

Environmental Strategy

Initiatives toward the realization of the Daiken Global Environment Vision 2050

In October 2021, we formulated the Daiken global environment vision 2050, in which the Daiken Group's attitude for the long-term initiatives, policies, and goals for environmental issues are established. We aim to contribute to the realization of a sustainable society from the three perspectives of the promoting resource recycling, mitigating climate change, and coexisting with nature and will put effort into the resolution of social issues, such as environmental issues.

Daiken Global Environment Vision 2050

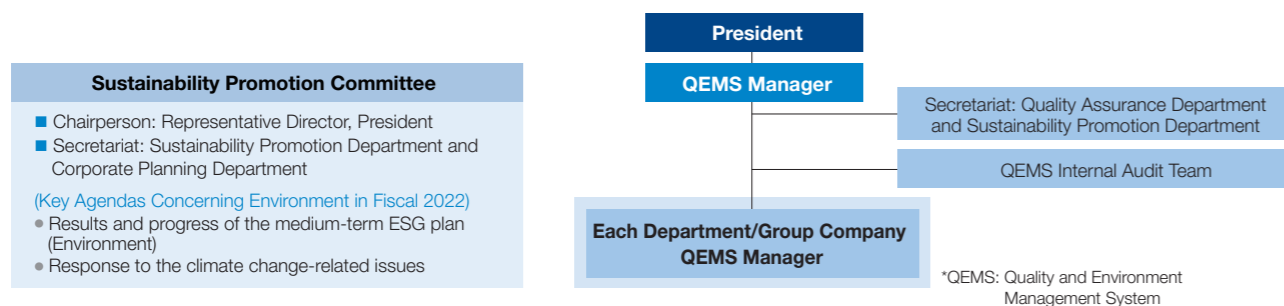
Vision

For a future full of smile

The overall aim of the Daiken Group is to realize a sustainable society towards 2050 by promoting resource recycling, mitigating climate change, and coexisting with nature.

Environment Policy	Long-Term Goals
<p>1 Promotion of resource recycling – Waste reduction and reuse of resources –</p> <p>By actively taking advantage of properly managed sustainable forest resources, we can promote forest circulation and help to realize a circular economy of sustainable resource circulation throughout society by reusing resources, material recycling, and thermal recycling, rather than disposal.</p>	<p>1 100% waste recycling</p> <ul style="list-style-type: none"> Promote material recycling and thermal recycling on the premise of cascade use. Zero final disposal of waste in landfills. Reduce waste through a series of processes from procurement of raw materials to the use and disposal of products.
<p>2 Mitigation of climate change – Realization of carbon neutrality –</p> <p>We will reduce our own greenhouse gas emissions, as well as emissions throughout the entire supply chain. Also, by using sustainable forests and wood resources, we will help to expand carbon storage and contribute to the maintenance and circulation of carbon sinks as we work together with society to achieve carbon neutrality.</p>	<p>2 Net zero greenhouse gas emissions</p> <ul style="list-style-type: none"> Promote energy conservation by improving productivity and efficiency. Expand the use of renewable energy. Expand the use of wood materials and products that store carbon. Promote reforestation through the active use of materials from managed forests. Contribute to the maintenance and recycling of CO₂ sinks through afforestation.
<p>3 Coexistence with nature – Conservation of biodiversity –</p> <p>In consideration of biodiversity, our objective is to coexist with a sustainable natural environment and preserve ecosystems by contributing to environmental impact reduction, conservation, and restoration.</p>	<p>3 Reduce the impact on the natural environment</p> <ul style="list-style-type: none"> Zero use of lauan wood. Appropriately manage chemical substances and reduce emissions. Promote the effective use of water resources. Reduce the use of plastics derived from fossil fuels.

Structure to promote Environment Management



ISO 14001 Certificate Acquisition Status (As of the end of March 2022)

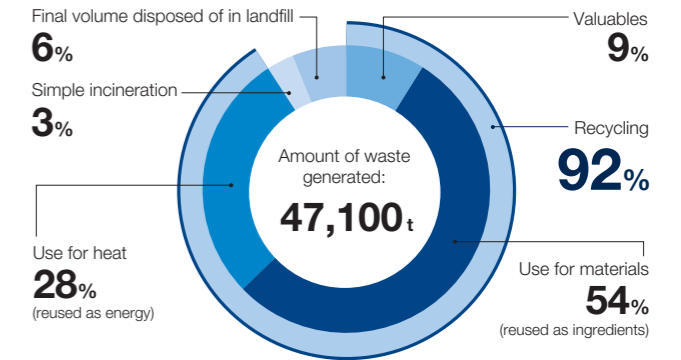
(1) The percentage of the offices that acquired the certificate in all offices in Japan: 91.1% (Based on the consolidated number of employees)	(2) The percentage of the offices that acquired the certificate in all overseas offices: 54.1% (Based on the consolidated number of employees)
37 offices and plants at 9 companies	5 offices and plants at 5 companies

