

# Addressing the TCFD recommendations

Updated June 2024




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 ecofriendly 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



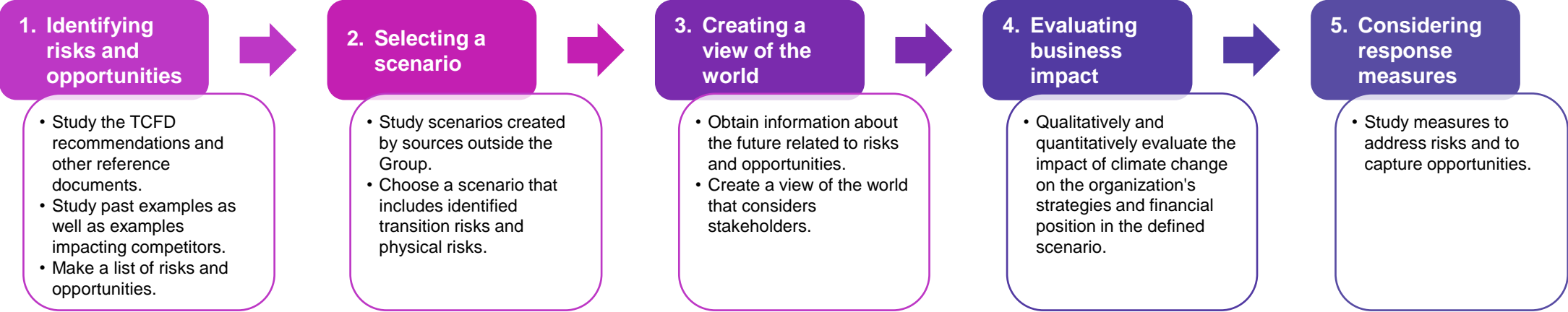
# The organization’s governance around climate-related risks and opportunities

- 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.
- The Sustainability Committee was established as an advisory body to the Management Council. It discusses the direction of sustainability, material issues, target setting and other subjects. It monitors the status of activities and reports the details of its deliberations to the Management Council and the Board of Directors.
- The Sustainability Promotion Office within the General Affairs Department operates as the administrative office of the Sustainability Committee. It also plays a role in setting the EXEO Group's targets and managing the progress of various sustainability measures mainly addressing climate change, human rights and natural capital in cooperation with Group companies.

Meeting Body	FY	Details
Board of Directors (Management Council)	2022	<b>Greenhouse gas emissions reduction targets and compliance with the TCFD recommendations</b>
		<b>Annual efforts to improve sustainability (of the environment)</b>
	2023	Formulation of the Human Rights Policy and the Procurement Policy
		<b>Annual efforts to improve sustainability (of the environment)</b>
Sustainability Committee	2022	<b>Greenhouse gas emissions reduction targets and compliance with the TCFD recommendations</b>
		<b>Actual greenhouse gas emissions, future actions and the construction of an implementation structure</b>
	2023	Formulation of the Human Rights Policy and the Procurement Policy
		<b>Actual GHG emissions in FY2022, training for employees and actions to protect biodiversity</b>



- The EXEO Group conducts scenario analyses based on hypotheses about what the world will be like in 2030 and in 2050 to understand the impact of climate change on its businesses. The diagram below describes the steps of these scenario analyses.
- We will continue to examine these steps from the perspective of resilience.



Scenario Analysis

A method of examining the potential direct impact of climate change (physical risks) and changes in business environment arising from long-term policy trends related to climate change (transition risks) that have been forecast on the company's business and management

Scenarios	Details	Sources of information used in scenario analysis
Transition risks (1.5-degree scenario)	A scenario in which necessary measures are taken to limit the temperature rise to 1.5°C above the pre-industrial level	"Net Zero Emissions by 2050 Scenario (NZE)" (IEA World Energy Outlook 2023)
Physical risks (4-degree scenario)	A scenario in which inadequate measures against climate change are taken allowing the temperature to rise to about 4°C above the pre-industrial level	SSP5-8.5 (in the IPCC's Sixth Assessment Report)

