and discusses the priority management policies and targets from a company-wide, comprehensive perspective, and formulates basic policies. Then, each department in charge monitors the progress of its activity plan and reports the results to the Risk Management Committee.

The Chairperson (President and Representative Director) of the Risk Management Committee scrutinizes the status of company-wide risk management and reports it to the Board of Directors twice a year after discussion by the Internal Control Committee.

In addition, the Management Meeting, which determines important management matters on the whole, discusses the risks and opportunities of climate change, reviews climate change scenarios, and reflects them in long-term strategies. The Management Meeting reports related issues, including the risks of climate change, to the Board of Directors alongside of the reporting from the Risk Management Committee.

In order to strengthen risk assessments from a company-wide, comprehensive perspective, the members of the Internal Control Committee conduct additional company-wide assessments and formulate policies.

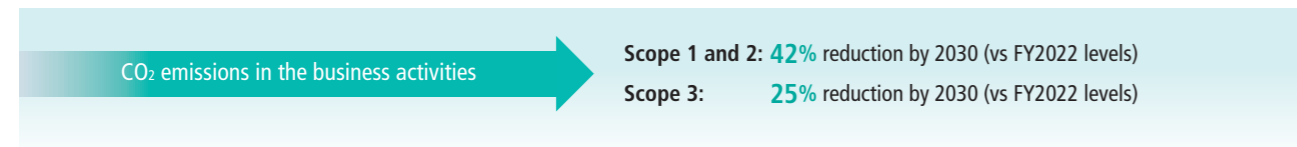
Indicators and Targets

In order to manage climate-related risks and opportunities, various measures are implemented by setting indicators not only for GHG emissions but also for energy consumption, water usage, and waste emissions.

Reduction target

In order to evaluate and manage the impact of climate change on its operations, the Group has set a GHG emissions reduction target in its Mid-Term Business Plan, utilizing CO₂ emissions in business activities as a key indicator. Additionally, in 2024, the Group reset its target with a view toward obtaining SBT* accreditation, aiming for further reduction in GHG emissions going forward.

*Stands for Science-Based Targets, which refers to GHG emissions reduction targets that are aligned with the levels required by the Paris Agreement.



SBT accreditation

The Group submitted a commitment letter to the Science Based Targets initiative (SBTi) in March 2024, and is currently undergoing the process to obtain accreditation. From this point forward, we will develop technologies and proactively promote proposals to our customers to help

reduce CO₂ emissions during the operation stage of equipment designed and constructed by our Group. Additionally, we will contribute to the realization of a decarbonized society by introducing renewable energy-based electricity at our domestic and international sites.

GHG emissions

Scope/Category		Accounting methods	Emission amount (t-CO ₂)	
			FY2022	FY2023
Scope 1		—	12,689	26,867
Scope 2		—	16,206	17,694
Scope 3			10,299,611	10,813,778
Category 1	Purchased goods and services	Calculated from (raw) materials procurement amount (in value terms)	688,465	638,480
Category 2	Capital goods	Calculated from amount of capital investment	1,841	12,228
Category 3	Fuel- and energy-related activities not included in Scope 1 or 2	Calculated from purchased amount of electricity and fuels	4,981	8,211
Category 4	Transportation and delivery (upstream)	Calculated from transportation costs accompanying procurement of (raw) materials	63,905	60,718
Category 5	Waste generated in operations	Calculated from amount of waste discharged by type	1,999	2,773
Category 6	Business travel	Calculated from travel expenses paid by mode of transportation	2,303	2,999
Category 7	Employee commuting	Calculated from transportation expenses paid to employees	1,799	1,852
Category 8	Leased assets (upstream)	Included in Scope 1 and 2 emission calculation	—	—
Category 9	Transportation and delivery (downstream)	No relevant activities	—	—
Category 10	Processing of sold products	There are some products that are relevant, but calculations are ignored because their ratios in sales are extremely small.	—	—
Category 11	Use of sold products	Calculated from emissions from operation of facilities Taikisha provided, HFC leakage from equipment Taikisha provided, and estimated useful lives	9,532,735	10,085,014
Category 12	End-of-life treatment of sold products	Calculated from weight of main equipment by type	1,584	1,504
Category 13	Leased assets (downstream)	No relevant activities	—	—
Category 14	Franchises	No relevant activities	—	—
Category 15	Investments	Calculations are ignored because the validity of the category 15 estimates is low as a result of many portfolio companies not disclosing Scope 1 and 2 emissions and the impact of the category 15 estimates on the entire supply chain is small.	—	—
Total of Scope 1, 2 and 3			10,328,506	10,858,340

