

TCFD/TNFD Integrated Report



Jun-26



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1 Response to Climate Change / Biodiversity Conservation

The Company Group recognizes “climate change and biodiversity conservation” as a key management issue. In January 2023, we endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (hereinafter, “TCFD”), and in September 2023 we registered as an early adopter (TNFD Early Adopter) of the Taskforce on Nature-related Financial Disclosures (hereinafter, “TNFD”).



The Company Group promotes sustainable management through its corporate activities in order to achieve a balance between sustainable growth and social sustainability. Based on our management philosophy of being “a technology development-based company that contributes to society,” we identify the IKO Group Materialities (key issues) from among various social issues and advance a range of initiatives accordingly. In addition, as one of these Materialities, we have set forth “promoting corporate activities toward the realization of a rich global environment” and are addressing climate change and biodiversity conservation. We disclose key information in line with the TCFD / TNFD recommendations as follows.

2 About This Report

This report is our first report to integrate the TCFD and TNFD. The Company Group belongs to the machinery sector, which consumes a large amount of energy, and therefore plays a very important role in addressing the issue of climate change. Accordingly, we believe that we also play an important role in resolving issues of natural capital and biodiversity, which are closely related to climate change. We have therefore prepared and disclosed this integrated TCFD and TNFD report.

Boundary of Disclosure

- ◆ **TCFD:** The financial control approach is adopted. The scope of financial consolidation is treated as the scope of Scope 1 and 2, while Scope 3 aggregates the entire value chain, including financially non-consolidated subsidiaries as well as upstream and downstream operations.
- ◆ **TNFD:** The entire value chain, including upstream and downstream operations, is surveyed and analyzed.

Time Horizons Considered

Reporting: Fiscal year ending March 2026 (April 1, 2025 to March 31, 2026)

* In accordance with the financial accounting period, the applicable period for some overseas sites is January 1 to December 31, 2025.

Short term: through March 31, 2027

Medium term: April 1, 2027 to March 31, 2031

Long term: April 1, 2031 to March 31, 2051

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What Are the TCFD / TNFD?

About TCFD

The TCFD refers to the “Task Force on Climate-related Financial Disclosures,” which was established at the request of the G20 by the Financial Stability Board (FSB), with Michael Bloomberg as its chair, to consider how climate-related information disclosure and the responses of financial institutions should be conducted.

In June 2017, the TCFD released its final report, recommending that companies and others disclose the following items concerning climate change-related risks and opportunities. In October 2023, the TCFD itself disbanded, but that role has been subsequently inherited by the “International Sustainability Standards Board (ISSB)” of the IFRS Foundation.

- **Governance:** What governance structure is in place to consider climate change, and how is it reflected in corporate management?
- **Strategy:** What impact will climate change have on business management over the short, medium, and long term, and how should companies respond?
- **Risk Management:** How are climate change risks identified and assessed, and how are efforts made to reduce them?
- **Metrics and Targets:** For the assessment of risks and opportunities, what metrics are used to make judgments, and how is progress toward targets evaluated?

About TNFD

The TNFD refers to the “Taskforce on Nature-related Financial Disclosures,” and is an international initiative that provides a framework for companies to identify nature-related risks and opportunities and to appropriately disclose them as financial information. It was established in 2021 in response to the deepening severity of global environmental issues. The loss of natural capital and biodiversity is considered an issue closely related to climate change, and the TNFD recommends integrated disclosure concerning natural capital, biodiversity, and climate change.

While TNFD reporting is based on the TCFD framework, it adds requirements specific to natural capital, such as “locality” and “dependencies and impacts.” Accordingly, analysis and disclosure aligned with Scoping (setting the scope of assessment) and the LEAP approach (L: Locate — discovering the interface with nature; E: Evaluate — diagnosing dependencies and impacts; A: Assess — assessing risks and opportunities; P: Prepare — preparing to report) are advocated. In addition, as a disclosure framework, disclosure of the four items “Governance, Strategy, Risk and Impact Management, and Metrics and Targets” is recommended.

Analysis and Assessment Procedure

Scoping Setting the Scope of Assessment	Locate Discovering the Interface with Nature	Evaluate Diagnosing Dependencies and Impacts	Assess Assessing Risks and Opportunities	Prepare Preparing to Report
The entire value chain (upstream, direct operations, and downstream) related to the Linear Motion Rolling Guides and Needle Roller Bearings series is subject to assessment.	Identification of direct operating sites and value chain locations. Identification of biomes and ecosystems, and identification of priority areas.	Confirmation and organization of dependency pathways and impact pathways.	Identification of material risks and opportunities, and organization of existing risk mitigation measures.	Consideration of response measures for the identified material risks and opportunities.

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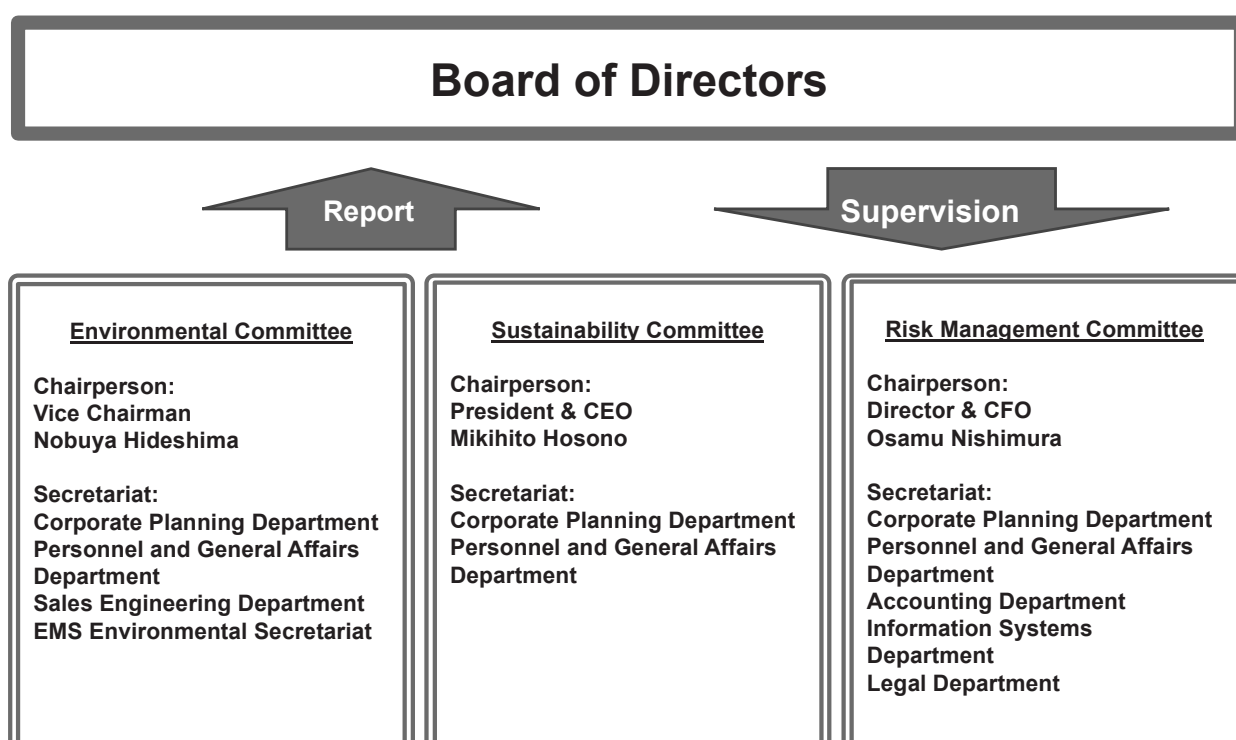
Governance

In January 2022, the Company Group established a “Sustainability Committee” chaired by the President & CEO and comprised of internal directors. With the Corporate Planning Department and the Personnel and General Affairs Department serving as its secretariat, this committee meets at least once every half year to formulate basic policies on sustainability—including climate-related and nature-related issues—and to develop the promotion structure, to identify medium- to long-term risks and opportunities, and to formulate and review Materialities, initiative issues, and transition plans, as well as to conduct periodic reviews of implementation status, among other activities. In addition, the committee reports on these matters to the Board of Directors at least once every half year, and the Board of Directors oversees and advises on the progress of initiatives concerning risks and opportunities and medium- to long-term targets in the Group’s overall sustainability issues. Furthermore, the Group has decided to link executive compensation to the reduction in greenhouse gas emissions, and is strengthening a management system that contributes to enhancing corporate value from a medium- to long-term perspective by addressing sustainability challenges.

Regarding engagement across the entire supply chain, the Company has a structure in place under which the secretariats of the Sustainability Committee and the Environmental Committee, serving as the core, work in collaboration with the departments that serve as points of contact for each supplier.

The Company Group positions initiatives such as climate change countermeasures and biodiversity conservation as key issues in sustainable management, and, under this promotion structure, is strengthening initiatives in each department.

Governance Structure Diagram for Sustainability Issues



Respect for Human Rights and Stakeholder Engagement

Based on its corporate philosophy of being “a technology development-based company that contributes to society,” the Company Group is committed to addressing social issues with sincerity. To realize this, it is essential that we remain a company that is trusted and relied upon by society, and we regard respect for human rights as an important element of this. As a guideline for promoting our efforts to respect human rights and fulfilling that responsibility, we support international norms such as the Universal Declaration of Human Rights and the United Nations “Guiding Principles on Business and Human Rights,” and we have established the “Human Rights Policy of the IKO Group” as a guideline to be observed by the entire Company Group.

The business activities of the Company Group are made possible through the cooperation and support of many stakeholders, and the trust and confidence of all stakeholders, including our employees, is indispensable. This philosophy is specifically set forth in the “Code of Conduct,” which establishes the following principles.

Employees: We do not discriminate in employment based on gender, age, nationality, or other attributes, and we strive to ensure a safe and rewarding work environment in compliance with the laws and regulations of the countries and regions in which we operate. This is intended to respect the human rights of each and every employee and to provide an environment in which they can fully demonstrate their abilities.

Business Partners: We respect them as important partners, comply with contracts as well as relevant laws and regulations, and maintain a mutually equal relationship. Recognizing the importance of respecting human rights throughout the supply chain, we practice sustainable procurement through collaboration.

Local Communities: As a good corporate citizen, we respect the cultures and customs of countries and local communities and contribute to regional development. As a member of the local community, we actively strive to participate in and cooperate with local events. In addition, we sever all relationships with antisocial forces that threaten the order and safety of civil society.

Furthermore, in response to opportunities and risks arising from nature-related dependencies and impacts, the Company Group also engages in community-based activities that emphasize dialogue and collaboration with stakeholders. Specifically, we engage in initiatives such as protecting the natural environment and communicating with people in neighboring areas through ongoing cleanup activities around our plants and other facilities; supporting the development of the next generation through ongoing donations to welfare and children’s facilities; revitalizing local communities through support for and sponsorship of local festivals and events; providing support for the recovery of disaster-affected areas; and actively contributing to local communities at our overseas sites.

