

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



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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

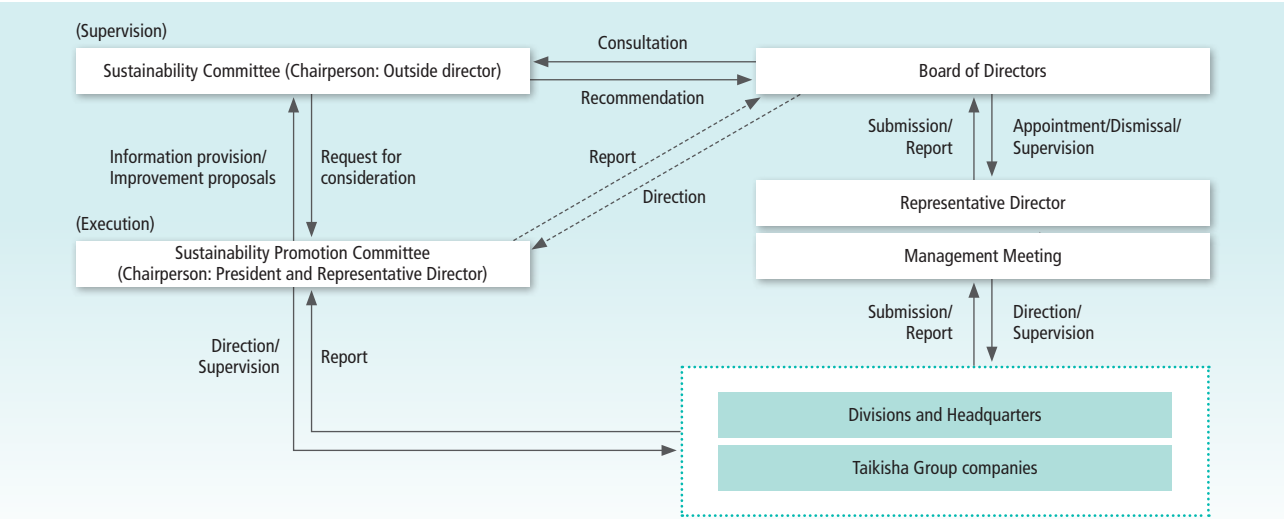
implements measures for addressing sustainability issues. Responsibilities for evaluating and controlling climate-related risks and opportunities are assigned to the President and Representative Director, who chairs the Risk Management Committee. With regard to the linkage with incentives, non-financial 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 following process.

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.

Sustainability Promotion System Diagram



Analysis process

- 1 Evaluation of the degree of the priority of each risk
- Identify the risks and opportunities of climate change that Taikisha Group is currently confronted with and is expected to be confronted with in the future in the Green Technology System Division and Paint Finishing System Division, and evaluate their degree of importance on our future businesses.
- 2 Definition of scenarios
- Select multiple scenarios, and then obtain objective future information on parameters related to risk and opportunity items. Based on this information, categorize global movements around us, including the behavior of future stakeholders in each of the scenarios.
- 3 Evaluation of impacts on businesses
- Based on global movements in each scenario, consider what strategic options we should take, clarify the gap between existing management, business strategies, and plans and them. Then estimate their impacts on businesses.
- 4 Definition of countermeasures
- Based on each scenario and our actions, scrutinize applicable and realistic countermeasures to address the identified risks and opportunities.

4°C scenario
If more powerful countermeasures than the ongoing ones are not taken against global warming, land surface temperature will rise by 2.7 to 5.4°C from the level in the period of the Industrial Revolution.
Less-than-2°C scenario
If strict countermeasures are taken against global warming, land surface temperature will rise by 0.9 to 2.3°C from the level in the period of the Industrial Revolution.

Selected climate change scenarios

With reference to the climate change scenarios published by the International Energy Agency (IEA) and other organizations, we selected the less-than-2°C scenario (transition to low carbon) and the 4°C scenario (no further significant policy measures are taken).

Results of scenario analyses

We perceived "carbon tax," "changes in customer behavior," and "prevalence of energy-saving and renewable energy technologies" as transition factors, and "average temperature rise" as a physical factor, and identified them as material 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.

Results of scenario analyses

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.)	Growth of demand for low-carbon buildings (increase in sales) Growth of demand for low-carbon painting plants (increase in sales)	🔻	🔻	<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)	Increase of about 1.1 billion yen in sales in the 4°C scenario and of about 2.2 billion yen in the less-than-2°C scenario as a result of integrating customers' needs for low-carbon buildings and fluctuations in demand for construction works of growing Net Zero Energy Buildings (ZEBs), development of advanced energy-saving and renewable energy technologies (increase 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)	Growth of demand for air conditioning system technologies (increase in sales) Promotion of the mechanization and automation of installation works (increase in sales) Growth of demand for plant factories (increase 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.

