Disclosure Based on TCFD Recommendations

July 11, 2024
Cosel, Co. Ltd.

Information Disclosure Following the Recommendations by Task Force on Climate-Related Financial Disclosures (TCFD)

Overview of TCFD

TCFD is a task force established by the Financial Stability Board in December 2015 at the request of the G20. TCFD recommended in its final report in June 2017 that information around the four core elements of the TCFD recommendations to be disclosed.

Declaration of Our Support for TCFD Recommendation

Climate change poses great risk in our corporate activities and financial plannings as it increases sea surface temperatures and intensified rainstorms, causing adverse effects on our ecosystem.

Our main product line is “Switching Power Supplies," which is used in various electronic equipment such as information devices, medical equipment, and factory automation. At Cosel, we believe we can contribute in the "realization of sustainable society" through the development and the distribution of products with improved power dissipation and significant energy efficiency, while promoting corporate activities to reduce environmental impact from our business operations. It is our mission and responsibility to pass on this irreplaceable earth to the next generation in a healthy state.

In November 2019, we endorsed the TCFD Recommendations on the climate change related disclosure, and have launched a project to conduct Scenario Analysis to address this important issue.

Recommended Disclosure from TCFD and Status of the Measures Taken

Governance	
Recommended Disclosure	Status of the Measures Taken
a) Board oversight of climate-related risks and opportunities.	We established "Environmental Committee", a team dedicated for climate change related matters. Under the Board of Directors, the committee develops strategies against climate change, and updated them annually. The committee also oversees and evaluates the performance of our activities.
b) Management’s role in assessing and managing climate-related risks and opportunities.	

Strategy	
Recommended Disclosure	Status of the Measures Taken
a) Short, mid, and long-term climate-related risks and opportunities identified by the organization.	Scenario analysis has been conducted for our domestic business division of unit power supplies, on-board power supplies, and noise filters. As a result, climate-related risks and opportunities that have been determined to have significant financial impact are being addressed and implemented. In the future, we plan to proceed with scenario analysis for the entire Cosel Group worldwide.
b) Impact of climate-related risks and opportunities on the organization's business, strategies, and financial planning.	
c) Resilience of the organization's strategies based on various climate-related scenarios, including the “Under 2℃” scenario.	

Risk Management	
Recommended Disclosure	Status of Measures Taken
a) Processes for the organization to identify and assess climate-related risks.	Our RC (Risk Management and Compliance) Committee takes the lead in identifying company-wide risks and implementing measures in consultation with each department assigned to each risk. The identified risks are classified according to their frequency, impact on human resources and business operations, and recovery levels. They are then addressed as a part of the corporate policy so that we continue to implement the measures. Environmental Committee plays a central role in addressing climate change-related risks. They work closely with each related department to formulate policies and strategies to reduce environmental impacts and monitor their implementation.
b) Processes for the organization to manage climate-related risks.	
c) How are organization's processes for identifying, assessing, and managing climate-related risks integrated into their overall risk management.	

Indicators and Targets	
Recommended Disclosure	Status of Measures Taken
a) Indicators used by the organization to assess climate-related risks and opportunities for their strategies and risk management processes.	Target for 2030 -Carbon Neutral Scope 1, 2 Progress against target -2023 result Reduction of 48% from 2020 Monitoring Indicators -Scope 1 (direct), Scope 2 (indirect) CO2 emissions and energy consumption *We use CO2 emissions as an indicator as it is the only GHG emissions at Cosel.
b) GHG emissions and related risks for Scope 1, Scope 2, and Scope 3 where applicable.	
c) Targets used by the organization to manage the climate-related risks and opportunities, and the result against the targets.	

Governance

Through the discussions at the Board of Directors and Policy Development Committee meetings, Cosel has always positioned the climate change measures as an important business issues. In the wake of our endorsement for TCFD Recommendations, we have established a project team to reinforce our organizational structure for more effective management.