We also recognize the importance of establishing processes that can monitor, manage, and remediate any adverse human rights impacts caused by the business activities of the Company Group. For employees, we have established internal as well as external whistleblowing contacts, which also accept consultations concerning human rights. Regarding inquiries from outside the Company, we gather information through the inquiry contact on our website and, as necessary, implement appropriate responses to help prevent human rights risks before they arise.

In addition to undertaking its own initiatives, the Company Group actively participates in external initiatives, such as joining the United Nations Global Compact and endorsing the TCFD recommendations. Through these activities, the Company Group builds constructive relationships with local communities and other stakeholders, thereby fulfilling its responsibility to respect human rights.

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Risk Management

Process for Identifying and Assessing Risks

The Sustainability Committee holds discussions to identify risks and their impact on the sustainable corporate activities of the Company Group with respect to climate change and biodiversity conservation, which are included in the specified “IKO Group Materialities,” and reports on this to the Board of Directors once every half year. In addition, to establish a management system for the prevention, detection, correction, and recurrence prevention of any risks that may arise in business operations—including climate change and biodiversity loss risks—and to determine guidelines for responding to risks that occur, the Company has established a “Risk Management Committee” comprised of internal directors, including the President & CEO, and full-time Audit and Supervisory Committee members, thereby building a risk management structure.

Process for Managing Risks

Based on the “Risk Management Regulations,” the “Risk Management Committee” clarifies the direction of risk control according to the results of the risk assessment conducted each fiscal year, and, for each identified risk item—including climate change risks—designates the relevant responsible department or organization (such as a committee or council) to carry out risk responses.

In addition, every three years we conduct a large-scale risk assessment and conduct a comprehensive review, including prioritizing risk responses and identifying risks for which countermeasures should be implemented. Specifically, based on the current status of risk countermeasures, we clarify risks that should continue to be recognized and newly recognized risks; assess the likelihood (probability) of each risk occurring, the degree of impact on corporate value should the risk occur, and the extent to which the risk is being addressed; and then identify and address the risks that should be prioritized.

Moreover, for items extracted as transition and physical risks related to climate change, we assess “Urgency” and “Financial Impact” on the Company Group according to three levels, perform mapping on two axes, and evaluate them using the “Importance Level,” which is the product of “Urgency” and “Financial Impact.” In addition, the response measures for each item are evaluated by assessing their “Difficulty Level” on a three-level scale of “High (1.0), Medium (2.0), and Low (3.0),” and the priority of each response measure is evaluated using the “Priority Level,” which is the product of the “Importance Level” and the “Difficulty Level.” Furthermore, for transition and physical risks related to biodiversity, we plan to conduct a similar assessment going forward and to evaluate the priority of each response measure with reference to the “AR3T framework.”

Process for Integrating Risks into Company-wide Risk Management

In principle, the “Risk Management Committee” meets once every half year to evaluate the reported status of responses to each risk item, to make important decisions regarding organization-wide risk management—including risks related to climate change and biodiversity conservation—and to report the matters deliberated to the Board of Directors.

For details on the comprehensive risk management of the entire Company Group, please refer here.

<https://www.ikont.co.jp/eg/sustainability/risk-management.html>

6 Strategy

In addition to analyzing dependencies and impacts related to natural capital using the LEAP approach recommended in TNFD reporting, the Company Group conducted an analysis of climate change using multiple scenarios. Through this, we identified the short-, medium-, and long-term risks and opportunities that climate change and biodiversity issues pose to the Company Group's business, and examined countermeasures, metrics, and targets.

Scoping(Setting the Scope of Assessment)

In the Scoping phase, the Company Group defined the purpose and structure for conducting the assessment and then set the scope of assessment.

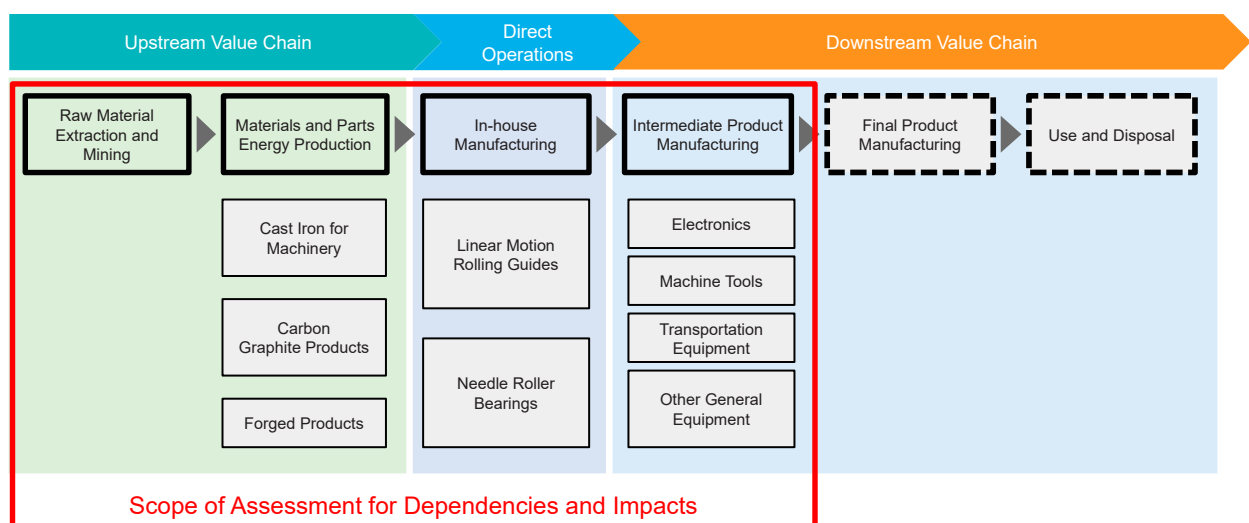
As "a technology development-based company that contributes to society" under our management philosophy, the Company Group aims to capture risks and opportunities across the entire value chain from a more multifaceted perspective by taking the lead in responding to the TNFD, thereby enhancing corporate value over the medium to long term through a cycle that generates both economic and social value. Accordingly, we conducted the assessment covering the entire value chain (upstream, direct operations, and downstream) related to the business activities of bearings and related products (Linear Motion Rolling Guides and Needle Roller Bearings), which account for approximately 90% of the Company Group's net sales.

For the upstream value chain, using the IDEA* database, we visualized the top three items by weight ratio (cast iron for machinery, carbon and graphite products, and forged products), tracing back to the extraction stage.

For the downstream value chain, since the Company Group's main application fields are concentrated in the four industries of "Electronics," "Machine Tools," "Transportation Equipment," and "Other General Machinery," this report covers these industries.

* LCI database IDEA version 2.3, IDEA Lab, Research Institute of Science for Safety and Sustainability, National Institute of Advanced Industrial Science and Technology (AIST)

Scope of Assessment for Dependencies on and Impacts on Nature



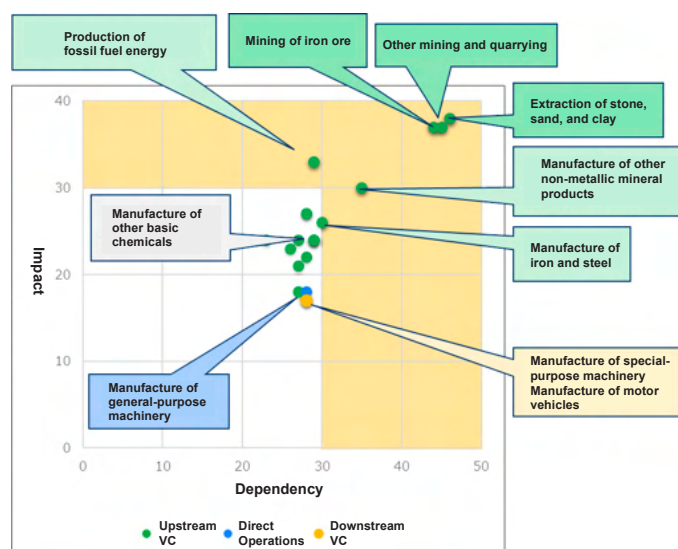
Assessment of Nature-related Dependencies and Impacts

The entire value chain (upstream, direct operations, and downstream) was covered, and using ENCORE*, we assessed nature-related dependencies and impacts of related businesses along the value chain.

Based on the results, we conducted scoring and identified the industries considered to have large dependencies on and impacts on nature. Among these, for items judged to be at a medium level (Medium: yellow portions in the figure on the right) or above in the ENCORE assessment, the following findings were obtained.

* ENCORE (<https://encorenature.org/en>) is an analytical tool developed by the United Nations Environment Programme and others for investigating nature-related risks and understanding dependencies on and impacts on nature.

Score Map of Dependencies and Impacts by Industry



1 Regarding the Upstream Value Chain

At the raw material extraction and mining stage ("extraction of stone, sand, and clay," "other mining and quarrying," and "mining of iron ore"), dependencies and impacts on nature were assessed as particularly high. In addition, while "production of fossil fuel energy" remained at a medium level of dependency, its impact tended to be high. For materials and parts manufacturing ("iron and steel" and "manufacture of other basic chemicals"), both dependency and impact were assessed as medium.

2 Regarding Direct Operations

In the manufacture of general-purpose machinery, which constitutes our own direct operations, no dependencies on nature rated very high (VH) or high (H) were identified. On the other hand, identified dependencies include water purification, flood mitigation services, water supply, storm mitigation, and the regulation of water flows. From these results, we consider that the business of the Company Group depends to a certain degree on water purification, storage, and supply functions, as well as air regulation functions.

Furthermore, with respect to impacts on nature, no very high (VH) or high (H) ratings were identified. However, a certain degree of impact was observed in items such as disturbance of ecosystems due to noise and light pollution, emissions of air pollutants other than GHGs, emissions of soil and water pollutants, and water use.

3 Regarding the Downstream Value Chain

In the downstream value chain (the businesses to which our products are sold), no dependencies on nature rated very high (VH) or high (H) were identified. However, from the perspective of impacts on nature, it was found that the manufacture of motor vehicles has a significant impact through ecosystem disturbance due to noise, light pollution, and other related factors. In addition, in the manufacture of special-purpose machinery, a certain degree of impact on nature due to emissions of soil and water pollutants was identified. From these results, we consider that even downstream, certain application fields exert a certain degree of impact on nature.

