TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

IKO

June 2025

# Information Disclosure Based on TCFD Recommendations

## Climate Change Response - Endorsement of the TCFD Recommendations -

The Nippon Thompson Group (the “Group”) announced its endorsement of the “Task Force on Climate-related Financial Disclosures (TCFD)” in January of 2023 in recognition of “Climate Change” as an important business challenge.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Group is promoting sustainable management through corporate activities in order to achieve both sustainable growth and the possibility of a sustainable society. Based on our management philosophy of being “A Company Centered on Technology Development that Contributes to Society” we have identified IKO Group Materialities (important issues) from among various social issues and have implemented various initiatives for these. As one of these Materialities, we are focusing on “implementing corporate activities to realize a prosperous global environment” in response to climate change, and are disclosing the following important information related to climate change based on the TCFD recommendations.

## About TCFD

The TCFD refers to the Task Force on Climate-related Financial Disclosures, established by the Financial Stability Board at the request of G20 with Michael Bloomberg as its chairman, to examine how climate-related information should be disclosed, and how should financial institutions respond.

The TCFD published its final report in June 2017, and recommends companies to disclose items related to climate change-related risks and opportunities. In October 2023, the TCFD itself disbanded, but that role has been subsequently inherited by the IFRS Foundation’s International Sustainability Standards Board (ISSB).

- Governance: What systems are used to assess climate change, and how is this reflected to business management?
- Strategy: What impact will short, medium, and long term climate change have on business management?
  How will you respond?
- Risk Management: How are climate change risks being identified, assessed, and mitigated?
- Metrics and Targets: What metrics are used to assess risks and opportunities, and to evaluate progress toward targets.

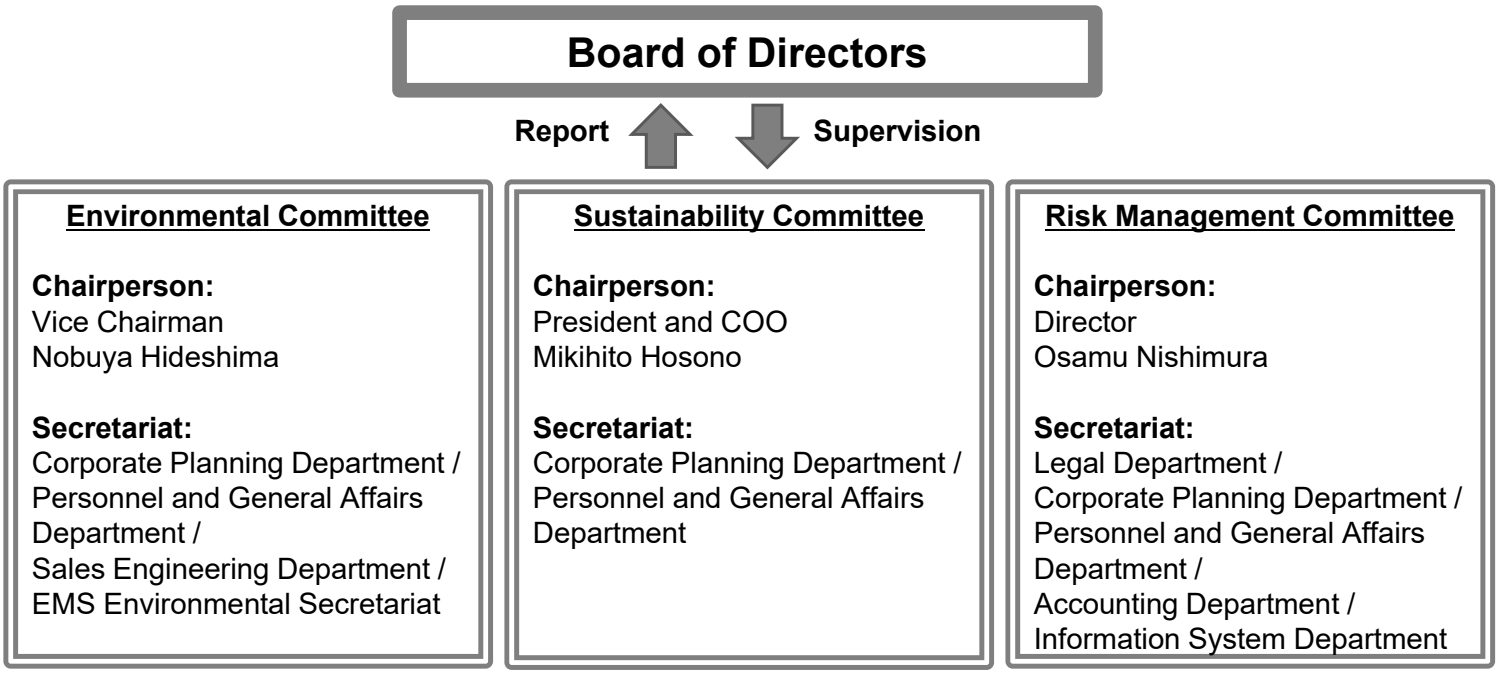
## Governance

In January 2022, the Group established a “Sustainability Committee” that is comprised of Company Directors with the President and COO as the Chairperson. This committee holds meetings at least once every half period with the Corporate Planning Department and Personnel and General Affairs Department as the Secretariat Office, formulates basic policies on sustainability including climate-related and nature-related issues, establishes promotion systems, identifies medium- and long-term risks and opportunities, formulates and reviews materiality, issues and transition plan, and conducts regular reviews of implementation progress. These contents are then reported to the Board of Directors at least once every half period, and the Board of Directors oversees and gives guidance on the implementation progress of medium- and long-term targets as well as on risks and opportunities related to Sustainability issues for the whole Group. Furthermore, the Group has decided to link executive compensation to the reduction in greenhouse gas emissions and is working to strengthen the management system, which contributes to increasing corporate value from a medium- to long-term perspective by addressing sustainability issues.

Regarding the engagement with the entire supply chain, the secretariats of the Sustainability Committee and the Environmental Committee are primarily responsible for coordinating with the departments that serve as contact points with each supplier, operating as a unified team to carry out initiatives.

The Group has positioned initiatives such as measures for climate change and conserving biodiversity as important issues for sustainable management, and is working under this promotion system to strengthen initiatives by each department.

**Governance System Diagram on Sustainability Issues**



## Strategy

Risks and opportunities where climate change issues impact the Group business were assessed according to the following steps by referencing each risk/opportunity item indicated in the TCFD recommendations.
Analysis of policy and market trend transitions (transition risks/opportunities), and analysis of physical changes caused by disasters, etc. (physical risks/opportunities) were also conducted using the 1.5°C to 2°C scenario and 4°C scenario.

### Analysis Process

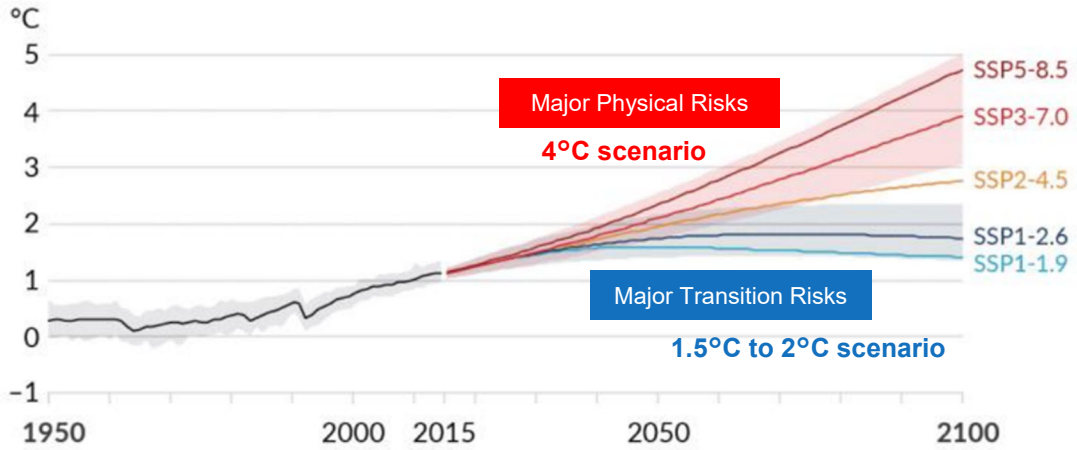
**Identifying and evaluating risks and opportunities** → **Defining scenarios** → **Assessing financial impact** → **Examining measures**

### About Climate Change Scenarios

- 1.5°C to 2°C scenario
  Scenario that targets suppressing the rise in global average temperature to between 1.5°C and 2°C compared to before the industrial revolution as initiatives for realizing carbon neutrality are becoming active in order to reduce the impact of climate change. The impact from policies and legal regulation risks in the transition risks for the 1.5°C scenario are expected to be larger than those of the 2°C scenario.