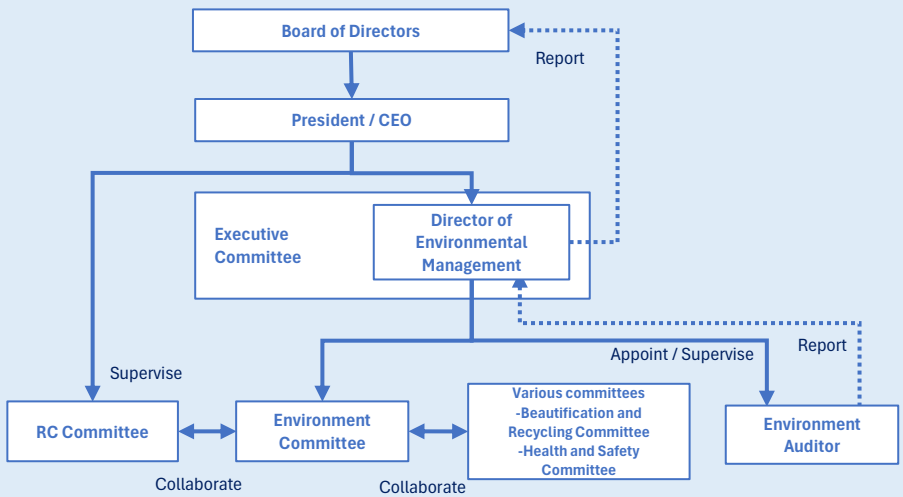
Our President, who also serves as the chief executive of the Board of Directors, is in charge of climate change measures, and the Environmental Committee, which directly reports to the President, discusses and formulates the strategies for climate-related issues. The issues examined and discussed by the Environmental Committee are reported to the Board of Directors as appropriate, and critical issues are discussed in the Board of Director's meetings. Once the Board of Directors decides that an action needs to be taken, they order the Environmental Committee to implement measures. The Board of Directors receives feedbacks and results of the measures and monitors the progress of the activities.

Thus far, the Board of Directors had discussed the targets for reducing greenhouse gas emissions and installing photovoltaic power generators to utilize renewable energy sources, and the President called the final decision to execute the initiatives. They have also made decisions to identify risks and opportunities associated with climate change, and is working to strengthen our strategies to deal with climate change.

The following topics were also on the Board's agenda for discussion:
-Discussion and decision making on capital investment for decarbonization
-Progress report on our efforts toward carbon neutral
-Progress report on climate-related financial planning and information disclosure initiatives based on TCFD Recommendations.

Going forward, we will enhance governance by reporting to the Board of Directors on a semi-annual basis.

Cosel Group Environment Related Governance Structure



RC Committee	**Chairperson: Manager of General Affairs** 1. Promote the risk management organization, provide training and raise awareness. 2. Examine and implement measures to ensure Cosel Group's compliance to regulations.
Environmental Committee	**Chairperson: Director of Environmental Management** Deliberates on the environment related manuals and targets, identifies issues and challenges, and creates plans for improvement.
Beautification and Recycling Committee	**Chairperson: Team leaders and Section Managers** Promote internal and external beautification activities and recycling of waste materials.
Health and Safety Committee	**Chairperson: Site Leadership (e.g. plant managers) or the equivalent (appointed by the President)** Establish safety and health management system and methodologies, solve problems or improve the level of safety and health by preventing accidents, correcting issues, improving workplace environment and sanitation.

Strategies

In order to identify risks and opportunities related to uncertain future events caused by climate change, and to understand how they will affect us so that we can determine appropriate responses, we conducted a Scenario Analysis in line with the TCFD recommendations.

Prerequisites for Scenario Analysis

■ Scope

The target businesses are unit power supplies, onboard power supplies, and noise filters, which account for approximately 80% of our sales by product category. PRBX products, whose production sites and target markets differ from these, will be covered in the next fiscal year.

