

# Identification of Materiality

## Background of identification

We are currently surrounded by drastic changes in the social environment in which we operate, such as the impact of accelerating climate change since the industrial revolution, digitalization through technological innovation, and diversification of values and lifestyles of people.

In the midst of such social upheaval, we have depicted our ideal society of 2030 as “a resilient society where humans live in harmony with nature,” “a society that feels safe, prosperous, and exciting,” and “a society where different communities and people can coexist,” by combining Meidensha’s initial DNA of “integrity,” “responsibility,” and “social contribution,” which are our strengths, with the DNA that we must not lose of “innovative spirit” and “taking-initiative mind.” With such a mindset, the Meiden Group has set its ideal state of being for 2030, which is “sustainability partnerships that work to build a new society through integrity to the earth, society, and people, and through the power of co-creation.”

In these circumstances, in FY2021, we developed Medium-term Management Plan 2024, and identified major issues (materiality) in the plan by backcasting from our 2030 ideal state of being.

The Meiden Group will embrace the challenge of creating a new society and work toward the realization of a sustainable global environment and happiness for all people by solving materiality that has been identified.

## Major Issue (Materiality) Identification Process

### STEP1

### Management of Major Opportunities and Risks for the Meiden Group

- We arranged societal changes by 2030 and impact on business management and identified constituent factors through PEST analysis.
- We drafted a longlist (369 societal changes and issues in total), including the aforementioned constituent factors using metrics of international standard-setting organizations and items set by ESG evaluation institutions, to avoid omissions.
- We listed 369 societal changes and issues in total, and arranged them according to opportunities and risks from the perspective of the Meiden Group’s ideal state of being.

Referenced Frameworks and Guidelines, etc.

- SDGs
- GRI standards
- SASB standards
- ISO26000
- ESG evaluation items required by ESG evaluation organizations
- The Ten Principles of the UN Global Compact

STEP2

Evaluation of Importance

- We conducted an overall evaluation of the importance of major risks and opportunities according to the two axes of the Meiden Group and Stakeholders.

	Evaluating department	Evaluation items
Meiden Group	Corporate Policy Planning Group, etc.	FY2030 impact on operating income, likelihood of occurrence, and level of response
Stakeholders	Business units that deal with stakeholders	To what extent do stakeholders consider the issue to be important

Evaluation of Importance to the Meiden Group and Stakeholders

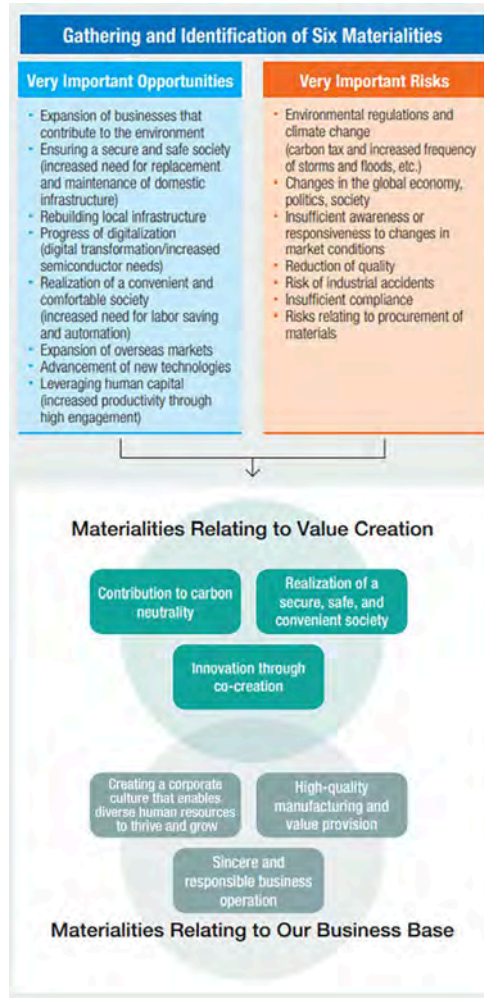


STEP3

Identification and Determination of Materiality





- We have gathered and designated items that we have deemed are very important opportunities or risks as six material issues.
- Designated materiality are discussed and determined by the Sustainability Management Strategy Committee, the Executive Officers’ Meeting, and the Board of Directors.

