

TCFD Report

Task Force on Climate-related Financial Disclosures

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In June 2022, FineToday Co., Ltd. has announced its support for the Task Force on Climate-related Financial Disclosures (TCFD*), an international framework for information disclosure regarding climate change. In this report, we disclose essential information in accordance with the TCFD Recommendations.

* Task Force on Climate-related Financial Disclosures

Governance Disclose the organization's governance around climate-related risks and opportunities.

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

FineToday recognizes the importance of responding to climate change as a management issue. At the Quarterly ESG Committee meeting, which is attended by the heads of each division and chaired by the President and CEO, measures, policies, and strategies for climate change and other environmental issues are discussed and resolved.

At the ESG Committee meeting held in June 2022, the climate change working group (WG) was established to advance the response to climate risks. Eight divisions and nine departments participate in the Climate Change WG, and the climate risks identified by the WG are reported to the ESG Committee. Important issues identified by the ESG Committee during its discussions and decisions are also reported to the Board of Directors' meeting.

Time	Date	Content
1st	September 6, 2022	Fundamental Understanding of TCFD
2nd	October 6, 2022	Report by Divisions and Departments
3rd	October 14, 2022	Report by Divisions and Departments Discussions on Organizational Integration with Overall Risk Management
4th	November 16, 2022	Change from Qualitative to Quantitative Evaluation (Request for Data)
5th	November 28, 2022	Report on Financial Impact Assessment Results
6th	December 12, 2022	FineToday Report on Climate Risks and Opportunities Report on Scenario Analysis Results
7th	February 16, 2023	Feedback in Preparation for TCFD Report Disclosure

Organizational Chart of the Governance Regarding Climate Change



2 Strategy Risks and Opportunities Associated with Climate Change

Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

In 2022, FineToday identified and evaluated its climate risks and opportunities through the work of the Climate Change WG. Information on climate risks and opportunities reported by eight divisions and nine departments initially reached 71 items.

Having undertaken financial impact assessment of the identified risks and opportunities, those assessed as "Medium" to "High" according to the company's criteria are shown in the table below.

Risk

			Financial Impact*1			Timeframe* ²				
	ltem	Overview	Sales Item	Expense Item	Investment Item	Short- term	Mid- term	Long- term	Details	
Physic	Large Typhoon, Heavy Rain, Flood	Delay of transportation caused by supply chain segmentation, loss of sales opportunities, and loss of assets due to the product damage at logistics bases	Medium	High		0	0	0	Flooding and other water risks at all business bases of FineToday both in Japan and abroad, were assessed using the Aqueduct developed by WRI* ³ . Since the offices are not owned by the company, we concluded that it would be difficult to include the direct damage to the offices. Therefore, for the financial impact assessment, we assessed the negative effects that logistics may face, such as inventory damage and loss of sales opportunities at logistics bases.	
al Risk	Rising Mean Temperature	Decrease in demand for autumn and winter products	Medium				0	0	Concerning the impact of rising mean temperature, decrease in demand for autumn and winter products, impact on natural raw materials, and decrease in the frequency of going outside were pointed out. However, due to the lack of external data that can be used for the assessment, we were unable to conduct a direct assessment. In regard to this item, therefore, we conducted a financial impact assessment on the decrease in demand for products for dry weather and the autumn/winter seasons.	
	Carbon Tax	Increase in transportation costs		Low - Medium			0	0	The financial impact assessment is conducted to assess the increase in transportation costs due to the impact of carbon tax based on actual logistics expenses.	
Transition I	National Climate Change Policy	Reducing carbon emissions in logistics, rising production costs, and increased cost due to decarbonization measures		Low - Medium			0	0	This item targets cost increase associated with CO ₂ reduction throughout business operations, and includes logistics measures for CO ₂ reduction, promotion of energy efficiency for facilities, and purchase of renewable energy. However, at present, the financial impact assessment was performed only for office locations, the values might be increased in the future assessment.	
Risk	Shift in Consumer Purchasing Towards Low Carbon Products	Costs increase due to the use of alternative raw materials and promotion of low carbonization of product lifecycle			Medium		0	0	For this item, a temporary increase in costs of R&D, costs of alternative ingredients and containers needed to be considered; however, quantitative assessment using the actual data could not be performed. Therefore, the degree of impact was determined based on the acceptable range of costs in relation to the financial information.	

