Addressing the TCFD recommendations

Introduction

The EXEO Group considers environmental problems such as climate change to be important issues for management to address. Based on this awareness, we defined practicing ESG management as one of the challenges in our 2030 Vision announced in May 2021, and set environment, social, and governance KPIs respectively as well as specific targets in Medium-Term Management Plan (2021-2025), which we are working systematically and continuously to achieve. We will engage in eco-friendly business practices, which include reducing greenhouse gas emissions, while also working actively to contribute toward solutions for climate-related social issues through businesses such as renewable energy.

Additionally, in December 2021 we declared our support for the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) and also joined the TCFD Consortium. The Group will be making information disclosures according to the TCFD Framework going forward.

TCFD published its final report in June 2017 and recommended that companies disclose the following information pertaining to their governance, strategies (risks and opportunities, financial and other impacts, handling), and other initiatives.

Governance	Strategy	Risk management	Metrics and goals
Monitoring systems and the role of the management team pertaining to climate-related risks and opportunities	Identifying climate-related risks and opportunities and their impacts on the organization's businesses, strategy, and financial planning	The processes used by the organization to identify, assess, and manage climate-related risks	The metrics and goals used to assess and manage relevant climate-related risks and opportunities

The organization’s governance around climate-related risks and opportunities

The EXEO Group has established the Sustainability Committee chaired by the President and CEO and has established the Sustainability Promotion Office in the General Affairs Department as a dedicated organization for sustainability, primarily for taking measures against climate change. The aims of these actions are to help achieve a sustainable society, and to bolster efforts toward the continued growth of the EXEO Group.

Established as an advisory body to the Management Council, the Sustainability Committee discusses and makes decisions on the direction of sustainability as part of the Group’s business strategy, while also monitoring and deliberating on the status of sustainability efforts and deliberating and reporting on these details in the Management Council and Board of Directors.

The Sustainability Promotion Office in the General Affairs Department operates as the administrative office of the Sustainability Committee, while also playing the role of coordinating sustainability measures with Group companies, particularly measures against climate change, as well as setting goals for the EXEO Group as a whole and managing progress toward achieving them.

Strategy: Impacts of climate change risks and opportunities, and how to deal with them

The EXEO Group uses scenario analyses* anticipating what the world will be like in 2030 to ascertain the impact that climate change will have on the Group's business. Based on this, we consider what measures to take in response and test out our Group strategies.

In the scenario analyses, we utilize a scenario in which average temperature increases are kept under 2.0° C compared to pre-industrial levels (including a 1.5° C scenario) and a scenario in which decarbonization does not advance (4.0° C scenario).

Scenario analysis

Scenario analysis is the process of forecasting the direct impacts of climate change and global warming themselves (physical risks) as well as what changes or issues could arise in the business environment due to long-term policy trends related to climate change (transition risks), and examining the potential impacts of these changes on a company's own business and management.

Risk scenario	Main sources used for scenario analysis
Transition risks	• Sustainable Development Scenario (SDS) • Net Zero Emissions by 2050 (NZE), IEA World Energy Outlook (WEO) 2021 • Ministry of Economy, Trade & Industry (METI):"Non-Fossil Fuel Value Trading Market"
Physical risks	• Stated Policies Scenario (STEPS) IEA World Energy Outlook (WEO) 2021

Risks & opportunities with climate change / key measures(1/2)

	Category	Sub-category	Remarks
Downside risks			
2.0°C (Transition risks)	Policies, laws & regulations	Introduction of carbon tax	•Increase in taxation such as instituting a carbon tax (taxed according to CO2 emissions from business activities) •Increase in electricity bills and procurement costs for materials and fuel due to surging carbon prices
		Emissions controls	•Increase in cost to buy credits for CO2 emissions (emissions quotas) that fail to reduce enough volume •Increase in costs to comply with stronger laws and regulations on GHG emissions and energy usage
		Shifting to renewable energy (Renewable energy measures)	•If renewable energy is not supplied in sufficient volume, unit prices of electric power surge and renewable energy becomes hard to procure •Technology investment in renewable energy causes electric power prices to surge
		Obligation to disclose	•Increase in costs to comply with expanded obligations to disclose information related to greenhouse gas emissions
		Surging raw materials prices	•Increased cost of stocking materials made from natural resources
	Changing customer preferences	Changing customer preferences	•Preferences shift toward companies that have done more for the environment, and declining sales for those who miss this trend due to business relationships being severed or losing market share to other companies
		Stakeholder assessments	•Company valuation (stock price) falls due to negative assessments of measures against climate change (falling behind in efforts, including failure to meet target ratio of renewable energy use, insufficient information disclosures, and failure to reach CO2 emissions goals), making it harder to raise funds and secure human resources
4.0°C (Physical risks)	Acute	Intensifying weather	•Emerging risk of flood damage to residential buildings, construction sites, and company-owned power generation facilities as well as the commensurate increase in damage insurance premiums, worsening work environments •Supply chain disruptions due to intensified weather, interruptions to procurement and deliveries, lost chances to make proposals to customers or receive orders from them
	Chronic	Higher temperatures	•Worsening labor shortages in construction due to increased health risks (heatstroke, etc.) and worsening work environments at outdoor construction sites •Lower work efficiency, delayed completion of construction, and increased cost of provisions due to heat stress