- 4°C scenario
  Scenario where the global average temperature increases by about 4°C by end of this century compared to before the industrial revolution if climate change measures do not progress from now. The impact from intensifying extreme weather and rising sea levels among the physical risks is expected to be larger.

Changes in global average temperature compared to 1850-1900




Source:Figure SPM.8 was transcribed from the tentative translation of the IPCC Sixth Assessment Report, Working Group I, Summary for Policymakers (Ministry of Education, Culture, Sports, Science and Technology and Japan Meteorological Agency)

## Impact and Measures for Risks and Opportunities

| | Risk | Factor | Impact on Business | Time Axis | Financial Impact | Measures |
|---|---|---|---|---|---|---|
| Transition Risk | Policies and Regulations | Carbon tax implementation / Increase in carbon tax rate | - Increased burden from carbon tax | Medium to long term | Medium | - Implementing renewable energy<br>- Implementing energy-saving equipment<br>- Developing of low-carbon products based on carbon footprint calculation |
| | | | - Rising costs for raw materials due to carbon tax implementation | Medium to long term | Major | - Purchasing low carbon materials and parts<br>- Developing new low-carbon materials through collaboration with suppliers |
| | Technology | Implementation of low-carbon equipment | - Increased investment in latest equipment | Medium term | Medium | - Considering investment through implementing ICP (Internal Carbon Pricing) |
| | | Popularization of renewable energy | - Increased costs for electricity due to rising short-term power generation costs | Short to medium term | Medium | - Construction of solar power stations at on-site/off-site, and formulating/implementing introduction plans<br>- Realizing 100% renewable energy use at each business site through various means based on “Additionality” |
| | Market | Changes in customer demand | - Decreased demand for carbon negative business | Medium term | Major | - Shifting to products that contribute to low carbon emissions<br>- Working to achieve longer product life<br>- Improving the response level to meet diversifying demands |
| | Reputation | Slow response to climate change | - Reduced sales in the European and US markets due to insufficient climate change measures and information disclosure | Short to medium term | Major | - Implementing proper climate change measures and enhancing information disclosure |
| Physical risk | Chronic | Average temperature rise | - Lower employee productivity due to worsening work environment | Long term | Major | - Adding break rooms and installing spot air conditioners |
| | | | - Higher electricity costs due to increased use of air conditioning in heat treatment / surface treatment processes | Medium to long term | Medium | - Implementing energy-saving air conditioners<br>- Improving overall equipment effectiveness |
| | | Rising sea levels | - Lower production capacity resulting from disaster impact at company manufacturing bases (Production bases in Vietnam and China) | Medium to long term | Major | - Formulating and continuous review of BCP at factories |
| | | | - Lower capacity utilization resulting from disaster impact to major suppliers | Medium to long term | Major | - Expanding suppliers<br>- Formulating and continuous review of BCP at each supplier |
| | | | - Increased costs for factory transfer (Production bases in Vietnam and China) | Medium to long term | Major | - Promoting investment in disaster mitigation |
| | Acute | Intensification of extreme weather | - Lowered production capacity caused by damage to company production bases due to flooding, and higher costs for handling damaged equipment (Production bases in Japan) | Medium to long term | Major | - Regularly confirming hazard maps and reviewing the BCP<br>- Promoting investment in disaster mitigation |
| Opportunities | Resource efficiency | Valuation of unused resources | - Reduction of slow moving inventory and costs for handling waste by reuse of rail mill ends | Short to medium term | Medium | - Improving the accuracy of demand forecasting<br>- Reviewing operations for improving reuse rate |
| | | Reduced $CO_2$ emissions | - Reduced burden from carbon tax | Medium to long term | Medium | - Implementing renewable energy<br>- Implementing energy-saving equipment |
| | Energy source | Popularization of renewable energy | - Reduced costs for purchasing electricity by reducing power generation costs from a long-term perspective | Long term | Medium | - Procuring renewable energy through various means |
| | Products and services | Contribution toward transitioning to a decarbonized society | - Increasing demand for low-friction, durable bearings<br>- Increasing demand for “the oil-minimum” products<br>- Increasing customization demand according to customers | Medium term | Major | - Improving accuracy of demand predictions for efficient production, and shortening delivery dates by improving production lead time<br>- Developing “the oil-minimum” products |
| | Market | Promotion of electrification | - Increasing demand for the mechatronics series and Mech-unit products<br>- Increasing demand for bearings due to increased drive components | Short to medium term | Major | - Strengthening production capabilities by collaborating with partner companies<br>- Strengthening global production system including construction of new factories |
| | | Expansion of the EV and storage battery markets | - Increased demand for linear motion rolling guides and liquid crystal lubricants | Short to medium term | Major | - Enhancing production capacity to meet future demand growth<br>- Strengthening global production system including construction of new factories |
| | Resilience | Expansion of products compatible with the BCP | - Increase in demand for company products as disaster mitigation devices | Medium to long term | Major | - Pursuing high-rigidity and quality |

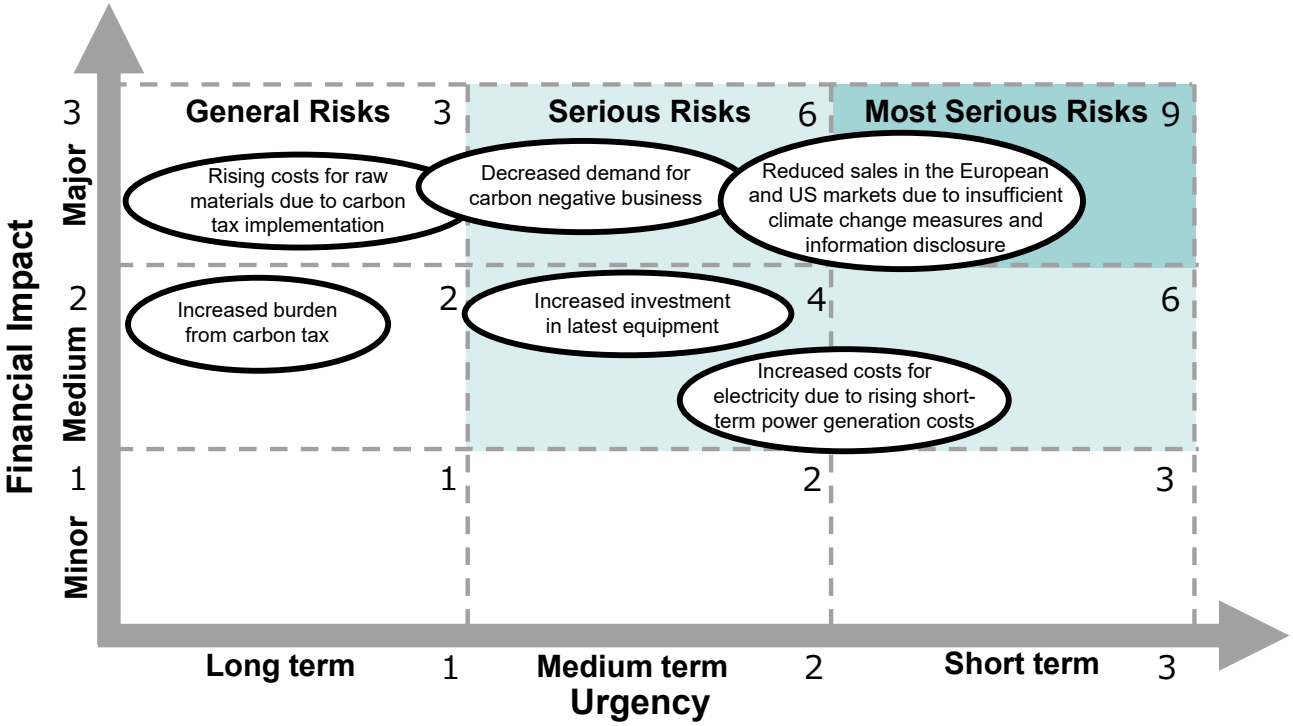
* Assumed period Short term: Up to FY2027 / Medium term: FY2028 to FY2031 / Long term: FY2032 to FY2051

* Financial impact assessments of risks and opportunities were conducted according to qualitative and quantitative impact on sales or profit based on published reports and advice from experts etc., and then categorized as either Major, Medium, or Minor.

