Information Disclosure in Line with TCFD Recommendations

Support for TCFD Recommendations

The Group considers climate change as the most important issue for sustainability management and recognizes that climate risks and opportunities have a significant impact on its business strategies. In 2018, we identified five materiality issues that should be preferentially addressed. Among them, we see “contribution to a low-carbon society” as our top priority.

In May 2019, the Group expressed its support for the final report of the “Task Force on Climate-related Financial Disclosures (TCFD)” that was established by the Financial Stability Board (FSB) (TCFD recommendations). The TCFD recommendations are a global common comparable framework for climate-related information disclosure. One of its main features is that it considers climate change as a business challenge.

The Group will use the TCFD recommendations as guidelines for evaluating the adequacy of its climate actions to achieve its medium- to long-term targets for 2030 and 2050 for “contribution to a low-carbon society” and take actions such as the reduction of GHG emissions across the Group for sustainable growth.

TCFD recommended disclosure items

The TCFD recommendations are based on the belief that investors’ accurate understanding of the impact of climate risks and opportunities on the financial condition of investees leads to appropriate investment decisions. And they recommend that all companies disclose concerning four disclosure items including “governance,” “risk management,” “strategy” and “metrics and targets” in their financial reports.

The Group will further expand information disclosure based on the TCFD recommended four disclosure items in collaboration with companies and financial institutions that support the TCFD recommendations.

TCFD recommended disclosure items

Basic item	Outline	Specific disclosures
Governance	The organization’s governance around climate-related risks and opportunities	●The board’s oversight of climate-related issues ●Management’s role in assessing and managing climate-related risks and opportunities
Risk management	How the organization identifies, assesses, and manages climate-related risks	●Detailed processes for identifying and assessing climate-related risks ●Detailed processes for managing climate-related risks ●How the processes are integrated into the organization’s overall risk management
Strategy	The impacts of climate-related risks and opportunities on the organization’s businesses, strategy and finance	●The risks and opportunities the organization has identified over the short, medium and long term ●The impact of risks and opportunities on the organization’s business, strategy and financial planning ●The impact of relevant scenarios and resilience against it
Metrics and targets	The metrics and targets used to assess and manage climate-related risks and opportunities	●The metrics used by the organization to manage climate-related risks and opportunities ●GHG emissions (Scope 1, 2 and 3) ●The targets used by the organization to manage climate-related risks and opportunities and performance against targets

Source: Recommendations of the Task Force on Climate-related Financial Disclosures (final report), 2017

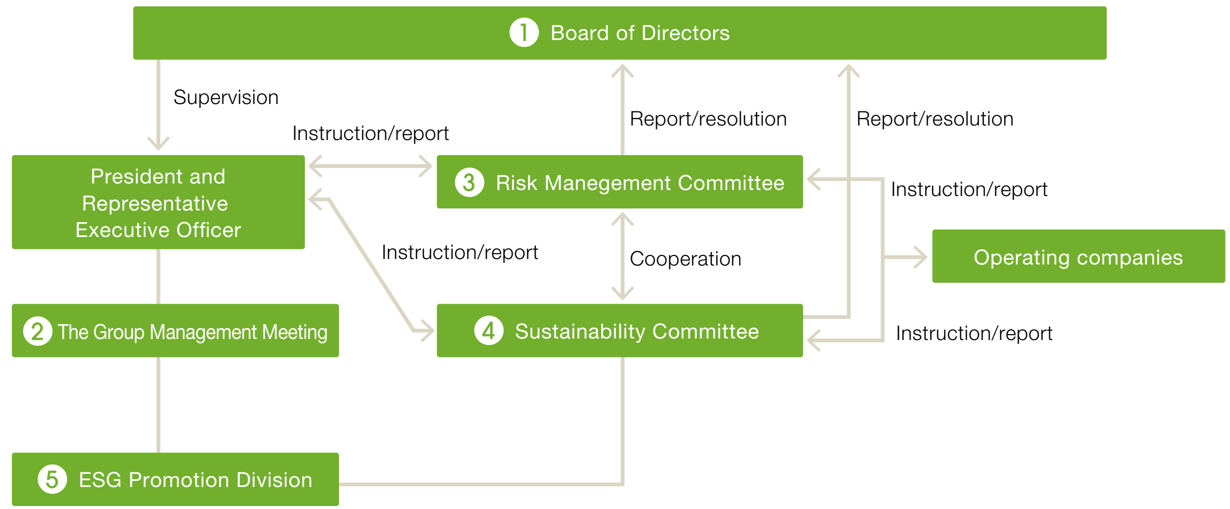
Recommended Disclosure Item (1) Governance

