Environmental Initiatives

Recently escalating global warming causes large-scale climate change and human beings including ourselves in the current generation as well as the future generation are put at risk. In this situation, the Group recognizes that the risks and opportunities associated with climate change will exert a huge influence on its business strategy. With the “realization of decarbonized society” and the “promotion of circular economy” identified as our materialities, we strive to reduce environmental risk and capture new business opportunities.

Transition to net zero*1 by fiscal 2050

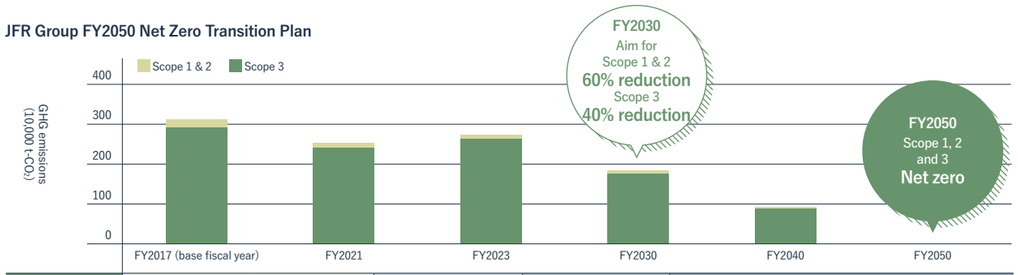
The Intergovernmental Panel on Climate Change (IPCC) provided a scientific indicator in its “1.5°C special report” in 2018, which stated that it is necessary to reach net zero emissions by around 2050 in order to achieve the 1.5° C target. Meanwhile, in 2021 the Science Based Targets initiative (SBTi)*2 announced a new Corporate Net-Zero Standard based on scientific knowledge. Thus, companies are unable to overlook the need to reach net zero.

In 2021, the Group lifted its target for reducing Scope 1 and 2 GHG emissions from the previous 40% reduction to a 60% reduction (compared with the SBT base year, fiscal 2017) and it was approved again as the “1.5°C target” that is the new standard set by the SBTi.

Furthermore, based on the Corporate Net-Zero Standard set by the SBTi, we formulated the JFR Group FY2050 Net Zero Transition Plan to achieve FY2050 Net Zero within the range of Scope 1, 2, and 3 GHG emissions. From short-, medium- and long-term perspectives, in our business strategy, we will formulate appropriate strategies to avoid negative risks, while for positive opportunities, we will aim to capture new growth opportunities by responding proactively to market changes and other means.

*1 Deducting the amount of carbon absorbed by tree planting and forest management, etc., and the amount removed by GHG recovery and sequestration under ground from GHG emissions so that the total is virtually zero.
*2 Global initiative established for the purpose of promoting the achievement of science-based GHG emissions reduction targets to limit the temperature increase to below 2°C compared to pre-industrial levels.

JFR Group FY2050 Net Zero Transition Plan



Phase	Results (FY2017 to FY2020)		Short term (to FY2023)	Medium term (to FY2030)	Long term (to FY2050)
Results forecasts and reduction targets for GHG emissions (compared to FY2017)	Scope 1 & 2 FY2017 194,154 t-CO_2	Scope 1 & 2 FY2021 36.7% reduction	Scope 1 & 2 FY2030 60% reduction		Scope 1 & 2 FY2050 Net zero
	Scope 3 FY2017 2,927,320 t-CO_2	Scope 3 FY2021 17.3% reduction	Scope 3 FY2030 Aim for 40% reduction		Scope 3 FY2050 Net zero
Priority measures	**Scope 1, 2 and 3 reduction by continuing and strengthening energy-saving measures** • Scope 1, 2 and 3 (Category 3) reduction by expanding the switching to LED lighting in stores and introducing energy-saving, highly efficient equipment • Scope 1 & 2 reduction by shifting to electric vehicles for company use				
		Scope 2 reduction by expanding renewable energy • Scope 2 reduction by expanding the switching of stores and offices to renewable energy			
			Scope 3 reduction through cooperation with our suppliers and by promoting a circular economy • Scope 3 (Categories 1, 4, 5 and 9) reduction through the advancement of the existing 3 Rs in cooperation with our suppliers and customers • Scope 3 (Category 1) reduction through cooperation with our suppliers • Scope 3 (Category 5) reduction by reducing amount of waste disposal of and improving recycling rate		
				Scope 2 reduction by introducing an energy creation system • Scope 2 reduction through renewable energy capital investments, etc. in our own facilities • Scope 2 reduction by establishing corporate power purchase agreements (PPAs)	
					Utilization of latest technologies, etc. and offsets • Use of electricity from new non-carbon energy sources, such as hydrogen and ammonia • Utilization of CCUS (CO_2 capture, utilization and storage) ・ Offsets through tree planting activities to absorb CO_2

*The plan is current as of the end of May 2022, and may be revised depending on business strategies going forward.