Efforts for Realizing a Low Carbon Society

Basic Policy

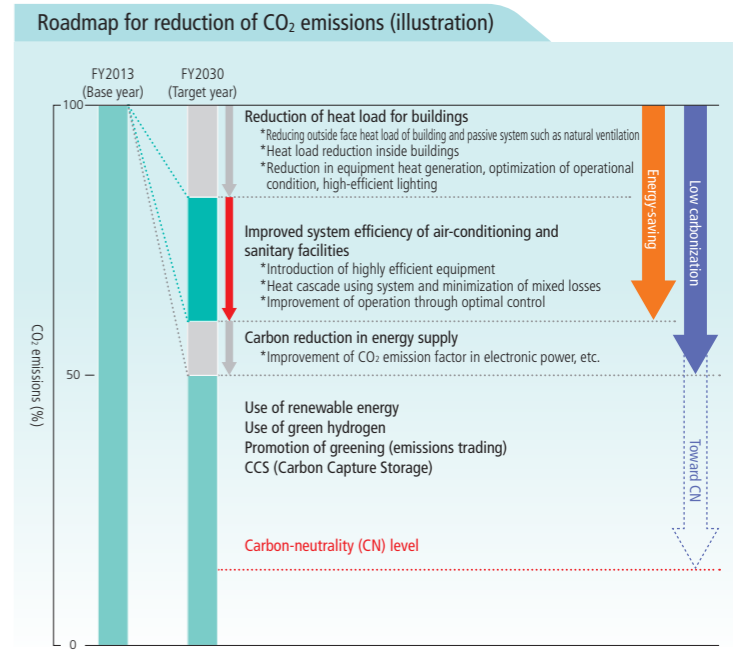
The Group promotes research and development that contributes to GHG emissions reduction, as well as proposals to our customers, since GHG emissions during the operation stage of the air conditioning and sanitation equipment, and painting plants provided by our Group (Category 11 of Scope 3) account for more than 90% of GHG emissions across the Group's entire supply chain.

Toward the Targets of the Medium-Term and Long-Term Plans[Green Technology System Division]

The Green Technology System Business aims to reduce the CO₂ emission factor during the operation stage of projects designed and constructed by us by 25% by FY2030, compared with FY2013. We are promoting CO₂ emissions reduction by proactively proposing both our existing energy saving technologies and those currently under development to our customers.

We believe that drastic measures are required to realize carbon neutrality by 2050. In addition to reducing air conditioning loads and utilizing electricity from renewable energy sources, we are working on the development of CO₂ separation and capture technologies, as well as technologies for energy transition to hydrogen, etc.

In July 2024, we began operations at the TAIKISHA INNOVATION SITE Aikawa, renewing the Research and Development Center located in Aikawa-cho, Aiko-gun, Kanagawa Prefecture. We will promote research and development, validation experiments, and simulations that contribute to carbon reduction.

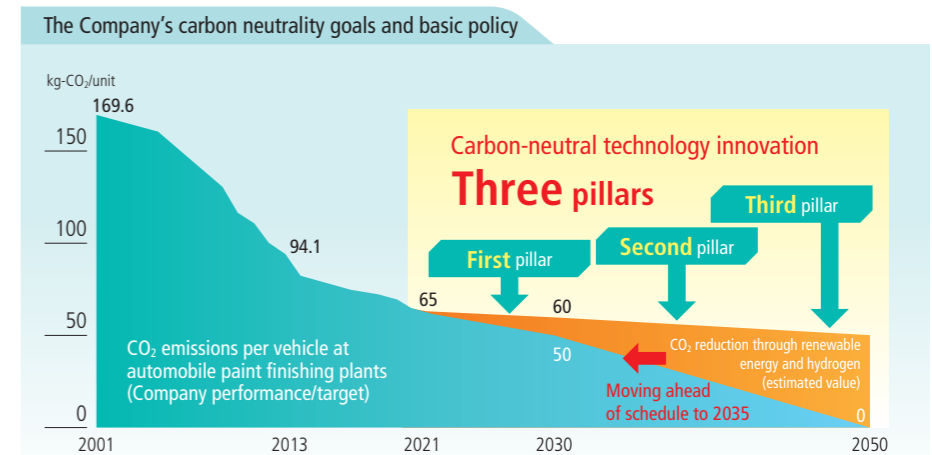


Toward the Targets of the Medium-Term and Long-Term Plans[Paint Finishing System Division]

The Paint Finishing System Business aims to achieve 40.0 kg-CO₂/unit by 2030, estimating CO₂ emissions per unit of automobile painted, based on the energy estimation model for automobile paint finishing lines. Toward the realization of carbon neutrality in automobile painting processes, we are advancing technology development in collaboration with customers from various automobile manufacturers, having established three pillars of technological innovation.

To provide our developed technologies to customers in a timely manner, we are strengthening global collaboration and utilizing Computer Aided Engineering (CAE) from an efficiency standpoint.

- First pillar**
Streamlining painting process by implementing energy-saving measures
- Second pillar**
Response to energy transition
- Third pillar**
Development of alternative painting technologies



Initiatives in Each Business

Green Technology System Division

Eco-Friendly Design

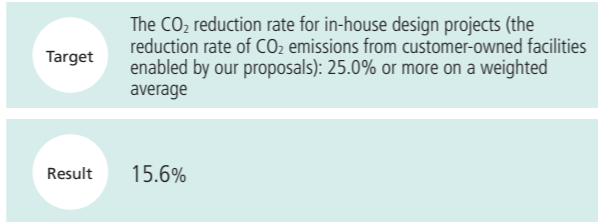
The Green Technology System Division, as part of promoting eco-friendly designs, makes proposals for improving the energy efficiency (reducing environmental impacts) of facilities owned by clients. In energy-saving proposal activities, the Division repeats the cycle of energy-saving diagnosis to grasp the current status, make detailed proposals based on clients' future visions, design and installation based on energy-saving proposals, and verify the effects in the operation phase.