Committee/Meeting body	Overview of organization	Overview of activities
Risk Management Committee	Chairperson: President and Representative Director	•Held twice a year •Perceiving and assessing the risks of climate change and confirming the direction of actions against important risks
Internal Control Committee	Chairperson: President and Representative Director	•Held as needed •Discussing the risk management system and the status of risk management
Management Meeting	Chairperson: President and Representative Director	•Held twice a month •Reviewing climate change scenarios and reflecting them in long-term strategies •Discussing the risks and opportunities of climate change •Considering whether the climate-related issues should be reported to the Board of Directors

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, utilizing CO₂ emissions in business activities as a key indicator.

CO₂ emissions in the business activities

Scope 1 and 2:

42% reduction by 2030 (vs FY2022 levels)

Scope 3:

25% reduction by 2030 (vs FY2022 levels)

In 2024, our GHG emissions reduction target was accredited by the Science-Based Targets initiative (SBTi) as a target aligned with the levels required by the Paris Agreement.

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.

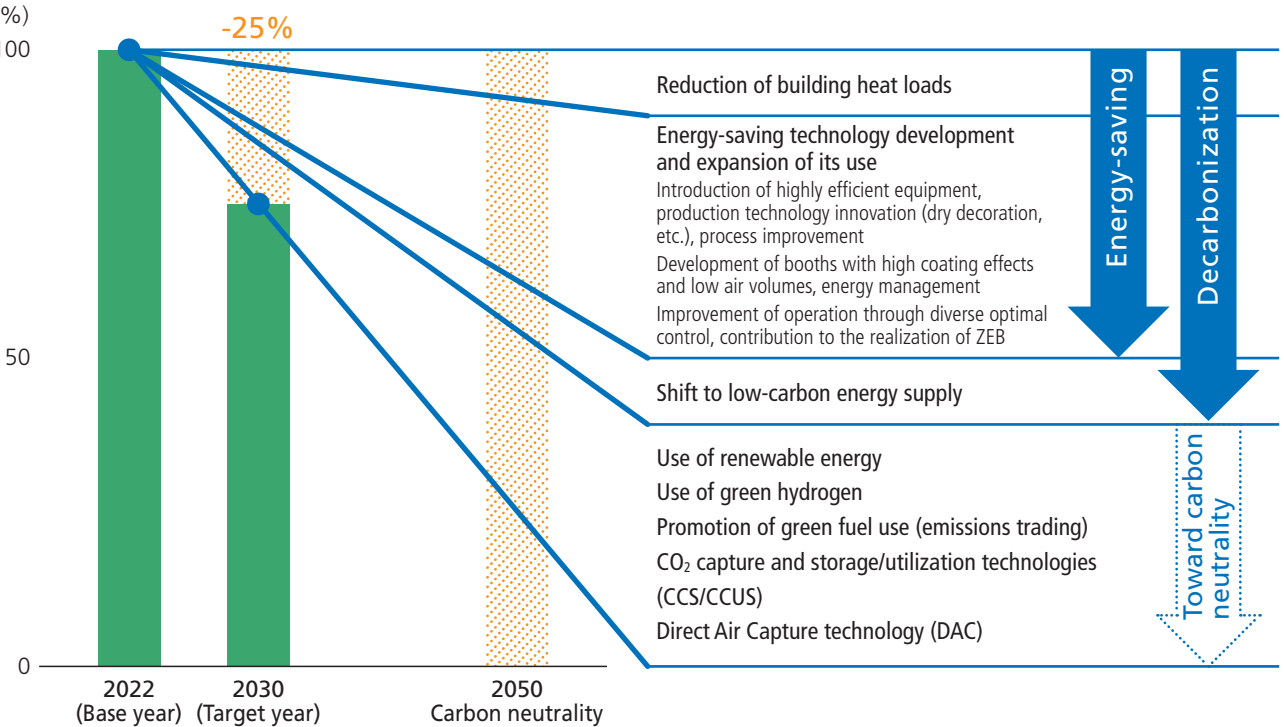


● GHG emissions

Scope/Category		Emission amount (t-CO ₂)	
		FY2022	FY2023
Scope 1		26,867	9,068
Scope 2		17,694	14,434
Total of Scope 1 and 2		44,561	23,501
Scope 3		10,813,778	8,302,391
Category 1	Purchased goods and services	638,480	582,853
Category 2	Capital goods	12,228	11,218
Category 3	Fuel- and energy-related activities not included in Scope 1 or 2	8,211	3,251
Category 4	Transportation and delivery (upstream)	60,718	55,983
Category 5	Waste generated in operations	2,773	2,106
Category 6	Business travel	2,999	3,717
Category 7	Employee commuting	1,852	1,938
Category 8	Leased assets (upstream)	—	—
Category 9	Transportation and delivery (downstream)	—	—
Category 10	Processing of sold products	—	—
Category 11	Use of sold products	10,085,014	7,640,004
Category 12	End-of-life treatment of sold products	1,504	1,320
Category 13	Leased assets (downstream)	—	—
Category 14	Franchises	—	—
Category 15	Investments	—	—
Total of Scope 1, 2 and 3		10,858,340	8,325,892

● Roadmap for reduction of CO₂ emissions

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. We will push forward with the following initiatives to achieve carbon neutrality by 2050.