Note 1: FineToday assesses the financial impact by sales, expenses, and investment items based on the annual profits and expenses using the criteria of "High," "Medium," and "Low."

Note 2: FineToday specifies the timeframe as shown on the right. Short-term: 2022-2023 (The time of assessment) Mid-term: Around 2030 Long-term: Around 2050

Note 3: World Resource Institute

Strategy Risks and Opportunities Associated with Climate Change

Opportunity

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	Item	Overview	Financial Impact			Timeframe			
			Sales Item	Expense Item	Investment Item	Short- term	Mid- term	Long- term	Details
Physical Risk	Climate-related Disasters	Provision of products that can be used during disasters	Low – Medium	High				0	Due to the increase of extreme weather events, it is expected that opportunities for personal hygiene products that can be used at the time of disaster situations, such as dry shampoo and body wipes, will increase. Financial impact assessment is conducted using actual sales data of the related products, referencing IPCC* report which represents world-wide scientific knowledge in the field of climate change.
	Drought	Increased demand for products that do not require water	Low – Medium					0	It is expected that increased water scarcity caused by drought will lead to the increased demand for some of our products such as body wipes. Financial impact assessment is conducted using actual Japan sales data of the relevant products as well as by referring to IPCC report, taking into account possible regional expansion of drought area to some Asian countries.
	Rising Mean Temperature	Increased demand for personal hygiene products	Low – Medium				0	0	It is expected that demand for personal hygiene products, such as antiperspirants and body wipes will increase due to the rise in average temperature. Financial impact assessment is based on the actual sales and correlation data between temperature increase and market size.
Transition Risk	Shift in Consumer Purchasing Towards Low Carbon Products	Increased sales resulting from the provision of low carbon products	Medium	Low – Medium				0	The possibility of unpopular products becoming popular and an increase in demand for refills due to changing consumer awareness (which contributes to low carbonization in terms of product life cycle) were proposed for this item. Specific financial impact assessment is based on the market growth prediction data for low carbon products.
	Reputational Impact of Decarbonization Efforts	Enhancement of brand power and corporate value through low carbon considerations of organization and products		Low – Medium			0	0	It is expected that corporate value will increase due to the improvement of corporate reputation through organizational CO_2 emissions reduction, development of low carbon products, changes in packaging, and the promotion of decarbonization of sales promotion materials. Although a financial impact assessment on this item using actual data is challenging, based on the estimated outcomes of other opportunity items, as well as by using the prediction of low-carbon products market expansion, it is assumed that these will bring future benefits through the improvement of corporate reputation.

* IPCC: Intergovernmental panel on climate change

Strategy Risks and Opportunities Associated with Climate Change

For the first time, FineToday collected and quantitatively assessed information on climate-related risks and opportunities. As a result, it has become clear that the physical risks of climate change associated with the increase of extreme weather events, such as large typhoon, heavy rain, and flood, are inevitable. However, overall trends have emerged indicating that climate change is not always necessarily negative for FineToday products.

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Our purpose is to enrich the lives of everyone today and for generations to come, one fine day at a time. We aspire for our products for skin and hair to be a source of help for people to continue living comfortably in the changing climate environment.

Based on the scenario in which the average temperature will increase 1.5 or 2 °C globally in the long term, we believe that it will become more important to promote the development of low carbon products along with the reduction of company-wide greenhouse gas emissions. In addition, we recognize that the importance of developing products that are helpful for people living under extreme weather conditions will increase based on the scenario in which average temperature will increase 4 °C .



2 Scenario Analysis

The long-term impacts of climate change which include both physical (natural phenomena) and social (regulations) aspects are uncertain. FineToday conducted multiple scenario analyses to examine the social conditions, and the impact on and correlation with our business towards 2050 using scenarios provided by international organizations.

Scenarios Used

Less than 1.5 / 2 °C Scenarios

Transition Risk

- \cdot World Energy Outlook (WEO) 2021 by the International Energy Agency (IEA)
- Sustainable Development Scenario (SDS)
- World Energy Outlook (WEO) 2022 by IEA Net Zero Emissions by 2050 (NZE)*

Physical Risk

• Intergovernmental panel on climate change (IPCC) 6th Assessment Report, SSP1-1.9, SSP1-2.6

4 °C Scenarios

Transition Risk

World Energy Outlook (WEO) 2022 by IEA
Stated Policies Scenario (STEPS)

Physical Risk

IPCC 6th Assessment Report, SSP5-8.5*

*Used mainly







Less than 1.5 / 2 °C Scenarios – 2050 Decarbonized Society

The world has achieved carbon neutrality, with net zero emissions across the entire supply chain. Decarbonization measures have spread through the market. While customers demand environmentally sound business operations, we anticipate a world in which procurement and logistics costs are also expected to rise compared with those at present.