As for the target regions, we decided to focus on Japan first since 60% of our sales by region is in Japan. We plan to include worldwide regions in the next fiscal year.

■ Duration (analysis timeline)

Given the nature of our business, we suspect significant risks and opportunities that will impact our supply chain.

In considering the impact on supply chain, we selected the year 2030 to analyze the risks from transitional period as there is relatively more information on policies and market forecasts available for this year, while 2050 was selected to analyze the physical impact as we assumed that is around the time such impact may become more apparent.

■ Scenarios

We referred to the following scenarios, various reports by the Ministry of the Environment and the Japan Meteorological Agency, and hazard maps by local governments for this analysis.

Temperature ranges	Scenarios
4℃ (2℃ or higher)	IEA*1 STEPS（Stated Policies Scenario）（2.6℃） IPCC*2 RCP8.5
2℃	IEA SDS（Sustainable Development Scenario） IPCC RCP2.6
1.5℃	IEA NZE（Net Zero emissions by 2050 Scenario）

*1：IEA...International Energy Agency
*2：IPCC...Intergovernmental Panel on Climate Change

The outlook of the world we hypothesized for each scenario are as follows.

Scenarios	Hypothesis based on the Scenarios	Expected Impact
4℃ increase	-Current environmental effort would continue, and the impact of climate change on business activities would increase.	-Increased severity and frequency of weather-related disasters. -Rising average temperature and sea level.
Under 2℃ increase	-More stringent climate change measures would be introduced, new policies and technological innovations would advance, and the use of environmentally harmful resources would be restricted.	-Incurred or increased cost associated with the introduction of new carbon taxes and higher tax rates. -Increased costs associated with increased renewable energy procurement and equipment renewal to achieve GHG emission reduction target. -Increased fuel and raw material costs. -Changes in customers' needs for low-carbon products. -Increased development costs for low-carbon products. -Opportunity loss due to delay in responding to climate change.
1.5℃ increase	-Policies and investment for clean energy would rapidly increase, and the developed nations would achieve Net Zero state ahead of others. -Major SDGs energy related requirements are met by 2030. -Globally achieve the 2050 carbon neutral goal.	

Identification of Risks and Opportunities, Impact Assessment, and Countermeasure Study

A cross-functional project team led by the Environmental Committee identified and screened various risks and opportunities our business could face due to the climate change.

First, we identified possible climate-related risks and opportunities for the businesses and regions in scope. The timeframes impacted by these risks and opportunities were determined respectively in short, medium, and long term, and all stages of supply chain including upstream, downstream, and direct operations, were also included in the scope of the study.

Next, the identified risks and opportunities were sorted by the significance and individually scored for ① the likelihood of impact, and ② magnitude of the impact on a scale of 1 to 3. If the total points from ①×② equals to 6 or higher, they are categorized as climate related risks / opportunities that should be quantitatively evaluated.

【Definition of Timeframes】

Timeframe	Our definition
Short-term	0 to 3 years
Mid-term	3 to 10 years
Long-term	10+ years

【Possibility of being affected by the risk】

Pts	Scale	Judgement criteria
3	High	・80+% / Every year
2	Medium	・Once every 5 years
1	Low	・20% or less / rarely affected

【Significance of the impact】

Pts	Scale	Judgement criteria
3	Large	-Affects entire company, bankruptcy risk must be taken into account in financial planning
2	Medium	-Affects multiple functions, the impact needs to be considered in financial planning
1	Small	-Affects only one function, limited impact

We calculated the financial impact of each risks/opportunities identified above, and considered measures to address those issues that were determined to have significant financial impact. The results are as follows:

【Scenario Analysis Result (Financial impact from climate-related risks/opportunities and measures)】

