

Environmental Strategies

Initiatives toward the realization of the Daiken Global Environment Vision 2050

In October 2021, we formulated the Daiken global environment vision 2050, in which the Daiken Group's attitude for the long-term initiatives, policies, and goals for environmental issues are established. We aim to contribute to the realization of a sustainable society from the three perspectives of the promoting resource recycling, mitigating climate change, and coexisting with nature and will put effort into the resolution of social issues, such as environmental issues.

DAIKEN Global Environmental Vision 2050

Vision

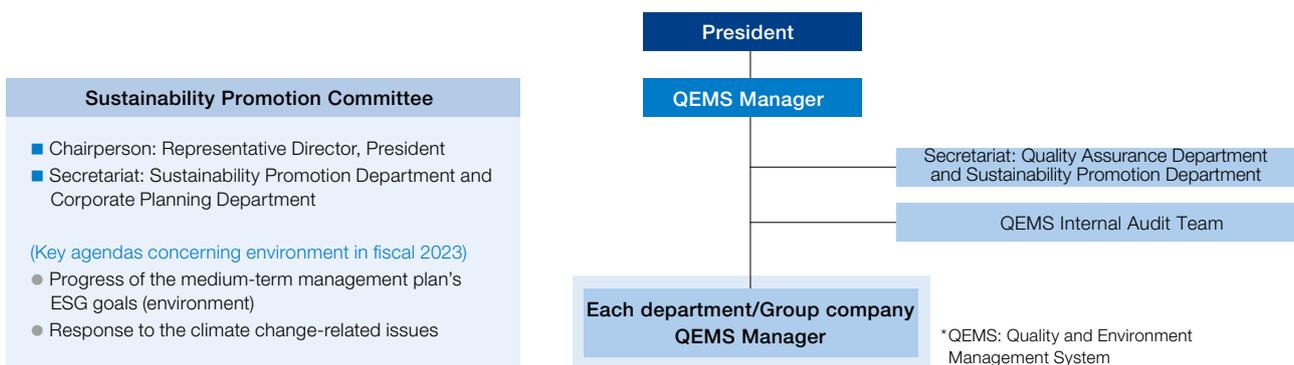
For a future full of smile

The overall aim of the Daiken Group is to realize a sustainable society towards 2050 by promoting resource recycling, mitigating climate change, and coexisting with nature.

Policy and the long-term goals upheld in the Global Environment Vision 2050

	Environment Policy	Long-Term Goals
1	Promotion of resource recycling – Waste reduction and reuse of resources –	100% waste recycling
2	Mitigation of climate change – Realization of carbon neutrality –	Net zero greenhouse gas emissions
3	Coexistence with nature – Conservation of biodiversity –	Reduce the impact on the natural environment

Structure to promote environment management



ISO 14001 certificate acquisition status (As of the end of March 2023)

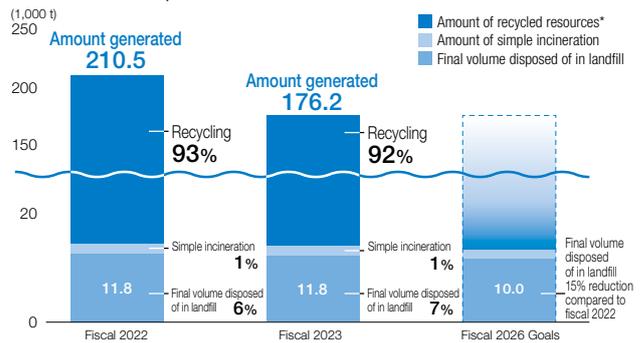
(1) The percentage of the offices that acquired the certificate in all offices in Japan: 90.8% (Based on the consolidated number of employees)	(2) The percentage of the offices that acquired the certificate in all overseas offices: 71.2% (Based on the consolidated number of employees)
44 offices and plants at 9 companies	5 offices and plants at 5 companies

1 Promotion of resource recycling

Reduction of final disposal of waste in landfills

The Daiken Group aims to realize a recycling-oriented society and puts effort into recycling waste, such as reusing the defectives generated in the manufacturing process as product raw materials to the extent possible, and using those as fuel for production, if not suitable for raw material itself. In fiscal 2023, we promoted initiatives to increase the use of waste for materials in addition to the use as fuel for production by stably operating biomass boilers. On the other hand, the final waste volume disposed of in landfill that is set as one of the medium-term management plan's ESG goals (goal in fiscal 2026: 15% reduction compared to fiscal 2022) went sideways from the results in the previous fiscal year and as a result, there is an issue left unsolved. Toward the achievement of the goal, we will put effort into the further consideration and execution of the recycling measures.

