Information Disclosure Based on TCFD Recommendations

As a company involved with the manufacture of automobiles that directly emit CO_2, we recognize our response to climate change as a serious management issue. Accordingly, in August 2021 the Group endorsed the recommendations of the TCFD. We will analyze the risks and opportunities climate change presents to the Group's operations, reflect these in our management strategy and risk management, and appropriately disclose progress in order to contribute to a decarbonized society and aim for further growth.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Governance

We have established the Sustainability Committee, which deliberates on issues related to all domains of sustainability, including our response to climate change, and manages sustainability for the Group as a whole. ▶ p. 38

Risk Management

Risks and opportunities related to climate change and other sustainability issues are reviewed annually and deliberated upon by the Sustainability Committee. Major risks and opportunities are identified by classifying risks and opportunities arising from climate change as "transition risks" or "physical risks" and qualitatively assessing their fiscal impacts.

Identified major risks and opportunities that are physical risks (response to natural disasters) are addressed using targeted measures promoted by each functional division and region via the Global Risk Management Committee. Transition risk-related matters directly linked to business activity will be incorporated into medium-term business plans and business strategies and promoted in accordance with enacted policies. Items related to sustainability (long-term environmental targets, materiality KPIs, etc.) will be promoted by each functional division and region via the Sustainability Committee.

Information gathering

Information gathering regarding risks and opportunities related to climate change led by each functional division and region

Identification of major risks and opportunities

Evaluation and analysis based on gathered information, such as the degree of impact on operations and the possibility of occurrence, to identify the Group's major risks and opportunities related to climate change

Selection of policies and measures

Creation of policies and measures for risks and opportunities that are deliberated upon by the Sustainability Committee and presented at a Board of Directors' meetings as necessary once measures are passed at meetings of the Executive Committee

Incorporation into strategies and implementation

Identified major risks and opportunities will be handled as follows:
- Each functional division and region will promote measures to address natural disaster risks via the Global Risk Management Committee
- Business-related matters will be addressed through incorporation into medium-term management plans and business strategies
- Each functional division and region will promote measures to address sustainability via the Sustainability Committee

Metrics and Targets

In March 2021, the Group identified the eight material issues (materiality) it will prioritize to help contribute to the creation of a sustainable world, and it set KPIs and targets for 2030 for each material issue. The Group set long-term environmental targets that include a reduction in CO_2 emissions compared to fiscal 2020 by 50% in 2030 and 100% in 2050, and it is working to achieve them through means such as installing energy-conserving equipment and utilizing renewable energy at each location. ▶ p. 45

		15th Medium-Term Management Plan (FY2024–2026)	Medium-term plan (2030)	Long-term plan (2050)
CO_2 emissions reduction target (Scopes 1&2)		Reduction of 25% compared to FY2020	Reduction of 50% compared to FY2020	Achieving carbon neutrality
Main initiatives	Energy conservation activities	Improving production and business processes, optimizing air conditioning and lighting, upgrading to high-efficiency equipment, and enhancing environmental management, etc.		
	Adoption of renewable energy	Installing solar power systems, purchasing renewable electricity, utilizing green electricity certificates, and utilizing power storage batteries, etc.		
	Raising the electrification rate		Replacing equipment powered by gas or heavy fuel oil, and replacing conventional vehicles with EVs, etc.	

Strategy

Measures to achieve carbon neutrality are essential to the realization of a sustainable society. It is expected that governments worldwide will implement energy regulations to reduce CO_2 emissions and stronger laws, and it is also anticipated that various regulations related to automobiles will be strengthened. While tighter regulations could be a risk to the Group, addressing them by focusing our efforts on products and services with outstanding environmental performance, one of the Group's strengths, could be an opportunity to expand business operations.

We believe that moving forward, promotion of Group products and services that comply with changing regulations and laws is not only an effective measure to help control global greenhouse emissions such as CO_2 but also an opportunity for business growth, and we have incorporated this belief into our business strategies.

Analysis of risks and opportunities based on climate change scenarios

A scenario analysis was conducted using the Group's core automobile business (seats, interior components), and business risks and opportunities were identified. Matters arising from a transition to a decarbonized society, such as tighter regulations and technological developments or market changes, and matters arising from the physical impact of climate change, such as acute extreme weather and chronic temperature rises, are examples of risks and opportunities related to climate change.

The Group classified the causes for various changes in the external environment arising from climate change as "physical risks" or "transition risks" and qualitatively assessed the fiscal impacts using the three levels of large, medium, and small to identify major risks and opportunities. It also assessed the potential impacts of important risks and opportunities, and performed quantitative evaluations based on the assumed financial impact amount. The analysis examined the period up to 2050, and, in line with the Group's long-term environmental targets, set 2030 as the medium term and 2050 as the long term.

Risks and opportunities related to climate change and related responses

The risks and opportunities judged as having a large or medium fiscal impact on the Group's operations using a scenario analysis are as follows.