Governance concerning environmental issues

The Sustainability Committee has been in place since FY2019 to promote sustainability management across the Group in a cross-organizational manner. The Sustainability Committee formulates action plans to address the Group's environmental issues and monitors their progress. The Board of Directors discusses and supervises the content of these plans.

At the Group Management Meeting, the highest decision-making body in business execution, specific measures for addressing environmental issues are discussed and the decisions are reported to the Board of Directors. The President and Representative Executive Officer, who chairs the Group Management Meeting, also serves as the chairperson of the Risk Management Committee and the Sustainability Committee, both of which are advisory committees under his direct supervision, and assumes the ultimate responsibility for decision-making related to environmental issues. Under the supervisory system of the Board of Directors, we are strengthening governance in environmental management.

Environmental management structure



Meeting bodies and their roles in the environmental management structure

Meeting body and structure	Role
(1) Board of Directors	Supervises the progress of environment-related initiatives discussed and approved in business execution. Meets monthly.
(2) Group Management Meeting	Discusses the measures related to the group-wide management including specific environment-related initiatives. The decisions are reported to the Board of Directors. Held weekly.
(3) Risk Management Committee	Extracts comprehensive risks and discusses the measures against them. The decisions are reported to the Board of Directors. Meets as needed.
(4) Sustainability Committee	Decides and shares the policy to address environmental issues discussed at the Group Management Meeting. Formulates the long-term plans and KGIs/KPIs related to environmental issues and monitors the progress of operating companies. The decisions are reported to the Board of Directors. Meets semiannually.
(5) ESG Promotion Division	Promotes the group-wide response to environmental issues. Collects environment-related information and reports to the Group Management Meeting, the Sustainability Committee and the Risk Management Committee.

Recommended Disclosure Item (2) Risk Management

Risk management across the Group

The Group defines risk as "uncertainty that affects the organization's profit or loss amid environmental changes." Risk has a positive side (opportunity) and a negative side (threat) and we believe a company's appropriate response will lead to its sustainable growth.

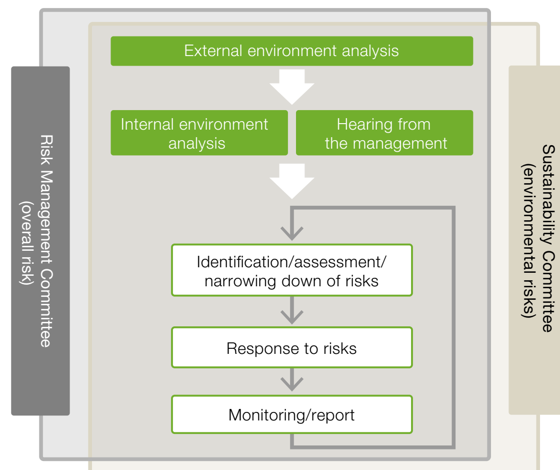
The Group believes it is important to position risk as the starting point of its strategy and to establish a system to manage them across the Group. The Risk Management Committee identifies and assesses risks based on external environment analysis, narrows them down to the risks that need to be preferentially addressed and reflects them in the Group's strategies.

Environmental risk management

The Sustainability Committee conducts more detailed examinations of the environmental risks identified by the Risk Management Committee and shares the results with operating companies. Operating companies incorporate climate actions into their action plans. They discuss and confirm the progress of the action plans at the meetings chaired by their presidents.

