Adastria Group Information Disclosure Based on TCFD Recommendations

March 22, 2023

Our Group's sustainability policy is "Bringing the excitement of fashion into the future," and we are promoting various initiatives based on the key themes of "protecting the environment," "making people shine," and "growing with the community." Our Group's business is closely related to the natural environment throughout the supply chain, from raw material procurement and production to transportation and sales, and a healthy natural environment is essential for achieving sustainable growth. For this reason, we have positioned responding to climate change as one of our key sustainability issues, and aim to achieve carbon neutrality by 2050. We also support the Task Force on Climate-related Financial Disclosures (TCFD).

On September 20, 2022, we announced that we would continue to appropriately disclose information while identifying the risks that climate change may pose to our business.

We will continue to take on each of these initiatives with the aim of growing our group.

ÿ Governance

The Group considers responding to climate change to be one of its key sustainability issues, and is monitoring the impact of climate change and the status of our efforts.

The Sustainability Officer regularly reports to the Board of Directors. The Board of Directors is made up of 10 directors, including five outside directors, and chaired by the Representative Director and Chairman. It deliberates and resolves important matters as the highest management decision-making body for the entire Group. In addition, a new Sustainability Committee was established on March 1, 2023, with the aim of further strengthening the promotion of strategies in non-financial areas at the Board of Directors meetings. The Sustainability Committee will discuss the sustainability of the Group, including climate change. The Company formulates tenability policies and medium- to long-term goals, manages progress toward identified material issues, and regularly reports and makes recommendations to the Board of Directors or the Executive Committee. This further strengthens the promotion system within the Group and sustainably increases corporate value.

ÿStrategy Climate change will have a variety of impacts, including rising raw material prices, disruption of supply chains, and changes in consumer purchasing behavior.

The Group will prevent and mitigate business risks caused by climate change and appropriately manage and respond to them, thereby ensuring a sustainable future.

We believe that formulating a medium- to long-term strategy to minimize the financial impact on our business is essential for the sustainable growth of our business.

We are analyzing the risks and opportunities for our core product sales business, which accounts for approximately 90% of our business, up to 2050, splitting them into 2°C and 4°C scenarios.

For risks and opportunities that are deemed to be of high importance, we quantitatively estimate the impact of climate change on our business and finances.

We plan to broaden our scope and advance the sophistication of our risk and opportunity analysis.

2°C scenario

classification			factor	Business impact
Risk	transfer	policy • Regulations etc.	Introducing carbon pricing	The introduction of a carbon tax, etc., will increase the cost of fossil fuel procurement, resulting in increased costs for production, logistics, store operations, etc. If we are unable to gain an
			Intensifying competition to procure renewable energy	advantage in the competition to procure renewable energy, we will have to procure renewable energy at a less reasonable price, which will increase costs, or we will be unable to secure renewable energy. The risk of our ESG rating being lowered or corresponding costs increasing due to our inability to disclose information.
			Tighter disclosure of environmental indicators	
				If it becomes mandatory to evaluate the environmental impact of products using LCA (Life Cycle Assessment), there is a risk that ensuring traceability will be difficult or will take time and cost to do so.
			Restrictions on the use of materials with a high environmental impact	Risk of increased procurement costs due to the use of environmentally friendly materials through a review of product raw materials, accessories, packaging materials, etc.
			Due to the rise of extended producer responsibility, clothing collection is now mandatory depending on the sales volume.	Risk of resource recycling costs increasing as the volume of clothing collected increases
		market	Increasing environmental awareness among customers (products with less environmental impact will be preferred)	Risk of declining sales if needs cannot be met
			Changes in customer purchasing behavior (fewer new clothing purchases)	Risk of declining sales if services and businesses other than retail do not expand
		Reputation	Expanding ESG investment	If efforts are insufficient, there is a risk that ESG evaluation will result in a lower rating and increased capital procurement costs.
			Changes in the values of future generations, such as students (selecting companies that focus on sustainability as places of employment)	If our efforts are insufficient, there is a risk that recruitment will become difficult and recruitment costs will increase, or that our business will be unable to continue due to a shortage of personnel.
opportunity	Resource efficiency		Increasing EC purchase rates	Expand e-commerce sales by utilizing our staff's online customer service know-how, such as using staff boards and live streaming on Instagram.
				Shift to asset-light management by reducing asset holdings such as store interior investments, security deposits, and leasehold deposits
			Changes in the values of future generations, such as students (selecting companies that focus on sustainability)	Our sustainability efforts will be recognized, making it easier for us to attract talented personnel.
			Due to the rise of extended producer responsibility, clothing collection is now mandatory depending on the sales volume.	A clothing collection system has already been established through the clothing collection initiative "Play Cycle!", which means that the additional costs for this initiative are minimal and clothing can be collected efficiently.

