



# Risk Management and Adherence to TCFD

LOJAS RENNER S.A.



CMICADO

youcom

realize

repassa

Classification: Internal

Classificação: Interno

**Lojas Renner S.A. carried out a study of the compliance of the climate strategy with the guidelines of the Task Force for Climate Disclosure (TCFD), identifying opportunities for improvement and outlining a progress plan for the next two years on the four TCFD fronts.**



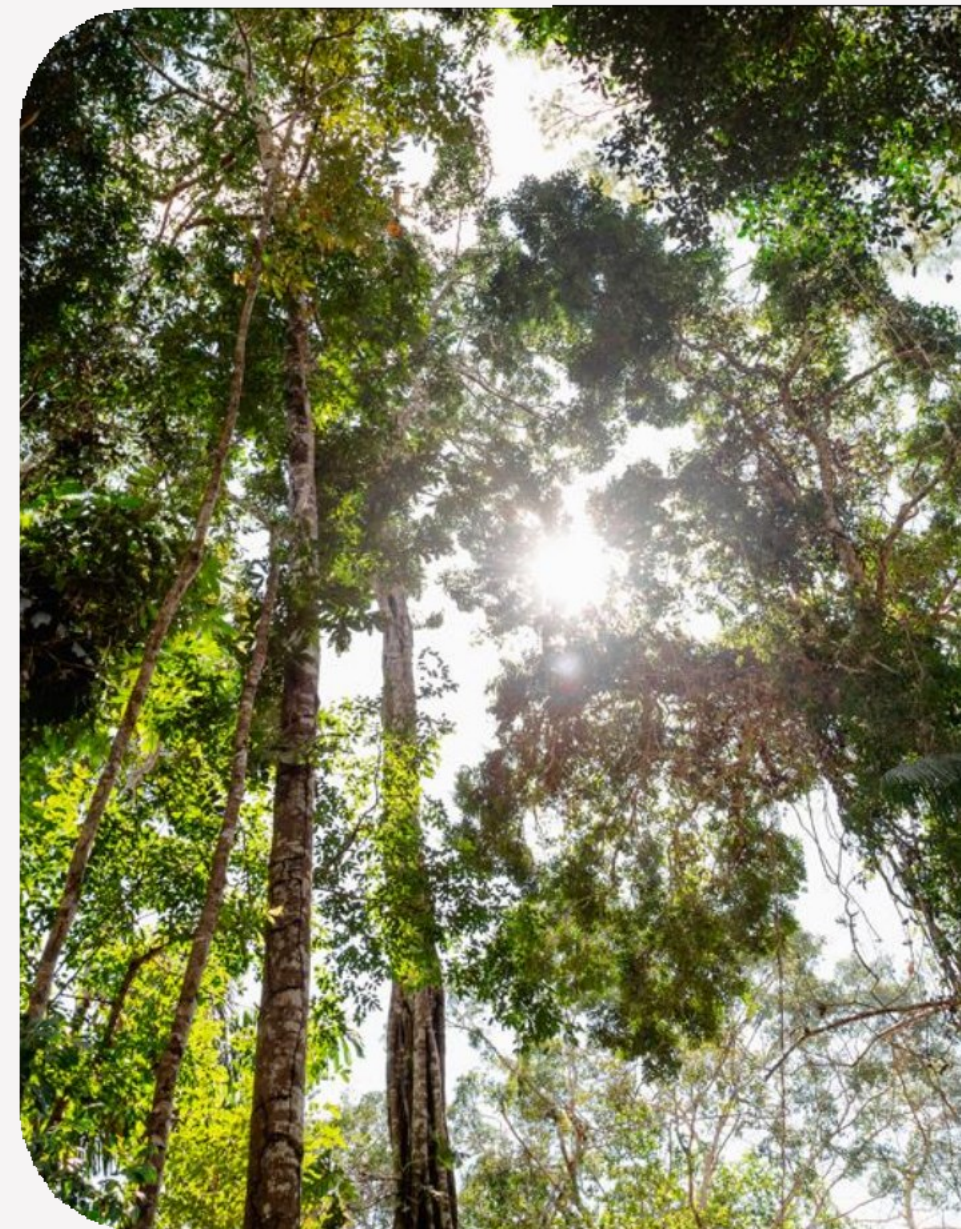
We have a Sustainability Committee, made up of members of the Board of Directors, who carry out periodic reports and meetings, formally defined at least once a year, in order to address actions related to climate change, ensuring that the Governance structure has a continuous space for information, deliberation and strategic alignment on the subject. The agendas are managed at the executive level by the director of People and Sustainability, together with the general manager of Sustainability.



In this new climate risk study, initially carried out in 2019, in the short (3 to 5 years), medium (2030) and long (2050) term horizons, the IPCC SSP1-2.6 and SSP3-7.0 GHG\* concentration scenarios are considered, giving greater coverage and completeness to the analysis in order to address a more effective strategy for valuing, controlling and mitigating risks.

