

## **Disclosure based on recommendations from Task Force on Climate-related Financial Disclosures (TCFD)**

### **1. Response to TCFD Recommendations**

In order to realize our management philosophy of "Continuing to support people and society by pursuing the possibilities of materials," we consider climate change action to be one of our most important management issues. As a part of this effort, we have formulated the "Daido Carbon Neutral Challenge" and are promoting initiatives aimed at reducing CO<sub>2</sub> emissions by 50% in FY2030 compared to FY 2013 and achieving carbon neutrality by 2050. In November 2021, we expressed our support for the TCFD recommendations and further strengthened our governance and clarified our strategy based on the TCFD recommendations. We will work to further enhance information dissemination and disclosure by communicating the risks and opportunities that climate change poses to our business in an easy-to-understand manner.

※About the Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB) at the request of the G20 and recommends that companies disclose the financial impacts of risks and opportunities posed by climate change on their operations and the specific measures they have taken to address them.

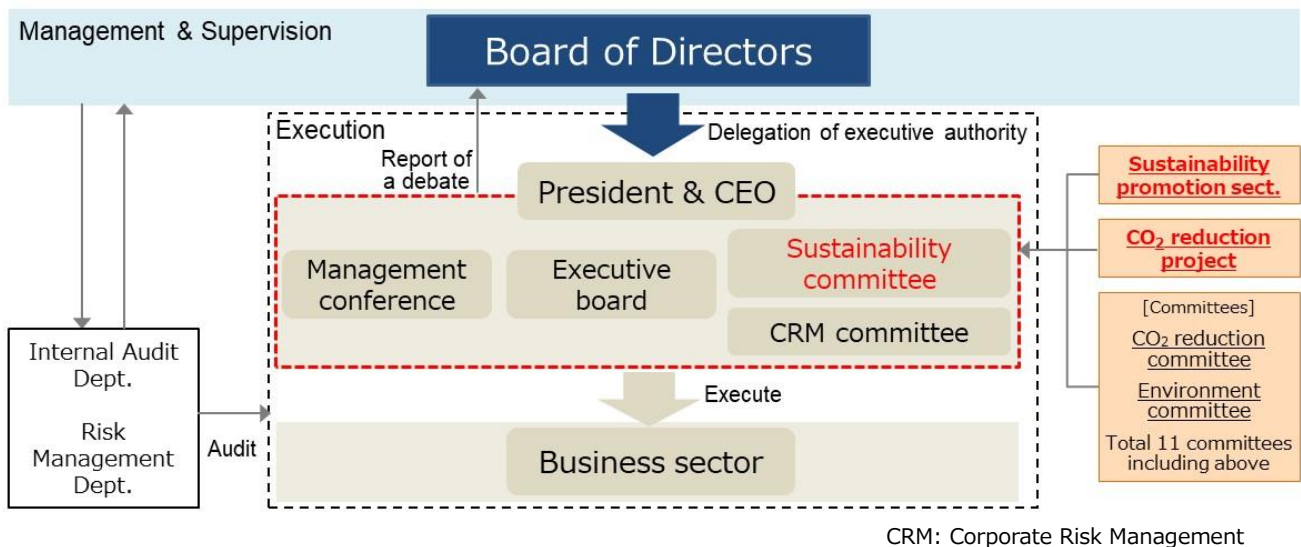
### **2. Information disclosure in accordance with the TCFD Framework**

#### **(1) Governance**

In April this year, we reorganized the existing CSR Committee and established a new Sustainability Committee as an organization to review and deliberate basic policies, important matters, risks, and opportunities related to climate change. The Sustainability Committee is chaired by the President and CEO and submits matters discussed and decided by the Committee to the Board of Directors.

The Sustainability Promotion Section and the "CO<sub>2</sub> Reduction Project," a company-wide project, have been established to plan, deploy, and strengthen the promotion of CO<sub>2</sub> emission reductions throughout the company.

The agenda items deliberated and decided by the Board of Directors will be forwarded to each business division and reflected in their respective business operations.



