

Initiatives in Line with the TCFD Recommendations



As the effects of climate change on society, such as high winds and flooding, increase in frequency and severity, the role of companies in achieving decarbonization is becoming more important. Accordingly, we view climate change issues as a high-priority management challenge.

To this end, we are focusing on OPE that does not emit exhaust gas during use and are actively working to reduce GHG emissions by striving to reach the goal of virtually eliminating GHG emissions from our operations by fiscal 2040 (FYE 2041).

Recognizing the importance of these efforts as well as engaging in dialogue with our stakeholders regarding the impact of climate-related risks and opportunities on our business and other activities, we endorsed the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in 2021.

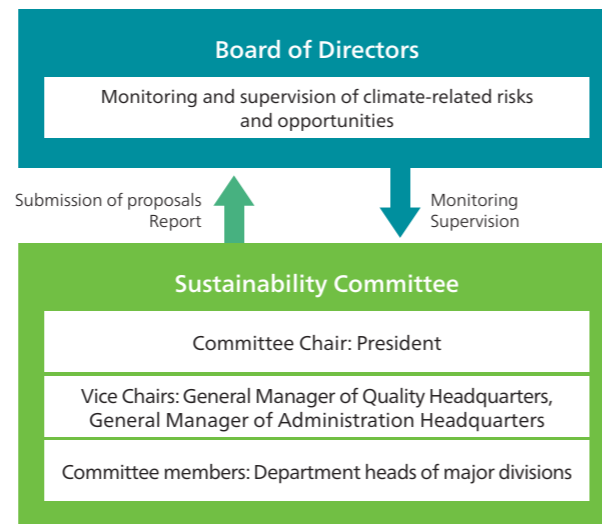


Governance

Chaired by the President, the Sustainability Committee, which promotes Company-wide efforts to address sustainability issues through business activities, was established in 2021.

The committee considers climate change to be one of the most important sustainability issues, and deliberates on policies, measures, and plans to reduce GHG emissions.

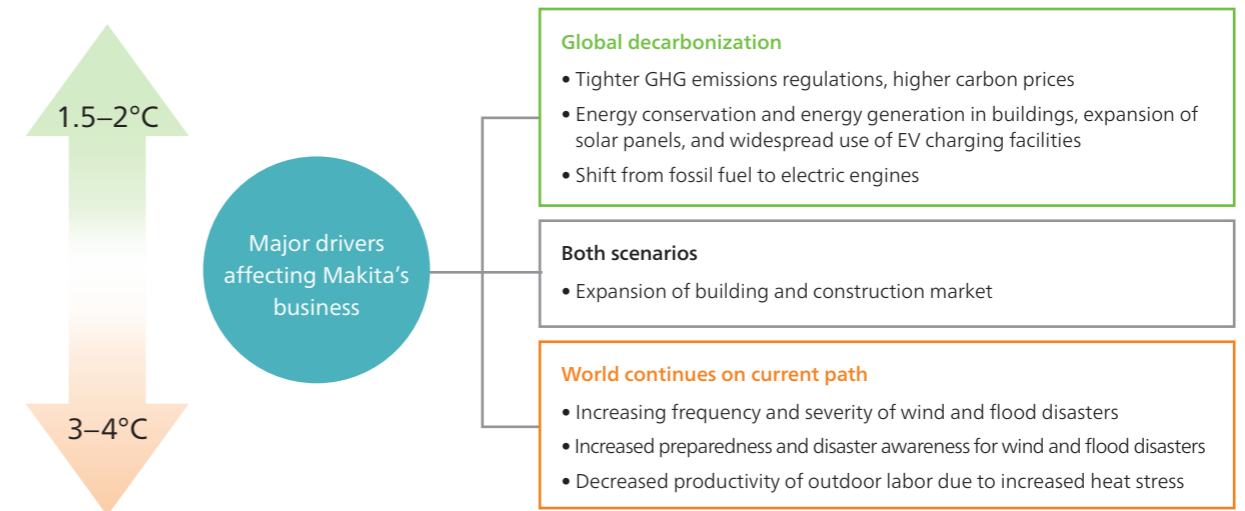
The Sustainability Committee reports and submits proposals on important matters to the Board of Directors, which deliberates on these matters and makes decisions in the course of monitoring and overseeing the Company's climate-related risks and opportunities.



Strategy

1. Determining Risks and Opportunities

In identifying climate-related risks and opportunities that could affect our business, we have used climate change scenarios from the International Energy Agency (IEA), the Intergovernmental Panel on Climate Change (IPCC), and other organizations to organize our views into (1) a 1.5°C to 2°C worldview in which decarbonization progresses and (2) a 3°C to 4°C worldview in which warming proceeds as it is now. The following is a summary of the results.



