

Information Disclosure Based on the TCFD Recommendations

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Recognizing that climate change is one of the material issues facing management, the Aisan Group endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in May 2022 and made disclosures accordingly.

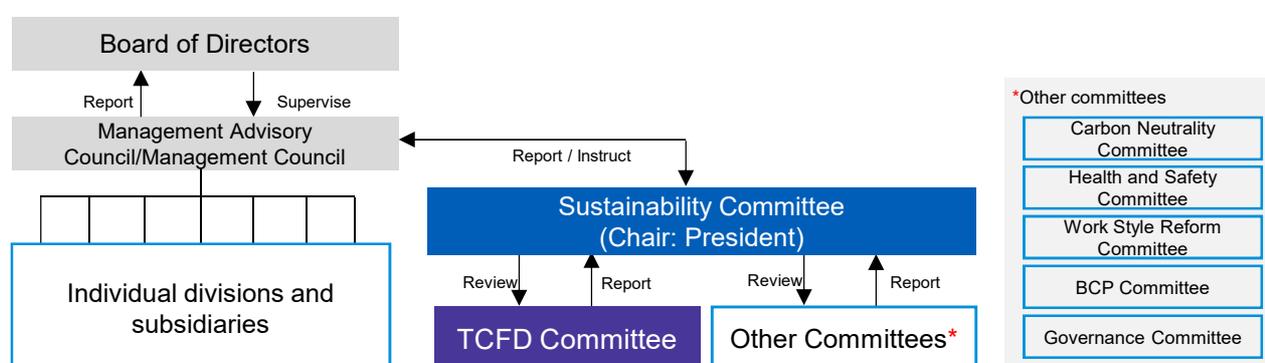
We conducted a scenario analysis based on the TCFD concept, expanding the coverage of the analysis of the risks and opportunities that will have an impact on management, business, and financial performance from Aisan Industry (non-consolidated) to the entire consolidated Aisan Group. We also assessed the impact on finance.

In line with this action, we are promoting initiatives for the mitigation of risks and the creation of opportunities related to climate change based on the Medium-term Management Plan. We will also strive to enhance disclosures to stakeholders, such as by extending the timeframe covered by the analysis.

Governance

The Sustainability Committee, which is chaired by the President, verifies the directions and appropriateness of all issues concerning sustainability, including climate change. The TCFD Committee, a subcommittee of the Sustainability Committee, meets at least once every three months to formulate, execute and manage plans related to climate change issues.

The Sustainability Committee convenes meetings twice a year to receive reports from the TCFD Committee and the other committees and deliberate on their contents. Key outcomes of these deliberations are then reported to the Board of Directors and the Management Advisory Council/Management Council.



Strategy

Assumptions of scenario analysis

To identify the financial impacts of climate change, the Aisan Group conducted a scenario analysis of its impacts on business as of 2030, a potential milestone year in the popularization of vehicle electrification. This analysis covered the consolidated Aisan Group. We adopted several scenarios for the analysis, assuming temperature rises of 1.5°C/2°C and 4°C, with the aim of enhancing sustainable competitiveness by appropriately addressing an uncertain future. For these two scenarios, we mainly referred to the World Energy Outlook 2022, produced by the International Energy Agency (IEA), in the analysis of transition risks, and the Sixth Assessment Report (AR6) of the Intergovernmental Panel on Climate Change (IPCC) in the analysis of physical risks.

		4°C scenario	1.5°C/2°C scenario
Assumed world		<p>Increase in physical risks</p> <ul style="list-style-type: none"> Expansion of damage due to extreme weather Unless measures exceeding the current ones in place are taken, 3.3°C to 5.7°C warming above pre-industrial levels by 2100 can be expected 	<p>Increase in transition risks</p> <ul style="list-style-type: none"> Increase in risks due to policy and market changes If stringent measures are taken, 1.0°C to 2.4°C warming above pre-industrial levels by 2100 can be expected
Representative scenario	Transition risks	<p>STEPS (Stated Policies Scenario)</p> <p>Scenario that reflects energy policies announced by individual countries</p>	<p>NZE (Net Zero Emissions by 2050 Scenario)</p> <p>Scenario to achieve global net zero emissions by 2050</p> <p>APS (Announced Pledges Scenario)</p> <p>Scenario that reflects aspirations declared by ambitious countries</p>
	Physical risks	<p>SSP* 5-8.5</p> <p>Maximum emissions scenario without implementation of climate policy, under fossil fuel-dependent development</p>	<p>SSP* 1-1.9</p> <p>Scenario to curb the temperature rise to no more than 1.5°C under sustainable development</p>