Reduction in Scope 1 and 2 emissions by use of renewable energy

The Group is working to switch to renewable energy and LED lighting and electrify corporate fleet in stores and head offices to reduce Scope 1 and 2 emissions. Particularly, we believe a switch to renewable energy in stores will result in not only emission reduction but also the improvement of the store’s environmental value, which will attract environment-conscious customers and suppliers.

Thanks to our effort to switch to renewable energy, renewable energy rate is 20.3% at the end of February 2022. Going forward, we will consider energy creation measures such as the onsite consumption of renewable energy and strive to strengthen resilience by diversifying energy sources.

FY2021 the Group Scope 1 and 2 emissions targets and results

		FY2021	vs. FY2020	vs. FY2017 (vs. SBT base year)
		Emissions (t-CO_2)	Change (%)	Change (%)
Target	Total Scope 1 and 2	126,822	–4.0	–34.7
Results	Total Scope 1 and 2	122,812*	–7.0	–36.7

*Received third-party assurance from LRQA Limited

Reduction in Scope 3 emissions in collaboration with suppliers

The Group’s Scope 3 emissions represent approximately 95% of the emissions from the entire supply chain. Given the characteristics of the Group with retail at its core, we think it is important to work to reduce Scope 3 emissions not by the Group alone but in collaboration with our suppliers.

Daimaru Matsuzakaya Department Stores that emits approximately 86% of the Group’s total Scope 3 emissions held an explanatory meeting in April 2022 (attended by 300 people from 253 companies). We showed the Group’s determination by sharing Daimaru Matsuzakaya Department Stores’ initiatives to realize a decarbonized society and explained that it is essential to collaborate with suppliers and that visualizing emissions in each company will be the first step.

Going forward, we will contribute to realizing a decarbonized society by the entire supply chain by considering and implementing concrete measures to reduce Scope 3 emissions in collaboration with suppliers to achieve net zero by fiscal 2050.

FY2021 the Group Scope 3 emissions results

		FY2021	vs. FY2020	vs. FY2017 (vs. SBT base year)
		Emissions (t-CO_2)	Change (%)	Change (%)
Results	Total Scope 3	2,420,492*	+19.1	–17.3

*Received third-party assurance from LRQA Limited

Resources recycling and the development of circular business models

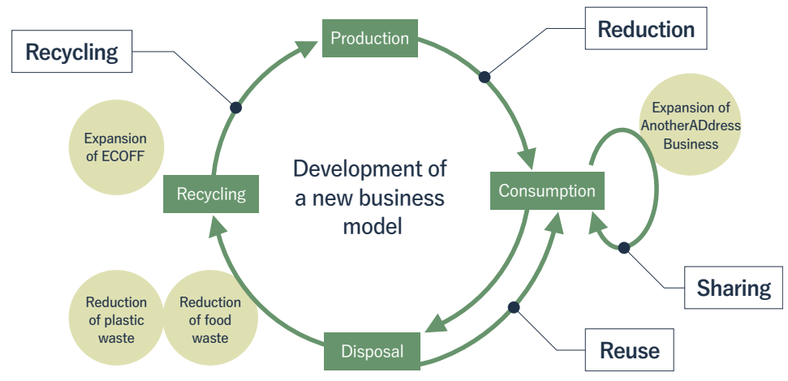
In the current situation in which the mass production and mass disposal of products pose a serious social problem, there is an increasing importance of a circular economy, which maximizes the efficiency of use of natural resources and products and minimizes waste generation and the Group is evolving its initiatives.

Daimaru Matsuzakaya Department Stores has implemented 3 Rs* such as ECOFF, an initiative of collecting disused clothing, shoes and bags from customers and recycling and reusing them as new materials or products and has gained support from stakeholders. In addition, it launched a subscription-based fashion rental service AnotherADdress in 2021 as a sustainable initiative.

Going forward, we will evolve and expand 3 Rs centering on “resources recycling initiatives” and the “development of circular business models” to reduce environmental burdens and capture new business opportunities at the same time.