1 Promotion of Resource Recycling

Recycling of waste materials

The Daiken Group aims to realize a recycling-oriented society and puts effort into recycling waste, such as reusing the defectives generated in the manufacturing process as product materials to the extent possible, and using those as fuel for production, if not suitable for material itself. During the previous medium-term management plan period, by promoting the initiatives to increase the use of waste for materials, in addition to the promotion of use as fuel for production by stably operating biomass boilers, we improved the percentage of final volume disposed of in landfill by approximately 2 points compared to fiscal 2019. In the new medium-term management plan, we have newly set the goal to reduce the final waste volume disposed of in landfill by 15% compared to fiscal 2022 in the group production bases at home and abroad and will put effort into the further improvement of the recycling rate.

Amount of Waste Generated and Breakdown of Waste Processing (Fiscal 2022)



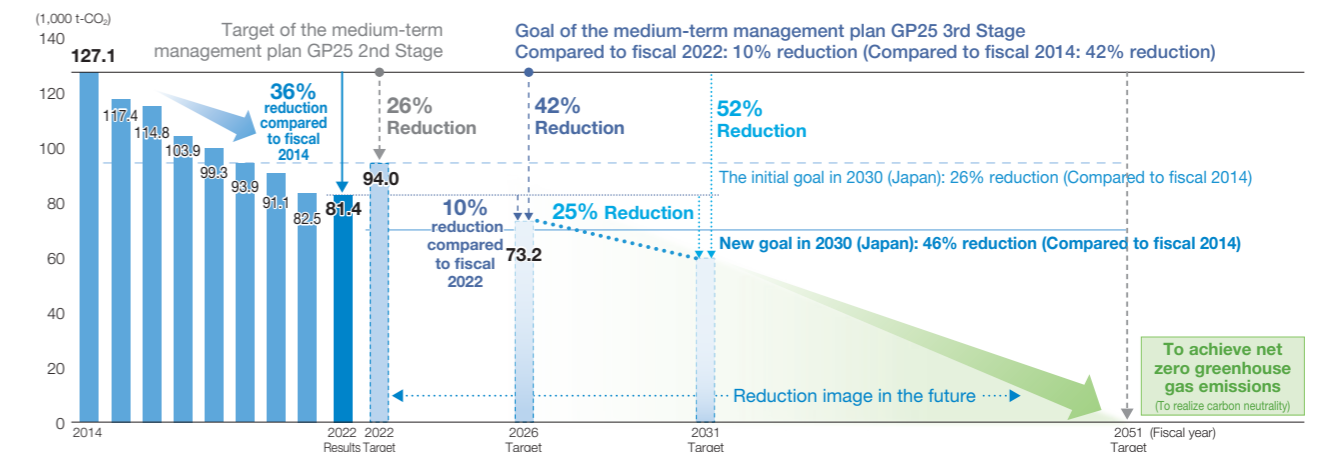
Note) Recycling rate = Amount of recycled resources / Amount of waste generated x 100 (%)
Amount of recycled resources = Valuable + Use for materials + Use for heat

2 Mitigation of Climate Change

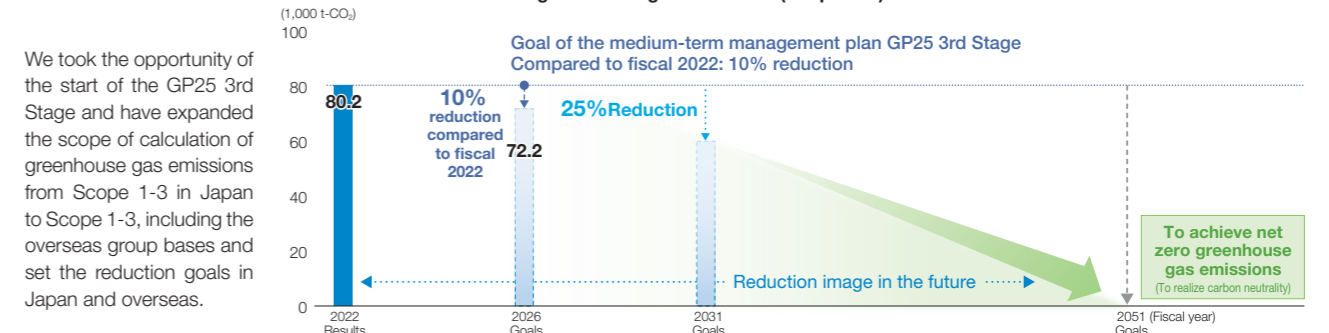
Initiatives for the reduction of greenhouse gas emissions linked to the business activities