Based on these worldviews, we have identified our climate-related risks and opportunities and qualitatively assessed them.

Risks

Type	Category		Risk	Relevant Period	Possibility
	Large	Small			
Transition	Policies and regulations	Rising carbon price/energy conservation and low-carbon regulations	Increased operating costs based on own GHG emissions	Short to medium term	Large
			Increased procurement costs of raw materials, energy, etc.		
		Increased capital expenditures to enhance energy efficiency	Short term		
		Increased renewable energy procurement costs			
	Battery regulations	Increased battery procurement costs	Medium to long term		
	Technology	Product technology development competition	Increased development costs for technologies and products with superior environmental performance (including portability and operational efficiency)	Short to medium term	Large
Competition to develop next-generation battery technology			Increased development costs for next-generation batteries with superior capacity, voltage, life, safety, etc.		
Market		Changes in market prices	Increased procurement costs due to increased battery demand	Short term	
	Increased procurement costs due to increased demand for semiconductors				
Reputation	Increased disclosure requests	Increased transportation costs due to decarbonization of transportation	Short to medium term	Medium	
		Reputational damage due to inferiority of information disclosure compared to other companies	Short term		
Physical	Acute	Increased frequency and severity of wind and flood disasters	Physical damage to our offices and facilities	Short term	Medium
			Losses due to business interruption		
			Losses due to supply chain disruptions		

Note: Risk onset timing: Short-term: up to 3 years; Medium-term: over 3 years to 10 years; Long-term: over 10 years

Opportunities

Type	Category		Opportunity	Relevant Period	Possibility	
	Large	Small				
Transition	Energy sources	Increased carbon prices	Decrease operating costs by reducing GHG emissions to become carbon neutral	Short to medium term	Large	
	Products and services	Product technology development competition	Differentiation from competitors' products through the development of products with superior environmental performance (including portability and work efficiency)	Short term	Large	
		Competition to develop next-generation battery technology	Differentiation from competitors' products through the development of next-generation batteries with superior performance	Medium to long term		
	Market	Energy conservation and low-carbon regulations	Market expansion and product demand increase due to a shift from engine-powered to cordless products	Increase in demand for products associated with ZEB*1/ZEH*2 conversion of buildings, installation of solar power generation equipment, and EV charging facilities, etc.	Short term	Large
		Changes in the building and construction market	Improve reputation through enhanced disclosure information			
		Increased disclosure requests	Increase in demand for products in line with increase in DIY demand due to longer time spent at home			Short to medium term
Physical	Resilience	Rising temperatures, climate change, and extreme weather	Expansion of the disaster readiness market, increase in product demand, and contribution to recovery and reconstruction in the affected areas	Short term	Large	
		Increased frequency and severity of wind and flood disasters	Increase in demand for products to improve working conditions in hot environments	Short to medium term		

Note: Opportunity onset timing: Short-term: up to 3 years; Medium-term: over 3 years to 10 years; Long-term: over 10 years

*1 Net Zero Energy Building *2 Net Zero Energy House

2. Scenario Analysis and Setting Themes

We conducted scenario analyses on the following four themes that we rated as "highly important" and evaluated their probable impact on our business, strategy, and finances through 2050, taking into account the effect on our business operations, relevance to our business strategy, and the level of interest of our stakeholders.

3. Results of Scenario Analyses

Theme 1 (Opportunities): Change in demand for cordless OPE due to decarbonization of OPE

Opportunities under the Theme	<ul style="list-style-type: none"> In the OPE sector, emission regulations are being introduced and strengthened. Demand for cordless OPE is expected to grow as the shift from engine-powered to cordless OPE progresses against a backdrop of further tightening regulations and changing consumer preferences towards decarbonization.
Analysis Assumptions	<ul style="list-style-type: none"> Baseline (as-is scenario) for market expansion calculated based on market forecast information for the OPE sector For the OPE sector, data for the below 2°C scenario is based on IEA scenario data* assuming a shift to EVs in the automobile sector
Analysis Results	<ul style="list-style-type: none"> The market for cordless OPE is expected to expand under the as-is scenario due to the expansion of the OPE market, but under the below 2°C scenario, we expect the market to expand significantly due to the shift from engine-powered to cordless systems. We expect sales to grow at the same rate as the market growth, and, if our market share can be increased, we can expect further sales growth.
Future Opportunity Acquisition Measures	<ul style="list-style-type: none"> Actively develop cordless OPE that can replace engine-powered OPE Strengthen sales and service capabilities by expanding the sales and service network Expand logistics and production capacity in anticipation of increased OPE sales and products handled

* Reference: IEA's "Global EV Outlook 2021." It is assumed that the shift from engine-powered to rechargeable systems in the OPE sector will progress at a slower rate than the shift to EVs in the automobile sector.

