

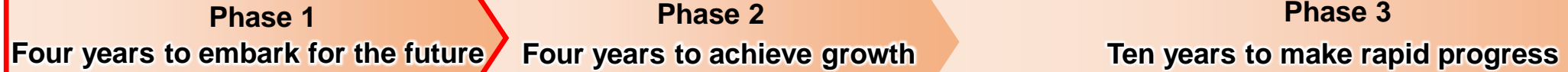


2026 Medium-Term Management Plan

Step for the FUTURE -Four years to embark for the future-

May 12, 2023

The Takasago Thermal Engineering Group's Long-Term Vision for 2040



Business model transformation

We will establish our construction business as a solid revenue base and promote investment in future growth.

1. Enhance earning power based on our construction business

Enhance on-site capabilities to improve earning power

2. Establish business that will lead to long-term added value

Promote carbon neutrality through environmental technologies

Company and human resource transformation

We will invest in human capital and build the systems necessary for our company to transform into an Environment-Creator™.

3. Invest in human capital, the source of our value creation

Invest in human resources to transform our business model

Medium-Term Management Plan (2023 to 2026) numerical targets

KGIs (FY2026)

Enhance earning power

Consolidated ordinary income
20 billion yen

Improve capital efficiency

Consolidated ROE
Approximately 10%

Contribute to the global environment

Reduce CO₂ emissions
(compared to FY2022)

- Scope 1/2: -16.8%*1
- Scope 3: -10.0%*2



KPI

1. Enhance earning power based on our construction business

- Achieve a consolidated gross profit margin of 15.0% or more by improving our received-order profit margin and enhancing cost management

2. Establish business that will lead to long-term added value

- Achieve the social implementation of green energy supply equipment (equivalent to a total of 5,000 kW*3)
- Propose a carbon transition of -15,000 tons of CO₂ per year

3. Invest in human capital, the source of our value creation

- Increase the number of employees by at least 200*4
- Develop professional human resources
- Reform our personnel management system

Increase investment by 10 billion yen*3 through the above measures

*1 The reduction rate necessary to achieve the 1.5°C target

*2 The scope 3 reduction rate in line with the target in *1 above

*3 The total for the period covered by the Medium-Term Management Plan

*4 Compared to FY2022 as of the end of FY2026

1. Measures to enhance earning power based on our construction business

1. Enhance earning power based on our construction business

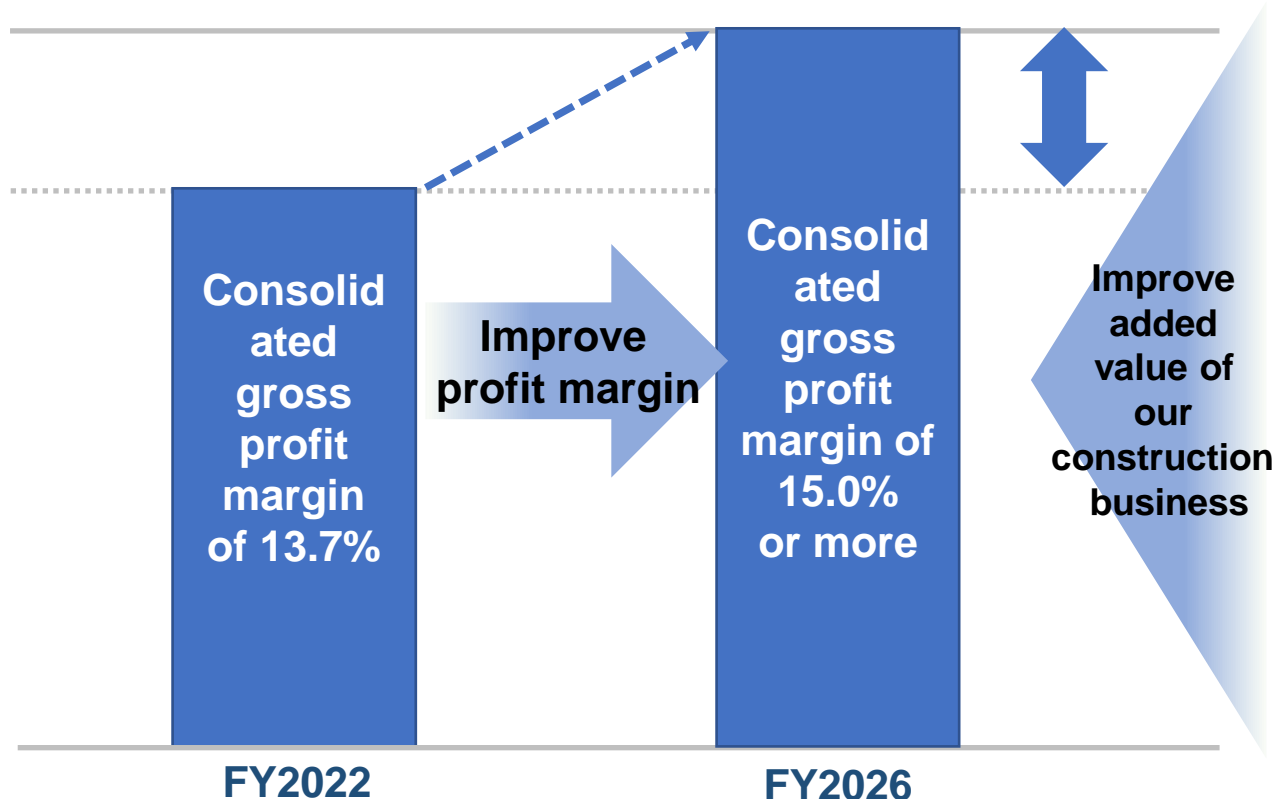
Enhance on-site capabilities to improve earning power



