

◆ Climate change initiatives and TCFD recommendations

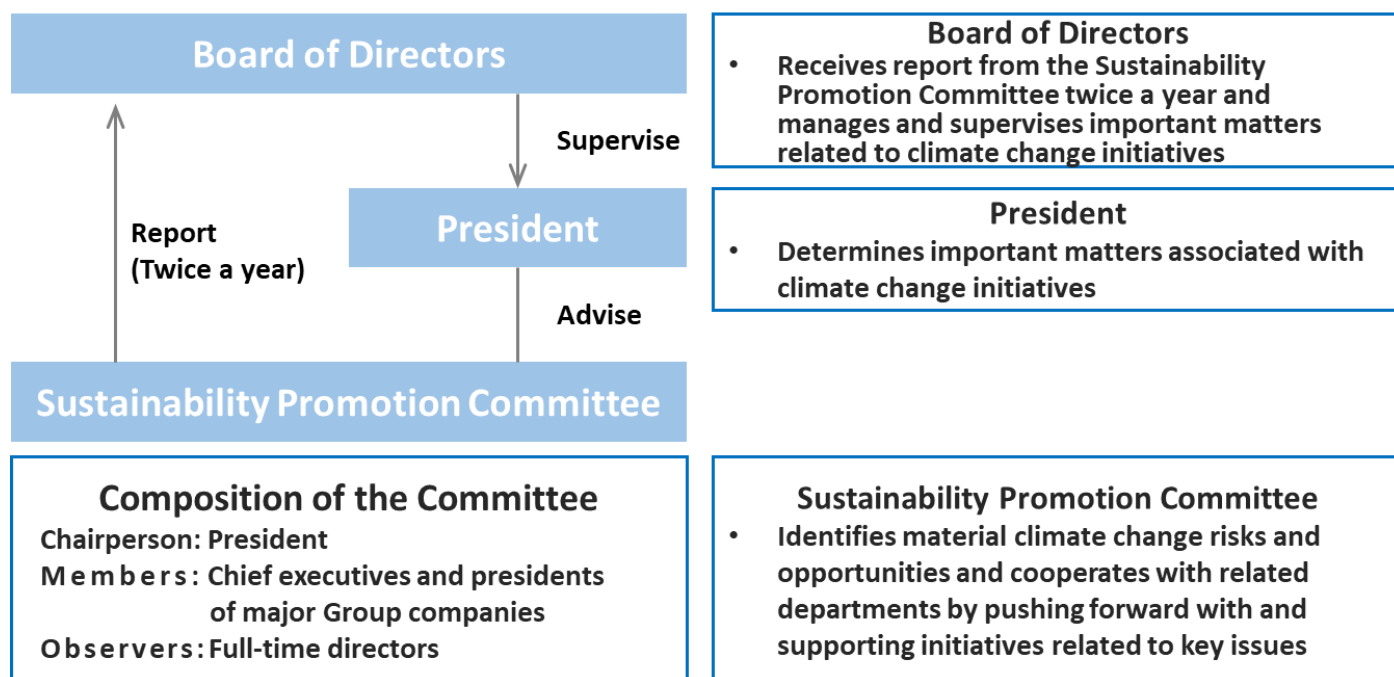
Climate change is one of the most important social issues faced by global society.

Based on the Paris Agreement, Denyo has set its environmental target of reducing (Scope 1 and 2) CO₂ emissions per unit of sales by 40% or more compared to the level in fiscal 2010 by fiscal 2030. To achieve this target, we will push forward with the development and manufacturing of excellent products while deeply considering the global environment. We will also disclose information in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to ensure good communications with our shareholders, investors and other stakeholders.

◆ Governance

The Denyo Group has established the Sustainability Promotion Committee chaired by our president to identify and appropriately manage material issues related to sustainability. The Sustainability Promotion Committee identifies material risks and opportunities related to sustainability, including climate change, formulates measures related to them, and move forward with and supports initiatives related to key issues. The committee also monitors progress and cooperates closely with related departments. The results of these measures are reported to the Board of Directors twice a year. Important matters related to climate change initiatives are determined by the president with the appropriate guidance and supervision of the Board of Directors.

■ Internal structure and roles



◆ Strategy

We have conducted scenario analyses of Denyo Co., Ltd., whose net sales are more than 60% of consolidated net sales, to identify the risks, opportunities and financial impact of climate change in its business. Based on the results of the analyses, we discuss measures to increase the resilience of our business activities. As a result of the scenario analyses, we identified the possibility that the increase of costs reflecting the tightening of regulations with the goal of the decarbonization of society will impact our business results in the scenarios announced by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) in which the temperature rise is kept below 2.0 (1.5) °C compared to the pre-industrial level (with transition risks being the majority of risks). (E.g.: Increase in manufacturing costs when developed countries which

have made carbon net zero declarations institute carbon taxes, which is assumed based on the IEA scenario) In the scenario in which climate change is not controlled fully and the temperature rises by 4 °C from the pre-industrial level (with physical risks being the majority of risks), we identified the possibility that our business results will be affected by damage to factories, the shutdown of factories, and supply chain disruptions caused by serious disasters resulting from abnormal weather.