## (2) Strategy










A scenario analysis was conducted for the period 2030~2050 in order to understand the risks/opportunities and impacts of climate change on our company, and to examine the resilience of our mid- to long-term strategy and the need for further measures. The scenario analysis referred to climate change scenarios (1.5°C scenario and 4°C scenario\*) by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC). Risks and opportunities were extensively extracted, and risks and opportunities with high impact on our business were selected from the perspective of "those with a high likelihood of occurring" and "those with a large impact when they do occur," and countermeasures were considered. We will also continue to closely monitor risks and opportunities that were not included in the analysis this time.

After examining countermeasures for each risk and opportunity, we have concluded that we can improve our corporate value by developing and expanding sales of high-functional materials and innovative environmentally friendly engineering products based on the basic strategies of our medium- to long-term management plan in response to the social transformation toward decarbonization. We evaluated our strategy as having resilience.

\*1.5°C scenario: a scenario in which measures such as tighter regulations and market changes are taken to minimize temperature rise

4°C scenario: a scenario in which temperature rise results in extreme weather events and other physical impacts

## TCFD Scenario Analysis

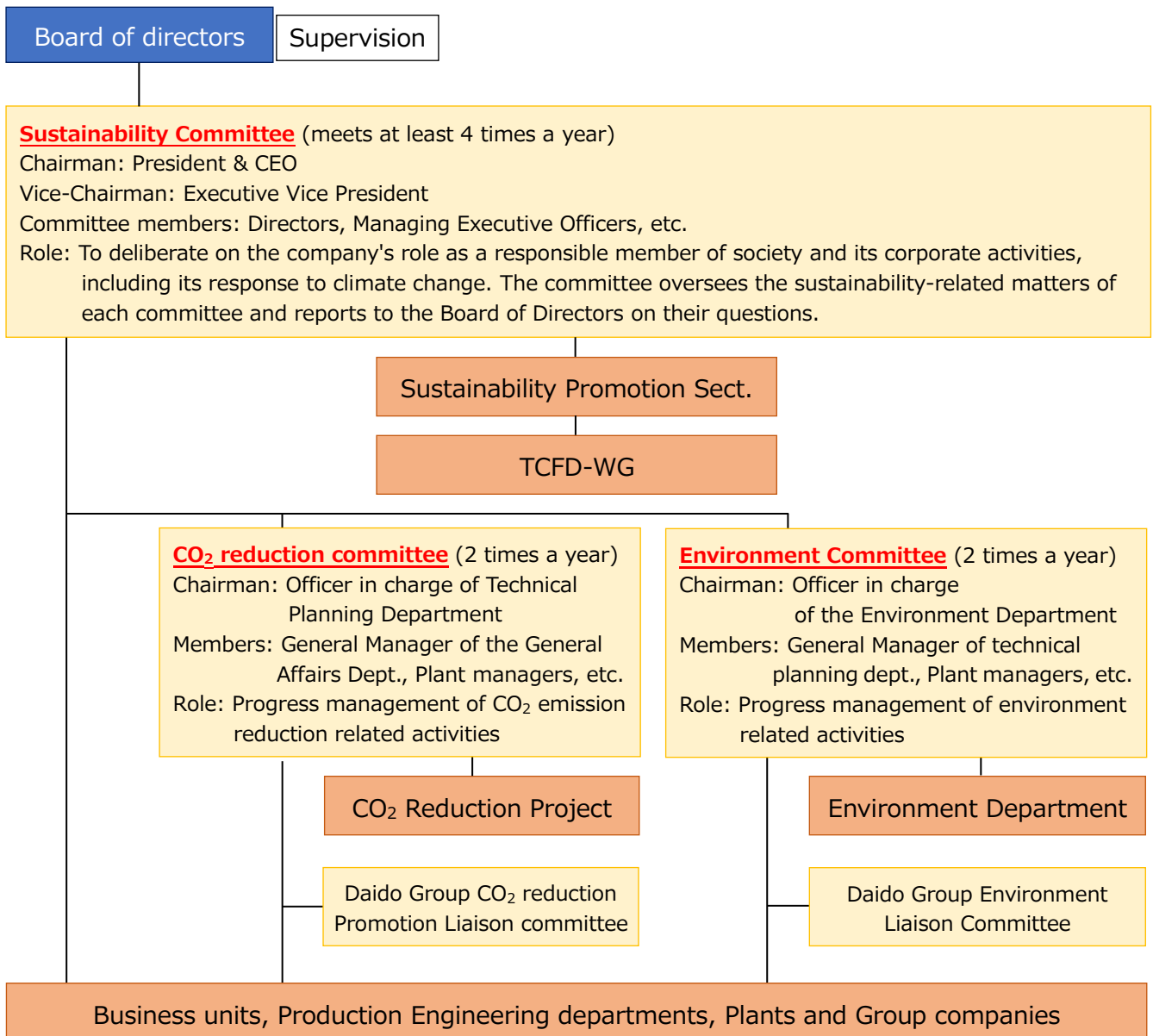
Scenario	Factor	Change		Impact on our company	Our countermeasures
1.5°C	Conversion to EV	Decreased demand for internal combustion engine parts	Risk 	● Demand for internal combustion engine vehicles (ICE) is expected to remain at the current level until 2030, but is estimated to decline significantly after 2030 due to the shift to EVs.	<input type="checkbox"/> Achieve sustainable business growth by expanding sales in the future growth markets of CASE (automotive), semiconductor-related products, and green energy.
		Increased demand for high-performance materials for EVs	Chance 	● Demand will increase for the following materials * e-Axle components, battery components, high-strength steel, magnetic materials, etc. used for control system components, etc.	<input type="checkbox"/> Material development for each product need <input type="checkbox"/> Production capacity improvement to meet increased demand <input type="checkbox"/> Launch and market entry of new products and businesses for next-generation automobiles
	Strengthening of various environmental regulations including GHG emission	Increase in electricity costs due to use of renewable energy sources	Risk 	● Electricity costs will increase due to the increased use of renewable energy sources.	<input type="checkbox"/> Cost improvements through energy conservation, improved product yields, etc. to absorb increased power costs <input type="checkbox"/> In-house installation of renewable energy