Heat Map of Dependency and Impact Assessment

Dependencies on Nature

Sector	Industry	Decomposition of solid waste	Retention of soil and sediment	Water purification	Dilution by atmosphere and ecosystems	Flood mitigation services	Global climate regulation	Water supply	Storm mitigation	Regulation of water flows	Regulation of rainfall patterns	Spiritual, artistic, and symbolic services
Upstream VC	Mining of iron ore	L	M	VH	M	H	H	H	M	H	VH	—
Upstream VC	Extraction of stone, sand, and clay	—	H	VH	M	H	H	H	M	H	VH	—
Upstream VC	Other mining and quarrying	L	M	VH	M	H	H	H	M	H	VH	—
Upstream VC	Manufacture of other non-metallic mineral products	M	L	M	L	M	VL	M	M	M	L	VH
Upstream VC	Manufacture of iron and steel	L	L	M	—	M	VL	H	M	H	M	—
Upstream VC	Production of fossil fuel energy	M	M	M	—	M	M	H	L	H	—	—
Direct Operations	Manufacture of general-purpose machinery	L	L	M	L	M	VL	M	M	M	VL	—
Downstream VC	Manufacture of special-purpose machinery	L	L	M	L	M	VL	M	M	M	VL	—
Downstream VC	Manufacture of motor vehicles	L	M	M	L	M	VL	L	M	M	VL	—

Impacts on Nature

Sector	Industry	Ecosystem disturbance due to noise, light pollution, and other factors	Use and alteration of freshwater areas	GHG emissions	Use and alteration of marine areas	Emissions of air pollutants other than GHGs	Extraction of other non-biological resources	Emissions of toxic soil and water pollutants	Emissions of nutrients	Generation and release of solid waste	Use and alteration of land	Water use
Upstream VC	Mining of iron ore	H	H	M	H	M	H	H	—	VH	M	L
Upstream VC	Extraction of stone, sand, and clay	H	H	H	H	H	VH	H	—	L	M	M
Upstream VC	Other mining and quarrying	H	H	H	H	H	M	H	—	M	M	M
Upstream VC	Manufacture of other non-metallic mineral products	M	M	H	—	H	—	VH	M	M	L	M
Upstream VC	Manufacture of iron and steel	VH	—	H	—	H	—	VH	—	M	L	M
Upstream VC	Production of fossil fuel energy	VH	M	VH	—	VH	—	VH	—	H	M	M
Direct Operations	Manufacture of general-purpose machinery	M	—	L	—	M	—	M	—	L	L	M
Downstream VC	Manufacture of special-purpose machinery	M	—	L	—	L	—	M	—	L	L	M
Downstream VC	Manufacture of motor vehicles	VH	—	VL	—	L	—	M	—	L	L	L

(Assessment VH : Very High, H : High, M : Medium, L : Low, VL : Very Low)

* In the heat map above, owing to space constraints, items rated only "L" or "VL" are not shown.

Locate (Discovering the Interface with Nature)

In the Locate phase, we set the assessment targets based on the locations of direct operating sites and the value chain, and identified priority locations from information on biomes and ecosystems.

Identification of Direct Operating Sites and Value Chain Locations

1 Direct Operating Sites

Taking into account the quantitative materiality of dependencies on and impacts on natural capital, we made the Company Group's production sites the target of assessment.

2 Value Chain Locations

Among "extraction of stone, sand, and clay," "other mining and quarrying," and "mining of iron ore," which were assessed as having the highest dependencies on and impacts on nature, we selected "mining of iron ore"—the principal raw material for "iron and steel," the most procured of our raw materials—and identified its main producing countries using secondary data such as trade statistics.

Specifically, based on the following, the major mines in Australia, Brazil, China, and Canada were included in the assessment.

- (1) Top three iron ore producing countries (Australia, Brazil, China)
- (2) Top three countries for Japan's iron ore imports (Australia, Brazil, Canada)

Identification of Biomes and Ecosystems

For direct operating sites and the major mines at upstream value chain locations, we used National Geographic MapMaker* to ascertain information on the biomes and ecosystems (richness and rarity of species) of the sites and locations.

The Company Group's direct operating sites are located in "temperate broadleaf and mixed forests" or "tropical and subtropical moist broadleaf forests." Our sites in Japan are located in areas with a high rarity index, and we believe that due consideration of impacts on nature is necessary. Our site in China is likewise located in a temperate forest; although its species-rarity index tends to be more average compared with other sites, we recognize that it operates in close relationship with ecosystem services such as regional climate regulation and water resources provided by the rich temperate forests. Our site in Vietnam is located in a tropical forest and shows relatively high values in terms of both species richness and rarity, and is therefore considered to be located in an area of relatively high biodiversity.

In the upstream value chain, Brazil is located in "tropical and subtropical moist broadleaf forests," while China is located in "temperate broadleaf and mixed forests." Both regions show high values in terms of species richness and/or rarity, and are therefore considered to be located in areas of relatively high biodiversity.

* National Geographic MapMaker (Biomes) is an educational and analytical tool provided by the National Geographic Society for visualizing geographic information and understanding the distribution of the world's biomes and the diversity of the natural environment.

(Reference) About Biomes and Ecosystems

	Biome	Ecosystem
Definition	A broad, large-scale community of organisms on a global scale	The interaction between organisms and the environment in a specific area
Focus	Focuses on climate and the plants and animals across an entire region	Also includes how biotic communities and the abiotic environment influence one another
Examples	Tropical rainforests, deserts, etc.	Rivers, lakes, etc.

Identification of Priority Locations

In order to identify "sensitive locations" among the assessed regions, we used tools such as the WWF Biodiversity Risk Filter* to extract indicators corresponding to the five criteria for "sensitive locations" defined by the TNFD, and analyzed the interface with nature at direct operating sites and upstream value chain locations.

For direct operating sites, the Company Group's Gifu Factory Complex (Gifu Prefecture), Shin-Mie Seiko Co., Ltd. (Mie Prefecture), and IKO THOMPSON VIETNAM CO., LTD. (Vietnam) were identified as sites with high relevance to the natural environment and located in sensitive locations.

For the upstream value chain (major iron ore mines), mines located in Brazil and China were assessed as being located in sensitive locations.

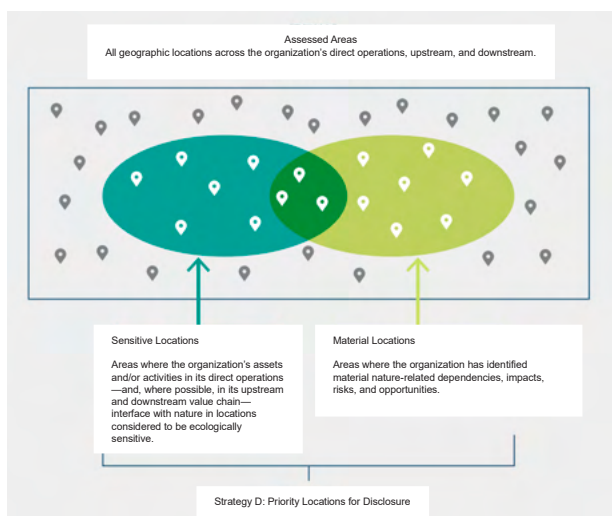
* The WWF Biodiversity Risk Filter is an analytical tool developed by the World Wide Fund for Nature (WWF) and others that enables companies and investors to assess biodiversity risks associated with their business activities and to visualize their interface with and impacts on nature.

Identified Priority Locations



◆ : Direct operating sites ○ : Upstream value chain locations (mining of iron ore)

Definition of Sensitive Locations as Defined by the TNFD



The Five Criteria for Sensitive Locations

- | | |
|---|--|
| ① | Areas important for biodiversity |
| ② | Areas of high ecosystem integrity |
| ③ | Areas of declining ecosystem integrity |
| ④ | Areas of high physical water risk |
| ⑤ | Areas of importance for Indigenous Peoples and local communities |

Source: Guidance on the identification and assessment of nature-related Issues: The TNFD LEAP approach

Evaluate (Diagnosing Dependencies and Impacts)

For the direct operating sites among the identified priority locations, we organized and assessed ecosystem services and impact drivers in order to ascertain the dependencies and impacts at each site. We also confirmed impacts on nature arising from external factors.

Furthermore, for impact drivers judged to be relevant to the business activities of the Company Group, we prioritized their materiality based on the severity and likelihood of impacts.

Ascertaining and Assessing Dependency Pathways

We confirmed that the business activities of the Company Group depend on environmental assets such as water resources, the atmosphere, and soil, as well as on the ecosystem services provided through them. Specifically, functions such as the supply of water resources, flood mitigation, stabilization of water flows, and soil conservation are positioned as functions that support the continuous operation of our business.

■ (Reference) About Ecosystem Service

In the Millennium Ecosystem Assessment conducted by the United Nations Environment Programme (UNEP), the “benefits” we receive from the natural environment in our daily lives are organized as “ecosystem services” into the following four categories.

Provisioning Services	Provision of food, fresh water, timber and fiber, fuel, and raw materials for pharmaceuticals, etc.
Regulating Services	Prevention of natural disasters and mitigation of damage, such as climate regulation and flood control, as well as disease control and water purification, etc.
Cultural Services	The aesthetic value of natural landscapes, the religious and spiritual value of natural objects, and the provision of environmental education and recreational opportunities, etc.
Supporting Services	Nutrient cycling, soil formation, and the supply of oxygen through photosynthesis, etc.

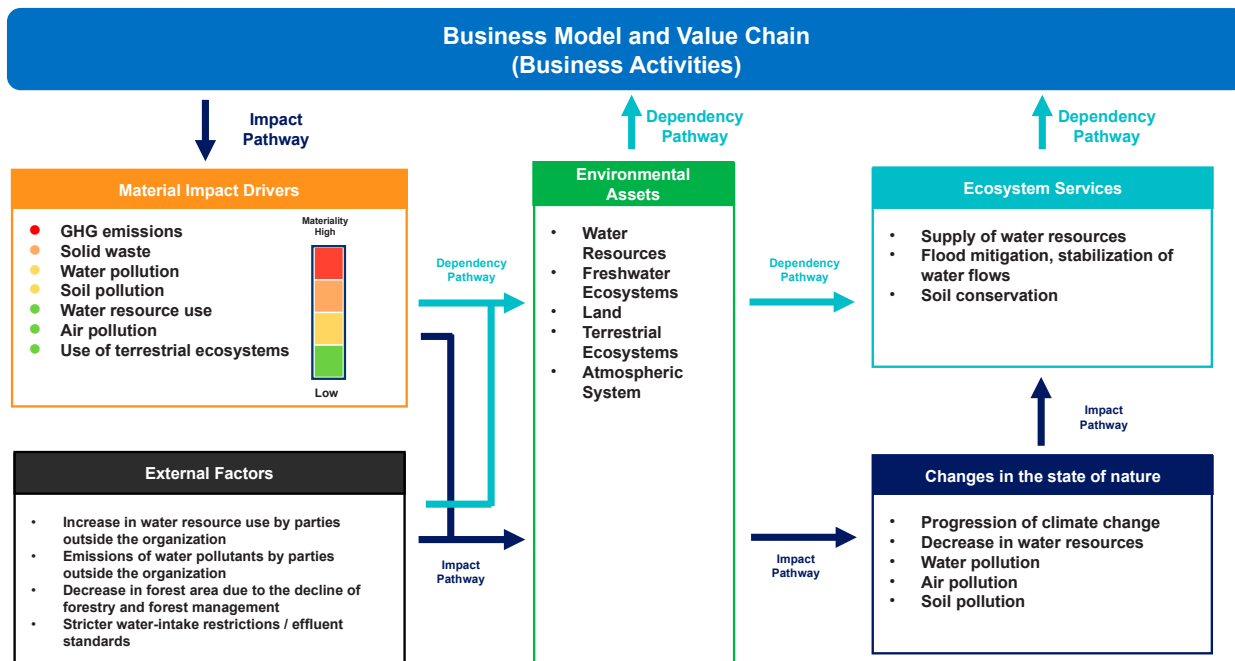
Ascertaining and Assessing Impact Pathways

We confirmed that the business activities of the Company Group affect nature through greenhouse gas (GHG) emissions and waste generation, the pollution of water, soil, and air, and land use, among other factors. If environmental assets deteriorate as a result of these impacts, the functions of the ecosystem services on which we depend—such as the supply of water resources and flood mitigation—could be impaired, potentially having a negative impact on our business activities.