## Gathering and Identification of Six Material Issues












## Materiality Relating to Value Creation

Materiality that has been identified	Reasons for Identification as a Materiality	Outlook	Related SDGs
Contribution to carbon neutrality	The Meiden Group operates many decarbonization businesses, but there is also an environmental impact from manufacturing. It is essential to launch a response to the significant impact on operations.	<ul style="list-style-type: none"> <li>Climate change is accelerating, and the movement to reach the Paris agreement target (1.5°C) is gaining momentum.</li> <li>Markets relating to decarbonization are expanding, and it is essential to respond to legal restrictions relating to carbon taxes, etc., and prepare for increasing large-scale disasters.</li> </ul>	     
Realization of a safe, secure, and convenient society	The Meiden Group operates many relevant businesses. On another front, it is essential to respond as business continuity risks may arise.	<ul style="list-style-type: none"> <li>Review of the state of local infrastructure will proceed due to the declining birthrate and aging population, difficulties with local government finances, and aging facilities in Japan.</li> <li>Digitalization is expected to proceed, leading to increased semiconductor-related demand and increased demand for reduced manpower and automation in the industrial sector.</li> </ul>	    

Materiality that has been identified	Reasons for Identification as a Materiality	Outlook	Related SDGs
Innovation through co-creation	It is extremely important to embrace the challenge of developing next-generation technology, and create and furnish social value along with partners that share the same conviction.	<ul style="list-style-type: none"> <li>Existing social systems have reached the end of their usefulness, and global-scale social issues have arisen, including climate change issues.</li> <li>These issues cannot be solved by any individual organization, so it is necessary to enter partnerships to embrace the challenge of solving them.</li> </ul>	   

## Materiality Relating to Our Business Base

Materiality that has been identified	Reasons for Identification as a Materiality	Outlook	Related SDGs
Creating a corporate culture that enables diverse human resources to thrive and grow	Human resources are the source of the Meiden Group's strength. Drawing out and combining the abilities of each individual is essential for value creation.	<ul style="list-style-type: none"> <li>Values will diversify and work-styles will change. There is a demand for a corporate atmosphere that allows individuals to display their abilities and work with enthusiasm</li> <li>As a precursor to this, it is essential for the workplace environment to allow employees to be physically and psychologically healthy.</li> </ul>	    
High-quality Manufacturing and Value provision	The Meiden Group's strength of insistence on quality is essential not only to deliver products and systems, but also provide subsequent services.	<ul style="list-style-type: none"> <li>The Meiden Group's business fields relate to infrastructure and industrial underpinnings, and it is essential that we deliver high-quality products and systems without defects.</li> <li>As society changes, the value of infrastructure and equipment that "will not shut down" under any circumstances will remain constant.</li> </ul>	  
Sincere and responsible business operation	It is important to respond to the changing requirements of society and promote management that we can be proud of, with the core of the Meiden Group's strengths of sincerity and responsibility.	<ul style="list-style-type: none"> <li>We have an obligation to society to always conduct corporate management with sincerity, as we receive capital from society, provide value to society in conjunction with our stakeholders.</li> </ul>	

### STEP4

## Establishment of Targets and KPIs

- Based on our materiality, we are developing strategies and implementing measures under Medium-term Management Plan 2024.\*<sup>1</sup>
- With regard to implementation of measures, we establish KPIs to the extent possible and conduct internal progress management.
- We will regularly review materiality and KPIs.

- ★★★ Result surpassed FY2024 target
- ★★ Good progress toward FY2024 target\*
- ★ Progress toward FY2024 target needs more effort

