

Responses to Climate Change (Initiatives in Line with the TCFD)

In promoting “environmentally friendly business operations,” we engage in business activities upon first considering what impact climate change has on the Company. As part of these efforts, in light of the increasing interest by society and the importance of such information, we endorsed and became a signatory of the Task Force on Climate-related Financial Disclosures (TCFD). Going forward, we will make efforts to address climate change by maintaining a dialogue with our stakeholders.

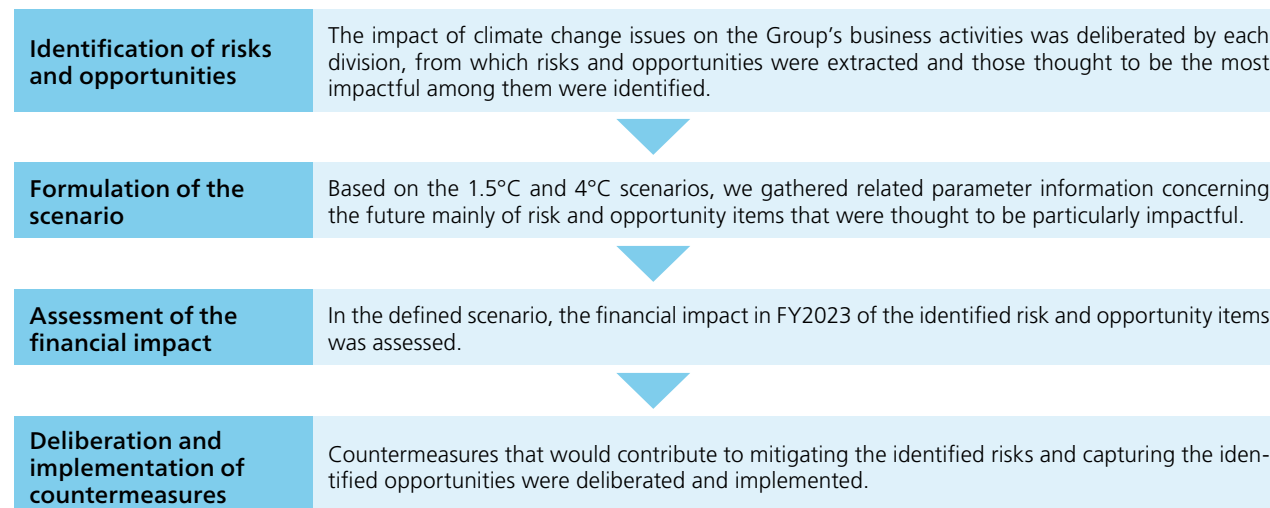


Strategies

We conducted scenario analyses to assess the resilience of our businesses.

In the scenario analysis, taking into account reports based on scientific evidence such as that of the International Energy Agency (IEA) and various trends including the United Nations Framework Convention on Climate Change (COP), we adopted the 1.5°C and 4 °C scenarios in the transition to a carbon-free society.

The scenario analysis process



Assumptions of the scenario analyses

Businesses subject to the scenario analyses		Air Energy Business and Coating Business
Major scenarios referenced	1.5°C	IEA WEO NZE IPCC SSP1-RCP1.9
	4°C	IEA WEO STEPS IPCC SSP5-RCP8.5
Temporal axis		Short term: Less than 3 years, Medium term: 3 years to less than 10 years, Long term: 10 to 30 years
Financial impact		Small: Less than 0.1 billion yen, Medium: 0.1 to less than 1.0 billion yen, Large: 1.0 billion yen or more

**The Group's material risks, opportunities, financial impact, and countermeasures related to climate change
1.5°C scenario**

