Cooperation between Sustainability Committee and other committees and taskforces

The five members of the Sustainability Committee have the following respective roles and cooperate with each other in the committee.

Sustainability Committee members

- Koichi Kawakami (chair): Corporate planning, DX, safety and health
- Hiroshi Fujii: Financial, human resources, compliance and risk management (chair)
- Tomomi Nakayama: Sales and overseas business
- Kazuhiro Yamada: Manufacturing and procurement
- Katsuhiro Kawamura: Development, GX (decarbonization)

Identification of materiality

Along with the formulation of the 2030 Vision, Nikko Group reviewed its materiality for sustainable creation of corporate values in 2022. We believe that solving material issues by bearing in mind “promoting self-reform to win the broad trust from society and fulfill our mission as a solutions partner that evolves with the customers” as stated in our Management Philosophy would lead to achievement of the 2030 Vision. The Group will set forth the most important KPIs for the following four materiality areas to raise effectiveness and strengthen monitoring by the Board of Directors.

Nikko Group’s materiality

	Reference
Realization of Carbon Neutrality	P58
Establishment of recycling-oriented society	P63
Creation of New Customer Values	P65
Human resource development and improvement in job satisfaction	P67

Sustainability management at Nikko Group

Stakeholder Engagement

The business of Nikko Group is established on the relationship of trust with its stakeholders. The Group believes it is important to engage in active dialogue with all stakeholders to solve social issues through its business and raise its corporate value. Nikko Group aims to contribute to the sustainability of society and to achieve sustainable growth as a company, in line with the stakeholders’ understanding regarding the direction it is pursuing and the path of its value creation.

Value co-creation with stakeholders

Relationship with stakeholders and main channels of dialogue

	Relationship with stakeholders	Stakeholders’ main interests	Main dialogue channels
Customers	Nikko Group is contributing to business expansion and productivity improvement at customers through the provision of products and services. At the same time, it contributes to the development of a prosperous society together with customers through the development of social infrastructure.	• Offering of high-performance, high-quality products • Service structure that offers safety and security • Appropriate price setting • Ability to propose solutions to issues • Response to technological innovation • Early restoration from natural disasters	• Daily sales and service activities • Various trade shows (holding the 2022 Nikko Messe and participation in N-EXPO 2022) • Offering of plant operator training • Journals (editing and publication of NAP NEWS and BP EYES) • Nikko website (One Nikko Platform)
Employees	Employees are the most valuable asset of Nikko. We focus our efforts on building an organization and nurturing our human resources so that we can quickly respond to all changes surrounding our business to make sustained contribution to society. We will strive to develop a workplace environment that offers job satisfaction by responding to the expectations of employees, who have diverse attributes and values.	• Respect to basic labor rights • Offering opportunities for growth and self-realization • Equal opportunities and fair evaluation • Creating a workplace that is very safe mentally • Ensuring safe operations and consideration for natural environment • Realization of work-life balance • Securing of diversity and workstyle options	• Direct dialogue between the president and groups of employees • Intranet • Company newsletter (*Tombo*) • Target setting and progress confirmation, evaluation feedback • English and special skill training, autonomous and elective development seminars • Campaign to improve operating efficiency • Whistleblowing system • Allotting shares with restriction on transfer

		Relationship with stakeholders		Stakeholders' main interests	Main dialogue channels
Business partners	Materials suppliers	Nikko Group believes that it is essential to work on solving the social issues faced by its supply chain together with all business partners including material suppliers, sales agents, and contractors.	● Suppliers of outsourced products based on Nikko design (about 20 companies) ● General materials suppliers (about 100 companies)	● Equal, fair transaction terms ● Quality assessment ● Centralized purchasing ● Support for business succession, technology transfer	● Daily procurement activities ● Quality improvement support ● Factory, warehouse visits ● Quality audit
	Tombo-kai (sales agent network)		Members: 124 companies	● Proposal of new products ● Support for seeking new sales channels	● Holding general meetings and subcommittee meetings
	Akitsu-kai (contractors' network)		Members: 200 companies	● Safe work environment ● Advice regarding specialized skills and technologies ● Securing stable work load over the long term	● Safety and health meeting
Local community, future generation		For Nikko Group to develop and grow, it needs to contribute to raising the sustainability of society. Nikko considers the realization of carbon neutrality as its responsibility towards future generations.		● Co-existence with local communities ● Creation of employment ● Contribution to local development ● Preservation of the local natural environment ● Safe operation	● Offering of grant-type scholarship to students in the Kinki region ● Offering of research grants to researchers from Hyogo Prefecture ● Support for disaster prevention education at primary and special needs schools (14 of them) within Akashi city (offering of disaster prevention *tenugui* towels) ● Responsible responses to climate risks ● Company and plant tours for high school students in Akashi City ● Nikko Marche (exhibition and sale of disaster prevention and BBQ goods) ● Let's Protect Roads!, a game offered in a social experience app for children
Shareholders, investors		Shareholders and investors, who offer financial capital, support the growth of Nikko Group and has the role of monitoring its management. We will further strengthen our relationships of trust with them through our efforts in improving corporate value and enhancing information disclosure.		● Improving our corporate value ● Promotion of fair disclosure ● Capital policy that is conscious of capital efficiency ● Achievement of business returns that exceed the capital cost ● Strengthening of initiatives towards ESG and sustainability, and enhancement of information disclosure ● Improvement in effective governance	● General Shareholders' Meeting (attended by 6,835 people including online participants) ● Financial results briefing sessions (four times) ● Individual meetings with institutional investors (six meetings with 10 investors)