No.	Key hypotheses used in scenario analysis		2030	2050	Source
1	(1) Introduction of the carbon tax	Carbon tax value	140 USD/t-CO2	250 USD/t-CO2	IEA WEO2023 (figures of developed countries in the NZE scenario)
2	(2) Emissions controls	Carbon tax value	140 USD/t-CO2	250 USD/t-CO2	IEA WEO2023 (figures of developed countries in the NZE scenario)
3	(2) Emissions controls	Penalties under the EU Emissions Trading System (EU-ETS)	100 EUR/t-CO2	100 EUR/t-CO2	EU ETS Handbook
4	(2) Emissions controls	EU-ETS trading price	76.45 EUR/t-CO2	76.45 EUR/t-CO2	Average trading price under the EU-ETS in the last twelve months
5	(3) Shifting to renewable energy (renewable energy measures)	Renewable energy certificate purchase price	1.1 yen/kWh	1.1 yen/kWh	Estimated by the Company based on materials published by the Agency for Natural Resources and Energy's System Consideration Working Group
6	(3) Shifting to renewable energy (renewable energy measures)	Ratio to the FY2022 level (1,008.2 billion kWh) (Total power generation forecast)	92.6% (934 billion kWh)	135.1% (1,362 billion kWh)	Agency for Natural Resources and Energy (Feb. 2022): <i>Japan's Energy</i> Ministry of Economy, Trade and Industry (May 2021): <i>Scenario Analysis for Carbon Neutrality in 2050 (interim report)</i> (title tentatively translated)
7	(6) Progress in energy saving and renewable energy technologies	Working-age population	70.67 million people	55.29 million people	National Institute of Population and Social Security Research: <i>Population Projections for Japan</i>
8	(9) Intensification of extreme weather	Frequency of flooding	1.5 times higher	2.33 times higher	Estimated by the Company based on materials published by the Ministry of Land, Infrastructure, Transport and Tourism's study meeting on technologies for flood control plans in view of climate change
9	(10) Temperature rise	Work loss rate	2.71%	3.23%	Estimated by the Company based on data published by the International Labour Organization (ILO) (on lost working hours due to heat stress)
10	(11) Products and services	Offshore wind power generation market size	2.2 times larger	5.0 times larger	Agency for Natural Resources and Energy: <i>FY2030 energy supply and demand forecast</i> (title tentatively translated) Ministry of Economy, Trade and Industry: <i>Japan's power generation amount (2050)</i> (title tentatively translated)
11	(13) Market expansion	Market size of ZEB	¥5,020.0 billion	¥6,820.0 billion	Ministry of the Environment: <i>Estimation of market size and employment in the environmental industry</i> (title tentatively translated)

# Strategy: Evaluation of Business Impact (Risk)

Scenario	Type	Climate change factor	Impact on the Group	Timeline of impact *1	Level of impact*2		Source of information, etc.
					2030	2050	
1.5°C (Transition risks)	Policies and legal restrictions	(1) Introduction of the carbon tax	Increase in taxation such as instituting a carbon tax (taxed according to CO2 emissions from business activities)	Medium / Long	▼▼ 10	-	Key hypothesis no. 1
		(2) Emissions controls	Increase in cost to buy credits for CO2 emissions (emissions quotas) that fail to reduce enough volume	Medium / Long	-	▼ 2	Key hypotheses nos. 2 to 4
		(3) Shifting to renewable energy (renewable energy measures)	Soaring renewable energy procurement prices due to the insufficient supply of renewable energy or other reasons	Short / Long	▼ 0.3	▼ 0.4	Key hypotheses nos. 5 and 6
		(4) Obligation to disclose information	Increase in costs to comply with expanded obligations to disclose information related to greenhouse gas emissions	Short / Long	▼ 1	▼ 1	Increase in labor and other expenses due to the increase in staff size
		(5) Surging raw materials prices	Increased cost of stocking materials made from natural resources	Short / Long	-	-	Not calculated
	Markets and technologies	(6) Progress in energy saving and renewable energy technologies	Decline in earnings due to restrictions on the reception of orders because of an engineer shortage	Short / Long	▼▼	▼▼	Key hypothesis no. 7
	Reputation	(7) 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	Short / Long	-	-	Not calculated
		(8) Stakeholder assessments	Business value (stock price) falls due to negative assessments of measures against climate change (insufficient information disclosures, failure to reach CO2 emissions targets, etc.), making it harder to raise funds and secure human resources	Short / Long	-	-	Not calculated
4°C (Physical risks)	Acute	(9) Intensification of extreme weather	<ul style="list-style-type: none"> <li>Emerging risk of flood damage to residential and other buildings as well as the commensurate increase in damage insurance premiums, worsening work environments</li> <li>Supply chain disruptions due to intensified weather, interruptions to procurement and deliveries, lost chances to make proposals to customers or receive orders from them</li> </ul>	Medium / Long	▼ 7	▼▼ 19	Key hypothesis no. 8 The estimated impact is calculated based on the book value of buildings excluding the amounts covered by flood insurance at bases in Japan
	Chronic	(10) Temperature rise	<ul style="list-style-type: none"> <li>Worsening labor shortages in construction due to increased health risks (heatstroke, etc.) and worsening work environments at outdoor construction sites</li> <li>Lower work efficiency, delayed completion of construction, and increased cost of provisions due to heat stress</li> </ul>	Medium / Long	▼ 8	▼▼ 11	Key hypothesis no. 9