The Group Management Meeting, the Risk Management Committee and the Sustainability Committee monitor the progress, and finally, report to the Board of Directors.

Risk management process



Risk management system

Risk management process	Meeting body in charge
Identification/assessment/ narrowing down of risks	Group Management Meeting Risk Management Committee (Overall management risk) Sustainability Committee (Environmental risks)
Response to risks	Operating companies
Monitoring/report	Group Management Meeting Risk Management Committee (Overall management risk) Sustainability Committee (Environmental risks)

Process to identify and assess climate risks and opportunities

With the recognition that climate risks and opportunities have a great impact on its business strategies, the Group identified climate risks and opportunities through the process below and assessed their importance.

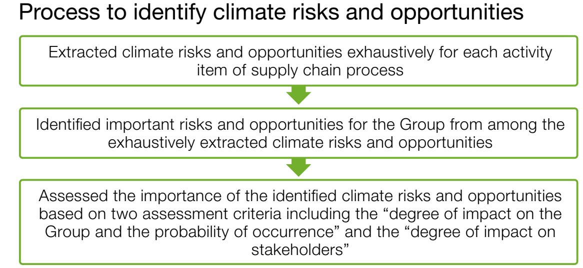
Firstly, the Group extracted climate risks and opportunities exhaustively for each activity item of supply chain process: "product procurement," "transportation and customer movement," "sales in stores," "use of products and services" and "disposal."

Next, we identified important risks and opportunities for the Group from among the exhaustively extracted climate risks and opportunities.

Finally, we assessed the importance of the identified climate risks and opportunities based on two assessment criteria including the "degree of impact on the Group and the probability of occurrence" and the "degree of impact on stakeholders."

The Group reflects the climate risks and opportunities rated as particularly important through the above process in its strategies as its business risks to address them.

Process to identify climate risks and opportunities



Recommended Disclosure Item (3) Strategy

Scenario analysis

The Group conducted a scenario analysis to know the risks and opportunities posed by climate change to it and their financial impact.

The TCFD recommendations require companies to take into consideration several different scenarios to assess climate risks and opportunities so that they can be ready for either case whether the measures will progress or not. Based on this requirement, taking into consideration existing scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), the Group assumed two possible worlds including a below 2˚C scenario, which is the Paris Agreement's goal, and a 3˚C scenario that expects all national policy objectives to be met.

Based on the above two scenarios, we analyze the impact of climate change on our business and finance and verify the Group's strategic resilience.

Existing scenarios taken into consideration

Possible world	Existing scenario
Below 1.5 to 2˚C scenario	"Below 2 Degree Scenario (B2DS)" (IEA, 2017) "Sustainable Development Scenario (SDS)" (IEA, 2019) "Representative Concentration Pathways (RCP2.6)" (IPCC, 2014)
3˚C scenario	"Stated Policy Scenario (STEPS)" (IEA, 2019) "Representative Concentration Pathways (RCP6.0)" (IPCC, 2014)

The Group's risks and opportunities in two scenarios and their impact on business and finance

The degree of impact on business and finance is shown qualitatively by the slope of the arrows in the table in three stages.

