To Whom It May Concern,

Company name	Adastria Co., Ltd.
Representative	Osamu Kimura, Representative Director and President
	(Securities code: 2685 TSE Prime Market)
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Notice of Updated Disclosure Based on TCFD Recommendations

We are pleased to announce that on March 14, 2023, our Sustainability Committee approved an updated disclosure based on the recommendations of the TCFD. The committee decision was approved by our Board of Directors on March 22, 2023.

On September 20, 2022, we announced our support for the Task Force on Climate-related Financial Disclosures (TCFD). We are committed to disclosing appropriate information in a manner that reflects appropriately the potential risks climate change may pose to our businesses. The updates are as follows.

1. Governance Update
   Reference to the purpose, role, and functions of the Sustainability Committee, established March 1, 2023

2. Strategy Update
   The impact of climate change on business risk and opportunities

3. Financial Impact Assessment Update
   The impact of transition risk and physical risk on our businesses, and assessment of financial impact based on climate change scenarios

Our response to climate change is one of the key Adastria Group management issues, and our target is to become carbon neutral by 2050. As part of these efforts, we announced our endorsement of the TCFD on September 20, 2022. On March 1, 2023, we established a new Sustainability Committee, aiming to strengthen our Board of Director pursuit of strategies in non-financial areas. Adastria will continue to expand initiatives related to our sustainability structure for sustainable growth.

Refer to [https://www.adastria.co.jp/english/sustainability/environment/] for more details on this matter.

Adastria Group TCFD Report

The Adastria Group (hereinafter referred to as the “Group”) Sustainability Policy is “Taking the Excitement of Fashion Into the Future.” The Group pursues various initiatives under the key areas of “Protect the environment”, “Make people shine”, “Grow with communities”. The Group's businesses are related closely to the natural environment through our supply chain, from raw materials procurement and production to transportation and sales. A healthy natural environment is essential for our sustainable growth. Given this understanding, we view addressing climate change as one of the materiality in our sustainability efforts, and we aim to achieve carbon neutrality by the year 2050. On September 20, 2022, we announced our endorsement of the Task Force on Climate-related Financial Disclosure (TCFD), and we intend to disclose information as appropriate while keeping abreast of the risks that climate change may pose to our businesses. We will continue to engage in initiatives toward the formation of sustainable societies and the growth of the Group.

■ Governance

We have positioned our response to climate change as one of the materiality in our sustainability efforts, and our director in charge of sustainability regularly reports to the Board of Directors on the impact of climate change on our company and the status of our initiatives. The Board of Directors consists of 10 directors, including 5 outside directors, and is chaired by the Representative Director and Chairman, and deliberates and resolves important matters as the highest management decision making body for the entire group. We established the Sustainability Committee on March 1, 2023, aiming to further strengthen our pursuit of strategies in non-financial areas within the Board of Directors. The Sustainability Committee sets sustainability policy and medium- to long-term goals, as well as manages progress on identified materialities. Additionally, this committee regularly reports to and advises the Board of Directors and the Executive Committee, strengthening the group implementation systems and enhancing corporate value.

■ Strategy

The Group considers climate change to be a key management risk. Climate change affects us through raw material price hikes, supply chain fragmentation, changes in consumer purchasing activities, and various other ways. Sustainable business growth requires medium- to long-term strategies aimed at minimizing the financial impact on future business through preventing, mitigating, appropriately managing, and responding to business risks related to climate change. To this end, we have analyzed the risks and opportunities for our core merchandise sales business, which accounts for approximately 90% of our sales. The analysis extended through the year 2050 and incorporated both the 2°C scenario and the 4°C scenario. We quantitatively estimated the business and financial impact of climate change for the risks and opportunities that have been assessed as being particularly significant. Beginning FY2023, we intend to expand target businesses and domains, as well as raise the level of our risk and opportunity analysis.

2°C Scenario

Risks／Opportunities	Factors	Impact on Business
Risks	Introduction of carbon pricing	Risk that the introduction of carbon taxes, etc., will increase the cost of procuring fossil fuels and increase the cost of production, logistics, store operations, etc.
	Intensifying competition for the procurement of renewable energy	Risk of increased costs or inability to secure renewable energy due to procurement of cost-ineffective renewable energy, if the company fails to gain an advantage in competition for procurement of renewable energy
	Stricter disclosures related to environmental indicators	Risk of lower ESG ratings or higher costs due to the inability to comply with information disclosure requirements
		Risk that traceability cannot be assured if environmental impact values (Life Cycle Assessment/LCA) for products are mandated Risk of difficulty in ensuring traceability, or time and cost required to do so
	Restrictions on the use of materials having high environmental impact	Risk of increased procurement costs due to the use of environmentally friendly materials as a result of a review of raw materials, accessories, packaging materials, etc., used in products
	Obligation to collect clothing based on sales volume due to extended producer responsibility	Risk of an increase in resource recycling costs due to an increase in the volume of clothing collection activities
	Increased customer environmental awareness (preference for environmentally friendly products)	Risk of lower sales if customer needs cannot be met
	Changes in customer purchasing behavior (customers less likely to purchase new clothes)	Risk of lower sales if non-retail services and businesses do not expand
	Increase in ESG investments	Risk of lower ESG ratings, investment withdrawal, or reduced investments if efforts are insufficient