Trends in final disposal of waste in landfills



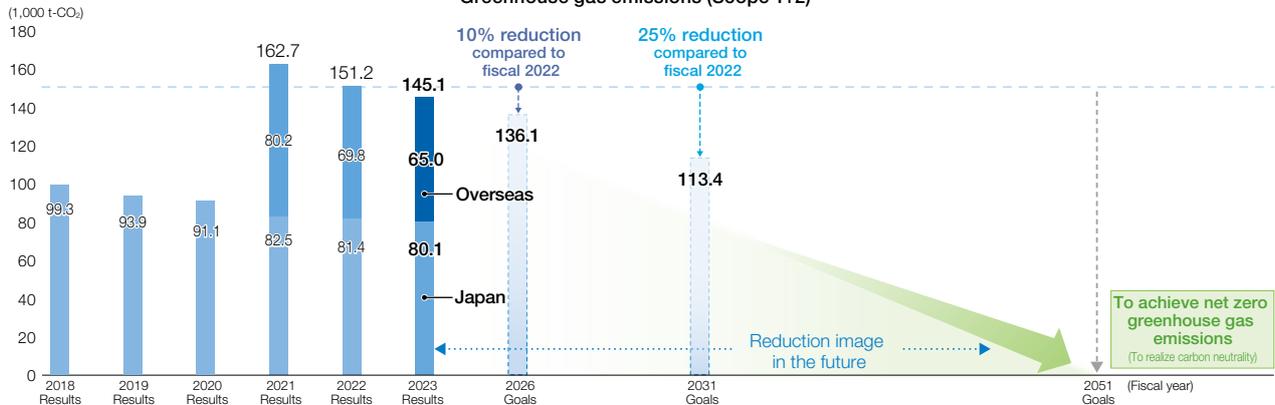
*Amount of recycled resources = Valuable + Use for materials + Use for heat

2 Mitigation of climate change

Initiatives for the reduction of greenhouse gas emissions linked to the business activities

As milestones toward the realization of carbon neutrality upheld in the Daiken global environment vision 2050, the Daiken Group has set the greenhouse gas emission reduction goals by fiscal 2026 and by fiscal 2031. Regarding the goal by fiscal 2026, 10% reduction (Scope 1+2) compared to fiscal 2022 and 6% reduction (Scope 3) compared to fiscal 2022 have been upheld as one of the medium-term management plan's ESG goals. In the goal by fiscal 2031, 25% reduction (Scope 1+2) compared to fiscal 2022 and 13.5% reduction (Scope 3) compared to fiscal 2022 have been upheld, and we obtained the certification of the Science Based Targets initiative, which is an international initiative, in June 2023 as the goal was science-backed Well Below 2°C, which is consistent with the levels required by the Paris Agreement. In fiscal 2023, with the impact of the rationalization of the production bases and the fluctuation of the electric power supplier's emission factor, in addition to the utilization of renewable energy, energy-saving activities, and promotion of the initiatives for productivity improvement, Scope 1+2 was 4% reduction compared to fiscal 2022, and Scope 3 was 3.7% reduction compared to fiscal 2022. We will continue the initiatives for the reduction aimed at realizing carbon neutrality.