Under the idea of effectively using timber that has the functions to fix and store carbon as a material for a longer period of time, the Daiken Group has been implementing initiatives for the reduction of greenhouse gas emissions linked to the business activities by using wood chips derived from residual wood offcuts and construction waste materials as raw materials. In the previous medium-term management plan, we could achieve a 36% reduction against the reduction goal of the total CO₂ emissions in Japan at a 26% reduction compared to fiscal 2014, thanks to the effects of using renewable energy and productivity improvement. In addition, in the new medium-term management plan, we expanded the scope of calculation to our overseas bases, instead of only in Japan, and upheld the goal of a 10% reduction compared to fiscal 2022. With an eye toward the medium and longer term, as the goals in fiscal 2031, we set a 52% reduction in our domestic group bases that surpasses the goal of a 46% reduction by fiscal 2031 compared to fiscal 2014 upheld by the Japanese government and a 25% reduction compared to fiscal 2022 in our overseas group bases, and will aim for the realization of carbon neutrality upheld in the Daiken global environment vision 2050.

Greenhouse gas emissions in Japan (Scope 1+2)



Overseas greenhouse gas emissions (Scope 1+2)



We took the opportunity of the start of the GP25 3rd Stage and have expanded the scope of calculation of greenhouse gas emissions from Scope 1-3 in Japan to Scope 1-3, including the overseas group bases and set the reduction goals in Japan and overseas.

Future Initiatives toward Reduction

- Pursuit of the productivity improvement and efficiency in production bases
- Expansion of the use of renewable energy and consideration of purchasing green electricity
- Consideration of the introduction of internal carbon pricing for investment decisions
- Consideration of fuel conversion based on technology development, price trends, and negative emissions (collection and storage of CO₂)

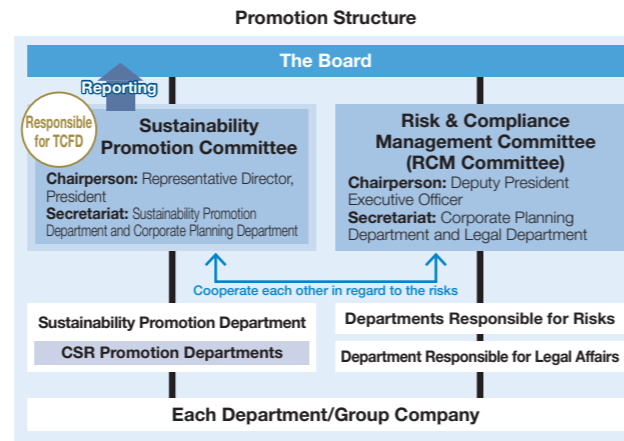
Response to TCFD

Under the Daiken global environment vision 2050, which indicates the long-term direction of the initiatives for the environment, the Daiken Group expressed an agreement on the recommendation by the TCFD (Task Force on Climate-related Financial Disclosures) in October 2021. We acknowledge that environmental responses, such as climate change, are one of the important management issues that lead to the risks and opportunities in business and disclose information on governance, strategies, risk management, and indices and goals, which are the disclosure items recommended by the TCFD.

Governance

In the sustainability promotion committee in which the representative director and president is the chairperson, we identify important climate-related risks and opportunities, disseminate them to each department and group company, and appropriately conduct management. Regarding risks, as we established the risk and compliance management committee (hereinafter referred as the "RCM committee") in which the deputy president and executive officer is the chairperson and disseminate them to each department and group company, the sustainability promotion committee is responsible for the responses to the climate-related risks and opportunities and has been proceeding with the responses by cooperating with the RCM committee. These results are regularly reported to the Board.

From now on, through the promotion of the Daiken global environment vision 2050, we will analyze the risks and opportunities to be brought to the Daiken Group's businesses and value chains, as well as the financial impacts associated with them, incorporate them into the management strategies, and disclose information.



Strategy

We grasped the risks and opportunities related to the Daiken Group's businesses in regard to the climate change and organized important risks and opportunities.

We organized them based on the results of the risks that had been sorted out, evaluated, and responded by the RCM committee.

As the next step, we will serially implement scenario analyses from the risks and opportunities that are judged to have a significant impact on business, conduct impact evaluations, apply the results of scenario analyses, and lead to the formulation of countermeasures and development of plans.