Risks		Descriptions	Manifest timing	Scenario	Financial impact	Measures
Transitional Risks	Policy / regulation risks	Cost increase from the introduction of new carbon tax	Mid term	1.5℃	Medium	-Procurement of renewable energy ①Installation of solar power generators ②Off-site PPA implementation
	Market risks	Higher raw material procurement cost due to higher fuel and electricity prices	Mid term	4℃ 2℃	High	-Promoting VACD activities ①Reducing parts/material price or switching ②Switching to parts / raw materials with low carbon tax ③Reducing the number of parts ④Promoting centralized purchasing -Reflecting in appropriate product prices
		Cost increase from the changes in supply-demand (shortage) of certain procured goods as a result of transition to a low-carbon society				
Physical Risks	Acute	Suspended or reduced operations due to disaster damage to suppliers, production and logistics (decreased sales from reduced production capacity)	Mid Long term	4℃	High	-Taking disaster damage risks to our partner companies into consideration ①Parallel production ②Reviewing outsourced products ③Selecting new partner companies
		Additional cost of fixed asset losses from the damage to suppliers, production, and logistics	Mid Long term	4℃	High	
		Loss of inventory due to the damage to suppliers, production, and logistics	Mid Long term	4℃	High	
		Difficulty obtaining materials due to disruption of logistics or damage to suppliers (additional handling cost)	Mid Long term	4℃	High	-Reviewing safety stock standard for hard-to-substitute parts -Adoption of parts that can be produced in multiple locations -Purchasing from multiple suppliers (securing alternative suppliers)
		Difficulty obtaining materials due to disruption of logistics or damage to suppliers (decreased sales)	Mid Long term	4℃	High	
	Chronic	Suspended operations due to flooded production and logistics bases in coastal areas	Long term	4℃	— (Qualitative evaluation only)	—
Opportunities		**Descriptions**	**Manifest timing**	**Scenario**	**Financial impact**	**Measures**
Product / service		Increased demand for low-carbon product and increased sales of the products that meet such demand	Mid	1.5℃ 2℃	— (Qualitative evaluation only)	-Expanding low-carbon product lines (eco-friendly models) to increase their sales

【Definition of [High] financial impact】
More than 100 million yen for expenditure / More than 1 billion yen for sales

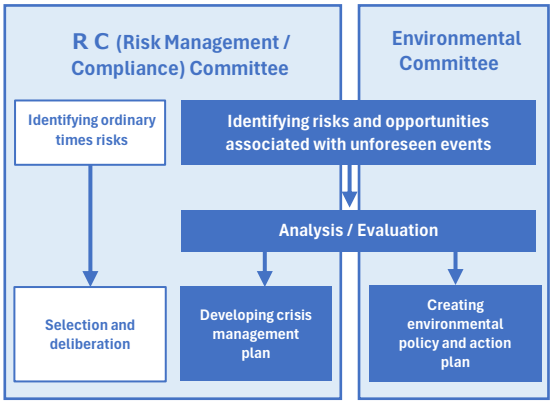
Risk Management

At Cosel, we have established “RC (Risk Management and Compliance) Committee,” an organization that oversees our risk management, chaired by the Director of the General Affairs and participated by each department as its members. The risk management is classified into the following two risk factors.

- Ordinary times risk management
- Crisis management

Ordinary times risk management refers to the risks related to administrative issues found in business operation. Risks and countermeasures are decided with the approval of the President, and the policy implementation and the follow-ups are conducted as a part of policy management activities.

Crisis management refers to the risks related to the crisis situations. In order to take appropriate actions, control the risks, and minimize damages, we plan a crisis management plan that draws out the responses and preventive measures in advance, which are reviewed annually.