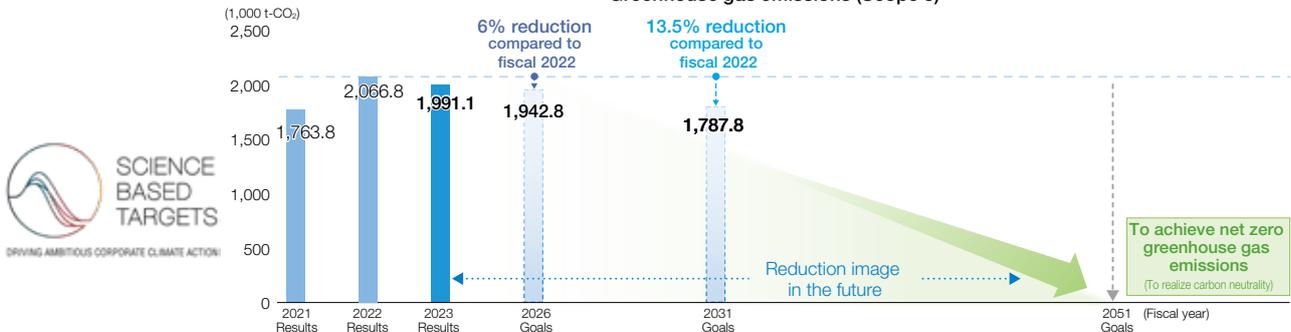
Greenhouse gas emissions (Scope 1+2)



Note 1: Overseas group bases' emissions have been combined since fiscal 2021 results.

Note 2: For the values in and after fiscal 2022, the reviewed calculation method has been used as we obtained the SBT certification. In addition, values exclude Pacific Woodtech Corporation's results as the company became an equity method affiliate from a consolidated subsidiary in August 2022.

Greenhouse gas emissions (Scope 3)



Note 1: Combined figures of the emissions in Japan and overseas

Note 2: For the values in and after fiscal 2022, the reviewed calculation method has been used as we obtained the SBT certification. In addition, values exclude Pacific Woodtech Corporation's results as the company became an equity method affiliate from a consolidated subsidiary in August 2022.

Future initiatives toward reduction

- Pursuit of the productivity improvement and efficiency in production bases
- Expansion of the use of renewable energy and consideration of purchasing green electricity

- Consideration of the introduction of internal carbon pricing for investment decisions
- Consideration of fuel conversion based on technology development, price trends, and negative emissions (collection and storage of CO₂)