- Conduct order-receiving activities from a company-wide perspective
- Suitably manage construction and improve productivity

FY2026 target
 ■ Achieve a consolidated gross profit margin of 15.0% or more

■ Initiatives to achieve a consolidated gross profit margin of 15.0% or more



- ① **Improve our received-order profit margin through optimal company-wide order receiving**
 - (1) Improve the received-order profitability of large projects (construction planning, design, etc.)
 - (2) Pursue initiatives to establish a high-profit-margin received-order/net sales portfolio (Details are provided on slide 4)
- ② **Enhance our earning power at the construction stage through organization-wide efforts**
 - (1) Enhance monitoring
 - (2) Enhance cooperation with Kowakai^{*1}
 - (3) Reform our construction process (T-Base®, etc.) (Details are provided on slide 5)
 - (4) Strategically develop human resources

*1 An organization composed of our company's affiliates

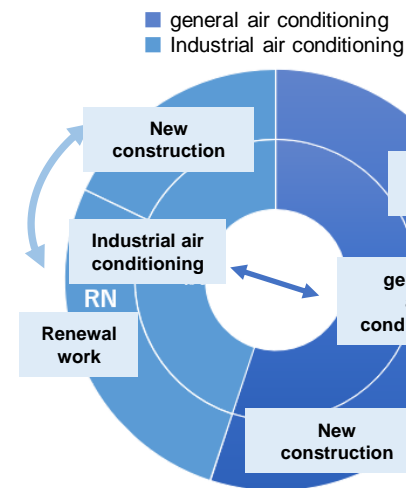
1. Enhancing earning power based on our construction business ①

Initiatives to establish a high-profit-margin received-order/net sales portfolio

Order receiving strategy

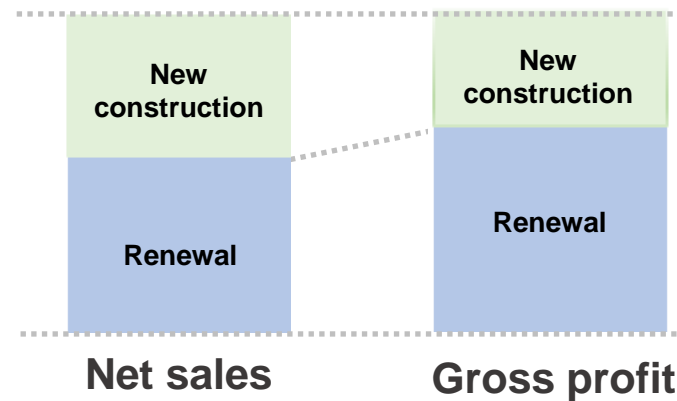
- ① In order to promptly respond to issues that include a limited supply of labor in the face of strong construction demand and the fact that construction projects are becoming larger, we will promote an optimal company-wide order receiving strategy as opposed to our past branch-based approach.
- ② Recently, there has been strong construction demand for both general and industrial air conditioning. In terms of industrial air conditioning, we will emphasize the receipt of new construction orders to form future renewal assets, and—in terms of our overall general/industrial and new and renewal construction business—we will strive to establish a higher-profit-margin received-order/net sales portfolio.
- ③ To respond to fluctuations in the construction demand for general and industrial air conditioning, we will restructure our received-order portfolio to make it more flexible.