## Transition/Physical Risks Analysis

Mapping is performed for items extracted as transition/physical risks using “Urgency” and “Financial Impact” related to our the Group as the two axes, and the “Importance Level” of each item is being evaluated. The “Difficulty Level” of each measure is being evaluated using “High (1.0), Medium (2.0), and Low (3.0),” and the priority of measures is evaluated according to the “Priority Level,” which is calculated by multiplying the “Importance Level” and “Difficulty Level.”

### (1-1) Transition Risks Mapping

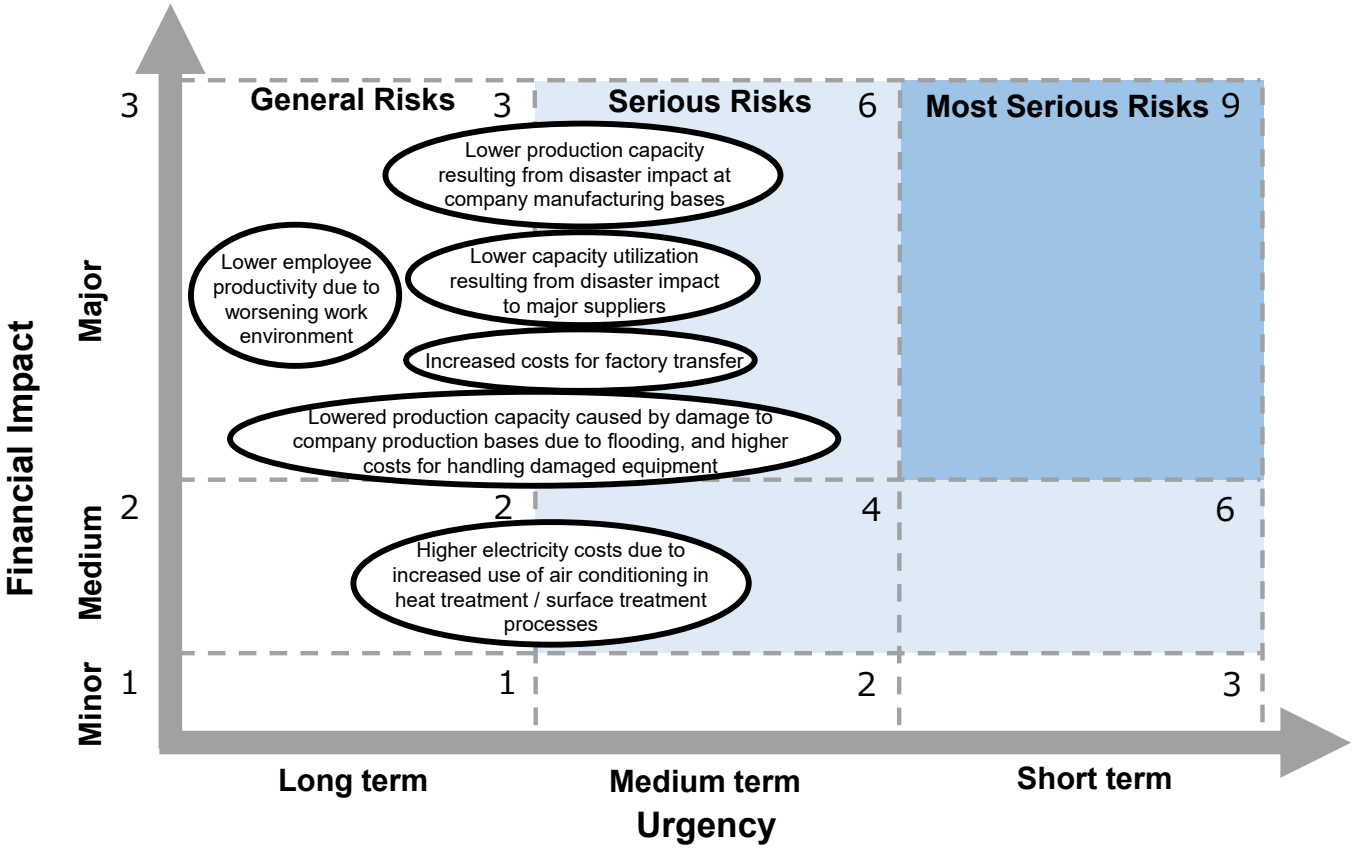



### (1-2) Priority Analysis of Transition Risks

| Importance Degree | Importance Level | Impact on Business | Measures | Difficulty Level | Priority Level |
|---|---|---|---|---|---|
| Most Serious Risk | 8 | Reduced sales in the European and US markets due to insufficient climate change measures and information disclosure | **① Implementing proper climate change measures and enhancing information disclosure** | **High** | **8.0** |
| Serious Risk | 6 | Decreased demand for carbon negative business | ② Shifting to products that contribute to low carbon emissions | High | 6.0 |
| | | | ③ Working to achieve longer product life | High | 6.0 |
| | | | **④ Improving the response level to meet diversifying demands** | **Medium** | **12.0** |
| Serious Risk | 5 | Increased costs for electricity due to rising short-term power generation costs | **⑤ Construction of solar power stations at on-site/off-site, and formulating/implementing introduction plans** | **Low to Medium** | **12.5** |
| | | | **⑥ Realizing 100% renewable energy use at each business site through various means based on “Additionality”** | **Low to Medium** | **12.5** |
| Serious Risk | 4 | Increased investment in latest equipment | **⑦ Considering investment through implementing ICP (Internal Carbon Pricing)** | **Medium** | **8.0** |
| Serious Risk | 3 | Rising costs for raw materials due to carbon tax implementation | ⑧ Purchasing low carbon materials and parts | Medium to High | 4.5 |
| | | | ⑨ Developing new low-carbon materials through collaboration with suppliers | High | 3.0 |
| General Risk | 2 | Increased burden from carbon tax | ⑩ Implementing renewable energy (Included in ⑤ and ⑥) | Low to Medium | 5.0 |
| | | | ⑪ Implementing energy-saving equipment | Low to Medium | 5.0 |
| | | | ⑫ Developing of low-carbon products based on carbon footprint calculation | High | 2.0 |

*Items in bold are measures with the highest priority.

## (2-1) Physical Risks Mapping




## (2-2) Priority Analysis of Physical Risks

| Importance Degree | Importance Level | Impact on Business | Time Axis | Measures | Difficulty Level | Priority Level |
|---|---|---|---|---|---|---|
| Serious Risk | 4.5 | Lower production capacity resulting from disaster impact at company manufacturing bases (Production bases in Vietnam and China) | Medium to long term | **① Formulating and continuous review of BCP at factories** | **Medium** | **9.0** |
| Serious Risk | 4.5 | Lower capacity utilization resulting from disaster impact to major suppliers | Medium to long term | ② Expanding suppliers | High | 4.5 |
| | | | | ③ Formulating and continuous review of BCP at each supplier | High | 4.5 |
| Serious Risk | 4.5 | Increased costs for factory transfer (Production bases in Vietnam and China) | Medium to long term | ④ Promoting investment in disaster mitigation | High | 4.5 |
| Serious Risk | 4.5 | Lowered production capacity caused by damage to company production bases due to flooding, and higher costs for handling damaged equipment (Production bases in Japan) | Medium to long term | **⑤ Regularly confirming hazard maps and reviewing the BCP** | **Medium** | **9.0** |
| | | | | ⑥ Promoting investment in disaster mitigation | High | 4.5 |
| General Risk | 3.0 | Lower employee productivity due to worsening work environment | Long term | **⑦ Adding break rooms and installing spot air conditioners** | **Low** | **9.0** |
| General Risk | 3.0 | Higher electricity costs due to increased use of air conditioning in heat treatment / surface treatment processes | Medium to long term | **⑧ Implementing energy-saving air conditioners** | **Low** | **9.0** |
| | | | | ⑨ Improving overall equipment effectiveness | Low to Medium | 7.5 |

*Items in bold are measures with the highest priority.

In order to ensure the progress of responses to identified risks, the Group has set a threshold for “Priority Level,” which is calculated for each measure, and then implements measures for those that exceed the threshold. Specifically, measures with a “Priority Level” of “8.0 or higher” are positioned as “Measures with Highest Priority,” and are implemented ahead of others.

## Calculation of financial impact

All items extracted as risks and opportunities were assessed as having a major impact on the company, and the financial impact of risks we consider to be particularly important were calculated.

### (3-1) Transition Risk Factors : Policies and Regulations Carbon tax implementation / Increase in carbon tax rate (Transition Risk Measures ⑤, ⑥, ⑧, ⑨, ⑪, ⑫)

*Items underlined are measures with the highest priority.

#### ■ Risk Contents

Regarding transition risks and opportunities, for achieving 1.5°C targets, we examined the carbon tax, which is expected to have the largest impact, by referencing the "IEA Global Energy and Climate Model 2024."