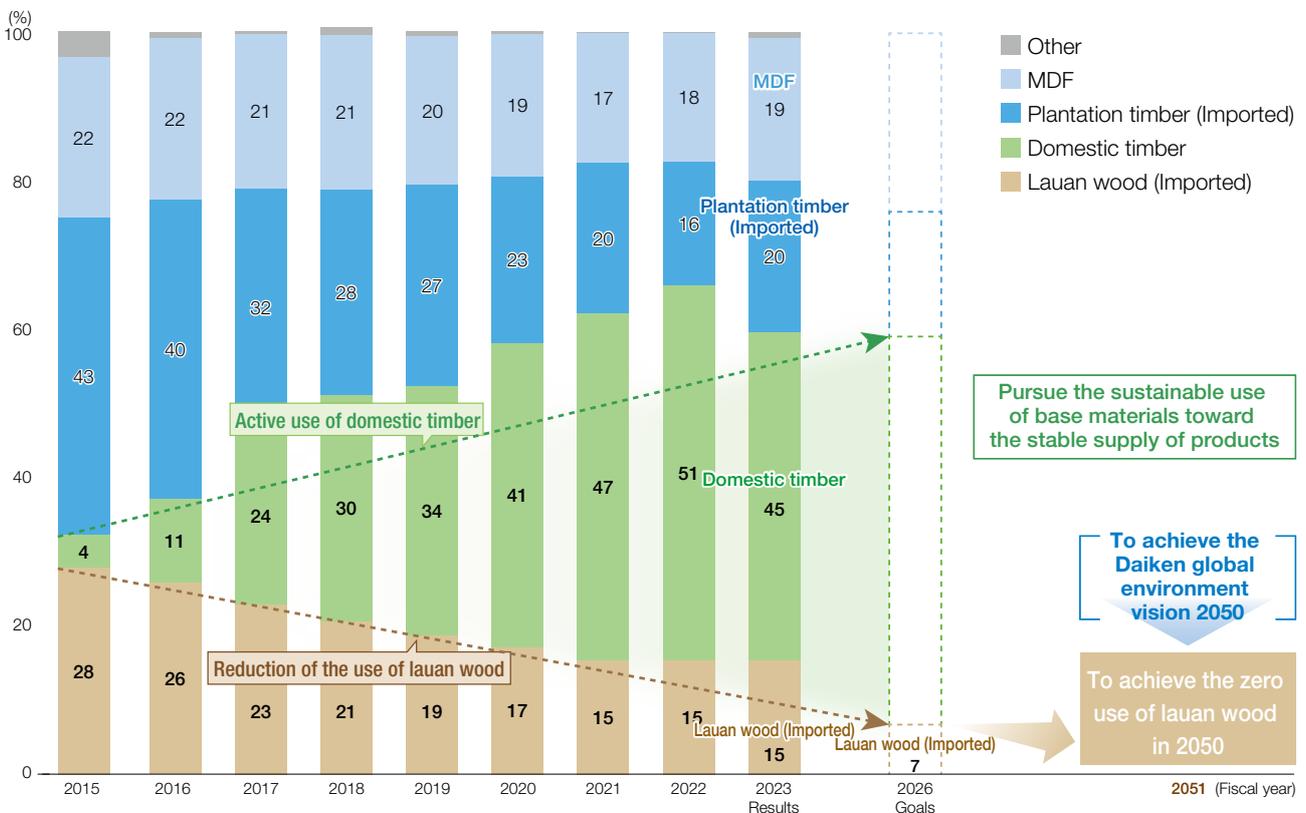
Environmental Strategy

3 Coexistence with nature

Initiatives toward zero usage of lauan wood

For the purpose of the reduction of the risks of stable timber procurement and currency exchange fluctuations, in addition to the reduction of environmental burden, we have been proceeding with the switch from natural lauan wood (tropical natural wood) to plantation timber, MDF, and domestic timber to be used for flooring substrates produced by the Daiken Group. In fiscal 2023, regarding the floors for apartments for which lauan plywood base materials are used, we introduced a new product of the MDF base material; however, because the launch was in the second half of the fiscal year, it will be in and after fiscal 2024 when the new product will be reflected in the figures as the reduction effect. While the timber procurement environment worsens on a global scale, as we strived for stable supply of products by reviewing the procurement balance between plantation timber and domestic timber, the usage of domestic timber resulted in a decrease to 45%. The timber procurement environment continues to be in a tough situation but toward the achievement of the usage of lauan wood for flooring substrates to reduce by 50% compared to fiscal 2022, which was set as one of the medium-term management plan's ESG goals, and zero use of lauan wood beyond the ESG goal, which is upheld in the Daiken global environment vision 2050, we will further put effort into the development of technologies while optimizing the balance among plantation timber, MDF, and domestic timber and their stable procurement.

Ratio of flooring substrates

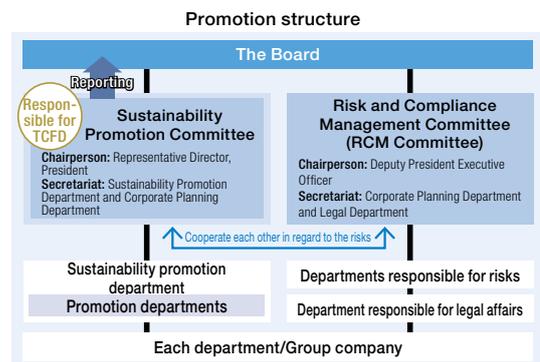


Response to TCFD

Under the Daiken global environment vision 2050, which indicates the long-term direction of the initiatives for the environment, the Daiken Group expressed an agreement on the recommendation by the TCFD (Task Force on Climate-related Financial Disclosures) in October 2021. We acknowledge that environmental responses, such as climate change, are one of the important management issues that lead to the risks and opportunities in business and disclose information on governance, strategies, risk management, and indices and goals, which are the disclosure items recommended by the TCFD.