About External Factors

We organized the external factors affecting the availability of ecosystem services on which we are highly dependent, based on the results of a benchmark survey. As a result, the following were suggested: an increase in water resource use by parties outside the organization, emissions of water pollutants by parties outside the organization, a decrease in forest area due to the decline of forestry and forest management, and the possibility of stricter water-intake restrictions and effluent standards.

Dependency Pathways and Impact Pathways on Natural Capital in Business Activities



For impact drivers assessed as relevant to the business activities of the Company Group, we conducted scoring from the two perspectives of “severity*” and “likelihood” based on the operational data of each site. As a result, the impact driver with the highest materiality was assessed to be “greenhouse gas emissions (GHG emissions).”

* Severity is expressed by the “scale,” “scope,” and “irreversibility” of the impact.

Materiality	Impact Driver	Details of Impact on Nature	Severity			Likelihood of occurrence	Key Assessment Metrics
			Scale	Scope	Irreversibility		
High	GHG emissions	CO ₂ emissions from fossil fuels and non-renewable electricity raise the concentration of GHGs in the atmosphere, thereby accelerating climate change.	Medium	Major	Medium	Major	GHG emissions
Medium-High	Solid waste	The incineration of waste, or its use as fuel after conversion into solid fuel, emits air pollutants and worsens air pollution.	Medium	Medium	Medium	Medium	C2.2 Emissions of hazardous/non-hazardous waste, etc. (tons)
Medium	Water pollution	If septic-tank treatment or wastewater treatment fails and unexpected water pollutants are discharged into public water bodies, the water pollutants contained in the effluent cause pollution of rivers.	Minor	Medium	Minor	Medium	C2.1 Volume of effluent, emissions of water pollutants (m ³ , concentration)
Medium-Low	Soil pollution	Soil pollution occurs due to leakage accidents involving hazardous substances (methylnaphthalene (liquid at room temperature), methylenebis(4,1-phenylene) diisocyanate (solid at room temperature), and trimethylbenzene (liquid at room temperature)), among others.	Medium	Minor	Minor	Medium	C2.0 Emissions of soil pollutants (tons)
Low-Medium	Water resource use	The use of tap water, industrial water, groundwater, and the like reduces the amount of water resources in the region.	Minor	Medium	Minor	Minor	C3.0 Water intake and consumption Water intake and consumption from water-stressed areas (m ³)
Low	Air pollution	We use hot and cold water generators and boilers, which cause air pollution through the emission of air pollutants from fuel combustion and the emission of hazardous substances (methylnaphthalene) from manufacturing processes.	Minor	Minor	Minor	Medium	C2.3 Emissions of air pollutants (tons)
Low	Use of terrestrial ecosystems	Altering land use to construct manufacturing plants has impacts such as loss of vegetation.	Minor	Minor	Minor	Medium	C1.0 Land use area, area regenerated/restored (km ²)

Assess(Assessing Risks and Opportunities)

In the Assess phase, we organized the dependencies and impacts considered material to the business activities of the Company Group, as identified in the Evaluate phase, together with the risks and opportunities considered to arise from external factors, as well as the existing response measures for them. We then qualitatively assessed each in terms of “degree of impact” and “likelihood of occurrence,” and identified the risks and opportunities considered most material to the Company Group.

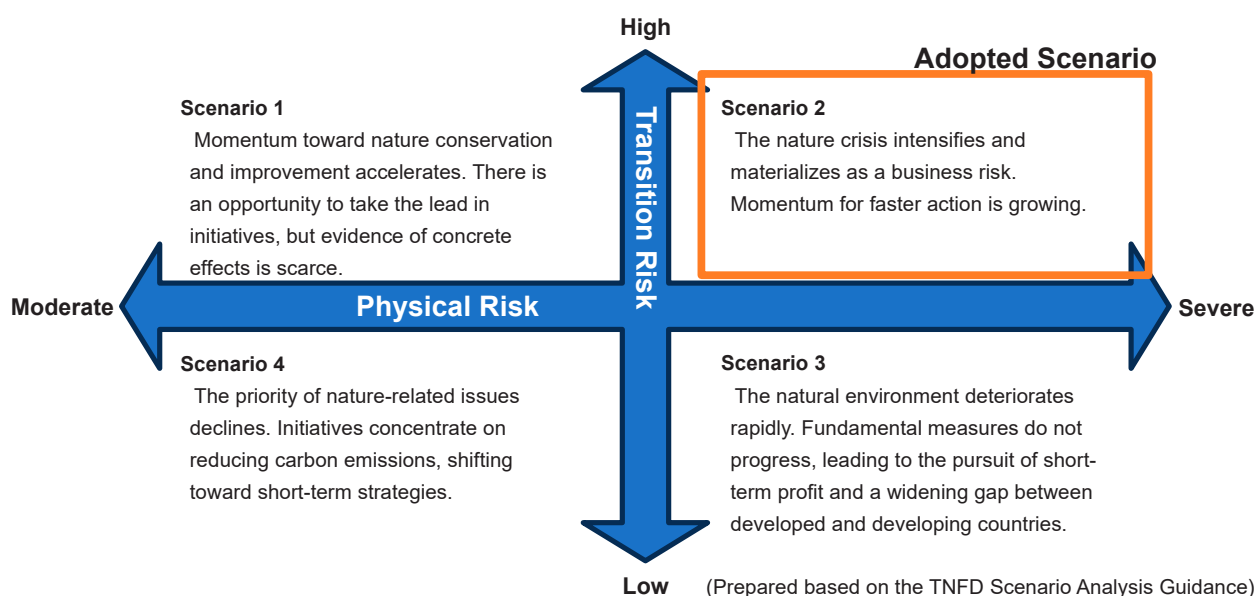
In particular, greenhouse gas “emissions,” a high-materiality impact driver, align with climate change issues. Therefore, with reference to the risk and opportunity items presented in the TCFD recommendations, we analyzed the risks and opportunities that the issue of climate change poses to the business of the Company Group through the following steps, conducting a more in-depth analysis and organization than for other items.

Analysis Process for Climate Change Issues



Analysis Scenarios

With reference to the TNFD’s scenario analysis guidance, the scenarios for analyzing nature-related risks and opportunities were based on a scenario in which “speed of response” is emphasized, with high transition risk and severe physical risk. We conducted an analysis of the transition of policies and market trends (transition risks and opportunities) and an analysis of physical changes caused by disasters and other events (physical risks and opportunities). In particular, for climate change, we conducted an analysis across multiple scenarios using a 1.5°C –2°C scenario and a 4°C scenario.



Nature-related Risks and Opportunities and Response Measures

For nature-related risks and opportunities and response measures, as in the TCFD analysis, we organize transition risks, physical risks, and opportunities. We also clarified the linkage with the drivers that are material for each item, and described the response measures for the content of each risk/opportunity as well as the current status of responses. Each response measure was classified into “Avoid,” “Reduce,” “Restore & Regenerate,” or “Transform” with reference to the “AR3T framework” described later.

Risk / Classification	Dependency / Impact / External Factor	Driver	Content of Risk / Opportunity	Time Horizon	Likelihood	Financial Impact	Response Measures	Classification	Status
Transition Risk	Regulations and Policies	Impact	Water pollution Increased costs of introducing wastewater treatment facilities for water pollution countermeasures due to stricter regulatory standards. (The Gifu, Mie, and Vietnam sites have a KBA** downstream.)	Medium to long term	Medium	Medium	Enhancing treatment capacity and reducing leakage risk through the renewal of wastewater treatment facilities.	Reduce	In progress
							Complete indoor housing of the production process and treatment of on-site stormwater using a three-stage oil-water separator.	Reduce	In progress
							Expanding efforts for water recycling in the production process and building a closed system.	Avoid	In progress
Physical Risk	Acute	Impact	Soil pollution Incurrence of costs for responding to leakage accidents of hazardous substances into the soil, and the like.	Short to long term	Medium	Medium	Leakage management beyond regulatory standards.	Reduce	In progress
							Updated the piping of old wastewater treatment facilities and addressed the risk of underground leakage.	Reduce	Completed
							Preventing scattering and leakage by complying with waste storage standards.	Reduce	Completed
	Acute	Dependency	Mitigation of landslides, etc. Damage from sediment disasters caused by the degradation and loss of forests.	Short to long term	Medium	Major	Operating renewable energy procurement standards that minimize land alteration. A policy of not procuring renewable energy that alters forests.	Avoid	In progress
							Periodic confirmation of hazard maps and continuous review of BCP measures.	Reduce	In progress
	Acute	Dependency	Flood mitigation, stabilization of water flows Occurrence of direct operational shutdowns due to flooding associated with the decline of upstream and riparian vegetation. (Mugegawa district)	Short to long term	Medium	Major	Periodic confirmation of hazard maps and continuous review of BCP measures.	Reduce	In progress
Opportunities	Products and Services	External Factors	Other Expansion of product development along new lines in collaboration with partner companies, driven by growing market interest in nature positive.	Long term	Medium	Major	Expanding the development of products with even longer service life and reduced environmental burden.	Transform	In progress
							Expanding sales of biomass grease certified with the Biomass Mark.	Reduce	In progress
	Financial	External Factors	Other Improved opportunities to obtain nature finance through appropriate disclosure of information on nature-related issues.	Medium term	Medium	Medium	Disclosure of nature-related issues based on the TNFD recommendations, and integration of nature positive with business strategy.	Transform	In progress
							Attracting green investment by strengthening stakeholder engagement, prompted by the disclosure of nature-related issues.	Transform	In progress

* Assumed timing: Short term: through March 31, 2027 / Medium term: April 1, 2027 to March 31, 2031 / Long term: April 1, 2031 to March 31, 2051

* The financial impact assessment of risks and opportunities evaluated the impact on sales or profit from both qualitative and quantitative perspectives, with reference to published reports and expert advice, among other sources, and classified it into three levels: major, medium, and minor.

** KBA (Key Biodiversity Area): A key area that is critical for biodiversity conservation. An area, on a global scale, that is home to species threatened with extinction.