The figures are results for FY 2021.

Information disclosed based on TCFD framework

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Climate change caused by greenhouse gas (GHG) emission has an enormous impact on society and economy, and Nikko Group recognizes that it is the most pressing social issue the Group should work on. For the realization of a decarbonized society targeted in the Paris Agreement, Nikko Group is aiming to achieve a 50% reduction in CO_2 emissions (compared with FY 2021) from its business activities as well as operation of Nikko-made plants at customers as an interim target for FY 2030.

The Group is promoting the development of technologies for reducing CO_2 emissions and provision of related products and services towards achieving carbon neutrality in 2050. After endorsing the TCFD recommendations in October 2021, it has been disclosing information in accordance with the TCFD framework for smooth communication regarding climate change issues with stakeholders including shareholders and investors.

Status of the initiatives related to the four core elements of the TCFD recommendations

	Nikko Group's initiatives
Governance	● The Group has established the Low Carbon Task Force (LCTF) led by the managers of business and development divisions, which gathers and analyzes carbon neutrality-related information and carries out planning (once a month meetings). ● The Committee of Inside Executives sets forth targets based on the proposals by LTCF and formulates detailed strategies for achieving them (as necessary). ● The Sustainability Committee and the Finance Committee work together to identify risks and opportunities and discuss countermeasures (as necessary) ● Key measures and action plans formulated by the committee are promoted company-wide and the progress is reported to the Board of Directors. ● The Board of Directors deliberates on the validity of strategies and inherent risks and supervises the progress towards targets (twice a year or more).
Strategy	● Identify risks and opportunities in scenario analysis considering the 2°C and 4°C scenarios, decide on medium- to long-term measures, and manage their progress ● Analyze the impact of risks and opportunities on business and finance ● Formulate development plan for low-carbon and decarbonization-related products and their market introduction plans
Risk Management	● The Risk Management Committee chaired by Director and Executive Officer identifies and manages risks that have major impact on business and finance as priority management risks. ● The committee shares risk information with the Committee of Inside Executives and the Board of Directors and decides appropriate responses from the perspective of company-wide risk management.
Metrics and Targets	● Verification of CO_2 emissions by Nikko Co., Ltd. ● Switch to renewable energy-based electricity and establishment of RE100 target ● Verification of Scope 3 (in the entire supply chain) CO_2 emissions ● Setting of the FY 2030 interim target and the FY 2050 target based on scenario analysis 〈FY 2022 results〉 ● CO_2 emissions (Scope 1 and 2): 544t-CO_2 (down 79.8% vs. FY 2021) ● CO_2 emissions (Category 11 of Scope 3): 664,082t-CO_2 (down 16.4% vs. FY 2021) 〈FY 2030 emission targets〉 ● CO_2 emissions (Scope 1, 2, and 3): 436,970t-CO_2 (vs. FY 2021 results) 〈FY 2050 target〉 ● Aim for net-zero CO_2 emissions (Scope 1, 2, and 3)

Governance

Carbon neutrality promotion structure

Nikko established the Low Carbon Task Force (LCTF) led by the managers of the Business and Technology Development Divisions to promote the realization of carbon neutrality. Through its monthly LCTF meetings, it examines and discusses the issues in a cross-divisional manner for the realization of carbon neutrality based on data verification and evidence.
The Committee of Inside Executives discusses the plan proposal drafted by LCTF and formulates concrete target values and specific strategies for achieving the targets. It also works together with the Sustainability Committee chaired by the Director and Executive Officer as well as the Finance Committee as necessary. The Board of Directors, at its meetings, deliberates the investment plan, product development plan, and risk countermeasures formulated by the Committee of Inside Executives and supervises their adequacy and progress.

Governance structure diagram