Initiatives in Each Business

Green Technology System Division:Eco-Friendly Design

The Green Technology System Division promotes initiatives to reduce environmental impact and realize a sustainable future. Particularly, the division contributes to CO₂ emission reductions by increasing the efficiency of clients’ facilities through eco-friendly design with an emphasis on energy saving.

The eco-friendly design starts with an energy-saving diagnosis to grasp the current status. In this diagnosis phase, we analyze the energy usage of clients’ current facilities in detail to identify waste. Based on this as well as clients’ future visions, we propose specific energy-saving measures. This proposal includes the implementation of the Energy Plant Optimal Control System which is based on simulation data and realizes optimal operation control according to external conditions. The system maximizes energy-saving of heat source systems and thus helps reduce CO₂ emissions and running costs.

In the design and installation phase, we incorporate the energy-saving proposals and utilize the latest AI and IoT technologies to improve the efficiency of air conditioning systems in factories and buildings. Specifically, we introduce various energy-saving technologies, including 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. This allows the indoor environment to be maintained at optimal conditions while minimizing energy consumption.

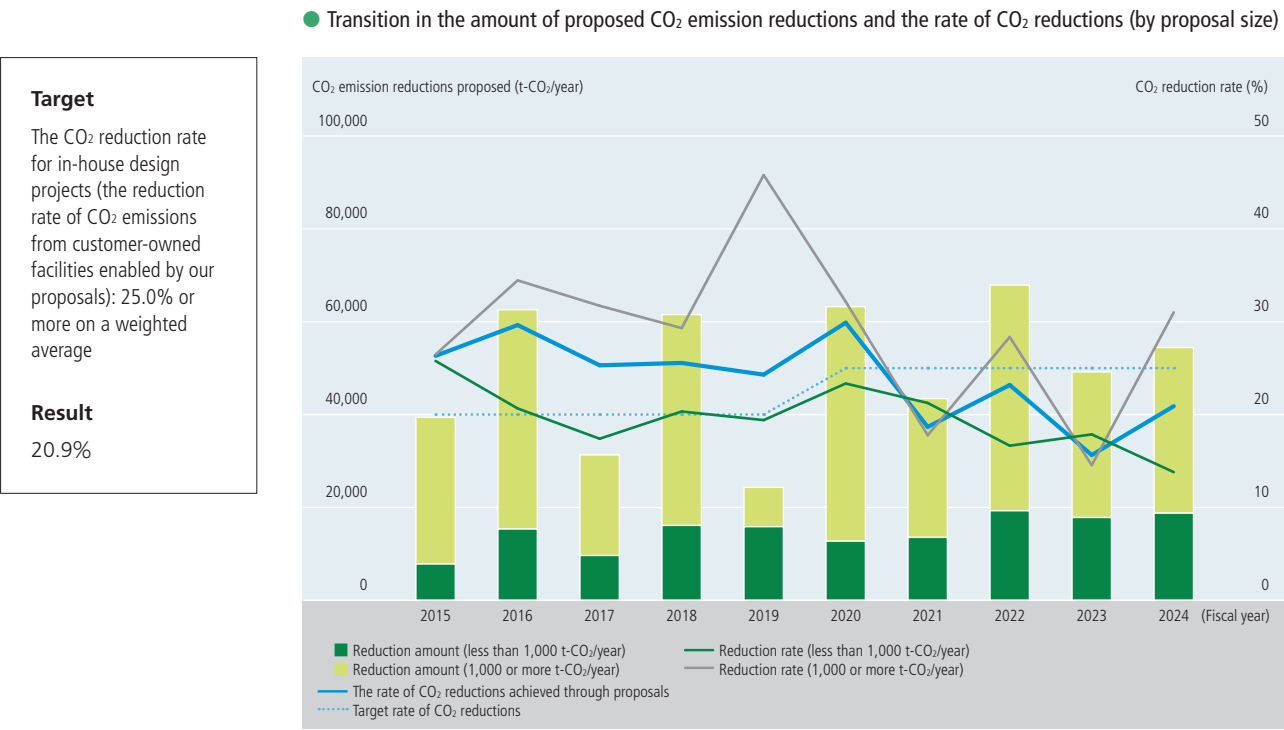
Next, we evaluate the effectiveness of the implemented energy-saving measures to verify the effects in the operation phase. By repeating this cycle, we aim to make continuous improvements and pursue further energy saving.