About Climate Change Scenarios

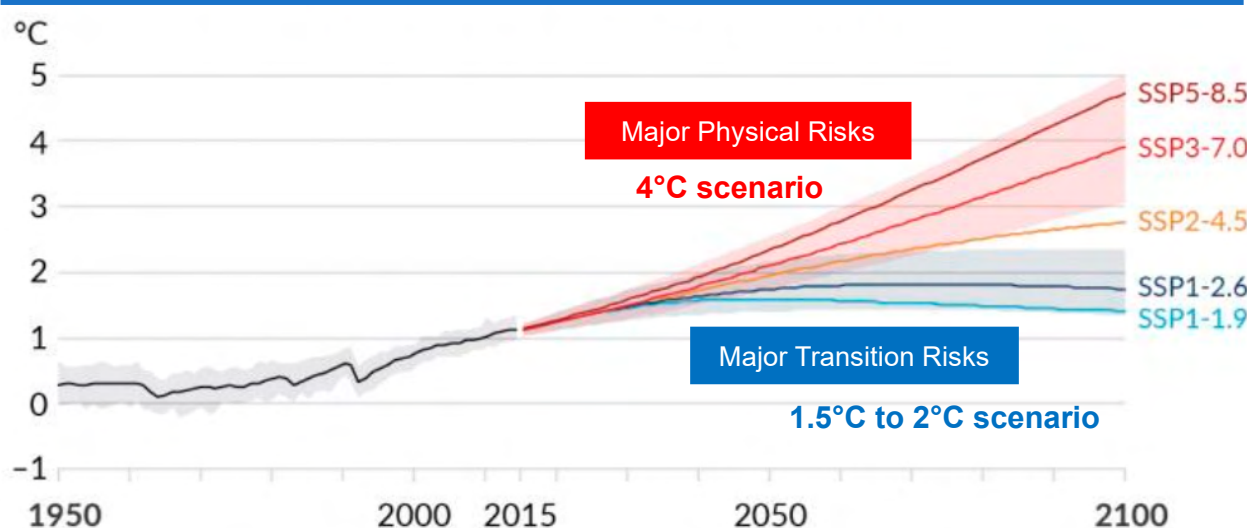
1.5°C to 2°C scenario

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.

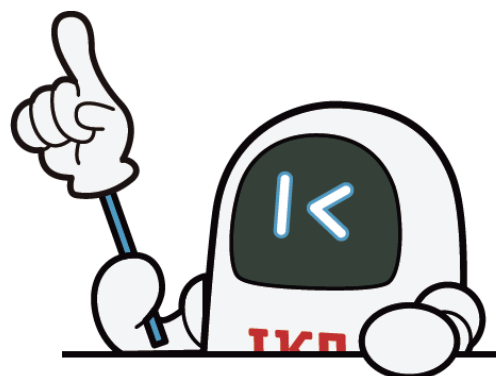
4°C scenario

Scenario where the global average temperature increases by about 4°C by the 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 / Opportunity	Factor	Impact on Business	Time Axis	Financial Impact	Measures
Transition Risk	Policies and Regulations	- Increased burden from carbon tax	Medium to long term	Medium	- Implementing renewable energy - Implementing energy-saving equipment - 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 - Developing new low-carbon materials through collaboration with suppliers
	Technology	- Increased investment in latest equipment	Medium term	Medium	- Considering investment through implementing ICP (Internal Carbon Pricing)
		- 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 - Realizing 100% renewable energy use at each business site through various means based on "Additionality"
	Market	- Decreased demand for carbon negative business	Medium term	Major	- Shifting to products that contribute to low carbon emissions - Working to achieve longer product life - Improving the response level to meet diversifying demands
	Reputation	- 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	- 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 - 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 - 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	- 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 - Promoting investment in disaster mitigation
Opportunities	Resource efficiency	- 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 - Reviewing operations for improving reuse rate
		- Reduced burden from carbon tax	Medium to long term	Medium	- Implementing renewable energy - Implementing energy-saving equipment
	Energy source	- 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	- Increasing demand for low-friction, durable bearings - Increasing demand for "the oil-minimum" products - 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 - Developing "the oil-minimum" products
	Market	- Increasing demand for the mechatronics series and Mech-unit products - Increasing demand for bearings due to increased drive components	Short to medium term	Major	- Strengthening production capabilities by collaborating with partner companies - Strengthening global production system including construction of new factories
		- Increased demand for linear motion rolling guides and liquid crystal lubricants	Short to medium term	Major	- Enhancing production capacity to meet future demand growth - Strengthening global production system including construction of new factories
	Resilience	- Increase in demand for company products as disaster mitigation devices	Medium to long term	Major	- Pursuing high-rigidity and quality

* Assumed timing: Short term: through March 31, 2027 / Medium term: April 1, 2027 to March 31, 2031 / Long term: April 1, 2031 to March 31, 2051

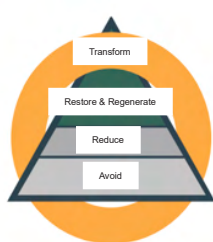
*Financial impact assessments of risks and opportunities were conducted according to qualitative and quantitative impact on sales or profit based on published reports and advice from experts etc., and then categorized as either Major, Medium, or Minor.

7 Metrics and Targets

Prepare (Preparing to Report)

In the Prepare phase, for the material dependencies, impacts, risks, and opportunities, identified through each of the Locate, Evaluate, and Assess processes, we formulated and prioritized concrete response measures. When implementing response measures for the identified nature-related risks and impacts, we adopted the AR3T framework and classified the response measures in accordance with the Mitigation Hierarchy. In addition, among the core global metrics presented by the TNFD, those that the Company Group manages as environment-related metrics are shown below.

The Mitigation Hierarchy is a framework that indicates the “order of priority for action” when a company manages and reduces the negative impacts it exerts on nature and biodiversity. The TNFD gives top priority to “not causing damage in the first place (Avoid),” and calls for subsequent consideration through the steps of “Reduce,” “Restore & Regenerate,” and “Transform.”



Transform	Activities that promote transformation of the system itself across the entire value chain. While encompassing avoidance, reduction, restoration, and regeneration, we aim for a fundamental shift toward becoming nature positive.
Restore & Regenerate	Within the existing land-use framework, activities that improve the biophysical functions and productivity of ecosystems, and accelerate the recovery of health and integrity to achieve sustained improvement of conditions.
Reduce	Minimizing, to the greatest extent possible, negative impacts that are difficult to eliminate completely.
Avoid	Preventing the occurrence of negative impacts on natural capital in advance, or eliminating them completely.

Conceptual Diagram of the AR3T Framework

Source: SBTN-Initial-Guidance-Executive-Summary

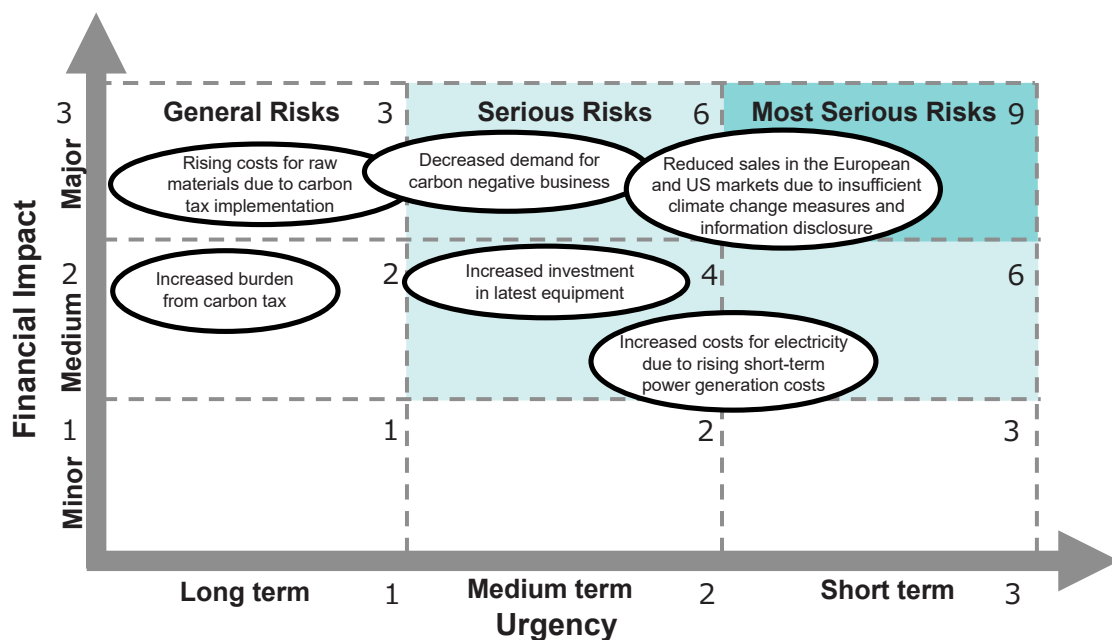
Core Global Metrics

Metric Number	Category	In-house Metric
C2.0	Total amount, by type, of pollutants released into the soil	Waste recycling rate of 80% or higher Reduction in the use of auxiliary materials such as paper and packaging
C2.1	Concentration of pollutants in effluent	Gifu: water temperature, hydrogen ion concentration (pH), biochemical oxygen demand (BOD), suspended solids, n-hexane extractable substances, nitrogen, phosphorus → Below self-management standards Mie, Vietnam: None
A2.0	Volume of wastewater treated, reused/recycled, or avoided	Reduce water intake per unit of sales by 7% or more compared with FY2024.
A8.0	Description or amount of assets/annual total revenue dependent on areas affected by physical risks	Regular review of hazard maps and examination of countermeasures
A14.0	Expenditure on research and development of new and alternative technologies related to the mitigation of and adaptation to nature-related risks.	Expansion of the IKO Eco-Products lineup
A19.0	Proportion of targets that are time-bound and quantifiable.	CDP score, FTSE environmental score, continuous disclosure of reports
A19.1	Proportion of targets that address short-, medium-, and long-term risks and opportunities.	
A19.2	Proportion of geographic sites/priority locations included in targets.	
A20.0	Proportion of business sites actively engaging with local stakeholders on nature-related issues	Continuous disclosure of reports Continuous consideration and implementation of positive impact finance
A22.1	Proportion of suppliers screened on nature-related issues (by amount of spending and/or volume).	Continuation of renewable energy procurement that emphasizes additionality and gives consideration to reducing environmental burden

Transition/Physical Risks Analysis

Mapping is performed for items extracted as transition/physical risks using “Urgency” and “Financial Impact” related to our 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