Risk classification		Identified risks	Medium-or long-term	Potential financial impact	Mitigation	Relevant initiatives and indicators
Physical Risks (4°C warming scenario)	Acute	Potential decrease in sales due to suspension of operations at Group sites caused by extreme weather events such as typhoons, torrential rains, and hurricanes	Long	[Impact: Large] The potential decrease in revenue due to a shutdown caused by flooding is estimated to be up to 5 billion yen per affected site.	• Enhancing BCP measures • Taking disaster preparedness measures for production maintenance, including replacement parts production, and coordinating within the Group to enable quick resumption of operations • Site development with disaster risk management in mind • Disaster risk management across the supply chain	• Risk management by the Global Risk Management Committee
Transition risks (1.5°C warming scenario)	Government policies Laws and regulations	Need to adopt renewable energy and increase capital investment due to stricter regulations	Medium	[Impact: Large] An estimated investment of around 7 billion yen will likely be required by 2030 for the transition to renewable energy, including the adoption of solar power technology.	• More efficient energy use • Investing in efficient equipment to optimize cost-effectiveness	• Building high efficiency production structures • Long-term environmental goals
		Higher operating costs due to widespread adoption of carbon taxes	Medium	[Impact: Moderate] By 2030, the Group could be paying around 700 million yen in carbon taxes for its emissions.	• Promoting CO_2 reduction measures (energy conservation, adoption of renewable energy, etc.) • Improving logistics efficiency	
	Technology	Higher R&D costs and greater capital investment to create low-carbon and electrified products	Medium	[Impact: Large] Higher R&D expenses are anticipated to make products with low environmental impact, to improve manufacturing technology, and to develop products for EVs, along with a corresponding increase in capital investment.	• Expanding sales by enhancing sales activities • Improving product development through co-creation with customers	• Enhancing efforts to develop environmental technologies
	Market	Higher raw material procurement costs due to carbon taxes and the need to adopt more eco-friendly materials	Medium	[Impact: Large] By 2030, the Group could be paying carbon taxes of 40 billion yen on transactions with suppliers.	• Enhancing supply chain management • Promoting measures to reduce Scope 3 emissions • Improving logistics efficiency	• Supply chain restructuring
		Potential drop in sales due to a lack of low-carbon and EV products	Medium	[Impact: Large] The market is expected to shift to electric vehicles and the need to reduce the product environmental impact will increase. If the Group is unable to provide products that meet customer needs, it could see a decline in sales of around 150 billion yen by 2030.	• Accelerating development of products for electric vehicles • Developing processing technology for eco-friendly materials • Building high-efficiency production lines compatible with new materials and technologies	• A higher share of major customers' products • Enhancing efforts to develop environmental technologies

Risk classification		Identified opportunities	Medium-or long-term	Potential financial impact	Mitigation	Relevant initiatives and indicators
Opportunities (1.5°C warming scenario)	Resource usage efficiency	Decrease in operating costs due to more efficient production processes	Medium	[Impact: Moderate] By 2030, energy conservation measures could yield a cost reduction effect of approximately 500 million yen.	• Continual promotion of energy-saving measures focused on production equipment • Automation of production processes and development of compatible product specifications • Improvement of production processes by utilizing regenerative energy and self-weight	• Building high efficiency production structures • Material issues • Long-term environmental goals
	Products and services	Due to increased demand for low-carbon products, the Group will likely sell more seats for EVs and interior components made from eco-friendly materials	Medium	[Impact: Large] Enhancing product lines compatible for EVs will likely lead to the acquisition of new customers and the expansion of commercial rights. By 2030, the resulting increase in annual sales could reach 70 billion yen.	• Product development that helps reduce electricity costs • Developing products made using plant-derived raw materials • Adopting recycled materials and designs that make products easy to dismantle for recycling • Developing processing technology for eco-friendly materials • Building high-efficiency production lines compatible with new materials and technologies	• Securing cabin coordination capacity • Further growth in new businesses • Enhancing efforts to develop environmental technologies
		Increased revenues due to sales of new products compatible with next-generation vehicles	Medium	[Impact: Large] By enabling product coordination with the entire vehicle interior, and by developing products that meet new requirements for next-generation vehicles, we will likely acquire new customers and expand our commercial rights. By 2030, this could result in an increase in annual sales of about 35 billion yen.	• Co-creation of technologies and products with companies in other industries for cabin interior coordination • Enhancing system software development	• Securing cabin coordination capacity

Scenario analysis

An analysis was conducted using a "4°C scenario" where the physical impact of intensifying extreme weather caused by climate change is apparent and a "1.5°C scenario" where the effects of a transition to carbon neutrality are evident.

Assumed scenario	Reference scenarios	Assumed state of society
4°C scenario	• IEA STEPS (Stated Policies Scenario) • IPCC RCP8.5	• Increased risk of flooding due to rising sea levels caused by rising temperatures, stronger hurricanes and typhoons, frequent torrential rains • Increased risk of water shortages due to droughts and the spread of arid regions and desertification • Harsher work environments due to rising temperatures
1.5°C scenario	• IEA NZE (Net Zero Emissions by 2050 Scenario) • IEA SDS (Sustainable Development Scenario) • IPCC RCP2.6	• Stronger measures and regulations aimed at decarbonization (implementation of a carbon tax, energy conservation/saving measures, ZEV regulations, policies to promote EVs, etc.) • Development of decarbonization technologies and a greater range of environmentally friendly products