Contribution to a Low-carbon Society

Background

Climate change and other environmental issues are becoming increasingly serious in the world today. Natural disasters, such as typhoons and heavy rains, are frequently occurring in Japan, making it impossible for companies to overlook their efforts to deal with climate change.

Outline of actions

Among the five materiality issues of the Group, we consider "contribution to a low-carbon society" to be our top priority. In order to deal with climate change, we are promoting company-wide initiatives such as the formulation of action plans for achieving medium- and long-term targets.

Future direction

In addition to efforts to reduce GHG emissions, the Group is working to increae environmentally friendly stores and promote circular economy. Through these initiatives, the Group will achieve sustainable growth through "contribution to a low-carbon society" as corporate activities.

Long-term targets

2030 40% reduction of Scope 1 and 2 GHG emissions (vs. FY2017)*

*Approved by SBTi

2050 Zero Scope 1 and 2 GHG emissions

Major actions in FY2019 (partially in FY2020)

- Approved by SBTi
- Rated "A-" in CDP climate change 2019
- Grand opening of ESG model stores
- Introduced environmental management system
- Obtained third-party assurance for Scope 1 and 2 energy consumption and GHG emissions
- Switched to renewable energy, introduced energy-saving equipment and high-efficiency equipment, and made the transition of the company fleet to EVs
- Prepared to join RE100 (planned to join in Oct 2020)

Approved by SBTi

In October 2019, our GHG emissions reduction targets were approved as science-based reduction targets by the international Science Based Targets initiative (SBTi). The targets set by the Group was approved under the second strictest category of "well-below 2°C"-aligned targets. The Group is actively taking measures to achieve the GHG emissions reduction targets approved by the SBTi.

Grand opening of ESG model stores

We are promoting the creation of environmentally conscious stores with the aim of "realizing a sustainable society." The main building of the Daimaru Shinsaibashi store and Shibuya PARCO opened as ESG model stores in September and November 2019, respectively. The main building and south wing of the Daimaru Shinsaibashi store switched to 100% renewable energy for all power needs. Shibuya PARCO was chosen by the Ministry of Land, Infrastructure, Transport and Tourism as a "Leading Sustainable Building Project (CO_2 Reduction Leader)." Going forward, we will expand the results of this initiative to other stores.

Switch to renewable energy

Given that approximately 80% of our Scope 1 and 2 GHG emissions come from electricity use at our stores, we believe that our efforts to reduce GHG emissions should focus on the use of electricity. Daimaru Matsuzakaya Department Stores switched to renewable energy at its head office building (Koto-ku, Tokyo) in March 2019, at the Daimaru Shinsaibashi store (the main building and south wing) in September, and Ikebukuro PARCO (P'PARCO) and Chofu PARCO in October 2019.

We will continue to promote the switch to renewable energy, mainly at the main stores of Daimaru Matsuzakaya Department Stores and PARCO and aim to join the "RE100 (Renewable Energy 100%)" initiative by the end of fiscal 2020.

Acquired third-party assurance for Scope 1 and 2 energy consumption and GHG emissions in fiscal 2019

In July 2020, we obtained an independent assurance statement from Lloyd's Register Quality Assurance Limited (LRQA) regarding the methods for calculating energy use and GHG emissions in Scope 1 and 2 in fiscal 2019 and their appropriateness, and for the first time, regarding the methods for calculating GHG emissions in Scope 3 and their appropriateness. We will continue to use the newly introduced environmental performance data management system to strengthen environmental governance.

► FY2019 Scope 1 and 2 GHG emissions reduction targets and the results of GHG emissions

	FY2019	YoY	
	Emissions (t-CO_2)	Reduction (t-CO_2)	% reduction
Target	174,994	(7,572)	(3.9)
Result	162,508	(20,058)	(11.0)

Climate Change Responses and Information Disclosure in Line with TCFD Recommendations

The J. Front Retailing Group (the "Group") considers climate change to be a top priority for sustainability management and recognizes that the risks and opportunities associated with climate change have a significant impact on its business strategies.

In May 2019, we expressed our support for the final report of the Climate-related Financial Disclosure Task Force (TCFD) (TCFD Recommendations) established by the Financial Stability Board (FSB). The TCFD Recommendations recommend that companies disclose information on four core elements including "governance," "risk management," "strategy," and "indicators and targets" based on the belief that investors' accurate understanding of the impact of climate-related risks and opportunities on the financial condition of investees leads to appropriate investment decisions.