* Overview of our received-order/net sales portfolio



As we flexibly respond to fluctuations in the construction demand, we will take steps to establish a received-order/net sales portfolio that is optimal from the medium to long-term perspective, such as by forming future renewal assets.

* Net sales and profit ratio overview



1. Enhancing earning power based on our construction business ②

Construction process reform: the T-Base® project

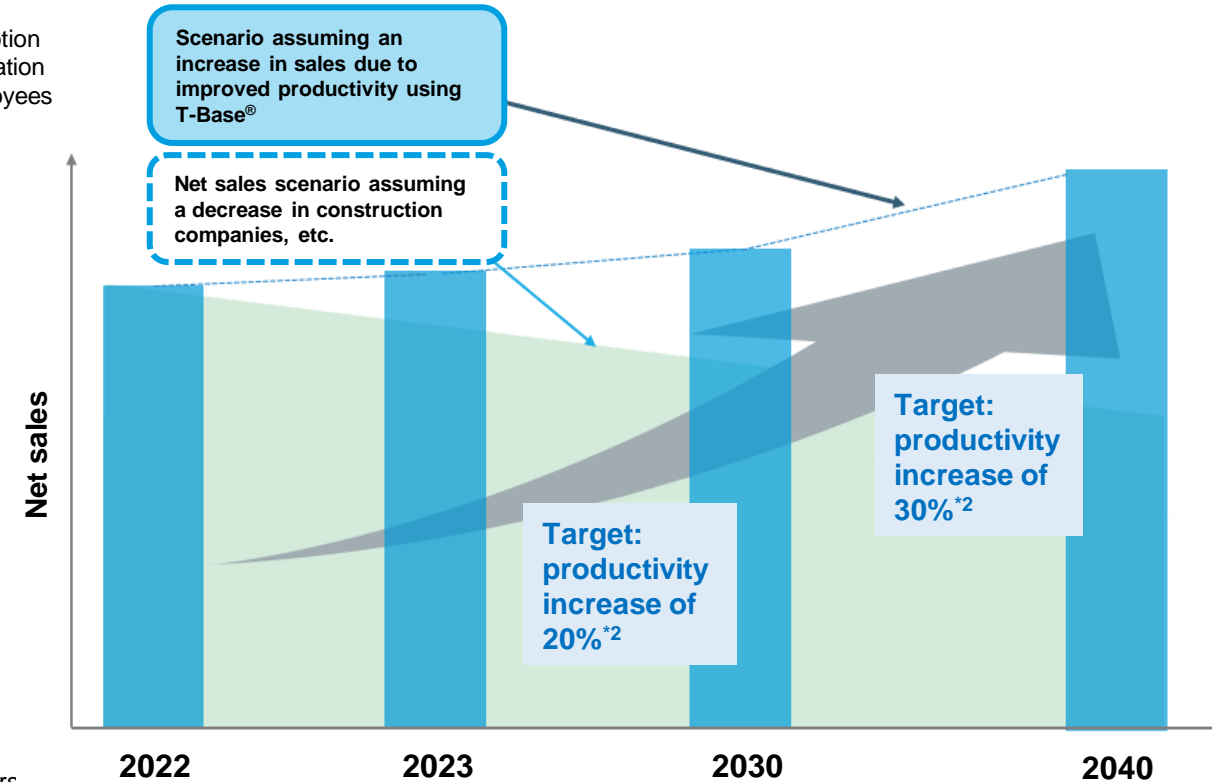
We are switching from a *construction management system based on on-site one-off production to platform-based production management*. We will achieve improved productivity by realizing both reduced labor at construction sites and high-quality construction through the achievement of front loading*¹ to equalize the workload as well as construction standardization, off-site production, and logistics.