classification		factor	Business impact
opportunity	product • Service	Increasing environmental consciousness among customers (preferring products with less environmental impact) Increasing need for	Environmentally friendly products and services are gaining popularity, leading to increased sales
		environmentally friendly materials and development of original materials by the Materials Development Department	Demand for environmentally friendly materials is on the rise, and sales from the Materials Development Department's B2B business are expanding.
		Utilization of new technologies such as 3DCG with the aim of reducing environmental impact	Increased product planning efficiency and the ability to quickly produce trendy products will lead to increased sales.
	market	Expanding the circular economy market	Acquire business opportunities by expanding existing off-price and upcycling businesses, as well as other circular economy businesses.
	Reggie workman ance	Participating in renewable energy programs and adopting energy-saving measures	Procurement of cheap, high-quality renewable energy and hydrogen reduces energy costs and improves corporate image

4°C scenario

classification			factor	Business impact
Risk	physical	acute	Store closures due to large-scale natural disasters	Risk of sales declining due to stores being unable to operate
			Supply chain disruption due to large-scale natural disasters	Risk of sales declining due to inventory shortages caused by delivery delays, damaged products, etc.
		chronic	Changing weather patterns	Risk of sales declining if product planning and customer needs become difficult to predict due to climate change and the Company is unable to meet those needs.
opportunity	product • Service		Changing weather patterns	If we can develop materials and plan products that are suited to rising temperatures through a multi-category strategy, our market share will increase.

Financial Impact Assessment

[Transition risk]

item	finance Impact	Time axis	Possibility	Business impact	2ÿ	4ÿ
carbon Pricing System	overhead costs Increase in	Mid-term	High	The cost of fossil fuel procurement is increasing, and expenses for production, logistics, store operations, etc. may increase. Carbon tax on Scope 1 and 2 emissions related to our current store operations Assuming that this tax is imposed, the,financial impact will be: 27,192t-CO2 x 120 dollars/t = 3,263,040 dollars, or about 300-400 yen This could result in an increase in costs of one million yen.	Approximately 300-400 million yen (annual)	Carbon tax Not introduced It is assumed

*Calculation assumption: $120/t-COÿ (estimated from IEA's "World Energy Outlook 2021"), as of 2030

[Physical risks]

item	finance Impact	Time axis	Possibility	Business impact	2ÿ	4ÿ
flood	Due to store closures Declining sales	Short term	High	Store closures forced by the risk of flooding due to climate change This could result in a decline in sales. Due to the heavy rain, business hours at three stores in Fukuyama, Tottori, and Hiratsuka will be shortened. The shrinkage effect occurred. According to the flood hazard map for the area, flooding is expected to be between 0.5m and 3m. If flooding actually occurs, the total lifespan of the three stores will be a maximum of 67.6 days. This will force the company to close for a period of time, which may have an impact of 27 million yen on sales. If climate change progresses, floods in Japan may occur. The frequency of occurrence is expected to increase fourfold, with an impact of 108 million yen. There is a possibility that this may occur.	59 million yen	108 million yen

*Calculation premise: Estimated based on the actual number of flooded stores in fiscal 2021, hazard maps, and the Ministry of Land, Infrastructure, Transport and Tourism's "Flood Control Economic Survey Manual."

ÿRisk management

In order to understand and assess the impact of climate change on our business, the Group will implement a system through an internal task force led by the Sustainability Department.

We regularly analyze the scenario and identify climate change risks and opportunities. The identified important risks and opportunities are reported to the Director in charge of risk management and then assigned to a task force.

The force and the relevant departments will work together to implement specific risk countermeasures. Regarding responses to physical risks arising from natural disasters, the crisis management officer will

The Crisis Management Committee, chaired by the Director, has established a system for implementing business continuity management, including BCP.

ÿ Indicators and goals

Our group aims to achieve carbon neutrality by 2050 and has set COÿ emissions in the supply chain as an indicator of our efforts.

Scope and Category	Emissions [t-CO2]	ratio	remarks
	February 2022		
Scope 1+2+3	516,600 0	100.0%	
Scope 1 (direct discharge)		0.0	Not applicable
Scope 2 (indirect emissions from energy use)	34,791	6.7%	
Scope 3 (Indirect emissions from the value chain) Category	481,808	93.3%	
1 Purchased products and services Category 2	406,528	78.7%	
Capital goods Category 3	23,737	4.6%	
Fuel and energy activities not included in Scope 1 or 2 Category 4 Transportation and	5,433	1.1%	
distribution (upstream) Category 5 Waste	5,991	1.2%	
generated in operations Category 6 Business	665	0.1%	
trips Category 7	450	0.1%	
Employee commuting Category 8	3,704	0.7%	
Leased assets (upstream) Category 9	-	-	Not applicable
Transportation and distribution	645	0.1%	
(downstream) Category 10 Processing of sold	-	-	Not applicable
products Category 11 Use of sold products	-	-	Not applicable
Category 12 Disposal of sold products Category	34,655	6.7%	of clothing is assumed to be discarded after use.
13 Leased assets (downstream) Category 14	-	-	Not applicable
Franchises Category 15 Investments *	-	-	Not applicable
Scope of calculation:	-	-	Not applicable

Domestic group companies (excluding Adastria eat Creations and Zetton)

Emission coefficient: Quoted from the Ministry of the Environment's Emissions Unit Database and IDEAv2