Theme 2 (Opportunities): Change in demand for power tools as the building and construction market expands

Opportunities under the Theme	<ul style="list-style-type: none"> Expansion in the global building and construction market is expected to increase demand for power tools. The demand for power tools is expected to increase as more energy-saving (i.e., renovation of existing buildings) and energy-creating (i.e., installation of photovoltaic panels) construction approaches are taken to further decarbonization, and as the number of EV recharging facilities increases.
Analysis Assumptions	<ul style="list-style-type: none"> Increased demand for power tools is anticipated due to a growing volume of building and construction work globally Baseline (as-is scenario) for power tools sales calculated based on statistics on the size of the building and construction market The amount of energy-saving and energy-creating construction work in buildings and the installation of EV charging facilities to promote decarbonization is based on data from the building and construction industry and IEA scenario data (below 2°C scenario)
Analysis Results	<ul style="list-style-type: none"> Sales of power tools are expected to grow under the as-is scenario, but are expected to expand significantly under the below 2°C scenario due to an increase in the amount of energy-saving and energy-creating construction work and installation of EV charging facilities. Among them, cordless power tools with excellent work efficiency are expected to see increased use in the building and construction market.
Future Opportunity Acquisition Measures	<ul style="list-style-type: none"> Develop power tools based on market trends, in particular, proactively develop cordless power tools that contribute to reducing environmental impact by improving work efficiency Strengthen sales and service capabilities by expanding the sales and service network Expand logistics functions and production capacity in anticipation of sales growth

Theme 3 (Risks): Risks associated with lithium-ion batteries (procurement costs, rise of next-generation batteries with higher performance)

Risks under the Theme	<ul style="list-style-type: none"> The growing demand for lithium-ion batteries (LiB) in the automotive and energy industries is expected to lead to fluctuations in LiB procurement costs. The competitive environment is expected to change with the emergence of high-performance next-generation batteries.
Analysis Assumptions	<ul style="list-style-type: none"> Baseline (as-is scenario) LiB unit price calculated with reference to the market forecast information on LiB unit prices Based on historical data on LiB raw material costs (lithium, nickel, and cobalt), set raw material costs that will soar if demand for LiB increases (below 2°C scenario)
Analysis Results	<ul style="list-style-type: none"> Under both the as-is scenario and the below 2°C scenario, LiB unit prices are expected to decline over the medium to long term against a backdrop of planned production increases by battery and materials manufacturers. If the supply-demand balance of LiB raw materials is disrupted by greater than expected demand for EVs and storage batteries, etc., LiB unit prices may soar, but the long-term impact is expected to be negligible. Although it is difficult to predict the market for next-generation batteries, we expect the competitive environment to change over the medium to long term as next-generation batteries become more widespread and emerge in our product areas as a result of the traction of the EV market.
Future Risk Countermeasures	<ul style="list-style-type: none"> Build long-term relationships with battery suppliers Pursue research and development for the launch of products using next-generation batteries

Theme 4 (Risks): Risk of increased operating costs due to higher carbon prices

Risks under the Theme	<ul style="list-style-type: none"> Operating costs are expected to increase due to the introduction of carbon pricing such as carbon taxes and emissions trading schemes as well as increases in carbon prices.
Analysis Assumptions	<ul style="list-style-type: none"> Establish long-term GHG emission reduction pathways based on GHG emission reduction plans toward carbon neutrality and IEA scenario data, etc. Establish costs for GHG emission reduction measures, etc. Estimate future carbon prices based on IEA scenario data and compare to the above measure costs
Analysis Results	<ul style="list-style-type: none"> The cost of actively reducing GHG emissions, including the use of renewable energy, will be less expensive than the carbon price based on GHG emissions if GHG emission reduction measures are not actively pursued.
Future Risk Countermeasures	<ul style="list-style-type: none"> Procure renewable energy electricity, and introduce and expand solar power generation for own consumption Further improve energy efficiency of business activities Promote commercial-use EVs

4. Future Policies and Initiatives

We have qualitatively and quantitatively assessed and understood the impact of climate change on our business operations, strategy, and finances and have confirmed not only that our products are financially resilient to climate change as they contribute to climate change mitigation and adaptation but that our business strategy is feasible and sustainable.