Active implementation of the T-Base® menu at construction sites throughout Japan

- Planning and development of a standardized technology menu
- Comprehensive T-Base® menu use and implementation



Productivity improvement targets using T-Base®



*1 A method for taking care of more of the workload up front to improve quality and reduce the lead time by concentrating labor and resources during the initial stages of the manufacturing/system development process

*2 The productivity improvement rate in terms of the total working hours in the case of projects for which T-Base® is introduced

2. Measures to establish business that will lead to long-term added value

2. Establish business that will lead to long-term added value
Promote

carbon neutrality through environmental technologies



- Construct and own energy supply facilities that contribute to the global environment
- Conduct CO₂ emission reducing activities

FY2026 target

- Green energy supply equipment
Total social implementation equivalent to 5,000 kW*1
- CO₂ emission reduction amount - 15,000 tons of CO₂ per year (proposed)

① **Research and develop environmental technologies** (details in the figure on the right) **and launch carbon neutrality business** (Details are provided on slide 7)

- Conduct trials and demonstrations aimed at the social implementation of technologies that contribute to carbon neutrality business
- Increase results related to carbon neutrality business

② **Achieve carbon neutrality by reforming our core business based on BIM*2 and establishing/utilizing our digital foundation** (Details are provided on slide 8)

- Steadily reduce CO₂ emitted from building environments through the construction business

Research and development of environmental technologies that contribute to carbon neutrality business		Energy:		
		Generati on	Storage	Consum ption
1	Development and introduction of water electrolysis equipment (1 to 5 Nm³ unit, 100 Nm³ unit)	○	○	
2	Development of a Takasago proprietary EMS ⇒ Achieve overall energy optimization by collecting, analyzing, and learning from data related to demand as well as the operation of energy supply equipment that includes water electrolysis equipment	○	○	○
3	Research and development of technologies to <i>create building environments</i> ⇒ Provide energy-saving and energy-producing construction equipment, environments that help to achieve health and safety, and environments that facilitate the improvement of intellectual and manufacturing productivity	○		○
4	Research and development of technologies to <i>protect the global environment</i> ⇒ Provide hydrogen-related technologies, CO ₂ capture and usage technologies, resource recycling technologies, heat/energy controlling technologies, and machines, etc. that use less Greenhouse Gas	○	○	
5	Research and development of technologies to <i>take on the challenge of new environments</i> ⇒ Take on challenges related to habitats that include the moon's surface, outer space, and oceans as well as energy supply facilities, etc.	○	○	○

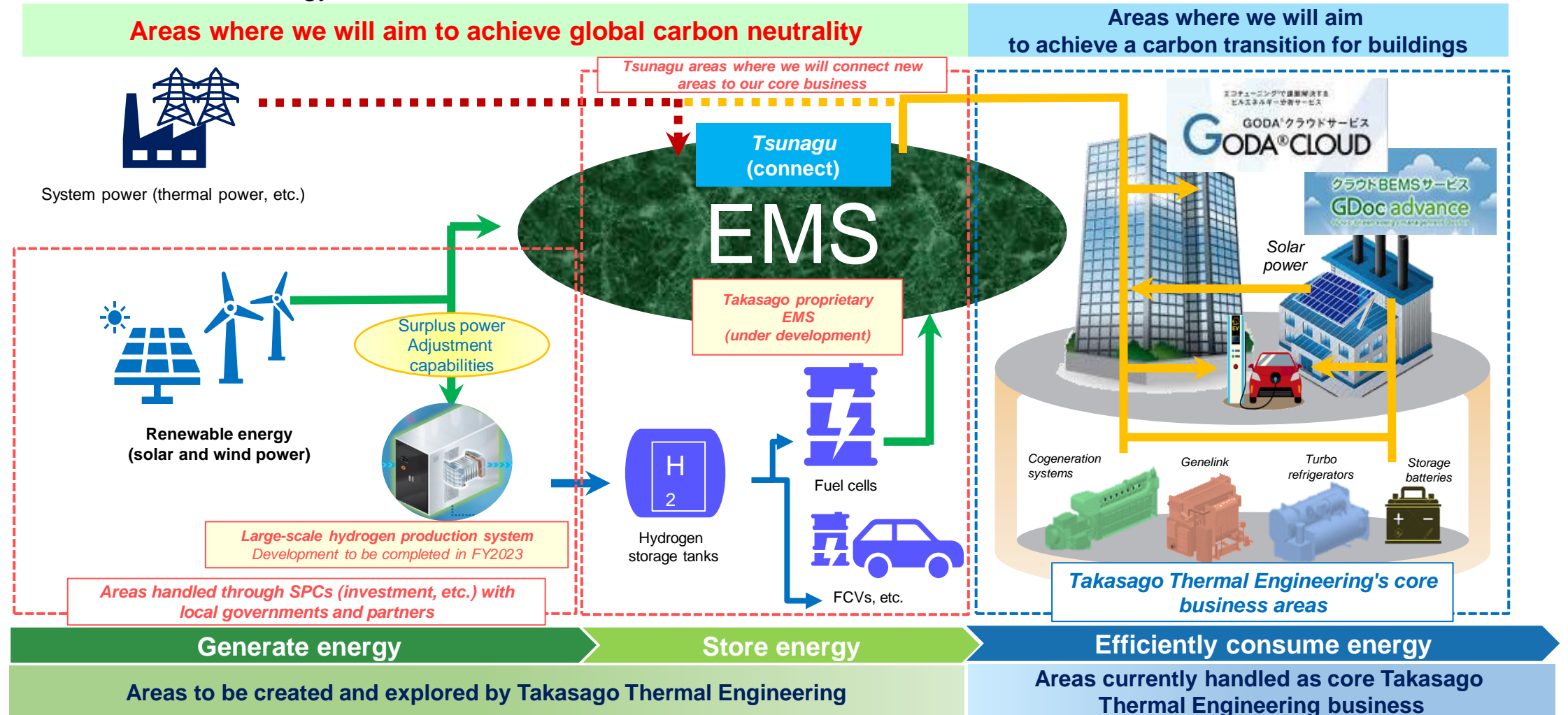
*1 The total for the period covered by the Medium-Term Management Plan