	Introduction of carbon pricing	Increased operating and procurement costs	Risk 	● Procurement and operating costs for alloys and materials may increase	<input type="checkbox"/> Offset the cost burden by investing in CO <sub>2</sub> reduction and converting all electricity to renewable energy <input type="checkbox"/> Requesting suppliers to reduce CO <sub>2</sub> emissions
		Increased demand for electric furnace materials	Chance 	● Demand for electric furnace materials with relatively low CO <sub>2</sub> emissions is expected to increase in response to the growing demand for decarbonization and the increasing preference for low emission products.	<input type="checkbox"/> Aggressive sales expansion of "low-CO <sub>2</sub> emission special steel products" manufactured from the advanced innovation electric furnace "STARQ" developed by our company <input type="checkbox"/> Further differentiation by shifting to renewable energy sources
	Increased demand for scrap materials	Increased scrap procurement costs	Risk 	● Demand for high-grade scrap will increase due to rising global demand for electric furnace materials. ● As a result, prices may soar or it may become difficult to procure.	<input type="checkbox"/> Curbing price hikes and securing necessary scrap volumes by expanding scrap recycle schemes in cooperation with customers and establishing technologies that enable the use of low-grade scrap
	Dissemination of new environmental and energy-related technologies	Increased demand for innovative eco-friendly engineering	Chance 	● Demand for our environmental engineering services will increase as more investments contribute to energy efficiency for decarbonization.	<input type="checkbox"/> Aggressive sales expansion of Daido brand energy-saving products ※ STARQ, DINCS, Modul-Therm, Premium-STC, etc. <input type="checkbox"/> Promote development of engineering products (hydrogen combustion industrial furnaces, etc.) that meet user needs
		Increased demand for hydrogen-related technologies and products	Chance 	● The demand for high-performance materials such as steel for hydrogen embrittlement resistance will increase with the development of a hydrogen society. * High functional materials used in hydrogen stations, fuel cell vehicles, hydrogen internal combustion engines, etc.	<input type="checkbox"/> Material development for each product need <input type="checkbox"/> New user and market development
4°C	Weather-related disasters Intensification (Acute)	Risk of shutdown due to damage to suppliers or our production sites	Risk 	● The risk of our operations being shut down increases if our suppliers or major plants are hit by natural disasters.	<input type="checkbox"/> Promote BCP measures such as risk management in cooperation with suppliers and appropriate inventory <input type="checkbox"/> Major plants continue to take measures against flooding

### (3) Risk Management

Through the Sustainability Committee, we will analyze climate-related risks, formulate and promote countermeasures, and manage progress.

The Sustainability Committee will report its analysis and discussion to the Board of Directors for company-wide integrated risk management.