- ↑ : 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 risk/opportunity			Overview of the Group's risks/opportunities	Financial Impact	
				Below 1.5 to 2˚C scenario	3˚C scenario
Risk	Transition risk	Policy Regulation	● Increase in operation costs associated with the introduction of policies to control GHG emissions, such as carbon taxes (carbon pricing) and the strengthening of regulations ● Increased disclosure obligations related to GHG emissions and the risk of fines due to inadequate response	↑	↗
Risk	Transition risk	Market	● Loss of growth opportunities due to a delay in response to market changes such as increased demand for low-carbon products and services resulting from diversification of consumer behavior and increased customer awareness of environmental issues ● Loss of growth opportunities due to a delay in response to increased risk of infectious diseases caused by climate change	↗	→
Risk	Physical risk	Acute	● Loss of sales opportunities for products and services resulting from disruption of procurement and logistics routes due to natural disasters caused by climate change ● Damage to stores and offices and suspension of operations due to natural disasters caused by climate change ● Loss of sales opportunities in stores due to increased risk of infectious diseases (COVID-19, etc.) caused by climate change	↗	↑
Opportunity	Energy source		● Reduction in operation costs due to the use of low-carbon energy sources ● Reduction in energy procurement costs resulting from the use of new technologies ● Energy resilience by participating in low-carbon businesses and shifting to energy diversification ● Reduction in operation costs due to the introduction of energy-efficient equipment ● Avoidance of energy procurement risks resulting from promoting renewable energy and energy conservation	↗	→
Opportunity	Market		● Improvement of profitability by restructuring the business portfolio beyond the framework of retail and focusing on markets where growth is expected in line with diversification of consumer behavior and an increase in customer awareness concerning environmental issues ● Expansion of new growth opportunities by addressing increased risk of infectious diseases caused by climate change	↑	↗

Financial impacts on the Group in two scenarios

We proceed with actions, including the reduction of GHG emissions, across the Group to achieve our medium- to long-term targets. Approximately 80% of the Group's GHG emissions are from electricity consumption. Therefore, we think it is important to focus our GHG emissions reduction initiatives on electricity consumption.

In light of such current situation, the Group believes that, among the financial impacts estimated for 2030 in the two scenarios, the introduction of a carbon tax* and fluctuations in renewable energy-derived electricity rates in Japan, in particular, will be important parameters (indicators). Therefore, for the two parameters in the below 1.5 to 2˚C scenario and the 3˚C scenario, we quantitatively estimate the financial impacts on the Group.

*Taxes levied on CO_2 emissions, which is the main cause of climate change

Financial impacts on the Group estimated for 2030

Important parameter (indicator)	Financial impacts on the Group estimated for 2030		
	Item	Below 1.5 to 2˚C scenario	3˚C scenario
Carbon tax	Carbon tax (thousand yen/t-CO_2)	10	3.3
	Increase in costs due to carbon tax (millions of yen)	1,165	384
Renewable energy-derived electricity rates	Increase in renewable energy-derived electricity rates (yen/kWh)	1～4	
	lIncrease in procurement costs of renewable energy-derived electricity (millions of yen)	164～658	

(Assumptions for 2030)
- Carbon tax price in developed countries: $100/t-$CO_2$ (below 1.5 to 2°C scenario), $33/t-$CO_2$ (3°C scenario)
- The Group's GHG emissions: 116,492 t-CO_2 (40% reduction vs. FY2017)
- Renewable energy-derived electricity rate: Increase of 1 to 4 yen/kWh (vs. electricity rate other than renewable energy)
- The Group's usage of renewable energy-derived electricity: 164,450MWh (ratio of renewable energy: 50%)

Recommended Disclosure Item (4)

Metrics and Targets

The Group's medium- to long-term GHG emissions reduction targets

Based on the strategies for achieving the below 1.5 to 2˚C scenario, the Group has set medium- to long-term GHG emissions reduction targets for 2030 and 2050.

The Group's Scope 1 and 2 and Scope 3 GHG emissions reduction targets for 2030 were approved by the Science Based Targets initiative (SBTi) in 2019.

The SBTi has set three criteria by adding two categories including "well-below 2˚C" and "1.5˚C" to its existing upper limit of temperature rise of "2˚C" above pre-industrial levels. The Group's targets were approved under the second strictest category of "well-below 2˚C"-aligned targets.