*2 BIM stands for Building Information Modeling.

2. Establishing business that will lead to long-term added value ①

Carbon neutrality business: the big picture

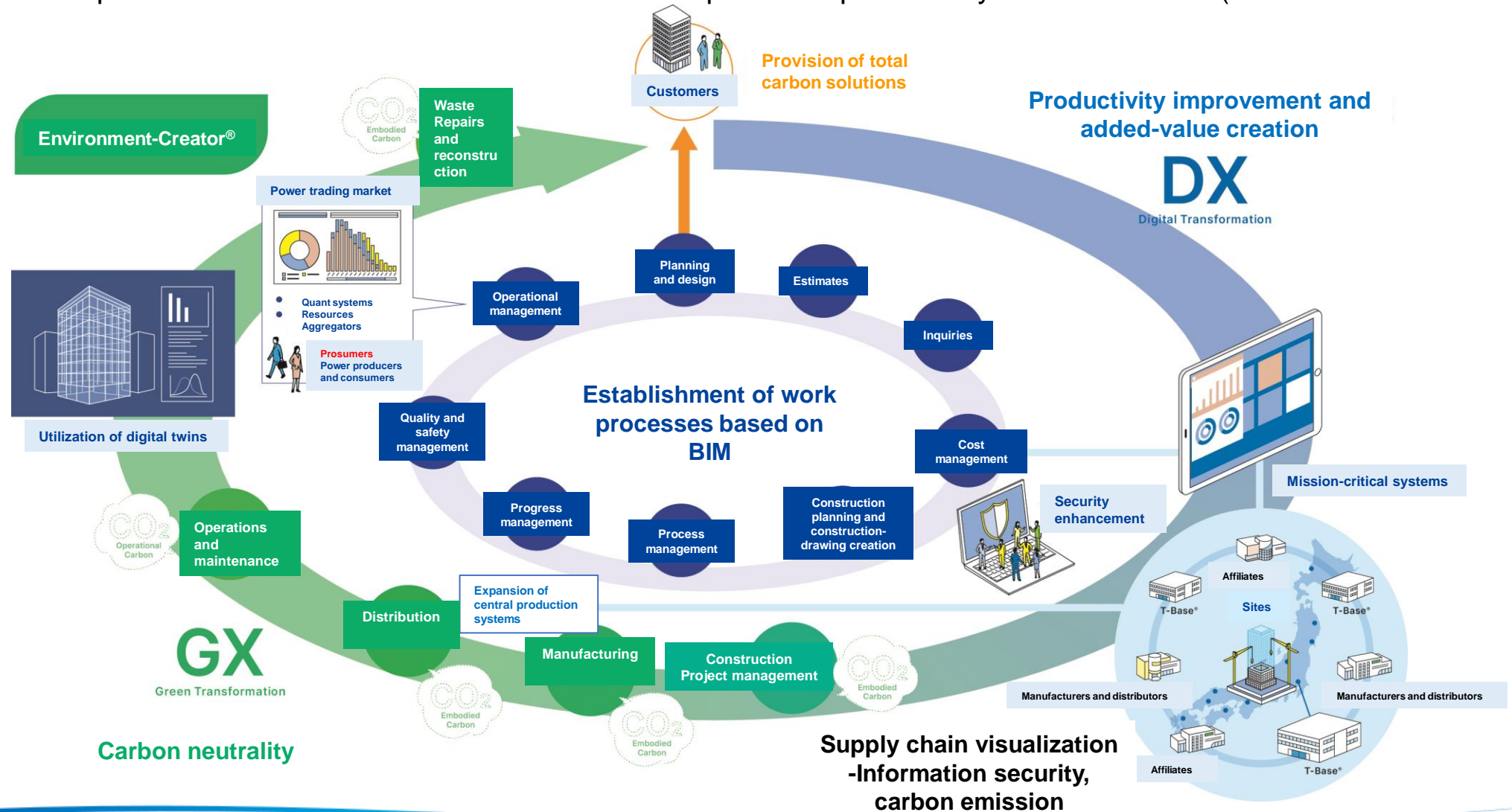
In the carbon neutrality market, we will aim to create new business that includes investment in the creation of and operations related to renewable energy.