In this disclosure, a working group on climate-related risks was established to conduct scenario analysis. In light of our business strategy, we will prioritize climate-related risks based on the likelihood of occurrence and impact of risks and opportunities, and focus on high-impact matters for countermeasures. In the future, the TCFD-WG will be established within the Sustainability Promotion section, which operates the Sustainability Committee, to continuously check and review these issues.



## (4) Metrics and Targets

Daido Steel has set reduction targets using total greenhouse gas (CO<sub>2</sub>) emissions as an indicator in order to assess and manage the impact of climate-related issues on management. Daido Steel launched a CO<sub>2</sub> reduction project in November 2020 and announced the Daido Carbon Neutral Challenge in April 2021. We are promoting activities to reduce CO<sub>2</sub> emissions, aiming to reduce CO<sub>2</sub> emissions by 50% in 2030 compared to fiscal 2013 and to achieve carbon neutrality in 2050.



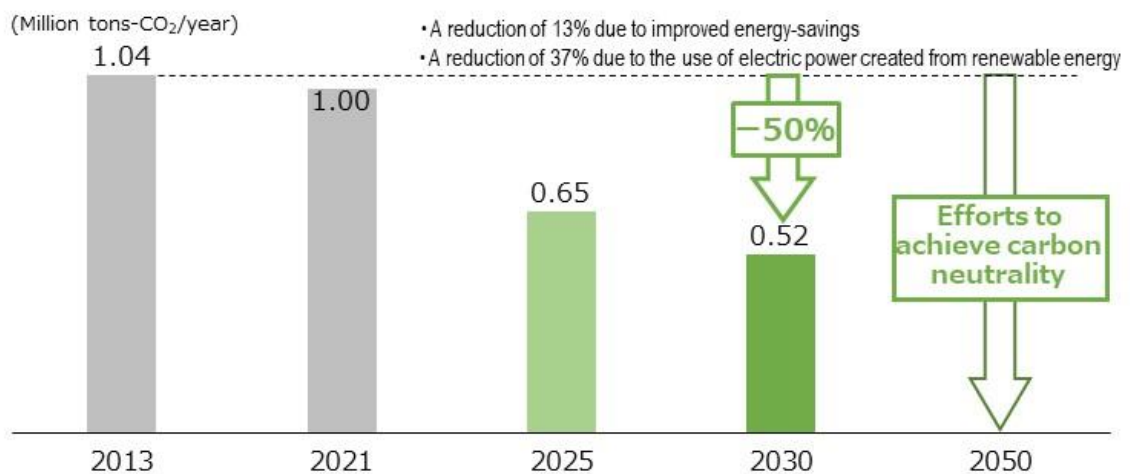
### Target for 2030

**Cutting CO<sub>2</sub> emissions by 50%**  
(as compared with the 2013 level)

### Target for 2050

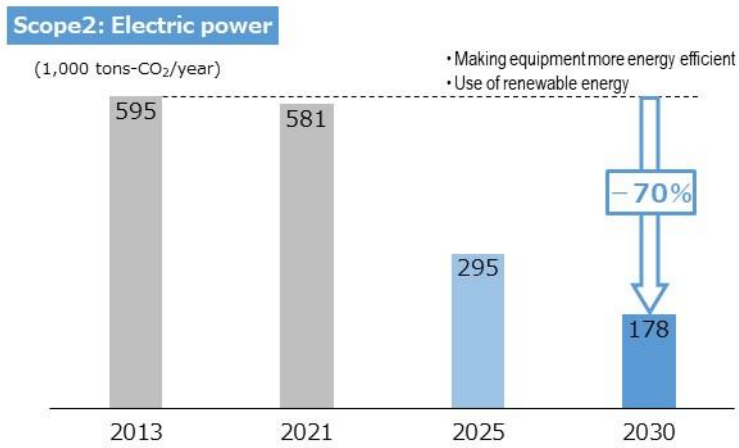
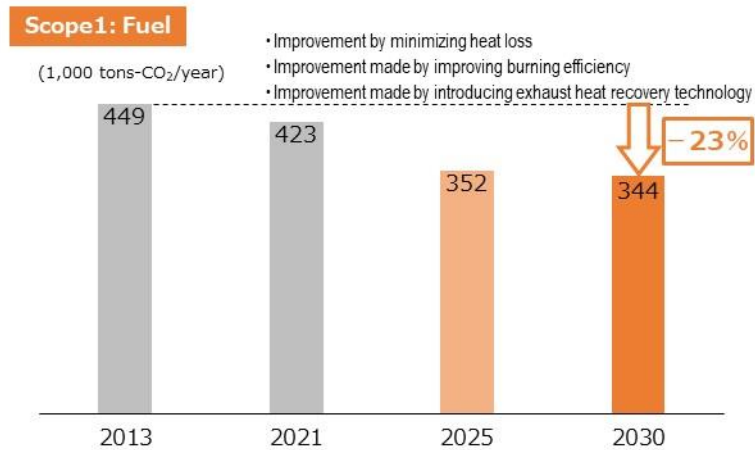
**Aiming to achieve Carbon Neutrality**  
(in line with the development of decarbonization technologies and infrastructure)