We calculated financial impact using two patterns; (1) Assuming our Group emissions will be the same as in FY2023 (the base year) if no $CO_2$ reduction measures are implemented, and (2) $CO_2$ reduction targets are achieved (emission reduction of at least 42% in FY2031 compared to FY2023, and carbon neutral by FY2051). For FY2031, the calculation results indicated an expected cost burden of about 626 million yen for scenario (1), and about 363 million yen for scenario (2). For FY2051, the calculation results indicated an expected cost burden of about 1,118 million yen for scenario (1), while no carbon tax burden is expected for scenario (2).

| | FY2031 | | FY2051 | |
|---|---|---|---|---|
| | $CO_2$ emissions | Financial impact | $CO_2$ emissions | Financial impact |
| (1) No measures for reducing $CO_2$ | 31,942 t-$CO_2$ | Approx. 626 million yen | 31,942 t-$CO_2$ | Approx. 1,118 million yen |
| (2) When $CO_2$ reduction targets are met | 18,526 t-$CO_2$ | Approx. 363 million yen | 0 t-$CO_2$ | 0 million yen |
| Reduction amount | - | 263 million yen | - | 1,118 million yen |

* According to IEA NZE, Carbon tax unit price: \$140/t-$CO_2$ in 2030, \$250/t-$CO_2$ in 2050
* 1 dollar = 140 yen

### (3-2) Physical Risk Factors : Intensification of extreme weather (Physical Risk Measures ⑤, ⑥)

*Items underlined are measures with the highest priority.

#### ■ Risk Contents

Regarding physical risks and opportunities, we assessed the possibility of flooding caused by acute risk of extreme weather, which is expected to have the most major impact, using the "IPCC RCP8.5 Scenario," and "overlapping hazard map" by the Geospatial Information Authority of Japan. It was found that the Mugegawa area of the Gifu Factory complex has a flooding risk of up to 3 meters. If a disaster occurs at this site without taking any measures, according to the "Flood Control Economic Survey Manual (Draft)" by MLIT, production is expected to be suspended for 56.1 days, and production is expected to be slowed for 83.2 days. Regarding the impact of the risk, the assumed maximum decrease in sales is calculated by converting the production value to the selling price at relevant sites and using the estimated number of days for suspended and slow production.

We also considered flooding risks at other sites in Japan, but there were none.

| | |
|---|---|
| **Estimated maximum decrease in sales** | Approx. 3,439 million yen |

## Status of responses to Risks

### (1-1) Transition Risks：Progress Status List for Measures with Highest Priority

| | Measures | Metric | Progress Status |
|---|---|---|---|
| Transition Risks | ① Implementing proper climate change measures and enhancing information disclosure | - Number of disclosed media<br>- Rating agency score | - Acquired an SBTi certification<br>- Selected as “Environment Disclosure Progress Company” by the Ministry of the Environment<br>- Answers for CDP questionnaire (B score for both climate change and water)<br>- Continuing the disclosure of information in various reports |
| | ④ Improving the response level to meet diversifying demands | - Strengthening of production systems<br>- Measures for meeting needs | - Continuing investment in productivity enhancement and efficiency improvement<br>- Considering the expansion of the product range targeted as IKO Eco-products |
| | ⑤ Construction of solar power stations at on-site/off-site, and formulating/ implementing introduction plans | - $CO_2$ emissions | - Continuing to acquire environmental value from pre-installed solar power systems<br>- Implementing agrivoltaic physical PPA<br>- Implementing a virtual PPA that utilizes onshore wind power generation<br>- Starting a phased migration to $CO_2$-free plans at production sites in Japan |
| | ⑥ Realizing 100% renewable energy use at each business site through various means based on “Additionality” | - $CO_2$ emissions | - Continuing implementation of 100% renewable energy for the Japan Sales Departments through virtual PPA<br>- Migrating to tenants that implement $CO_2$-free plans<br>- Headquarters Building: Continuing use of 100% renewable energy through a $CO_2$-free electricity contract |
| | ⑦ Considering investment through implementing ICP (Internal Carbon Pricing) | - Establishment of inhouse regulations | - Starting operation following the establishment of ICP regulations and the use of reference values |

### (1-2) Transition Risks：Response Examples

■ **Measure⑤：Construction of solar power stations at on-site/off-site, and formulating/implementing introduction plans**

■ **Measure⑥：Realizing 100% renewable energy use at each business site through various means based on “Additionality”**

At the Gifu Factory complex, which is a production site in Japan, continuing from the on-site PPA solar power generation implemented previously, the Group switched to a tiered $CO_2$-free menu for contracted power generation and implemented off-site physical PPA. An off-site physical PPA is a power purchase agreement scheme that involves purchasing both the electricity and the environmental value from renewable energy facilities developed by other companies and located outside the Group’s premises.

Part of the off-site physical PPA being implemented this time includes agrivoltaic solar power plants (known as IKO Agri-Solar) that cultivate crops under solar power panels. At the power plant that commenced operation in August 2024, there are plans to cultivate log-grown shiitake mushrooms, and at other power plants that will subsequently commence operations, there are plans to cultivate sakaki trees. Under this scheme, by distributing a portion of the costs paid by the company to agricultural businesses cultivating crops beneath solar panels, the Group can promote decarbonization and contribute to supporting agricultural management. Furthermore, in the future, the Group plans to purchase some of the log-grown shiitake mushrooms cultivated under solar panels to use in company cafeterias. This not only provides additional support to agricultural management but also enhances environmental awareness among employees.

In January 2025, the Group also signed a new agreement for an off-site type virtual PPA service that utilizes onshore wind power generation. At the Aoyama-Kogen Wind Farm in the cities of Tsu and Iga of Mie Prefecture, there are plans to replace existing wind power generation facilities. The Group entered into this contract not only to promote the creation of new renewable energy, but also because the Group believes contributing to the maintenance of existing facilities is important and significant to society. This power plant is scheduled to commence operations in March 2027, with a contract period that spans 20 years. This plan allows for the stable and long term procurement of environmental value.

As a result of such efforts, the progress in the shift to renewable energy for the whole Group reached approximately 9.6% of annual power consumption for FY2025, and market-based emissions were reduced by about 6.4% compared to location standard emissions.


Off-site PPA
（IKO Agri-Solar shiitake mushrooms）


Gifu Factory Complex
$CO_2$-Free Electricity Purchase Agreement Certificate

Aoyama-Kogen Wind Farm
(before replacing)

## ■ Progress Status in Terms of Financial Impact

As a result of proactive energy-saving activities and procuring renewable energy, Scope 1 and 2 emissions for the Group in FY2025 amounted to 22,526t-$CO_2$, and the Group therefore managed to reduce emissions again from the previous fiscal year. Through this reduction in emissions, the Group believes it has made progress in reducing the burden of carbon taxes that are expected to be introduced in FY2031 and FY2051. The amount of reduction in the future burden of carbon taxes calculated from actual FY2025 results is estimated to be about 185 million yen in FY2031 and about 330 million yen in FY2051, as shown in the following table.

| | The base year (FY2023) | FY2025 | Reduction amount |
|---|---|---|---|
| **$CO_2$ Emission Results** | 31,942 t-$CO_2$ | 22,526 t-$CO_2$ | 9,416 t-$CO_2$ |
| **Estimated impact amount for FY2031** | Approx. 626 million yen | Approx. 442 million yen | **Approx. 185 million yen** |
| **Estimated impact amount for FY2051** | Approx. 1,118 million yen | Approx. 788 million yen | **Approx. 330 million yen** |

* According to IEA NZE, Carbon tax unit price: \$140/t-$CO_2$ in 2030, \$250/t-$CO_2$ in 2050　　* 1 dollar = 140 yen

## ■Measures①：Implementing proper climate change measures and enhancing information disclosure

In October 2024, the Group acquired SBTi certification for its FY2031 greenhouse gas emissions reduction targets, with the set reduction targets being officially assessed and approved. In addition, in recognition of its high level of improvement in disclosure, the Group was selected in the Environmentally Sustainable Company Category of the ESG Finance Award Japan hosted by the Ministry of the Environment as an Environmental Disclosure Progress Company that could be expected to further develop its disclosure activities. Furthermore, in response to the FY2025 CDP questionnaire, the Group received a B score in both climate change and water security for the second consecutive year.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

2025 ESG FINANCE AWARDS JAPAN PROGRESS

CDP Discloser 2024

## ■ Other Efforts to Address Transition Risks

### i. Using sustainability finance

In August 2024, the Group established a Sustainability-Linked Finance Framework. In addition, in September 2024, the Group issued its first Sustainability-Linked Bond, and we are proactively using sustainability finance in other financing agreements.