Risks

Transition Risks (Risks associated with transition to a low-carbon economy)

- Difficulty in obtaining wood chips (product raw materials and fuels) by promoting biomass power generation
- Responses to the regulations on products and materials
- Procurement risks and an increase in costs due to the shift to environmentally friendly raw materials and materials
- An increase in costs associated with the responses for decarbonization of the existing production facilities (Capital investments etc.)
- An increase in procurement costs due to the timber price hike (Regulations for tree trimming etc.)

Physical Risks (Risks associated with physical changes due to climate change)

- Damage on and shutdown of production and sales bases due to natural disasters and delays in member procurement, shipment, and delivery due to disruption of the logistics network
- Delays in goods deliveries due to suppliers and logistics warehouses being affected by natural disasters
- An increase in investments due to the BCP measures
- An increase in insurance premiums for damage caused by natural disasters

Opportunities

Resilience

- Improvement of the reliability of the supply chain by revitalizing investments for BCP measures

Products, Services, and Markets

- Formation of the markets for and expansion of demand for energy-saving products and environmentally friendly products (New wood industrial materials etc.)
- Mitigation of climate change and expansion of the sale of adaptive products (Expansion of the sale of timber products from the perspective of carbon storage)
- Improvement of corporate value by newly developing and commercializing environmentally friendly products by taking advantage of our strengths of the technologies to use timber

Resource Efficiency

- Appeal to customers by recycling raw materials (Improvement of corporate value)
- A decrease in costs by efficient transportation
- Appeal to customers by increasing the usage of recycled materials (Improvement of corporate value)
- An increase in demand due to the establishment of the production processes that do not emit greenhouse gases

Risk Management

Climate change is one of the important external risks and we acknowledge that it is the risk to be addressed by the entire company. We enhance the effectiveness by the sustainability promotion committee and the RCM committee cooperating with each other and proceeding with it in the environment management system and the company-wide risk management system. We will put effort into the improvement of processes to further evaluate the climate-related risks.

Indices and Goals

We have set Mitigation of climate change – Realization of carbon neutrality – as a pillar in the environment policy of the Daiken global environment vision 2050 and aim for net zero greenhouse gas emissions as a long-term goal toward 2050. Toward the reduction of greenhouse gases that have a significant impact on climate change, we have back-casted from how we should be in 2050 and set and proactively put effort into the following goals in order to contribute the countermeasures against climate change in the medium-term management plan GP25 3rd Stage (fiscal 2023–2026).

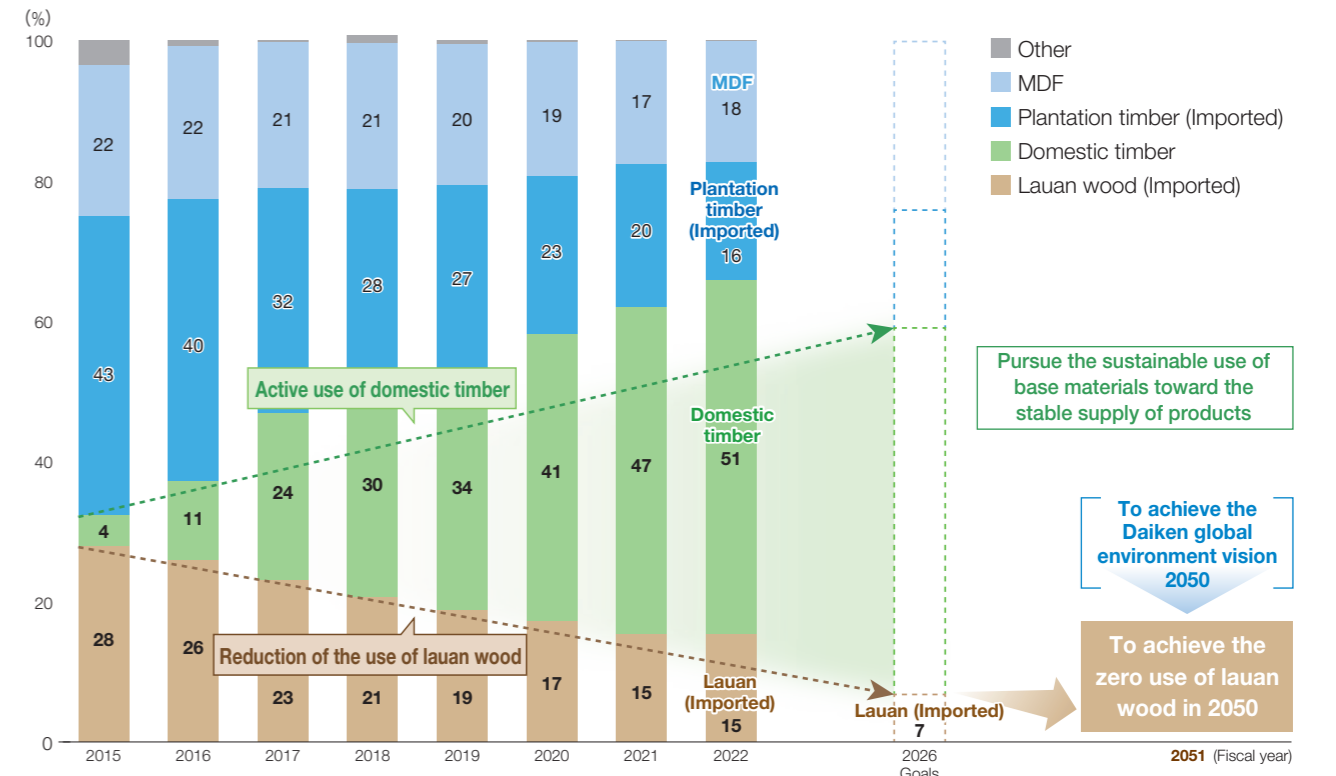
Fiscal 2026 Goals	Greenhouse gas	Gross emissions in Japan and overseas (Scope 1+2)	10% reduction (As compared to fiscal 2022)	Renewable energy utilization ratio	Japan: 50% or more
		Gross emissions in Japan and overseas (Scope 3)	6% reduction (As compared to fiscal 2022)		Overseas: 40% or more

