Realization of Carbon Neutrality Aiming for 100% Renewable Energy  $\rightarrow$  Special Report: Information Disclosure in Line with TCFD Recommendations

# **Special Report**

# Information Disclosure in Line with TCFD Recommendations

Climate change and other environmental issues are becoming serious in the world. Japan has also been heavily affected by frequent major natural disasters caused by abnormal weather. Climate change has developed into a situation companies cannot overlook.

Against that background, the Group considers climate change issues as a top priority issue for sustainability management and recognizes that risks and opportunities stemming from climate change have a significant impact on its business strategies.

In 2019, the Group expressed its support for the final report of the Climate-related Financial Disclosure Task Force (TCFD) (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.

They expect all companies to disclose information in accordance with the four recommended disclosure items including "governance," "risk management," "strategy" and "metrics and targets."

The Group will continue to use the TCFD recommendations as guidelines for evaluating the adequacy of its climate actions while taking actions such as the reduction of GHG emissions across the Group.

And we will actively engage in dialogue with institutional investors by participating in the TCFD Consortium to effectively disclose information.



# Recommended Disclosure Item (1) Governance

# (a) Process by which the Board of Directors receives reports on climate-related issues, frequency with which these issues are tabled for discussion, and monitored items

In the Group, the Group Management Meeting, which is the highest decision-making body in business execution, discusses and makes decisions on specific measures related to environmental issues in order to promote sustainability management across the Group in a cross-organizational manner.

Furthermore, the Sustainability Committee, which meets once every six months, shares the policies for responding to environmental issues discussed and decided by the Group Management Meeting, formulates action plans for the Group's environmental issues, and monitors their progress.

The Board of Directors receives reports on the discussions and decisions made by the Group Management Meeting and the Sustainability Committee, then discusses and oversees the Group's policies for responding to environmental issues and its action plans and so forth.

#### (b) Responsibility of management for climate-related issues, the process for receiving reports (committees, etc.), and method of monitoring

The President and Representative Executive Officer 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 business decisions related to environmental issues. The matters discussed and resolved by the Group Management Meeting and the Sustainability Committee are finally reported to the Board of Directors.

### The Group environmental management structure



# Meeting bodies and their roles in the environmental management structure

Meeting body and structure	Role	
Board of Directors Supervises the progress of environment-related initiatives d approved in business execution. Meets monthly.		
Group Management Meeting	Discusses and decides on the measures related to the Group-wide management including specific environment-related initiatives. The decisions are reported to the Board of Directors. Held weekly.	
Risk Management Committee Extracts comprehensive risks, and discusses and decides on t against them. Monitors the progress of operating companies, and are reported to the Board of Directors. Meets as needed.		
Sustainability Committee	Discusses and decides on 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.	
Sustainability 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.	

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# Recommended Disclosure Item (2) Risk Management

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### (a) Detailed processes for identifying and assessing climate-related risks, and method for determining importance

The Group considers risk as the starting point of strategy, and we have defined it as "uncertainty that affects the corporate management's achievement of goals, having both a positive side and a negative side." We believe that appropriate handling of risk leads companies to sustainable growth.

The Sustainability Committee conducts more detailed examinations of the environmental risks 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.

## (b) Detailed processes for management of important climate-related risks, and method of prioritizing them

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."

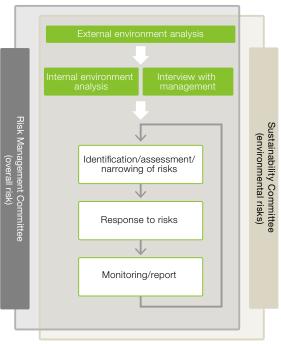
Next, we identified important climate risks and opportunities for the Group from among the exhaustively extracted climate risks and opportunities. Finally, we assessed the importance of the identified climate risks and opportunities based on two assessment criteria including the "degree of impact on the Group and the probability of occurrence" and the "degree of impact on stakeholders."

The Group reflects, under the supervisory system of the Board of Directors, the climate risks and opportunities rated as particularly important through the above process in its strategies as its corporate risks to address them.