For SPT (Sustainability Performance Targets), we have set reduction targets for Scope 1 and 2 emissions, and we will set incentives for reducing greenhouse gases from a financing procurement perspective while also establishing systems that will ensure progress in reductions. Furthermore, with the establishment of the Framework for Sustainability-Linked Finance, we are acquiring limited assurance for Scope 1 and 2 emissions through third parties.


NEWS RELEASE

日本トムソン株式会社

発行前検証報告書

サステナビリティ・リンク・ファイナンス

Verification report prior to issuance (Third-party verification of Scope 1, 2 emissions)

### ii. Calculation of CFP (Carbon Footprint)

Anticipating the future use of greenhouse gas emissions per unit of product, the Group has estimated CFP for some products. For the calculation, we are referring to ISO14067:2018 and the Carbon Footprint Guidelines issued by the Ministry of Economy, Trade and Industry and the Ministry of the Environment. However, when performing calculations from the lifecycle flow chart that strictly reproduces the actual manufacturing process, we confirmed that model number configuration would not be easy for the Group, given our multi-product production system. Going forward, we will maintain the multi-product production system, which is our Group's strength, while searching for a way to be able to easily and accurately calculate CFP for model number configuration.

### iii. Initiatives for Reduction of Scope 3 Emissions

The Group is promoting various initiatives to substantially reduce Scope 3 emissions.

Regarding "Category 1 - Purchased Goods and Services," the company is currently not participating in the GX League. However, we have submitted our "GX Acceleration Declaration" for creating the GX market. In addition, we are making efforts to promote energy-saving investment using subsidies in collaboration with suppliers by calling on suppliers to participate and considering applications for subsidies. Furthermore, for our suppliers in Japan, at the procurement policy briefing session held once a year, we are establishing a system for collaborating and communicating continuously on our policy and plans for future initiatives toward realizing carbon neutrality.

「ホワイト物流」
推進運動
賛同企業


Image of the briefing session on procurement policy

Regarding "Category 4 - Transportation and distribution (Upstream)," in light of recent logistics problems in Japan, we have made a declaration of voluntary action for the "White Logistics" promotion movement mainly run by the Ministry of Land, Infrastructure, Transportation and Tourism, and are promoting efforts to optimize the Group's logistics. In addition to improving the loading efficiency in truck transport, we are also considering efficient distribution routes by introducing systems to analyze logistics data, and we are boldly taking on the challenging initiatives of the simultaneous promotion of DX and GX.

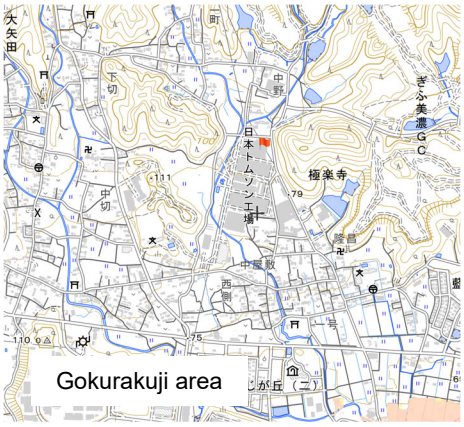
## (2-1) Physical Risks：Progress Status List for Measures with Highest Priority

| | Measures | Metric | Progress Status |
|---|---|---|---|
| Physical Risks | ① Formulating and continuous review of BCP at factories (Production bases in Vietnam and China) | - Conducting regular surveys<br>- Examining and implementing measures | - Confirmation of hazard maps, etc. Response plans will be created in collaboration with related departments, and specific measures will then be considered. |
| | ⑤ Regularly confirming hazard maps and reviewing the BCP (Production bases in Japan) | - Conducting regular surveys<br>- Examining and implementing measures | - Confirmation of hazard maps, etc. Response plans will be created in collaboration with related departments, and specific measures will then be considered. |
| | ⑦ Adding break rooms and installing spot air conditioner | - Investment | - An investment plan for air conditioners and other equipment, tailored to the actual situation, is formulated and executed every six months. |
| | ⑧ Implementing energy-saving air conditioners | - $CO_2$ emissions | - Investment in air conditioners, etc., is done gradually according to the plan based on the actual situation.<br>- $CO_2$ emissions during FY2025 were reduced as a result of energy-saving activities. |

## (2-2) Physical Risks：Response Examples

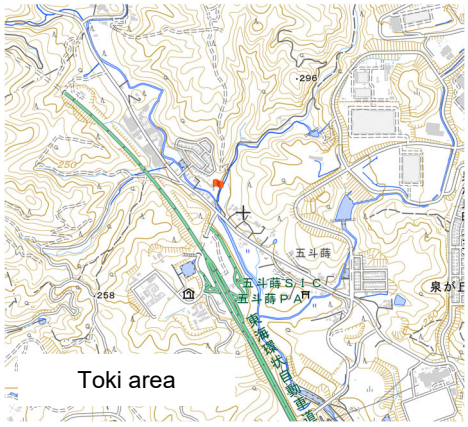
### ■Measure⑤：Regularly confirming hazard maps and reviewing the BCP (Production bases in Japan)

For physical risks related to climate change, the Group conducted flooding risk surveys using hazard maps and calculated the expected damage. From now, the latest information on disaster prevention and mitigation measures will be collected by the Risk Management Committee to review and strengthen the BCP, and prevention measures for reducing damage and quickly recovering business when flooding occurs will be considered for facilities located in high-risk areas.

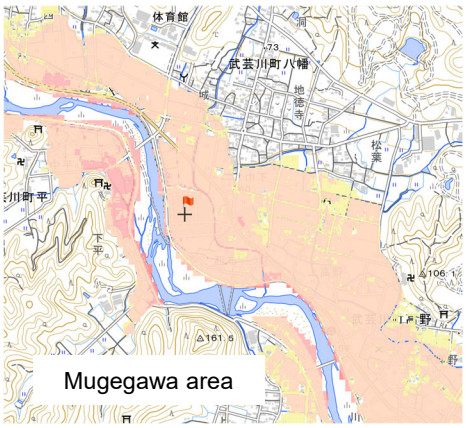


Gokurakuji area

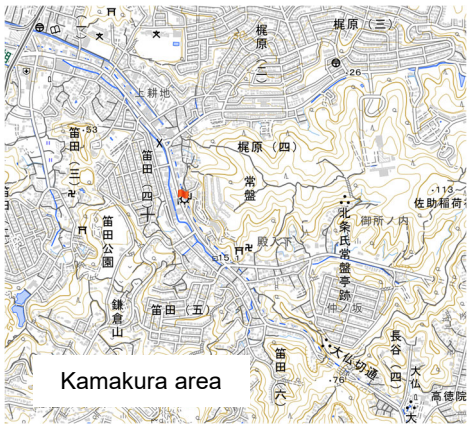
Kasagami area



Toki area



Mugegawa area



Kamakura area

Source: *Overlapping Hazard Map Portal Site*, Geospatial Information Authority of Japan, MLIT

## Risk Management

### Process for identifying and assessing climate-related risks

The Sustainability Committee holds discussions to identify risks and their impact on sustainable corporate activities for the Group in regards to climate change, which are included in the specified “IKO Group Materiality,” and gives a report on this to the Board of Directors twice per fiscal year. Also, in order to establish a management system for prevention, discovery, correction, and recurrence prevention for any risks that can occur related to business management including climate change risks, and to determine policies for responding to risks that occur, we established a “Risk Management Committee” comprised of Inside Directors including the President and COO and full-time Audit & Supervisory Committee member, and built a risk management system.

### Process for managing climate-related risks

The “Risk Management Committee” clarifies the orientation for controlling risks based on the risk assessment results conducted every year according to the “Risk Management Regulations,” and determines which departments or organization (committee, meeting body, etc.) need to respond for each identified risk item including climate change risks for implementing risk responses.

We have been conducting large-scale risk assessments every three years to prioritize response to risks and identify risks that require the implementation of measures. Specifically, risks that need to be monitored and newly recognized risks are clarified based on the current status of risk measures. The probability of risk occurrence, impact of the risk on corporate value, and the response status to the risks are assessed, and we then identify the priority risks that need to be addressed.

Moreover, after items extracted as transition/physical risks related to climate change using “Urgency” and “Financial Impact” related to the Group are assessed according to three levels, mapping is performed using two axes, and we then evaluate the “Importance Level,” which is a total of the “Urgency” and “Financial Impact.” The “Difficulty Level” of measures for each item is being evaluated using “High (1.0), Medium (2.0), and Low (3.0),” and the priority of measures is evaluated according to the “Priority Level,” which is calculated by multiplying the “Importance Level” and “Difficulty Level.”