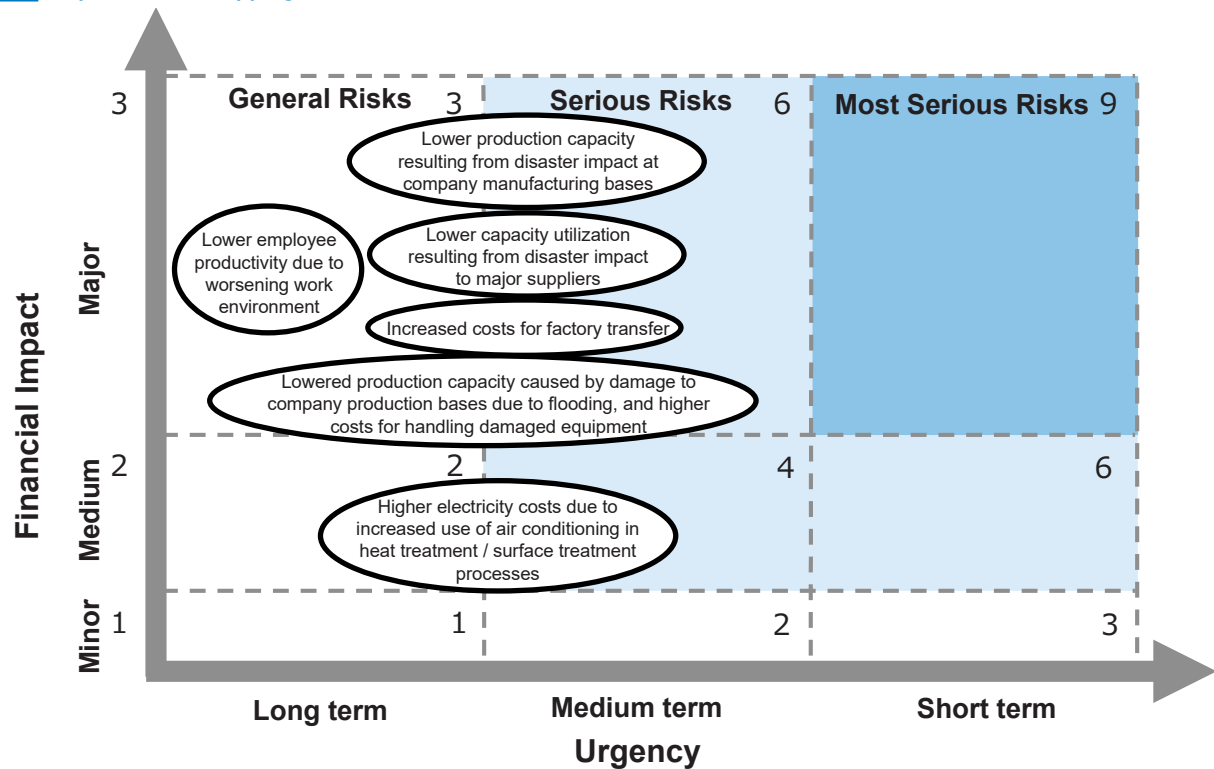


1-2 Priority Analysis of Transition Risks

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
Serious Risk	4.5	Increased costs for factory transfer (Production bases in Vietnam and China)	Medium to long term	③ Formulating and continuous review of BCP at each supplier	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	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
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	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
General Risk	3.0	Higher electricity costs due to increased use of air conditioning in heat treatment / surface treatment processes	Medium to long term	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 CO₂ reduction measures are implemented, and (2) CO₂ 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-CO₂ in 2030, \$250/t-CO₂ 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
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Status of Responses to Risks in Climate Change

1-1 Transition Risks: List of Progress Status of Top-Priority Response Measures

	Response Measure	Metric	Progress Status
Transition Risk	(1) Reliable implementation of climate change countermeasures and enhancement of information disclosure	Number of disclosure media Rating Agency Score	- Acquisition of SBT certification - Ministry of the Environment - Received the "Environmentally Sustainable Company" and "Environmental Disclosure Progress Company" awards - Responded to the CDP questionnaire (Climate Change: B, Water Security: A)
	(4) Improvement of the response level to meet diversifying demand	Strengthening of production systems Measures for meeting needs	- Continuing investment in productivity enhancement and efficiency improvement - Expansion of the products covered by "IKO Eco-Products"
	(5) Formulation and implementation of plans for the construction and introduction of solar power plants on sites inside and outside the company	CO ₂ emissions	- Continuing to acquire environmental value from pre-installed solar power systems - Implementing agrivoltaic physical PPA - Implementing a virtual PPA that utilizes onshore wind power generation - Starting a phased migration to CO₂-free plans at production sites in Japan - Implementing a virtual PPA that utilizes biomass power generation
	(6) Achieving 100% renewable energy for the energy used at each business site through various procurement methods centered on "additionality"	CO ₂ emissions	- Continuing 100% renewable energy for the domestic sales division through a virtual PPA - Migrating to tenants that implement CO₂-free plans - Continuing 100% renewable energy by switching the electricity plan for the head office building to a CO₂-free contract
	(7) Examining the promotion of investment through the introduction of ICP (Internal Carbon Pricing)	Establishment of inhouse regulations	Establishment of ICP regulations and continued operation at reference values

1-2 Examples of Transition Risk Responses

- Response Measure (5): Formulation and implementation of plans for the construction and introduction of solar power plants on sites inside and outside the company**
- Response Measure (6): Achieving 100% of the energy used at each business site through various procurement methods centered on "additionality"**
- Achieving renewable energy**

At the Gifu Factory Complex, our domestic production site, the renewable energy introduction ratio for FY2026 has improved as the renewable energy installed to date has been sequentially brought into operation. In addition to the "agrivoltaic solar power plant (designation: IKO Agri-Solar)," which cultivates log-grown shiitake mushrooms under solar panels brought into operation in FY2025, in FY2026 we also began operating an IKO Agri-Solar that cultivates sakaki. 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, since decarbonization can be achieved with consideration for local nature and culture, we consider this an important initiative for biodiversity conservation as well.

In May 2026, we began introducing an off-site virtual PPA service that utilizes biomass power generation. Under this scheme, we acquire only the environmental value of the renewable energy generated at the "Minokamo Biomass Power Plant LLC," located in Minokamo City, Gifu Prefecture. Since the Company Group has its domestic production site in Gifu Prefecture, we believe that by utilizing environmental value created within the same prefecture, local-production-for-local-consumption use of environmental value becomes possible. In addition, by using unused thinned wood and other locally generated materials as fuel, this initiative contributes to promoting forest management and conservation, and is expected to contribute to achieving Nature Positive outcomes through the maintenance and recovery of ecosystems. Furthermore, since the revitalization of local forestry is also anticipated, we consider this to be an initiative toward a sustainable society that we are pursuing together with the region.

As a result, in FY2026, the conversion to renewable energy progressed to approximately 16.5% of the annual electricity used across the entire Company Group. With FY2024 at 3.3% and FY2025 at 9.6%, we are steadily advancing the procurement of renewable energy toward the target of approximately 50% renewable energy in FY2031.



Off-site physical PPA
(IKO Agri-Solar, shiitake)



Minokamo Biomass Power Plant

■ Progress Status in Terms of Financial Impact

As a result of proactive energy-saving activities and the procurement of renewable energy, the Company Group's Scope 1 and 2 emissions for FY2026 were 21,632 t-CO₂, and we were able to reduce emissions for a second consecutive year. Through this reduction in emissions, the Group believes it has made progress in reducing the burden of the carbon tax expected to be introduced in FY2031 and FY2051. The future tax burden reduction derived from the FY2026 results is, as shown in the table below, approximately 202 million yen on an FY2031 basis and approximately 361 million yen on an FY2051 basis.

	Base Year FY2023	FY2026	Reduction volume / reduction amount
Actual CO₂ emissions	31,942 t-CO ₂	21,632 t-CO ₂	10,310 t-CO ₂
Estimated impact amount converted to FY2031	Approx. 626 million yen	Approx. 424 million yen	Approx. 202 million yen
Estimated impact amount converted to FY2051	Approx. 1,118 million yen	Approx. 757 million yen	Approx. 361 million yen

* Based on the IEA NZE, the carbon tax unit price is set at USD 140/t-CO₂ in 2030 and USD 250/t-CO₂ in 2050.

* Set at 1 USD = 140 yen.

■ Response Measure (1): Reliable implementation of climate change countermeasures and enhancement of information disclosure

In October 2024, the Group obtained SBT certification for its FY2031 greenhouse gas emissions reduction targets, with the set reduction targets being officially assessed and approved. In addition, in the "ESG Finance Awards Japan, Environmentally Sustainable Company Category" hosted by the Ministry of the Environment, we were selected for the second consecutive year as an "Environmental Disclosure Progress Company"—a company with a high degree of improvement in disclosure and expected to further develop its disclosure—and were also selected for the first time as an "Environmentally Sustainable Company," whose completeness of disclosure meets certain standards. In CDP for FY2026, while climate change received a B score for the third consecutive year, water security received an A- score for the first time.



Other Initiatives for Responding to Transition Risks in Climate Change

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 is also actively using sustainability finance in its other loan agreements.

For SPTs (Sustainability Performance Targets), we have set reduction targets for Scope 1 and 2 emissions, and we have established incentives for reducing greenhouse gas emissions from a financing perspective while also establishing systems that will ensure progress in reductions. In addition, in connection with the formulation of the Sustainability-Linked Finance Framework, we have obtained limited assurance by a third party for our Scope 1 and 2 emissions.

ii. Calculation of CFP (Carbon Footprint)

Our Group, in anticipation of the future utilization of greenhouse gas emissions per product unit, has calculated the CFP for some of its products. For the calculation, we are referring to ISO 14067:2018 and the Carbon Footprint Guidelines issued by the Ministry of Economy, Trade and Industry and the Ministry of the Environment. However, when performing calculations based on the life cycle flow chart that strictly reproduces the actual manufacturing process, we confirmed that model number expansion would be challenging within our Group, which operates a multi-product production system. Going forward, we will maintain our strength in multi-product manufacturing while exploring methods that enable easy and accurate CFP calculations and support flexible product model expansion.

iii. Initiatives for Reduction of Scope 3 Emissions

The Group is promoting various initiatives toward the substantial reduction of Scope 3 emissions.

Regarding “Category 1 - Purchased Goods and Services,” we are currently not participating in the GX League. However, we have submitted our “GX Leading Implementation Declaration” with the aim of contributing to the creation of 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 domestic suppliers, we have established a system to maintain ongoing communication by sharing our policies and future action plans toward achieving carbon neutrality at our annual procurement policy briefing sessions.

Regarding “Category 4 - Transportation and distribution (Upstream),” in light of recent domestic logistics problems, we have made a voluntary action declaration for the “White Logistics” promotion movement operated by the Ministry of Land, Infrastructure, Transport and Tourism and others, and are advancing the Company Group’s initiatives to improve logistics efficiency. In addition to improving loading efficiency in truck transportation and exploring efficient delivery routes through logistics data analysis enabled by the implementation of “EcoLogiPortal” provided by Logisteed Solutions, Ltd., we are also working to reduce the man-hours required for emissions calculations through data integration with the CO₂ emissions visualization cloud “Asuene.” We are boldly taking on the significant challenge of “simultaneously advancing DX and GX.”



Verification report prior to issuance
(Third-party certification of Scope 1 and 2)



Screen image of EcoLogiPortal

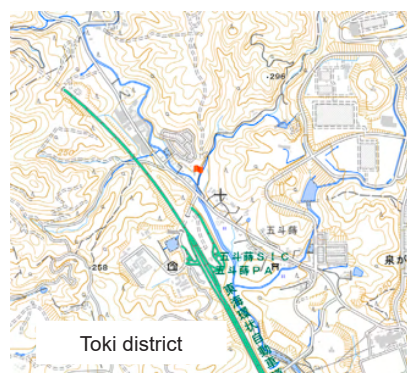
2-1 Physical Risks: List of Progress Status of Top-Priority Response Measures

	Response Measure	Metric	Progress Status
Physical Risk	(1) Formulation of BCPs at each plant / continuous review (production sites in Vietnam and China)	Conducting regular surveys Examining and implementing measures	- Confirmation of hazard maps, etc. Going forward, we will formulate response plans together with the relevant departments and advance the examination of concrete measures.
	(5) Regular confirmation of hazard maps and review of BCPs (domestic production sites)	Conducting regular surveys Examining and implementing measures	- Confirmation of hazard maps, etc. Going forward, we will formulate response plans together with the relevant departments and advance the examination of concrete measures.
	(7) Expansion of break rooms and installation of local spot coolers	Implementation of investment	- Once every half year, investment plans for air conditioning equipment and the like are formulated according to on-site conditions, and investments are made.
	(8) Introduction of energy-saving air conditioning equipment	CO ₂ emissions	- Investment in air conditioning and similar equipment is carried out in phases according to plan, based on on-site needs. - Partly owing to the contribution of energy-saving activities, CO ₂ emissions in FY2026 also decreased.