\*1 Timeline of impact: Short time line: 3 years or less, Medium time line: Over 3 and up to 10 years, Long time line: Over 10 years

\*2 Level of impact: Financial impact (profit) on business activities of the Group in fiscal 2030 and in fiscal 2050 is calculated assuming certain conditions and expressed in billions of yen. Anticipating the relative magnitudes, risks are expressed as "▼▼▼ (large)," "▼▼ (medium)" and "▼ (small)" and opportunities as "▲▲▲ (large)," "▲▲ (medium)" and "▲ (small)." Impact scale in financial terms is (large): ¥10.0 billion or more, (medium): From ¥1.0 billion to less than ¥10.0 billion, and (small): Less than ¥1.0 billion.

# Strategy: Evaluation of Business Impact (Opportunities)

Scenario	Type	Climate change factor	Impact on the Group	Timeline of impact *1	Level of impact*2		Source of information, etc.
					2030	2050	
1.5°C	Business opportunities	(11) Construction work related to renewable energy	<ul style="list-style-type: none"> <li>Expansion of business due to increased demand for renewable energy such as offshore wind power generation</li> <li>Expansion of smart grid business due to changes in power distribution systems (ability to newly enter the power distribution business)</li> <li>Expansion of energy storage plant construction and maintenance business due to increasing needs for storage batteries</li> <li>Expansion of solar sharing business to use land at sites where solar power plants are installed as agricultural land</li> </ul>	Short / Long	▲▲	▲▲	Key hypothesis no. 10 Based on a hypothetical assumption that the expansion of the urban infrastructure business will be greater than expected in the Medium-Term Management Plan and the 2030 Vision * The (positive) impact is expressed on a relative scale given the variance is large depending on inquiries, work periods and other factors.
		(12) Market expansion	<ul style="list-style-type: none"> <li>Markets for renovation construction and cloud services due to increased demand for disaster response and mitigation</li> <li>Markets for solutions to address climate change created using information and communication technologies (ICT)</li> <li>Markets for the development of infrastructure such as networks as urban digitalization advances</li> <li>Markets for the refurbishment of equipment in the scenario where measures to establish a circular economy are accelerated.</li> </ul>	Short / Long	▲	▲	
		(13) Services to mitigate and adapt to climate change	Expansion of the urban infrastructure business due to the underground installation of utility lines and the construction of net zero emission buildings (ZEBs) to mitigate climate change	Short / Long	▲	▲	
	Resilience	(14) Adaptation to climate change	Stronger resilience by switching to telecommuting and other flexible work styles not dependent on location, in response to climate change	Short / Long	▲	▲	Difficult to calculate Earnings from construction sites and the effect on back office operations is limited. The impact is therefore expressed on a relative scale.
	Reputation	(15) Stakeholder assessments	Decarbonization efforts lead to higher business value, more opportunities to raise funds from financial institutions and the business growth that entails, create opportunities to receive orders from new clients, and create opportunities to secure talented human resources	Short / Long	-	-	Not calculated

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\*2 Level of impact: Financial impact (profit) on business activities of the Group in fiscal 2030 and in fiscal 2050 is calculated assuming certain conditions and expressed in billions of yen. Anticipating the relative magnitudes, risks are expressed as "▼▼▼ (large)," "▼▼ (medium)" and "▼ (small)" and opportunities as "▲▲▲ (large)," "▲▲ (medium)" and "▲ (small)." Impact scale in financial terms is (large): ¥10.0 billion or more, (medium): From ¥1.0 billion to less than ¥10.0 billion, and (small): Less than ¥1.0 billion.



## Strategy: Key Response Measures to Address Risks and Opportunities

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.

