Disclosure Based on TCFD Recommendations

Endorsement of TCFD Recommendations

Nihon Kohden defined sustainability key issues (material issues) to be addressed through business and corporate activities. The Company also incorporated these non-financial targets into its Three-year Business Plan, BEACON 2030 Phase I, in order to contribute to addressing global social issues and SDGs. As addressing climate change is one of the most critical social issues facing global society and one of the most significant management issues for us, Nihon Kohden expressed its support for the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD) in May 2022 and disclosed related information in July 2022. We will address climate change with integrity to realize a carbon-free society as stated in our material issues and disclose information in line with the TCFD recommendations.

For the full text of the Nihon Kohden Group's disclosure in line with the TCFD recommendations, please refer to our website.

https://www.nihonkohden.com/sustainability/environment/tcfd.html

Notice regarding disclosure of information in line with TCFD recommendations (press release)

https://www.nihonkohden.com/news/22071202.html

Governance

To promote sustainability, Nikon Kohden has established the Sustainability Promotion Committee and Sustainability Promotion Meeting. In July 2021, Nihon Kohden has also established the Advisory Board consisting of external experts to incorporate outside perspectives on sustainability activities including measures to address climate change.

The Sustainability Promotion Committee holds a meeting twice a year and formulates the policies and directions including measures on climate change. The president, who is the chairman of the Sustainability Promotion Committee, has the authority to evaluate and manage measures to mitigate climate change, and regularly reports to the Board of Directors about the progress and evaluation of the annual plan. The Board of Directors supervise the Company's measures on climate change. The Sustainability Promotion Meeting is held four times a year to establish and promote annual plans based on the policies and directions formulated by the Sustainability Promotion Committee and reports on the progress of those plans to the Sustainability Promotion Committee. Based on its Three-year Business Plan, Nihon Kohden's management has set material issues and KPIs related to sustainability and assigned departments for each materiality. Members of the Sustainability Promotion Meeting, who represent the departments in charge of each materiality, report on the progress of sustainability activities and exchange opinions with other members at regular meetings. The Advisory Board Meeting is held twice a year to discuss and advise on overall sustainability promotion, including actions on climate change.

Strategy

To understand the impact of climate change on business activities in Japan and internationally, Nihon Kohden has analyzed risks and opportunities mainly by management and members of the Sustainability Promotion Committee and Sustainability Promotion Meeting. Based on analysis of a 1.5°C and 2°C scenario as well as a 4°C scenario, we have identified transitional and physical risks and opportunities over the short-term to FY2023, medium-term to FY2026, and long-term to FY2029.* We have also examined the business impact and possible countermeasures.

* A 2°C scenario is to limit the global average temperature increase to 2°C above pre-industrial levels.
A 1.5°C scenario is to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.
A 4°C scenario estimates the global average temperature increase to be 4°C above pre-industrial levels.

Disclosure Based on TCFD Recommendations

■ The outlook with a 1.5℃ to 2℃ scenario - Potential impact of climate change on our business

In the medical industry, demand for environmentally friendly products and digital health solutions will increase because of strengthening laws and regulations and increasing customer awareness of the need to realize a carbon-free society. Costs are expected to increase as a result of the need to meet this demand, but further business opportunities are expected if our response is handled properly.

In our analysis of the 1.5℃ to 2℃ scenario, we made assumptions about how the strengthening of carbon-free policies in each country and region in response to climate change would affect the industries we are involved with. With the development of a carbon-free society, we can expect tighter regulations in each country and region, including carbon taxes and emissions trading. Since our medical equipment manufacturing is mainly assembly line production, we do not emit a large amount of greenhouse gases (GHG) on our own, but our suppliers do emit a certain amount of GHG in their parts manufacturing process. If carbon pricing and environmental labeling, including parts, become mandatory in the future, and the impact of such labeling expands, there is a risk that it will become difficult to provide medical equipment to customers at stable prices. In particular, the intensification of these initiatives in Europe may affect our ability to achieve the 45% overseas sales ratio targeted in our Long-term Vision, BEACON 2030.

In addition, as we work to reduce CO_2 emissions, we plan to introduce equipment and technologies using renewable energy and energy conservation, as well as relocate to high-efficiency offices. We expect the corresponding costs to continue to increase. On the business front, we expect an increase in R&D and capital investment to realize digital health solutions with low environmental impact, as well as higher prices for raw materials such as resins used in product housings and restrictions on the use of certain substances. In addition, there is a risk of lost sales opportunities if the development of environmentally friendly products, for which demand is expected to grow in the future, is delayed, or if we are unable to meet the conditions for tender on medical equipment from an environmental perspective.

On the other hand, the increase in the cost of dealing with a carbon-free society is expected to be temporary, and therefore costs are expected to decrease in the long-term perspective. For example, cost reductions from reducing part counts, optimizing components, improving productivity and shortening lead times can all be expected. As one of material issues and KPIs for sustainability, we have set a target of the sales ratio of environmentally friendly products to be 20% or more (cumulative total for three years from FY2021), and are strengthening development of environmentally friendly products. We believe that by expanding our efforts to realize a carbon-free society, we can avoid worsening financing conditions and divestment by financial institutions and investors.