■ Risk assessment based on business impact and our initiatives

	Risk item	Risk assessment		Our initiatives
		4℃	2℃ (1.5℃)	
Risks related to the transition to a decarbonized economy	Costs resulting from introduction of carbon taxes and emissions trading	Small	Large	<ul style="list-style-type: none">●Controlling greenhouse gas emissions and energy consumption<ul style="list-style-type: none">- Reducing the energy consumed by production equipment- Reducing energy consumed by utilities equipment- Power-saving activities in offices, etc.- Replacing commercial vehicles with hybrid vehicles, etc.
	Costs generated due to the fluctuation of the price of electricity	Small	Large	<ul style="list-style-type: none">● Using clean energy by installing solar power generation systems, etc.
	Impact on demand for engine-driven generators	Medium	Large	<ul style="list-style-type: none">●Development and expansion of sales of environmentally friendly products (with lower emissions and fuel costs)
	Raw material costs	Small	Medium	<ul style="list-style-type: none">●Differentiating ourselves by developing decarbonized/low-carbon productsDevelopment of fuel-cell portable generators, fuel cell power supply vehicles, hydrogen co-firing generators, and similar products
	Changes in reputation with stakeholders	Small	Large	<ul style="list-style-type: none">●Proactively disclosing information about environmental initiatives in line with environmental reports and the TCFD recommendations
Risks related to the physical impact of climate change	Flooding damage	Large	Medium	<ul style="list-style-type: none">●Thorough business continuity measures<ul style="list-style-type: none">- Employee safety- Measures for information infrastructure (mission-critical business systems)- Measures for utilities, and others
	Storm surge damage	Small	Small	<ul style="list-style-type: none">●Developing business continuity products (such as emergency generators) and increasing the capacity to produce these products
	Loss from suspension of operations due to disaster	Small	Small	

Based on the results of the scenario analyses, we engage in initiatives with the goal of increasing the resilience of our business activities. We strive to improve energy efficiency and reduce energy consumption to reduce the GHG emissions from our business activities. In addition, we have strengthened product development and initiatives to increase production capacity based on our understanding that the growing demand for environmentally friendly products and products featuring decarbonization/low-carbon technologies based on next-generation energy such as hydrogen and the increasing demand for business continuity measures are important opportunities. We have developed an environmentally friendly engine welding machine with an automatic idle stop feature. We are also developing technology for fuel-cell portable generators and fuel cell power supply vehicles, which are decarbonized/low-carbon products selected in 2019 by the Ministry of the Environment for their Low Carbon Technology Research, Development and Demonstration Program. Through these and other initiatives, we are striving to create innovative products for the future. We are also responding to the demand for measures to ensure business continuity. We are planning the construction of a new factory for Nishihatsu Co., Ltd., our subsidiary manufacturing emergency generators for use in disasters. The goal is to increase our capacity for producing emergency in-house power generators and other equipment.