Increase in Manufacturing and **Logistics Costs**

- ◎ Trucks shift from diesel to electric vehicles. and fuel switches from fossil to synthetic fuels (decarbonized fuel), resulting in an increase in logistic costs due to decarbonization.
- © Thermal power generation has decreased to 35% of the total power generation, while renewable energy accounts for 55%, which has increased energy costs.
- ◎ Shift of product packaging ingredients has advanced, and costs have increased.

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Increase of Procurement Costs and Expansion of Investment in Decarbonization Research

- Manufacturing and logistics costs increase due to the enhancement of environmental measures and regulations
- Rebuilding of product lineups to match changes in customer preferences
- Shift to a development system that accommodates biomass-derived materials (products and packaging) and further



Environmentally Conscious Customers

- O Customers are selecting suppliers based on their ability to provide lower carbon products.
- © Calling on manufacturers and wholesalers to set reduction targets and develop reduction plans.
- O Criticism is growing towards companies that are slow to address environmental issues, and their products are being excluded from purchase.



The Frequency of Natural Disasters is Reduced to Some Extent



[©] By 2050, temperatures in Japan increase by 0.8 °C (1.4 °C by the end of the

- century), and the number of extremely hot days increases by two days. ◎ The intensity of typhoons in Japan increases slightly.
- O By 2050, the frequency of localized torrential rains increases to 1.3 times the current level.
- ◎ The frequency of floods doubles by 2050 from the current level.



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 \bigcirc Implementation of high carbon tax (\34,700/t-CO₂) © Trucks in logistics have increasingly switched from diesel engines to electric vehicles (EV) and fuel cell vehicles (FCV), due to the strengthening of greenhouse gas (GHG) emission regulations. O Phased suspension and abolition of coal-fired power generation, and the shift to non-CO₂ emitting power sources such as renewable energy has progressed.



4 °C Scenarios – 2050 Society with Intensified Natural Disasters

The progress of low carbonization remains limited within the current trajectory. Energy policies (shift to renewable energy) and GHG emission regulations are not progressing as expected, and Japan's temperature is rising, while the frequency of flood occurrences is increasing. Physical risks are increasingly accepted by the market as a whole.



Emergence of Product Supply Risks Dependence on Natural Raw Materials (Palm Oil)

- Increase of disaster risks such as the disruption of supply chains and logistics networks due to the intensification of extreme weather conditions.
- Shift from natural raw materials (palm oil) to alternative materials is not progressing as expected.

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Response to Supply Chain Risk and Establishment of Production and Sales System that Responds to Market Needs

- Frequency of floods increases and the risk of inventory damage increases.
- Disruptions of logistics networks lead to an increase in missed sales opportunities.
- Natural raw materials (palm oil, etc.) become difficult to procure because of increased damage to suppliers due to disasters.
- Changes in sales mix due to fluctuations in market demand can impact profits.



Change in Product Demand due to Changes in Weather Patterns

- Increase in demand for disaster-related products (dry shampoo, body wipes, etc.) due to the increased frequency of disasters.
- Increase in demand for antiperspirants and deodorant products due to the increase of extremely hot days, and decrease in demand for dry skin products due to the reduction in cold days.
- Increase in demand for enhanced physical risk management measures throughout the entire supply chain.

Climate Increasing Frequency of Natural Disasters

By 2050, temperatures in Japan increase by 2.5 °C (4.5 °C at the end of the century), the number of extremely hot days in summer increases by 10 days compared to the present, and temperatures exceeding 40 °C are observed nationwide. On the other hand, the number of days with temperatures below 0 °C (known as "cold days") decreases.
 Intensity of typhoons near Japan increases compared to the present.
 Frequency of localized torrential rains by 2050 increases 1.7 times the present frequency.
 Frequency of floods increases 4 times by 2050 compared to the present frequency.
 Frequent occurrences of typhoons and flooding can cause disruption to the procurement of raw materials.

