

2023 Group Annual Policy

Connecting growing
opportunities to results,
Let's strongly spread
our wings

Happy New Year!

Last year, amid the drastic changing environment, our Group took on challenges in executing the themes outlined in FUSION 25 and the annual budget to achieve record-breaking sales and operating profit in the first half of fiscal 2022. This fiscal year, we are now aiming for another record-high performance.

We continue to be highly esteemed outside our Group.

In the CSR Corporate Ranking by Toyo Keizai, Inc., which selects companies in Japan considered trustworthy for both sustainability initiatives and corporate performance, our Group ranked 14th out of approximately 1,600 companies. In the Nikkei Smart Work Management Survey in Japan, which selects companies demonstrating competitiveness in the new era through improved productivity realized by work style reforms, for six consecutive years we have earned the highest rank of five stars out of approximately 800 companies in Japan. (Only five companies have earned five stars for six consecutive years.) Furthermore, in the Ranking of Companies with True Competitiveness by Nikkan Kogyo Shimbun (Daily Industrial News), which is used as a role model for the industry, we were selected 8th out of approximately 240 listed companies.

Our share price currently stands at ¥22,665 and market capitalization at ¥6.6 trillion, maintaining a high-ranking position of 18th among listed companies and 9th in the manufacturing industry in Japan (as of December 14, 2022).

On welcoming the new year, we would like to express our heartfelt appreciation to each one of you for your unyielding efforts made each and every day.

Changes in the management environment provide excellent opportunities for further leaps forward. Let us challenge tackling new themes by taking actions one after another.

The economic environment surrounding our Group continues to be uncertain such as inflation caused by soaring energy prices, the economic slowdown, and sharp exchange rate fluctuations.

Despite such circumstances, under our foresighted management, our Group has been expanding business and improving profitability with unified efforts of the entire Group to continue producing outstanding results.

For example, we:

- Reinforced profitability of the entire Group with initiatives such as launching differentiated products, thoroughly reducing costs, and strategically raising selling prices;
- Minimized the impact of disrupted supply chains on product supply with initiatives such as speedily and flexibly taking action in procurement, production, and logistics in each region across the world;
- Recovered production, supply, and sales after the Shanghai lockdown with full 24-hour operation at the Shanghai and Suzhou factories and online sales as well as continued and strengthened business activities under the Zero-COVID policy;
- Increased profit of the after sales service business in Japan by continuing to offer services and solutions with high customer satisfaction;
- Created a market for and expanded sales of IAQ and ventilation products by, for example, simultaneously selling heat recovery ventilation units and air conditioning equipment;
- Significantly increased profit in the chemicals business by capturing the growing demand in the semiconductor, automotive, information communication, and other sectors;
- Steadily secured profit in the filter business mainly in Asia and Japan;
- Increased sales of marine containers by promoting differentiated products such as containers with controlled atmosphere (CA) (*1) technology and reinforcing capabilities in making proposals to major customers;

- Expanded business in the Oil Hydraulics Division by strengthening promotion of hydrostatic transmission (HST) (*2) for mobile hydraulics and maintenance, repair, and operation (MRO) (*3) in the strong North American market;
- Secured profit in the Defense Systems Division by thoroughly implementing measures for boosting demand in the oxygen concentrator and pulse oximeter businesses whose demand driven by COVID-19 had saturated;
- Received inquiries and orders in the Electronics Division by reinforcing measures for developing customers such as holding seminars for making market-specific proposals;

Etc.

Although some themes are halfway accomplished, these results were made possible by each of you taking on courageous challenges and actions. I call on you to continue upholding confidence in this.

Despite the challenging economic environment, changes in industrial and social structures that are tailwinds for our business are becoming more prominent in the world such as the full-fledged movement toward realizing carbon neutrality.

For example, the global demand for air conditioning is expecting a rapid expansion mainly in emerging regions, such as Asia and Africa, and the global stock of air conditioners and electricity demand attributed to space cooling are expected to more than triple from 2015 to 2050. (Source: International Energy Agency [IEA])

With environmental regulations in each region of the world becoming stricter, the importance of and needs for the environmentally conscious technologies that we excel in are increasing, such as low-GWP refrigerants, inverters, and heat pumps.

Furthermore, people's awareness of indoor air quality and ventilation in residences, offices, and other places, has substantially changed with the COVID-19 pandemic.

In the chemical field, the next-generation telecommunications and semiconductor markets are expanding, and there is a need for high value-added materials that are environmentally conscious including non-fluorine and compound materials.

These societal changes offer our Group, with our unique environmental technologies, an excellent opportunity to accelerate business growth and contribute to society.

Even in an uncertain environment, we continue taking preemptive actions to leverage these opportunities. Looking ahead to generating results beyond FUSION 25, we have made successive decisions to invest as described below to accelerate the growth of our Group.

- Expanding the capacity of and establishing production and R&D bases to capture the increasing demand in the air conditioning and chemicals businesses;
 - In China, Belgium, Poland, Czech Republic, India, Indonesia, the U.S., Mexico, etc.
- Executing M&As to expand our business domains and transform our business structure, steadily accomplishing plans at acquired companies, and accelerating generating synergies as a Group;
 - In the air conditioning business, reinforce capabilities in after sales service, instrumentation, and engineering as well as the environmentally conscious premium business in North America;
 - In the oil hydraulics business, strengthen efforts to propose energy-saving solutions in the industrial hydraulic equipment market in Europe;
Etc.
- To flexibly respond to diverse customer needs, focusing efforts on obtaining differentiated technologies, departing from an in-house mentality, and further strengthening partnerships with startup companies, industries, governments, and academia.