	Change in student/future generation values (preference to work for companies that focus on sustainability)	Risk of increased recruitment costs due to difficulties in hiring or inability to continue operations due to staff shortages if efforts are inadequate
Risks／Opportunities	Factors	Impact on Business
Opportunities	Expand e-commerce sales ratio	Expanded e-commerce sales by leveraging staff online customer service expertise, including the use of STAFF BOARD and live Instagram feeds
		Shift to asset-light management, investing less in store interiors, reducing security and rent deposits, and limiting other assets
	Change in student/future generation values (preference for companies that focus on sustainability)	Recognition of sustainability efforts, making it easier to attract top talent
	Obligation to collect clothing based on sales volume due to extended producer responsibility	The Group already has a system in place to collect clothes through the “Play Cycle!” clothing collection program, which allows us to collect garments efficiently and at little added cost
	Increased customer environmental awareness (preference for environmentally friendly products)	Increased sales driven by support for environmentally friendly products and services
	Growing demand for environmentally friendly materials and development of unique materials by the materials development department	Increased demand for environmentally friendly materials and increased sales in the B to B business driven by the Materials Development Department
	Use of 3DCG and other new technologies to reduce environmental impact	Increased product planning efficiency and sales growth due to speedy production of trendy products
	Expansion of the circular economy market	Capture business opportunities by expanding off-price and upcycling businesses, other circular economy businesses
	Participation in renewable energy programs and adoption of energy conservation measures	Procurement of low-cost, high-quality renewable energy and hydrogen to reduce energy costs and improve corporate image

4°C Scenario

Risks／Opportunities	Factors	Impact on Business
Risks	Store closures due to large-scale natural disasters	Risk of lower sales due to inability of stores to operate
	Supply chain disruption due to large-scale natural disasters	Risk of sales declines due to inventory shortages caused by delivery delays, product damage, etc.
	Changes in climate patterns	Risk of sales declines if the Company is unable to meet the needs of customers due to difficulties in planning products and predicting customer needs caused by climate change
Opportunities	Changes in climate patterns	Expanded market share if the Company develops materials and plans products through our multi-category strategy that respond to rising temperatures

Financial Impact Assessment

[Transition Risks]

Category	Financial Impact	Timeline	Possibility	Impact on Business	2℃	4℃
Carbon Pricing	Increased indirect expenses	Medium-Term	High	The rising cost of fossil fuel procurement may cause increased expenses in production, logistics, store operations, etc. If a carbon tax were to be imposed on our current store operation Scope 1 and 2 emissions, the total financial impact of store emissions would be 27.19t-CO2 x $120/t=$3,263,040, or a potential cost increase impact of between 300 million yen and 400 million yen.	300 million yen to 400 million yen (Annual)	Assumes no carbon tax will be introduced

*Calculation assumptions: $120/ t-CO2 (Estimated from the IEA World Energy Outlook2021) as of 2030.

[Physical Risks]

Category	Financial Impact	Timeline	Possibility	Impact on Business	2℃	4℃
Flooding	Decreased sales due to store closures	Short Term	High	Unavoidable store closures due to flooding and other inundation risks caused by climate change may reduce sales. Three stores in Fukuyama, Tottori, and Hiratsuka experienced shortened operating hours due to heavy rainfall in FY2021. According to flood hazard maps for the areas, flooding is expected to occur around these stores at between 0.5 and 3 meters. In the case that the areas flood, they will be forced to close for up to a total of 67.6 days, which could have an impact of 27 million yen on sales. The flooding frequency in Japan is expected to quadruple if climate change progresses, which could cause an impact of 108 million yen.	59 million yen	108 million yen

*Calculation assumptions: We used data from actual stores flooded in FY2021 to estimate values based on hazard maps and the Flood Control Economy Survey Manual, published by the Ministry of Land, Infrastructure, Transport and Tourism.

■ Risk Management

In order to understand and assess the impact of climate change on our business, we regularly analyze scenarios and identify climate change risks and opportunities through an internal task force led by the department in charge of sustainability. The identified significant risks and opportunities are reported to the director in charge of crisis management, and specific risk countermeasures are implemented in cooperation between the task force and the relevant departments. In addition, to address physical risks arising from natural disasters, the Crisis Management Committee, chaired by the director in charge of crisis management, has established a system to implement business continuity management, including BCP.

■ Indicators and Targets

The Group aims to achieve carbon neutrality by the year 2050, and we have established CO_2 emissions in our supply chain as an indicator of our efforts.

Scope1・2・3

Scope	FY2022/2（Unit：t-CO_2）	Notes
Scope1 (direct emissions)	0	Not subject
Scope2 (indirect emissions associated with energy use)	34,791	
Scope3 (indirect emissions from the value chain)	481,808	
Total	516,600	

Scope3 Categories

Categories	FY2022/2（Unit：t-CO_2）	Notes
1. Purchased goods and services	406,528	
2. Capital goods	23,737	
3. Fuel- and energy-related activities not included in Scope 1 and Scope 2	5,433	
4. Upstream transportation and distribution	5,991	
5. Waste generated in operations	665	
6. Business travel	450	
7. Employee commuting	3,704	
8. Upstream leased assets	-	Not subject
9. Downstream transportation and distribution	645	
10. Processing of sold products	-	Not subject
11. Use of sold products	-	Not subject
12. End-of-life treatment of sold products	34,655	Assumes that clothing that is not longer needed after wearing is discarded.
13. Downstream leased assets	-	Not subject
14. Franchises	-	Not subject
15. Investments	-	Not subject
Total	481,808	

Notes:

Aggregation scope: Data on the environment are based on domestic group companies (excluding ADASTRIA eat Creations and Zetton).

Emission factors: Quoted from the Ministry of the Environment‘s Emissions Intensity Database and IDEAv2