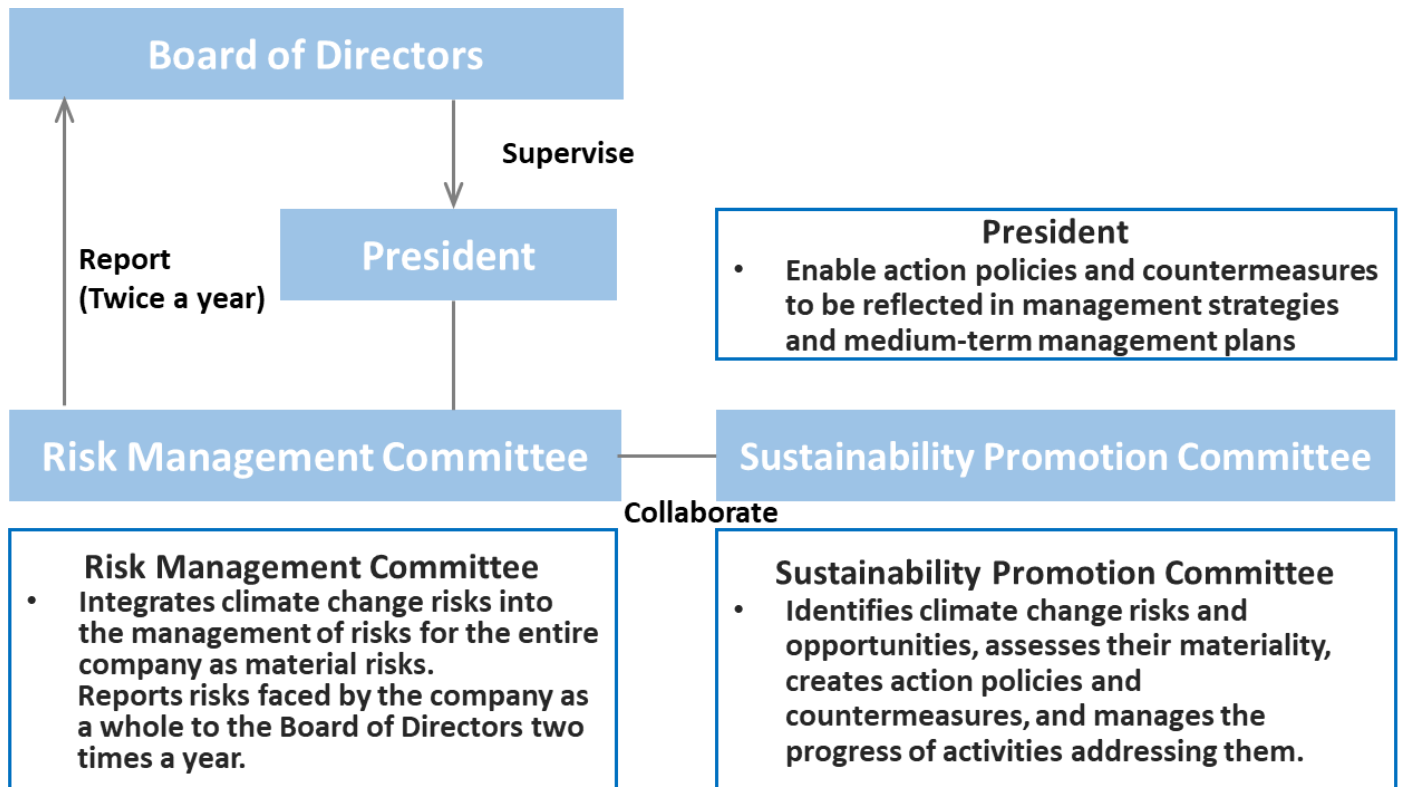
◆ Risk management

While the environment surrounding corporations is growing more complicated and increasingly uncertain, we believe that the appropriate handling of risks which have the potential to greatly impact corporate activities is essential for the implementation of management strategies and measures to achieve the purposes of business.

At the Denyo Group, we position risk management as an important initiative for the improvement of our corporate value

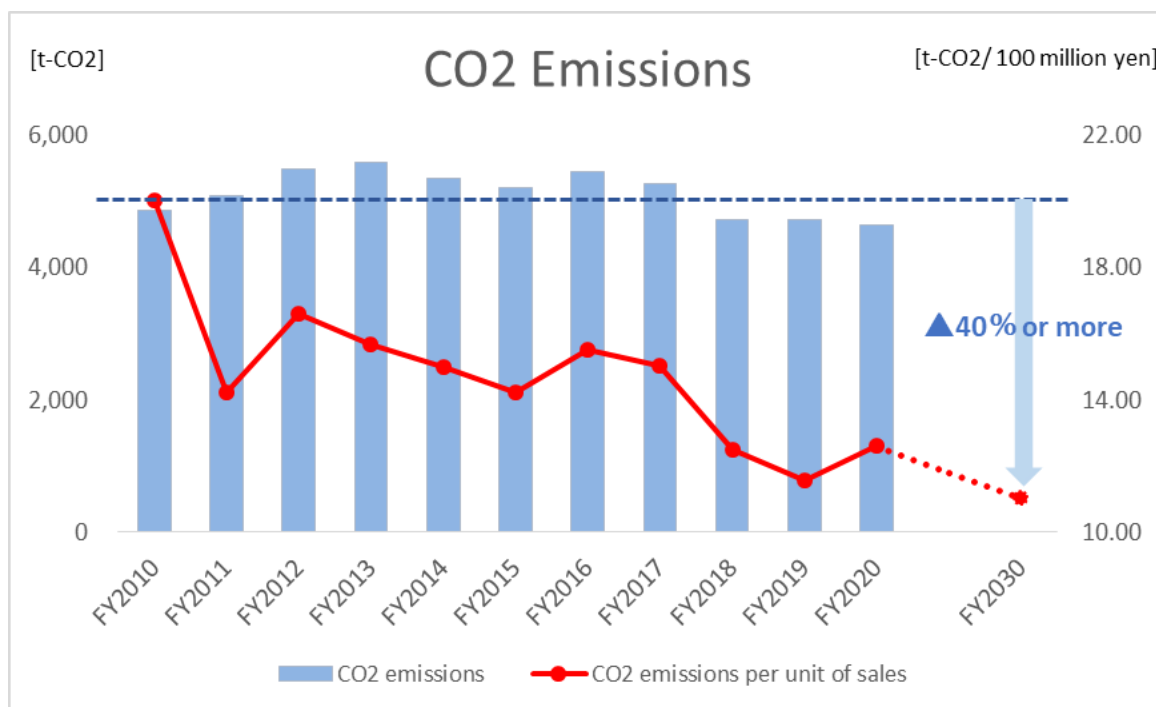
and take measures accordingly, guided by our Risk Management Committee. Regarding climate-change-related risks, the Sustainability Promotion Committee shares information about identified risks with the Risk Management Committee. Risks faced by the company as a whole are assessed and prioritized based on frequency of occurrence and financial impact. We have also established a structure under which the risks that are deemed important are monitored regularly to ensure that the risks faced by the company as a whole are managed appropriately. Further, the content of the committee's deliberations are reported to the Board of Directors, and the president ensures that action policies and countermeasures are reflected in management strategies and medium-term management plans.

