

Approach

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# Endorsing the TCFD

## Endorsing the TCFD, joining the TCFD Consortium

Ajinomoto Co., Inc. has endorsed the recommendations of the TCFD established by the Financial Stability Board<sup>[1]</sup>, and we are participating in the TCFD Consortium<sup>[2]</sup>, launched in May 2019. The Ajinomoto Group will evaluate the risks and opportunities of climate change on business, and actively disclose relevant information in four areas based on TCFD recommendations: governance, strategy, risk management, and metrics and targets.

[1] An international organization consisting of representatives from central banks, financial supervisory agencies, and finance ministries.

[2] A consortium for investors and companies supporting the TCFD to jointly develop and use industry-specific scenario analysis and quantification techniques.

### Information disclosure in four areas based on TCFD recommendations

#### ■ Governance

The Management Risk Committee and Environmental Committee, organized under the Executive Committee, review appropriate responses to the risks and opportunities related to climate change.

The Management Risk Committee identifies the risks and opportunities related to climate change and considers the appropriate responses. The Environmental Committee develops environmental targets and plans, monitoring performance in keeping with our environmental management system. These details are reported to the Executive Committee and the Board of Directors at least once a year. The Executive Committee and the Board ensure these details are included in our corporate strategy. The Board of Directors makes decisions on capital expenditures from an overall perspective, taking into account environmental assessment results, including the impact of climate change.

#### ■ Strategy

Products in our business domains range from food such as seasonings, frozen foods and coffee to healthcare. Further, our operations span the globe. Climate change may impact Group operations in many ways. Major natural disasters may become diminished our business activities, affecting our ability to procure raw materials and fuel. Disasters may also alter the consumption of our products.

The Group reviews production over the short, medium, and long terms, considering the physical risks of climate change (droughts, floods, rising sea levels, changes in yield of major raw materials, etc.) and transition risks (rising energy prices, tight supply and demand and price increases of our main raw materials due to competition with other food sources and biofuels, etc.).

Since fiscal 2018, we have included a scenario analysis of the impacts of climate change on our business. We also established a framework for a more quantitative assessment of risk based on the TCFD recommendations. Based on the results of scenario analyses, we will review counterstrategies related to physical and transition risks, such as switching to energy sources with low greenhouse gas (GHG) emissions.

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#### ■ Risk Management

In light of politics, economics, social conditions, climate change, and other circumstances surrounding the Group, the Management Risk Committee determines the overall level of risks reflecting the impact on our business and likelihood of occurrence. The committee then identifies the significant risks Group-wide and considers strategies in response.

Climate-related risks are regarded as part of significant risks Group-wide. We evaluate the impact of physical risks and transition risks, such as legal risks and market risks, based on published reports and expert advice. The committee's review and recommendations are reported to the Executive Committee and the Board of Directors at least once a year.

#### ■ Metrics and Targets

In our medium- and long-term environmental targets, the Group aims to reduce absolute Scope 1 and 2 GHG emissions by 50% by fiscal 2030 (compared with fiscal 2018). We also aim to reduce water usage per production volume unit by 80% (compared with fiscal 2005) over the same timeframe.

We have measured and reported our GHG emissions and water consumption since 1996. See Integrated Report 2020 for more on our roadmap for reducing greenhouse gas emissions.

### Summary of scenario analysis conducted in fiscal 2019

Following fiscal 2018, the Ajinomoto Group conducted a scenario analysis for fiscal 2019 of the potential impact of climate change using our mainstay umami seasoning *AJI-NO-MOTO*<sup>®</sup>. This time, we expanded the target of our analysis from Southeast Asia in the prior year to all of our production facilities worldwide. As a result of the analysis, we confirmed that the impact of an increase in average temperature of 2°C by the year 2100 on our main raw materials and changes in demand would be relatively small, with no significant impact on profits. On the other hand, we found a financial risk of between 8 billion yen and 10 billion yen due to increases of energy unit prices and increases of carbon taxes<sup>[1]</sup> associated with the advancement of low-carbon societies.

In fiscal 2020, we plan to conduct our scenario analysis assuming a scenario in which the average temperature rises by 4°C by 2100 as well as to expand our scenario analysis to other business areas. We are also considering internal carbon pricing<sup>[2]</sup> and other systems to reduce financial risk.

[1] Calculation based on International Energy Agency (IEA) data (energy unit price increase between 2040 and 2050 of 60% for heavy oil and 30% for gas; carbon taxes in 2040 of US\$140/t-CO<sub>2</sub> in advanced economies and US\$125/t-CO<sub>2</sub> in developing economies).

[2] A system in which companies set their own internal carbon price, promoting low-carbon investment and countermeasures. This system is used as an incentive to promote energy conservation, to identify revenue opportunities and risks, and as a guide in investment decision-making.