### Process for integrating climate-related risks into corporate risk management

Principally, the “Risk Management Committee” holds meetings every half period, report contents on the response status for each risk item are assessed, important decisions are made on organization-wide risk management including climate change risks, and discussion contents are reported to the Board of Directors.

For more information on the whole Group’s comprehensive risk management, see here.

## Metrics and Targets

The Group calculates greenhouse gas emissions based on GHG Protocol standards for assessing and controlling the impact of climate-related issues on management. Our Group's emission reduction targets were set as ambitious goals in line with the level required under the Paris Agreement, and obtained SBTi* certification in October 2024. For Scope 1 and Scope 2 emissions, our goal is to achieve a reduction of 42% or more by FY2031 compared with FY2023, and to realize carbon neutrality by FY2051. For Scope 3 (Category 1), we aim to reduce emissions by 25% or more by FY2031 compared with FY2023, and to achieve carbon neutrality across all categories by FY2051. Going forward, in order to achieve our emissions reduction targets, we aim to make approximately 50% of the electricity used at our sites renewable by FY2031.

Greenhouse gas emissions are calculated using the "Asuene" $CO_2$ emissions visualization cloud by Asuene Inc. Regarding Scope 3 emissions, following the acquisition of SBTi certification, we have recalculated the amounts for previous years as well, using a calculation method that complies with GHG Protocol standards. Specifically, this includes the addition of a calculation target category, a change to the calculation using Well to Wheel, and the addition of Category 15 for non-consolidated subsidiaries.

*SBTi: Science Based Targets initiative

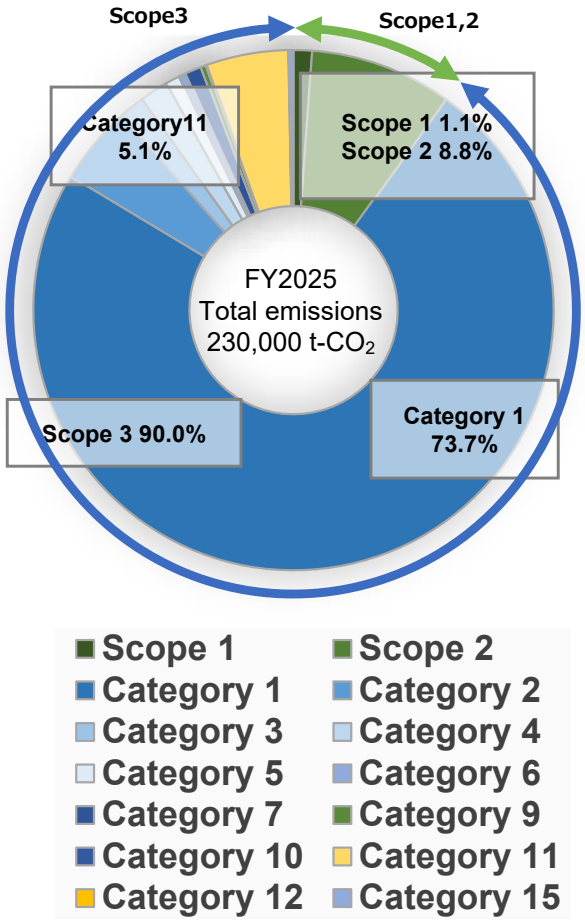
**Changes in estimated greenhouse gas emissions by the Group**

Emissions (t-$CO_2$)

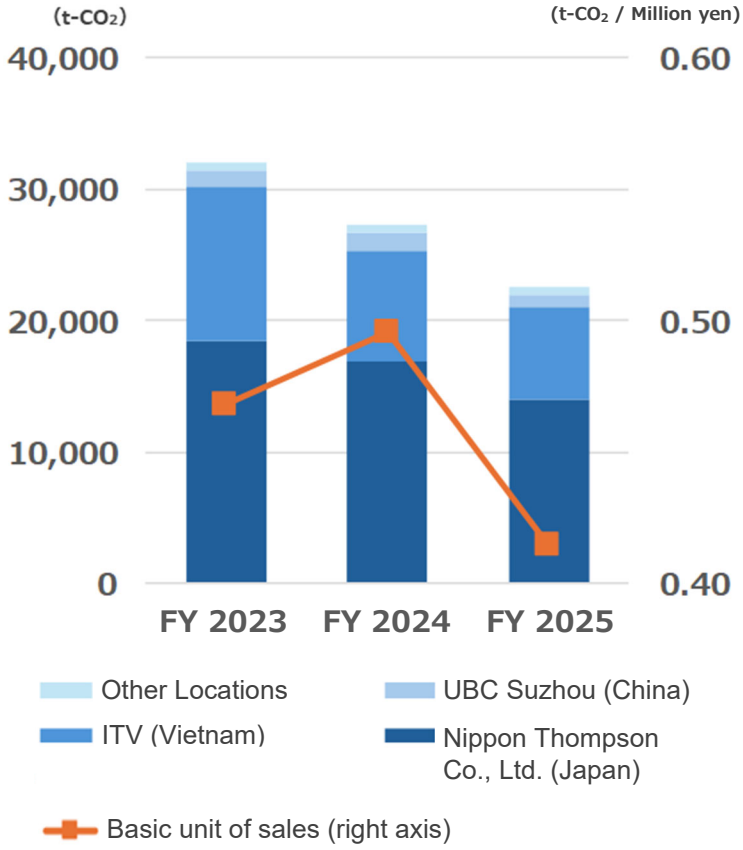
| | | | The base year FY2023 | FY2024 | FY2025 |
|---|---|---|---|---|---|
| **Scope 1+2** | | | **31,942** | **27,277** | **22,526** |
| | Scope 1 | Total | **3,124** | **2,639** | **2,579** |
| | | Japan | 2,764 | 2,351 | 2,215 |
| | | Outside Japan | 360 | 288 | 363 |
| | Scope 2 | Total | **28,818** | **24,637** | **19,947** |
| | | Japan | 15,813 | 14,622 | 11,805 |
| | | Outside Japan | 13,006 | 10,015 | 8,143 |
| **Scope 3** | | | **329,797** | **252,055** | **203,825** |
| | Upstream | 1 Purchased goods and services | 265,958 | 195,289 | 166,745 |
| | | 2 Capital goods | 6,755 | 12,815 | 11,000 |
| | | 3 Fuel and energy-related activities not included in Scope 1,2 | 4,780 | 3,890 | 3,587 |
| | | 4 Transportation and distribution (Upstream) | 5,105 | 4,267 | 3,990 |
| | | 5 Waste generated in operations | 1,906 | 2,136 | 2,046 |
| | | 6 Business travel | 638 | 888 | 1,017 |
| | | 7 Employee commuting | 2,497 | 2,364 | 2,273 |
| | | 8 Lease assets (Upstream) | – | – | – |
| | Downstream | 9 Transportation and distribution (Downstream) | 1,136 | 860 | 748 |
| | | 10 Processing of sold products | 216 | 166 | 167 |
| | | 11 Use of sold products | 39,885 | 28,542 | 11,532 |
| | | 12 End-of-life treatment of sold products | 90 | 63 | 69 |
| | | 13 Lease assets (Downstream) | – | – | – |
| | | 14 Franchises | – | – | – |
| | | 15 Investments | 832 | 775 | 652 |
| **Total** | | | **361,739** | **279,331** | **226,351** |

*Scope 3 figures for FY2023 and FY2024 were recalculated using the latest information and Well to Wheel.

## Greenhouse gas emissions (Scope 1, 2, and 3)




## Scope 1 and 2 Changes in emissions according to base and basic unit of sales




- Calculations are made according to the GHG Protocol.
  For categories not described above, there is either no emission source or the calculation is included in Scope 1, 2.
- Scope 2 emissions are calculated using market standards.
- Scope 3 emissions are calculated using the Database on Emission Intensities for Calculating Organizational Greenhouse Gas Emissions, etc. through a Supply Chain Version 3.5.
- ITV : IKO THOMPSON VIETNAM CO.,LTD.
- UBC Suzhou : UBC (Suzhou) Bearing Co., LTd.