■ Risk management structure and roles



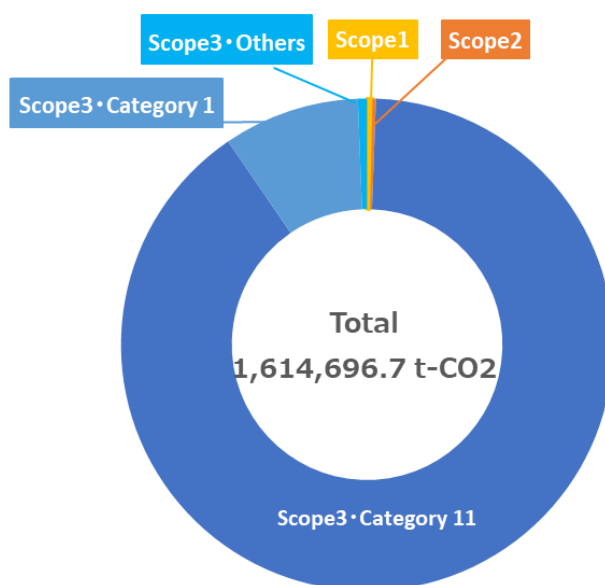
◆ Metrics and targets

We have set the target of reducing Denyo Co., Ltd.'s Scope 1 and 2 CO₂ emissions per unit of sales at least 40% from the level in fiscal 2010 by fiscal 2030. In fiscal 2010, emissions were 4,869 t-CO₂ and emissions per unit of sales were 20.02 t-CO₂/100 million yen. In fiscal 2020, emissions were 4,640 t-CO₂ and emissions per unit of sales were 12.60 t-CO₂/100 million yen. This demonstrates that we have been steadily reducing emissions.



■ CO₂ emissions from the entire supply chain (Scopes 1, 2, and 3)

Following Ministry of the Environment guidelines, we calculate CO₂ emissions from Denyo Co., Ltd.'s entire supply chain.



Scope / Category		CO2 emissions [t-CO2]	Percentage [%]
Scope1	Direct emissions from our fuel consumption	2,834.6	0.2%
Scope2	Indirect emissions from our power consumption	1,805.3	0.1%
Scope3	Emissions from the supply chain Total of the following categories 1 to 15	1,610,056.8	99.7%
Total of Scopes 1, 2, and 3		1,614,696.7	100.0%
Category 1	Purchased products and services	139,202.9	8.6%
Category 2	Capital goods	5,014.1	0.3%
Category 3	Fuel and energy-related activities that do not fall under Scopes 1 and 2	914.2	0.1%
Category 4	Transportation and distribution (upstream)	6,826.5	0.4%
Category 5	Waste generated by operations	226.1	0.0%
Category 6	Business travel	138.5	0.0%
Category 7	Employee commute	1,200.2	0.1%
Category 8	Leased assets (upstream)	Not applicable	–
Category 9	Transportation and distribution (downstream)	Not applicable	–
Category 10	Fabrication of sold products	Not applicable	–
Category 11	Use of sold products	1,455,402.2	90.4%
Category 12	End-of-life treatment of sold products	1,085.0	0.1%
Category 13	Leased assets (downstream)	47.2	0.0%
Category 14	Franchises	Not applicable	–
Category 15	Investment	Not applicable	–