The choice of scenarios is in accordance with the recommendations made by the TCFD, which states that organizations must report two different scenarios of climate change, including a scenario below 2°C.

\* SSP1-2.6 - The narrative of socioeconomic evolution is maintained. The GHG emissions adopted in this scenario consider the year 2020 as the peak, starting the reduction of emissions from the following years. Neutrality in CO<sub>2</sub> emissions is reached between 2070 and 2080, at the cost of a high development in policies and actions to combat climate change; SSP3-7.0 - The global context is one of political nationalization, with the presence of regional conflicts and a greater focus of nations on internal issues than on external ones, with less international cooperation, including environmental problems. GHG emissions rise steadily throughout the 21st century. The increase in the average global temperature will possibly exceed 2°C by 2050, being the scenario that presents the greatest challenges for climate mitigation and adaptation. Net Zero 2050: It's the scenario aligned with the ambitions of the Paris Agreement, with projected outcomes that limit the temperature increase to 1.5°C above pre-industrial levels by the end of the century. Nationally Determined Contributions (NDCs): It's the scenario that reflects the fulfillment of current NDCs, representing a temperature increase between 2.5 and 3.5°C by the end of the century.



The survey of climate risks to which the company's operations are exposed, covering different areas of the company. The process of constructing the diagnosis of climate risks involved multidisciplinary participation involving different areas of the company, following the same procedure for managing other corporate risks.

After identifying the climate risks that may affect our business or operation, these are evaluated in relation to the parameters of probability and degree of impact (as shown in the image), but also evaluated by impact dimensions: image, financial, legal and operational, so that they are allocated in the risk matrix. Climate risks are modeled, based on climate scenarios, according to the location of the operating units and the different types of infrastructure at the units, as well as the financial and operational relevance of each unit within Lojas Renner S.A.

		DEGREE OF IMPACT				
		Very light	Light	Moderate	Severe	Catastrophic
PROBABILITY	Elevate					
	Very high					
	High					
	Average					
	Low					

# Types of risks and opportunities assessed

02 climate strategy

## Physical hazards



Landslides



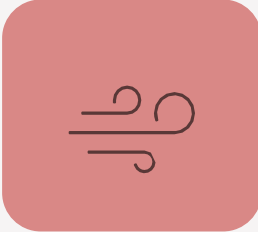
Meteorological drought



Floods



Storms



Strong winds



Forest fires<sup>1</sup>



Heat waves

## Transition risks



Reputational



Market



Regulatory/Legal



Technological

## Opportunities



Power supply



Market



Products and services



Resilience

<sup>1</sup>Only for DCs

Based on the review of the climate risk study, we are updating our matrix of physical and transitional risks, expanding\* its scope and now also including our network of suppliers in Brazil and Asia, in addition to integrating climate risks into the Company's risk management. We also have an action plan to start monitoring the main risks via the system, improving the monitoring of their evolution and visibility.

\*All operations of Lojas Renner S.A. (stores, offices and distribution center) and for the supply network in Brazil (localized) and Asia (China, Vietnam and Bangladesh).



## Main risks identified in the study:

Type of Risk	Climate Risk	Impact	Impact Description	Critical Units
Physical	Heat Waves	Outdated product inventory	More intense and more frequent events of heat waves, especially during the winter, can leave the stock/collections inadequate for the climatic condition of the time.	Stores
Physical	Forest Fires	Damage to products displayed in DCs	Forest fires can cause damage to the products stored in the Distribution Centers, and consequently, the defective product cannot be made available for sale.	DCs
Physical	Meteorological droughts	Stigmatization of the sector in relation to water quality	The deterioration of water quality in locations close to the supplier factories and suppliers of finished materials can lead to the stigmatization of the sector as responsible for the event, and the company's association with these suppliers.	Suppliers
Transition	Market	Rise in the price of fossil fuels	The increase in the price of fossil fuels due to the withdrawal of subsidies, the direct incidence of taxes on these fuels, may result in an increase in the costs of fueling own vehicles, trucks for transport and equipment that use fossil fuels, increasing operating costs.  In Brazil, in just over five years, the price of a liter of common diesel rose by around 121.73% and the average price of gasoline rose by around 66%, according to data from the National Agency of Petroleum, Natural Gas and Biofuels (ANP), while inflation in the same period was 32.88%.	Uello
Transition	Legal	Financing of activities that cause a negative environmental impact	Due to the nature of the activity, in case of failure to verify the suitability of customers, Realize may be responsible for financing activities that have the potential to cause negative environmental and climate impacts	Realize