2. Establishing business that will lead to long-term added value ②

Reforming our core business based on BIM and establishing/utilizing our digital foundation

We will establish work processes based on BIM and utilize data to improve our productivity and achieve GX (Green Transformation).



3. Investing in human resources, the source of our value creation

3. Invest in human capital, the source of our value creation

Invest in human capital to transform our business model

■ Establish and execute our human resource strategy

Increase our investment in human capital by 10 billion yen* through the implementation of measures ①, ②, and ③ below

① Secure human resources, the source of our value creation (Enhance acquisition and retention)

- Policies/measures to *increase the number of employees by at least 200**
 - Revise our criteria for hiring new graduates and mid-career professionals
 - Enhance retention
 - Enhance fresh graduate hiring activities

Securing human resources Development of human resources

Takasago Thermal Engineering's human resource strategy



Personnel system reforms

② Develop professional human resources who are driven by a sense of responsibility to work on resolving issues

- Establish educational systems enabling executives and employees to reach an even higher level of growth (Separate education for engineers and sales representatives)
- Develop local staff at overseas subsidiaries
- Increase the total number of qualification points held by executives and employees ^{Note)} (Increase the total number of points to 150% compared to the current total)

③ Reform our personnel system to further support working employees

- Achieve multiple-track personnel promotion
- Optimize personnel evaluations and compensation

Note) Improving the total number of qualification points

Our company has set specific numbers of points for professional qualifications (in-house or official qualifications) that employees and executives are encouraged to acquire during the course of their work. Executives and employees who acquire these qualifications are given points. We plan to increase the total number of qualification points possessed by our executives and employees to at least 150% compared to the current total.

March of 2023: 12,500 points (non-consolidated: 2,173 executives and employees)

→ March of 2027: 18,700 points (non-consolidated: 2,373 executives and employees)

[Examples of points given for different types of qualifications]

- First class plumbing work operation and management engineer: 2 points
- First class architect, lawyer, or certified public accountant: 5 points

*1 The total for the period covered by the Medium-Term Management Plan

Financial strategy and capital allocation

- We will build a financial foundation that emphasizes a balance between capital efficiency and financial soundness and supports sustainable growth.
- The cash generated as a result will be suitably allocated to growth investment aimed at improving our corporate value as well as shareholder return.