To contribute to the target reduction in GHG emissions by FY2030 (46.0% reduction compared with FY2013) under the Plan for Global Warming Countermeasures, an additional Cabinet decision made in October 2021, Taikisha has developed a proprietary simulation-based Energy Plant Optimal Control System, which maximizes the reduction amount of energy saved by heat source systems through optimal operation control according to external conditions that change from hour to hour and thus helps reduce CO₂ emissions and running costs.

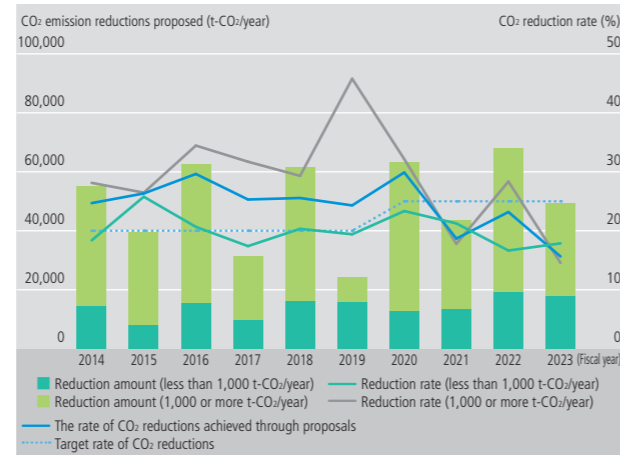
Taikisha is also working on the development of energy-saving technologies of clean room systems that control the air conditioning by tracking the operation status of production equipment, staffing and indoor environment as well as room pressure control systems and low-dew point systems, by incorporating technological advancements such as AI and IoT into air-conditioning systems.

In overseas projects, which are our specialty, the scope of design and installation often includes electrical equipment, and we proactively propose energy-creating solutions such as photovoltaic power generation.

In FY2023, the number of energy-saving proposals was 134. The CO₂ reduction amounted to 48,946 t-CO₂/year, and the CO₂ reduction amount equivalent to Category 11 of Scope 3 was approximately 730,000 t-CO₂ on a consolidated basis.



Transition in the amount of proposed CO₂ emission reductions and the rate of CO₂ reductions (by proposal size)



Development of Direct Air Capture

Adopting the "challenge to create new value" as one of our basic policies of the Mid-Term Business Plan from FY2022 to FY2024, we have examined the collection and utilization of CO₂ as a new business area.

In order to achieve carbon neutrality, negative emission technologies are required to eliminate CO₂ that cannot be addressed through energy saving and the utilization of renewable energy. Direct Air Capture (DAC), the technology to directly capture and separate CO₂ from the air, is one of the negative emission technologies gaining attention.

Currently, we are examining the application of DAC to air conditioning equipment. This allows for addressing the difficulty of increasing ventilation in existing buildings in response to the rising CO₂ concentration in recent years, and gaining energy-saving benefits from reducing the amount of outdoor air intake. Additionally, by reducing the amount of CO₂ generated during energy consumption in the capture process and utilizing the captured CO₂, carbon neutrality can be achieved while maintaining the indoor environment.

Performance evaluations have been completed, and moving forward, we plan to conduct verification for practical application with the cooperation of Mikasa City, Hokkaido.

Paint Finishing System Division

Achievements of the Company's carbon neutrality initiatives and future targets

In order to visualize the CO₂ emission reduction effects by the technologies we have proposed, we have been calculating and objectively evaluating CO₂ emissions in automobile paint per unit since 2000, based on the energy estimation model for automobile paint finishing lines.

CO₂ emissions in the 2005 model were estimated at 160.1kg-CO₂/unit, and we have since made various technology proposals to help reduce CO₂, including the introduction of heat pump technology and high-efficiency equipment, and dry-type paint booths. Since 2020, we have proposed the development and improvement of low air volume booths, and indirect furnaces with VOC treatment functions, as products in line with the first pillar of our technology innovation (p.46). In recent years, we have been promoting further CO₂ emission reductions by utilizing AI technology in production visualization systems and production analysis systems.

As a result of these initiatives, the FY2023 model achieved 60kg-CO₂/unit. Moving forward, we will promote initiatives along the three pillars, including the use of electricity from renewable energy sources in painting facilities (all-electric facilities), the use of hydrogen energy, and technological proposals for film decorating systems.

Additionally, while our previous goal was to achieve net zero CO₂ emissions by 2050, we have moved the target date forward and now aim to achieve net zero CO₂ emissions by 2035. The conditions necessary to achieve net zero by 2035 include the transition to renewable energy sources for power supply. Looking back from the 2035 target, we have set interim goals of achieving 50kg-CO₂/unit by 2025 and 40kg-CO₂/unit by 2030.

CO₂ emissions estimates at automobile paint finishing plants —Transition in CO₂ emission reductions proposed and future target—