## Main opportunities identified in the study:

Opportunity Category	Opportunity related to the climate agenda	Description	Operation	Opportunity Category
Technological	Incorporation of low-carbon and/or hybrid vehicles	Reduction of direct GHG emissions resulting in reduction of operating costs in scenarios with an increase in the price of fossil fuels, increasing competitiveness in relation to competitors.	Uello	Technological
Reputational	Adoption of neutral freight programs	In order to compensate the GHG emitted for the delivery of products sold, the company may adopt mechanisms for the customer to pay a tariff to offset the carbon emissions resulting from the delivery of the product.	Retail / Uello	Reputational
Market	Change in consumer behavior	Increased demand for products that are related to the circular economy chain and/or reusable, boosting sales by Repassa.	Retail	Market
Reputational	Participation in conscious water consumption projects	Participation in projects that encourage the conscious consumption of water in the textile industry. Renner is currently active in initiatives such as the "Fashion for Water" projects. Also under evaluation is participation in the initiative "I'm made of cotton"	Retail	Reputational
Market	Increased use of renewable energy sources	Reduction of indirect GHG emissions resulting in reduced operating costs in scenarios with carbon pricing, increased competitiveness in relation to competitors. In 2021, Renner S.A exceeded the target of the public commitment of 75% of corporate energy consumption from renewable and low-impact sources - solar, wind, biomass and small hydroelectric plants (PCH), reaching 100%.	Retail	Market

## Potential risk identified:

Having cotton as the company's main raw material, we replicated the risks identified in the main cotton producing regions in Brazil. Through the risk study, the threat of meteorological drought was identified in the main cotton producing states in Brazil (MT and BA)\*. Causing a direct impact of water scarcity on the production of raw material (cotton). As the main form of mitigation, we encourage the use of recycled raw materials. And support for regenerative cotton cultivation projects.

\*These results were obtained through an estimate of the risks presented for the locations with the highest cotton production in Brazil.



## ADAPTATION PLAN

The adaptation plan is being elaborated based on the main risks identified in the study. The main affected areas are participating in the construction of this project, which are directly or indirectly related.

### **Heat Waves Impact > Product outdated**

Renner\* is concerned about demand problems due to changes in temperature that could alter consumer behavior. This is an issue already noticed by Renner and which requires quick forecasting and adaptation to reduce problems in the sales process. For this reason, studies have been carried out to better understand the risks and the best response pathways.

Through the analysis of temperature variations and climatic perspectives, Renner was able to create a response based on the planning of adapted tariffs to reduce losses and build customer loyalty, and on the planning of the necessary logistics system for eventual restructurings.

From the study of this case, it was found that a way to mitigate customer demand problems could be the expansion of distribution centers, thus stimulating the efficiency in the disposal of products in case there is a need to supply the stores according to the move on demand.

In recent years, the company has invested in the construction of the new Omni Distribution Center, in Cabreúva (SP), with state-of-the-art technology, automation and innovation in robotics and artificial intelligence to support business growth until 2035 and accelerate e-commerce and market. In all, R\$1.2 billion was invested, of which 40% was invested in technology, and in 2022 we started operations with 100% of Camicado's volume in the first half and the start of the Renner and Youcom listing in the second half. Continuous remodeling of the supply/logistics rationale for supplying collections to stores in different Brazilian regions.

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### **Storms > Impact > Road Blocks**

Renner sought a strategy to map priority risks in order to carry out the necessary mitigation actions. In order to deepen the understanding of the company's climate risks through a more specific approach, Renner opted to hire a specialized consultancy.

Faced with this scenario, the company asked WayCarbon for a study to understand exposure to climate risk. According to the results, the Southeast region corresponds to the vast majority of assets at risk and total revenue impacted by storms, which result in the worsening of the conditions of the roads that are access roads and possible roadblocks. The materialization of these risks can represent a negative financial impact related to both the infrastructure of the stores and the products on display, as well as the interruption of access routes in the case of distribution centers, which can directly affect the process of distributing and receiving products.

Following the consultancy's recommendation, the company is working on the development of an adaptation strategy based on a cost-benefit mapping associated with adaptation projects, prioritizing highly effective actions and establishing criteria for this process, defining the next steps to update the study including impact costs and estimated costs associated with adaptation options. The internalization of the theme has been happening gradually through the recognition that the introduction of climate change in risk management and strategic planning is relevant for the business.

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### **Heat Waves Impact > Increased energy consumption**

The main environmental impact on the company's own operations is energy consumption, which is why a possible increase in short-circuit power represents a risk for Lojas Renner.

Among its commitments, the company's goal is to have increasingly efficient stores and operations, as well as the consumption of energy from low-impact renewable sources - solar, wind and small hydroelectric power plants (PCH) - with zero emission of greenhouse gases.

As a way of mitigating the risk arising from regulation, Renner uses and invests in solar farms and a wind farm in operation that supplies stores and distribution centers. In addition, the company operates in the rational use of energy and energy efficiency, for which it implements the automation program and remote management of assets. The budget for the Energy Consumption Reduction (Automation) project was R\$ 14.8 million. And in 2022, 52% of Lojas Renner participated in this program.

After the approval of our science-based targets, in early 2022, we continued detailing and creating large multidisciplinary work plans identifying reduction opportunities through the internal carbon price. The physical units of Lojas Renner S.A. will be prepared and trained to identify accidents linked to impacts caused by climate change.