Basic policy for our financial strategy

Striking a balance between capital efficiency and financial soundness while suitably allocating funds to growth investment and shareholder return

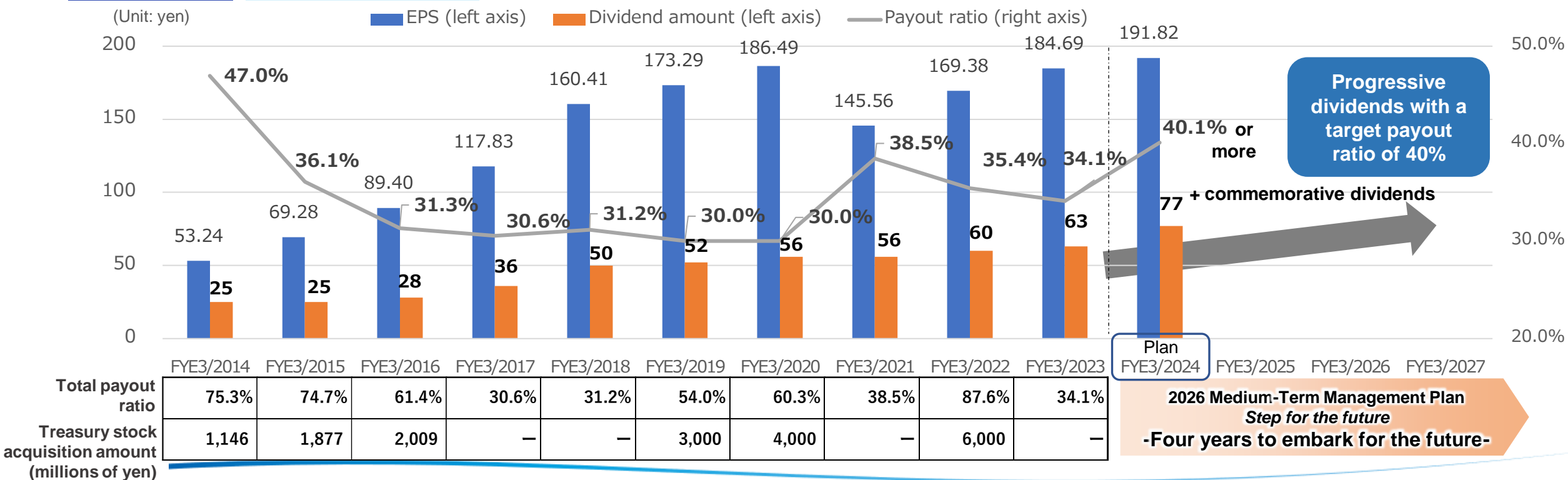
Capital efficiency	<ul style="list-style-type: none"> ▪ ROE of approximately 10%(We will remain aware of the cost of capital as we pursue improved return on capital.) ▪ Cross-shareholdings net asset ratio of 15% or less
Financial soundness	<ul style="list-style-type: none"> ▪ Maintain a rating of A* * Long-term issuer/bond rating Rating agency: JCR (Japan Credit Rating Agency)
Growth investment	<ul style="list-style-type: none"> ▪ 51 billion yen
Shareholder return	<ul style="list-style-type: none"> ▪ Aim for a payout ratio of 40% ▪ Progressive dividends ▪ Flexibly acquire treasury stock

Capital allocation

Cash in Four years: total of 81 billion yen	Cash out Four years: total of 81 billion yen
Created by business 73 billion yen	Growth investment 51 billion yen <ul style="list-style-type: none"> ▪ Investment in human capital ▪ Carbon neutrality business ▪ Construction process reform ▪ DX ▪ M&A, etc.
Sale of cross-shareholdings 8 billion yen	Shareholder return 30 billion yen (Including a payout ratio of approximately 40% and treasury stock acquisition)

Shareholder return

Shareholder return policy	Dividends	<ul style="list-style-type: none"> • We will aim for a payout ratio of 40%. • We will provide progressive dividends, which are increased according to sustainable profit growth. • In FY2023, we plan to provide 77 yen worth of dividends for each share of common stock (interim dividends: 38 yen, year-end dividends: 39 yen) as well as commemorative dividends to celebrate our 100th anniversary of business.
	Treasury stock acquisition	• We will continue to flexibly handle this as we always have based on performance trends, growth investment opportunities, capital efficiency, and other considerations.



Note on future predictions

The information on future predictions in these materials is based on certain assumptions that are currently deemed reasonable by our company.

Therefore, please note that these predictions might differ considerably from the actual results and are also subject to change without notice.



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