*The 3 Rs stand for Reduce, Reuse and Recycle.

Diagram of the circular economy the Group aims for



Response to Climate Change and Information Disclosure in Line with TCFD Recommendations

The Group expressed support for the TCFD recommendations in fiscal 2019. We use the TCFD recommendations as guidelines for verifying the appropriateness of the Group's response to climate change. We disclose information effectively in accordance with the four recommended items of "governance," "risk management," "strategy," and "metrics and targets."

Governance over environmental issues

In order to promote sustainability management in all the Group companies in a cross-sectional manner, the Group Management Meeting, which is the highest decision-making body in business execution, discusses and decides regarding specific initiatives and measures associated with environmental issues. At a semiannual meeting of the Sustainability Committee, we share policies and other matters on our response to environmental issues discussed and decided by the Group Management Meeting, and draw up execution plans concerning the Group's environmental issues as well as monitoring progress in their implementation.

Meanwhile, the Board of Directors discusses and supervises the Group's policies on response to environmental issues, policy execution plans and the like, acting on reports over discussions and decisions at the Group Management Meeting and the Sustainability Committee.

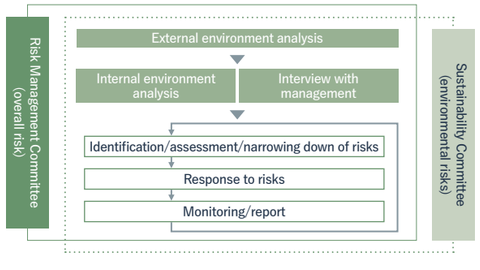
The President and Representative Executive Officer chairs the Group Management Meeting as well as the Risk Management Committee and the Sustainability Committee, both advisory panels under his direct control. He thus bears final responsibility for management judgments associated with environmental issues. Details of matters discussed and decided by the Group Management Meeting and the Sustainability Committee are eventually reported to the Board of Directors.

Risk management

The Group, positioning risk as a starting point for strategy, defines it as "uncertainty that affects the achievement of business management goals and has both a positive side and a negative side." We believe that a company will grow in a sustainable way by properly addressing risk.

The Risk Management Committee, which is an advisory body directly under the President and Representative Executive Officer, identifies and assesses risks based on external environment analysis and narrows them down to the risks that need to be preferentially addressed. The Group shares risk recognition and reflects it in the Group's strategies.

Risk management process



Strategy

The Group considers it important to examine climate-related risks and opportunities at the appropriate milestone occasions because of their potential impact on its business activities over the long term. Accordingly, the Group has positioned the implementation term of the Medium-term Business Plan up to FY2023 as the short term, the period up to FY2030, by which we aim to achieve SBTs, as the medium term, and the period to FY2050, by which we aim to achieve SBTi net zero targets, as the long term.

The Group conducts scenario analysis in order to understand the risks and opportunities provided by climate change to the Group and their impacts on the Group and to examine the resilience of the Group's strategies envisaging the world in fiscal 2030, and the necessity of further measures.

In the scenario analysis, we referenced multiple existing scenarios announced by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), then considered two world scenarios: the below 1.5˚C/2˚C scenario that envisages the goal of the Paris Agreement to limit the increase in the global average temperature to well below 2˚C and pursue efforts to limit it to 1.5°C compared to pre-industrial levels; and the 4˚C scenario that envisages the GHG emissions on the present basis.

As for climate-related risks and opportunities, the Group formulates its strategies and responds to them by back casting them with an eye to fiscal 2050, by which we will realize net zero.

Existing scenarios referred to

Possible world	Existing scenarios
Below 1.5˚C/2˚C scenario	"Net-Zero Emissions by 2050 Scenario (NZE)" (IEA, 2021)
	"Sustainable Development Scenario (SDS)" (IEA, 2021)
	"Representative Concentration Pathways (RCP2.6)" (IPCC, 2014)
4˚C scenario	"Stated Policy Scenario (STEPS)" (IEA, 2021)
	"Representative Concentration Pathways (RCP6.0, 8.5)" (IPCC, 2014)

Climate change risks and opportunities of particular importance to the Group and their financial impacts

⬆ : The impact on the Group's business and finance is expected to be very large.
↗ : The impact on the Group's business and finance is expected to be slightly large.
➡ : The impact on the Group's business and finance is expected to be negligible.