## IKO Group Greenhouse Gas Emission Reduction Targets

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

| Scope | Period | Base fiscal year | Target fiscal year | Target | Target value |
|---|---|---|---|---|---|
| Consoli-dated | Medium term | FY2023 | FY2031 | Scope1,2 | Reduction of 42% or higher |
| | | | | Scope3 CA1* | Reduction of 25% or higher |
| | Long term | - | FY2051 | Scope1,2,3 | Carbon neutrality |

*CA1: Category 1

## Analysis of Greenhouse Gas Emission Results

### (1-1) Emission Results for FY2025

The Group's total emissions for Scope 1 and 2 in FY2025 were 22,526t-$CO_2$. Of the total emissions, which were 226,351t-$CO_2$, total Scope 3 emissions were 203,825t-$CO_2$. The emission percentages for each were Scope 1 : 1.1%, Scope 2 : 8.8%, and Scope 3 : 90.0%. As in the previous fiscal year, approx.90% of total emissions were from Scope 3. In particular, Scope 3, Category 1 emissions accounted for 73.7% of total emissions, and accounted for 81.8% of total Scope 3 emissions. Therefore, we have once again recognize the importance of reducing Scope 3, Category 1 emissions in order to achieve carbon neutrality.

In regards to the changes in Scope 1 and 2 emissions, the Group continued to make significant improvements following the previous fiscal year, as Scope 1 and 2 emissions were -29.5% compared to the baseline fiscal year and -17.4% compared to the previous fiscal period. In addition, regarding changes in Scope 3 emissions, they were -38.2% compared to the baseline fiscal year and -19.1% compared to the previous fiscal period, showing significant improvement similar to Scope 1 and 2 emissions. Moreover, the basic unit of sales for Scope 1 and 2 was 0.41t-$CO_2$/million yen under the market standard that is the indicator for energy efficiency, a decrease of 16.4% compared to the FY2024 basic unit of sales, which was 0.50t-$CO_2$/million yen.The basic unit of sales for Scope 3 was 3.75t-$CO_2$/million yen, a improvement of 18.1% compared to the FY2024 basic unit of sales, which was 4.58t-$CO_2$/million yen.

**Changes in basic unit of sales for Scope 1, 2, and 3 emissions** Unit: t-$CO_2$/million of yen

| | FY2023 | FY2024 | FY2025 | Compared to the base year | Compared to the previous fiscal year |
|---|---|---|---|---|---|
| Scope 1, 2 (Market) | 0.47 | 0.50 | 0.41 | -11.5% | -16.4% |
| Scope 3 | 4.83 | 4.58 | 3.75 | -22.4% | -18.1% |

### (1-2) Detailed Analysis of Scope 1 and 2 Emissions

In FY2025, in addition to continuing production activities aligned with market trends, the Group reduced energy consumption in corporate activities further from the previous fiscal year by promoting sales that utilized strategically stockpiled inventory. Also, we greatly surpassed our greenhouse gas emission reduction targets by continuously implementing energy-saving activities at all our bases and starting to see the benefits of renewable energy procurement through various methods implemented in stages.

The production departments continuously implemented energy-saving activities and promoted initiatives such as local improvements and the installation of energy-saving equipment. In addition, in May 2024, we installed air-conditioning control systems in the headquarters building and strove to reduce energy consumption. As a result of these activities, we expect an energy-saving effect of about 1.7%.

As for initiatives toward procuring renewable energy, in addition to on-site PPA, off-site virtual PPA, and switching to a $CO_2$-free electricity contract, we have also promoted procurement through agrivoltaic physical PPA, which has enabled us to switch to renewable energy utilization of about 9.6% for annual power consumption by the whole Group. This marked an increase of 6.3 percentage points from about 3.3% in the previous fiscal year, which greatly contributed to a reduction in greenhouse gas emissions.

In terms of energy efficiency, despite the impact of reduced production, the Group's proactive energy-saving activities, renewable energy procurement, and promotion of sales using inventory led to a significant improvement in the basic unit of sales.

**Changes in Inventory** Unit : Million yen

| | FY2023 | FY2024 | FY2025 |
|---|---|---|---|
| Inventory | 38,183 | 41,804 | 38,794 |
| Change from the previous fiscal year | | 9.5% | -7.2% |

**Changes in Production value** Unit : Million yen

| | FY2023 | FY2024 | FY2025 |
|---|---|---|---|
| Production value | 65,915 | 50,231 | 46,136 |
| Change from the previous fiscal year | | -23.8% | -8.2% |

Looking at the changes in inventory, in FY2024, inventory increased by 9.5% compared to the previous fiscal period, while in FY2025, inventory decreased by 7.2% compared to the previous fiscal period. Regarding the changes in production value converted to sales prices in FY2025, the value decreased by 8.2% compared to the previous fiscal period, indicating a worsening of energy efficiency due to lower production. However, the decrease in total energy used, along with the aforementioned energy-saving activities and renewable energy procurement, led to an improvement in the basic unit of sales.

In the comparison of Scope 2 emissions between location standard and market standard, due to the contributions of implementing virtual PPA and physical PPA, switching to a $CO_2$-free electricity contract, and other initiatives, market-based emissions decreased by about 6.4% compared to location standard emissions. Regarding the emissions coefficient for FY2023, the market standard was well below the location standard, creating a difference of about 6.1%. From FY2024, the difference in that coefficient has become relatively small, suggesting that the difference between market standard and location standard emissions is due to companies' procurement of renewable energy. As a result of the above, it is considered that the planned implementation of phased renewable energy procurement has led to the reduction in market standard emissions in FY2025.

**Scope 2: Comparison Between Market Standard and Location Standard** Unit : t-$CO_2$

| | | FY2023 | FY2024 | FY2025 |
|---|---|---|---|---|
| Scope 2 | Market Standard (A) | 28,818 | 24,637 | 19,947 |
| | Location Standard (B) | 30,680 | 24,291 | 21,301 |
| | A÷B | -6.1% | 1.4% | -6.4% |

## (1-3) Detailed Analysis of Scope 3 Emissions

For FY2025, as mentioned previously, continuing from FY2024, Scope 3 emissions greatly improved. Since the COVID-19 pandemic, as company activities have gradually resumed, emissions for "Category 6 - Business trips" have shown a steadily increasing trend from the base fiscal year. However, emissions in all other categories have either remained stable or improved.

In "Category 2 - Capital goods," emissions have remained at the same level as the Group has continued to promote investments to increase production both inside and outside Japan since FY2024. Regarding "Category 11 - Use of sold products," emissions improved by about 60% from the previous fiscal period, influenced by reduced sales of products included in the calculation. Regarding "Category 4 - Transportation and distribution (Upstream)," the impact of decreased sales, along with initiatives such as improving loading efficiency using newly created stackable boxes, contributed to an improvement in emissions.

As for "Category 1 - Purchased goods and services," for which we have set medium-term targets, in addition to steady activities like thorough 5S efforts and reducing the purchase of unnecessary equipment at production sites, the effects of the aforementioned inventory utilization and reduced production resulted in Category 1 emissions being about -37.3% compared to the baseline fiscal year, helping us continue meeting our FY2031 targets. Moreover, the basic unit of sales was -13.6% compared to the previous fiscal period, indicating that efficiency has also improved. However, current Scope 3 emissions are largely calculated using secondary data, and an increase in emissions is expected alongside the anticipated market recovery. Although we are currently achieving our targets, our activities contributing to substantial reductions are only partway complete. We need to continue improving the accuracy of Scope 3 emissions calculations and further promote supplier engagement to realize these targets.

**Changes in basic unit of sales for Scope 3, Category 1 emissions**

| | FY2023 | FY2024 | FY2025 | Compared to the base year | Compared to the previous fiscal year |
|---|---|---|---|---|---|
| Emissions for Scope3 CA1(t-$CO_2$) | 265,958 | 195,289 | 166,745 | -37.3% | -14.6% |
| The basic unit of sales (t-CO2/百万円) | 3.90 | 3.55 | 3.07 | -21.3% | -13.6% |