Governance

In the sustainability promotion committee in which the representative director and president is the chairperson, we identify important climate change-related risks and opportunities, disseminate them to each department and group company, and appropriately conduct management. Regarding risks, as we established the risk and compliance management committee (hereinafter referred as the "RCM committee") in which the deputy president and executive officer is the chairperson and disseminate them to each department and group company, the sustainability promotion committee is responsible for the responses to the climate change-related risks and opportunities and has been proceeding with the responses by cooperating with the RCM committee. These results are regularly reported to the Board. From now on, through the continuous promotion of the Daiken global environment vision 2050, we will analyze the risks and opportunities to be brought to the Daiken Group's businesses and value chains by climate change, as well as the financial impacts associated with them, incorporate them into the management strategies, and disclose information.



Strategy

We grasped the risks and opportunities related to the Daiken Group's businesses in regard to the climate change and organized important risks and opportunities. We organized them based on the results of the risks that had been sorted out, evaluated, and responded by the RCM committee. In fiscal 2023, we referred to the 2°C (1.5°C) scenario and the 4°C scenario based on the TCFD recommendation and conducted our group's business activities and impact evaluations. We will apply the results of scenario analyses and lead to the formulation of countermeasures and development of plans.

Preconditions of scenario analyses

1] Assumed period	<ul style="list-style-type: none"> Short term: Fiscal 2026 (Final fiscal year of GP25) Medium term: Fiscal 2031 (Fiscal year of the SBT goal) Long term: Fiscal 2051 (Fiscal year of the Daiken global environment vision 2050 goals)
2] Scope	<ul style="list-style-type: none"> Domestic market (Physical risks are for domestic production bases)
3] Overview of the scenario setting	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p style="background-color: #e6f2ff; padding: 2px;">The 2°C (1.5°C) scenario</p> <p>The scenario to be able to suppress the earth's average temperature rise to 2°C (1.5°C) compared to the level before the Industrial Revolution as the introduction of policies and regulations, as well as market changes, rapidly progress toward carbon neutrality in 2050. *Major external scenarios referred: RCP2.6, IEA WEO, etc.</p> </div> <div style="width: 45%;"> <p style="background-color: #e6f2ff; padding: 2px;">The 4°C scenario</p> <p>The earth's average temperature rise will be 4°C compared to the level before the Industrial Revolution as the policies, regulations, and social initiatives toward the reduction of CO₂ emissions will not progress. The scenario where the impact of climate change, such as a disaster, will become extensive. *Major external scenarios referred: RCP8.5, IEA WEO, etc.</p> </div> </div>
4] Impact	<p>Large: 5 billion yen or more, Medium: 500 million yen or more and less than 5 billion yen, and Small: less than 500 million yen</p>