#### (c) How the processes are integrated into the organization's overall risk management

The Group has established the Risk Management Committee based on the importance of building a structure for managing risk across the Group. The Risk Management Committee identifies and assesses corporate risks, including environmental risks, based on external environment analysis, narrows them down to the risks that need to be preferentially addressed, and monitors their progress. The matters discussed and approved by the Risk Management Committee are reflected in the Group's strategy and implemented under the supervisory system of the Board of Directors.

## Risk management process



## Risk management system

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

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# Recommended Disclosure Item (3) Strategy

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### (a) Detailed risks and opportunities the organization has identified over the short, medium and long term

The Group considers it important to examine environmental risks at the appropriate milestone occasions because of the potential impact of environmental risks on its business activities over the long term.

The Group has conducted an examination\* of the physical risks such as the risk of abnormal weather brought about by climate change and the transition risks such as the risk of policy regulation introduction by governments and the risk of changes in market needs, looking ahead to fiscal year 2021 to fiscal year 2023 as the execution phase of the Medium-term Business Plan and fiscal year 2030 for which we set SBT, and the risks and opportunities identified as a result have been reflected in the Group's strategies and implemented.

\*Listed in the table on the following page "Impact on the Group's business and finance in the below 2°C scenario and the 4°C scenario estimated for 2030"

## (b) Description of risks and opportunities and their degree of impact on the organization's business, strategy and financial planning

The Group conducts scenario analysis in order to understand the risks, opportunities, and impacts of climate change for the Group and to examine the resilience of the Group's strategies envisaging the world in 2030, and the necessity of additional 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). We then considered two world scenarios: one that envisages the achievement of the goal of the Paris Agreement to limit the increase in the global average temperature to below 2°C above pre-industrial levels (the below 2°C scenario); and one that envisages the increase in global GHG emissions beyond the present based on achieving already announced policies and regulations without the introduction of new policies and systems (the 4°C scenario).

To realize our top priority materiality issue, "realization of decarbonized society," we will analyze the impacts of climate change on the Group's business activities, and in both the below 2°C scenario and the 4°C scenario, we will strengthen our strategic resilience from a medium- to long-term perspective.

To this end, in our business strategies and Medium-term Business Plan, we will seek to acquire new growth opportunities, formulating measures to properly avoid negative risks while addressing positive risks by proactively responding to market changes, for example.

## Definition of the periods for consideration of climaterelated risks and opportunities in the Group

	Period	Definition
Medium- term	FY2021 to FY2023	Execution period of the FY2021 - FY2023 Medium- term Business Plan
Long-term	Until FY2030	Period until the year for which we set SBT for the Group's Scope 1, 2 and 3 GHG emissions

#### Existing scenarios taken into consideration

Possible world	Existing scenario		
Below 2°C	"Sustainable Development Scenario (SDS)" (IEA 2019, 2020)		
scenario	"Representative Concentration Pathways (RCP 2.6)" (IPCC 2014)		
4°C scenario	"Stated Policy Scenario (STEPS)" (IEA 2019, 2020)		
4 C scenario	"Representative Concentration Pathways (RCP 6.0, 8.5)" (IPCC 2014)		

The impact on the Group's business and finance is expected to be negligible.

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## Impact on the Group's business and finances in the below 2°C scenario and the 4°C scenario estimated for 2030

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

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1 : 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.