■ The outlook with a 4℃ scenario – Potential impact on our business due to climate change

In a society where carbon-free policies are not progressing well and extreme natural disasters are intensifying, it is expected that the healthcare system will need to be strengthened, especially in the areas of disaster medicine and emergency medicine. On the other hand, the procurement of parts, the supply of products, and sales and service activities may be disrupted significantly.

In our analysis of the 4℃ scenario, it is assumed that carbon-free policies will not be strengthened in each country and region in response to climate change, average temperatures will continue to rise, and physical risks will increase as natural disasters become more severe.

The Nihon Kohden Group operates its business activities throughout Japan and around the world. In the event of natural disasters and shortage of water or other resources associated with climate change, or the spread of infectious diseases in each region, the procurement of parts, the supply of products, and sales and service activities may be disrupted, which could have a profound impact on the operating results and financial condition of the Nihon Kohden Group.

On the other hand, in the medical field where we provide our products and services, the importance of disaster medicine and emergency medicine is likely to increase even further due to the increase in natural disasters and infectious diseases caused by climate change. Society demands that medical equipment, which is vital to human life, continue to be supplied smoothly and operate stably even in the event of a large-scale disaster. We have contributed to enhancing healthcare systems around the world by providing defibrillators that are robust and durable even in times of disaster, telemetry systems and ventilators that contribute to infection control. In recent years, by providing IT system solutions and promoting the Digital Health Solution vision, we have been working to improve productivity in clinical practice and reduce indirect CO_2 emissions through the effective use of medical resources.

Assumptions for each scenario analysis	1.5°C to 2°C scenario	4°C scenario
Social dimensions	We assume that social changes, as part of a global carbon-free initiative which limits the average temperature increase to 1.5 to 2°C, will result in changes in laws and regulations, and technological innovation, affecting our business.	We assume that extreme disasters and infectious diseases will increase and affect our business due to a 4°C increase in the average temperature, even though the Paris Agreement and various policies to reduce greenhouse gases will be implemented.
Reference	Transition risks: IEA (International Energy Agency): STEPS (The Stated Policies Scenario), NZE (Net Zero Emissions by 2050), SDS (Sustainable Development Scenario) Physical risks: IPCC (Intergovernmental Panel on Climate Change), SSP2 (Shared Socioeconomic Pathways), RCP4.5, RCP6.0, RCP8.5 (Time period is 2030 to 2050)	

Disclosure Based on TCFD Recommendations

: Gradual increase in impact : Not changing much

1.5°C to 2°C scenario

Major Risks and Opportunities	Business Impact	Time horizon	Proposed Countermeasures
Introduction of carbon tax and emissions trading Risk: Loss of sales opportunities in environmentally developed markets Risk: Deterioration in earnings due to higher carbon prices Risk: Legislation for use of renewable energy and reduction of electricity use	↗	Long-term	• Use of renewable energy to reduce CO_2 emissions • Adoption of energy-efficient production facilities
Increase in demand for environmentally friendly products Risk: Loss of sales opportunities due to not meeting customer requirements Opportunity: Sales opportunities due to increased demand for relevant products	↗	Short-term	• Strengthening the development of environmentally friendly products • Selection of low environmental impact parts and delivery methods
Increase in demand for digital health solutions with low environmental impact Risk: Increase in investment costs for R&D and capital equipment Risk: Decrease in competitiveness when companies with superior climate change solutions enter the market Opportunity: Business opportunities through integration and analysis of vital sign data and clinical support applications	↗	Short- to medium-term	• Reduction of CO_2 emissions through promotion of telemedicine and tele-ICU • Creation of business opportunities through new initiatives such as automatic control of medical equipment
Higher prices for raw materials such as resin used in product housings Risk: Higher production costs	→	Short- to long-term	• Adoption of common platforms in product development and production processes • Cost reduction by reducing part counts and optimizing components
Stakeholder assessment Risk: Deterioration of financing conditions and divestment by financial institutions and investors	→	Medium-term	• Establishment of environmental targets such as CO_2 emissions reduction • Improvement of evaluation by external organizations through enhanced information disclosure

4°C scenario

Major Risks and Opportunities	Business Impact	Time horizon	Proposed Countermeasures
Extreme natural disasters such as torrential rains and floods Risk: Significant disruption to product supply, sales and service activities Risk: Disruption to health and safety of employees and their families	↗	Short- to long-term	• Business Continuity Plan (BCP) for the entire supply chain • Reducing risks by securing raw material suppliers, supply systems, and transportation routes; providing support to suppliers; and purchasing from multiple suppliers • Relocation of offices with high flood risk
Insufficient supply of water and other resources Risk: Stagnation in production of products and consumables that use water and other resources	↗	Short- to long-term	• Reuse of water resources discharged in the production of hematology reagents • Development and provision of products that use less water resources
Increase in infectious diseases Risk: Suspension of production, delays in supply chain, disruption of healthcare systems Opportunity: Enhancement of healthcare systems for disasters and emergencies	↗	Short-term	• Expansion of product supply, sales and service structures • Focus on medical equipment and DX in medical fields • Promotion of multi-plant operation

Disclosure Based on TCFD Recommendations

Risk Management

For further details on the overall risk management of the Nihon Kohden Group's operations, please refer to **the Strengthening Risk Management page**.