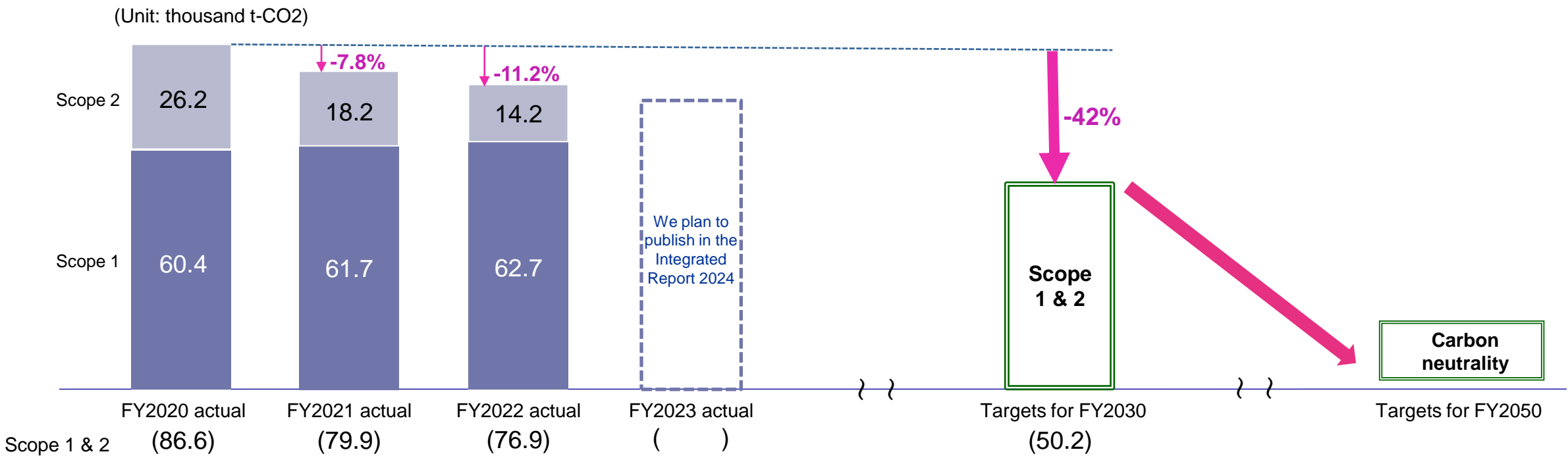
Scenario	Type	Climate change factor	Key response measures
1.5°C (Transition risks)	Policies and legal restrictions	(1) Introduction of the carbon tax	<ul style="list-style-type: none"> <li>Shift to the use of renewable energy for the electric power used in business activities (Switching to the renewable energy menu, purchasing renewable energy certificates, PPA, etc.), switching to eco-friendly cars</li> <li>Efforts to save energy in business activities (switching to LED lights, setting proper temperatures for air conditioners, promoting eco-driving, use of accelerants, etc.)</li> </ul>
		(2) Emissions controls	<ul style="list-style-type: none"> <li>Achieve reduction targets by implementing the CO2 emissions reduction measures shown above (1)</li> </ul>
		(3) Renewable energy measures (5) Surging raw materials prices	<ul style="list-style-type: none"> <li>Strive to mitigate risk of cost increases by passing them on prices for construction work</li> </ul>
		(4) Obligation to disclose information	<ul style="list-style-type: none"> <li>Avoid increased costs to handle emissions calculations by implementing DX in the calculation operations</li> </ul>
	Markets and technologies	(6) Progress in energy saving and renewable energy technologies	<ul style="list-style-type: none"> <li>Mutually complementing resources acquired through M&amp;A activities, business alliances and the like to address a decline in earnings due to restrictions on the reception of orders due to an engineer shortage.</li> </ul>
	Reputation	(7) Changing customer preferences (8) Stakeholder assessments	<ul style="list-style-type: none"> <li>Increase our business value with activities to decarbonize our Group from within and with social contributions through our business (improve our assessments from environmental ratings agencies)</li> </ul>
4°C (Physical risks)	Acute	(9) Intensification of extreme weather	<ul style="list-style-type: none"> <li>Better BCP preparedness in the event of a disaster, regular hazard risk assessments for properties owned</li> </ul>
	Chronic	(10) Temperature rise	<ul style="list-style-type: none"> <li>Ensure and improve operating efficiency of worksites by taking thorough measures against heatstroke (utilizing ICT in safety management for work sites) and advancing digital transformation (DX) of work sites</li> <li>Secure sufficient construction periods</li> </ul>
1.5°C (Opportunities)	Business opportunities	(11) Construction work related to renewable energy	<ul style="list-style-type: none"> <li>Actively pursue business in renewable energies such as solar power, offshore wind power generation and biomass, and expand orders for EPC projects (mutually complementary resources through business partnerships, expand construction domains through capital contributions, etc.)</li> </ul>
		(12) Market expansion (13) Services to mitigate and adapt to climate change	<ul style="list-style-type: none"> <li>Expand our urban infrastructure and refurbishments businesses</li> </ul>
	Resilience	(14) Adaptation to climate change	<ul style="list-style-type: none"> <li>Make further efforts toward flexible work styles</li> </ul>
	Reputation	(15) Stakeholder assessments	<ul style="list-style-type: none"> <li>Increase our business value with in-house decarbonization activities and with social contributions through our business (improve our assessments from environmental ratings agencies)</li> <li>Raise funds through means such as Sustainability-Linked Loans</li> </ul>