\* Means that score on progress since March 31, 2021, was at least 75%

Materiality	Major opportunities and risks	Medium-term Management Plan 2024	Major KPIs*1 and targets ( ) are externally disclosed targets for FY2024	Externally disclosed targets for FY2025 onwards	Progress in FY2023	Assessment*3
Contribution to carbon neutrality	<p>[Opportunities]</p> <ul style="list-style-type: none"> <li>• Expansion of markets for businesses that contribute to the environment</li> </ul> <p>[Risks]</p> <ul style="list-style-type: none"> <li>• Increased costs due to carbon taxes, etc.</li> <li>• Risks from frequent storms and floods</li> <li>• Decline in competitiveness due to late response</li> </ul>	<p>[Basic Policy 1] Realization of high-quality growth</p> <p>1. Expansion of growth businesses</p> <ul style="list-style-type: none"> <li>• Expansion of EV-related, renewable energy business, and environmentally friendly products, and high profitability</li> </ul>	<ul style="list-style-type: none"> <li>• EV business net sales (47.0 billion yen)</li> <li>• Renewable energy business net sales</li> <li>• GHG reduction contribution by Environment Contributing Businesses *2(10.00 million tons)</li> <li>• Scope 3 reduction rate (6% reduction compared to FY2019)</li> <li>• Proportion of green products</li> <li>• Number of super green products</li> </ul>	<ul style="list-style-type: none"> <li>• EV business net sales (100.0 billion yen in FY2028)</li> <li>• Scope 3, Category 11 reduction rate (15% reduction compared to FY2019 in FY2030)</li> </ul>	<ul style="list-style-type: none"> <li>• EV business net sales (43.5 billion yen)</li> <li>• GHG reduction contribution (9.37 million t-CO<sub>2</sub>)</li> <li>• Scope 3, Category 11 reduction rate (13% reduction)</li> </ul>	<p>★★</p> <p>★★</p> <p>★★★</p>
		<p>[Basic Policy 2] Promotion of sustainability management</p> <ul style="list-style-type: none"> <li>• Promotion of decarbonization within the Company</li> </ul>	<ul style="list-style-type: none"> <li>• Scope 1,2 reduction rate (6% reduction compared to FY2019)</li> </ul>	<ul style="list-style-type: none"> <li>• Scope 1 and 2 reduction rate (30% reduction compared to FY2019 in FY2030)</li> <li>• Achievement of RE100 (FY2040)</li> <li>• Achievement of carbon neutrality (FY2050)</li> </ul>	<ul style="list-style-type: none"> <li>• Scope 1 and 2 reduction rate (8% reduction)</li> </ul>	★★★
Realization of a secure, safe, and convenient society	<p>[Opportunities]</p> <ul style="list-style-type: none"> <li>• Growing need for replacement and maintenance of infrastructure</li> <li>• Rebuilding local infrastructure</li> <li>• Growing need for semiconductors due to digitalization</li> </ul>	<p>[Basic Policy 1] Realization of high-quality growth</p> <p>1. Expansion of growth businesses</p> <ul style="list-style-type: none"> <li>• Expansion of motor drive and semiconductor-related businesses</li> </ul> <p>2. Enhancement of competitiveness of earnings-based businesses</p>	<ul style="list-style-type: none"> <li>• Motor Drive business net sales</li> <li>• Semiconductor-related businesses net sales</li> <li>• Maintenance business net sales (¥41.6 billion)</li> <li>• Overseas net sales (¥73.0 billion)</li> </ul>	—	<ul style="list-style-type: none"> <li>• Field Service Engineering Business Group net sales (42.3 billion yen)</li> <li>• Overseas net sales (80.2 billion yen)</li> </ul>	<p>★★★</p> <p>★★★</p>