Risks & opportunities with climate change / key measures(2/2)

	Category	Sub-category	Remarks
Upside risks (opportunities)			
2.0℃ (Transition risks)	Products and services		•Expansion of smart grid business due to changes in power distribution systems (ability to newly enter the power distribution business) •Expansion of construction and maintenance business due to increasing needs for rechargeable batteries
	Markets		•Markets for renovation construction and cloud services due to increased demand for disaster response and mitigation •Solutions market generated by ICT for measures against climate change •Markets for the development of infrastructure such as networks as urban digitalization advances •Market for refurbishments if circular economy measures are bolstered
	Resilience		•Stronger resilience by switching to telecommuting and other flexible work styles not dependent on location as a result of climate change
	Stakeholder assessments		•Decarbonization leads to higher business value, more opportunities to raise funds from investors and the business growth that entails, creates opportunities to receive orders from new clients, and creates opportunities
Key measures			
2℃	Transition risks		•Shift to the use of renewable energy for the electric power used in business activities •Advancements in energy saving in business activities •Stakeholder communication and information disclosures pertaining to decarbonization efforts
	Opportunities		•Actively pursue business in renewable energies such as solar power, offshore wind power generation, and biomass (mutually complementary resources through business partnerships, expand construction domains through capital contributions, etc.)
4℃	Acute	Intensifying weather	•Better BCP preparedness in the event of a disaster •Obtain pinpoint weather information, evaluate hazard risks of holdings
	Chronic	Higher temperatures	•Ensure and improve operating efficiency of worksites by taking thorough measures against heatstroke and advancing digital transformation (DX) of work sites •Secure sufficient construction periods

[Strategy] Business impact based on scenario analysis, and our strategy and resilience to handle it

Among the business and financial impacts in the two scenarios anticipating circumstances in the year 2030, the EXEO Group believes that the introduction of carbon taxes and damage to buildings from floodwaters will be particularly important parameters. For that reason, we are quantifying the financial impact on the Group of these two parameters in both the under-2.0°C (including 1.5°C) and 4.0°C scenarios.
Going forward, we will strive to improve our quantitative analysis of physical risks (damage and other problems with buildings and structures due to flooding and rising sea levels) and opportunities.

Financial impact on the Group anticipated in 2030

Risk category	Key parameters	Financial impact on the Group anticipated in 2030		
		Measurement	Under-2°Cscenario	4°C scenario
Transition	Carbon tax	Carbon tax price (¥1,000/t-CO2)	13.6	—
		Cost increase from carbon taxation (¥million)	685	
	Electricity prices derived from renewable energy	Increase in electricity prices derived from renewable energy (¥/kWh)	0.3	
		Increase in procurement cost of electricity derived from renewable energy (¥million)	19	

(Anticipated preconditions in 2030)
・Carbon tax rate: ¥13,650/t-CO2 Reference: Net Zero Emissions by 2050 (NZE) (1.5°C) World Energy Outlook (WEO) 2021
・EXEO Group greenhouse gas emissions (Scope 1, 2): Approx. 50,200 t-CO2 (42% reduction from FY2020)
・Electricity prices derived from renewable energy: ¥0.3/kWh price increase (compared with non-renewable energy electricity prices), EXEO Group usage of electricity derived from renewable energy: Approx. 65,000,000 kWh

We will be bolstering our high strategic resilience from a medium to long-term perspective under both of these scenarios. While we formulate the appropriate measures to avoid the risks, we will also seek to capture new growth opportunities including active efforts toward business in renewable energy.

[Risk management] The processes used to identify, assess, and manage climate-related risks

We build and operate an organizational structure for risk management in the EXEO Group to be able to identify and evaluate risks on a Group-wide level. We have formulated the Risk Management Rules that specify the basic points involved in risk management and have established risk categories in addition to the Risk Management Division that handles them. We have also established the Business Risk Management Committee as the Group-wide risk manager.

Risks related to climate change are identified and evaluated in the Sustainability Committee and then deliberated and reported in the Management Council and Board of Directors. Information is also shared and coordinated in deliberations on individual matters in the Business Risk Management Committee, which includes verifying climate-related risks.

Based on the Risk Management Rules, these are also integrated into Group-wide processes and matched against risks that have been assessed and identified in environmental management systems based on the ISO14001 international standard, and occupational health and safety management systems based on the ISO45001 international standard.

[Metrics and goals] The metrics and goals used for assessment and management

(1) Metrics used for managing climate-related risks and opportunities

(Unit: t-CO2)

	FY2020	FY2021
Greenhouse gas emissions (Scope 1 + 2)	86,583	We plan to publish in the Integrated Report 2022
Scope 1 only	60,400	
Scope 2 only	26,183	
Greenhouse gas emissions (Scope 3)	1,728,553	

* We plan to obtain a third-party validation of our FY2021 greenhouse gas emissions.

(2) Goals used for managing climate-related risks and opportunities

Metric	Category	FY of goal	Goal description
Greenhouse gas emissions	Scope 1 + 2	FY2030	Reduce greenhouse gas emissions by 42% (vs. FY2020)
		FY2050	Carbon neutrality
	Scope 3	FY2030	Reduce greenhouse gas emissions by 25% (vs. FY2020)

* Set according to the approach of Science-based Targets (SBT) standards

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