*SSP: Shared Socio-economic Pathways

Society envisaged in the scenarios

In the 1.5°C/2°C scenario, we anticipate the implementation of more sophisticated policies and legal systems aimed at the decarbonization of society, including the introduction of carbon taxes and tougher greenhouse gas emissions restrictions. In our own automotive industry, we expect to see stronger calls for the reduction of CO₂ emissions throughout the product life cycle, which spans the raw materials stage through vehicle operation and on to end-of-life disposal, in addition to emissions during the manufacturing process. Consequently, the market shares of battery electric vehicles (BEVs), plug-in hybrid electric vehicles (PHEVs), and fuel cell vehicles (FCVs) are expected to rise.

Meanwhile, in the 4°C scenario, we assumed that, as global warming progresses, natural disasters will become more frequent and severe, resulting in supply chain disruptions, temporary halts of production, and other impacts.

Anticipated risks and opportunities associated with climate change

We have compiled the risks and opportunities for the Aisan Group given their importance to our stakeholders and to the Aisan Group based on our vision for society under the scenarios. In fiscal 2023, we conducted interviews with Aisan Group companies, including our overseas subsidiaries, to identify the risks and opportunities based on the situation in each country and region and the nature of their respective businesses. We have assessed the respective financial impact in fiscal 2030 of those identified risks and opportunities that we deemed to be of particular importance, and we are now working on the mitigation of risks and the creation of opportunities.

Climate change risks, opportunities, and responses

Category	Details		Impact level	Aisan Group's response	
Transition risks	Policy/Regulation	Greenhouse gas emissions regulations	Strengthened energy policies and increased manufacturing costs due to the use of renewable energy	Medium	<ul style="list-style-type: none"> Thorough elimination of wastefulness Global roll-out of improvements made in Japan
		Introduction of carbon tax	Increased production costs due to the implementation of carbon tax	Medium	<ul style="list-style-type: none"> Improvement of energy efficiency Introduction of renewable energy Generation of clean energy by ammonia/hydrogen power generation, etc.
			Increased procurement costs due to passing on of carbon tax to prices	Medium	<ul style="list-style-type: none"> Adoption of low-carbon materials Waste reduction and recycling CO₂ improvement activities with suppliers
	Technology	Increased demand for low-carbon products	Delay in recovering investment costs due to delay in transition in new areas	Large	<ul style="list-style-type: none"> Business planning for future products and intensive input of resources considering environmental changes
	Market	Shift in customers' values	Decreased sales of engine parts due to the prevalence of battery electric vehicles (BEVs)*1	Large	<ul style="list-style-type: none"> Business development in new areas that contribute to decarbonization leveraging technologies and strengths
	Reputation	Insufficient environmental initiatives and disclosures	Decline in corporate value Decline in customer trust	Medium	<ul style="list-style-type: none"> Improvement of the score by rating agency through CO₂ reduction initiatives (CDP, etc.)
Physical risks	Acute	More frequent and severe natural disasters	Temporary production halts caused by supply chain disruptions	Medium	<ul style="list-style-type: none"> Further strengthening of BCP structure <ul style="list-style-type: none"> Improvement of inventory management precision Continuation of supply chain BCP
Opportunities	Technology	Acceleration of electrification and industry restructuring	Increase in share of core products	Large	<ul style="list-style-type: none"> Establish advantages over competitors <ul style="list-style-type: none"> Switch to next-generation elite products Strengthening of manufacturing
	Market	Expansion and development of low-carbon products	Increased revenue from hydrogen supply units following expanded utilization of hydrogen energy	Medium	<ul style="list-style-type: none"> Promotion of the development of products for next-generation FCVs/hydrogen engines
			Increase in opportunities to enter markets for electrified products due to increase in electric vehicles (BEV/PHEV/FCV)*1	Medium	<ul style="list-style-type: none"> Provision of lightweight, high-efficiency, and low-cost systems/components Product development leveraging proprietary technologies Product development for compact mobility
			Expanding business opportunities in new areas of carbon neutrality	Medium	<ul style="list-style-type: none"> Research and development of new technologies and new areas <ul style="list-style-type: none"> Components for ammonia supply system Compact FC module
		Growing demand for products that contribute to lower emissions	Small	<ul style="list-style-type: none"> Development of products for vehicles applying existing technologies (FFV*2 technology) <ul style="list-style-type: none"> Products compatible with synthetic fuels/biofuels 	