2-2 Examples of Physical Risk Responses

■ Response Measure (5): Regular confirmation of hazard maps and review of BCPs (domestic production sites)

For physical risks related to climate change, the Company Group conducts flood risk assessments using hazard maps and estimates potential damage costs. Going forward, the Risk Management Committee will collect the latest information on disaster prevention and mitigation measures and review and strengthen BCPs, and for facilities located in high-risk areas, we will examine preventive measures to mitigate damage in the event of flooding and enable rapid business recovery.



Source: Overlay Hazard Map Portal Site of the Geospatial Information Authority of Japan, Ministry of Land, Infrastructure, Transport and Tourism

Metrics and Targets in Climate Change

In the Evaluate phase, the Company Group identified greenhouse gas emissions as a high-materiality impact driver. Therefore, for the purpose of assessing and managing the impact that climate-related issues exert on management, we calculate greenhouse gas emissions based on the standards of the GHG Protocol. In addition, the Company Group's FY2031 greenhouse gas emission reduction target acquired SBT* certification in October 2024, and is set as a very high target value compliant with the target level indicated in the Paris Agreement. Specifically, for the Scope 1 and 2 reduction target, we aim for a reduction of 42% or more using FY2023 as the base year, and for the Scope 3 reduction target, we aim for a reduction of 25% or more for Category 1, using FY2023 as the base year. Furthermore, by FY2051, we are advancing initiatives with the aim of achieving carbon neutrality across all Scopes. In particular, toward achieving the FY2031 target, our target is to convert approximately 50% of the electricity used by the Company Group to renewable energy by the final year.

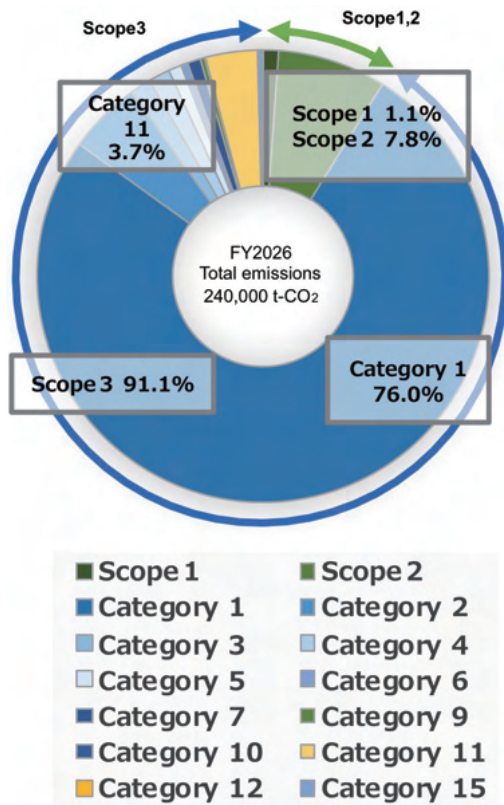
Greenhouse gas emissions are calculated using Asuene Inc.'s CO₂ emissions visualization cloud "Asuene."

*SBT: Science Based Targets

Trends in Greenhouse Gas Emissions of the Company Group

		Emissions (t-CO ₂)			
		Base year FY2023	FY2024	FY2025	FY2026
Scope1+2		31,942	27,277	22,526	21,632
Scope1	Total	3,124	2,639	2,579	2,745
	Japan	2,764	2,351	2,215	2,115
	Outside Japan	360	288	363	630
	Total	28,818	24,637	19,947	18,887
Scope2	Japan	15,813	14,622	11,805	10,158
	Outside Japan	13,006	10,015	8,143	8,729
Scope3		329,777	252,055	203,825	222,051
Upstream	1. Purchased goods and services	265,958	195,289	166,745	185,299
	2. Capital goods	6,755	12,815	11,000	12,693
	3. Fuel- and energy-related activities not included in Scope 1 or 2	4,780	3,890	3,587	3,646
	4. Transportation and distribution (upstream)	5,105	4,267	3,990	3,753
	5. Waste generated in operations	1,906	2,136	2,046	2,292
	6. Business travel	638	888	1,017	1,202
	7. Employee commuting	2,497	2,364	2,273	2,268
	8. Leased assets (upstream)	-	-	-	-
	9. Transportation and distribution (downstream)	1,136	860	748	796
	10. Processing of sold products	216	166	167	151
	11. Use of sold products	39,885	28,542	11,532	9,047
	12. End-of-life treatment of sold products	90	63	69	71
	13. Leased assets (downstream)	-	-	-	-
	14. Franchises	-	-	-	-
	15. Investments	832	775	652	834
Total		361,739	279,331	226,351	243,683

Greenhouse Gas Emissions (Scope 1, 2, 3)



Trends in Scope 1 and 2 Emissions by Site and per Unit of Sales



- Calculated based on the "GHG Protocol."
- The above Scope 2 emissions are calculated using the market-based method.
- Scope 3 emissions are calculated using Emission Factor Database for Calculating GHG Emissions of Organizations through the Supply Chain (Ver. 3.5).
- ITV: IKO THOMPSON VIETNAM CO., LTD. UBC Suzhou: You Bi Sheng (Suzhou) Bearing Co., Ltd.

IKO Group Greenhouse Gas Emission Reduction Targets



Scope	Period	Base year	Target Year	Target	Target value
Consolidated	Medium term	2023	2031	Scope1,2	Reduction of 42% or higher
				Scope3 CA1*	Reduction of 25% or higher
	Long term	—	2051	Scope1,2,3	Carbon neutrality

*CA1: Category 1

Greenhouse Gas Emission Calculation Methods and Emission Factors

Item		Calculation Method	Emission Factor
Scope 1		Activity data × emission factor	Ministry of the Environment DB, Ministry of the Environment Accounting, Reporting and Disclosure System, EPA 2024, IPCC 2006
Scope 2		Activity data × emission factor	Emission factors by electric utility, IEA Emissions Factors
Scope 3	Category 1 Purchased goods	Purchase amount × emission factor	Ministry of the Environment DB
	Category 2 Capital goods	Purchase amount × emission factor	Ministry of the Environment DB
	Category 3 Other than Scope 1 and 2	Activity data × emission factor	Ministry of the Environment DB, DEFRA 2025
	Category 4 Transportation and distribution (upstream)	Calculated on a WTW basis Ton-kilometer method, fuel method	Ministry of the Environment DB, Ministry of the Environment Accounting, Reporting and Disclosure System
	Category 5 Waste	Activity data × emission factor Scenario calculation	Ministry of the Environment DB
	Category 6 Business trips	Calculated on a WTW basis Activity data × emission factor	Ministry of the Environment DB, Ministry of the Environment Accounting, Reporting and Disclosure System
	Category 7 Commuting	Calculated on a WTW basis Activity data × emission factor	Ministry of the Environment DB, Ministry of the Environment Accounting, Reporting and Disclosure System
	Category 8 Leasing (upstream)	Not applicable	Not applicable
	Category 9 Transportation and distribution (downstream)	Calculated on a WTW basis Ton-kilometer method, scenario calculation	Ministry of the Environment DB IDEA
	Category 10 Processing of products	Scenario calculation	IDEA
	Category 11 Use of products	Scenario calculation	Emission factors by electric utility
	Category 12 End-of-life treatment of sold products	Sales weight × emission factor	Ministry of the Environment DB
	Category 13 Leasing (downstream)	Not applicable	Not applicable
	Category 14 Franchise	Not applicable	Not applicable
	Category 15 Investment	Scope 1 and 2 of non-consolidated subsidiaries	Ministry of the Environment DB, emission factors by electric utility, IEA Emissions Factors, Ministry of the Environment Accounting, Reporting and Disclosure System

Analysis of Actual Greenhouse Gas Emissions

1-1 Overview of Actual Emissions for FY2026

The Company Group's total Scope 1 and 2 emissions for FY2026 were 21,632 t-CO₂. In addition, total Scope 3 emissions were 222,051 t-CO₂, and total emissions were 243,682 t-CO₂. The proportion of each emission category was Scope 1: 1.1%, Scope 2: 7.8%, and Scope 3: 91.1%; as in the previous fiscal year, approximately 90% of total emissions came from Scope 3. In particular, emissions from Scope 3 Category 1 accounted for 76.0% of total emissions and 83.4% of total Scope 3 emissions, reaffirming that reducing Scope 3 Category 1 emissions is extremely important for achieving carbon neutrality.

As for the trend in Scope 1 and 2 emissions, we continued to improve from the previous fiscal year, with a reduction of 32.3% compared with the base fiscal year and a reduction of 4.0% compared with the previous period. In addition, the trend in Scope 3 emissions was a reduction of 32.7% compared with the base fiscal year and an increase of 8.9% compared with the previous period; while we achieved a large reduction compared with the base fiscal year, emissions increased compared with the previous period. Furthermore, market-based Scope 1 and 2 emissions intensity per unit of revenue, an indicator of energy efficiency, stood at 0.34 t-CO₂/million yen, representing a 17.1% improvement from the FY2025 level of 0.41 t-CO₂/million yen. Scope 3 emissions intensity per unit of revenue stood at 3.52 t-CO₂/million yen, representing a 6.0% improvement from the FY2025 level of 3.75 t-CO₂/million yen.

Trends in Revenue-Based Scope 1, 2, and 3 Emissions Intensity

Unit: t-CO₂/million yen

	FY2023	FY2024	FY2025	FY2026	Compared with base fiscal year	Compared with previous period
Scope 1, 2(Market)	0.47	0.50	0.41	0.34	-26.7%	-17.1%
Scope 3	4.83	4.58	3.75	3.52	-27.1%	-6.0%

1-2 Detailed Analysis of Scope 1 and 2 Emissions

In FY2026, although we continued to promote sales utilizing inventory, production volume increased by 13.5% compared with the previous period as capital investment demand recovered in Japan and overseas, centered on electronics. Accordingly, energy consumption arising from production activities also increased compared with the previous period. However, thanks to the continuous implementation of energy-saving activities at each site and the procurement of renewable energy through various methods advanced in stages, greenhouse gas emissions on a market basis improved compared with the previous period as described above, and we also achieved the FY2026 target.

