

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

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

Against that background, we consider “realization of decarbonized society” as the most important issue based on the perception that risks and opportunities stemming from climate change have a major impact on our business strategy. We will go ahead with sustainability management.

In the future as well, the Group will support the TCFD recommendations, using them as guidelines for verifying the appropriateness of the Group’s response to climate change. We will proceed with information disclosure 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 at all the Group companies in a cross-sectional manner, the “Group Management Meeting,” which is the highest decision-making body in business execution, holds talks and adopts resolutions 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 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.

Regarding risk associated with environmental problems, the Group examines it in detail at the “Sustainability Committee” and shares its results with the operating companies in the Group. Each operating company factors initiatives for climate change into execution plans, and confirms their progress while discussing them at each company’s meetings headed by its president. Details of such plans are reported to the “Group Management Meeting” as well as the “Risk Management Committee” and the “Sustainability Committee” to monitor progress in their execution. The results of progress are eventually reported to the Board of Directors.

Strategy

The Group conducts a scenario analysis to know the risks and opportunities posed by climate change to it and their impact. It is also designed to discuss the resilience of the Group’s strategy that assumes the world in 2030 and examine the need for additional measures.

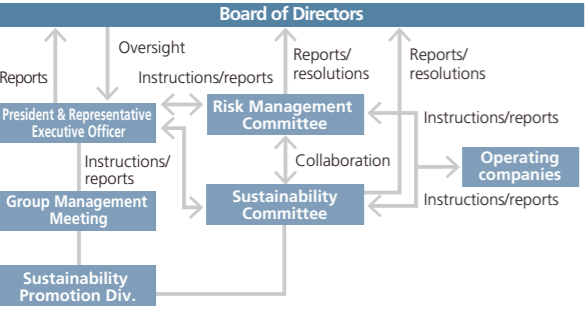
For reference, the scenario analysis uses existing scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC). The Group assumes two possible worlds: one scenario assumes “limiting the average global temperature rise to no more than 2°C above pre-industrial levels,” or the Paris Agreement goal (a below-2°C scenario), and another scenario under which it is assumed that already published national policies and regulations are achieved without introducing new policies and schemes, entailing an increase in the volume of global greenhouse gas emissions from the current level (a 4°C scenario).

Toward the “realization of decarbonized society,” which the Group regards as the most important materiality issue, we are analyzing effects caused by climate change, discussing means of addressing them, and verifying the Group’s strategic resilience, all in connection with the Group’s business activities, on the basis of the above scenarios.

* Scenarios used for reference

Assumed worlds	Existing scenarios
Below-2°C scenario	“Sustainable Development Scenario (SDS)” (IEA, 2019 & 2020), “Representative Concentration Pathways (RCP 2.6)” (IPCC, 2014)
4°C scenario	“Stated Policy Scenario (STEPS)” (IEA, 2019 & 2020) “Representative Concentration Pathways (RCP6.0, 8.5)” (IPCC, 2014)

Sustainability promotion structure



Impact on bussiness and finance of the Group in below-2°C and 4°C scenarios for 2030

The degree of impact on business & finance is shown qualitatively by the slope of arrows 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.

Type of risk/opportunity			Overview of the Group’s risks/opportunities		Financial impact	
					Below-2°C scenario	4°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		⬆️	⬇️
		Market	● 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 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 (COVID-19, etc.) 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 at stores due to increased risk of infectious diseases (COVID-19, etc.) caused by climate change		⬇️	⬆️
Opportunity	Energy source		● Progress in the introduction of policies and institutions related to renewable energy and subsequent reduction in energy procurement costs ● Avoidance of energy procurement risks resulting from the expansion of renewable energy, greater energy conservation and energy creation		⬇️	➡️
	Products & services		● Expansion of sales revenue caused by greater demand for reused/recycled products ● Reduction in Scope 3 emissions by greater use of reused/recycled products		⬆️	⬇️
	Market		● Expansion of new growth opportunities by foraying into the spheres of sharing economy and upcycling ● Improvement of profitability by restructuring the business portfolio beyond the framework of retail and entering or expanding low-carbon (carbon-neutral) product markets, taking advantage of diversification of consumer behavior and increased customer awareness concerning environmental issues ● Expansion of new growth opportunities by addressing increased risk of infectious diseases (COVID-19, etc.) caused by climate change		⬆️	⬇️

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 of the below-2°C scenario and the 4°C scenario, we quantitatively estimate their financial impacts on the Group.

*Taxes levied on CO₂ emissions, 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-2°C scenario	4°C scenario
Carbon tax	● Carbon tax (thousands of yen/t-CO ₂)	10	3.3
	● Cost increase due to carbon tax (millions of yen)	770	254
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)	196~784	

Assumptions for 2030

- Carbon tax price: \$100/t-CO₂ (below-2°C scenario), \$33/t-CO₂ (4°C scenario)
- The Group’s GHG emissions: about 77,000 t-CO₂ (down 60% from 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: 196,000 MWh (ratio of renewable energy: 60%)

The Group will strengthen its strategic resilience from medium- to long-term perspectives in both below-2°C and 4°C scenarios. Therefore, we will seek to acquire new opportunities of growth in our business strategy and Medium-term Business Plan, formulating measures to properly avoid risks, or negative factors, while addressing opportunities, or positive factors, by proactively responding to market changes, for example.

Metrics & targets

In FY2020, the Group’s Scope 1 and 2 GHG emissions were 132,106 t-CO₂ (down 18.7% from FY2019), and Scope 3 GHG emissions were 2,922,739 t-CO₂ (down 22.7% from FY2019). The Group obtained third-party assurance regarding the Scope 3 GHG emissions in FY2020.

The Group’s long-term GHG emission targets were approved by the Science-Based Targets initiative (SBTi)*1 in 2019. Given progress in our initiatives to date, we have revised the Scope 1 and 2 target to a more ambitious goal of “reducing GHG emissions 60% (from FY2017) by 2030.”

To achieve these long-term targets, the Group began procuring renewable energy-derived electricity at its facilities in FY2019, and joined “RE100”*2 in October 2020. Going forward, we will strive to increase procurements of renewable energy-derived electricity toward realizing carbon neutral.

*1 Established by a collaboration among the four organizations of CDP, the United Nations Global Compact, World Resources Institute (WRI) and World Wide Fund for Nature (WWF) in 2015 for the purpose of promoting the achievement of science-based GHG emission reduction targets to limit the temperature increase to below 2°C compared with pre-industrial levels.

*2 An international initiative seeking to source 100% of electricity consumption in business activities from renewable energy by 2050

Future efforts

The Group believes it important to respond to climate risks and opportunities using the strength of a corporate group with retail at its core. Specifically, we will take on the following initiatives, among others:

- Realization of a resilient supply chain by enhancing measures to address physical climate risks
- Contribution to local communities by creating sustainable stores through CSV initiatives with stores at the core
- Realization of new business opportunities through the promotion of “circular economy”
- Positive response to low-carbon products & services meeting changes in the consumption behavior of consumers

Going forward, the Group will strengthen governance in environmental management, under the oversight of the Board of Directors, and proceed with the Group-wide initiatives, including the formulation of execution plans, toward the realization of medium- to long-term targets