Materiality	Major opportunities and risks	Medium-term Management Plan 2024	Major KPIs*1 and targets ( ) are externally disclosed targets for FY2024	Externally disclosed targets for FY2025 onwards	Progress in FY2023	Assessment*3
	<ul style="list-style-type: none"> <li>Expansion of overseas markets</li> <li>Creation of added value through digital transformation (DX)</li> <li>Growing need for labor reduction and automation</li> </ul> <p>[Risks]</p> <ul style="list-style-type: none"> <li>Decline in competitiveness due to late response</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of the maintenance business</li> <li>Promotion of public private partnerships and provision of design solutions</li> </ul> <p>3. Improvement of profitability of overseas businesses</p> <ul style="list-style-type: none"> <li>Rebuilding and improving profitability of overseas businesses</li> </ul>				
Innovation through co-creation	<p>[Opportunities]</p> <ul style="list-style-type: none"> <li>Growing new needs due to sustainability and ESG trends</li> <li>Advancement of new technologies</li> </ul> <p>[Risks]</p> <ul style="list-style-type: none"> <li>Decline in competitiveness due to late response</li> </ul>	<p>[Basic Policy 3] Promotion of Ambidextrous Management</p> <ul style="list-style-type: none"> <li>Creation of new business themes and promotion of commercialization through co-creation</li> <li>Development of and furnishing society with next-generation technology</li> </ul>	<ul style="list-style-type: none"> <li>New businesses net sales (¥5.0 billion)</li> <li>Number of innovation themes</li> <li>Number of innovation personnel</li> </ul>	—	<ul style="list-style-type: none"> <li>New businesses net sales (600 million yen)</li> </ul>	★
Creating a corporate culture that enables diverse human resources to thrive and grow	<p>[Opportunities]</p> <p>Improvement of productivity through high engagement of employees</p> <ul style="list-style-type: none"> <li>Generation of innovation by leveraging diversity</li> </ul> <p>[Risks]</p> <ul style="list-style-type: none"> <li>Outflow of personnel or insufficient personnel due to low engagement</li> <li>Worse employee health due to factors including occurrence of industrial accidents and pandemics</li> </ul>	<p>[Basic Policy 2] Promotion of sustainability management</p> <ul style="list-style-type: none"> <li>Implementation of measures to improve engagement</li> <li>Expansion of diversity and inclusion measures</li> <li>Expansion and fulfillment of professional development programs</li> <li>Enhancement of occupational health and safety</li> <li>Promotion of health management</li> </ul>	<ul style="list-style-type: none"> <li>Improvement rate of employee engagement metrics (10% improvement compared to FY2021 -63.6%→-53.6%)</li> <li>Female officer class: number of inside officers (at least 1)</li> <li>Number of non-Japanese presidents of local subsidiaries (at least 3)</li> <li>Total education and training expenses</li> </ul>	<ul style="list-style-type: none"> <li>Female officer class: number of inside officers (at least 3, of which 1 is an executive officer, in FY2030)</li> <li>Number of non-Japanese presidents of local subsidiaries (at least 5, of which 1 is an executive officer, in FY2030)</li> </ul>	<ul style="list-style-type: none"> <li>Improvement rate of employee engagement metrics (2.6% worse)</li> <li>Female officer class (number of inside officers) (0)</li> <li>Number of non-Japanese presidents of local subsidiaries (1)</li> </ul>	<p>★</p> <p>★★★</p> <p>★★</p>

Materiality	Major opportunities and risks	Medium-term Management Plan 2024	Major KPIs*1 and targets ( ) are externally disclosed targets for FY2024	Externally disclosed targets for FY2025 onwards	Progress in FY2023	Assessment*3
			<ul style="list-style-type: none"> <li>Number of industrial accidents</li> </ul>			
High-quality manufacturing and value Provision	<p>[Opportunities] Creating safe and secure infrastructure and industrial underpinnings</p> <p>[Risks]</p> <ul style="list-style-type: none"> <li>Loss of customer trust or orders by reason of lower quality</li> </ul>	<p>[Basic Policy 2] Promotion of sustainability management</p> <ul style="list-style-type: none"> <li>Establishment of the Meiden Monozukuri(Manufacturing) Standards to improve QCDSE</li> <li>Enhancement of quality assurance (QR map, reconstruction of the Meiden Customer Center, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturing process metrics (product production time, production time per unit, units produced per person, production/manufacturing lead time)</li> <li>Number of defects and cost of dealing with defects (reduced by half compared to FY2020)</li> </ul>	—	<ul style="list-style-type: none"> <li>Number of defects and cost of dealing with defects (reduced by 36%)</li> </ul>	★★
Sincere and responsible business operation	<p>[Risks]</p> <ul style="list-style-type: none"> <li>Infringement of human rights by the Meiden Group or suppliers</li> <li>Information security risks</li> <li>Insufficient compliance measures</li> </ul>	<p>[Basic Policy 2] Promotion of sustainability management</p> <ul style="list-style-type: none"> <li>Enhancement of stakeholder engagement</li> <li>Introduction of respect for human rights and human rights due diligence</li> <li>Enhancement of information security and internal training</li> <li>Enhancement of compliance</li> <li>Enhancement of corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder engagement improvement rate</li> <li>Human rights training attendance rate</li> <li>Information security training attendance rate</li> <li>Compliance training attendance rate</li> </ul>	—	—	—

\*1 KPIs include some items that are still not set or are not disclosed. We will continue to consider and scrutinize the selection of measures and specific KPI figures going forward.

\*2 We replaced the "environmental contribution" with "GHG reduction contribution" starting with FY2022.

\*3 For details on the latest efforts and future development on each major KPI and target, please see Meidensha Report 2024.