

Tackling climate change -- Initiatives based on TCFD recommendations and the challenge to achieve carbon neutrality --

In January 2024, the Nihon Parkerizing Group announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and is affiliated with the TCFD consortium. We are committed to being accountable to our stakeholders by disclosing climate change information in line with the TCFD framework. In addition, we handle business operations and financial affairs in accordance with the risks and opportunities identified in our scenario analysis.

Governance

In response to society's increasing demands and expectations for companies to realize a sustainable society, we pursue sustainable growth and strive to balance economic and social value in line with our management philosophy. In July 2023, we established the Sustainability Committee to further our actions to address sustainability challenges, including climate change.

This committee meets quarterly to discuss the following agenda.

- Results of scenario analyses based on the TCFD recommendations
- Measures to address climate-related issues
- Setting qualitative and quantitative targets related to sustainability and evaluating their progress

The committee submits reports regarding its deliberations to the Executive Board and the Board of Directors in a timely manner at least once a year. The Board of Directors oversees all of the company's sustainability activities and promotes actions to fulfill our corporate responsibilities.

The Sustainability Committee meeting record:
August 2024 and January, April and June 2025

Strategies

Nihon Parkerizing assessed and identified transition risks (policies and market changes) and physical risks (extreme weather) related to climate change from short-, medium- and long-term perspectives. With an eye toward the business environment in 2030, we conduct analyses under three different scenarios: the below 1.5°C scenario, the below 2°C scenario and the 4°C scenario, referencing the existing

scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC). Identifying the risks and opportunities that may significantly affect our business operations, we quantify their financial impact to the extent possible.

* Reference scenarios: Transition risk: IEA NZE, IEA APS, IEA STEPS
Physical risk: SSP1-1.9, SSP1-2.6, SSP5-8.5

Below 1.5°C scenario

Category	Details	Time axis	Impact	Remedies and initiatives	
Risks	Policy and legal regulations	Introduction of a carbon tax and tightening of regulations on emissions	Medium to long term	Medium	<ul style="list-style-type: none"> • Promotion of energy saving measures/under consideration • Introduction of renewable energy/in progress throughout the Nihon Parkerizing Group • Photovoltaic power generation systems for in-house consumption/under consideration
	Raw material procurement	Difficulty in procurement due to environmental regulations	Medium to long term	Medium	<ul style="list-style-type: none"> • Promoting multi-sourcing/shift to multi-sourcing
	Market changes	Decarbonization-related demand from customers	Medium to long term	High	<ul style="list-style-type: none"> • Development of environmentally friendly products • CFP calculation/handled on a project basis
	Technical response	Responding to customers' technological innovations	Medium to long term	High	<ul style="list-style-type: none"> • Strengthening technological development and customer cooperation
Opportunities	Increase in natural disasters	Difficulty in the procurement of scarce resources	Short to long term	Low	<ul style="list-style-type: none"> • Enhancing supplier engagement • Promoting multi-sourcing
	Products and services	Increase in demand for environmentally friendly products	Medium to long term	High	<ul style="list-style-type: none"> • New product development • Customization
	New markets	Expansion of the decarbonization market	Medium to long term	High	<ul style="list-style-type: none"> • Development of a new business field

4°C scenario

Category	Details	Time axis	Impact	Remedies	
Risks	Natural disasters	Shutdowns due to typhoons, floods and other disasters	Medium to long term	Small to medium	<ul style="list-style-type: none"> • Strengthening of BCP • Deployment of bases • Disaster Response drills
	Raw materials	Concerns about the supply of rare resources	Medium to long term	Small to medium	<ul style="list-style-type: none"> • Diversification of suppliers • Study on alternative materials
Opportunities	Disaster prevention and mitigation	Increased demand for disaster response technologies and products	Medium to long term	Medium	<ul style="list-style-type: none"> • Product development for disaster prevention infrastructure
	Resilience	Demand for supply chain strengthening	Medium to long term	Medium	<ul style="list-style-type: none"> • Supporting the development of a stable supply system

Key strategies based on the below 1.5°C scenario

Strategy 1 Response to decarbonization measures

We estimate that the carbon emissions from business activities will increase as the business grows unless we take steps to prevent them. When carbon taxes are introduced, their impact on our operating income could be hundreds of millions of yen. To address these risks, we set a target to reduce CO₂ emissions per unit of sales (Scope 1 and 2) by 30% compared to FY2020 by 2030. In addition, we have been discussing energy-saving activities across the entire Nihon Parkerizing Group.

Strategy 2 Addressing raw material procurement risks

We anticipate that new raw materials may be required due to environmental regulations. If it is difficult to procure raw materials, the impact on operating income could exceed JPY one billion. To address the risks, we have set "taking responsibility for creating a sustainable society" as one of our key issues and encourage the use of alternative raw materials and the adoption of alternative products, in addition to establishing a stable supply system in cooperation with suppliers.

Strategy 3 Response to decarbonization

Failure to meet the growing demand for decarbonization-related products could lead to a decline in orders and the loss of billions of yen in operating income. To address these risks, we have set "the development of products and services that contribute to the achievement of the SDGs" as one of our material issues and support customers in reducing the environmental impact of their manufacturing processes. We also contribute to society's decarbonization by calculating the CFP (carbon footprint) for each of our products and services to visualize CO₂ emissions.

Strategy 4 Responding to new markets

While the movement toward carbon neutrality is accelerating worldwide, the need to develop innovative technologies and products is growing rapidly in the decarbonization market. We have set "creating a more prosperous society through surface modification technologies" as a material issue, and we are actively leveraging the proprietary technologies we have cultivated over many years to develop products for new markets.