Category	Climate change drivers	Assumption	Risks/ Opportunities	Impact on business	Manifestation period	Financial impact	Countermeasures for risks/opportunities
Policies/Laws and regulations	Newly established and stricter carbon taxes and emissions trading schemes, and carbon border adjustment measures	Financial burden is incurred due to carbon emissions	Risks	Increase in procurement costs caused by suppliers passing on the burden of carbon emissions to prices	Medium to long term	Large	• Refine GHG emissions calculations • Procure low-carbon materials
			Risks	Increase in transportation costs due to logistics providers passing on the burden of carbon emissions to prices	Medium to long term	Medium	• Consider low-carbon distribution and procurement
			Risks	Increase in manufacturing and sales costs due to incurring the burden of Scope 1, 2 carbon emissions	Medium to long term	Medium	• Expand procurement of power sourced from renewable energy
			Opportunities	Decrease in manufacturing and sales costs due to a decrease in the burden of Scope 1, 2 carbon emissions	Medium to long term	Medium	• Expand adoption of highly efficient units
	Stricter VOC emission regulations	Stricter emission regulations are put in place against VOCs, which are one of the causes of increasing global warming	Opportunities	Increase in sales due to growing demand for spray guns specifically using water-based paints that do not contain VOCs	Medium to long term	Medium	<ul style="list-style-type: none"> • Collaborate with paint manufacturers • Continue proposal activities (Switch to water-based paints / oil-free air compressors) • Calculate product CFP • Expand environmentally friendly product lineup
Technology	Stricter wastewater regulations	Stricter wastewater regulations are put in place as a preventive measure against deteriorating water quality due to climate change	Opportunities	Increase in sales due to growing demand for oil-free compressors that do not require waste water treatment	Medium to long term	Large	
	Technical innovations in the climate change field	Development of environmentally friendly products is accelerated	Risks	Increase in technological development costs necessitated by technological development to maintain our superiority in the environment field for our environmentally friendly products	Medium to long term	Large	<ul style="list-style-type: none"> • Expand the adoption of in-house renewable energy generation facilities • Expand adoption of highly efficient units • Expand procurement of power sourced from renewable energy
			Opportunities	Increase in sales of environmentally friendly products due to improved performance of existing environmentally friendly products through new technology or the development of new products	Medium to long term	Large	
		More efficient units and systems are developed	Risks	Increase in capital investment costs due to capital investments into more efficient units and systems	Medium to long term	Medium	
			Opportunities	Decrease in manufacturing and sales costs due to Scope 1, 2 reductions due to the advent of more efficient units and systems	Medium to long term	Small	
Markets	A rise in the environmental awareness of the customers	The customers demand the use of low-carbon energy and the achievement of carbon neutrality	Risks	Increase in manufacturing and sales costs due to carrying out Scope 1, 2 reduction measures to achieve carbon neutrality by 2050	Short to long term	Small	<ul style="list-style-type: none"> • Collaborate with paint manufacturers • Continue proposal activities (Switch to water-based paints / oil-free air compressors) • Calculate product CFP • Expand environmentally friendly product lineup
		Customers seeking environmentally friendly products increase	Opportunities	Increase in sales due to growing demand for our environmentally friendly products	Short to long term	Large	
	Increase in retail electricity prices	Retail electricity prices rise due to the transition of power companies to renewable power generation	Risks	Increase in procurement costs due to suppliers passing on the burden of electricity costs to prices	Medium to long term	Medium	• Refine GHG emissions calculations • Procure low-carbon materials
			Risks	Increase in manufacturing and sales costs due to the Company's rising electricity costs	Medium to long term	Medium	• Expand the adoption of in-house renewable energy generation facilities • Expand adoption of highly efficient units • Expand procurement of power sourced from renewable energy
Reputation	Greater interest by companies in environmental initiatives	There is increasing interest in converting to a low-carbon business model	Risks	Increase in procurement costs due to the procurement of low-carbon aluminum	Medium to long term	Large	• Purchase low-carbon materials
			Risks	Increase in procurement costs due to the procurement of low-carbon iron	Medium to long term	Medium	• Strengthen price bargaining power through multiple purchases
		Investors make it a priority to evaluate efforts relating to the transition to a low-carbon society	Opportunities	Decrease in interest payment due to lower interest rates payable as a result of capturing ESG investments and improvement in brand value	Medium to long term	Small	• Further improve disclosures of ESG information • Expand the scope of and refine calculations of GHG emissions • Capture ESG investments

4°C scenario

Category	Climate change drivers	Assumption	Risks/ Opportunities	Impact on business	Manifestation period	Financial impact	Countermeasures for risks/opportunities
Physical (acute)	Intensified natural disasters and extreme weather	Suppliers suffer weather disasters	Risks	Shutdown losses are incurred due to delayed parts deliveries due to supplier bases suffering weather disasters	Medium to long term	Small	<ul style="list-style-type: none"> • Monitor the suppliers' production bases and other locations • Understand the risks of suffering weather disasters (depth of flooding) at the time of concluding contracts with new suppliers • Diversify risks through multiple purchases
		The Company's bases suffer weather disasters	Risks	Losses of inventories and fixed assets from disasters are incurred due to the Company's bases suffering weather disasters	Medium to long term	Large	<ul style="list-style-type: none"> • Assess the risks of weather disasters of the Company bases and third-party warehouses • Monitor river flooding information
			Risks	Shutdown losses are incurred due to the Company suffering weather disasters	Medium to long term	Medium	<ul style="list-style-type: none"> • Implement measures at bases prone to the impact of floods and hightide
		The importance of BCP increases in conjunction with the intensification of natural disasters and extreme weather	Risks	Increase in BCP expenses	Medium to long term	Medium	<ul style="list-style-type: none"> • Maintain and update BCP • Diversify risks through multiple purchases
Physical (chronic)	A rise in average temperature	There is an increasing need to upgrade air-conditioning units to deal with rising temperatures	Risks	Increase in capital investment costs due to upgrading air-conditioning units	Medium to long term	Medium	<ul style="list-style-type: none"> • Install appropriate air-conditioning units
		There is increasing risk of heat strokes and illnesses	Risks	Increase in costs to combat heat strokes	Medium to long term	Small	<ul style="list-style-type: none"> • Share information on heat stroke warnings • Arrange to distribute equipment to deal with heat strokes at bases in tropical regions
		There are more infections due to rising average temperatures	Risks	Shutdown losses are incurred due to the outbreak of infectious diseases	Medium to long term	Large	<ul style="list-style-type: none"> • Maintain and update BCP • Build a production system prepared for lockdowns and other circumstances
	Changes in rainfall patterns	Water shortage occurs due to changes in seasonal rainfall	Risks	Shutdown losses are incurred due to delayed parts deliveries due to water shortages at supplier bases	Medium to long term	Small	<ul style="list-style-type: none"> • Monitor the production bases and other locations of suppliers • Understand water shortage risks • Diversify risks through multiple purchases
			Risks	Shutdown losses are incurred due to water shortages at the Company's bases	Medium to long term	Small	<ul style="list-style-type: none"> • Maintain and update BCP • Consider implementing measures in bases with a high risk of water shortages and being prepared when a water shortage occurs

Results of the scenario analyses

We will bolster the resilience of our business strategies by reflecting the results of the scenario analyses in the Group's long-term vision and medium-term Business plan.

We will continue to review risks and opportunities, and execute, and monitor countermeasures going forward.