Government





- Current carbon-related tax (¥289/t-CO₂) is maintained.
 Current energy policy which set fossil fuel-derived power generation (thermal power generation) at 76% of the total power generation is expected to be maintained.
- There is no progress in GHG emission regulations, and diesel-powered trucks remain the mainstream, resulting in slow adoption of electric vehicles and fuel cell vehicles.





Products that Support Daily Life amidst Climate Change







Products that Support Daily Life amidst Climate Change



Risk Management

Risk Management Disclose how the organization identifies, assesses, and manages climate-related risks.

a) Describe the organization's processes for identifying and assessing climate-related risks.

b) Describe the organization's processes for managing climate-related risks.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Processes of Identifying and Assessing Climate-related Risks

FineToday identified and assessed its climate-related risks and opportunities through the Climate Change WG established at the ESG Committee meeting held in June 2022. In the Climate Change WG, we endeavored to gather all information, including information that is clearly related to climate change, as well as information that may have less apparent correlations with climate change. To achieve this, we collected responses from questionnaires and also received presentations from 8 divisions and 9 departments. As a result, 71 items regarding climate risks and opportunities were identified.

Subsequently, we sorted the qualitative information into categories that were capable of being quantitatively analyzed using actual data and those that were not. For the information that could be quantitatively analyzed, we conducted short-term, medium-term, and longterm financial impact assessment based on the data. Additionally, for items where conducting financial impact assessments was difficult, we performed analytical assessments to determine the financial impact as high, medium, and low, based on obtainable summary information such as sales and market size.

Among FineToday's climate-related risks and opportunities that were identified and assessed through this process, any items that were assessed as "medium" or higher were considered important and disclosed in this report.



Climate-related Risk and Organizational Risk Management

FineToday has established a management structure to address identified climate-related risks, as shown in the chart below. The process for assessing and managing climate-related risks is coordinated with the organization's overall risk management process, which is managed by the Risk Management Committee. Specifically, the results of our climate-related risks assessment, which were identified through the Climate Change WG, are submitted to the secretariat of the Risk Management Committee and integrated with the organization's overall risks.

As a result, the five identified climate-related risks were classified into 3 categories based on their risk characteristics, and the Risk Management Committee, Climate Change WG, and SBT WG were assigned to address each category of risks. The only acute physical risk that was assessed as "short-term" and "high," is "large typhoon, heavy rain, flood." Currently, measures are being taken by dividing logistics warehouses into east and west, and increasing inventory levels. However, in the future, the Risk Management Committee responsible for natural disaster risks will take lead in addressing this issue.

Furthermore, regarding risks such as "rising mean temperature" and "shift in consumer purchasing towards low carbon products," the Climate Change WG will promote countermeasures. As for the risks associated with "carbon tax" and "national climate change policy," the SBT WG, established since August 2022, will advance measures by calculating and reducing CO₂ emissions.



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At the Climate Change WG, members initially expressed difficulty in grasping the relationship between their own department's duties and climate change. To address this, the secretariat developed its original Climate Change Questionnaire, so that members could use it as a tool for investigation, and this helped to advance the work or the working group.





Metrics and Targets

Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

FineToday utilizes financial impact and energy consumption as indicators to evaluate its climate-related risks.

In regard to the company's greenhouse gas emissions, direct emissions (Scope 1, 2) accounted for 3% while emissions by value chains (Scope 3)* associated with its business operation accounted for 97% (From FY2021). Among these, emissions by value chains (Scope 3) are classified into 15 categories in accordance with the GHG Protocol. Since Category 1, which are emissions derived from externally purchased goods and services, accounted for a major part of the Scope 3 emissions by the company, we anticipate that the importance of promoting the reduction of CO₂ emissions including suppliers will increase.

We disclose our annual greenhouse gas emissions via a different medium from this report.

* Scope 1, 2, and 3 are the classification used in the calculation of CO₂ emissions. These categories became popular with the establishment of the GHG Protocol, which sets the international standards for measuring CO₂ emissions. The establishment of the GHG Protocol was led by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD).

Upstream Scope3 (Suppliers, etc.) Procurement and transport of raw materials, etc. finetoday Scope1,2 Scope3 Scope1 97% 3% Consumption of fuels, etc. Scope2 Use of electricity, etc. Scope3 (Suppliers, etc.) Transport of products Disposal of used products, etc. Downstream

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