The Group's medium- to long-term GHG emissions reduction targets

Target year	Details of targets
2030	40% reduction of Scope 1, 2, and 3 GHG emissions (vs. FY2017)* *Approved by SBTi
2050	Zero Scope 1 and 2 GHG emissions

Scope 1 and 2 and Scope 3 GHG emissions in FY2019

In FY2019, the Group's Scope 1 and 2 GHG emissions were 162,508 t-CO_2, down 11.0% compared to FY2018. The Group has set the Scope 1 and 2 GHG emissions reduction target for FY2019 at 3.9% compared to FY2018. However, the actual reduction far exceeded the target.

The Group's GHG emissions also decreased by 16.3% compared to the SBT base year FY2017. We reduce GHG emissions steadily toward the achievement of SBT.

In FY 2019, the Group's Scope 3 GHG emissions were 3,782,555 t-CO_2. We reviewed the calculation and tabulation rules for Scope 3 GHG emissions in FY2019 to improve the completeness of calculation scope and the accuracy of calculation results. As a consequence, the Group obtained third-party assurance from Lloyd's Register Quality Assurance Limited for Scope 3 GHG emissions in FY2019 for the first time.

FY2019 Scope 1 and 2 GHG emissions reduction targets and results

		FY2019	Vs. FY2018		Vs. FY2017 (SBT base year)	
		Emissions (t-CO_2)	Reduction (t-CO_2)	Reduction (%)	Reduction (t-CO_2)	Reduction (%)
Target	Total Scope 1 and 2	174,994	(7,572)	(3.9)	(14,562)	(7.5)
Results (breakdown)	Total Scope 1 and 2	162,508*	(20,058)	(11.0)	(31,646)	(16.3)
	Scope 1	15,214	(746)	(4.7)	(838)	(0.6)
	Scope 2	147,294	(19,312)	(11.6)	(30,808)	(17.3)

* Obtained third-party assurance from Lloyd's Register Quality Assurance Limited

FY2019 Scope 3 GHG emissions

Category	Category name	Emissions (t-CO_2)	Share (%)
1	Purchased goods and services	2,547,642	67.35
2	Capital goods	235,642	6.23
3	Fuel- and energy-related activities not included in Scope 1 or 2	33,447	0.88
4	Upstream transportation and distribution	33,119	0.88
5	Waste generated in operations	596	0.02
6	Business travel	4,456	0.12
7	Employee commuting	2,164	0.06
8	Upstream leased assets*1	-	-
9	Downstream transportation and distribution	792,100	20.94
10	Processing of sold products*2	-	-
11	Use of sold products	223	0.01
12	End-of-life treatment of sold products	67,385	1.78
13	Downstream leased assets	65,781	1.74
14	Franchises*2	-	-
15	Investments*2	-	-
	Total Scope 3	3,782,555*3	100.00

*1 Excluded from Scope 3 calculation because it is calculated in Scope 1 and 2 GHG emissions
*2 Excluded from Scope 3 calculation because they are not included in the business process of the Group
*3 Obtained third-party assurance from Lloyd's Register Quality Assurance Limited

Future Efforts

The Group believes it is important to respond to climate risks and opportunities using the strength of corporate group with retail at its core. To this end, the Group joined RE100 in October 2020 and will make it a top priority to switch to renewable energy for electricity used in its stores. As for energy saving, we, across the Group, will take actions including the switch to high-efficiency equipment and the expansion of LED lighting, both of which were already launched.

In the meantime, the retail market is shrinking due to depopulation and aging. In addition, the growth of "sharing economy," in which people share goods and services instead of owning them, is accelerating.

Seeing these backdrops as opportunities, not risks, the Group as a whole will strive to:

- Realize a strong supply chain by strengthening the measures against physical climate risks;
- Contribute to local communities by creating sustainable stores through CSV initiatives with stores at the core;
- Realize new business opportunities through circular economy initiatives; and
- Actively provide low-carbon products and services that respond to changes in consumers' consumption behavior.

Going forward, the Group will further quantify climate risks and opportunities to improve the accuracy of scenario analysis. In formulating the Group strategies and the Medium-term Business Plans, we will actively take risks assessing market changes while appropriately hedging the negative aspects of risk to achieve sustainable corporate growth.