Among our products, we believe that our cordless products, which feature safety, convenience, improved comfort, and zero emissions during use, will play a particularly important role in contributing to climate change mitigation and adaptation. In addition, although not included in the previous section (3. Results of scenario analyses), under the as-is scenario, in which wind and flood disasters are expected to become more frequent and severe, it is important to ensure a prompt and stable supply of cordless products so that recovery and reconstruction efforts in the affected areas are supported, and we will continue to build a system to achieve this. We will continue to contribute to society and work to achieve sustainable growth by promoting initiatives to become “a Supplier of a Comprehensive Range of Cordless Products.”

5. Plans for the Transition to Decarbonization

In 2005, we were the first in the industry to market professional cordless power tools that use lithium-ion batteries, and we have since been strategically transitioning from traditional products to cordless products. In addition, the Company has set a goal of reducing GHG emissions from its operations to virtually zero by fiscal 2040 (FYE 2041), and is actively working toward this end.

We are aiming to ensure and improve the effectiveness of these mitigation measures. We will set relevant indicators and targets, and we will supervise our performance, progress and achievement under them in line with climate change governance. In addition, the transition plan will be regularly reviewed and updated. We will also strategically work to capture and maximize opportunities for decarbonization in our transition plan.

Overview of the Transition Plan to Achieve the 1.5°C Target

Climate Change Mitigation	Reducing GHG Emissions	<ul style="list-style-type: none"> Achieve virtually zero GHG emissions (Scope 1 and 2) by fiscal 2040 (FYE 2041) Medium-term target: 50% reduction from fiscal 2020 (FYE 2021) levels by fiscal 2030 (FYE 2031)
	Elimination of Engine-Powered Equipment	<ul style="list-style-type: none"> Increase the OPE electrification ratio (fiscal 2022 (FYE 2023) result: 91.9%)
Capture and Maximize Opportunities		<p>Strategic implementation of the following measures based on the results of scenario analyses</p> <ul style="list-style-type: none"> Active development of cordless products (including cordless power tools and OPE) Expansion of sales and service network Expansion of logistics functions and production capacity in anticipation of sales growth

Risk Management

We hold annual Disclosure Committee meetings to identify and scrutinize risks in our business activities as well as to evaluate and manage risks related to climate change. The details of climate change risks and opportunities are assessed and managed under the Sustainability Committee.

Recognizing that climate change is one of the most important external environmental risks we face, the Board of Directors discusses the impact of climate change on management and determines management strategies and measures that will contribute to decarbonization.

We will further strengthen our climate change response by solidifying our systems and operations for managing these climate-related risks.

Indicators and Targets

Targets related to GHG emissions

The Makita Group has set goals to reduce GHG emissions from its own business activities (Scope 1 and 2) to virtually zero by fiscal 2040 (FYE 2041) and from its entire supply chain (Scope 3) to virtually zero by fiscal 2050 (FYE 2051). The mid-term target for Scope 1 and 2 is to halve the fiscal 2020 (FYE 2021) level by fiscal 2030 (FYE 2031).

Targets and results related to GHG emissions (t-CO₂)

	Fiscal 2020 (FYE 2021) Results	Fiscal 2030 (FYE 2031) Targets	Fiscal 2040 (FYE 2041) Targets	Fiscal 2050 (FYE 2051) Targets
Scope 1, 2	89,673	44,836	Virtually zero	
Scope 3	6,006,569	—	—	Virtually zero

Note: Please see page 36 for GHG emissions in fiscal 2022 (FYE 2023).

To achieve the above goals, we will steadily implement initiatives to reduce GHG emissions through the use of renewable energy and other means.

Indicators for the electrification of OPE

As described in the scenario analysis for “Theme 1 (Opportunities): Change in demand for cordless OPE due to decarbonization of OPE,” the transition from engine-powered to cordless OPE is progressing in line with progress toward a decarbonized society. We have set the electrification (elimination of engine-powered equipment) ratio as an indicator and are striving to increase this ratio. In addition, Makita has **discontinued production of all engine-powered products**, including OPE.

Indicators and results related to the electrification ratio* of OPE

Fiscal 2019 (FYE 2020) Results	Fiscal 2020 (FYE 2021) Results	Fiscal 2021 (FYE 2022) Results	Fiscal 2022 (FYE 2023) Results
86.1%	88.5%	90.9%	91.9%

* Based on sales volume, including both AC products with power cords and cordless products

We will continue to promote the proactive development of cordless OPE that can replace engine-powered OPE in order to contribute to solving environmental problems, particularly climate change issues.