Risk management

System for the management of climate-related risks

Nihon Parkerizing's Sustainability Committee identifies and assesses climate-related risks, while the Risk Management Committee handles other business risks. The Sustainability Committee identifies critical risks and opportunities and assesses their impact using scenario analyses aligned with the TCFD recommendations. Risks are assessed on a four-point scale for their impact (on an operating income basis) and likelihood of occurrence (frequency). Overall, they are rated on a 16-point scale for their importance. Based on this, we prioritize risks and determine measures based on their relative relationships.

Climate-related risk management process

We plan, implement, manage, and improve measures to address business risks based on their importance. Our

environmental strategy reflects climate-related transition risks and opportunities, and we have incorporated them into our targets and plans. We implement a plan-do-check-act (PDCA) cycle to improve our environmental performance and risk management.

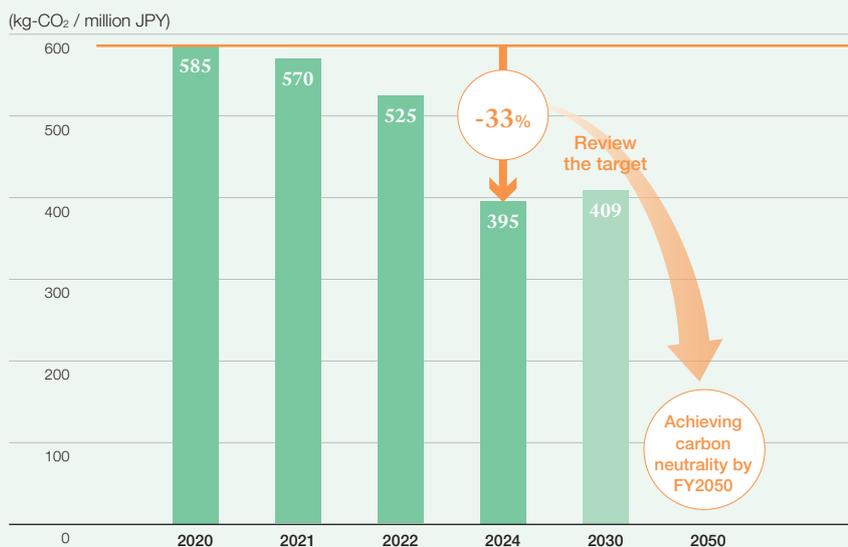
Integration with comprehensive risk management

The Nihon Parkerizing Group has established its Risk Management Committee to effectively manage risks that may hinder the achievement of its business objectives, discuss assessments and measures with a focus on management risks and submit reports on these matters to the Internal Governance Committee. The Sustainability Committee leads the handling of climate change-related risks, and the two committees work closely and cooperatively on company-wide risk management.

Indicators and targets -- efforts toward carbon neutrality --

We have set a target to reduce our GHG emissions (Scopes 1 and 2) by 30% from the FY2020 level by FY2030. We calculated our non-consolidated GHG emissions in the fiscal year ended March 2025. According to this calculation, we have exceeded our target, achieving a 33% reduction through initiatives such as introducing renewable energy and promoting energy-saving activities. We will set a GHG emissions reduction target for our domestic and overseas consolidated subsidiaries, and the entire Nihon Parkerizing Group will strive to achieve carbon neutrality.

Trends in Scope 1 and 2 CO₂ emissions per unit of sales on a non-consolidated basis



Scope 1, 2, and 3 emissions in FY2024 at the Company alone and the group

(t-CO₂)

	The Company alone	The group ^{*1}	
Scope 1	10,410	50,630	
Scope 2	Market-based emissions	6,198	
	Location-based emissions	8,975	
Scope 3^{*3}	Category 1	95,768	
	Category 2	4,852	
	Category 3	4,834	
	Category 4	11,229	
	Category 5	1,274	
	Category 6	178	
	Category 7	537	
	Category 11	-	
	Category 12	53,326	
			203,211
			15,807
			13,086
		18,748	
		2,785	
		340	
		1,000	
		400,610	
		56,830	
		67,039 ^{*2}	
		69,729	

^{*1} Emissions from the following companies were measured: Nihon Parkerizing Co., Ltd., eight major domestic consolidated subsidiaries (Parker Engineering Co., Ltd., Parker Processing Co., Ltd., Oita Parkerizing Co., Ltd., Komatsu Parkerizing Co., Ltd., Japan Kanigen Co., Ltd., Hamamatsu Netsushori Kogyo Co., Ltd., Million Chemicals Co., Ltd. and Kyodoyuso Co., Ltd.) and six major overseas consolidated subsidiaries (Parker Trutec, Parker Trutec Mexicana, Foshan Parker Surface Modification Co., Ltd., PT Parker Metal Treatment Indonesia, Thai Parkerizing Co., Ltd. and Parker Processing Vietnam Co., Ltd.)

^{*2} Since the emission factors at our power contract partners are unknown, IEA country-specific emission factors were substituted to calculate emissions for the six principal overseas consolidated subsidiaries

^{*3} The six principal overseas consolidated subsidiaries are outside the scope of Scope 3 emissions

GHG emissions in Scope 1, 2, and 3

To ensure the transparency and reliability of the disclosed GHG (greenhouse gas) emissions, in FY2024, we received third-party assurance from an external organization (SOCOTEC Certification Japan K.K.).



Third-party certification