In recent years, companies are evaluated not only for their pursuit of sales and profits, but also how they fulfill their social responsibilities. Our Group will strive to meet society's demands and expectations, further make environmental contributions, and improve social value by, for example, launching new environmentally conscious products and systems, in addition to enhancing our economic value.

In 2024, our Group will celebrate the 100th anniversary of our founding. A number of companies have been fortunate enough to reach 100 years of history. However, companies such as our Group that are approaching their 100th anniversary while still achieving sustainable growth and adapting to changes in the economic environment and times numbers extremely few (*4).

This is the result of People-Centered Management, our unique strength cultivated over the years by our predecessors, which includes facets such as diversity management, Fast & Flat Management, a sense of belonging, ties with colleagues working together, teamwork, and warmhearted management. It is also the result of the action-taking capabilities of each of you who practice this approach and dedicate yourself to carry out your daily tasks.

This year is the perfect time to take on challenges for creating new businesses for further growth and development beyond our 100th anniversary by demonstrating our strengths to their maximum potential.

Example challenges include:

- Accelerate expanding the commercial solutions business by developing specific menus and business models for each vertical market such as energy-saving diagnoses, support for operational improvements, and energy management contracts;
- Contribute to mitigating food loss by globally developing the refrigeration solutions business in Asia and other markets with growth potential;
- Establish business models for residential solutions to respond to the expanding energy-saving residential equipment market and meet the needs for safe and reliable indoor air environments;
- Realize zero CO₂ emissions at factories, develop equipment that uses natural refrigerants, and establish a circular business model by recycling air conditioning equipment, metals, resins, fluorine, etc.;
- In the chemicals business, fully enter the high-performance materials and environmentally conscious materials business for its future growth;
- In the filter business, complete the structural reform and shift the business focus to a growth path such as high-end and IAQ businesses;
- In the oil hydraulics business, accelerate global development in the industrial hydraulic equipment segment;
- In the defense systems business, expand the domain to include the home health business and solutions business in the healthcare sector based on oxygen concentrators;
- In the electronics business, develop the engineering solutions business in the manufacturing and construction industries;

Etc.

We will develop a concrete action plan for each of these new themes and thoroughly take action with the concerted efforts of the entire Group.

What we call on each of you to be strongly conscious of and take action on to demonstrate your maximum potential

Ahead of us lies unprecedented opportunities. Now is the time to start making great strides toward the future. To ensure that opportunities lead to excellent results, we ask each of you to anticipate changes, take on challenges, and take action.

To all employees taking action, we call on you to:

- Focus on major changes in society, think about what you should do to counteract the impacts on or exploit the opportunities for your business and work, and propose new initiatives;
- With flexible partnerships, regardless of position, age, or department, leverage each other's knowledge and strengths to connect to results;
- Each of you must hold on to what you want to realize and proactively make proposals toward that;
- Face issues head-on and enhance and improve yourself while striving to resolve them;
- Absolutely adhere to producing outstanding results and take actions, one after another.

Above all, to officers and managers, we ask that you stand at the forefront in taking on challenges and actions to produce positive results and demonstrate leadership.

- Envisage the future image and determine what should be done now to realize that image;
- Always be on the verge of change, think from the perspectives of genba (actual sites), genbutsu (actual objects), and genjitsu (actual conditions), and challenge themes a half or one step ahead of society;
- To respond quickly to changes in the external environment, focus on flexible organizational management that brings together necessary members as needed;
- Ensure holding dialogues with each of the members, and motivate them so that they perform to their fullest potential and produce excellent results.

Today, securing human resources is an important management issue for all companies and is becoming increasingly competitive. For our Group, which is tackling many themes, recruiting and developing more excellent talents who implement the themes is urgently needed. To this end, taking the initiative to secure personnel is an important function not only for us senior managers but for all managers.

This is the year to have confidence in the results we have achieved so far and take on the challenge to further leap forward to 2024. As we continue breaking records, we would like to joyfully celebrate the 100th anniversary of our Group's founding.

Connecting growing opportunities to results, let us strongly spread our wings toward the future.

- (*1) Controlled Atmosphere (CA): A technology that controls the composition of air in a marine container to maintain the freshness of vegetables and fruits in storage
- (*2) Hydrostatic Transmission (HST): A hydraulic system that applies pressure energy (static pressure) to oil for transmitting power. A built-in integrated hydraulic pump and motor makes the system compact and easy to use.
- (*3) Maintenance, Repair, and Operations (MRO): Business of selling parts for and repairing equipment
- (*4) In the U.S. and Europe, companies over 100 years old include DuPont, Siemens, and Mercedes-Benz. In Japan, out of approximately 3,800 listed companies, 235 companies are over 100 years old, of which 11 are companies with over one trillion yen in sales and market capitalization (0.3% of 3,800). These are Hitachi, Komatsu, Tokyo Gas, NEC, Toshiba, Dentsu, Kirin Holdings, Sumitomo Corporation, Suzuki Motor, Mitsubishi Electric, and Tokyu. (Source: Shikiho, 2021 version)