[Impact level] Impact on single-year operating profit: Large, ¥2.0 billion or more; Medium, ¥0.1 billion to less than ¥2.0 billion; Small, less than ¥0.1 billion

[Aisan Group's response] We have incorporated initiatives for mitigating risks and creating opportunities related to climate change in the Medium-term Management Plan announced in November 2022 and are promoting activities accordingly. For details, see the following website: https://www.aisan-ind.co.jp/en/ir/221129_en.pdf

*1 Assumption of the number of units is calculated based on the 2°C scenario

*2 FFV: Flexible-Fuel Vehicle

Risk Management

In the Aisan Group, the Sustainability Committee comprehensively manages risks, including climate change risks that may have a major impact on management as reported by the TCFD Committee, as well as other risks that also may have a major impact on management reported by other individual committees.* Risks requiring a priority response are identified based on the extraction, analysis, and assessment of risks reported by the individual committees, after which the departments in charge take the lead in implementing risk reduction measures.

The individual committees check the progress of various measures and the latest status of risks and report their findings to the Sustainability Committee. The Sustainability Committee provides direction and supervision regarding risk management based on these reports.

* Individual committees: Carbon Neutrality Committee, Health and Safety Committee, Work Style Reform Committee, BCP Committee, and Governance Committee

Metrics and Targets

In developing the Medium-term Management Plan, the Aisan Group revised the targets significantly to strengthen its environmental management, which balances the reduction of greenhouse gases with corporate growth, and to fulfill its corporate social responsibilities aimed at achieving carbon neutrality in 2050 and building a sustainable, recycling-oriented society.

Specifically, we changed the benchmark year from fiscal 2013 to fiscal 2019 and added Scope 3 to the targets.

This means that our target for reducing CO₂ emissions (Scope 1, 2, and 3) in fiscal 2030 is a 50% reduction compared with fiscal 2019. In addition, initiatives for CO₂ reduction have been extended to the supply chain and accelerated from the perspective of life cycle assessment (LCA), in which environmental footprint is assessed across the entire product life cycle.

Major carbon neutralityTargets for 2030

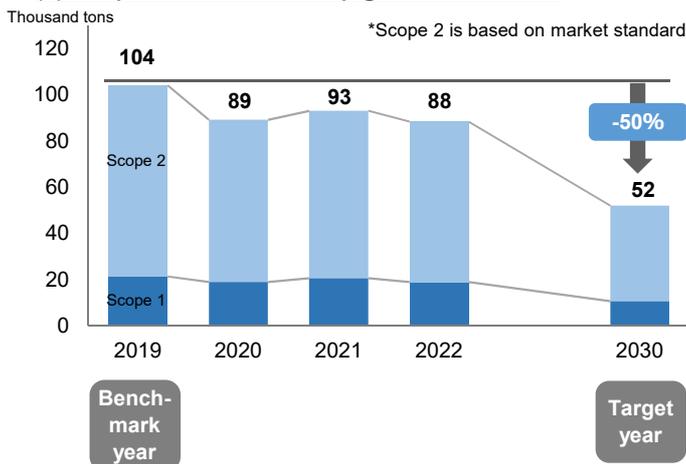
Category	Item	Target
CO ₂ emissions reduction (vs. 2019)	(1) Scope 1 & 2	50% reduction* ¹
	(2) Scope 3	50% reduction* ²
Clean energy	Renewable energy	20% usage
	Energy creation	5%* ³

*1 Excluding portion of FPM business integration

*2 Categories and scope are under consideration

*3 Self-sufficiency of energy other than renewable energy

(1) Scope 1&2* Aisan Group global emissions



(2) Scope 3: Aisan Industry (non-consolidated) emissions

Category	Description	FY2021
1	Purchased goods and services	146,138 t
2	Capital goods	13,386 t
3	Fuel- and energy-related activities (not included in scope 1 or scope 2)	6,241 t
4	Upstream transportation and distribution	326 t
5	Waste generated in operations	763 t
6	Business travel	414 t
7	Employee commuting	1,466 t
8	Upstream leased assets	Not covered
9	Downstream transportation and distribution	
10	Processing of sold products	
11	Use of sold products	
12	End-of-life treatment of sold products	
13	Downstream leased assets	
14	Franchise	
15	Investments	

Note: FY2022 data is still being calculated