We are proactively working on the eco-friendly design in overseas projects as well as in domestic ones. Especially in projects where electrical equipment is included in the scope of design and installation, we propose energy-creating solutions such as photovoltaic power generation to promote the use of renewable energy. In this manner, we achieve optimal energy supply in accordance with energy demand in each region, thereby contributing to CO₂ emission reductions worldwide.

We are also striving to improve the accuracy of the CO₂ emission calculation. By understanding the actual reduction effects of each project more precisely, we are able to reflect these results in our future improvement measures.

Along with these efforts, we evaluate the CO₂ reduction rate for each fiscal year, which is the reduction rate of CO₂ emissions from customer-owned facilities enabled by our proposals. In FY2024, the number of proposals was 150, and the amount of proposed CO₂ emission reductions reached 54,438 t-CO₂/year. We set a CO₂ reduction rate target of 25.0% or more on a weighted average for in-house design projects and achieved 20.9%. The proposed CO₂ reduction amount equivalent to Category 11 of Scope 3 reached approximately 820,000 t-CO₂ (the effect of 15 years of operation).

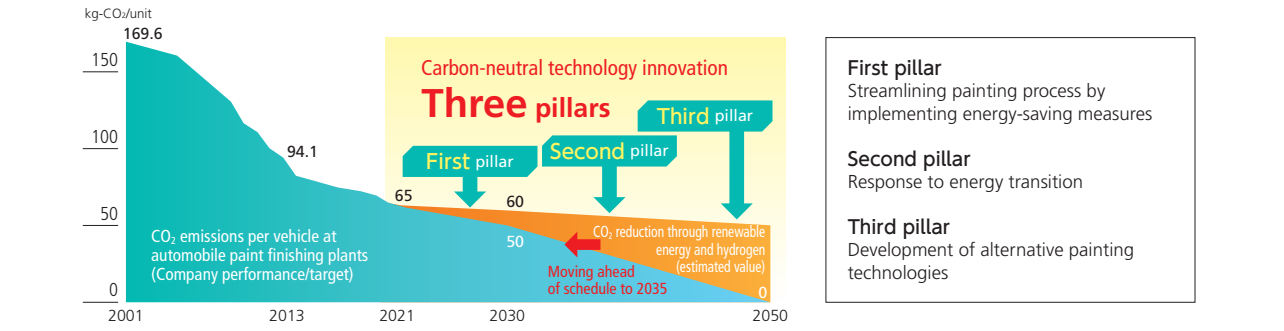
The Green Technology System Division will continue to work on energy-saving and environmental impact reductions of clients’ facilities by promoting eco-friendly design so as to contribute to the realization of a sustainable society.



Paint Finishing System Division : Achievements of the Company’s carbon neutrality initiatives and future targets

In the Paint Finishing System Division, we have been calculating and objectively evaluating the CO₂ emissions per vehicle during the painting process in order to visualize the CO₂ emission reduction effect by the technologies we have proposed. This evaluation is based on the energy estimation model for automobile paint finishing lines.

We have made various technology proposals to help reduce CO₂ emissions, including the introduction of heat pump technology and high-efficiency equipment, and dry-type paint booths. Aiming to achieve carbon neutrality in automobile painting processes, since 2020, we have been developing technology under three pillars that represent our basic policy for technological innovation.



Based on the first pillar, we have proposed increasing paint coating efficiency, lowering the air volume of paint booths, and the development and improvement of indirect furnaces with VOC treatment functions to achieve highly efficient and waste-free production processes. In addition, we have been promoting further CO₂ emission reductions by utilizing AI technology in production analysis systems with a view to minimizing production losses.

As a result of these initiatives, CO₂ emissions based on the estimation model reduced to 51.4 kg-CO₂/unit in FY2024, in contrast to 160.1 kg-CO₂/unit in 2005.

As initiatives based on the second pillar, we have driven the use of

electricity from renewable energy sources in painting facilities (all-electric facilities) and the use of hydrogen energy. We have also worked on the development of alternative painting technologies based on the third pillar, including the technological development of film decorating systems.

In advance of the global target of achieving net zero CO₂ emissions by 2050, we have brought forward the target year and aim to achieve net-zero CO₂ emissions by 2035. Our target includes the transition to renewable energy sources for the power supply. By backcasting from 2035, we have set interim goals of achieving 50 kg-CO₂/unit by 2025 and 40 kg-CO₂/unit by 2030.