Impact on business and finance Type of risk and opportunity Overview of the Group's risks and opportunities Below 2°C 4°C scenario scenario Increase in operation costs associated with the introduction of policies to control GHG emissions, such as carbon taxes (carbon pricing) and the strengthening of Policy regulations. regulation Increased disclosure obligations related to GHG emissions and the risk of fines due to inadequate response Transition risk Loss of growth opportunities due to a delay in response to market changes such as increased demand for low-carbon (carbon neutral) products resulting from Risk Market diversification of environmental consumer behavior and increased customer awareness of environmental issues Loss of growth opportunities due to a delay in response to risk of infectious diseases (COVID-19, etc.) caused by climate change Loss of sales opportunities for products and services resulting from disruption of procurement and logistics routes due to natural disasters caused by climate Physical change Acute risk 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 Reduction in energy procurement costs associated with the development and use of new policies and systems related to renewable energy Energy source Avoidance of energy procurement risks associated with the expansion of renewable energy, strengthening of energy saving, and introduction of energy creation Opportunity Increase in revenue due to an increase of demand for reused/recycled products Products/services Decrease in Scope 3 emissions due to expansion in sales of reused/recycled products Expansion of new growth opportunities through new entry into the sharing and upcycling businesses Improvement in profitability due to rebuilding of business portfolio beyond the framework of the retail business and entry into and expansion in the market for low Market carbon (carbon neutral) products associated with diversification of environmental consumer behavior and increased customer awareness of environmental issues Expansion of new growth opportunities by response to increased infectious disease risk (such as COVID-19) caused by climate change

#### (c) Risks, opportunities and financial impacts based on relevant scenarios, and strategies and resilience against them

The Group believes that, among the business and 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. Therefore, for the two parameters in the below 2°C scenario and the 4°C scenario, we quantitatively estimate the financial impacts on the Group.

\*Taxes levied on CO2 emissions, which is the main cause of climate change

#### Financial impacts on the Group estimated for 2030

Important parameter	Financial impacts on the Group estimated for 2030			(Assumptions for 2030) Carbon tax price*1: \$100/t-CO <sub>2</sub> (below 2°C scenario), \$33/t-CO <sub>2</sub> (4°C	
	Item	Below 2°C scenario	4°C scenario	<ul> <li>Caroon tax price 1: 9100/1-002 (Delow 2: 0 scenario)*2</li> <li>The Group's GHG emissions: Approximately 77,000 t-CO2 (60% reduction)</li> </ul>	
Carbon tax	Carbon tax (thousand yen/t-CO <sub>2</sub> )	10	3.3	compared to FY2017)	
	<ul> <li>Increase in costs due to carbon tax (millions of yen)</li> </ul>	770	254	<ul> <li>Renewable energy-derived electricity rate: Increase of 1 to 4 yen/kW (compared to electricity rate other than renewable energy)</li> <li>The Group's usage of renewable energy-derived electricity: 196,00</li> </ul>	
Renewable energy-derived electricity rates	<ul> <li>Increase in renewable energy-derived electricity rates (yen/kWh)</li> </ul>	1-4		<ul> <li>(ratio of renewable energy: 60%)</li> <li>*1: Based on "Stated Policy Scenario (STEPS)" (IEA 2019)</li> </ul>	
	<ul> <li>Increase in procurement costs of renewable energy-derived electricity (millions of yen)</li> </ul>	196-784		<ul> <li>*2: Tentatively calculated assuming that carbon tax will have been introduced in Japan as of 2030, based on the EU carbon tax pr under the 4°C scenario</li> </ul>	

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# Recommended Disclosure Item (4) Metrics and Targets

# (a) The metrics used to manage climate-related risks and opportunities

The Group has established two metrics for managing climaterelated risks and opportunities: Scope 1, 2 and 3 GHG emissions and the ratio of renewable energy within electricity used in business activities.

#### (b) GHG emissions (Scope 1, 2 and 3)

The Group started calculating its total GHG emissions in fiscal year 2017.

The Group's Scope 1 and 2 GHG emissions in fiscal year 2020 were approximately 132,106 t- $CO_2$  (down 18.7% from fiscal year 2019). Further, the Group's Scope 3 GHG emissions in fiscal year 2020 were 2,922,739 t- $CO_2$  (down 22.7% from fiscal year 2019).

The Group has received third-party assurance for its Scope 1, 2 and 3 GHG emissions in fiscal year 2020 from Lloyd's Register Quality Assurance Limited.