Risks and opportunities of the climate change

Classification		Item	Scenario	Time axis	Impact	Countermeasure
Transition risks	Policy/Regulation	<ul style="list-style-type: none"> Difficulty in obtaining wood chips (product raw materials and fuels) by promoting biomass power generation An increase in procurement costs due to the timber price hike (Regulations for tree trimming etc.) 	2°C (1.5°C)		Large	<ul style="list-style-type: none"> Expansion of suppliers (New supplier acquisition) Sales expansion by newly developing and commercializing environmentally friendly products Conversion to the materials with less market fluctuations
	Market (Changes in customer requests)	<ul style="list-style-type: none"> An increase in costs due to traceability of products and materials and responses to life cycles Procurement risks and an increase in costs due to the shift to environmentally friendly raw materials and materials 				<ul style="list-style-type: none"> Responses to certified materials, carbon footprint, etc. Sales expansion by newly developing and commercializing environmentally friendly products
	Energy saving/Decarbonization regulations	<ul style="list-style-type: none"> An increase in costs associated with the responses for decarbonization of the existing production facilities (Capital investments etc.) Expansion of the use of renewable energy and an increase in the cost to introduce the green electricity certificate 				<ul style="list-style-type: none"> Sales expansion by newly developing and commercializing environmentally friendly products Capital investments using subsidies Pursuit of the productivity improvement and efficiency in production bases
Physical risk	Frequent occurrence of a typhoon/Heavy rain	<ul style="list-style-type: none"> Damage on and shutdown of production and sales bases due to natural disasters and delays in member procurement, shipment, and delivery due to disruption of the logistics network Delays in goods deliveries due to suppliers and logistics warehouses being affected by natural disasters 	4°C	Short term - long term	Large	<ul style="list-style-type: none"> Enhancement of the BCP measures for production and sales bases Responses made by insurance for damage caused by natural disasters Enhancement of the BCP measures for suppliers and logistics warehouses
	An increase in the average temperature	<ul style="list-style-type: none"> An increase in the cooling cost 				<ul style="list-style-type: none"> Promotion of the operation to suppress power consumption
Opportunities	Resource efficiency	<ul style="list-style-type: none"> Appeal to customers by recycling raw materials (Improvement of corporate value) 	2°C (1.5°C)		Large	<ul style="list-style-type: none"> Improvement of corporate value by enhancing the system for resource circulation and expansion of environmentally friendly products
		<ul style="list-style-type: none"> Appeal to customers by increasing the usage of recycled materials (Improvement of corporate value) 				<ul style="list-style-type: none"> Improvement of corporate value by enhancing the system for resource circulation and expansion of environmentally friendly products
		<ul style="list-style-type: none"> A decrease in costs by efficient transportation 				<ul style="list-style-type: none"> Optimization of transportation by using digital technology
		<ul style="list-style-type: none"> An increase in demand due to the establishment of the production processes that do not emit greenhouse gases 				<ul style="list-style-type: none"> Pursuit of the productivity improvement and efficiency in production bases Shift to renewable energy, fuel conversion, etc.
	Products, services, and markets	<ul style="list-style-type: none"> Formation of the markets for and expansion of demand for energy-saving products and environmentally friendly products (New wood industrial materials etc.) Sales increase due to the mitigation of climate change and expansion of the sale of adaptive products (expansion of the sale of timber products from the perspective of carbon storage) 				<ul style="list-style-type: none"> Enhancement of the responses to zero destruction of nature Enhancement of the change from petroleum-derived to nature-derived
		<ul style="list-style-type: none"> Improvement of corporate value by newly developing and commercializing environmentally friendly products by taking advantage of our strengths of the technologies to use timber 				<ul style="list-style-type: none"> Review of the product design criteria based on circular economy, carbon footprint, etc.
	Resilience	<ul style="list-style-type: none"> Improvement of the reliability of the supply chain by revitalizing investments for BCP measures 				<ul style="list-style-type: none"> Expansion of the environmentally friendly products Appeal of the technology to use timber
		<ul style="list-style-type: none"> Enhancement of the BCP measures 				

Risk management

Climate change is one of the important external risks and we acknowledge that it is the risk to be addressed by the entire company. We enhance the effectiveness by the sustainability promotion committee and the RCM committee cooperating with each other and proceeding with it in the environment management system and the company-wide risk management system. We will put effort into the improvement of processes to further evaluate the climate change-related risks.

Indices and goals

We have set Mitigation of climate change – Realization of carbon neutrality – as a pillar in the environment policy of the Daiken global environment vision 2050 and aim for net zero greenhouse gas emissions as a long-term goal toward 2050. Toward the reduction of greenhouse gases that have a significant impact on climate change, we used backcasting from how we should be in 2050 and set and proactively put effort into the fiscal 2026 goals in the ESG goals of the medium-term management plan GP25 3rd Stage. In addition, we have set the reduction plan and goals in fiscal 2031 as the medium-term goal and have been certified by the SBT initiative in June 2023.

Fiscal 2026 goals (Goal of GP25 3rd Stage)	Greenhouse gas	Gross emissions in Japan and overseas (Scope 1+2)	10% reduction (As compared to fiscal 2022)	Fiscal 2031 goals (SBT Goals)	Greenhouse gas	Gross emissions in Japan and overseas (Scope 1+2)	25% reduction (As compared to fiscal 2022)
		Gross emissions in Japan and overseas (Scope 3)	6% reduction (As compared to fiscal 2022)			Gross emissions in Japan and overseas (Scope 3)	13.5% reduction (As compared to fiscal 2022)