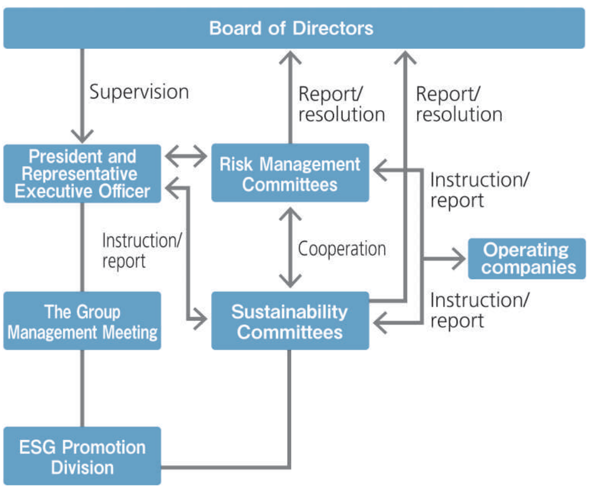
In order to achieve the mid- to long-term targets for "contribution to a low-carbon society," which is our most important materiality issue, we are working to reduce energy consumption, use energy more efficiently, and introduce renewable energy. At the same time, we are working to further enhance the disclosure of information in line with the TCFD Recommendations.

Governance concerning environmental issues

In fiscal 2019, we established the Sustainability Committee to promote sustainability management across the Group in a cross-organizational manner. The Sustainability Committee formulates action plans for the Group's environmental issues and monitors their progress. The Board of Directors discusses and supervises the content of these plans.

The Group Management Meeting, the highest decision-making body in business execution, deliberates on specific measures for addressing environmental issues, 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 Meeting and the Sustainability Committee, both of which are advisory committees under his direct supervision, and assumes the ultimate responsibility for strategic 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



Risk management

We believe it is important to position risks (uncertainties) as the starting point of our strategy and to establish a system to manage them on a company-wide basis. The Risk Management Committee identifies and evaluates risks based on external environmental analysis, narrows them down to the risks that need to be preferentially addressed, and reflects them in the Group's strategies.

The Sustainability Committee conducts more detailed examinations of the risks identified by the Risk Management Committee regarding environmental issues, and shares the results with operating companies. The Group Management Meeting, the Risk Management Committee and the Sustainability Committee monitor the progress, and finally, report to the Board of Directors.

Strategy

We conducted a scenario analysis to assess the risks, opportunities and financial impact given by climate change to the Group.

In order to conduct a scenario analysis, we assumed two possible worlds including a below 2˚C scenario, which is the Paris Agreement's goal, and a 3˚C scenario in which all national climate-related policy objectives are met with reference to existing scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) *.

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

*Existing scenarios referred to

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)

► Overview of the Group's risks and opportunities and their impact on business/finance in each scenario

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

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

Risk/opportunity type			Overview of the Group's risks/opportunities	Financial Impact	
				Below 1.5 to 2℃ scenario	3℃ 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	⬆	⬈
		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 changes in 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	⬈	➡
	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 costs resulting from the use of new technologies ● Energy resilience by participating in the carbon market and shifting to energy diversification ● Reduction in operation costs due to the introduction of the latest energy-efficient equipment ● Avoidance of energy procurement risks resulting from promoting renewable energy and energy conservation	⬈	➡
	Market		● Improvement of profitability by restructuring the business portfolio as a Multi Service Retailer and focusing on markets where growth is expected in line with changes in 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 impact on the Group in 2030

The Group believes that, among the estimated financial impacts for 2030, the introduction of a carbon tax* and fluctuations in renewable energy-derived electricity charges in Japan will be particularly important parameters (indicators). Therefore, for these two parameters, we quantitatively estimate the financial impact on the Group in the below 1.5 to 2°C scenario and the 3°C scenario.

* Taxes levied on emissions of carbon dioxide (CO_2), which is the main cause of climate change

Important parameter (indicator)	Financial impact on the Group in 2030		
	Item	Blow 1.5 to 2℃ scenario	3℃ 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	
	○ Increase 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%)

Initiatives in response to risks and opportunities based on climate-related scenarios

Based on these scenario analyses, we are working to reduce Scope 1 and 2 GHG emissions from our business activities, as well as Scope 3 GHG emissions in our supply chain. We are also strengthening and promoting initiatives to contribute to local communities through the creation of sustainable stores.

Indicators and targets

Based on the above strategies for achieving the below 1.5 to 2°C scenario, the Group has set medium- and long-term targets for reducing GHG emissions, which were approved by the SBTi.

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

In order to achieve our mid- and long-term targets for climate change, we will continue to work actively on a company-wide basis by strengthening our corporate governance functions, such as reducing energy consumption, improving efficiency in use, and introducing renewable energy.