### CO<sub>2</sub> Emissions Reduction Targets for 2030



※CO<sub>2</sub> emissions are SCOPE 1 + SCOPE 2 (energy-derived) for Daido Steel alone.

Actual CO<sub>2</sub> emissions (2013 and 2021) were calculated using the electric power CO<sub>2</sub> emission coefficient of the contracted power company for each year.



The policy for reduction efforts is as follows.

**Three policies for carbon neutrality**

- (A) Thorough energy saving efforts made by taking full advantage of existing technologies
- (B) Use of renewable power source
- (C) Introduction of decarbonization technology

	-2030	-2050
<b>Scope 1: Fuel decarbonization</b>	(A) Expanding high-efficiency combustion technologies	(C) Verifying hydrogen-combustion technology → Development of a new burner → Put to use in industrial furnaces (C) Introduction of on-site CO <sub>2</sub> recovery and utilization technology (hydrogen electrolysis and methanation technology)
<b>Scope 2: Decarbonization of electric power</b>	(A) Full use of existing energy-saving technologies, including our own	(B) Switching to CO <sub>2</sub> -free power sources (Chita Plant → operations in Nagoya → Company-wide) (B) In-house adoption of renewable energy (solar) and deployment to respective sites
<b>Improvement of basics</b>	Thorough improvement by reducing energy waste and loss and raising production yields	

## ■ Scope 3 Disclosure

We have conducted calculations for the possible scope 3 categories 1, 2, 3, 4, 5, 6, 7, and 13 based on the "Basic Guidelines for Calculating Greenhouse Gas Emissions through Supply Chains".

In FY2020, overall CO<sub>2</sub> emissions were confirmed to be 1,103 thousand tons, of which "Category 1: Purchased products and services" accounted for the largest percentage at 73%. In order to reduce CO<sub>2</sub> emissions, we have introduced "Partners' Meetings" with our major suppliers this fiscal year, during which we will engage in activities to calculate and reduce CO<sub>2</sub> emissions from products for our company.

We will continue to work on product development and other activities to increase the ratio of products that can contribute to the reduction of CO<sub>2</sub> emissions at our customers (e.g., high-performance materials used in EV vehicles and hydrogen-related products).

In addition, the amount of contribution to CO<sub>2</sub> emission reduction by our customers from the three main energy-saving products in the engineering division is calculated to be 30,900 tons/year (in FY2020).

Product name		CO <sub>2</sub> reduction contribution t/year
STARQ	Energy-saving electric furnace with swiveling furnace body	8,000
ModulTherm	Energy-saving vacuum carburizing furnaces	21,000
DINCS	Highly efficient energy-saving combustion components	1,900

### Scope 3 CO<sub>2</sub> emissions by category

1,000 tons-CO<sub>2</sub>/year

Category	FY2019	FY2020
1. Purchased Goods & Service	1,055	810
2. Capital goods	80	50
3. Fuel & Energy related activities (Excluding Scope1,2)	194	168
4. Transportation & Distribution (Upstream activities)	57	49
5. Waste from operations	20	17
6. Business travel	3	1
7. Employee commute	3	3
13. Lease assets (Downstream activities)	5	5
Total	1,417	1,103

※Scope of calculation: Calculated for Daido Steel on a stand-alone basis for the relevant category only

※Calculation method: Using the Ministry of the Environment's Green Value Chain Platform (database Ver. 3.1)