Third-party assurance statement



# FY2020 the Group Scope 1 and 2 GHG emission targets and results

		FY2020	vs. FY2019		vs. FY2017 (SBT base year)	
		Emissions (t-CO <sub>2</sub> )	Reduction (t-CO <sub>2</sub> )	Reduction (%)	Reduction (t-CO <sub>2</sub> )	Reduction (%)
Target	Scope 1 & 2 Total	156,007	▲6,501	▲4.0	▲14,562	▲19.6
	Scope 1 & 2 Total	132,106*	▲30,402	▲18.7	▲62,048	▲32.0
Results (breakdown)	Scope 1	11,983	▲3,231	▲21.2	▲4,069	▲25.3
	Scope 2	120,123	▲27,171	▲18.4	▲57,979	▲32.6

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

## FY2020 the Group Scope 3 GHG emission results

	Category	Emissions (t-CO <sub>2</sub> )	Share (%)
1	Purchased goods and services	2,191,604	74.98
2	Capital goods	84,908	2.91
3	Fuel- and energy-related activities not included Scope 1 or 2	29,252	1.00
4	Upstream transportation and distribution	28,949	0.99
5	Waste generated in operations	1,090	0.04
6	Business travel	1,132	0.04
7	Employee commuting	1,909	0.07
8	Upstream leased assets*1	-	_
9	Downstream transportation and distribution	463,510	15.86
10	Processing of sold products*2	-	_
11	Use of sold products	154	0.01
12	End-of-life treatment of sold products	37,370	1.28
13	Downstream leased assets	82,860	2.84
14	Franchises*2	-	_
15	Investments*2	-	_
	Total Scope 3	2,922,739* <sup>3</sup>	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 Received third-party assurance from Lloyd's Register Quality Assurance Limited

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#### (c) The targets used by the organization to manage climate-related risks and opportunities and performance against targets

The Group has set long-term GHG emission reduction targets since fiscal year 2018 aimed at achieving the global target of keeping temperature increase to below 2°C. The Group has set a target of reducing Scope 1 and 2 and Scope 3 GHG emissions by 40% (compared to fiscal year 2017) by 2030 and it was approved by the SBT initiative (SBTi)\*<sup>1</sup>. Following the evolution of its initiatives to date, the Group has revised its Scope 1 and 2 GHG emission reduction target to a more ambitious target of a 60% reduction (compared to fiscal year 2017) by 2030. In addition, the Group has set a target of reducing Scope 1 and 2 GHG emissions to zero by 2050, as it aims to realize carbon neutrality.

To achieve these long-term targets, the Group has started procuring renewable energy-derived electricity for its facilities since fiscal year 2019. In October 2020, we joined RE100\*<sup>2</sup>. We will continue to expand our procurement of renewable energy-derived electricity, aiming to achieve carbon neutrality.

\*1 Global initiative established for the purpose of promoting the achievement of science-based GHG emission reduction targets to limit the temperature increase to below 2°C compared to pre-industrial levels

\*2 Global initiative that aims to source 100% renewable energy to power business activities by 2050

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#### Targets used by the Group to manage climate-related risks and opportunities

Metrics	Target year	Details of targets
	2050	Zero Scope 1 and 2 GHG emissions
GHG emissions	2030	60%*1 reduction of Scope 1 and 2 GHG emissions (vs. FY2017)
		Aiming for 40% reduction of Scope 3 GHG emissions (vs. FY2017)*2
Ratio of renewable energy in electric power used in business activities	2050	Ratio of renewable energy in electric power used in business activities: 100%*3
used in pusitiess activities	2030	Ratio of renewable energy in electric power used in business activities: 60%

\*1 The reduction rate approved by SBTi is 40%.

\*2 Approved by SBTi

\*3 Joined RE100 in 2020

# **Future Efforts**

The conventional "linear economy" premised on the one-time use and disposal of natural resources and products has brought about serious climate change, such as natural resource depletion due to large-scale extraction, global warming due to GHG emissions, and ocean pollution due to large quantities of waste.

The Group believes it is important to respond to these climate risks and opportunities using the strength of corporate group with retail at its core. Therefore, we 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 by promoting a "circular economy"; and
- Actively provide low-carbon products and services that respond to changes in consumers' consumption behavior.

Going forward, the Group will promote strengthening of governance in environmental management under the supervisory system of the Board of Directors and promote the Group-wide initiatives such as the formulation of action plans for achieving medium- to long-term targets.