- For our Group's risk management system, 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, as we build and operate systems to identify and evaluate risks on a Group-wide level.
- Risks associated with climate change are chiefly identified and assessed by the Sustainability Committee. 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)



(Unit: thousand t-CO2)

Target	Emissions in the base year	Annual emissions target (vs. 2020)	
	FY2020	FY2030	FY2050
Scope 1 & 2	86.6	50.2 (-42%)	Carbon neutrality
Scope 3	1,728.6	1,296.4 (-25%)	-

Sub-metrics	FY2020	FY2021	FY2022	FY2023	Targets for FY2025	Scope of data
Switch to electricity from renewable energy sources	—	33.6%	73.2%	77.8%	100%	Company-managed sites of Exeo Group, Inc.
Adoption of EVs and other low-emission vehicles	91.4%	95.5%	96.1%	96.7%	100%	Passenger vehicles of Exeo Group, Inc.

## Metrics and goals: The metrics and goals used for assessment and management (2)

### ■ GHG emissions by Scope

(Unit: thousand t-CO<sub>2</sub>)

Classification	Details	FY2020 (1) (Base year)	FY2021 (2)	FY2022 (3)	Difference (4)((3)-(1))	% change (5)((4)/(1))	FY2023 (6)	Difference (7)((6)-(1))	% change (8)((7)/(1))
Scope 1	Direct emissions	60.4	61.7	62.7	1.3	3.8%	We plan to publish in the Integrated Report 2024		
Scope 2	Indirect emissions	26.2	18.2	14.2	-12	-45.9%			
Total (Scopes 1 & 2)		86.6	79.9	76.9	-9.7	-11.2%			
Scope 3	Supply chain	1,728.6	1,648.8	1,594.3	-134.3	-7.8%			
Category 1	Purchased products	275.9	224.1	195.6	-80.3	-29.1%			
Category 2	Capital goods	41.5	70.5	51.7	10.3	24.7%			
Category 3	Fuel- and energy-related activities	12.7	13.7	14	1.3	10.3%			
Category 5	Waste generated in operations	2.4	7.9	5.3	2.9	117.3%			
Category 6	Business travel	1.9	2.1	2.2	0.3	16.6%			
Category 7	Commuting	3.4	3.8	4	0.6	16.7%			
Category 11	Use of sold products	1,389.9	1,325.9	1,320.8	-69.1	-5.0%			
Category 13	Downstream leased assets	0.9	0.8	0.8	-0.1	-14.1%			

\* The greenhouse gas emitted by the Group is carbon dioxide (CO<sub>2</sub>).

\* The emissions of EXEO Group companies subject to consolidated accounting are calculated.

\* Numerical values for the base year could be subject to change if applicable scope or calculation methods change as we make these calculations more sophisticated going forward, or if an event that exceeds the course of our business growth occurs.



## Independent Assurance Statement

August 9, 2023

Mr. Tetsuya Funabashi  
Director, Representative and President  
EXEO Group, Inc.

### 1. Purpose

We, Sustainability Accounting Co., Ltd., have been engaged by EXEO Group, Inc. ("the Company") to provide limited assurance on the Greenhouse Gas emissions data of the group companies, during the FY2022, 62.7kt-CO<sub>2</sub> for Scope 1, 14.2kt-CO<sub>2</sub> for Scope 2, 1.59Mt-CO<sub>2</sub> for Scope3 Categories 1,2,3,5,6,7,11,13. The purpose of this process is to express our conclusion on whether the Greenhouse Gas emissions data were calculated in accordance with the Company's standards. The Company's management is responsible for calculating the Greenhouse Gas emissions data. Our responsibility is to independently carry out a limited assurance engagement and to express our assurance conclusion.

### 2. Procedures Performed

We conducted our assurance engagement in accordance with International Standard on Assurance Engagement 3000 (ISAE 3000) and International Standard on Assurance Engagement 3410 (ISAE 3410). The key procedures we carried out includes:

- Interviewing the Company's responsible personnel to understand and review the Company's standards.
- Performing cross-checks on a sample basis and a recalculation to determine whether the Greenhouse Gas emissions data was calculated in accordance with the Company's standards.

### 3. Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Greenhouse Gas emissions data have not been calculated in all material respects in accordance with the Company's standards.

We have no conflict of interest relationships with the Company.

A handwritten signature in black ink, appearing to be "Takashi Fukushima", written over a horizontal line.

Takashi Fukushima  
Representative Director  
Sustainability Accounting Co., Ltd.