A cross-organizational TCFD response project was initiated and has been operated since October 2021 to identify and assess climate change risks affecting the Nihon Kohden Group. Climate change risks and response measures identified in the TCFD response project have been discussed and approved by the Sustainability Promotion Committee and its progress has been managed and reported to the Board of Directors.

Nihon Kohden considers the risk of losses due to interruption of operations caused by disasters or accidents and the risk of losses due to occurrence of environmental pollution, etc., caused by insufficiency in reduction of environmental impact or prevention of environmental pollution to be its business risks. In the event of natural disasters and shortages of water or other resources associated with climate change, terrorism, war, or the spread of infectious diseases in each region, the procurement of parts, the supply of products, and sales and service activities may be disrupted, which could have an impact on the operating results and financial condition of the Nihon Kohden Group. We procure raw materials and parts used for our products not only in Japan but also around the world. In the event of a supply issue at a supplier, we take measures, including the consideration of alternative parts, to ensure that the production of our products is not affected. In addition, we have formulated a Business Continuity Plan (BCP) and conduct periodic company-wide education and training to ensure the continued supply of products and services in the event of a large-scale earthquake.

Metrics and Targets

To realize a carbon-free society, which is one of material issues in the environment for sustainability, we set KPIs for CO_2 emissions, the number of models of environmentally friendly products and the sales ratio of such products, and the amount of waste from disposal of products and parts.

To reduce CO_2 emissions, we have set **Medium- to Long-term Environmental Targets** and are promoting initiatives to achieve them. Furthermore, as part of our efforts to promote energy conservation in our business activities, we have been gradually switching to renewable energy sources since FY2017, at those of our major offices with high-voltage power contracts. In FY2022, we changed the electricity contracts for all buildings at the Nishiochiai Office as well as the Advanced Technology Center, the Kawamoto Office, the Asaka Office, and 53 domestic sales branch offices. We aim to switch to 100% renewable energy sources at all of our domestic offices to by 2030.

To address the risk of flooding at our offices and improve energy efficiency, we relocated three domestic offices in FY2022 and plan to relocate 10 domestic offices by FY2023. We will also set the targets and promote to strengthen measures to improve water use efficiency at our production sites.

In addition, as a contribution to society through its business activities, Nihon Kohden focuses on manufacturing environmentally friendly products, such as energy-saving, compact and lightweight products, and aims to achieve a cumulative sales ratio of 20% or more for environmentally friendly products for three years. In FY2022, we achieved a sales ratio of 18.2% for environmentally friendly products.

In terms of the amount of waste from disposal of products and parts, we aim at 8% reduction of products and parts retirement in FY2023 compared to FY2020. In FY2022, we reduced them by 0.7% compared to FY2020.

We will continue to provide environmentally friendly products and cooperate with business partners in the supply chain to clarify our environmental issues and promote measures through the establishment of SBT targets.

Disclosure Based on TCFD Recommendations

		FY2020	FY2021	FY2022
Global Warming Prevention	Scope 1 (t-CO_2)	4,684	4,797	4,539
	Scope 2 (t-CO_2)	7,610	5,874	4,828
	Greenhouse gas emissions (t-CO_2)	12,294	10,672	9,367
Energy Saving	Total input energies (GJ)	246,771	245,486	240,393
Waste Reduction	Total waste emissions (t)	710.5	759.4	732.5
	In-house recycling rate (%)	96.9	97.3	97.4
Environmentally Friendly Products	New registration of environmentally friendly products (registrations)	7	4	4

The figures for Global Warming Prevention and Energy Saving are the combined totals for the Scope of ISO 14001 certification, including the parent company, and domestic sales branches.
The figures for Waste Emissions are for the scope of ISO 14001 certification, including the parent company. The figures for Environmentally Friendly Products are the number of product series launched in that fiscal year.
* Scope of ISO 14001 certification: Ochiai and Tokorozawa site, Tomioka site, Tsurugashima site, Kawamoto site, Fujioka site. (The Fujioka site was excluded from the scope of ISO 14001 certification in FY2021 due to the closure of the office.) (The Ochiai and Tokorozawa site includes the Eastern Japan Logistics Center from FY2021.)

Water Intake (m^3)	FY2020	FY2021	FY2022
Water supply	57,811	60,858	62,657
Surface water of rivers and lakes	0	0	0
Other (such as rainwater, seawater, well water, spring water)	0	0	0
Total amount	57,811	60,858	62,657
Water Discharge (m^3)	**FY2020**	**FY2021**	**FY2022**
Sewerage	38,406	37,265	39,738
Rivers	8,775	9,007	8,186
Other (such as watering the ground surface)	0	0	0
Total amount	47,181	46,272	47,923

The figures for Water Intake and Water Discharge are the combined total for the scope of ISO 14001 certification, including the parent company, and the domestic sales branches.