

For Daikin, climate change represents one important issue affecting its business continuity. Daikin endorses the recommendation of the Task Force on Climate-Related Financial Disclosures (TCFD)* intended to mitigate the risk of instability in financial markets attributed to climate change. We are now working to analyze and reflect the risks and opportunities of climate change as related to our business operations into our management strategies and risk management. We will disclose the progress of such appropriately as we aim for further growth while contributing to a decarbonized society.

* TCFD was established in 2015 by the Financial Stability Board. It recommends that companies disclose information about the financial impacts of climate change after evaluating related business risks and opportunities.

Daikin’s Response to TCFD’s Recommended Disclosures

<p>Governance The organization’s governance around climate-related risks and opportunities</p>	<ul style="list-style-type: none"> ● Establish climate-related issues as important CSR issues of Daikin and manage them at the executive management level through the CSR Committee, chaired by the officer in charge of CSR ● The CSR Committee discusses Daikin’s initiatives, targets, risks and opportunities concerning climate change, follows up on results, and reports to the Board of Directors
<p>Strategy The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning</p>	<ul style="list-style-type: none"> ● Analyze the climate scenarios based on <i>The Future of Cooling</i> by the International Energy Agency (IEA) ● Demand for air conditioning is expected to more than triple current levels by 2050. While there is the risk of stricter energy regulations for air conditioning and tighter regulations on refrigerants with a high global warming potential, this will also be an opportunity for Daikin to expand its strengths of highly environmentally conscious products and services ● Environmental Vision 2050 calls for net zero greenhouse gas emissions by 2050; and we have incorporated greenhouse gas reduction targets and main measures into the Fusion 25 Strategic Management Plan
<p>Risk Management Process for identifying, assessing and managing climate-related risks</p>	<ul style="list-style-type: none"> ● Gather information on climate risks from business bases around the world based on scenario analysis, evaluate priorities, and specify climate risks that should be reflected in strategy ● Recognize climate risks as risks that significantly impact Daikin’s business strategy, and integrate them into the company-wide risk management process ● Check the status of company-wide risk management by the Internal Control Committee chaired by the President and CEO, and report to the Board of Directors
<p>Metrics and Targets The metrics and targets used to assess and manage relevant climate-related risks and opportunities</p>	<ul style="list-style-type: none"> ● Under Environmental Vision 2050, aim to reduce greenhouse gas emissions to net zero by 2050 ● Under the Fusion 25 Strategic Management Plan, set targets to reduce greenhouse gas emissions from our own business operations (30% or more by 2025 and 50% or more by 2030 compared to BAU with 2019 as the base year)

Climate Related Risks and Opportunities and Potential Impacts

Category		Impact on Daikin’s business	Probability of occurrence	Potential financial impacts
Risks	Transition	<p>Stricter regulations on refrigerants If regulations on refrigerants become too strict, there is a possibility that existing air conditioners no longer compliant with these regulations will become obsolete.</p>	High	Large
		<p>Tight supply and demand for electricity There is a possibility that the spread of air conditioners in emerging countries will increase electricity usage and make it difficult to increase sales of air conditioners due to electricity shortages.</p>	High	Large
	Physical	<p>Damage to production bases There is a possibility that flooding caused by typhoons could cause our plants to shut down or stop the supply of parts due to the shutdown of suppliers.</p>	Medium	Medium
Opportunities	Transition	<p>Stricter regulations on refrigerants Companies without technologies compliant with regulations on refrigerants will be weeded out, resulting in increased sales of air conditioners using refrigerants with lower global warming potential, which is our strength.</p>	High	Large
		<p>Stricter regulations on energy efficiency Companies without technologies compliant with stricter regulations on energy efficiency will be weeded out, resulting in increased sales of air conditioners with high energy efficiency, which is our strength.</p>	High	Large
		<p>Stricter regulations on the use of fossil fuels Regulations on the use of fossil fuels continue to become stricter, and since combustion heaters will be subject to them, there will be an increase in sales on growing demand for heat pump heaters, which is our strength.</p>	High	Large