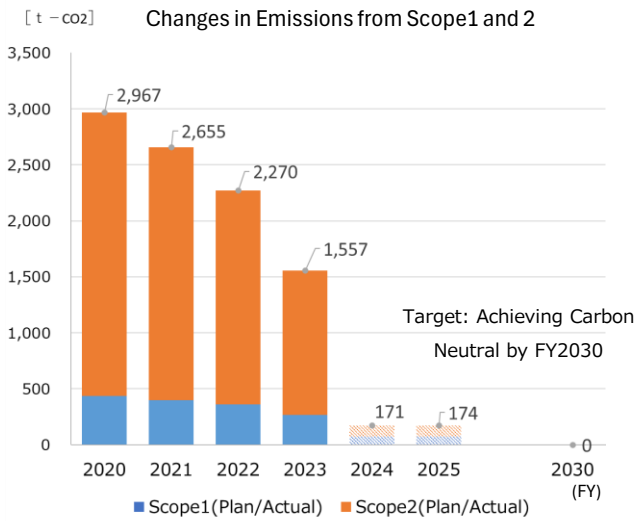
Climate change-related activities are led by the "Environmental Committee.” In cooperation with other departments, they draw out various policies and strategies to reduce environmental impact and monitors the activities.

Climate Change-Related Indicators and Targets

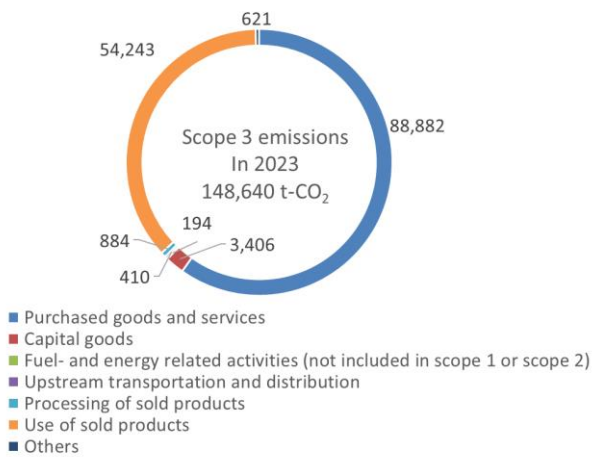
We believe that reducing CO2 emissions and helping to decarbonize the society through our business activities will reduce climate-related risks and increase our opportunities.

We have selected GHG emissions as our performance indicator against the climate change. We also disclose the resulted GHG emissions from Scope 1 and Scope 2. Our climate change indicator is CO2 emissions reduction, and the target and actual results are as shown below.

Changes in Emissions from Scope1 and 2



Breakdown of Scope 3 emissions in 2023



Categories	Target	Activities / Policies
Scope1	Achieving Carbon Neutral by FY2030	-Aggressively promoting energy conversion and replacing air conditioner from GHP to EHP. -We also promote the conversion to carbon neutral fuels.
Scope2		Continuously promoting energy conservation and switching to renewable energy sources such as solar power generation.
Scope3	-For Cat.1, which has the highest emissions, we will promote collaboration with the suppliers and work together to further reduce emissions -For Cat.11, we will promote the spread of high conversion efficiency products with low CO2 emissions during operation in the market and further reduce the CO2 emissions.	

Activity Examples

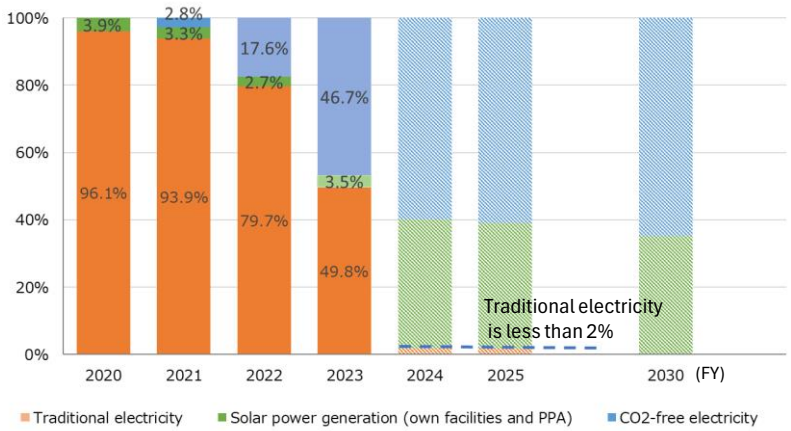
Solar Power Generation

In order to reduce the environmental impact of our business activities, we introduced a 60kW solar power generation system at our headquarters plant and a 150kW solar power generation system at our Tateyama Plant between FY2002 and FY2011. In addition, our headquarters plant has been replaced and its solar power generation system brought the total company-wide capacity to 249kW in FY2023.The systems are capable of providing approximately 4% of the total electricity used at the plants, which in turn reduces CO2 emissions from electricity consumption by approximately 4%.