Type of climate-related risk and opportunity			Time of emergence	Climate-related risk and opportunity of particular importance to the Group	Financial impact: Below 1.5˚C/2˚C scenario	Financial impact: 4˚C scenario	Measures
Risk	Transition risk	Policy regulation	Short and medium term	Increase in energy costs associated with the introduction of policies to control GHG emissions, such as carbon taxes and the strengthening of regulations	Cost increase of approximately ¥1.1 billion*1	Cost increase of approximately ¥0.6 billion*1	Reduction in Scope 1 and 2 GHG emissions due to switching to energy-saving and renewable energy at stores and business sites
				Increase in cost of reducing GHG emissions by purchasing green electricity certificates and so forth	↗	➡	Reduction in energy usage due to introduction of latest high energy-efficiency equipment at stores and business sites
				Increase in renewable energy procurement cost due to increase in use of renewable energy-sourced electricity	Cost increase of approximately ¥0.7 billion*2	Cost increase of approximately ¥0.2 billion*2	Onsite generation and consumption of renewable energy through introduction of energy creation system, such as capital investment in renewable energy at in-house facilities
	Physical risk	Acute	Short and medium term	Reduction in revenue due to damage to stores and business sites and suspension of operations because of natural disasters caused by climate change	Sales decrease of approximately ¥5.2 billion*3	Sales decrease of approximately ¥10.3 billion*3	Increased resilience of stores and business sites through BCP preparation
				Loss of sales opportunities in stores due to increased risk of infectious diseases (COVID-19, etc.) caused by climate change	↗	⬆	Diversification of sales channels through promotion of Real×Digital Strategy formulated in the Medium-term Business Plan.
Opportunity	Energy source		Short and long term	Decrease in energy procurement cost due to introduction of latest high energy-efficiency equipment	↗	➡	Reduction in energy usage due to introduction of latest high energy-efficiency equipment at stores and business sites
	Products and services		Short and medium term	Expansion of earnings due to response to an increase in demand for sharing and upcycled products in collaboration with suppliers	⬆	↗	Conversion to a circular business model, including sharing and upcycling through collaboration with suppliers
				Expansion of earnings due to response to an increase in customer demand for environmental products and services, such as reused products and recycled products	⬆	↗	Increase in the level of 3 Rs through collaboration with customers and suppliers and expansion in handling of environmental products and services
	Market		Short and long term	Expansion of revenue due to opening of environmentally conscious tenants following conversion to stores and business sites with high environmental value	Sales increase of approximately ¥1.0 billion*4	—	Acquisition of environmental certification for stores and business sites by energy saving and switching to renewable energy
				Capture of new growth opportunities by response to increased risk of infectious diseases (COVID-19, etc.) caused by climate change	⬆	↗	Diversification of sales channels through promotion of Real×Digital Strategy formulated in the Medium-term Business Plan.

(Grounds for estimation of quantitative financial impacts expected in FY2030)
*1 Estimated by multiplying the Group's Scope 1 and 2 GHG emissions in FY2030 by the carbon tax price per tonne of CO_2
*2 Estimated by multiplying the Group's electricity usage in FY2030 by the additional price of renewable energy-sourced electricity per kWh compared to ordinary electricity charges
*3 Estimated by multiplying the amount of sales losses due to suspension of operations during past natural disasters by the frequency of floods
*4 Estimated by multiplying the Group's real estate revenue and profits in FY2030 by percentage changes in new actual rent of buildings with environmental certification

For the FY2050 Net Zero Transition Plan, see page 58.

Metrics and targets

The Group has established two metrics for managing climate-related risks and opportunities: Scope 1, 2 and 3 GHG emissions and the renewable energy rate in total electricity used in business activities.

Furthermore, in the Officer Remuneration Policy revised in April 2021, Scope 1 and 2 GHG emissions reduction targets were set as indicators for determining performance-linked remuneration, to clarify executive officers' responsibility with regard to the issue of climate change.

The targets used by the Group to manage climate-related risks and opportunities

Metrics	Target year	Details of targets
GHG emissions	2050	Net zero emissions of Scope 1, 2, and 3 emissions
	2030	60% reduction of Scope 1 and 2 emissions (vs. FY2017)*1 40% reduction of Scope 3 emissions (vs. FY2017)*1
Renewable energy rate in total electricity used in business activities	2050	Renewable energy rate in total electricity used in business activities: 100%*2
	2030	Renewable energy rate in total electricity used in business activities: 60%

*1 Approved by SBTi
*2 Joined RE100 in 2020

For Scope 1, 2, and 3 emissions results in fiscal 2021, see page 59.