## Future Reduction Plans for Scope 1 and 2

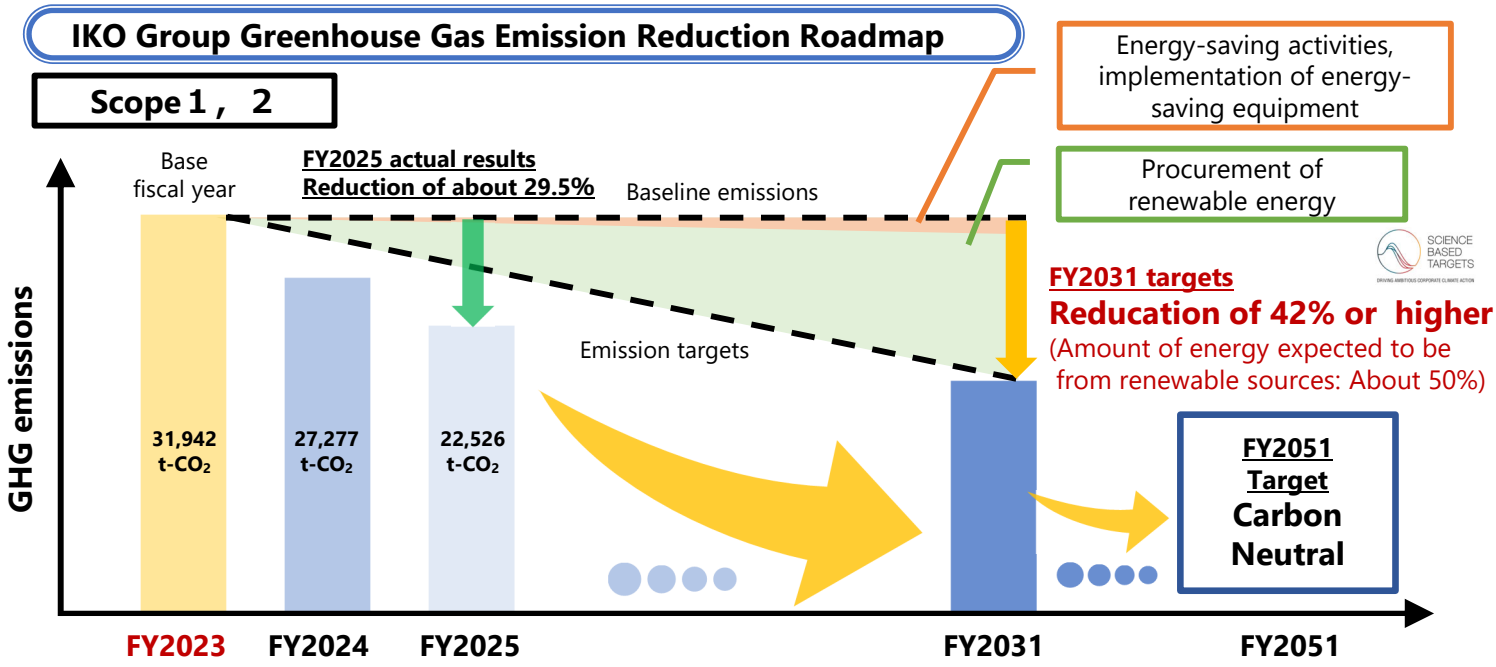
Regarding energy-saving activities, we will continue promoting improvement activities at production sites, improving overall equipment effectiveness by reducing unreasonable, unfruitful, and uneven activities, and implementing thorough 5S efforts. We implemented an ICP (Internal Carbon Pricing) system in January 2025 for promoting environmental investment including the installation of energy-saving equipment. Since FY2026, we have begun test operations using reference values and aim to leverage this to promote environmental investment through ICP in the future. Furthermore, across all departments, we aim to make our daily corporate activities more energy-efficient by implementing initiatives such as visualizing energy usage to raise energy-saving awareness among employees. As for procurement of renewable energy, while we will continue to promote a focus on “additionality,” we also consider uncertainty and opacity with the future environmental market, and plan to diversify risks through various procurement methods. In addition to the scheduled increase in operation of physical PPA that is already progressing in development, in FY2026, we also plan to improve procurement efficiency of $CO_2$-free electricity for the Gifu Factory complex. Also, we will keep considering renewable energy procurement at our production bases outside Japan, and continue to promote the shift to renewable energy for the whole IKO Group.

## Future Reduction Plans for Scope 3 Category 1

With Scope 3 Category 1, although we are currently meeting our FY2031 targets, the impact of inventory utilization and reduced production is significant, and we are only partway through achieving substantial reductions by shifting to low-carbon products and enhancing supplier engagement. As a result, we are focusing our efforts on steadfastly advancing initiatives to achieve emissions reductions while maintaining our FY2031 targets without change. Specific initiatives we are planning include considering the replacement of parts used in products with low-carbon materials, shifting to calculation based on purchasing weight, acquiring primary data from suppliers, and promoting environmental investment in collaboration with suppliers by leveraging support and subsidies for these calculations. In addition, the company has made a “GX Acceleration Declaration” to ensure the progress of these initiatives. As a result, we are transitioning to a calculation method that makes the impact of our emission reduction efforts visible, implementing initiatives to substantially reduce emissions across the entire supply chain, and boldly pursuing the challenge of achieving carbon neutrality.

## IKO Group Greenhouse Gas Emission Reduction Roadmap

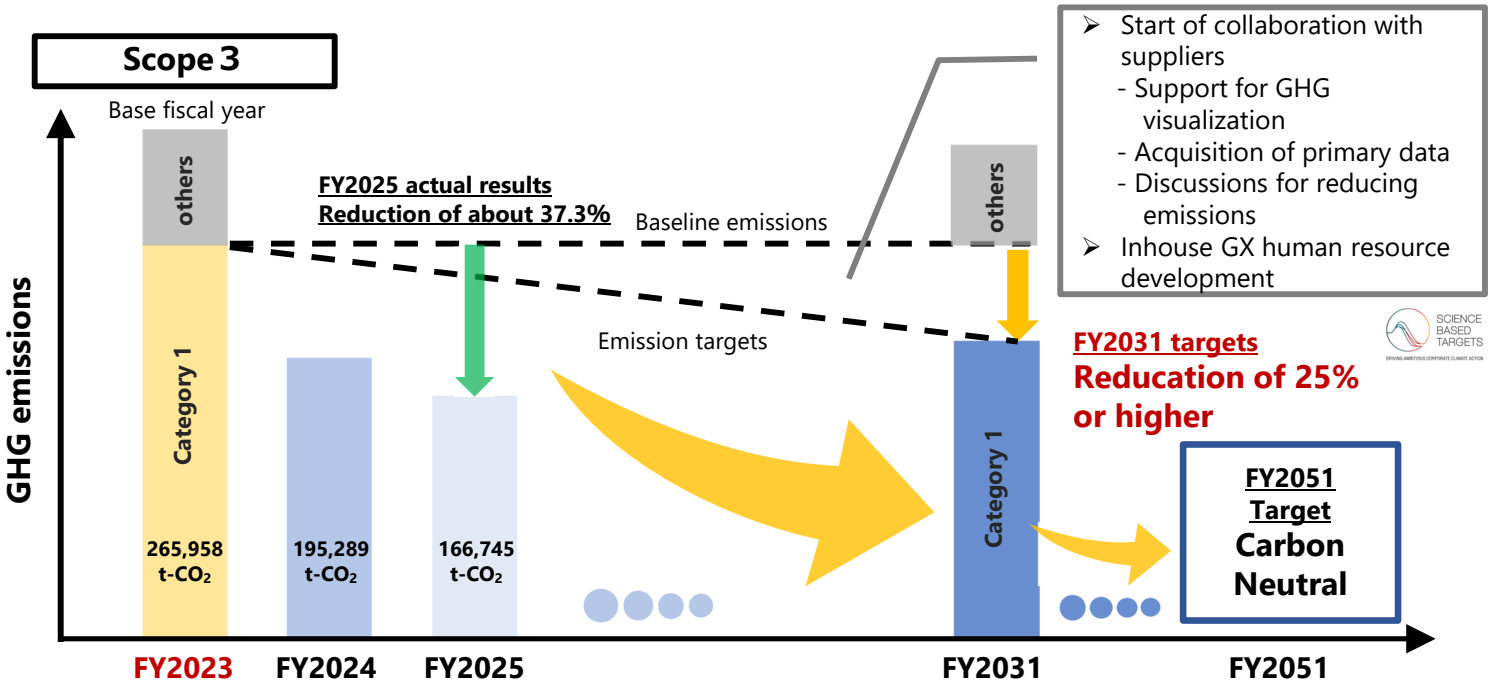
### Scope 1 , 2




Unit: t-$CO_2$

| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | FY2029 | FY2030 | FY2031 |
|---|---|---|---|---|---|---|---|---|---|
| Target value | 31,942 | 30,265 | 28,588 | 26,911 | 25,234 | 23,557 | 21,880 | 20,203 | 18,526 |
| Actual value | 31,942 | 27,277 | 22,526 | — | — | — | — | — | — |

### Scope 3




Unit: t-$CO_2$

| | FY2023 | FY2024 | FY2025 | FY2026 | FY2027 | FY2028 | FY2029 | FY2030 | FY2031 |
|---|---|---|---|---|---|---|---|---|---|
| Target value | 265,958 | 257,647 | 249,335 | 241,024 | 232,713 | 224,402 | 216,091 | 207,779 | 199,468 |
| Actual value | 265,958 | 195,289 | 166,745 | — | — | — | — | — | — |