In the production division, we implement continuous energy-saving activities such as on-site improvements and the introduction of energy-saving equipment. In addition, at the head office building, we introduced an air conditioning control system in May 2024 and are striving to reduce energy consumption. Through these activities, we expect to reduce the annual electricity used across the entire Company Group by approximately 2.0%.

In our renewable energy procurement initiatives, in addition to an on-site PPA, an off-site virtual PPA, and switching contracts to CO₂-free electricity plans, we advanced procurement through an agrivoltaic physical PPA and the like, converting approximately 16.5% of the annual electricity used across the entire Company Group to renewable energy. This amounted to an increase of 6.9 points from approximately 9.6% in the previous fiscal year, greatly contributing to the reduction of greenhouse gas emissions.

In terms of energy efficiency, despite being in a phase of increased production, proactive energy-saving activities and the procurement of renewable energy, together with the promotion of sales utilizing inventory, led to a significant improvement in revenue-based energy intensity.

Trends in Inventory Assets

	FY2023	FY2024	FY2025	FY2026
Inventory assets	38,183	41,804	38,794	35,249
Increase/decrease compared with previous period		9.5%	-7.2%	-9.1%

Unit: million yen

Trends in Production Volume

	FY2023	FY2024	FY2025	FY2026
Production volume	65,915	50,231	46,136	52,369
Increase/decrease compared with previous period		-23.8%	-8.2%	13.5%

Unit: million yen

As for the trend in inventory assets, following FY2025, FY2026 saw a decrease of 9.1% compared with the previous period; the initiatives aimed at an appropriate inventory level progressed, resulting not only in the reduction of greenhouse gas emissions but also in improved capital efficiency. In addition, as for the trend in production volume converted to selling price, in line with the sharp recovery in market conditions from the second half of FY2026, it increased by 13.5% compared with the previous period, shifting to increased production in a reversal from FY2025, when production was being adjusted.

In the comparison between the location-based and market-based standards for Scope 2 emissions, the introduction of virtual PPAs and physical PPAs, the switching of contracts to CO₂-free electricity plans and the like contributed, resulting in market-based emissions being 13.3% lower than location-based emissions. For FY2023, the base fiscal year, the market-based emission factor was significantly lower than the location-based one, with a difference of approximately 6.1%. On the other hand, since the difference in these factors has been relatively small from FY2024 onward, we consider the difference in emissions between the market-based and location-based standards to be attributable to the renewable energy procured by the company. From the above, the planned and phased procurement of renewable energy is considered to be contributing to the reduction in FY2026 market-based emissions.

Scope 2: Comparison of Market-Based and Location-Based Emissions

	FY2023	FY2024	FY2025	FY2026
Market	28,818	24,637	19,947	18,887
Location	30,680	24,291	21,301	21,793
Market/Location	-6.1%	1.4%	-6.4%	-13.3%

Unit: t-CO₂

1-3 Detailed Analysis of Scope 3 Emissions

As described above, Scope 3 emissions for FY2026 increased compared with the previous period. For "Category 1 - Purchased goods and services," since the calculation is based on purchase amounts, emissions increased in line with the response to increased production in FY2026. In addition, since purchases of property, plant, and equipment also increased compared with the previous period, emissions for "Category 2 - Capital goods" also increased.

On the other hand, for "Category 11 - Use of sold products," a decrease in sales of the products subject to calculation contributed to an improvement of 21.5% compared with the previous period. For "Category 4 - Transportation and distribution (upstream)," although transportation volume increased in line with the increase in sales volume, the accuracy of ascertaining the transportation loading rate improved through the introduction of a system, and the like, resulting in a reduction of 5.9% compared with the previous period.

For “Category 1 - Purchased goods and services,” for which we have set a medium- to long-term target, in addition to continuing steady improvement activities such as thorough 5S at production sites and curbing the purchase of unnecessary supplies, sales utilizing inventory contributed as described above, resulting in a reduction of 30.3% compared with the base fiscal year, and we continue to achieve the FY2031 target. In addition, the revenue-based intensity improved by 4.1% compared with the previous period, reflecting improved efficiency. However, since the calculation of Category 1 uses secondary data based on purchase amounts, emissions increased compared with the previous period due to the increase in purchased goods and the like accompanying the recovery in market conditions. Although we have achieved our FY2031 target, activities that contribute to substantial reductions are only partway complete, and we believe that achieving these reductions will require continued improvements in calculation accuracy and ongoing supplier engagement.

Trend in Scope 3 Category 1 Emissions and Revenue-Based Emissions Intensity

	FY2023	FY2024	FY2025	FY2026	Compared with base fiscal year	Compared with previous period
Category 1 Emissions (t-CO₂)	265,958	195,289	166,745	185,299	-30.3%	11.1%
Revenue-based intensity (t-CO₂/million yen)	3.90	3.55	3.07	2.94	-24.5%	-4.1%

Future Reduction Plan for Scope 1 and 2

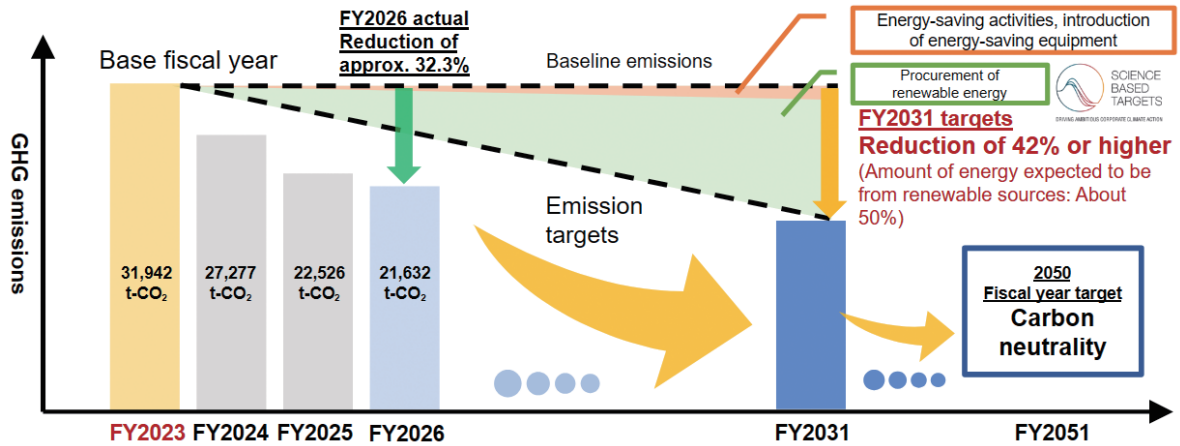
Regarding energy-saving activities, we will continue to advance improvement activities at production sites and, by eliminating overburden, waste, and unevenness, will pursue improvement of overall equipment effectiveness and thorough 5S activities. In addition, to promote environmental investment such as the introduction of energy-saving equipment, we introduced an ICP (Internal Carbon Pricing) system in January 2025. We currently continue to operate it at reference values, and going forward we will also examine the promotion of environmental investment utilizing ICP. Furthermore, we will advance the visualization of energy usage and reduction initiatives, further foster energy-saving awareness among employees, and strive to make daily corporate activities more energy-efficient across all divisions. As for the procurement of renewable energy, while continuing phased procurement that emphasizes “additionality,” we plan to diversify risk through various methods in consideration of the uncertainty and opacity of the future environmental market. In FY2027, in addition to having already introduced a virtual PPA utilizing biomass power generation, we plan to begin operating a virtual PPA utilizing wind power generation from March 2027. Going forward, we will continue to advance the procurement of renewable energy at our domestic and overseas sites, and will work on the transition to renewable energy across the entire IKO Group.

Future Reduction Plan for Scope 3 Category 1

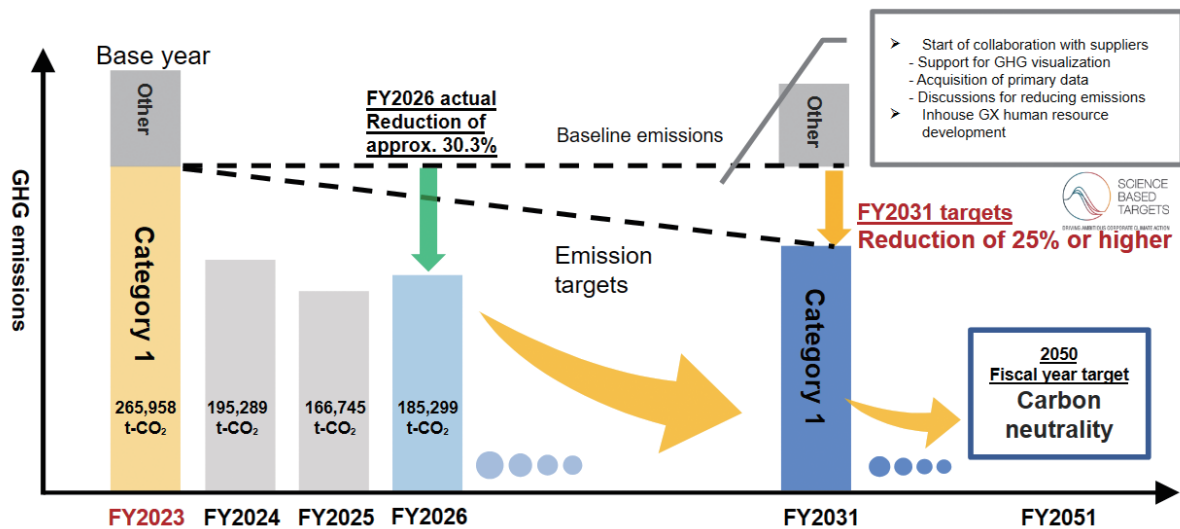
Although we have achieved the FY2031 target for Scope 3 Category 1, we anticipate an increase in emissions due to current market conditions. In addition, the substantial reduction of emissions through the transition to low-carbon products and supplier engagement involves many challenges and remains only partway complete. Therefore, our policy is not to change the established FY2031 target, but to focus on reliably advancing initiatives toward substantial emission reductions. As concrete initiatives, we plan to examine replacing the parts used in products with low-carbon ones, transition to calculation based on purchase weight, obtain primary data from suppliers and support their calculations, and promote energy-saving investment in collaboration with suppliers through the use of subsidies. 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

Scope1, 2



Scope3



8

Future Direction

The Company Group has advanced analysis in line with the LEAP approach with the aim of disclosing a TNFD report for the FY2026 results. As a result of this analysis, greenhouse gas emissions were identified as a highly material impact driver. Therefore, we sought to publish this report as an integrated report that incorporates the climate change-related information previously disclosed in our TCFD reports. In addition, through the analysis conducted this time, we were able to gain knowledge of the characteristics of ecosystems in each region where the Company Group is located, among other insights. Furthermore, since we also gained knowledge of dependencies on and impacts on natural capital across the entire value chain, it has become possible to examine risks and opportunities from perspectives that cannot be seen through the framework of climate change alone.

Going forward, based on the analysis results obtained this time, we will pursue the integration of strategies concerning carbon neutrality and nature positive to an even greater extent than before. Guided by our management philosophy of being “a technology development-based company that contributes to society,” we will aim for sustainable enhancement of corporate value through the promotion of sustainable management.

End