3 Symbiosis with Nature

Initiatives toward zero usage of lauan wood

With a view to reducing the risks of stable timber procurement and currency exchange fluctuations, in addition to the reduction of environmental burden, we have been proceeding with the switch from natural lauan wood (tropical natural wood) to plantation timber, MDF, and domestic timber to be used for flooring substrates produced by our company. As a result, we have reduced the percentage of use of lauan wood, which was approximately 28% in fiscal 2015, to approximately 15% in fiscal 2022. From fiscal 2023, we also started the initiatives for the reduction by 50% compared to fiscal 2022 that was newly set as the goal toward fiscal 2026. We further envision beyond that and will further put effort into technological development toward Zero use of lauan wood in 2050 upheld as how we should be in the Daiken global environment vision 2050.

Ratio of Flooring Substrates



Special MDF that will realize the reduction of the usage of lauan wood

On the background where we were able to use plywood made of domestic timber as the flooring substrates, there is our unique special MDF. As much of domestic timber is mostly soft tree species, such as Japanese cedar, it was not suitable to be used as flooring substrates. So, we uniquely developed special MDF that has performance required for flooring substrates, such as surface smoothness and water resistance, and by laminating with plywood made of domestic timber, we have been improving the usage of domestic timber for flooring substrates. Moreover, as this special MDF made it possible for commercialization of flooring substrates using not only domestic timber but also plantation timber, the switching from lauan wood has been significantly accelerated.

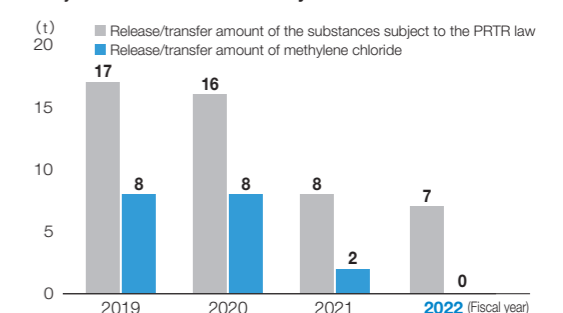
Cross-section image of flooring made from domestic timber



Initiatives for the reduction of chemical substances

The Daiken Group had upheld the appropriate management and reduction of chemical substances in the medium-term ESG plan (fiscal 2020–2022) as a theme and had set the goal to reduce the amount of substances released subject to the PRTR law by 70% in the final fiscal year as compared to fiscal 2019. The release amount and transfer amount of substances subject to the PRTR law in fiscal 2022 decreased by 59% compared to fiscal 2019, but we could not achieve the goal; however, regarding methylene chloride, we made significant reductions as the establishment of technology for the product specification change was completed in October 2020 and totally abolish the use in production processes in our group. We will continually put effort into the reduction of other target substances and promote the reduction of environmental burden in the entire group.

Trend of the Release/Transfer Amount of the Substances Subject to the PRTR Law/Methylene Chloride



*As the substances subject to reporting by the PRTR regulations have been newly specified, the release amount and transfer amount were revised retroactively.