CO2-Free Electricity

Since FY2021, we introduced electricity derived from renewable energy sources as CO2-free electricity, and we have introduced 100% CO2-free electricity at the Head Office Plant, Tateyama Plant, and R&D Center in FY2023. In addition, from FY2024, we will increase the ratio of electricity generated by solar power by introducing off-site PPA and expanding our own solar power generation facilities.

Changes in Electric Power Ratio (excluding energy saving)



Development and Distribution of Environmentally-Friendly Products

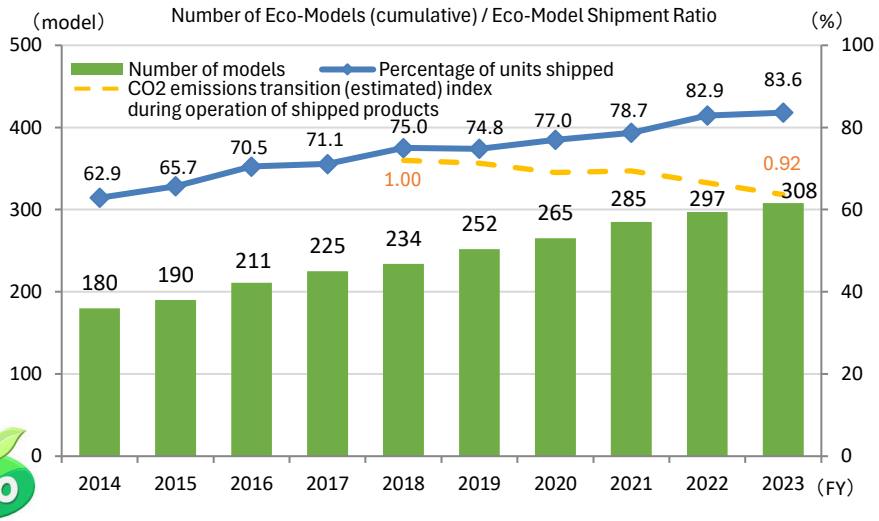
For the purpose of the development of environmentally-friendly products and proactively providing customers with environment related information on our products, we evaluate the following three categories.

1. Environmental impact arisen while operating our products at customers
2. Environmental impact arisen during production at our plants
3. Environmental impact arisen when purchased raw materials and parts are produced

We certify and register products that meet our own evaluation standards and are highly effective in reducing environmental impact as “Eco-Models".

We will continuously expand and promote these "Eco Models" so that we can achieve the low-carbon, recycle-based society with less impact to the environment, and keep evolving as a company, together with our customers,

Number of Eco-Models (cumulative) / Eco-Model Shipment Ratio



We created a symbol to promote our environmentally-friendly models to our customers.

Path Forward

Our effort started in FY2021, in response to the TCFD recommendations for FY2023, by organizing each of our processes and conducting quantitative analysis of the financial impact. We have identified the following as our future tasks, and we plan to continue our study and activities going forward.

- Clarifying the details of and budgeting the measures we have considered in this phase.
- Quantitative analysis of climate-related opportunities (especially those related to low-carbon products).
- Expanding the scope of Scenario Analysis (business: PRBX products, organization: overseas subsidiaries).
- Further advancing with Scope 3 data collection and analysis, and study how we will reduce.
- Establishing a roadmap (transition plan) toward achieving carbon neutrality (Scope 1, 2, 3) by 2050.